

John Y. Ferry, Chairman
Kevin S. Carter, Director

MINUTES OF THE MEETING OF THE
SCHOOL & INSTITUTIONAL TRUST LANDS ADMINISTRATION
BOARD OF TRUSTEES

DATE: MAY 13, 2010

PLACE: SALT LAKE CITY, UTAH

ATTENDING:

BOARD

John Y. Ferry
Mike Brown
Dan Lofgren
Steve Ostler
Dave Ure
David Lambert
Michael Mower

STAFF

Kevin S. Carter
Lisa Schneider
Tom Faddies
Eric Baim
Elise Erler
Doug Buchi
John Blake
LaVonne Garrison
Kim Christy
Ron Carlson
John Andrews
Andrea James
Kay Burton
Tom Mitchell
Rodger Mitchell
Lynda Belnap

OTHERS IN ATTENDANCE:

Paula Plant, Utah State Office of Education
Tim Donaldson, Utah State Office of Education
Randy Stockdale, Consol Energy
Bart Hyita, Consol Energy
Margaret Bird, State Office of Education, University of Utah, Utah State University
Cliff Strachan, Governor's Office of Planning & Budget

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Chairman Ferry welcomed Board members, staff, and guests to the meeting. He noted the Board enjoyed a great trip to Graymont and Magnum in Millard County the previous day. He thanked those involved in making those arrangements.

1. Approval of Minutes

The Board approved the Board minutes of April 8, 2010.

Lofgren / Brown. Unanimously approved.

“I move we approve the Board minutes of April 8, 2010.”

Roll Call:

Mr. Brown - - yes	Mr. Lofgren - - yes
Mr. Ostler - - yes	Mr. Ure - - yes
Mr. Lambert - - yes	Mr. Mower - - yes
Mr. Ferry - - yes	

Chairman Ferry noted the Board spent much time reviewing the FY 10 objectives last month. He appreciates Staff reviewing these with the Board. He asked that our critics show some restraint and patience with us as we work on the big picture with these objectives.

2. Confirmation of Upcoming Meeting Dates

The Board, without motion, approved the following upcoming meeting schedule:

June 10 - - Salt Lake City
July - - No Meeting
August 5 - - Salt Lake City
September 9 - - Salt Lake City

3. Chairman's Report

a. Beneficiary Report

Tim Donaldson stated that Tyler Slack, of the State PTA, fell rock climbing and has a head injury. The Board wished Mr. Slack well in his recovery.

Mr. Donaldson reviewed a meeting he attended at the Rocky Mountain Mineral Law conference regarding due diligence. The power-point presentation is as follows:

- * Presentation Overview
 - * What due diligence should be
 - * The Trust and risk
 - * Our recommendations & requests

- * Due Diligence
 - * "Diligence" comes from an epic poem in 410 AD
 - * It is one of seven heavenly virtues - to guard against sloth
 - * "Due Diligence" comes from the 1933 US Securities Act
 - * US Securities Act of 1933
 - * Investment professional would have a shield against attacks later if they properly did all due diligence.
 - * Investment professional would be without excuse and face potential liability later if they did not do due diligence

- * What due diligence normally is:
 - * "Dig around in those files, you'll know it when you see it"
 - * "Red flags"
 - * "Smoke"
 - * "Fishing expedition"
 - * "Dig deeper"

- * What due diligence should be:
 - * Get the right information
 - * Assess the risks
 - * Structure the deals appropriately
 - * Create a closing checklist roadmap for contract administration

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3. Chairman's Report (cont'd)

a. Beneficiary Report (cont'd)

- * Why due diligence doesn't get done
 - * Time pressure - - "Investment bankers are the natural enemies of due diligence"
 - * Sloth
 - * Emotions getting tied into a deal

- * The Trust needs standardized, institutional processes
 - * Before list:
 - * Industry understanding
 - * General market understanding
 - * Key objectives
 - * Teams in place
 - * Processes in place
 - * Tools in place
 - * The Real Estate Investment Committee - - positive recent example of a team and process put in place and working well
 - * Some other ad hoc processes are in place - - i.e., legal settlement negotiations

- * Risk
 - * It has been recommended to the Board recently that the agency needs a risk policy
 - * Such a one-size fits all policy may not be very valuable
 - * Better risk assessment processes would be very valuable

- * Risk assessment processes
 - * Risk misconception
 - * Risks are two-dimensional - - "stocks are risky; bonds are safe"
 - * Correct view
 - * Risks are three dimensional: Bonds have risks, stocks have risks - - sticking the money under your mattress has risks
 - * Risk misconception
 - * To operate like a business is to be cavalier about risk - - early days of the agency (mid-1990s)
 - * Correct view
 - * Businesses take calculated risks - - and lose sleep over them

3. Chairman's Report (cont'd)

a. Beneficiary Report (cont'd)

- * Risk misconception
 - * There are solutions to risk - - "A prudent trustee avoids risk" and "Surprises can be eliminated"
- * Correct view
 - * Risks involve tradeoffs and unknowns - - a prudent trustee, as much as possible:
 - * identifies risks
 - * cures risks
 - * indemnifies against risks
 - * adjusts prices on account of risk
 - * addresses the allocation of risk in the terms of the deal
 - * minimizes surprises
- * Due diligence doesn't mean verifying everything
 - * What is material?
 - * What is most urgent?
 - * What is most important?
- * Recommendations and requests
 - * Involve teams of professionals up front to identify and address the risk characteristics of large, non-standard deals
 - * Share the upside and downside considerations up front
 - * One-on-one meetings with beneficiary representatives and each assistant director
 - * Two hours each
 - * Questions and discussion on operations and standard practices
 - * Agree upon criteria for a threshold of what is standard practice/where deeper due diligence review is needed
 - * Possible meetings with
 - * Board members experienced in due diligence review processes
 - * Environmental compliance manager
 - * Legal counsel

3. Chairman's Report (cont'd)

a. Beneficiary Report (cont'd)

- * Anticipated benefits of better due diligence processes
 - * Better deal terms and better returns to the Trust
 - * Proper due diligence protects the agency from second-guessing, "hindsight is 20/20" attacks later
 - * Board member's time can be far better utilized

- * Closing checklist roadmap for contract administrator
 - * "Remember to look out for x and y in between years three and five of the contract. . ."

- * Conclusion
 - * Let's all work together to create better processes for due diligence and risk assessment!

Mr. Donaldson noted to the Board that they are looking at this issue from the standpoint of what the beneficiaries should be doing. Chairman Ferry stated the Board appreciates their suggestions and comments on this. Mr. Lofgren stated he thinks the checklist is very good, and he would expand this as to what the intent and thinking of those involved were at the time.

Mr. Donaldson clarified that they feel the beneficiaries should be a part of working with the Assistant Directors on very complicated issues and agreeing on when due diligence is needed so that they know what they are talking about.

Mr. Lofgren stated he thinks that the idea of the beneficiaries working with different levels of management on meetings makes him a little uncomfortable. Chairman Ferry stated risk will always be with us, but we need to push ourselves to be able to leverage that work. There are tools for us to use when we are evaluating an issue. We can manage it. As a Board of Trustees, they have to strike a balance as to what they have to do and seeking the advice of Staff and beneficiaries and be sure they don't subject themselves to micro-management.

3. Chairman's Report (cont'd)

b. Report on the Objectives Committee Meeting

Director Carter reviewed the meeting of the Objectives Committee, which met on April 29, through a power-point presentation. He noted that cumulative revenue in 10 years is based on taking the risks we take right now. The Objective committee then wanted us to decide how much they want to stretch staff and how much risk Board members are comfortable in taking. The Board now has the role to decide what the number is they want to establish as the target. This is a balancing act between how much risk we are willing to take and how much money we can make.

Mr. Lofgren asked if we have a clear understanding of what the Board would need to change to make a larger target possible. Director Carter stated Staff has an initial feel for this, but he thinks these issues need to be fine tuned in the individual groups with Board member participation. Mr. Lofgren stated that, if the Board stated they want to have a 125 percent larger goal, Staff would then look again at this with the Board teams and see what had to be done to accomplish that. The Board would then have to decide if they are willing to take the "risks" needed to accomplish those targets.

Mr. Ostler asked if the Objective Committee felt the level of risk the agency is taking at the time is acceptable risk or does it need to be changed one way or another? Director Carter stated he felt the committee did think the risk level at the present time is comfortable. We have been able to sustain this level for some years. Chairman Ferry stated this doesn't limit us in asking the question whether we need to expand ourselves. Mr. Lofgren suggested we might want to expand in some instances, but we also might want to reign some back in.

Chairman Ferry reviewed the Objective Committee meeting with the Board. He noted that the committee is asking that the Board meet with their respective groups before the June meeting if possible, but at least by the August meeting.

The deadline for coming prepared with subcommittee recommendations will be the August Board meeting. Mr. Brown asked if the Board members agree that the goal number is the "starting point". This is Staff's recommendation, but the Board committees can still review these goals. Mr. Brown asked if the 10-year term is what we want to work with or should it be different? Mr. Lofgren stated we need to have some interim goals.

Mr. Ostler stated the committee's focus really should be on the four main groups. If the objective is to work with the goal, the main revenue groups are the ones we need to work on.

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3. Chairman's Report (cont'd)

b. Report on the Objectives Committee Meeting (cont'd)

Director Carter stated that one of the groups we might could show as a profit center is auditing. We make millions of dollars on auditing. Mr. Lofgren asked if these committees are supposed to look at SWOT analyses also? He suggested the committee members ask how Staff would get to a 125 percent of their goal. The subcommittee will look at that horizon.

c. Other

Chairman Ferry noted there was an issue that needed closed session discussion.

Brown / Ostler. Unanimously approved.

“I move we go into closed session for the discussion of the character and competence of an individual.”

Roll Call:

Mr. Brown - - yes	Mr. Lofgren - - yes
Mr. Ostler - - yes	Mr. Ure - - yes
Mr. Lambert - - yes	Mr. Mower - - yes
Mr. Ferry - - yes	

The Board went into closed session at 9:55 a.m. Those in attendance were Board members and Director Carter. Director Carter returned to open session at 10:15 a.m. The Board returned to open session at 10:50 a.m.

Mower / Lambert. Unanimously approved.

“I move we return to open session.”

Roll Call:

Mr. Brown - - yes	Mr. Lofgren - - yes
Mr. Ostler - - yes	Mr. Ure - - yes
Mr. Lambert - - yes	Mr. Mower - - yes
Mr. Ferry - - yes	

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4. Director's Report

Director Carter noted that Kurt Higgins is retiring today. We are sorry to see Mr. Higgins leave the agency. Chairman Ferry noted that he can see further because he stands on the shoulders of giants. Mr. Higgins is one of those giants - - a gentle giant who has helped the agency over the years.

Director Carter reviewed issues with the Board through a power-point presentation that included county land bills, editorial board visits with the Times Independent and the Spectrum, and a powerline easement. He is going to take action today to refuse an easement to Rocky Mountain Power in Tooele County which we think is a very poor alignment.

a. Director's Update on Issues

Director Carter explained the budgeting process. The Board had copies of the working budget for FY 11. We have the ability to spend less than is appropriated by the legislature, but not more. We also have the ability to move money around to where we need to use it. Capital expenditures are appropriated separately from the working budget.

The Board did not have any questions on the working budget for FY 11.

Ostler / Ure. Unanimously approved.

“I move that we approve the working budget for FY 11 as submitted.”

Roll Call:

Mr. Brown - - yes	Mr. Lofgren - - yes
Mr. Ostler - - yes	Mr. Ure - - yes
Mr. Lambert - - yes	Mr. Mower - - yes
Mr. Ferry - - yes	

Director Carter showed the Board a chart showing where our capital monies will be spent for FY 11. The majority of the money will go to Eagle Mountain for water purchases and the South Block in Washington County. Action taken today by the Board on Coral Canyon could impact these expenditures as now allocated.

4. Director's Report

b. Associate Director's Report

I. Approval of Policy 2010-02 - - County Land Legislation

Mr. Andrews noted the Board reviewed this policy in April. There were some comments and suggestions from the Board at that time. We circulated an amended policy to the Board and the county commissioners. This morning the beneficiaries suggested some additional changes. Those have been incorporated into the following policy:

The Board of Trustees
of the
School and Institutional Trust Lands Administration

New Policy

Amends Policy No.

Repeals Policy No.

Policy Statement No. 2010-02

Subject: County Land
Legislation

The Board of Trustees of the School and Institutional Trust Lands Administration met in open, public session on May 13, 2010, and by majority vote declared the following to be an official policy of the Board:

1. At the current time, various Utah counties, the Utah congressional delegation, federal land management agencies, and other interested parties are engaged in negotiations to craft federal legislation seeking, on a county-by-county basis, to resolve issues that include the appropriate level of federal wilderness designations, national conservation areas, and other public land designations. The Board supports efforts to resolve management issues involving federal public lands through collaborative local involvement.
2. Because of the checkerboard nature of school and institutional trust lands ownership in Utah, federal decisions to manage federal lands for conservation purposes instead of for multiple use have a direct and negative impact on the value of inheld school trust lands, due to limitations on access and the unavailability of a land base economically capable of supporting development.

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4. Director's Report (cont'd)

b. Associate Director's Report (cont'd)

I. Approval of Policy 2010-02 - - County Land Legislation (cont'd)

3. The Board does not express an opinion as a general matter on the appropriate size of wilderness and other conservation designations on federal public lands in Utah, although wilderness designation may not be appropriate if it affects specific trust assets with economic values. The Board is concerned that substantial wilderness designations may act to diminish local economic activity in rural communities that are dependent upon multiple use of public lands. However, whatever the ultimate size of such designations, a cardinal principle of any administrative or legislative decision involving federal public lands management should be that the beneficiaries of Utah's school and institutional trust land grants be held harmless, with all reasonable differences in valuation resolved in favor of the trusts, in keeping with the purposes for which Congress made those land grants.
4. Past federal legislation creating federal conservation designations has trapped hundreds of thousands of acres of school and institutional trust land in national parks, monuments, wilderness study areas, and national conservation areas. While land exchanges have been partially successful in resolving this problem, it has been the experience of the Board that, once such designations are put in place, there is little motivation for federal land managers to complete necessary land exchanges. For this reason, specific and mandatory legislative provisions for the purchase, exchange, and/or relinquishment of inheld trust lands and selection of other in lieu lands, with a firm, enforceable deadline for completion, should be made concurrently with any new conservation designations. Such legislation also should provide sufficient funding to permit timely completion of the legislative process, without burden to the trusts.
5. The Board, as the independent fiduciary entity responsible for management of Utah's school and institutional trust lands, cannot support any county land legislation that does not expressly provide for the mandatory purchase, exchange, and/or relinquishment of inheld school trust lands and selection of other in-lieu lands with respect to any new federal conservation designation created by such legislation and that does not provide a firm, enforceable deadline for completion.

4. Director's Report (cont'd)

b. Associate Director's Report (cont'd)

I. Approval of Policy 2010-02 - - County Land Legislation (cont'd)

6. The Director is instructed to send a copy of this policy declaration to Utah's Congressional delegation, Governor Herbert, the chairs of the House and Senate Natural Resources Committees of the Utah legislature, the Director of the U. S. Bureau of Land Management, appropriate county commissions and councils, the State Superintendent of Public Instruction, the Utah Public Lands Policy Coordination Office, and appropriate school community councils and other public education constituencies.

Mr. Andrews stated he thinks it will be very useful for the Board to adopt this policy. There has been some movement on the Piute County bill. Senator Bennett's future will make a large impact on these county land bills. We are looking at options on the Beaver/Piute bills.

Mr. Lofgren stated last month when we considered these, the county people looked at it and agreed with it. He asked about any of these changes hurting the counties. Ms. Bird and Mr. Mower stated they think it is better for the counties. Mr. Andrews noted that some of the county people are advocating that we not put deadlines for land exchanges in these bills. At some point we have to realize that their interest is not the interest of the Trust. Mr. Lofgren noted that he feels these changes strengthen our position.

Mower / Lambert. Motion approved.

"I move that we adopt this policy."

Roll Call:

Mr. Brown - - yes	Mr. Lofgren - - yes
Mr. Ostler - - absent at vote	Mr. Ure - - yes
Mr. Lambert - - yes	Mr. Mower - - yes
Mr. Ferry - - yes	

4. Director's Report (cont'd)

c. Development Group Report

I. Consideration/Approval of SunCor Development Transaction

Mr. Buchi reviewed this issue with the Board and explained that this is an opportunity for us to buy out the SunCor property at Coral Canyon. He reviewed through a power-point presentation aerial views of the property, the amended master plan, beneficiary ownership, the Highland Park (Black Ridge) lots, unsold finished lots, excluded lots, and tax parcel identification.

* Benefits and Objectives

- * Asset value preservation - - both existing 1,000+ homeowners and future homeowners in community.
- * 100% control of our destiny for the long-term value - - we decide who we do business with in the future

* Financial:

- * Fully entitled project area with majority of infrastructure in place
- * 172 finished lots
- * Additional 25 percent ownership interest in Town Center I
- * 280 acres entitled residential land with infrastructure for future lots
- * 185 acres entitled commercial land with infrastructure
- * No participation with development partner
- * Timed release because of Trust's ability to hold undeveloped land until values trend up

Mr. Buchi stated that at this point there will be proprietary information discussed and asked for a closed session.

Lofgren / Ure. Unanimously approved.

“I move we go into closed session for the discussion of proprietary information.”

Roll Call:

Mr. Brown - - yes	Mr. Lofgren - - yes
Mr. Ostler - - yes	Mr. Ure - - yes
Mr. Lambert - - yes	Mr. Mower - - yes
Mr. Ferry - - yes	

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4. Director's Report (cont'd)

c. Development Group Report (cont'd)

I. Consideration/Approval of SunCor Development Transaction (cont'd)

The Board went into closed session at 11:35 a.m. Those in attendance were Board members, Kevin Carter, John Andrews, Tim Donaldson, Ron Carlson, Tom Mitchell, Lisa Schneider, Kay Burton, Eric Baim, Elise Erler, Kim Christy, LaVonne Garrison, Margaret Bird, Rodger Mitchell, Doug Buchi, Andrea James, and Lynda Belnap.

The Board returned to open session at 12:33 p.m.

Mower / Brown. Unanimously approved.

Roll Call:

Mr. Brown - - yes	Mr. Lofgren - - yes
Mr. Ostler - - yes	Mr. Ure - - yes
Mr. Lambert - - yes	Mr. Mower - - yes
Mr. Ferry - - yes	

Lofgren / Ure. Unanimously approved.

“I move that the Board, having contemplated the important facts surrounding the opportunity to purchase the interest of SunCor development and/or the advantages of paying a lease termination fee, approve the concept of the transaction and authorize the Staff to move forward with this. If there is anything that is substantially different than presented, it needs to come back to the Board for further approval.”

Roll Call:

Mr. Brown - - yes	Mr. Lofgren - - yes
Mr. Ostler - - yes	Mr. Ure - - yes
Mr. Lambert - - yes	Mr. Mower - - yes
Mr. Ferry - - yes	

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4. Director's Report (cont'd)

c. Development Group Report (cont'd)

I. Consideration/Approval of SunCor Development Transaction (cont'd)

Ms. Bird stated that this is an opportunity to protect the assets we already have, and they are supportive of this transaction. It was noted that, after this transaction is completed, the representatives for the Schools, Miners' Hospital, and Utah State University will work with Staff on how the payment will be made.

5. Consent Calendar

a. Approval of ML 51744-OBA - - Leasing of the West Ridge Deep Coal Parcel to West Ridge Resources, Inc. - - Carbon County, Utah

There were no comments on this, so it is approved.

b. Approval of ML 51745-OBA - - Leasing of the Emery Coal Parcels to Consol Energy, Inc. - - Emery County, Utah

There were no comments on this, so it is approved.

SECTION 29

Mike Brown gave an update on the Section 29 issue. Several months ago, the Board was asked to review a contractual agreement on Section 29 tax credits. Mr. Scales and Mr. Brown served on a committee to review this. Gayle McKeachnie was retained by the Board as legal counsel. He submitted a report to the Board. It is the Board's intent to continue with this committee to finalize the review of the report. Mr. Lambert and Mr. Ure will serve with Mr. Brown on this committee. It is their intent to act on this report at the August Board meeting.

Upon motion by Mr. Ure, the Board adjourned at 12:48 p.m.