

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

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

DATE: SEPTEMBER 10, 2009

PLACE: SALT LAKE CITY, UTAH

ATTENDING:

BOARD

John Y. Ferry
John Scales
Mike Brown
Steve Ostler
Dan Lofgren
Amanda Smith

STAFF

Kevin S. Carter
Dave Hebertson
Kim Christy
Lisa Schneider
LaVonne Garrison
Eric Baim
Tom Faddies
Ron Carlson
NormaLee McMichael
Kay Burton
John Andrews
Doug Buchi
Elise Erler
Rodger Mitchell
Michelle McConkie
Alexa Wilson

OTHERS IN ATTENDANCE:

James B. Lee
Evelyn Lee
Margaret Bird, State Office of Education
Michael Kjar, GOPB
Tim Donaldson, State Office of Education
Tyler Slack, PTA
McKay Edwards
Carl Boyington
Ivan Djambov, Legislative Fiscal Analyst's Office
Paula Plant, State Office of Education

I N D E X

<u>ITEM</u>	<u>PAGE NO.</u>
1. Approval of Minutes	3
2. Confirmation of Upcoming Meeting Dates	3
3. Chairman's Report	
a. Honoring Mr. James Lee	3
b. Beneficiary Report	4
c. Audit Committee Report	4
d. Consideration/Approval of FY 2011 Budget and FY 2010 Supplemental Budget	5
e. Director's Performance and Evaluation	7
f. Consideration/Approval of FY 10 Objectives	8
4. Director's Report	
a. Director's Update on Issues	
I. Hunter Access Update	9
b. Associate Director's Report	
I. Land Exchange Implementation Update	9
c. Oil and Gas Group Report	
I. Oil and Gas Forecast	10
d. Development Group Report	
I. Southern Parkway Update	11
II. Eagle Mountain Mid-Valley Project - Water Acquisition	11

Chairman Ferry welcomed Board members, Staff, and guests to the meeting.

1. Approval of Minutes

The Board approved the minutes of August 13, 2009.

Lofgren / Brown. Motion approved.

“I move we approve the Board minutes of August 13, 2009.”

Roll Call:

Scales - - yes	Brown - - yes
Lofgren - - yes	Ostler - - yes
Smith - - absent at vote	Ferry - - yes

2. Confirmation of Upcoming Meeting Dates

The Board, without motion, confirmed the following upcoming meeting dates:

October 14 - - tour of St. George trust properties
October 15 - - Salt Lake City
November 12 - - Salt Lake City
December - - No Meeting

Chairman Ferry requested that we look at a schedule for 2010 meeting dates at the October meeting.

3. Chairman’s Report

a. Honoring Mr. James Lee

Chairman Ferry recognized Mr. James Lee’s six years of service on the Board. He noted that Sir Isaac Newton stated, “If I have seen further, it is by standing on the shoulders of giants.” The schoolchildren of Utah see further because of James Lee.

Ms. Bird gave comments on behalf of the beneficiaries. She presented Mr. Lee with a gift. Chairman Ferry presented Mr. Lee with a gift and a plaque in appreciation of his service on the Board.

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9/10/09

3. Chairman's Report (cont'd)

a. Honoring Mr. James Lee (cont'd)

Mr. Lee expressed his appreciation and acknowledged many people for what they have done over those years. He expressed his appreciation to the Staff and the Board members for their great work. Mrs. Lee also expressed her thanks to the Board and Staff for all they do.

b. Beneficiary Report

Mr. Tim Donaldson updated the Board and Staff on the Permanent School Fund and how it has done during the economic issues. He showed a Power Point on the trends of trust funds during this period of time. The beneficiaries feel TLA Staff and Board members have done a very good job during this economic crisis.

c. Audit Committee Report

Mr. Ron Carlson noted that the Audit Committee met this morning before Board meeting. The committee discussed the following:

* State Auditor's Comprehensive Financial Audit Scope and Agreed-Upon Procedures Agreement

* Fiscal year 2009 Audit Results - - the audit team was able to find about \$1.9 million in audit results in our port folio

* Fiscal year 2010 Proposed Audit Schedule

* Other Business.

Mr. Scales noted that just because an entity gets a "clean" audit doesn't mean you should quit auditing. Mr. Brown asked if we learned any lessons in those audits? Mr. Carlson stated that the way we account for royalties that come in is difficult for everyone to understand. It takes much work to keep this straight.

3. Chairman's Report (cont'd)

d. Consideration /Approval of FY 2011 Budget & FY 2010 Supplemental Budget

Director Carter discussed the budget with the Board. Ms. Schneider gave the Board some updated information from what was sent to them previously based on a couple of changes we made. Director Carter noted that by statute the Board is required to adopt a budget by September 30. It is then submitted to the Governor's Office of Planning and Budget (GOPB). GOPB's deadlines are earlier now, so we provide them with a "draft" budget with the caveat that it could change based on the Board's action. Director Carter explained the remainder of the budgeting process. He noted the Natural Resources and Energy Committee now holds a meeting before the legislative session begins to preliminarily review budgets with the agencies. He noted before this, some Staff member meet individually with the committee members and personally discuss our budget with them. Next May we bring the legislatively approved budget back to the Board and ask the Board to adopt a working budget.

The proposed FY 2011 budget and FY 2010 supplement budget are recapped as follows:

FY 2010 Supplement:

- * \$3,500,000 increase to capital budget
 - * Water rights at Eagle Mountain
- * \$47,200 increase to operating budget - - DP
 - * Tri-annual license fee for Microsoft products

FY 2011 Request - One Time

- * Development Capital - - \$3,400,000
 - * Water acquisition
- * Surface - - \$46,300
 - * Continue ROW Program
- * Oil & Gas - - \$50,000
 - * Participate in Education Program
- * Director's Office - - \$300,000
 - * Implement Land Exchange

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9/10/09

3. Chairman's Report (cont'd)

d. Consideration /Approval of FY 2011 Budget & FY 2010 Supplemental Budget (cont'd)

- * Data Processing - - \$580,000
- * Phase One - - LMBS Re-write

FY 2011 Request - Ongoing

- * Renewable Resource Specialist - - \$101,500
- * FTE for Renewable Program
- * Fees From On-Line Module - - \$20,000
- * Appropriation of fees from on-line credit card collections

The majority of our operating budget is for personal services. The next biggest is contracts.

Ms. Bird asked questions regarding the budget.

- * She noted that on the \$580,000 for data processing, a portion is for hardware and a portion for software. The beneficiaries would like a breakdown on this.
- * On the right-of-way monies, she asked how many miles of rights of way have been cleared? Mr. Christy noted we have completed eight counties. Ms. Bird thinks it is important to report how many rights-of-way miles are being cleared in this program.
- * She notices there are quite a few land sales for development and some for surface. Prices are down so low. Should there be a report at a future Board meeting on what is being sold? It was explained to Ms. Bird what the sales were.

Ms. Bird introduced Tyler Slack, who is the new PTA representative. She also introduced Carl Boyington, who is the Executive Director for the Secondary Schools Association in the state. He is here representing the Trust Lands Advisory Committee.

Brown / Lofgren. Unanimously approved.

“I move we approve the supplemental budget request.”

3. Chairman's Report (cont'd)

d. Consideration /Approval of FY 2011 Budget & FY 2010 Supplemental Budget (cont'd)

Roll Call:

Scales - - yes	Brown - - yes
Lofgren - - yes	Ostler - - yes
Smith - - yes	Ferry - - yes

Ostler / Smith. Unanimously approved.

“I move we approve the FY 11 appropriation request.”

Roll Call:

Scales - - yes	Brown - - yes
Lofgren - - yes	Ostler - - yes
Smith - - yes	Ferry - - yes

e. Director's Performance and Evaluation

The Board went into closed session for the purpose of discussing the character and competence of an individual.

Scales / Brown. Unanimously approved.

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

Roll Call:

Scales - - yes	Brown - - yes
Lofgren - - yes	Ostler - - yes
Smith - - yes	Ferry - - yes

The Board went into closed session at 10:13 a.m. Those in attendance were Board members and Director Carter. Director Carter left the session at 10:40 a.m. The Board returned to open session at 11:10 a.m.

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9/10/9

3. Chairman’s Report (cont’d)

e. Director’s Performance and Evaluation (cont’d)

Brown / Lofgren. Unanimously approved.

“I move we return to open session.”

Roll Call:

Scales - - yes	Brown - - yes
Lofgren - - yes	Ostler - - yes
Smith - - yes	Ferry - - yes

f. Consideration/Approval of FY 10 Objectives

Chairman Ferry noted that the Objective Committee met last Tuesday and made some changes in what was given to the Board last month on the FY 10 Objectives. The Director noted that the FY 2010 incentive objectives were developed as follows:

- * Items transferred from five-year plan to objective sheets
- * Measurements developed
- * Objective Committee review
- * Formally adopt objectives by Board of Trustees.

The Board was given a replacement sheet on the Executive Summary showing the changes. The new Trust Lands video has been moved from next year’s objectives to this year’s objectives. That was the only change.

Scales / Ostler. Unanimously approved.

“I move we approve the FY 10 Objectives as amended.”

Roll Call:

Scales - - yes	Brown - - yes
Lofgren - - yes	Ostler - - yes
Smith - - yes	Ferry - - yes

4. Director's Report

a. Director's Update on Issues

I. Hunter Access Update

The Director updated the Board on the hunter access agreement with the Division of Wildlife Resources with a Power Point presentation as follows:

- * Partial payment of \$300,000
- * Agreement for partial year
- * Visits to Appropriation Committee

He noted that the Division of Wildlife Resources made a partial payment of \$300,000, which will get them through the legislative session. The two agencies will work together to try to get an appropriation this session.

b. Associate Director's Report

I. Land Exchange Implementation Update

Mr. Andrews stated we don't have too much to report from last month on this issue. We have been working with the national and local Bureau of Land Management (BLM) offices to set up procedures of how to implement this exchange. He and the Director have a meeting with the BLM director this afternoon to discuss this matter further. The one issue we were going to have to work with BLM on is that the Congress stated certain lands will be exchanged for certain other lands. BLM is exploring with its counsel whether they need to do a typical EIS and consultation with the Fish and Wildlife Service under Section 7 of the Fish and Wildlife Act. We believe that, when Congress has told the agency to do certain things, there is no need to do these studies because those studies are all about alternatives; and we don't have any alternatives here. We are hiring an outside appraisal consultant to start working on the appraisals.

In previous exchanges there have been concerns about where the exchange is in terms of progress at any given time. Mr. Andrews stated we are working to set up a project-management tool that will be a project web site that will allow the exchange team and others to always know where the project is. This will allow beneficiaries, Board members, and others to be able to see the status of the exchange at any time.

4. Director's Report (cont'd)

c. Oil and Gas Group Report

I. Oil and Gas Forecast

Ms. Garrison gave the Board a report on the oil and gas forecast through a Power Point presentation as follows:

- * What does the future hold?
 - * No price recovery until 2012
 - * A cold winter could change the picture
 - * Gas glut from the shale gas plays will have to be addressed
 - * There is a question on whether importation of LNG will affect the US market

- * In Utah
 - * A few active companies in Utah
 - * Interest by some to explore new plays (shale gas)
 - * Coming on of 26,000 new OG acres through the recreation exchange
 - * Companies still prefer to work on SITLA lands

Things are much slower in the west than in the east. On rig counts, we are averaging 16-20 per month. Last year we were over 40. Permitting is down. Wells spudded are down. Historical production is down considerably. Gas production has taken a real hit because of prices.

- * Factors affecting production/price
 - * Decreasing domestic consumption
 - * Decreasing international demand
 - * Excess supply - - storage is full
 - * Inability for companies to lease federal lands in Utah
 - * BLM's inability to implement RMPs and process EISs
 - * Low prices - - no light at the end of the tunnel
 - * Insufficient take-away capacity in pipelines
 - * Climate - - warm or cold winter?

The above factors indicate at best a stagnant market. Ms. Garrison noted we canceled the July oil and gas lease sale because we didn't have enough lands to put on the market. We are doing an October sale. There will be a need for oil and gas long into the future. We are not out of the game, even though we are having a couple of down years. The Director noted that now is a good time to be buying gas properties from the feds.

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9/10/09

4. Director's Report (cont'd)

d. Development Group Report

I. Southern Parkway Update

Mr. Buchi reviewed the FY 09 capital expenditures with the Board. He reviewed further with the Board the \$12 million spent on the Southern Parkway through a Power-Point presentation. There was \$12,425,587 invested by SITLA and \$334,655,000 invested by others. Mr. Lofgren asked about what this process means for the original master plan and what could have been done differently. Mr. Buchi noted we have learned from this and will try to insert ourselves into projects sooner. Mr. Lofgren noted that having someone at the table that has something at risk has made a difference.

This presentation was for information to the Board.

II. Eagle Mountain Mid-Valley Project - - Water Acquisition

Ms. Erler noted that last month the Board approved obtaining water rights costing \$2.9 M. We have closed on 65 percent of those. She reviewed this item with the Board through a Power Point presentation:

- * Proposal
 - * Contract for CUWCD Water
 - * Additional 500 AF (takedown in FY2020)
 - * \$4,725/AF
 - * \$1,977/AF O&M Fee (five years)
 - * 2.5 percent discount for early payment
 - * \$3.4 million - cash

- * Proposal Payments
 - * Takedown cost for 500 AF
 - * At contract signing - - Sept/Oct 2009
 - * Pay \$2.4 million

 - * O&M Fee for five years
 - * June 2010 or July 2010
 - * Pay \$1 million

4. Director's Report (cont'd)

d. Development Group Report (cont'd)

II. Eagle Mountain Mid-Valley Project - - Water Acquisition (cont'd)

* O&M Fee Increase

* Annual Fee - - starts with takedown

* FY 2009: \$300/AF/year

* FY2010: \$313.50/AF/year

* 4.5 percent increase

* Pre-pay for five years

* \$1,977/AF

* \$2 million for 1,000 AF

* Eagle Mountain - Mid-Valley parcel - - Separate requests

* Board approval is requested for:

* Acquire CUDCD water (500 AF: \$3.4 M)

* Amend August 2009 approval of \$2.9 M to \$3.4 M

* Proposal:

Water for Mid-Valley Parcel	Acre Feet
Water rights banked with City	500
Private water rights - assignment (2009)	250
CUWCD Water (2009)	1,000
TOTAL - controlled by Trust	1,750
Cumulative Needs	2,785
Remaining to be Acquired	1,035

4. Director's Report (cont'd)

d. Development Group Report (cont'd)

II. Eagle Mountain Mid-Valley Project - - Water Acquisition (cont'd)

Lofgren / Ostler. Unanimously approved.

“I move we approve the acquisition of the additional 500 AF and amend the prior approval increasing the costs of the O/M fee.”

Roll Call:

Scales - - yes

Brown - - yes

Lofgren - - yes

Ostler - - yes

Smith - - yes

Ferry - - yes

The Board encouraged Staff to continue to be opportunistic in regard to water.

Meeting adjourned at 12:48 p.m.