

James B. Lee, Chairman
Kevin S. Carter, Director

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

DATE: OCTOBER 20, 2005

PLACE: SALT LAKE CITY, UTAH

ATTENDING: BOARD

James B. Lee
Michael Morris
Vernal Mortensen
Gayle McKeachnie
John Ferry (By Phone)

STAFF

Kevin S. Carter
Lisa Schneider
Kay Burton
Michelle McConkie
Ron Carlson
LaVonne Garrison
NormaLee McMichael
Tom Faddies
Kim Christy
Ric McBrier
Tom Mitchell
Kurt Higgins
John Andrews
Susan Sweigert
Curt Gordon
Rodger Mitchell
Kenny Wintch

OTHERS IN ATTENDANCE

Paula Plant, Utah State Office of Education
Rod Harrison, Duchesne County Commission
Natalie Gordon, Utah PTA
Ivan Djambov, Legislative Fiscal Analyst
Robert Riddle, Wasatch County
Val Draper, Wasatch County
Steve Ferrel, Wasatch County
Michael Styler, Executive Director, Dept. of Natural Resources
Michael Liss, Moab Mesa Land Company
Howard Kaufman, Lay and Alliance
Steve J. Mauer, Lay and Alliance
Tom Clawson, VanCott Bagley
Stephen Swindle, VanCott Bagley
Terrah Anderson, Governor's Office of Planning & Budget
Karen Rupp, Utah State Office of Education
Kevin McLaws, Zion Land Holding
Joe Larsen, Zion Land Holding
Margaret Bird, Utah 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. Discussion of Tabby Mountain Block	3
4. Chairman's Report	
a. Beneficiary Report	9
b. Review and Adoption of Policy 2005-06 - Compensation for Board Members on Sub-Committees	11
c. Discussion of Request From Research Firm Representing Lincoln Institute/Sonoran Institute to Interview Board Members	12
5. Approval of Warm Springs Agreement	13
6. Amendment to Johnsons-Up-On-Top Development Agreement/Lease	14
7. Proposed Land Exchange - Pintura Area - Washington County, Utah	19
8. Sienna Hills Parcel 9.A - Commercial - Washington County, Utah	22
9. Sienna Hills Fiber Optic Network	25
10. Director's Report	
a. Director's Update on Issues	26
b. Management Training	28
c. Discussion of Percentage Portion Placed on Revenue Incentive Closed Session	29 30
11. Consent Calendar	
a. Gateway Residential (Knollwood Townhomes) Sales Trans.	30
b. Last Sun at Green Spring Development/Gardner/Plumb	31
c. Proposed East Zion Recreational/Residential Development	32
d. Proposed Consolidation of SULA 547 and SULA 1219	36
e. Amendment to SULA 1204 - Peck Rock & Products Landfill	38

lb

10/20/05

Chairman Lee welcomed Board members, Staff, and guests to the meeting. He noted that Mr. Eardley and Mr. Matthews are unable to attend. Mr. Ferry will join us by phone for part of the meeting.

1. Approval of Minutes

The Board approved the Board minutes of September 9, 2005.

Mortensen / McKeachnie. Motion approved.

“I move we approve the Board minutes of September 9, 2005.”

Roll Call:

Mr. Mortensen - - yes	Mr. McKeachnie - - yes
Mr. Morris - - absent at vote	Mr. Ferry - - yes
Mr. Lee - - yes	

2. Confirmation of Upcoming Meeting Dates

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

November - - No meeting
December 8 - - Salt Lake City
January 19 - - Salt Lake City
February - - No meeting

3. Discussion of Tabby Mountain Block

Director Carter noted that we have started a planning process for the Tabby Mountain land block. As we have gone through the process, we have had several meetings in the area where the block is located. We have met with many public officials in that area. The Board has set as one of the objectives this year to determine a strategy of how to administer this block. Some of the Board members have been to the block and toured it. Mr. Burton has been heading the planning project. He has prepared some materials for today, and we have members of the local counties in attendance, as well as others.

3. Discussion of Tabby Mountain Block (cont'd)

Mr. Burton reviewed with the Board the process we have taken in planning this block. During the process, we have had several discussions with Staff, county leaders, state officials, beneficiaries, Department of Natural Resources' leaders, permittees and lessees, developers, potential buyers, agents, and private citizens. We have done site visits with the beneficiaries, staff, local leaders, Board members, engineers, planners, and appraisers. The results of this will be to produce a credible report with reasonable outcomes and sound recommendations. We will have a draft to present to the Board in December. We will discuss it further in the January meeting. We will have a recommendation from Staff for the Board to consider in the March meeting. Mr. Burton noted he has invited the county leaders to attend and make a presentation.

Mr. Burton gave the Board a slide presentation of some pictures of the property. He noted that 70 percent of the block is heavily forested and steep. The three-year revenue history is as follows:

FY 2005 - - \$36,159

FY 2004 - - \$22,889

FY 2003 - - \$17,446

Mr. Rod Harrison, of Duchesne County, appeared before the Board. He indicated he has been involved in this for a long time and that he knows the block well. As a county, they feel that this property, as seen in a public realm, is unique and irreplaceable. What would he do if he were in the Board's shoes? He stated that is a very hard question. He sees the block as a monetary value and also a value to their children and posterity as a place to recreate. It has a great watershed that serves both Duchesne and Wasatch Counties. As a county, they use this block as a major portion of their communication services. It is a vital part of the agriculture in their county. He supports private lands, and any time we can change public lands into private lands he would be supportive. But because of this area, he goes against putting this in the public realm. He stated that he took a member of the Department of Natural Resources on a tour, and their county does support the Department's application to buy the land.

Val Draper, of Wasatch County, appeared before the Board and noted that Councilman Steve Farrell and Robert Riddle, the County Land Coordinator, were also in attendance. The Wasatch County Council had sent a letter to Director Carter regarding their feelings on this issue. He read their position letter as follows:

lb

10/20/05

Page No. 4

3. Discussion of Tabby Mountain Block (cont'd)

“We have followed with interest your agency’s consideration for the future of the Tabby Mountain block. We appreciate your sending Kay Burton to work with us as you do your planning prior to making a decision. It is so important to maintain an open dialogue with you as we work to represent the people in our County. We are also pleased you were willing to listen to the individual citizens our community who live, work, vote and pay their share of the taxes and fees that support this great State during a public meeting.

“We understand that it is incumbent on your agency to manage the assets entrusted to you for the benefit of the special beneficiaries of your trust. Therefore we support your careful evaluation of these properties, including the Tabby Mountain Block.

“We are concerned that you may be determined to dispose of this property for cash because you feel you can make more from the interest on the principal of the sale than you can from the land itself. We are concerned that if that were to happen the property would fall into private hands and the public would be excluded from an area that has been managed for multiple use for many years. Such an outcome would not be in the long term best interest of the public. There is much educational value in continued multiple uses and management. It is nature’s classroom today and for future generations.

“The Tabby Mountain Block is unique and represents one of the most beautiful places in our State. We think that the Citizens who live in the State will consider a decision to sell the Red Creek Drainage and Tabby Mountain to be short sighted. In that sense we wonder if it is not wiser to continue holding the property as it is, despite the costs to manage it, till the day comes that it can be utilized more effectively and may be more revenue positive than the current conditions let us see. It may be by that time, that its value as a resource to your beneficiaries for education is more apparent than it is now. Then it seems unlikely to be possible to assemble anything like it is currently.

“If you find this is your choice, it would be much appreciated by the citizens of Wasatch County if you would give us enough time to raise interest with the Legislature to allow the State to continue ownership of the property through the Department of Natural Resources. This choice is most beneficial to the public because the multiple use principles could be managed through that agency.

3. Discussion of Tabby Mountain Block (cont'd)

“We have not found support for the sale or privatization of these very public resources that citizens have been able to enjoy. We have always appreciated the contribution to our economy from the hunters, fishers, ranchers, camper, timber sales, and others that have traditionally used this property.

“We have a road right of way that we wish to defend. We will work with your agency or the State of Utah generally to manage the property beneficially and we welcome any opportunity to work your people to shore up a reasonable alternative to locking up this property for a few corporations and/or individuals who have no vested interest in our communities and the public institutions you serve.

“Would you be so kind as to forward our concerns to your Board members and let them know of our willingness to work through these issues.

“We strongly request your cooperation in multiple use of this historically used public property.”

Mr. Draper noted that, in the 1960's, this was Forest Service property; and a trade was made with the Trust to make this trust lands.

Mr. Mike Styler, Executive Director of the Department of Natural Resources (DNR), appeared before the Board. He noted he has just this morning had a discussion with Senator Beverly Evans on this subject. He noted they are concerned about watershed areas in the state. They have about \$8 million total, including some private monies to improve the watershed in the state of Utah. If you improve watershed, you increase the quantity and the quality of water. It increases forage and decreases problems we have from urban wildland interface with fires. Tabby Mountain, in their opinion, is one of the premiere watershed areas in the state. The Division of Wildlife Resources owns some property that adjoins Tabby Mountain. They have a very keen interest in keeping this land open to public use. They think this would be an ideal model forestry area. The wildlife people are concerned that many people hunt there; and, if it were privatized, they would receive many complaints. DNR has an interest in transferring this property to DNR, with the owner being Forestry, Fire, and State Lands or Wildlife Resources. He is leaning toward Forestry, Fire, and State Lands. Senator Evans stated she doesn't want it subdivided. She feels that would be the worst thing that could happen to it. Mr. Styler stated Forestry, Fire, and State Lands put some money in their budget this year to be a down payment on this land. At this point, it is not in the Governor's budget; but he doesn't know what the legislature will do.

lb

10/20/05

Page No. 6

3. Discussion of Tabby Mountain Block (cont'd)

They have talked to some private parties, and they are willing to help in a purchase of the property. He thinks the private entities could help with about one-third of the cost. He envisions a contract to be spread out over several years for the purchase of the property. He thinks the problems can be worked out. He knows there are many beneficiaries on the property, one of which is Water Resources (Reservoirs). The majority of the ownership is Public Schools - - 83 percent is Schools - - 17 percent various beneficiaries. DNR would like to keep this open for public use and the people of the State of Utah.

Ms. Margaret Bird stated that the State School Board has discussed this in closed session, and the School beneficiary will be writing a letter to the Board regarding their expectations of the property.

Mr. McKeachnie addressed some of the options. He thinks this meeting is a brain-storming meeting. One option would be to sell it. We have some interested buyers. If we are going to perform our duties as trustees, we would have to sell to the highest bidder. We would have to have the market set the price. Another option would be to turn it into a paying hunting and ranching operation. We could do this on an interim basis until we decided what to do with it permanently. This might make some people mad, but it probably would provide more money to the counties. We also could develop it. We could just sit on it and then develop it, sale it, etc. He asked for feedback on these options.

Mr. Styler stated he would like to add to the list the option of exchange and trade. Wildlife Resources and Forestry, Fire, and State Lands have some lands that could be traded. This would necessitate an appraisal of the property, but not open it to public bid.

Mr. McKeachnie stated that someone suggested that we trade it for the State Prison.

Mr. Burton noted that, in the process he has gone through, there is not anyone that doesn't have an opinion. He will present a plan to the Board that has fewer options than opinions he received. He is the fourth person to plan this block in the last decade. Some options to be considered are:

- * Put into the port folio for future use and increase the revenue as much as we can in the mean time.
- * Do something in the near term.
- * Evaluate it on a pretty routine basis to see when it should be developed.

lb

10/20/05

Page No. 7

3. Discussion of Tabby Mountain Block (cont'd)

Mr. McKeachnie stated he thinks about 20 miles of the boundary is in private ownership - - north, south, and east and some in the middle is already in private ownership. What we do with this will have a huge impact on these private lands and what they can do. The private owners are using this land as an extension of their land. One of the options he listed was to get into the business of restricted hunting. This generates money for the trust, which may turn out to be a way not to have to do something immediately. He asked the counties what they think about this.

Rod Harrison, of Duchesne County, stated he doesn't think they would be opposed to this, but they do support multiple use. Regarding selling to the highest bid, value some times cannot be measured in money. Mr. McKeachnie stated that, if the Trust holds it, the value has to be measured in money. If there are other uses, we need to let someone else hold it. He noted that he has had it suggested to him that possibly it could generate \$1 million per year in hunting.

Mr. Draper, of Wasatch County, stated that, when you put a CWMU on it, you are opening it up to the rich people. He doesn't think that is what the citizens of either county want. These people wouldn't have any vested interest in the land. Mr. McKeachnie stated these people need to help the Board figure out a way to get income from it so that the schoolchildren are not subsidizing this. Mr. Draper stated he thinks education doesn't always come in brick and mortar. He thinks DNR's propose would make everyone a winner. Mr. Keachnie noted that the Supreme Court has soundly rejected the idea that our duty is not measured in dollars and cents.

Mr. Styler stated we might have to do a combination of things - - exchange some properties and buy part of it. The legislature wants to put money into education, but not necessarily always into the current budget. This would give them an opportunity to put money into education and at the same time facilitate the exchange of the lands from one public entity to another. They could help the deal with some private money. He would like to come to the Board and make a deal because there is much political unrest. There is a level of political excitement surrounding this issue, and it needs to be handled delicately.

Mr. Ferry inquired of Mr. Burton regarding the \$42,000 in expenses to manage the block and what the income per year was. Mr. Burton noted that three years ago the income was \$17,000; two years ago it was \$22,000; and last year it was \$36,000. In working with the Surface Group, we think \$50,000 - \$90,000 gross revenue is reasonable to expect if we go into a long-term hunt. Mr. Ferry stated we are looking at all our options. We bring to the table what we have that is of value. He suggests that possibly we can exchange the hunting values and not jut the lands. We need to take care of our responsibilities to our beneficiaries. We need to look at hunting rights,

lb

10/20/05

Page No. 8

3. Discussion of Tabby Mountain Block (cont'd)

lands, and everything we have. Mr. Morris stated he is not sure we are meeting our fiduciary duties if we are only concerned with breakeven cash flow. Our duty is about highest and best use. This asset has a great market value, and we should be looking at the rate on the market value. We are probably getting a very, very low return on market value. We need to look at the present value of the dollars from a forward/back perspective. On prior auctions we have sold property on a cash and terms basis. Can we consider an auction that would include a mix of assets they will offer - - a combination of assets, land, cash, and evaluate them among competing bids under an auction scenario? The Director stated we can do this.

Mr. McKeachnie stated that, in order to justify holding it, we would have to earn probably \$4-5 million per year to be meeting our duty. Mr. Morris noted that to achieve the returns we make in the Permanent Fund, possibly we would have to earn \$2.5 - 4 million. Mr. McBrier stated that one of the tools might be to approach the block in more than one piece. There is some flexibility that the land offers. Possibly some could be moved into a transaction and hold some with the expectation that the land is going to continue to increase in the future.

Mr. Mortensen indicated he has toured this property and would encourage all Board members to take this trip to see where the natural boundaries, etc., are. Board members need to see it before making a decision. Mr. Mortensen stated he thinks it could be done in more than one parcel. He thinks the public needs to help us analyze this problem. Mr. Ferry stated he thinks the Board needs to tell the public that we need to get \$2-4 million from this per year and ask them what they would suggest we do to do this.

Chairman Lee thanked those who participated for their time and input. Chairman Lee asked Staff to send a map to those Board members who were not in attendance.

4. Chairman's Report

a. Beneficiary Report

Ms. Margaret Bird stated she wanted the Board to know how truly grateful the beneficiaries are for their work and contributions. We have just passed the \$600 million mark in the Permanent Fund.

There are three things the beneficiaries want the Board to consider at some upcoming Board meeting:

lb

10/20/05

Page No. 9

4. Chairman's Report (cont'd)

a. Beneficiary Report (cont'd)

1. They would like the issue of succession of the key Staff to be looked at so that the good work that people who are here right now can be carried on with continuity. She noted that in the Roulac study they talked about figuring out ways to provide reward and incentive for longevity.
2. Mr. Bird stated she feels we have a tendency to focus on the biggest items, but that we don't focus enough on the oil and gas and minerals end of things. Possibly, Staff could be given time to do some training for the Board on some new things on the horizon. Minerals is more than half of our revenue stream. Ms. Bird indicated she feels it is important to stay abreast of the new things going on in this field.
3. The beneficiaries would like the Board to discuss wilderness. We have one in three acres captured in some type of wilderness designation. It is a large thing out there looming, and we need to be prepared for when it sits on us. The Nature Conservancy made a presentation to the Western States Land Commissioners Association regarding land they are studying in ecosystems all over the United States. Most of Utah is captured in this study. Staff has sold some lands in the Citizens Proposal for wilderness. There are things that the Board can do to get people's attention. We should be looking at the options of what will get us value for our lands. They have been in WSA's for 20+ years. The Federal Government already feels they have our lands captured and don't need to do anything about it.

The Chairman noted that possibly some of these could be put on the incentive objective list for next year. Director Carter stated wilderness is tied into our exchange program. It is not one of the BLM's high priorities to "fix" the inholdings in wilderness areas. Ms. Bird stated she is concerned that time and time again we say that we have appraisals, and then we have auctioned. We think one of the things we should be looking at is establishing values for leases that could be used for wilderness areas.

Mr. McKeachnie stated that there is now a Public Lands Policy office, and this is an issue they care about. Whatever we do we should get their help.

(Mr. Ferry left at this point.)

4. Chairman's Report (cont'd)

b. Review and Adoption of Policy 2005-06 - - Compensation For Board Members
On Sub-committees

Chairman Lee indicated the Board was to consider this last month, but there was some concern about it. He thinks we should have this policy because many Board members are asked to serve on sub-committees. He would like to have consideration of this policy as follows:

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

New Policy *Amends Policy No.* *Repeals Policy No.*

Policy Statement No. 2005-06 Subject: Board Compensation for Additional Duties

The Board of Trustees of the School and Institutional Trust Lands Administration met in open, public session on October 20, 2005, and by majority vote declares the following to be an official policy of the Board:

1. It is the intention of the Board to make individual Board member skills and expertise more readily available to the Administration for the development of policies and review of issues statutorily under the purview of the Board.
2. This availability is likely to occur outside of regularly scheduled Board meetings.
3. Although Board members recognize that participation on the Board is a voluntary service provided to the trust beneficiaries, the Administration, and the State of Utah, this service may allow for compensation afforded Board members when acting in their official capacity at formal Board meetings.
4. Therefore, it is the policy of the Board of Trustees that Board members shall receive the statutorily authorized per-diem for all authorized Board activities, whether it be formal Board meetings, subcommittee meetings, or other Board-authorized functions.

4. Chairman's Report (cont'd)

b. Review and Adoption of Policy 2005-06 - - Compensation For Board Members
On Sub-committees (cont'd)

The Board approved Policy 2005-06.

McKeachnie / Morris. Motion approved.

“I move we approve this policy.”

Roll Call:

Mr. Mortensen - - yes

Mr. McKeachnie - - yes

Mr. Morris - - yes

Mr. Ferry - - absent at vote

Mr. Lee - - yes

c. Discussion of Request From Research Firm Representing Lincoln Institute
of Land Policy/Sonoran Institute to Interview Board Members and Staff

Chairman Lee indicated we have received a request from a representative of the Lincoln Institute of Land Policy and the Sonoran Institute to interview Board members and some Staff. Chairman Lee wanted the Board members to know about this before giving permission to be interviewed. Director Carter reviewed some of the issues these people will ask about, as provided by the interviewer:

“ . . . Our research focuses on the way in which land use decisions are reached and how trust lands are managed in states across the West generally, not about specific policies or laws. Our interview will address topics such as goals and responsibilities of state trust land management, resources used to inform state trust land decisions, trends in state trust land management, and the constituencies with whom you work.

“The Board members and the Director can provide us with a unique perspective of state trust land issues in Utah, and we would very much like to speak with you about those. The interviews will take about 20 minutes each. We are hoping to complete our interviews within the next week . . .”

lb

10/20/05

Page No. 12

4. Chairman's Report (cont'd)

c. Discussion of Request From Research Firm Representing Lincoln Institute of Land Policy/Sonoran Institute to Interview Board Members & Staff (cont'd)

Director Carter noted that this is Phase II of a study that is being done on trust lands in different states. They are now starting to put together tools that trust-land managers can use to support open space. The Western States Land Commissioners Association asked Mr. Carter, as the President of that organization, to write a letter to the Sonoran Institute regarding their last study stating that managing for open space was not their position for trust land management. Ms. Rupp noted that CLASS has also been contacted by this group. The beneficiaries are getting very concerned about the direction this is taking. This group is also asking questions of the beneficiaries.

Chairman Lee stated that, if the Board members would like to have them interview them, tell Director Carter. If no Board members indicate that, Director Carter will just do it on behalf of the Administration; and the Board will not get involved.

5. Approval of Warm Springs Agreement

Tom Mitchell stated that, when he last spoke with the Board regarding this issue, Staff was looking for authority to work with these people to try to terminate part of the lease and fix other parts of the lease. He showed the Board a photo of the land. There are 35 acres that are involved in this termination. We have just recently reached agreement on this issue. This agreement will terminate our relationship, and patents will be issued on the existing lots with the exception of one lot in Phase I.

There is a road depicted on the Eastern boundary on the 35 acres. The road will be on our property, but Warm Springs will be responsible for one-half of the costs. There will be no commercial allowed except on a one-acre parcel where a convenience store could be constructed. There will be deed restrictions whereby they will be required to construct a fence, how to construct slopes, etc.

This now needs to be reduced to written form. This will be an agreement to terminate their lease. This is within the limits the Board gave Staff to negotiate. They have been making a \$12,000 payment per year. They will own part of the lands free and clear, and we will get back about 55 acres. It was felt the Board would not actually have to approve this. If any Board member wants to review the final agreement, we will see that they get the chance to do so. Without motion, the Board indicated they were comfortable with this negotiation.

lb

10/20/05

Page No. 13

6. Amendment to Johnsons-Up-On-Top Development Agreement/Lease

Mr. McBrier reviewed this issue with the Board. This is regarding a proposed extension to a development agreement originally entered between Trust Lands Administration and Michael Liss, doing business as Moab Mesa Land Company, LLC. Mr. Liss has recently brought a substantial real estate development company from New York, Leyland Alliance, LLC, into partnership on the transaction.

The agreement contemplates a high-end resort lodge/residential development on the Johnson-Up-On-Top mesa located to the southeast of Moab. The parcel of land is approximately 2000 acres. Phase I of the proposed development would include a lodge to be located upon a non-subordinated ground lease and the development of single-family home sites for sale. Over time, the lodge would grow; and the total number of home sites/town homes/condos could approach 250 to 500. We have consistently required the developer to scale Phase I of the project to be meaningful and to prove up his capital abilities to execute Phase I. To date, the original developer has not succeeded in meeting this requirement. The contractual arrangement has expired and could be terminated on notice from the Trust Lands Administration. However, Mr. Liss and Leyland Alliance have convinced staff that it is in the best interests of the Trust to recommend an extension of the agreement for the reasons stated below.

Review: This project has been before the Board on at least three other occasions. These different reviews have included the initial review, project approval, and consideration of a prior extension. The following are highlights and history:

- * August 2000 - - first presentation of proposed idea
- * Fall 2001 - - Negotiations completed - Board approval of initial transaction
- * December 2001 - - agreement executed - original term expires August 2002 with four six-month option terms. Option terms subsequently exercised
- * 2002-2003 - - development program processed through Grand County after significant public dispute from environmental opposition; approval received
- * 2003-2005 - - project annexed for water service; litigation filed by environmental opponents and successfully defended to date; opponents filed petition for certiorari with Utah Supreme Court on September 29, 2005. TLA legal counsel is currently briefing opposition to the appeal
- * April 2004 - - Board presentation - two six-month option terms granted and subsequently exercised through September 2005.
- * Fall 2001 - Fall 2005 - - \$162,500 in rents paid to Trust by Developer
- * August 2005 - - Andres Duany planning week in Moab
- * September 2005 - - Trust meets with new development partner - Leyland Alliance.

lb

10/20/05

6. Amendment to Johnsons-Up-On-Top Development Agreement/Lease (cont'd)

This history reflects that the project has struggled to get out of the gate. In August of this year, Mr. Liss, in an effort to overcome the problems, completed a week-long planning effort with the assistance of the nationally acclaimed, new urban-planning group Andres Duany and Associates, at a cost of several hundred thousand dollars. Mr. Duany led an intensive, week-long planning effort in Moab which culminated in a new proposed development plan that would feature new urbanist approaches to development on the mesa. With this new plan in hand, Mr. Liss then solicited major developers who work on Duany projects. He has now attracted an experienced, well-capitalized developer, Leyland Alliance from suburban New York City, which is interested in investing the time and money necessary to make this project succeed. Leyland and Liss have reached an agreement regarding the project and have approached Trust Lands Administration for more time to complete their due diligence, reprocess the Duany plan through the County, and resolve financial contingencies. Leyland has advised us that they would request an extension of the preliminary term of the development lease through December of 2006, subject to meeting various performance benchmarks along the way. This would afford them approximately 15 months to complete their tasks.

Recommendation: Staff recommends that this request for additional time be granted for the reasons stated below:

- * We have worked for many years to initiate a significant development transaction in Grand County. This project has held the most promise and has had significant resources applied to it. For instance, the developer has obtained a complex, difficult development entitlement on our property in the face of concerted opposition. The Trust Lands Administration has fought to insure that the water for this parcel is protected by defending the annexation of this parcel into the water district. It is not clear that these successes will indefinitely remain if some project does not move forward in the fairly near future. Now that Mr. Liss has brought forth a capable, well-capitalized development partner, we are hopeful that the project might proceed.
- * The prospect of seeing a Duany project initiated on trust lands is compelling - particularly in the setting of Johnson-Up-On-Top in Moab. Moab has the potential to react very positively to a new urbanist project, and this could well serve to change the development climate in Moab. If executed, this will benefit other nearby trust holdings as well as the overall reputation of the Trust Lands Administration in the community.

6. Amendment to Johnsons-Up-On-Top Development Agreement/Lease (cont'd)

- * The developer will continue to compensate the Trust for the additional term requested. Compensation for the term extensions through December 2006 will be approximately \$65,000. These monies are significantly more than earnings from this land in the past and present and are adequate to compensate the beneficiaries for the agency's investment of more time on this project.

In making this recommendation, the Staff is committed to impose appropriate hurdles and achievements that must be met as this effort goes forward over the next year. It seems clear that this time we are at the end of the road; and, should Mr. Liss and Leyland not succeed in initiating the project, no further extensions will be considered. Staff realizes that this was said last time, but "once more" seems in order. With this in mind, we have established the following benchmarks:

- * December 31, 2005 - - Reach agreement with Trust Lands Administration regarding the new master plan to be pursued with Grand County and associated issues. In the event these lead to consideration of trust compensation issues or other material matters, the Board will be consulted/advised of the same.
- * May 31, 2006 - - New preliminary plat filed with Grand County Planning and Zoning and thereafter diligently prosecuted to final approval.
- * December 31, 2006 - - All contingencies, including satisfaction of financial capability requirements, to be resolved.

A possibility exists that, in processing the new plan through the county planning process, appeals and other formal legal efforts could be made to slow the process. We would intend to require the developers to diligently seek approval of the final approvals, but would allow a tolling arrangement for delays resulting from formal legal appeals.

Conclusion: We remain supportive of trying to get this project off the ground. If executed as proposed by Leyland and Liss, the financial opportunity for the trust beneficiaries will be substantial; and the resulting project will be something that can set a new standard for development in Moab, producing many collateral benefits for the Trust.

Mr. McBrier introduced the following people in attendance regarding this issue: Michael Liss, Moab Mesa land Company; Howard Kaufman, Leyland Alliance; Steve J. Mauer, Leyland Alliance; Tom Clawson, VanCott Bagley; and Stephen Swindle, VanCott Bagley.

lb

10/20/05

6. Amendment to Johnsons-Up-On-Top Development Agreement/Lease (cont'd)

Mr. Liss updated the Board on the project. Last Spring there were many investors interested in this project. He wanted to make sure he got great people involved in this project. He hired a top planning firm to look at the project. He has signed Leyland Alliance to work with him on the project. They do these types of projects on the East Coast and now are coming to the West Coast. They are bringing the financial capability and design to this project to make it happen.

Steve Mauer, from Leyland Alliance, appeared and showed the Board some sketches of some projects they have done. Many of the fundamental processes are used on all of their projects. Andres Duany told Leyland Alliance that this was an extraordinary site and they should look at it. They are very effective in working with municipalities on projects. They feel they have an opportunity in Moab to create a project that will stimulate economic growth and be a model for other projects throughout the state. This must be a sustainable project. It needs specific focus on the hotel to bring people into the area. It needs to be marketed strongly. They are looking at refining the project and making it much more successful by adding to the density of the core.

Mr. Liss showed the Board some drawings of the proposed project. It will create along the rim a dense core including hotel and housing units. There are three different types of units - - the main village core, an open village, and an area that will be an agricultural compound where they can grow grapes, etc. He showed the Board some imagery of what the architecture will be. Only in the core will there be high density. The other areas will be much more open. Mr. Mauer stated the lodging units can be sold, and they can make this core development happen right from the beginning.

Mr. McBrier stated this is a great vision. These people have the resources and experience to make this happen. They have significant financial backing. The legal documents are structured so that there will be a big first-phase start. Howard Kaufman, general counsel for Leyland, explained their financial backing. They have added financial backers as their projects have expanded. They have started discussions with other investors also. They are always growing the value through private investors. They put their own company's money into the project. After the entitlement work and planning are done, they do their financing through banks, etc. They have many partners who will assist them in marketing and design, and they are confident that this will be an extraordinary project.

Mr. McBrier stated these people will re-engage the community to change the density, etc. Mr. McBrier thinks it is in the best interest of the Trust to extend this lease. He asked the Board for authority to extend this lease again.

lb

10/20/05

Page No. 17

6. Amendment to Johnsons-Up-On-Top Development Agreement/Lease (cont'd)

Mr. Mortensen stated that, by extending this again, there is much work that needs to be done with the community. Will this agreement allow for more time if the year is not enough for the work with the community? Mr. Andrews stated there are many people in Grand County who don't want more people moving to Moab. They have sued on this and won. They have asked the Supreme Court to hear it. If a new plan gets challenged, it would be appropriate to extend it further. This could be built into this agreement so that it doesn't have to come back to the Board again. Mr. Mortensen stated the Staff will have to monitor this closely to make sure they are doing their work. He thinks Staff should be given some latitude to get this project going.

Mr. Lee asked why this company would come to the West to Moab, Utah, where it is a desert area with a small population? Mr. Mauer stated there is extraordinary growth in the recreation in this area. The growth in the travel industry is great. Moab is in the middle of this movement. This all makes this project very viable. The surrounding environment, rocks, etc., are their focal points on this project. They look for unique projects that will make a difference. This project can be a signature project for the West. Mr. Kaufman told the Board of an article in the New York times about Moab, Utah, and things to do there. Mr. Mauer stated the core development can be developed in about three to four years. The rest of it will be nurtured over time. This is probably a 10-year project.

Mr. Morris asked how much out-of-pocket had been spent now and how much will be spent between now and the end of the extension period? What is the budget for the core development? At this point, Mr. Liss is out of pocket \$1.4 million. Mr. Mauer stated they have to go through the approval process at the local level. At the point when they get it approved, they will begin the engineering. They could spend \$1.5 to \$2 million before December of next year. The infrastructure is a critical part of the project. It has to be amortized with the project on the rim. The infrastructure could be in the \$10-12 million range. The development itself could be another \$20-30 million. They believe the market is there to drive this project.

Mr. Lee stated he has some trouble with tolling for legal problems. He would like to be involved in any extension. Mr. Morris agreed with this. Mr. McBrier stated we have had some experience in Moab that make us anticipate these types of problems. The Board stated they are reasonable on these types of issues.

Mr. Mauer stated some of the other projects have had legal problems, and they have never "spit the bit" on any of their projects. After they begin this project and put their time and effort into it, they will not leave the project. They will see it through to fruition. They also want to know that the Trust is committed to this project.

lb

10/20/05

Page No. 18

6. Amendment to Johnsons-Up-On-Top Development Agreement/Lease (cont'd)

Mr. Mortensen stated he thinks the Board could have final approval, but he feels the Board is committed to this. Mr. McBrier noted the contract might have to be amended based on the new vision. The Board will see the agreement before finalized.

Mortensen / Morris. Motion approved.

“I move we extend the agreement to December 31, 2006.”

Roll Call:

Mr. Mortensen - - yes

Mr. McKeachnie - - yes

Mr. Morris - - yes

Mr. Ferry - - absent at vote

Mr. Lee - - yes

7. Proposed Land Exchange - Pintura Area - Washington County, Utah

Mr. Gordon reviewed this item with the Board. This is a proposed exchange between the Trust and a private property owner in the Pintura area of Washington County. The subject property is located in Section 11, Township 40 South, Range 13 West (beneficiary is Schools). The Trust has 578 acres in this section surrounding an “out parcel” of roughly 120 acres located on both sides of Interstate 15 at Exit 32. There are approximately 1,200 additional acres of trust lands in adjacent sections, which are accessed by the same freeway interchange. The private property is owned by Wendell Knight, the individual involved in this proposed exchange. Some of the Trust’s land in this area is inutile due to steep, rugged topography. None of the Trust’s land in this area has water, which is a development constraint.

Trust Lands Administration has received a proposal from Mr. Knight to exchange land in order to consolidate and rationalize ownership in the area and to improve development opportunities for both parties. The following describes the proposed transaction and analyzes its merit to the Trust.

Proposed Exchange: Mr. Knight has offered to convey to the Trust approximately 70 acres of developable land directly fronting both the north and south side of the Browse freeway interchange (“Knight Exchange Land”). In exchange for this freeway frontage property, the Trust will convey to Mr. Knight roughly 225 acres of land located to the south and east of the Knight Exchange Land, a large portion of which is in a very steep gorge. No more than 125 of the 225 acres of the Trust’s exchange lands are developable. In addition, the Trust will receive a productive well located on the Knight Exchange Land and water rights equal to 12 acre ft. (AF)

.
lb

10/20/05

7. Proposed Land Exchange - Pintura Area - Washington County, Utah (cont'd)

Analysis: The lands directly fronting the freeway interchange that the Trust would receive are more valuable to the Trust than the lands we would give up. This is due to the high volume of traffic along I-15 and the associated potential for freeway-oriented commercial development at the interchange. By acquiring water rights in this exchange, the Trust would be able to pursue such development opportunities at the site. The Trust could also apply for a change in the point of diversion of all or a portion of the water in order to support the development of another nearby project, such as the one in the town of Leeds.

Although the subject property is not located in an urbanized area, it is clearly within the Washington County growth path with easy vehicular access. Therefore, assuming infrastructure challenges are eventually overcome, additional residential development may become viable. The land best suited to residential development is west of the highway. Completing this exchange would considerably improve access to this large block of trust land.

Our analysis of the proposed transaction indicates that the Trust will receive at least equivalent value in the exchange. To determine the relative value of the assets included in the exchange, we relied primarily on a report completed in May, 2005, by appraisal firm Morley & McConkie ("M&M"). In their report, M&M appraised the developable trust land at \$6,100 per acre and the undevelopable trust land at \$115 per acre. M&M also provided an approximate boundary between the two classes of land, which we retained in our analysis. We used the value of the developable trust land as a starting point to determine the value of the Knight Exchange Land. All of the Knight Exchange Land is of at least equivalent quality in terms of topography; however, the Knight Exchange Land has superior access and has commercial potential that the trust land does not. For these reasons, we believe it is appropriate to apply to the Knight property a premium of at least 33 percent over the appraised value of the trust land. We believe a conservative value is \$8,000 per acre. In this area of unincorporated Washington County, water defines the limit of development. Water rights in the area are, therefore, of considerable value. Although information is limited regarding the market for water rights in the area, we believe a valuation of \$17,500 per AF is realistic. The value of the well was reached after consultation with a local engineer. A summary of our findings is included below:

7. Proposed Land Exchange - Pintura Area - Washington County, Utah (cont'd)

	<u>Knight Gets</u>	<u>TLA Gets</u>
LAND		
Developable acres	125	70
\$/acre	\$ 6,100	\$ 8,000
Subtotal	\$762,500	\$560,000
Undevelopable acres	100	
\$/acre	\$ 115	
Subtotal	\$ 11,500	
Land total (acres)	225	70
\$ value	\$774,000	\$560,000
WATER		
Water rights (AF)		12
\$/AF		\$ 17,500
Well		\$ 20,000
Water total		\$230,000
Total value	\$774,000	\$790,000

Conclusion: In the absence of Mr. Knight's proposal, the trust land in this area would have limited value, due to its rugged topography and the Trust's lack of water rights. Mr. Knight's proposal gives the Trust an opportunity to obtain land at a freeway interchange frontage with near-term commercial potential, plus the water necessary to support development. In addition, the exchange would improve access to the large tract of the Trust's land to the west of the interstate highway and better rationalize property boundaries in the area. We recommend approval of this transaction..

McKeachnie / Mortensen. Motion approved.

"I move we approve this."

Roll Call:

Mr. Mortensen - - yes
 Mr. Morris - - yes
 Mr. Lee - - yes

Mr. McKeachnie - - yes
 Mr. Ferry - - absent at vote

8. Sienna Hills Parcel 9.A - Commercial - - Washington County, Utah

Mr. Gordon reviewed this issue with the Board. Staff is requesting Board approval to engage in commercial lease transactions for Parcel 9 at Sienna Hills. One of our primary goals for commercial property at Sienna Hills is to begin to establish a long-term recurring revenue with our commercial property. The transactions discussed herein represent the start of such ground leases and associated recurring revenue.

Sienna Hills development continues to progress. Washington Parkway and the Milepost 13 Interchange are open, and we will close the first residential parcel sales by the end of 2005. The core infrastructure is nearly complete, and we are preparing to issue construction contracts for some of the major roads within the development. The city of Washington recently approved a development agreement authorizing the Trust to proceed with the project.

In February of this year, the Planning & Development Group issued the first land offerings at Sienna Hills. Commercial Parcel 9.A and 9.B were offered for lease or joint venture, not for sale. Together these two parcels total about 22 acres or roughly five percent of the total amount of commercial development land at Sienna Hills. Our offering was issued through Kemp Griffin, a local commercial real estate broker. To date, we have received a variety of proposals for the development of this property. Our criteria for selecting potential candidates is as follows:

- * Willingness to enter into unsubordinated ground lease or joint venture.
- * Proposed land use compatible and complimentary with the Sienna Hills development.
- * Proposed project useful as “seed” development.
- * Fits within the freeway-oriented uses such as motel, restaurants, gas stations, fast food, and retail-oriented commercial.
- * The vision of the proposed development and the potential effect of the project to either enhance or detract from the Sienna Hills project.

Ground lease offers: Kemp Griffin has received solid offers from a motel and a gas station/ convenience store to locate on Parcel 9 in an unsubordinated ground lease transaction. Both uses require about one acre of ground at a value range from \$10 to \$11 per square foot or \$436,500 to \$479,000 per acre. Both these uses are good “seed” uses for our commercial parcels and fit our criteria stated above. In order to accommodate these transactions and others that will follow, certain improvements have to be made.

Lease areas and improvements: Mr. Gordon showed the Board a map showing the development pattern that will take place on the eastern portion of Parcel 9. This pattern consists of six to 10 ground lease parcels fronting a common access road. Lease parcels could range from one-half

lb

10/20/05

Page No. 22

8. Sienna Hills Parcel 9.A - Commercial - - Washington County, Utah (cont'd)

acre to one acre. The access road may provide future connections to the remainder portion of Parcel 9 to the west. For now, we are recommending that the Trust construct the access roadway. Construction of this roadway will provide access to the first two commercial developments at Sienna Hills. The motel could be located on Parcel E, and the gas station/convenience store would most likely be located on Parcel D. We will continue to seek tenants for the other parcels.

Each tenant in the park will pay a proportional share of constructing the roadway improvements either through reimbursing the Trust or through rents. Since we intend to only lease out these parcels, it is our intent to maintain ownership of the land under the roadway in order to give the Trust flexibility in the long-term future with this parcel. We envision forming an agreement with a property management company to manage the common areas and leases on a day-to-day basis. An appropriate Common Area Maintenance (CAM) fee will be established to maintain common area landscape and the roadway - - tenants will pay this charge.

Financial Analysis: The value for these parcels is largely already created. With the addition of some roadways and infrastructure, our strategy at this point is to change the posture of the Trust's land from appreciation to that of cash flow. For the purpose of projecting the financial return to the Trust of ground lease transactions on the subject parcel, we assumed six separate users occupying about six acres. Based on a rate of \$10 to \$13/sq.ft. And assuming a rental rate of eight percent of value, the transactions will have the effect of adding \$1,315,755 in value above our basis over the 40-year life of the project. This added value indicates that we should proceed with this project. The projected modified internal rate of return (MIRR) is 9.73 percent.

Conclusion: This development will accomplish our goal to create long-term recurring revenue by ground leasing commercial pads at Sienna Hills in conformance to the standards we have set. We are seeking Board approval to begin the development of the lease area as described herein and to enter into two lease transactions as outlined. As negotiations are not yet final on the two lease transactions outlined (motel and gas station), we have used conservative values in the financial analysis. The \$10 and \$11 per square foot should be worse-case scenarios. In the future, as we find additional users for the other ground lease parcels, we will return to the Board with the proposed deal terms. Where appropriate, these future ground lease transactions will include either fixed rents with annual adjustments and/or percentage rents to protect against inflation.

Mr. Gordon explained to the Board that this is not the large commercial piece at Sienna Hills, but is the smaller one. The large one is not being worked on yet.

lb

10/20/05

Page No. 23

8. Sienna Hills Parcel 9.A - Commercial - - Washington County, Utah (cont'd)

Mr. Morris asked what kind of lessons Staff is learning about the market that would cause us to consider reconfiguring this into smaller parcels than originally planned. Mr. McBrier stated we have been working on the parcel for nine months. We have worked with a broker looking for larger users that would work on this parcel. We have not been successful in this. Many people are interested in the large piece. We want to capture some early “deals” because we have invested a lot of money. Mr. Gordon noted that we have also learned that everyone wants to buy and not lease. Mr. McBrier stated Washington City wants to know when they will start seeing some tax revenue from this project. If you are going to break it up into smaller uses, you will have to police it more. This is a challenging way to do it. It is an opportunity to capture some recurring value.

Mr. Morris stated he thinks we need to manage the credit risks of the tenants. Mr. McBrier stated we are trying to get operating covenants. There are a couple of these that we are trying to finish. We will actively watch our capital on this project.. On Parcel D there will be a gas station and convenience store. On Parcel E there will be a motel. We are trying to finish the details on the first two.

Morris / Mortensen. Motion approved.

“I move we approve the ground lease plan as presented.”

Roll Call:

Mr. Mortensen - - yes

Mr. Morris - - yes

Mr. Lee - - yes

Mr. McKeachnie - - yes

Mr. Ferry - - absent at vote

9. Sienna Hills Fiber Optic Network

Mr. Gordon reviewed this with the Board members. On October 6, 2005, Staff presented a contractual arrangement between the Trust and Broadweave for Board approval. The Board took no action on this at that meeting. The purpose of this discussion is to resolve issues raised concerning our proposed contractual arrangement with Broadweave and obtain Board authorization to enter into an agreement with Broadweave.

The Board expressed concern with a provision that would have obligated the Trust to use Broadweave on future development projects. Since the discussion with the Board, we have had further discussions with Broadweave and have agreed that there will be no assurance to Broadweave that it will be a provider for future projects; rather, in the event the Trust chooses to use Broadweave on a second project, the Trust will then be entitled to receive a "bonus" payment in the event of a future roll-up or other capitalization event for Broadweave. This compensation will be three percent of the portion of the roll-up value attributed to the number of users being served in the Trust Lands' communities. Broadweave is unwilling to commit to roll-up bonus payment in the event it does not receive an additional deal from the Trust.

Project timing: We currently have several sale and development lease transactions lined up at Sienna Hills waiting to close. Resolving the fiber optic network contract is an important milestone that will enable us to move forward and close these transactions. In addition, we have infrastructure obligations associated with these transactions that are likewise dependent on a decision regarding fiber optics. We feel it is important for the Board to understand that, if a contract with Broadweave is not approved at this point, we intend to abandon the effort to implement a fiber optic network at Sienna Hills and to proceed to close the pending transactions with the understanding that fiber will not be provided to the community.

Recommendations: Our recommendation is to move forward with Broadweave with the understanding outlined above. We are confident that this course will enable us to meet our goal of generating long-term recurring revenue for the Trust by the implementation of a fiber optic network at Sienna Hills. We are excited to have Broadweave working with us to achieve our goals. We are seeking approval from the Board to enter into a contract with Broadweave Networks as outlined herein.

Mr. Gordon reiterated that in this contract there will be no commitment from the Trust that Broadweave will automatically be the provider there. However, if they are the provider on other projects, we will receive a roll-up fee on other projects.

lb

10/20/05

Page No. 25

9. Sienna Hills Fiber Optic Network (cont'd)

Mr. Morris asked how Staff plans to negotiate an equity kicker on another deal. Mr. McBrier stated that we intend to have the contract provide that, if we do another deal, there will be an equity kicker. Staff will show the Board the language on this when it is completed.

McKeachnie / Mortensen. Motion approved.

“I move we approve this.”

Roll Call:

Mr. Mortensen - - yes

Mr. McKeachnie - - yes

Mr. Morris - - yes

Mr. Ferry - - absent at vote

Mr. Lee - - yes

10. Director's Report

a. Director's Update on Issues

Director Carter discussed the following issues with the Board:

- * Board Meeting packet - - When we sent the packet to the Board by e-mail, it was too big of a document for most members to receive. We are proposing that we put in on a secure website. Some members don't want to receive it that way. Mr. McKeachnie and Mr. Mortensen indicated they would just like it mailed to them. If other don't want to get it off a website, please notify us.
- * Colorado River Exchange Update - - Director Carter showed the Board a power-point presentation summarized as follows:
 - * House hearing held on September 27 (HR 2069)
 - * Oral testimony from SITLA, DOI, and conservation community
 - * Written testimony from SUWA and WLP
 - * Meeting with DOI and Committee staff scheduled for October 27 in D.C.
 - * Mark-up in the House
 - * Move bill in Senate (S 1135)

lb

10/20/05

Page No. 26

10. Director's Report (cont'd)

a. Director's Update on Issues (cont'd)

- * Range Creek Exchange
 - * Land acquired by DWR from private donation (Wilcox Ranch)
 - * World-class cultural resources discovery
 - * Interest in acquisition by UMNH (University of Utah)
 - * DWR would like to acquire University grant land on the LaSal Mountains

This is an issue that has generated much discussion lately. Mr. McKeachnie stated he has some concern with the University managing this property. It damages the entire state if those archaeological sites are damaged.

- * Proposed Statute Changes
 - * Amendment to GRAMA to allow Board to hear petitions on access to records
 - * Amendment to OHV statute to clarify public access on open land
 - * Also exploring an amendment to the mineral lease revenue sharing statute.
- * Programmatic Agreement with Division of State History
 - * §9-8-404 requires consultation with DSH for "undertaking"
 - * Agreement with counties to provide recordable disclaimer recognizing RS 2477 roads
 - * Recognized width may exceed area of disturbance
 - * Agreement constitutes consultation avoiding additional survey requirement by SITLA or county
- * Finders Fee
 - * Professional "landman" discovered valuable Trust mineral interest NOT showing on our ownership database
 - * Inquired about possibility of receiving compensation for reporting information
 - * Finders fee may serve as incentive for others to report discoveries

Director Carter stated he would like the Board to authorize the Staff to look further at a finder's fee. Mr. Andrews stated there could be a chance of a private party having a claim against it. It should be a gratuity, not a right. The Board expressed concern that we start down this path. Mr. McKeachnie suggested that it be done on a case-by-case basis. Director Carter stated there is not a process in place where he can award a finder's fee. It was generally felt we should not do this.

10. Director's Report (cont'd)

a. Director's Update on Issues (cont'd)

- * Deputy Assistant Director Position
 - * Board created Deputy Assistant Director position for Planning/Development in March, 2002
 - * Other groups within agency are experiencing need for Deputy position
 - * share workload
 - * provide career path
 - * Request concurrence with plan to broaden description to include other groups

The Board stated they were o.k. with creating the "box" and letting the Director manage those positions.

Morris / McKeachnie. Motion approved.

"I move that we approve the position of Deputy Assistant Director for use in all business groups."

Roll Call:

Mr. Mortensen - - yes	Mr. McKeachnie - - yes
Mr. Morris - - yes	Mr. Ferry - - absent at vote
Mr. Lee - - yes	

b. Management Training

- * Board recommended ongoing education/training program
- * Two options
 - * Board policy
 - * Administrative policy
- * Recommend Administrative policy for management staff
- * Policy will endeavor to:
 - * sharpen professional skills
 - * increase networking and exposure to outside professional organizations
 - * improvement management capabilities
 - * recognize existing professional educational requirements
 - * require certified credits
 - * be incorporated into annual performance plans

10. Director's Report (cont'd)

b. Management Training (cont'd)

Mr. Morris stated Ms. Bird had brought up her preference that the Board address succession plans. How does this fit into that - administrative or Board oversight? Ms. Bird stated this is a start, but she feels that building into the incentive bonus something that encourages longevity would be a good start. Mr. Morris stated he would suggest this be called "Management Education/Training and Succession Planning". Chairman Lee stated he feels like he would like to have Board policy on this. Mr. McKeachnie stated he is content to let the Administration get it started. Director Carter asked how about Staff get it up and running and provide the Board with a copy of the policy by the end of the fiscal year and a report of how it is going. The Board felt this would be fine.

c. Discussion of Percentage Portion that Should be Placed on Revenue Incentive Objective

This issue was postponed until more Board members are in attendance.

Mr. Lee inquired about the land sale. Director Carter reviewed it with the Board. We had one person who stopped payment on their check. We are going to sue them. We sold every parcel we offered at this sale.

Mr. Lee inquired about the status of the legislative audit. Director Carter stated it should be provided to the Legislative Audit Committee in early November. We should see a draft in about a week.

Ms. Garrison noted that Wind River is offering to give the Board a seismic survey presentation. It is at BYU in the Geology Department on November 18 at 1:00 p.m. It is about a 90-minute presentation. Mr. Mortensen indicated he would like to attend.

Mr. McKeachnie noted that the new energy act has created a pilot project in the Vernal BLM office. They are hiring 17 new employees. There is an opportunity for the state to share some office space there. He wonders if DOGM and Trust Lands should pursue a person in that office. Director Carter stated Staff will think about this.

Closed Session

Mortensen / Morris. Motion approved.

“I move we go into closed session for the discussion of valuation of properties.”

Roll Call:

Mr. Mortensen - - yes

Mr. McKeachnie - - yes

Mr. Morris - - yes

Mr. Ferry - - absent at vote

Mr. Lee - - yes

The Board went into closed session at 2:34 p.m. Those in attendance were Board members, Kevin Carter, Margaret Bird, Paula Plant, Karen Rupp, LaVonne Garrison, John Andrews, and Lynda Belnap. The Board returned to open session at 3:11 p.m.

11. Consent Calendar

Chairman Lee noted that, any time the beneficiaries are uncomfortable with any of the Consent Calendar issues, they can call a Board member; and it will be pulled off and discussed further. He noted that no one has asked that any of the following items be discussed. Mr. Morris stated that he assumes that, when we get items for the Consent Calendar, everyone in the agency is in agreement. Director Carter stated Staff has already addressed each of these items before the meeting. There were no requests for discussion on items 11-a, 11-b, and 11-e; but Mr. Morris did have some issues for discussion on 11-c and 11-d.

a. Gateway Residential (Knollwood Townhomes) Sales Transaction

The subject parcel is located near the Gateway Industrial Park within the city limits of Hurricane (Township 42 South, Range 15 West, Section 4). The parcel consists of two townhome lots (two attached units) totaling approximately 2,868 square feet or 0.07 acres. The property was part of a larger development transaction; the subject parcel was abandoned by the developer and reverted back to the Trust. Several previous attempts to sell the property have failed. Past marketing attempts include offering the property for sale at the Spring 2005 auction, at which time no bids met the reserve price.

Proposed transaction and rationale: In response to recent marketing efforts, Trust Lands Administration has received an offer from Mr. Lonnie Clove of St. George to purchase the subject property for \$53,000. This price exceeds a recent appraisal, which set the value at \$52,000.

lb

10/20/05

Page No. 30

11. Consent Calendar (cont'd)

a. Gateway Residential (Knollwood Townhomes) Sales Transaction (cont'd)

The primary value of the property is that it is entitled and fully improved and may therefore represent an opportunity for a modest profit to a developer willing to build and market a structure on the site. From the perspective of the Trust, capturing the present fair-market value of the property is attractive, as past marketing efforts have been fruitless and retaining the property long-term holds no promise for a significant increase in value.

Conclusion: This purchase offer allows the Trust to capture the fair-market value of a property that has proven difficult to market. Staff welcomes input from the Board.

Since the Board had no questions on this item or concerns on this item, it is approved.

b. Last Sun at Green Springs Development Leases - Gardner/Plumb

The Trust owns a parcel of land approximately 4.95 acres in size immediately adjacent to the Last Sun at Green Springs ("Last Sun") residential development in Washington City, Washington County. This Trust parcel is suitable for residential development. However, development of this piece of land is challenging because it is positioned between the aforementioned development to the west and a significant gorge to the east. The piece is effectively land-locked and is accessible only through the adjacent Last Sun development.

The current surrounding land uses are single-family homes or vacant private lands. The developer of the adjacent Last Sun project proposed including the Trust parcel in its development by means of a development lease. At our request, Washington City Planning Commission recently recommended approval of a zone change on the Trust parcel from its current open-space zoning to R-1-10 (10,000 SF residential lots). The Washington City Council will most likely approve this zone change at a public hearing scheduled for October 26, 2005.

Transaction: The proposed transaction is a development lease of approximately 4.95 acres of trust lands with the developer of Last Sun - - Gardner/Plumb. A development lease transaction will allow Gardner/Plumb to develop the 4.95 acres into 11 improved lots to sell and the Trust to participate in the proceeds from the sale of the improved lots. The Trust's percent of the gross selling price of each improved lot will be 50 percent. The developer will be required to perform all required engineering and provide all capital necessary to develop the Trust parcel - - with no further investment by the Trust. Upon closing, title to the land will be conveyed to the buyer of each improved lot via patent.

lb

10/20/05

11. Consent Calendar (cont'd)

b. Last Sun at Green Springs Development Leases - Gardner/Plumb (cont'd)

Financial Analysis: We analyzed the return to the Trust based upon the negotiated terms of this transaction together with one, two, and three-year (worst-case) absorption assumptions. This analysis also included an annual price increase assumption of five percent as well as a per-acre basis of \$130,000. The results are as follows:

	<u>1-year</u>	<u>2-year</u>	<u>3-years</u>
NPV	\$576,834.71	\$562,070.62	\$547,682.16
IRR	113%	74%	56%
MIRR	113%	51%	34%

Given the exuberant trend in the Washington County housing market, we anticipate the 11 lots to be sold in one year. In this case, the transaction will generate gross revenue of approximately \$1.4 million or \$276,000 per acre to the Trust. In net present value (NPV) terms, the transaction results in approximately \$577,000 to the Trust after recovery of the basis or approximately \$117,000 per acre after recovery of the basis. The internal rate of return (IRR) on the project is well over 100 percent. The financial analysis suggests the Trust should pursue this transaction.

Conclusion: The approximate 4.95 -acre Trust parcel is a natural extension of the proposed Last Sun subdivision. Gardner/Plumb is the most logical transaction partner on this land because they control access into the piece. The inclusion of the Trust parcel into the Last Sun development provides a generous return for the Trust. We recommend approval of this development lease transaction.

Since the Board had no questions on this item or concerns on this item, it is approved.

c. Proposed East Zion Recreational/Residential Development Transaction

The subject parcel is a 640-acre section located just east of Zion National Park and north of State Highway 15. It is located about 11 miles west of Mt. Carmel Junction in Kane County. The legal description is Section 16, Township 41 South, Range 9 West, SLM (beneficiary is Schools). The topography consists of mostly flat mesa tops with steep rugged canyons bisecting portions of the section. The vegetation is pinyon, juniper, and oak forest with some open areas of brush and grass.

lb

10/20/05

Page No. 32

11. Consent Calendar (cont'd)

c. Proposed East Zion Recreational/Residential Development Transaction (cont'd)

The parcel will be somewhat difficult to develop as a technical matter, but the location and spectacular views from the property will garner a premium that should compensate for this fact. The current market in this area would also indicate that there is significant support for development of lots in this area.

Development of the property will require significant infrastructure development including roads, water, and power. The property is surrounded by private land on three sides which has some development occurring on it with additional development anticipated.

The Trust Lands Administration has received a proposal from Zion Land Holdings, LLC, for the development of this parcel into residential lots. Zion Land Holdings is a significant landowner in the area and owns land adjacent to this property. They are in the process of developing some of their holdings and would like to include the trust land section as part of their overall development plan for the area. The following outlines the major terms that will form a development between Zion Land Holdings, LLC, and Trust Lands.

Property involved in transaction: The parcel consists of 640 acres of land. Significant areas of the parcel are un-buildable due to steep rugged canyons and topography. These un-developable areas will be included in the transaction as open space. There will be a small area along the highway and below the steep area which will remain in Trust ownership and under lease for future development.

Proposed development: Zion Land Holdings is proposing to develop the property into a high-end second home residential subdivision that will have approximately 100 units. They will work with Kane County to conform to all the required subdivision and zoning ordinances as required. As more detailed planning and analysis of the project is performed, the estimated number of units will be refined (increase or decrease as appropriate). They anticipate establishing conditions, covenants, and restrictions on the development to help maintain the high standard and quality they are looking for in the market.

As the partner, Zion Land Holdings will be responsible for all planning, engineering, construction, and marketing requirements for the project as well as developing all required infrastructure. The project will likely develop in three phases. The proposed development will be a high-end product which will appeal to the developing market in this area.

lb

10/20/05

Page No. 33

11. Consent Calendar (cont'd)

c. Proposed East Zion Recreational/Residential Development Transaction (cont'd)

Transaction elements: Zion Land Holdings and Trust Lands Administration are proposing that we enter into a development lease that will compensate the Trust at 30 percent of the gross sale price of each lot. This percentage rate includes all basic work necessary to accomplish the construction of the development into saleable lots including the construction of roads and utilities. All open space areas will be included in the lot sales as an undivided interest to the lot buyer and will be controlled by the Home Owners Association. We anticipate this project will build out over a period of six years.

Transaction values: Recent sales in the area and appraisals completed on the property in the past indicate current land values from \$2,800 to \$4,000/acre. We estimate the current value to be around \$3,500 per acre for this property. While the real estate market has appreciated significantly in the past few months, the structure of the proposed transaction (percentage of gross lot sales) enables the Trust to capture values in a way that keeps current with market.

Financial analysis: Our financial analysis of this proposal indicates that, over the next six years, the Trust will net \$5,625,000 from this development. At an eight percent discount rate, the net present value (NPV) of the six-year cash flow is \$2,254,887 or a per-acre NPV of \$3,640. This is the return to the Trust over and above receiving the current land value. The modified internal rate of return (MIRR) is 25.5 percent. After detailed planning is completed, it is likely that the number of lots could increase, which will further increase the values. We do not feel that a direct sale of the property will return this kind of value per acre. Also staying involved in the project through the development lease will allow input and control over quality issues, whereas a direct sale would not.

Conclusion: In the absence of the Zion Land Holdings proposal, this property would require a significant investment in capital to develop. Neighboring development is occurring in the area, and the market appears to support this development. This proposal gives the Trust Lands Administration an opportunity to obtain very good returns that would otherwise be difficult to achieve without considerable risk. The principal partners in the LLC also have a demonstrated track record of successful development projects. It is our recommendation to move forward with the project as outlined. This proposal is in the nature of an "other business arrangement". Therefore, the Board approval is requested.

lb

10/20/05

Page No. 34

11. Consent Calendar (cont'd)

c. Proposed East Zion Recreational/Residential Development Transaction (cont'd)

Mr. Morris has a question as to who the principals of Zion Land Holdings are. Mr. Lou Brown introduced Joe Larsen and Kevin McLaws, who are the principals of Zion Land Holdings. Mr. Larsen stated that there are actually two groups combined - - Split Rock, that has done development around Snow Canyon, and the Entrada golf course, who has joined with Kevin McLaws. They are funding a 50/50 project. They have recently purchased property that adjoins the trust property.

Mr. Morris asked why this was being presented by the Surface Group and not the Development Group? Mr. Christy stated this section has always been watched by Surface. About five years ago, we were going to make a sale, but there were some easement problems; and the sale was never made. This group has approached us to do this deal. This is a hybrid project; and Surface, through Mr. Brown, is working with Development on this. It was not a designated Development property.

Mr. Morris asked if Staff had looked at this like a standard development deal would be. Mr. Carter stated that to the best of his knowledge it has been. Mr. Gordon has been helping Mr. Brown on this project.

Ms. Bird inquired as to what the exit strategy will be if this doesn't work. Mr. Morris asked if there was anything that demanded that a decision be made today? Mr. Larsen stated they would like to get moving on it as soon as they could because of weather, etc. The whole southern Utah market has had a surge of development activity. They are a high-end builder in the St. George area. Most of their product is sold to people buying second homes.

Mr. Morris stated he is accustomed to seeing a more comprehensive package with a first-time developer. He would like a little more time to study this. He would like it pulled from the Consent Calendar. It is a new enough relationship that he would like to look at it further. Chairman Lee stated this will be put on the agenda for the next meeting.

Mr. Larsen gave some background on their company. They are in Phase II of a development with Entrada. They are the listing agent. They will be about an \$80 million company this year. They have purchased some parcels of property through Entrada that the Board authorized for sale. Mr. Gordon noted we have experience working with this group. He has been walking through this project with Mr. Brown. We have entered into transactions with this group that the Board has approved. Mr. Brown stated we will be happy to come back in December with more information.

lb

10/20/05

Page No. 35

11. Consent Calendar (cont'd)

d. Proposed Consolidation of SULA 547 and SULA 1219

Pursuant to Rule R850-30-1000(2), this is notice that Staff intends to amend a special use lease agreement (SULA 547) and to consolidate it with an adjoining special use lease agreement (SULA 1219) for a winter ski resort and summer camping facility known as Beaver Mountain in Cache County.

Background: Previous notice of the Agency's intention to amend and consolidate these leases resulted in a request for a Board discussion at its February 10, 2005, meeting. At that meeting, the Board advised the Agency to renegotiate with the lessee to achieve a more conservative expiration date for the consolidated lease. The Agency has accomplished this request by reducing the initially proposed expiration date of December 31, 2045, to December 31, 2038. In addition, the lessee's option of extending the lease for two additional five-year terms has been omitted.

History and terms of the renegotiated lease: SULA 547 is a commercial lease issued to Beaver Mountain Ski Area, Inc. Beaver Mountain Ski Area, Inc., is also the lessee of SULA 1219, which is an adjoining commercial lease to SULA 547. Both leases are for a winter ski resort and summer camping facility. SULA 1219 was acquired in 1998 through the "Inholdings" Grand Staircase/Escalante National Monument Exchange with the United States. SULA 547 has always been a trust lands' lease and covers approximately 30 acres at the top of Beaver Mountain.

Having two separate leases, one under an older and outdated SULA template, the other being a former U.S. Forest Service lease, requires the lessee and lessor to keep two separate accounts for the same land use. The terms of SULA 1219 are based upon the Forest Service Ski Fee Act, which is cumbersome in itself; and the other one is based upon a separate percentage rent system. Consolidation of the two leases would ease administrative burdens for both parties.

Most importantly, the boundaries of the amended lease have been adjusted so that lands with strong development potential are no longer encumbered by the old Forest Service lease. In addition, two development pods and a telecommunications site that remain inside the amended lease boundary may be deleted from the amended lease at the Agency's discretion. This greatly increases the management flexibility and revenue potential for this block of SITLA property.

11. Consent Calendar (cont'd)

d. Proposed Consolidation of SULA 547 and SULA 1219 (cont'd)

SULA 1219 currently contains approximately 1,051 acres, expiring December 31, 2028. SULA 547 currently contains approximately 30 acres and expires December 31, 2011. The new lease area will be approximately 1312 acres, expiring December 31, 2038. The net increase in acreage associated with the lease footprint is due primarily to the alignment of the lease with property boundaries between the U.S. Forest Service and SITLA that would otherwise create an unusable void.

Trust Lands Administration supports the consolidation of these leases and believes that it will benefit through an increased amount of developable land. In addition, Trust Lands' royalty rate is increased from 1.5 percent to 1.63 percent.

Mr. Morris stated that his recollection was that the Board wanted to see a shorter maturity date on this consolidation. He doesn't see a big difference between 40 and 33 years. Mr. Christy stated the lessee originally had the option to extend the lease for two additional terms. This has been eliminated with this consolidation. He showed the Board a map with the boundaries of both leases and what is being done with them. We think this amendment is in the best interest of the trust with the options that this provides.

Chairman Lee ruled that this is off the Consent Calendar for this month. Mr. Lee would like to review the rule regarding this. The Board would still like less years in the lease. Ms. Bird stated she would be interested in seeing how long other ski leases are for; i.e., Breckenridge, etc. Mr. Morris stated he doesn't think other ski leases are a good comparison. What would the economics of the lease be if the lease lapsed? Mr. Andrews stated the driving force on this was the freeing up of some development land that otherwise would not be available to us until many years later.

11. Consent Calendar (cont'd)

e. Amendment to SULA 1204 - - Class VI Landfill Lease - - Peck Rock & Products Co., LLC

Pursuant to Rule R850-30-1000(2), this is formal notice that Staff intends to amend Special Use Lease Agreement 1204 by changing the royalty rate.

Background: SULA 1204 is an industrial special use lease in Utah County issued to Peck Rock and Products Co., LLC. The lease contains 160 acres just west of Saratoga Springs. The leased premises are currently used to operate and maintain a Class VI landfill, which allows for commercial construction and demolition waste. The lease is currently structured as a 17-year lease, beginning May 1, 2000, and expiring April 30, 2017.

On February 20, 2004, the Utah Department of Environmental Quality approved the expansion of the waste facility from a Class IV to a Class VI landfill. With this expansion of the landfill to Class VI status, it was anticipated that the amount of waste going to the facility would greatly increase. However, because of problems largely attributed to delivery time restrictions imposed by the Utah County Board of Adjustments, these anticipated increases have not been realized by the lessee (the restrictions allow commercial waste to be received only from 9:00 a.m., to 3:00 p.m., each weekday).

Last year the agency negotiated increased royalty rates for the lease based on the anticipated increased waste. However, since anticipated increases in waste have not been realized, the agency is proposing that the royalty be adjusted to avoid undue hardships on the lessee.

Historic rental and royalty: On April 5, 2004, the lease was amended to reflect an increase in the royalty rates from \$2.12 per ton of waste to the following rates:

\$4.00/ton of material interred for the first 25,000 tons
\$3.00/ton of material interred for the next 15,000 tons
\$2.12/ton of material interred for the remainder of the material interred for a one-year period from May 1, 2005, to April 30, 2006. The 2004 amendment also allowed for royalties to be adjusted each year thereafter.

11. Consent Calendar (cont'd)

- e. Amendment to SULA 1204 - - Class VI Landfill Lease - - Peck Rock & Products Co., LLC (cont'd)
-

Proposed amendment: It is recommended that the annual base rental for the leased premises be retained at \$5,000.00, which would apply from May 1, 2005, to April 30, 2006; thereafter, the base rental shall be adjusted annually. A royalty in the amount of \$2.25 per ton of all materials interred on the site will be assessed during the period from May 1, 2005, to April 30, 2006. This is a 6.3 percent increase from the original \$2.12 per ton of material interred on the site assessed during the period from May 1, 2004, through April 30, 2005. The minimum annual royalty payment for the period May 1, 2005, to April 30, 2006, is also increased from \$35,000 to \$50,000.

While the overall royalty is less than the previous royalty adjustments, the agency believes that circumstances warrant this reduction in royalty for the year 2005 to 2006. The royalty rate will then be reconsidered on a year-by-year basis for the remainder of the lease.

Trust Lands Administration believes that this action is in the best interest of the beneficiary. It will allow for the continued filling of significantly large mined-out brick clay pits in the area with a reasonable expected annual return of \$61,000 to the beneficiary. In addition, this action will contribute to the mitigation of safety concerns and prepare the way for future development activities associated with the site.

Since the Board had no questions on this item or concerns on this item, it is approved.

Upon motion by Mr. Mortensen, the Board adjourned at 3:40 p.m.