

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

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

DATE: OCTOBER 6, 2005

PLACE: SALT LAKE CITY, UTAH

ATTENDING: BOARD

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

STAFF

Kevin S. Carter
Ric McBrier
Curt Gordon
John Andrews
Dawn Soper
Dave Hebertson
Lisa Schneider
Kim Christy
Lynda Belnap

OTHERS IN ATTENDANCE

Margaret Bird, State Office of Education
Wade Budge, Snell & Wilmer
Cary Jones, Snell & Wilmer
Steve Christensen, Broadweave Networks
Jason Condell, Broadweave Networks
Colin Wright, Ivory Homes
Chris Camvroulas, Ivory Homes
Dave Wolfgramm, Ivory Homes

I N E D X

<u>ITEM</u>	<u>PAGE NO.</u>
1. Hidden Valley Development Transaction	3
2. Sienna Hills Fiber Optic Network	5

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

1. Hidden Valley Development Transaction

Mr. McBrier expressed appreciation to the Board for holding this “extra” meeting to discuss some items. The Board had been sent information on this item prior to the meeting, which information was confidential and protected. He reviewed the transaction with the Board through a power-point presentation as follows:

- * Hidden Valley Developer Selection
 - * Hidden Valley 350-acre master-planned community
 - * Proposals received from six developers in August
 - * Evaluation criteria
 - * The character, reputation, financial status, credit history, and prior real estate development experience of the party.
 - * The financial capability to carry out the project.
 - * The structure of the proposed development transaction reflecting the opportunity for the Trust to participate in the upside of the project.
 - * The strength of the projected financial outcome of the proposed development transaction (Modified Internal Rate of Return and Net Present Value analysis).
- * Ivory Homes strongest proposal
 - * 18 percent of gross to the Trust
 - * \$47 million projected over seven years
 - * \$9.6 million NPV (after basis recovery of \$25 million)
 - * 14.7 percent MIRR
- * Development lease structure
 - * Ivory will invest capital
 - * Trust receives 18 percent of gross
- * Ivory will start with
 - * 10,000 s.f. lots
 - * 6,000 s.f. lots
 - * All associated infrastructure
 - * Initiate park and trail development
- * Contingencies
 - * City roadway and interchange requirements

1. Hidden Valley Development Transaction (cont'd)

The Board asked when the deal will start?

Mr. Gordon introduced those in attendance from Ivory Homes: Chris Gamvroulas, President of Ivory Homes; Dave Wolfgramm; and Colin Wright, Salt Lake Office Manager. Mr. Gamvroulas stated they are going to “hit the ground running”. There will be a 30-60-day window to finalize the agreement. At the same time, they will be moving forward with the city to finalize off-site and on-site infrastructure. This will be about a six-month process. They want to get going on this soon so that is why they need to get the final approval on it now. This is the first project as Ivory Homes in Washington County. Ellis Ivory and Clark Ivory actually helped found the Bloomington area.

Mr. Gamvroulas stated they expect to be moving forward to turn dirt in about 10-12 months. He thanked the Board for the opportunity to appear before them.

Mr. Morris asked Mr. Eardley if the six-month period for planning and permitting will be enough time and was there any concern about Ivory taking longer. Mr. Eardley stated they should not take longer than that. Mr. Morris asked what “modified rate of return” means? Mr. Gordon noted that the “modified” assumes the same investment return that we would get from the State Treasurer (9.45 percent return). Mr. McBrier stated that, when you use a higher IRR like we could have, it compounds and gives a distorted return number.

Mr. Morris asked if everyone operated under the same terms when the proposals were taken? Mr. McBrier stated they did, but they received many types of proposals - - up-front land, absorption rates, kicker analysis, etc. Mr. Morris asked how much Ivory beat the next proposal? Mr. Gordon indicated their MIRR was one percent higher - - \$4 million net. They responded to the RFP and also to many other community issues, which the next company did not express. Mr. Morris asked that, if the market stalls, do you still make more under the Ivory scenario than the others? Mr. McBrier stated there is only one that would be different and that was because of their front-end offer; and that would have to be significantly different.

1. Hidden Valley Development Transaction (cont'd)

Mr. Ferry asked if there were threatening issues with St. George City that could derail the entire project? Mr. McBrier noted the project is actually entitled in their plan, and it should not be a problem. There are just so many people starting to build things that the city has gotten bogged down in its permitting process.

Eardley / Morris. Unanimously approved.

“I move that we accept Ivory Homes as the developer of the Hidden Valley Project.”

Roll Call:

Morris - - yes	Eardley - - yes
Mortensen - - yes	McKeachnie - - yes
Ferry - - yes	Lee - - yes

2. Sienna Hills Fiber Optic Network

Mr. Gordon discussed this item with the Board.

Background: In June 2005, the Board approved the selection of Broadweave Networks to be the service provider for the Sienna Hills fiber optic network. Since that time, we have been working with Broadweave to formulate a contract. The purpose of this discussion is to outline the proposed contractual relationship between the Trust and Broadweave and obtain Board authorization to enter into an agreement as outlined herein.

Recently, we presented to the Board a passive business model wherein the Trust would not be involved in the day-to-day operation of the fiber optic system, but would lease easements to Broadweave. Our arrangement with Broadweave follows this model.

Financial analysis: Our agreement provides that the Trust will receive a percentage of the gross revenue Broadweave receives for the services they provide. Broadweave’s services range from a “basic” service package to premium services. The basic service provides digital television, internet service, and telephone for a total of \$91.97 per month to each residential customer. The Trust will receive between 10 to 15 percent of the gross revenue for basic services. Premium service charges will run as high as \$174 per month per customer. The Trust will receive between seven percent to 11 percent of the gross revenue for premium services. The percentage that the Trust is able to obtain is based on a “tap fee” that the Trust will require developers or builders to pay. The “tap fee” will range from \$550 to \$950 per unit.

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10/6/05

Page No. 5

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

Assuming that the Trust imposes the minimum tap fee and 75 percent of the potential customers at Sienna Hills sign up for a basic service and 25 percent of them sign up for premium service, the estimated annual income for the Trust at build-out is \$143,418. The Net Present Value (NPV) of this estimated 10-year future cash flow is \$489,609 at a discount rate of eight percent. The annual cash flow for the Trust could reach as high as \$245,000 per year with a 10-year NPV or \$754,165 should we choose to impose the maximum tap fee. Where there may be a financial advantage to the Trust, the Trust may elect to pay all or a part of the tap fee directly to Broadweave and collect these fees from developers engaged in transactions on trust lands.

In addition to serving residential customers, Broadweave will also provide similar services to commercial customers which will represent added value to our project returns. The key point is that the residential project stands on its own legs and commercial revenue is a bonus. An incentive for the Trust to move Broadweave into other Trust Lands' development is provided in the agreement. The Trust's compensation will increase by three percent for premium services, and we will be entitled to a three percent "kicker" upon a roll-up if we use Broadweave to service other trust land projects in Washington County. Broadweave would like assurance from the Trust that, if they perform to our satisfaction and if we elect to implement fiber optics on other Trust Lands' projects, they would be our preferred choice for providing fiber to the home services.

Contractual Arrangement: Our recommended model takes the form of two agreements; namely, a services agreement between Broadweave and the Sienna Hills Homeowners Association (HOA) and a license agreement between the Trust and Broadweave. The service agreement between Broadweave and the HOA will remove the Trust from a position between Broadweave and the end user. This arrangement will enable Broadweave to deal directly with the customer while enabling the Trust to receive a revenue stream that is separate from the relationship between Broadweave and the customer. The following shows some of the major responsibilities of each party under the separate agreements.

Broadweave to HOA

- * Provides bulk services (video, telephone, internet & Premium services) to HOA members over high-speed fiber optic system.

HOA to Broadweave

- * Provides exclusive marketing and access to HOA customers.

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

Broadweave to HOA

- * Bills separate from HOA.
- * Provides services that meet or exceed incumbent service standards including: price (10% below incumbents), performance, quality, and customer service.
- * Build a “standards-based” or “universal” fiber optic network.
- * Provides access to alternate service providers for a fee.
- * Keep up with construction schedule.
- * Term 20 years.
- * Keeps system operational even during dispute and cure periods.
- * Provides customer service and contractor coordination.
- * Duty to comply with all permits, licenses, and regulations for operation of fiber optic network.
- * Perform to set service standards.

HOA to Broadweave

- * Provides revenue to Broadweave
- * Broadweave fee is part of the HOA fee structure, customers pay even if they don't use service. As part of HOA Broadweave can lien property for non-payment.
- * Provides home-wiring standards to customers.
- * Provides notice to customers of agreement between Broadweave and customers.
- * Provides Broadweave with Tap Fee for each home hook-up paid by developer.
- * Dispute & cure provisions.

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

Broadweave to HOA

- * Pay between 10% to 15% of gross revenues on basic services and up to 11% of premium services for the life of the agreement. *
- * % kicker upon roll up. Contingent on Trust using Broadweave on other Trust projects. *
- * Construct & operate fiber optic network *
- * Provide services to commercial customers *
- * Duty to obtain & comply with all permits, licenses and regulations for operation of fiber optic network.

HOA to Broadweave

- Broadweave receives license and leases of Trust's easements for fiber optic facilities.
- Obligates builders to pay Tap Fee per unit to Broadweave.
- Obligates builders to wire homes for fiber optics.
- Obligates builders to inform buyers of terms of Broadweave service agreement.

The advantage for the Trust in this model is that the Trust never gives up ownership of the easements through which the fiber network runs. If the service provider does not perform, the HOA can seek another provider. In the event of a failure by our service provider, the incumbents (Qwest and Charter) are required by FCC regulation to service the project.

Recommendation: the Staff's recommendation is to move forward with the agreement as outlined herein. 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, a capable Utah-based company, working with us to achieve our goals. In addition, the residents living in the Sienna Hills development will receive faster and more cost-effective communications products from this arrangement. We are seeking approval from the Board to enter into a contract with Broadweave Networks as outlined herein.

Mr. Gordon introduced the following: Steve Christensen, Broadweave Networks; Jason Condel, Broadweave Networks; Cary Jones, Snell & Wilmer; and Wade Burke, Snell & Wilmer. Mr. Gordon reviewed the financial aspects of the project as follows:

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

- * Trust receives between 10 percent to 15 percent of gross
- * Annual income \$143,000 to \$245,000
- * 10-year NPV \$498,000 to \$745,000.

Mr. Steve Christensen, CEO of Broadweave, appeared and gave the Board some background on their company. Industry marketing studies say this type of service increases the value of a home \$4,000 to \$10,000. It also helps to accelerate the sale of homes. They are the leading providers of this type of service. Their bills are 25-30 percent lower than Qwest or Comcast. The company started in 1999, and they have been delivering fiber optics to homes since then. Their value to the community is that they want to work together with the community to provide an advantage of speed and variety of features. They have an agreement for 8,000 homes at Traverse Mountain. This project is about 1200 homes, but they really want to perform well so that they can have more projects with the Trust.

Mr. Mortensen asked about negatives in this type of project. Mr. Christensen stated that the real issue is the last 30 feet to the home. The home has to be wired properly. They have wire specifications that they give to the builders to comply with their standards. Mr. Gordon stated we have written their standards into the contracts at Sienna Hills. Other developers have agreed to look at this also.

Mr. Morris asked if Staff considered this to be “found” money to the beneficiaries? Mr. McBrier stated we think this is incremental money to the beneficiaries. Mr. Christensen stated this is an amenity that the homeowners would use every day, but it doesn’t consume real estate like a tennis court, etc. Mr. Gordon noted that the financial analysis that has been done was only on residential units. There would be an added bonus on the commercial properties. Mr. Christensen stated the revenue stream is an annuity revenue stream - - collected year in and year out. Ms. Bird asked if Broadweave had done a customer service survey and what were the results? Mr. Christensen stated they have done this on Traverse Mountain. They received extremely favorable results. They reduced their prices 25 percent below the competition. There are also performance requirements in the agreement with Trust Lands. Mr. Christensen stated he would send some of this information to Ms. Bird.

Mr. Morris inquired as to whether we had to give Broadweave the first option to be the provider on other areas we develop. Mr. Gordon stated that, if it works well and we decide to accommodate this in other projects, they will be our service provider. This is only for Washington County. This is only a preferred option - - it is always our choice as to who we use. Mr. Lee indicated that this seemed to be an “agreement to agree”. The Board stated they would

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10/6/05

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

like to see the language in the agreement regarding this. Mr. Morris stated they would have to be performing, we would have to be satisfied, and they would have to be at market. All of these would have to be there for us to consider them. Mr. McBrier stated he would bring back this language to the Board. Mr. McKeachnie voiced his concern about this issue also, especially with a company that doesn't have a long track record and us committing to use them in future operations.

(Mr. McKeachnie and Mr. Eardley left the meeting at this point.)

Mr. Gordon noted that he is hearing that the Board is uncomfortable with us giving Broadweave an automatic option on other projects. He asked what their level of comfort would be. Mr. Morris stated that, if we are satisfied and they are competitive, it should not need to be documented that they would get our business. Mr. McBrier stated this was negotiated on a roll-up participation for Trust Lands. We could negotiate this on the next project. Chairman Lee indicated that most Board members are uneasy with this predicament. If they are going to do a good job, etc., they should be able to bid next time. The Board is willing to concur in this deal without the continuing relationship with Broadweave.

Mr. Christensen stated that the reason they went down this road was that the Trust Lands Administration wanted some percentage if they are chosen. Broadweave wants to be able to participate in any upside of future projects. They have a performance requirement that they would need to meet before the other project issue would be binding. The Board is uncomfortable with this. Mr. McBrier stated we will back away from any roll-up opportunities for Trust Lands and any commitments to future transactions. Mr. Morris stated that, if we are doing a transaction with them, we are helping to seed their company and that should warrant an equity kicker. The fact that we are helping them launch their second project and establish more connections warrants some participation in a roll-up.

Mr. Christensen stated they gave revenue sharing in exchange for future business. They felt that was very substantial. They will have about \$3 million in infrastructure. Additional developments would make the cost justification better. Mr. McBrier stated there has been much legal work done on "disaster scenarios". The Board felt this should be rescheduled for the October 20 meeting.

Chairman Lee noted that the next meeting will be October 20, 2005, in Salt Lake City. There will be no tour of Tabby Mountain. We will have an 8:30 a.m. start time for the meeting.

Meeting adjourned at 2:00 p.m.

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10/6/05

Page No. 10