

Trust Lands Administration

State of Utah School and Institutional Trust Lands Administration

Fiscal Year 2019 Annual Report | July 1, 2018 — June 30, 2019

Message from the Director



The close of fiscal year 2019 marks the beginning of our 25th anniversary with landmarks of \$1.96 billion in total revenue, \$2.5 billion permanent fund balances, and record distributions of \$82.66 million to Utah schools.

One of the most rewarding parts of my job is visiting schools to witness the positive impacts of trust land funds in Utah classrooms.

This past May, I had the pleasure of visiting L.C. Reading Elementary School in Davis School District, which uses part of its School LAND Trust Funds to offer an engineering curriculum to its young students. These supplemental education funds allow the school to hire an engineering specialist and purchase supplies for hands-on activities.

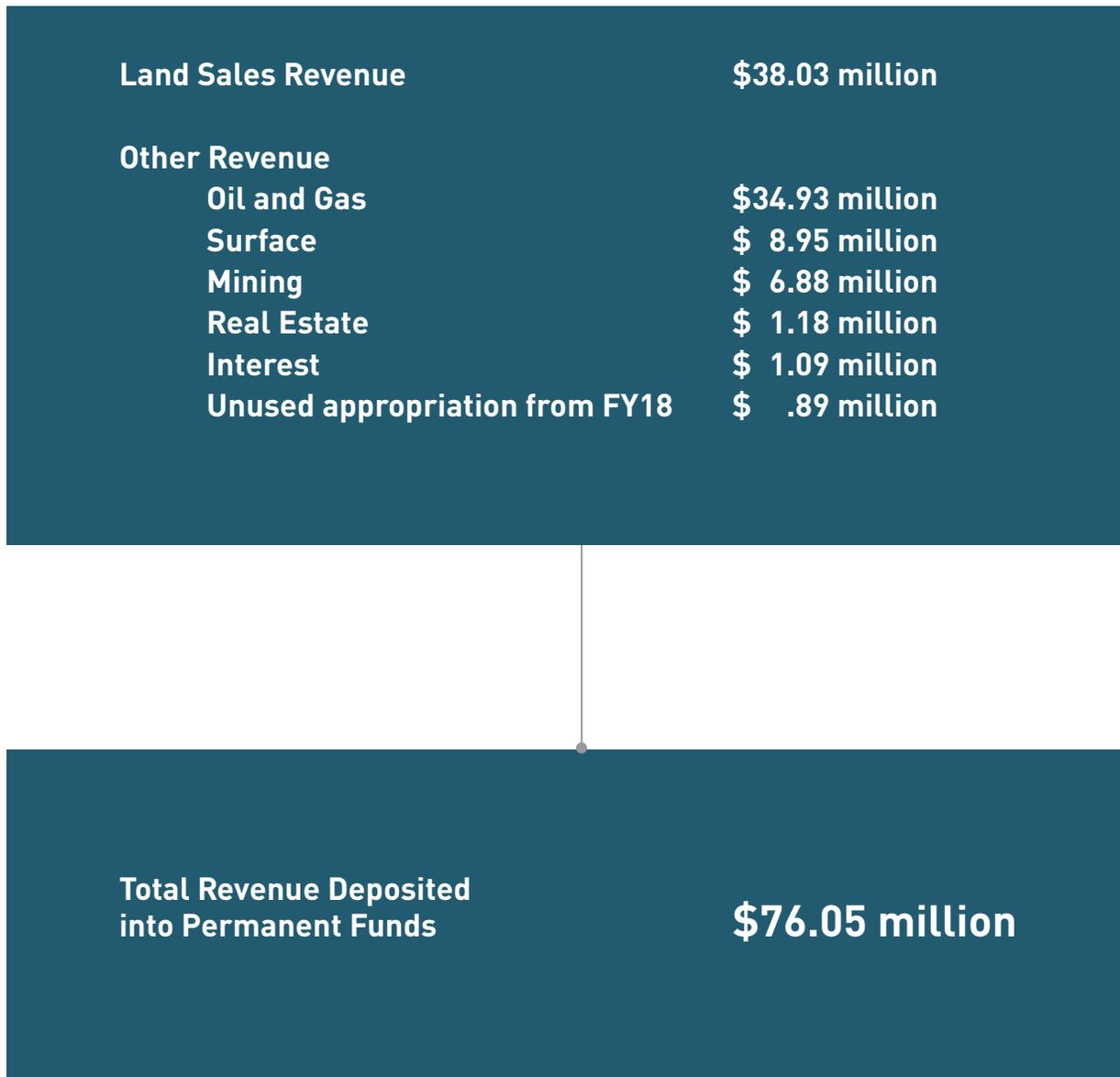
It is these students and other trust land beneficiaries who inspire me as our agency moves forward with new projects and the challenges they bring.

As we begin our 25th year, I want to thank our beneficiaries, Board of Trustees, Utah School and Institutional Trust Funds Office, Lands Trust Protection and Advocacy Office, Treasurer David Damschen, and our dedicated employees as they continue their work building the Trust.

A handwritten signature in blue ink that reads "David Ure".

David Ure

Cash Flow Fiscal Year 2019



Stated on a cash basis.

Total Revenues by Business Group

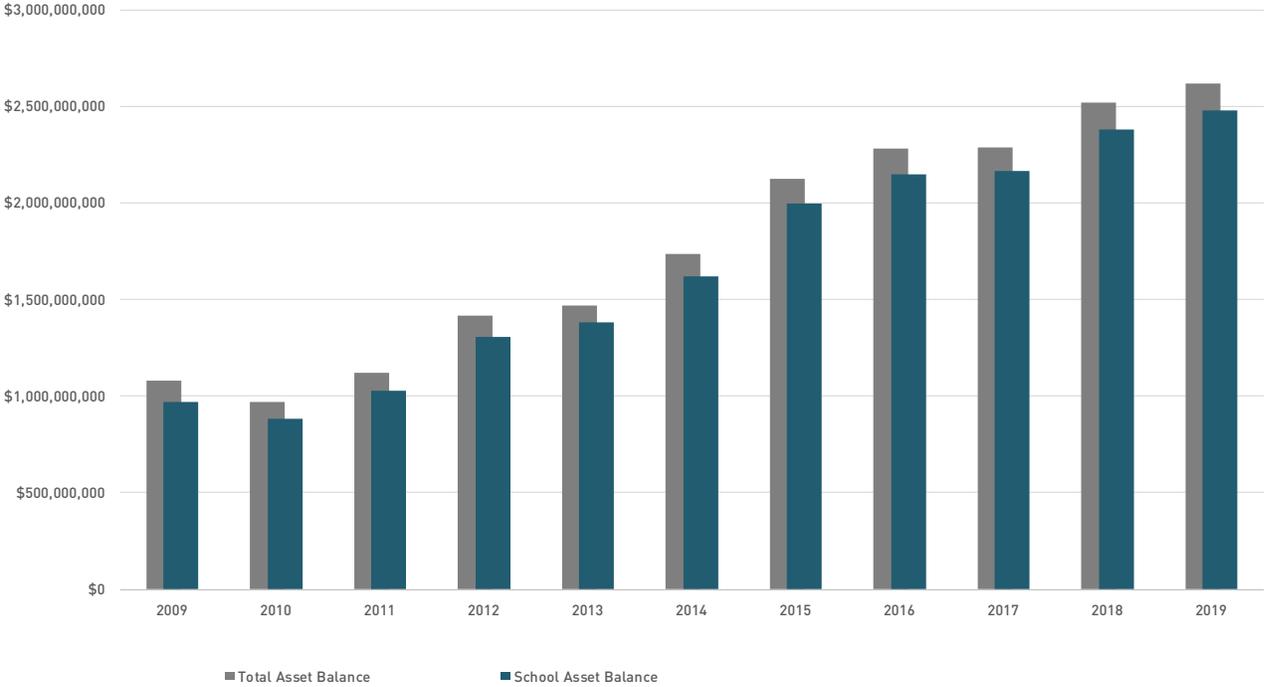
Group	Revenue
Mining	\$ 6,878,830
Oil and Gas	\$ 34,934,440
Real Estate Planning and Development	\$ 31,598,032
Surface	\$ 16,570,708
TOTAL	\$ 89,982,010

Total Investment Earnings Distributed to Each Beneficiary

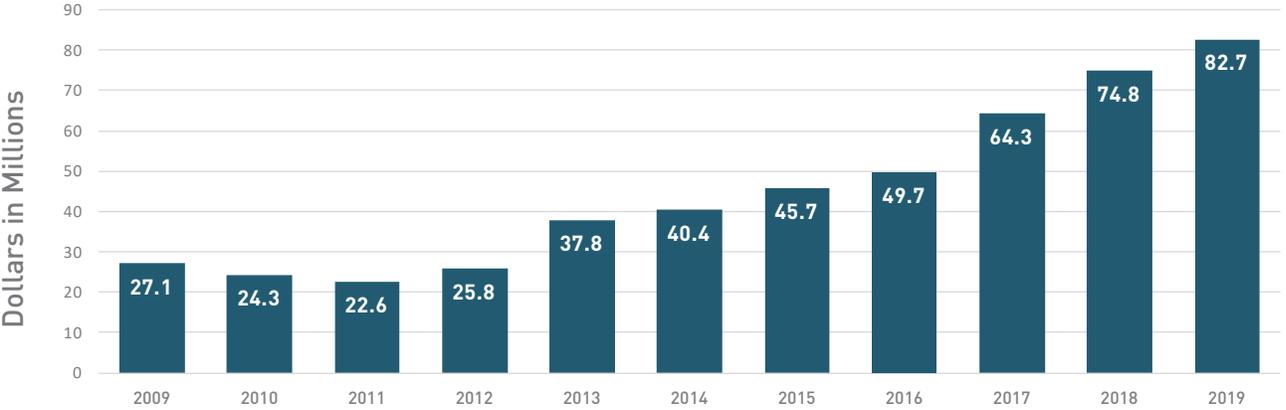
	Distribution*
College of Mines & Earth Sciences, University of Utah	\$ 142,232
Juvenile Justice Services	\$ 48,076
Miners Hospital, University of Utah Medical Center	\$ 2,078,937
Public Buildings, Division of Facilities Construction and Management	\$ 0
Public Schools	\$ 82,663,051
Reservoirs, Division of Water Resources	\$ 269,683
School for the Blind	\$ 810,093
School for the Deaf	\$ 86,725
Teaching Colleges	\$ 190,110
University of Utah	\$ 198,135
Utah State Hospital	\$ 124,126
Utah State University	\$ 124,384

*As of July 1, 2017, all beneficiaries receive a percentage of their permanent fund balance.

Asset Value Fiscal Years 2009 — 2019



Distributed to Schools Fiscal Years 2009 — 2019



This financial information is unaudited. Final audited information will be available online at trustlands.utah.gov by November 30, 2019.

2019 Fiscal Year Highlights

Audit Group **Revenue Compliance:** The Audit Group conducted lease revenue compliance procedures recovering \$500,000 in unpaid rents and royalties. Deficiencies generally fall into three categories: sales stemming from production; values associated with surface and sub-surface activity; and the agency's interest in those values as described in the various leases. The group follows an audit schedule approved by the Director and meets periodically with the Board of Trustees Audit Committee.



Information Technology (IT) and Geographic Information Systems (GIS) Group

SITLA Data Backup: The IT Group adopted an improved backup and recovery system for the agency based on industry-leading software and solid state drives in place of outdated magnetic tape drives. The new system improves turnaround time to recover lost data. Additionally, the new setup returns a savings of \$17,000 over four years.

Modernizing the IT Model: The IT Group re-envisioned the business system and how information from constituents and other state agencies is managed. The group is finishing work on the name and address module, which will improve the way SITLA stores and retrieves information from lessees, partner agencies, and employees. This module lays the groundwork to offer accounts and self-service activities for constituents.

Geographic Information Systems (GIS)

SITLA Digital Plat Map: The GIS team redesigned the digital plat map with a more modern look and additional functionality, such as printing and searching using GPS points. The digital plat map displays land records and ownership, leases, maps, and other scanned documents.

Parcel Fabric: The GIS team continued its work with the Automated Geographic Reference Center (AGRC) and the Bureau of Land Management (BLM) to migrate the GIS land ownership system into a parcel fabric environment. A workflow has been established between the three agencies to accomplish this task. Twenty-four counties were successfully migrated into the parcel fabric. Vigilant maintenance of the parcel fabric will yield a clean and quality product for the entire GIS community. The GIS group also will be migrating trust lands mineral ownership into the parcel fabric in the near future.

Legal Group **Land Exchanges:** The Legal group works with the Special Projects and Strategic Planning Coordinator and business groups to complete land exchanges with the federal government to enhance land position and revenue for the Trust.

FY2019 marked passage of the John D. Dingell Conservation, Management, and Recreation Act, which authorized a large land exchange between SITLA and the Bureau of Land Management. As part of the exchange, SITLA will acquire approximately 90,000 acres from the BLM and in turn, relinquish approximately 108,000 acres to the BLM.

SITLA continues monitoring developments from the revisions to the Bears Ears and Grand Staircase Escalante National Monuments. SITLA will be prepared to consider land exchange options once the legal status of the area is clarified.



Mining Group **Revenue:** Mining activity on trust lands produced gross revenue of \$6.8 million in FY2019. Revenue from metalliferous minerals, sand and gravel, potash, and limestone remains strong.

Permitting and Exploration: Permitting continues for the Sevier Lake Potash Project in Millard County in which SITLA has a five percent interest in the total unit lease.

Exploration continues for low-grade gold projects in Tooele and Washington counties. In addition, drill testing of base metal targets continued in Juab, Millard, and Tooele counties. Evaluation of high quality silica deposits is underway in Uintah, Millard, and Tooele counties. The lower coal seam on the Muddy Coal Tract in the SUFCO mine in Sevier County was leased.

Production: Sand and gravel-rock aggregate, and calcined limestone markets remained strong. Beryllium in Juab County, limestone aggregate in northern Utah, along with potash from Moab and Wendover operations, were also solid performers.

Oil and Gas Group

Revenue: Oil and gas development is a strong, consistent revenue producer for the Trust. Most of the current oil and gas leasing on trust lands generates a 16.67% royalty, which equates to \$166 to the Trust for every \$1,000 of oil and gas sold from trust land parcels. Most wells are not drilled exclusively on trust lands and may include federal or private lands, so the royalty distribution is sometimes shared among other parties, proportionately.

Monitoring and Stewardship: Five Oil and Gas Group staff members monitored approximately 2,200 wells to ensure they are in good working condition and royalties are paid correctly. Land stewardship is an important component of the group's efforts. Following the end of oil and gas extraction, staffers monitor reclamation work to ensure it meets agency standards and lands are returned in good condition for future use.



Real Estate Planning and Development Group

Planning: The Planning and Development Group continued to plan and invest in infrastructure to enhance values while capitalizing on previous work from prior years. Planning for 770 acres of trust lands within the northwest quadrant of Salt Lake City continues. The group is actively working on several real estate projects that remain in the planning process, which will enhance revenues to beneficiaries.

Development: The group is proceeding with developments on trust lands across the state. The Cross Hollow development lease in Cedar City was finalized, while the Eagle Mountain development has closed more than 50 lots. Development of the South Block in St. George is moving ahead with both the Desert Color and Desert Canyons projects.

Revenue: FY2019 revenue of \$31.12 million is the third highest amount since the group's inception. Several significant closings in Sienna Hills totaling just under \$8 million, along with Desert Color, Desert Canyons, and Sun River within the South Block producing \$9 million, contributed to total revenue.

Other large revenue sources were the Mayflower sale at Jordanelle, Green Springs Development, Coral Canyon, and Eagle Mountain, which each produced more than \$1 million. Spanish Valley, Hidden Valley, Fort Pierce, and Kayenta all produced over \$500,000. Recurring revenue from leases for 2019 totaled \$1.19 million.

Surface and External Relations Group

FY2019 Overview: Of the Trust's 16 revenue producing programs, 11 are administered by the Surface Group. Total earnings topped \$16.57 million this fiscal year, including \$7.62 million in land sales. This group also engages in significant non-revenue producing activities necessary for the Trust to conduct business: water rights management; cultural resource compliance; wildfire rehabilitation; trespass resolution; public and governmental interface; environmental compliance; and stewardship projects.



Renewable Energy: SITLA has a growing renewable energy portfolio comprising wind, solar, geothermal, and energy storage projects. The Surface Group manages most of the agency's two wind and 19 solar leases, which are in various stages of application, pre-development, and operation. FY2019 renewable energy revenue totaled just under \$1 million with geothermal leases earning \$343,919; solar \$306,380; wind \$69,220; and energy storage \$279,068.

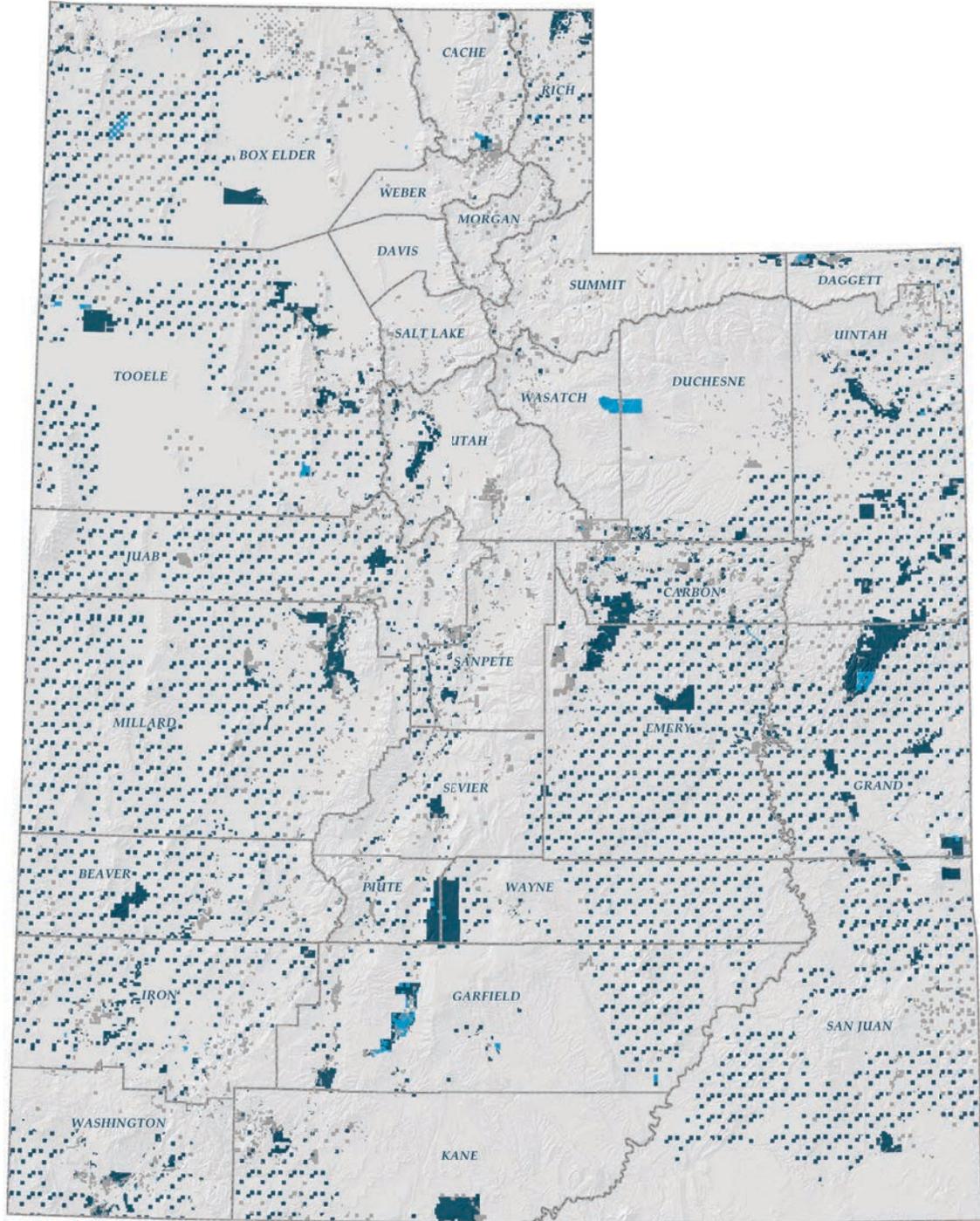
Water Rights: Water rights are crucial to the future development and value optimization of the Trust's land assets. The agency pays strict attention to ensuring protection of its existing water rights, as well as seeking opportunities to secure additional water rights. The Surface Group recently secured a purchase agreement involving acquisition of 400 acre-feet of water rights in the Colorado River drainage that will prove useful to future development.

Sales: The Surface Group held one auction during FY19, selling 17 trust land parcels and generating more than \$4 million for the endowments for public schools, state hospitals, teaching colleges, and reservoirs.

Land Exchange: The Surface Group continues working on a complex federal land exchange in connection with the expansion of the Utah Test and Training Range in Utah's West Desert. The exchange was authorized as part of the National Defense Authorization Act for FY2017. When complete, SITLA will convey 83,609 acres to the BLM, and the school trust will receive 90,815 acres of federal public land.

The Surface Group is also working on an exchange with the Utah Division of Forestry, Fire and State Lands involving properties located west of Arches National Park in Grand County.

Trust Land Access: SITLA is a cooperating agency with the Bureau of Land Management as it advances through its Resource and Travel Management Plan processes. Approximately 840,000 acres of surface and severed mineral estate are located within the 13 BLM planning areas. As access to trust lands is crucial to maximizing their economic development, the Surface Group represents the Trust in planning processes and invests significant time and resources into assuring trust land access is protected. ■



Surface Estate Only
 Mineral Estate Only
 Minerals with Surface Estate

Senior Staff

David Ure, Director

Kim Christy, Deputy Director/Surface and External Relations

Mike Johnson, Assistant Director and Chief Legal Counsel

Rodger Mitchell, Assistant Director/Real Estate Planning and Development

LaVonne Garrison, Assistant Director/Oil and Gas

Tom Faddies, Assistant Director/Mining

Tim Donaldson, Assistant Director/Special Projects

Merritt Dunn, Assistant Director/Audit

Deborah Memmott, Finance Director

Mike Brown, Information Technology Director

Lisa S. Jones, Assistant to the Director and Board of Trustees

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Trust Lands Administration**

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