



A MAGNIFICENT ENDOWMENT:
Utah's School Trust Lands
Beneficiary Report as of June 30, 2012



Acknowledgments

As Director of the School Children's Trust at the Utah State Office of Education I would like to express gratitude for the assistance provided by the School and Institutional Trust Lands Administration, its Director Kevin Carter, the Deputy Director Kim Christy, the Assistant Director over Oil and Gas LaVonne Garrison, the Assistant Director over Minerals Tom Faddies, the Assistant Director of Development Doug Buchi, and the Chief Financial Officer Lisa Schneider. I am also grateful for assistance from the State Treasurer Richard Ellis and Alan Rollo of his staff. The legislature and key legislators such as Representative Mel Brown, Representative Mike Noel, Representative Roger Barrus, Representative Jack Draxler, former Senator David Steele, former Representative Jerry Jensen, the late Douglas F. Bates, and Ruland Gill without whom we would not have a structure designed to benefit schools. They have established the framework within which this trust has blossomed.

The Center for the School of the Future at Utah State University and Project LEARN have contributed significantly to the readability of this First Annual Report on the School Trust. Project LEARN is a collaborative effort with the Children's Land Alliance Supporting Schools (CLASS). It seeks to educate and support decision-makers in twenty western states regarding the effective management and use of School Trust Lands, funds, and distributions.

In many states the permanent funds and the proceeds which should have been added to them have been so carelessly diverted, squandered, wasted, and embezzled so shamefully, that what ought to be a magnificent endowment...has dwindled to an almost negligible sum.

- Dr. Fletcher Harper Swift, Columbia University 1911

Thank You:

An expression of profound gratitude must be expressed to the following people without whose passion the successes reported here would not have occurred.

Representative Mel Brown, Father of the Rebirth of this Trust
The Utah Education Association
The Utah PTA

Dr. Bernarr Furse, Former Interim State Superintendent
Dr. Scott Bean, Former State Superintendent
Karen Rupp and Joyce Muhlestein, State PTA
Paula Plant, State PTA

Douglas F. Bates, Attorney, Utah State Office of Education
Tim Donaldson, Attorney, School Childrens' Trust
Skip Nightingale, former member of the Board of Trustees
Ruland Gill, former chair of the Board of Trustees
Edward T. Alter, former State Treasurer
Richard Ellis, State Treasurer
Kevin Carter, SITLA Director

Tom Bachtell, author of the Purpose Statement and
current member of the Board of Trustees
James Lee, former Chair of the Board of Trustees
Lonnie Bullard, former Chair of the Board of Trustees
Michael Brown, former Chair of the Board of Trustees

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Preface

-Margaret Bird

There are many important issues related to School Trust Lands. I could tell you about history, the law, the distribution of funds and on and on. The problem is listening long enough to motivate you to take action. It is my hope this report will simplify the issues and motivate all who read this to continue to act on behalf of the beneficiaries – the children in Utah’s public schools.

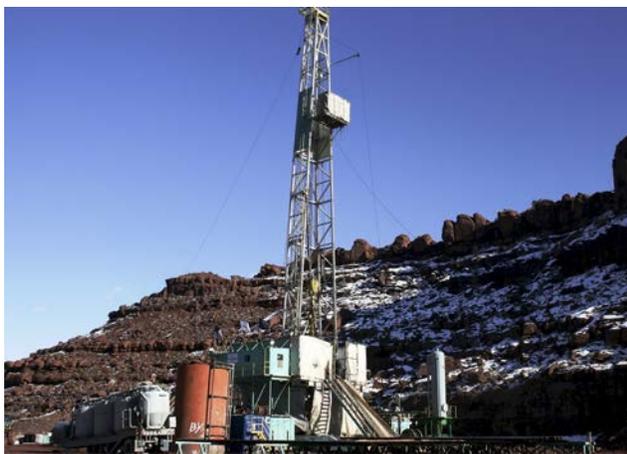
The School Trust is all lands granted by Congress and all funds generated from the proceeds to support Utah’s public school children.

Grant: The concept of granting lands for the support of education was intimately connected with the founding of America. In 1785, prior to passage of the U.S. Constitution, the Continental Congress reserved one square mile out of every 36-square-mile township “for the maintenance of public schools” for each new state that joined the union. In 1850, two square miles per township were granted to schools, and by 1894 Utah, Arizona and New Mexico had each received four square miles due to their arid nature. Every state once had school lands and/or school funds; today, only 20

states still manage school trusts to support their public schools. Utah was granted 6,007,182 acres to support schools.

Trust Created: The lands were granted in trust. States accepted the responsibilities of trustee in their constitutions, including the responsibility to act with undivided loyalty in the best interests of the schools and other institutions that also were granted lands. Proceeds from school trust lands were to be placed in permanent funds, the interest of which was to support the schools. These lands were not a gift, since each state was required to give up the right to tax the federal lands. Legislative and education leaders across America are often left speechless when informed that schools are the beneficiaries of trusts containing 45 million acres (an area almost the size of Utah), with \$48 billion in permanent funds for the support of public schools. The state of Utah is the trustee, and has delegated its land management since 1994 to the School and Institutional Trust Lands Administration (SITLA) and the investment to the State Treasurer. The Utah State Board of Education has been designated in statute as the primary representative of the schools.

SITLA: Of the six million acres originally granted to Utah schools, 3.3 million surface acres and 4.1 million mineral acres remain. One out of every three private acres was once trust land. The remaining lands are managed by SITLA in trust for the support of schools. During the past decade, SITLA gross revenue has varied from \$40 million to \$140 million, most derived from mineral production. From these proceeds, expenses to manage the lands are paid, and the balance is deposited in the permanent State School Fund. No tax revenues are used.



Permanent State School Fund: The permanent State School Fund is invested prudently by the State Treasurer, with the advice of an Investment Advisory Committee. Capital gains are retained in the fund. Interest and dividends are distributed annually by the Utah State Office of Education to every public school with an approved academic plan. As of June 30, 2012, the fund is over \$1.3 billion. It is anticipated to exceed \$2 billion before 2020. This trust is now among the top 1% of all endowments in America. It is worth watching carefully and growing prudently.

School LAND Trust Program:
Distribution to Schools: Each public school forms a school community council to develop an academic plan for improving student performance. The council includes a two-parent majority of parents (elected by parents), teachers (elected by teachers), and the principal. They study the school's test scores, decide on the most critical academic need(s), and develop a plan with measurable goals to improve student performance. Plans must be approved by the local school board, and charter schools must have their plans approved by the State Charter School Board. The results must be publicized to the community. In FY 2001, less than \$5 million was distributed. In FY 2012, \$29 million was distributed—almost a six-fold increase in 11 years. Though this is only 0.7% of the state appropriation for education, it is the only discretionary funding every public school receives.

The School LAND Trust Program provides the only discretionary funding every public school receives, and none of the funding is derived from taxes.

Margaret Bird, Director
School Children's Trust



Executive Summary

Fiscal Year 2012

School Trust Land Assets:

- 3,290,009 acres of Surface Rights
- 4,086,503 acres of Oil and Gas Rights
- 4,075,070 acres of Coal Rights
- 4,116,077 acres of Other Mineral Rights

FY 2012 Revenue from School Trust Lands:

SITLA has far exceeded even the most optimistic expectations held at the time the agency was created in 1994. This fiscal year was no exception, as the trust lands generated over \$91,435,486 in revenue, comprised of the following:

| | | |
|------------------|------------------------|----------------------|
| Minerals | (79% of gross revenue) | \$ 72,316,294 |
| Surface | (7% of gross revenue) | 6,744,709 |
| Development | (1% of gross revenue) | 827,305 |
| Land Sales | (5% of gross revenue) | 4,027,475 |
| Interest & Other | (8% of gross revenue) | 7,519,703 |
| TOTAL | | \$ 91,435,486 |

FY 2012 Permanent State School Fund and Return on Investment:

The State School Fund closed the fiscal year with a market value of \$1.29 billion, the highest balance since statehood. Realized capital gains of \$1,688,893 were reinvested by the State Treasurer. Dividends of \$19,927,085 and interest of \$9,336,034 were distributed for the School LAND Trust Program. The market return of the fund was a loss of \$5,490,742 in FY 2012, but SITLA contributions made the overall value continue to grow. Overall, the market is \$186.4 million greater than the cost. The ten-year total return on the fund, net of fees, is 5.5%.

Distribution to Schools:

Total distributed trust revenue to the schools in FY12 was \$29 million. The most common academic areas of focus were reading, math, writing, technology and science. Kim Powell, a parent member and chair of the school community council at Wasatch High commented, “I have been so impressed to learn about how Utah manages its trust lands for the benefit of our schoolchildren. I am grateful that we have processes and leaders in place to produce the greatest possible return on our investment in public education.” Principal Higginson at Western Hills Elementary wrote, “We use Land Trust money to purchase software to tutor students in math and reading at their individual level. Thanks to the legislature for these funds.” These comments are representative of the gratitude expressed by parents and educators alike.

Summary of FY 2012 Issues—Utah’s School Trust:

- Wilderness proposals have captured 1 million trust acres—one-third of all land assets
- Examine legal and exchange costs
- Study investment structure to protect State School Fund
- Continue to encourage parental involvement through School Community Councils

Fiduciary Responsibilities of the State and Legislature as Trustee:

The fiduciary duties imposed on the state regarding the School Trust are applicable to the Governor, the legislature, and those entities to which the state by statute has delegated trustee duties, such as the School and Institutional Trust Lands Administration for the management of the land; the State Treasurer for the investment of the permanent State School Fund; and the School LAND Trust program, which distributes the interest and dividends to each public school. Some fiduciary duties include:

1. Duty of Undivided Loyalty to the Beneficiary
This duty includes the duty “to administer the trust solely in the interest of the beneficiary.” (*Restatement on Trusts*, 2d, § 170, p. 431)
2. Duty to Preserve Trust Property
“The Trustee is under a duty to the beneficiary to use reasonable care and skill to preserve the trust property.” (ibid. § 176, p. 451)
3. Duty to Exercise Reasonable Care and Skill
“The trustee is under a duty to the beneficiary in administering the trust to exercise such care and skill as a man of ordinary prudence would exercise in dealing with his own property; and if the trustee has greater skill than that of a man of ordinary prudence, he is under a duty to exercise such skill as he has.” (ibid. §174, p. 448)
4. Duty to Make Trust Property Productive
“A trustee of land is normally under a duty to lease it or to manage it so that it will produce income.” (ibid. § 181, p. 466)
5. Duty Not to Delegate
“The trustee is under a duty to the beneficiary not to delegate to others the doing of acts which the trustee can reasonable be required personally to perform.” (ibid. § 171, pp. 441-2)
6. Duty to Take and Keep Control
“The trustee is under a duty to the beneficiary to take reasonable steps to take and keep control of the trust property.” (ibid. § 175, p. 450) This duty includes the duty to take and keep *exclusive* control.
7. Duty to Keep and Render Accounts
“The trustee is under a duty to the beneficiary to keep and render clear and accurate accounts with respect to the administration of the trust.” (ibid. § 171, p. 445)
8. Duty to Furnish Information
“The trustee is under a duty to the beneficiary to give him upon his request at reasonable times complete and accurate information as to the nature and amount of the trust property, and to permit him or a person duly authorized by him to inspect the subject matter of the trust and the accounts and vouchers and other documents related to the trust.” (ibid. § 173, p. 447)
9. Duty to Pay Income to Beneficiary
“Where a trust is created to pay the income to a beneficiary for a designated period, the trustee is under a duty to the beneficiary to pay to him at reasonable intervals the net income of the trust property.” (ibid. § 182, p. 467)
10. Duty to Keep Trust Property Separate
“The trustee is under a duty to the beneficiary to keep the trust property separate . . . from other

property not subject to the trust and to see that the property is designated as property of the trust.” (ibid. § 179, p. 456)

11. Duty to Earmark Trust Property

“Ordinarily it is the duty of the trustee to earmark trust property as trust property. Thus, title to land acquired by the trustee as such should be taken and recorded in the name of the trustee as trustee.” (ibid. § 179, p. 458)

12. Duty to Defend Action

“The trustee is under a duty to the beneficiary to defend actions which may result in a loss to the trust estate, unless under all the circumstances it is reasonable not to make such defense.” (ibid. § 178, p. 456)

Duties of Beneficiary

The Utah State Board of Education is the “primary beneficiary representative” on behalf of the trust established for common schools. Because the beneficiary is dependent for its rights upon the faithful exercise by the trustee of its powers in favor of the beneficiary, certain protections are in place in the law with the intent of ensuring that the benefit of the trust is, in fact, flowing to the beneficiary. A trust beneficiary has both legal rights against the trustee and equitable rights in the property itself, including the following:

1. The right to inspect records, documents, and securities and the right to receive accountings,
2. The right to skill and prudence in trustee administration of the land and funds,
3. The right to receive undivided loyalty in the execution of the trust,
4. The right to have the trustee defend the trust against attack,

5. The right to not have various trusts commingled, and
6. The right to receive payments to the beneficiary from trust property.

Third parties also have responsibilities under the law not to obtain trust property through fraudulent means, when they knowingly acquire the property from a trust. The beneficiary has the right to hold the trustee accountable for any wrongful acts or omissions that affect the beneficiary’s interests. In the case of the school trust lands, however, the beneficiary’s ability to recover against SITLA, the Treasurer, or the State of Utah is ultimately severely limited. Statutes of limitation, governmental immunity, and funding shortages all might act to constrain such remedies. The Utah Supreme Court has recently ruled that “When the State breaches its obligation to receive full value in conveying trust lands, such conveyances are effective, but the State is required to reimburse the trust for the loss.”

If the trustee is preparing to commit a breach of trust, the beneficiary need not sit idly by until damage has been done. The beneficiary may sue in a court of equity for an injunction against the wrongful act. Beneficiaries can seek such a remedy to prevent trustees from acting in violation of their duties, such as selling trust property for an improper purpose or for a rate below fair market value. With the School Children’s Trust, beneficiary representation and involvement has been wholly responsible for bringing the neglected trust to light, discovering cases of breach, and creating a system with a higher degree of oversight and enforcement. The Office of the Utah Attorney General has been a champion of the trust, but has needed the cooperation and information provided by the School Children’s Trust to defend the trust.

The rights of the beneficiary need to be carefully guarded; the duties owed to the beneficiary from the trustees need to be received. This requires beneficiary input and oversight commensurate with a trust now among the top 1% in the nation, involving millions of acres of land and billions of dollars of potential value. Beneficiary duties include the following:

1. The duty to represent and advocate for the trust
2. The duty to be timely and act within the statute of limitations
3. The duty to assert beneficiary rights and seek remedy to avoid laches and the barring of remedy
4. The duty to exercise beneficiary rights and ensure trustees fulfill their fiduciary duties:



History of School Trust Lands

Utah was granted four sections in every township by Congress in 1894 “for the support of common schools.”¹ The grant for schools was 6,007,182 acres—approximately one-ninth of the state. The “proceeds”¹ from these lands were to constitute a permanent fund, the interest of which only was to support schools. From 1894 to 1994, Utah’s history regarding the management of these lands is one checkered with scandals, fraud, and use of the lands for purposes that provided little benefit to Utah’s schools. On average, the management was altered every six years. The lands were managed as a state agency without honor to the trust principles of undivided loyalty to the schools, accountability to the beneficiaries, and optimization of revenue for the benefit of schools and schoolchildren.

The Utah State Office of Education (USOE), under the direction of acting Superintendent Bernarr Furse, hired Margaret Bird in 1985 to research coal leases on school trust lands. A year later it was determined that over \$14 million in coal royalty payments had not been made. The case was ultimately taken to the Utah Supreme Court, where the Court ruled, “...in administering the school trust lands, the State acts as a trustee and its duties are the same as the duties of the trustee.” The school trust was paid \$21 million in royalties and interest. Further USOE research began to uncover similar problems in other areas of the management of school lands. Doug Bates, the USOE attorney, researched the law of trusts and found volumes of case law on the side of the beneficiaries of the school trusts in most western states. In 1989, the Utah PTA began looking into school trust lands as a source of school funding when Sandra Skousen from San Juan County brought this funding source to the State PTA’s

attention and a resolution was passed. In 1989, over 2,000 school acres adjoining the Green Springs Golf Course were sold for \$200 an acre under a special provision in the statute that had been found to be unconstitutional by the Attorney General’s Office. The Utah Education Association filed suit over the transaction, alleging breach of trust, attacking the sale as below market value, and introducing evidence that private purchases of adjoining land were over \$20,000 per acre. The focus was now clearly on the school trust land issue and the abuses that had occurred under state management.

The education community, with all major groups represented, pushed for the creation of a legislative task force to study the issue in the 1991 and 1992. The education community had determined that there were three areas that needed to be addressed in the reform of the school trust:

1. The permanent State School Fund, which was managed for liquidity, would be managed as an endowment fund even though it was small. It had been climbing slowly from a low of \$19 million in 1983. The Enabling Act, which required all proceeds to be deposited in the permanent fund, would be obeyed.
2. The school trust lands would be managed to support schools only, not for other state needs.
3. The interest and dividends from investment of the trust funds would be used to make a difference in the academic opportunities of students in public schools, whose schools were the beneficiary of the trust.

The Public School Trust Lands Task Force was chaired by Representative Mel Brown and Senator Glade Nielsen and included Representatives Jerry Jensen, John Arrington, Kevin Garn, and Grant Protzman and Senators Omar Bunnell and David Steele. An additional year of study by a citizen task force chaired by Budge Christensen with Tom Bachtell, Curt Burnett, Bob Wood, Scott Robertson, John Neubold, Daryl Barrett, Barbara Hjelle, and Louise Liston reached the same conclusions. Despite protests by agency and state representatives that reform was not necessary, the conclusion was that the management of school trust lands under trust principles was clearly broken. It was unanimously concluded by both task forces that the state needed to:

- Create a quasi-independent agency managed as a trust with undivided loyalty to the beneficiaries.
- Structure the organization to be more like a corporation with a Board of Trustees to set policy and a director hired and fired by the Board to carry out the day to day operations of the agency.
- Create a nominating committee to select individuals outstanding in the fields of nonrenewable resources, renewable resources, real estate, business, investment banking, finance, trust administration, asset management, and the practice of law in those areas. The Nominating Committee would provide the Governor with two names from which to choose a new board member annually. Terms would be six years, with one expiring each year. Such a structure would allow for the institutional knowledge necessary to provide the trust with vision and continuity.

Using the data collected over the prior decade by Mrs. Bird, the Utah State Office of Education began working with Larry Hiller, a writer, editor, and volunteer, to produce a video on the abuses of school lands. When the Governor threatened to cut \$5 million from the education budget if the USOE produced the video, a

videographer whose wife was a principal stepped up, and the video “A Matter of Trust” was created and produced for only the costs of the cameramen. The video exposed the following abuses of the trust:

- 88,000 acres in the Book Cliffs were sold for \$2.50 per acre.
- 2,400 acres adjoining a golf course in St. George sold for a few hundred dollars an acre without interest payments or principal payments for over six years. The purchaser resold some of the land for over \$10,000/acre.
- Coal bonus bids of \$2,300 per acre were earned on Bureau of Land Management lands while the trust lands were getting \$12 per acre.
- Utah has the only mineable beryllium, but the trust was getting only 4% for royalty.
- Utah was charging \$0.10 per ton for salt production, the same price as in 1957.
- Military leases were paying only \$0.49 per acre, meaning the value of the land was only worth \$6 per acre, when the real market value of the land was more than 100 times higher.
- Utah had the lowest grazing fee in the nation. New Mexico earned fifteen times more from grazing on twice the amount of land.
- The state charged less for surface leases than it spent on personnel to manage the leases. This meant that Utah children were paying for others to use their lands.
- One-fourth of a million acres were in national parks, national forests, national recreation and conservation areas without any compensation, while the state had made only feeble attempts to initiate exchanges out of the federal designations.

Under the leadership of Joyce Muhlestein and Karen Rupp, the video was distributed to every PTA across the state. With the support of Lily Eskelsen and Lowell Baum of the Utah Education Association, the video was shown at

UEA meetings and faculty meetings. Jeff and Beth Jensen paid for a copy for every legislator. Legislators reported that they were unable to go to the pharmacy or grocery store without citizens asking them what they were going to do to fix the school trust. Both major parties adopted platform planks that are still in effect today on the necessity of school trust lands being well managed for the benefit of Utah schools. Every major candidate in the 1992 gubernatorial campaign was in support of a reform of the school lands. Representative Mel Brown ran legislation to create the School and Institutional Trust Lands Administration in the 1994 session, and the bill passed with near unanimous support.



Bills to move the investment of the trust funds toward professional management, diversity and the Prudent Investor Rule were run by Representatives Mel Brown and David Clark from 1992 through 2006. Equity investments began in 1995 phasing into the market slowly under the direction of State Treasurer Edward Alter who had supported and pushed for the investment reforms.

From FY 1995 through FY 2000, all revenue from the trust continued to be deposited in the Uniform School Fund, which provides the state funding of education to each district. Unused portions of the Uniform School Fund were swept at the end of each fiscal year into the General Fund—a serious violation of the Enabling Act, if any of those swept dollars were trust dollars. Of course, no one could tell what was trust and what was income tax revenue. During this period, from FY 1995 through FY 2000, the increased revenue from the school trust was not recognized as enhancing education for children. The State Treasurer had begun cautiously investing about \$3 million monthly in 1995, and the fund was expected to be 65% in equities in a few years. By 1999, Margaret Bird estimated that the fund would likely be at the point with the lowest investment return by FY 2001—a fact that would also mean the fiscal note would be the smallest if the funds were to be redirected to schools. The education community became convinced that the 1999 session would be the year to run a bill providing for the trust money to go to each school. Some in education wanted the funds to go solely to school libraries, while others wanted them to go to technology or early reading intervention. Eventually, those in education came to agreement that the best plan would be to let each school decide on its own most pressing academic need. Paula Plant and Margaret Bird, on behalf of the Education Coalition, approached Representative Brown to sponsor the third and final (and arguably most important, because of its impact on students) piece of legislation needed to reform the school trust—to send the interest and dividends to each school. Representative Brown wanted a majority of parents on the trust land committees, insisted that they set measurable goals, and required every committee to publicize the results. These components became cornerstones for the later success of the School LAND Trust program in each school.



Management of School Trust Lands

Purpose:

On July 1, 1994, the School and Institutional Trust Lands Administration (SITLA) began with a clear mandate to run like a trust. Its Purpose Statement lays out the direction:

The trust principles . . . impose fiduciary duties upon the state, including a duty of undivided loyalty to, and a strict requirement to administer the trust corpus for the exclusive benefit of, the trust beneficiaries. As trustee, the state must manage the lands and revenues generated from the lands in the most prudent and profitable manner possible, and not for any purpose inconsistent with the best interests of the trust beneficiaries. The trustee must be concerned with both income for the current beneficiaries and the preservation of trust assets for future beneficiaries, which requires a balancing of short and long-term interests so that long-term benefits are not lost in an effort to maximize short-term gains. The beneficiaries do not include other governmental institutions or agencies, the public at large, or the general welfare of this state. This title shall be liberally construed to enable the board of trustees, the director, and the administration to faithfully fulfill the state's obligation to the trust beneficiaries. (Utah Code 53C-1-102(2) and (3))

Organizational Structure of the School and Institutional Trust Lands Administration:

The members of the Board of Trustees are selected by the Governor from a list of two names submitted by the Nominating Committee. The FY 2012 Nominating Committee is chaired by Janet Cannon, formerly of the State Board of Education, and has four additional members appointed by the State Board (Dave Thomas, Dennis Morrill, Laurel Brown, and Kim Burningham), one member representing the University of Utah (Dale Huffaker), and five members representing major producers or users of school lands (Lowell Braxton from Western Energy Alliance; John Raymond, chair of the Association of Counties' Public Lands Committee; Sterling Brown from the Utah Farm Bureau; John Baza from the Department of Natural Resources; and Mark Compton from the Utah Mining Association). The Nominating Committee must submit names so that there is at least one member of the Board of Trustees with outstanding professional qualifications in the areas of nonrenewable resources, renewable resources, and real estate at all times. Experts in other fields, such as business, investment banking, finance, trust administration, asset management, and the practice of law in one of those fields, may also serve. Unquestionably, the selection of candidates with outstanding integrity and professional expertise has been a significant factor in SITLA's success. The Governor selects one member of the Board of Trustees without the nominating process.

Policy is set by the Board of Trustees, which includes the following members:

- Chair Dan Lofgren, President of Cowboy Partners
- Vice-Chair Steve Ostler, Vice Chair of The Boyer Company Board
- Louie Cononelos, Chief Advisor Government and Corporate Relations for Rio Tinto
- Dave Ure, Vice president of URE Ranches & Summit Co Commission Chair
- Jim Lekas, President of Lexco Gilsonite Company
- Tom Bachtell, CEO of Wind River Resources Corporation, and
- Mike Mower, Deputy Chief of Staff & State Planning Coordinator (Governor’s office)



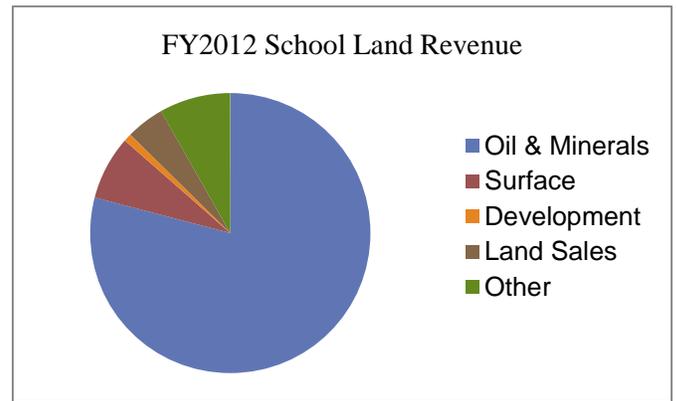
These members form an outstanding and dedicated board that clearly includes members who have made incredible contributions to the state in their respective fields. These board members generously offer their time to make substantial contributions to Utah’s public schools as they guide the trust management with due diligence into increasingly sophisticated transactions. The Board hires and fires the Director of the agency, who is responsible for the day-to-day management of the land.



The Director of SITLA in FY 2012 is Kevin Carter, who has served as Director since 2003. He has a master’s degree in range management and has worked for the school trust for 31 years, since before the creation of SITLA.

He has been a valiant proponent of trust principles from the time before it became a popular thing to do, and has been a superb ambassador for the School Trust lands, advocating on both the state and national levels. SITLA has 64 full-time employees, nine part-time staff members, and six seasonal/temporary employees.

Revenue Sources:

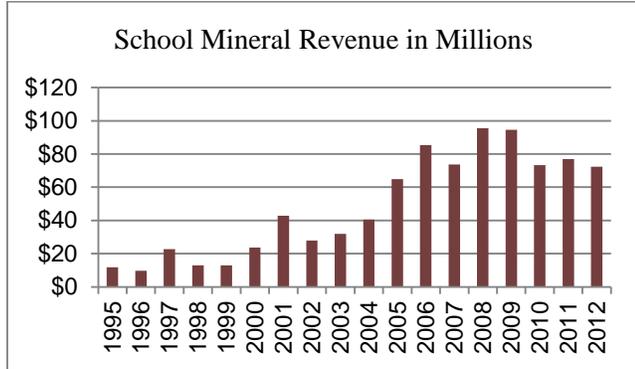


Oil, Gas, and Minerals: The size of contributions in gross revenue changes annually; however, there has been little variance from oil, gas, and minerals being the primary revenue sources. The mineral sections of SITLA are directed by LaVonne Garrison, who manages the oil and gas assets, and Tom Faddies who manages the coal and other mineral assets. The \$1.3 billion school trust fund has been primarily built on the revenue from production of oil, gas, and coal. Rental revenue is not insignificant, but it is always dwarfed by royalty income. Mineral income since the creation of SITLA can be seen below.



The School Trust has the following mineral acreage under lease in FY 2012 for the specified minerals:

| | |
|--------------------------------|-----------------|
| Oil and gas | 1,061,659 acres |
| Metalliferous minerals | 208,479 acres |
| Potash | 82,656 acres |
| Oil Shale | 77,725 acres |
| Geothermal | 41,537 acres |
| Bituminous and asphaltic sands | 41,084 acres |
| Limestone | 9,870 acres |
| Coal | 7,410 acres |
| Other | 20,584 acres |



Utah has four of the nation's 100 largest oil fields and two of its 100 largest gas fields. Coal bed methane provides one-fifth of all natural gas produced in Utah. SITLA has revenue from four coal mines, with three other properties available for future production. Utah is one of eight states producing electricity from geothermal resources. By rule, the Board of Trustees has permitted the agency to offer to lease properties through online bidding to expand participation and revenues.

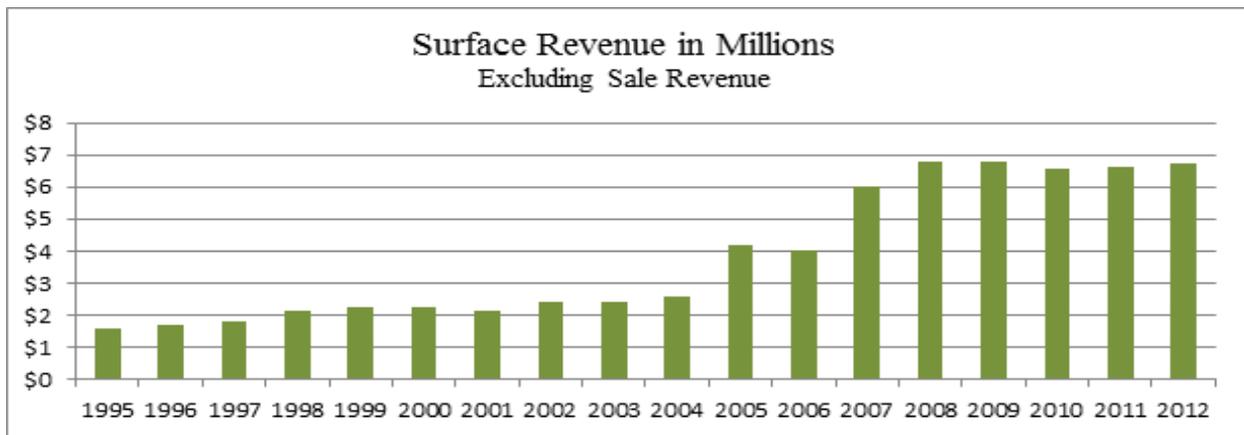
The mineral sections of the agency produce the greatest return per dollar spent. Coal leads the

pack, with a return of \$37.36 for every dollar expended. Oil and gas return \$34.01, sand and gravel \$4.84, and other minerals collectively \$7.15. Both the Oil and Gas section and the Mineral section run on the credo, "Run lean, run mean."



Surface Revenue: The Surface Section is the largest section in terms of full-time employees (20), and was the second largest in revenue production in FY 2012 with \$6,744,709 gross revenue. Surface revenue was generated from surface activities such as grazing, forestry, and special use leases of telecommunication sites, ski resorts, cabin sites, etc. Most surface revenue programs are personnel intensive. Knowledgeable personnel are needed to understand the dynamics of a specific economic sector when the lease is issued. Site visits for hazardous materials must occur periodically; lease adjustments are necessary, as lease terms may span up to 99 years; and updated estimates of value must be made when lease rates escalate, every one to five years. The chart below indicates the annual fiscal year revenue per acre generated from surface activities, excluding sales.





The greatest surface revenue came from Special Use Lease Agreements (SULA) and SULA royalties that produced \$4.7 million. Rights of way for a 30-year term produced almost \$1 million. Grazing grossed \$813,000—almost double what was being generated when SITLA took over the management of the lands. Right of entry, trespass, and rock hounding fees made up the balance of the surface revenue. There were three surface activities in FY 2012 that grossed less than was expended: forestry, agricultural leases and residential leases. The agency is committed to significantly curtailing expenses or increasing revenue in those areas next fiscal year to keep them profitable.

The U.S. Fish and Wildlife Service has determined that listing the sage grouse as endangered is “warranted but precluded” because there are other species in greater danger. Sage grouse populations in Utah, Idaho, Wyoming, and Nevada have significantly decreased from 1940 numbers. The largest populations are in Wyoming and Nevada. The Bureau of Land Management has proposed interim guidelines effective on all federal sage grouse habitat, including a four-mile radius around each known lek (breeding ground). Governor Herbert, the Division of Wildlife Resources and SITLA are diligently working on a state plan for recovery to preserve the species and prevent listing. If listing occurs, the impact to oil and gas production, mining, and all surface activities on school lands will be devastating.

In 2009-10, two bills entitled “America’s Red Rock Wilderness Act” were filed in Congress. The House bill had 168 cosponsors¹ and the Senate bill had 23 cosponsors². These bills propose to designate over 10 million Utah acres

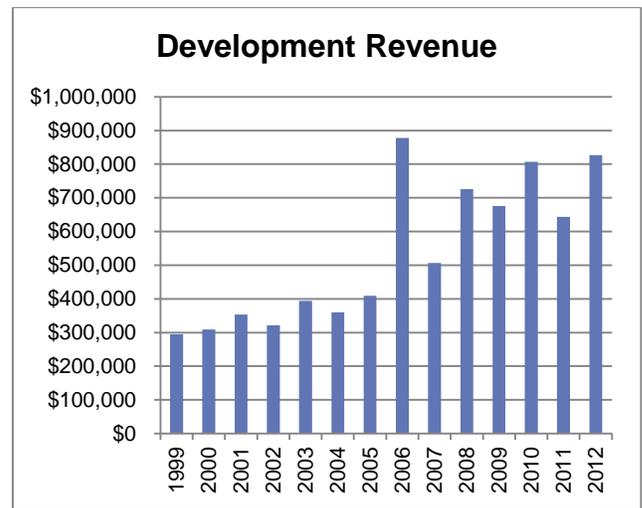
¹ Rep Ackerman, (NY), Adler (NJ), Andrews (NJ), Baird (WA), Baldwin (WI), Barrow (GA), Berkley (NV), Berman (CA), Biggert (IL), Bishop (NY), Blumenauer (OR), Boswell (IA), Brady (PA), Braley (IA), Brown (FL), Capps (CA), Capuano (MA), Carson (IN), Chandler (KY), Christensen (VA), Chu (CA), Clay (MO), Cleaver (MO), Cohen (TN), Connolly (VA), Conyers (MI), Costello (IL), Courtney (CT), Crowley (NY), Cummings (MD), Davis (IL), Davis (CA), DeFazio (OR), DeGette (CO), Delahunt (MA), DeLauro (CT), Deutch (FL), Dicks (WA), Doggett (TX), Doyle (PA), Edwards (MD), Ehlers (MI), Ellison (MN), Engel (NY), Eshoo (CA), Farr (CA), Fattah (PA), Filner (CA), Frank (MA), Garamendi (CA), Gonzales (TX), Grayson (FL), Green (IL), Harman (CA), Hastings (FL), Heinrich (NM), Higgins (NY), Hill (IN), Himes (CT), Hirono (HI), Hodes (NH), Hold (NJ), Honda (CA), Inslee (WA), Israel (NY), Jackson (TX), Jackson (IL), Johnson (TX), Johnson (GA), Johnson (IL), Kaptur (OH), Kennedy (RI), Kildee (MI), Kilpatrick (MI), Kirk (IL), Kucinich (OH), Lance (NJ), Langevin (RI), Larsen (WA), Larson (CT), Lee (CA), Levin (MI), Lewis (GA), Lipinski (IL), Lofgren (CA), Lofgren (CA), Lowey (NY), Lynch (MA), Maffei (NY), Maloney (NY), Markey (MA), Massa (NY), Matsui (CA), McCollum (MN), McDermott (WA), McGovern (MA), McNemey (CA), Meek (FL), Michaud (ME), Miller (NC), Miller (CA), Moore (WI), Moran (VA), Murphy (CT), Murphy (PA), Nadler (NY), Napolitano (CA), Neal (MA), Norton (DC), Olver (MA), Pallone (NJ), Pallone (NJ), Pascrell (NJ), Payne (NJ), Peters (MI), Peterson (MN), Pierluissi (PR), Pingree (ME), Polis (CO), Price (NC), Quigley (IL), Rangel (NY), Richardson (CA), Rothman (NJ), Roybal-Allard (CA), Rush (IL), Ryan (OH), Sablan (MP), Sanchez (CA), Sanchez (CA), Schakowsky (IL), Schiff (CA), Schwartz (PA), Scott (GA), Serrano (NY), Sestak (PA), Shea-Porter (NH), Sherman (CA), Sires (NJ), Slaughter (NY), Smith (WA), Smith (CA), Speier (CA), Spratt (SC), Stark (CA), Sutton (OH), Tauscher (CA), Thompson (CA), Tierney (MA), Tonko (NY), Towns (NY), Tsongas (MA), Velazquez (NY), Walz (MN), Wasserman (FL), Watt (NC), Waxman (CA), Weiner (NY), Welch (VT), Wexler (FL), Woolsey (CA), Wu (OR), and Yarmuth (KY).

² Senators Bennet (CO), Udall (CO), Brown (OH), Burris (IL), Cantwell (WA), Cardin (MD), Feingold (WI), Billibrand (NY), Schumer (NY), Harkin (IA), Kaufman (DE), Kennedy (MA), Kerry (MA), Lautenberg (NJ), Menendez (NJ), Leahy (VT), Sanders (VT), Lieberman (CT), Merkley (OR), Reed (RI), Whitehouse (RI), and Stabenow (MI).

as wilderness in the Great Basin, the Zion and Mojave Desert, Grand Staircase-Escalante, Moab-La Sal Canyons, Henry Mountains, Glen Canyon, San Juan-Anasazi, Canyonlands Basin, San Rafael Swell, Book Cliffs and Uintah Basin. If these bills were to pass, over one million acres of school lands would be captured inside these designations and surrounded by protections against development.

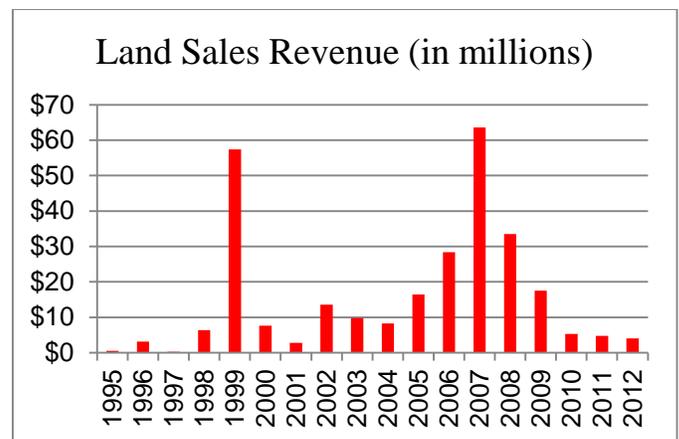


Development Revenue: The Development section of SITLA manages school trust lands in St. George, Washington City, Moab, Eagle Mountain and Utah County, along with other specified lands with development potential. The Development section has offices in Salt Lake and Washington City, with a staff of 10 full-time employees. They manage 61 projects in various stages of development. In FY 2012 they expended a capital budget of \$2,544,740. There is little revenue-producing activity by the Development section of the agency, as evidenced by its FY 2012 revenue of only \$827,305.



There was no development group at SITLA before FY 1999 (see graph above). A careful examination of development expense and the profitability of capital expenditures should be undertaken by the agency to determine whether the level of current personnel and capital investments is supported by the revenue.

Land Sales: During FY 2012, land sales generated \$4,027,475 million—\$1.4 million from raw land sales and \$2.5 million from developed land sales. Only a small portion (\$178,000) of the developed land sale revenue was a principal payment on the St. George airport. Currently, SITLA is selling few parcels due to the real estate market collapse and financial constraints. The chart below shows the acres of land sold by fiscal year.

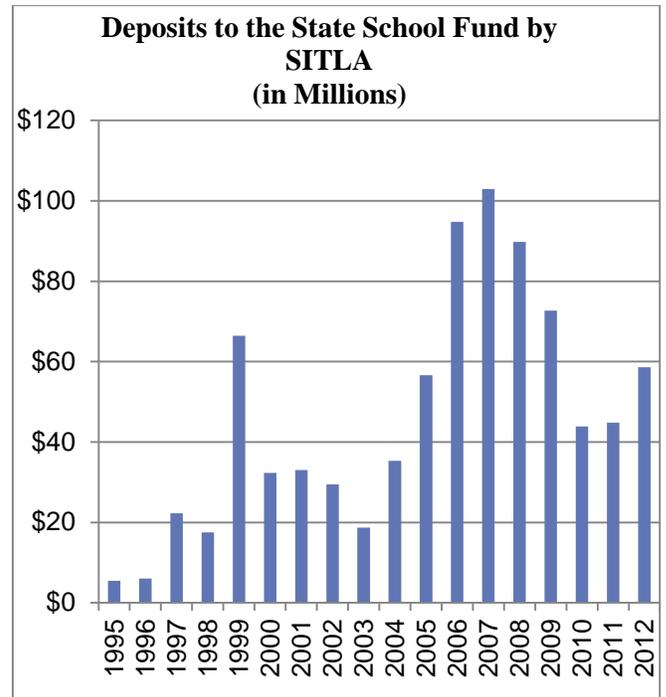


Deposits to the State School Fund:

The School and Institutional Trust Lands Administration is financed solely from revenue generated from the school and other institutional trust lands. Prior to FY 2013, the agency deducted each trust’s estimated share of the appropriation from the first dollars in the door at the beginning of the fiscal year. Each of the trusts did not receive monthly income until after the appropriation had been reached.



Upon recommendation of Tim Donaldson at the Utah State Office of Education, beginning in FY 2013 the appropriated amount was deducted throughout this current year. This has resulted in additional interest earnings in excess of \$550,000 for the school trust because of the time value of money. It has also kept SITLA more aware of expenses for each trust individually—meaning smaller loans by the School Fund to other institutional trusts at year end if budget estimates were wrong. All net revenue is deposited in the permanent State School Fund daily for investment by the State Treasurer. The following net revenue deposits have been made:



Beneficiary Analysis of Issues on School Trust Land Management:

SITLA has far exceeded the initial estimates of what the School Trust could generate under a management structure intended to make the school lands productive. The current director provides a climate in which open debate and discussions occur. The agency struggled initially when formed, but appears to have made most of the initial transitions well. There remain elements and areas of the agency that could take steps to operate at a higher level of communication and professionalism.

The major internal struggles at this point were identified by the board for the agency in the Section 29 transaction that has resulted in losses. However, it must be pointed out that it is not realistic to expect that all agency transactions will be hugely successful, and that if they were it might indicate that the agency is not taking appropriate risks to grow the corpus.

The issues identified by the board for SITLA to correct include the following:

- Proper processes need to be put in place to perform due diligence and assess risk, particularly on complex transactions.
- The agency needs to define a comfort level with risk, balancing the duty to be a cautious trustee with the duty to behave like a business and take certain risks.
- Revenue group leaders, not the legal staff, need to have the ultimate power and the ultimate responsibility for deals.
- SITLA needs to increase negotiation skills and have employees with deal-making capacity on staff.
- The agency should determine whether diversifying the land portfolio is a duty or a goal.

The beneficiaries strongly supported the board's recommendations above.

The following land issues need attention from the beneficiaries' perspective:

- Proposed wilderness designations capturing 1 million acres of school lands—one-third of all school land—need to be addressed and resolved by the state.
- The legislature should consider allowing the SITLA Board to have flexibility in establishing annual compensation to top management if the legislature wants to continue having the results achieved during the incentivized years. Human nature makes incentives work in an agency purposed with generating revenue. However, incentive compensation should be tied to outstanding achievements.

- It may be an appropriate time for the SITLA leadership to consider positioning for the next few decades—looking at jobs that are no longer needed and new skill sets that are needed. As Steve Jobs said, “It’s too easy, as a team grows, to put up with a few B players, and they then attract a few more B players, and soon you will have even some C players. The Macintosh experience taught me that A players like to work only with other A players, which means you can’t indulge B players.”
- The legislature should take steps necessary to recover the sage grouse and prevent its listing as an endangered species.
- SITLA should evaluate the high expenditures for outside counsel while maintaining four in-house attorneys.
- Negotiation expertise is needed.

The following Strength-Weakness-Opportunity-Threat (SWOT) analysis chart on the next page was developed by the beneficiaries and reviewed with SITLA Director Carter. It is included to impart an understanding of the climate in which the management of the lands is occurring.

| | |
|---|--|
| <p>SITLA Strengths</p> <ul style="list-style-type: none"> • Extraordinary and experienced board and director • Strong Enabling Act, Constitution, statutes, case law • Well respected by government and producers • Financial success • Beneficiaries, Director and Board work as team as well as independently • SITLA employees • Future potential of mineral, surface and development lands • Beneficiary oversight to provide balance and discipline to parties that push SITLA for below market deals for the public good or private gain • Renewable energy sources • 19 years of SITLA operating as a trustee with a clean record | <p>SITLA Opportunities</p> <ul style="list-style-type: none"> • Need for increased awareness by public • School community councils could be better utilized for support • Market and technological changes can open new markets (e.g., hydraulic fracturing of Mancos shale) • Efficiencies in management would result in higher deposits in State School Fund • RS2477 court decisions may open up access • West Desert opportunities for waste disposal, solar, EPA restricted industries • Opportunity to exchange unproductive lands out of federal proposals • Other minerals like oil sands, oil shale, potash, titanium, uranium, and beryllium • Work with Division of Wildlife Resources to increase wildlife and hunter access revenue • Other business opportunities like Magnum and renewable energy |
| <p>SITLA Weaknesses</p> <ul style="list-style-type: none"> • No Board flexibility to incentivize employees • Without incentives, SITLA is forced to act tactically rather than strategically • Succession of Director—Director has over 31 years • Federal exchange process is broken • SITLA has no leverage to force federal exchanges or federal actions (i.e., Salazar withdrew 77 leases, leaving in-held school acreage unproductive too) • Negotiations • SITLA programs earning less than is expended • No incentives for efficiency • Litigation—with four in-house attorneys, hundreds of thousands of dollars spent for outside attorneys (Cook case, before UT Supreme Court, has cost \$414,850 in outside counsel in FY 2012 and FY 2013 YTD, and still hasn't gone to trial) • Negotiated sales with The Nature Conservancy • Lack of political will to take on sensitive issues | <p>SITLA Threats</p> <ul style="list-style-type: none"> • Monument declarations that capture revenue-producing lands • Listings of endangered species, especially sage grouse • Federal and public hostility to energy development • Environmental movement without pushback to be reasonable • Environmental lawsuits and the associated costs • RS 2477 decisions (possibly) • Political pressure like that at St. George Airport • 1 million acres captured in the Citizen's Proposal for Red Rock Wilderness, with 168 sponsors in the U. S. House and 23 sponsors in the U.S. Senate in 2012 • No understanding at the federal level that there are in-held school lands within the sea of federal lands, and no understanding that the federal government, as settlor of the trusts, has an obligation to not thwart revenue production from those lands |

Investment of the Permanent State School Fund



Investment Structure:

The permanent State School Fund is established in the Utah Enabling Act and provides “That the proceeds of lands granted for educational purposes...shall constitute a permanent school fund, the interest of which only shall be expended for the support of said schools.” In Article X, the Utah Constitution articulates specifically what shall be deposited in the fund:

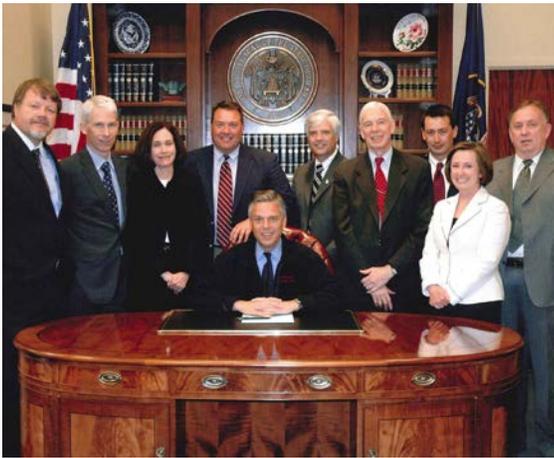
There is established a permanent State School Fund which shall consist of revenue from the following sources:

- (a) proceeds from the sales of all lands granted by the United States to this state for the support of the public elementary and secondary schools;
- (b) 5% of the net proceeds from the sales of United States public lands lying within this state;

- (c) all revenues derived from nonrenewable resources on sovereign lands and lands granted for other specific purposes;
- (d) all revenues derived from the use of school trust lands;
- (e) revenues appropriated by the Legislature; and
- (f) other revenues and assets received by the fund under any other provision of law or by bequest or donation.

There are strong, impenetrable guarantees by the state for the permanent State School Fund. “The State School Fund shall be guaranteed by the state against loss or diversion.” The statute in 53C-3-102 ensures that the net revenue is deposited in the permanent State School Fund. Despite the guarantees by the Enabling Act, the Constitution, and the statute, the funds are only as safe as the State Board of Education and educational organizations choose to enforce.

All net revenue from the management of the lands and minerals is deposited by SITLA in the permanent State School fund. The fund is invested by State Treasurer Richard Ellis; Utah is fortunate to have such a competent, knowledgeable State Treasurer. State statute establishes an Investment Advisory Committee.



This committee is solely advisory with no statutory investment or enforcement capability. The committee in FY 2012 consisted of the following members:

- Jeff Cardin, Chair, President, Portfolio Manager, Wasatch Advisors
- Sterling Jensen, Vice Chair, Regional Managing Director, Wells Capital Management
- Kimo Esplin, Executive Vice President & CFO, Huntsman Corporation
- Jeff Roylance, President, Summit Capital Advisors
- Steve Ostler, Vice Chair of The Boyer Company Board
- David Cowley, Associate Vice President Business & Finance, Utah State University
- Arnie Combe, Vice President of Administrative Services, University of Utah

Prudent Investor Rule:

When the reform of the trust was begun, Utah’s State School Fund was the lowest in the nation—one-tenth of the next lowest, Nevada. Very little money had been deposited from the sale of half the lands.

All of the accumulated mineral revenue was liquidated at a loss under Governor Matheson in 1983, during a budget shortfall. The state treasurer, Ed Alter, was prevented from managing the fund well by the provision requiring liquidity, along with a host of other restrictions. This investment structure provided no equity position and no long-term growth. Through a series of Constitutional changes and statute changes, the fund is now managed under the Prudent Investor Rule which requires the following:

“The state treasurer shall invest and manage the trust fund assets as a prudent investor would, by:

- (a) considering the purposes, terms, distribution requirements, and other circumstances of the trust funds; and
- (b) exercising reasonable care, skill, and caution in order to meet the standard of care of a prudent investor.”

Behind the Prudent Investor Rule is a plethora of case law prescribing prudent, diversified investment of funds.

Asset Allocation:

The State Treasurer, with the advice of Callan and Associates and the Investment Advisory Committee, has adopted the asset allocation below. The asset allocation is a significant determinant of return. The Market Value below is the FY 2012 value for the School Fund only:

| <u>Asset Class</u> | <u>Target Range</u> | | | <u>School Asset Allocation</u> | <u>Market Value</u> |
|----------------------|---------------------|----------------|----------------|--------------------------------|------------------------|
| | <u>Minimum</u> | <u>Neutral</u> | <u>Maximum</u> | | |
| Domestic Equity | 42% | 47% | 52% | 46.57% | \$596,816,357 |
| International Equity | 15% | 20% | 25% | 18.83% | 241,376,730 |
| Fixed Income | 18% | 23% | 28% | 25.62% | 328,345,630 |
| Real Estate | 5% | 10% | 15% | 8.23% | 105,480,174 |
| Cash | 0% | 0% | 0% | 0.75% | 9,640,611 |
| | | | | TOTAL | \$1,281,659,502 |

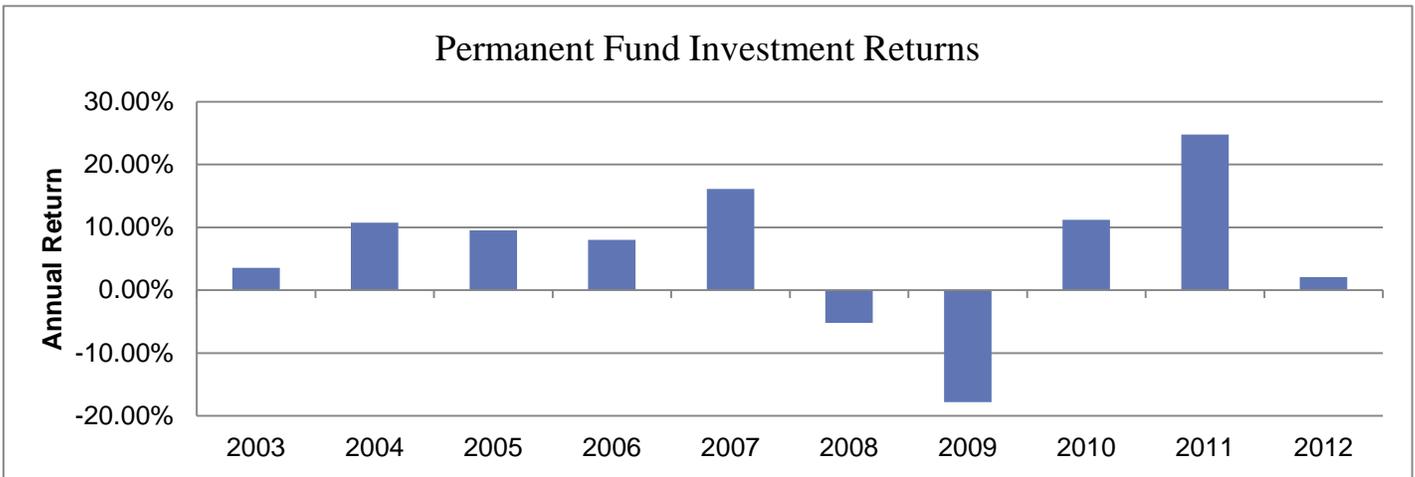
Market Value of the permanent State School Fund:

The market value of the permanent State School Fund has risen exponentially from its 1983 low point of \$19 million. From 1982 to 2007, the permanent State School Fund grew at a compound rate of 16.3%. The increase can be traced to four components: voters changing the Constitution to place all net revenue in the fund, consistent with the Enabling Act; allowing the fund to be managed in a manner more similar to

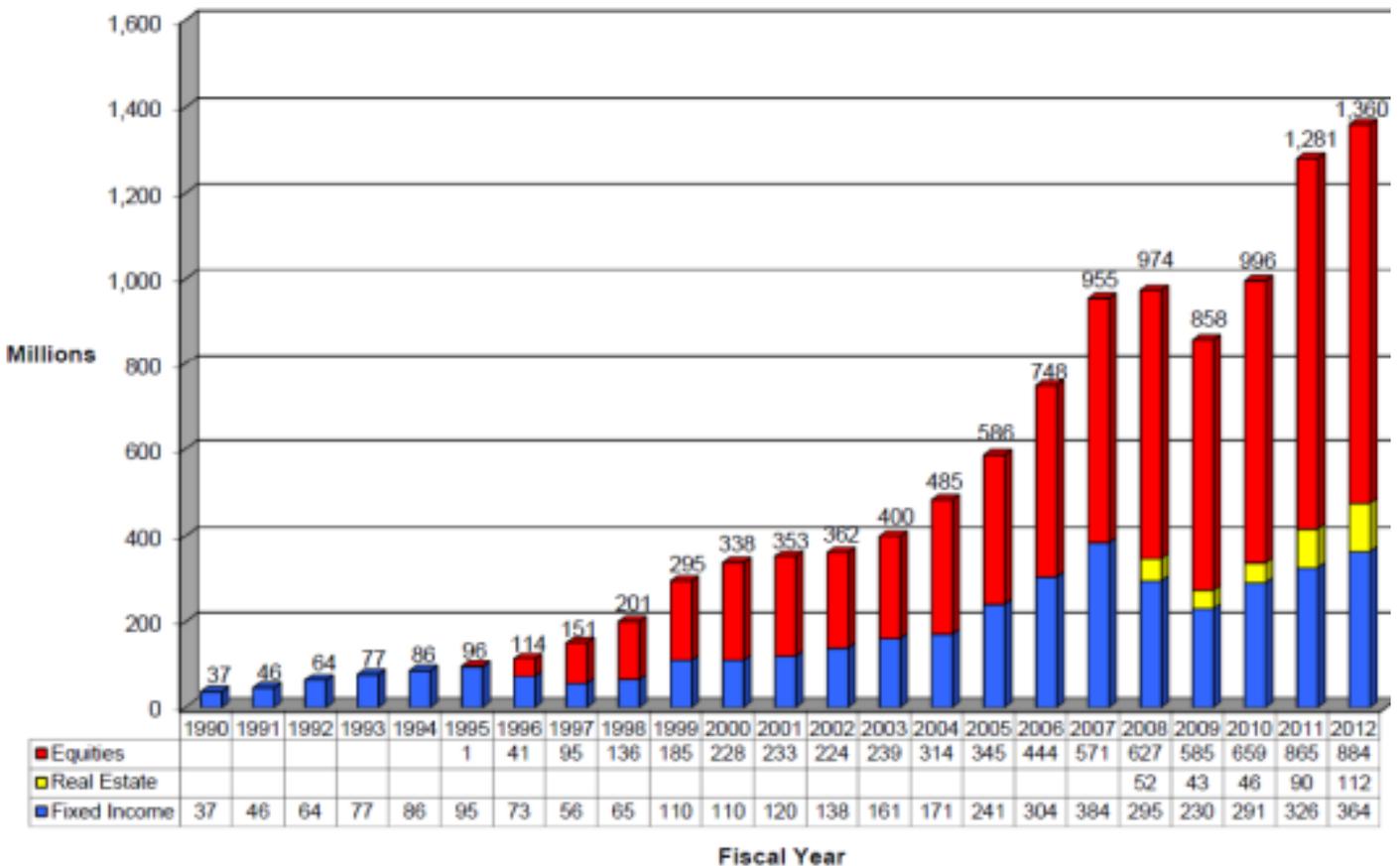
private endowment funds; retaining capital gains; and the revenue boosts from SITLA and capital gains from investments by the State Treasurer. The fund now places this trust in the top 1% of all endowments in the nation.

Investment Returns:

The legislature has wisely required all capital gains to remain in the fund for long-term growth. The first chart shows the total market gains and losses on the school fund; the second chart shows market value for all 12 Utah trusts.



Permanent State School and Institutional Trust Funds Investment Balances as of June 30, 2012



Interest and dividends produced from investment of the fund are deposited monthly in the restricted Interest and Dividend Account within the Uniform School Fund at the State Office of Education. In FY 2012, these funds were invested at 0.71 percent return in the state's Public Treasurer's Investment Fund by the Internal Accounting Section at the USOE; perhaps more could have been earned by using a different short-term investment strategy. The account plus interest is distributed at the beginning of the next fiscal year by the School LAND Trust program through districts to schools. Distributions to charter public schools and to the School for the Deaf and Blind are made directly by the School Children's Trust at the USOE. The legislature appropriates funding for the School Children's Trust section from the Interest and Dividend Account. Any unexpended funds are returned to the next year's distribution.

Beneficiary Analysis of Issues on the Investment of the Fund:

Interestingly, there are currently no provisions for investment qualifications for the State Treasurer, either in the state constitution or statute, beyond those that the treasurer must be 25 years or older, a qualified voter, and a resident of the state for the preceding five years. Potentially, a person with no investment qualifications could be responsible for investing a \$1.3 billion fund, and the state would be responsible to indemnify the losses. Other states have elected Treasurers without appropriate qualifications for investments.

The permanent State School Fund is primarily managed in a passive, index manner. Research has been unable to ascertain another endowment or foundation of this size managed as passively. The Treasurer's Office is small and primarily focused on, and qualified in, the management of state, county and city monies for relatively short terms. Short-term investing is both strategically and tactically different from long-term investing with a forever horizon. Though Utah unquestionably has one of the most competent state treasurers in the nation, the fund has reached such a size that management by a sole authority,

with no requirements for professional investment experience, may not be prudent.

The specifics of a restructuring of the investment of the funds should be carefully studied and recommended to the legislature by the State Board of Education, as the primary representative of the school beneficiary.



Use of Interest and Dividends In the School LAND Trust Program

Structure of the School LAND Trust Program:

Monthly payments of interest and dividends generated from investment of the permanent State School Fund are retained in the restricted Interest and Dividend Account within the Uniform School Fund. At the end of the fiscal year, the account is distributed to each public school with an approved academic plan. The plan for each school is developed by the school community council or charter school trust land committee. Each traditional public school council is composed of at least a two-parent majority. Parents elected by parents and staff members elected by the staff, plus the principal, comprise the school community council. Special schools, such as Youth In Custody schools, are exempt from the parent member requirements if they are unable to get parents to serve. All plans must be approved by the local school board to receive funding. Charter schools use their trust land committee, with a majority of elected parents, to develop the academic plan. Charter school plans must be approved by the State Charter School Board to receive funding. Every public school received funding in FY 2012, and there were 8,829 members of councils and committees developing academic plans. All plans must address the school's most pressing academic need(s) and must be focused on improving student academic performance. Councils must also determine how the school will measure progress and must publicize the results to the community.

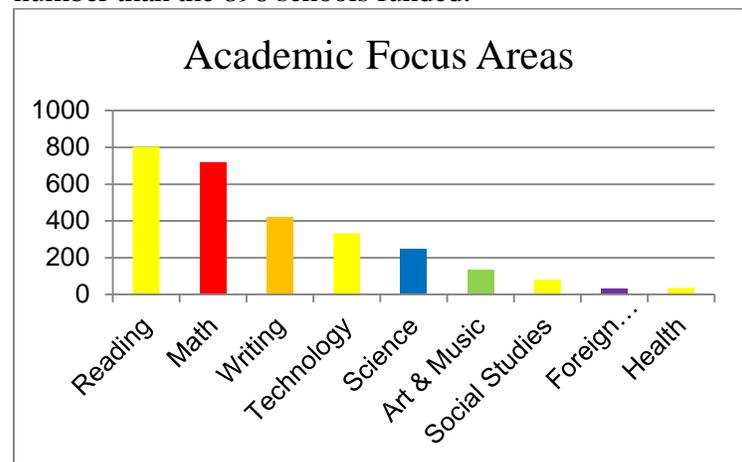
The School Children's Trust section at the Utah State Office of Education is responsible for the administration of the School LAND Trust Program, as well as oversight on major aspects of the trust corpus. The Utah Code lays out the

duties of the School Children's Trust, which include:

- Protecting current and future beneficiary rights and interests consistent with the state's perpetual obligations as trustee.
- Promoting productive use of school lands.
- Providing representation and advocacy.
- Providing "independent oversight on the prudent and profitable management of the trust."
- Reporting annually to the State Board of Education and the legislature.

Academic Areas:

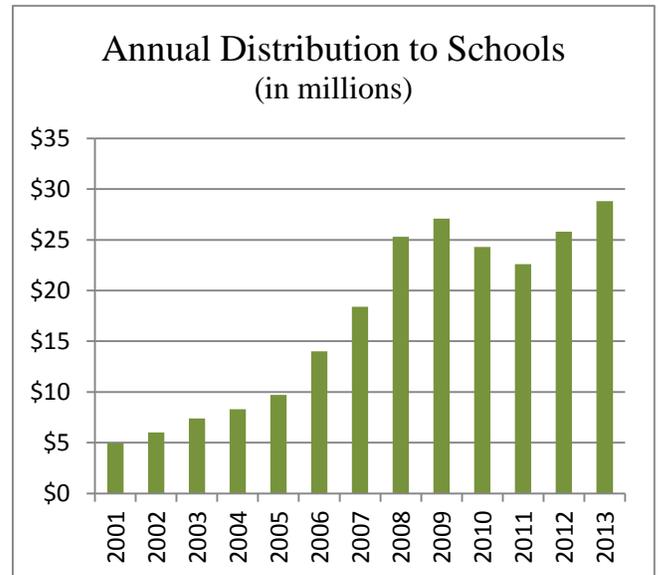
Because each school community council develops academic plans for its school, School LAND Trust funds support many different academic areas. The program stresses that councils should study school data, and so it is no surprise that reading, math and writing are the three dominant academic areas addressed. A school may select more than one academic area; thus, the chart below reflects a greater total number than the 896 schools funded.



Annual Distribution for the School LAND Trust Program:

The School LAND (Learning And Nurturing Development) Trust Program was created by the legislature in a bill sponsored by Representative Mel Brown in the 1999 session. Essential elements of his bill included site-based decision making, a majority of parents on the councils, election of parents and teachers, and the requirements that each school determine how to measure progress toward its academic goal and publicize its results to its community. Representative Brown insisted on “LAND” being in all capital letters, so that all councils would remember the source of the support for the School LAND Trust Program.

The first year of the program was school year 1999-2000, and it was a year of planning by councils for a plan to be implemented the following year. The first year of funding was school year 2000-2001. Because the expenditures were from ongoing investment income, the first funding was available at the end of the first quarter. There was only enough funding for the 35 smallest districts. In order to fund the program, the five largest districts had to self-fund, with hopes of repayment from the remaining three quarters. Over time, funding was withheld until the annual interest and dividends from one year would be distributed the next fiscal year, as is the law today.



Examples of Use:

The code requires each school community council to determine the greatest academic need(s) of the students in its school and prepare the School LAND Trust Plan to address the unique academic needs of those students. Councils have the ability to be creative--making the funds go further and having a greater impact on students--by using the trust funds as matching money for available grants and engaging volunteers to help implement plans.

Some schools have addressed reading and art or physical education by hiring an art or physical education specialist who takes half of a class for specialized instruction while the other half remains in the classroom for small group instruction in reading. In some schools, a reading specialist comes to the classroom at this time to work with small groups of children. In addition, volunteers who are trained in a program like STAR reading also work with groups of children. When the lesson is complete, the students trade places so that all receive both small group instruction in reading and the art or physical education enrichment. Schools near teaching universities often seek AmeriCorps Grants for reading with the trust

funds as their match, and some schools have been successful in securing specialized science or art grants.

Principal Tom McFarland of Mountain Green Elementary School in Morgan School District reports, “Utah Land Trust funds are extremely important to our school. This past year the monies enabled Mountain Green to keep a teacher on staff in order to reduce class size from 33 to 21 students. The money has also been used for library funding, reading intervention materials, summer reading programs and software programs for our primary grades. The continued support from the Land Trust is essential for continuing education programs at our school.”

The largest expenditure category statewide is for salary and employee benefits. These funds may hire aides, pay part of a teacher’s salary for class size reduction, or provide a couple of additional classes in a rural high school. In some schools it purchases a teacher’s preparation period for another period of instruction, provides remediation and credit recovery programs, or makes additional AP and enrichment classes possible that could not be offered otherwise. Technology is also an increasing expenditure statewide for more engaged delivery of education, skill practice, research projects, individualized discovery and instruction, and computer-adaptive testing.

Analysis of the Program from Program Administrators:

| | |
|--|---|
| <p>Strengths</p> <ul style="list-style-type: none"> • Important to principals and others who know at the grassroots level • Education groups support it • Provides increasing discretionary funds • Includes parents in academic school decision making • Trains council members to understand data, testing and instruction • Local control • Encourages meaningful parent involvement • Directed to academics/direct instruction—more difficult to criticize • Provides important needs that couldn't be provided otherwise • Transparent—accurate database • Requires publicizing so more people know • Programmers invested in the program • Staff who resolve user concerns quickly • Review processes that encourage compliance | <p>Opportunities</p> <ul style="list-style-type: none"> • Provide citizens with more exposure to the school trust statewide • Engage and train participants toward greater school involvement • Compliance process identifies issues/trends needing attention so they can be addressed, and provides one-on-one training • Could create overall support because of this positive experience with public education • Policymakers are becoming more involved with diverse parent involvement • Provide improved training opportunities and materials toward more effective councils and improved compliance |
| <p>Weaknesses</p> <ul style="list-style-type: none"> • Complicated, overly specific requirements • Can be intimidating rather than welcoming • Creates frustration amongst parents when they are not included in decision making • Increasing frustration among administrators who often have to assume chair responsibilities | <p>Threats</p> <ul style="list-style-type: none"> • Increased changes every year • Principals and districts who overstep their involvement in decision making • Districts and local boards not being careful about enforcement • Some schools with large carry-overs • Ever increasing complication in programming that may create user frustration • Programmers might not reapply for the contract • Difficulty getting enough parents to participate • Policymakers who don't understand • Education leaders who want the funds for their use |



Summary Of Issues

School Trust Land Issues:

1. Wilderness proposals would capture 1 million acres of school trust lands, or one-third of the entire portfolio. Sage grouse listing would negatively impact oil, gas and energy development. The beneficiaries request serious discussions to resolve these issues in the legislature.
2. The legislature should consider allowing the SITLA Board of Trustees flexibility in establishing annual compensation at SITLA, as a tool to direct extraordinary agency efforts.
3. SITLA should consider examining a repositioning of current and future personnel needs in land development as recommended by the Roulac Study.
4. The SITLA Board may want to evaluate high expenditures for outside counsel.
5. SITLA should look toward strengthening its negotiating expertise as recommended by a prior board study.

Permanent State School Fund Issues:

1. The State Board should create a task force of investment professionals to study a prudent investment structure to serve the trust fund's growth into multiple billions.
2. The flow of funds from SITLA to the Treasurer and to the beneficiaries should be clarified, simplified, and put in alignment with trust duties.

THE STATE BOARD CREATED A SCHOOL TRUST INVESTMENT TASK FORCE IN FEBRUARY. THE TASK FORCE'S RECOMMENDATIONS AND REPORT ARE DUE TO BE SUBMITTED JULY 18, 2013.

School Community Council and School LAND Trust Program Issues:

1. The requirements for school community council members should be simplified to ensure that the process encourages parental involvement.
2. Charter school funding within the School LAND Trust Program should be addressed by the legislature.
3. Charter school parental involvement requirements within the School LAND Trust Program should be addressed by the legislature.

THE LEGISLATURE PASSED HB 306 IN THE 2013 SESSION WHICH SOLVED THE SCHOOL COMMUNITY COUNCIL ISSUES ABOVE.