<u>Proposed Daggett County Land Exchange (12-10-2014)</u>

Summary

The proposed Daggett County land legislation includes a land exchange between the State of Utah, School and Institutional Trust Lands Administration ("SITLA) and the federal government. Under the land exchange proposal, SITLA would convey about 12,000 acres of scattered state school trust sections and 4,700 acres of severed mineral estate to the Bureau of Land Management ("BLM"). In return, Utah's school trust would receive two larger parcels of land: (1) an approximately 6,000 acre parcel of Forest Service land southwest of the junction of Highways 44 and 191; and (2) an approximately 9,000 acre parcel of BLM land along the Wyoming border, comprising most of the Clay Basin federal oil and gas unit. In summary, the exchange would consolidate dozens of parcels of scattered school trust lands and minerals into two large parcels with higher potential to generate income for the school trust. Based on historic experience, the exchange would take several years to complete after legislation passes Congress.

SITLA Background

SITLA is the state agency responsible for managing lands granted to Utah at statehood for the financial support of K-12 public schools and other public institutions. SITLA manages almost 3.4 million acres statewide, plus 1.1 million additional acres of severed mineral estate. Revenue from school trust lands is deposited in the Permanent School Fund, which distributes income annually to each K-12 public and charter school in the state. These distributions are supplemental to regular education funding, and the use of the funds is decided at the school level by the school community council.

In Daggett County, distributions from the Permanent School Fund for the 2014-2015 school year were as follows: Manila High School - $42,323; Manila Elementary - $45,209; Flaming Gorge Elementary - $9,650. These distributions were used by these schools to support fine arts programs, math and science preparation and testing, and purchase of equipment such as laptops.

The Forest Parcel

The 6,000 acre parcel of National Forest Land that SITLA would acquire was identified by the Daggett County Commission as a parcel that might support future economic development in the county. Upon acquisition of the property, SITLA would undertake a planning effort to determine the highest and best use of the parcel. Depending on what market information shows, the parcel could be placed into a joint venture for development with the private sector, developed by SITLA for cabin sites or other uses, sold to the private sector, or simply managed for forest stewardship (similar to SITLA's existing Phil Pico block in Daggett County). SITLA would include local government input in its decision-making process.

Clay Basin and the Land Exchange Distribution Account

SITLA is seeking to acquire the Clay Basin parcel because it includes Questar Corporation's Clay Basin natural gas storage facility. This facility injects natural gas into depleted underground formations in the summer, and retrieves the gas in winter months for load balancing purposes across Questar's utility system. At the current time, the ownership of the Clay Basin federal unit is approximately 80% federal (BLM), 10% SITLA, and 10% private. Questar pays annual storage fees to the landowners for the right to store gas in the unit. There is also some conventional natural gas production from the unit.

In the land exchange, SITLA would acquire most of the 80% of the Clay Basin unit owned by BLM, meaning that the storage fees now paid to BLM would be paid to Utah's school trust. In addition to benefitting the school trust, this would have a positive financial impact on Daggett County because of a state fund known as the Land Exchange Distribution Account ("LEDA").

To understand LEDA, it is important to understand first how the federal government treats oil and gas revenue. The oil and gas lessee of federal lands (in this case Questar) pays revenue to the Department of the Interior ("DOI"). DOI sends 50% of the revenue to the federal treasury, keeps 2% for its operating expenses, and sends the remaining 48% to the state's Mineral Lease Account. In Utah, these mineral lease funds are allocated by Utah Code Ann. §59-21-2. That section gives the majority of the funds to the Permanent Community Impact Board ("PCIB"), which makes loans and grants to local governments for energy-related impacts. The second largest allocation goes to UDOT, which uses the money to fund grants for Class B county roads.

LEDA is a replacement for this allocation system that applies once SITLA acquires federal mineral lands in a land exchange. Instead of sending 48% to the state mineral lease account, state law provides that 50% of mineral revenue after expenses goes to the LEDA. The LEDA in turn distributes revenue primarily to the county where the lands are located (55%), the county where SITLA lands were given up in the exchange (25%), and the state constitutional defense fund (11%). Since the Daggett County land exchange proposal is currently proposed to be self-contained within the county, the county should receive 80% of the LEDA revenue (i.e. 80% of 50%, after expenses).

The main advantage of LEDA over the existing mineral lease account is that LEDA funds can be used as general county funds. In contrast, money paid by the federal government to Utah through the Mineral Lease Account cannot be given to general county government, because under federal law that would result in a dollar for dollar reduction in the county's federal PILT payment. This is why federal lease money goes to PCIB and UDOT, which provide indirect rather than direct support to counties. LEDA funds can instead provide general fund support for the recipient county.

Based on SITLA's analysis, the federal share of Clay Basin Natural gas storage fees was about $827,000 in the fiscal year ending June 30, 2014. Based on the LEDA formula, this would have resulted in $330,000 in direct revenue to Daggett County if the proposed land exchange had been in place. There would also have been substantial natural gas revenue not included in these calculations. It should be noted that because Clay Basin storage facility is a non-depleting asset, these fund flows should be stable into the foreseeable future, although somewhat weather dependent (higher in cold winters, lower in warm).

Grazing

Grazing issues associated with the proposed land exchange are discussed in a separate handout dated December 4, 2014.