

**MINUTES OF THE  
NATURAL RESOURCES APPROPRIATIONS SUBCOMMITTEE  
January 25, 2006  
Room W130, West Office, Building, State Capitol Complex**

MEMBERS PRESENT:      Sen. Thomas Hatch, Co-Chair  
                                 Rep. Bradley T. Johnson, Co-Chair  
                                 Sen. Parley Hellewell  
                                 Rep. Carl W. Duckworth  
                                 Rep. Kerry W. Gibson  
                                 Rep. James R. Gowans  
                                 Rep. Rebecca Lockhart  
                                 Rep. John G. Mathis  
                                 Rep. Ronda R. Menlove  
                                 Rep. Michael E. Noel

MEMBERS ABSENT: Sen. Mike Dmitrich, Sen. Beverly Evans, and Rep. Ferry.

STAFF:                              Ivan Djambov, Fiscal Analyst  
    Cindy Hopkin, Committee Secretary

SPEAKERS: Maria Stahla, Audit Supervisor Office of the Legislative Auditor General; Kevin S. Carter, Dir. SITLA; James B. Lee, Chair SITLA Board; Margaret Bird, USDE; Mary Tullius, Director Utah State Parks and Recreation; Randon Wilson, Chair This Is The Place Foundation Board; Mike Styler, Director Natural Resources Administration; and Richard Allis, Dir. Utah Geological Survey.

**Note:**    A list of visitors and a copy of handouts are filed with the committee minutes.

Sen. Hatch called the meeting to order at 2:18 p.m.

MOTION: Rep. Gowans moved to approve the minutes of January 19 and 23, 2006. The motion passed unanimously with Sen. Dmitrich, Sen. Evans and Rep. Ferry absent for the vote.

Maria Stahla, Auditor Supervisor, gave the presentation for the Office of the Legislative Auditor General. She reported that since separation from state controls, the School and Institutional Trust Lands Administration (SITLA) has focused on increasing revenues and growing the permanent fund dedicated to support the fund beneficiaries. Revenue and fund growth have become the overriding measures of the organization's success and are the basis of the compensation and bonus programs. The audit team believes the agency's desire to increase revenues and grow the fund has also resulted in their redirection toward land sales and land development. Revenue and fund growth are the basis for SITLA's compensation program that

has resulted in senior management receiving higher compensation than any of the organizations surveyed for the auditor's report.

Supervisor Stahla stated that SITLA is a much improved organization over its predecessor, but the audit team believes there are still improvements that can be made. The auditors believe SITLA's revenues have increased in recent years due primarily to increases in natural gas and oil prices and their aggressive land sales program. Distribution of revenues to public education have been minimized, thus allowing the permanent trust fund to grow.

The federal government granted the state 7.4 million acres of land at statehood, to be held in trust for the benefit of public education and 11 specific state institutions. Half of the trust lands were sold to the public in the first 30 years after statehood. SITLA was created in 1994 by the Legislature and moved out of the Department of Natural Resources. They are currently entrusted with the management of 3.4 million acres. SITLA's goal is to reach \$1 billion in the permanent fund by the year 2010, at which point interest and dividends generated from the fund may provide a 2% supplement to the annual state budget for public education.

The auditors recommend that the Legislature revisit the distribution policy of trust lands to see if it is still meeting the needs of public education--particularly the distribution of renewable resources. They recommend that the Legislature require SITLA to publish a comprehensive annual report. They also recommend that the Legislature consider changing the Money Management Act to allow the Treasurer more flexibility in investing the permanent trust funds; and that SITLA establish a uniform method of selling land requiring appraisals and market competition for all properties.

The auditors recommend that the Legislature consider providing direction to SITLA regarding land sales and development including the level of risk appropriate for SITLA's development opportunities. They recommend that if the Legislature elects to allow development past basic planning and infrastructure, that the Legislature consider funding staff with sufficient experience in real estate planning. They recommend that the Development Group use the system in place to track their work on a project-by-project basis to adequately establish true cost calculations and net revenues of projects and that SITLA use this information to adjust the overhead allocation accordingly. The auditors recommend that the Legislature consider allocating funds for the purpose of hiring additional audit staff for the monitoring of development projects.

Since 1997, SITLA has paid out almost \$2 million in bonuses. Current bonuses are paid to the entire full-time permanent staff and range from \$2,000 to \$40,000 per person. No surveyed organization paid bonuses that approach those of SITLA. The auditors recommend that if bonuses continue, they be based on appropriate and measurable goals; and that the Legislature provide SITLA with guidelines for salaries and bonuses.

Kevin Carter, Trust Lands, spoke in response to the presentation of the joint audit group. He

disagrees with the position that SITLA has not been as productive as they claim to have been and instead fundamentally have been the beneficiaries of good fortune. He presented evidence to demonstrate SITLA's position. The first comparison made was with the Permanent Fund. The Permanent Fund balances in 1991 showed that Utah was dead last of all the land grant states in the west. Last year, 2005, they had moved up 13 places and are ranked in the middle out of the 23 western states.

Although Utah is the only state to deposit renewable resources income into the Permanent Fund; those renewable resource revenues are less than 10% of the balance in the Permanent Fund and do not make a lot of difference. Approximately \$45 million out of \$614 million.

In regards to the increase in annual revenues that SITLA's sister agencies in other states (that have similar land ownership portfolios) have earned compared to Utah--Montana's annual income from the mid 90s to now has increased 85%, Colorado-136%, Wyoming (which had a significant Oil & Gas component to their annual earnings) has increased 240%, and Utah's earnings have increased 531%. Of the more than \$600 million in SITLA's current Permanent Fund, about 20% came from non-mineral sources. Last year the other components of SITLA's income screens increased at a faster rate than the minerals component did.

Utah in the last decade (1995 to 2005) has completed two major land exchanges while all of the other western states combined have had zero, and that is not for lack of trying on their part. All of the states have a scattered land ownership pattern to some degree like Utah does; and all have a need to adjust the land tenure in their states in order to move away from under-producing or non-producing lands and into producing lands. Everyone has been trying to do this; Utah has been successful at it.

The Auditors pointed out that gas prices have increased over the last decade by 446% and oil prices by 216%; but Utah's revenues have increased by 600%. In response to the auditors' recommendation that the Legislature revisit the distribution policy of trust lands, particularly in regards to renewable resources; much of SITLA's instruction of the distribution is in Utah's constitution. It is not SITLA's policy or the beneficiary's policy or even statute. The Legislature is always free, however, to examine the constitution and recommend changes to it; which is what would have to be done to make changes to the distribution.

Sen. Hatch invited Margaret Bird, United States Department of Education, as a spokesperson for beneficiaries of state lands, to state her position regarding SITLA's distribution policies.

Ms. Bird stated that she would not like to see the distribution of renewable resources income go to an annual basis. Utah's enabling act (like all other western state's enabling acts) states that all proceeds are to go into the Permanent Fund. Utah is the only state honoring that enabling act. She believes that some of the education leaders in other states are waking up to that fact, and starting to go where Utah has been going. Ms. Bird stated that every cow grazing on school

trust lands today, will benefit education in Utah forever. By putting all the renewable resources in the Permanent Fund, it will not just be sitting there at the same amount. Over time, because of the investments of the State Treasurer, that money is growing.

When the Permanent Fund started at \$18 million, it wasn't having much of an impact on children. If the revenue from renewable resources had been saved from the time of statehood until now, there would be an enormously different situation now. Ms. Bird stated that even though we can't change what has happened in the past, we can change what will happen in the future; by building the Permanent Fund over time, it will assume a greater and greater impact on children. The Permanent Fund is still a fairly negligible amount when you look at the overall funding, but the fund has gone from \$5 million a year to \$14 million, due in part to the renewable resources of the state.

Mr. Carter stated that based on the recommendation of the Auditors, SITLA has started to publish their financial information on their website in a form that is easily accessed and can be downloaded as a printable document.

SITLA has two groups in their agency that sell land. Their surface group sells land at auction and it is typically raw land or disbursed land. Their development group is charged with handling lands that are more urban in nature; making investments or taking actions on those properties to bring them up the value curve before SITLA disposes of them.

The SITLA board suggests that it is necessary to develop a more robust and sophisticated system which will allow them to better track revenues and expenses, and hopefully provide them with answers that will help them in determining what types of investments are more prudent.

A couple of years ago the NRAS approved a budget request to hire outside auditors to audit development projects. SITLA has used that money and audits are being conducted on their projects, but they believe there is more work that can be done in that area, so they are asking for more money in this budget cycle to increase that program.

James Lee, Chair SITLA Board, stated that the Legislature is the Trustee of the Trust, and that the Legislature has assigned those duties to SITLA Board by Statute. Mr. Lee also said that the Legislature approves SITLA's budget, and that the Legislature has control over the SITLA organization. Mr. Lee, who also chairs SITLA's Internal Audit Committee, stated that the Board intends to examine in detail the audit and make changes that need to be made.

The Fiscal Analyst presented the budget recommendations for the Division of Parks and Recreation which is responsible for management and development of all state parks, statewide boating safety and state wide off-highway vehicle safety. Utah has 41 state parks that are a combination of heritage, scenic, and recreation parks. For FY 2007 the division is requesting an ongoing appropriation of \$80,000 from the Park Fees Restricted Account. The Analyst

recommends the Committee fund this request.

To offset shortfalls in projected fee revenues, the division is requesting for FY 2006 a supplemental appropriation of \$100,000 from the Boating Restricted Account and \$ 200,000 from the Park Fees Restricted Account. The division is also requesting the same appropriation to be made ongoing for FY 2007. The Analyst recommends the Committee fund this request as follows:

- ◀ For FY 2006 a supplemental appropriation of \$100,000 from the Boating Restricted Account and \$ 200,000 from the OHV Restricted Account.
- ◀ For FY 2007 one-time appropriation of \$100,000 from the Boating Restricted Account and \$200,000 from the OHV Restricted Account.

The division has a backlog of over \$60 million in capital maintenance, reconstruction, and repair due to postponed necessary work from prior years. The division is requesting for FY 2007 a one-time appropriation of \$3 million from the General Fund to address some of these needs. The Analyst recommends the Committee place this request on its priority list for the EAC.

During the budget cuts the Non-motorized Trail Grants Program was nearly eliminated. The division is requesting for FY 2007 a one-time appropriation of \$150,000 from the General Fund to make grants available to local communities to create trail systems in their areas.

There is recurring intent language that the funding in Parks and Recreation - Capital Budget be nonlapsing.

Mary Tullius, Director of Utah State Parks and Recreation, stated that over the last 3 1/2 years the division has contributed over \$2 million in sales and TRT taxes to the counties. Ms. Tullius mentioned that in a recent customer satisfaction survey done by Utah State University; 88% of the residents of Utah have visited the state parks and that overall there is a very high level of support for Utah State Parks.

The division has increased the contribution margin (the percent of fee collections to total expenditures) from approximately 17% in 1989 to 52% in FY 2005. The division is doing a much better job of paying for themselves and trying to make revenue; and balancing that with customer service.

The division would like to request an interim study and from that hopefully generate a long-term stable source of funding for capital development and renovation of aging facilities. Last year the appropriation for capital development and renovation was \$2 million which was put to good use in a number of parks across the state. The division is requesting \$3 million from the General Fund which would be used primarily for campground development, but also for some emergency projects that have come up in some of the state parks.

They are also requesting \$150,000 additional non-lapsing appropriation from the General Fund for park promotion to increase the visitation potential; to increase the division's earned revenue; and to increase the economic benefit to the division, state, and local communities.

Dir. Tullius reported that the Soldier Hollow Golf Course is in its second year of operation and has received a lot of accolades, and revenue expectations for the upcoming season have increased 5% over last year.

In FY 2001 Bear Lake State Park extended its campground facilities by 60 full hook-up sites. The average camping revenue pre-construction was \$128,700 per year. The average camping revenue post-construction has been \$212,700 per year; a 65% increase in revenue. The division believes that both Yuba State Park and East Canyon State Park will show similar increases in revenue if money is appropriated for development.

The division has provided hundreds of school programs to thousands of school children where they learn about natural resources, recreation and stewardship of state parks.

Director Mike Styler, DNRA commented that This Is The Place Foundation has been spectacularly successful in raising funds, but the funds they have raised have mostly been dedicated for buildings instead of daily operations. It is more popular to build a building and have your name on it than to contribute to the daily running of the park. The Foundation has come to a point where they need to change their focus; and they plan to bring in more entertainment, retail and self sustaining business. The Foundation is not a part of DNR and is not included in their budget requests; but the division wants the Foundation to be successful and to be able, through entertainment and retail, to carry the weight of the park.

Randon Wilson, Chairman of This Is The Place Foundation Board stated that in 1998 when the park was turned over to the Foundation, they were told the stipend from the state would be \$800,000. They have not recently received that amount, but it has stabilized at \$700,000. The portrayal of living history in the kind of facilities that are currently in the park is probably not likely to become self-sustaining. Chairman Wilson has been to national conferences and presented at them; and reports that no one is self sustaining in this type of facility. This circumstance has prompted the Foundation to move toward a business model of entertainment, retail, and educational opportunities for which people will pay. The business model facility, across the country is producing more of a self-sustaining situation. Having a facility that can run year round is extremely important to that goal.

The Fiscal Analyst presented the budget requests for Utah Geological Society. UGS is an applied scientific agency that creates, interprets, and provides information about Utah's geologic environment, resources, and hazards, to promote safe, beneficial, and wise use of the land. The Survey does not have regulatory power except in areas concerning paleontology.

The UGS's ground water section needs additional resources to continue to provide information

to agencies regarding best practices and protection of ground water resources. The Legislature appropriated to the division one-time funding for FY 2005 and FY 2006. The division is requesting for FY 2007 an ongoing appropriation of \$122,000 from the General Fund for groundwater analysis. This amount will be shared equally with the Division of Water Rights. The Analyst recommends the Committee place this request on its priority list for EAC. There is also Intent Language that the UGS's Mineral Lease funds be nonlapsing.

Richard Allis, Dir. UGS stated that over the last two years, the Ground Water section has benefitted from recurring one-time funding sufficient to support two full-time employees (FTEs). The section has worked in many parts of the state, with priorities set collaboratively with the Division of Water Rights. Due to growing needs for ground water data and advice, the division is requesting the one-time allocation be converted to ongoing funding which is needed to stabilize the section and convert two temporary positions to permanent status.

Dir. Allis stated that UGS works closely with the other agencies in DNR. In particular they work very closely with Jerry Olds, the state engineer who is the regulatory agent with respect to water. DWR has the development money and UGS has the main groundwater expertise when it comes to questions regarding subsurface issues and the potential for ground water supplement especially during drought years.

MOTION: Rep. Duckworth moved to adjourn the meeting at 4:15 p.m. The motion passed unanimously with Sen. Dmitrich, Sen. Evans and Rep. Ferry absent for the vote.

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Rep. Bradley T. Johnson, Co-Chairman

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Sen. Thomas Hatch, Co-Chairman