Issue Brief:
SITLA Bonuses

INTRODUCTION

Under the terms of Congress' Enabling Act, granting Utah statehood, the federal government awarded Utah 5.8 million acres of land for the support of the common schools and 1.6 million acres to fund higher and special education needs within the state. Utah Code outlines the fiduciary responsibilities for these lands as follows: "*As trustee the **state** must manage the lands and revenues generated from the lands in the **most prudent** and profitable manner possible.*"

The School and Institutional Trust Land Administration (SITLA) was separated from the Department of Natural Resources (DNR) and was established as a quasi-governmental agency in 1994. The sole purpose of SITLA is to manage the above mentioned assets and generate profit for the beneficiaries. A portion of the generated revenue is used for SITLA's capital and operating expenses and the rest is deposited into the permanent trust fund.

SITLA has been successful in generating revenues for the beneficiaries, and its success has sometimes been attributed to the bonus program. However, there is no research supporting that claim. Concerns over SITLA's bonuses have been raised in several legislative audits, by staff of the Legislative Fiscal Analyst, by legislators, and by the beneficiaries. The purpose of this Issue Brief is to update the members of the Natural Resources Appropriations Subcommittee on SITLA's compensation and to provide recommendations regarding the bonus program.

Bonuses

SITLA began its bonus program after the agency's separation from DNR with the intention to provide motivation for its employees to increase revenues. Currently there are two bonus plans:

- Executive bonuses: rewards issued by SITLA board to six senior managers
- Staff bonuses: rewards issued by the director to all employees, including senior managers.

SITLA's success in revenue generation has been attributed to the bonus program but there is no research to prove that. There are strong indications that other factors, such as growing economy and high prices for natural resources, have been the main reasons for the increased revenues. And it is likely that these, in combination with SITLA's separation from DNR, as well as SITLA employees receiving higher-than-average base salaries, have been providing the drive for the organization.

Since the inception of the bonus program in 1997, SITLA has spent nearly $3 million on bonuses for its approximately 60 FTE. Figure 1 provides a summary of the expenditures for SITLA's two bonus plans over time.

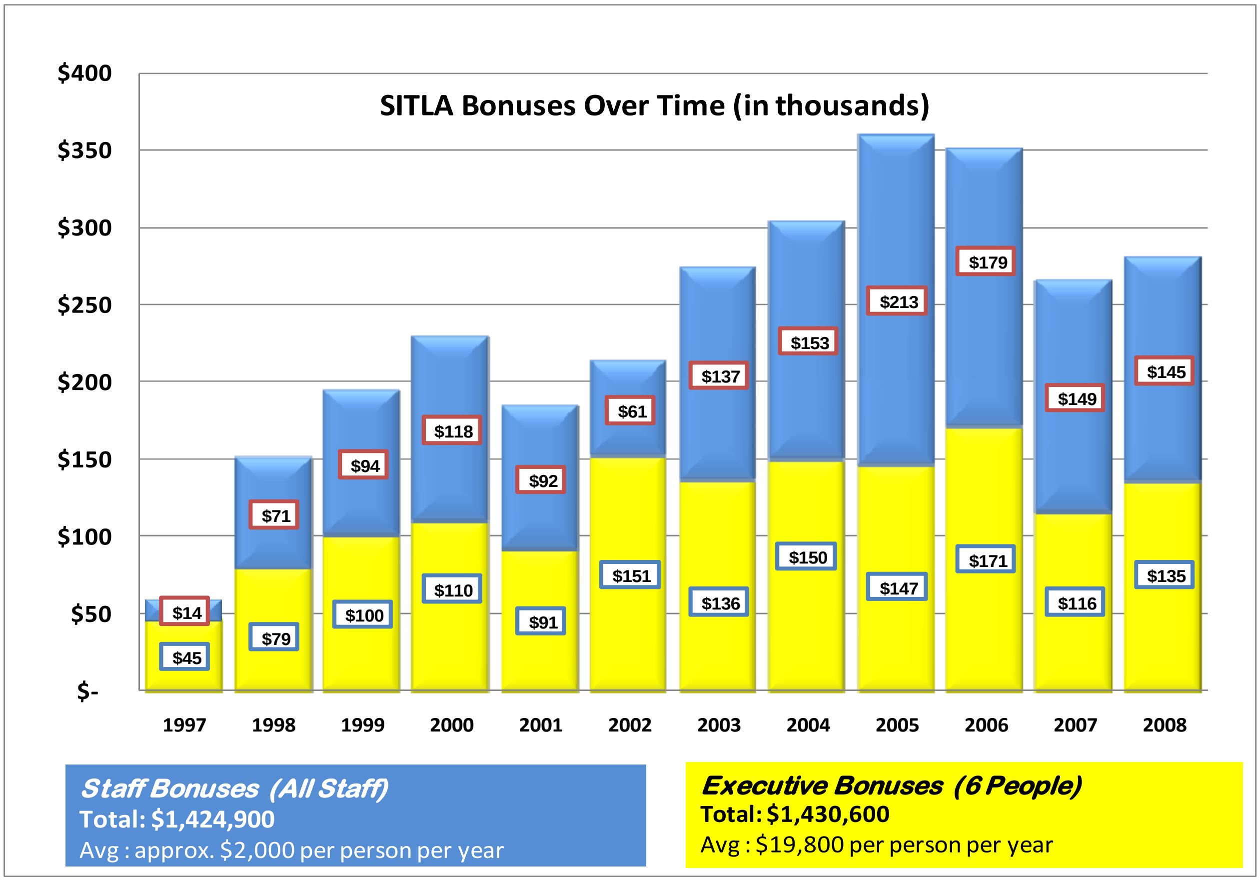

Figure 1

Executive Bonuses

Approximately one half of the total amount of bonuses is spent for SITLA's senior management. These bonuses are awarded by the board, based on the agency meeting revenue goals, as well as other specific objectives. Since 1997, the board has spent $1,430,800 in bonuses paid to 5-8 senior managers.

Over the years, these bonuses have ranged from $4,000 to $40,000 per person per year. For FY 2008, the six directors received between $13,200 and $35,000 per person, totaling $135,000.

Although these bonuses are much higher than what is currently allowed by the Department of Human Resources Management (DHRM) rules, Utah Code (UCA 53C-1-201) exempts SITLA from these restrictions and allows its board to establish the amounts.

The board, however, has not used research data when establishing the bonus amounts for the senior management. It is unclear why the board has decided to provide higher amounts than what is allowed by DHRM. There is no evidence that the DHRM limit of $8,000 bonus per person per year is not a sufficient incentive to SITLA directors to fulfill their statutory duties.

Staff Bonuses

Under the staff bonuses' plan, SITLA employees received on average approximately $2,000 in bonus per person per year. In FY 2008 the staff bonuses ranged between $600 and $5,600 per person. The total amount spent for staff bonuses since 1997 is $1,424,900. In contrast to the executive bonuses (shared by 5-8 individuals), staff bonuses are distributed among all SITLA's employees, often including senior managers.

Revenue Goals

SITLA's fiduciary responsibility is to maximize the revenues from the state trust lands on behalf of the beneficiaries (97% public schools). Until FY 2008 one half of the bonuses were based on the agency reaching the board's net revenue goals. Since the beginning, SITLA has exceeded its revenue goal each year. However, SITLA's revenue goals have been consistently lower than the previous year's actual revenues collected (see Figure 2). This practice was criticized in A Performance Audit of the School & Institutional Trust Lands Administration (SITLA), presented in 2006. The audit stated: "*This practice seems contrary to business principles of setting goals beyond the previous year's achievement*."

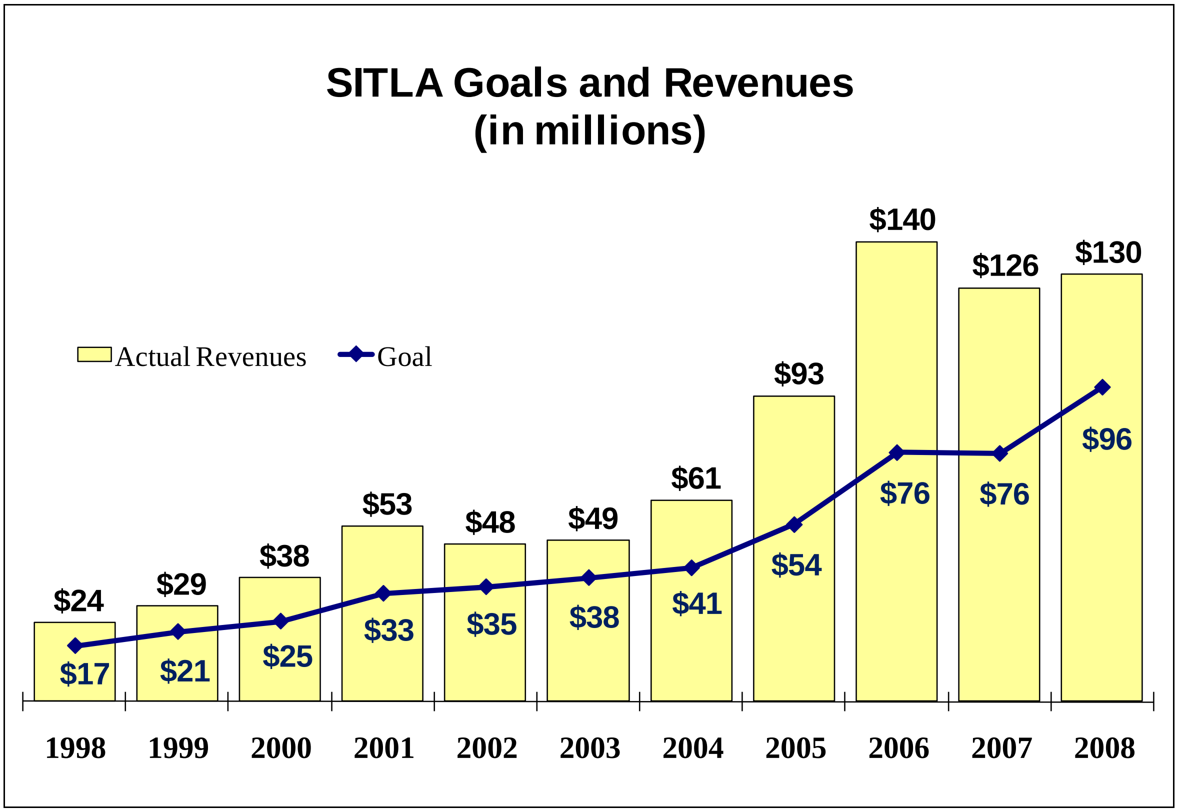

Figure 2

SITLA's board, mindful of the direct relationship between the prices of natural resources and the amount of generated revenues, has started implementing a sliding-scale goal based on the price of natural gas (see Figure 3). This was intended to reduce the market impact on the reaching the revenue goal but the targets seem to be set too low.

SITLA's Sliding-Scale Revenue Goal, FY 2008

Average Natural Gas Price	Revenue Goal
Less than $5 per Mcf	$81,000,000
Between $5 per Mcf and $7 per Mcf	$96,000,000
Between $7 per Mcf and $9 per Mcf	$116,000,000
Between $9 per Mcf and $11 per Mcf	$136,000,000
Between $11 per Mcf and $13 per Mcf	$156,000,000
Greater than $13 per Mcf	$176,028,000

Figure 3

The average gas price in FY 2008 was between $5 and $7 per Mcf (thousand cubic feet) and according to the board schedule, SITLA's revenue goal was $96 million (Figure 3). However, this goal is just above the actual revenues the agency generated three years earlier (FY 2005). It is also noteworthy, that according to the schedule, even if the price for natural gas were to be $11 per Mcf (at their peak in 2008 the prices were less than that), SITLA's revenue goal would have been less than what they actually generated in FY 2006.

Base Salaries

The average cost per FTE for SITLA between FY 2004 ($64,444) and FY 2008 ($87,684) has increased by 36%. This growth is more than double compared to the state average of 17%. The main reasons for the higher personnel costs are the bonuses and the salary increase SITLA employees have received. Figure 4 presents a salary survey performed by the Department of Human Resource Management in January 2009.

SITLA Base Salary Comparison, Jan. 2009

Job Title	Agency	Base Salary	SITLA Different by: %	SITLA Different by: $
Director	**SITLA**	**$134,885**		
Department Executive Director	Natural Resources	$126,700	**6%**	**$8,185**
Commissioner	Agriculture	$101,999	**32%**	**$32,886**
Admin Assistant	**SITLA**	**$84,348**		
Admin Assistant II	8 state-wide employees	$53,552	**58%**	**$30,796**
Admin Assistant I	35 state-wide employees	$36,781	**129%**	**$47,567**
Admin Assistant – Appointed	27 state-wide employees	$45,921	**84%**	**$38,427**
Assistant Director	**SITLA**	**$104,838**		
Assistant Director, DWS	Workforce Services	$88,665	**18%**	**$16,173**
Finance Director	**SITLA**	**$94,023**		
Finance Director	Multiple Agencies	$87,259	**8%**	**$6,763**
Public Affairs Officer	**SITLA**	**$82,079**		
Director, Public Affairs	Environmental Quality	$75,690	**8%**	**$6,389**
Archaeologist	**SITLA**	**$62,577**		
Archaeologist	Various Agencies Avg.	$50,390	**24%**	**$12,187**
Trustlands Resource Spec.	**SITLA**	**$64,928**		
Wildlife Coordinator	Natural Resources	$51,563	**26%**	**$13,364**
Right of Way Agent III	Transportation	$51,323	**27%**	**$13,605**
Land Surveyor	Transportation	$55,958	**16%**	**$8,969**

Figure 4

The data in this survey does not include bonuses. SITLA's base salaries appear to be significantly higher than state employees performing similar responsibilities.

Conclusion

Concerns over SITLA's bonuses have been raised in several legislative audits, by staff of the Legislative Fiscal Analyst, by members of the Public Education Appropriations Subcommittee, and by the beneficiaries. The main concern at this time is that when the funding for the school children (the main beneficiaries) is considerably insufficient, the organization charged to manage the "*revenues generated from the lands in the* ***most prudent*** *and profitable manner possible*" has budgeted to spend $269,500 for bonuses for its approximately 70 employees.

Based on the information provided in this document, the Analyst recommends that Legislature:

1. Eliminate the ongoing funding for the bonus program by reducing SITLA's base budget in FY 2010 by $269,500, which will increase the permanent trust fund by that amount.
2. Allow future funding for bonuses on a supplemental basis as recommended by SITLA board, approved by the beneficiaries, and appropriated by the Legislature.