

July 14, 1992

Dear Legislator:

We have completed our report, **A Review of Costs and Revenues of the Division of State Lands and Forestry** (Report No. 92-04). The purpose of this letter is to provide you with a brief digest of that report.

This report is the first of two in response to the Public School Trust Lands Task Force's request for an audit of the Division of State Lands and Forestry and addresses two issues regarding costs and revenues, namely:

Determine whether revenues generated from Trust institutions are funding only trust activities.

Determine the relationships between surface and subsurface activities relative to costs of management vs. returns.

We will report our findings on the other issues of the task forces's request that we are addressing in a final report to be made available by its November 1992 meeting.

Trust revenues are funding only trust activities, and mineral leases have higher revenue to cost ratios than surface leases. In addition to support from trust revenues, trust activities also receive General Fund support in excess of \$300,000 per year.

The Division of State Lands and Forestry manages both state lands and forestry and fire control programs. State lands include those granted to Utah at statehood for the benefit of schools and other institutions; their management is funded mostly with trust revenues, supplemented with General Fund appropriations. Management activities include receiving applications for and approving leases and sales, monitoring leases and auditing rental and royalty payments. In contrast, forestry and fire control programs pertain to forest programs not in national forests, both

urban and rural, including private forests; these programs are funded with General Fund appropriations and some small federal grants. Management activities in this area include advising private and municipal forest managers in conservation practices and coordinating state-wide fire control with national forest and local governmental entities. At issue is whether trust revenues are funding non-trust activities within the division and how trust revenue produced by the division's various trust activities relates to the cost of producing those revenues.

The following statements summarize the findings of this report.

Trust Revenues Fund Only Trust Activities. Based on our review of fiscal year 1992 revenues and expenditures and their allocation, trust revenues are funding only trust activities. Not only do trust revenues fund only trust activities, trust activities were also funded by approximately \$49,000 of the division's fiscal year 1992 General Fund appropriation. Further, since the trust activities' Triad Center office space is provided for by the Department of Natural Resources General Fund appropriation and Attorney General services are provided by the Attorney General's General Fund appropriation, neither of which is reimbursed by trust revenues, the trust activities are receiving a General Fund subsidy of between \$300,000 and \$400,000 per year, in addition to the above \$49,000.

Mineral Leases Have Higher Revenue Ratios. Utah's mineral (subsurface) leases have higher revenue to cost ratios than its surface leases. The largest factor causing this disparity is the inherently higher value of mineral deposits compared with surface resources. Another factor may be differences in cost effectiveness between the division's mineral and surface management programs, which will be addressed in our subsequent report.

We hope this summary provides you with the information you need. If you have additional questions, please let us know. If you would like a copy of the full report, please contact our office.

Sincerely,

Wayne L. Welsh
Auditor General

WLW:BRP/lm