UGS BOARD MEETING
DNR Administration Conference Room
Thursday, January 22, 2015

The meeting of the UGS Board was called to order at 8:33 a.m.

ATTENDANCE
Board members: Tom Tripp – Chair, Mark Bunnell, Bill Loughlin, Pete Kilbourne, Sunny Dent, Ken Puchlik and Marc Eckels.
Excused: Tom Faddies, Ex-Officio representative.
***UGS Staff*:** Rick Allis, Kimm Harty, Jodi Patterson, Dianne Davis, Steve Bowman were in attendance for the entire meeting. Mike Lowe, Mike Hylland, and Grant Willis were in attendance after the break.
Visitors: Steve Alder, Attorney General's Office

APPROVAL OF MINUTES
Marc Eckels motioned to approve the minutes from the June 26th meeting as written and the minutes from the October 30th meeting with the mention of comments from Ken Puchlik at the end of the meeting via phone added. Pete Kilbourne seconded the motion. The Board voted and the motion carried unanimously.

DIRECTOR'S REPORT

This report concentrates on the impending financial situation caused by the low oil and gas prices, and consequently low Mineral Lease royalty funding. An email to staff in mid-December (and copied to the Board) alerted all staff that the decline in revenue looked serious, and all discretionary expenditure for the remainder of the fiscal year (FY) was cancelled. The short-term goal is to retain as much of the Mineral Lease carry-forward as possible by the end of this FY to offset some of the substantial revenue shortfall anticipated in FY16. The carry-forward into FY15 was $827k. The FY15 year-end carry-forward at the moment is predicted to be about $500k. This estimate includes the reduction in Mineral Lease revenue that will impact the last quarter of the FY, and the savings from reduced expenditure and personnel attrition during the last two quarters. Included in the Board packet is a summary of monthly expenditure up to December. The budget numbers that the expenditures refer to have been adjusted downwards to reflect the reduction targets discussed here. The bottom line expenditure is reduced by $260k, largely due to turnover savings and non-replacement of staff who have resigned or retired, and Current Expense savings. This can be seen in the monthly personnel cost trend: in August and September the 4-week costs were $584k (August had three fortnightly paydays); in October it was $551k, November, $546k, and December $545k. Larger decreases will occur in the subsequent months. Monthly Current Expense costs will also show significant decreases in the remaining six months, now that we have a spending freeze.

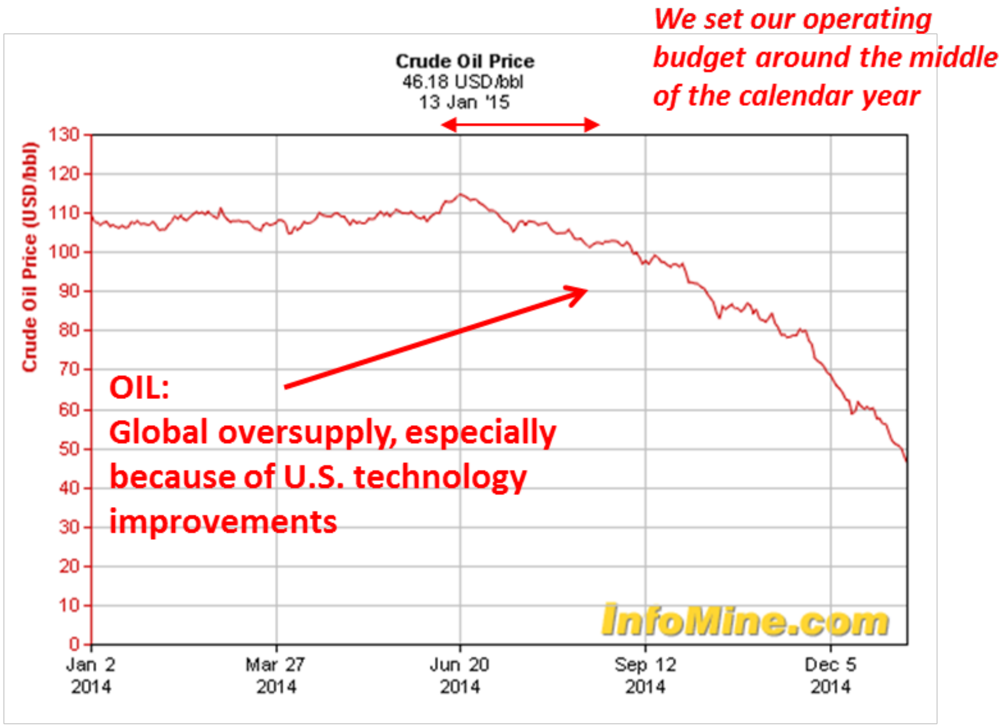
The following is a more detailed analysis of past and predicted funding trends. The figures are taken from a slide presentation to staff in early January so they could better understand the financial problems on the horizon.

Mineral Lease Predictions

The drivers of the Mineral Lease decline are shown in Figure 1. Local oil and natural gas prices are discounted compared to the NYMEX – WTI trends, but the change is similar in magnitude and timing. Each week Dave Tabet has been estimating future Mineral Lease revenue to the UGS based on the latest futures prices and assumed constant production levels (historically annual oil production has been increasing 15%/year, but this increase is unlikely to continue). Typically our annual predictions are within a few percent of receipts, although month-to-month values bounce around due to report timing variations. The bar graph in Figure 2 shows this week's estimate of $3.3 million for FY15, and $2.4 million for FY16. The FY14 Mineral Lease revenue was $3.6 million, and in June of 2014 we initially estimated FY15 as $3.7 million. We now think FY15 will be close to $3.3 million. By FY16 we will need to remove at least $1.2 million of expenses from our budget to balance the revenue shortfall. This assumes external revenue stays at about the same level. At the moment our confirmed external contracts for FY16 are about $0.5 million down, but we are working hard on trying to close that gap. Four possibilities we are pursuing are an unsolicited proposal to the EPA to extend our water quality studies in the Uinta Basin, discussing with SITLA for the possibility of an oil/gas study on their tracts (traditionally the UGS has assisted SITLA with identifying mineral values, but it has not been involved on oil and gas prospects), a paleontological study that may attract Japanese support (discussed briefly at this meeting), and a new Ogden basin hydrogeologic study coordinated through the State Engineer's Office. In FY17 we expect significant funding for a large Enhanced Geothermal Systems project (FORGE) near Milford. This will be discussed at the April UGS Board meeting, when we will know more details, and it will involve staff from three Programs and Administration.

Staffing Trends

Important changes in staff levels, costs, and sources of funding have occurred over the last 20 years (Figures 3 – 5). Average salary and benefit costs have doubled during this time (not adjusted for inflation). General Fund revenue to the UGS has not kept up with these changes, supporting over 40 FTEs (or about two thirds of staff) 20 years ago, to only supporting about 30 FTEs in 2014 (out of 80 FTEs). In the last 10 years Mineral Lease funding has increased by $1.5 million, and External Contract revenue has increased by about $1.0 million. In addition, the proportion of the total expenditure budget supporting salary and benefits has increased from 71% to 83% (Figure 4), increasing UGS vulnerability to a sudden downturn in revenue.



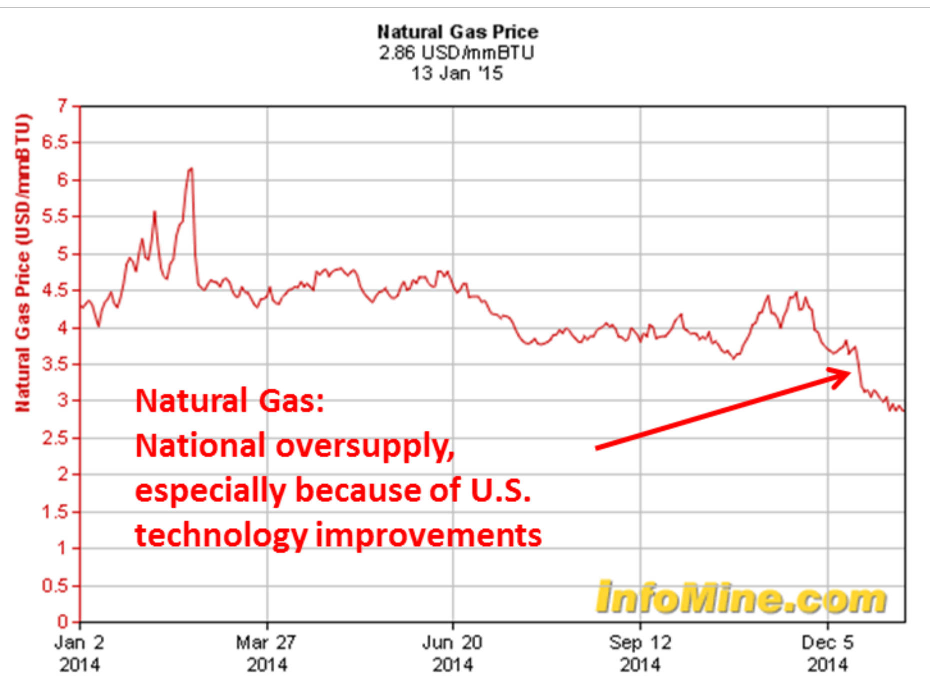


Figure 1. Oil and Natural Gas trends since January 2014 compiled by Infomine.com. Utah prices are lower than the plotted trends, but the magnitude of the price decline is similar. Oil and natural gas production (i.e. on federal land) typically accounts for more than 80% of the Mineral Lease royalty revenue. Coal production is the remainder.

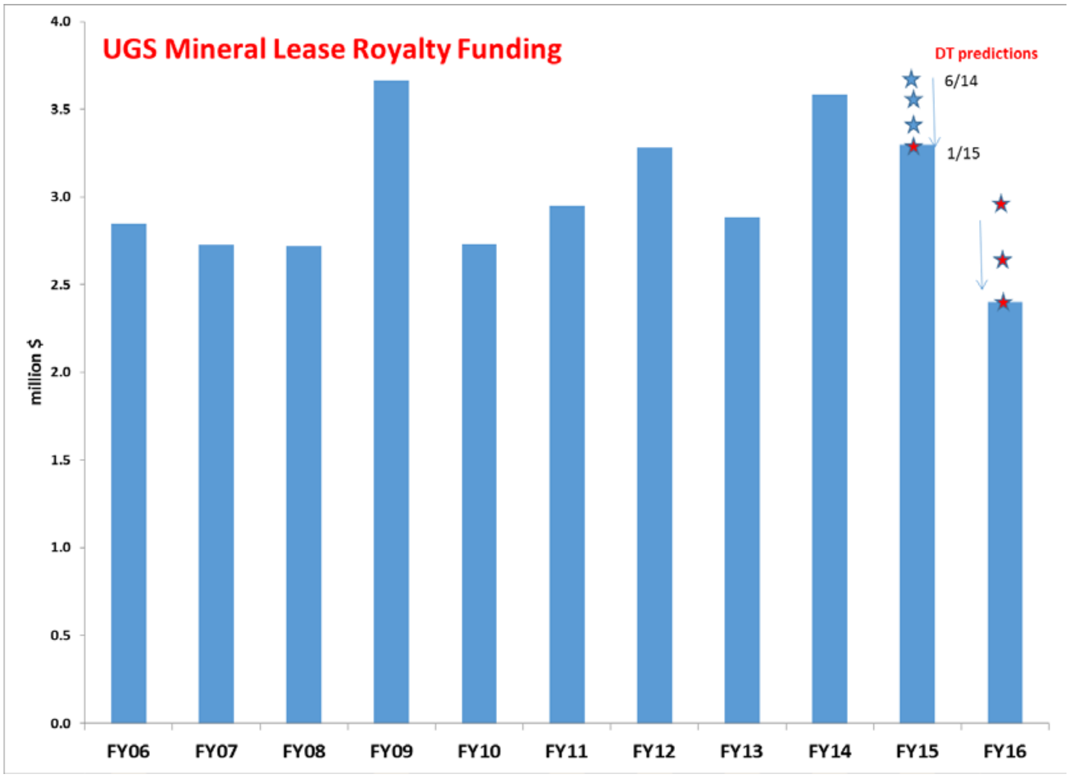


Figure 2. Mineral Lease revenue to the UGS, with predictions for FY15 and FY16 based on present and future price estimates. Stars show the declining estimates between mid-December and mid-January as both oil and natural gas prices (and futures prices) continue to fall. In FY13, the federal Office of Natural Resources Revenue began removing between 5 – 8% as a “sequestration amount,” but this has been reimbursed the following year. This component is included in the predicted revenue.

Ten years ago, about 70% of staff was in the age bracket of 45 to 55 (Figure 5). Today, there is an improved age distribution, with 70% of the staff between the ages of 30 to 60. Because staff numbers have increased, the number of staff less than 40, or greater than 60, has increased four to five fold. This has implications for the attrition rate over the next five to ten years. The average retirement rate over the last ten years has been about one per year. In the last 6 months we have seen three retirements, and retirement rate should stay at about this level in future years. Assuming no replacement of staff, by the end of FY16 (6/2016) we anticipate staffing levels declining by at least 9 FTEs. Details were provided at the Board meeting.

Summaries of funding and staffing trends are shown in Figures 3 and 4. The emphasize the growth in both contract funding and mineral lease funding. During this time staff levels have also increased, along with average salaries. However, the General Funds no longer support as many staff as it used to 10 years ago. This is because increases in salaries and benefits are only partially supported by General Fund increases.

Personnel Changes Since Last Board Meeting

Elizabeth Firmage (graphics artist; Editorial) resigned and was replaced by Jonathon Good (October). Corey Unger (GIS Analyst, Hazards) resigned (for UDOT) and was replaced by Gordon Douglass (September). Chris DuRoss (Senior Geologist, Hazards) resigned (during September, for USGS) and after interviews and two declined offers refilling the position has been deferred. Sandy Eldredge (Program Manager, GIO), retired in November and the position has been internally filled by Mike Hylland (originally 0.5 Hazards, 0.5 technical reviewer). Robert Ressetar (Senior Geologist, 0.5 Energy and Minerals, 0.5 technical review) retired in December; position not being refilled. Pat Stokes (Bookstore Manager, GIO) retired in December, and Brian Butler has been promoted Bookstore Manager. The possible timing of future retirements were discussed at the Board meeting.

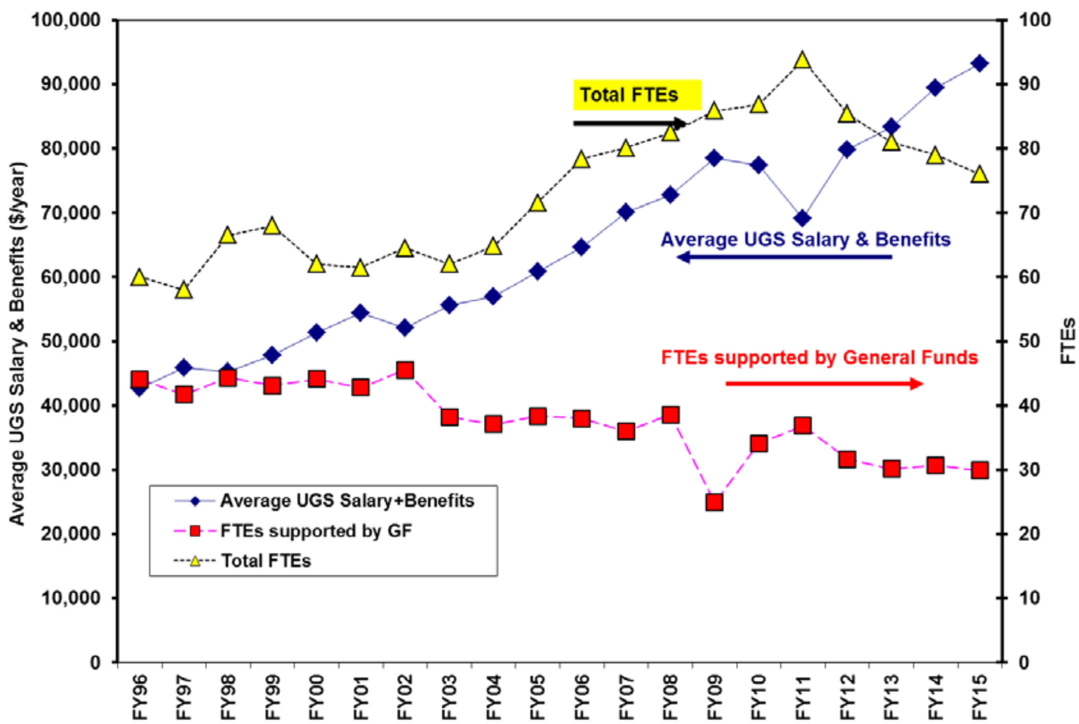
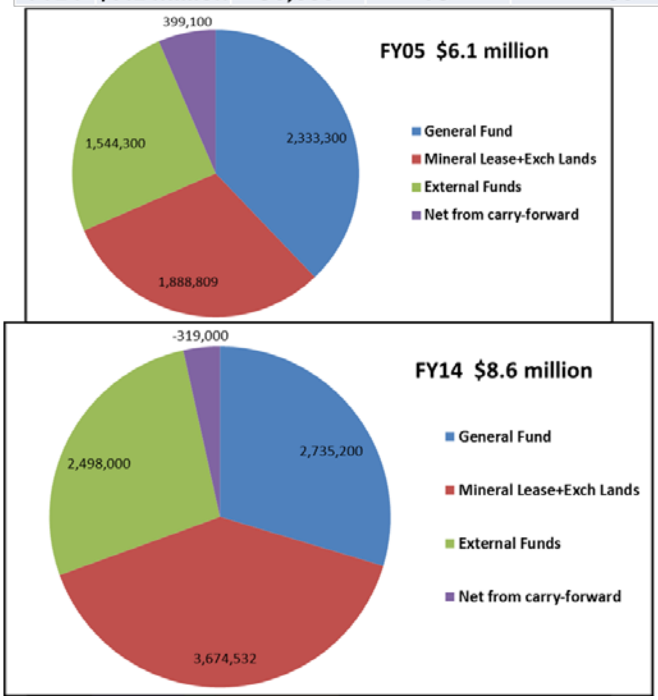


Figure 3. Some of the trends in UGS Staffing levels and personnel costs over the last 20 years. General Funds used to support more than two thirds of staff, but now it supports just over one third. General Fund increases have also not kept up with salary increases.

"salary" includes benefits

Year	Personnel Cost	Average Salary	Total FTEs	FTEs supported by GF	Total Budget	Percent Personnel
FY05	$4.4 million	60,800	72	38	$6.2 million	71%
FY14	$7.1 million	90,000	79	30	$8.6 million	83%



Takeaway Messages

1. Over the last 10 years, Mineral Lease revenue has become a bigger fraction of the pie; General Fund has become a smaller fraction; we have grown external funding by $1 million.

2. Personnel costs have become a greater fraction of the total budget

Figure 4. Snapshots of the major revenue sources for the UGS in FY05 and FY14. A significant fraction of the growth in Mineral Lease revenue and external contract revenue has gone into supporting higher salaries. The fraction of the total budget supporting personnel costs has steadily increased.

Strategies for the dealing with the impending revenue decline

Financial analysis of FY16 is still in progress. At this time we believe we are still in deficit by about $300k at the end of FY16. Although the minimum allowable for an agency is no deficit at year-end, for planning purposes the UGS needs to have a minimum FY16 year-end balance of at least +$300k. There are some revenue opportunities that may occur to partially bridge this gap, but it appears some one-time assistance for FY16 from the legislature of about $250k would also be needed to avoid unnecessary layoffs. By the end of FY16, total FTEs need to have declined from 80 during FY14 to about 68. A $300k deficit would require at least another 3 FTEs, bring total FTEs down to 65, and this would have to occur well before the end of FY16 to generate the required savings.

Strategies for surviving FY16 were discussed at the meeting under closed session.
Mark Eckels motioned that the board go into closed session with the director. Ken Puchlik seconded the motion. The vote was unanimous. The board went into closed session at 9:30 a.m. until 9:50 a.m. when Marc Eckels motioned to go back into open session. Pete Kilbourne seconded the motion and the vote was unanimous.

Director Allis concluded by saying that hopefully by FY17 additional retirements and new external revenue will create opportunities to start filling essential gaps caused by uncontrolled attrition. It is possible that oil and natural gas prices could have begun to rebound by then.

Miscellaneous

Director Allis summarized what was known about the upcoming legislative session. At this stage there are no legislative bills that directly affect the UGS. The Governor has recommended a two-person building block ($187k) to accelerate the production of 1:24k geologic hazard maps. The Governor has also recommended a general salary increase of 2%, which for the UGS would cost about $100k. Unfortunately, the way this is handled financially means the UGS would only receive about $33k (the General Fund portion of our budget), and the remaining $70k has to be found from other sources within the UGS.

The Board discussed at length the existing Board policies and the need to update these. The Director proposed that of the six Board policies, four, or possibly five, be for rescinded. They are outdated due to existing DNR and state policies that cover the issue. In addition, several appeared to be overly prescriptive in view of advice from the Governor's Office that Boards should not interfere in the day-to-day management of agencies. The primary concern of Boards is to ensure the agency is following its controlling statute, and that it is being managed appropriately. Steve Alder from the AG's office was present and assisted with legal input to Board questions. It was decided that the policy on contract proposals needed to be preserved and modified. A summary of Board actions on these proposals is given below.

Regarding the timing of future Board meetings, Director Allis suggested a more even spread of meetings to coincide with important events. An April meeting allows the Board to review the outcome of the legislative session, which is especially important this year in view of UGS's financial vulnerability. A late-August meeting was recommended to allow the Board to review the closing financial position of the UGS at the end of FY15. The approved dates are listed under the Action Items below. These dates will need to be reviewed with the new Board members.

Director Allis suggested that the Board field trip this year visit the region of Snake Valley, coinciding with the publication of Bulletin 135 on the hydrogeology of the region, which presents the results from expenditure of about $3 million for a groundwater monitoring network and related research. The trip would require three days.

ACTION ITEMS

UGS Board Policy Review

UGS 6-01-001 Policy for Support of Conferences

After discussion, Marc Eckels motioned that we rescind 6-01-001. Mark Bunnell seconded the motion. The board voted and the vote was unanimous.

UGS 6-01-002 Support for Utah Professional Licensure

After discussion, Bill Loughlin motioned to rescind 6-01-002. Ken Puchlik seconded the motion. The board voted and the vote was unanimous.

UGS 6-01-003 Policy for Foreign Travel by UGS Employees

After discussion, Marc Eckels motioned to rescind 6-01-003. Mark Bunnell seconded the motion. The board voted and the vote was unanimous.

UGS 6-01-004 Policy for Proposal Feasibility Review

After discussion, Bill Loughlin motioned to amend this policy so that the threshold for Board approval is reduced from $20,000 per year of UGS cost-share to $5,000 per year. It was also requested that the form to be revised to include explanation of the proposed work. Seconded by Mark Bunnell. The board voted and the vote was unanimous.

UGS 6-01-005 Policy for Position Establishment

After discussion, Sunny Dent motioned to rescind this policy. Ken Puchlik seconded the motion. The board voted and the vote was unanimous.

Proposed 2015 Board Meeting Dates

The dates of April 30th, August 27th, September 25th, 26th, 27th, 2015, and January 14th 2016 were discussed. Marc Eckels motioned that these dated be approved for the board meetings. Ken Puchlik seconded the motion. The board voted unanimously.

Board Chair & Vice Chair Elections

Bill Loughlin nominated Tom Tripp for a second term as Chair of the UGS Board. Ken Puchlik seconded the nominations. There were no other nominations. The board voted unanimously for Tom to be the chair for 2015.

Tom Tripp nominated Marc Eckels for a second term as Vice Chair of the UGS Board. Marc stated that he had applied for a job in Wyoming, and if hired, would be moving. He was willing to accept as long as the board was aware of that. There were no other nominations. There wasn’t a second, but the board voted unanimously for Marc to be the vice chair of the UGS board for 2015.

ADJOURNMENT

Tom Tripp entertained a motion to adjourn. Ken Puchlik moved to adjourn the meeting and the meeting was adjourned at 11:53 a.m.