FISCAL NOTE

Bill #:	HB0576	**Title**:	State land timber sale costs and revenue accounted for on sale basis
Primary Sponsor:	Joey Jayne	**Status:**	As Introduced

____ ____

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	**FY2003 Difference**
Expenditures:		
General Fund	26,475	24,041
State Special Revenue	305,772	141,199
Revenue:	**0**	**0**
Net Impact on General Fund Balance:	**($26,475)**	**($24,041)**

Yes	**No**		**Yes**	**No**	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

Department of Natural Resources and Conservation

1. DNRC estimates that HB 576 will require 3.50 FTE to complete the increased work load in payroll services, budget monitoring, and reporting. Three grade 15 employees will be needed for budget analysis and accounting functions; one at the Forest Management Bureau, and one each for the Northwestern Land Office and the Southwestern Land Office. Although timber sales and forest improvement activities also occur at the other four area offices, the timber program is most predominant in the western part of the state and DNRC believes that the Forest Management Bureau analyst could provide services for the eastern part of the state as well. A .50 FTE will be needed in Central Service Division for payroll, fiscal reporting functions and audit tasks. This FTE is projected at a grade 14 with full-time benefits.

Operating expenses for the 3.50 FTE include $15,000 for each FTE for FY 2002 for computer equipment, communications, etc. ($15,000 x 3.5 = $52,500) and $10,000 for each FTE for FY 2003 ($10,000 x 3.5 = $35,000).

2. An additional operating cost for FY 2002 would be an estimated $150,000 for contracted services. This cost will be necessary to integrate the timber program internal cost tracking system, which maintains information related to timber volume, harvest, stumpage, etc., to build an interface to the Statewide Accounting Budgeting and Human Resources System (SABARS). DNRC would need to obtain a contractor to write software programs to integrate the systems. SABARS tracks costs on an annual and biennial basis.
3. This bill will impact a minimum of 72 trust land employees (TLMD out of a total of 124 employees) who currently work in the Forest Management and Forest Improvement Programs. In addition, the majority of these employees are in field offices and are split funded between the Trust Land Management Division and the Forestry Division. Many of these employees currently track their time between six to eight cost center organizations. Due to the long-term nature of timber sale activities from inception to closure (approximately 6 years in duration), approximately 150 timber sale cost centers organizations would need to be added to the statewide accounting system and costs accumulated over the span of the timber sale. This would significantly increase the number of cost center organizations that an employee would use to record their time and costs and add a substantial level of complexity to monitoring budget levels and maintaining funding sources.
4. The DNRC Trust Land Management Division currently accounts for the activities of four bureaus and six area offices in three programs: 1) the Forest Management Program, which includes the timber sale activity, 2) the Land Administration Program, and 3) the Forest Improvement Program, which includes the forest improvement activities and is funded through forest improvement fees from the harvest of timber. If HB 576 were to pass, the Trust Land Management Division would need to restructure the process for cost tracking, budgeting, and reporting for Forest Management and Forest Improvement Programs (two of the three programs), in order to isolate the timber sale function from the standard accounting practices for the division. This change would impact the Forest Management Bureau and the six area offices in two of the three TLMD programs.
5. The bill does not pertain to commercial permits (77-5-212, MCA).
6. Currently, the Forest Management Program is split funded between the state special revenue account Forest Resources Timber Sales (02280) and state special revenue TLMD – Admin (02938). The Forest Improvement Program is funded from the state special revenue Forest Resources - Forest Improvement (02449).

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
FTE	3.50	3.50
Expenditures:		
Personal Services	$100,502	$100,890
Operating Expenses	202,500	35,000
Benefits	29,245	29,350
TOTAL	$332,247	$165,240

Funding:		
General Fund (01)	$26,475	$24,041
State Special Revenue (02)	305,772	141,199
TOTAL	$332,247	$165,240
Revenues:	0	0
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	$(26,475)	$(24,041)
State Special Revenue (02)	(305,772)	(141,199)

LONG-RANGE IMPACTS:

DNRC Forest Management staff manage school trust timber lands pursuant to the State Forest Land Management Plan (SFLMP). This programmatic management plan was adopted by the State Land Board June 1996. The preparation and adoption of this plan was achieved through an EIS process that included extensive public participation. The management plan recognizes that the generation of optimum revenue for the trust beneficiaries over the long term also requires preserving and maintaining the overall health of the forest. Over the last three fiscal years, the timber program has averaged a return of 1.91:1. This program return is comprised of individual timber sales that return more or less than the overall program average. In some instances, timber prescriptions may be required that do not produce a profit in the short term in order to optimize timber health and generation of merchantable timber over the long term. However, all harvest proscriptions are consistent with the SFLMP program objectives. Tracking timber management costs as directed by HB 576 would increase management costs and thereby serve to reduce overall profitability of timber management activities. The additional costs required by this bill directly reduce the amount of revenue distributed to the trust beneficiaries.

TECHNICAL NOTES:

1. A typical timber sale takes 3 years to 6 years from the time it is listed as a proposed sale until brought to the Land Board for approval. Once the sale is approved by the Land Board, the harvest typically takes between 3 to 5 years. The total typical time from inception to closure of a timber sale is 6 years with a range of up to 11 years.
2. Currently costs are accounted for in the statewide accounting system at the program level, and not specific to each project. Revenue is also reported at the program level in the statewide accounting system. Project-level accounting (billing & receipts) information is tracked at the Forest Management Bureau, but this system is not presently linked to the statewide accounting system. Modifications would be required to allow the tracking of the costs and revenue associated with each trust for each individual timber sale.
3. Regarding item (4)(b)(I)(E) -- Costs of most road construction and improvement, weed control, gating, water and soil management controls are paid for by timber sale purchasers and are reflected in their bids for timber sales. The price that timber sale purchasers bid for timber is discounted by what the purchasers estimate their costs will be to comply with the conditions of the contract. The contract requires road construction, gates, soil and water mitigations, etc. It will not be possible to track these costs because they are not direct expenditures by the state.
4. It is unlikely that DNRC could have the necessary updates completed on the accounting system to allow the reporting to begin with FY 2002 as required in Section 4. A more likely schedule would be to have this system update in place for FY 2003.