

LEGISLATIVE COUNCIL
ENRICH NO. 6
DATE 3/24/05
BILL NO. HB 176

House Bills 172
March 24, 2005
Presented by Chris Smith
Senate Fish and Game Committee

Mr. Chairman and committee members, for the record I am Chris Smith, Chief of Staff for Montana Fish, Wildlife & Parks (FWP).

Fish, Wildlife and Parks is relatively unique among state agencies, in that the agency receives no general funds and operates largely on user fees and matching federal grants. The most significant source of user fees is hunting and fishing licenses. Sales of resident and non-resident licenses generate a total of about \$37 million each year. Of this total, about \$10 million is "ear marked" by the legislature for specific programs, such as Habitat Montana, the Upland Game Bird Enhancement Program, hunter access enhancement or fishing access sites. About \$27 million is deposited into the general license account, FWP's main "checking account," and is used to cover most of the daily operating costs for FWP programs.

Before addressing HB 172 in detail, I want to provide the committee with some background on how license fees and agency expenditures have been balanced in the past. As with most things, the cost of managing the state's fish and wildlife and providing services to hunters and anglers steadily increases over time. Part of this increase is due to inflation and part is due to the legislature creating new programs or responsibilities for FWP. To cover the increased costs, the legislature has periodically adjusted license fees to raise additional revenue.

Because hunters and anglers historically preferred license prices to remain stable for a number of years, license increases have been spaced 5 to 10 years apart. In order to balance revenue and expenditures over this length of time, license fees must be set high enough to generate a positive cash flow and build up a fund balance for several years. When expenses exceed revenue, this fund balance can be drawn down to delay the time when another fee increase is necessary. Chart 1 illustrates this process.

Resident license fees were last increased by the 1991 Legislature, with some of the increases phased in between 1991 and 1994. At that time, FWP and the legislature anticipated the fee increases would sustain agency programs through 1999. Through careful fiscal management, FWP extended the life of the 1991 increases beyond 1999. In fact, growth in total expenditures by FWP between 1996 and 2003 averaged only 2.1% per year, which is less than the rate of inflation. The legislature increased non-resident fees in 2001 to bring them in line with surrounding state's nonresident fees. The additional revenue generated by the nonresident fee increases allowed us to continue to keep resident fees at the 1994 level until now.

At present, expenditures from the general license account exceed revenue by about \$3 million per year. Chart 2 illustrates this point. Given this fiscal gap, the general license account will drop below the minimum level necessary to manage cash flow in 2008. Unless the 2005 Legislature increases resident fees, FWP will have to initiate program reductions to balance expenditures with revenue by the beginning of the next biennium. We cannot wait until the 2007

session to adjust fees, because there is an 18-month lag between legislative action and revenue generation. That is because any fee increase approved in this session will not take effect until the new license year, starting on March 1, 2006. Most new revenue will not be collected until mid to late 2006, and will not be available for expenditure until fiscal year 2007.

As introduced, HB172 would have continued the traditional approach of increasing fees sufficiently to sustain the agency for several years. We estimated that the fees proposed in HB 172 would have generated about \$4.6 million annually in new revenue, which would have sustained existing programs without further increases until at least 2011.

FWP carefully considered several factors in developing the fees proposed in HB 172. First, we surveyed nearly 6,000 resident hunters and anglers to ask their opinions about increasing fees and their willingness to pay higher prices to sustain, or enhance, existing programs. Attached to this testimony is a summary of the results of that research. In brief, our surveys showed that most Montana hunters and anglers were willing to pay significantly higher prices for the opportunities they enjoy. Complete results of this research project are available from FWP or on-line at: <http://fwp.state.mt.us/FwpPaperApps/budget/feesummary.pdf>.

After determining that hunters and anglers supported fee increases, we applied the rate of inflation since 1994 to the prices set in 1991 and rounded the resulting numbers up or down to a simple number. Table 1 attached to this testimony illustrates both the inflation-adjusted price of licenses and the originally proposed prices in HB 172. In every case, the adjusted price is less than the average price Montana hunters and anglers told us they were willing to pay.

Interestingly, the fees initially proposed in HB 172 for most licenses would also remain lower, in constant dollars, than they were in 1976 meaning that hunters and anglers would continue to pay less than they did in 1976 for services and opportunities that are far greater. Chart 3 illustrates actual and inflation-adjusted license prices since 1976. Given the expansion in hunting and fishing access, not to mention other programs, this means Montana hunters and anglers are clearly getting more for their money today than they did 20 years ago.

We recognized the importance of keeping prices low for youth, senior and disabled hunters and anglers. In response, we discounted licenses for these groups to make them more affordable.

We also compared Montana license prices with those of surrounding states. The fees proposed in HB 172 would remain the lowest resident fees in the region, with the exception of a deer license in Idaho, which would be \$1.50 less. Table 2 lists license fees for western states.

Although our research on hunters' and anglers' willingness to pay higher fees indicated the proposed rates would be acceptable to the majority of Montanan's, we did not simply assume we could proceed with these increases. We undertook an extensive public involvement effort to hear what residents had to say about the proposed increases. We published the proposed fee increase on our website, in news releases and at our annual regulation setting meetings to gather feedback. We met with hunter and angler groups and the general public, gathered input via our website and through comment sheets in all our regional offices. Interestingly, while many of the comments received via the Internet were opposed to fee increases, input at our front counters was

about evenly split and input from public meetings was predominantly in favor of the increases. Every major newspaper in the state also endorsed the higher fees. As one outdoors page writer recently said, "With hunting and fishing licenses, you get what you pay for."

While there was broad support, we did hear some concerns. One of the common themes expressed by hunters and anglers during our discussions was that the fees for moose, sheep and goat licenses were too high, given that residents historically had to submit the fees for these licenses with their drawing application. We can address this concern by amending our rules governing drawings to require hunters to submit only a portion of the fee with the application, and pay the remainder if they are drawn. This would maintain the status quo in terms of drawing fees.

Another common theme we heard was the desire to have fees increased in smaller amounts more frequently. House Bill 176, which we introduced simultaneously with HB 172, provided an alternative model that was responsive to the input asking for incremental increases. That bill would have delegated authority to the FWP Commission to adjust fees on an annual or biennial basis, up to the limit of inflation, measured by the Consumer Price Index. However, there was virtually no support for delegating authority to the FWP Commission to set fees and the House FWP Committee tabled HB 176.

The House FWP Committee referred HB 172 to a subcommittee for careful review of the proposed fees. Senators Tash and Gallus sat in on some of that subcommittee's deliberations.

The subcommittee adjusted several of the prices proposed by FWP; lowering some, increasing others and adding some new adjustments, such as the elk permit and drawing fees. The subcommittee also developed two scenarios for increasing fees: a single increase effective in 2006 and a two-phased increase with adjustments in 2006 and 2008. The 2006 increases would generate something over \$3 million in new revenue; the 2008 increases would generate about \$4.1 million. Table 3 illustrates the changes developed by the subcommittee.

With both the 2006 and 2008 increases, FWP would be able to sustain current and expanded programs through 2010. That would mean resident fees would not have to be addressed by the legislature again until at least 2009. At that point, it might make sense to revise both nonresident and resident fees. Given the relatively small adjustments represented by the increases in HB 172, this could move us toward the incremental model desired by some hunters and anglers, with the legislature reviewing fees every 4 to 6 years, and making minor adjustments that take effect each biennium, based on inflation and program needs.

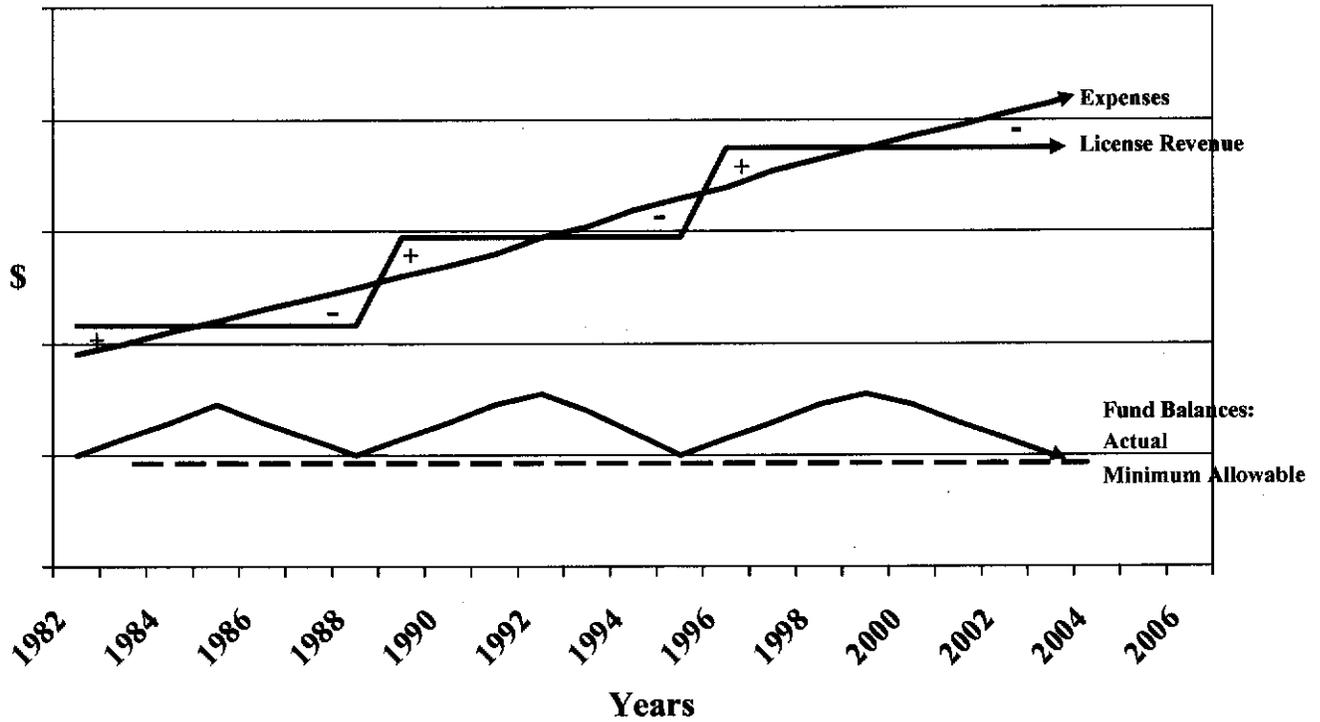
However, the House FWP Committee did not approve both fee adjustments. The committee, and subsequently the full House, passed HB 172 with only the 2006 increases. Thus, in its current form, HB 172 will provide about \$3.5 million in new revenue, not enough to close the current fiscal gap.

Given the reduced revenue generated by the lower fees in HB 172 as amended, and the Governor's position that he would not support further requests for fee increases in the 2007 or 2009 sessions, the Office of Budget and Program Planning and Joint Appropriations

Subcommittee Chair Rep. Ripley decided it was necessary asked the House to reduce spending authority approved by the joint appropriations subcommittee on which Senators Barkus and Hansen served. Among other things, the House eliminated funding for FWP to take over management of 14 DNRC sites that provide public access to waters for anglers and other recreation. As inflation pushes prices higher, further program reductions will have to be made in subsequent years without additional revenue. We have had some internal discussion about potential areas to cut, but would want to engage our constituents in making these decisions, if that becomes necessary.

We believe Montana's hunters and anglers, overall, are supportive of paying reasonably higher fees to sustain current programs and provide for expanded efforts related to habitat and access enhancement and increased law enforcement. HB 172, as amended by the House does not provide funding to meet these demands. We would ask this committee to give careful consideration to amending the bill to provide additional revenue by increasing the prices in 2006 or adding a second adjustment in 2008. Either way, hunting and fishing will remain one of the best bargains available to Montana's residents.

Traditional Model For FWP Funding



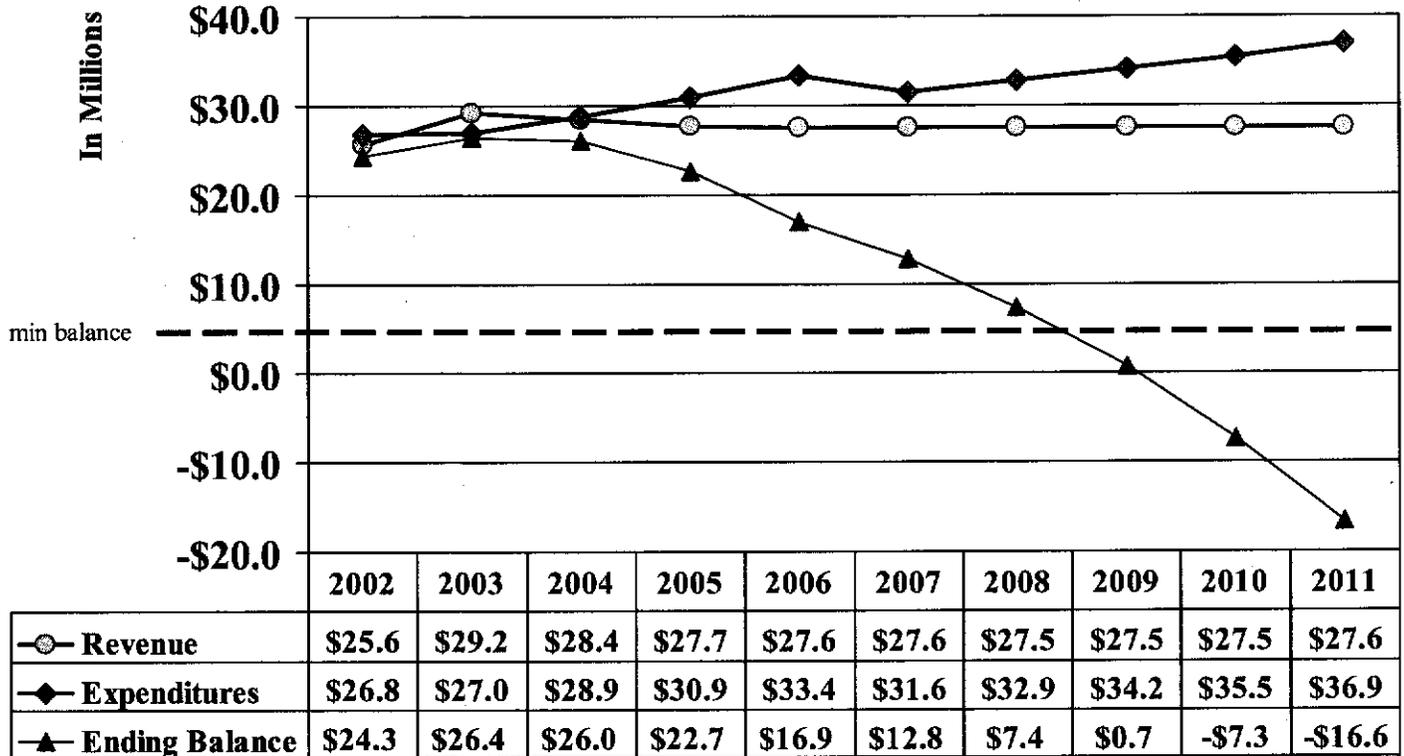
- ◆ Significant fee increases every 5-10 years.
- ◆ Large fluctuations in License Fund balance.

GENERAL LICENSE ACCOUNT

With Current Revenues

As of February 25, 2005

Fiscal Year 2002-11



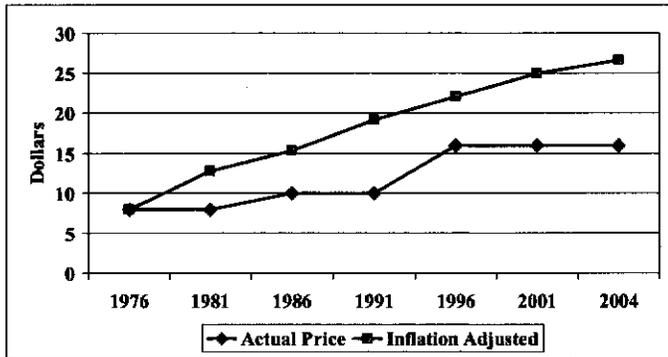
Assumptions:

- 4% growth applied to expenditures.
- Revenue projections are based on review of individual license sales and input from fisheries, wildlife, and licensing personnel.
- 15%-20% of annual expenditures are required as a minimum balance (\$5-\$6 million).
- HB447 pay plan and Natural Resource Subcommittee executive action factored in.

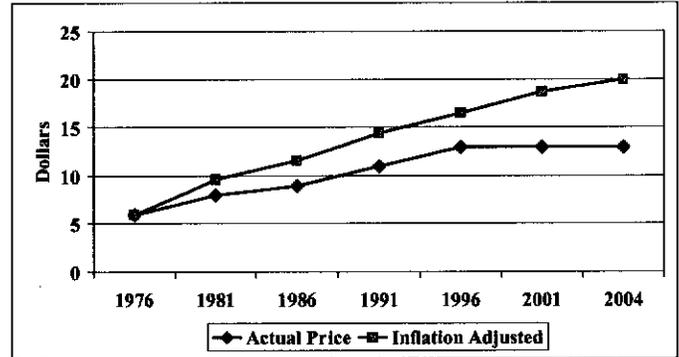
Table 1 - Current License Fees, Inflation-adjusted Fees & Original HB 172 Fees

Item Description	2004 FEE	CPI Fee*	As Proposed in HB172		Comments
			New Fee	Net Revenue	
Res Conservation	\$6.25	\$8.00	\$8.00	\$167,056.75	
Res Conservation and Fishing	\$19.25	\$24.64	\$28.00	\$1,060,683.75	Willingness to pay >83%
Resident Disabled Conservation	\$6.25	\$8.00	\$8.00	\$11,658.50	
Blind Lifetime Fishing	\$0.00	\$0.00	\$0.00	\$0.00	
Res Fishing	\$13.00	\$16.64	\$20.00	\$38,143.00	Willingness to pay >83%
Res Youth Fishing	\$6.50	\$8.32	\$10.00	\$24,766.00	
Resident TWO DAY FISHING	\$5.00	\$6.40	\$5.00	\$0.00	
Warm Water Game Fish	\$5.00	\$6.40	\$10.00	\$227,155.00	
Resident Paddlefish	\$5.00	\$6.40	\$10.00	\$25,010.00	
Res Bird Adult	\$6.00	\$7.68	\$20.00	\$411,446.00	Willingness to pay >75%
Res Youth Bird	\$3.00	\$3.84	\$5.00	\$2,564.00	Represents 75% discount
Resident Turkey	\$5.00	\$6.40	\$10.00	\$87,370.00	
Res Waterfowl License	\$5.00	\$6.40	\$7.00	\$36,206.00	
Res Combination Sportsman w/bear	\$66.25	\$84.80	\$95.00	\$307,682.50	Represents \$18.50 discount
Resident Sportsman	\$56.25	\$72.00	\$75.00	\$324,787.50	Represents \$18.50 discount
Resident Youth Combination	\$25.00	\$32.00	\$30.00	\$24,195.00	Represents >50% discount
Elk Adult	\$16.00	\$20.48	\$25.00	\$599,382.00	Willingness to pay >70%
Elk Senior, Youth, Disabled	\$8.00	\$10.24	\$10.00	\$39,016.00	Represents >50% discount
Elk A-9		NA	\$20.00	\$0.00	
Deer "A" adult	\$13.00	\$16.64	\$20.00	\$608,181.00	Willingness to pay >70%
Deer "A" Senior, Youth, Disabled	\$6.50	\$8.32	\$8.00	\$35,527.50	Represents >50% discount
Res Antlerless WT Deer	\$8.00	\$10.24	\$10.00	\$49,040.00	
Resident Antlerless WT Drawing/Surplus	\$8.00	\$10.24	\$10.00	\$16,588.00	
Res antlerless Mule deer	\$8.00	\$10.24	\$10.00	\$11,020.00	
Resident Antlerless Mule Deer Drawing/Surplus	\$8.00	\$10.24	\$10.00	\$31,184.00	
Resident Antlerless Either Species	\$8.00	\$10.24	\$10.00	\$168.00	
Resident Antelope Doe/Fawn OTC	\$11.00	\$14.08	\$15.00	\$0.00	
Resident Either Sex Antelope Drawing	\$11.00	\$14.08	\$20.00	\$283,545.00	Willingness to pay >65%
Resident Doe/Fawn Antelope Drawing/surplus	\$11.00	\$14.08	\$15.00	\$18,336.00	
Resident Doe/Fawn Antelope Postcard	\$11.00	\$14.08	\$15.00	\$33,264.00	
Resident Sheep Drawing	\$75.00	\$96.00	\$150.00	\$21,975.00	
Resident Goat	\$75.00	\$96.00	\$150.00	\$22,725.00	
Resident Moose	\$75.00	\$96.00	\$150.00	\$47,250.00	
Resident Mtn. Lion	\$15.00	\$19.20	\$20.00	\$31,680.00	Additional fee if successful
Resident Black Bear	\$15.00	\$19.20	\$20.00	\$44,905.00	
				\$4,571,589.00	
CPI fee = 2004 fee adjusted for inflation from 1996 to 2006; i.e. 28%					

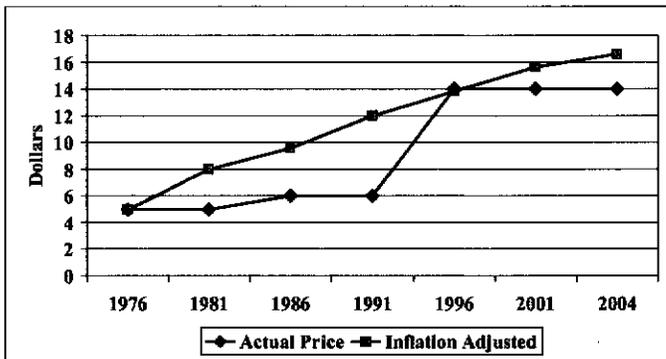
**Resident Elk License Prices
Actual vs. Inflation Adjusted Price**



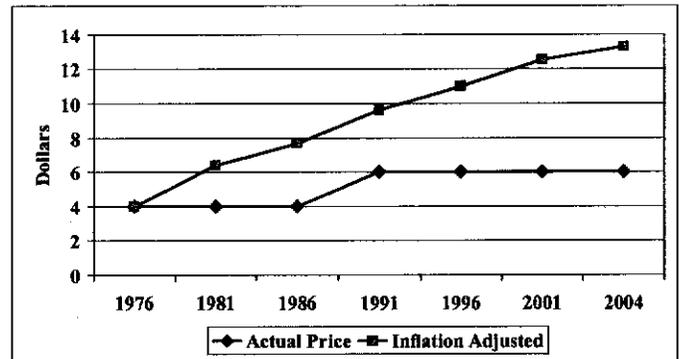
**Resident Deer License Price
Actual vs. Inflation Adjusted Price**



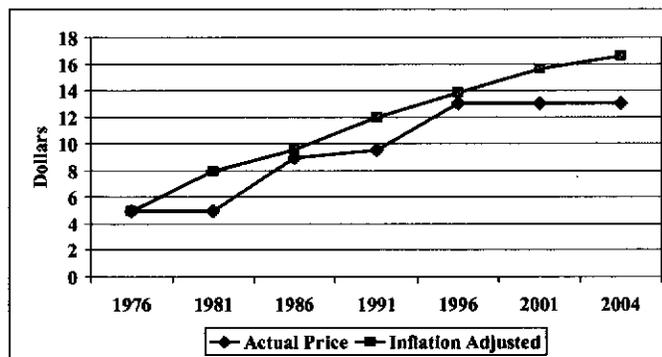
**Resident Antelope License Price
Actual vs. Inflation Adjusted Price**



**Resident Upland Bird License Price
Actual vs. Inflation Adjusted Price**



**Resident Fishing License Prices
Actual vs. Inflation Adjusted Price**



	Elk	Deer	Antelope	UplandBirds *	Fishing
Montana**	20.00	16.00	14.00	7.50	20.00
Alaska	25.00	25.00			
Alberta	31.75	31.75	51.99		
Arizona	102.00	48.00	90.00		28.50
British Col.	57.00	47.00			
California	298.75	20.75	97.75		
Colorado	30.00	20.00	20.00	15.25	20.00
Idaho	28.50	18.00	28.50	11.50	23.50
Nevada	168.00	73.00	103.00		29.00
New Mex	69.00	27.00	36.00		17.50
N. Dakota	29.00	29.00	29.00	19.00	
Oregon	57.00	42.00	59.00		24.75
S. Dakota	105.00	30.00	30.00	27.00	21.00
Utah	60.00	35.00	50.00		26.00
Washington	38.00	38.00			22.00
Wyoming	38.00	28.00	25.00	12.00	18.00
Average Price	\$72.00	\$32.84	\$48.80		\$21.20
Max Price	298.75	48.00	103.00		29.00
Min Price	20.00	16.00	14.00		17.50

*A number of states have a small game license which allows the hunting of upland game birds as well as other species such as rabbits.

** Proposed Montana resident prices under HB 172.

Table 3 - Subcommittee Changes to FWP Proposed Fee Increases				
		HB172	Subcom	Subcom
Item Description	2004 FEE	Fee	06 Fee	08 Fee
Res Conservation	\$6.25	\$8.00	\$8.00	\$8.00
Res Fishing	\$13.00	\$20.00	\$20.00	
Res Conservation and Fishing	\$19.25	\$28.00	\$28.00	
Res Youth 15 - 17 Fishing	\$6.50	\$10.00		
Resident Youth 15-17 Conservation & Fishing	\$12.75	\$18.00		
Resident Disabled Conservation & Fishing	\$6.25	\$8.00	\$8.00	\$8.00
Resident TWO DAY FISHING	\$5.00	\$5.00		
Resident Paddlefish	\$5.00	\$10.00		
Res Bird Adult	\$6.00	\$20.00		
Res Youth Bird	\$3.00	\$5.00		
Res Senior Bird	\$6.00	\$20.00		
Resident Turkey	\$5.00	\$10.00		
Res Waterfowl License	\$5.00	\$7.00		\$7.00
Res Combination Sportsman w/bear	\$66.25	\$95.00		
Resident Combination Sportsman	\$56.25	\$75.00		\$75.00
Resident Youth Combination	\$25.00	\$30.00		
Res Senor Combination	\$56.25	\$95.00		
Elk Adult	\$16.00	\$25.00		
Elk Senior	\$8.00	\$10.00		
Elk Youth 12 - 17, Disabled	\$8.00	\$10.00		
Elk permit	\$3.00	\$3.00		
Elk A-9	\$16.00	\$20.00	\$20.00	
Deer "A"	\$13.00	\$20.00		
Deer "A" Senior	\$6.50	\$8.00		
Deer "A" Youth, Disabled	\$6.50	\$8.00		
Res Deer "B"	\$8.00	\$10.00	\$10.00	\$10.00
Resident Antelope Doe/Fawn	\$11.00	\$15.00		\$15.00
Resident Either Sex Antelope Drawing	\$11.00	\$20.00		
Resident Sheep Drawing	\$75.00	\$150.00		
Resident Goat	\$75.00	\$150.00		
Resident Moose	\$75.00	\$150.00		
Resident Mtn. Lion	\$15.00	\$20.00		\$20.00
Resident Black Bear	\$15.00	\$20.00		\$20.00
Resident Bow & Arrow	\$8.00	\$8.00		
Drawing Fee	\$3.00	\$3.00		
Net New Revenue		\$4,571,589.00	\$3,512,952.00	\$4,177,382.00



Summary of Research

Highlights From the 2003 Montana Resident License Fee Study

RMU Research Summary No. 17

Michael S. Lewis, Rob Brooks, and Zoe King

September 2004

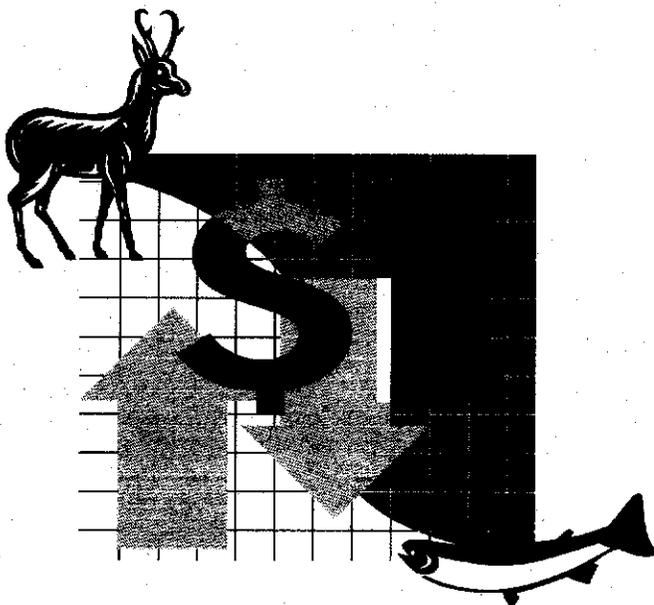
When the Montana Legislature made the decision to increase nonresident hunting and fishing license fees in 2001, lawmakers also directed Montana Fish, Wildlife & Parks (FWP) to evaluate resident fees. In response to this request, among other things, FWP conducted a 2003 Montana Resident License Fee Study. The goals of this study were to:

1. Examine Montana's current and historic license prices.
2. Compare Montana's resident license fees with those in neighboring western states.
3. Evaluate how a resident fee increase would affect license sales and revenue.
4. Survey resident hunters and anglers to collect information on their willingness to pay higher fees.

This research summary highlights the key findings from this study. In addition to this research summary, a more detailed report of the study results is available from FWP (Brooks et al., 2004).

EXAMINING MONTANA'S RESIDENT PRICING HISTORY

Data on the number of resident licenses sold and their prices was collected for the time period 1970-2000. The time series data showed that prices for the elk, deer, antelope, upland game bird, and fishing licenses were raised 3-6 times during this 30-year period. Most of the increases were relatively small and did not result in reduced sales. In some cases the quantity sold increased when the price was increased. However, license sales did decrease when a significant price increase occurred, but sales generally rebounded over a period of time.



In real terms (constant year 2000 dollars) resident license prices were highest in the mid-1970's (at about \$20 for a deer license and \$24 for an elk license). This compares to the current price of \$13 for the deer license and \$16 for the elk license.

COMPARING MONTANA'S RESIDENT LICENSE FEES WITH THOSE IN NEIGHBORING WESTERN STATES

Comparing Montana's resident hunting and fishing licenses to other western states revealed that Montana's hunters and anglers pay 35-55 percent less than their counterparts in neighboring western states. What this means is that resident hunters and anglers in Montana enjoy the least expensive elk, deer, antelope, upland game bird, and fishing licenses across the west.

EVALUATING THE POTENTIAL AFFECTS OF A RESIDENT FEE INCREASE ON LICENSE SALES AND REVENUE

Demand models, which made use of the historical data on the number of resident licenses sold and their prices for the time period 1970-2000, were used to evaluate how a resident fee increase would affect license sales and revenue. The demand models provided estimates of price elasticity and in all cases (e.g., for the elk, deer, antelope, upland game bird, and fishing licenses) the prices were inelastic, meaning that for a given percentage price increase there would not be a corresponding percentage decline in sales. That is, the change in sales would be less than the change in price.

These models also were used to calculate the effects of price changes on total revenue. The results of the study revealed that because Montana's hunting and fishing fees are "price inelastic", revenues will generally increase with changes in price.

MEASURING RESIDENT HUNTER'S AND ANGLER'S WILLINGNESS TO PAY HIGHER FEES

FWP surveyed Montana hunters and anglers in 2003 to measure their willingness to pay higher fees. Surveys of resident elk, deer, antelope, upland bird, and fishing license buyers were administered during the spring and fall of 2003. A primary focus of these surveys was to collect information regarding hunters' and anglers' willingness to pay more than what they currently pay for these licenses.

A dichotomous choice contingent valuation format was used to gather data about respondents' willingness to pay higher

fees. This format provided a short explanation about the current price of the license in question and then asked:

If the price of the _____ license increased from \$CURRENT PRICE to \$XXXX, would you still have purchased this license to hunt?....YES or NO

Eight different fee amounts (e.g., \$XXXX) were randomly assigned across the sample for each different survey (which varied depending on the license type). This data was then used to calculate an estimated average value for the license type in question.

The survey results demonstrate that resident hunters and anglers are willing to pay higher fees than what they currently pay. The average prices resident hunters were willing to pay for the deer and elk licenses were around \$24 and \$32, respectively. The average prices they were willing to pay for the antelope and upland game bird licenses were around \$24 and \$22, respectively. And, the average price resident anglers were willing to pay for the fishing license was a little more than \$28. Overall, these results show a majority of resident hunters and anglers are willing to pay significantly more for the opportunity to hunt and fish in Montana.

DISCUSSION

FWP is currently facing a budget dilemma. For several years after the last general resident fee increase was approved by the Montana Legislature in 1991, FWP built up a budget surplus. Through careful fiscal management, FWP stretched that surplus five years longer than expected in part by keeping expenditure growth between 1996 and 2003 below the rate of inflation. However, the current level of services cannot be sustained indefinitely with resident license prices that were set 14 years ago.

To solve this dilemma, FWP is proposing a resident fee increase that would go into effect starting March of 2006. The proposed resident fees would boost FWP revenues by about \$4.6 million a year. Some of the proposed resident fee increases are as follows:

<u>License Type</u>	<u>Current Price</u>	<u>Proposed Price</u>	<u>Average Willingness To Pay*</u>
Elk	\$16	\$25	\$32
Deer	\$13	\$20	\$24
Antelope	\$11	\$20	\$24
Upland Game Bird	\$6	\$20	\$22
Fishing	\$13	\$20	\$28

*Average willingness to pay from the 2003 surveys of Montana hunters and anglers.

How did FWP decide on the proposed new prices for resident licenses? First, FWP conducted surveys of Montana hunters and anglers in 2003 to estimate their willingness to pay higher fees. Results of these surveys, which are outlined in this research summary, showed that the majority of survey respondents were willing to pay more. Next, FWP multiplied the current prices of Montana's resident licenses by the rate of inflation since 1994, when the current fees took affect. FWP compared these prices (adjusted for inflation) to: (1) rates in neighboring states, to make sure Montana still has the lowest fees in the region, and (2) with the results of the survey of resident hunter's and anglers' average willingness to pay, to make sure they were not over-pricing licenses. Lastly, FWP rounded the fees off to whole numbers to keep the pricing simple and applied significant discounts for youth, seniors, persons with disabilities and combination licenses to keep hunting and fishing affordable, while still generating the revenue needed to sustain programs through 2011.

Online information and opportunities to comment on the resident fee proposal are available now at:

www.fwp.state.mt.us/feeproposal.asp

FWP will present the resident fee proposal, and seek comments on alternatives, at a series of public meetings that will be scheduled during the fall of 2004 and winter of 2005. Ultimately, the 2005 Montana Legislature will decide on whether or not to approve a resident fee increase.

LITERATURE CITED

Brooks, R., J. Duffield and C. Neher. 2004. *Montana Resident License Fee Study, A Descriptive and Empirical Analysis of Selected Resident License Fees*. Technical report submitted to the Director's Office of FWP by the Responsive Management Unit of FWP. Helena, MT: Responsive Management Unit, Montana Fish, Wildlife & Parks.

ABOUT THE AUTHORS

Michael S. Lewis, Human Dimensions Specialist, Responsive Management Unit of FWP, Helena, Montana.

Rob Brooks, RMU Coordinator, Responsive Management Unit of FWP, Helena, Montana.

Zoe King, Statistical Technician, Responsive Management Unit of FWP, Helena, Montana.

TO OBTAIN COPIES OF THIS SUMMARY

Contact the Responsive Management Unit of FWP by phone at (406) 444-4758.

