GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	SB0034	Title:	Facilitate cabin and home-site sales
Primary Sponsor:	Facey, Tom	Status:	As Introduced-Revised

☐ Significant Local Gov Impact ☑ Needs to be included in HB 2 ☐ Technical Concerns

☐ Included in the Executive Budget ☑ Significant Long-Term Impacts ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	$89,555	$139,678	$195,157	$150,070
State Special Revenue	$175,959	$126,679	$75,195	$124,336
Revenue:				
General Fund	$0	$0	$0	$0
State Special Revenue	$169,490	$120,113	$68,531	$117,572
Federal Special Revenue	$6,469	$6,566	$6,664	$6,764
Other (09)	($110,788)	$3,764,830	$3,681,549	$3,751,800
Net Impact-General Fund Balance:	($89,555)	($139,678)	($195,157)	($150,070)

Description of fiscal impact: SB 34 revises laws related to funding and access for the sale of state cabin or home sites. The proposed revisions also allow for voluntary funding of survey costs by the cabin site lessees or owners of the improvements. There is a $229,233 general fund fiscal impact and a $3.4 million impact to state special and other funds from this bill in the 2017 biennium.

FISCAL ANALYSIS

Assumptions:

General Assumptions

1. For fiscal note purposes, Department of Natural Resources and Conservation (DNRC) is proposing to sell approximately 40 cabin or home sites per year.
2. The Trust Land Management Division (TLMD) of DNRC manages approximately 768 cabin or home sites. Of those:

   a. 438 cabin or home sites have been surveyed, with Certificates of Survey filed with the county clerk and recorders offices; and
   b. 330 cabin or home sites will require surveys and filed Certificates of Surveys in order to be sold. Survey costs are paid by DNRC; or, may be paid by lessees or improvement owners voluntarily.
3. For fiscal note purposes, DNRC assumes :
   a. DNRC will pay the cost of surveys; and
   b. 43% of the sites sold each year are un-surveyed and will require a survey.
4. The appraised value of the land and the improvements can be completed in one appraisal report and the land and improvements can be appraised by a Montana-certified general appraiser. In the case of multiple cabin or home sites processed for sale at one location in the same year, a single appraisal assignment and appraiser would be used.
5. The sale process would be conducted under the cabin and home site land banking administrative rules (ARM Title 36, Chapter 25, Subchapter 7).
   a. The lessees would be responsible for sale processing costs and the portion of appraisal costs that deal with the value of the improvements. Processing costs include legal advertising for the auction sale, document filing fees, water right transfer fees, and indirect costs.
   b. An indirect cost rate of 11.02% was used for FY 2016 through FY 2019.
   c. DNRC would pay the appraisal cost related to the land portion, advertising to market the sale, and cost to prepare easement exhibits.
6. DNRC is basing the fiscal note on estimated costs to sell 40 cabin or home sites per year. The costs to sell the cabin sites are as follows, with some being paid by DNRC and others by the individual lessees of the parcels, in accordance with ARM Title 36, Chapter 25, Subchapter 7:
   a. $2,250 per cabin site for appraisal of land and improvements;
   b. $4,200 per parcel survey and creation of Certificate of Survey of un-surveyed parcels;
   c. $350 per parcel for sale processing costs;
   d. $200 per parcel for preparation of easement exhibits (DNRC assumes 90% of the sites sold will require an easement exhibit); and
   e. $200 per parcel for marketing advertisements.
7. Costs are as follows based on the estimates listed above:
   a. $132,480 per year for DNRC, which includes appraisal costs pertaining to land, not improvements; all of the survey/Certificate of Survey costs; costs for preparing easement exhibits; and costs for advertising to market the cabin and home site sales. These funds would be paid by the TLMD primary funding source, the TLMD trust administration state special revenue (SSR) account. This account is funded by a portion of the revenue generated by land management activities from the trust beneficiaries' distributable revenue stream; and
   b. $58,702 per year in revenue would be received by DNRC from lessees, which includes appraisal costs that deal with the value of the improvements and all of the sale processing fees. These funds would be placed in the land banking private closing costs SSR account.
8. One additional administrative specialist FTE would be necessary to process the 40 sales per year. Duties would include contracting surveys, appraisals, and appraisal reviews; conducting appraisal dispute hearings; preparing Board of Land Commissioners (Land Board) agenda items; marketing sales and conducting auctions; and preparing documents and closing sales. An inflation factor of 1.5% has been added to all costs for FY 2018 and FY 2019.
   a. Expenditures for the 1.00 FTE would include personal services and operating expenses, including an office package, computer, communication services, supplies and materials, travel, and vehicle expenses. These costs would also be funded through the TLMD trust administration SSR account.
9. An increase in the TLMD trust administration account represents a reduction in the distributable revenue stream for the trust beneficiaries. The costs for fiscal note purposes were allocated based on cabin or home site parcels by trust. The trust beneficiaries with cabin sites are common schools, the university system

(Montana State University, Montana Tech, and the state normal school [Eastern and Western]), other trusts (School for the Deaf and Blind, State Reform School – Pine Hills) and the public buildings trust.

10. Reductions to the common schools distributable revenue due to administrative costs and reductions for loss of cabin site rentals are allocated 95% to the state special revenue guarantee account and 5% to the common schools permanent fund. Reductions to the guarantee account represent a reduction to K-12 BASE Aid funding which must be offset by general fund expenditures.
11. The permanent fund generates interest for the trust beneficiaries. Interest for the common schools trust is distributed 95% to the common school guarantee account annually with 5% reinvested in the permanent fund. Interest on the common schools permanent fund is forecast at a rate of 3.70% for FY 2016, 3.50% for FY 2017, 3.30% for FY 2018, and 3.10% for FY 2019. Interest rates were provided by the Board of Investments, whose responsibility it is to manage the trust and legacy fund.

Distributable Revenue Reductions and Land Bank Assumptions:

12. The cabin or home site rental revenue will be impacted when the sites are sold. The trust beneficiaries whose cabin or home site land is sold will have reduced annual revenue until such a time as new land may be purchased to replace the distributable revenue streams.
13. Sale proceeds will be placed in trust beneficiaries' land bank funds to be used to purchase other parcels for the trusts. The total value of the cabin sites is estimated to be $76.7 million based on Department of Revenue (DOR) assessments. The 40 sites sold each year are forecast to bring in $3.9 million each year to the land bank funds. The land bank funds generate distributable interest ("short-term investment pool" or "STIP") for the trusts. The current STIP rate is 0.11% which was held constant for the four-year period of this fiscal note.
14. The first purchases of replacement property are estimated to begin in FY 2019. Once suitable replacement property is located and purchased, revenue will again be generated for the trust beneficiaries.

Fiscal Impact:	**FY 2016 Difference**	**FY 2017 Difference**	**FY 2018 Difference**	**FY 2019 Difference**
FTE	1.00	1.00	1.00	1.00
Expenditures:				
Personal Services	$61,363	$62,087	$63,019	$63,964
Operating Expenses FTE	$6,500	$3,654	$3,709	$3,764
Operating Exp-DNRC sale costs	$132,480	$134,467	$136,484	$138,531
Operating Exp-Lessee costs	$58,702	$59,583	$60,476	$61,383
Indirect Costs	$6,469	$6,566	$6,664	$6,764
TOTAL Expenditures	$265,514	$266,357	$270,352	$274,406
Funding of Expenditures:				
General Fund (01) K-12 BASE Aid	$89,555	$139,678	$195,157	$150,070
Trust Admin Acct (02)	$200,343	$200,208	$203,212	$206,259
Private Funds (02)	$65,171	$66,149	$67,140	$68,147
Guarantee Acct (02) K-12 BASE Aid	($89,555)	($139,678)	($195,157)	($150,070)
TOTAL Funding of Exp.	$265,514	$266,357	$270,352	$274,406
Revenues:				
General Fund (01)	$0	$0	$0	$0
Trust Admin Acct (02)	$200,343	$200,208	$203,212	$206,259
Private Funds (02)	$58,702	$59,583	$60,476	$61,383
Guarantee Acct (02) K-12 BASE Aid	($89,555)	($139,678)	($195,157)	($150,070)
CSD Indirects Fund (03)	$6,469	$6,566	$6,664	$6,764
Perm Fund (09) Common Schls Trust	($4,713)	($7,429)	($10,425)	($8,131)
University Trust Distributable (09)	($61,485)	($112,619)	($169,560)	($120,242)
Other Trusts Distributable (09)	($21,671)	($33,290)	($46,183)	($35,823)
Public Buildings Distributable (09)	($22,919)	($32,429)	($42,957)	($34,756)
Land Bank Sale Proceeds (09)	$0	$3,950,597	$3,950,674	$3,950,752
TOTAL Revenues	$65,171	$3,891,509	$3,756,744	$3,876,136
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($89,555)	($139,678)	($195,157)	($150,070)
Trust Admin Acct (02)	$0	$0	$0	$0
Private Funds (02)	($6,469)	($6,566)	($6,664)	($6,764)
Common Schools Guarantee Acct (02	$0	$0	$0	$0
CSD Indirects Fund (03)	$6,469	$6,566	$6,664	$6,764
Perm Fund (09) - CS Trust	($4,713)	($7,429)	($10,425)	($8,131)
University Trust Distributable (09)	($61,485)	($112,619)	($169,560)	($120,242)
Other Trusts Distributable (09)	($21,671)	($33,290)	($46,183)	($35,823)
Public Buildings Distributable (09)	($22,919)	($32,429)	($42,957)	($34,756)
Land Bank Sale Proceeds (09)	$0	$3,950,597	$3,950,674	$3,950,752

Effect on County or Other Local Revenues or Expenditures:

1. As cabin or home sites are sold, the assessed value by DOR will be added to county tax rolls.
   a. If sale funds are deposited in the land banking fund, when replacement lands are purchased they will become tax exempt. Counties where lands are sold will gain taxable value, counties where replacement lands are purchased will lose taxable value, and the net effect would be tax revenue neutral statewide.
   b. If sale funds are placed in the permanent fund there will be a net gain statewide in taxable value.

Long-Term Impacts:

1. Initially cabin or home site rental revenue will decrease, as approximately 40 cabin sites per year are sold. Sale proceeds will accumulate in the land bank funds until sufficient funds are pooled to purchase a qualifying land acquisition (see Assumption 13). As required by 77-2-364, MCA, *"the board may not purchase land, easements, or improvements pursuant to 77-2-361 through 77-2-367 unless it has first prudently determined that the land, easements, or improvements are likely to produce a greater or equal annual rate of return..."*. Therefore, long-term impacts would be equal or greater revenue generation from replacement lands.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*
	1/12/15		1/9/15