



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2021 Biennium

Bill # HB0627

Title: Revise laws regarding conservation licenses on state lands

Primary Sponsor: Hamilton, Jim

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

	<u>FY 2020</u> <u>Difference</u>	<u>FY 2021</u> <u>Difference</u>	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>
Expenditures:				
General Fund	\$96,628	\$74,674	\$75,929	\$77,211
Trust Admin. Account SSR (02)	\$128,005	\$98,705	\$100,186	\$101,688
Common Sch Guar Acct (02)	(\$96,628)	(\$74,674)	(\$75,929)	(\$77,211)
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Trust Admin. Acct. SSR (02)	\$128,005	\$98,705	\$100,186	\$101,688
Common Sch Guar Acct (02)	(\$96,628)	(\$74,674)	(\$75,929)	(\$77,211)
Comm Sch Trst-Perm Fund (09)	(\$5,086)	(\$3,930)	(\$3,996)	(\$4,064)
University Trusts Distrib (09)	(\$8,884)	(\$6,850)	(\$6,953)	(\$7,057)
Other Trusts Distributable (09)	(\$5,031)	(\$3,879)	(\$3,937)	(\$3,996)
Public Buildings Distrib (09)	(\$12,544)	(\$9,673)	(\$9,818)	(\$9,965)
Net Impact-General Fund Balance:	(\$96,628)	(\$74,674)	(\$75,929)	(\$77,211)

Description of fiscal impact: HB 627 will require the Trust Land Management Division (TLMD) of the Department of Natural Resources and Conservation (DNRC) to prepare a Timber Conservation License In lieu of Sale for every timber sale contract prepared and offered for bid. Due to the increased workload associated with these licenses, DNRC will need one additional FTE to meet these requirements. The expenses associated with personal services, operating expenses, and equipment needed for this FTE will be paid from the Trust Administration Account, which will result in a reduction of revenue to trust beneficiaries.

FISCAL ANALYSIS

Assumptions:

1. For a Timber Conservation License In lieu of Sale to be included for each timber sale offered, DNRC would need to prepare a Conservation License Alternative for each of those sales during the project's environmental review process. The average number of timber sales offered by DNRC is approximately 27 projects per year.
2. The analysis completed during the environmental review would be used to determine the term of the Conservation License. Currently, that analysis utilizes forest stand level growth modeling to determine culmination of mean annual increment (CMAI). The annual amount of wood produced by a stand of trees changes over time as the stand matures. Very little wood fiber is produced when trees are small but increases rapidly as the trees approach maturity. Once trees in a stand reach maturity, the annual growth rate begins to slow. CMAI is the highest average annual volume growth rate. This is the most efficient time to harvest, maximizing return.
3. DNRC uses the Forest Vegetation Simulator (FVS) software to model tree growth and determine CMAI. The use of this model is complex and labor intensive. It would require at least 16 hours of staff time to complete this analysis for every Conservation License proposed. Therefore, the total for 27 projects per year is approximately 432 hours of additional staff time required to complete the required analysis.
4. The growth modeling completed to determine CMAI requires tree regeneration data that DNRC does not currently collect during normal timber sale cruising. The additional data collection would require approximately 10 hours for each timber sale. Therefore, a total of 270 hours of additional staff time would be required to collect this data on 27 timber sale projects per year.
5. The analysis completed for the Conservation License would then have to be documented in the Environmental Assessment or Environmental Impact Statement completed for each proposed timber sale as required under the Montana Environmental Procedures Act (MEPA). Approximately 320 hours of additional staff time per year would be required to complete this analysis and documentation.
6. In order to implement these requirements in a consistent manner across the program, DNRC would have to revise its MEPA templates, provide programmatic training, and offer assistance to project leaders with this analysis. This would require a total of approximately 254 hours of additional staff time.
7. In addition, completing rulemaking required under this proposal would require additional staff time and resources. Developing and adopting Administrative Rules of Montana (ARMs) and revising policies for this proposal would require approximately 480 hours of additional staff time.
8. Including a Conservation License in each timber sale would also impact the amount of resources needed to compile, process, and prepare the sale package. DNRC estimates that 324 additional hours of staff time will be needed to prepare a sample conservation license and incorporate that alternative into the advertising of bids.
9. 1.00 FTE will be needed to complete the additional workload (Conservation Specialist), with the addition of operating expenses, including office package, computer, per diem, travel, communications, etc. Equipment costs for one new truck have also been added in FY 2020.
10. An inflation factor of 1.5% has been added to personal services and operating costs for FY 2022 and FY 2023.
11. The increase in personal services, operations, and equipment would be funded from the trust administration state special revenue account. This account is funded from revenues from the trust beneficiaries' distributable revenue stream. For fiscal note purposes, forested acres as a percent of each trust were used to allocate costs to the larger trust beneficiaries. The common schools (K-12) is the largest trust beneficiary with 70% of the forest acreage and revenues.
12. An increase in the trust administration account represents a reduction in the distributable revenue stream for

the trust beneficiaries. The trust beneficiaries impacted by this bill are common schools (K-12), the university system (Montana State University, Montana Tech, and the state normal school [Eastern and Western]). Other trusts are the School for the Deaf and Blind, State Reform School – Pine Hills, and the Public Buildings trust.

13. Reductions to the common schools distributable revenue are allocated 95% to the guarantee account and 5% to the common schools permanent fund.
14. Reductions in the deposits to the common schools permanent fund reduce interest in the fund and distributable interest to the trust.
15. 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 forecasted at a rate of 3.35% for FY 2020, 3.45% for FY 2021, 3.50% for FY 2022, and 3.55% for FY 2023. Interest rates were provided by the Board of Investments, whose responsibility it is to manage the trust and legacy fund.
16. The state special revenue guarantee account is a first source of funding for K-12 BASE aid and any decrease to the guarantee account is a direct offset to general fund expenditures and visa versa. This bill reduces guarantee account revenue by \$96,628 in FY 2020 and \$74,674 in FY 2021 creating a general fund expenditure increase by a like amount.

	<u>FY 2020</u> <u>Difference</u>	<u>FY 2021</u> <u>Difference</u>	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
FTE	1.00	1.00	1.00	1.00
<u>Expenditures:</u>				
Personal Services	\$87,705	\$87,705	\$89,021	\$90,356
Operating Expenses	\$13,800	\$11,000	\$11,165	\$11,332
Equipment	\$26,500	\$0	\$0	\$0
TOTAL Expenditures	\$128,005	\$98,705	\$100,186	\$101,688
<u>Funding of Expenditures:</u>				
General Fund (01)	\$96,628	\$74,674	\$75,929	\$77,211
Trust Admin. Acct. SSR (02)	\$128,005	\$98,705	\$100,186	\$101,688
Common Sch Guar Acct (02)	(\$96,628)	(\$74,674)	(\$75,929)	(\$77,211)
TOTAL Funding of Exp.	\$128,005	\$98,705	\$100,186	\$101,688
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Trust Admin. Acct. SSR (02)	\$128,005	\$98,705	\$100,186	\$101,688
Common Sch Guar Acct (02)	(\$96,628)	(\$74,674)	(\$75,929)	(\$77,211)
Comm Sch Trst-Perm Fund (09)	(\$5,086)	(\$3,930)	(\$3,996)	(\$4,064)
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Other Trusts Distributable (09)	(\$5,031)	(\$3,879)	(\$3,937)	(\$3,996)
Public Buildings Distrib (09)	(\$12,544)	(\$9,673)	(\$9,818)	(\$9,965)
TOTAL Revenues	(\$168)	(\$301)	(\$447)	(\$605)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$96,628)	(\$74,674)	(\$75,929)	(\$77,211)
Trust Admin. Acct. SSR (02)	\$0	\$0	\$0	\$0
Common Sch Guar Acct (02)	\$0	\$0	\$0	\$0
Comm Sch Trst-Perm Fund (09)	(\$5,086)	(\$3,930)	(\$3,996)	(\$4,064)
University Trusts Distrib (09)	(\$8,884)	(\$6,850)	(\$6,953)	(\$7,057)
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Technical Notes:

- The language included in 2-77-5-208(5), MCA, of the bill is not clear on how minimum bids for a conservation license would be set. In (5)(b) it states that “the minimum bid for a timber conservation license must include but is not limited to: (i) timber depreciation and addition timber growth during the term of the license”. The DNRC assumes that the intent of the proposal is for conservation licenses to have a separate minimum bid amount from those set for active timber harvest bids.

 Sponsor's Initials

 Date

TL

 Budget Director's Initials

3/1/19

 Date