



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill # SB0369

Title: Revise state cabin site leasing laws

Primary Sponsor: Facey, Tom

Status: As Introduced

- | | | |
|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2014</u> <u>Difference</u>	<u>FY 2015</u> <u>Difference</u>	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>
Expenditures:				
General Fund	\$84,968	\$130,198	\$181,754	\$237,526
State Special Revenue	\$138,909	\$90,779	\$42,620	(\$10,135)
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$138,909	\$90,779	\$42,620	(\$10,135)
Other	(\$100,149)	\$3,640,423	\$3,564,142	\$3,481,471
Net Impact-General Fund Balance:	<u>(\$84,968)</u>	<u>(\$130,198)</u>	<u>(\$181,754)</u>	<u>(\$237,526)</u>

Description of fiscal impact: SB 369 requires the Board of Land Commissioners (Land Board) to sell the cabin and home sites (cabin sites) on school trust lands by July 2035. The Department of Natural Resources and Conservation (DNRC) would need to sell approximately 40 sites per year to meet the deadline. SB would result in reduced distributable revenues to the trust beneficiaries of approximately \$1.5 million from FY 2014 through FY 2017.

FISCAL ANALYSIS

Assumptions:

1. The Trust Land Management Division (TLMD) of DNRC manages approximately 787 cabin sites. Of those:
 - a. 306 have been surveyed, with Certificates of Survey filed with county clerk and recorders offices. Those filed surveys are adequate to describe and transfer title of these sites; and
 - b. 481 cabin sites will require surveys and filed Certificates of Surveys in order to be sold. Survey costs are paid by DNRC.

2. 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 sites processed for sale at one location in the same year, a single appraisal assignment and appraiser would be used.
3. The sale process will be conducted under the land banking administrative rules (ARM Title 36, Chapter 25, Subchapter 8), modified as necessary to accommodate cabin site sales.
 - a. The lessees are 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. DNRC pays the appraisal cost related to the land portion.
4. Cabin sites would be sold over a 20-year period starting in FY 2014. Approximately 5% of the cabin sites would be sold each year (40 cabin sites). 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, as per ARM Title 36, Chapter 25, Subchapter 8:
 - a. \$1,500 per cabin site for appraisal of land and improvements;
 - b. \$3,530 per parcel survey and creation of certificate of survey of un-surveyed parcels; and
 - c. \$235 per parcel for sale processing costs.
5. Costs are as follows based on the estimates in assumption #4:
 - a. \$144,409 per year for DNRC (appraisal costs pertaining to land, not improvements; and, all of the survey/Certificate of Survey costs). These funds would be paid by TLMD's primary funding source, the TLMD trust administration state special revenue account. This account is funded by a portion of the revenues generated by land management activities from the trust beneficiaries' distributable revenue stream.
 - b. \$38,760 per year in revenue would be received by DNRC from lessees (appraisal costs that deal with the value of the improvements and the entire sale processing fee). These funds would be placed in the land banking private closing costs SSR account.
6. 1.00 FTE program manager would be necessary to process the 40 sales per year. Duties would include contracting surveys, appraisals, and appraisal reviews; conducting appraisal dispute hearings; preparing 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 2016 and FY 2017.
 - 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.
7. 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 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.
8. Reductions to the common schools distributable revenue are allocated 95% to the guarantee account and 5% to the common schools permanent fund.
9. 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 3.75% for FY 2015, 3.40% for FY 2016, and 3.05% for FY 2017. Interest rates were provided by the Board of Investments, whose responsibility it is to manage the trust and legacy fund.

Cabin site distributable revenue reductions and the land bank:

10. The cabin site rental revenues will not be impacted until FY 2015 when the first 40 sites are sold. The trust beneficiaries whose cabin site land is sold will have reduced annual revenues until such a time as new land may be purchased to replace their lost revenue streams.
11. 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 \$76.1 million based on Department of Revenue (DOR) assessments. The 40 sites sold each year are forecasted to bring in \$3.8 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 0.25% which was held constant for the four-year period of this fiscal note.
12. The first purchases of replacement property are estimated to begin in FY 2018. Once suitable replacement property is located and purchased, revenues will again be generated for the trust beneficiaries.

Office of Public Instruction

13. The guarantee account is the first source of funding for K-12 Base Aid, the reduction in guarantee account revenue must be offset with general fund expenditures of a like amount for K-12 Base Aid.

	<u>FY 2014</u> <u>Difference</u>	<u>FY 2015</u> <u>Difference</u>	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
FTE	1.00	1.00	1.00	1.00
<u>Expenditures:</u>				
Personal Services	\$64,208	\$64,208	\$65,254	\$65,883
Operating Expenses FTE	\$6,500	\$3,600	\$3,654	\$3,709
Op Exp DNRC land sales	\$114,409	\$114,409	\$116,125	\$117,867
Op Exp Lessee costs	\$38,760	\$38,760	\$39,341	\$39,932
TOTAL Expenditures	\$223,877	\$220,977	\$224,375	\$227,391
<u>Funding of Expenditures:</u>				
General Fund (01) - Base Aid	\$84,968	\$130,198	\$181,754	\$237,526
SSR Trust Admin Acct	\$185,117	\$182,217	\$185,033	\$187,459
SSR Land Bank private	\$38,760	\$38,760	\$39,341	\$39,932
SSR Guarantee Acct - Base Aid	(\$84,968)	(\$130,198)	(\$181,754)	(\$237,526)
TOTAL Funding of Exp.	\$223,877	\$220,977	\$224,374	\$227,391
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
SSR Trust Admin Acct	\$185,117	\$182,217	\$185,033	\$187,459
SSR Land Bank private	\$38,760	\$38,760	\$39,341	\$39,932
SSR Com School Guar Acct	(\$84,968)	(\$130,198)	(\$181,754)	(\$237,526)
Perm Fund (09)-CS Trust	(\$4,472)	(\$7,020)	(\$9,900)	(\$13,001)
University Trusts Dist	(\$61,309)	(\$106,590)	(\$158,257)	(\$214,344)
Other Trusts Dist	(\$17,783)	(\$28,359)	(\$40,395)	(\$53,401)
Public Buildings Dist	(\$16,585)	(\$25,236)	(\$35,100)	(\$45,744)
Land Bank Sale Proceeds	\$0	\$3,807,628	\$3,807,794	\$3,807,961
TOTAL Revenues	\$38,760	\$3,731,202	\$3,606,762	\$3,471,336

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$84,968)	(\$130,198)	(\$181,754)	(\$237,526)
SSR Trust Admin Acct	\$0	\$0	\$0	\$0
SSR Land Bank private	\$0	\$0	\$0	\$0
SSR Com School Guar Acct	\$0	\$0	\$0	\$0
Perm Fund (09)-CS Trust	(\$4,472)	(\$7,020)	(\$9,900)	(\$13,001)
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Effect on County or Other Local Revenues or Expenditures:

1. As cabinsites are sold, the assessed value by DOR will be added to county tax roles.
 - 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 site rental revenues will decrease, as approximately 40 cabinsites per year are sold. Sale proceeds will accumulate in the land bank funds until sufficient funds are pooled to purchase a qualifying land acquisition. 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.

Technical Notes:

1. DNRC will convey the title and access that it has and can convey. Cabin sites will be sold "as is" with no warranty to title or access.

Sponsor's Initials

Date

Budget Director's Initials

Date