

CAP GAME AND FISH TRUST FUND

House Bill 4912 as introduced First Analysis (6-12-01)

Sponsor: Rep. Larry DeVuyst
**Committee: Conservation and Outdoor
Recreation**

THE APPARENT PROBLEM:

The Game and Fish Protection Fund, which is administered by the Department of Natural Resources (DNR), is the primary source of funding for the state's hunting and fishing programs. Expenditures from the fund can only be used to enforce fish and game laws, and for related educational and support services and administrative costs. Together with a small amount of federal funds, the game and fish fund provides the DNR's entire budget for its Fisheries and Wildlife divisions, and most of the budget for the Law Enforcement Division. Most of the money in the fund (approximately 80 percent) comes from the sale of hunting and fishing licenses, with the remainder derived mainly from income from state-owned lands acquired with game and fish fund money. The fund also receives money from the interest and earnings of the Game and Fish Protection Trust Fund. In the current fiscal year, this accounted for eleven percent of the money in the fund. The protection fund, however, has both short- and long-term problems.

One continuing problem for the department has been that, being based primarily on fixed license fees, income from the Game and Fish Protection Fund remains relatively constant while the costs of the programs it funds continue to rise with inflation. This combination of fixed fees and the effects of inflation results in periodic budgetary shortfalls, followed by periodic license fee increases. In testimony presented to the House committee, the director of the DNR reported that the department has faced revenue shortfalls for the past two years. In August of 1999, the Natural Resources Commission Policy Committee on Finance and Administration was informed by the department that, if current revenue trends continued and costs continued to escalate, there would be a deficit balance in the fund by the close of the 2000-2001 fiscal year. In fact, the department's revenues were reduced by \$9.2 million in fiscal year 2001-2002. In response, the department restricted some programs, thereby saving \$8.2 million. Changes are also planned for the Wildlife

Division, which should save another \$1 million. Other reductions, totaling \$3.6 million, have been proposed. The department has also postponed filling several vacant positions. The process for increasing license fees, which were last increased in 1997, has been set in motion. However, even with these reductions, the department estimates that the Game and Fish Protection Fund will be exhausted by 2003.

In order to avoid exhausting the Game and Fish Protection Fund, the department has proposed withdrawing more money from the Game and Fish Protection Trust Fund. According to testimony provided to the House committee by the department, the balance in the trust fund at the end of the current fiscal year will be \$90,495,200. The department proposes capping the trust fund at \$85 million, and transferring the amount in the fund in excess of \$85 million to the Game and Fish Protection Fund. The department estimates that this would eliminate projected shortfalls through fiscal year 2006-2007. Consequently, an increase in license fees, beyond those provided for the current fiscal year, could be avoided. (See *Background Information* for additional details.)

THE CONTENT OF THE BILL:

Part 437 of the Natural Resources and Environmental Protection Act (NREPA) concerns the Game and Fish Protection Trust Fund. The fund receives money from several sources, including from the sale or leasing of resources, including oil, gas, metallic, and non-metallic minerals and forest resources, on state-owned land bought with game and fish protection funds. The fund also accepts direct gifts, grants, and bequests. House Bill 4912 would amend Part 437 to specify that, after the trust fund's corpus reached \$85 million, revenues in excess of the amount needed to maintain the corpus at \$85 million, which would ordinarily be deposited in the trust fund would, instead, be deposited in the Game and Fish Protection Fund. Further, if the trust fund's corpus exceeded

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\$85 million on September 30, 2001, the amount in excess of \$85 million would be transferred to the Game and Fish Protection Fund. The bill would also delete outdated provisions regarding royalties from the Kammer act (see *BACKGROUND INFORMATION*) and the requirement that the trust fund be invested in the same manner as surplus funds.

MCL 324.43702 et al.

BACKGROUND INFORMATION:

The Game and Fish Protection Trust Fund was created under the provisions of Public Act 73 of 1986. The intent of the act was to provide the Department of Natural Resources (DNR) with a source of income that would help offset increased costs due to inflation. The fund receives money from various sources. Initially, the major source of funds was \$8 million that had been generated under the former Kammer recreational land acquisition trust fund act. Money was also received during fiscal years 1985-86 and 1986-87 from oil and gas royalties from state lands bought by game and fish protection funds that would ordinarily have gone into an account created by the former Kammer act. After September 30, 1987, the trust fund received oil revenues from the sale or leasing of resources, including oil, gas, metallic, and non-metallic minerals and forest resources on state-owned land bought with game and fish protection funds. The fund also accepts direct gifts, grants, and bequests. The DNR receives money from the interest and earnings of the trust fund.

FISCAL IMPLICATIONS:

The bill would place an \$85 million cap on the Game and Fish Protection Trust Fund. After the balance in the trust fund reaches \$85 million, any excess revenue from royalties and interest would be credited to the Game and Fish Protection Fund. The House Fiscal Agency (HFA) notes that revenues from marine and forest harvest royalties are deposited in the trust fund, and that these provided \$13.2 million in trust income during the 2000-2001 fiscal year. The HFA estimates that approximately \$500,000 would be transferred from the trust fund after it reached the \$85 million cap. (6-8-01)

ARGUMENTS:

For:

The Department of Natural Resources' budget for funding hunting and fishing programs has been plagued by periodic deficits. Income from license fees remains fixed while inflation increases costs. The Game and Fish Protection Trust Fund was created fifteen years ago to eliminate the problem, but interest and earnings from that fund now provide only eleven percent of the department's budget. In addition, when fishing and hunting license fees were last raised under Public Act 585 of 1996, it was said at the time that this would enable the department to work toward the goals listed in its *Game and Fish Protection Fund, Background Material*, issued in May, 1995, including one that would "provide an adequate, stable funding source for all the department's wildlife and fisheries-related programs." However, this goal was never realized. Moreover, according to the department's recent testimony before the House committee, deficits are inevitable, given the current funding method of the Game and Fish Protection Fund.

Against:

Raiding the Game and Fish Protection Trust Fund is poor public policy. First, those who donate to the trust fund rightfully expect that their gifts will remain there. Also, it should serve as a warning that other trust funds -- for example, the Kammer Recreational Land Acquisition Trust Fund, which was created to acquire recreational land -- were raided repeatedly for other purposes. The Natural Resources Trust Fund, too, has been threatened from time to time.

Although the DNR budget currently faces a large deficit, the problem can be traced, in part, to a lack of long-range funding solutions. The Game and Fish Protection Trust Fund was created specifically to address the department's long-term budgetary problems. Raiding it would provide only a short-term solution. Moreover, since hunting and fishing programs provided by the state operate under the user-pay concept, it would make more sense to increase license fees to respond to this situation.

Response:

Actually, the department seldom uses the approach of raising hunting and fishing license fees to address revenue shortfalls. There was no increase in fees between 1986 and 1997. Fees were increased in 1997, under the provisions of Public Act 585 of 1996. That act changed fees for resident and nonresident licenses beginning in 1997, and phased in additional changes for 1999 and 2001. Public Act 585 also

granted the director of the DNR the discretion of deferring implementation of increasing the fees again in 1999 and in 2001. The process has been set in motion to increase fees for the current fiscal year. However, since fees were not increased in 1999, that increase would have to be implemented first. With regard to raiding the trust fund, moreover, some say an analogy can be made to a farmer who finds it necessary to sell off 40 acres of his farm, so that *his* trust fund can be passed on to his children.

Against:

During the House committee's debate on the bill, various suggestions were offered to increase revenues. One proposal was offered was to harvest and sell timber on game and fish lands. Another was to empower local police so that they could help fill the gap created by a shortage of conservation officers.

Response:

Regarding the harvesting of timber on game and fish lands, the department notes that these lands are not managed as a source of revenues. Instead, the department's objective is to promote a healthy wildlife habitat. Also, concerning the proposal to have local police fill conservation officers' duties, it was noted that police officers already have this authority.

POSITIONS:

Representatives of the Department of Natural Resources (DNR) testified before the House Conservation and Outdoor Recreation Committee in support of the bill. (6-7-01)

The Michigan Council of Trout Unlimited has not yet formulated a position on the bill. However, the organization has concerns about capping the trust fund. It would prefer the adoption of a formula to allow the diversion of a specific amount for departmental operating purposes, with the remainder going to the trust fund. (6-7-01)

The Michigan United Conservation Clubs (MUCC) strongly opposes the bill. (6-8-01)

Analyst: R. Young

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.