

# Game and Fish Fund

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March 1991

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Program Evaluation Division  
Office of the Legislative Auditor  
State of Minnesota

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## Program Evaluation Division

The Program Evaluation Division was established by the Legislature in 1975 as a center for management and policy research within the Office of the Legislative Auditor. The division's mission, as set forth in statute, is to determine the degree to which activities and programs entered into or funded by the state are accomplishing their goals and objectives and utilizing resources efficiently. Reports published by the division describe state programs, analyze management problems, evaluate outcomes, and recommend alternative means of reaching program goals. A list of past reports appears at the end of this document.

Topics for study are approved by the Legislative Audit Commission (LAC), a 16-member bipartisan oversight committee. The division's reports, however, are solely the responsibility of the Legislative Auditor and his staff. Findings, conclusions, and recommendations do not necessarily reflect the views of the LAC or any of its members.

The Office of the Legislative Auditor also includes a Financial Audit Division, which is responsible for auditing state financial activities.

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Roger Brooks, *Deputy Legislative Auditor*

Joel Alter  
David Chein  
Marilyn Jackson-Beeck  
Daniel Jacobson  
Elliot Long  
Marlys McPherson  
Jan Sandberg  
Kathleen Vanderwall  
Jo Vos  
Tom Walstrom  
Deborah Woodworth  
John Yunker

## Support Staff

Jean Barnhill  
Barbara Schmidt  
Theresa Wagner

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# Game and Fish Fund

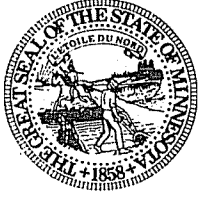
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Program Evaluation Division  
Office of the Legislative Auditor  
State of Minnesota





STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

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March 14, 1991

Members  
Legislative Audit Commission

Dear Members:

In May 1990, The Legislative Audit Commission directed the Program Evaluation Division to review the revenues and expenditures of the Game and Fish Fund to determine whether they are consistent with state law and appropriate to the goals of the fund.

Overall, we found that the Department of Natural Resources is managing the Game and Fish Fund in compliance with state law and legislative intent. However, in recent years, the Legislature has expanded the scope of what is paid for from the fund. This has contributed to an increase in fishing and hunting license fees and caused controversy, since many hunters and anglers do not think the increased fees directly benefit their activities.

How direct the link should be between activities supported by the fund and hunting and fishing is a policy question for the Legislature to decide. While we present arguments on both sides of the debate, we have no basis for judging which side is correct. We do hope, however, that this report will help focus and inform the debate.

In conducting this review, we received the full cooperation of the Department of Natural Resources.

The report was researched and written by Tom Walstrom with assistance from David Chein and Jay Kroshus.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Jim Nobles".

James R. Nobles  
Legislative Auditor

A handwritten signature in black ink, appearing to read "Roger Brooks".

Roger A. Brooks  
Deputy Legislative Auditor



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# GAME AND FISH FUND

## EXECUTIVE SUMMARY

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**L**icense fees from anglers and hunters are deposited into a separate account in the state treasury known as the Game and Fish Fund. Revenues of the fund are dedicated to pay for the activities of the Department of Natural Resources (DNR) Fish and Wildlife Division as well as certain other department expenses. Over the last decade, license fees have risen faster and more frequently than in the past. Concerns among legislators over the rate of increase and the makeup of the fund's revenues and expenditures led the Legislative Audit Commission to direct a study of the fund's status. The audit commission sought answers to the following questions:

- **How have Game and Fish Fund revenues and expenditures changed over time?**
- **Has DNR charged appropriate amounts to the Game and Fish Fund for administration and other departmental expenses?**
- **Does the department have appropriate financial controls over the fund?**

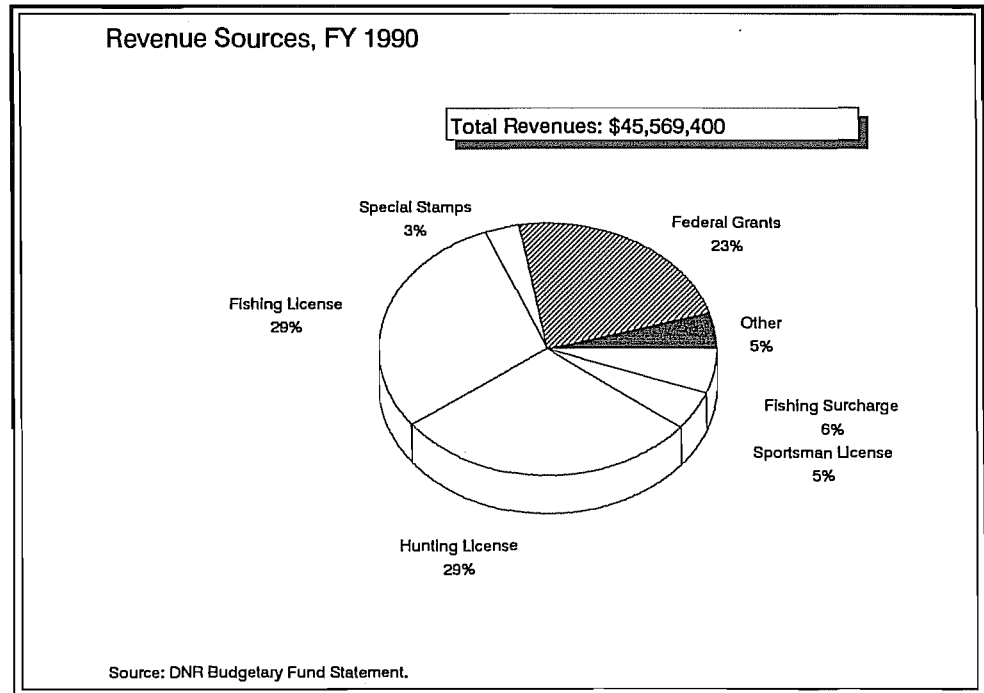
In order to address these questions we interviewed DNR managers, reviewed budgetary and financial records, interviewed officials from other states and the U.S. Fish and Wildlife Service, and our financial auditors reviewed certain of the fund's financial transactions.

## REVENUES

Game and Fish Fund revenues have grown from \$10 million in 1975 to over \$45 million in 1990. The fund receives most of its revenue from license fees paid by hunters and anglers. As the figure shows, the fund currently receives about 72 percent of revenues from license fees, 23 percent from federal grants (up from 12 percent in 1975), and 5 percent from other sources.

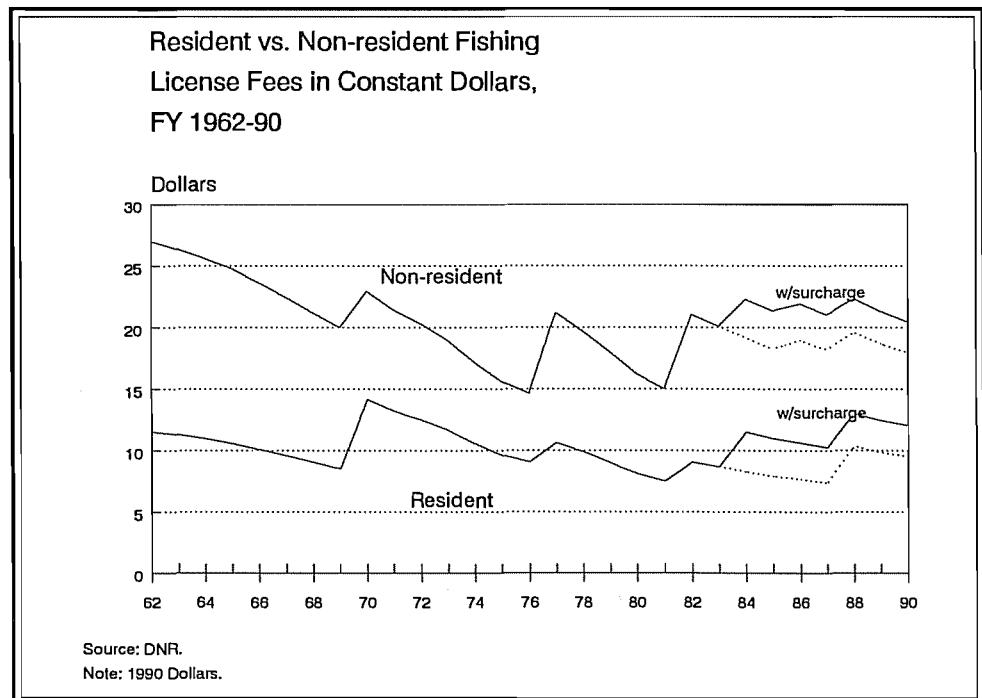
Over one million fishing licenses were sold in license year 1989 generating about \$13 million in revenue. Almost 800,000 hunting licenses and 200,000 waterfowl and pheasant stamps were sold, generating \$14 million in revenue. In addition, 130,000 Minnesotans bought combined or sportsmen's licenses

Revenues have grown to over \$45 million per year.



adding \$2.3 million in revenues. Most of the revenue comes from just a few types of licenses, primarily the resident fishing and deer licenses. Resident deer licenses account for \$9 million in revenue, 62 percent of all hunting receipts or 85 percent of non-dedicated receipts. Overall, about 87 percent of license revenues in 1989 were collected from state residents.

As shown below, when the fishing license surcharge is included, resident fishing license fees have increased slightly in constant dollars since 1962. Without



the surcharge, license fees have declined slightly over the last thirty years. Demand for resident fishing licenses is relatively inelastic with respect to their price. The number of fishing licenses sold has remained about the same despite recent price increases since the early 1980s. However, some sports groups believe that license fees have become high enough to discourage casual participants.

In constant dollars the resident deer firearms license costs about the same as it did in 1962, but the non-resident deer license fee has decreased 60 percent.

Minnesota residents' license fees are comparable to those charged in neighboring states, with the exception of the fishing license. The resident angling license cost 17 percent more than the regional average and will increase one dollar in license year 1991. Non-resident license fees are also comparable with the exception of the small game and the basic angling license, which are slightly below those charged in neighboring states. DNR is proposing that the Legislature raise each of these fees in the 1991 legislative session.

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**Federal fishing revenues are likely to grow substantially.**

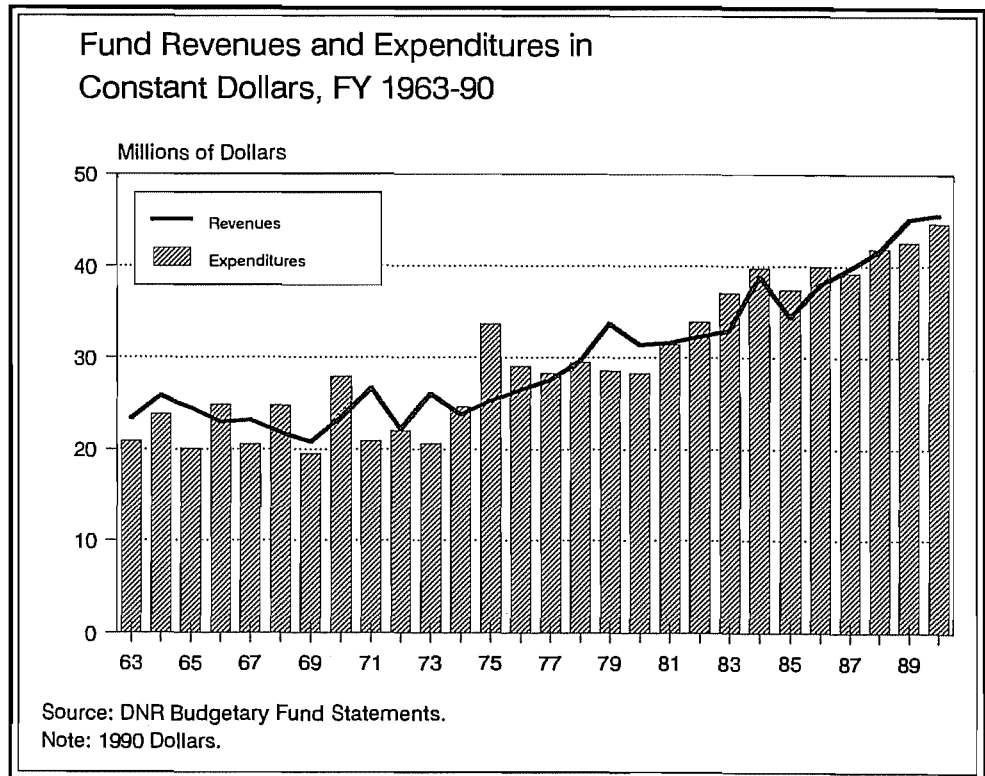
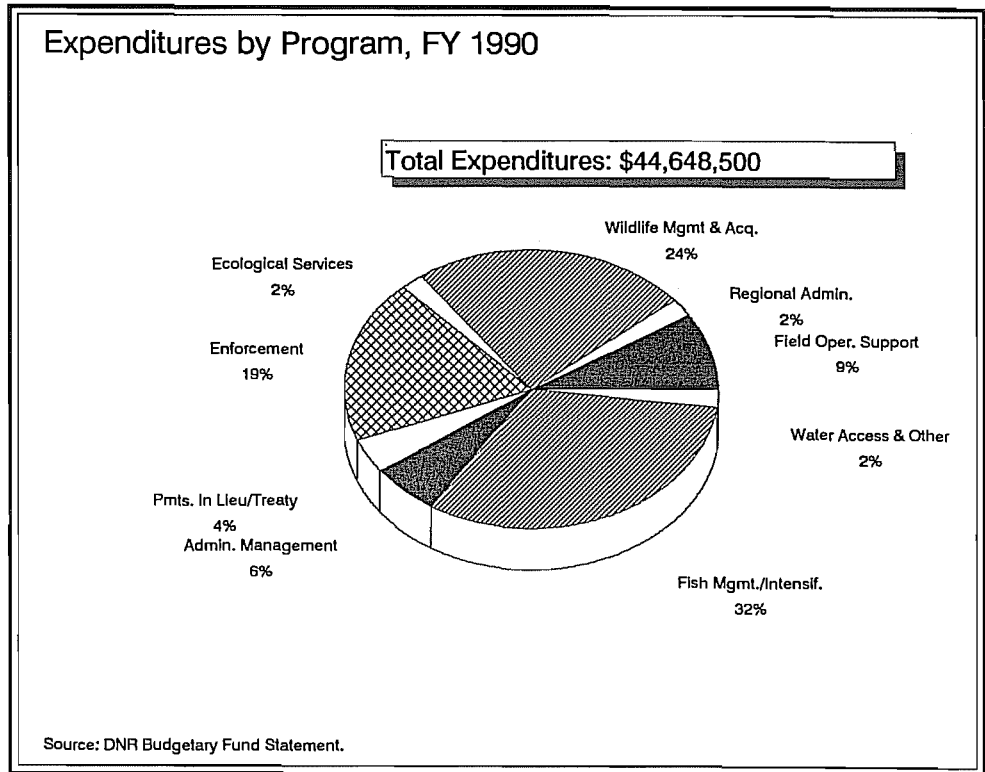
Federal funds have risen substantially over the last decade, because of an expansion of the Wallop-Breaux Sport Fish Restoration aids, the addition of a senior fishing license, and a slight increase in Minnesota's share of wildlife aids. The Wallop-Breaux expansion of sport fish restoration funds in 1984 and the 1990 budget reconciliation act provisions have increased the state's federal fishing aids substantially. As the result of 1990 changes, federal fishing aid is likely to increase well over \$2 million in the next few years.

The sale of senior fishing licenses has increased federal aids because 60 percent of the state's allocation is based on the number of licensed anglers. Minnesota has sold approximately 105,000 of the \$4.00 senior licenses in each of the last three years. Approximately one-third of the senior citizens buying a license requested a refund. In addition to processing costs, each refund costs the fund approximately \$4.70 in federal aid as well as the \$4.00 license fee.

Some have suggested that the refund is a social policy unrelated to hunting and fishing and that the cost of the refund should be borne by the General Fund. However, if the General Fund were to reimburse the Game and Fish Fund for the senior license refunds, federal regulations would still prohibit additional federal aid accruing to the state.

## EXPENDITURES

As the first figure on the next page shows, the primary expenditures from the Game and Fish Fund are for fish and wildlife programs and the enforcement program. Total fund expenditures reached almost \$45 million in 1990. Expenditures on fish management in 1990 were over \$14.4 million and expenditures on wildlife management were over \$10.7 million.



Total fund expenditures have risen in nominal and constant dollars. The second chart shows that fund expenditures have more than doubled in constant dollars since 1962.

Expenditures for the fish management program measured in constant dollars were at a historic high in 1990. The basic wildlife program's constant dollar expenditures are 38 percent higher than in 1975, but lower than in the late 1970s and early 1980s.

- **Despite the name of the fund, a large portion of expenditures — approximately 44 percent in 1990 — were on programs other than fish and wildlife management.**

It is these other fund expenditures not directly for fish and wildlife programs that most concern anglers, hunters, and legislators concerned about the fund's solvency.

One of the largest programs financed from the Game and Fish Fund is the enforcement program, costing over \$8.2 million in 1990. The rationale for partially financing the enforcement program from the fund is that conservation officers' activities primarily benefit hunters and anglers. The enforcement program is an integral part of fish and wildlife management, but it also provides benefits to the general public.

The proportion of the enforcement division's budget that has come from the fund has changed over the years. The proportion rose from 58 percent in 1981 to 82 percent in 1984. This has had a substantial effect on the fund's status during the 1980s. For example, if the enforcement division had been 60 percent financed from the fund, approximately \$13 million would have been available for other purposes. The 1989 Legislature reduced the percentage of the enforcement budget paid from the fund to 70 percent based on a study of how enforcement officers spent their time. If the division had been financed at the 70 percent level during the 1980s, the fund balance would be \$5 million higher today.

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**About 68 percent of conservation officer time was spent on game and fish activities.**

We examined the enforcement division timekeeping system and conservation officer daily logs. Based on our review, we estimate that in 1990 about 68 percent of conservation officers' time was spent on activities relating to the Game and Fish Fund. Our review suggests that the timekeeping system provides a reasonable estimate of how much time conservation officers spend on Game and Fish Fund related activities, although the fund may be financing slightly more than its proportional share of enforcement expenditures.

Another major expenditure item from the fund is the administrative overhead and support costs of the department. In fiscal year 1990, these amounted to about \$7.6 million or about 17 percent of fund expenditures. These costs include a portion of the commissioner's office, financial management, computer services, statewide indirect costs, the attorney general and state auditor's fees, regional administration, field services, real estate management, and engineering services.

There is no definitive standard for how much various funds should contribute for departmental administrative support services. How much is paid by any fund for any program is determined by the Legislature during the appropriations process. Our review suggests that the Game and Fish Fund is not paying more of its fair share of departmental support costs. For example, the percentage of departmental support costs paid for the Fish and Wildlife Division (about 17 percent) is less than its proportion of the department's total budget (about 26 percent) or its proportion of DNR's total salaries (about 23 percent).

In our view the decision about what proportion of overhead costs to pay for from the Game and Fish Fund should be kept separate from actual expenditures. It would be very awkward and administratively inefficient if DNR were to try to match funding sources exactly to each expenditure category. Instead, the department pays for some administrative activities completely from one source of funding and others completely from other financing sources. Although this can cause confusion and questions among license holders about why the Game and Fish Fund is paying for certain activities, it is a reasonable response by the department.

Another expenditure that some have questioned are payments made to local governments in-lieu-of-taxes. Payments in-lieu-of-tax are made by DNR mainly to counties and townships to reimburse for property taxes that they would have received if DNR had not acquired the land for public purposes. The Game and Fish Fund makes payments in-lieu-of-tax on lands acquired for wildlife management areas. Payments in-lieu-of-tax for other natural resource land, such as forests, scientific and natural areas, and parks, are made from the General Fund. In 1990, DNR paid a total of almost \$5.3 million in-lieu-of-taxes. Most of the total, over \$4.5 million, was paid from the General Fund. In lieu-of-tax payments from the Game and Fish Fund amounted to about \$722,000 in fiscal year 1990. In-lieu-of-tax payments have grown slightly in recent years because of the addition of lands bought for wildlife management areas with Reinvest in Minnesota (RIM) funds. We estimate that in 1991 the fund will pay approximately \$17,000 in additional in-lieu-of-tax payments on the lands added by RIM.

The rationale for making payments from the Game and Fish Fund is that the license fees should pay the in-lieu tax for land acquired for public hunting grounds and wildlife refuges. An opposing argument is that these lands are also used by non-anglers and hunters, and that the payments should be consistent for all lands acquired by the department. There are currently no charges to non-hunters for using wildlife areas. The Governor's Citizens Commission to Promote Hunting and Fishing recommended in December 1984 that in-lieu-of-tax payments be made from the General Fund.

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**Payments to Indian tribes have cost the fund over \$8 million since 1981.**

Another new expenditure from the fund has been payments to Indian tribes to settle past treaty obligations. Settlement agreements have been negotiated with the Leech Lake, Grand Portage, and Fond du Lac Bands of Chippewa Indians. The state and the Game and Fish Fund could be making payments soon to the Fond du Lac and Mille Lacs Bands. The Game and Fish Fund currently pays for 20 percent of the cost of the settlement agreements totalling



about \$1 million in fiscal year 1991. No additional revenues were targeted to the fund to pay for these settlements, so the net effect on the fund since 1981 has been additional payments of \$8.3 million. Some have argued that the total cost of these treaty settlements should be borne by the General Fund, since they are a societal obligation. Others maintain that hunters and anglers are the primary beneficiaries of the settlements, so they should share in making the payments.

## FINANCIAL MANAGEMENT

We were asked to review the Game and Fish Fund in part because of concern that DNR might be expending game and fish money on DNR activities unrelated to the fund's purpose.

Our financial auditors tested expenditures and transfers from the Game and Fish Fund accounts and found that the expenditures were made in conformance with financial controls required by state statutes. In short:

- **We found no evidence that DNR was spending Game and Fish Fund money on unallowed department activities.**

The only exception to this was the department paying unemployment compensation from the Game and Fish Fund to several employees whose salary had been paid from other funds. The department has stated that it will change this practice. In general, we found that expenditures were appropriately reviewed before being paid by the Financial Management Bureau.

A program evaluation we conducted in 1986 and previous financial audit reports noted problems in federal aid administration. Specifically, our previous report found that DNR was not submitting reimbursement requests often enough and it did not have a letter of credit arrangement with the U.S. Fish and Wildlife Service resulting in slower reimbursement and less investment income. We were also concerned with the department's ability to adequately track and control the accrual of costs allowable for reimbursement.

We found in this review that:

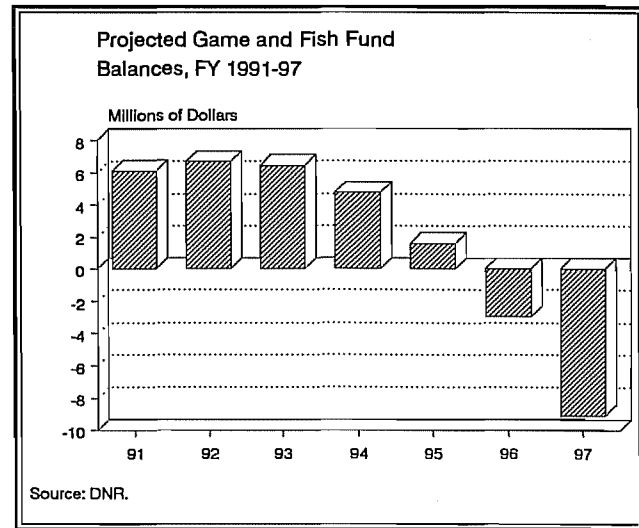
- **The administration of federal aid had improved dramatically as a result of the implementation of a new cost accounting system and changes in DNR's procedures.**

We also reviewed the department's projections for the future fund balance. The chart shows the department's fund balance projections through 1997. The department estimates that the fund balance will be negative beginning in fiscal year 1996. We regard the department's projection, with some exceptions, as a reasonable estimate of the Game and Fish Fund's status, although, all such projections are sensitive to changes in assumptions. For example, the department's projection assumes three percent inflation but if inflation were

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**Financial management of the fund has improved.**

actually 5 percent, the fund balance would turn negative in 1995. We also note that it is possible the fund could be liable for as much as \$700,000 per year in additional payments to Indian tribes. Although the fund projections do not fully account for recent increases in federal aids or potentially greater restitution payments, it is likely that DNR will be seeking increases in resident license fees in the 1993 or 1994 legislative sessions to offset potential fund deficits in 1995 or 1996.




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**The Legislature should clarify restrictions on administrative expenditures.**

We found that statutory restrictions on expenditures associated with semi-dedicated receipts are ambiguous. It is unclear exactly what expenditures of the department the Legislature sought to restrict. Our financial auditors concluded that DNR is technically in compliance with the spending restrictions, but it is actually spending other funds on restricted activities. DNR maintains that it is impossible to run the special purpose programs without incurring costs in excess of the statutory limits. If the Legislature wants to hold the department accountable for spending only a certain percentage of stamp and surcharge revenue on administrative costs, then:

- **The Legislature should clarify statutory restrictions on the expenditure of semi-dedicated receipts. The Legislature should also consider raising the limit on administrative expenses.**

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# GAME AND FISH FUND

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**L**ike most states, Minnesota funds the activities of its Department of Natural Resources (DNR), Fish and Wildlife Division, primarily through license fees from resource users. In Minnesota these fees are deposited in a separate fund of the state treasury known as the Game and Fish Fund. The fund is dedicated to pay for the activities of the Fish and Wildlife Division as well as certain other department expenses. In recent years license fees have risen more frequently than in the past. Concerns among legislators over the rate of increase and the makeup of the fund's revenues and expenditures led the Legislative Audit Commission to direct a study of the fund's status. The commission sought answers to the following questions:

- **How have the Game and Fish Fund revenues and expenditures changed over time?**
- **Has DNR charged the appropriate amounts to the Game and Fish Fund for administration and other shared departmental functions?**
- **Is there appropriate financial control over the expenditure of game and fish funds?**

In order to answer these questions we interviewed DNR managers, reviewed financial and budgetary records, and interviewed officials from other states and the U.S. Fish and Wildlife Service. We coordinated our review with a concurrent financial audit of the Game and Fish Fund that was issued February 27, 1991.

We make the following major points about the Game and Fish Fund:

- **Total Game and Fish Fund revenues and expenditures have grown in the last thirty years, in both nominal and constant dollars.**
- **Much of the growth in revenues and expenditures is attributable to special purpose programs that have been added by the Legislature in the last ten years.**
- **Expenditures on basic fish and wildlife management programs have risen slightly in constant dollars since 1975.**

- **Overall financial management of the fund has improved in the last five years.**
- **DNR has improved its management of federal aid projects.**
- **The Legislature may want to reexamine the fund's current mix of revenue sources and expenditures. Some hunters and anglers have suggested that license fees are no longer adequate to finance all of the fund's current and proposed activities.**
- **Certain statutory spending restrictions placed on semi-dedicated revenues of the fund need to be clarified.**

The Legislative Audit Commission requested that we examine the appropriateness of certain expenditures made from the fund. Critics have questioned the appropriateness of making payments to counties in-lieu-of-taxes, payments to Indian tribes for past treaty obligations, and certain administrative payments from the fund. This report reviews the arguments for and against the fund paying for these items. However, we conclude that there is no empirical basis for preferring one argument over another. The appropriateness of expenditures from the Game and Fish Fund are policy questions that the Legislature will decide through the appropriations process.

This report is presented in four parts:

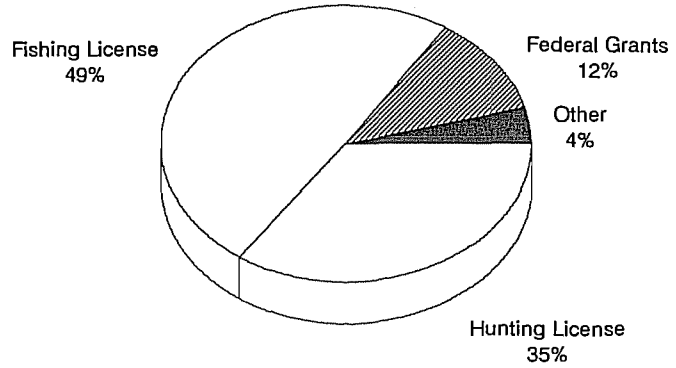
- An overview of the fund's revenue sources and how they have changed over time.
- A review of the fund's expenditures, including a discussion of whether certain programs should be financed from the fund;
- A discussion of the role of the fund balance in maintaining the fiscal solvency of the fund, and of the current fund balance trend; and
- A discussion of the current financial controls over the fund and their adequacy.

## SOURCES OF FUNDING

The Game and Fish Fund derives most of its revenues from license fees. Figures 1 and 2 show the major sources of financing for the Game and Fish Fund in 1975 and 1990 respectively. As might be expected from the fund's name, the major two sources of revenue are from fishing and hunting licenses and special stamps (over 72 percent of 1990 revenues). The other major source of financing is federal aid (23 percent of 1990 revenues, up from 12 percent of 1975 revenues). All states receive a portion of excise taxes on sporting equipment to aid state fish and wildlife programs. The remaining five percent of

Figure 1: Revenue Sources, FY 1975

Total Revenues: \$10,398,476

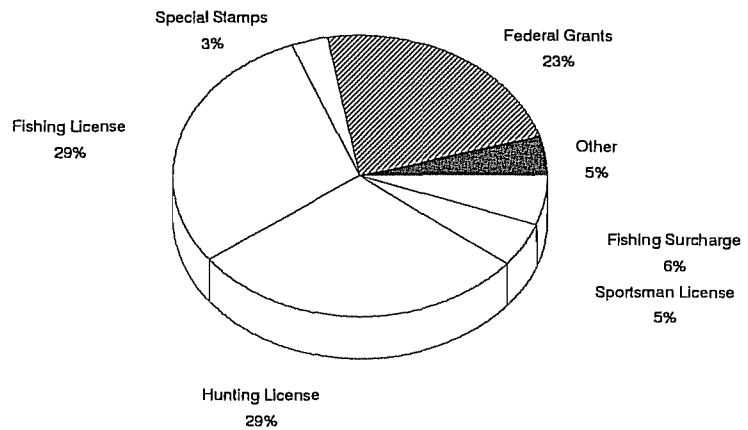


Source: DNR Budgetary Fund Statement.

Several new revenue sources have been added to the fund.

Figure 2: Revenue Sources, FY 1990

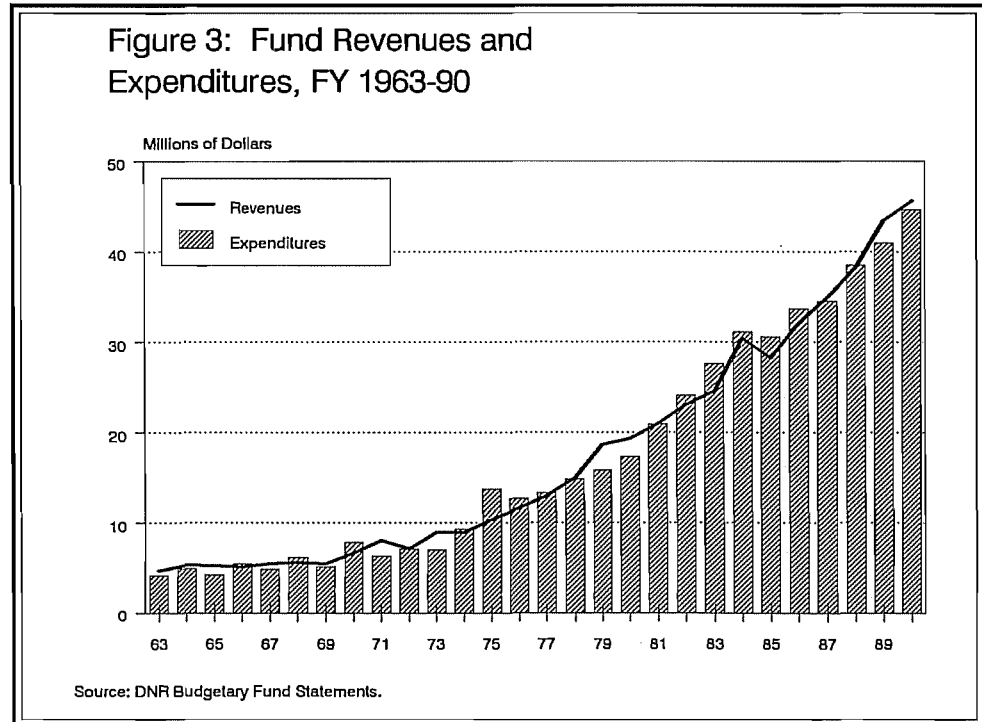
Total Revenues: \$45,569,400



Source: DNR Budgetary Fund Statement.

fund revenues comes from commercial license fees and occupational permits, sale of natural resources, fines, forfeitures, and restitutions, and investment income.

As Figure 3 and Table 1 show, the total revenues of the Game and Fish Fund have grown from \$10 million in 1975 to over \$45 million in 1990. In constant dollars, revenues and expenditures have also grown, as Figure 4 shows.<sup>1</sup>



One of the reasons for revenues increasing in constant dollars is the addition of several new special purpose fees that supplement basic fishing and hunting license fees. These additional fees have taken the form of surcharges or additional stamps and licenses required to pursue certain activities. In 1990, these fees accounted for approximately \$5.3 million or 12 percent of the Game and Fish Fund receipts.

In the next sections we examine the Game and Fish Fund's revenue sources in more detail.

## Federal Aid

Minnesota receives federal funds from the Wallop-Breaux program (formerly the Dingell-Johnson program) for fisheries and the Pittman-Robertson program for wildlife programs, as well as smaller amounts from several other

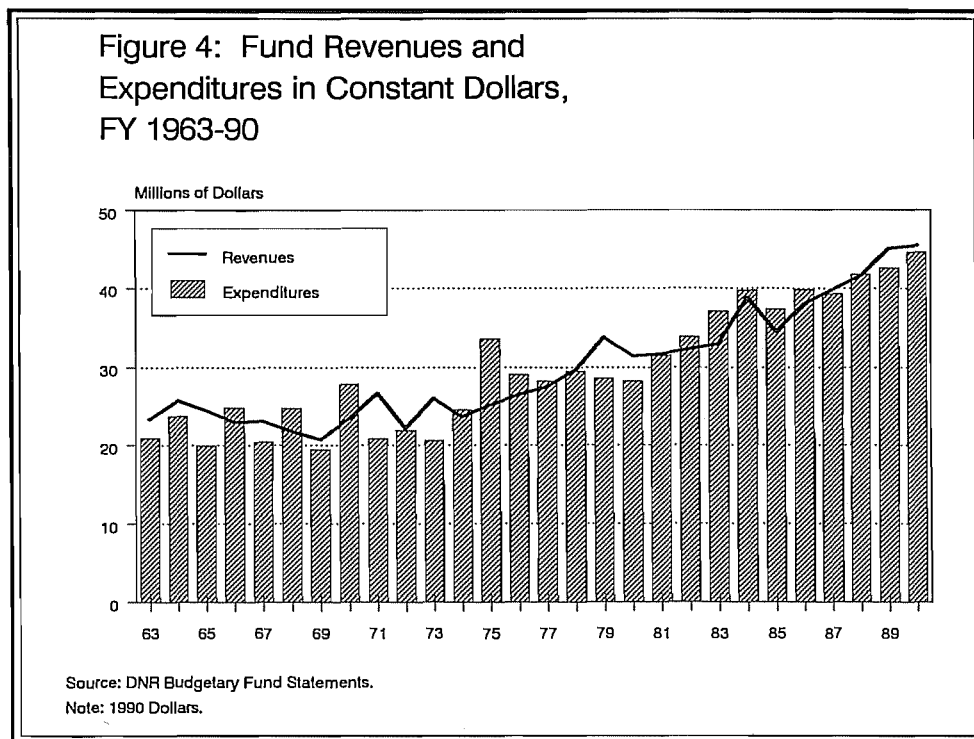
<sup>1</sup> All charts portraying constant dollars are inflation adjusted 1990 dollars using the GNP implicit price deflator for state and local government services.

**Table 1: Game and Fish Fund Revenues, FY 1975-91 (thousands of dollars)**

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991*
Balance forward	\$4,079	\$557	\$(719)	\$(375)	\$(266)	\$3,406	\$5,692	\$6,284	\$5,089	\$2,436	\$2,239	\$1,407	\$182	\$831	\$904	\$3,676	\$4,791
Prior year adjustments	-	-	218	32	611	490	454	92	296	331	516	370	179	295	386	206	250
<b>REVENUES</b>																	
Federal Grants:																	
Fisheries (D-J)	-	-	-	-	-	-	-	-	-	-	1,057	2,503	4,441	5,886	5,873	7,021	7,300
Wildlife (P-R)	-	-	-	-	-	-	-	-	-	-	1,409	3,245	3,100	2,935	4,015	3,487	3,700
Subtotal	1,198	2,076	2,441	1,900	4,360	4,324	4,295	4,231	2,415	6,362	2,467	5,747	7,541	8,821	9,887	10,508	11,000
Fishing license	5,140	5,356	6,376	7,103	7,916	6,795	7,897	8,100	9,614	9,753	9,709	9,849	10,488	11,271	12,925	13,266	15,041
Fishing license surcharge	-	-	-	-	-	-	-	-	-	780	2,493	2,549	2,535	2,562	2,438	2,563	2,628
Trout stamp	-	-	-	-	-	-	-	-	22	136	184	291	491	454	458	479	480
Hunting license	3,618	3,711	3,637	4,938	4,830	6,325	5,531	5,867	7,457	8,489	8,451	8,992	8,937	9,568	11,744	12,106	12,109
Migratory waterfowl stamp	-	-	-	333	344	365	399	417	438	357	442	380	657	619	473	470	480
Pheasant stamp	-	-	-	-	-	-	-	-	-	346	475	414	351	506	477	516	576
Small game surcharge	-	-	-	-	-	-	794	737	1,311	1,111	1,050	1,050	1,082	1,193	1,187	1,275	1,282
Sportsman's license	-	-	-	254	825	967	1,390	1,574	1,715	1,492	1,364	1,376	1,430	1,719	1,909	2,270	2,033
Other permits and licenses	112	118	102	122	171	206	231	241	251	282	331	346	384	443	436	455	568
Sales and rentals	193	239	227	222	157	179	167	221	218	261	239	160	175	181	157	251	251
Fines	-	1	107	93	217	310	306	372	334	360	366	350	370	343	346	340	318
Interest	-	-	-	-	-	-	-	1,262	825	718	694	517	429	588	782	1,001	1,200
Other	137	170	127	75	22	11	79	43	49	22	31	147	144	78	405	255	441
Revenue refunds	-	-	(3)	(2)	(132)	(174)	(14)	(31)	(33)	(36)	(46)	(29)	(38)	(72)	(187)	(185)	(130)
<b>TOTAL REVENUES</b>	\$10,398	\$11,670	\$13,015	\$15,036	\$18,710	\$19,307	\$21,075	\$23,035	\$24,615	\$30,433	\$28,250	\$32,138	\$34,975	\$38,274	\$43,437	\$45,569	\$48,276
Transfers from other funds	-	-	416	445	450	492	365	286	210	271	1,047	35	38	-	-	23	-
<b>TOTAL RESOURCES AVAILABLE</b>	\$14,477	\$12,227	\$12,929	\$15,139	\$19,506	\$23,636	\$27,586	\$29,697	\$30,209	\$33,471	\$32,052	\$33,950	\$35,374	\$39,401	\$44,728	\$49,474	\$53,317

\*Estimate as of February 1991.

Revenues and expenditures are at historic highs.



federal programs.<sup>2</sup> The Wallop-Breaux program receives funds from a ten percent excise tax on many items of fishing equipment, a three percent manufacturer's excise tax on electric trolling motors and certain sonar devices, a portion (1.08 percent) of federal fuel tax revenues attributable to sales of motorboat fuel, and interest.

As a condition of receiving federal money, states must assure that license fees and federal aid are not "diverted to purposes other than administration of the state fish and wildlife agency."<sup>3</sup> States are also required to expend 10 percent of the federal sport fishing funds on boating access.<sup>4</sup>

Historically, federal aid has been from 10 to 25 percent of the Game and Fish Fund's annual receipts; in recent years federal funds have made up a somewhat larger portion of fund revenues. Figure 5 shows that total federal grant revenue in constant dollars has increased significantly in the late 1980s. Beginning in fiscal year 1987, federal fisheries aid significantly increased and exceeded the amount of Pittman-Robertson funds for the first time.

<sup>2</sup> Federal Aid in Wildlife Restoration Act (Pittman-Robertson Act) 50 Stat. 917, as amended 16 U.S.C. 669-669i, and Federal Aid in Sport Fish Restoration Act (Dingell-Johnson Act) 64 Stat. 430, as amended 16 U.S.C. 777-777k.

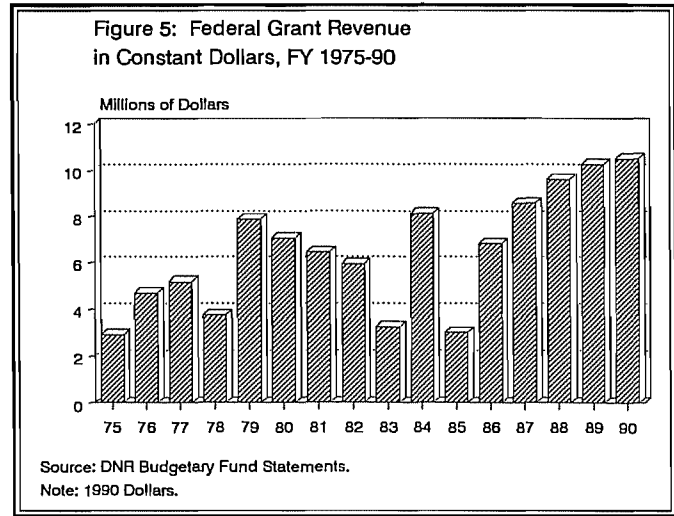
<sup>3</sup> 50 CFR Ch. I, Subchapter F, §80.3.

<sup>4</sup> Although as we later discuss, the water access expenditures do not necessarily have to come from the Game and Fish Fund.



**Federal aid has increased substantially.**

This increase in federal aid has resulted from the expansion of the excise tax under the Wallop-Breaux program, the addition of a senior citizens' fishing license, and a slight increase in Minnesota's share of the Pittman-Robertson funds. Federal aid apportionments are partially based on the number of licenses sold, therefore, the requirement for senior citizens to buy a reduced price license increases Minnesota's aid.<sup>5</sup> Prior to 1988 senior citizens were not required to buy a fishing license.<sup>6</sup> The state began collecting a \$4 senior citizen's fishing license fee in license year 1988. However, there is a several year lag in license certification for federal aid purposes and it is only in the current fiscal year that Minnesota began receiving additional federal aid because of the new senior licenses. DNR estimates that it will receive \$4.70 in federal aid for each additional fishing license sold.



In license year 1989, almost 107,000 senior citizen licenses were sold, about the same number as in 1988. When the Legislature authorized the senior fishing license it provided for the possibility of a refund. There were 40,527 refunds of the senior license fee in license year 1988, and there were 35,473 refunds in license year 1989.<sup>7</sup> In other words about one-third of the senior licenses sold have been refunded. In addition to processing costs, each refund costs the fund the \$4 license fee and the approximately \$4.70 in federal aid. Thus, the fiscal impact of the refund to the fund has been over \$660,000 in the first two license years it has been in effect. Alternately, one could say that the Legislature has added over \$250,000 each year in revenue to the fund by requiring seniors to buy a license, and beginning this year the fund will begin accruing additional federal aid of over \$300,000 per year.

Some have suggested that the refund (and other free licenses issued by DNR) are part of a social policy unrelated to hunting and fishing and that the cost of

<sup>5</sup> Minnesota's share of Sport Fish Restoration (Wallop-Breaux) funds is determined 60 percent by the number of licenses sold and 40 percent by the state's land area.

<sup>6</sup> Minnesota also exempts from licensing residents serving in the military outside the state, retired railroad workers and postal workers receiving disability pay, and residents of state institutions. Free licenses are issued for disabled veterans and recipients of supplemental income for the aged, blind, and disabled. DNR estimates they have issued approximately 10,000 free licenses or exemptions.

<sup>7</sup> As of February 1991, almost 92,000 senior licenses were reported sold in license year 1990 with about 34,000 refunds.

the refund should be borne by the General Fund. But if the General Fund were to reimburse the Game and Fish Fund for senior fishing license refunds, no additional federal aid would accrue to the state. Federal regulations require that the cost of a license must "return net revenue to the state." However, the Game and Fish Fund would benefit from not paying the \$4 direct cost of the license refund.

There were two increases to the Wallop-Breaux trust fund in 1990 that will increase Minnesota's future federal sports fishing aid. The federal government provided for an increase in federal fuel taxes, and a portion of that will go into the trust fund.<sup>8</sup> The national increase will be about \$32 million per year.

Additionally, an amendment to the Internal Revenue Code provided that the excise tax on small gasoline engines (such as lawn mowers, chain saws, and weed-eaters) will be transferred to the fund. The national increase will be about \$52 million per year. Minnesota received about 3.7 percent of the national sport fish restoration funds in the most recent federal fiscal year. Thus, beginning in state fiscal year 1992, Minnesota will begin receiving what will eventually amount to more than \$2 million per year in additional federal aid.

## Fishing and Hunting Licenses

The major source of revenues for Minnesota's Game and Fish Fund is from licenses sold to anglers and hunters. Over one million resident and non-resident fishing licenses were sold in license year 1989. Table 1 shows that total fishing license sales brought in over \$13.2 million in fiscal 1990.<sup>9</sup>

Almost 800,000 hunting licenses and 200,000 waterfowl and pheasant stamps were sold in license year 1989, generating over \$14.4 million in revenue for the fund.<sup>10</sup> In addition, 130,000 Minnesotans bought sportsman's licenses for both fishing and hunting, contributing almost \$2.3 million in revenues.

Most of the revenue from fishing and hunting licenses comes from just a few types of licenses, primarily the resident fishing and resident deer licenses. For example, resident deer licenses account for about \$9 million, 62 percent of all hunting receipts or 85 percent of non-dedicated hunting license receipts. Resident individual and combination fishing licenses account for about \$8.5 million of fishing license receipts. However, non-resident anglers also buy significant numbers of licenses, accounting for about 32 percent of fishing li-

<sup>8</sup> The Congress authorized a five cent increase in the federal gas tax. One-half of that will go to the Highway Trust Fund. The Treasury has determined that about 1.08 percent of the Federal Highway Trust Fund receipts are attributable to fuel used by motorboats. These funds are then transferred to the Sport Fish Restoration Account of the Aquatic Resources Trust Fund (commonly known as the Wallop-Breaux Trust Fund).

<sup>9</sup> This includes the fishing license surcharge and the trout stamp. The number of licenses is reported for the license year ending February 28, 1990; revenues are reported on a fiscal year basis.

<sup>10</sup> This includes the small game surcharge, waterfowl stamp, and pheasant stamp. The number of licenses is reported on a license year basis, revenues on a fiscal year basis.

cense revenues. Overall, about 87 percent of license revenues in 1989 were collected from residents.

In the past, the Legislature has reviewed license fees about every six years. But the review cycle has changed recently. Resident fishing licenses were raised in license years 1982, 1988, and 1991. In addition, a \$2.50 fishing license surcharge was added after license year 1984.<sup>11</sup> Resident hunting licenses were raised in both the 1982 and 1983 license years and again in license years 1988 and 1991.<sup>12</sup>

In addition to raising 1991 license fees 10 percent across the board, the 1989 Legislature changed the policy of reviewing fees on a six year cycle.

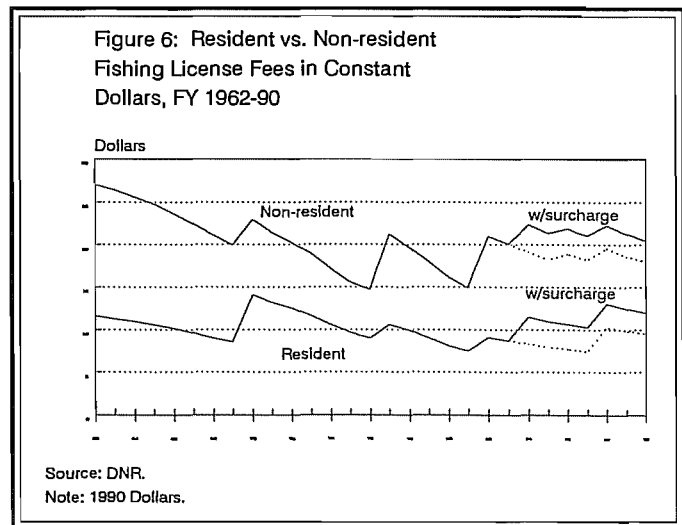
To reduce yearly fluctuations of the game and fish fund balance and to provide improved long-range planning of the fund, the policy of the state is to make fee adjustments as part of the budget process.<sup>13</sup>

The Commissioner of DNR is to make an explicit request for fee adjustments for all receipt items and the Department of Finance is to review the fee requests and submit a six year projection of fund revenues and expenses to the Legislature each biennium.

### License Fee Trends

Collections from both fishing and hunting licenses have risen steadily over time. In constant dollars, license revenues are slightly above 1962 levels. Figure 6 shows the trend for the resident and non-resident fishing license fees, with and without the fishing license surcharge. With the fishing license surcharge included, Figure 6 shows that license fees are above the average level of the last twenty-eight years. Not including the surcharge, fishing license fees are at about the average level of the last twenty eight years.

Figure 7 shows that demand for resident licenses has remained relatively constant as license prices have increased over time. In economic terms, demand for resident fish-



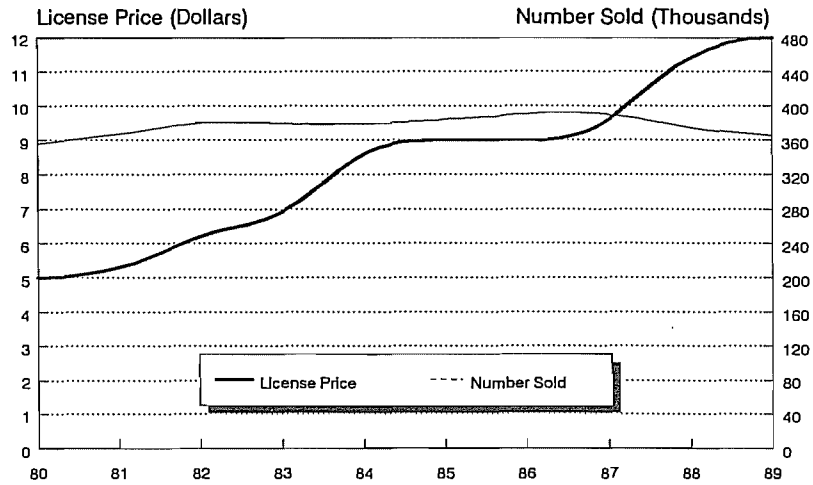
<sup>11</sup> For example, the resident individual fishing license (not including the \$2.50 surcharge) increased from \$6.50 to \$9.50 in license year 1988 and increased again to \$10.50 in 1991.

<sup>12</sup> For example, the resident firearm deer license increased from \$15 to \$20 in license year 1988 and to \$22 in 1991.

<sup>13</sup> *Minn. Stat.* 97A.055, subd. 3.

Resident fishing license demand has remained relatively constant despite price increases.

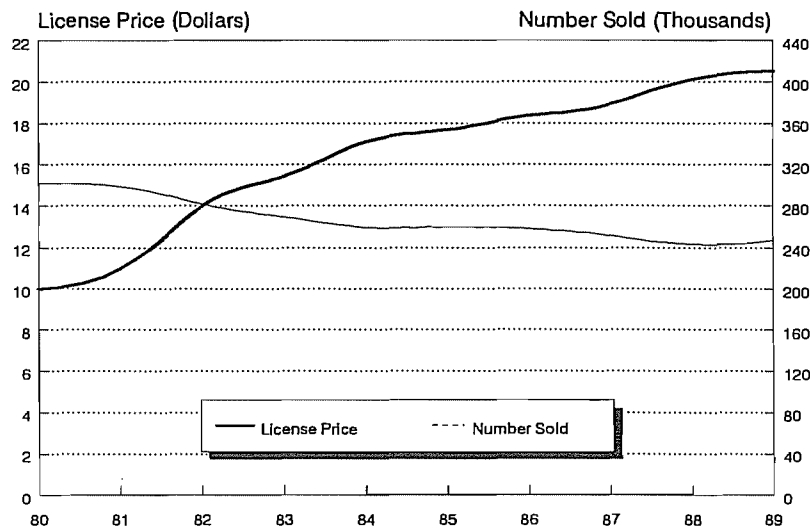
Figure 7: Resident Fishing Demand for Individual Licenses, License Years 1980-89



Source: DNR.

ing licenses is relatively “inelastic” with respect to price. In other words, most Minnesotans will buy a fishing license even if the price goes up. However, there has been a slight decrease in licenses sold since the imposition of the \$2.50 fishing license surcharge. License fees increased approximately 10 per-

Figure 8: Non-resident Fishing License Demand, License Years 1980-89



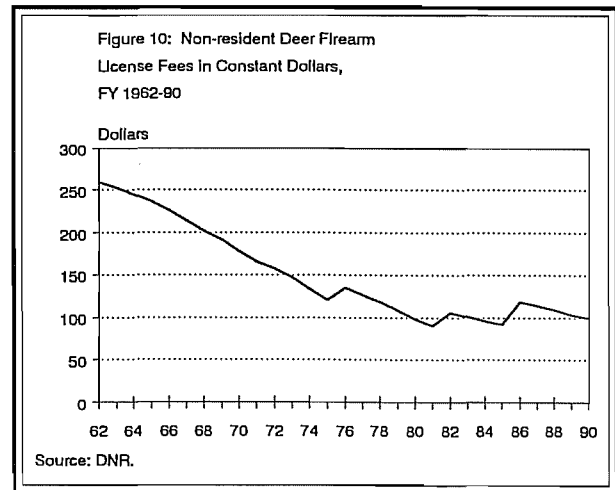
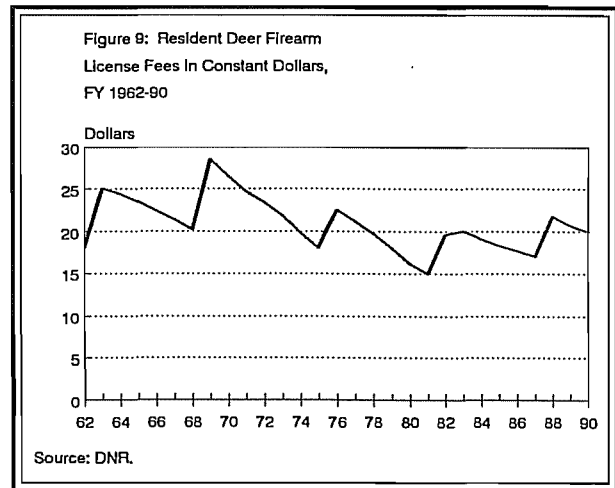
Source: DNR.

cent in the 1991 license year beginning March 1, 1991.<sup>14</sup> Sports groups are concerned that the historic inelasticity of license demand may change. They believe that casual anglers will stop buying licenses because of the frequent recent increases in license fees. Put another way, they believe frequent anglers will buy a license and generally regard it as a bargain, but that the many people who fish only a few days a year might change their behavior.

This concern is illustrated by the 20 percent decrease in demand for non-resident fishing licenses since 1980 as prices doubled during the decade.<sup>15</sup> Figure 8 shows that non-resident demand for licenses is more elastic than resident demand. That is, non-resident demand decreases more with an increase in price than resident demand does.

Figures 9 and 10 show that in constant dollars resident deer license fees are about about the same level as in 1962, while non-resident license fees have decreased over sixty percent.

Table 2 shows the hunting and license fees for neighboring states and provinces of Canada. With the exception of the fishing license, Minnesota resident licenses cost about the same as in these states. Minnesota resident angling licenses cost about 17 percent more in 1990 than the average and will increase 10 percent in 1991. Minnesota 1990 non-resident license fees were also comparable to those in surrounding states with the exception of the small game and the basic angling licenses. The small game license cost about nine percent less than the average and the angling license cost about eight percent less than the average. DNR is proposing that the Legislature raise the non-resident angling license by five dollars and the small game surcharge by one dollar in 1991.



<sup>14</sup> This will increase the cost of the individual angling seasonal license shown in the figure to \$13 with the fishing license surcharge.

<sup>15</sup> Part of this decline is accounted for by a combination of one-day resident and non-resident permits beginning in 1987. Between 1982 and 1985, DNR sold about 20,000 non-resident one-day licenses per year.

Table 2: Hunting and Fishing License Comparative Data, 1990

	Minnesota	Iowa	Michigan	North Dakota	South Dakota	Wisconsin	Manitoba	Ontario
<b>RESIDENT</b>								
Hunting								
Basic license or habitat stamp <sup>a</sup>	\$ 4.00	\$ 5.00	\$ 1.00	\$ 6.00	\$ 5.00	—	\$8.00	—
Small game	9.00 <sup>b</sup>	8.50	9.85	6.00	19.00 <sup>c</sup>	9.60	7.00	6.25
Sr. citizen small game	4.50 <sup>b</sup>	8.50	4.00	—	—	15.00 <sup>f</sup>	—	—
Deer firearms	20.00	20.00	12.85	19.00	20.00	15.35	20.00	19.25
Deer archery	20.00	20.00	12.85	18.00	20.00	15.60	20.00	20.25
Bear	30.00	—	14.35	—	—	31.60 <sup>e</sup>	15.00	19.25
Moose	250.00	—	—	—	—	—	33.00	25.25
Turkey	15.50 <sup>d</sup>	20.00	12.85 <sup>d</sup>	5.00	10.00	13.75	12.00	13.25
Trapping								
General trapping	16.00	15.50	15.35	7.00	15.00	13.60	5.00	6.00
Junior trapping	5.00	2.50	7.85	—	—	—	—	—
Sportsman license								
Individual	16.00 <sup>b</sup>	28.50	45.35	—	30.00	32.60	—	—
Husband & wife	22.00 <sup>b</sup>	—	—	—	—	—	—	—
<b>NONRESIDENT</b>								
Hunting								
Small game	51.00 <sup>b</sup>	47.50	50.35	56.00	50.00	66.60	85.00	41.75 <sup>g</sup>
Deer firearms	100.00	—	100.35	101.00	95.00	106.60	115.00	100.00
Deer archery	100.00	—	75.35	100.00	95.00	76.60	115.00	101.00
Bear	150.00	—	150.35	—	—	121.60 <sup>e</sup>	115.00	100.00
Turkey	—	—	28.35	—	35.00	—	—	—
Furbearer hunting	125.00	150.50	—	—	25.00	136.60	—	—
Moose	—	—	—	—	—	—	300.00	220.00
<b>STAMPS</b>								
Waterfowl stamp								
Resident	5.00	5.00	3.85	—	2.00	3.25	—	—
Nonresident	5.00	5.00	3.85	8.00	75.00	3.25	100.00	—
Pheasant stamp								
Resident	5.00	—	—	—	—	—	—	—
Nonresident	5.00	—	—	—	—	—	—	—
<b>FISHING</b>								
Resident <sup>l</sup>	12.00	8.50	9.85	9.00	9.00 <sup>l</sup>	9.10	10.00	11.50 <sup>k</sup>
Family <sup>l</sup>	33.00	—	—	—	35.00	41.60	—	—
Nonresident <sup>l</sup>	20.50	15.50	20.35	20.00	30.00	24.10	30.00	34.50 (seasonal)
Legislation for changes in the near future?	yes <sup>h</sup>	no	no	no	yes 1/1/91	yes 1/1/91	no	yes

Source: Minnesota Department of Natural Resources.

<sup>a</sup>Basic license or habitat stamp required with purchase of any hunting or trapping license.

<sup>b</sup>Does not include \$4.00 surcharge for wildlife land acquisition.

<sup>c</sup>Includes basic fee, habitat stamp, and small game stamp.

<sup>d</sup>Includes \$3.00 application fee.

<sup>e</sup>Includes \$6.60 resident and \$21.60 nonresident application fee.

<sup>f</sup>Includes hunting and fish licenses and all stamps.

<sup>g</sup>Includes \$6.25 game bird license.

<sup>h</sup>Ten percent increase on all licenses (except stamps) in 1991.

<sup>i</sup>Includes \$2.50 fishing surcharge.

<sup>l</sup>Plus \$5.00 basic.

<sup>k</sup>\$23.00 for non-Ontario Canadians.

## Dedicated and Semi-dedicated Revenues

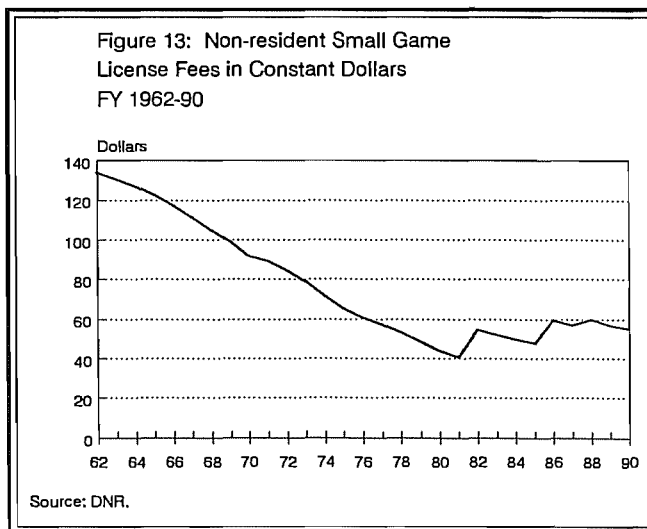
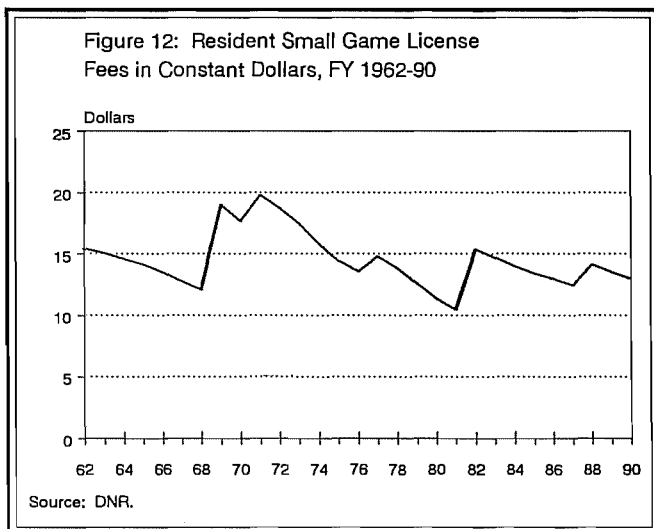
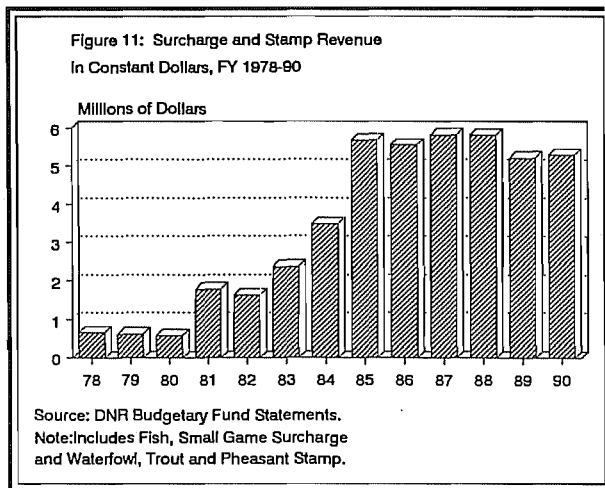
As we noted earlier, special purpose stamps and surcharges have accounted for much of the growth in fund revenues during the past decade. Figure 11 shows the special purpose revenues in constant dollars from 1978 to 1990. In this section we discuss these new revenue sources in greater detail.

### Small Game Surchage

One of the first special purpose sources of financing was a small game surcharge, enacted in 1957. The small game surcharge of \$4 (originally \$1) is added to each small game hunting license for the purpose of acquisition and development of wildlife lands. In 1989, 161,000 small game surcharge fees were paid.

The small game surcharge is a dedicated revenue, that is, the proceeds of the surcharge are separately accounted for in the wildlife acquisition subaccount and must be used for land acquisition specified in *Minnesota Statutes* §97A.071 and §97A.145. If all of the surcharge proceeds are not used in one year, the balance carries over into succeeding years rather than reverting to the general balance of the Game and Fish Fund.

Figures 12 and 13 show the trend in small game license fees in constant dollars since 1962. As is the case with deer licenses, non-resident fees have declined in constant dollars while resident fees are at about the same level as in 1962.



## Semi-dedicated Receipts

Unlike the small game surcharge, the other new funding sources added in recent years are not dedicated funds. They are what we will call earmarked or "semi-dedicated funds." For semi-dedicated receipts the Legislature has expressed a statutory purpose for the use of the funds, but there is no legal requirement that the revenue raised must be spent for that purpose.

Semi-dedicated receipts include: the Migratory Waterfowl Stamp, enacted in 1977; the Trout and Salmon Stamp, enacted in 1981; the Pheasant Stamp, enacted in 1983; and the Fishing License Surcharge, enacted in 1983. Figure 14 shows the intended uses of the semi-dedicated receipts.

These semi-dedicated revenues are collected from sportsmen with a specific purpose in mind, but they are deposited into the Game and Fish Fund without a requirement that they be expended on the intended purpose. The reason for this is to retain flexibility in managing the cash flow of the Game and Fish Fund. All the same, the department and the Legislature have made an attempt in the appropriations process to maintain a general link between the amount of funds generated from a specific license fee and the appropriations for that purpose.

Each of these fees is paid by individuals engaged in pursuing a specific activity, and paid only by those individuals. These fees are essentially user fees designed to raise additional revenues from a group of individuals to benefit the species or activity that they are interested in.

One option for the Game and Fish Fund would be to treat all of these

### Figure 14: Intended Uses of Semi-dedicated Revenues

#### Fishing License Surcharge:

- Rehabilitate marginal fishing waters
- Stock fish and aerate lakes
- Upgrade fish propagation capabilities
- Improve fish habitat
- Improve enforcement
- Purchase commercial walleye quotas

#### Trout and Salmon Stamp:

- Develop and preserve trout streams and lakes
- Rear and stock trout and salmon

#### Migratory Waterfowl Stamp:

- Develop wetlands to maximize waterfowl production
- Protect and propagate migratory waterfowl
- Develop and preserve migratory waterfowl habitat
- Acquire wetlands or access to wetlands

#### Pheasant Stamp:

- Develop and preserve ringnecked pheasant habitat
- Set aside land for pheasant habitat
- Promote pheasant habitat development and preservation



semi-dedicated receipts as truly dedicated funds, like the small game surcharge. This would ensure that all of the funds that sportsmen paid in for special purposes would be used only for those purposes. The disadvantage of dedicating the funds is that it would remove flexibility in managing cash flow and fund balance and complicate fund accounting.

Although the Legislature has put statutory restrictions on the expenditure of semi-dedicated receipts, some of these restrictions are somewhat ambiguous. For example, the statutory language for administration of the trout and waterfowl habitat stamps limits expenditures for “necessary related administrative costs” to 10 percent of annual revenues. Not more than 10 percent of the pheasant stamp revenues may be spent for “necessary related administrative and personnel costs.” The fishing license surcharge calls for “administrative and permanent personnel costs” not to exceed 10 percent of the annual revenue.

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**Statutory restrictions on expenditure of semi-dedicated receipts are ambiguous.**

It is unclear what the Legislature meant by administrative costs and whether personnel costs are included in administrative costs under the trout and waterfowl habitat programs. Because it is unclear exactly which costs the Legislature sought to restrict, it is difficult to hold the department strictly accountable for administrative expenses.

Our financial auditors examined whether DNR was complying with the statutory restrictions and they found that, technically speaking, DNR did not spend more than 10 percent of the semi-dedicated funds for administrative purposes. DNR has a separate account for administrative expenses for each of the stamps and surcharges. The department allocates a portion of administrative expenses associated with these special purpose programs to this account. This administration account is less than 10 percent of the receipts for each of the stamps. However, DNR incurs other administrative and personnel costs associated with administering the programs. These are charged to related Game and Fish accounts and, therefore, fewer funds are available for other game and fish programs. DNR estimates that between 15 and 21 percent of revenues from these special purpose stamps is actually spent on administration and related personnel costs. The department maintains that it is impossible to administer these special purpose expenses without incurring costs in excess of the statutory limits.

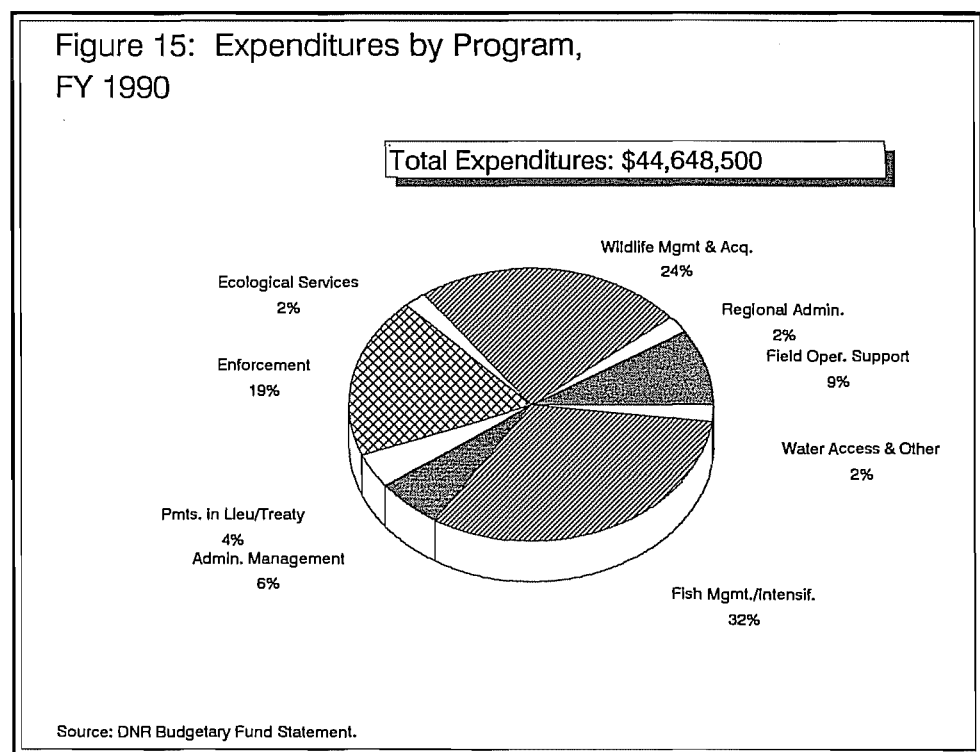
If the Legislature wants to hold the department accountable for spending only a certain percentage of stamp and surcharge revenue on administrative costs, then:

- **The Legislature should clarify statutory restrictions on the expenditure of semi-dedicated receipts. The Legislature should also consider raising the limit on administrative expenses.**

## EXPENDITURES

### Overall Expenditures

Figure 15 shows the major programs financed from the Game and Fish Fund. The primary expenditures are for the fish and wildlife management programs and the enforcement program. Expenditures on fish management in 1990 were over \$14.4 million, and expenditures on wildlife management were over \$10.7 million. Figures 16 and 17 show the constant dollar expenditures for the basic fish and wildlife programs financed by the fund. Expenditures in constant dollars for the basic fish management program are at a historic high.



**Over 40 percent of expenditures are on programs other than fish and wildlife management.**

The basic wildlife program's constant dollar expenditures are 38 percent higher than in 1975, but lower than in the late 1970s and early 1980s.

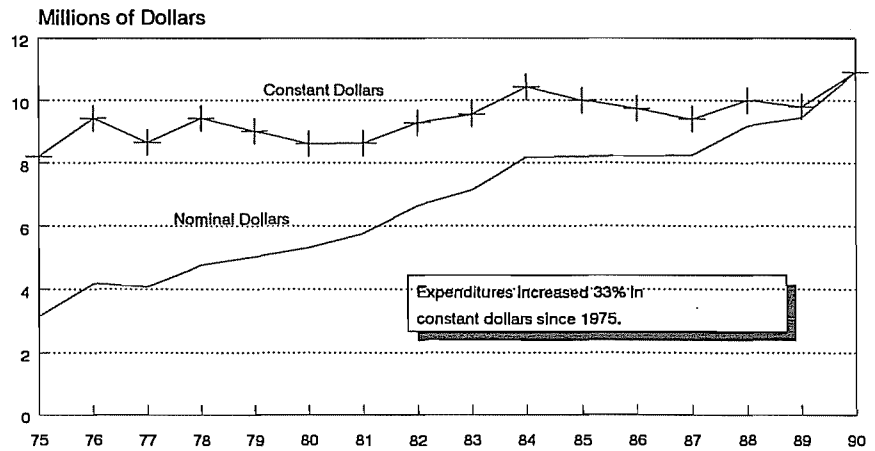
Table 3 shows the fund's expenditures on various programs for the last fifteen years. Despite the name of the fund, a large portion of the expenditures — approximately 44 percent in 1990 — are on programs other than fish and wildlife management.<sup>16</sup> It is these other expenditures of the fund not directly related to fish and wildlife management programs that most concern anglers, hunters, and legislators interested in the fund's solvency.

Other programs financed through the fund include enforcement, administration, payments to counties in-lieu-of-tax, ecological services, statewide indi-

<sup>16</sup> The department notes that some of these expenditures, for example, on uniforms and equipment, do directly support the programs.

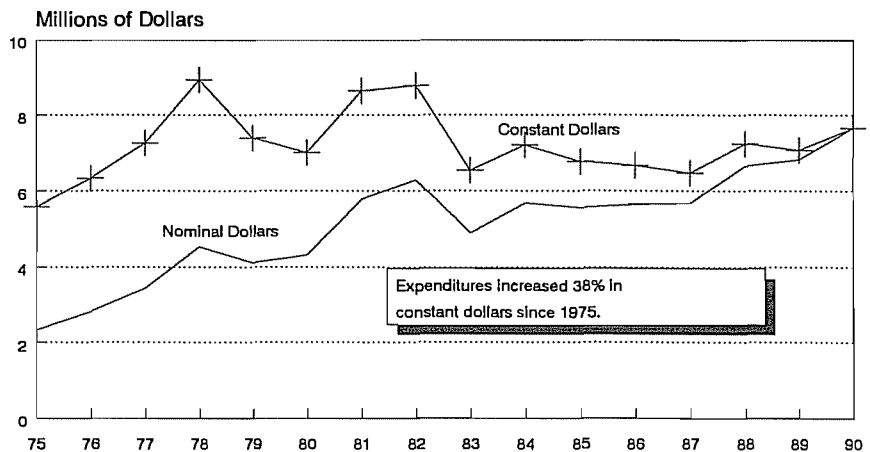
Fish management expenditures are at a historic high point.

Figure 16: Fish Management Expenditures in Nominal and Constant Dollars, FY 1975-90



Source: DNR Budgetary Fund Statements.  
 Note: Excludes fish intensification and trout stream expenditures.

Figure 17: Wildlife Management Expenditures in Nominal and Constant Dollars, FY 1975-90



Source: DNR Budgetary Fund Statements.  
 Note: Excludes habitat improvement and wildlife acquisition expenditures.

Table 3: Game and Fish Fund Expenditures, FY 1975-91 (thousands of dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991*
Administrative management																	
General	\$1,611	\$1,347	\$1,315	\$1,317	\$1,455	\$969	\$698	\$878	\$918	\$1,116	\$1,121	\$954	\$1,155	\$1,360	\$1,484	\$1,849	\$1,962
Computerized licensing	-	-	-	-	-	-	-	-	159	211	208	235	302	243	231	200	245
State indirect costs	-	-	-	-	-	-	-	-	298	399	354	368	395	378	383	538	550
Subtotal	1,611	1,347	1,315	1,317	1,455	969	698	878	1,374	1,725	1,684	1,557	1,852	1,980	2,098	2,588	2,757
Regional administration	407	4	78	93	97	111	276	234	270	299	330	445	485	564	604	764	811
Field services support	932	854	810	838	894	2,081	1,987	2,676	2,818	2,922	3,070	3,173	3,151	3,536	3,809	4,238	4,459
Fish management																	
General	3,141	4,180	4,090	4,781	5,018	5,310	5,772	6,643	7,136	8,183	8,211	8,221	8,270	9,188	9,443	10,928	11,405
Intensification	-	-	-	-	-	-	-	-	-	-	-	2,981	2,969	2,818	2,866	3,022	3,184
Trout streams	-	-	-	-	-	-	-	-	-	123	136	247	228	379	392	465	496
Subtotal:	3,141	4,180	4,090	4,781	5,018	5,310	5,772	6,643	7,136	8,306	8,347	11,449	11,467	12,385	12,701	14,415	15,085
Wildlife management																	
General	2,319	2,813	3,431	4,540	4,108	4,312	5,771	6,279	4,881	5,667	5,561	5,636	5,690	6,656	6,829	7,686	8,208
Deer/bear depredation	-	-	-	-	-	-	-	-	-	-	-	147	180	258	862	177	148
Deer habitat	-	-	-	-	-	-	-	-	324	832	873	936	927	984	1,007	1,073	1,117
Waterfowl habitat	-	-	-	-	394	323	-	-	427	449	288	224	286	647	643	644	666
Pheasant habitat	-	-	-	-	-	-	-	-	-	357	492	376	414	381	390	456	486
Wildlife acquisition	-	-	-	-	-	-	-	-	695	1,955	1,112	1,010	1,011	775	711	720	728
Subtotal:	2,319	2,813	3,431	4,540	4,502	4,635	5,771	6,279	6,327	9,260	8,326	8,329	8,508	9,701	10,442	10,756	11,353
Ecological services	336	260	281	278	298	323	444	371	424	495	605	536	608	731	844	1,063	1,115
Enforcement	2,851	2,428	2,714	2,782	2,985	3,250	3,978	5,209	5,893	6,257	6,318	6,377	6,852	7,700	7,967	8,264	8,727
Special services and programs	-	-	-	-	-	-	-	-	-	-	-	135	141	150	294	483	412
Water access	423	533	330	281	292	353	517	434	465	483	537	-	-	202	417	421	430
Payments in lieu of tax	139	185	-	-	-	156	595	810	818	632	653	642	684	686	686	686	686
Treaty payments	-	-	-	-	-	-	566	444	746	653	695	717	736	825	919	972	1,013
Other	1,658	159	250	1	306	816	346	200	1,399	151	64	315	28	-	242	-	166
TOTAL EXPENDITURES	\$13,815	\$12,762	\$13,299	\$14,910	\$15,847	\$17,404	\$20,951	\$24,178	\$27,670	\$31,184	\$30,628	\$33,675	\$34,511	\$38,458	\$41,022	\$44,649	\$47,013

\*Estimate as of February 1991.

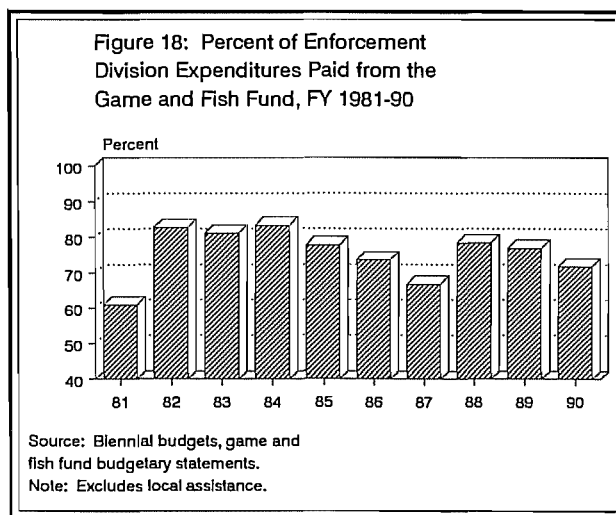
rect costs, and a portion of payments to Indian Bands for treaty obligations. These programs all benefit game and fish activities in some way, although the extent to which they should be financed from the Game and Fish Fund is a debatable issue. We consider each of these expenditures in the following sections.

**Enforcement**

Expenditures from the Game and Fish Fund for enforcement, the largest non-fish and wildlife management program, were over \$8.2 million in fiscal year 1990. The rationale for funding enforcement from the Game and Fish Fund is that the activities of the Enforcement Division primarily benefit anglers and hunters. The enforcement program exists to “protect our natural resources and guard against their abuse and depletion.” Minnesota’s 184 conservation officers protect all public lands, waters, parks, timber, and wild animals of the state. Although enforcement activities are an integral part of fish and wildlife management, they also benefit and serve much broader state interests. This has become increasingly true in recent years as enforcement officers have become more involved in enforcing regulations related to recreational vehicles such as snowmobiles and all-terrain vehicles and in enforcing environmental laws. Conservation officers also enforce regulations in state parks, scientific and natural areas, state forests and campgrounds, wildlife management areas, state game refuges, and on the state trail system.

The proportion of the Division of Enforcement’s budget that comes from the Game and Fish Fund has changed through the years. For example, the proportion rose from 58 percent in 1981 to 82 percent in 1984. This shift of financing to the Game and Fish Fund was one way to help the General Fund during the budget crisis of the early 1980s. The effect of this, however, was to decrease the amount available for expenditure on fish and wildlife programs. If enforcement had been financed at the historical level of 60 percent throughout the 1980s, an additional \$13.1 million would have been available for other game and fish programs. If enforcement had been financed at the current rate of approximately 70 percent through the 1980s, an additional \$5 million would have been available.

Figure 18 shows that the fund-paid proportion of the enforcement budget increased to over 80 percent in the mid-1980s and then declined slightly to approximately 75 percent in 1989. A study by the Department of Administration in 1988 showed that enforcement officer time reports indicated that about 70 percent of conservation officer hours



were spent on game and fish related activities.<sup>17</sup> This meant that approximately \$600,000 per year in enforcement costs were paid from the fund that were not justified based on how conservation officers charged their time. The 1989 Legislature reduced the percentage of the enforcement budget paid from the fund to approximately 70 percent.

We examined how the department allocated enforcement costs to the Game and Fish Fund to see if its method was reasonable and appropriately reflected the costs incurred. In order to do this we examined the enforcement division's time reporting system and examined a sample of conservation officers' daily logs. We stratified the sample of officers geographically and looked at one month in each season of the 1990 fiscal year. The enforcement division has a cost accounting system that accounts for officers' time using approximately 100 activity codes. In addition, each officer keeps a more detailed daily log that records their movements, activities, and contacts during the day. We wanted to see if the codes the officers used to report their time corresponded to the activities that they noted on their daily logs. We also wanted to see if the department's determination of what codes should be charged to the Game and Fish Fund made sense based on the kinds of activities that officers were charging to each code.

The primary usage of the division's timekeeping system is for department managers to know how resources are being allocated to various activities in different areas of the state. In other words, the timekeeping system is designed as a management tool, not as a basis for allocating costs to the Game and Fish Fund. Department financial managers have used the timekeeping system as a proxy for a more detailed estimate of which fund benefits from different enforcement activities. Our review found that the estimate from the timekeeping system approximately reflects the activities noted on the officers' daily logs. Table 4 shows the fiscal year 1990 estimates from the timekeeping system and our adjusted estimates after our review of officer daily logs. Our review suggests that the Game and Fish Fund finances slightly more than its proportional share of enforcement expenditures and the General Fund finances slightly less. However, one should guard against building too much precision into estimates such as these which are based on work hours (not actual costs) and a time accounting system developed and used for a different purpose.

If DNR and the Legislature continue to use enforcement time reports as a basis for determining the Game and Fish Fund's share of the budget, then the enforcement division should consider changes to its time keeping system to more accurately apportion conservation officer's time between the various funds that benefit from their activities.

### **Administrative Overhead**

Another major expenditure item from the fund is the Department of Natural Resources administrative overhead costs. Money is appropriated from the fund for the administrative management, regional administration, and field

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<sup>17</sup> See Department of Administration, Management Analysis Division, *An Analysis of the Department of Natural Resources Game and Fish Fund*. (St. Paul, 1988).

**Table 4: Enforcement Hours Allocated to Different Funds, FY 1990**

<u>Fund</u>	<u>Unadjusted</u>		<u>Adjusted</u>	
	<u>Total Hours</u>	<u>Percent</u>	<u>Total Hours</u>	<u>Percent</u>
General Fund	79,868	20.3%	87,623	22.3
Water Recreation Account	13,541	3.5	14,240	3.6
Special Revenue Funds				
Non-game	2,234	0.6	—	—
ATV Three Wheeler	4,080	1.0	—	—
Snowmobile	15,364	3.9	—	—
Subtotal	21,678	5.5	23,618	6.0
Game and Fish Fund	<u>277,557</u>	<u>70.7</u>	<u>267,161</u>	<u>68.0</u>
Total	392,643	100.0%	392,643	100.0%

Source: Office the Legislative Auditor analysis of enforcement officers' time sheets.

services programs of the department. In fiscal year 1990, these three programs accounted for \$7.6 million or about 17 percent of the expenditures from the fund.

*Administrative management* expenditures fund a portion of the central management activities of the department, including: the commissioner's office, financial management, the license bureau, office services, internal audit, and the department's computer services. Expenditures for the administrative management program in 1990 were about \$6.2 million of which the fund paid \$2 million or about one-third of the total.

The Game and Fish Fund also must pay its share of statewide indirect costs including a portion of the costs for the Department of Finance, the Department of Administration, the Department of Employee Relations, and the Legislative Auditor. Statewide indirect costs amounted to over \$500,000 in fiscal year 1990.

Included above in administrative management expenditures, the Attorney General's office bills the fund directly for costs of services provided. Attorney General billings are expected to be about \$185,000 in fiscal year 1991. All funds but the General Fund pay 100 percent of the Attorney General's fees. The General Fund pays 50 percent of the fee. Similarly the State Auditor's office bills the fund directly for the costs associated with auditing county auditors. (The county auditors oversee the sale of licenses in each county.) These costs are budgeted at \$95,000 for fiscal year 1991.

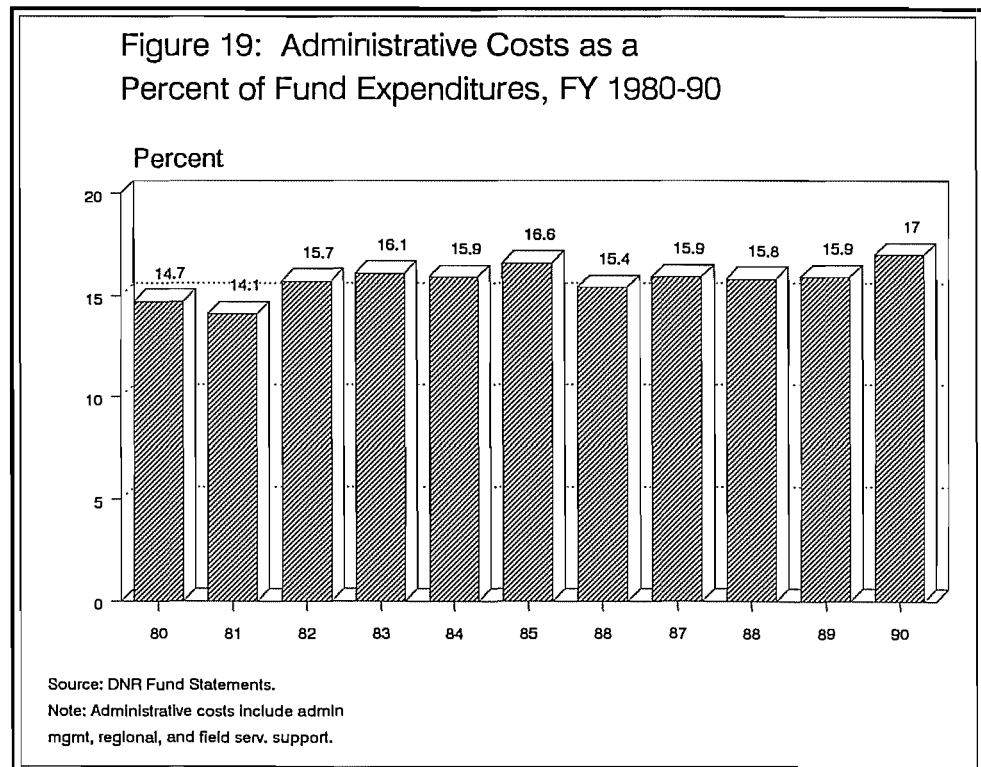
**An estimated 68 percent of conservation officer time is spent on Game and Fish Fund activities.**

The fund has also been affected in the last three years by a requirement that state agencies pay sales tax. In fiscal years 1989-91, this requirement has resulted in an additional \$557,000 in fund expenditures.

*Regional administration* includes the regional administrators and support staff. The regional administration program provides administrative support services to regional field staff, including business office and financial services, and many of the field services functions such as procurement, equipment maintenance, fixed asset and inventory control, and fleet management. Until the late 1970s, regional administration costs were paid from the General Fund. In fiscal year 1990, regional administration accounted for over \$760,000 in Game and Fish Fund expenditures.

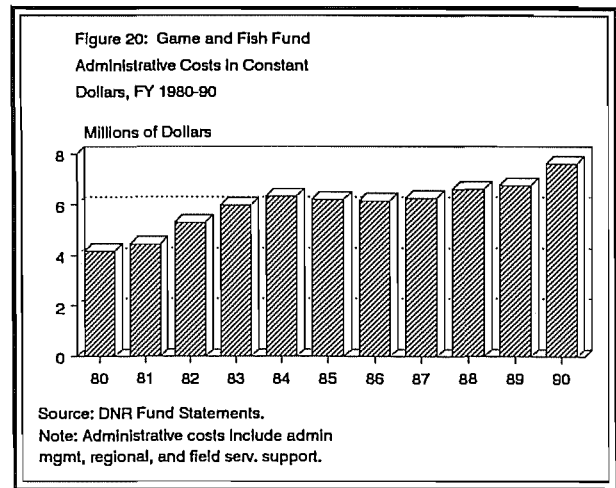
*Field services* includes three bureaus: field services, real estate management, and engineering. The Field Services Bureau oversees DNR fixed assets, including the maintenance and repair of DNR-owned buildings and fleet, and coordinates other support activities including radios and uniforms. The Real Estate Management Bureau provides administrative support for the over five million acres of DNR managed land, including issuing leases and easements, and acquiring and disposing of land. The Engineering Bureau conducts topographical surveys, produces user and wildlife management maps and also designs and oversees the construction of various DNR facilities such as campgrounds. Field services accounted for almost \$4 million in Game and Fish Fund expenditures in fiscal year 1990.

Figure 19 shows that administrative expenses are currently about 17 percent of fund expenditures, up from a low of 14.1 percent in 1981. Figure 20 shows the change in Game and Fish Fund administrative support expenditures over time in constant dollars.





How much is paid from what fund for any program is ultimately determined by the Legislature during the appropriations process. How does the department determine what is the appropriate percentage to propose in its budget for each program? This question is really at the heart of concerns over the appropriateness of certain items being paid from the Game and Fish Fund. Basically, the department does not try to balance expenditures with funding sources on a program by program basis. The department's budget largely reflects past allocation decisions made by the Legislature, but the department does try to ensure a balancing of funding sources. New initiatives in the areas of administrative services are usually proposed from the General Fund.



We looked at several measures to compare administrative expenditures from the Game and Fish Fund with those of other funds. First, the department has prepared an analysis of program support costs for various funds. Program support costs for the department as a whole made up 19.5 percent of its total budget in 1990. Table 5 shows the percentage of program support costs DNR budgeted from various funds in 1990. The table shows that less than the department average was budgeted from the Game and Fish Fund for administrative support costs. Also, the General Fund paid for a higher percentage of support costs.

**Table 5: Comparison of Budgeted Support Costs for Various Accounts, FY 1990**

Program Costs	Snowmobile Account	Game & Fish Fund	Water Rec Account	ATV Account	General Fund	DNR Total
Total Program Costs	\$3,885,900	\$34,994,700	\$6,763,700	\$705,900	\$59,049,800	\$119,789,500
Percent of Budget	86.9%	83.1%	81.9%	94.9%	79.7%	80.5%
Total Program Support Costs	\$587,100	\$7,137,200	\$1,499,300	\$38,100	\$15,010,200	\$28,977,400
Percent of Total Budget	13.1%	16.9%	18.1%	5.1%	20.3%	19.5%

Source: Department of Natural Resources.

Another comparison is provided by the department's indirect cost plan prepared for the federal government. The indirect cost plan allocates the department's indirect support costs among programs based on some criterion. Some programs costs are allocated based on share of total budget, some on share of total salaries, and other costs are allocated based on some more specific criterion. For example, most of the costs for financial management and

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**Our analysis suggests the fund is not paying more than its share of support costs.**

the services of the Department of Finance are allocated based on the number of Statewide Accounting System (SWA) transactions that each division initiates. The idea is to choose a basis of allocation that roughly approximates the amount of work the support unit performs for that division. If the Fish and Wildlife Division initiates 25 percent of the SWA transactions, then 25 percent of the costs of financial management services would be allocated to the Game and Fish Fund.

Table 6 shows the basis for allocation of the department's federal indirect costs. As one can see, for almost all of the allocation bases, the percentage of support costs that would come from the Fish and Wildlife division would be higher than the actual percentage of support costs (about 17 percent) currently paid by the Game and Fish Fund.<sup>18</sup> Although this analysis is not definitive it suggests that the Game and Fish Fund is not paying more than its share of administrative support costs.

### **Payments in-Lieu-of-Tax**

Payments to counties in-lieu-of-tax are made by DNR to reimburse local governments for property taxes they would have received if DNR had not acquired the land for public purposes. The Game and Fish Fund makes payments in-lieu-of-tax on lands acquired for wildlife management areas. Payments in-lieu-of-tax for other natural resource land, such as forests, scientific and natural areas, and parks, are made from the General Fund. In 1990, DNR paid a total of almost \$5.3 million in-lieu-of-taxes. Most of the total, over \$4.5 million, was paid from the General Fund. In lieu-of-tax payments from the Game and Fish Fund amounted to about \$722,000 in fiscal year 1990.<sup>19</sup> In-lieu-of-tax payments have grown slightly in recent years because of the addition of lands bought for wildlife management areas with Reinvest in Minnesota (RIM) funds. We estimate that in 1991 the fund will pay approximately \$17,000 in additional in-lieu-of-tax payments on the lands added by RIM. In addition, since 1975 DNR has received bonding money for land purchases. This program, called Resource 2000, was combined with RIM in 1986. Acquisitions since 1986 under this program account for an additional \$12,000 per year in-lieu-of-taxes.

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**RIM has increased in-lieu-of-tax payments \$29,000 per year.**

The rationale for making payments from the Game and Fish Fund is that the license fees should pay the in-lieu tax for land acquired for public hunting grounds and wildlife refuges. The opposing argument is that these lands are also used by non-anglers and hunters, and that the payments should be consistent for all lands acquired by the department. There are currently no charges to non-hunters for using wildlife areas. The Governor's Citizens Commission to Promote Hunting and Fishing recommended in December 1984 that in-lieu-of-tax payments to counties be made from the General Fund.

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<sup>18</sup> The Fish and Wildlife Division is funded approximately 85 percent from the Game and Fish Fund and is therefore an appropriate proxy in an analysis like this.

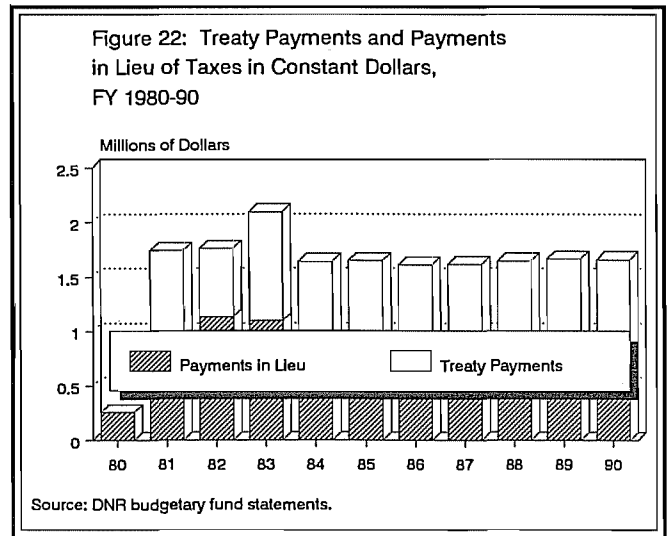
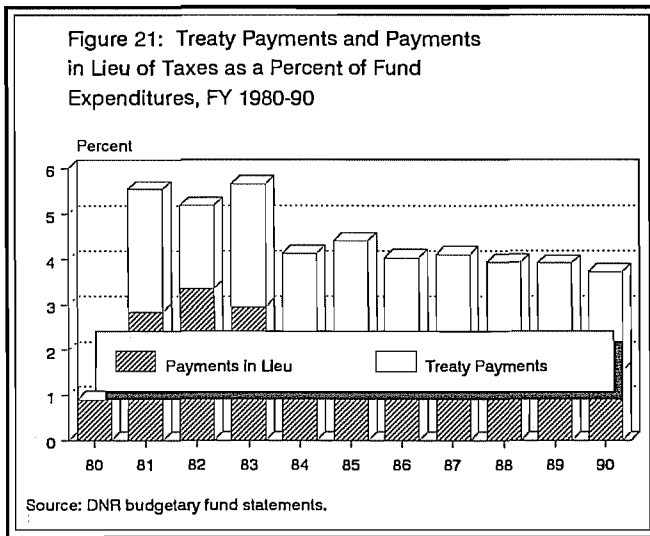
<sup>19</sup> This includes a \$685,700 appropriation and an additional \$36,000 that was paid from another wildlife account because the appropriation was insufficient.

**Table 6: Allocation Bases for Federal Indirect Costs, Fiscal Year 1990**

Allocation Base	Administrative Units										Operating Divisions				
	Total	Adm. Mgmt.	Regional Admin.	Field Ops.	Special Programs	Minerals	Waters	Forestry	Parks	Trails & Waterways	Fish & Wildlife	Enforcement	Miss. River, Sense To Sense	Boating YCC MEEB	LIC Center
<b>DIRECT SALARIES</b>															
Amount	\$81,884,599	\$2,181,169	\$3,539,188	\$4,599,513	\$2,344,339	\$3,106,066	\$4,093,560	\$19,032,729	\$11,280,550	\$2,879,667	\$18,656,733	\$8,548,421	\$323,198	\$1,496,969	\$801,167
Percent	100.0%	2.7%	4.3%	5.6%	2.9%	3.8%	5.0%	22.0%	13.7%	3.6%	22.8%	10.4%	0.4%	1.8%	1.0%
<b>TOTAL BUDGET</b>															
Amount	\$138,212,894	\$3,679,041	\$3,933,083	\$7,952,933	\$3,701,112	\$4,543,701	\$5,970,379	\$32,337,881	\$15,940,928	\$7,213,463	\$35,036,367	\$11,745,532	\$497,520	\$2,234,820	\$1,424,142
Percent	100.0%	2.7%	2.9%	5.8%	2.7%	3.3%	4.4%	23.7%	11.7%	5.3%	25.7%	8.6%	0.4%	1.6%	1.0%
<b>FINANCIAL TRANSACTIONS</b>															
Amount	194,898	3,125	5,429	26,369	5,325	4,635	5,782	32,535	29,307	13,075	32,251	13,080	184	2,532	1,169
Percent	100.0%	1.6%	2.8%	13.5%	2.7%	2.4%	3.0%	16.7%	15.0%	6.7%	16.5%	6.7%	0.1%	1.3%	0.8%
<b>REVENUES</b>															
Amount	\$83,993,200	\$102,500	\$279,200	\$9,292,900	\$577,100	\$3,379,200	\$6,019,900	\$11,830,000	\$6,516,700	\$5,567,100	\$45,556,400	\$3,452,000	\$15,000	\$1,361,200	—
Percent	100.0%	0.1%	0.3%	9.8%	0.6%	3.6%	6.4%	12.1%	6.9%	5.9%	45.5%	3.7%	0.0%	1.4%	—
<b>LEASE TRANSACTIONS</b>															
Amount	2,453,193	—	—	—	—	—	147,192	907,681	96,128	367,979	832,218	—	—	—	—
Percent	100.0%	—	—	—	—	—	6.0%	37.0%	4.0%	15.0%	36.0%	—	—	—	—
<b>ENGINEERING COSTS</b>															
Amount	\$1,802,372	—	—	\$243,320	—	\$14,419	\$1,802	\$199,261	\$432,569	\$583,969	\$325,022	—	—	—	—
Percent	100.0%	—	—	13.5%	—	0.8%	0.1%	11.0%	24.0%	32.4%	18.2%	—	—	—	—
<b>OBJ CODES</b>															
23 - 40	\$15,220,268	\$145,643	\$302,394	\$2,989,570	\$186,927	\$161,004	\$240,258	\$3,432,314	\$2,463,355	\$522,352	\$3,622,535	\$723,835	\$14,895	\$97,805	\$17,329
Percent	100.0%	1.0%	2.0%	19.6%	1.2%	1.1%	1.6%	22.6%	16.2%	3.4%	25.1%	4.8%	0.1%	0.6%	0.8%
<b>SPACE AT 500 LAFAYETTE (total square feet)</b>															
Amount	129,706	16,418	0	16,368	18,304	7,610	12,952	11,200	7,210	5,118	21,438	4,852	—	1,458	7,052
Percent	100.0%	12.7%	0.0%	12.6%	14.1%	5.9%	10.0%	8.6%	5.6%	3.9%	16.5%	3.5%	—	1.1%	5.4%

We talked with natural resource managers in neighboring states to determine how they made in-lieu-of-tax payments. In Wisconsin payments are made from the fish and wildlife account of the Conservation Fund. Iowa began in 1987 to make in-lieu-of-tax payments for lands acquired with habitat stamp revenues from its equivalent of the Game and Fish Fund. Michigan also has historically made payments in-lieu-of-taxes on wildlife lands from its Game and Fish Fund.

In-lieu-of-tax payments and payments to Indian tribes have had a significant marginal effect on fund status over the last decade. Figures 21 and 22 show the combined effect of these two expenditure items over the last decade as a percentage of fund expenditures and in constant dollars. In the next section we discuss payments to Indian tribes in more detail.



## Treaty Payments

As the result of the settlement of a federal lawsuit, members of the Leech Lake Band of the Minnesota Chippewa tribe are exempted from state hunting and fishing laws within the reservation. A 1973 agreement, ratified by state law, provided that in order to hunt, trap, or fish on the Leech Lake reservation, other Minnesotans could purchase a more expensive “unrestricted” license, with the increased funds paid to the Leech Lake Band.<sup>20</sup> In 1980, the agreement was modified, and in return for allowing non-tribal members rights to hunt and fish on the reservation, Leech Lake receives five percent of the proceeds from all fishing and hunting licenses (except the small game surcharge) sold in the state.

**Over \$8 million in treaty payments have been made since 1981.**

When the agreement was reached with the Leech Lake Band, no additional sources of revenue were targeted for the Game and Fish Fund to pay for the agreement. The Game and Fish Fund originally paid 60 percent of the costs of the settlement. The result, then, was a three percent decrease in revenues available from fish and wildlife licenses. In fiscal year 1989, the Leech Lake

<sup>20</sup> Minn. Laws (1973) Ch. 124

Band received \$919,000 from the Game and Fish Fund. In 1990 the payment percentage changed to 20 percent from the Game and Fish Fund, for a total payment from the fund of \$319,000.

In 1988 the state, again pursuant to a federal court action, negotiated a similar agreement with the Grand Portage, Bois Forte, and Fond du Lac Bands of Chippewa Indians affected by an 1854 treaty.<sup>21</sup> The Fond du Lac Band has chosen to cancel its participation in the agreement, but the Grand Portage and Bois Forte Bands collected a total of \$653,000 from the Game and Fish Fund in fiscal year 1990. As with the Leech Lake agreement, the Game and Fish Fund pays for 20 percent of the cost, and the General Fund pays for 80 percent. The Fond du Lac tribe has implemented a conservation code similar to that called for by the settlement agreement and could at any time ask for their participation in the agreement to be reinstated. If the tribe were to choose to participate, the Game and Fish Fund would be liable for 20 percent of the costs, or approximately \$360,000 per year.

In August 1990, the Mille Lacs Band of Chippewas filed suit against the state in federal court to enforce certain terms of an 1837 treaty. The lawsuit is similar to the one brought in 1985 concerning hunting and fishing rights under the 1854 treaty. The state is currently exploring ways to successfully resolve the situation. If the state and the band negotiate a treaty similar to the 1854 treaty, the Game and Fish Fund might face further payments for past treaty obligations. The case has a scheduled trial date of May 1992, and so if a settlement is negotiated, it would likely come before the Legislature during the 1992 session for approval. If the state were to resolve the case on terms similar to earlier settlements, and if the Game and Fish Fund were to pay for 20 percent of the settlement, then the Game and Fish Fund could face an additional \$360,000 per year in charges.

## Ecological Services

The Game and Fish Fund also finances part of the activities of the Ecological Services Section in the Division of Fish and Wildlife. The Ecological Services Section is responsible for providing centralized laboratory services to the department, statewide supervision of the Exotic and Aquatic Nuisance Control programs and the Lake Aeration program, environmental review for fish and wildlife, investigation of pollution problems including acid rain, and coordination of the Division of Fish and Wildlife's long range planning process.

Because of the section's diverse activities, it has several funding sources. In fiscal year 1990, the section's budget was about \$2.2 million with 22 percent coming from the General Fund, 20 percent from RIM General Fund, 12 percent from the Water Recreation account, and 46 percent (about \$1 million) from the Game and Fish Fund.

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<sup>21</sup> The agreement was again ratified by legislative action. *Minn Stat.* §97A.157. The 1989 payments were made 100 percent from the General Fund. The payment percentage was changed in 1989, along with the percentage of Leech Lake Band payments. The net result to the Game and Fish Fund was an approximately \$100,000 increase in payments.

Because the section's activities touch on so many of DNR's responsibilities, we asked section supervisors to estimate the portion of their expenditures that benefited license holders directly, and those that had broader benefits. The section plans for its programs and budgets for its activities based on work units. Section supervisors reviewed each of their approximately 180 work units. They maintain that all of their activities are related to the mission of furthering fish and wildlife goals. Section supervisors estimated that about 18.6 percent of their total expenditures provided direct benefits to license holders. The remainder of the section's activities had sportspersons as a primary beneficiary but also had other broader benefits to the state.

## Water Access

Acquisition and development of water access sites has in the past been partially funded from the Game and Fish Fund. Water accesses are acquired and developed by the Trails and Waterways Division of DNR acting in concert with the Land Bureau.

Prior to 1986, the Game and Fish Fund received a portion of the gas tax revenues attributable to boats and financed a portion of the water access program with that transfer. Beginning in fiscal year 1986, water access development was paid for from a new Water Recreation Account. The Water Recreation Account is financed from the gas taxes on boats and boating licenses and the Game and Fish Fund no longer receives a portion of those funds. When the Water Recreation Account was created, the Game and Fish Fund stopped paying for accesses. No appropriation for water accesses was made from the Game and Fish Fund in fiscal years 1986 or 1987. However, beginning in 1988, the Game and Fish Fund again financed a portion of the costs of access development. In fiscal year 1990, over \$400,000 was paid from the Game and Fish Fund to acquire and develop water access sites and about \$3.7 million was paid from the water recreation account.

Access acquisition and development are reimburseable expenses for the federal aid programs; any reimbursements from these federal aid programs must be used for fish and wildlife related purposes. Beginning in federal fiscal year 1986, every state must spend a minimum of 10 percent of its allotment under the Wallop-Breaux program for development of boat accesses.<sup>22</sup> There is some confusion in DNR about what this provision means. As the result of this confusion the department proposed increases in funds from the Game and Fish Fund for public access development beginning in 1988. The department is proposing in its budget for fiscal 1992-93 to spend an additional \$630,000 from the Game and Fish Fund for water accesses "in order to comply with the federal Wallop-Breaux Act...". However, according to U.S. Fish and Wildlife Service officials, any expenditure the state makes for water accesses counts toward meeting the 10 percent requirement. Thus, Minnesota spends far more than the 10 percent requirement (which would be about \$750,000 next year) when one considers the expenditures from the Water Recreation Account. U.S. Fish and Wildlife Service officials told us that they did closely monitor whether states meet the requirement, and that Minnesota

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**Minnesota  
meets federal  
requirements  
for water  
access  
spending.**

<sup>22</sup> 50 CFR Ch. I, §80.24.

meets the requirement because of spending on accesses from the Water Recreation Account.

Water access is clearly a high priority for anglers and more and better accesses clearly benefit them as well as other boaters. Therefore, there is no clearcut answer to the question of how much, if anything, the Game and Fish Fund should contribute to access development. What is clear is that federal law does not require additional expenditures from the Game and Fish Fund. Given the history of access financing in the state, the Legislature may want to reconsider the sources of access funding.

## FUND STATUS

The Game and Fish Fund is a separate *dedicated* fund in the State Treasury. The revenues accruing to the fund must be expended on the activities of the Division of Fish and Wildlife and the Division of Enforcement. Any end-of-year balance of funds is carried forward into the next fiscal year. This carry-over plays an important part in the financing of game and fish activities. Because license fees are set by statute, the fees are not normally changed every year. Instead, a fund balance is used to provide a cushion that can be spent down between fee increases.

### Historical Fund Balance

The license fees that make up the fund balance have typically been raised in every third biennial budget cycle, or every six years. The first biennium after license fees are raised there is usually a healthy fund balance that is slowly drawn down over the next two bienniums, necessitating a new fee increase. Figure 23 shows the fund balances at the end of each fiscal year since 1975.

The historical cycle of raising license fees every third biennium broke down in the 1980s. The Game and Fish Fund ran a deficit for the five-year period 1982 through 1986. That is, expenditures exceeded revenues and the fund balance was depleted from over \$6 million to an unrestricted balance of \$10,000 in 1986.

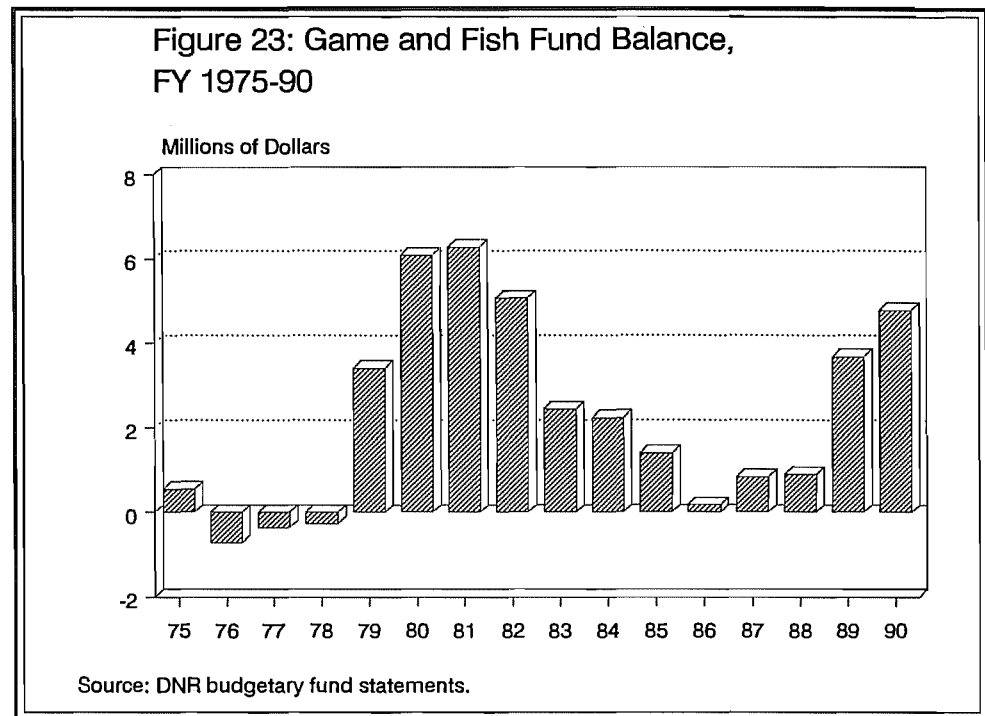
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**The six-year  
cycle for  
license fee  
increases broke  
down in the  
1980s.**

The fund balance decline is partially attributable to the normal cycle of raising license fees every six years, with a declining balance in between fee increases. In addition, expenditure items have been added to the fund. As we have seen, payments to the Leech Lake Indian Reservation began in 1981, and the proportion of the Enforcement Division's budget financed from the fund jumped from 58 percent to over 80 percent in 1982. These additional expenditures have helped draw down the fund balance much sooner than otherwise would have been the case.<sup>23</sup> In fact, had it not been for the passage of a fishing li-

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<sup>23</sup> A 1986 report by our office on Fish Management as well as a 1988 report by the Department of Administration's Management Analysis Division detail these problems.



cense surcharge in 1983, the Game and Fish Fund would have been in even more difficulty.<sup>24</sup>

As a result, DNR sought fee increases in 1985, 1986, and 1989. Part of the difficulty in managing the fund's finances has to do with timing differences between the state and federal fiscal years, legislative sessions, and DNR license years. When the Legislature passes a fee increase, the full revenue increase is not seen until two fiscal years later. This complicates the job of projecting future fund balances as we shall see in the next section.

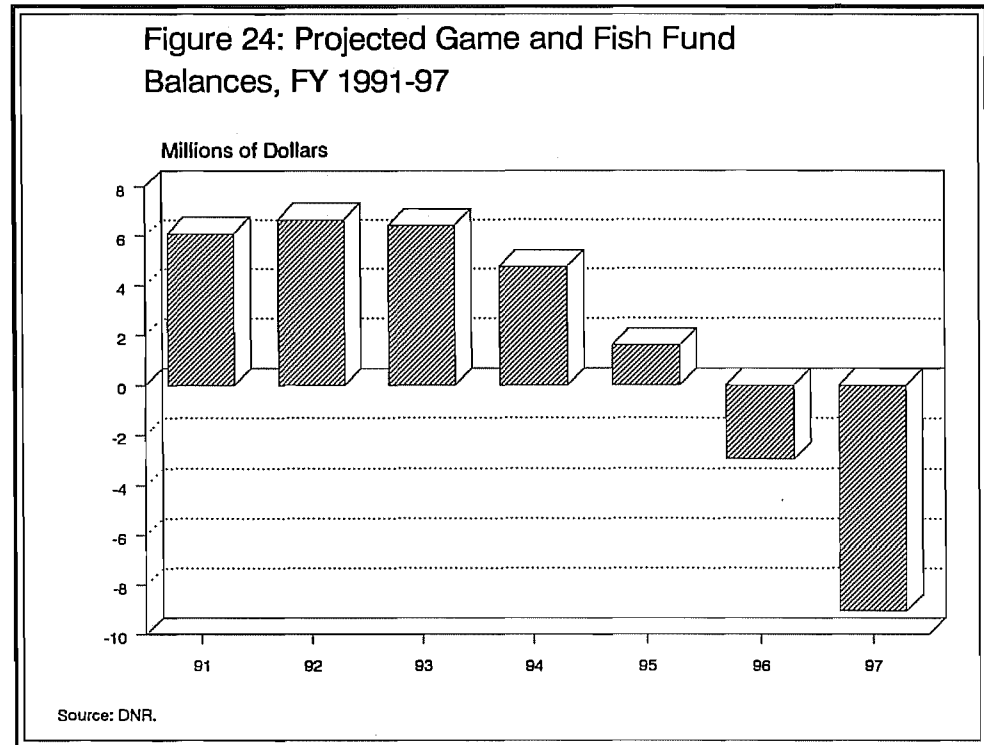
## Current and Projected Fund Balances

As the result of the various license fee increases since 1985, the fund balance at the end of fiscal year 1991 is estimated to be about \$6.5 million, with \$.4 million restricted for use on wildlife acquisition land projects. As the result of 1989 legislation, the Department of Finance is now required to prepare a six-year fund statement projection for the Legislature. However, the projection has actually been prepared by DNR. Figure 24 sets forth the department's projections of fund balances for fiscal years 1991 to 1997. As one can see, DNR projects that the unrestricted fund balance will be (\$2.9 million) in fiscal year 1996. The department's projection assumes three percent inflation and legislative approval of \$2.4 million in change level requests and \$900,000 in license fee increases during the 1991 legislative session. The projection assumes no budget change level requests in fiscal years 1994-1997.

<sup>24</sup> The use of the first funds collected under the fishing license surcharge program is detailed in our 1986 report.



**DNR projects a negative fund balance by 1996.**



We examined the reasonableness of the department’s projections and we conclude that, with the following exceptions, the projections are a reasonable estimate of the prospects for the fund in the near term. The potential changes in the projection that we would note are the contingent liabilities associated with Fond du Lac and Mille Lacs Bands of Chippewa discussed earlier. Settlements with these bands could potentially add over \$700,000 in fund expenditures per year.

**DNR’s revenue estimates are conservative.**

On the revenue side, it is likely that federal aid will increase more than DNR estimates. According to U.S. Fish and Wildlife Service officials, Minnesota’s apportionment for federal fisheries aid, even without considering inflation, could be as much as \$500,000 higher than estimated by fiscal year 1997. We estimate federal aid could be as much as \$2 million greater than projected. In addition, the fund will likely benefit from increased restitution payments from violators of fish and game laws. Division of Enforcement officials estimate that revenues from restitution payments could amount to as much as \$200,000 per year beginning in fiscal year 1992.<sup>25</sup>

At the same time, we must note that all such projections are inherently unstable. That is, the projection is very sensitive to changes in the underlying assumptions. The projection assumes three percent inflation. If inflation is actually higher during the period, and if salary settlements and other expenditures reflect the higher inflation, the fund could require revenue enhancements or expenditure reductions much sooner than 1996. For example, if

<sup>25</sup> This increase results from a new statute, *Minn. Stat. §97A.341* passed in 1989 that allows the court to require restitution for taking wild animals illegally. The department is currently conducting rulemaking that will prescribe values for different forms of animal and fish life.

inflation were actually 5 percent in fiscal years 1994-96, the fund balance would be negative in fiscal 1995.

## FINANCIAL MANAGEMENT OF THE FUND

**Game and Fish money was spent on allowed activities.**

We were asked to review the Game and Fish Fund in part because of concern that DNR might be expending game and fish funds on DNR activities unrelated to the fund's purpose.

Our financial auditors tested expenditures and transfers from the Game and Fish Fund accounts and found that the expenditures were made in conformance with financial controls required by state statutes. In short:

- **We did not find any evidence that DNR was spending Game and Fish Fund money on unallowed department activities.**

The only exception to this was the department paying unemployment compensation from the Game and Fish Fund to several employees whose salary had been paid from other funds. The department has stated that it will change this practice. In general, we found that expenditures were appropriately reviewed before being paid by the Financial Management Bureau.

Our 1986 program evaluation and previous financial audit reports had noted problems in the administration of federal aid. Specifically, our previous report found that DNR was not submitting reimbursement requests often enough and it did not have a letter of credit arrangement with the U.S. Fish and Wildlife Service. This slowed reimbursement and lessened investment income. We were also concerned with the department's ability to adequately track and control the accrual of costs allowable for reimbursement.

**The fund's financial management has improved.**

We found in this review that:

- **The administration of federal aid had improved dramatically as a result of the implementation of a new cost accounting system and changes in DNR's procedures.**

DNR is now able to bill the USFWS immediately after each pay period for the portion of federal aid earned during the previous period. The U.S. Fish and Wildlife Service has given DNR approval to be reimbursed by wire transfer. The wire transfer cuts several months from the time required for reimbursement and thus allows increased interest income for the fund.

We found that sufficient budgetary and financial control exists over the fund. That is, the fund is subject to the appropriations and budgetary control process, is accounted for by the Statewide Accounting System, has allocations and expenditures monitored by the Department of Finance, and is audited by the Legislative Auditor.

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# SELECTED PROGRAM EVALUATIONS

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<i>Board of Electricity, January 1980</i>	80-01
<i>Twin Cities Metropolitan Transit Commission, February 1980</i>	80-02
<i>Information Services Bureau, February 1980</i>	80-03
<i>Department of Economic Security, February 1980</i>	80-04
<i>Statewide Bicycle Registration Program, November 1980</i>	80-05
<i>State Arts Board: Individual Artists Grants Program, November 1980</i>	80-06
<i>Department of Human Rights, January 1981</i>	81-01
<i>Hospital Regulation, February 1981</i>	81-02
<i>Department of Public Welfare's Regulation of Residential Facilities for the Mentally Ill, February 1981</i>	81-03
<i>State Designer Selection Board, February 1981</i>	81-04
<i>Corporate Income Tax Processing, March 1981</i>	81-05
<i>Computer Support for Tax Processing, April 1981</i>	81-06
<i>State-sponsored Chemical Dependency Programs: Follow-up Study, April 1981</i>	81-07
<i>Construction Cost Overrun at the Minnesota Correctional Facility - Oak Park Heights, April 1981</i>	81-08
<i>Individual Income Tax Processing and Auditing, July 1981</i>	81-09
<i>State Office Space Management and Leasing, November 1981</i>	81-10
<i>Procurement Set-Asides, February 1982</i>	82-01
<i>State Timber Sales, February 1982</i>	82-02
<i>Department of Education Information System, March 1982</i>	82-03
<i>State Purchasing, April 1982</i>	82-04
<i>Fire Safety in Residential Facilities for Disabled Persons, June 1982</i>	82-05
<i>State Mineral Leasing, June 1982</i>	82-06
<i>Direct Property Tax Relief Programs, February 1983</i>	83-01
<i>Post-Secondary Vocational Education at Minnesota's Area Vocational- Technical Institutes, February 1983</i>	83-02
<i>Community Residential Programs for Mentally Retarded Persons, February 1983</i>	83-03
<i>State Land Acquisition and Disposal, March 1983</i>	83-04
<i>The State Land Exchange Program, July 1983</i>	83-05
<i>Department of Human Rights: Follow-up Study, August 1983</i>	83-06
<i>Minnesota Braille and Sight-Saving School and Minnesota School for the Deaf, January 1984</i>	84-01
<i>The Administration of Minnesota's Medical Assistance Program, March 1984</i>	84-02
<i>Special Education, February 1984</i>	84-03
<i>Sheltered Employment Programs, February 1984</i>	84-04
<i>State Human Service Block Grants, June 1984</i>	84-05
<i>Energy Assistance and Weatherization, January 1985</i>	85-01
<i>Highway Maintenance, January 1985</i>	85-02
<i>Metropolitan Council, January 1985</i>	85-03
<i>Economic Development, March 1985</i>	85-04
<i>Post Secondary Vocational Education: Follow-Up Study, March 1985</i>	85-05
<i>County State Aid Highway System, April 1985</i>	85-06
<i>Procurement Set-Asides: Follow-Up Study, April 1985</i>	85-07

<i>Insurance Regulation</i> , January 1986	86-01
<i>Tax Increment Financing</i> , January 1986	86-02
<i>Fish Management</i> , February 1986	86-03
<i>Deinstitutionalization of Mentally Ill People</i> , February 1986	86-04
<i>Deinstitutionalization of Mentally Retarded People</i> , February 1986	86-05
<i>Management of Public Employee Pension Funds</i> , May 1986	86-06
<i>Aid to Families with Dependent Children</i> , January 1987	87-01
<i>Water Quality Monitoring</i> , February 1987	87-02
<i>Financing County Human Services</i> , February 1987	87-03
<i>Employment and Training Programs</i> , March 1987	87-04
<i>County State Aid Highway System: Follow-Up</i> , July 1987	87-05
<i>Minnesota State High School League</i> , December 1987	87-06
<i>Metropolitan Transit Planning</i> , January 1988	88-01
<i>Farm Interest Buydown Program</i> , January 1988	88-02
<i>Workers' Compensation</i> , February 1988	88-03
<i>Health Plan Regulation</i> , February 1988	88-04
<i>Trends in Education Expenditures</i> , March 1988	88-05
<i>Remodeling of University of Minnesota President's House and Office</i> , March 1988	88-06
<i>University of Minnesota Physical Plant</i> , August 1988	88-07
<i>Medicaid: Prepayment and Postpayment Review - Follow-Up</i> , August 1988	88-08
<i>High School Education</i> , December 1988	88-09
<i>High School Education: Report Summary</i> , December 1988	88-10
<i>Statewide Cost of Living Differences</i> , January 1989	89-01
<i>Access to Medicaid Services</i> , February 1989	89-02
<i>Use of Public Assistance Programs by AFDC Recipients</i> , February 1989	89-03
<i>Minnesota Housing Finance Agency</i> , March 1989	89-04
<i>Community Residences for Adults with Mental Illness</i> , December 1989	89-05
<i>Lawful Gambling</i> , January 1990	90-01
<i>Local Government Lobbying</i> , February 1990	90-02
<i>School District Spending</i> , February 1990	90-03
<i>Local Government Spending</i> , March 1990	90-04
<i>Administration of Reimbursement to Community Facilities for the Mentally Retarded</i> , December 1990	90-05
<i>Pollution Control Agency</i> , January 1991	91-01
<i>Nursing Homes: A Financial Review</i> , January 1991	91-02
<i>Teacher Compensation</i> , January 1991	91-03
<i>Game and Fish Fund</i> , March 1991	91-04
<i>Greater Minnesota Corporation: Organizational Structure and Accountability</i> , forthcoming	
<i>State Investment Performance</i> , forthcoming	
<i>Corrections</i> , forthcoming	
<i>State Contracting</i> , forthcoming	

Evaluation reports can be obtained free of charge from the Program Evaluation Division, 122 Veterans Service Building, Saint Paul, Minnesota 55155, 612/296-4708.