

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: CSHB 319(FIN)
 (H) Publish Date: 4/21/04

Revision Date/Time (Note if correction): 4/19/2004 Dept. Affected: Natural Resources
 Title: Remote Rec Cabin Site Sales/ RDU: Resource Development
Lottery Sale Component: Land Sales/Municipal Entitlements
 Sponsor: Rep. Fate
 Requester: (H) FIN Component No. 2456

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	277.5	433.0	433.0	433.0	433.0	433.0
Travel	10.0	20.0	20.0	20.0	20.0	20.0
Contractual	88.0	95.0	79.0	79.0	79.0	79.0
Supplies	5.0	10.0	10.0	10.0	10.0	10.0
Equipment	10.0	10.0		5.0	5.0	
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	390.5	568.0	542.0	547.0	547.0	542.0

CAPITAL EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010

CHANGE IN REVENUES (1153)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
		467.5	708.2	948.7	1,189.3	1,432.9

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	390.5	100.5	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (1153 Land Disp Income Fund)		467.5	542.0	547.0	547.0	542.0
TOTAL	390.5	568.0	542.0	547.0	547.0	542.0

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time	5	7	7	7	7	7
Part-time	1	1	1	1	1	1
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill establishes a new land disposal program within AS 38.05.600. It leaves the existing Remote Recreational Cabin Program under that statute in place, although it modifies some of the requirements of the existing program (such as parcel size, river frontage, etc.). This fiscal note analyzes the impacts of the proposed program. The new program adds a maximum size restriction of 10 acres and establishes other guidelines regarding parcel locations.

The schedule for the number of parcels that DNR can process and resultant revenues in this fiscal note are very optimistic in that they assume that survey, appraisal, platting board review, and approval occurs within one year. That process currently takes 3 years. DNR believes that it will be difficult to fulfill the revenue projections, particularly in FY 06 and 07.

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 Division: Commissioner's Office Date/Time 4/19/04
 Approved by: Tom Irwin, Commissioner Date 4/19/04
 Agency: Natural Resources

ANALYSIS CONTINUATION

Assumptions. The fiscal note assumes that DNR would be able to process 250 applications per year under the new program which is established in Section 4(e) and 4(f) of the bill whereby DNR would accept and process parcels nominated by individuals. This assumption is on the high side, particularly for FY 06. It assumes none of DNR's best interest findings are appealed and there are no delays, including appeals, in surveying, borough approval of surveys, or appraisals. If more than 250 individuals apply, a backlog would be established or more staff would be needed.

The bill does not eliminate the existing program. Thus, the fiscal note also assumes that the existing program continues at its current level, although that program will require revision to comply with changes to this statute.

The New Program. Section 4(e) of the bill would result in individual processing for 10-acre parcels in locations throughout the state chosen by the applicants. This bill proposes that a member of the public can nominate a specific site and, if DNR determines through the best interest finding and public notice process that the land should be sold, it will be offered for sale. DNR would complete the processing: title search, survey review, appraisal review, best interest finding, public notice, easement decisions, etc. for that individual parcel.

In this fiscal note, DNR assumes that we could process some of the applications in batches. Exactly how many parcels or areas nominated that could be processed together would depend on two factors; 1) how many nominated parcels are in the same geographic area so that we could combine the parcels into one best interest finding and public notice; and 2) how many additional parcels DNR could identify for sale within the areas nominated by the individual. For this analysis, DNR assumes that we could batch process 100 applications, that is, 100 applications would be processed in batches of 10-20 parcels. We will assume that 150 parcels are processed separately, where each has a separate BIF and the applicants pay for individual survey and appraisal.

Cost for Section 4(e). Section 4(e) would result in a combination of individual and batch processing of nominations. Under the existing program, DNR identifies geographic areas open to staking, hence parcels are always processed in groups. For example, under the existing program, 250 parcels can be reviewed in six batches, combining survey reviews, appraisal reviews, best interest findings, and title searches. This fiscal note is based on an additional 250 parcels being processed, 100 in groups and 150 separately, with *separate* survey reviews, appraisal reviews, best interest findings, etc.

Personal Services. DNR estimates that this portion of the program will require the following staff:

FY 05 - Program start-up. The first year will entail drafting new regulations, preparing maps of areas open to staking, developing program guidelines and application forms, and accepting and initial processing of the first round of applications. Personal Services Cost will be \$277.5, for the following positions:

- 1 NRM I (6 months) = @\$32.5
- 1 NRS II – @\$59.0 = \$59.0
- 2 NRS I – @\$52.0/each = \$104.0
- 1 NRS I (part-time) - @\$26.0 = \$26.0
- 1 Cartographer II - @\$56.0 = \$56.0

FY 06 and following years - Subsequent years will entail processing of individual and batched applications, including: land title research for each site; drafting best interest findings and public notice for each parcel; issuing survey and appraisal instructions; review and approval of individual surveys and appraisals; preparing additional maps for the public depicting staking areas; updating maps and plats to show sites applied for and approved; issuing sale contracts and deeds; answering public questions about the program; and other tasks. Personal services cost increase to \$433.0, as a surveyor and appraiser will be added to the staffing levels identified for FY 05, and the NRM I becomes a full time position (additional 6 months @ \$32.5). These positions are needed to issue instructions for and review surveys and appraisals.

- 1 Appraiser II – @\$65.0 = \$65.0
- 1 Land Survey Assistant II - @\$58.0 = \$58.0

FISCAL NOTE #3

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ANALYSIS CONTINUATION

Contractual Costs:

ITEM	FY 05	FY 06	FY 07 and following
Public Notices - 150 notices x \$250	\$0	\$37.5	\$37.5
Printing - brochures and maps	\$10.0	\$10.0	\$10.0
Phones, computer hook-ups, etc. @\$800 ea	\$ 5.0	\$ 6.5	\$ 6.5
Office space rental	\$25.0	\$25.0	\$25.0
New office construction/furniture @\$8.0 ea	\$48.0	\$16.0	\$ 0.0
TOTAL	\$88.0	\$95.0	\$79.0

Revenues. Revenue generated under this bill would be a function of parcel size, per-acre price, number of parcels sold, and scheduling assumptions as outlined below.

Parcel Size. This bill proposes to decrease the maximum size to 10 acres. Under the current program, applicants choose the size of their parcel, up to the 20 acre maximum currently in statute. The average size chosen under the current program is approximately 13.6 acres. The minimum size is 5 to 10 acres depending on the area. Minimum size is established to comply with local platting board or waste disposal requirements.

Parcel Price. Remote land in Alaska is inexpensive. The selling price for remote recreation cabin parcels staked in FY 01 and FY 02 is estimated to average \$620/acre. Small parcels sell for less than larger parcels, though the per-acre price is higher. Currently, the average size Alaskans chose to stake is 13.6 acres. Department appraisers estimate that all else being equal the per-acre price ratio between a 13-acre parcel and a 10 acre parcel is 1.2. Therefore, this fiscal note assumes that a 10-acre parcel will bring in \$750 per acre (= \$620/acre x 1.2). That is, each parcel brings in \$7,500 to the department (= \$750/acre x 10 acres).

Purchase Rate. In the current program, only 43% of the people issued staking authorizations go on to purchase their parcels. The remainder decide not to continue somewhere during the process. The Department is working to bring up the purchase rate. However, this rate is actually greater than similar historical programs. The Department's homestead/homesite programs allowed people to gain ownership through either purchase or prove-up. Only 33% of the people who initially sought parcels followed through to ownership: two-thirds dropped out. It is possible that those who apply in the program proposed by this bill will have a higher purchase rate than past programs. However, individuals do not understand the major cost in time and money until they try to hire a surveyor and appraiser, and so the purchase rate may actually be lower. This fiscal note assumes an optimistic 75% purchase rate or 188 parcels per year.

Financing. The bill assumes current practice for financing: approximately 20% of applicants purchase outright and 80% finance their purchase over 5 years. The current interest rate is 7%.

Schedule. Section 3 of the bill does not change DNR's existing survey and appraisal practice but requires that both be completed within two years. Currently, the Department contracts with private surveyors on behalf of the individuals and is able to complete the survey and appraisal process within two years after the lease is issued. Our experience is that individuals who are unfamiliar with surveyors and appraisers take far longer. Thus, the Department believes that the minimum time for the process is two years. During the first year, the parcels are staked, applications received, DNR issues the best interest finding and public review, and the parcel is surveyed in the summer (survey instructions from DNR, survey by a private contractor). During the second year, the survey is reviewed and approved by DNR and local platting authority (borough or city), the parcel is appraised (instructions from DNR, appraisal by a private contractor, then review by DNR), and then the applicant can purchase the parcel. Therefore, the minimum schedule is as follows: FY 05 to prepare the regulations for this new program, information for the public, and receive initial applications in the second half

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Analysis Continued:

of FY 05. DNR processing of applications (title search, best interest finding, public notice, etc.) would occur in FY 05-06, the first land surveys would occur primarily in FY 06. DNR and Borough approval of surveys would occur in FY 06, and appraisals would be completed in late FY 06. Some parcels may be purchased or will enter into sale contracts by late FY 06, but for most parcels, sale will not occur until FY 07. Based on experience with past programs where applicants were required to get their own parcel surveyed and appraised, this is a very optimistic schedule.

Revenue From Fees. The fiscal note assumes DNR will collect the following additional fees at the time of applications or processing of applications or contracts:

Application fee: \$100/application - assume 500 applications/year = \$50,000

Staking authorization fee: \$25 at time applicant submits staking diagram: \$25 x 188 parcels = \$4,700

Document processing fee: \$100 at time applicant requests contract or patent - assume 188 parcels go to purchase = \$18,000

Total Fee Revenue - assuming 500 applications and 188 parcels purchased = \$73,500

Additional Fee Revenue - \$100 document processing fee paid at time when contracts are paid off and request patent, assume starting in FY 07, 20% of all existing purchasers payoff contracts and request patent (30x\$100 in FY 07.)

Summary. In summary, total value sold per year will be \$1,410,000 (188 parcels x \$7,500 per parcel).

FY 06: At best, some parcels may be ready to purchase late in FY 06. This fiscal note assumes that all parcels would be ready for purchase (cash sale or sale contract) in FY 06. If all 188 parcels were purchased by the end of FY 06, the revenues received in FY 06 will be \$394,800 (\$394,800 = \$282,000 through full purchase plus \$112,800 downpayment on the remainder). Fees collected in FY 06 total \$73,500. Total Revenue for FY 06 = \$467,500.

FY 07 and following: An additional \$240,588 will be paid each year through the following 5 years as individuals pay off the parcels assuming 7% interest. In FY 07, revenue is estimated to be \$768,188 (=\$467,500+\$240,588). Revenue would level off in FY 10.

Technical Issues. This bill does not repeal the current program: Section 4(e) appears to provide that it continues. Therefore, this fiscal analysis assumes the existing program continues at its present level. However, the bill would put the current program out of compliance with the law. To maintain the current program, Section 4(g) should apply only to the new program: that outlined in Section 4(e).

If the new program does replace the existing program, the required additional cost would be somewhat less than outlined in this fiscal note as current staff could implement the new program (with some additions). However, total revenue to the state would be much less than indicated in the fiscal note, as the existing program is a much more cost-efficient and revenue-efficient method to offer lands to Alaska.