

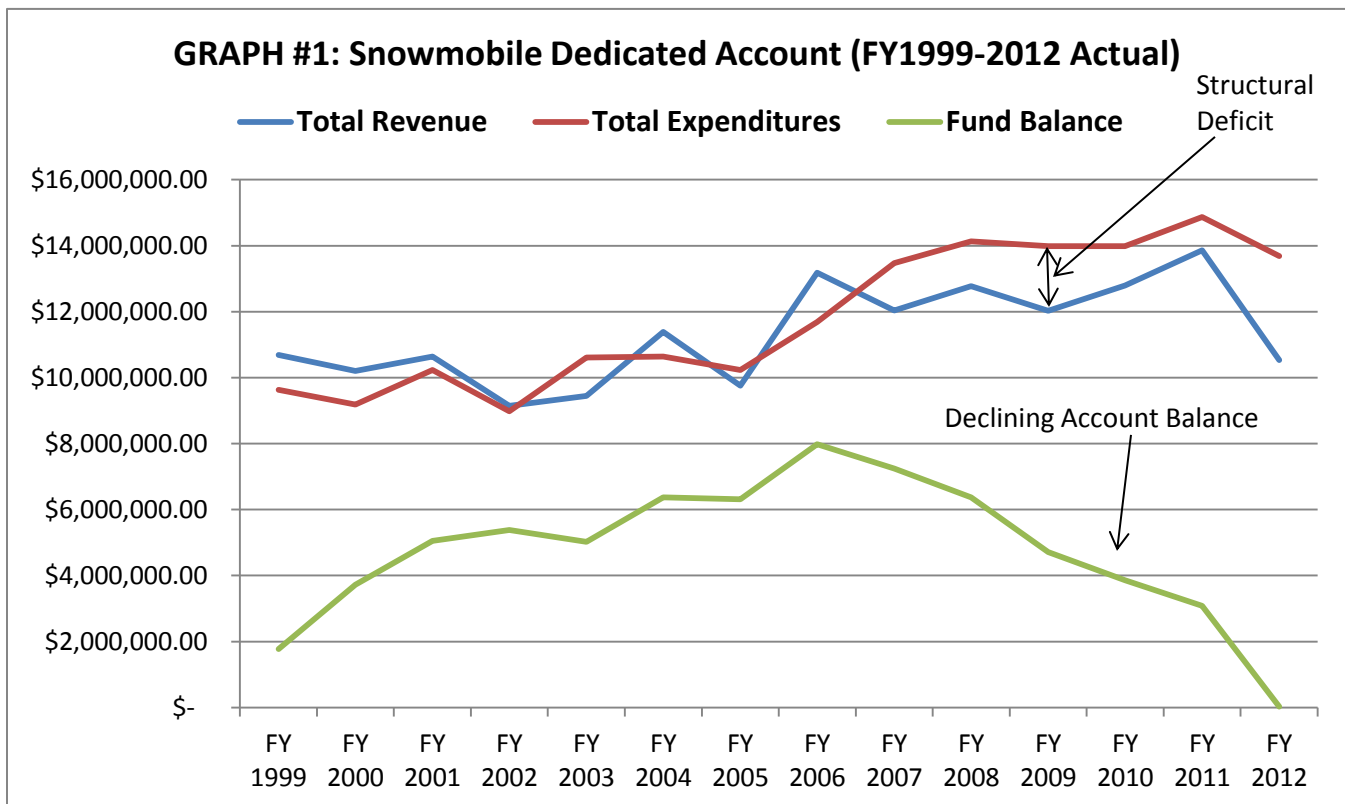


## Snowmobile Account Budget Adjustment

### Structural Deficit

The snowmobile dedicated account has an annual structural imbalance between spending and revenue. As can be seen from the chart below, the average annual deficit has been about \$1.7 million. Consequently, the account balance went from \$8 million in FY2006 to \$0 in FY 2012.

	Total Revenue	Total Expenditures	Annual Deficit
FY2007	\$12,036,636.68	\$13,475,170.78	\$(1,438,534.10)
FY2008	\$12,768,649.83	\$14,127,894.82	\$(1,359,244.99)
FY2009	\$12,028,003.41	\$13,988,612.36	\$(1,960,608.95)
FY2010	\$12,789,357.33	\$13,986,196.03	\$(1,196,838.70)
FY2011	\$13,862,517.81	\$14,869,105.72	\$(1,006,587.91)
FY2012	\$10,537,081.21	\$13,680,442.51	\$(3,143,361.30)
		<b>Average Deficit</b>	<b>\$(1,684,195.99)</b>



## Options Considered

Three primary avenues for eliminating the structural deficit were considered: 1) raise revenue; 2) adjust spending; or 3) a combination of both. Raising revenue requires legislative action. Adjusting spending is the viable near term option, as the structural deficit must be addressed in FY 2014.

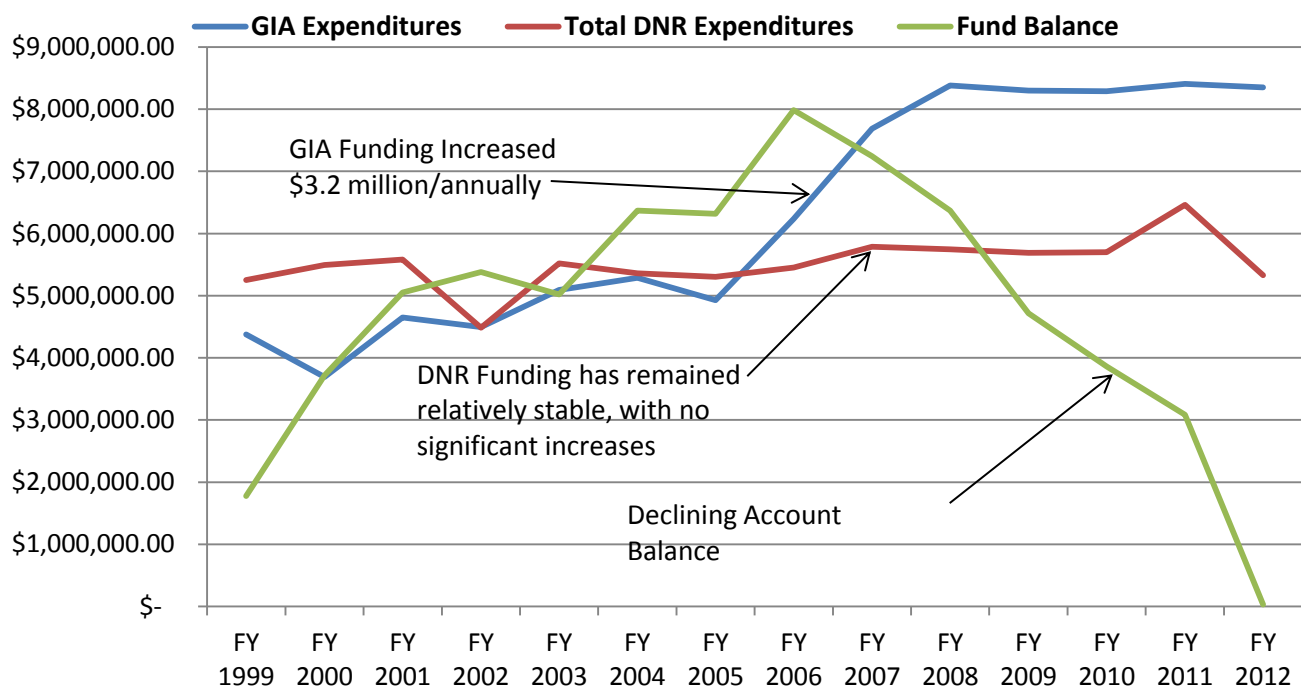
## GIA Funding Trends

A significant increase in funding to the GIA Program, beginning in FY2006, plus the loss of revenue in the 2011/12 season, due to poor snow conditions, helped accelerate the decline in the account balance. The increased GIA funding was intended to 1) lower the overall account balance, which was \$8 million at the time and 2) utilize the new revenue gained from the trail pass, where 100% of the trail pass revenues were intended for the GIA Program. GIA funding went from \$5 million in FY2005 to \$8.2 million in FY2008. This \$3.2 million (64%) per year increase was \$1 million more than the trail pass revenue, which averaged \$2.2 million from FY2006 through FY2012. In sum, GIA funding increased by \$1 million per year more than was sustainable in the long-term, which is the primary cause of the structural deficit.

## DNR Funding Trends

The DNR uses funding from the snowmobile account to groom and maintain snowmobiling on state trails (Arrowhead, Taconite, North Shore, for example), administer the GIA Program, law enforcement, trail safety education, and administration of registrations and licensing. The DNR snowmobile expenditures have remained largely unchanged from FY 2000 through FY 2012, despite inflation and rising costs. Adjustments to the DNR's budget would result in a significant reduction in services. The DNR budget has a built in financial safety valve, where unspent funds are turned back to the account at the end of each biennium.

**GRAPH #2: Snowmobile Dedicated Account  
DNR & GIA Expenditures and Fund Balance (FY1999-2012 Actual)**



**Budget Adjustment**

The following budget adjustment will help address the current structural deficit in the snowmobile account. It does not, however, fully address the issue of how much of an account balance is desirable to shield the account from weather shocks, such as occurred during the 2011/2012 winter.

The following adjustments will be made starting in FY14:

- A) \$500,000/year – Put the GIA Capital Improvement Grants on hold until the account balance improves.
- B) \$500,000/year – Adjust GIA Maintenance and Grooming Funding by \$500,000 (6.5%) to help address the structural deficit caused by the increases in GIA funding since FY2005.

**Total: \$1,000,000**

This \$1 million funding reduction will help ensure that the snowmobile account and its programs will have sustainable funding in the near term, assuming revenues are consistent with projections.



## **Snowmobile Account Budget Adjustment Frequently Asked Questions (FAQs)**

### **Why is there a structural deficit<sup>1</sup> in the snowmobile account?**

Snowmobile account revenue increased beginning in FY2006 due to implementation of the trail pass, which produced about \$3.2 million in funding in the first year. All of the revenue from the trail pass was intended to go to the GIA Program. As a result, the GIA funding was increased by about \$3.2 million over 2 years and this increase was sustained. This \$3.2 million increase in annual funding to the GIA Program happened in conjunction with changes to the GIA Program, such as the implementation of rate zone funding and performance based grants.

While trail pass revenue initially produced \$3.2 million in available funding per year, the average revenue over 7 years was actually about \$2.2 million/year. This meant that GIA funding had been increased by about \$1 million per year above the actual trail pass revenue. The increased funding to the GIA Program resulted in the structural deficit. The snowmobile account balance went from \$8 million in FY2006 to \$0 in FY2012.

### **Why wasn't the structural deficit addressed sooner?**

The need to address the structural deficit came about much sooner than expected due to the significant loss of revenue experienced during the winter of 2011/2012. The snowmobile account had a significant balance in FY2006 of \$8 million. This balance had accumulated from a number of years of revenues exceeding expenditures. It was determined that this balance should be lowered. The increased GIA funding at \$1 million above the average revenue from the trail pass was intended to help lower the overall account balance.

### **Did the 10% reduction to the GIA Program in 2012/2013 solve the structural deficit issue?**

The 2011/2012 snowmobile season saw a decline in revenue into the account by about \$3 million. This significant decline brought the snowmobile account reserve balance down quicker than had been anticipated. As a result, the DNR was required to make emergency funding reductions at the end of the 2012/2013 season, which included not reimbursing the GIA 4<sup>th</sup> benchmark, or 10% of all GIA maintenance and grooming grants. While the decline in revenue from the 2011/2012 season caused some of the urgency regarding the 4<sup>th</sup> benchmark reduction of FY 2013, a long-term solution is unfortunately needed if the GIA Program and snowmobile funding is to be sustainable into the future.

### **Did the good winter snow season of 2012/2013 make up for the fund balance issue?**

The good snowmobiling season of 2012/2013 did help bring revenue into the snowmobile account back to standard levels. However, the revenues of 2012/2013 did not come high enough above the average estimated revenue to solve the structural deficit. One good year of

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<sup>1</sup> A structural deficit is where spending exceeds revenue over a long-term period of time.<sup>1</sup> For example, the snowmobile account experiences variations in revenue due to snowfall, and these weather caused deficits are short-term. A structural deficit, however, persists even if the weather results in increased revenue.

revenue helped address the short-term need to keep a positive account balance, but it did not address the long-term structural deficit.

### **Will there be more budget adjustments in the future?**

The current budget adjustment will help address the structural deficit. Hopefully, it will also help provide some buffer against regular weather variations, thus enabling stable funding into the near future. However, if revenue is reduced significantly below projections, it is possible that future budget adjustments may be necessary. The DNR will evaluate the snowmobile account on an ongoing-basis and continue working closely with the snowmobile community to determine how best to manage the account.

### **Why does the snowmobile account need a balance?**

Due to the significant variation in snow and weather conditions, revenue from the trail pass and registrations can vary by up to \$3 million annually. This means that there is a significant need to have a sustainable snowmobile account balance into the long-term. The current budget adjustment does not address the specifics of how much of a balance should be kept in the account

Ideally a fund balance of about \$2 million will help protect against weather shocks. Even though the current budget adjustment will help provide some buffer against weather variations, if the 2013/2014 snowmobile season has low snow and a decline in registration revenue below fund statement estimates, then additional budget adjustments are possible. The DNR will continue to work with the Minnesota Snowmobile Advisory Committee (MSAC) and Minnesota United Snowmobilers Association (MnUSA) on finding a healthy balance while also providing funding to adequately support snowmobiling in Minnesota.

### **Does the DNR receive funding from the snowmobile account?**

Yes, the DNR is responsible for the overall administration of the state's snowmobile program. As such it is charged with managing many facets of the program including finances, legislation, policy, law enforcement, trail safety education, licensing and registrations, and administering the grant in aid program. The DNR also uses funding from the snowmobile account to groom and maintain state snowmobile trails such as the Arrowhead, Taconite, North Shore, and others.

### **Why is the budget adjustment coming from the GIA program and not DNR?**

The current structural deficit was caused by a large increase in funding to the GIA program beginning in FY2006, which is shown on graphs #1 and #2. GIA funding increased from \$5 million in FY2005 to \$8.2 million in FY2008, which was due to new revenue from the trail pass. However, over the years this \$3.2 million (64%) increase was not equally matched by revenue from the trail pass, which only averaged \$2.2 million per year. In other words, GIA funding increased by \$1 million per year more than was sustainable in the long term, causing the structural deficit. The structural deficit did help bring down a high account balance of \$8 million since FY2006, putting these funds on the ground for the GIA Program. Unfortunately,

this increased funding to the GIA Program cannot be maintained into the future as the snowmobile account must have a positive balance at the end of each year.

In contrast, DNR funding has remained essentially flat since FY1999, despite increasing costs and inflation. DNR is managing within a fixed budget. A DNR funding reduction would mean a significant decrease in services related to program administration, state trail maintenance and grooming operations, enforcement, safety education, and administration of registrations and licensing. In addition, DNR's funding mechanism has a built in safety-valve to protect the fund. Any unspent DNR funds are automatically turned back into the fund, which helps ensure the long-term health of the fund.

**What support is there for GIA Snowmobile Trails other than snowmobile account funding?**

The Grant-in-Aid, or GIA, Program is intended to assist with the costs of grooming and maintaining snowmobile trails. Much of the additional support for keeping the 22,000 mile trail system up and running is from charitable gambling proceeds, volunteer time, donations, and fund raising events. The trail system is dependent upon the dedication of club members and the high level of volunteerism in the snowmobile community. Additional financial support is provided through federal and state trail grant programs administered by the DNR.

**How will the FY14 budget adjustment be implemented?**

The FY14 funding adjustment will be implemented by reducing all GIA grant amounts equally by approximately 6.5%. Since GIA maintenance and grooming grant funding is determined by the number of trail miles and a rate per mile identified on the rate zone funding map, all rate zones would effectively be reduced by the same percentage. In order to help facilitate getting funds on the ground as early in the season as possible, the annual distribution schedule for benchmark payments will change from the current percentage split of 40/25/25/10 to 45/25/25/5.

The capital improvement grants were put on hold earlier in 2013, and will remain on hold through FY 2014 to help regain the health of the fund. The DNR will work with MnUSA and the snowmobile community on potentially reinstating the capital improvement funds in the future if the snowmobile account balance would allow for it.