

Response from Minnesota Department of Natural Resources (DNR) to Top Findings and Recommendations from the Citizen Oversight Report on Game and Fish Fund Expenditures for Fiscal Year 2019

REQUEST FOR REVIEW OF STATUTORY AUTHORITY

The BOC recommends the Department of Natural Resources (DNR) and Legislature review Minnesota Statutes, section 97A.055, subd. 4b, to assure the statute is clear and meets the intent of the legislature.

Clarity of the charge to the oversight committees –

The specific concern of the Budgetary Oversight Committee (BOC) is this language in section 97A.055, subd. 4b (a): “to review the proposed work plans and budgets for the coming year; propose changes in policies, activities, and revenue enhancements or reductions; review other relevant information; and make recommendations to the legislature and the commissioner for improvements in the management and use of money in the game and fish fund.”

Ability to make budget recommendations

The BOC is interested in having the statutory language clarified and information provided so the BOC can make policy and budget recommendations. The Wildlife, Fisheries, and Budget Oversight committees do not always have sufficient information on work plans and budget for the upcoming year to make meaningful recommendations. This is partially due to the timing of reports in even-numbered years, and partially due to proposed work plans and budgets not being available. Therefore, the BOC, though they want to fulfill section 97A.055, subd. 4b (a), cannot fully meet the responsibilities at this time.

See also section 97A.055, subd. 4b (d). The Budgetary Oversight Committee shall develop recommendations for a biennial budget plan and report for expenditures on game and fish activities. By August 15 of each even-numbered year, the committee shall submit the budget plan recommendations to the commissioner and to the senate and house of representatives committees with jurisdiction over natural resources finance.

DNR RESPONSE

The Wildlife, Fisheries, and Budget Oversight committees meet and do the bulk of their work while DNR is in its annual work and budget planning process. Therefore, DNR planning and oversight committee work have the potential to be in general alignment. DNR is interested in exploring how to better provide timely information and access to key staff as annual budget and work planning decisions are being made such that the BOC can make relevant budget and policy recommendations.

DNR is also interested in exploring process improvements in cooperation with the oversight committees so that in addition to formal reporting and formal recommendations/responses, less formal communication channels are used to their fullest extent. In biennial budget development years, the use of less formal channels could enable BOC recommendations to be considered in advance of early budget development deadlines.

TOP FINDINGS AND RECOMMENDATIONS

All FY2019 reviewed expenditures from the Game and Fish Fund (GFF) appear to be in keeping with statutory requirements and sound management practices. The top priority recommendations of the BOC to the DNR are listed below, in no particular order. The BOC requests that the DNR provide a written response on each of the top recommendations.

Climate Change

The effects of climate change are already having a profound impact on Minnesota wildlife and fisheries. The DNR has taken steps to evaluate the impact of our changing climate. However, it is imperative that the DNR pursue all informed practices and bolster its leadership role in the management of both public and state lands to mitigate the impact of climate change. Projected trends indicate increases in precipitation, invasive species, and disease, all of which could pose dangerous and irrevocable consequences on Minnesota's environment, wildlife, and fisheries. It is essential that the DNR lead, educate, and advise fellow natural resource organizations on the best methods to create resilient ecosystems in the face of climate change.

DNR RESPONSE

In December 2019, Governor Tim Walz signed Executive Order 19-37 establishing a Climate Change Subcabinet and a Governor's Advisory Council on Climate Change. DNR Commissioner Strommen serves on the Subcabinet with other agency heads, and DNR leadership serve on multiple teams within the Subcabinet: Natural and Working Lands Team, Resiliency and Adaptation Team, and Public Engagement Team. The teams are drafting adaptation and mitigation strategies. These include restoring grassland, forest and wetland habitats in strategic landscapes, modifying seed mixes used in state contracting, protecting and managing existing peatland and forest resources, and better understanding and measuring the role grassland, wetland, and forest habitats have in sequestering and storing carbon.

The DNR's CLIMATE (CLIMATE Mitigation and Adaptation TEAM) Team is now meeting monthly. This Team has a draft climate change communication plan, coordinates training for staff to develop basic fluency in climate science and impacts to natural resources, ensures implementation of agency direction on climate change, and builds the DNR's capacity to respond to emerging climate change opportunities and threats.

DNR has regular conversations with state and federal partner agencies/boards and conservation organizations that include landscape level habitat management and coordination. DNR formalizes these discussions and plays a leadership role in coordinating actions at the landscape level.

Specific climate change-driven initiatives include:

- Engaging in monitoring, assessment and research to better understand and adapt to changing climatic conditions

- Providing understandable and accessible information on the impacts of climate change in Minnesota and what DNR is doing. DNR's website is a good source of information
https://www.dnr.state.mn.us/climate/climate_change_info/index.html
- Reestablishing connectivity in North Shore streams to allow trout to migrate into previously inaccessible cold water refuges.
- Protecting cisco lakes by taking a watershed level approach to forest conservation strategies
- Restoring wetlands and grasslands in strategic locations to help mitigate downstream flooding from high intensity rain events
- Adjusting acquisition and restoration models to identify lands that can both provide wildlife habitat and also provide ecosystem services such as groundwater recharge, nitrate reduction, and carbon storage.
- Completing work on a DNR Operational Order that addresses the movement of species in response to changing climate (i.e., assisted migration)

DNR is interested in learning more about BOC members' specific thoughts about its efforts in the climate change arena and what potential future efforts might be.

FUND SUSTAINABILITY

The long-term health of the Game and Fish Fund (GFF) remains a top priority for the DNR. The GFF Operations Account balance is expected to decline over time due to appropriations exceeding projected revenues. Current projections have the GFF Operations Account solvent through the projected budget horizon of FY2023. At the same time, major sources of revenue are flat or declining. Federal reimbursement from the Dingell-Johnson Fund and Pittman-Robertson Fund, which provide 34% of the GFF Fund's Total Revenues and Transfers-in, are expected to stay flat or decline in future years. The Lifetime Fish and Wildlife Trust Fund was projected to grow and contribute a larger part to the GFF balance. However, recent and unforeseen market losses due to Covid-19 have raised concern with the Fund's dependence on a strong rate of return and its ability to absorb short-term losses and maintain long-term sustainability.

By 2032, the population in Minnesota is expected to exceed 6 million. While great news for the state's economy, a growing population increases the pressure on our natural resources and the state's ability to provide the outdoor recreation opportunities and quality of life that all Minnesotans expect.

For over 80 years, conservation has been funded, in large part, by a strong user base of hunters, boaters, and anglers. This funding model of "user pay – public benefit" has been successful but does not accurately reflect how natural resources are used today. The user base, those that pay, is shrinking while the number of people who benefit from conservation efforts, is growing. Since the funding base of the GFF is highly dependent (85%) on the revenue from hunting and fishing license sales, fees, and federal excise tax dollars, the DNR has focused their efforts on shoring up the user base. For example, the DNR has increased license fees to provide immediate revenue and recruited new users through Outreach/R3 BOC Report, June 2020 – 3 programs and activities. These are short-term strategies and the BOC recommends the DNR also pursue long-term policy changes to diversify and broaden their funding base.

The DNR must seek significant increases to appropriations from the General Fund and Sales Tax Revenues that are more equitable and sustainable. All Minnesotans benefit from the work done by the DNR and by asking all to invest in healthy fish and wildlife populations and quality habitats, field, and water access sites, we place a

higher value on those resources. Minnesota already has the advantage of strong and proven citizen support for conservation investments (2008 Legacy Amendment) and certainly could do more.

The DNR is laying the groundwork for these long-term policy changes. User surveys that chart the public's interest in Fish and Wildlife issues and identify what customers want and need in a "modern" Electronic License System. The DNR is also contracting research assistance to help design new and innovative licensing practices, pricing, and revenue structure. The hope of the BOC is that this work leads to real change in funding the future of the GFF.

DNR RESPONSE

The DNR is taking a multi-pronged approach to ensure GFF sustainability into the future that includes fiscal restraint in addition to seeking additional revenues. While we know the DNR could accomplish important things for Minnesota's natural resources and people with increased appropriations, we also recognize that the state is required to have a balanced budget. Increased appropriations/spending will almost certainly require increased revenue streams to the state.

DNR has taken a proactive approach to managing spending in the interest of maintaining GFF health. All divisions with GFF appropriations as part of their budgets have taken steps to modify spending to ensure a minimum \$10 M fund balance by the end of FY23. These actions allow time to explore new funding sources as well as implement longer-term strategic spending changes.

The Lifetime License Trust is based on the idea of long-term investment return. The investment markets go up and down, but history strongly suggest they will exhibit growth over the long term. The drop in the market in March of 2020 had no impact on the trust's ability to meet its designed goals, and the market has subsequently rebounded. Although the assumed rate of return of 8% might not be achievable, a lower rate of return will be sufficient to keep the Trust whole due to factors like lower than initially projected activation rates and a lower than initially projected rate of increase in license prices. The Trust fund is actively managed for long-term investment performance.

At the 2021 DNR Roundtable, Commissioner Strommen announced an initiative to explore a new funding model for conservation and outdoor recreation management in Minnesota. Minnesotans deserve and value a wide variety of outdoor and nature experiences; equitable access to public lands and resources; equitable mitigation for natural resource impacts; and the benefits of functional ecosystems (including clean water and air), regardless of their direct use. The current funding system, supported by traditional user-based fee activities, will not sustainably support the agencies charged with maintaining these values. While Minnesotans have demonstrated support for the environment and outdoors by establishing the Environmental Trust Fund and Clean Water, Land and Legacy constitutionally dedicated funding, these funds are not available to support operational needs and capital activities. DNR seeks an approach to agency funding that honors Minnesota values and provides for sustainable support for agency mission, goals, and priorities.

In 2019, the Division of Fish and Wildlife reached out to other state fish and wildlife agencies to understand both their funding challenges and innovative ideas. Other states are facing similar challenges: declining participation in hunting and fishing and resulting declining revenue; concerns over personnel and retirement costs; concerns over capital, infrastructure, and technology costs. Emerging issues include managing public expectations on urban wildlife issues, fish and wildlife diseases (Chronic Wasting Disease first among them), and a lack of diversity in funding sources.

The Division of Fish and Wildlife has contracted with Southwick and Associates, a nationally recognized consulting firm whose work includes research and analysis of economics in the hunting, shooting, sport fishing, and outdoor recreation markets. Southwick and Associates' results, expected in 2021, will assist DNR in understanding its license structure and customer preferences. The contract includes customer surveys to explore how potential changes to the game and fish license prices could impact sales and the health of the GFF.

DNR has recently negotiated an extension to its current Electronic Licensing System (ELS) with Aspira, a firm that provides ELS services to agencies across the country. The contract extension will provide several modest improvements to current customer experience. The next steps are to engage in a Request for Proposals for a modern system that provides excellent customer experience and provides DNR with enhanced ability to market to potential license buyers. The goal is to have a new system in place in approximately 3-4 years.

As the BOC notes, DNR is pursuing recruitment, retention and reactivation (R3) efforts, especially recruitment, with traditionally under-represented communities. Work on a statewide R3 plan is well underway, with a draft available for review by early summer 2021. While this work is critically important to maintaining and broadening participation in hunting and angling in Minnesota, R3 alone is not sufficient to meet long term funding challenges.

STRATEGIC MANAGEMENT PLAN

Priorities for the future should include funding expenditures based on well-developed business and work plans with attainable results, use of best management practices, and detailed accounting of projects of both revenue sources and expenditures, including outcomes. This will enable the general public and DNR to easily review revenue sources and to assure funds are not being wasted through uncoordinated management practices. It has been several years since the DNR has undertaken strategic planning for Game and Fish. A new updated strategic plan, with specific outcomes and projected costs, supported by an accounting/management system to track efforts could be vital to the health of not only revenue sources and expenditure outcomes, but the game and fish in the state.

DNR RESPONSE

DNR has a long-term strategic plan, published as [Conservation that Works](#), as well as a 2020-2022 DNR Strategic Plan (also on the Conservation that Works webpage) developed under the umbrella of the One Minnesota Strategic Plan. Specific fiscal accountability strategies include:

- Implement a common, high-level approach to fiscal forecasting and monitoring in order to better understand our financial outlook and inform our management decisions.
- Develop new and innovative funding models that speak to modern day trends and challenges.
- Simplify budget structures, policies, and practices to improve operational efficiency and transparency.
- Tie programmatic goals with available financial resources and identify unmet needs

In addition, the divisions of Enforcement, Fish and Wildlife, and Ecological and Water Resources have all completed strategic planning processes in the last several years. Fish and Wildlife received Commissioner's Office approval for its plan in December 2019 and is working to implement the plan. One element of the plan is to develop a division approach to work planning –with a goal of full implementation in FY22. The division is also

undertaking an evaluation of the division's organizational structure and functions with an eye toward consistency and efficiency across the division.

DNR is making increasing use of outcome based reporting in order to more clearly describe the results of its management efforts. This year's Game and Fish Fund report is one example of this kind of reporting. DNR staff are also making more use of continuous improvement methodologies like Six-Sigma and Lean to improve processes and find efficiencies.

In addition, DNR uses a number of business and work plans and has strong fiscal accounting systems in place. It is subject to internal and external audits, all to ensure fund integrity and fiscal accountability.

CHRONIC WASTING DISEASE

Chronic Wasting Disease (CWD) continues to be a very serious and immediate problem affecting deer across areas of Minnesota. CWD also poses a threat to Minnesota's moose and elk populations. Severe deterioration in these populations would constitute an abdication of our stewardship responsibilities for wildlife, as well as impose serious economic effects and destroy a Minnesota family tradition. Efforts to forestall such outcomes requires sustained and coordinated efforts by multiple entities: the DNR, the Board of Animal Health (BAH), the Department of Agriculture (DOA), all farmers, all hunters, and all wildlife enthusiasts. As noted in the BOC's FY2018 Report, CWD is not just a "hunter's issue" and, therefore, the cost of controlling the disease should not fall strictly to the Game and Fish Fund.

The DNR has worked within the reach of its authority to implement a science-based plan to limit the spread of this disease in the wild. However, effective management of this wildlife health issue is complicated by split authority among different agencies. Moreover, there are still unknowns associated with this disease and methods to eradicate it have not yet been discovered. Therefore, it remains a serious threat to Minnesota's wildlife, its outdoor economy, and an important part of its social fabric. BOC Report, June 2020 – 4 Sustained and coordinated attention to this problem is required, including focus on the cost of programs needed to limit its damage.

DNR RESPONSE

DNR continues to work very hard to move CWD from being a 'deer hunting issue' to a Minnesota issue. Due in part to these efforts, the Minnesota Legislature appropriated \$1.87 million from the General Fund for FY2020-2021. The Legislature also appropriated \$2.8 million from the GFF for CWD activities. The DNR used and is using these resources to implement an aggressive management plan for controlling CWD. These efforts include disease surveillance, restrictions on movement of deer carcasses, liberalized hunting opportunities, and agency culling in disease hot-spots. Together, these actions will help the DNR understand the extent of the disease in the state and reduce the risk of spread into new areas and to other cervid species. DNR has responsibility over wild deer, and has focused its attention in that area.

DNR is also working with the Board of Animal Health to strengthen rules governing cervid farms and to improve processes relating to escaped cervids and CWD detection on cervid farms. DNR has competed successfully for federal grants that are being used in direct disease response as well as research into understanding deer movements and their relationship to CWD spread. DNR is also partnering with the University of Minnesota to improve diagnostics (including RT-QuIC or Real-time Quaking-induced Conversion) for detecting CWD in deer.

tissues as well as soils, water, and plants. This technology has the potential to test live animals and the environment in order to more rapidly detect the presence and spread of prions in deer and on the landscape.

FISH HATCHERIES

The state's hatcheries need asset preservation funding to maintain and operate. The DNR and BOC agree funding from the state is needed in the form of bonding. Currently, the GFF and General Funds, which are declining, cannot meet hatchery infrastructure needs.

Approximately \$39,211,000 in capital improvements are needed for Minnesota fish hatcheries to ensure asset preservation and enhancements. Coldwater hatcheries make up \$18,877,978 of those needs and coolwater hatcheries make up \$20,333,000. The DNR proposed bonding to cover much of the costs in the 2020 Legislative Session Capital Expenditures Budget; however, the bonding bill did not pass during the regular 2020 Legislative Session. The DNR and Legislature need to address these concerns if the state wishes to continue to have a high-quality fishery that supports part of the state's economy— especially in Greater Minnesota.

DNR RESPONSE

Current GFF appropriations are insufficient to cover anything more than minor repairs and some smaller improvements within the hatchery system. The DNR's request for hatchery bonding money was a high priority last session, and hatchery projects are eligible for funding as part of DNR's Natural Resource Asset Preservation (NRAP) and betterment of buildings requests. During FY2021, the DNR is using GFF funds to address some specific pond maintenance needs at the New London and Waterville hatcheries. The Division of Fish and Wildlife is developing a refined Fish Production Plan that prioritizes spending of available resources within the state's fish production system in order to make the best use of existing hatchery and pond infrastructure. The plan will also help direct maintenance and rehabilitation funds to the places they will have the most impact.