

# Minnesota Department of Natural Resources

500 Lafayette Road · Saint Paul, Minnesota · 55155-4037

Office of the Commissioner

651-259-5555



October 3, 2008

The Honorable Ellen Anderson  
Env., Energy and N.R. Budget Division chair  
75 Rev. Dr. Martin Luther King Jr. Blvd.  
Capitol Building, Room 120  
St. Paul, Minnesota 55155-1606

The Honorable Jean Wagenius  
Environment and N.R. Finance chair  
449 State Office Building  
100 Rev. Dr. Martin Luther King Jr. Blvd.  
St. Paul, Minnesota 55155

Commissioner Tom Hanson  
Department of Finance and Employee Relations  
658 Cedar Street  
St. Paul, Minnesota 55155

Dear Senator Anderson, Representative Wagenius and Commissioner Hanson:

Pursuant to Minnesota Statutes 97A.4742 Sub. 3, the commissioner of the Department of Natural Resources (DNR) is required to report on the adequacy of lifetime license fees and provide specific recommendations for fee adjustments.

Legislation was passed in 2000 providing for the sale of lifetime licenses for certain hunting and fishing activities. The new lifetime licenses were available for sale to state residents beginning March 1, 2001, and to non-residents beginning March 1, 2002.

At the time of implementation, assumptions were made regarding the interest rate, rate of fee increases, and percent of licenses activated annually. The chart below shows the original assumptions along with the actual outcomes.


|  | <b>Original Assumption</b> | <b>Actual Outcome</b> |
|--|----------------------------|-----------------------|
| <b>Annual Fee Increase</b>               | 4%                         | 4%                    |
| <b>Average Investment Rate of Return</b> | 8%                         | 5.84%                 |
| <b>Annual License Activations</b>        | 75%                        | 80.80%                |

Attached are two additional tables that demonstrate the impact of original assumptions and actual outcomes on the lifetime license fund balance. Table 1 reflects the status of the fund balance given the original assumptions. Under these assumptions, the fund balance remains positive throughout the life of the model. Table 2 reflects the status of the fund balance based on actual outcomes. This table shows a negative balance for the lifetime license fund by 2051.

A key difference between the original assumptions and the actual outcomes is the average investment rate of return. To balance the fund, the DNR would need to raise lifetime license fees approximately 15-20 percent. Given the fund balance will remain adequate for more than 40 years and due to the current instability of interest rates, the DNR will not request changes to lifetime license fees at this time.

The DNR will continue to monitor the fund balance and report to the legislature on a biennial basis.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark Holsten'.

Mark Holsten, Commissioner  
Department of Natural Resources

Attachments (Table 1 and Table 2)

c: Laurie Martinson  
Bob Meier  
Denise Anderson

**Table 1**  
**PROJECTION OF FUND BALANCE**  
 (Based on Original Assumptions)

| <u>Assumptions</u>           |               |                                 |
|------------------------------|---------------|---------------------------------|
| Activation rate              | <b>75.00%</b> | Life expectancy: live to age 78 |
| Annual license increase rate | <b>4.00%</b>  | No new lifetime licenses sold   |
| Annual investment return     | <b>8.00%</b>  |                                 |

Based on Existing Lifetime License Sales through License Year 2006

| Year | License Year | Resident    |              |              |            |             | Non-Resident |            | TOTAL         |
|------|--------------|-------------|--------------|--------------|------------|-------------|--------------|------------|---------------|
|      |              | Fish        | Deer-Firearm | Deer-Archery | Small Game | Sporting    | Fish         | Small Game |               |
| 0    | 2006         | 1,171,386   | 1,177,390    | 164,093      | 96,087     | 2,415,728   | 12,983       | 0          | 5,037,668     |
| 5    | 2011         | 1,467,734   | 1,507,099    | 210,372      | 116,902    | 3,113,007   | 15,850       | 34         | 6,430,998     |
| 10   | 2016         | 1,835,131   | 1,937,578    | 271,350      | 142,828    | 4,001,723   | 19,640       | 50         | 8,208,300     |
| 15   | 2021         | 2,266,116   | 2,498,970    | 353,084      | 175,124    | 5,032,087   | 24,143       | 73         | 10,349,597    |
| 20   | 2026         | 2,813,107   | 3,262,078    | 464,546      | 218,023    | 6,323,063   | 30,158       | 108        | 13,111,082    |
| 25   | 2031         | 3,592,680   | 4,331,375    | 620,648      | 277,704    | 8,052,514   | 38,670       | 158        | 16,913,748    |
| 30   | 2036         | 4,758,667   | 5,835,422    | 845,318      | 364,128    | 10,450,044  | 51,810       | 233        | 22,305,623    |
| 35   | 2041         | 6,394,323   | 7,969,753    | 1,169,170    | 486,355    | 13,729,247  | 70,540       | 342        | 29,819,730    |
| 40   | 2046         | 8,708,902   | 11,067,033   | 1,640,747    | 661,624    | 18,271,701  | 96,852       | 502        | 40,447,362    |
| 45   | 2051         | 12,022,212  | 15,596,945   | 2,334,310    | 918,590    | 24,680,097  | 135,648      | 738        | 55,688,540    |
| 50   | 2056         | 16,809,702  | 22,259,524   | 3,357,811    | 1,297,885  | 33,829,104  | 192,128      | 1,084      | 77,747,237    |
| 55   | 2061         | 23,808,506  | 32,139,712   | 4,872,869    | 1,861,577  | 47,058,630  | 274,217      | 1,593      | 110,017,105   |
| 60   | 2066         | 34,083,721  | 46,662,588   | 7,106,546    | 2,698,550  | 66,367,634  | 394,407      | 2,340      | 157,315,787   |
| 65   | 2071         | 49,343,061  | 68,211,941   | 10,398,315   | 3,940,529  | 95,202,216  | 570,140      | 3,438      | 227,669,639   |
| 70   | 2076         | 71,845,954  | 99,882,504   | 15,256,074   | 5,772,089  | 137,548,992 | 828,277      | 5,052      | 331,138,944   |
| 75   | 2081         | 104,976,789 | 146,639,988  | 22,392,509   | 8,464,321  | 200,204,356 | 1,208,525    | 7,423      | 483,893,911   |
| 80   | 2086         | 154,142,294 | 215,459,526  | 32,896,826   | 12,434,572 | 293,880,679 | 1,779,712    | 10,907     | 710,598,517   |
| 85   | 2091         | 226,485,601 | 316,514,466  | 48,336,231   | 18,270,465 | 431,807,132 | 2,606,165    | 16,027     | 1,044,036,086 |

**TABLE 2**  
**PROJECTION OF FUND BALANCE**  
 (Based on actual outcomes)

| <b>Assumptions</b>      |                 |                                 |
|-------------------------|-----------------|---------------------------------|
| Activation rate         | <b>Variable</b> | Life expectancy: live to age 78 |
| Annual license increase | <b>4.0%</b>     | No new lifetime licenses sold   |
| Annual investment rate  | <b>5.8%</b>     |                                 |

**Based on Existing Lifetime License Sales  
 through License Year 2006**

**Activation rates based on historical records thru license year 2006.**

|                 |              |              |              |              |              |              |  |
|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|--|
| Activation rate | <b>82.0%</b> | <b>88.0%</b> | <b>84.0%</b> | <b>74.0%</b> | <b>77.0%</b> | <b>80.0%</b> |  |
|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|--|

| Yr | License Year | Resident    |              |              |            |              | Non-Resident |            | TOTAL        |
|----|--------------|-------------|--------------|--------------|------------|--------------|--------------|------------|--------------|
|    |              | Fish        | Deer-Firearm | Deer-Archery | Small Game | Sporting     | Fish         | Small Game |              |
| 0  | 2006         | 1,171,386   | 1,177,390    | 164,093      | 96,087     | 2,415,728    | 12,983       | 0          | 5,037,668    |
| 5  | 2011         | 1,289,436   | 1,312,679    | 184,983      | 104,587    | 2,778,099    | 13,912       | 0          | 5,683,696    |
| 10 | 2016         | 1,372,870   | 1,431,048    | 205,194      | 111,335    | 3,124,593    | 14,457       | 0          | 6,259,497    |
| 15 | 2021         | 1,361,575   | 1,504,277    | 223,234      | 114,333    | 3,308,674    | 13,899       | 0          | 6,525,994    |
| 20 | 2026         | 1,233,705   | 1,522,837    | 236,975      | 112,486    | 3,319,614    | 12,079       | 0          | 6,437,697    |
| 25 | 2031         | 963,180     | 1,460,931    | 244,732      | 103,481    | 3,114,746    | 9,109        | 0          | 5,896,178    |
| 30 | 2036         | 532,375     | 1,296,792    | 245,439      | 87,071     | 2,614,288    | 4,041        | 0          | 4,780,004    |
| 35 | 2041         | (11,280)    | 1,022,331    | 242,521      | 64,986     | 1,764,617    | (1,957)      | 0          | 3,081,217    |
| 40 | 2046         | (695,230)   | 592,802      | 234,364      | 32,601     | 376,942      | (7,783)      | 0          | 533,696      |
| 45 | 2051         | (1,493,554) | (30,303)     | 219,067      | (14,561)   | (1,670,779)  | (14,871)     | 0          | (3,005,002)  |
| 50 | 2056         | (2,405,257) | (792,808)    | 196,147      | (68,675)   | (4,057,639)  | (22,974)     | 0          | (7,151,206)  |
| 55 | 2061         | (3,417,942) | (1,536,187)  | 171,224      | (121,261)  | (6,742,301)  | (30,745)     | 0          | (11,677,213) |
| 60 | 2066         | (4,507,661) | (2,256,783)  | 145,772      | (170,881)  | (9,718,398)  | (39,864)     | 0          | (16,547,815) |
| 65 | 2071         | (5,619,817) | (2,872,560)  | 127,168      | (211,465)  | (12,870,308) | (48,739)     | 0          | (21,495,723) |
| 70 | 2076         | (6,625,986) | (3,329,923)  | 115,124      | (238,164)  | (15,849,456) | (59,538)     | 0          | (25,987,943) |
| 75 | 2081         | (7,422,344) | (3,638,807)  | 118,207      | (258,005)  | (18,188,152) | (69,391)     | 0          | (29,458,492) |
| 80 | 2086         | (8,233,825) | (3,926,656)  | 124,494      | (278,177)  | (20,628,768) | (80,516)     | 0          | (33,023,448) |
| 85 | 2091         | (8,573,674) | (4,034,075)  | 145,483      | (287,934)  | (21,614,760) | (86,120)     | 0          | (34,451,080) |

DATE: 10/7/2008

**LEGISLATIVE REPORT – Cost of Preparation**

NAME OF LEGISLATIVE REPORT – Adeauacy of Lifetime License Fees

Based on:

Minnesota Statute Reference: M.S. 97A.4742 Subd. 3

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| Description of Cost   | Further explanation if necessary | Amount   |
|---|----------------------------------|----------|
| Staff Time  | 9 weeks salary among 4 staff     | \$13,005 |
| Duplication Cost (includes paper.)  |                                  | \$20.00  |
|   |                                  |          |
| Other:  |                                  |          |
|   |                                  |          |
| <b>TOTALTOPREPAREREPORT</b><br>(Note: Right click on amount cell and choose update to complete) |                                  | \$13,025 |