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FISCAL IMPACT REPORT

ORIGINAL DATE 2/22/15
 LAST UPDATED 2/25/15 HB 474

SPONSOR Bandy

SHORT TITLE Fire Protection Fund to Watershed Restoration SB _____

ANALYST Armstrong

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17		
	\$729.6	\$1,460.5	Recurring	Forest and Watershed Restoration Fund
	(\$729.6)	(\$1,460.5)	Recurring	Fire Protection Grant Fund

(Parenthesis () Indicate Revenue Decreases)

Related to HB 38
 Conflicts with HB 456

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Regulation Commission (PRC)
 Energy, Minerals and Natural Resources Department (EMNRD)

Responses Not Received From

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Bill 474 appropriates one-half of the annual increase in future distributions from the fire protection fund to the fire protection grant fund, as provided by existing statute, to the forest and watershed restoration fund. The effective date of the bill is June 19, 2015, contingent on establishment of the forest and watershed restoration fund prior to the end of FY 15.

FISCAL IMPLICATIONS

The appropriation of future distributions from the fire protection fund contained in this bill is a recurring expense to the fund and reduces distributions to the fire protection grant fund. Any unexpended or unencumbered balance remaining at the end of FY2016 shall not revert to the fire protection fund. This bill would not impact general fund reversions from the fire protection fund.

This bill provides for continuing appropriations contingent on the creation of a new fund. The LFC has concerns with continuing appropriations, as earmarking reduces the ability of the legislature to establish spending priorities.

SIGNIFICANT ISSUES

Under HB 474, the annual distribution from the fire protection fund to the fire protection grant fund is reduced by half with the reduction going to the forest and watershed restoration fund, contingent on creation of that fund prior to the end of FY2015. Assuming annual revenue growth of 1 percent to the fire protection fund from FY2016 to FY2023, the table below compares projected distributions under both existing statute and HB 474.

Projected Annual Distributions from the Fire Protection Fund

Year	Projected Revenues and Appropriations before Statutory Distributions			Existing Statutory Distributions		House Bill 474 Distributions		
	Revenues	Fire Dept Distribution	Other Appropriations	Fire Protection Grant Fund	General Fund	Fire Protection Grant Fund	Forest and Watershed Restoration Fund	General Fund
2015	74,140.0	46,654.2	5,708.1	7,295.5	14,482.2	6,566.0	729.6	14,482.2
2016	74,881.4	47,527.2	5,555.7	8,763.0	13,035.5	7,302.5	1,460.5	13,035.5
2017	75,630.2	47,756.3	5,603.7	10,444.7	11,825.5	8,206.6	2,238.2	11,825.5
2018	76,386.5	47,747.7	5,652.2	12,320.8	10,665.8	9,240.6	3,080.2	10,665.8
2019	77,150.4	47,746.5	5,701.2	14,292.7	9,410.0	10,322.5	3,970.2	9,410.0
2020	77,921.9	47,752.8	5,750.7	16,360.3	8,058.1	11,452.2	4,908.1	8,058.1
2021	78,701.1	47,766.7	5,800.7	18,523.5	6,610.2	12,629.7	5,893.9	6,610.2
2022	79,488.1	47,788.2	5,851.2	20,782.4	5,066.3	13,854.9	6,927.5	5,066.3
2023	80,283.0	47,950.2	5,962.5	22,968.5	3,401.8	15,017.9	7,950.6	3,401.8
2024	81,085.8	48,112.2	6,022.2	25,280.5	1,671.0	16,251.7	9,028.7	1,671.0
2025	81,896.7	48,274.2	6,082.4	27,540.1	-	17,460.4	10,079.7	-

* Revenues assume a 1% annual increase

* Fire department distributions and other appropriations from 2015-2022 are PRC projections

* Fire department distributions from 2023-2025 based on average PRC projected increases from 2015-2022

* Other appropriations from 2023-2025 based on average PRC projected percentage increases from 2015-2022

According to PRC analysis:

The fire protection grant fund provides monies to municipal and county fire departments, on an annual grant application basis, to purchase critical need items such as apparatus, equipment and fire suppression water supplies that they cannot afford from their local funding and the state fire protection fund.

The use of funds derived from the fire protection fund for the uses set up by the forest and watershed restoration fund are not allowed under the Fire Protection Fund Act.

The original intent of the fire protection grant fund was to provide additional funding to municipal and county fire departments for the purchase of apparatus, equipment and water supplies that will qualify for points in the Insurance Services Office (ISO) fire community rating system. Lowering a community's ISO rating can lead to lower insurance rates and assist a community in attracting new businesses. This program has been very effective.

Eventually, over 36 percent of the fire protection grant fund will be siphoned off to the forestation and watershed fund. This will have a significant adverse impact on municipal and county fire departments.

However, the increased distributions from the fire protection fund to the fire protection grant fund for equipment is not resulting in better ISO ratings. The existing schedule of transfers gradually increases amounts sent to the fire protection grant fund, rising from \$43.2 million at the end of FY13 to \$45.7 million at the end of FY14. By the end of FY25 and in each subsequent year, all funds in the fire protection fund will transfer to the fire protection grant fund. However, the increased funding is not resulting in better insurance office ratings for the departments and districts, with performance ratings remaining relatively flat.

CONFLICT, RELATIONSHIP

House Bill 38 establishes the forest and watershed restoration board and creates the forest and watershed restoration fund.

House Bill 456 removes the State Fire Marshal from the PRC, and in doing so repeals and reestablishes both the fire protection fund and the fire protection grant fund in new sections of law as well as the provisions regarding distributions from the fire protection fund which HB 474 amends.

JA/bb/je