

# **Review of the Texas Forest Service West Texas Nursery**

**A REPORT BY THE  
STATE COUNCIL ON COMPETITIVE GOVERNMENT  
MARCH 2011**



# Council on Competitive Government



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*Any opinions and conclusions in this report are those of the staff and the Director of the CCG. Due to the nature and timing of this review, the appointed members of the CCG were not convened in open meeting to act on this report. However, members have been apprised of this report and its findings.*

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# Executive Summary

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## Project Overview

In accordance with the direction of the Texas Sunset Advisory Commission, the Council on Competitive Government completed a review of the Texas Forest Service (TFS) West Texas Nursery.

**Project Background:** The Texas Sunset Advisory Commission (Commission) conducted a review of the TFS and delivered its report to the 82<sup>nd</sup> Legislature. Management Action 1.2 of the recommendations for the TFS directed the Council on Competitive Government (CCG) to study the feasibility and fiscal impact of selling TFS' West Texas Nursery (Nursery) to the private sector and report its findings to the Commission by March 2011.

**Nursery Overview:** The TFS West Texas Nursery has been in existence since 1973 and moved to its new location in Idalou in 2004. The Nursery's mission is to provide a source of low cost, native tree resources and technical assistance for landowners in the region for the purpose of establishing windbreak and conservation plantings, and supporting urban and community forestry issues in surrounding cities and communities. The Nursery is managed and run with the assistance of seven (7) full-time equivalent (FTE) staff including a Nursery Coordinator, Office Associate, Staff Forester and four Resource Specialists (one of which is currently vacant).

**Interview Summary:** CCG began its study of the Nursery by reviewing the programs and services offered by the Nursery. CCG conducted interviews with staff from the Commission, TFS, Texas A&M University System (TAMUS), and the General Land Office (GLO). CCG also met with representatives of Texas Tech University and obtained input from other stakeholders with interest in the Nursery. Additionally, CCG traveled to Idalou, TX for a site visit at the Nursery.

## Research Conducted

To gain a deeper understanding of the activities and operations of the Nursery, CCG performed research in three key areas: 1) a property valuation study of the land and improvements made to the land (e.g., facilities, irrigation, roads); 2) a benchmarking study of the market prices for seedlings sold by the Nursery; and, 3) a revenue and expenditure analysis of the Nursery's operations.

- 1) **Property Valuation:** CCG found that the Nursery property in Idalou, TX was purchased for \$101,555. Additionally, a total of \$890,000 in improvements were made to the land. However, most of the improvements were specific to the operations of the Nursery and as such did not commensurately increase the market value of the land. In fact, a property review performed by TAMUS estimated the value of the land and property to be between \$130,000 and \$160,000. GLO also reviewed the estimate and found it to be a reasonable assessment of the property's value.
- 2) **Benchmarking:** CCG found that in the majority of cases the cost of the products sold by the Nursery were 18 to 29 percent higher than comparable products sold by neighboring state nurseries and private entities. Nursery management has noted that this premium may be due to the fact that their seedlings are grown longer, and are therefore bigger and stronger than comparable products sold elsewhere.
- 3) **Revenue and Expenditure Analysis:** CCG found that despite legislation intended to limit profits made by the Nursery, it has operated at a loss for each of the last ten years. This loss has been subsidized by both direct and indirect General Revenue. Based on actual expenditures for fiscal year 2010 and the operating budget for fiscal year 2011, the anticipated General Revenue expenditure for the current biennium will be approximately \$386,000.<sup>1</sup>

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<sup>1</sup> Dollar figure based on CCG's best estimate of directly attributable general revenue and other identified expenditures for salary and associated benefits.

## ***Legislative Options***

Based on interviews conducted with multiple agencies and other research conducted, CCG presents the following options for legislative consideration. Pros and cons along with a rationale for each option can be found beginning on page twelve of this report. Note that all three options include a total sunk cost of \$991,000 (Sunk Cost = Land Purchase Price + Land Improvements).

- 1) Sell the Nursery property and direct all proceeds from the sale of the land to be deposited into General Revenue. Fiscal Impact:
  - a. Biennial Savings: \$386,000
  - b. Proceeds From Immediate Sale: \$130,000 to \$160,000
  
- 2) Cut General Revenue funding for the West Texas Nursery in the bill pattern of the General Appropriations Act for the Texas Forest Service, but allow for the continued operation of the Nursery at the discretion of TFS. TFS would need to consider other funding sources as appropriate. Fiscal Impact:
  - a. Biennial Savings: \$386,000
  
- 3) Continue to fund the Nursery either at existing or reduced levels. Fiscal Impact:
  - a. Biennial Savings: \$0 – 385,999

# Project Overview

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## Project Background

The Texas Sunset Advisory Commission conducted a review of the Texas Forest Service and delivered its report to the 82<sup>nd</sup> Legislature. Management Action 1.2 of the recommendations for the TFS directed the Council on Competitive Government to study the feasibility and fiscal impact of selling TFS' West Texas Nursery to the private sector. CCG was further directed to report the results of the study to the Sunset Advisory Commission by March 2011 so that the Legislature can make any needed changes to the agencies' statutes or appropriations during the 2011 session.

## History

In 1973, the Texas Forest Service began operations for what is now the West Texas Nursery (Nursery). The original Nursery was housed in the Texas Agriculture Experiment Station located just north of Lubbock. In 2001, the 77<sup>th</sup> Legislature, as part of the General Appropriations Act, appropriated \$750,000 to relocate and expand the West Texas Nursery.

Using agency local funds and gift funds the Texas Forest Service purchased 53 acres of land in Idalou, Texas. In 2002, using the appropriations funds mentioned above, the agency began efforts to add the necessary improvements to the land to relocate the Nursery, including an office facility, a state-of-the-art greenhouse, a lathe house and a packing facility, along with 40 acres of field compartments and relocated to the new facility in 2004.

## Nursery Overview

### Mission

The mission of the Nursery is to provide a source of low cost, native tree resources and technical assistance for landowners in the region for the purpose of establishing windbreak and conservation plantings. Over the years this mission has been expanded to include urban and community forestry issues in surrounding cities and communities.

### Programs

The Texas Forest Services provides two main programs from the Nursery. Its primary program is the production and sale of tree seedlings for windbreak and conservation plantings. Complementing this service is the provision of technical assistance to landowners and communities in the region through the Staff Forester assigned to the Nursery.

### Seedling Production and Sales

The primary function of the Nursery is the production and sale of tree seedlings for windbreak and conservation plantings. In this role, the Nursery produces and sells approximately 25 different species of seedlings in several growing methods. In addition, to meet the need of two specialty growing contracts for the City of Austin and the U.S. Army Corps of Engineers in San Antonio, the Nursery is producing containerized seedlings of various plants native to the area for ecosystem restoration and revegetation projects. Table 1 provides an overview of Nursery sales and revenue from seedling sales for the past ten years.

**Table 1: Seedling Sales & Revenues**

Fiscal Year	Seedling Sales	Seedling Revenues
2001	268,300	\$ 138,080.44
2002	246,300	\$ 130,006.67
2003	198,400	\$ 118,213.08
2004	158,100	\$ 94,325.39
2005	166,599	\$ 86,803.30
2006	118,310	\$ 96,182.95
2007	53,029	\$ 115,131.22
2008	58,464	\$ 87,122.57
2009	56,776	\$ 94,540.38
2010	69,093	\$ 102,437.87
Total	<b>1,393,371</b>	<b>\$ 1,062,843.87</b>

Currently the Nursery offers three different types of plant stock: bare root hardwoods, bullet-container evergreens and paper wrapped evergreens. All species grown at the Nursery are considered to be "specialty" plants, ecologically suited for the geographic region. According to the TFS the species grown at the Nursery are considered not commercially viable by the private Nursery sector in Texas, a fact that was further supported by the Texas Nurserymen and Landscape Association (TNLA) in our conversation with them.

Although the Nursery has established a website for the sale of seedlings directly to landowners, their primary customers are other State and Federal agencies, most notably the Texas State Soil and Water Conservation Districts (SWCD). Based on fiscal year 2009-2010 purchases of seedlings by the Nursery's top 50 customers, 36 were SWCD accounting for 45 percent of all sales. Without the Nursery, the SWCD would have to rely on retail nurseries or seedling nurseries in other neighboring states for their supply of plants. Table 2 provides the listing of the Nursery's top 50 customers in total sales for fiscal years 2009 and 2010.

**Table 2: West Texas Nursery Top 50 Customers**

Customer	Total Sales FY09/10
WILBURN, EMMA	\$ 9,116
GAINES CO SWCD	\$ 7,945
MIDDLE CLEAR FORK SWCD	\$ 7,450
PARKER CO SWCD	\$ 4,705
LYNN CO SWCD	\$ 4,438
MUENSTER WATER DISTRICT	\$ 4,258
PALO DURO SWCD	\$ 3,340
HALE CO SWCD	\$ 3,040
SANDHILLS CO SWCD	\$ 3,000
ELLIS PRAIRIE SWCD	\$ 2,610
MIDLAND CO SWCD	\$ 2,510
BRATCHER, BRETT	\$ 2,242
HOCKLEY CO SWCD	\$ 2,160
BAIN, ALAN	\$ 2,153
LUBBOCK CO SWCD	\$ 2,135
CENTRAL COLORADO SWCD	\$ 2,115
LOWER PEASE RIVER SWCD	\$ 2,105
CALLAHAN DIVIDE SWCD	\$ 2,030
WISE CO SWCD-DECATUR TX	\$ 2,000
DENTON CO SWCD	\$ 1,945
BLACKWATER VALLEY SWCD	\$ 1,910
RUNNELS CO SWCD	\$ 1,875
NEXSTAR BROADCASTING	\$ 1,830
OCHILTREE SWCD	\$ 1,780
TERRY CO SWCD	\$ 1,690

Customer	Total Sales FY09/10
COLLIN CO SWCD	\$ 1,675
POTTERS HOUSE OF DALLAS	\$ 1,545
DUCK CREEK SWCD	\$ 1,500
MILLER BRAZOS SWCD	\$ 1,465
NOLAN CO SWCD	\$ 1,450
DAWSON CO SWCD	\$ 1,450
HOWARD CO SWCD	\$ 1,360
HALL CHILDRESS CO-MEMPHIS TX	\$ 1,220
COTTLE COUNTY SWCD	\$ 1,005
DALLAM CO SWCD	\$ 990
ANDREWS CO SWCD	\$ 970
LAMB CO SWCD	\$ 970
GUETERMALOUF, LLC	\$ 960
HALLMAN, SCOTT	\$ 948
YBARRA, SAL	\$ 945
HVJ ASSOCIATES	\$ 937
WALKER, JOHN	\$ 913
WICHITA CO SWCD	\$ 905
MITCHELL CO SWCD	\$ 865
YOAKUM CO SWCD	\$ 865
YOUNG CO SWCD	\$ 835
PASSMORE, TOM	\$ 818
WILBARGER CO SWCD	\$ 800
OLDHAM CO SWCD	\$ 770
MEYERS, BARBARA	\$ 770

Based on estimates provided by the TFS in the six year period from 2004 to 2009, seedlings sold at the Nursery have provided direct soil and water conservation benefit to over 250,000 acres of land in the region and direct enhancement of an additional 20,000 acres of wildlife habitat.

### Technical Assistance

The Nursery houses a TFS Staff Forester who works to promote agro-forestry, reforestation and forestry-based land conservation programs to a defined region in the Lubbock area. An additional role of the Staff Forester is to provide technical assistance to landowners in the region in their design and planting of windbreak and conservation plantings. The Staff Forester provides similar technical assistance to cities and communities in the region and also supports them in their efforts to promote rural and urban forestry practices.

In addition to the provision of technical assistance, the Staff Forester also plays a key support role at the Nursery providing assistance in the production, packing and shipping of seedlings. Additionally, the Forester plays a key role in marketing for the Nursery, promoting the Nursery and the tree seedlings to the regional community.

## Interview Summary

To perform its review of the TFS West Texas Nursery, CCG began by meeting with Sunset Commission staff to review work completed as part of the initial TFS Sunset Report and establish project scope. CCG also met internally with the Comptroller’s Legislative Affairs division to discuss the Commission’s management action and to coordinate efforts to contact key members of the Commission and other members of the legislature that may have an interest in West Texas Nursery. Table 3 provides an overview of the key stakeholders CCG interviewed or otherwise engaged with to assist in their study.

Having established the scope of the review, CCG sought to gain an understanding of the programs and services offered by the Nursery. To accomplish this, CCG staff met with management and staff of TFS and the Texas A&M University System to discuss the Nursery. At these interviews, CCG requested several reports and data related to Nursery operations in an effort to better understand the funding for and expenditures of the Nursery. Lastly, CCG performed a site visit to the Nursery in Idalou.

In an effort to engage stakeholders and get their input on the review, CCG contacted the Texas Nursery and Landscaping Association, several Soil and Water Conservation Districts and other stakeholders with interest in the Nursery. Additionally, while at the site visit CCG attended a meeting between the TFS and the Texas Tech University College of Agricultural Sciences and Natural Resources in which partnering opportunities were discussed.

**Table 3: Key Stakeholders**

Stakeholder	Title	Organization
Tom Boggus	State Forester and Director	Texas Forest Service
Don Galloway	Forest Resource Protection Planning & Policy	Texas Forest Service
Jim Rooni	Central Texas Operations Department Head	Texas Forest Service
Robby DeWitt	Associate Director for Finance & Administration	Texas Forest Service
Joe Cox	Asst. Vice Chancellor	Texas A&M University System
Eddie Zimmerman	Senior Real Estate Analyst	Texas A&M University System
Charles McMahan	Public Member	Sunset Advisory Commission
Senator Glenn Hager, Jr.	Chair	Sunset Advisory Commission
Amy Trost	Senior Policy Analyst	Sunset Advisory Commission
Chas Semple	Asst. Vice Chancellor, Governmental Relations	Texas Tech University System
Buster Renfrow	Associate Chief Appraiser	General Land Office
Mark McAnally	Chief Appraiser	General Land Office
Dr. John Burns	Dean	Texas Tech University, College of Agricultural Sciences and Natural Resources
Dr. Sukant Misra	Associate Dean	Texas Tech University, College of Agricultural Sciences and Natural Resources
Jim Reaves	Director, Legislative Affairs	Texas Nurserymen and Landscape Association

## Research Conducted

To gain a deeper understanding of the activities and operations of the Nursery, CCG performed research in three key areas:

1. A property valuation study of the Nursery property;
2. A benchmarking study of the cost of seedlings sold by the Nursery as compared to neighboring state nurseries and private entities; and,
3. An analysis of the revenues and expenditures related to the operations of the Nursery.

The primary goal of these reviews was to address concerns that had been raised by Commission members and other stakeholders regarding the potential overlap of services provided by the Nursery and the overall efficient and effective use of state resources in Nursery operations.

### Task 1 – Property Valuation Study

#### Methodology

CCG began the property valuation study by reviewing the original appraisals for the property and original purchase information provided by the TFS. Based on the deed acquired from the County Clerk in Lubbock County, the 53.41 acre site was purchased in 2002 at a cost of \$101,555. Two appraisals at the time valued the property at \$101,500 and \$104,000, showing the state paid fair market value for the property at the time of purchase.

Utilizing available online resources, CCG attempted to establish a rough estimate of the current value of the Nursery property. In this review, a lot similar to that of the Nursery with no improvements and highway frontage was found. The listing price for the 37 acre lot was \$149,900, recently lowered \$15,000 from its original listing of \$165,000. At this current list price, the value of the land is estimated at about \$4,000 per acre. At this per acre valuation, the value of the land only, with no consideration of the improvements to the Nursery property was estimated to be \$212,000.

To establish the fiscal impact and feasibility of selling the Nursery, CCG engaged the Texas A&M University System, Real Estate Office (SREO) and the General Land Office (GLO) to help assess the current property value, the market for the site and the feasibility of selling the Nursery.

**Table 4: West Texas Nursery Property Improvements**

Improvement	Expenditure
Allocation & Engineering	\$ 28,200
Greenhouse	\$ 198,564
Packing & Storage Sheds	\$ 143,051
Equipment Shed	\$ 44,553
Lath House	\$ 70,899
Office	\$ 294,836
Irrigation & Water Systems	\$ 25,070
Utilities	\$ 27,519
Roads & Parking	\$ 41,787
Sign	\$ 5,000
Site Work	\$ 7,325
Culvert	\$ 850
Well House	\$ 2,346
<b>TOTAL</b>	<b>\$ 890,000</b>

The SREO performed an analysis of the Nursery property and informed CCG that based on its discussions with an appraiser for a rural lending institution familiar with the area, it was his opinion that the price for the Nursery property, which features highway frontage and is irrigated land, ranges from \$2,500 to \$3,000 per acre. They also noted that an adjacent property sold for \$1,200 per acre according to the appraiser, but that land had no highway frontage and no irrigation.

TFS provided a detailed breakdown of the improvements to the Nursery property since purchase totaling \$890,000. Improvements to the property include an office building, storage, packing and shipping facility, greenhouse, lathe house, shed, irrigation systems and utility upgrades. A detailed overview of the improvements and associated expenditures is provided in Table 4.

SREO noted in their analysis that while the property has several improvements, the unique nature of the improvements for forestry purposes limits their marketability in the sale of the property. The office and storage buildings may provide value to a potential buyer, but the greenhouses and custom finish-out of the other structures are an over-improvement to the property and would likely not be useful to anyone interested in buying the property.

## Findings

Based on the assessment of the SREO it was determined that the highest and best use for the property “as is” would be for rural residential usage. As such, the market value of the property if sold is estimated to be between \$133,525 and \$160,230. CCG reviewed this value assessment with GLO appraisers and they agreed that this was a reasonable assessment of the property value.

## **Task 2 – Seedling Benchmarking**

### Methodology

To determine if the programs of the Nursery were redundant with programs provided by other State and Federal government entities in Texas, and to determine if the products provided by the Nursery were priced competitively, the CCG performed a benchmarking analysis of the seedlings sold by the Nursery. To perform the benchmarking analysis, CCG compared the Nursery to public and private entities providing seedlings in Texas and in neighboring states. Table 5 and Table 6 provides an overview of the benchmarking analysis performed.

### Findings

In regards to the redundancy of the programs offered by the Nursery, CCG found that no other Texas government agency provides the seedlings offered by the Nursery. One private entity located in East Texas (Arborgen) sells seedlings, but as seen in Table 5, their species availability as compared to those grown at the Nursery was limited. In addition, while other entities in neighboring states sell seedlings the ability of these state programs to ship seedlings to landowners in Texas was in some cases limited.

Although the products and services of the Nursery were not found to be redundant, comparable products were identified. Benchmarking analysis of these comparable products revealed a significant variance in the price of the seedlings. As can be seen in Table 6, the cost for seedlings at the Nursery was found to be between 18 and 29 percent higher than comparable products sold by neighboring state nurseries and private entities.

When asked about this, the TFS representatives noted that they believe the cost for their products to be in line with other entities in the benchmarking study as they believe their products to be bigger and hardier than those provided by others in the study. In addition, the Nursery staff noted during the site visit that the seedlings are germinated from local seeds making them more suited for the region, resulting in higher survival rates.

An additional item of note is that the TFS statute for the Nursery (Education Code, Sec.88.110) states that the, “selling price of seedlings produced on the land, as far as practical, shall represent the cost of production plus at least 10 percent.” However, the current cost for seedlings sold at the Nursery does not cover the expenditures of the Nursery as was envisioned in the statute language. When asked about this, the TFS staff noted that the price established is to some extent based on cost of production, but the costs are set to be competitive with other neighboring states and private nurseries. They also noted that an increase in prices would make the cost unreasonable and therefore make it more likely that landowners would choose more established products from private nurseries.

**Table 5: Benchmarking Analysis of Nursery Seedlings by Species**

Seedling Species	WTN Unit Price	LA Unit Price	OK Unit Price	AR Unit Price	NM Unit Price	Arborgen (Private)
Afghanistan Pine (Paper)	\$ 2.50	NA	NA	NA	NA	NA
Afghanistan Pine (Plastic)	\$ 1.83	NA	NA	NA	\$ 1.20	NA
Arborvitae, Oriental (Paper)	\$ 2.50	NA	\$ 0.99	NA	NA	NA
Ash, Green (Bare)	\$ 1.40	\$ 0.60	\$ 0.66	\$ 0.80	\$ 0.94	\$ 1.60
Austrian Pine (Paper)	\$ 2.50	NA	\$ 0.66	NA	\$ 2.50	NA
Austrian Pine (Plastic)	\$ 1.83	NA	\$ 0.66	NA	\$ 1.20	NA
Blue Spruce (Paper)	\$ 2.50	NA	NA	NA	\$ 2.50	NA
Deodar Cedar (Paper)	\$ 2.50	NA	\$ 0.99	NA	NA	NA
Eastern Redcedar (Paper)	\$ 2.50	NA	NA	NA	\$ 2.50	NA
Elm, American (Paper)	\$ 2.50	\$ 0.60	NA	NA	NA	\$ 1.60
Italian Stone Pine (Paper)	\$ 2.50	NA	NA	NA	NA	NA
Oak, Bur (Bare)	\$ 1.40	NA	\$ 0.66	NA	\$ 0.94	\$ 1.60
Oak, Chinkapin (Bare)	\$ 1.40	NA	NA	NA	NA	\$ 1.60
Pecan (Bare)	\$ 1.40	\$ 0.60	\$ 0.66	\$ 0.80	NA	\$ 1.60
Pinyon Pine (Paper)	\$ 2.50	NA	\$ 0.99	NA	NA	NA
Pinyon Pine (Plastic)	\$ 1.83	NA	NA	NA	\$ 1.20	NA

**Table 6: Benchmarking Analysis of Nursery Seedlings by Type<sup>2</sup>**

Package Type	WTN Unit Price	LA Unit Price	OK Unit Price	AR Unit Price	NM Unit Price	Arborgen (Private)	Benchmark Min	Benchmark Avg
Paper	\$ 2.50	NA	NA	NA	\$ 2.50	NA	\$ 2.50	\$ 2.50
Plastic	\$ 1.83	NA	\$ 0.99	NA	\$ 1.20	\$ 1.60	\$ 0.99	\$ 1.41
Bare root	\$ 1.40	\$ 0.60	\$ 0.66	\$ 0.80	\$ 0.94	NA	\$ 0.60	\$ 0.88

Package Type	Sales Volumes FY10	WTN Cost	Benchmark Min Cost	Benchmark Avg Cost
Paper	24,630	\$ 61,575	\$ 61,575	\$ 61,575
Plastic	5,940	\$ 10,870	\$ 5,881	\$ 8,346
Bare root	39,625	\$ 55,475	\$ 23,775	\$ 34,870
<b>TOTALS</b>	<b>70,195</b>	<b>\$ 127,920</b>	<b>\$ 91,231</b>	<b>\$ 104,791</b>
% Savings			<b>29%</b>	<b>18%</b>

<sup>2</sup> The revenue from sales for the Nursery denoted in Table 6 do not match those provided in Table 1 as the benchmarking was done using 2011 pricing and the revenues in Table 1 reflect 2010 pricing which was lower.

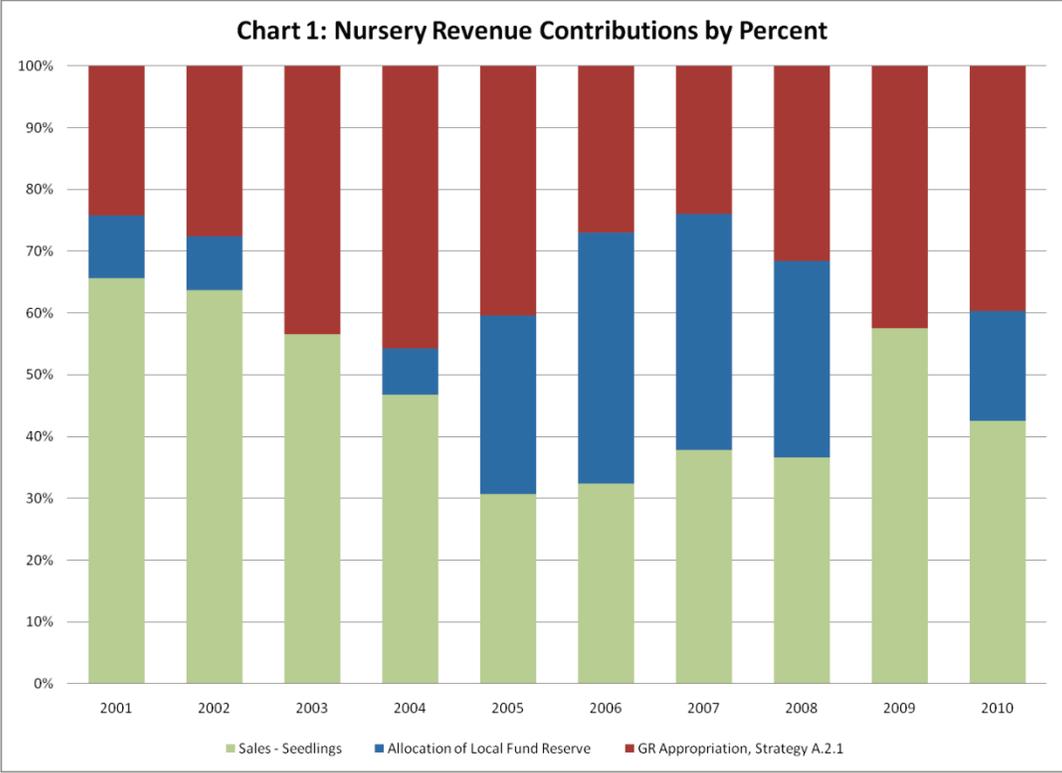
# Task 3 – Analysis of Nursery Operations

## Methodology

In an effort to gain a more complete picture of the Nursery, the CCG performed a detailed review of the activities and operations of the Nursery. Toward this effort, CCG reviewed the sales, revenue, expenditures, and personnel allocations related to the Nursery for the period FY 01 through FY 10, the operating budget for the Nursery for FY11 and the budget request for the Nursery for the biennium FY12 – FY13.

## Findings

Since FY 01, the Nursery has never fully recovered its annual cost of operations. Over the ten years reviewed, sales of seedlings only accounted for 30% to 65% of all costs. For example, as seen in Chart 1, in fiscal year 2010 sales of seedlings covered 40% of all costs attributable to the Nursery. To cover the gap between revenue from seedling sales and expenditures, the Nursery requests General Revenue from the state. With the exception of two years, fiscal year 2003 and fiscal year 2009, the General Revenue allocation combined with sales revenues was not adequate to cover Nursery expenditures. Typically to cover all expenditures, the Nursery relies on additional funding from the TFS Local Fund Reserve account. Over the past ten years, the State and TFS together have subsidized 35% to 70% of the operations of the Nursery annually.



In addition, expenditures for some staff salaries and benefits have been allocated to other program budgets, in essence further subsidizing the Nursery operations. For the current biennium (FY10-11), these expenditures totaled over \$230,000; most of which were funded with General Revenue.

**Table 7: Nursery Revenues From All Sources**

	2010 Actual	2011 Budgeted
Allocation of Local Fund Reserve	\$ 42,760	\$ 193,902
Sales - Seedlings	\$ 102,438	**
Conservation Reserve (Fed Grant)	\$ 8,281	\$ 8,281
GR Appropriation, Strategy A.2.1	\$ 95,587	\$ 95,836
West Texas Stewardship (General Revenue)	\$ 32,212	\$ 32,212
Employee Benefits (General Revenue) *	\$ 65,364	\$ 65,364
Employee Benefits (Local Fund)	\$ 10,906	\$ 10,906
<b>Total TFS Funds</b>	<b>\$ 156,104</b>	<b>\$ 204,808</b>
<b>Total GR Funds</b>	<b>\$ 193,163</b>	<b>\$ 193,412</b>
<b>Total Other</b>	<b>\$ 8,281</b>	<b>\$ 8,281</b>
<b>Total Operational Budget</b>	<b>\$ 357,548</b>	<b>\$ 406,501</b>

\* Paid from various accounts funded with General Revenue.

\*\* The TFS allocates a budgeted amount from the Local Reserve Fund to the Nursery at the beginning of the FY. The sales from seedlings are sent to the Local Fund and thus the actual amount required to offset the sales is determined at the end of the year. This number will eventually reflect the total sales and the Local Fund amount will be revised downward to reflect the sales revenue received from seedling sales and to match needed revenues to cover actual expenditures.

A positive sign is that revenue from seedling sales has been on the rise since 2008 and appears to be set for another increase in FY11. However the rise in sales revenue is primarily due to an increase in prices and not increased sales as sales of seedlings have fallen from a high of 268,000 in 2001 to nearly 70,000 in 2010, nearly a 74 percent decrease in sales. Table 1, on page 3, provides an overview of historical seedling sales volume and revenues.

## ***Legislative Options***

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Based on the research conducted, CCG presents the following options for legislative consideration as they consider needed changes to statutes or appropriations during the 2011 legislative session. It should be noted that all three options include a total sunk cost of \$991,000 (Sunk Cost = Land Purchase Price + Land Improvements).

### ***Option 1***

Sell the Nursery property and direct all proceeds from the sale of the land to be deposited into General Revenue.

### **Rationale**

Without continued subsidization from state and TFS funds, the Nursery likely will not be self-sustaining in the short-term. To add, the products and services provided by the Nursery can be acquired through alternative means and often at lower cost to customers. While the Nursery may provide benefit to the state, the value of that benefit to the state is questionable, especially in light of current budget shortfalls.

### **Pros**

- Saves the State \$386,000 in General Revenue this biennium.
- Could provide the state up to an additional \$160,000 to General Revenue from the sale of the property.

### **Cons**

- Eliminates the need for five (5) full-time staff, one (1) vacant position and may also impact the continued need of the Staff Forester assigned to the Nursery.
- The programs of the Nursery provide benefit to landowners and local governmental entities in the region.
- Without the Nursery, stakeholders, including local governmental entities, would be required to seek out alternative sources for plant materials.
- Provisions would need to be made to address delivery of products for existing orders and contracts.

## **Option 2**

Cut General Revenue funding for the West Texas Nursery in the bill pattern of the General Appropriations Act for the Texas Forest Service, but allow for the continued operation of the Nursery at the discretion of TFS.

### **Rationale**

Historically, the Nursery has not raised enough from seedling sales to operate in a cost recovery manner. Expenditures not covered by revenue from seedling sales of the Nursery have historically been offset by General Revenue and funds redirected from other TFS managed accounts.

This approach would require the TFS to fund the West Texas Nursery solely from internal funds. This provides an incentive to the TFS to perform an internal assessment of the Nursery program and determine the need for continued operation. This may lead to the elimination of the program and sale of the land, or alternatively it could provide TFS a valuable opportunity to improve the effectiveness and efficiency of operations at the Nursery toward the goal of making the Nursery self-sustaining.

### **Pros**

- Saves the State \$386,000 in General Revenue this biennium.
- Provides for the continued operation of the Nursery and its programs at the discretion of the TFS.
- Provides TFS an incentive to implement identified goals for Nursery in the short-term including:
  - Drive additional sales of seedlings through improved marketing of the Nursery and improved relations with their primary customers, the SWCD.
  - Market the availability of and seek out opportunities for specialty growing contracts to produce additional revenue for the Nursery.
  - Seek out efficiencies at the Nursery to decrease costs of production and overall expenditures at the Nursery.
  - Seek out partnering opportunities with universities to improve the overall use of the Nursery property for greater benefit to the State.

### **Cons**

- May result in the elimination of some products and services currently provided by the Nursery.
- If TFS is unable to find adequate funding for the Nursery it may force closure of the Nursery.

### **Option 3**

Continue to fund the Nursery either at existing or reduced levels.

#### **Rationale**

The Legislature would not have established the Nursery if it had not felt that the program provided value to the State. While the Nursery is not self-sustaining, the benefits derived from the Nursery have intrinsic value to the State, landowners and local governments. This value is difficult to quantify and as such the benefits of the Nursery may far exceed the value of the funds provided to subsidize the operations of the Nursery. In addition, the products and services provided by the Nursery are often not readily available from other Texas-based sources.

#### **Pros**

- Provides for the continued operations of the Nursery and the programs of the Nursery.
- Provides an intrinsically valuable service to the State, landowners and local governments.

#### **Cons**

- Requires the continued subsidization of Nursery operations from General Revenue funds that are scarce at this time.
- Provides no incentive to TFS to improve the efficiency and effectiveness of Nursery operations.