



March 10, 2011

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During the Texas Sunset Commission Decision Meeting on January 12, 2011, the Sunset Commission issued the following management action:

Also direct TFS to work with the Council on Competitive Government to study the feasibility and fiscal impact of selling TFS' West Texas Nursery to the private sector. The agencies should report the results of their 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.

The Council on Competitive Government (CCG) made the decision to conduct a study on its own, as opposed to participating in a joint study with TFS. TFS responded to all requests for information, provided a tour of the nursery operations, and answered all questions received from CCG staff. CCG prepared its report and provided a draft copy to TFS on the afternoon of March 8th, with the opportunity to provide comments by the close of business on March 9th.

While we appreciate the time and effort of the CCG staff, based on the wording of the management action and our subsequent discussions with Sunset staff, we were expecting to participate in a joint study by the two agencies. This is the first opportunity CCG staff has provided for TFS review or comment. Within the short time allotted, TFS did review and provide comments, concerns and suggested edits. CCG staff made some of the changes, but a number of our substantive concerns were not addressed.

The following are our comments and concerns regarding the report prepared by CCG. The short time frame does force us to focus disproportionately on items or findings we may not agree with; however, we have attempted to highlight the significant points we agree with as well.

The CCG study does provide quite a bit of useful and accurate information and we did find much to agree with, including statements such as:

- The Nursery's mission is to provide a source of low cost, native trees for the purpose of establishing windbreak and conservation plantings, and supporting urban and community forestry issues in surrounding cities and communities.

- All species grown at the Nursery are considered to be “specialty” plants, ecologically suited for the geographic region.
- The verification by the Texas Nurserymen and Landscape Association (TNLA) that the species grown at the TFS Nursery are considered not commercially viable by the private Nursery sector in Texas
- Without the Nursery, the SWCD would have to rely on retail nurseries or seedling nurseries in other neighboring states for their supply of plants.
- The products and services provided by the Nursery are often not readily available from other Texas-based sources.
- 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.
- 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.
- Seedling sales and revenue from seedling sales has been on the rise since 2008 and appears to be set for another increase in FY11.
- 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.
- The Legislature would not have established the Nursery if it had not felt that the program provided value to the State.
- Although comparable products were identified and utilized during benchmarking analysis, the products and services of the Nursery were not found to be redundant.

The report also contains some errors, omissions and incorrect statements, which are misleading and result in incorrect savings figures. Significant items identified are as follows:

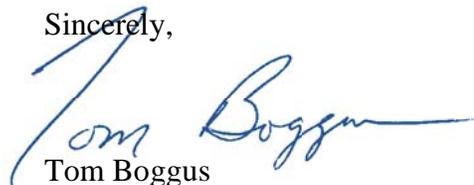
- The “Biennial Savings” estimate includes salaries and budget for non-nursery personnel.
 - The study references the Nursery staff as seven (7) full-time equivalent (FTE’s), including a Nursery Coordinator, Office Associate, Staff Forester and four Resource Specialists. Although officed at the Nursery facility, the Staff Forester is one of several positions across the state that provides technical assistance to private landowners, cities and counties. This is not a Nursery Staff position.
 - On Table 7 the “Conservation Reserve (Fed Grant)” and “West Texas Stewardship (General Revenue)” lines and the related employee benefits are not part of the nursery operations and should not be included on this table or the saving estimate. Also, the “Sales – Seedling” budget for 2011 is \$193,902. The 2011 Budgeted “Allocation of Local Fund Reserve” is 0.

- The paragraph prior to Table 7 states that expenditures for some (nursery) staff salaries and benefits have been allocated to other program budgets, in essence further subsidizing the Nursery operations. We do not find this paragraph to be accurate and suspect the previously referenced corrections will eliminate this statement.
- The “Proceeds From Immediate Sale” estimate references directing all proceeds from the sale of the land to be deposited into GR. The West Texas Nursery land purchase was funded with agency local funds and gift funds, no GR was used for land purchase. Proceeds should go back to original source.
- During the analysis the study states “To cover the gap between revenue from seedling sales and expenditures, the Nursery request General Revenue from the state.” This statement is later built upon to substantiate part of the potential savings estimates; however, it is incorrect. The West Texas Nursery is not a line item appropriation in the General Appropriations Act and TFS has made no specific funding requests to support the nursery operations. TFS made a programmatic decision to allocate a portion of the GR funds it receives to the nursery, because it supports the agency’s forestry programs in central and west Texas. If TFS were to discontinue operating the nursery, the agency would re-allocate the GR funds to support other forestry programs.
- The pricing analysis between TFS and other seedling sources (Table 5 and 6) does not consider the impact of government funding provided to other states for nursery operations. TFS is compatible or below the private nursery pricing cited. We believe the other state’s pricing is significantly lower based on larger state appropriations provided to support (subsidize) their nursery operations.
- Although not referenced, the closure of the West Texas Nursery would cause TFS to default on existing contracts for seedling production and sales.

In light of these issues, I would recommend the attached edits and comments to the Legislative Options.

Please let me know if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Tom Boggus". The signature is written in a cursive, flowing style.

Tom Boggus
Director/State Forester

Legislative Options

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

- Would allow TFS to reallocate ~~Saves the State~~ \$386,000 in General Revenue this biennium. (Note: GR funds are allocated by TFS within its existing appropriation, and not a line item within the State Appropriations Act) (also, the \$ amount is incorrect, per the comments attached to Table 7).
- Could provide ~~the state~~ up to an additional \$160,000 to ~~General Revenue~~ from the sale of the property. (Note: The land was purchased with local and gift funds. No GR was used for land purchase. Proceeds should go back to the original source, not GR.)

Cons

- Eliminates the need for six (6) full-time staff, **including** 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.
- ~~This would cause TFS to default on existing contracts for seedling production and sales.~~

Option 2

Prohibit the use of ~~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 full cost recovery manner. Expenditures not covered by revenue from seedling sales of the Nursery have historically been offset by the TFS using General Revenue and TFS local funds ~~redirected from other TFS managed accounts.~~

This approach would require the TFS to fund the West Texas Nursery solely from non-general revenue ~~internal~~ funds. This would require the TFS to reassess and revise its 2010-2014 Strategic Management Plan ~~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. (see note from Option1)
- 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 (Note: all of these items are identified within the Nursery's 2010-2014 Strategic Management Plan):
 - 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.~~ (Note: The fact that we are using funds that could be used by the agency on other programs provides significant incentive to maintain efficient and effective operations.)