

### Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

| Program Budget Comparison         |                     |                        |                       |                       |                          |                          |                    |                      |
|-----------------------------------|---------------------|------------------------|-----------------------|-----------------------|--------------------------|--------------------------|--------------------|----------------------|
| Budget Item                       | Base<br>Fiscal 2014 | Approp.<br>Fiscal 2015 | Budget<br>Fiscal 2016 | Budget<br>Fiscal 2017 | Biennium<br>Fiscal 14-15 | Biennium<br>Fiscal 16-17 | Biennium<br>Change | Biennium<br>% Change |
| FTE                               | 296.08              | 296.08                 | 287.89                | 287.89                | 296.08                   | 287.89                   | (8.19)             | (2.77)%              |
| Personal Services                 | 17,522,571          | 18,636,444             | 19,997,950            | 19,987,938            | 36,159,015               | 39,985,888               | 3,826,873          | 10.58 %              |
| Operating Expenses                | 7,132,190           | 7,477,983              | 8,266,010             | 8,421,858             | 14,610,173               | 16,687,868               | 2,077,695          | 14.22 %              |
| Equipment & Intangible Assets     | 1,046,720           | 1,021,176              | 1,056,720             | 1,056,720             | 2,067,896                | 2,113,440                | 45,544             | 2.20 %               |
| Capital Outlay                    | 0                   | 11,128                 | 0                     | 0                     | 11,128                   | 0                        | (11,128)           | (100.00)%            |
| Grants                            | 194,465             | 189,465                | 194,465               | 194,465               | 383,930                  | 388,930                  | 5,000              | 1.30 %               |
| Transfers                         | 1,341,297           | 1,317,694              | 1,464,423             | 1,462,152             | 2,658,991                | 2,926,575                | 267,584            | 10.06 %              |
| Debt Service                      | 24,937              | 18,678                 | 24,937                | 24,937                | 43,615                   | 49,874                   | 6,259              | 14.35 %              |
| <b>Total Costs</b>                | <b>\$27,262,180</b> | <b>\$28,672,568</b>    | <b>\$31,004,505</b>   | <b>\$31,148,070</b>   | <b>\$55,934,748</b>      | <b>\$62,152,575</b>      | <b>\$6,217,827</b> | <b>11.12 %</b>       |
| General Fund                      | 10,795,266          | 11,383,236             | 12,290,375            | 12,424,643            | 22,178,502               | 24,715,018               | 2,536,516          | 11.44 %              |
| State/Other Special Rev.<br>Funds | 15,417,769          | 16,167,954             | 17,356,215            | 17,365,768            | 31,585,723               | 34,721,983               | 3,136,260          | 9.93 %               |
| Federal Spec. Rev. Funds          | 1,049,145           | 1,121,378              | 1,357,915             | 1,357,659             | 2,170,523                | 2,715,574                | 545,051            | 25.11 %              |
| <b>Total Funds</b>                | <b>\$27,262,180</b> | <b>\$28,672,568</b>    | <b>\$31,004,505</b>   | <b>\$31,148,070</b>   | <b>\$55,934,748</b>      | <b>\$62,152,575</b>      | <b>\$6,217,827</b> | <b>11.12 %</b>       |

### Program Description

The Forestry Division is responsible for planning and implementing forestry programs statewide. Forestry responsibilities include protecting natural resources from wildfire, regulating forest practices, and providing a variety of services to private forest landowners.

Specific programs include:

- Fire and Aviation Management: Protecting 50 million acres of state and private forest and watershed lands from wildfire through a combination of direct protection and county support
- Forest Practice Regulation: Enforcing Montana's streamside management zone regulations and monitoring the voluntary best management practices program on all forests in Montana
- Administering Montana Fire Hazard Reduction Law: Ensuring that the fire hazard created by logging and other forest management operations on private forest lands is adequately reduced, or that additional fire protection is provided until the hazard is reduced
- Providing Forestry Services: Providing technical forestry assistance to private landowners, businesses and communities
- Tree and Shrub Nursery – Growing and selling seedlings for conservation and reforestation plantings on state and private lands in Montana.

The Trust Land Management Division provides for the administration and management of trust lands granted to the State of Montana by the Enabling Act of 1889. These lands total approximately 5.2 million surface acres and 6.2 million mineral acres. Additionally, the division is responsible for the administration of approximately 6,000 miles (40,000+ acres) of the beds of navigable waterways. The Trust Land Management Division is divided into four primary programs: forest management; agriculture and grazing management; real estate management; and minerals management.

### Program Highlights

| <b>Forestry and Trust Lands Divisions<br/>Major Budget Highlights</b>   |
|---|
| <p>The executive proposes an increase above the previous biennium due to:</p> <ul style="list-style-type: none"> <li>• Global adjustments, including annualization of the 2015 biennium pay plan and full funding of all positions</li> <li>• Multiple present law adjustments related to trust lands management, including forest improvement projects and operations adjustments</li> <li>• A new proposal for communication replacement equipment</li> <li>• Morrill Trust Projects of \$160,000 general fund</li> </ul> |
| <b>Legislative Action Issues</b>  |
| <ul style="list-style-type: none"> <li>• Alternate funding sources to the general fund are available to fund the Morrill trust projects</li> </ul>  |

### Program Discussion -

#### *Comparison of the 2015 Legislative Base and the 2015 Appropriation*

The following highlights the differences between the FY 2015 appropriations as shown in the main table to the FY 2015 legislative appropriations used for purposes of the budget base.

| FY 2015 Appropriation Transactions - Department of Natural Resources & Conservation |                           |                     |                      |                |                  |                                |
|---|---------------------------|---------------------|----------------------|----------------|------------------|--------------------------------|
| Program   | Legislative Appropriation | Legislative Approps | House OTO Adjustment | Operating Plan | Program Transfer | Total Executive Implementation |
| 35 FOREST/TRUST LANDS   | 28,328,200                | 412,955             |                      |                | - (68,587)       | 28,672,568                     |
| Personal Services   | 18,698,854                |                     |                      | 2,300          | (64,710)         | 18,636,444                     |
| Operating Expenses  | 7,071,205                 | 412,955             |                      | (2,300)        | (3,877)          | 7,477,983                      |
| Equipment & Assets  | 1,021,176                 |                     |                      |                |                  | 1,021,176                      |
| Capital Outlays   | 11,128                    |                     |                      |                |                  | 11,128                         |
| Grants  | 189,465                   |                     |                      |                |                  | 189,465                        |
| Transfers   | 1,317,694                 |                     |                      |                |                  | 1,317,694                      |
| Debt Service  | 18,678                    |                     |                      |                |                  | 18,678                         |

The difference between the legislative appropriation and the executive implementation is primarily due to one-time-only appropriations in the 2015 biennium for the purchase of narrow-band digital capable radios and complete land management projects on the MSU-Morrill trust lands. The remaining difference was due to a transfer of 1.0 FTE from the Trust Lands Division to the Centralized Services Division.

#### *Comparison of the 2014 Actual Expenditures to FY 2015 Legislative Appropriations*

Actual FY 2014 expenditures of \$27,262,180 are \$1,066,020 below the FY 2015 legislative appropriation of \$28,328,200 due primarily to lower personal services costs in FY 2014.

### Funding

The following table shows proposed program funding by source from all sources of authority.

| Natural Resources & Conservation, 35-Forestry and Trust Lands Divisions |                     |                          |                         |                     |                   |  |
|---|---------------------|--------------------------|-------------------------|---------------------|-------------------|--|
| Funding by Source of Authority  |                     |                          |                         |                     |                   |  |
| Funds   | HB2                 | Non-Budgeted Proprietary | Statutory Appropriation | Total All Sources   | % Total All Funds |  |
| 01100 General Fund  | 24,715,018          | 0                        | 0                       | 24,715,018          | 36.57 %           |  |
| 02031 Land Banking - Pvt Closing Costs                                  | 431,772             | 0                        | 0                       | 431,772             | 1.24 %            |  |
| 02039 Forestry-Fire Protection Taxes                                    | 6,730,044           | 0                        | 0                       | 6,730,044           | 19.38 %           |  |
| 02073 Forestry - Slash Disposal   | 131,186             | 0                        | 0                       | 131,186             | 0.38 %            |  |
| 02107 Environmental Contingency RIT                                     | 0                   | 0                        | 0                       | 0                   | 0.00 %            |  |
| 02173 GIS - STATE SPECIAL REVENUE                                       | 0                   | 0                        | 0                       | 0                   | 0.00 %            |  |
| 02297 Morrill Trust Land Admin  | 0                   | 0                        | 10,532                  | 10,532              | 0.03 %            |  |
| 02449 Forest Resources-Forest Improv                                    | 2,719,911           | 0                        | 0                       | 2,719,911           | 7.83 %            |  |
| 02576 Natural Resources Operations SSR Fu                               | 187,144             | 0                        | 0                       | 187,144             | 0.54 %            |  |
| 02623 Contract Timber Harvesting  | 802,056             | 0                        | 0                       | 802,056             | 2.31 %            |  |
| 02681 Historic Right-of-Way Acct  | 22,541              | 0                        | 0                       | 22,541              | 0.06 %            |  |
| 02847 Fire Suppression Fund   | 0                   | 0                        | 0                       | 0                   | 0.00 %            |  |
| 02912 TLMD LAND EXCHANGE ADMIN  | 100,000             | 0                        | 0                       | 100,000             | 0.29 %            |  |
| 02938 TLMD - Administration   | 23,597,329          | 0                        | 0                       | 23,597,329          | 67.94 %           |  |
| <b>State Special Total</b>  | <b>\$34,721,983</b> | <b>\$0</b>               | <b>\$10,532</b>         | <b>\$34,732,515</b> | <b>51.39 %</b>    |  |
| 03173 Project Safe Neighborhood   | 0                   | 0                        | 0                       | 0                   | 0.00 %            |  |
| 03357 Federal Reimb-Fire Suppr CY14                                     | 0                   | 0                        | 0                       | 0                   | 0.00 %            |  |
| 03471 Consolidated Grant FY14   | 0                   | 0                        | 0                       | 0                   | 0.00 %            |  |
| 03472 Non-Consolidated Grant FY14                                       | 0                   | 0                        | 0                       | 0                   | 0.00 %            |  |
| 03483 Consolidated Grant FY15   | 0                   | 0                        | 0                       | 0                   | 0.00 %            |  |
| 03484 Non-Consolidated Grant FY15                                       | 0                   | 0                        | 0                       | 0                   | 0.00 %            |  |
| 03564 Consolidated Grant - FY16   | 1,057,915           | 0                        | 0                       | 1,057,915           | 38.96 %           |  |
| 03565 Non-Consolidated Grant - FY16                                     | 300,000             | 0                        | 0                       | 300,000             | 11.05 %           |  |
| 03567 Consolidated Grant - FY17   | 1,057,665           | 0                        | 0                       | 1,057,665           | 38.95 %           |  |
| 03568 Non-Consolidated Grant - FY17                                     | 299,994             | 0                        | 0                       | 299,994             | 11.05 %           |  |
| <b>Federal Special Total</b>  | <b>\$2,715,574</b>  | <b>\$0</b>               | <b>\$0</b>              | <b>\$2,715,574</b>  | <b>4.02 %</b>     |  |
| 06003 State Nursery Enterprise Fund                                     | 0                   | 1,302,999                | 0                       | 1,302,999           | 24.01 %           |  |
| 06538 Air Operations Internal Svc.                                      | 0                   | 4,123,536                | 0                       | 4,123,536           | 75.99 %           |  |
| <b>Proprietary Total</b>  | <b>\$0</b>          | <b>\$5,426,535</b>       | <b>\$0</b>              | <b>\$5,426,535</b>  | <b>8.03 %</b>     |  |
| <b>Total All Funds</b>  | <b>\$62,152,575</b> | <b>\$5,426,535</b>       | <b>\$10,532</b>         | <b>\$67,589,642</b> |                   |  |

General fund provides general division support as well as the fixed costs of the Fire and Aviation Management program. A transfer from the general fund is made to the proprietary fund, from which it is spent.

A little over half of all funding is from state special revenue. The primary source of state special funding comes from the fire protection taxes fund and the TLMD administration, which is funded with trust fund revenue, timber sales, and forest resources fees. The remaining funding for this program comes from federal revenue and proprietary funds.

**Budget Summary by Category**

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

| Budget Item         | -----General Fund-----  |                         |                            |                   | -----Total Funds-----   |                         |                            |                   |
|---------------------|-------------------------|-------------------------|----------------------------|-------------------|-------------------------|-------------------------|----------------------------|-------------------|
|                     | Leg. Budget Fiscal 2016 | Leg. Budget Fiscal 2017 | Leg. Biennium Fiscal 16-17 | Percent of Budget | Leg. Budget Fiscal 2016 | Leg. Budget Fiscal 2017 | Leg. Biennium Fiscal 16-17 | Percent of Budget |
| 2015 Budget         | 11,220,760              | 11,220,760              | 22,441,520                 | 90.80 %           | 28,328,200              | 28,328,200              | 56,656,400                 | 91.16 %           |
| PL Adjustments      | 978,025                 | 1,112,293               | 2,090,318                  | 8.46 %            | 2,547,305               | 2,690,870               | 5,238,175                  | 8.43 %            |
| New Proposals       | 91,590                  | 91,590                  | 183,180                    | 0.74 %            | 129,000                 | 129,000                 | 258,000                    | 0.42 %            |
| <b>Total Budget</b> | <b>\$12,290,375</b>     | <b>\$12,424,643</b>     | <b>\$24,715,018</b>        |                   | <b>\$31,004,505</b>     | <b>\$31,148,070</b>     | <b>\$62,152,575</b>        |                   |

**Present Law Adjustments -**

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

|  | -----Fiscal 2016----- |                  |                    |                  |                    | -----Fiscal 2017----- |                    |                    |                  |                    |
|--|-----------------------|------------------|--------------------|------------------|--------------------|-----------------------|--------------------|--------------------|------------------|--------------------|
|  | FTE                   | General Fund     | State Special      | Federal Special  | Total Funds        | FTE                   | General Fund       | State Special      | Federal Special  | Total Funds        |
| DP 98 - LEG. Personal Services Present Law     | 0.00                  | 395,449          | 681,867            | 221,780          | 1,299,096          | 0.00                  | 377,536            | 690,544            | 221,004          | 1,289,084          |
| DP 99 - LEG. Present Law                       | 0.00                  | 582,576          | 650,876            | 14,757           | 1,248,209          | 0.00                  | 734,757            | 651,752            | 15,277           | 1,401,786          |
| <b>Grand Total All Present Law Adjustments</b> | <b>0.00</b>           | <b>\$978,025</b> | <b>\$1,332,743</b> | <b>\$236,537</b> | <b>\$2,547,305</b> | <b>0.00</b>           | <b>\$1,112,293</b> | <b>\$1,342,296</b> | <b>\$236,281</b> | <b>\$2,690,870</b> |

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

| Personal Services Present Law Adjustments        |               |                  |                  |                  |                    |
|--|---------------|------------------|------------------|------------------|--------------------|
| CP 98 PSPL Item                                  | FY 2016       |                  |                  |                  |                    |
|  | FTE           | General Fund     | State Special    | Federal Special  | Total Funds        |
| State Share Health Insurance                     | 285.89        | \$63,924         | \$64,749         | \$10,269         | \$138,943          |
| Executive Implementation of 2015 Pay Increase    |               | 140,570          | 166,625          | 24,839           | 332,033            |
| Fully Fund 2015 Legislatively Authorized FTE     |               | 122,252          | 209,973          | 33,290           | 365,515            |
| Other  | 2.00          | 68,703           | 240,520          | 153,382          | 462,605            |
| <b>Personal Services Present Law Adjustments</b> | <b>287.89</b> | <b>\$395,449</b> | <b>\$681,867</b> | <b>\$221,780</b> | <b>\$1,299,096</b> |
| CP 98 PSPL Item                                  | FY 2017       |                  |                  |                  |                    |
|  | FTE           | General Fund     | State Special    | Federal Special  | Total Funds        |
| State Share Health Insurance                     | 285.89        | \$63,924         | \$64,749         | \$10,269         | \$138,943          |
| Executive Implementation of 2015 Pay Increase    |               | 140,377          | 166,655          | 25,001           | 332,033            |
| Fully Fund 2015 Legislatively Authorized FTE     |               | 122,252          | 209,973          | 33,290           | 365,515            |
| Other  | 2.00          | 50,983           | 249,167          | 152,444          | 452,593            |
| <b>Personal Services Present Law Adjustments</b> | <b>287.89</b> | <b>\$377,536</b> | <b>\$690,544</b> | <b>\$221,004</b> | <b>\$1,289,084</b> |

The executive proposes to increase support to personal services by 6.9% in both FY 2016 and FY 2017 compared to the legislatively appropriated budget of \$18,698,854. The three main line items make up approximately 65% of the personal services present law adjustments. The present law proposal for TLMD commercial lease marketing and negotiation as well as the 1.00 FTE request for the Forests in Focus present law request contribute to the remaining adjustments.

**LFD  
ISSUE**

Other Funding may be Available for Requested TLMD MSU-Morrill Trust Projects Restoration

The 2013 Legislature approved general fund appropriations of \$160,000 to manage projects pursuant to the Morrill Act of 1862 and the Morrill Act of 1890. If the current request is approved, \$320,000 of general fund will have been appropriated in HB 2 from 2014 to 2017.

- The legislature may want to ask the department as to the status and progress made with the \$160,000 general fund appropriated by the 2013 Legislature for forest management on Morrill trust lands and why additional work still needs to be completed
- The legislature may wish to make this appropriation a OTO so it does not appear in the budget base as an ongoing expenditure

DP 99 - LEG. Present Law -

Approximately 70% of the legislative present law adjustments are due to Forestry/TLMD operating adjustments, forest improvement projects, and land transaction base restoration. The remaining adjustments are due to a combination of smaller present law proposals.

**New Proposals -**

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

| New Proposals  | -----Fiscal 2016----- |                 |                 |                 |                  | -----Fiscal 2017----- |                 |                 |                 |                  |
|--|-----------------------|-----------------|-----------------|-----------------|------------------|-----------------------|-----------------|-----------------|-----------------|------------------|
|  | FTE                   | General Fund    | State Special   | Federal Special | Total Funds      | FTE                   | General Fund    | State Special   | Federal Special | Total Funds      |
| DP 3535014 - Forestry-Fire Communication Replacement | 0.00                  | 91,590          | 37,410          | 0               | 129,000          | 0.00                  | 91,590          | 37,410          | 0               | 129,000          |
| <b>Total</b>   | <b>0.00</b>           | <b>\$91,590</b> | <b>\$37,410</b> | <b>\$0</b>      | <b>\$129,000</b> | <b>0.00</b>           | <b>\$91,590</b> | <b>\$37,410</b> | <b>\$0</b>      | <b>\$129,000</b> |

DP 3535014 - Forestry-Fire Communication Replacement -

The executive includes \$129,000 per year of general fund and state special revenue for fire communication equipment replacement. DNRC was granted OTO funding in FY 2014 and FY 2015 for radio replacements. This funding is requested in order to maintain the minimum replacement schedule, which would be replacement of 46 mobiles, 62 portables, 5 repeaters, and 2 base stations annually.

**LFD  
COMMENT**

The 2013 Legislature appropriated \$172,706 general fund and \$85,066 state special revenue for the biennium for a total of \$257,772.

Since the request is not for a one-time appropriation, if it is approved the general fund and state special revenue would be in the next budget.

**Language and Statutory Authority -**

The Governor proposes the following language for inclusion in HB 2.

“During the 2017 biennium, up to \$1 million of funds currently in or to be deposited in the Contract Timber Harvest account is appropriated to the department for contract harvesting, a tool to improve forest health and generate revenue for trust beneficiaries.”

**Other Issues -****Proprietary Program Description****Enterprise Fund, 06003, State Nursery Enterprise Fund***Program Description*

The Montana State Conservation Seedling Nursery produces and distributes seedlings for conservation plantings, including applications such as fire and logging reforestation, farmstead windbreaks, shelterbelts, wildlife habitat, stream stabilization and restoration, and other conservation uses. The program mission is to produce the highest quality, locally-adapted, source-identified seedlings available for conservation practices in Montana and to ensure affordable seedlings are available to Montana landowners. The nursery grows an average of 900,000 seedlings annually on 87 acres of state land and in 13,500 square feet of greenhouse space. Sixty-seven plant species are currently in production. The nursery program is funded solely from the nursery proprietary account. No general fund or federal dollars are used in the program. Total FTE funded from the revenue generated are 10.92. Statutory authority for the program is in 77-5-404, MCA.

*Revenues and Expenses*

The primary source of revenue is seedling sales. Other revenue sources are such services as seed collection, cleaning, and storage and selling products for seedling care and protection. The customer base for nursery products and services is comprised of private landowners in Montana, the DNRC Trust Land Management Division, the Department of Fish, Wildlife and Parks, Department of Environmental Quality, Montana Natural Resource Damage Program, the Conservation Reserve Program (CRP), Native American Tribal Governments, the Wildlife Habitat Incentives Program (WHIP), Pheasants Forever, and numerous other conservation programs and organizations. Historic and projected trends in nursery revenue are dependent on conservation activity in the state, landowner access to cost-share dollars for implementation of conservation projects, and long-term seedling production contracts from large scale conservation activities. Revenue potential is also dependent on the number of seedlings available for sale each fiscal year. Sales are predicted two to three years in advance due to the two- to- three-year production time needed for each seedling type. This can lead to seedling shortages or surpluses when unforeseen events such as extended drought or extreme fire seasons alter demand for seedlings. The revenue accounts used in SABHRS to record nursery revenue are 552101, (Sale of Nursery Products) and 585103 (Misc. Nursery Income).

The determining factors that set seedling prices are the actual fixed and variable costs of producing the seedlings. Market pressures from other out-of-state seedling producers can also influence prices. Prices are set to recover all program costs and to increase the year-end carryover balance. Year-end carryover dollars are used for non-typical expenses such as large equipment replacement or for unforeseen expenses such as weather-related crop losses. Since the nursery is funded primarily by seedling sales, all personal services, operating and capital equipment costs are included when setting prices (10.92 FTE were funded).

*Rate(s) and Rate Explanation*

The price of each seedling type is set at the end of the previous fiscal year. Prices are based on the actual production costs for each seedling type. The variables involved in seedling production include seedling stock type (bareroot vs. container), seed cost, propagation difficulty, cull rates, seedling age class, quantity produced, equipment costs, labor costs, and overhead charges. Given these variables, each of the 125-plus seedling types can have a different price, and the price must be adjusted annually to account for changes in fixed and variable costs.

*Working Capital Analysis*

Working Capital is estimated to exceed the 60 days of cash required for fund operations by \$131,000, \$236,000 and \$335,000 in fiscal years 2015, 2016 & 2017, respectively.

**Internal Service Fund, 06538, Air Operations Internal Svc***Program Description*

The air operations program in the Forestry Division is funded by revenue generated by the aircraft rates, and the general fund and fire protection tax revenues for fixed costs. The program operates five medium helicopters, two light helicopters, and three single engine fixed-wing airplanes. The aircraft are primarily used for fire detection, support and suppression of wildfires, and reclamation work in the Department of Environmental Quality. Fixed costs are paid by the general fund and the fire protection tax revenues since they must be paid regardless of the number of hours flown. These costs include hangar rent, insurance, and personnel costs (14.23 FTE). The general fund and fire protection taxes are appropriated by the legislature and transferred to and spent from the proprietary account. Variable costs that are dependent on the hours flown, such as fuel and maintenance, are recovered through an hourly rate charged to all users of the aircraft.

Users of the aircraft include DNRC, other state agencies, local government and federal agencies. This revenue is deposited in the proprietary account. Statutory authority for the program is in 77-5-103, MCA.

Alternate sources of aviation services are available from private contractors, but historically the costs for these services have been two to three times more than the cost of the state run aircraft. Additionally, contracted services are often not available for the extended timeframes currently covered by the state operated aircraft. The department believes that an aviation program that is integrated with DNRC firefighters and managers, and is committed to safe and aggressive fire suppression, is the safest and most effective aviation model for the state of Montana.

#### *Revenues and Expenses*

Flight rates are proposed to increase for DNRC operated aircraft to meet increased costs of fuel and replacement parts. All revenues and expenditures are managed through an internal service fund to account for the operational costs of the program. Current rates are: UH-1H \$1,225/hr, Jet Ranger \$515/hr, and Cessna \$150/ hr. Proposed rates are UH-1H \$1,650/hr, Jet Ranger \$515/hr, and Cessna \$175/hr.

The primary source of revenue is the collection of aircraft flight charges. Additional transfer-in revenue is received from HB 2 transfers of fixed costs (FTE, Insurance & Rent) from the general fund and the fire protection tax revenues. The department has limited cooperative agreements to assist federal agencies (U.S. Forest Service, BLM, USFWS, BIA, & NPS) and counties with fire protection. The department also has agreements with other state agencies for non-fire related aircraft rental services. The customers served are comprised primarily of state and private landowners within Montana through initial attack of fires under state direct protection, assistance with fires on county protection, and assistance to federal agencies. Historic and projected trends are dependent on length and severity of the fire seasons. Base year funding by fund type would be comprised primarily from state responsibility and county assistance fires paid by the fire suppression fund (state special revenue) and FEMA and U.S. Forest Service (federal special revenue). The expense account used in SABHRS to record Aircraft Rental is 62525. The revenue accounts used in SABHRS to record Aircraft Revenue are 522067-522076 (there is a separate account for each aircraft).

Flight rates are proposed to increase for DNRC operated aircraft to meet increased costs of fuel and replacement parts.

The cost drivers for the aircraft rates are to recover the actual expenses needed to maintain the aircraft in an air worthy condition and remain mission ready for the purpose of initial attack on wildfires on state, private, and federal ownership. This includes all costs associated with the maintenance and operation of the aircraft. There are some factors that contribute to the uncertainty in forecasting future expenses. This includes unforeseen events such as FAA and manufacturer repair and maintenance directives, aircraft incidents resulting in unplanned maintenance, cost fluctuations in fuel and parts, and the length and severity of the fire season. Average fire season and routine maintenance of aircraft are used to determine the anticipated future costs.

Charges for services do not support any FTE for the aviation section. All FTE (14.23) are supported by the general fund and fire protection tax transfers.

#### *Rate(s) and Rate Explanation*

The reimbursement rates for the operation of the department aircraft are based on 5000 hours of aircraft usage. The rate has been determined to maintain the aircraft in its original condition. At the end of 5000 hours, all parts should have been replaced and a new maintenance/operation cycle started.

The section provides aircraft services and charges for reimbursement by hours and tenths of hours at the following rates:

| Dept Aircraft              | 2015 Bien<br>Current | 2017 Bien<br>Proposed |
|----------------------------|----------------------|-----------------------|
| Bell UH-1H Helicopters     | \$1,225.00/hr        | \$1,650.00/hr         |
| Jet Ranger Helicopter      | \$515.00/hr          | \$515.00/hr           |
| Cessna 180 Series Aircraft | \$175.00/hr          | \$175.00/hr           |

*Changes in Level of Fees and Charges*

The agency is requesting a rate increase for the Bell UH-1H Helicopters from \$1,225 to \$1,650 per hour. This is primarily due to increased costs of fuel and replacement parts.

*Projected Fund Balance, Including Cash Fluctuations*

The program experiences extreme fluctuations in cash flow due to the variations in fire seasons. As a result, large fire seasons result in a higher number of hours flown for each aircraft and therefore increased maintenance costs.

*Working Capital Analysis*

Working Capital is estimated to be short of the 60 days of cash required for fund operations by \$255,000 in FY15 and exceed the 60 days of cash required for fund operations by \$451,000 and \$1,086,000 in fiscal years 2016 & 2017, respectively.

| 2017 Biennium Report on Internal Service and Enterprise Funds |   |                               |                 |   |                  |                  |
|---|---|-------------------------------|-----------------|---|------------------|------------------|
| Agency #<br>57060   | Agency Name:<br>Department of Natural Resources &<br>Conservation |                               |                 | Program Name:<br>Forestry and Trust Lands Divisions |                  |                  |
|   | <b>Fund</b>   | <b>Fund Name</b>              |                 |   |                  |                  |
|   | 06003   | State Nursery Enterprise Fund |                 |   |                  |                  |
|   | Actual FY12   | Actual FY13                   | Actual FY14     | Budgeted<br>FY15                                    | Budgeted<br>FY16 | Budgeted<br>FY17 |
| <b>Operating Revenues:</b>                                    |   |                               |                 |   |                  |                  |
| Fee and Charges   |   |                               |                 |   |                  |                  |
| Fee Revenue A   | 722,990   | 464,530                       | 769,689         | 750,000   | 750,000          | 750,000          |
| Other Operating Revenue                                       | 7,643   | -                             | -               | -   | -                | -                |
| <b>Total Operating Revenues</b>                               | <b>730,633</b>  | <b>464,530</b>                | <b>769,689</b>  | <b>750,000</b>                                      | <b>750,000</b>   | <b>750,000</b>   |
| <b>Expenses:</b>  |   |                               |                 |   |                  |                  |
| Personal Services   | 428,348   | 402,340                       | 388,296         | 503,539   | 556,012          | 555,548          |
| Other Operating Expenses                                      | 139,105   | 86,643                        | 98,300          | 128,640   | 95,764           | 95,712           |
| Expense B   | -   | -                             | -               | 57,500  | -                | -                |
| <b>Total Operating Expenses</b>                               | <b>567,453</b>  | <b>488,983</b>                | <b>486,596</b>  | <b>689,679</b>                                      | <b>651,776</b>   | <b>651,260</b>   |
| <b>Operating Income (Loss)</b>                                | <b>163,180</b>  | <b>(24,453)</b>               | <b>283,093</b>  | <b>60,321</b>                                       | <b>98,224</b>    | <b>98,740</b>    |
| Nonoperating Revenues:  |   |                               |                 |   |                  |                  |
| Nonoperating Expenses:  |   |                               |                 |   |                  |                  |
| <b>Total Nonoperating Revenues (Expenses)</b>                 | <b>-</b>  | <b>-</b>                      | <b>-</b>        | <b>-</b>  | <b>-</b>         | <b>-</b>         |
| <b>Income (Loss) Before Contributions and Transfers</b>       | <b>163,180</b>  | <b>(24,453)</b>               | <b>283,093</b>  | <b>60,321</b>                                       | <b>98,224</b>    | <b>98,740</b>    |
| <b>Change in Net Position</b>                                 | <b>163,180</b>  | <b>(24,453)</b>               | <b>283,093</b>  | <b>60,321</b>                                       | <b>98,224</b>    | <b>98,740</b>    |
| <b>Beginning Net Position - July 1</b>                        | <b>(210,675)</b>  | <b>(47,495)</b>               | <b>(71,948)</b> | <b>211,145</b>                                      | <b>271,466</b>   | <b>369,690</b>   |
| Change in Net Position  | 163,180   | (24,453)                      | 283,093         | 60,321  | 98,224           | 98,740           |
| <b>Ending Net Position - June 30</b>                          | <b>(47,495)</b>   | <b>(71,948)</b>               | <b>211,145</b>  | <b>271,466</b>                                      | <b>369,690</b>   | <b>468,430</b>   |
| <b>Net Position (Fund Balance) Analysis</b>                   |   |                               |                 |   |                  |                  |