

Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	383.47	383.47	365.55	365.54	383.47	365.54	(17.93)	(4.68)%
Personal Services	26,154,656	28,600,895	29,653,755	29,661,876	54,755,551	59,315,631	4,560,080	8.33 %
Operating Expenses	21,981,631	28,250,831	30,680,625	30,684,430	50,232,462	61,365,055	11,132,593	22.16 %
Equipment & Intangible Assets	157,973	101,740	189,079	189,079	259,713	378,158	118,445	45.61 %
Grants	1,094,008	1,635,863	1,654,293	1,654,293	2,729,871	3,308,586	578,715	21.20 %
Benefits & Claims	0	425,000	0	0	425,000	0	(425,000)	(100.00)%
Transfers	76,313	35,400	130,682	130,682	111,713	261,364	149,651	133.96 %
Total Costs	\$49,464,581	\$59,049,729	\$62,308,434	\$62,320,360	\$108,514,310	\$124,628,794	\$16,114,484	14.85 %
General Fund	5,303,211	5,508,477	6,011,153	6,011,704	10,811,688	12,022,857	1,211,169	11.20 %
State/Other Special Rev. Funds	25,976,905	32,613,798	32,015,567	32,023,117	58,590,703	64,038,684	5,447,981	9.30 %
Federal Spec. Rev. Funds	18,184,465	20,927,454	24,281,714	24,285,539	39,111,919	48,567,253	9,455,334	24.18 %
Total Funds	\$49,464,581	\$59,049,729	\$62,308,434	\$62,320,360	\$108,514,310	\$124,628,794	\$16,114,484	14.85 %

Mission Statement

To protect, sustain, and improve a clean and healthful environment to benefit present and future generations. For more information, please refer to the agency profile: <http://leg.mt.gov/fbp-2017.asp>

Agency Highlights

Department Environmental Quality Major Budget Highlights
<ul style="list-style-type: none"> • Present law adjustments reduce department funding by \$204,004, primarily due to reductions in planning, prevention, and assistance projects • New proposals totaling \$8.5 million are requested for two purposes: <ul style="list-style-type: none"> ◦ \$500,000 in general fund for water treatment at Zortman/Landusky ◦ \$8 million in federal special revenue for remediation of abandoned mine lands
Legislative Action Issues
<ul style="list-style-type: none"> • The Zortman/Landusky new proposal shifts funding from state special revenue to general fund

Agency Personal Services

Pay Plan Philosophy – DEQ maintains pay schedules for each occupation and band level with target market ratios graduated according to years of job-related experience.

Program Specific Obstacles – Funding sources are primarily federal and state special revenues. Federal revenues are generally flat and in some cases declining, many state special revenue sources are also capped, this makes implementing pay increases a challenge. High turnover rates in DEQ occur in the technology related occupations, these are also the areas where the departments has challenges recruiting applicants. Generally, employees leave or offers are rejected due to finding higher pay in the private sector or more opportunity for advancement in larger state agencies.

Vacancy – The agency primarily experienced vacancies in the technology sector which has led to deferring or declining new IT projects or contracting out by necessity.

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

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

FY 2015 Appropriation Transactions - Department of Environmental Quality					
Program	Legislative Appropriation	Legislative Approps OTO	House Adjustment	Operating Plan	Total Executive Implementation
Central Management	\$1,894,374		-		\$1,894,374
Personal Services	792,831				792,831
Operating Expenses	1,101,543		-		1,101,543
Planning, Prevention, & Assistance	13,304,294		-		13,304,294
Personal Services	6,504,816		-		6,504,816
Operating Expenses	6,799,478		-		6,799,478
Enforcement	1,426,330				1,426,330
Personal Services	1,102,045				1,102,045
Operating Expenses	324,285				324,285
Remediation	11,497,694	425,000	-	-	11,922,694
Personal Services	4,662,668		-		4,662,668
Operating Expenses	6,825,662		-	(68,000)	6,757,662
Benefits & Claims		425,000			425,000
Transfers	9,364		-	68,000	77,364
Permitting & Compliance	29,486,784	367,514	(250,000)	-	29,604,298
Personal Services	15,074,597		-		15,148,914
Operating Expenses	12,651,550		(250,000)	(3,002)	12,691,745
Equipment & Intangible Assets	101,740		-		101,740
Grants	1,635,863				1,635,863
Transfers	23,034			3,002	26,036
Petro Tank Release Comp. Board	647,739				647,739
Personal Services	389,621				389,621
Operating Expenses	258,118				258,118
Agency Total	\$58,257,215	\$792,514	(\$250,000)	-	\$58,799,729

The changes made by the department include consolidation of a biennial appropriation, shifting funds from FY 2015 to FY 2014, and a house adjustment to decrease the budget when settlement funds became available per HB 2 language. This second change is not reflected in the budget comparison table.

Funding

The following table shows proposed agency funding by source of authority as proposed. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Department of Environmental Quality Funding by Source of Authority 2017 Biennium Budget - Department of Environmental Quality						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	12,022,857	0	0	12,022,857	8.03 %	
State Special Total	64,038,684	0	8,451,280	72,489,964	48.42 %	
Federal Special Total	48,567,253	0	0	48,567,253	32.44 %	
Proprietary Total	0	16,646,103	0	16,646,103	11.12 %	
Other Total	0	0	0	0	0.00 %	
Total All Funds	\$124,628,794	\$16,646,103	\$8,451,280	\$149,726,177		
Percent - Total All Sources	83.24 %	11.12 %	5.64 %			

The department's largest source of funding is state special revenue. This revenue is derived from permitting fees, fines, and bonds proceeds utilized to support specific department functions such as permitting, enforcement, and remediation. The federal revenue is provided from the U.S. Environmental Protection Agency (EPA) performance partnership grant, the Superfund Program, and other federal grant resources. The partnership grant is a block grant to the state to provide funding the EPA had previously made through individual grants. Federal grants have varying match requirements. Wetland grants require 25% match, drinking water capital improvement requires a 20% match, and nonpoint source funding can require as much as a 40% match. General fund is utilized for personal services and related operating expenses such as travel, communications, and equipment.

Resource Indemnity Trust

Article IX of the Montana Constitution provides for the protection and improvement of the Montana environment and requests that the legislature provide adequate remedies for environmental protection from degradation. It specifically requires "all lands disturbed by the taking of natural resources shall be reclaimed" and requires the existence of a resource indemnity trust (RIT) fund for that purpose, to be funded by taxes on the extraction of natural resources. The Constitution further states, "The principal of the resource indemnity trust shall forever remain inviolate in an amount of one hundred million dollars (\$100,000,000) guaranteed by the state against loss or diversion." The state Constitution requires a trust, but does not require the trust to be funded. The legislature utilized certain natural resource extraction tax proceeds as a revenue source for the trust. In February of 2002, the Governor certified that the balance of the trust had exceeded the \$100 million threshold. Tax proceeds previously directed to the RIT have been re-directed by the legislature ever since.

Accounts Receiving RIT Related Revenue

The biennial executive budget contains \$38.8 million in RIT related funding to support a number of natural resource activities from a number of accounts. The department is the largest recipient of these funds. The following discusses the accounts and the current uses. From those accounts, appropriations are made by the legislature to support natural resource agencies and activities. The major accounts of importance are as follows:

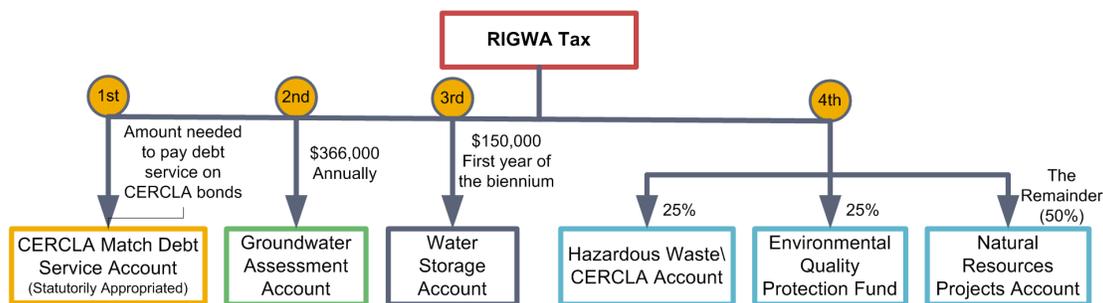
- Oil & Gas production mitigation account – funds utilized by the Montana Board of Oil and Gas for properly plugging a well and either reclaiming or restoring, or both, a drill site or other drilling or producing area damaged by oil and gas operations
- Future Fisheries – funds provided to the Department of Fish, Wildlife and Parks to reclaim habitat and spawning areas of the bull and cutthroat trout
- Hazardous Waste/CERCLA - funds provided to the Remediation Division of the department for the implementation of the Montana Hazardous Waste Act and state expenses for overseeing the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA)
- Environmental contingency account (ECA) - an account controlled by the Governor for the purpose of responding to emergent or imminent threats to the environment

- Environmental quality protection fund (EQPF) - utilized by the Remediation Division to identify, investigate, negotiate, and prosecute individuals/entities to achieve remedial action or recover costs and damages. This fund is also referred to as the state Superfund
- Water storage account – funds provided to the Water Resources Division of the Department of Natural Resources and Conservation for rehabilitation and major maintenance on state owned water projects
- Ground water assessment account –funds ground water monitoring and characterization studies completed by the Montana Bureau of Mines and Geology at the University of Montana in Butte
- Orphan share account - used by the department to fund the percent of remediation activities at a contaminated site that is attributable to a bankrupt or otherwise insolvent entity
- Natural resources operations – funds operating costs of Montana’s natural resource agencies, including this department and the Department of Natural Resources and Conservation
- Natural resource projects-provides grants and loans to enhance Montana’s renewable resources through projects that measurably conserve, develop, manage or preserve resources or to repair, reclaim, and mitigate environmental damage to public resources. These funds are managed by the Conservation and Development Division of the Department of Natural Resources and Conservation

RIT Distributions and Tax Proceeds

Since the \$100 million RIT trust threshold was met and natural resource taxes were no longer required to be deposited to the trust, the legislature has statutorily allocated these three taxes: 1) resource indemnity and ground water assessment; 2) metalliferous mine; and 3) applicable portions of the oil and gas tax.

1) Resource indemnity and ground water assessment (RIGWA) taxes are paid by person(s) who engage in or carry on the business of mining, extracting, or producing a mineral from any quartz vein or lode, placer claim, dump or tailings, or other place or source. These taxes are distributed according to statute (15-38-106, MCA) to a number of natural resource accounts as pictured in the following chart and explained below.



- First, a deposit is made to the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) match debt service account for Superfund debt
- Then, \$366,000 is deposited into the ground water assessment account
- \$150,000 is deposited to the water storage account in only the first year of the biennium
- The remaining funds are distributed 25% to the hazardous waste account, 25% to the environmental quality protection funds, and 50% to the Natural Resources Project Account.

2) The metalliferous mine tax is paid by persons engaged in the mining of gold, silver, copper, lead, and other metals or precious or semiprecious stones. 7% of this tax is deposited to the natural resources operations fund.

3) A portion of oil and gas production taxes are used for natural resource activities. This portion is distributed 2.99% to the orphan share account and 1.45% to the natural resources operations and 1.45% to the natural resources project funds.

RIT Distributions – Interest Allocations

Allocations of RIT interest earnings are not restricted by the Constitution. The legislature has chosen to directly and indirectly allocate interest for a number of purposes. The statutory allocations are not directed to be funded in any particular order of preference.

Direct allocations: 15-38-202, MCA directs where the interest from the RIT is allocated. Direct allocations are made to a number of sources.

- Made at the beginning of the biennium:
 - Oil and gas production mitigation account (\$50,000)
 - Environmental contingency account (\$175,000)
 - Water storage account (\$500,000)
- Made on an annual basis:
 - Allocations to the natural resources projects fund (\$3.5 million)
 - Ground water assessment account (\$0.3 million)
 - Future fisheries fund (\$0.5 million)

Indirect allocations: After direct interest allocations are made, 15-38-202, MCA directs the remaining interest on a formula basis.

- 65% to the natural resources operations fund
- 26% to the hazardous waste/CERCLA fund
- 9% to the environmental quality protection fund

RIT Expenditures

The figure on the following page shows the executive's requested use of the RIT interest and related funds. The figure provides the balance at the end of FY 2013, projected revenues and appropriations for FY 2015, and the biennial effect of revenues and the executive request for the 2015 biennium.

Resource Indemnity Funding: 2015 Session										
Related Funds	02010 Oil & Gas	02022 Future Fish	02070 HazWas	02107 ECA	02162 EQPF	02216 Wa Sto	02289 GRW	02472 Share	02576 Operations	02577 Projects
Beginning FY2015 Fund Balance	\$448,981	\$1,405,350	\$278,367	\$750,101	\$5,932,536	\$383,208	(\$40,937)	\$7,973,697	\$957,033	\$9,612,907
RIT Interest		500,000					282,000			3,291,632
STIP	400		300		2,000	200		4,000		
RIGWA			441,580		441,580		366,000			883,159
Metal Mines Tax									983,000	
Oil and Gas Tax								3,078,722	2,108,215	2,254,290
Other Income	50,000				2,716,500	60,000			500	
FY 2015 Total Revenues & Fund Balance	\$499,381	\$1,905,350	\$720,247	\$750,101	\$9,092,616	\$443,408	\$607,063	\$11,056,419	\$4,048,748	\$16,041,988
FY 2015 Appropriations	(292,088)	(1,573,480)	(566,101)	(112,527)	(4,628,818)	0	(666,000)	(5,219,311)	(5,234,246)	
HB 6 & HB 7 Appropriations										(14,689,412)
Projected Fund Balance Ending FY 2015	\$207,293	\$331,871	\$154,146	\$637,574	\$4,463,798	\$443,408	(\$58,937)	\$5,837,108	(\$1,185,498)	\$1,352,575
Revenues for 2017 Biennium										
RIT Interest - Direct	50,000	1,000,000		175,000		500,000	510,493			5,955,763
RIGWA			908,805		908,805	150,000	732,000			1,817,609
Short Term Investment Pool - Interest	800		600		4,000	400		8,000		
Metal Mines Tax									1,904,303	
Oil and Gas Tax								5,741,634	3,931,697	4,204,116
Agency Generated Revenues					5,437,000	120,000				31,000
Other Income	100,000									8,018,828
Projected Fund Balance Beginning FY 2016	\$358,093	\$1,331,871	\$1,063,550	\$812,574	\$10,813,602	\$1,213,808	\$1,183,556	\$11,586,742	\$4,650,502	\$21,379,892
Appropriations for 2017 Biennium										
UM-Bureau of Mines							(1,478,927)		(351,772)	
DNRC - Centralized Services									(91,588)	
DNRC - Conservation and Resource									(575,318)	
DNRC-Water Resources Division						(609,518)			(218,623)	
DNRC - Board of Oil & Gas	(200,000)									
DNRC - Forestry/Trust Lands									(187,144)	
DEQ-Central Management									(27,455)	
DEQ-Planning, Prevention & Assistance			(178,455)							
DEQ-Enforcement			(52,480)						(13,482)	
DEQ-Remediation			(240,898)		(7,727,579)			(30,000)		
DEQ-Permitting & Compliance			(514,198)						(4,417,555)	
NR Projects										(21,786,658)
Total Appropriations	(\$200,000)	\$0	(\$986,031)	\$0	(\$7,727,579)	(\$609,518)	(\$1,478,927)	(\$30,000)	(\$5,882,937)	(\$21,786,658)
Adjustments for Agency 5% plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Biennium Ending Fund Balance	\$158,093	\$1,331,871	\$77,519	\$812,574	\$3,086,023	\$604,290	(\$295,371)	\$11,556,742	(\$1,232,435)	(\$406,766)

The Orphan Share Program was established to provide a means for determining the share of remediation costs of a defunct party. The fund pays for the costs of the allocation process and then pays for the defunct party's share of the remediation as established by that process.

The Orphan Share has historically had a large fund balance. In FY 2014, the ending fund balance was \$8.0 million. The current projection for the ending fund balance in FY 2017 is \$13.1 million dollars. This fund balance offers the legislature the option of bolstering weaker funds with transfers from the Orphan Share Fund. The risk to such a transfer is that the liability for the orphan share is unknown and could prevent reimbursement for cleanup costs at some point in the future. Additionally, the executive is requesting legislation (LC19) that would allow for additional uses of the orphan share fund. At the time of publication, the draft was on hold.

Budget Summary by Category

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

Budget Summary by Category								
	-----General Fund-----				-----Total Funds-----			
Budget Item	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	5,508,477	5,508,477	11,016,954	91.63 %	58,257,215	58,257,215	116,514,430	93.49 %
PL Adjustments	252,676	253,227	505,903	4.21 %	(204,004)	(192,078)	(396,082)	(0.32)%
New Proposals	250,000	250,000	500,000	4.16 %	4,255,223	4,255,223	8,510,446	6.83 %
Total Budget	\$6,011,153	\$6,011,704	\$12,022,857		\$62,308,434	\$62,320,360	\$124,628,794	

Language and Statutory Authority -

The following language is requested in HB 2:

"The program is authorized to decrease federal special revenue and increase state special revenue in the drinking water and/or water pollution control revolving loan programs by a like amount within the administration account, when the amount of federal capitalization funds have been expended or when federal funds and bond proceeds will be used for other program purposes."

"If federal funds are received to help meet the annual shortfall in operating and maintenance costs at the Zortman-Landusky mine sites, this general fund spending authority will be reduced by the same amount."

"The department is appropriated up to \$1,000,000 of the funds recovered under the petroleum tank compensation board subrogation program in the 2017 biennium for the purpose of paying contract expenses related to the recovery of funds."