

### Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	297.08	297.08	297.08	297.08	297.08	297.08	0.00	0.00%
Personal Services	16,448,514	17,219,253	17,572,979	17,590,332	33,667,767	35,163,311	1,495,544	4.44%
Operating Expenses	6,895,862	7,385,892	7,628,207	7,648,159	14,281,754	15,276,366	994,612	6.96%
Equipment & Intangible Assets	878,526	790,466	999,380	999,380	1,668,992	1,998,760	329,768	19.76%
Capital Outlay	11,128	119,204	11,128	11,128	130,332	22,256	(108,076)	(82.92%)
Grants	189,465	184,491	189,465	189,465	373,956	378,930	4,974	1.33%
Transfers	1,336,352	1,331,665	1,323,797	1,317,694	2,668,017	2,641,491	(26,526)	(0.99%)
Debt Service	18,678	3,675	18,678	18,678	22,353	37,356	15,003	67.12%
<b>Total Costs</b>	<b>\$25,778,525</b>	<b>\$27,034,646</b>	<b>\$27,743,634</b>	<b>\$27,774,836</b>	<b>\$52,813,171</b>	<b>\$55,518,470</b>	<b>\$2,705,299</b>	<b>5.12%</b>
General Fund	9,608,348	10,304,534	11,006,530	11,016,794	19,912,882	22,023,324	2,110,442	10.60%
State Special	14,966,241	15,535,189	15,583,742	15,603,374	30,501,430	31,187,116	685,686	2.25%
Federal Special	1,203,936	1,194,923	1,153,362	1,154,668	2,398,859	2,308,030	(90,829)	(3.79%)
<b>Total Funds</b>	<b>\$25,778,525</b>	<b>\$27,034,646</b>	<b>\$27,743,634</b>	<b>\$27,774,836</b>	<b>\$52,813,171</b>	<b>\$55,518,470</b>	<b>\$2,705,299</b>	<b>5.12%</b>

### Program Description

#### *The Forestry Division*

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

#### *Trust Land Management*

The Trust Land Management Division is responsible for managing Montana's trust land resources to provide revenues to the trust beneficiaries while considering environmental factors and protecting future income generating capacity of the land. These lands currently total 5.2 million surface acres, 6.2 million mineral acres, and approximately 6,000 miles (40,000+ acres) of the beds of navigable waterways. The division provides this through four primary programs: 1) forest management; 2) agriculture and grazing management; 3) special use management; and 4) minerals management.

## Program Highlights

<b>Forestry and Trust Lands Administration Major Budget Highlights</b>	
◆	The executive proposes to increase this program's budget by 5.1% from the previous biennium primarily due to statewide present law adjustments
◆	The fire suppression fund will have a zero balance at the end of FY 2013

## Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Dept Of Natural Resources & Conservation Funding by Source of Authority 2015 Biennium Budget - Forestry/Trust Lands							
Funds	HB 2	Non- Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$22,023,324	\$0	\$0	\$22,023,324	35.7%		
State Special Total	\$31,187,116	\$0	\$0	\$31,187,116	50.6%		
02031 Land Banking - Pvt Closing Costs	\$431,772	\$0	\$0	\$431,772	0.7%		
02039 Forestry-fire Protection Taxes	\$6,636,602	\$0	\$0	\$6,636,602	10.8%		
02073 Forestry - Slash Disposal	\$131,217	\$0	\$0	\$131,217	0.2%		
02449 Forest Resources-forest Improv	\$2,245,305	\$0	\$0	\$2,245,305	3.6%		
02576 Natural Resources Operations Ssr Fu	\$187,314	\$0	\$0	\$187,314	0.3%		
02623 Contract Timber Harvesting	\$802,056	\$0	\$0	\$802,056	1.3%		
02681 Historic Right-of-way Acct	\$24,778	\$0	\$0	\$24,778	0.0%		
02912 Tlmd Land Exchange Admin	\$100,000	\$0	\$0	\$100,000	0.2%		
02938 Tlmd - Administration	\$20,628,072	\$0	\$0	\$20,628,072	33.5%		
Federal Special Total	\$2,308,030	\$0	\$0	\$2,308,030	3.7%		
03471 Consolidated Grant Fy14	\$853,362	\$0	\$0	\$853,362	1.4%		
03472 Non-consolidated Grant Fy14	\$300,000	\$0	\$0	\$300,000	0.5%		
03483 Consolidated Grant Fy15	\$854,668	\$0	\$0	\$854,668	1.4%		
03484 Non-consolidated Grant Fy15	\$300,000	\$0	\$0	\$300,000	0.5%		
Proprietary Total	\$0	\$6,108,309	\$0	\$6,108,309	9.9%		
06003 State Nursery Enterprise Fund	\$0	\$1,293,992	\$0	\$1,293,992	2.1%		
06538 Air Operations Internal Svc.	\$0	\$4,814,317	\$0	\$4,814,317	7.8%		
Total All Funds	\$55,518,470	\$6,108,309	\$0	\$61,626,779	100.0%		
<b>Percent - Total All Sources</b>	<b>90.1%</b>	<b>9.9%</b>	<b>0.0%</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.

State special revenue support comes from forest improvement fees and forest protection fees. Forest improvement fees consist of \$25 for each slash hazard reduction agreement, and \$.060 per thousand board feet sold, plus any forfeited fire hazard reduction bonds. Fees are established when timber sales are approved based upon the state's projected costs of slash disposal, road maintenance, and reforestation.

The department is also required to collect up to one-third of the state's fire protection appropriation from private landowners through a forest protection fee. The other two-thirds are funded with general fund. The department is required to levy the tax so that collections equal the amount appropriated by the legislature.

The Trust Land Management Division is funded with trust fund revenue, timber sales, and forest resource fees. The remaining funding is from recreational use and resource development of state lands. Because funding for state lands is taken directly from revenues, any expenditure for administration of state lands is a direct reduction in trust income. General fund is utilized for personal services for the management of non-trust state lands.

<b>LFD COMMENT</b>	<p><u>Fire Suppression Funding</u></p> <p>DNRC is responsible for fire suppression activities and management of all related funding. In the 2015 biennium, fire costs that are the responsibility of the state total \$48.4 million. For a further discussion, see the Summary section of this narrative.</p>
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**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	9,608,348	9,608,348	19,216,696	87.26%	25,778,525	25,778,525	51,557,050	92.86%
Statewide PL Adjustments	992,249	1,006,584	1,998,833	9.08%	1,141,549	1,177,812	2,319,361	4.18%
Other PL Adjustments	401,370	397,299	798,669	3.63%	816,357	811,296	1,627,653	2.93%
New Proposals	4,563	4,563	9,126	0.04%	7,203	7,203	14,406	0.03%
<b>Total Budget</b>	<b>\$11,006,530</b>	<b>\$11,016,794</b>	<b>\$22,023,324</b>		<b>\$27,743,634</b>	<b>\$27,774,836</b>	<b>\$55,518,470</b>	

**Present Law Adjustments**

The “Present Law Adjustments” table shows the changes to the adjusted base budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,846,260					1,864,324
Vacancy Savings					(731,795)					(732,506)
Inflation/Deflation					(40,958)					(23,084)
Fixed Costs					68,042					69,078
<b>Total Statewide Present Law Adjustments</b>		<b>\$992,249</b>	<b>\$251,355</b>	<b>(\$102,055)</b>	<b>\$1,141,549</b>		<b>\$1,006,584</b>	<b>\$271,803</b>	<b>(\$100,575)</b>	<b>\$1,177,812</b>
DP 35011 - FD & TLMD Operating & Capital Adjustments	0.00	108,429	71,047	0	179,476	0.00	108,447	72,245	0	180,692
DP 35012 - FD Federal And State Special Authority	0.00	0	50,000	51,481	101,481	0.00	0	50,000	51,307	101,307
DP 35013 - FD Phone System & Copiers (OTO)	0.00	135,000	0	0	135,000	0.00	135,000	0	0	135,000
DP 35014 - Air Operations Transfer	0.00	(8,412)	(4,143)	0	(12,555)	0.00	(12,501)	(6,157)	0	(18,658)
DP 35016 - FD Narrow Band Radios (OTO/REST)	0.00	86,353	42,533	0	128,886	0.00	86,353	42,533	0	128,886
DP 35021 - TLMD MSU-Morrill Trust Projects (BIEN/OTO)	0.00	80,000	0	0	80,000	0.00	80,000	0	0	80,000
DP 35023 - TLMD Land Transaction Funds	0.00	0	204,069	0	204,069	0.00	0	204,069	0	204,069
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$401,370</b>	<b>\$363,506</b>	<b>\$51,481</b>	<b>\$816,357</b>	<b>0.00</b>	<b>\$397,299</b>	<b>\$362,690</b>	<b>\$51,307</b>	<b>\$811,296</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$1,393,619</b>	<b>\$614,861</b>	<b>(\$50,574)</b>	<b>\$1,957,906</b>	<b>0.00</b>	<b>\$1,403,883</b>	<b>\$634,493</b>	<b>(\$49,268)</b>	<b>\$1,989,108</b>

DP 35011 - FD & TLMD Operating & Capital Adjustments – The executive requests funding for material costs and maintenance, adjustments for statewide rent and janitorial increases, and for increased funding for contracted fire protection on the Flathead Reservation.

DP 35012 - FD Federal And State Special Authority – The executive requests funding to increase spending authority in the slash hazard reduction state special revenue account by \$50,000 as the fees collected exceed existing authority. The request also includes authority to spend federal reimbursements for use of firefighting equipment on other state or federal fires, as the number of those fires has increased.

DP 35013 - FD Phone System & Copiers (OTO) – The executive requests one-time-only funding to purchase a printer/copier/fax machine and an upgrade to the Forestry Division telephone, cabling, and phone system. The copier would serve 40-60 employees and will replace current equipment that is beyond repair. The telephone upgrade would serve 80 employees and replace a system that was installed in 1982.

DP 35014 - Air Operations Transfer – The executive recommends a reduction due to a decrease in the aircraft insurance premium.

DP 35016 - FD Narrow Band Radios (OTO/REST) - The executive requests funds to purchase narrow-band, digital capable radios and associated maintenance.

DP 35021 - TLMD MSU-Morrill Trust Projects (BIEN/OTO) – The executive requests one-time-only, biennial funding to implement and complete land management projects on the MSU-Morrill trust lands. Projects for the biennium include five timber harvest projects, timber thinning and weed management, agriculture and grazing lease renewals, commercial lease evaluations, a new phase of the Whitefish Trail, land banking and land exchange, and continuing work on the Smith Lake Dam rehabilitation project. The authority would cover contracted services, supplies and materials, and other operating costs to manage activities on the Morrill Trust Lands.

DP 35023 - TLMD Land Transaction Funds – The executive requests state special revenue to add authority to the FY 2012 appropriated level in the Trust Land Management Division.

**New Proposals**

New Proposals	Fiscal 2014					Fiscal 2015					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Professional Development Center Fee Allocation	35	0.00	4,563	2,640	0	7,203	0.00	4,563	2,640	0	7,203
<b>Total</b>	<b>0.00</b>	<b>\$4,563</b>	<b>\$2,640</b>	<b>\$0</b>	<b>\$7,203</b>	<b>0.00</b>	<b>\$4,563</b>	<b>\$2,640</b>	<b>\$0</b>	<b>\$7,203</b>	

DP 6101 - Professional Development Center Fee Allocation- The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.

**Proprietary Rates**

The Forestry Division provides the following functions funded with proprietary funds. These programs are described separately along with a discussion of the program expenses, revenues, and rates being requested to finance the program:

- o Air Operations
- o State Nursery

**Air Operations**

*Proprietary Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for Air Operations shows the financial information for the fund from FY 2010 through FY 2013 and can be found in the appendix for this agency.

*Proprietary Program Description*

The air operations program in the Forestry Division is funded from the air operations proprietary account for those costs that can be supported by the aircraft rates, and by general fund and fire protection tax revenue 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, and federal agencies. This revenue is deposited in the proprietary account. Statutory authority for the program is in 77-5-103, MCA.

*Proprietary Program Narrative*

*Revenue Description*

The primary source of revenue is the collection of aircraft rental charges. Additional transfer-in revenue is received from HB 2 transfers of fixed costs (FTE, insurance and 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, and 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 land managers for the DNRC. This involves initial attack of fires under state direct protection, assistance on county fires, 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 fires paid by the fire suppression fund (state special revenue), and FEMA and U.S. Forest Service (federal special revenue).

#### *Expense Description*

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.

Change in Services or Fees: Flight rates are proposed to increase for DNRC operated aircraft to meet increased costs of fuel and replacement parts.

#### **Proprietary 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:

<u>Dept. Aircraft</u>	<u>Current</u>	<u>2015 Bien Proposed</u>
Bell UH-1H Helicopters	\$1,075.00/hr	\$1,225.00/hr
Jet Ranger Helicopter	\$475.00/hr	\$515.00/hr
Cessna 180 Series Aircraft	\$150.00/hr	\$175.00/hr

#### **Seedling Nursery**

##### *Proprietary Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for the Seedling Nursery shows the financial information for the fund from FY 2010 through FY 2015 and can be found in the appendix for this agency.

##### *Proprietary Program Description*

The Montana 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. During FY 2011 and 2012, an average of 750 landowners/businesses ordered seedlings. Of the 1.7 million seedlings grown during that time period, approximately 1.6 million seedlings were used in reforestation and stream restoration. DNRC nursery seedlings were planted in 50 of the 56 Montana counties. 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.

*Revenue Description*

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), tribal agencies, 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.

*Expense Description*

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).

*Proprietary 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.