

Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	544.37	544.37	553.69	553.69	544.37	553.69	9.32	1.71%
Personal Services	29,564,814	31,869,195	32,692,335	32,791,657	61,434,009	65,483,992	4,049,983	6.59%
Operating Expenses	13,078,619	14,135,948	15,639,045	15,691,690	27,214,567	31,330,735	4,116,168	15.12%
Equipment & Intangible Assets	1,217,708	1,118,448	1,337,518	1,345,477	2,336,156	2,682,995	346,839	14.85%
Capital Outlay	69,788	135,118	69,788	69,788	204,906	139,576	(65,330)	(31.88%)
Local Assistance	0	200,000	200,000	200,000	200,000	400,000	200,000	100.00%
Grants	1,410,342	1,432,297	1,610,342	1,610,342	2,842,639	3,220,684	378,045	13.30%
Transfers	959,895	977,351	1,218,390	1,228,444	1,937,246	2,446,834	509,588	26.30%
Debt Service	387,283	476,504	478,067	478,067	863,787	956,134	92,347	10.69%
Total Costs	\$46,688,449	\$50,344,861	\$53,245,485	\$53,415,465	\$97,033,310	\$106,660,950	\$9,627,640	9.92%
General Fund	20,883,410	21,819,894	23,633,064	23,672,052	42,703,304	47,305,116	4,601,812	10.78%
State Special	24,052,836	26,686,335	27,504,809	27,651,128	50,739,171	55,155,937	4,416,766	8.70%
Federal Special	1,752,203	1,838,632	2,107,612	2,092,285	3,590,835	4,199,897	609,062	16.96%
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$46,688,449	\$50,344,861	\$53,245,485	\$53,415,465	\$97,033,310	\$106,660,950	\$9,627,640	9.92%

Agency Description

Mission: To help ensure Montana's land and water resources provide benefits for present and future generations.

The Department of Natural Resources is tasked to:

1. Manage the state trust land resource to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land
2. Protect Montana's natural resources from wildfires through regulation and partnerships with federal, state, and local agencies
3. Promote stewardship of state water, soil, forest, and rangeland resources, and regulate forest practices to protect water quality
4. Provide administrative, legal, and technical assistance and financial grants to the conservation districts and provide natural resource conservation and development programs
5. Resolve water resource use conflicts, manage state water projects, investigate water use violations, ensure dam safety compliance, and provide water adjudication support to the Water Court
6. Provide administrative support to the Reserved Water Rights Compact Commission to negotiate the settlement of reserved water rights claims of Indian Tribes and federal agencies
7. Provide administrative support to the Board of Oil and Gas Conservation to assist in conservation of oil and gas and prevention of resource waste through regulation of oil and gas exploration and production

The State Board of Land Commissioners, comprised of the Governor, State Auditor, Attorney General, Superintendent of Public Instruction, and Secretary of State, exercise the general authority, direction, and control over the care, management, and disposition of state lands under its administration. The department director is the chief administrative officer of the board.

Agency Highlights

Department of Natural Resources and Conservation Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive budget would increase by \$9.6 million or 10 percent in the 2011 biennium from the previous biennium, of which \$6.9 million are statewide present law adjustments ◆ One-time-only proposals total \$1.4 million over the biennium and include: <ul style="list-style-type: none"> • \$615,000 for rehabilitation of state water projects • \$400,000 for grants to conservation districts • \$203,000 for rural water support • \$223,000 for information technology needs • \$15,000 for travel ◆ The remaining \$1.3 million increase relates to base budget adjustments to account for increased rent, contractual costs, and land transaction costs ◆ The Reserved Water Rights Compact Commission (RWRCC) is set to sunset and the executive request reflects that change
Major LFD Issues
<ul style="list-style-type: none"> ◆ Funding for state dam rehabilitation belongs in HB 5, the long range building program ◆ This budget request will require coordination with any successful legislation that extends the sunset date of the RWCC ◆ Not all goals and objectives are written in a manner in which future evaluation of progress can be competed.

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- Goals, objectives and year-to-date outcomes from the 2009 biennium
- Goals and objectives and their correlation to the 2011 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Agency Market** –
 - New hires will be hired at 85 percent of current position market. The agency will make every effort to move 'new hires' to market as funds become available
 - The agency should have a 95 percent market ratio after the October HB 13 pay adjustment relative to the 2006 markets. The analysis relative to the 2008 markets has not been completed but the agency estimates being between 80-85 percent of the 2008 market survey. (This was due to the large number of emergency hires within the department to address wildland fire season. The department is working with the LFD to remedy the situation and will provide that data to the legislature
 - The agency revitalized a compensation committee to review current pay plan rules and the 2008 market survey for each position. The committee hoped to have a recommendation to the director

and the rest of leadership by October 2008 to give leadership an opportunity to review and discuss department targets

- Within the 2009 biennium, a portion of the discretionary funding authorized in HB 13 was utilized for moving employees to 92 percent of the 2006 market survey
- The department established “Paragon of Performance,” a results base pay program to recognize individuals or teams for accomplishments. These are one-time lump sum bonuses

○ **Obstacles -**

- Positions within the agency that have had major recruitment difficulties have been attorneys, engine bosses, and engineers. This group may be hired at market or above because of these difficulties
- The agency implemented the 0.6 percent funding in HB 13 by splitting it in two. Each employee received 0.3 percent to move them closer to market. Each division could utilize the other 0.3 percent for performance bonuses or to cover vacancy savings requirements

**LFD
COMMENT**

The legislature may wish to receive a briefing on the recommendations made by the agency’s compensation committee and leadership’s response. The recommendations could have a direct bearing on the agency’s budget.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2011 Biennium Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
21 Centralized Services	\$ 5,886,951	\$ 1,190,585	\$ 361,353	\$ 7,438,889	6.97%
22 Oil & Gas Conservation Div.	-	4,154,568	269,884	4,424,452	4.15%
23 Conservation/Resource Dev Div	3,051,933	7,144,814	591,898	10,788,645	10.11%
24 Water Resources Division	17,390,961	9,939,145	339,848	27,669,954	25.94%
25 Reserved Water Rights Comp Com	30,000	-	-	30,000	0.03%
35 Forestry/Trust Lands	<u>20,945,271</u>	<u>32,726,825</u>	<u>2,636,914</u>	<u>56,309,010</u>	<u>52.79%</u>
Grand Total	<u>\$ 47,305,116</u>	<u>\$ 55,155,937</u>	<u>\$ 4,199,897</u>	<u>\$ 106,660,950</u>	<u>100.00%</u>

General fund supports operating costs across the department. The programs in the Forestry Division and the Water Resource Division receive the most general fund support.

The agency receives funds from interest derived from the resource indemnity trust (RIT) for projects and operational support. The grant and loan programs funded by the RIT interest are also managed by the agency. A discussion on RIT and related funds can be found in the agency narrative of the Department of Environmental Quality. Other state special revenue is derived from fire protection taxes, oil and gas operating fees, forest improvement fees, and revenues retained from state land activities for administration costs.

Federal funds come from a variety of sources such as the Federal Emergency Management Agency, the United States Department of Agriculture and the Bureau of Land Management.

**LFD
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Natural Resources Operations Funding

The Resource Indemnity Trust related natural resources operations fund was created by HB 116 of the 2007 Legislature to provide a specific fund for general operations of state natural resource agencies. This fund provides operational support to the department, the Department of Environmental Quality, the Montana Bureau of Mines and Geology, the State Library Commission, and the Water Court. The revenues to the fund are not sufficient to continue to support all activities previously funded. The executive request contains a funding switch for this department and the State Library Commission. The effect of the changes and the estimated balance are summarized in figure 1. Even with the proposed funding switch, by the end of the biennium the fund has a negative ending fund balance, if revenue estimates are accurate and all appropriations are expended. The department expended \$1.8 million in FY 2008 from the natural resources operations fund. The executive requested funding switches include:

- Centralized Services Division: \$249,000 each year of the 2011 biennium from general fund
- Conservation and Resource Development Division: \$686,383 in FY 2010 and \$734,415 in FY 2011 from coal tax shared severance funds

For a complete discussion on RIT and related accounts see the agency narrative section of the Department of Environmental Quality.

Figure 1
Department of Natural Resources and Conservation
Natural Resources Operations State Special Revenue

	Actual FY 2008	Appropriated FY 2009	Executive Request	
			FY 2010	FY 2011
Beginning Balance	\$4,536,375	\$4,178,494	\$2,659,729	\$1,112,900
Non-DNRC Expenditures				
Water Court	905,805	951,711	1,047,422	1,053,147
Mt Bureau of Mines & Geology	103,838	175,886	175,886	175,886
State Library Commission	251,401	251,436	0	0
Department of Environmental Quality	<u>1,662,001</u>	<u>1,776,798</u>	<u>2,140,571</u>	<u>2,148,429</u>
Total Non-DNRC Expenditures	\$2,923,045	\$3,155,831	\$3,363,879	\$3,377,462
DNRC Expenditures				
Centralized Services Division	\$203,934	\$440,247	\$0	\$0
Conservation & Resource Development Division	1,328,062	1,400,871	713,896	686,491
Water Resources Division	210,376	227,884	228,221	228,423
Forestry Division	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Total DNRC Expenditures	\$1,842,372	\$2,169,002	\$1,042,117	\$1,014,914
Total Expenditures	4,765,417	5,324,833	4,405,996	4,392,376
Potential Pay Plan Impact			<u>\$108,245</u>	<u>\$216,489</u>
Revenues	\$4,407,536	\$3,806,068	\$2,967,412	\$3,411,553
Ending Fund Balance	<u>\$4,178,494</u>	<u>\$2,659,729</u>	<u>\$1,112,900</u>	<u>(\$84,412)</u>

*Agency Fire Suppression Costs*FY 2008 Fire Season

Figure 2 depicts the financial impact of the FY 2008 fire season as of September 5, 2008. Part one illustrates the status of paid and unpaid obligations. To date, the state has paid \$48.8 million of the estimated \$81.5 million, leaving an unpaid balance of \$32.7 million.

Figure 2 Department of Natural Resources and Conservation Fire Costs as of September 5, 2008		
<u>PART 1: FY2008 Actual & Estimated Costs</u>		
Paid State Protection Costs (YTD)	\$48,806,616	
Estimated Remaining Protection Costs	32,738,189	
Paid and Current Obligations		<u>\$81,544,805</u>
<u>PART 2: Sources of Funding</u>		
Appropriations-		
DNRC - Fire Suppression Fund	(\$39,000,000)	
DMA - Fire Suppression Fund	(3,000,000)	
Governor's Emergency Fund	<u>(8,000,000)</u>	
		(50,000,000)
Reimbursement Available		
Billable Support - USFS/BLM/NPS./BIA	(10,411,034)	
FEMA Reimbursement	<u>(18,133,771)</u>	
		(28,544,805)
Unfunded Fire Costs		<u>\$3,000,000</u>
Supplemental Request - HB 3	<u>(\$3,000,000)</u>	<u>\$0</u>

Part two addresses the funding sources to cover the \$81.5 million of estimated costs. HB 1 of the September 2007 Special Session provided \$42.0 million in general fund appropriation authority to cover the net cost to the state. Federal reimbursement is anticipated at \$29.9 million from cost share negotiations on project fires. (Project fires are those fires that escape initial attack and include direct protection zones of two or more agencies.) An additional \$26.7 million is anticipated as the federal share available through emergency assistance granted by the Federal Emergency Management Agency (FEMA) for the Jocko Lakes, Black Cat, Country Club, and Ford Road fires.

After all sources of funding are considered, the unfunded portion of the \$81.5 million in estimated obligations is \$3.0 million. The executive is requesting a supplemental appropriation in HB 3. The increase in costs beyond what the legislature anticipated when making the appropriation, is due to shifts in the share of costs borne by the federal government.

FY 2009 Fire Season

The state has incurred \$8.5 million in fire suppression costs as of September 5, 2008, of which \$2.5 million is reimbursable by other parties, creating a net cost to the state of \$6.0 million. This total compares to an average fire season state share cost of \$17.7 million and a FY 2008 state share cost of over \$50.0 million.

Figure 3 depicts the financial impact of the FY 2009 fire season as of September 5, 2008. Part one illustrates the status of paid and unpaid obligations. To date, the state has paid \$3.2 million of the estimated \$8.5 million.

Part two addresses the funding sources to pay the \$8.5 million of estimated costs. HB1 of the September 2007 Special Session provided \$40.0 million in general fund appropriation authority deposited to the fire suppression fund created by the legislature to pay the net cost to the state for FY 2009. This appropriation will cover the \$6.0 million in estimated state costs. Federal reimbursement is anticipated at \$2.5 million from cost share negotiations on the Bear Gulch,

Figure 3 Department of Natural Resources and Conservation Fire Costs as of September 5, 2008		
<u>PART 1: FY2008 Actual & Estimated Costs</u>		
Paid State Protection Costs (YTD)	\$3,249,205	
Estimated Remaining Protection Costs		<u>5,224,922</u>
Paid and Current Obligations		<u>\$8,474,127</u>
<u>PART 2: Sources of Funding</u>		
Appropriations-		
DNRC - Fire Suppression Fund		(5,984,667)
Reimbursement Available		
Billable Support - USFS/BLM	(\$2,489,460)	
		(2,489,460)
Unfunded Fire Costs		<u>\$0</u>

Knowlton Complex, Dunn Mountain, and Cactus Fires. The state did not qualify for any emergency assistance through FEMA.

Fire Suppression Fund

As per Figure 4 the balance of the fire suppression fund is \$33.1 million. The fund received interest revenues and some reimbursement for fire costs. The fund covered fire suppression costs and provided for the purchase of an additional 25 fire truck chassis for development into wildland fire engines. The latter was a request of the Fire Suppression Committee and approved by the Office of Budget and Program Planning. An additional \$1.0 million is reserved for spring fire costs.

Since the fire suppression fund is set to expire at the end of FY 2009, the remaining balance would transfer to the general fund, unless the legislature chooses to maintain the fund. The executive is proposing that \$31,750,000 of this balance be retained in the fund to pay future fire costs.

<u>Revenues</u>	
General Fund Transfer	40,000,000
Interest Earnings	1,091,094
Fire Suppression Reimbursement	<u>225,085</u>
Total Revenues	<u>\$41,316,179</u>
<u>Expenditures</u>	
FY 2009 Fire Suppression Costs	(5,984,667)
Vehicle Chassis	<u>(1,250,000)</u>
Total Expenditures	(\$7,234,667)
<u>Reserved</u>	
FY 2009 Spring Fires	(1,000,000)
Projected Ending Fund Balance	<u>\$33,081,512</u>

Statutory Appropriations

The following figure shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

Purpose	MCA #	Fund Source	Fiscal 2008	Fiscal 2010	Fiscal 2011
<u>No Direct Bearing on Agency Operations</u>					
Mitigation of Oil and Gas Wells	82-11-161	SSR	\$25,806	\$100,000	\$100,000
Mitigation of Water Wells		SSR	\$4,000	\$4,000	\$4,000
<u>Direct Bearing on Agency Operations</u>					
Fire Suppression Activities	10-3-310	GF	\$8,000,000	*	*

* Statutory funding for fire suppression is directly related to the severity of fire season and the availability of other funding sources

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

The executive is requesting an additional \$3.0 million for FY 2008 fire costs that were not covered by FEMA as originally anticipated.

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 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	20,883,410	20,883,410	41,766,820	88.29%	46,688,449	46,688,449	93,376,898	87.55%
Statewide PL Adjustments	1,766,570	1,758,514	3,525,084	7.45%	3,474,582	3,516,131	6,990,713	6.55%
Other PL Adjustments	103,863	152,709	256,572	0.54%	1,843,301	2,057,329	3,900,630	3.66%
New Proposals	879,221	877,419	1,756,640	3.71%	1,239,153	1,153,556	2,392,709	2.24%
Total Budget	\$23,633,064	\$23,672,052	\$47,305,116		\$53,245,485	\$53,415,465	\$106,660,950	

Agency Issues

The following is a discussion of Fire Protection and Suppression Issues, and Fire Costs and Funding Options.

Suppression Costs

As discussed in the Agency Narrative section, Montana has incurred obligations for fire suppression costs of \$53 million in FY 2008 and \$6.0 million in FY 2009 for a total of \$59.0 million for the biennium.

Historically, fire costs have been paid temporarily from the Forestry Division's general fund appropriation and through the Governor's statutory emergency appropriation if an emergency or disaster is declared. The department is then reimbursed and all other bills, except those paid with emergency appropriation authority, are funded through a supplemental appropriation.

However, at the end of the FY 2008 fire season, the department was unable to utilize these tactics to pay the fire bill due primarily to the magnitude. The Governor called a special session for the legislature to appropriate \$39.0 million to the department and an additional \$3.0 million to the Department of Military Affairs.

While in special session, the legislature established a fire suppression fund for FY 2009 only by transferring \$40.0 million general fund to the fund and created a Fire Suppression Interim Committee, charged with the following:

- An investigation of firefighting operations in Montana, including operations on tribal land and private land, by the state and federal governments and the management policies affecting the success of those operations
- An investigation of the efficient use of fire suppression resources including equipment and firefighters
- An investigation of impacts of operations on private land and on the effective use of private resources to fight fires
- An investigation of state and federal forest management police and how those police may contribute to an increased number of wildfires, greater safety risk to firefighters, or compromised effectiveness of fire suppression efforts

The interim committee was essentially tasked to deal the changing realities of fire suppression such as increased costs, decreased FEMA assistance, fire locations, and changing relationships with federal partners.

Increased Costs

Fiscal Year	Total Cost	Reimbursements	Net Cost
2003	6,710,688	4,684,927	2,025,761
2004	79,579,965	44,582,841	34,997,124
2005	3,969,096	989,945	2,979,151
2006	8,302,312	3,240,042	5,062,270
2007	61,000,318	21,290,928	39,709,390
2008	81,544,805	31,544,805	50,000,000
2009	8,474,127	2,489,460	5,984,667
7 year total	241,107,184	106,333,488	134,773,696
7 year average	34,443,883	15,190,498	\$ 19,253,385
5 year adjusted average	\$ 32,813,482	\$ 12,650,032	\$ 17,746,520

A significant event rising from the FY 2008 fire season is the impact the estimated total cost has had on the average state cost of fire suppression. The Legislative Fiscal Division calculates this cost by analyzing the last seven years of fire bills, removing the high and low seasons and dividing by five. The FY 2008 fire season and the FY 2007 fire season have increased the average from about \$7.0 million per year to a current estimate of \$17.7 million per year, or \$35.4 million per biennium. This cost renders the Governor's emergency fund, \$16 million per biennium, insufficient to cover wildland fire suppression costs, let alone other emergencies the fund was designed

to address. Figure 5 provides a snap shot of historic fire cost.

Decreased FEMA assistance

During the 2000 fire season (FY 2001), Montana was provided blanket approval for financial assistance from the head of FEMA when he toured the fires with Senator Max Baucus. Later in FY 2004, the state received FEMA assistance based on the established criteria wherein 50 structures were threatened. For the FY 2007 fire season, FEMA raised that threshold to 100 structures. This change is a result of FEMA standardizing threshold criteria across the nation. The change in the approach to and criteria for emergency assistance has resulted in the state receiving substantially less financial support from FEMA.

Each FEMA declaration is date and time sensitive. The state is eligible for 75 percent assistance of allowable costs within the declaration period. The department estimated that the amount of FEMA reimbursement for FY 2008 would be \$25.5 million. Should FEMA disallow certain costs, reimbursement will be lower. As stated, the executive seeks a supplemental appropriation of \$3 million for FY 2008 due to lower than anticipated reimbursements.

Fire in the Wildland Urban Interface

The wildland urban interface is that area where structures and other development meets or intermingles with undeveloped wildland. When homes, outbuildings, and commercial buildings are in the path of wildland fire, fire line tactics become more limited and additional resources are utilized to protect those structures in addition to those deployed to suppress the fire. A fire in a region without (or with few) buildings is generally easier and less costly to suppress.

An example of this can be made from the FY 2008 fire season in the comparison between the Jocko Lake and the Chippy Creek fires. The Jocko Lake fire was located in the wildland urban interface where at one time 3,100 structures were threatened. The fire burned about 35,000 acres and had a total cost of \$31.0 million.

Chippy Creek, on the other hand, burned almost 100,000 acres. However, with less than 100 structures threatened it cost about \$15.0 million. The Jocko Lake fire had a per acre cost of \$887, while Chippy Creek was \$157, in part due to the difference in the landscape where the fire occurred.

Relationship with Federal Partners

The United States Forest Service (USFS) is one of the state's largest partners in fire suppression and forest management. USFS practices have been widely discussed within the media, the natural resource community, and more recently at hearings of the Fire Suppression Interim Committee (FSIC).

The policy decisions of the USFS have a direct financial bearing on the state, specifically fire management, and cost sharing changes. Both of these issues were extensively discussed by the FSIC.

The USFS tends to utilize fire for management purposes and therefore is not an aggressive initial attack agency. This, however, has caused increased costs to the state. In the case of the Ahorn and Meriwether fires of FY 2008, the USFS utilized those fires for landscape management purposes. However, costs were incurred by the state when those fires migrated into the state’s direct protection area. Therefore, a significant issue is who should really pay the costs when an entity takes less than full suppression tactics, and the direct result is that the fire migrates to another direct protection zone where it can be controlled.

Cost Sharing

Cost share agreements document the financial responsibility for incident costs. It is traditionally prepared for multi-jurisdictional incidents where the decision has been made to share resources. The DNRC line officer is responsible for the cost share process including negotiation and oversight on behalf of the state. Cost-share agreements can be adjusted as incidents grow or include additional jurisdictions. Cost share agreements are reviewed by managerial staff of the Fire and Aviation Bureau prior to signature if time allows. This was the case for FY 2008 fires, except for Jocko Lakes, Brush Creek, Black Cat, and Chippy Creek, which had been sent to a cost negotiation team consisting of representatives from DNRC, US Forest Service, and the Bureau of Indian Affairs. The cost negotiation team evaluated fire data and utilized one of the following to most accurately represent the effort expended by each entity in relation to their direct protection lands.

- o You Order You Pay (YOYP) – Each agency is fiscally responsible for the resources they order, regardless of where they are used on the incident
- o Acres Burned – Costs are shared based on the acreage percentage of the fires within an agency’s protection area.
- o Cost Apportionment – Costs are shared based upon the usage of resources for operational periods. Direct costs are shared based upon assignment in the incident action plan or actual use. Support costs are shared proportionately to the direct costs
- o Miles of Control Line Built – Cost share is based on a percentage of the total perimeter of the fire for each agency’s protection area. This assumes an average level of effort put for each mile of line through all protection areas
- o Percentage of Total Perimeter Miles – Cost share is based in the final fire perimeter. This method would reflect suppression efforts by protection agency area but may not be representative of area burned.
- o Cost is shared equally among the agencies

Figure 6
Department of Natural Resources and Conservation
Potential Cost Share Scenarios for a \$5.0 million fire

Agency	Acres Burned	Cost Apportionment	Percentage of Total		
			Miles of Control Line	Perimeter	Equal Split
DNRC	13% - \$0.65	25% - \$1.25	45% - \$2.25	47% - \$2.35	33.3% - \$1.665
USFS	52% - \$2.6	40% - \$2.0	20% - \$1.0	17% - \$0.85	33.3% - \$1.665
BIA	35% - \$1.75	35% - \$1.75	35% - \$1.75	36% - \$1.8	33.3% - \$1.665

Figure 6 demonstrates a comparison of cost share methodologies in millions on a fictional fire valued at \$5.0 million.

Changes in cost share agreements for FY 2008 are summarized in the Figure 7 below. The interim committee suggests in its final report that these cost shifts be monitored by the Legislative Finance

Committee to determine if the impacts to the state continue to rise.

Recommendations of the Fire Suppression Interim Committee

The Fire Suppression Interim Committee discussed many potential options to ease the cost and complexities of managing the state’s fire program, including department resources, policy changes, and suppression funding tactics.

Department Resources

The committee formally requested specific items during the interim to immediately increase department resources:

- o Extend Engine Crews to seven days/wk - Increase seasonal positions on DNRC engines to provide seven days/wk coverage. This initiative would require approximately 7.0 seasonal FTE and \$260,000.

Figure 7
FY 2008 Cost Share Shifts

Fire	Oct. Report	Nov. Report	Difference
Brush Creek	\$2,929,854	\$3,369,332	\$439,478
Chippy Creek	4,202,000	9,741,000	5,539,000
Black Cat*	2,310,000	1,940,400	(369,600)
Jocko Lake*	8,880,600	8,702,988	(177,612)
Total	\$18,322,454	\$23,753,720	\$5,431,266

* state share change after FEMA payments

- Extend Aviation Coverage to seven days/wk - Increase seasonal positions in the Aviation Program to provide seven days/wk coverage. This increase would staff each helicopter with a manager, crew, and fuel truck driver. This initiative would require approximately 6.79 seasonal FTE and \$469,846.
- Fire Business Specialists - Increase the presence of fire business specialists in the field offices and within the Centralized Services Division. These individuals would also serve as incident business advisors on DNRC managed fires. This initiative would increase the fiscal oversight during and after fire season, and would require approximately 4.0 seasonal FTE and \$300,000.
- Dispatch Center Staff - Augment existing and add additional dispatch positions at all land offices for increased representation in interagency dispatch centers, yielding better distribution of firefighting resources on state and local government fires. This initiative would require approximately 4.25 seasonal FTE and \$95,000.
- Operations Section Supervisor - Increase the efficiency in fire management fire operations across the state and consistently represent DNRC within the Northern Rockies Coordinating Group by adding 1.0 modified FTE as a section supervisor within the Fire and Aviation Management Bureau. This addition would require approximately \$95,000.
- Engine Development - Purchase 25 vehicle chassis for development for the purpose of further reducing the number of aged fire vehicles currently in the field. The committee determined that the \$1.25 million needed for this purchase was available from the fire suppression fund.

The executive approved the use of the statutorily appropriated fire suppression fund for the extended aviation and engine crews and to develop additional chassis. The other items were not approved. The executive budget request includes the base adjustment for the staffing changes. The engine development was a one-time-only cost.

Policy Issues

In addition to the above resource requests, the committee evaluated the need for other policy changes that included a fiscal impact. Some of those items are being drafted into potential legislation. They include:

- Fuel Reduction Program – Appropriate \$3.0 million to create a pilot project for fuels reduction on state land in the wildland-urban interface by utilizing private contractors who then can be shifted to fire suppression when needed - LC 477
- Montana Fire Easement Program – create an incentive-based voluntary way for landowners who take a series of defined actions to reduce the risk of catastrophic fire and to be compensated for those actions. The qualifying landowner would receive an income tax credit - LC 473
- Wildland Urban Interface Building – Require the Department of Labor and Industry (DOLI) to develop building standards for houses built within the wildland urban interface, this would require resources for DOLI - LC 472
- National Environmental Protection Act (NEPA) - Require the department to obtain coordinating and cooperating agency status under NEPA. This would enable the department to work closer with the USFS when land management issues arise. A \$200,000 general fund appropriation is requested - LC 487
- Major Litigation – Appropriate \$200,000 for the state to participate in certain lawsuits brought against the federal government for forest management practices. Draft legislation was not proposed for this item. The committee determined that this would best be completed in HB 2

Recommendation for funding

The committee discussed options to provide upfront costs for:

- Fire suppression to potentially avoid future special sessions
- How to fund the protection program. The protection portion of the program is the equipment and training the agency needs to be mission ready. It is currently required in statute to be funded at 1/3 forest assessments and 2/3 general fund. The cap in statute will not provide enough revenue to adhere to the formula and implement the executive's requested budget.

The committee requested draft legislation for the following options:

Suppression Funding

- LC 503 - Provide for an on going fund transfer to the fire suppression account; remove the termination date for the fire suppression account; and allow a certain amount in the account to be used for additional county co-op equipment, fuels mitigation, and rural fire assistance matching grants.
- LC 504 – Increase the Governor’s emergency fund and provide that the increase only be used for wildland fire; extend the termination date on the fire suppression fund account and the statutory appropriation of that account.

Protection Funding

- LC 483 – Simplify the process for collecting fire protection assessments, including allocating a fair portion to condominiums in the wildland urban interface.
- LC 502 – Remove the requirement that the total amount of the assessments collected by the department from landowners not exceed one-third of the amount specified in the appropriation for fire protection costs.

Summary

The direction of the fire suppression program in Montana could be changed by the 2009 Legislature with the passage and approval of a number of the above mentioned bills. Due to the sheer magnitude of the issues associated with forest management, many issues identified by the committee were not addressed. This includes items such as forest products industry access to forest fuels, state and federal relations, contracting guidance, and insurance industry changes. The legislature may wish to consider one or more of the following:

- Align resources of the program based on which bills, if any, are passed and approved through coordinating language in HB 2
- Request legislation to extend the activities of the Fire Suppression Interim Committee for an additional interim
- Request a resolution for the Environmental Quality Council (EQC) to establish a sub-committee to continue the work of the Fire Suppression Interim Committee
- Request a joint sub-committee of the EQC and the Legislative Finance Committee to continue the work of the Fire Suppression Interim Committee

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	41.50	41.50	41.50	41.50	41.50	41.50	0.00	0.00%
Personal Services	2,421,039	2,659,504	2,697,366	2,706,422	5,080,543	5,403,788	323,245	6.36%
Operating Expenses	767,779	648,253	1,060,816	959,975	1,416,032	2,020,791	604,759	42.71%
Equipment & Intangible Assets	7,155	20,000	7,155	7,155	27,155	14,310	(12,845)	(47.30%)
Capital Outlay	0	10,000	0	0	10,000	0	(10,000)	(100.00%)
Total Costs	\$3,195,973	\$3,337,757	\$3,765,337	\$3,673,552	\$6,533,730	\$7,438,889	\$905,159	13.85%
General Fund	2,414,779	2,594,318	2,981,912	2,905,039	5,009,097	5,886,951	877,854	17.53%
State Special	681,199	668,439	593,908	596,677	1,349,638	1,190,585	(159,053)	(11.78%)
Federal Special	99,995	75,000	189,517	171,836	174,995	361,353	186,358	106.49%
Total Funds	\$3,195,973	\$3,337,757	\$3,765,337	\$3,673,552	\$6,533,730	\$7,438,889	\$905,159	13.85%

Program Description

The Centralized Services Division provides managerial and administrative support services to the department through: 1) the Director's Office, which includes the director, legal staff, and public information; and 2) support services, which manages all financial activities, coordinates information systems, produces publications and graphic materials, and performs general administrative support services. Support services include fiscal affairs, data processing, personnel, legal, reception, and mail. Responsibilities include trust revenue collection and distribution and maintenance of ownership records for trust and non-trust state-owned land. The division also coordinates the state's Restoration Program.

Program Highlights

Centralized Services Division	
Major Program Highlights	
<ul style="list-style-type: none"> ◆ The proposed biennial budget is 14 percent higher than the 2009 biennial budget, primarily due to statewide present law adjustments ◆ The executive requests a funding switch of state special revenue RIT funds to general fund ◆ A one-time only proposal for electronic filing is included in the request ◆ The division provided program goals and objectives 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ The request for one-time only funding contains both one-time and on going costs 	

Program Narrative

2009 Biennium Monitored Goals and Objectives

The Legislative Finance Committee selected the following goal to monitor during the 2009 interim

- Establish a statewide restoration coordinator and contract for data system development

Success: The database development contract was awarded Fusion Ware to search for available restoration grant funding and to CDM for restoration mapping. A memorandum of understanding was issued to the Department of Labor and Industry for a study on the economic impacts of a restoration economy.

Challenges: The state restoration coordinator position turned over in the biennium, creating some delays in meeting the objectives to the goal.

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim.

The majority of the goals within the Centralized Services Division are in relation to the service the division provides to the remainder of the department. The exception is the State Restoration Program.

State Restoration Coordination Program Goal:

- Ensure Montana's land and water resources benefit present and future generations
 - Collaborative Approach: Establish a collaborative approach to Montana's restoration activities among government, local, tribal, private and non-profit entities to maximize efficiency in allocation of funds and enhance Montana's natural environment
 - Information Clearinghouse: Serve as clearinghouse for restoration information
 - Training and Education: Coordinate, develop and recommend restoration training and education opportunities for students, professionals, and workforce
 - Communications and Outreach: Provide public information and outreach to share current and consistent restoration information with stakeholders
 - Economic Impacts: Estimate the economic impact of restoration and increase economic development by creating restoration business and job opportunities
 - Policy: Identify and recommend incentives and polices to fund restoration activities

LFD ISSUE

Objectives cannot provide measure of success

This program was established to develop a statewide restoration plan regarding coordination of activities and resources to increase the economy through job development and the speed in which land is reclaimed. If the strategic plan is completed, it should contain the relevant objectives to determine the success of plan implementation.

The objectives provide an insight to the reader of what the goal is to accomplish. However, they are not specific, time oriented, or measurable. These types of objectives cannot aid in determining if progress toward the goal has been made. The objectives should be drafted so that the reader can make a determination about what success would be. Simply saying "coordinate" or "develop" or "increase" doesn't imply that anything will get accomplished during the biennium or ever.

The legislature may wish to review the strategic plan and discuss with the agency how the objectives could be modified so that they may be used by the legislature to determine progress toward achievement of the goal during the 2011 biennium and into the future.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 2,414,779	75.6%	\$ 2,981,912	79.2%	\$ 2,905,039	79.1%
01100 General Fund	2,414,779	75.6%	2,981,912	79.2%	2,905,039	79.1%
02000 Total State Special Funds	681,199	21.3%	593,908	15.8%	596,677	16.2%
02039 Forestry-Fire Protection Taxes	74,500	2.3%	75,000	2.0%	75,000	2.0%
02052 Rangeland Improvement Loans	15,000	0.5%	15,000	0.4%	15,000	0.4%
02073 Forestry - Slash Disposal	5,000	0.2%	5,000	0.1%	5,000	0.1%
02145 Broadwater O & M	9,500	0.3%	9,700	0.3%	9,700	0.3%
02280 Forest Resources-Timber Sales	78,000	2.4%	78,500	2.1%	78,500	2.1%
02340 Coal Sev. Tax Shared Ssr	10,000	0.3%	10,000	0.3%	10,000	0.3%
02430 Water Right Appropriation	65,000	2.0%	65,500	1.7%	65,500	1.8%
02431 Water Adjudication	28,350	0.9%	85,000	2.3%	85,000	2.3%
02432 Oil & Gas Era	63,500	2.0%	69,959	1.9%	69,959	1.9%
02449 Forest Resources-Forest Improv	32,000	1.0%	38,249	1.0%	41,018	1.1%
02450 State Lands Res Dev	26,443	0.8%	52,000	1.4%	52,000	1.4%
02576 Natural Resources Operations Ssr Fu	203,934	6.4%	-	-	-	-
02825 Water Well Contractors	5,000	0.2%	5,000	0.1%	5,000	0.1%
02938 Tlmd - Administration	64,972	2.0%	85,000	2.3%	85,000	2.3%
03000 Total Federal Special Funds	99,995	3.1%	189,517	5.0%	171,836	4.7%
03255 Csd Federal Indirect	99,995	3.1%	189,517	5.0%	171,836	4.7%
Grand Total	\$ 3,195,973	100.0%	\$ 3,765,337	100.0%	\$ 3,673,552	100.0%

The Centralized Services Division is funded primarily with general fund, a variety of resource based accounts such as revenue from timber sales, taxes on oil and gas wells, and federal indirect grant reimbursements. To obtain funding the department charges overhead rates to other divisions to recover costs. The rate varies depending upon the type and amount of managerial, payroll, contract, and accounts payable services provided to the divisions.

The executive is requesting a funding switch of general fund for the natural resources operations fund of \$249,000 each year of the biennium. The purpose of this switch is to avoid over appropriation of the natural resources operations fund. This fund is a Resource Indemnity Trust (RIT) fund and the discussion of this fund is located in the Conservation and Resource Development Division funding discussion. The full discussion of RIT issues is located in the Agency Narrative of the Department of Environmental Quality.

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 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	2,414,779	2,414,779	4,829,558	82.04%	3,195,973	3,195,973	6,391,946	85.93%
Statewide PL Adjustments	302,321	214,011	516,332	8.77%	508,786	395,476	904,262	12.16%
Other PL Adjustments	9,176	20,831	30,007	0.51%	48,942	70,685	119,627	1.61%
New Proposals	255,636	255,418	511,054	8.68%	11,636	11,418	23,054	0.31%
Total Budget	\$2,981,912	\$2,905,039	\$5,886,951		\$3,765,337	\$3,673,552	\$7,438,889	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “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.

	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					388,715					398,149
Vacancy Savings					(112,388)					(112,766)
Inflation/Deflation					4,190					5,378
Fixed Costs					228,269					104,715
Total Statewide Present Law Adjustments					\$508,786					\$395,476
DP 2101 - Centralized Services Operating Adjustment	0.00	9,176	5,249	34,517	48,942	0.00	20,831	8,018	41,836	70,685
Total Other Present Law Adjustments	0.00	\$9,176	\$5,249	\$34,517	\$48,942	0.00	\$20,831	\$8,018	\$41,836	\$70,685
Grand Total All Present Law Adjustments					\$557,728					\$466,161

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate** –
 - Attorneys, accountants, and information technology application pools have been light and competition between other state agencies is high. In FY 2008 the department completed recruitment for attorneys three times. The lack of resources within the agency for legal assistance caused a strain particularly in the water arena
 - The division has hired attorneys, accountants, and information technology positions higher than the entry of 85 percent of the market due to recruitment difficulties
- **Vacancy** –
 - Accounting technicians have the highest turnover rate within the division as it is an entry level accounting position and sometimes tedious work. The division is experimenting with interns from both vo-technical schools and colleges to hopefully apply for vacant positions when their education is complete. The bureau chief is also looking at job position re-structuring. The bureau has had success in creating two half-time positions for accounting tech work
 - Attorney vacancies have created a back-log in legal work, particularly in the area of water law. Comp time was accrued and lower priority issues pushed back. Accounting tech vacancy work has been re-distributed to other staff as the position has monthly deadlines
- **Legislatively applied vacancy savings** - In FY2008 attorney vacancies made up the 4 percent required vacancy savings for the division
- **Pay Changes** –
 - Additional vacancy savings attained was utilized to hire two attorneys at a market higher than the typical entry of 85 percent Pay exceptions were also given to two existing attorney positions for reasons of retention and internal equity
 - Discretionary funds authorized in HB 13 were utilized for these pay adjustments as well as attorney position vacancy savings
- **Retirements** - Ten employees, 25 percent of the staff, will be eligible for full retirement in the 2011 biennium at an estimated cost of \$100,000. Two employees retired in FY 2008 and no known retirements are anticipated in FY 2009

DP 2101 - Centralized Services Operating Adjustment - The executive requests funds are for increased rates for janitorial services, targeted server and computer replacement, and rent at one non-state building.

LFD COMMENT The rent increase for the main headquarters in Helena is estimated to be \$9,269 in FY 2010 and \$14,975 in FY 2011 based on a 3 percent escalator contained in the lease.

New Proposals

Program	FTE	-----Fiscal 2010-----				-----Fiscal 2011-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2102 - Natural Resources Operations Acct - Funding Switch										
21	0.00	249,000	(249,000)	0	0	0.00	249,000	(249,000)	0	0
DP 2151 - Centralized Services Legal Imaging - OTO										
21	0.00	5,000	0	5,000	10,000	0.00	5,000	0	5,000	10,000
DP 6101 - Fixed Cost Workers Comp Management Program Allocate										
21	0.00	1,636	0	0	1,636	0.00	1,418	0	0	1,418
Total	0.00	\$255,636	(\$249,000)	\$5,000	\$11,636	0.00	\$255,418	(\$249,000)	\$5,000	\$11,418

DP 2102 - Natural Resources Operations Acct - Funding Switch - To balance expenditures with available revenue in the natural resources operations account, the executive requests a funding switch of \$249,000 general fund each year of the biennium for the same amount of state special revenue. Funding is used to help pay for the staff and operating expenses of the Centralized Services Division.

LFD COMMENT The natural resources operations fund is unable to sustain base level funding for all programs. See the issue under funding in the Summary Section.

DP 2151 - Centralized Services Legal Imaging - OTO - This one-time-only request is for general and federal special funds of \$10,000 per year to institute and maintain a searchable electronic database of the legal unit’s case files using FileNet. The project is contracted through the Department of Administration-ITSD.

LFD COMMENT Proposal contains on-going costs
 This request is comprised of a one time cost for a capture license for scanning software of \$3,000. The remaining costs are license fees (\$300 per year) and electronic storage costs of \$6,700 in FY 2010 and \$9,700 on FY 2011. The latter two are costs that will be required to support the imaging project beyond the 2011 biennium. The department contends that the on-going costs will be absorbed into base funding for the 2013 biennium.

DP 6101 - Fixed Cost Workers Comp Management Program Allocate - The Workers’ Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	20.50	20.50	20.50	20.50	20.50	20.50	0.00	0.00%
Personal Services	1,004,109	1,323,256	1,333,138	1,348,582	2,327,365	2,681,720	354,355	15.23%
Operating Expenses	676,963	862,022	757,746	758,642	1,538,985	1,516,388	(22,597)	(1.47%)
Equipment & Intangible Assets	47,672	53,345	110,172	110,172	101,017	220,344	119,327	118.13%
Grants	3,000	7,000	3,000	3,000	10,000	6,000	(4,000)	(40.00%)
Total Costs	\$1,731,744	\$2,245,623	\$2,204,056	\$2,220,396	\$3,977,367	\$4,424,452	\$447,085	11.24%
State Special	1,731,744	2,245,623	2,069,114	2,085,454	3,977,367	4,154,568	177,201	4.46%
Federal Special	0	0	134,942	134,942	0	269,884	269,884	n/a
Total Funds	\$1,731,744	\$2,245,623	\$2,204,056	\$2,220,396	\$3,977,367	\$4,424,452	\$447,085	11.24%

Program Description

The Oil and Gas Conservation Division administers the Montana oil and gas conservation laws to promote conservation and prevent waste in the recovery of these resources through regulation of exploration and production of oil and gas. The division 1) issues drilling permits; 2) classifies wells; 3) establishes well spacing units and pooling orders; 4) inspects drilling, production, and seismic operations; 5) investigates complaints; 6) performs engineering studies; 7) determines incremental production for enhanced recovery and horizontal wells to implement the tax incentive program for those projects; 8) operates the underground injection control program; 9) plugs orphan wells; and 10) collects and maintains complete well data and production information.

Program Highlights

Oil and Gas Conservation Division Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The proposed biennial budget is 11 percent higher than the 2009 biennial budget, primarily due to statewide present law adjustments ◆ The budget contains \$107,500 in one-time-only funding to address: <ul style="list-style-type: none"> • Storage needs (\$100,000) • Board travel (\$7,500) ◆ Federal revenue authority is requested for the Underground Injection Control Program 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ The exempt staff potential pay increase could be funded with vacancy savings ◆ Two long term vacant positions should be reviewed for necessity 	

Program Narrative

2009 Biennium Monitored Goals and Objectives

The Legislative Finance Committee selected the following goal to monitor during the 2009 interim

- Operate a field inspection program to ensure compliance with BOGC rules, resolve complaints and gather accurate field information for use by the board and staff in making decisions
 - Conduct inspections on approximately 700 drilling wells, 10,000 producing oil and gas wells, 300 plugged and abandoned wells, and 10 seismic exploration crews

- Resolve complaints timely with thorough investigations and appropriate Board review

Successes: In FY 2008, the number of plugged and abandoned wells inspected was greater than anticipated. Only one complaint was raised to the full board and it was subsequently resolved.

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim.

- Operate a field inspection program to ensure compliance with the Board of Oil and Gas Conservation (BOGC) rules, resolve complaints, and gather accurate field information for use by the board and staff in making decisions.
 - Conduct inspections on approximately 700 drilling wells, 2,100 producing wells, 300 plugged and abandoned wells, and 10 seismic exploration crews
 - Respond to complaints and provide emergency response for spills, leaks, and other environmental problems
 - Provide recommendations for enforcement actions and reports and data in support of the regulatory program.

LFD ISSUE	<p>Timing of Objectives</p> <p>The objectives to the goal clearly define what the field inspection program will be doing, but will not aid in measuring success toward the goal. Inspections, complaint resolution, and emergency response all require a time criteria to determine if the division is successful in assuring compliance with board rules. For example, what is the impact on the success of the program if the emergency response time is not adequate and environmental damage occurs? These objectives do not address that possibility. The legislature may wish to discuss with the agency what time frames correspond with each activity and if historical data is available.</p>
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- Issue approximately 700 to 800 drilling permits per year, conduct Montana Environmental Policy Act (MEPA) compliance review, and prepare documentation for each requested permit

LFD ISSUE	<p>No Objectives</p> <p>This goal was submitted without objectives. The reader would assume that the division will merely count the number of permits issued without regard to the timeliness or adequacy of the permits. The legislature may wish to discuss with the agency how success in the permit program could be measured.</p>
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Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
02000 Total State Special Funds	\$ 1,731,744	100.0%	\$ 2,069,114	93.9%	\$ 2,085,454	93.9%
02432 Oil & Gas Era	1,731,744	100.0%	2,069,114	93.9%	2,085,454	93.9%
03000 Total Federal Special Funds	-	-	134,942	6.1%	134,942	6.1%
03356 Oil & Gas Federal	-	-	<u>134,942</u>	<u>6.1%</u>	<u>134,942</u>	<u>6.1%</u>
Grand Total	<u>\$1,731,744.00</u>	100.0%	<u>\$2,204,056.00</u>	100.0%	<u>\$2,220,396.00</u>	100.0%

The division is funded through taxes levied on oil and gas wells and the class II annual operating fee. By statute (15-36-

331, MCA), a percentage of oil production taxes and natural gas taxes are deposited to the account for the board's use. The Board of Oil and Gas Conservation (BOGC) is authorized by statute (82-11-131, MCA) to set privilege and license taxes up to 3/10 of 1 percent of the market value of each barrel of crude petroleum produced and of each 10,000 cubic feet of natural gas produced to comply with 15-36-331 MCA. The privilege and license tax is currently set at 30 percent of the maximum allowed by statute. Section 82-11-137, MCA provides for a maximum \$300 annual operating fee for each class II injection well. The board set the fee at \$200.

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 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	1,731,744	1,731,744	3,463,488	78.28%
Statewide PL Adjustments	0	0	0	0.00%	260,766	264,052	524,818	11.86%
Other PL Adjustments	0	0	0	0.00%	68,246	81,414	149,660	3.38%
New Proposals	0	0	0	0.00%	143,300	143,186	286,486	6.48%
Total Budget	\$0	\$0	\$0		\$2,204,056	\$2,220,396	\$4,424,452	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "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 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					296,216					298,590
Vacancy Savings					(52,013)					(52,111)
Inflation/Deflation					7,551					8,760
Fixed Costs					9,012					8,813
Total Statewide Present Law Adjustments					\$260,766					\$264,052
DP 2201 - Oil & Gas Operating Adjustment	0.00	0	18,246	0	18,246	0.00	0	31,414	0	31,414
DP 2202 - Board of Oil & Gas Office Equipment-BIEN-OTO	0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
Total Other Present Law Adjustments	0.00	\$0	\$68,246	\$0	\$68,246	0.00	\$0	\$81,414	\$0	\$81,414
Grand Total All Present Law Adjustments					\$329,012					\$345,466

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate** - Due to the large number of emergency hires within the department to address wildland fire season, there has been difficulty in calculating the market rate for 2008. The department is working with the LFD to remedy the situation and will provide that data to the committee
- **Vacancy** - The program has had little turnover. One retirement in FY 2007 allowed for the re-structuring of work and reassignment to other employees
- **Legislatively applied vacancy savings** –
 - Two long-term vacant positions allowed the division to meet vacancy savings requirements. The division under spent the FY 2008 personal services budget by 16 percent

- Additional vacancy savings attained was utilized for a market adjustment for one employee and the remaining was reverted
- **Pay Changes** –
 - One technician was given a market adjustment in June 2008.
 - Discretionary funds authorized in HB 13 were utilized for "Paragon of Performance" described in agency policy for several employees within the program. Awards were based on exceptional performance
- **Retirements** -
 - Four employees, 25 percent of the division, will be eligible for full retirement in the 2011 biennium at an estimated cost of \$80,000
 - The division may have one retirement before the end of FY 2011 and will begin the recruitment well in advance of any departure. The successful candidate will be placed into the vacating position and have time with the retiree to exchange information and fully understand the position.

**LFD
ISSUE**

Long Term Vacancies

The division has two positions that have been vacant longer than 12 months. The legislature may wish to discuss with the program the need for these two positions. If the legislature chooses to eliminate funding for the positions a present law decision package would need to be developed.

**LFD
COMMENT**

There are four positions that are considered staff of the Board of Oil and Gas Conservation. These positions are considered exempt and at the control of the board. Pay adjustments are made by the board and may be greater than increases provided by the legislature.

DP 2201 - Oil & Gas Operating Adjustment - The executive recommends additional state special revenue of \$18,246 in FY 2010 and \$31,414 in FY 2011 for board per diem, exempt staff pay, janitorial, and rent increases for non-state buildings within the Regulatory and Underground Injection Control Programs.

**LFD
ISSUE**

Exempt Staff Pay

The executive is requesting \$13,168 in FY 2010 and \$26,336 in FY 2011 of state special revenue over the biennium to fund exempt staff pay increases. The authority would cover pay increases that may be granted by the Board of Oil and Gas for the four exempt positions in the division. Exempt staff pay raises beyond what is provided for in HB 13 must be funded in some other manner. The division could also utilize vacancy savings for this purpose. To cover this cost, the division would need to achieve an additional vacancy savings of 1 percent in FY 2010 and 2 percent in FY 2011.

Options

- Disapprove the decision package and direct the division to cover exempt staff pay raises from vacancy savings
- Approve the package as is

DP 2202 - Board of Oil & Gas Office Equipment-BIEN-OTO - The executive request one-time-only budget authority of \$100,000 state special revenue funds in order to procure four new office cubicles estimated at \$10,000 each and a high density compact mobile storage system for well files estimated at \$60,000 for the new building in Billings approved by the 60th Legislature.

**LFD
COMMENT**

These costs were not included in the original cost estimates developed by the Department of Administration.

New Proposals

Program	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2204 - North American Prospect Exhibition-OTO										
22	0.00	0	7,500	0	7,500	0.00	0	7,500	0	7,500
DP 2206 - Underground Injection Control (UIC) Funding Change										
22	0.00	0	0	134,942	134,942	0.00	0	0	134,942	134,942
DP 6101 - Fixed Cost Workers Comp Management Program Allocate										
22	0.00	0	858	0	858	0.00	0	744	0	744
Total	0.00	\$0	\$8,358	\$134,942	\$143,300	0.00	\$0	\$8,244	\$134,942	\$143,186

DP 2204 - North American Prospect Exhibition-OTO - The executive is requesting one-time-only state special revenue authority of \$7,500 per year for staff and board members to attend and sponsor a booth at the annual North American Prospect Exhibition in Houston. Funding will provide travel, supplies, and booth rental and registration fees.

DP 2206 - Underground Injection Control (UIC) Funding Change - The executive is requesting federal special revenue of \$134,942 in FY 2010 and \$134,942 in FY 2011 for the UIC program. The department historically has had language in HB 2 that allowed it to shift authority from state special revenue to federal funding when the grant amount was known for this program. That language was stricken last session and authority is requested for the annual Environmental Protection Agency (EPA) grant.

LFD ISSUE	This would establish federal revenue authority in the division’s base budget to allow for expenditure of the annual EPA grant. The department utilized a budget amendment to establish \$104,900 of federal special revenue authority for FY 2008. The request represents a 28 percent increase over the base year. The average grant award since FY 2004 has been \$103,925. The legislature may wish to reduce the authority to align with historical funds.
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DP 6101 - Fixed Cost Workers Comp Management Program Allocate - The Workers’ Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	24.50	24.50	24.50	24.50	24.50	24.50	0.00	0.00%
Personal Services	1,501,343	1,571,834	1,592,284	1,599,387	3,073,177	3,191,671	118,494	3.86%
Operating Expenses	1,820,039	1,878,135	2,116,481	2,144,509	3,698,174	4,260,990	562,816	15.22%
Equipment & Intangible Assets	45,141	54,996	45,141	45,141	100,137	90,282	(9,855)	(9.84%)
Local Assistance	0	200,000	200,000	200,000	200,000	400,000	200,000	100.00%
Grants	1,222,851	1,240,806	1,422,851	1,422,851	2,463,657	2,845,702	382,045	15.51%
Transfers	0	0	0	0	0	0	0	n/a
Debt Service	0	0	0	0	0	0	0	n/a
Total Costs	\$4,589,374	\$4,945,771	\$5,376,757	\$5,411,888	\$9,535,145	\$10,788,645	\$1,253,500	13.15%
General Fund	1,367,141	1,395,252	1,519,369	1,532,564	2,762,393	3,051,933	289,540	10.48%
State Special	2,956,284	3,276,911	3,561,439	3,583,375	6,233,195	7,144,814	911,619	14.63%
Federal Special	265,949	273,608	295,949	295,949	539,557	591,898	52,341	9.70%
Total Funds	\$4,589,374	\$4,945,771	\$5,376,757	\$5,411,888	\$9,535,145	\$10,788,645	\$1,253,500	13.15%

Program Description

The Conservation and Resource Development Division provides technical, administrative, financial and legal assistance to Montana's 58 conservation districts by administering the Conservation District Act, Montana Rangeland Resources Act, and the Natural Streambed and Land Preservation Act. The division also manages several loan and grant programs for local communities, local governments, state agencies, and private citizens. The programs include the state revolving fund, which at the end of FY 2008 included \$358 million loaned to communities for water and waste water systems, coal severance tax loans to governmental entities totaling \$36.3 million, and private loans for \$18.1 million. Grant programs administered by the division include the Reclamation Development, Renewable Resource, and Conservation District grant programs.

Program Highlights

Conservation and Resource Development Division	
Major Program Highlights	
<ul style="list-style-type: none"> ◆ The proposed biennial budget is 13 percent higher than the 2009 biennial budget, primarily due to statewide present law adjustments ◆ The executive requests a funding switch of state special revenue RIT funds for coal tax shared revenue funds ◆ One-time only general fund is being requested for the Montana rural water systems and conservation district grants ◆ Three language appropriations are requested to handle potential needs in the Coal Bed Methane Protection Program, the Safe Drinking Water Program, and the Renewable Resources Program 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ The objectives provided do not allow for further review of progress toward the stated goal ◆ An update on the regional water system program may be needed to properly align resources to the program goals and objectives 	

Program Narrative

2009 Biennium Monitored Goals and Objectives

The Legislative Finance Committee selected the following goal to monitor during the 2009 interim

- Provide watershed (health) assistance to Conservation Districts and Watershed groups
 - Assist with the development, technical and financial assistance of watershed activities to address natural resource issues on a watershed basis.
 - Administer 15-20 watershed planning and assistance grants
 - Coordinate and participate in six watershed education events
 - Conduct three stream assessments or stream inventories
 - Conduct training workshops
- Assist the Yellowstone River Conservation District Council and the Missouri River Conservation District Council carry out plans to improve and protect Montana's largest rivers
 - Secure federal assistance as needed to meet work plan goals
 - Identify four river improvement projects seek funding and implement them
 - Assist in administration efforts such as contracting, financing and project implementation to implement projects
 - Attend technical advisory meetings and other meetings as needed to work on the projects

Results: These goals and objectives were last reviewed in October of 2007. At that time the division was able to provide a generic update regarding the progress toward the goals. The legislature may wish to request a report on the progress made in FY 2008.

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim.

- Provide assistance to Conservation Districts for operation, education, and effective management of local resources
 - Provide financial, administrative and educational assistance to conservation districts
 - Provide coordination assistance to conservation districts on rangeland and watershed activities
- Conserve, manage, preserve, and reclaim natural resource through public and private partners
 - Provide administrative, financial, and technical assistance to Renewable Resources
 - Provide assistance to indemnify the people of the state from the effects of mineral development

LFD ISSUE

Progress cannot be evaluated

The objectives to the goal provide the reader with an idea of what tasks are going to be completed, but do not provide any measurement or time criteria for evaluation of progress toward the goal. The division has ample data to demonstrate progress toward the goal and how the state is better off because of the objectives achieved. Such data could include the types of assistance provided to conservation districts, the value and number of grants and loans submitted for consideration, the acres of land improved due to funding, and the like. The legislature may wish to have a discussion with the division to select more appropriate objectives that will align with resource allocations for the 2011 biennium.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table							
Conservation/Resource Dev Div							
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011	
01000 Total General Fund	\$ 1,367,141	29.8%	\$ 1,519,369	28.3%	\$ 1,532,564	28.3%	
01100 General Fund	1,367,141	29.8%	1,519,369	28.3%	1,532,564	28.3%	
02000 Total State Special Funds	2,956,284	64.4%	3,561,439	66.2%	3,583,375	66.2%	
02015 Tsep Regional Water System	648,293	14.1%	712,293	13.2%	712,293	13.2%	
02052 Rangeland Improvement Loans	8,108	0.2%	9,108	0.2%	9,108	0.2%	
02152 Wtr Pol. Ctrl Revolv Loan Acct	-	-	-	-	-	-	
02223 Wastewater Srf Special Admin	-	-	-	-	-	-	
02255 Srf Principal Sub Account	-	-	-	-	-	-	
02270 Treasure State Endowment	28,000	0.6%	28,000	0.5%	28,000	0.5%	
02316 Go94B/Ban 93D Admin	19,707	0.4%	22,873	0.4%	22,741	0.4%	
02340 Coal Sev. Tax Shared Ssr	856,781	18.7%	1,750,936	32.6%	1,800,409	33.3%	
02433 Grazing District Fees	15,333	0.3%	24,333	0.5%	24,333	0.4%	
02447 Drinking Water 2005F Proceeds	-	-	-	-	-	-	
02463 Wstwr Go 2005G Proceeds	-	-	-	-	-	-	
02488 Drinking Water Loan Account	-	-	-	-	-	-	
02489 Drinking Water Principal Acct	-	-	-	-	-	-	
02490 Drinking Water Investment	-	-	200,000	3.7%	200,000	3.7%	
02532 Ww Ran Proceeds	-	-	-	-	-	-	
02533 Dw Ran Proceeds	-	-	-	-	-	-	
02576 Natural Resources Operations Ssr Fu	1,328,062	28.9%	713,896	13.3%	686,491	12.7%	
02619 Ww Ban Proceeds	-	-	-	-	-	-	
02620 Dw Ban Proceeds	-	-	-	-	-	-	
02694 Coal Bed Methane Protection	52,000	1.1%	100,000	1.9%	100,000	1.8%	
02911 Cst 04B Proceeds-Nontax	-	-	-	-	-	-	
02971 Srf Go Bond 2000F Tax Nps/Rcb	-	-	-	-	-	-	
02991 Cst 2003A Nontax Proceeds	-	-	-	-	-	-	
02996 Go 2003C Taxable Private Ref	-	-	-	-	-	-	
03000 Total Federal Special Funds	265,949	5.8%	295,949	5.5%	295,949	5.5%	
03014 Dw Srf Ffy05 Grant	-	-	-	-	-	-	
03178 Res Dev & Cons - Fed	35,652	0.8%	35,652	0.7%	35,652	0.7%	
03245 Wastewater Treatment Grant	105,295	2.3%	120,295	2.2%	120,295	2.2%	
03442 Fy09 Exchange Network Grant	-	-	-	-	-	-	
03457 Wpc Srf Fy03 Grant	-	-	-	-	-	-	
03812 Epa 106 Water Grant	125,002	2.7%	140,002	2.6%	140,002	2.6%	
Grand Total	\$ 4,589,374	100.0%	\$ 5,376,757	100.0%	\$ 5,411,888	100.0%	

This program is primarily funded with general fund, resource indemnity trust (RIT) accounts, and coal severance taxes. The executive is seeking to decrease RIT funding and increase coal severance taxes in this division.

RIT funding is used to administer the Reclamation and Development Grants Program (RDGP) and the Renewable Resources Grant and Loan Program (RRGLP). The RDGP is a state-funded grant program that assists any department, agency, and division of state government, tribal government, board, or commission to indemnify the people of the state for the effects of mineral development on public resources. The RRGLP funds a variety of natural resource projects including groundwater studies, irrigation projects, water and soil conservation, and public wastewater projects, primarily through grants administered by the department. Coal severance tax is used to provide grants to conservation districts for natural resource related projects such as streambed stabilization, soil conservation, educational activities, and demonstrations of new technologies.

The Natural Resource Development Bureau utilizes one-third of the division general fund to administer grant and loan programs, provide assistance to conservation districts for the administration of water reservations, and assist landowners to develop new irrigation. The Conservation District Bureau utilizes just two-thirds of the available general fund to assist Montana conservation and grazing districts. The remaining program funding includes miscellaneous state special revenue, federal drinking water and water pollution control funds, and miscellaneous federal sources used to supplement division activities.

LFD
ISSUE

Natural Resources Operations Funding

The executive request contains a funding switch of \$686,383 in FY 2010 and \$734,415 in FY 2011 of natural resources operations funding for coal tax shared severance funds. The legislature may want to delay action on this budget until the RIT has been examined in its entirety. See the agency Summary under Funding for additional information regarding the natural resources operations fund.

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 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	1,367,141	1,367,141	2,734,282	89.59%	4,589,374	4,589,374	9,178,748	85.08%
Statewide PL Adjustments	41,410	47,530	88,940	2.91%	102,905	110,466	213,371	1.98%
Other PL Adjustments	8,340	15,545	23,885	0.78%	582,000	609,700	1,191,700	11.05%
New Proposals	102,478	102,348	204,826	6.71%	102,478	102,348	204,826	1.90%
Total Budget	\$1,519,369	\$1,532,564	\$3,051,933		\$5,376,757	\$5,411,888	\$10,788,645	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “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 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					157,284					164,686
Vacancy Savings					(66,343)					(66,642)
Inflation/Deflation					5,663					6,453
Fixed Costs					6,301					5,969
Total Statewide Present Law Adjustments					\$102,905					\$110,466
DP 2301 - CARDD Operating Adjustment	0.00	8,340	22,660	30,000	61,000	0.00	15,545	43,155	30,000	88,700
DP 2302 - Montana Grass Conservation Commission (MGCC)	0.00	0	9,000	0	9,000	0.00	0	9,000	0	9,000
DP 2303 - Coal Bed Methane CD Administration	0.00	0	48,000	0	48,000	0.00	0	48,000	0	48,000
DP 2304 - Drinking Water Loan Assistance	0.00	0	200,000	0	200,000	0.00	0	200,000	0	200,000
DP 2305 - Regional Water Systems	0.00	0	64,000	0	64,000	0.00	0	64,000	0	64,000
DP 2307 - Conservation District Grants - OTO	0.00	0	200,000	0	200,000	0.00	0	200,000	0	200,000
Total Other Present Law Adjustments	0.00	\$8,340	\$543,660	\$30,000	\$582,000	0.00	\$15,545	\$564,155	\$30,000	\$609,700
Grand Total All Present Law Adjustments					\$684,905					\$720,166

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate** - Due to the large number of emergency hires within the department to address wildland fire season, there has been difficulty in calculating the market rate for 2008. The department is working with the LFD to remedy the situation and will provide that data to the committee
- **Vacancy** - The program has had little turnover. One administrative support position became vacant in FY 2008, but the program had no recruitment problems
- **Legislatively applied vacancy savings** - Discretionary funding within HB 13, and one open position made up the 4 percent required vacancy savings
- **Pay Changes** - One market adjustment was made with discretionary funds authorized in HB 13
- **Retirements** - Eleven employees, or 45 percent of the staff, will be eligible for full retirement in the 2011 biennium at an estimated cost of \$150,000
 - No employees retired in FY 2008, there is one possible retirement anticipated in FY2009, and potentially two retirements will occur during the 2011 biennium
 - Due to high retirement potential the division has started to cross train staff between the two major programs

DP 2301 - CARDD Operating Adjustment - The executive requests \$61,000 in FY 2010 and \$88,700 in FY 2011 of general, state special, federal special funds to restore the base budget due to increased rent, travel and supply costs, cleaning service fees, and increased contract workload in the loan and grant programs.

DP 2302 - Montana Grass Conservation Commission (MGCC) - This request is for \$9,000 of state special revenue each year of the biennium for executive director services, travel, supplies and materials, and other operating expenses of MGCC. The funding would come from grazing fees that are collected each year from grazing district members.

DP 2303 - Coal Bed Methane CD Administration - The executive is requesting \$48,000 per year state special revenue from the coal bed methane protection account. This funding would assist conservation districts with procedural development for evaluating claims under the coal bed methane protection program by July 1, 2011 and any claims for water losses.

LFD ISSUE	<p>Progress Report</p> <p>The division expended \$52,000 of coal bed methane protection funding in FY 2008 to establish procedures for claims analysis as required in 76-15-905, MCA. There are currently eight districts that have water procedures in place, and are addressing any claims that may come in. This adjustment would re-establish the base at \$100,000 and provide funding to develop new procedures to address coal bed methane damages for non-emergent. This could range from loss of production to a claim that a person's property value has decreased from coal bed methane development. The funding would be used for staff time, travel, attorney fees, contractors etc. The legislature may wish to inquire as to when these procedures will be completed and distributed.</p>
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DP 2304 - Drinking Water Loan Assistance - The executive recommends \$200,000 of state special revenue each year of the 2011 biennium to match federal authority for hardship communities in the Safe Drinking Water program. This would allow the state to provide assistance to disadvantaged communities who borrow from the program. The funding is from the interest derived from the investments of the revolving fund.

LFD COMMENT	<p>This would restore the budget to the base level of \$200,000. The program did not provide any assistance to communities in FY 2008.</p>
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DP 2305 - Regional Water Systems - This budget request is for \$64,000 per year of state special revenue funds to increase base expenditures for the continued development of Dry Prairie, Dry Red Water, Central Montana, and North Central Regional Water Systems. This would provide resources to maintain local support, work toward securing federal assistance, and negotiate needed agreements.

LFD ISSUE Program Goals & Objectives

Regional water systems are proposed to build infrastructure to bring clean drinking water and livestock water to rural Montana. There are four systems under development and each is at a different phase of the process. The Dry Prairie and North Central systems have completed engineering, received some federal appropriations, and started early work. Even with this activity completion is not expected on either system for at least another decade. The Central and Red Water systems are newer and are in the engineering phase. The department provides technical support and serves as a liaison to the federal partners for these projects.

The program is funded with coal tax bond proceeds set aside in statute for this purpose. The legislature has provided for increases to the regional water system program for the last two biennia. This request would raise the budget an additional 10 percent and does not delineate which system will receive funding. The division did not provide any goals and objectives in relation to this program that may aid in making appropriation decisions. The legislature may wish to have a discussion regarding the purpose of this funding, where the funding will go, and how the program measures its success prior to appropriating additional resources.

DP 2307 - Conservation District Grants - OTO - The executive requests one-time-only state special revenue authority of \$200,000 each year of the biennium. The funding is from the coal severance tax shared account which is statutorily designated for libraries, conservation districts, and Growth Through Agriculture. Funds would be used for grants to local conservation districts.

LFD COMMENT The coal tax shared revenue fund is statutorily designated for libraries, conservation districts, and the Growth Through Agriculture program. The Growth Through Agriculture program funds grants and operations of the Agriculture Development Council which is administratively attached to the Department of Agriculture. The figure below summarizes the condition of the fund.

Department of Natural Resources and Conservation				
Coal Tax Shared State Special Revenue				
	FY 2008	FY 2009	FY 2010	FY 20121
Beginning Balance	\$251,805	\$942,933	\$1,708,969	\$1,701,284
<u>Expenditures</u>				
Montana State Library - base	550,007	550,007	550,007	550,007
Montana State Library - OTO	0	0	200,000	200,000
Natural Resources & Conservation - base	866,781	866,779	1,560,936	1,610,409
Natural Resources & Conservation OTO	0	0	200,000	200,000
Agriculture - base	371,742	614,368	538,476	509,494
Agriculture - OTO	0	0	300,000	300,000
Total Expenditures	1,788,530	2,031,154	3,349,419	3,369,910
Revenues	2,479,658	2,797,190	2,641,734	2,660,793
Ending Fund Balance	\$942,933	\$1,708,969	\$1,701,284	\$1,692,167

The executive has included \$1.4 million of one-time-only requests from this fund. These requests are for grants to local libraries, conservation districts, and programs within the university system as well as a software purchase. These one-time-only requests would significantly reduce the fund balance in the account. The fund remains structurally balanced as the ongoing expenditures do not exceed the projected revenues

LFD ISSUE Purpose of the Grants
 Statute allows the use of the coal severance tax shared fund for conservation districts. The department is proposing to utilize the one-time only authority for projects directed toward improving water quality and land restoration. This type of activity may not be completed in one biennium. The legislature may wish to discuss with the program how the agency will assure that grants are provided for one-time costs only.

New Proposals

New Proposals											
Program	FTE	Fiscal 2010				Fiscal 2011					
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 2306 - Montana Rural Water Systems (Bien/OTO)	23	0.00	101,500	0	0	101,500	0.00	101,500	0	0	101,500
DP 2308 - State Special Revenue Funding Switch	23	0.00	0	0	0	0	0.00	0	0	0	0
DP 6101 - Fixed Cost Workers Comp Management Program Allocat	23	0.00	978	0	0	978	0.00	848	0	0	848
Total	0.00	\$102,478	\$0	\$0	\$102,478	0.00	\$102,348	\$0	\$0	\$102,348	

DP 2306 - Montana Rural Water Systems (Bien/OTO) - The executive requests \$203,000 one-time-only general fund for the support of Montana Rural Water Systems (MRWS). MRWS provides assistance to small regional water systems to meet requirements of the safe drinking water act and the state non-degradation rule. This appropriation would be offset by federal funds if they became available. (See language appropriation section)

LFD ISSUE Adequate technical assistance to water systems
 The Department of Environmental Quality (DEQ) has oversight responsibility of the development and operation of public water supplies. The quality of this oversight was recently questioned by the Environmental Protection Agency who partners with the department to assure adequate implementation of the Safe Drinking Water Act (SDWA). The executive biennial request includes \$2.0 million general fund to increase staffing at DEQ to improve the compliance with the SDWA. (See Department of Environmental Quality, Permitting and Compliance Division narrative for further information.)

The executive is requesting this appropriation authority to provide technical assistance to smaller water systems to assure compliance with the SDWA. If DEQ is tasked with improving compliance, the amount of technical assistance to smaller systems may increase. The legislature may wish to discuss with the program the level of assistance that is needed to assure that smaller systems meet the requirements of the SDWA.

Comment: A similar appropriation was provided in HB 2 by the 2007 Legislature. Unlike this request, that appropriation was also restricted for the specific use. Since there is a potential offset of the appropriation with federal funding, the legislature may wish to restrict this appropriation also. The division expended \$193,000 for this purpose in FY 2008.

DP 2308 - State Special Revenue Funding Switch - This request includes a funding switch of \$686,383 in FY 2010 and \$734,415 in FY 2011 from the natural resources operations fund to the coal severance tax shared fund. The request is required in order to balance available resources within the operations fund.

LFD COMMENT The natural resources operation account is a Resource Indemnity Trust (RIT) funded account. Please see the RIT discussion in the agency narrative. The table outlining the coal tax shared revenue fund follows DP 2307 in the present law section.

DP 6101 - Fixed Cost Workers Comp Management Program Allocate - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Language and Statutory Authority

"The department is appropriated up to \$600,000 for the 2011 biennium from the state special revenue account established in 85-1-604, MCA, for the purchase of prior liens on property held as loan security as required by 85-1-618, MCA."

"The department is authorized to decrease federal special revenue in the Pollution Control and/or Drinking Water Revolving Fund Loan programs and increase state special revenue by a like amount within the special administration account when the amount of federal EPA CAP funds has been expended or federal funds and bond proceeds will be used for other program purposes."

LFD ISSUE	<p>"For other program purposes"</p> <p>The phrase 'for other program purposes' may allow the agency greater discretion to use the funds than the legislature would like to allow. The legislature may wish to consider replacing that phrase with; 'used for other purpose as authorized in law providing for the distribution of funds'.</p>
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"There is appropriated up to \$1 million of state special revenue for the 2011 biennium from the coal bed methane account to fund potential landowner or water right holder claims for emergency loss of water related to coal bed methane development."

"If Montana Rural Water Systems receives federal funding during the 2011 biennium, Montana Rural Water Systems (BIEN/OTO) is reduced by a like amount."

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	157.00	157.00	162.00	162.00	157.00	162.00	5.00	3.18%
Personal Services	8,634,298	9,370,069	9,814,106	9,850,386	18,004,367	19,664,492	1,660,125	9.22%
Operating Expenses	2,915,678	3,174,036	3,392,338	3,452,132	6,089,714	6,844,470	754,756	12.39%
Equipment & Intangible Assets	103,602	672	103,602	111,902	104,274	215,504	111,230	106.67%
Capital Outlay	3,000	3,000	3,000	3,000	6,000	6,000	0	0.00%
Transfers	0	0	0	0	0	0	0	n/a
Debt Service	378,960	469,744	469,744	469,744	848,704	939,488	90,784	10.70%
Total Costs	\$12,035,538	\$13,017,521	\$13,782,790	\$13,887,164	\$25,053,059	\$27,669,954	\$2,616,895	10.45%
General Fund	7,518,992	8,127,033	8,666,408	8,724,553	15,646,025	17,390,961	1,744,936	11.15%
State Special	4,378,928	4,686,967	4,946,470	4,992,675	9,065,895	9,939,145	873,250	9.63%
Federal Special	137,618	203,521	169,912	169,936	341,139	339,848	(1,291)	(0.38%)
Total Funds	\$12,035,538	\$13,017,521	\$13,782,790	\$13,887,164	\$25,053,059	\$27,669,954	\$2,616,895	10.45%

Program Description

The Water Resources Division is responsible for many programs associated with the uses, development, and protection of Montana's water. The division manages and maintains the state-owned dams, reservoirs, and canals; develops and recommends in-state, interstate, and international water policy to the director, Governor, and legislature; administers the Dam Safety, Floodplain Management, and Water Management programs; provides support to the Board of Water Well Contractors; assists the Water Court with the adjudication of pre-July 1, 1973 water rights; administers applications for new water rights, changes in historic water rights and ownership updates; and is responsible for maintaining centralized water rights records. The division consists of an administration unit and five bureaus: Water Management Bureau, Water Rights Bureau, Water Adjudication Bureau, State Water Projects Bureau, and the Water Operations Bureau. In addition, the Flathead Basin Commission is administratively attached to the department.

Program Highlights

Water Resources Division Major Program Highlights
<ul style="list-style-type: none"> ◆ The proposed biennial budget is 10 percent higher than the 2009 biennial budget primarily due to statewide present law adjustments, and annualization of the compact implementation bureau ◆ One-time only requests for water projects rehabilitation totals \$614,000 ◆ Language appropriations are requested to address potential emergency needs of state water projects
Major LFD Issues
<ul style="list-style-type: none"> ◆ The water adjudication fund may be over appropriated ◆ The submitted objectives for water adjudication may not conform with statute or the constitution ◆ Funding for state dam rehabilitation belongs in HB 5, the long range building program

Program Narrative

2009 Biennium Monitored Goals and Objectives

The Legislative Finance Committee selected the following goal to monitor during the 2009 interim.

- Protect Montana's water from external threats through international and multi-state compacts
-

Successes:

- The MT/Alberta memo of understanding was signed Oct 29, 2007 and implementation of the MOU is beginning

Challenges:

- Greater equity in the apportionment of the St. Mary / Milk River System allocated under the 1909 Boundary Waters Treaty and the 1921 Order of the International Joint Commission
- Protection of the water quality in North Fork of the Flathead River
- Allocation of Hungry Horse water to assure a future water supply for Western Montana communities and residents

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim.

- Promote and coordinate the wise use and conservation of Montana's water resources for current and future generations
 - Water Rights: Improve the efficiency and accuracy of water right processing and accelerate the statewide adjudication
 - State Projects: Manage dams to maximize economic and water use benefits while maintaining to protect public health and safety
 - Water Management: Provide the information needed to make informed water resource allocation and management decisions
 - Water Operations: Develop efficient and effective methods and procedures to communicate with program clients

LFD ISSUE Given the provided objectives, it is not possible to determine if progress toward the goal is being achieved or if any of the programs are achieving success. In fact, the inability to determine success leaves the reader wondering if the program can meet the constitutional requirements of administration, control, and regulation of water rights. Furthermore, the executive is seeking a \$27.7 million biennial appropriation to manage all water issues of this state based on these objectives.

In addition, water adjudication requirements are detailed in statute (81-2-271, MCA), and the division had previously demonstrated its ability to develop appropriate objectives based on those that were provided to the legislature for the 2009 biennium. The legislature may wish to discuss with the division how the presented goals and objectives provide the framework for determining success in achieving constitutional and statutory requirements.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table							
Water Resources Division							
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011	
01000 Total General Fund	\$ 7,518,992	62.5%	\$ 8,666,408	62.9%	\$ 8,724,553	62.8%	
01100 General Fund	7,518,992	62.5%	8,666,408	62.9%	8,724,553	62.8%	
02000 Total State Special Funds	4,378,928	36.4%	4,946,470	35.9%	4,992,675	36.0%	
02145 Broadwater O & M	515,926	4.3%	527,980	3.8%	527,512	3.8%	
02146 Broadwater Irrigation	-	-	-	-	-	-	
02147 Broadwater R & R	-	-	40,000	0.3%	40,000	0.3%	
02177 Cst 90 A Fisheries Mitigation	-	-	-	-	-	-	
02216 Water Storage St Sp Rev Acct	-	-	267,500	1.9%	267,500	1.9%	
02351 Water Project Lands Lease Acct	9,203	0.1%	10,843	0.1%	10,863	0.1%	
02404 Water Project Loans	217,422	1.8%	308,206	2.2%	308,206	2.2%	
02430 Water Right Appropriation	977,798	8.1%	864,674	6.3%	895,006	6.4%	
02431 Water Adjudication	2,240,386	18.6%	2,451,438	17.8%	2,467,534	17.8%	
02470 State Project Hydro Earnings	161,538	1.3%	161,538	1.2%	161,538	1.2%	
02576 Natural Resources Operations Ssr Fu	210,376	1.7%	228,221	1.7%	228,423	1.6%	
02825 Water Well Contractors	46,279	0.4%	86,070	0.6%	86,093	0.6%	
03000 Total Federal Special Funds	137,618	1.1%	169,912	1.2%	169,936	1.2%	
03034 Yellowstone Groundwater Nps	29,474	0.2%	30,000	0.2%	30,000	0.2%	
03094 Fema Federal Grants	108,144	0.9%	139,912	1.0%	139,936	1.0%	
Grand Total	\$ 12,035,538	100.0%	\$ 13,782,790	100.0%	\$ 13,887,164	100.0%	

The Water Resources Division is predominantly funded with general fund and state special revenue, with a minor amount of federal revenue. Sources and purposes of state special revenue include:

- Water storage account funded by direct allocation of RIT interest and revenue from water purchase contracts for the purpose of construction, operation, maintenance, and rehabilitation of state water storage projects
- Water rights fees derived from fees collected to record rights to support water rights management
- Funds set aside for water adjudication
- Income derived from state owned hydroelectric projects for repair and rehabilitation of state owned water projects
- Fees from water well contractors that support the Board of Water Well Contractors

General fund is utilized for personal services, general operating costs, and specific activities such as preparing for water litigation and map modernization. Federal funds are from Federal Emergency Management Agency (FEMA) grants and the Bureau of Reclamation.

LFD ISSUE	<p>Water Adjudication Fund Appropriation Limits</p> <p>The legislature established in statute a limit on expenditures for the Water Adjudication Program from FY 2006 through FY 2015. The intent of this limitation was to allow for the fund to be used for adjudication activities and to provide resources for the five years of estimated water court work after the on-the-ground portion has been completed.</p> <p>Figure 5 below provides a summary of the water adjudication fund and the changing fund balance. Figure 6 compares the actual, appropriated, and requested amounts with the statutory limit that has been inflated 3 percent per year. The statutory limit is exceeded in FY 2008 through FY 2011. The cumulative affects are not negative until FY 2009 due to the expenditure levels in FY 2006 and FY 2007 being less than the statutory amount.</p>
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**LFD
ISSUE
(Cont.)**

Figure 5

Department of Natural Resources and Conservation
Water Adjudication Fund (02431)

	Actual FY 2008	Appropriated FY 2009	Executive Request	
			FY 2010	FY 2011
Beginning Balance	\$408,672	\$25,312,650	\$23,368,757	\$21,300,873
Expenditures				
Judiciary - Water Court	515,335	559,874	556,491	559,569
DNRC - Water Resources	2,240,386	2,605,671	2,451,438	2,467,534
DNRC - Centralized Services	28,350	28,393	85,000	85,000
Total Expenditures	\$2,784,071	\$3,193,938	\$3,092,929	\$3,112,103
Revenues				
Adjustments	27,688,560	1,250,045	1,025,045	1,275,045
	(511)			
Ending Fund Balance	\$25,312,650	\$23,368,757	\$21,300,873	\$19,463,815

Figure 6

Department of Natural Resources & Conservation
Water Adjudication Fund Statutory Limit and Disbursements

Fiscal Year	Limit	Disbursements	Difference	Cummulative
2011	\$3,014,113	3,112,103	(\$97,990)	(\$120,591)
2010	\$2,926,323	3,092,929	(\$166,606)	(\$22,601)
2009	\$2,841,090	3,193,938	(\$352,848)	\$144,005
2008	\$2,758,340	2,784,071	(\$25,731)	\$496,853
2007	\$2,678,000	2,437,545	\$240,455	\$522,584
2006	\$2,600,000	2,317,871	\$282,129	\$282,129

The issue for the legislature is whether the proposed executive budget will negatively impact the ability to fund the water court after on the ground work is completed. The impact would be mitigated if all appropriation authority is not used or if interest on the fund exceeds the anticipated estimate. If the legislature wishes to meet statutory limits, appropriations from the fund would need to be reduced by \$166,606 in FY 2010 and by \$97,990 in FY 2011. By proportion that would be 82 percent from this department and 18 percent from the water court.

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 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	7,518,992	7,518,992	15,037,984	86.47%	12,035,538	12,035,538	24,071,076	86.99%
Statewide PL Adjustments	588,204	607,585	1,195,789	6.88%	882,467	918,865	1,801,332	6.51%
Other PL Adjustments	552,907	592,510	1,145,417	6.59%	550,980	619,795	1,170,775	4.23%
New Proposals	6,305	5,466	11,771	0.07%	313,805	312,966	626,771	2.27%
Total Budget	\$8,666,408	\$8,724,553	\$17,390,961		\$13,782,790	\$13,887,164	\$27,669,954	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "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.

	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					1,201,899					1,239,565
Vacancy Savings					(393,449)					(394,960)
Inflation/Deflation					40,965					45,522
Fixed Costs					33,052					28,738
Total Statewide Present Law Adjustments					\$882,467					\$918,865
DP 2402 - Water Resources Operating Adjustment	0.00	47,110	119,997	0	167,107	0.00	94,220	149,209	0	243,429
DP 2403 - Community Assistance Program Federal	0.00	0	0	50,000	50,000	0.00	0	0	50,000	50,000
DP 2404 - Reserved Water Rights Implementation	5.00	505,797	0	0	505,797	5.00	498,290	0	0	498,290
DP 2451 - Water Rights Adjustment	0.00	0	(171,924)	0	(171,924)	0.00	0	(171,924)	0	(171,924)
Total Other Present Law Adjustments	5.00	\$552,907	(\$51,927)	\$50,000	\$550,980	5.00	\$592,510	(\$22,715)	\$50,000	\$619,795
Grand Total All Present Law Adjustments					\$1,433,447					\$1,538,660

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate** – Due to the large number of emergency hires within the department to address wildland fire season, there has been difficulty in calculating the market rate for 2008. The department is working with the LFD to remedy the situation and will provide the data to the committee
- **Vacancy** –
 - Water resource specialists, particularly for the Water Adjudication Program, has had the most turnover. Many employees have moved to other positions within the agency
 - The division has been working with the College of Technology in Helena to establish classes for a Water Resource Specialist certification. The agency pays for tuition and books for existing employees if they maintain a C average or above
 - There has been some back-log in work with some overtime and comp time accrued. Lower priority issues have been pushed back. High priority work has been re-distributed to other staff
- **Legislatively applied vacancy savings** – In FY 2008 vacancies made up the 4 percent required vacancy savings for the division
- **Pay Changes** – Additional vacancy savings attained was utilized to bring several water resource specialist positions up to 92 percent market
- **Retirements** -
 - There are 30 employees, 20 percent of the division, that will have 30 or more years of service in the 2011 biennium or be age 60 or older with 5 years or more of service. The estimated cost for these employees is \$403,000
 - To date in the 2009 biennium, the Water Resources Division has had five staff retire. Termination payouts in FY 2008 totaled slightly over \$65,000. Two more may retire before the end of the 2009 biennium
 - There are three employees who are considering retirement in the 2011 biennium

DP 2402 - Water Resources Operating Adjustment - This budget request is for \$167,107 in FY 2010 and \$243,429 in FY 2011 of general, state special, and federal special funds. This would restore funding for zero-based overtime, contract services, supplies, copier and computer replacements, debt service, rent increases, and other equipment replacement.

**LFD
COMMENT**

The two largest increases are for contracted services and debt service. The contracted service request is for \$44,442 in FY 2010 and \$94,807 in FY 2011 to provide for:

- \$1,800 in the contract with a private vendor to provide storage, filing, and file retrieval of water right files
- \$73,018 for ITSD charges for data storage
- \$38,765 for the 50 percent state share of the federal U.S. Geological Survey cooperative stream gauging program in Montana
- \$10,000 to fund the Crown Management Partnership agreement with the Province of Alberta
- Annualization of other contracted costs

The debt service request is for \$90,784 year of the biennium for repayment of the federal loan for rehabilitation on the Middle Creek Dam.

DP 2403 - Community Assistance Program Federal - This federal special revenue request is for \$100,000 in authority for the 2011 biennium for the annual award of funds from the Federal Emergency Management Agency (FEMA). The primary purpose of the award is to reduce the damage claims to the National Flood Insurance program through education and training.

**LFD
COMMENT**

The division indicates that a 0.5 modified FTE may be requested to assist in education and training. The modified FTE would need to be approved by the Governor's budget office during the interim and re-established during the 2011 legislative session if the position were to become permanent.

DP 2404 - Reserved Water Rights Implementation - The executive requests 5.0 FTE and \$505,797 in FY 2010 and \$498,290 in FY 2011 of general fund to establish the base for the Water Compact Implementation Bureau. The 2007 Legislature approved a transfer of authority from the Reserved Water Rights Compact Commission (RWRCC) to the Water Resources Division to dissolve the commission and to provide for implementation activities in the last half of FY 2009. To annualize the costs, a base adjustment is necessary.

**LFD
ISSUE**

One-time Costs

The RWRCC is scheduled to sunset on July 1 2009. The executive is requesting to retain a portion of the staff to work on compact implementation. This package funds the 5.0 FTE and operations costs with general fund. Included in this decision package are one-time costs of \$7,120 to move the 5.0 FTE from the RWRCC in with Water Resources Divisions, as well as signage, telephone access, and minor furnishings. These costs would remain in the base unless the legislature segregated them into a one-time only decision package.

**LFD
COMMENT**

The 2007 legislature transferred \$246,550 for the second half of FY 2009. Double the amount would be \$493,100. With inflationary factors the request appears to be reasonable.

**LFD
COMMENT**

This decision package will need to be coordinated with any legislation that extends the sunset date on the commission.

DP 2451 - Water Rights Adjustment - This request is to reduce Water Rights Bureau funding by \$171,924 per year of state special revenue. The Water Rights Ownership Project was a one-time cost and does not need to be carried forward in the base budget.

New Proposals

Program	-----Fiscal 2010-----					-----Fiscal 2011-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 2401 - State Water Projects Rehabilitation-BIEN-OTO	24	0.00	0	307,500	0	307,500	0.00	0	307,500	0	307,500
DP 6101 - Fixed Cost Workers Comp Management Program Allocation	24	0.00	6,305	0	0	6,305	0.00	5,466	0	0	5,466
Total	0.00	\$6,305	\$307,500	\$0	\$313,805	0.00	\$5,466	\$307,500	\$0	\$312,966	

DP 2401 - State Water Projects Rehabilitation-BIEN-OTO - The executive recommends a one-time-only biennial appropriation of \$615,000 in state special revenue for rehabilitation work to bring the Deadman’s Basin outlet extension in compliance with dam safety standards, repair Middle Creek railing for public safety concerns, and for ongoing repairs at the Broadwater-Toston Dam.

LFD
ISSUE

Capital Costs are included in this request

In examination of the details of the request, it appears that the Deadman’s Basin and Middle Creek projects should be considered as part of HB 5 and not HB 2. Unlike HB 2 authority, HB 5 authority continues from biennium to biennium to allow for major projects to be completed.

The summary of the projects is as follows:

- ◆ Deadman’s Basin outlet extension project includes extending the low level outlet to flatten the downstream dam face; installing a filter and drain system to deal with excessive seepage exiting at the existing outlet; and placing a stability berm on the downstream toe to bring the project into dam safety slope stability guidelines.
- ◆ Middle Creek Railing Repairs are a result of the 1992 rehabilitation at Middle Creek, when part of the modifications included a hand rail or safety fence across the dam crest. The fence posts and rails have failed and need to be modified and repaired.
- ◆ The Broadwater-Toston request is for ongoing repairs due to standard design life issues and is appropriately funded in HB2.

The legislature may wish to consider notifying the Long Range Building Committee of the need to include dam repair funding in HB 5 and approve only a portion (\$40,000 per year) of this decision package associated with the Broadwater-Toston routine repairs.

DP 6101 - Fixed Cost Workers Comp Management Program Allocation - The Workers’ Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Language and Statutory Authority

“During the 2011 biennium, up to \$1 million of funds currently in or to be deposited in the Broadwater replacement and renewal account is appropriated to the department for repairing or replacing equipment at the Broadwater hydropower facility.”

“During the 2011 biennium, up to \$100,000 of interest earned on the Broadwater water users account is appropriated to the department for the purpose of repair, improvement, or rehabilitation of the Broadwater-Missouri diversion project.”

“During the 2011 biennium, up to \$500,000 of funds currently in or to be deposited in the state project hydropower earnings account is appropriated for the purpose of repairing, improving, or rehabilitating department state water projects.”

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	7.50	7.50	0.00	0.00	7.50	0.00	(7.50)	(100.00%)
Personal Services	588,760	413,199	30,000	0	1,001,959	30,000	(971,959)	(97.01%)
Operating Expenses	129,537	53,850	0	0	183,387	0	(183,387)	(100.00%)
Total Costs	\$718,297	\$467,049	\$30,000	\$0	\$1,185,346	\$30,000	(\$1,155,346)	(97.47%)
General Fund	718,297	467,049	30,000	0	1,185,346	30,000	(1,155,346)	(97.47%)
Total Funds	\$718,297	\$467,049	\$30,000	\$0	\$1,185,346	\$30,000	(\$1,155,346)	(97.47%)

Program Description

The Montana Reserved Water Rights Compact Commission (RWCC) was created by the legislature in 1979 as part of the state-wide water rights adjudication effort. 85-2-701 et seq. It consists of four members appointed by the Governor, two by the President of the Senate, two by the Speaker of the House of Representatives, and one by the Attorney General. Members serve for four years. The commission negotiates water rights with the Indian tribes and federal agencies, which claim federal reserved water rights within the state, to establish a formal agreement (compact) on the amount of water to be allocated to each interest. The Commission is scheduled to sunset on July 1, 2009. After the sunset, any compacts that are not complete will be litigated.

Program Highlights

Reserved Water Rights Compact Commission Major Program Highlights	
<ul style="list-style-type: none"> ◆ The budget request reflects that the commission is scheduled to sunset on July 1, 2009 ◆ The executive is requesting \$30,000 general fund for employee pay outs 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ This budget request will require coordination with any successful legislation that extends the sunset date of the commission 	

Program Narrative

2009 Biennium Monitored Goals and Objectives

The Legislative Finance Committee selected the following goal to monitor during the 2009 interim.

- Transition plan for RWRCC from negotiation to implementation
 - The Commission intends to develop an implementation plan to address work load changes and potential statutory changes
 - Develop a budget proposal as necessary to support the implementation plan

Success: Five FTE are included in the DNRC Water Resources Division budget for the next biennium as the Compact Implementation Bureau. The duties of the staffs are generally described in the goal. New position descriptions will be developed as the transition begins to take place. "Housekeeping" legislation is being drafted to implement the sunset provisions in statute.

Challenges: The status of the remaining major negotiation with the Confederated Salish Kootenai Tribes (CSKT) of the Flathead Reservation is continually being monitored to evaluate whether a compact will be completed by June 30, 2009 or whether the RWRCC will need additional time to complete negotiations.

LFD COMMENT The legislature may wish to inquire about the current status of negotiation with the CSKT to determine if the RWCC or the Water Resources Division budget will need to be revised.

2011 Biennium Major Goals

The RWCC did not submit goals and objectives as it is scheduled to sunset on July 1, 2009,

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table					
Reserved Water Rights Comp Com					
		Base	% of Base	Budget	% of Budget
Program Funding		FY 2008	FY 2008	FY 2010	FY 2010
01000	Total General Fund	\$ 718,297	100.0%	\$ 30,000	100.0%
	01100 General Fund	<u>718,297</u>	<u>100.0%</u>	<u>30,000</u>	<u>100.0%</u>
Grand	Total	<u><u>718,297</u></u>	100.0%	<u><u>30,000</u></u>	100.0%

The commission is funded with general fund.

Budget Summary by Category

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

Budget Summary by Category	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	718,297	718,297	1,436,594	4,788.65%	718,297	718,297	1,436,594	4,788.65%
Statewide PL Adjustments	3,022	7,400	10,422	34.74%	3,022	7,400	10,422	34.74%
Other PL Adjustments	(691,319)	(725,697)	(1,417,016)	(4,723.39)%	(691,319)	(725,697)	(1,417,016)	(4,723.39)%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$30,000	\$0	\$30,000		\$30,000	\$0	\$30,000	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “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.

	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					26,314					30,603
Vacancy Savings					(24,604)					(24,774)
Inflation/Deflation					1,312					1,571
Total Statewide Present Law Adjustments					\$3,022					\$7,400
DP 2501 - Reserved Water Rights Compact Commission Sunset										
	(7.50)	(691,319)	0	0	(691,319)	(7.50)	(725,697)	0	0	(725,697)
Total Other Present Law Adjustments	(7.50)	(\$691,319)	\$0	\$0	(\$691,319)	(7.50)	(\$725,697)	\$0	\$0	(\$725,697)
Grand Total All Present Law Adjustments					(\$688,297)					(\$718,297)

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Market Rate** - Due to the large number of emergency hires within the department to address wildland fire season, there has been difficulty in calculating the market rate for 2008. The department is working with the LFD to remedy the situation and will provide that data to the committee
- o **Vacancy** – The program has had little turnover
- o **Legislatively applied vacancy savings** – One vacant attorney position within the program made up the 4 percent required vacancy savings
- o **Pay Changes** – Discretionary funds authorized in HB 13 were utilized for one market adjustment
- o **Retirements** – Four employees will be eligible for full retirement in the 2011 biennium at an estimated cost of \$70,000

DP 2501 - Reserved Water Rights Compact Commission Sunset - The Reserved Water Rights Compact Commission (RWRCC) will sunset July 1, 2009 and an implementation bureau will be created in the Water Resources Division. This budget request is for the reduction due to the sunset and removes 7.50 FTE and \$691,319 in FY 2010 and \$725,697 in FY 2011.

LFD COMMENT	The funding for the implementation bureau was established during the 2007 legislative session. That funding will cover the 5.0 FTE for implementation work for the remainder of FY 2009. The base adjustments in the Water Resources Division would be necessary to continue the funding for the bureau through FY 2011.
This decision package will need to be coordinated with any legislation that extends the sunset of the Commission.	

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	293.37	293.37	305.19	305.19	293.37	305.19	11.82	4.03%
Personal Services	15,415,265	16,531,333	17,225,441	17,286,880	31,946,598	34,512,321	2,565,723	8.03%
Operating Expenses	6,768,623	7,519,652	8,311,664	8,376,432	14,288,275	16,688,096	2,399,821	16.80%
Equipment & Intangible Assets	1,014,138	989,435	1,071,448	1,071,107	2,003,573	2,142,555	138,982	6.94%
Capital Outlay	66,788	122,118	66,788	66,788	188,906	133,576	(55,330)	(29.29%)
Grants	184,491	184,491	184,491	184,491	368,982	368,982	0	0.00%
Transfers	959,895	977,351	1,218,390	1,228,444	1,937,246	2,446,834	509,588	26.30%
Debt Service	8,323	6,760	8,323	8,323	15,083	16,646	1,563	10.36%
Total Costs	\$24,417,523	\$26,331,140	\$28,086,545	\$28,222,465	\$50,748,663	\$56,309,010	\$5,560,347	10.96%
General Fund	8,864,201	9,236,242	10,435,375	10,509,896	18,100,443	20,945,271	2,844,828	15.72%
State Special	14,304,681	15,808,395	16,333,878	16,392,947	30,113,076	32,726,825	2,613,749	8.68%
Federal Special	1,248,641	1,286,503	1,317,292	1,319,622	2,535,144	2,636,914	101,770	4.01%
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$24,417,523	\$26,331,140	\$28,086,545	\$28,222,465	\$50,748,663	\$56,309,010	\$5,560,347	10.96%

Program Description

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:

- o 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
- o Forest Practice Regulation - Enforcing Montana's streamside management zone regulations and monitoring the voluntary best management practices program on all forests in Montana
- o 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
- o Providing Forestry Services - Providing technical forestry assistance to private landowners, businesses, and communities
- o 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

Forestry and Trust Land Administration Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The proposed biennial budget is 11 percent higher than the 2009 biennial budget primarily due to statewide present law adjustments, increases for fire and aviation resources, and contract timber harvesting ◆ One-time only costs for information technology needs total \$213,000 ◆ Both proprietary programs are requesting additional FTE
Major LFD Issues
<ul style="list-style-type: none"> ◆ Fire protection costs should be funded at 1/3 forest assessments and 2/3 general fund

Program Narrative

2009 Biennium Monitored Goals and Objectives

The Legislative Finance Committee selected the following goals to monitor during the 2009 interim

Forestry Division

- Administer Montana forest practice laws and programs to protect soil and water quality following logging operations on private lands
 - Open and administer Hazard Reduction Agreements (HRAs)
 - Offer educational workshops (monitor number of workshops and training sessions)
 - Enforce streamside management zones (certify compliance and produce report)
 - Coordinate best management practice audit process

Success: The last report on this goal was in December of 2007. At that time the agency was able to communicate results from completed activities. The legislature may wish to obtain an update.

Trust Land Management

- Maximize annual gross revenues for the trust beneficiaries from existing trust land management activities, including agriculture and grazing management, mineral development, forest management, and real estate management, while also implementing new and alternative methods of revenue generation from land management

Success:

- FY08 Approximate Gross Revenue - Total \$81 million
 - Agriculture and Grazing Management \$19.9 million
 - Recreational Use \$1.0 million
 - Forest Management – Timber Sales \$10.0 million
 - Forest Improvement Collections \$1.1 million
 - Minerals Management
 - Oil & Gas \$31.3 million
 - Aggregate Minerals \$174 thousand
 - Coal \$5.9 million Other Minerals \$86 thousand
 - Real Estate Management
 - Rights-of-Way/Easements \$2.1 million

- Residential leases/licenses \$1.5 million
- Land Sales \$2.8 million
- Commercial leases/licenses \$980 thousand
- Conservation leases \$101 thousand
- Hydropower lease \$4 million

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim.

Forestry Division

- Ensure sustainability of Montana forests, rural lands, and communities through cooperative wildland fire protection, sound forest management practices, and by promoting a viable forest economy
 - Provide forest stewardship assistance to private forest landowners and communities
 - Provide information, education, products, and funding for sustainable resource management to landowners and organizations
 - Make agreements to reduce the fire hazard posed by timber slash from all logging operations on private land in Montana and certify compliance with slash standards
 - Enforce the state slash law in cases of non-compliance

LFD ISSUE	<p>Objectives cannot provide measure of success</p> <p>The objectives provide an insight to the reader of what the goal is to accomplish. However, they are not specific, time oriented, or measureable. These types of objectives cannot aid in determining if progress toward the goal has been made. The objectives should be drafted so that the reader can make a determination about what success would be. Simply saying “coordinate” or “develop” or “increase” doesn’t imply that anything will get accomplished during the biennium or ever.</p>
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Trust Land Management Division

- Manage surface and mineral resources to provide substantial levels of trust revenue, stewardship, and public benefits consistent with our fiduciary duty and legal commitments
 - Utilize land banking to identify poorly performing properties while acquiring accessible, higher revenue-producing properties (20,000 acres). Sell 20,000 acres of trust land
 - Participate fully in oil and natural gas development in eastern Montana
 - Consider marketing timber sales to maximize price (size of sales, timing of sales, location, and timely salvage of burned timber)
 - Implement the Whitefish Plan and seek out other conservation leasing/easement opportunities
 - Secure permanent access to trust lands – 10,000 tributary acres

LFD ISSUE	<p>Some objectives cannot provide measure of success</p> <p>The objectives provide an insight to the reader of what the goal is to accomplish. However the middle three are not specific, time bound, or measureable. These types of objectives cannot aid in determining if progress towards the goal has been made. If the goal is to provide levels of trust revenue, what does participate fully in oil and gas development really mean? Should revenues rise by a percentage or lease sales increase? The objectives should be drafted so that the reader can make a determination about what success would be. Simply saying “consider”, “implement” or participate” doesn’t imply that anything will get accomplished during the biennium or ever.</p>
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Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table						
Forestry/Trust Lands						
Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	\$ 8,864,201	36.3%	\$ 10,435,375	37.2%	\$ 10,509,896	37.2%
01100 General Fund	8,864,201	36.3%	10,435,375	37.2%	10,509,896	37.2%
02000 Total State Special Funds	14,304,681	58.6%	16,333,878	58.2%	16,392,947	58.1%
02039 Forestry-Fire Protection Taxes	3,191,531	13.1%	3,390,117	12.1%	3,420,040	12.1%
02073 Forestry - Slash Disposal	75,275	0.3%	81,561	0.3%	85,967	0.3%
02119 Non-Land Grant Income - Nb	-	-	-	-	-	-
02241 Dsl Recreational Use Account	45,619	0.2%	46,593	0.2%	46,600	0.2%
02280 Forest Resources-Timber Sales	4,074,118	16.7%	4,787,089	17.0%	4,788,470	17.0%
02324 State Land Bank	133,001	0.5%	255,001	0.9%	255,001	0.9%
02449 Forest Resources-Forest Improv	1,893,326	7.8%	2,138,962	7.6%	2,141,438	7.6%
02450 State Lands Res Dev	677,221	2.8%	807,177	2.9%	807,177	2.9%
02472 Orphan Share Fund	-	-	-	-	-	-
02576 Natural Resources Operations Ssr Fu	100,000	0.4%	100,000	0.4%	100,000	0.4%
02681 Historic Right-Of-Way Acct	14,500	0.1%	14,500	0.1%	14,500	0.1%
02836 Commercial Leases - Tlmd	40,000	0.2%	40,000	0.1%	40,000	0.1%
02912 Tlmd Land Exchange Admin	45,500	0.2%	145,500	0.5%	145,500	0.5%
02938 Tlmd - Administration	4,014,590	16.4%	4,527,378	16.1%	4,548,254	16.1%
03000 Total Federal Special Funds	1,248,641	5.1%	1,317,292	4.7%	1,319,622	4.7%
03264 Consolidated Grant - Fy08	1,035,116	4.2%	1,067,481	3.8%	1,069,803	3.8%
03265 Non-Consolidated Grant - Fy08	213,525	0.9%	249,811	0.9%	249,819	0.9%
03283 Consolidated Grant	-	-	-	-	-	-
03284 Non-Consolidated Grant Fy09	-	-	-	-	-	-
06000 Total Proprietary Funds	-	-	-	-	-	-
06538 Air Operations Internal Svc.	-	-	-	-	-	-
Grand Total	\$ 24,417,523	100.0%	\$ 28,086,545	100.0%	\$ 28,222,465	100.0%

The Forestry Division is supported with a mix of general fund, state special revenue, and federal funding. 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

LFD ISSUE	<p>Funding from Revenues</p> <p>The Trust Land Management Division of DNRC is responsible for managing 10 trusts consisting of 5.1 million surface acres, 6.3 million mineral acres, and 6,000 miles of navigable rivers for the largest return possible for the beneficiaries through multiple land use policies under the direction of the Board of Land Commissioners (land board). The lands were provided to the state through the Enabling Act and the Morrill Act to support specific beneficiaries. The beneficiaries include common (public) schools, the university system, and specific state institutions. Revenue is generated through land management activities such as commercial leasing, grazing, recreational use, and minerals management.</p>
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**LFD
ISSUE (CONT.)**

The cost to manage such activities is recovered from trust revenues.

There are two issues with fiduciary management of trust lands: 1) funding of trust land activities; and 2) how revenues and expenses should be accounted for.

Financing of trust land activities

The executive-proposed budget relies on trust revenues to fund trust land operations. Currently, state law allows trust land administration to be funded with of a portion of distributable revenues (those that by law are distributed directly to the beneficiary) and non-distributable revenues (those that by law are to be deposited to the permanent trust). Legislative legal counsel has long held that it is inappropriate to finance the administration of trust lands in this manner as trusts are protected against lost or diversion (such as for administration). However, the current funding policy has not been challenged in a court of law.

The impact on the beneficiaries is best demonstrated with the common (public) school trust. The “guarantee account” holds the distributable revenues for the common school trust. The legislature determines how much to appropriate for public school support, and provides general fund for the difference between that amount and the funds in the guarantee account. When the guarantee fund increases, general fund support decreases. The overall budget to OPI does not change. When revenue is diverted from the guarantee account or the permanent trust to the administration account, the amount of funding available for public school support is reduced and additional general fund is required. The loss is compounded over time due to lost interests on revenue streams that should have gone to the permanent trust.

It is the policy decision of the legislature to determine how trust lands are funded. The budget request before the legislature relies on trust revenues to fund administration. The legislature has the option to accept this funding matrix or adjust it to create a different policy. Among the options are:

- Switch revenues for general fund – This option would require that the legislature appropriate \$14.8 million of general fund over the biennium to fund trust lands. To do this the legislature would have to consider the impacts on other programs due to the limited nature of general fund revenues for the biennium.
- Establish priority funding - To do this the legislature would need to establish in statute which types of revenue streams are appropriate for administrative costs, and whether or not that includes non-distributable revenue streams such as mineral royalties.
- Create a hybrid system of the two - The legislature would need to request legislation that would phase in a general fund budget to the department to manage trust lands. As part of this phase-in the legislature could determine which revenue streams, distributable or non-distributable, would make up the difference until such time that it is funded in total with general fund.

Accounting by Trust

Beyond administrative costs is the issue of accounting for revenues and expenses on a per trust basis. Given the number of revenue streams, some revenue is deposited to the trust based on acreage such as land use fees and some revenue is on a per trust basis such as leases and timber sales. Expenses are normally applied to each trust as the costs are incurred for that trust. However, in the case of the smaller trusts, revenues may not be available to cover the expenses. When this activity occurs the division utilizes common school revenues to cover the expenses. According to the Legislative Audit Division, this should be considered a loan and repaid to the common school trust. Due to the fact that this usually occurs with timber sales, the lag between the borrowing and the repayment could exceed a year.

The agency is requesting legislation (LC 283) to address some of the above issues. While the agency is not requesting a general fund appropriation, it is requesting the consolidation of funding streams and a structure to address accounting by trust. The legislature may wish to review this bill prior to taking action on the program. If this legislation passes coordination will need to occur with HB 2 to assure the agency has the appropriate resources to meet the intent of the legislation.

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 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	8,864,201	8,864,201	17,728,402	84.64%	24,417,523	24,417,523	48,835,046	86.73%
Statewide PL Adjustments	831,613	881,988	1,713,601	8.18%	1,716,636	1,819,872	3,536,508	6.28%
Other PL Adjustments	224,759	249,520	474,279	2.26%	1,284,452	1,401,432	2,685,884	4.77%
New Proposals	514,802	514,187	1,028,989	4.91%	667,934	583,638	1,251,572	2.22%
Total Budget	\$10,435,375	\$10,509,896	\$20,945,271		\$28,086,545	\$28,222,465	\$56,309,010	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “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 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					2,116,552					2,180,228
Vacancy Savings					(701,275)					(703,814)
Inflation/Deflation					273,357					323,310
Fixed Costs					28,002					20,148
Total Statewide Present Law Adjustments					\$1,716,636					\$1,819,872
DP 3501 - Forestry Operating Adjustment	0.00	224,759	108,901	34,310	367,970	0.00	249,520	128,542	33,969	412,031
DP 3521 - Trust Land Management Operating Adjustment	0.00	0	24,482	0	24,482	0.00	0	27,401	0	27,401
DP 3523 - Forest Improvement Projects and Monitoring	0.00	0	200,000	0	200,000	0.00	0	200,000	0	200,000
DP 3552 - Restore Trust Land Mngmt Contract Harvesting Base	0.00	0	420,000	0	420,000	0.00	0	490,000	0	490,000
DP 3553 - Land Banking Base Restoration Private Funds - BIEN	0.00	0	122,000	0	122,000	0.00	0	122,000	0	122,000
DP 3554 - Land Exchange Base Restoration Private Funds	0.00	0	150,000	0	150,000	0.00	0	150,000	0	150,000
Total Other Present Law Adjustments	0.00	\$224,759	\$1,025,383	\$34,310	\$1,284,452	0.00	\$249,520	\$1,117,943	\$33,969	\$1,401,432
Grand Total All Present Law Adjustments					\$3,001,088					\$3,221,304

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Market Rate** – Due to the large number of emergency hires within the department to address wildland fire season, there has been difficulty in calculating the market rate for 2008. The department is working with the LFD to remedy the situation and will provide that data to the committee
- o **Vacancy** –
 - Real Estate Management has had some turnover and the positions have had recruitment difficulties. Qualifications for the positions are specific to commercial leasing, land purchase and sales, along with easement acquisitions
 - The two programs have broadened recruitment advertising and increased the pay band for hard to fill positions

- o **Legislatively Applied Vacancy Savings** – In FY2008 vacancies made up the 4 percent required vacancy savings for the divisions
- o **Pay Changes** –
 - In June 2008, any position below 92 percent of market within the two programs was moved to that percentage. The division administrators were also given move-to- market pay adjustments
 - A portion of discretionary funds authorized in HB13 (0.03) was utilized for these pay adjustments as well as vacancy savings. The other 0.03 of discretionary funds was utilized for "Paragon of Performance" awards
- o **Retirements** -
 - Thirty employees, or 10 percent of the division, will be eligible for full retirement in the 2011 biennium at a estimated cost of \$300,000
 - Seven employees retired or plan to retire in the FY 2009 biennium
 - The division has established a plan to address retirements by implementing a career ladder, assessing program structure for maximum efficiency, and cross training as needed

New Proposals

New Proposals											
Program	FTE	-----Fiscal 2010-----				-----Fiscal 2011-----					
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 3503 - Engine Crew Extension	35	7.00	242,143	0	0	242,143	7.00	242,210	0	0	242,210
DP 3504 - Aviation Crew Coverage Extension	35	4.82	265,756	0	0	265,756	4.82	265,991	0	0	265,991
DP 3522 - Trust Land Management Database Upgrade - OTO	35	0.00	0	65,000	0	65,000	0.00	0	65,000	0	65,000
DP 3524 - Forest Management Software Integration - OTO	35	0.00	0	83,000	0	83,000	0.00	0	0	0	0
DP 6101 - Fixed Cost Workers Comp Management Program Allocate	35	0.00	6,903	5,132	0	12,035	0.00	5,986	4,451	0	10,437
Total	11.82	\$514,802	\$153,132	\$0	\$667,934	11.82	\$514,187	\$69,451	\$0	\$583,638	

Sub-Program Details

FORESTRY 01

Sub-Program Proposed Budget

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

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2008	PL Base Adjustment Fiscal 2010	New Proposals Fiscal 2010	Total Exec. Budget Fiscal 2010	PL Base Adjustment Fiscal 2011	New Proposals Fiscal 2011	Total Exec. Budget Fiscal 2011	Total Exec. Budget Fiscal 10-11
FTE	161.16	0.00	11.82	172.98	0.00	11.82	172.98	172.98
Personal Services	8,160,689	711,930	394,899	9,267,518	742,912	395,201	9,298,802	18,566,320
Operating Expenses	3,337,390	303,654	96,903	3,737,947	374,735	95,986	3,808,111	7,546,058
Equipment & Intangible Assets	825,390	34,310	23,000	882,700	33,969	23,000	882,359	1,765,059
Grants	184,491	0	0	184,491	0	0	184,491	368,982
Transfers	959,895	258,495	0	1,218,390	268,549	0	1,228,444	2,446,834
Debt Service	8,323	0	0	8,323	0	0	8,323	16,646
Total Costs	\$13,476,178	\$1,308,389	\$514,802	\$15,299,369	\$1,420,165	\$514,187	\$15,410,530	\$30,709,899
General Fund	8,820,625	1,034,866	514,802	10,370,293	1,109,983	514,187	10,444,795	20,815,088
State/Other Special	3,406,912	204,872	0	3,611,784	239,201	0	3,646,113	7,257,897
Federal Special	1,248,641	68,651	0	1,317,292	70,981	0	1,319,622	2,636,914
Total Funds	\$13,476,178	\$1,308,389	\$514,802	\$15,299,369	\$1,420,165	\$514,187	\$15,410,530	\$30,709,899

Sub-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.

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 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent Of Budget
Base Budget	8,820,625	8,820,625	17,641,250	84.75%	13,476,178	13,476,178	26,952,356	87.76%
Statewide PL Adjustments	810,107	860,463	1,670,570	8.03%	940,419	1,008,134	1,948,553	6.35%
Other PL Adjustments	224,759	249,520	474,279	2.28%	367,970	412,031	780,001	2.54%
New Proposals	514,802	514,187	1,028,989	4.94%	514,802	514,187	1,028,989	3.35%
Total Budget	\$10,370,293	\$10,444,795	\$20,815,088		\$15,299,369	\$15,410,530	\$30,709,899	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “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 2010-----						-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,081,624					1,113,892
Vacancy Savings					(369,694)					(370,980)
Inflation/Deflation					209,185					251,697
Fixed Costs					19,304					13,525
Total Statewide Present Law Adjustments					\$940,419					\$1,008,134
DP 3501 - Forestry Operating Adjustment	0.00	224,759	108,901	34,310	367,970	0.00	249,520	128,542	33,969	412,031
Total Other Present Law Adjustments	0.00	\$224,759	\$108,901	\$34,310	\$367,970	0.00	\$249,520	\$128,542	\$33,969	\$412,031
Grand Total All Present Law Adjustments					\$1,308,389					\$1,420,165

DP 3501 - Forestry Operating Adjustment - The executive requests an operating adjustment using general, state special, and federal special funds totaling \$367,970 in FY 2010 and \$412,031 in FY2011. This request is due to increases including rental expense, fire protection contracted services, fire training, and equipment maintenance. The majority of the increase (\$258,495 in FY 2010 and \$268,549 in FY 2011) is for increased costs in the air operations program.

LFD COMMENT	The fixed cost portion of the air operations program is funded in the base and transferred to the air operations proprietary fund. This covers the cost of having the air resources available. Actual costs related to flying fire missions are determined on an hourly basis and charged to the appropriate direct protection agency.
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New Proposals

New Proposals										
-----Fiscal 2010-----						-----Fiscal 2011-----				
Sub Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3503 - Engine Crew Extension										
01	7.00	242,143	0	0	242,143	7.00	242,210	0	0	242,210
DP 3504 - Aviation Crew Coverage Extension										
01	4.82	265,756	0	0	265,756	4.82	265,991	0	0	265,991
DP 6101 - Fixed Cost Workers Comp Management Program Allocat										
01	0.00	6,903	0	0	6,903	0.00	5,986	0	0	5,986
Total	11.82	\$514,802	\$0	\$0	\$514,802	11.82	\$514,187	\$0	\$0	\$514,187

DP 3503 - Engine Crew Extension - The executive recommends an increase of DNRC seasonal engine crew staffing from 5 to 7 days per week coverage for the core portion of the fire season. This addition is projected to provide for increased initial attack success, reduced overtime costs, and result in the probable prevention of two large (1,000+ acre) fires per year. The cost of this proposal is an increase of 7.00 FTE and \$242,143 in FY 2010 and \$242,210 in FY 2011 using general fund.

LFD COMMENT	The Fire Suppression Interim Committee requested this extension for the FY 2009 fire season utilizing state special revenue from the fire suppression fund. Because it was not completed in the base year, a new proposal is necessary. Prior to this action the coverage has been provided by paying overtime for DNRC employees or hiring additional local government or contract engines. This additional staffing would enable DNRC employees to utilize existing engines at a lower overall cost. For further discussion see the agency narrative section titled "Recommendations of the Fire Suppression Interim Committee."
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LFD ISSUE	<p>Funding Formula</p> <p>Statute (77-13-213, MCA) provides for a specific formula for fire protection. Fire protection is the necessary equipment, training and engines that are needed for fire suppression activities. Per statute, this decision package should be funded with one-third fire protection fees. Should the legislature wish to fund the package in this manner, \$80,714 in FY 2010 and \$80,737 in FY 2011 of general fund would be replaced by fire protection assessments.</p>
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DP 3504 - Aviation Crew Coverage Extension - The executive recommends an increase in seasonal pilots, helicopter managers, crew members, and fuel truck drivers to enable full utilization of the DNRC helicopter fleet during fire season. This proposal would allow seven day per week coverage for quick response every day during the fire season. The cost of this proposal is an increase of 4.82 FTE and \$265,756 in FY 2010 and \$265,991 in FY 2011 in general fund. This proposal also requires additional funding from the air operations proprietary fund.

LFD COMMENT	<p>The Fire Suppression Interim Committee requested this extension for the FY 2009 fire season utilizing state special revenue from the fire suppression fund. Because it was not completed in the base year, a new proposal is necessary. The implementation of this proposal is projected to provide for the prevention of two large (1,000+ ac.) fires per year and the associated resource loss and fire suppression costs. For further discussion see the agency narrative section titled "Recommendations of the Fire Suppression Interim Committee".</p>
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LFD ISSUE	<p>Funding Formula</p> <p>Statute (77-13-213, MCA) provides for a specific formula for fire protection. Fire protection is the necessary equipment, training and aircraft support that are needed for fire suppression activities. Per statute, this decision package should be funded with one-third fire protection fees. Should the legislature wish to fund the package in this manner, \$88,585 in FY 2010 and \$88,664 in FY 2011 of general fund would be replaced by fire protection assessments.</p>
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DP 6101 - Fixed Cost Workers Comp Management Program Allocate - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Sub-Program Details

TRUST LANDS 02

Sub-Program Proposed Budget

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

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2008	PL Base Adjustment Fiscal 2010	New Proposals Fiscal 2010	Total Exec. Budget Fiscal 2010	PL Base Adjustment Fiscal 2011	New Proposals Fiscal 2011	Total Exec. Budget Fiscal 2011	Total Exec. Budget Fiscal 10-11
FTE	132.21	0.00	0.00	132.21	0.00	0.00	132.21	132.21
Personal Services	7,254,576	703,347	0	7,957,923	733,502	0	7,988,078	15,946,001
Operating Expenses	3,431,233	989,352	153,132	4,573,717	1,067,637	69,451	4,568,321	9,142,038
Equipment & Intangible Assets	188,748	0	0	188,748	0	0	188,748	377,496
Capital Outlay	66,788	0	0	66,788	0	0	66,788	133,576
Total Costs	\$10,941,345	\$1,692,699	\$153,132	\$12,787,176	\$1,801,139	\$69,451	\$12,811,935	\$25,599,111
General Fund	43,576	21,506	0	65,082	21,525	0	65,101	130,183
State/Other Special	10,897,769	1,671,193	153,132	12,722,094	1,779,614	69,451	12,746,834	25,468,928
Total Funds	\$10,941,345	\$1,692,699	\$153,132	\$12,787,176	\$1,801,139	\$69,451	\$12,811,935	\$25,599,111

Sub-Program Description

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 currently total 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; special use management; and minerals management.

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 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent Of Budget
Base Budget	43,576	43,576	87,152	66.95%	10,941,345	10,941,345	21,882,690	85.48%
Statewide PL Adjustments	21,506	21,525	43,031	33.05%	776,217	811,738	1,587,955	6.20%
Other PL Adjustments	0	0	0	0.00%	916,482	989,401	1,905,883	7.45%
New Proposals	0	0	0	0.00%	153,132	69,451	222,583	0.87%
Total Budget	\$65,082	\$65,101	\$130,183		\$12,787,176	\$12,811,935	\$25,599,111	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "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 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,034,928					1,066,336
Vacancy Savings					(331,581)					(332,834)
Inflation/Deflation					64,172					71,613
Fixed Costs					8,698					6,623
Total Statewide Present Law Adjustments					\$776,217					\$811,738
DP 3521 - Trust Land Management Operating Adjustment	0.00	0	24,482	0	24,482	0.00	0	27,401	0	27,401
DP 3523 - Forest Improvement Projects and Monitoring	0.00	0	200,000	0	200,000	0.00	0	200,000	0	200,000
DP 3552 - Restore Trust Land Mngmt Contract Harvesting Base	0.00	0	420,000	0	420,000	0.00	0	490,000	0	490,000
DP 3553 - Land Banking Base Restoration Private Funds - BIEN	0.00	0	122,000	0	122,000	0.00	0	122,000	0	122,000
DP 3554 - Land Exchange Base Restoration Private Funds	0.00	0	150,000	0	150,000	0.00	0	150,000	0	150,000
Total Other Present Law Adjustments	0.00	\$0	\$916,482	\$0	\$916,482	0.00	\$0	\$989,401	\$0	\$989,401
Grand Total All Present Law Adjustments					\$1,692,699					\$1,801,139

DP 3521 - Trust Land Management Operating Adjustment - This budget request is to restore the base budget for weed control activities and for an increase in operations budget for increased rent costs in Helena, Bozeman, Conrad, Dillon, Lewistown, Glasgow, Havre, Miles City, and the Billings offices. This state special revenue request totals \$24,482 in FY 2010 and \$27,401 in FY 2011.

DP 3523 - Forest Improvement Projects and Monitoring - This state special revenue request is for \$200,000 in both FY 2010 and FY 2011 to increase funding for forest improvement activities such as planting, thinning, slash control, and fire recovery due to increased wildfire activity, contractor costs, and higher harvest levels associated with the CY 2004 change in sustained yield. The goal of the increased funding is to reduce the backlog and improve the response when addressing wildfire recovery.

DP 3552 - Restore Trust Land Mngmt Contract Harvesting Base - The executive recommends a base adjustment for the Contract Harvesting Program. This would annualize program expenditures, as the FY 2008 base was limited due to the planned delay in program implementation.

DP 3553 - Land Banking Base Restoration Private Funds - BIEN - This budget request is for restoration of biennial spending authority of \$244,000 in state special revenue in the Land Banking Program. The preparation of the land for sale requires contracting for appraisals and archeological surveys. State law requires prospective purchasers to deposit funds for appraisals, archeological surveys, and advertising prior to the state incurring those costs. The spending authority is a biennial appropriation to provide for flexibility of acres sold within a biennium.

DP 3554 - Land Exchange Base Restoration Private Funds - The executive recommends restoration of spending authority for private funds of \$150,000 each year in the land exchange program. State law requires prospective exchange agents to deposit funds for appraisals, archeological surveys, and advertising prior to the state incurring those costs. The executive also requests converting \$50,000 each year from private fund authority to the Trust Administration Account to cover the costs of department initiated land exchange expenses.

New Proposals

New Proposals Sub Program	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3522 - Trust Land Management Database Upgrade - OTO 02	0.00	0	65,000	0	65,000	0.00	0	65,000	0	65,000
DP 3524 - Forest Management Software Integration - OTO 02	0.00	0	83,000	0	83,000	0.00	0	0	0	0
DP 6101 - Fixed Cost Workers Comp Management Program Allocate 02	0.00	0	5,132	0	5,132	0.00	0	4,451	0	4,451
Total	0.00	\$0	\$153,132	\$0	\$153,132	0.00	\$0	\$69,451	\$0	\$69,451

DP 3522 - Trust Land Management Database Upgrade - OTO - This biennial one-time-only request is for \$65,000 of state special revenue in both FY 2010 and FY 2011 to cover programming costs to upgrade the Trust Land Management System (TLMS) to interface with server upgrades due to incompatibility issues.

DP 3524 - Forest Management Software Integration - OTO - This one-time-only \$83,000 state special revenue request in FY 2010 is for contracted services to develop a user-friendly interface into the Trust Land Management System (TLMS). This interface will improve user access and integrate forest management software into TLMS.

DP 6101 - Fixed Cost Workers Comp Management Program Allocat - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Program Description

Air Operations

Program Proposed Budget

The following summarizes the total executive budget proposal for this program by year.

	Air Operations - Proposed Budget				
	Base	FY2010 Adjustments	FY2010 Total	FY2011 Adjustments	FY2011 Total
FTE	12.26	1.97	14.23	1.97	14.23
61000 Personal Services	895,125	118,906	1,014,031	124,128	1,019,253
62000 Operating Expenses	1,141,691	95,149	1,236,840	109,213	1,250,904
6300 Equipment	21,275	0	21,275	0	21,275
Total Costs	<u>\$2,058,091</u>	<u>\$214,055</u>	<u>\$2,272,146</u>	<u>\$233,341</u>	<u>\$2,291,432</u>

Program Description

The Air Operation Program manages six medium helicopters, one light helicopter, and three single engine fixed-wing airplanes. Aircraft are primarily used for fire detection, support and suppression of wildfires, and reclamation work in the Department of Environmental Quality. This revenue is also deposited in the proprietary account.

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 charged for the use of the aircraft and general fund and fire protection tax revenue for fixed costs.

Funding

The air operations program is funded with HB 2 appropriations transferred to the fund to cover fixed costs and with hourly charges for aviation services. The appropriations within agency budgets provide the funding for non-fire mission events. Fire mission events are paid by the direct protection agency responsible for managing the fire, or the general fund. This funding matrix is difficult to project as a large portion of it is dependent on fire activity.

Air Operations - Estimated Funding			
Payment Funding	Base	FY 2010	FY 2011
General Fund - Transfers	\$633,350	\$804,137	\$810,773
State Special Revenue - Trf.	326,366	414,254	417,672
All other funds	<u>1,229,115</u>	<u>1,053,755</u>	<u>979,644</u>
Total Payments	<u>\$2,188,831</u>	<u>\$2,272,146</u>	<u>\$2,208,089</u>

Program Narrative

Revenues

The primary source of revenue is in the collection of aircraft rental charges. 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, federal agencies, and the state’s wildfire suppression efforts.

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. The general fund and fire protection taxes are appropriated by the Legislature and transferred to and spent from the proprietary account.

Expenses

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

2011 Biennium Report on Internal Services Funds				
	Actual 2008	Budgeted 2009	Projected 2010	Projected 2011
Beginning Working Capital Balance	\$99,801	\$201,993	\$508,508	\$1,138,677
Operating Expenses	2,116,341	1,919,583	2,272,154	2,291,437
Operating Revenues				
Revenue from Fees	1,232,720	1,248,747	1,683,932	1,683,932
Other Revenues	<u>25,917</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Revenues	<u>1,258,637</u>	<u>1,248,747</u>	<u>1,683,932</u>	<u>1,683,932</u>
Contributed Capital	959,896	977,351	1,218,391	1,228,445
Operating Gain (Loss)	<u>102,192</u>	<u>306,515</u>	<u>630,169</u>	<u>620,940</u>
Ending Working Capital Balance	<u>\$201,993</u>	<u>\$508,508</u>	<u>\$1,138,677</u>	<u>\$1,759,617</u>

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget approved by the legislature. “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.

Air Operations - Present Law Adjustments				
	FY 2010		FY 2011	
	FTE	Costs	FTE	Costs
PL 000 Statewide Adjust.	\$0	\$130,740	\$0	\$149,998

New Proposals

Air Operations - New Proposals				
	FY 2010		FY 2011	
	FTE	Costs	FTE	Costs
DP 3504 Aviation Crew	1.97	\$82,814	1.97	\$82,910
DP 6101 Fixed Costs WC	0	501	0	433
Total New Proposals	1.97	\$83,315	1.97	\$83,343

DP 3504 - Aviation Crew Coverage Extension - The executive recommends an increase in seasonal pilots, helicopter managers, crew members, and fuel truck drivers to enable full utilization of the DNRC helicopter fleet during fire season. 1.97 FTE would be funded from the air operations fund.

LFD COMMENT	Based on hours flown per aircraft, the funding request results in a 6 percent increase in the rate. The remaining rate increase is attributed to statewide present law adjustments.
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DP 6101 - Fixed Cost Workers Comp Management Program Allocation - The Workers’ Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

The reimbursement rates for the operation of the department aircraft are based on the time life of 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.

For the 2011 biennium the following rates would generate revenue commensurate with costs as presented in the executive budget proposal. The Bell UH-1 increase is 12.5 percent, Jet ranger increase is 7.4 percent and the Cessna rate increases by 13.3 percent.

Air Operations Rates Per Hour				
Service	Actual 2008	Actual 2009	Proposed 2010	Proposed 2011
Bell UH-1/H Helicopters	1,075.00	1,075.00	1,210.00	1,210.00
Jet Ranger Helicopter	475.00	475.00	515.00	515.00
Cessna 180 Airplane	150.00	150.00	170.00	170.00

Proprietary Program Description

Conservation Seedling Nursery

Program Proposed Budget

The following summarizes the total executive budget proposal for this program by year.

Nursery- Proposed Budget					
	Base	FY2010 Adjustments	FY2010 Total	FY2011 Adjustments	FY2011 Total
FTE	9.67	1.25	14.23	1.25	14.23
61000 Personal Services	386,122	102,020	488,142	103,859	489,981
62000 Operating Expenses	161,869	2,342	164,211	2,796	164,665
6300 Equipment	<u>11,899</u>	<u>0</u>	11,899	<u>0</u>	<u>11,899</u>
Total Costs	<u>\$559,890</u>	<u>\$104,362</u>	<u>\$664,252</u>	<u>\$106,655</u>	<u>\$666,545</u>

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 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 one million seedlings annually on 110 acres of state land and in 9,000 square feet of greenhouse space. Sixty-seven plant species are currently in production. In FY 2006, 895 landowners purchased seedlings. The nursery program is funded solely from the nursery proprietary account.

Funding

The Conservation Seedling Nursery is funded entirely by revenues obtained from the sale of nursery stock.

Program Narrative

Revenues

The primary source of revenue is seedling sales. Other revenue sources are such services as seed collection, cleaning, and storage and the sale of 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, 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.

Expenses

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 cost is included when setting prices.

2011 Biennium Report on Internal Services Funds				
	Actual	Budgeted	Projected	Projected
	2008	2009	2010	2011
Beginning Working Capital Balance	\$14,883	\$26,304	\$48,789	\$41,556
Operating Expenses	568,593	488,545	664,763	667,122
Operating Revenues				
Revenue from Fees	572,169	506,000	650,000	690,000
Other Revenues	7,845	5,030	7,530	7,530
Total Operating Revenues	580,014	511,030	657,530	697,530
Operating Gain (Loss)	11,421	22,485	(7,233)	30,408
Ending Working Capital Balance	\$26,304	\$48,789	\$41,556	\$71,964

Present Law Adjustments

Nursery - Present Law Adjustments				
	FY 2010		FY 2011	
	FTE	Costs	FTE	Costs
PL 000 Statewide Adjust.	0	\$43,276	0	\$45,476

New Proposals

DP 3502 Seedling Nursery Staffing Increases - The executive recommends the permanent establishment of a 1.00 FTE horticulturalist position at the Montana Conservation Seedling Nursery and to increase the nursery accounting technician position from 0.75 FTE to 1.00 FTE. State nursery seedling production is at its maximum level and the nursery is not fulfilling all requests for restoration and conservation seedlings.

Nursery - New Proposals				
	FY 2010		FY 2011	
	FTE	Costs	FTE	Costs
DP 3502 Nursery Staffing Increase	1.25	\$61,086	1.25	\$61,179

Proprietary Rates

Nursery Rates

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.