

DNRC FIRE COST REPORT

A Report Prepared for the

Legislative Finance Committee

By

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PURPOSE AND SCOPE

The purpose of this report is to provide an update and overview of the financial impact of the 2003 fire season on the state budget for fiscal 2004. More specifically, the report will discuss the wildfire cost estimate to date and update the LFC on recent developments related to fiscal 2004 fire costs.

DNRC FIRE COST ESTIMATE

<i>Legislative Fiscal Division</i>	
Natural Resources and Conservation	
Fiscal 2004 Estimated Fire Costs *	
<u>PART 1:</u>	
<u>FY 2003 ACTUAL & ESTIMATED FIRE COSTS</u>	
Actual State Protection Costs as of November 14, 2003	\$66,650,749
DNRC Support to Federal/Other State Agencies	2,566,613
Estimated Spring 2004 Fire Costs	200,000
DNRC Estimated Budgeted Cost	(100,000)
PAID & ANTICIPATED OBLIGATIONS	\$69,317,362
<u>PART 2:</u>	
<u>COSTS COVERED BY OTHER SOURCES</u>	
Federal Reimbursement U.S. Forest Service	(\$2,566,613)
Total Cost Covered by Other Sources	<u>(2,566,613)</u>
ESTIMATE OF UNPAID BALANCE	<u>\$66,750,749</u>
<u>PART 3:</u>	
<u>REMAINING FIRE COST TO THE STATE OF MONTANA</u>	
PAID & ANTICIPATED OBLIGATIONS	\$69,317,362
Assistance to Other Agencies	(\$2,566,613)
FEMA Reimbursement **	(\$38,003,834)
Governor's Emergency Fund Advance	<u>\$0</u>
Total Payments by Other Entities	(40,570,447)
Preliminary Net Cost to the State	\$28,746,915
Less: Federal Jobs and Growth Tax Reconciliation Act Fiscal Relief Money	<u>(\$27,123,670)</u>
Remaining Fire Suppression Cost	<u>\$1,623,245</u>
* NOTE: All cost information is based upon best available estimates at the time of compilation and is subject to fluctuation. The cost for all fires that Montana has some financial responsibility is estimated at \$114.3 million. Negotiations are in progress to determine the final state share of those fires. Thus, the legislature can expect changes in the fire cost numbers.	
** \$50.7 million eligible cost X 0.75. Estimated State share is \$12.6 million	

Part 1 of the table shows total estimated costs for DNRC's fire suppression efforts, including the anticipated bill from the federal government for assistance in fighting Montana fires. The department must: 1) pay \$66.7 million to cover actual state protection costs. This figure includes

an estimated \$2.8 million of fire costs incurred by the Department of Military Affairs for its role in fire suppression efforts; 2) pay an estimated \$2.6 million to assist federal and other state agencies in their fire suppression efforts. These are reimbursable costs; 3) set aside an estimated \$0.2 million for anticipated Spring 2004 wildfire costs; and 4) deduct approximately \$0.1 million for personnel costs that had been budgeted in HB 2. These calculations bring the cost of fire suppression to approximately \$69.3 million. The increases in total cost since the October report are primarily due to changes in cost share negotiations between Montana and the Forest Service.

Part 2 shows those portions of the cost that have been covered by non-DNRC funds such as the Governor's emergency fund. There have been no Governor's emergency fund appropriations established in fiscal 2004. Costs incurred while assisting other state and federal entities total \$2.6 million and will be reimbursed when the Forest Service bill is finalized.

Part 3 shows the estimated net cost of fire suppression incurred by DNRC and DMA. When Montana firefighters help other agencies suppress fires, Montana is reimbursed for associated expenses. DNRC estimates that reimbursements from other states for Montana's assistance in fighting their fires will be \$2.6 million. In addition, there were several FEMA eligible fires in Montana. Consequently, the state is estimating a grant award of \$38.0 million. Thus, the net cost of fire suppression in fiscal 2004 is estimated to be \$28.7 million.

The Office of Budget and Program Planning processed documents to utilize \$27.1 million of Federal Jobs and Growth Tax Relief Reconciliation Act (FJGTRA) grant money to pay costs such as payroll costs, which are due in the short term. After this payment and expected reimbursements, the remaining fire cost totals \$1.6 million. Once fire costs are finalized, any remaining fire cost will likely be paid with FJGTRA funds.

AVERAGE FIRE COST

An average fire cost could be used as a planning tool to estimate fire cost impacts on state resources. Although there may be other valid methods, this report bases the calculation upon a seven year average in which the fire cost from the most recent seven years are averaged after the high and low years are removed from the calculation. Further, the average is calculated on both the total cost and the net cost of suppression. As the figure below shows, the State of Montana experiences an average total fire cost of \$18.3 million per year.

One might argue that the total fire cost isn't an accurate representation of the actual impact on state resources. However, this approach should be used with caution. Because the state is obligated to pay fire costs, a situation could arise in which the department would be required to pay for all fire costs in a given fiscal year. For example, an audit delay at the federal level could result in reimbursements or grants that would not be received until after the end of the fiscal year in which the costs were incurred. Although the state would ultimately receive reimbursement, costs may have to be paid several months before the actual receipt of the reimbursement or grant.

Another approach uses the average net cost of fire suppression. Although the methodology of calculating the average cost is the same for total and net cost, the net cost number assumes that all fire cost reimbursements or grants will be received in the same fiscal year as they were incurred or awarded, resulting in a smaller average cost figure. Although the net cost calculation is substantially lower than the total cost, having to pay the total cost in a given fiscal year may strain state resources because of increased cash flow needs. The average net cost of fire

suppression is currently \$7.0 million. As the following figure shows, the five-year average of the cost of suppression is substantial no matter which method is utilized.

Average Cost of Fire Suppression			
Fiscal Year	Total Cost	Reimbursements	Net Cost
1998*	870,638	(97,297)	773,341
1999	8,303,438	(2,402,172)	5,901,266
2000	5,205,614	(914,375)	4,291,239
2001	54,925,104	(44,784,017)	10,141,087
2002	16,417,193	(3,549,700)	12,867,493
2003	6,710,688	(4,684,927)	2,025,761
2004 (estimate)*	\$69,317,362	(40,570,447)	28,746,915
5 Year Average Cost	\$18,312,407		\$7,045,369
7 year Average Cost (high and low included)	\$23,107,148		\$9,249,586

* Not included in the 5 year average calculation

UPDATES

FEMA

The Fire Management Assistance Program (FMAP) allows for mitigation, management, and control of fires burning on publicly or privately owned forest or grassland that threatens a level of destruction that would constitute a major disaster. As of November 13, 2003, work orders totaling \$8.0 million have been submitted to FEMA. Thus, of the estimated \$38.0 million of FEMA

reimbursement, the work orders show that \$8.0 million has been spent on FEMA eligible fire costs and serve as documentation for reimbursement.

To pay for these expenses, DNRC has borrowed \$8.0 million from the general fund. According to loan documents provided by the department, the \$8.0 million general fund loan will be repaid by December 31, 2003 as FEMA reimbursements are received. In an effort to manage cash flow, the department may seek additional general fund loans in anticipation of receiving additional FEMA reimbursements. As of November 20, 2003, DNRC has received \$1.2 million of the estimated \$38.0 million of FEMA eligible costs that will be used to repay a portion of the general fund loan.

Reimbursable Costs

The amount of reimbursable costs incurred by sending people and equipment to assist other state and federal entities are holding steady. Currently, the reimbursable portion of the Forest Service bill totals \$2.6 million. As of November 20, 2003, DNRC has received just over \$1.1 million of the estimated \$2.6 million in reimbursable costs.

Forest Service Bill

Acting as a clearinghouse for fire suppression costs, the Forest Service consolidates, reconciles, and audits the final bill that is ultimately sent to Montana for costs incurred by other entities for which the state must provide reimbursement. Although the department estimates the bill to be around \$31.0 million, the Forest Service Bill is usually not received until sometime in January. Once DNRC receives its bill, a team of workers will verify that all costs are correct and accurate. These costs are included in the total fire cost of \$69.3 million.

FJGTRA

Congress granted fiscal relief funds under the Federal Jobs and Growth Tax Relief Reconciliation Act to the State of Montana and imposed few limits on the use of this money.

The federal act requires that the funds: 1) be used to provide essential government services; 2) be used to cover state costs incurred to comply with unfunded federal mandates; and 3) can only be used for expenditures permitted under the most recently approved budget for the state.

Because of the decision to utilize FJGTRA money, the department has not yet experienced any financial difficulties as a result of paying for wildfire costs incurred in fiscal 2004. Since the October LFC meeting Montana has received a second \$25.0 million FJGTRA installment. In total, the state has utilized \$27.1 million of this funding source to pay for fiscal 2004 fire costs, as shown in the above figure.

California Fires

DNRC sent a small crew and three engines to assist with the recent California wildfires. However, due to a disagreement between the California Department of Forestry and the Forest Service, the equipment and crew were not utilized, which resulted in a minimal amount of cost. At the time of this writing, the cost is unknown but will not be significant. The State of California will be billed and Montana will be reimbursed for costs incurred.

Fire Cost Study Group

The Department of Natural Resources and Conservation has recently formed a study group to examine funding issues associated with wildfires. Participants include department personnel, landowners, fire fighters, and legislators. The first meeting, which occurred on October 8, 2003, primarily consisted of an overview of the current funding structure and some initial discussions of problems associated with funding. An LFD analyst is attending these meetings and will provide updates to the LFC as issues emerge. The next meeting is tentatively scheduled for December 9, 2003.

CONCLUSION

Without FJGTRA and FEMA grant funding in fiscal 2004, the State of Montana would be faced with a fire bill estimated to be \$66.8 million. For example, \$27.1 million of FJGTRA grant money has been used to pay for fire costs. Although the fire costs will be paid, the opportunity to use this funding source for other purposes has been lost. Further, without a FEMA grant, Montana would have to pay an additional \$38.0 million worth of fire costs. Therefore, while Montana should be able to get through the fiscal 2004 fire season, the legislature is relying upon \$65.1 million of either one-time, or in the case of FEMA, uncertain sources of federal money to pay fire costs.

Although this report notes that DNRC has not experienced any financial difficulties as a result of paying fire costs, it is equally important to note that without FJGTRA and FEMA grant funding in fiscal 2004, paying ongoing fire costs would be difficult at best. Arguably, the magnitude of fire suppression costs over the last several years is straining state resources.