

AN OVERVIEW OF FIRE FUNDING IN MONTANA AND THE FISCAL IMPACT OF THE 2001 FIRE SEASON

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By

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PURPOSE AND SCOPE

The purpose of this report is to provide an overview of the fire funding process and the financial impact of the 2002 fire season on the state budget and the Department of Natural Resources and Conservation (DNRC). More specifically, the report will discuss DNRC's financial position and the impact of the fires on the Governor's emergency fund.

DEVELOPING THE FIRE COST PICTURE

Quantifying fire suppression costs is a complex issue. In a normal year, it can take several months beyond the fire season to settle the bills related to the fires. Also, with any given fire, determining "costs" involves many factors such as size, where the fire started (protection responsibility), whether it is nature or human caused, cost share agreements, and FEMA funding.

RESPONSIBILITY

The State of Montana has what amounts to a three-tiered system of responsibility when responding to fires. Of the approximately 93 million acres in Montana, about 45.3 million acres are under county control, 40 million are under federal control, and 5.1 million are under DNRC's control. The remaining 2.6 million acres are cities, waterways, and other areas that are not subject to wildland fires.

When a fire starts, there are a number of things to consider. First, where a fire starts is an important factor in determining who pays for it. The State of Montana is divided up among federal, state and county agencies that are responsible for fighting fires that start in their areas of control. Some of the factors considered in dividing up the state include ownership and location of resources.

Second, in addition to overall responsibility, and long before a fire begins, the agencies have reached agreements upon some things that will ultimately affect a given agency's cost. The federal and state agencies involved with fire fighting efforts have decided in advance who will initially pay for supplies needed in the suppression efforts. For example, providers of portable restroom facilities, meals, communication equipment, aircraft, and human resources are determined in advance of a fire. Many of these costs will have to be paid on an immediate and on-going basis.

Because of factors such as extreme fire behavior, a fire can quickly progress beyond boundaries of responsibility. When this happens, the complexity of the fire increases as does determining who is responsible for fire suppression costs. If a state responsibility fire travels to federal responsibility land, total cost to each party will be apportioned long after the fire is out. Negotiations often take place between federal and state agencies to determine who will ultimately be responsible for what portion of a fire. A final decision

of cost apportionment may be made based upon surface area of land burned, a negotiated split (such as 50/50 or 60/40), or another method acceptable to the parties involved.

TYPES OF WILDFIRE COSTS AND IMPACT OF TIMING

There are three basic types of wildfire costs. Each kind of cost affects the general fund in a different way. The following provide a description of the costs, timing, and affect on the general fund:

1) Suppression costs that must be paid immediately. These costs include payroll to department personnel assigned to fire fighting and payments to local vendors providing necessary provisions. For example, on large complex fires, meals are supplied by a federal contract. The Forest Service will bill DNRC after the fire season for the state's portion of these costs. However, if a fire erupts that does not require the services of the contract caterer, local vendors must be paid for providing meals to firefighters. Portable bathroom facilities, land leases for a base camp, and vehicle repairs and maintenance are examples of immediate costs. As of February 4, 2002, DNRC has accumulated and paid just over \$8.4 million on bills of this nature for the fiscal 2002 fire season.

2) Costs for which DNRC will not be responsible until after the end of the fire season. The largest, most significant of these bills is termed the "Forest Service bill." The Forest Service bill contains many components. Some costs are paid up front and some will be billed later. Like DNRC, the federal government agrees to pay some costs as an immediate need arises. If a fire occurs on state responsibility land, DNRC will ultimately be responsible for the cost even if the Forest Service pays the initial bill.

In addition to bills paid immediately, the Forest Service has a vast supply network from which DNRC obtains vital fire fighting tools, equipment, and supplies. The immediate nature of fighting fires coupled with an increased demand on a national scale can create shortages of protective equipment and clothing. Thus, the Forest Service has developed a supply system for these necessary items. For example, if the State of Montana needs an air-tanker, it is requested through the Forest Service. Depending upon availability and level of priority, Montana will either receive the shipment quickly or will be placed on a waiting list. In either case, the cost will not have to be paid until the Forest Service bill is received.

Although it is termed as the Forest Service bill, there is often a myriad of entities involved. For example, if the State of Georgia sends a team of fire fighters, the State of Washington sends a couple of bulldozers, and the Bureau of Land Management (BLM) sends a helicopter to assist in the fire fighting efforts, the state does not pay these bills individually. Rather, each entity involved submits a bill to the Forest Service. Acting as a clearinghouse for fire suppression costs, the Forest Service consolidates, reconciles, and audits the final bill that is ultimately sent to Montana. Once DNRC receives its bill, a team of workers will verify that all costs are correct and accurate.

3) Net cost. While DNRC faces immediate cash needs and the cost of fires seems ominous, the net effect of fighting fires can be much less than the total cost. Similar to the Forest Service bill, DNRC submits a bill of federal responsible costs of fighting wildland fires on federal responsible land. Accounting practices do not allow DNRC to "offset" bills with the Forest Service. Thus, DNRC must submit their bill to the Forest Service and wait for payment. Although the state is required to pay this bill rather quickly, payment is not received from the Forest Service for at least a year. Once payment is received, the money the state receives from the Forest Service is deposited directly to the general fund. The bill swapping ritual will be concluded sometime after the first of the year.

DNRC FIRE COST ESTIMATE

The legislature usually does not appropriate any general fund in the general appropriations act to suppress wildfires (other than personal services appropriated for other purposes, but spent on fire suppression). Instead, it appropriates funding through: 1) a supplemental appropriation in the next regular session to reimburse the department for appropriation transfers and actual and expected fire suppression costs; and/or 2) statutory appropriations of up to \$12.0 million if the Governor declares a wildfire emergency.

The department has estimated that fire suppression efforts in fiscal 2002 will cost the State of Montana approximately \$10.2 million. The following table describes how the fire suppression cost estimate was calculated.

Table 1 Natural Resources and Conservation 2002 Estimated Fire Costs		
<u>PART 1:</u>		
<u>FY 2002 ACTUAL & ESTIMATED FIRE COSTS</u>		
Actual State Protection Costs as of February 4, 2002	\$8,407,558	
U.S. Forest Service/BLM Estimated Bill	6,806,034	
Estimated Fall 2001/Spring 2002 Fire Costs	600,000	
DNRC Budgeted Cost	<u>(300,000)</u>	
PAID & ANTICIPATED OBLIGATIONS		\$15,513,592
<u>PART 2:</u>		
<u>COSTS COVERED BY OTHER SOURCES</u>		
GOVERNOR'S EMERGENCY FUND ADVANCE	<u>(6,700,000)</u>	
Total Cost Covered by Other Sources		<u>(6,700,000)</u>
Estimate of Unpaid Balance		<u>\$8,813,592</u>
<u>PART 3:</u>		
<u>NET COST TO THE STATE OF MONTANA</u>		
Estimated Unpaid Balance		\$8,813,592
Assistance to Other Agencies	(\$2,971,722)	
Governor's Emergency Fund Advance	<u>6,700,000</u>	
SUBTOTAL		<u>3,728,278</u>
PRELIMINARY NET COST TO STATE		<u>\$12,541,870</u>

Part 1 of the table shows total estimated costs for state-responsibility fires, including the anticipated bill from the federal government for assistance in fighting Montana fires. The department must: 1) pay \$8.4 million to cover actual state protection costs as of February 4, 2002; 2) pay an estimated \$6.8 million to federal agencies for their costs yet to be billed for fighting state fires; 3) set aside an estimated \$0.6 million for anticipated spring 2002 wildfire costs; and 4) deduct \$0.3 million for personnel costs that had been budgeted in HB 2. These calculations bring the cost of fire suppression to approximately \$15.5 million.

Part 2 shows those portions of the cost that have been covered by non-DNRC funds such as the Governor's emergency fund. So far, the department has utilized \$6.7 million from the Governor's emergency fund. Since the \$6.7 million from the Governor's emergency fund has already been appropriated, if the remaining costs had to be paid today, the supplemental appropriation the legislature would be asked to make is \$8.8 million.

Part 3 shows the net cost of Montana's fire suppression. 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 \$3.0 million.

To arrive at the net cost to Montana, the Governor's emergency fund, which is also a general fund account, must also be accounted for. As of February 4, 2002, DNRC has utilized \$6.7 million from the Governor's emergency fund for fire suppression costs. As part 3 shows, it is estimated that the 2002 fire season will cost Montana approximately \$12.5 million.

AVAILABLE SOURCES OF AUTHORITY

There are two sources of authority that DNRC will use to pay fire costs until the 2003 legislative session, when a supplemental appropriation to pay state fire costs will be requested.

Internal Department

To pay for fiscal 2002 fire costs, DNRC will utilize the operating budget of the Forestry Division for spending authority. In the first year of the biennium, the department will typically borrow spending authority from the second year of the biennium. Then, if the need arises, the department approaches the legislature for a supplemental appropriation to replenish the second year appropriation. In a particularly brisk fire season, borrowing from the second year can occur earlier than usual. When this happens, the possibility exists that the department may need to approach the legislature for a supplemental appropriation sooner than expected.

Governor's Emergency Fund

When the Governor declares an emergency or disaster, 10-3-312 MCA, provides a \$12 million statutory biennial appropriation to be used by state agencies to fund related costs. Because it is a biennial appropriation, and because many agencies can be affected by an emergency or disaster, DNRC does not have exclusive access to all of the emergency authority in the event of a fire emergency or disaster.

Table 2 shows appropriations from the emergency fund established by the executive as of February 4, 2002.

Governor's Emergency Fund	\$12,000,000
Appropriations by Agency:	
<i>Department of Natural Resources</i>	
Statewide Fire Emergency - SA	\$6,700,000
<i>Department of Justice</i>	
Security	6,921
<i>Department of Administration</i>	
Sept 11 Disaster - SA	6,990
<i>Department of Military Affairs</i>	
EO 20-01 2001 Fires	765,540
EO 19-01 Flood Custer County	56,322
EO 23-01 September Terrorism	<u>119,011</u>
Total Emergency Fund Appropriations Established	<u>7,654,784</u>
Governors Emergency Fund -- Remaining Balance	<u>\$4,345,216</u>

As shown, DNRC has established a total of \$6.7 million of the fund for use on fire suppression efforts, the Department of Military Affairs has established \$0.9 million for the floods, fires, and terrorism, and the Departments of Justice and Administration each established just over \$6,900 for terrorism activities. Thus, \$7.6 million of the total \$12.0 million statutory appropriation has been established, leaving a balance of \$4.3 million. Just over 36 percent of the Governor's emergency fund is left to fund emergencies for the remaining 71 percent of the 2003 biennium.

As indicated in Table 1, DNRC must pay approximately \$8.8 million in fire suppression costs. These costs are not tied to a specific source of authority. In an effort to pay these bills pending reimbursement from the 2003 legislature, DNRC is looking to utilize authority given to operate other parts of the agency. In this biennium, the legislature

appropriated \$6.2 million in fiscal 2002 and \$6.1 million in fiscal 2003 to the Forestry and Trust Lands Division. Because of other ongoing operations, the entire amount isn't available to cover fire cost obligations. A meeting with the Office of Budget and Program Planning will take place in mid February to discuss the department's funding alternatives.

CONCERN – FIRE FUNDING

As stated, the legislature does not provide an appropriation to DNRC for fire suppression costs. Instead, fire costs are paid temporarily from the Forestry Division's general fund appropriation and through the statutory emergency appropriation if an emergency or disaster is declared. DNRC is then reimbursed and all other bills, except those paid from the Governor's emergency fund, are funded through a supplemental appropriation.¹ Although the legislature chooses not to appropriate general fund authority specifically for wildland fire suppression costs outside of the Governor's emergency fund, it has demonstrated its commitment to pay for all fire suppression costs through supplemental appropriation. While this process functions, it is problematic in a couple of ways.

- 1) If the state does not have a severe fire season in the first year of the biennium, the process works well. The department will probably not have to move excessive amounts of authority from the second year of the biennium to fund fire costs in the first year. In addition, the supplemental appropriation bill in the next legislative session will make the agency whole again before funding becomes problematic. However, when a severe fire season occurs in the first year of the biennium, DNRC is faced with the burden of trying to find sources of authority to fund wildland fire suppression costs while trying to maintain current operations.
- 2) The lack of spending authority potentially puts the legislature in the position of calling a special session if internal authority, emergency funding, FEMA, and borrowing are not sufficient to cover suppression costs until the next legislative session.

The current policy of funding fire suppression costs is sufficient in most years. However, the question is to examine whether or not it functions efficiently. There are a number of alternatives that will produce the result of funding fire suppression costs while minimizing the problems associated with the current method. The Legislative Finance Committee has been presented with the following options when examining how fire suppression costs are funded in Montana:

- 1) HB2 Appropriation. The legislature could appropriate an amount for fire suppression costs through a HB2 appropriation. Although the legislature could appropriate an amount for each year in the biennium based upon past fire season costs, a biennial appropriation would provide agency flexibility in particularly difficult fire seasons.

¹ Therefore, any costs of fires are a reduction to the projected ending general fund balance.

In this case, the HB2 fire suppression appropriation would be above the normal Forestry Division general fund appropriation. Because of the uncertain nature of fires, costs above the appropriation could be funded through the supplemental appropriation process. Like other HB2 appropriations, the legislature could restrict spending to fire suppression costs only. This option would reduce the ending general fund balance. However, because the legislature chooses to fund, if only partially, wildfire costs, the general fund impact due to a severe fire season could be reduced.

- 2) Portion of Emergency Fund. The legislature could amend the \$12 million biennial statutory appropriation available for emergencies to allow DNRC to use a portion specifically for fire suppression costs. For example, rather than making \$12 million available for any emergency or disaster declared by the Governor, the statute could be amended to provide an \$8 million biennial appropriation for general emergencies and a \$4 million biennial appropriation available specifically for fire suppression. If desired, and only under certain pre-determined conditions, the \$4 million could be made available without a Governor's declaration of disaster or emergency. However, restrictions could be used to limit spending on this funding. This would give DNRC some flexibility to fund particularly difficult fire seasons. Suppression costs above the additional funding could be secured through the supplemental appropriation process.
- 3) Montana Wildfire Mobilization Fund. The legislature could establish and fund a "Montana Wildfire Mobilization Fund." The legislature could develop a trust that, once fully funded, the proceeds from which could be used to fund fire suppression costs. Funding could be provided from a number of sources. Some examples might include: 1) charging a fire suppression fee to entities and individuals utilizing public land to derive income; 2) sharp increases in suppression charges to those who choose to build homes in wildland/urban interface areas; 3) taxes imposed on all taxpayers in Montana; 4) a percentage of total insurance premiums for all homeowners policies written for Montana real property; 5) or any combination of these.

FIRE ODYSSEY 2001

According to DNRC, the fire program is examined in depth once every 10 years. The purpose of this detailed examination is to develop a 10-year strategic action plan. Working groups gathered together in a one week long working session with stakeholders to discuss ideas and develop plans. Topic areas included: 1) Implementation of solutions; 2) Public expectations of the Fire and Aviation Program; 3) DNRC fire mission; 4) DNRC's role in all-risk incident management; 5) Funding and staffing to meet the fire mission; and 6) Interagency relations.

The Funding and Staffing work group discussed potential options for fire funding. According to the department, these options are being examined to help meet some objectives of HJR 42 and will be presented to the Environmental Quality Council during the next meeting. Prior to the 2003 legislature, the department intends to evaluate the

following proposed funding sources as to feasibility, equitability, and efficiency. The following ideas were developed from the Fire Odyssey sessions and the department will continue to explore their potential for implementation:

1. Establish a suppression fund to pay for suppression costs. Options could include a trust fund with interest used to pay the annual bills, or a “split fund” with some income dollars going towards building the trust and the rest going towards paying the annual bills. The following are some ideas for revenue sources to fund a trust:
 - a. A fee (direct or prerequisite) assessed recreationists through conservation, fishing, hunting, off road vehicle licenses, or recreation use licenses.
 - b. A fee per million board feet of lumber harvested on state and private lands.
 - c. A statewide “Fire Lottery.”
 - d. An assessment on state Trust Lands for their protection.
 - e. A fee on all licenses and leases on state Trust Lands.
 - f. A portion of the existing Resort Tax.
 - g. A portion of the existing Bed Tax.
 - h. Establish a (partially?) bond-funded account using the state’s bonding authority.
 - i. Explore issuing catastrophe bonds via the capital market to cover suppression costs in exceptional years.
 - j. Utilize any payments from billable fires to help support the fund rather than returning to the general fund.
 - k. An assessment on Non Forest Zone lands.²
 - l. Assessments on power and railroad rights-of-way.
 - m. A \$1.00 license plate fee.
 - n. General fund.
 - o. A license fee for fireworks vendors.
2. Request a separate administration budget to alleviate pressure on the Forestry Division budget, and examine alternatives for potential revenue sources for this request.
3. Recommend that DNRC undertake an analysis of the whole fire program (pre-suppression, suppression, training, prevention, etc.) to include the value at risk based on an assessed property valuation, or some other easily determined value. The goal is to utilize the information to defend existing levels of operation, or justify an expansion request.
4. Develop an assessment structure based on values protected or on costs of suppression. As part of this proposal, those who are benefiting would fund the cost of the county coop program

² Defined as agriculture or pastureland ½ mile away from a forest stand. Thus, most broad valley zones greater than one mile would contain some non-forest zone land.

CONCLUSION

Although the legislature has committed to pay fire bills, the current method of funding fire suppression costs could be described as cumbersome. In conjunction with HJR 42, EQC has been tasked to conduct a study of DNRC's fire program, sources of funding, and alternatives for funding. The outcome of this study could have long-term impacts to funding wildland fires in Montana.