Environmental Quality Council
Agency Oversight Subcommittee
Meeting Minutes and Exhibits
Date: 3.9.04
Exhibit No. 4

Summary of Montana Wildfire Funding Alternativ[illegible] Under Consideration

DNRC Fire Funding Committee
February 12, 2004

Paying for the costs of wildfire protection in Montana is a complex and politically charged issue, especially in light of record-setting fire seasons within the past three years. Several attempts have been made in past legislative sessions to revise the current funding structure, most with the goal of relieving the burden upon the state general fund, which pays the majority of DNRC fire preparedness costs and all of DNRC's fire suppression bill. These efforts have had limited results, and debate over such options have occurred primarily in committee hearings during consideration of proposed legislation.

In July 2003, DNRC formed a committee of legislators and stakeholders to study the fire funding issue. The primary goals of this effort were:

- Elevate the level of understanding about wildland fire protection in Montana, the current fire funding structure, and explore reasonable alternatives to how fires are presently funded;
- Determine whether sufficient consensus exists to develop a DNRC-sponsored legislative proposal to generate additional revenue for funding some of the state's fire suppression costs.

Discussion about fire funding has continued through two meetings of this committee (October and December 2003), where beneficiaries of fire protection were identified: general public, landowners, rural homeowners, tourism, insurance companies, utilities, railroads, and recreation interests. The committee discussed the relative benefit derived from each of these groups, and considered the basis for additional revenue. Several issues and concerns have surfaced in this process, including the following:

- Representatives of forest and rural landowners believe that the current system is appropriate, given that catastrophic wildfire affects the entire population either through direct threats to property, the health hazards to the general public presented by smoke and particulates, and potential damage to wildlife habitat and municipal watersheds;
- Most beneficiary groups believe additional assessments upon them would constitute an unfair burden, and advocate a continued reliance on the state general fund for wildfire suppression costs;
- Members of rural fire districts believe their support for local fire departments should receive credit because rural fire departments assist with suppression of wildland fires,thereby reducing state fire suppression costs;
- Tourism officials believe their industry already contributes an adequate amount to the state general fund to pay any corresponding obligation they have to pay fire suppression costs. If bed tax revenue is used, it should be earmarked from current bed tax receipts deposited into the general fund;

- Forest landowners and homeowners believe credit should be given to those who harvest or thin their forests in a comprehensive manner, and incorporate "firewise" principles to increase the potential for their homes to survive a wildfire;
- Forested landowners within DNRC direct protection areas currently pay assessments, while landowners within areas receiving state assistance on county fires that exceed county capabilities do not;
- Continued reliance on the general fund and supplemental appropriations to pay for fire suppression costs may exceed the ending fund balance and force a special legislative session;
- Any fire suppression fund created could be accessed by either the legislature or other entities (through legislation) to divert funds away from the intended purposes.

These issues have prompted the development of four alternatives for further analysis and consideration. The following is a summary of the alternatives under consideration, and a matrix that provides a comparison between them.

1. **Alternative A** – This alternative would continue to fund fire preparedness and suppression under the current system, and would not create a source of funds for state fire suppression costs. DNRC fire preparedness budget of $7.4 million per year would continue to be funded through a combination of assessments (1/3), general fund and federal funds (2/3). DNRC fire suppression costs would continue to be paid by DNRC through interagency loans and other available funding, with supplemental spending requests to the legislature as needed.

   Under this alternative, DNRC may still propose legislation to increase the current assessment cap of $30 (<20 acres) and $0.20 per acre (>20acres) on forested landowners in direct fire protection areas to reflect additional costs of maintaining fire and aviation initial attack resources.

2. **Alternative B** – This alternative assumes that all taxpayers (through the general fund) benefit from fire protection, but landowners, homeowners, and certain business interests benefit from fire protection as well, and should contribute toward fire preparedness and suppression. The alternative would create a "fire emergency fund" that would be used to fund the DNRC fire preparedness program, and provide a long-term source of funding for fire suppression as well.

   A target of $20 million per year would be raised, with the following annual dispersals:
   - $7.0 million for DNRC fire program, consistent with current funding;
   - $10.0 million for average annual fire suppression costs;
   - $3.0 million to develop a "fire suppression fund" for fire seasons exceeding average annual costs.

During years with little fire activity, excess funds would stay in the emergency fund to be used during extraordinary years. The fund could be capped at a predetermined amount, and assessments reduced to that needed to fund only the DNRC fire program until the fund fell below the cap.

Funds would be generated according to the following mixture:

- 40% ($8 million) General Fund
- 40% ($8 million) Landowner Assessments
    - Landowners within DNRC Direct Fire Protection boundaries
    - Landowners within DNRC Direct Fire Protection boundaries and within a Rural Fire District
    - Landowners outside DNRC Direct Fire Protection boundaries (County Coop Fire Program)
    - Surcharge on homeowners outside corporate limits of Class I-IV Cities *(based upon appraised value)*
- 20% ($4 million) Combination of taxes on the following entities:
    - Bed Tax
    - Insurance
    - Utilities
    - Railroads
    - Recreation
    - Non-trust state lands

3. **Alternative C** - This alternative assumes that landowners currently being assessed for fire protection and general fund revenue raised from a current tax on the insurance industry should fund a $20 million annual fire emergency fund. Assessments on landowners within DNRC direct fire protection boundaries would continue at current rates, and $12.8 million per year would be diverted from insurance taxes normally earmarked for the state General Fund. No other landowner or business entities would be assessed.

4. **Alternative D** – This alternative would propose a $14 million fire emergency fund for DNRC preparedness and suppression costs and does not generate enough revenue to build the fund over time. Alternative D uses a mixture of 60% General Fund, 30% landowners & owners of improvements in fire-prone areas, and 10% from other entities to derive the emergency fund. This alternative would generate $6 million less than alternative A, and reduce the burden of additional assessments on property owners and other beneficiaries of fire protection.

   This alternative would generate revenue in the following manner:

   - 60% ($8.4 million) from the state general fund
   - 30% ($4.2 million) Landowner/Improvement Assessments
       - Landowners within DNRC Direct Fire Protection boundaries
       - Landowners within DNRC Direct Fire Protection boundaries and within a Rural Fire District

  - o Landowners outside DNRC Direct Fire Protection boundaries (County Coop Fire Program)
  - o Surcharge on homeowners outside corporate limits of Class I-IV Cities *(based upon a flat fee per structure)*

- 10% ($1.4 million) Tourism and Insurance Industry:
  - o Bed tax (new)
  - o Insurance industry tax surcharge (new)
  - o Recreation
  - o Non-trust state lands
  - o *Note: Bed tax and insurance taxes could be earmarked from existing contributions to the general fund ---but this would result in less general fund savings.*

- Potential Modifiers:
  - o Assessments on forested landowners could be reduced once certified that comprehensive thinning had occurred on forested property;
  - o Assessments on improvements would be reduced once certified that defensible space treatments/appropriate materials had been completed around homes and businesses at risk from wildfire;
  - o *Note: Certification of landowners and homeowners would not be without cost. Additional staff and funding would be necessary to certify compliance, and would require long-term staff and funding for maintenance of records.*

Summary: The alternatives described above and shown in the following table in detail represent the options DNRC has identified in response to issues presented to the committee. There appears to be substantial support for maintaining the current funding system, and continuing to use the state general fund to pay for all fire suppression costs. If that continues to represent the prevailing opinion, Alternative A or C represents the obvious choice. If the objective were to relieve the burden upon the general fund and reduce the possibility of a special session following extreme fire seasons, either Alternative B or D would be selected.

However, since it is apparent that very minimal support exists for any new alternatives identified and analyzed during this effort, DNRC will terminate it's consideration of a legislative proposal for substantial changes to the fire funding system. We will leave any further consideration of funding issues to the Montana Legislature, and provide input as requested by them.

	A	B	C	D
Fire Emergency Fund	No	Yes ($20 m)	Yes ($20 m)	Yes ($14 m)
Funding Mix	1/3 : 2/3 Assessments/GF & Fed	40/40/20 GF & Fed/Assessments/Other	1/3 : 2/3 Assessments/GF & Fed	60/30/10 GF & Fed/Assessments/Other
	Preparedness $4.7 m – GF & Fed $2.5 m – Fire Protection Assessments **Suppression** $10 m – GF (average)	$8 m - GF & Fed $8 m - Acreage & Structure fee $4 m – Other: • Bed tax • Insurance • Utilities • Railroads • Recreation • Non-Trust State Lands	$4.7 m – GF & Fed $2.5 m – Fire Protection Assessments $12.8 m – Insurance tax revenues (earmarked)	$8.4 m – GF & Fed $4.2 m – Acreage & Structure fee $1.4 m - Other • Bed Tax • Insurance • Non-Trust State Lands • Recreation
Implementation Costs vs Current System	No Change	Highest	Low	Moderate
$$ Effect to Stakeholders				
General Fund	$14.2 million	$7.5 million	$17 million	$7.9 million
Direct Protection				
Landowner – less than 20 acres	$30.00 minimum	$0.77 per acre	$30.00 minimum	$0.41 per acre
Landowner – greater than 20 acres	$30.00 minimum plus $0.20 per acre	$0.77 per acre	$30.00 minimum plus $0.20 per acre	$0.41 per acre
Structure Owners with local fire protection	$0	$50.00 per $100,000 of market value	$0	$32.50 per structure
Structure Owners without local fire protection	$0	$100.00 per $100,000 of market value	$0	$65.00 per structure
County Protection				
Landowner	$0	$0.016 per acre	$0	$0.01 per acre
Structure Owners	$0	$5.00 per $100,000 of market value	$0	$2.75 per structure
Other Revenue Sources				
-Bed Tax	$0	$660,000	$0	$350,000
-Insurance	$0	$660,000	$12.8 million (earmark)	$350,000
-Utilities	$0	$660,000	$0	$0
-Railroads	$0	$660,000	$0	$0
-Non-Trust State Lands	$0	$660,000	$0	$350,000
-Recreation	$0	$660,000	$0	$350,000