

DNRC FIRE COST REPORT

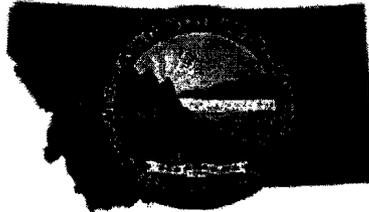
A Report Prepared for the

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 February 25, 2003	\$66,650,749
Anticipated State Share Increase of Pending Forest Service Bill **	3,000,000
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	\$72,317,362
<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	(2,566,613)
ESTIMATE OF UNPAID BALANCE	\$69,750,749
<u>PART 3:</u>	
<u>REMAINING FIRE COST TO THE STATE OF MONTANA</u>	
PAID & ANTICIPATED OBLIGATIONS	\$72,317,362
Assistance to Other Agencies	(\$2,566,613)
FEMA Reimbursement ***	(\$38,003,834)
Governor's Emergency Fund Advance	\$0
Total Payments by Other Entities	(40,570,447)
Preliminary Net Cost to the State	\$31,746,915
Less: Federal Jobs and Growth Tax Reconciliation Act Fiscal Relief Money	(\$27,123,670)
Remaining Fire Suppression Cost	\$4,623,245
<p>* 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 \$117.3 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.</p> <p>** The forest service is working to finalize the bill. Although there is no indication of the final amount of the bill, DNRC anticipates that the bill will be at least \$2.0 million and as much as \$5.0 million higher. The department also anticipates that an unestimated portion of the bill could be eligible for FEMA reimbursement.</p> <p>*** \$50.7 million eligible cost X 0.75. Estimated State share is \$12.6 million</p>	

Part 1 of the table shows total estimated costs for the Department of Natural Resources and Conservation's (DNRC) 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 (DMA) for its role in fire suppression efforts); 2) pay an additional \$3.0 million of estimated fire costs to the Forest Service (Although this cost is shown as \$3.0 million, the department estimates that it will be at least \$2.0 million and as much as \$5.0 million. Until the bill is finalized, the actual amount will remain unknown); 3) pay an estimated \$2.6 million to assist federal and other state agencies in their fire suppression efforts (These are reimbursable costs); 4) set aside an estimated \$0.2 million for anticipated Spring 2004 wildfire costs; and 5) deduct approximately \$0.1 million for personnel costs that had been budgeted in HB 2. These calculations bring the total cost of fire suppression to approximately \$72.3 million.

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 \$31.7 million.

The Office of Budget and Program Planning (OBPP) processed documents to utilize \$27.1 million of Federal Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) 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 \$4.6 million. Once fire costs are finalized, any remaining fire cost will likely be paid with JGTRRA 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 on the following page 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
2004 (estimate)*	\$72,317,362	(40,570,447)	31,746,915
5 Year Average Cost			
7 year Average Cost (high and low included)	\$23,535,720		\$9,678,157

* Not included in the 5 year average calculation

UPDATES

Federal Emergency (FEMA) Management Agency

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 this writing, the state has received \$8.4 million of the estimated \$38.0 million FEMA

reimbursement.

Before the state can receive FEMA reimbursement, it must show that it has paid the fire expenses. Since the department did not have a readily available supply of cash to pay eligible bills, DNRC borrowed \$8.0 million from the general fund. As of the writing of this report, \$6.9 million of the \$8.4 million has been used to repay the general fund loan. Although the department did not meet its original December 31, 2003 goal of repaying the general fund loan, the department anticipates repaying the remaining \$1.1 million within the next 30 days. In an effort to manage cash flow, the department may seek additional general fund loans in anticipation of receiving additional FEMA reimbursements.

National Interagency Fire Center Predictions

According to an Associated Press writer, fire managers at the National Interagency Fire Center in Boise Idaho are suggesting that drought, warm temperatures, and damaged vegetation are pointing to another difficult fire season throughout many parts of the West. More specifically, this article indicates that the Rocky Mountain Region could have a fire season that is normal to above normal in severity.

At the time of this writing, the department is expecting a normal fire season. However, moisture level measurements taken in May and June will provide a better indication of the type of fire season the state might have. Accordingly, the department has indicated that an estimate of \$200,000 to cover fire costs through the end of the fiscal year is appropriate.

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 anticipated receiving, auditing, and finalizing the bill by the March 2004 LFC meeting, problems with the bill may prevent that from happening. When the department originally received the bill, DNRC analysts determined that the State of Montana had been billed for fires and equipment that was not the state's responsibility. Thus, the bill was returned to the Forest Service for revision. Early examinations indicate that the complexity of the recent fire season coupled with problems arising from a new Forest Service computer system were the likely causes of the billing errors.

Although the State of Montana was over-billed for some items, it was under-billed for others. Since the December 2003 LFC meeting, the department has identified a net cost increase of at least \$2.0 million. However, the department notes that adjustments could increase the final Forest Service bill by as much as \$5.0 million. For purposes of tracking costs, an additional \$3.0 million has been added to the cost estimate presented at the December LFC meeting. According to the department, once DNRC receives the bill back from the Forest Service, a team of workers will verify that all costs are correct and accurate.

JGTRRA

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 JGTRRA money, the department has not yet experienced any financial difficulties as a result of paying for wildfire costs incurred in fiscal 2004. Montana has received the entire \$50 million of JGTRRA grant dollars as anticipated. 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.

At the time of this writing, about \$10 million of JGTRRA funding has been set aside for fire costs incurred during the Spring and early next fiscal year. However, cost calculations indicate that after FEMA and Forest Service reimbursements, a \$4.6 million fire bill will remain. It continues to be the Governor's position that any remaining fire bills will be paid with this source of funding. Thus, the estimated remaining balance of JGTRRA funding is \$5.4 million.

Although this \$5.4 million is to be used for fire costs for the remainder of this fiscal year and all of fiscal 2005, if fire costs are in line with the 5-year average of \$7.0 million, additional general fund would be required to fund fire costs in fiscal 2005.

Performance Audit on Fire Costs

At the October LFC meeting, the committee directed the Legislative Fiscal Analyst to inform the Legislative Auditor of the committee's concerns about fire funding policy and issues, and to discuss with him the merits of a performance audit of these issues.

On December 17, 2003, four members of the Legislative Audit Committee (LAC) requested that the Legislative Audit Division (LAD) conduct a performance audit of the state's wildfire preparedness and suppression program including policies, practices, and costs of fighting wildfires. The directive to the LAD includes exploring areas such as: 1) cost drivers for fire management and suppression; 2) the process for determining and prioritizing resource needs for fires; 3) availability and distribution of initial attack resources; 4) the state's role in structural protection; 5) sources and uses of revenues derived from suppression activities; and 6) federal/state relationships.

Although this is not a comprehensive list, it encompasses many of the points raised by the LAC and the LFC members seeking the audit. On March 4, 2004, LAD staff will meet with department staff to discuss background work the department has done on the area of wildland fires.

Fire Cost Study Group

The DNRC formed a study group to examine funding issues associated with wildfires. Participants include department personnel, landowners, fire fighters, and legislators. Primary goals of the group meetings were to: 1) elevate the level of understanding about wildland fire protection in Montana; 2) discuss the current fire funding structure for both suppression and pre-suppression costs; 3) identify and explore fire funding alternatives; and 4) determine whether a group of interested parties could develop and back a department sponsored piece of legislation designed to address shortfalls in the current funding system.

The LAC had discussed a staff study of the wildfire funding issues, but chose to defer any study since the DNRC committee was examining this issue.

The first meeting on October 8, 2003 consisted of an overview of the current funding structure and some initial discussions of problems associated with funding. Subsequent meetings focused on developing funding alternatives and issues.

Throughout the process, the committee identified groups that benefited from fire suppression activities. Among these groups were the public, landowners, rural homeowners, the tourism industry, utility companies, recreationists, railroads, and the insurance industry. Since these groups benefited from fire suppression activity, each were included among alternatives designed to raise additional revenue for wildfire related activities. All alternatives assumed continued use of the general fund as a significant funding source, while additional funding would be raised from a combination of assessments on beneficiary groups.

Since the meetings began, Bob Harrington, State Forester talked with committee members and stakeholder groups to discuss the various fire funding alternatives being analyzed by DNRC staff. As a result of those discussions, none of the stakeholders were willing to consider new or

increased assessments to fund fire related costs. Thus, the department interpreted comments as strong support for the current method of using the general fund to pay for wildfire related costs.

Just prior to the February 19, 2003 meeting, the department decided to terminate the DNRC Fire Funding Committee meetings. Although the alternatives developed by the group are finalized, the department will not develop any legislation to address the fire funding issue. The department will compile written comments and funding alternatives into a final report. At the time of this writing, the report is unavailable but it will be distributed to the committee when it becomes available.

FIRE COST EXPLORATION– LFC OPTIONS

Although staff has determined that last fire season was the most costly in Montana's history, additional costs continue to be identified. As of this writing, the State of Montana must find \$32.0 million to pay for fire suppression costs. So far, that funding has been found through a one- time cash windfall granted to the state of Montana.

Funding for fire suppression is typically funded through the state's general fund. Fortunately, the legislature was able to rely upon the JGTRRA to pay for suppression costs, as it is clear that the state's general fund could not withstand paying a \$32.0 million bill.

There are entities addressing the topic of wildland fires in Montana but the LFC is not one of them. The LFC has had extensive discussions in recent meetings and members have voiced concern about pursuing this issue. At the October meeting, the LFC asked the Legislative Fiscal Analyst to notify the Legislative Auditor that a performance audit of wildfire suppression policy and issues would be beneficial. At the December 2003 LFC meeting, the committee decided to forego further exploration of alternative funding methodologies since the DNRC had formed a committee to pursue this issue.

As was mentioned above, the DNRC Fire Funding Committee has been officially ended. The only group that is actively examining the wildland fire issue is the LAD under a directive from the LAC. In order to remain close to the wildland funding issue, members of the LFC may wish to consider a number of options related to wildland fire funding and could:

- 1) Continue where the DNRC Fire Funding Committee left off. Members may wish to explore the options the group developed in more detail with the goal of choosing an acceptable option and developing legislation for the 2005 legislative session
- 2) Wait for the outcome of the LAD's performance audit. Information derived from that audit could be used in conjunction with funding committee options to explore legislation
- 3) Wait until the next legislative interim to direct staff to conduct it's own in-depth study of fire funding alternatives
- 4) Take no action