

Montana Department of Natural Resources and Conservation Annual Report 2007



ENVIRONMENTAL QUALITY
COUNCIL
JANUARY 15, 2008
EXHIBIT 1

DNRC History

The Montana Department of Natural Resources and Conservation (DNRC) promotes stewardship of Montana's water, soil, forest, and rangeland resources; regulates forest practices and oil and gas exploration and production; and administers several grant and loan programs.

DNRC has more than 500 employees in seven divisions: Centralized Services; Conservation and Resource Development; Forestry; Oil and Gas Conservation; Reserved Water Rights Compact Commission; Trust Land Management, and Water Resources.



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A Welcome from Our Director

As Montana changes, so do our natural resource agencies – working to keep ahead of the curve!

More people are moving to Montana, attracted by our exceptional landscapes. With growing rural populations and extended drought, our water and land resources are being taxed. We continue to work with citizens on using water resources fairly and beneficially. We work with communities to repair aging water infrastructure. Our State Trust lands of 5.2 million acres benefit not only our kids but also our wildlife and recreationists as well. Access to these lands is important. Finally, wildland fire is an ever-present part of our landscape in Montana, and we're working with federal and local partners on mitigating the impacts to our citizens and economy.



Mary Sexton

The more things change, the harder we try to address the needs of Montana's lands and people. Through this report, I hope you understand us at DNRC a bit better. Let us know if we can do our job better or help you more!

A handwritten signature in black ink, which appears to be "Mary Sexton".



Conservation & Resource Development Division

The Conservation and Resource Development Division (CARDD) helps local entities manage the state's natural resources and provides financing for conservation resource management and reclamation activities. In Fiscal Year (FY) 2007, the Division had 24 employees in three bureaus: Conservation Districts, Financial Development, and Resource Development.

Fiscal Year 2007 Highlights for the Conservation and Resource Development Division

CARDD continues to help Montana communities and citizens work toward protection and preservation of their natural resources. The division awarded \$35 million in contracts and grants to continue stewardship of resources, to educate Montana citizens, to promote wise use of resources, and economic development of these resources. Other division activities this year included:

- financing salinity control work to restore Montana land. Over 300,000 acres statewide are affected by salinity seep, \$250,000;
- grants to conservation districts for watershed planning, 310 permit assistance, administration, and stewardship projects, \$1 million;
- loans to 57 communities for water and wastewater systems, \$300 million;
- grants to 236 communities to reclaim and manage renewable resources, \$4.5 million;
- grants for regional water systems for 60 communities, \$2.5 million;
- irrigation loans and grants to 376 private entities, \$17.5 million;
- 25 workshops around the state to help Montanans be better stewards. Subjects included: conservation district training, funding projects, rolling rivers ecosystem consequences, first-time homeowners, and weed control;
- 78 new renewable resource grants were awarded for projects ranging from finding a source of clean and reliable drinking water for the town of Bynum to assisting in the purchase of a glass pulverizer for Livingston's recycling program;
- 18 new reclamation and development grants were awarded for projects such as a hydrologic investigation of the Smith River Watershed and mitigation of acid mine drainage from a closed coal mine near the town of Belt, and
- emergency grants were awarded for projects in towns such as Cardwell, to protect the school from potential flooding from a damaged bridge over the Jefferson River, and to replace a damaged water main in the town of Brockton.



Forestry Division

The Forestry Division administers two major programs: Fire and Aviation Management (F&AM) and Forestry Assistance (FA). F&AM administers Montana's fire prevention, protection, and suppression programs. FA promotes private forest stewardship, administers Montana's forest practices laws and Best Management Practices, operates the Montana Conservation Seedling Nursery, offers urban forestry technical and financial assistance to Montana's cities and towns, and manages the Fuels for Schools program.

Fiscal Year 2007 Highlights for the Forestry Division

In FY 2007, the Fuels for Schools partnership between DNRC, the U.S. Forest Service, and Montana's Resource Conservation and Development Areas facilitated installation of three new biomass heating boilers. The University of Montana-Western's entire campus is now heated with biomass; Kalispell's new Glacier High School fired up its biomass system during construction; and Townsend public schools became the state's first system heated with "all-tree" commercial grade wood pellets. In addition, the Montana program is the first in the nation to sell carbon dioxide offsets gained by replacing fossil fuels with renewable biomass. The Climate Trust, a national non-profit organization, will make up to \$360,000 available to future biomass projects in the state through the voluntary sale of carbon dioxide offsets that current biomass facilities are not emitting. Other activities include:

- added a new greenhouse to the Montana Conservation Seedling Nursery, developed long-term contracts to supply seedlings to several Montana river restoration projects, and distributed 805,000 seedlings to 868 landowners.
- kept 95% of 389 fires on direct protection lands to fewer than 10 acres in size due to initial attack successes and responded to 711 reports, 473 of which were direct protection and county assist fires;
- awarded \$1,315,352 in Volunteer Fire and Rural Fire Assistance grants and \$1,025,000 in fuels mitigation grants to 11 projects;
- conducted 89 wildland firefighting courses for 1,812 DNRC and volunteer firefighters;
- completed the 2006 Biennial Forestry Best Management Practices Audit;
- completed the Spatial Analysis Project, which identifies priority areas for forest stewardship work on Family Forest Lands in Montana, and
- completed 88 private forest landowner management plans and provided 1,424 forestry-related assists to Montana private forest landowners.



Oil and Gas Conservation Division

The Oil and Gas Conservation Division is the technical, field, and administrative arm of the Montana Board of Oil and Gas Conservation (BOGC). The board regulates exploration and production of oil and gas in the State of Montana. The BOGC has 21.5 full-time employees on staff.

Fiscal Year 2007 Highlights for the Oil and Gas Conservation Division

BOGC again reduced its quarterly privilege and license tax. Beginning in October of 2006, the Board reduced its rate from 1.8/10's of one percent to 0.9/10's of one percent of the value of oil and gas produced across the state. Since July of 2001, BOGC has decreased its quarterly proceeds from 3/10's to 0.9/10's of one percent. It is estimated that the most recent reduction generated more than \$500,000 for Montana municipalities since whatever is not collected for the Board goes to Montana cities and counties instead.

In 2006, The Oil and Gas Division commissioned two studies. The first study, the Tongue River Information Project, was funded by the BOGC to provide coal bed natural gas (CBNG) baseline information for CBNG operations in the upper Tongue River basin.

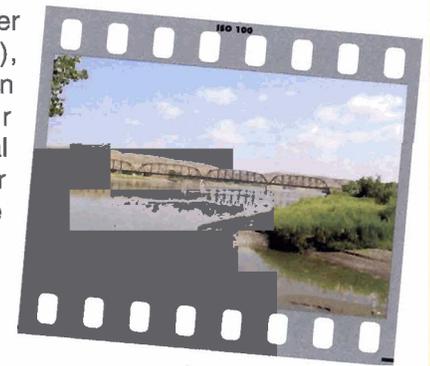
The second study focused on the vulnerability of groundwater from produced water discharged into pits from shallow gas wells in Blaine, Hill and Phillips counties. The study identified sites where groundwater was vulnerable, but found that much of the gas production occurs in locations where groundwater is not vulnerable. BOGC staff will use this information in permitting future gas well pits.

The Board and staff worked with the Environmental Quality Council and the HB 790 interim subcommittee to develop a split-estate brochure. Split estates have generated attention because of increased oil and gas activities on tracts of land where different parties own the surface and the minerals underneath the surface. The brochure explains split estates and gives surface owners guidelines for common situations they may encounter.



Reserved Water Rights Compact Commission

The nine-member Montana Reserved Water Rights Compact Commission (RWRCC), created by the Legislature in 1979, has been timely and effective in negotiating water settlement agreements with Tribes and federal agencies as part of Montana's state-wide water adjudication program. These compacts are an important part of accurately quantifying water use in Montana. The RWRCC is administratively attached to DNRC with an eight-member staff of two attorneys, two hydrologists, an agricultural engineer, a GIS analyst, an historian and the staff director. The RWRCC is scheduled to sunset on July 1, 2009.



Fiscal Year 2007 Highlights for the Reserved Water Rights Compact Commission

Since RWRCC's creation, it has concluded five tribal compacts (Fort Peck, Northern Cheyenne, Fort Belknap, Rocky Boy's and Crow) as well as compacts with four federal agencies (National Park Service, U.S. Fish and Wildlife Service, the U.S. Forest Service and the U.S.D.A. Sheep Experiment Station and the Livestock Range and Research Laboratory). A record four compacts passed the 2007 legislative session and were signed into law by the governor. They include:

- U.S. Forest Service compact;
- U.S. Fish and Wildlife Service Bowdoin National Wildlife Refuge compact;
- U.S.D.A. Agricultural Research Service Sheep Experiment Station compact;
- U.S.D.A. Livestock, Range and Research Laboratory (Ft. Keogh) Compact

A compact with the Blackfeet Tribe is currently in the final stages of negotiation. RWRCC is also working to assist with Congressional legislation required for the Crow compact and the Fort Belknap compact. Federal reserved water rights still to be settled prior to July 1, 2009 include those of the Confederated Salish and Kootenai Tribes, the U.S. Fish and Wildlife Service Charles M. Russell/UL Bend National Wildlife Refuge and the National Bison Range, and the Turtle Mountain Band of Chippewa.

Trust Land Management Division

The Trust Land Management Division (TLMD) administers and manages more than 5.1 million surface acres and over 6.2 million acres of mineral estate for the benefit of the Common Schools (K-12), the University System, and other endowed institutions in Montana, under the direction of the Board of Land Commissioners. Land management activities are conducted in four programs: Agriculture and Grazing, Forests, Minerals, and Real Estate.

Fiscal Year 2007 Highlights for the Trust Land Management Division

- In FY 2007, land management activities and interest generated \$105 million in gross revenue, of which \$49 million was distributed to the Common Schools, and \$9.1 million was reinvested in land acquisition;
- the Real Estate Management Program generated an additional \$5.7 million from the issuance of an easement on trust lands to the Montana Department of Transportation for the Kalispell Bypass;
- the Land Banking program sold 19,189 acres of trust land at auction, which generated \$10.6 million in revenue for the Common Schools and State Reform School (Pine Hills) land banks. Six parcels of land with a total acreage of 24,315 were acquired for approximately \$9.1 million for the Common Schools. The lands purchased are projected to generate 7.5 times more revenue annually, and are legally accessible, thus providing public recreational opportunities;
- mineral revenue totaled \$30.5 million, the second-highest generated from mineral activities since 1981;
- the Forest Management Bureau (FMB) under the reciprocal access program gained motorized public access to 12,617 acres of state trust land;
- more than 550,000 seedlings were planted on approximately 2,761 acres of state trust land under the Forest Improvement Program;
- 25 timber sales (50.4 million board feet) and 44 timber permits (2.9 million board feet) totaling 53.3 million board feet were sold, and
- the Agriculture and Grazing bureau generated \$17.7 million in revenue in FY 2007, compared to \$16.8 million the prior year. This amounted to the highest amount ever generated from these programs.



Water Resources Division

The Water Resources Division (WRD) is responsible for programs associated with the use, development and protection of Montana's water. The division develops and recommends water policy to the director, governor and Legislature. WRD administers state-owned water storage and delivery projects, water rights, water reservations, and water compacts. The division provides administrative support to the Board of Water Well Contractors. The Governor's Drought Advisory Committee and the Flathead Basin Commission are attached to the Water Resources Division. WRD has eight regional offices statewide. In FY 2007 activities included interstate and international coordination of water issues, centralized water rights record keeping, water planning and scientific analysis, dam safety, floodplain management, and drought planning.



Fiscal Year 2007 Highlights for the Water Resources Division

In support of water-short irrigators in the Tongue and Powder River basins, the division facilitated a lawsuit against Wyoming for violation of the Yellowstone River Compact (1951); the lawsuit, filed in the U.S. Supreme Court by the Attorney General, seeks full receipt of Montana's pre-Compact water, which is critical in years of extended drought.

The division modernized floodplain maps in several counties through a program funded by the Federal Emergency Management Agency. Maps in the counties of Missoula and Flathead are nearing completion, work is ongoing for Gallatin, Carbon and Yellowstone counties and work is starting in Cascade and Lewis & Clark. Fergus, Ravalli and Lake county updates are on the schedule. Modernization includes utilizing up-to-date aerial photography, topographic information, street and roads and other physical features in current mapping formats, including GIS. Other activities include:

- HB22 is expediting the adjudication of Montana's water rights. The biennial benchmark (8,000 claims) for claims examination due December 2006 was surpassed by 1,400 claims. The benchmark for December 2008 is 19,000 claims. The count of examined claims as of June 2007 was 18,690;
- installed a liner extension at Middle Creek Dam, and
- central and regional offices across the state continue to deal with drought issues.

DNRC Fiscal Year 2007 Financial Report

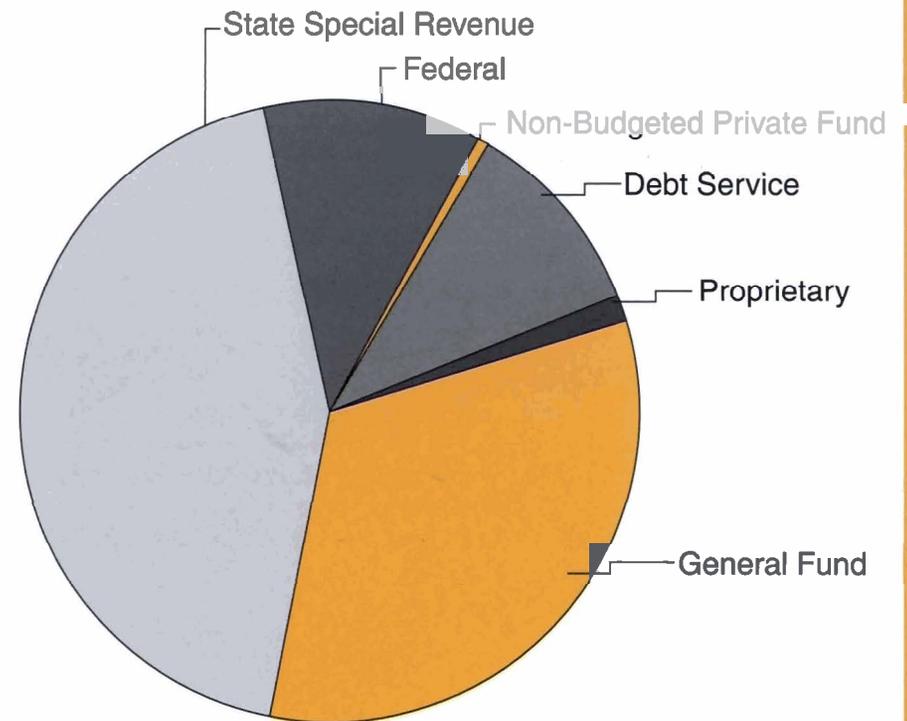
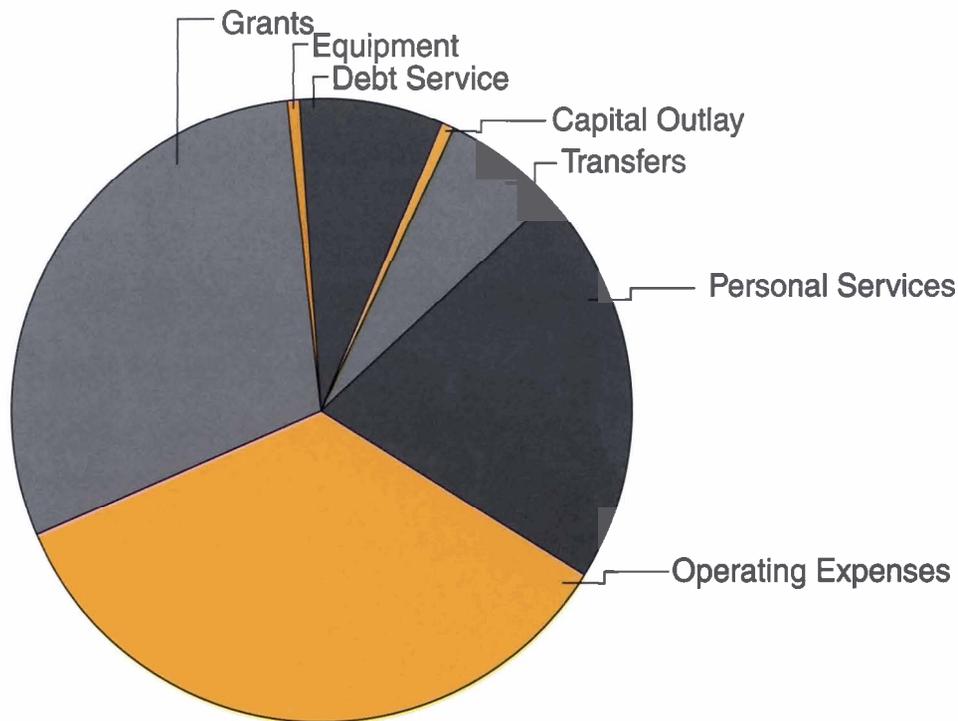
The graph below presents expenditures by category and fund for the Department in FY 2007. A substantial increase in grant expenditures is due to the expansion of the Renewable Resource and Reclamation and Development Grant programs as well as grants provided through the National Fire Plan. An increase in personal services and operations also relate to a severe fire season in the fiscal year.

Total Expenditures by Activity

Personal Services	\$ 34,633,284
Operating Expenses	58,156,566
Equipment	1,073,221
Capital Outlay	60,015
Grants	12,582,931
Transfers	49,803,644
Debt Service	11,368,296
Total	\$ 167,677,957

Total Expenditures by Fund

General Fund	\$ 54,995,860
State Special Revenue	72,876,900
Federal Special Revenue	19,193,702
Debt Service	17,966,575
Proprietary	2,282,120
Non-Budgeted Private Fund	362,800
Total	\$ 167,677,957



On the Horizon

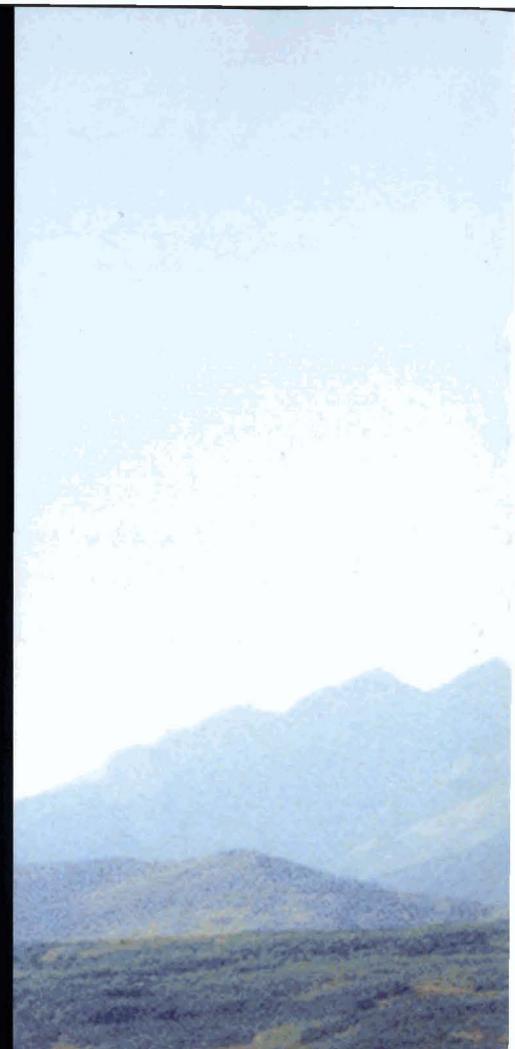
- CARDD will be issuing planning grants for reclamation and critical state need projects. \$800,000 is available to help communities develop plans, gather cost estimates, and develop alternatives to sites damaged by resource extraction or that demonstrate critical state need.
- The FMB continues work on a forested Habitat Conservation Plan (HCP) in cooperation with the U.S. Fish and Wildlife Service. The HCP will cover about 550,000 acres of forested state trust lands and provide important conservation benefits to grizzly bears, Canada lynx, and three fish species. The draft HCP and Environmental Impact Statement are expected to be available for public review in the spring of 2008. Completion of the HCP is anticipated in mid-2009.
- There is a growing interest in using carbon dioxide to enhance oil recovery. This process will reduce the level of atmospheric carbon dioxide while improving the state's oil production.
- CARDD continues to assist Montana communities and citizens in protecting and preserving their natural resources. The division allocated \$1 million for stewardship of resources, educating Montana citizens and for promoting wise use of resources through local conservation districts.
- New county-wide flood insurance rate maps with a digital database are in production for Park, Carbon, Missoula, Yellowstone, Cascade, Fergus, and Lewis & Clark counties. All of these projects are projected to have preliminary maps released in 2007 or 2008. New projects in Ravalli, Lake, and Silverbow will begin in 2008.

Did You Know?

- HB 831 (2007) allows new permit applications for groundwater in closed basins to be accepted and processed by the Department. The Water Rights Bureau is developing rules for these applications.
- CARDD gave planning grants to communities in the amount of \$400,000. As a result of these planning grants, \$20 million in water and wastewater loans were approved in FY 2007 for communities statewide as projects were constructed or upgraded.
- The Forest Assistance Bureau awarded more than \$250,000 in federally-sponsored Insect and Disease Management, Urban Forestry and private landowner assistance grants to communities, land managers and private forest landowners in Montana.
- Under the Land Banking Program the TLMD sold 19,189 acres. Of that total, 18,825 acres were not accessible by the public and generated minimal revenue to the trust beneficiaries. In return, the TLMD purchased 24,293 acres of land that provides public access for recreational purposes and will generate 7.5 times more revenue for schools K-12. The 18,000-acre Tongue River Ranch in Custer County was one of the properties purchased under the Land Banking program.
- Montana's oil production is back to the level it was in the booming early 1970s. Today, the state experiences the highest level of oil production since then.
- Ruby Dam is a state-owned water storage project constructed in 1938. Located in Madison County, the dam stores 37,612 acre-feet of water at full pool and is classified as a high hazard under the Montana Dam Safety Act. The spillway is in extremely poor condition and needs to be replaced, and the low level outlet also requires modifications. Upon selection of the preferred alternative, rehabilitation will be accomplished in two major phases, pre-construction engineering, and final engineering design and construction. Funding was provided from the water storage account and hydropower earnings. The future cost of the rehabilitation is estimated to be approximately \$12 million dollars.



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