

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	492.36	0.50	(4.60)	488.26	0.50	(4.60)	488.26	488.26
Personal Services	19,627,098	3,067,156	(263,784)	22,430,470	3,119,121	(263,532)	22,482,687	44,913,157
Operating Expenses	9,593,883	2,629,848	434,517	12,658,248	214,924	235,897	10,044,704	22,702,952
Equipment	783,169	(34,504)	61,000	809,665	(34,554)	0	748,615	1,558,280
Capital Outlay	454	0	0	454	0	0	454	908
Local Assistance	213,373	0	0	213,373	0	0	213,373	426,746
Grants	895,365	(302,154)	0	593,211	(310,961)	0	584,404	1,177,615
Benefits & Claims	500,000	500,000	0	1,000,000	500,000	0	1,000,000	2,000,000
Transfers	389,169	9,170	0	398,339	9,170	0	398,339	796,678
Debt Service	503,305	81,089	0	584,394	81,089	0	584,394	1,168,788
Total Costs	\$32,505,816	\$5,950,605	\$231,733	\$38,688,154	\$3,578,789	(\$27,635)	\$36,056,970	\$74,745,124
General Fund	16,205,128	2,187,075	(539,716)	17,852,487	2,222,599	(533,859)	17,893,868	35,746,355
State/Other Special	14,617,396	3,604,530	666,574	18,888,500	1,260,760	419,649	16,297,805	35,186,305
Federal Special	1,683,292	159,000	104,875	1,947,167	95,430	86,575	1,865,297	3,812,464
Total Funds	\$32,505,816	\$5,950,605	\$231,733	\$38,688,154	\$3,578,789	(\$27,635)	\$36,056,970	\$74,745,124

Agency Description

The Department of Natural Resources is tasked to: 1) manage the state trust land resource to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land; 2) protect Montana's natural resources from wildfires through regulation and partnerships with federal, state, and local agencies; 3) promote stewardship of state water, soil, forest, and rangeland resources, and regulate forest practices to protect water quality; 4) provide administrative, legal, and technical assistance and financial grants to the conservation districts and provide natural resource conservation and development programs; 5) resolve water resource use conflicts, manage state water projects, investigate water use violations, ensure dam safety compliance, and provide water adjudication support to the Water Court; 6) provide administrative support to the Reserved Water Rights Compact Commission to negotiate the settlement of reserved water rights claims of Indian Tribes and federal agencies; and 7) provide administrative support to the Board of Oil and Gas Conservation to assist in conservation of oil and gas and prevention of resource waste through regulation of oil and gas exploration and production. The State Board of Land Commissioners, comprised of the Governor, State Auditor, Attorney General, Superintendent of Public Instruction, and Secretary of State, exercise the general authority, direction, and control over the care, management, and disposition of state lands under its administration. The director is the chief administrative officer of the board.

Supplemental Appropriation Description

Executive Request

The executive intends to ask for supplemental appropriations to fund 2003 biennium fire costs in two bills - HB 16 and HB 3. HB 16 will be introduced early in the session for expedited action by the legislature and will total just under \$6.6 million. This appropriation would consist of:

- o A \$2.0 million general fund appropriation comprised of authority that was transferred from the Water Resources division to the Forestry Division
- o \$3.9 million that was transferred from Forestry Division's fiscal 2003 appropriation to pay costs of fiscal 2002 fire costs
- o \$700,000 transferred to the forestry division from other department sources in fiscal 2003 to pay fiscal 2002 fire costs

Figure 1 illustrates the content of HB 16:

Figure 1

Department of Natural Resources and Conservation Fiscal 2003 Supplemental Appropriation Request -- HB 16	
<u>PART 1:</u>	
<u>FY 2002 ACTUAL & ESTIMATED FIRE COSTS</u>	
Actual State Protection Costs as of May 6, 2002	\$8,545,277
U.S. Forest Service/BLM Final Bill	6,425,175
Fall 2001/Spring 2002 Fire Costs	500,000
Additional Spring Costs Due to Colorado Fire Assistance	603,000
DNRC Budgeted Cost	<u>(151,798)</u>
 PAID & ANTICIPATED OBLIGATIONS	 \$15,921,654
<u>PART 2:</u>	
<u>COSTS COVERED BY OTHER SOURCES</u>	
Governor's Emergency Fund Advance	(10,049,888)
Supplemental Appropriation	(2,000,000)
Total Cost Covered by Other Sources	(12,049,888)
 Estimate of Unpaid Balance	 <u>\$3,871,766</u>
<u>PART 3:</u>	
<u>SUPPLEMENTAL APPROPRIATION</u>	
Estimate of Unpaid Balance	\$3,871,766
Replenishment of Supplemental Appropriation	2,000,000
Transfers to Meet Payment Obligations -- From FY 2003	700,000
 SUPPLEMENTAL APPROPRIATION REQUEST -- HB 16	 <u>\$6,571,766</u>

Figure 2 illustrates the wildfire portion of HB 3:

Figure 2

Department of Natural Resources and Conservation Fiscal 2003 Supplemental Appropriation Request -- HB 3	
<u>PART 1:</u>	
<u>FY 2002 ACTUAL & ESTIMATED FIRE COSTS</u>	
Actual State Protection Costs as of October 31, 2002	\$792,730
DNRC Support to Federal/Other State Agencies	3,405,338
Additional Costs Not Paid	591,097
U.S. Forest Service/BLM Estimated Bill	725,015
Estimated Spring 2003 Fire Costs	750,000
DNRC Budgeted Cost	(121,959)
PAID & ANTICIPATED OBLIGATIONS	\$6,142,221
<u>PART 2:</u>	
<u>COSTS COVERED BY OTHER SOURCES</u>	
Federal Reimbursement -- U.S. Forest Service/BLM	(3,644,358)
Total Cost Covered by Other Sources	(3,644,358)
Estimate of Unpaid Balance	\$2,497,863
<u>PART 3:</u>	
<u>SUPPLEMENTAL APPROPRIATION</u>	
Estimate of Unpaid Balance	\$2,497,863
Transfers to Meet Program Obligations -- (in HB 16)	<u>(700,000)</u>
SUPPLEMENTAL APPROPRIATION REQUEST -- HB 3	<u>\$1,797,863</u>

Part 1 of the figure 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 pay: 1) \$792,730 to cover actual state protection costs; 2) an estimated \$3.4 million to assist federal and other state agencies in their fire suppression efforts (these are reimbursable costs); 3) \$591,097 for additional costs not yet billed; 4) an estimated \$725,015 to federal agencies for their costs associated with fighting state fires. These costs are typically due near the end of the fiscal year. In addition, the department must set aside an estimated \$0.8 million for anticipated Spring 2003 wildfire costs and deduct \$121,959 for personnel costs that had been budgeted in HB 2. These calculations bring the cost of fire suppression to approximately \$6.1 million.

Part 2 shows those portions of the cost that have been covered by non-DNRC funds such as the Governor's emergency fund. Although the department has not utilized the Governor's emergency fund in fiscal 2003, a net amount of \$6.3 million has been established by DNRC from the Governor's emergency fund in the 2003 biennium. Further, this section shows the estimated net cost of fire suppression incurred by DNRC. When Montana firefighters help other agencies suppress fires, Montana is reimbursed for associated expenses. Although not the usual course of business, DNRC asked for an early reimbursement of assistance dollars in an effort to address funding shortfalls. DNRC received \$3.6 million in reimbursements from other states and the federal government for Montana's assistance in fighting non-state responsibility fires in fiscal 2003. Thus, the net cost of fire suppression in fiscal 2003 is estimated to be \$2.5 million.

Part 3 shows the estimate of the supplemental appropriation. As discussed, \$700,000 of the fiscal 2003 fire costs will be requested in HB 16. Thus, the total of the supplemental appropriation in HB 3 is estimated to be \$1.8 million.

LFD ISSUE At the time of this writing, HB 3 includes fire suppression costs estimated to be approximately \$2.5 million by DNRC staff. Although the fire supplemental is estimated to be \$2.5 million, \$700,000 of that figure is included in the HB 16 request.

Agency Discussion

Department of Natural Resources and Conservation Major Budget Highlights
<ul style="list-style-type: none"> ○ The department is requesting present law adjustments totaling \$13.2 million over the biennium of which \$4.4 million are general fund requests ○ The largest request seeks funding for repairs on state owned dams ○ In addition to present law adjustments, the department is requesting 17 new proposals totaling \$1.5 million over the biennium. Of this total, general fund is being reduced by \$1.1 million
Major LFD Issues
<ul style="list-style-type: none"> ○ The executive is requesting \$8.4 million in two supplemental appropriation bills <ul style="list-style-type: none"> • HB 16 will be \$6,571,766 • Wildfire portion of HB 3 will be \$1,797,863 • Alternative funding methods may exist ○ Several changes are requested that affect RIT related funds ○ Several RIT related funds are projected to have negative balances ○ Additional department programs could be considered for reduction

Funding

The following table summarizes funding for the agency, by program and source as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget					
<u>Agency Program</u>	<u>General Fund</u>	<u>State Spec.</u>	<u>Fed Spec.</u>	<u>Grand Total</u>	<u>Total %</u>
Centralized Services	\$ 3,799,450	\$ 814,400	\$ 193,300	\$ 4,807,150	6.4%
Oil & Gas Conservation Div.	-	3,138,384	-	3,138,384	4.2%
Conservation/Resource Dev Div	4,674,625	2,562,844	419,371	7,656,840	10.2%
Water Resources Division	12,739,291	4,781,232	278,124	17,798,647	23.8%
Forestry	13,003,392	23,889,445	2,921,669	39,814,506	53.3%
Reserved Water Rights Comp Com	1,529,597	-	-	1,529,597	2.0%
Grand Total	\$ 35,746,355	\$ 35,186,305	\$ 3,812,464	\$74,745,124	100.0%

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	492.86	(4.60)	488.26	492.86	(4.60)	488.26	492.36	488.26
Personal Services	22,694,254	(263,784)	22,430,470	22,746,219	(263,532)	22,482,687	38,518,689	44,913,157
Operating Expenses	12,223,731	434,517	12,658,248	9,808,807	235,897	10,044,704	15,490,668	22,702,952
Equipment	748,665	61,000	809,665	748,615	0	748,615	1,577,327	1,558,280
Capital Outlay	454	0	454	454	0	454	1,301	908
Local Assistance	213,373	0	213,373	213,373	0	213,373	434,373	426,746
Grants	593,211	0	593,211	584,404	0	584,404	1,785,125	1,177,615
Benefits & Claims	1,000,000	0	1,000,000	1,000,000	0	1,000,000	1,000,000	2,000,000
Transfers	398,339	0	398,339	398,339	0	398,339	778,338	796,678
Debt Service	584,394	0	584,394	584,394	0	584,394	1,087,672	1,168,788
Total Costs	\$38,456,421	\$231,733	\$38,688,154	\$36,084,605	(\$27,635)	\$36,056,970	\$60,673,493	\$74,745,124
General Fund	18,392,203	(539,716)	17,852,487	18,427,727	(533,859)	17,893,868	28,146,201	35,746,355
State/Other Special	18,221,926	666,574	18,888,500	15,878,156	419,649	16,297,805	28,966,713	35,186,305
Federal Special	1,842,292	104,875	1,947,167	1,778,722	86,575	1,865,297	3,560,579	3,812,464
Total Funds	\$38,456,421	\$231,733	\$38,688,154	\$36,084,605	(\$27,635)	\$36,056,970	\$60,673,493	\$74,745,124

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

Program	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 8 - Re-Establish FTE										
22	3.00	0	162,296	0	162,296	3.00	0	137,059	0	137,059
DP 14 - Forestry Restoration of Seasonal FTE										
35	1.55	21,731	25,570	0	47,301	1.55	21,704	25,535	0	47,239
DP 19 - Restore-OTO-Water Rights Verification Project										
24	0.00	0	160,000	0	160,000	0.00	0	168,000	0	168,000
DP 22 - Re-wiring USF&G Building										
21	0.00	0	0	18,300	18,300	0.00	0	0	0	0
DP 23 - Heating System Replacement-OTO										
22	0.00	0	30,000	0	30,000	0.00	0	0	0	0
DP 26 - Inmate Fire Crew										
35	0.00	23,182	11,418	0	34,600	0.00	23,852	11,748	0	35,600
DP 51 - Coal Bed Methane Impounded Produced Water Study										
22	0.00	0	200,000	0	200,000	0.00	0	0	0	0
DP 52 - Historical Data Acquisition Project										
22	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000
DP 7001 - Fund switch for forest practices programs										
35	0.00	(86,575)	0	86,575	0	0.00	(86,575)	0	86,575	0
DP 7002 - Applicants Pay Water Rights Notice Costs										
24	0.00	(23,000)	23,000	0	0	0.00	(23,000)	23,000	0	0
DP 7020 - Reduction to Meet Target										
21	(3.00)	(134,685)	0	0	(134,685)	(3.00)	(134,400)	0	0	(134,400)
DP 7020 - Reductions to Meet Target										
23	(1.00)	(48,810)	0	0	(48,810)	(1.00)	(48,730)	0	0	(48,730)
DP 7020 - Reduction to Meet Target										
24	(1.00)	(116,596)	0	0	(116,596)	(1.00)	(111,780)	0	0	(111,780)
DP 7020 - Reductions to meet target										
35	(4.15)	(174,963)	(45,710)	0	(220,673)	(4.15)	(174,930)	(45,693)	0	(220,623)
Total	(4.60)	(\$539,716)	\$666,574	\$104,875	\$231,733	(4.60)	(\$533,859)	\$419,649	\$86,575	(\$27,635)

Agency Issues

DNRC Fire Cost Estimate Fiscal 2003

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 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. Therefore, pending approval of supplemental funding by the legislature, the department must fund all fire costs not funded through the emergency appropriation with operating funds. The amount of wildfire suppression appropriations approved by the legislature has varied widely, as Figure 3 shows.

DNRC Financial Difficulties

Despite fiscal 2003 being a relatively low cost fire season, DNRC spent much of the fire season coping with a difficult financial situation. Because of established inter-agency agreements, the department is obligated to assist other entities that are having severe fire seasons. The fiscal 2003 fire season could be characterized as mild because Montana had relatively few large fires. However, state resources were called upon to assist other state and federal entities with fire suppression. Although these costs are reimbursable, when Montana sends personnel, equipment, and supplies out of state, the department must pay bills as they come due.

Before the fiscal 2003 fire season began, the department transferred \$5.8 million of authority from fiscal 2003 to fiscal 2002. It then incurred \$3.6 million of reimbursable costs that it had to pay on an immediate basis. Thus, even though total fire costs of \$6.1 million were much lower than in the last couple of years, the department did not have enough authority remaining in fiscal 2003 to get through without financial difficulty. Because the department has experienced financial difficulty in the present biennium due to these funding methods, the legislature may wish to re-examine the current methodology and explore alternatives.

Funding Fires

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. As evidenced in the 2003 biennium, while this process functions, it is problematic in a couple of ways.

- 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 in the second year to fund wildland fire suppression costs while trying to maintain current operations.
- The lack of spending authority potentially puts the legislature in the position of calling a special session if internal authority, emergency funding, and borrowing are not sufficient to cover suppression costs until the next legislative session.

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

Biennium	Supplemental Appropriations	Statutory Appropriations	Total
1983	\$ 0.80		\$ 0.80
1985	2.90		2.90
1987	3.74		3.74
1989	12.64		12.64
1991	3.00	\$ 0.05	3.05
1993	7.94	1.96	9.91
1995	15.50	8.92	24.42
1997	4.47	3.10	7.57
1999	10.55		10.55
2001	33.22	6.20	39.42
2003*	8.37	7.01	15.38

* Includes FY 2003 Executive Request

In fiscal 2003, the department started out with less authority because fiscal 2003 authority was used to fund fiscal 2002 fire costs due to a relatively brisk fire season. The funding situation got worse in fiscal 2003 because of the type of fire costs being incurred. 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 effect on the general fund:

- 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. In most cases, costs for these supplies are determined on a contract basis before the fire season.
- 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 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.

- 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 typically not received from the Forest Service immediately. Once payment is received, the money the state receives from the Forest Service is deposited directly to a federal special revenue fund.

As discussed, costs that affected "net cost" were the types of costs that were one of the primary causes of funding problems in fiscal 2003. This category of costs is incurred when the department sends personnel, equipment, and aircraft to assist with suppression efforts either within the state or out of state. In fiscal 2003, large fires in Colorado resulted in requests for DNRC assistance. Similar to the assistance Montana received during the 2000 fire season, Montana resources were sent out of state to help with fire suppression efforts. Although these are reimbursable costs, reimbursement does not typically occur until after a lengthy audit process.

As was mentioned, most of the costs incurred in fiscal 2003 tended to be immediate in nature and the department was required to pay these as they came due resulting in a drain on general fund operating authority. Because the department lacked general fund authority necessary to pay the immediate costs, it sought early payment. Although early reimbursement was granted, the department lacked general fund authority to spend the funds. Historically, the reimbursable costs were paid from the general fund and when the reimbursement came from the other entities, it was deposited to the general fund. However, a legal opinion issued by Greg Petesch, Code Commissioner for the State of Montana, indicated that practice was incorrect.

According to the opinion, because the reimbursable funds come from the federal government the deposit should be made to a federal special revenue fund. Thus, when the department received reimbursement, it was able to utilize existing federal authority to spend the reimbursed cash. In the future, the timing of these cash payments will likely be different. It was an unusual situation to receive an accelerated payment of cash for these purposes.

Current Method of Payment

Wildfire suppression costs are paid by two methods -- through the supplemental process and through an emergency statutory appropriation of up to \$12 million. There are problems associated with these methods: 1) because DNRC must pay all fire suppression costs until the legislature can meet in session and reimburse it, DNRC may be in danger of running short of its general fund operating appropriations in years with high wildfire costs (such as in the 2003 biennium); 2) to use the \$12 million statutory appropriation requires a declaration by the Governor of an emergency due to wildfires; and 3) there is no single appropriation source to budget for and record wildfire costs.

Depending upon the circumstances, DNRC may use several appropriation sources to pay for fire bills as they come due. For example, unless the Governor declares an emergency, the department must use the Forestry Division's operating budget. If that amount is insufficient, the department must look within the department to find authority to pay for suppression costs.

In past years, they have been successful in finding enough authority to pay for fires. However, they may have to use a number of sources of authority that were already appropriated for other purposes. The department routinely seeks supplemental appropriations from the legislature to make their programs whole after a fire season. Using authority not dedicated to fire suppression could put a program or agency in a situation where it might not be able to carry out statutory requirements. In some cases, finding appropriation authority might mean going outside the agency. For natural disasters that occur infrequently, this would probably not be a problem. However, Montana routinely has a fire season and having a single source of appropriation authority would be more efficient than searching for authority.

Alternative Funding Methods

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 legislature may want to consider the following options when examining how fire suppression costs are funded in Montana:

- 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 could be used to fund fire suppression costs. Funding could be provided from a number of sources. Some examples of which include:
 - A fee (direct or prerequisite) assessed to recreationists through conservation, fishing, hunting, off road vehicle, or recreation use licenses
 - A fee per million board feet of lumber harvested on state and private lands
 - A statewide "Fire Lottery"
 - An assessment on state Trust Lands for their protection
 - A fee on all licenses and leases on state Trust Lands
 - A portion of the existing Resort Tax
 - A portion of the existing Bed Tax
 - Establish a (partially?) bond-funded account using the state's bonding authority.
 - Explore issuing catastrophe bonds via the capital market to cover suppression costs in exceptional years.
 - Utilize any payments from billable fires to help support the fund rather than returning to the general fund

- An assessment on Non Forest Zone lands.²
- Assessments on power and railroad rights-of-way
- A \$5.00 license plate fee
- General fund appropriation
- A license fee for fireworks vendors

Data from the Department of Justice indicates that approximately 1.1 million vehicles are registered in the State of Montana. To illustrate how such a fund could be built, using a \$5.00 license plate fee, it would take approximately 7 biennia to build a trust sufficient to generate the \$8.4 million in interest that represents average annual fire costs. A \$10.00 fee would build a similar trust in approximately 4 biennia.

- HB 2 Appropriation The legislature could appropriate an amount for fire suppression costs through a HB 2 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.

One method for determining a “reasonable” amount of appropriation is to use a seven-year moving average with the high and low years removed from the calculation. The adjacent figure shows a moving average using this methodology.

Using this method, the average cost is approximately \$8.5 million per year. Because of the uncertain nature of fires, costs above the appropriation could be funded through the supplemental appropriation process. Like other HB 2 appropriations, the legislature could restrict spending to fire suppression costs only.

Fiscal Year	Total Cost (Less Budgeted Costs)	7-year Rank
End		
1997	6,224,272	4
1999	8,303,438	3
2000	5,205,614	6
2002	16,417,193	2
2003*	<u>6,142,221</u>	5
5 - YEAR AVERAGE FIRE COSTS		<u>\$8,458,548</u>
*Includes DNRC Estimates		

- 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 a \$4 million biennial appropriation for general emergencies and an \$8 million biennial appropriation available specifically for fire suppression. If desired, and only under certain pre-determined conditions, the \$8 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 difficult fire seasons. Suppression costs above the additional funding could be secured through the supplemental appropriation process.
- Increase in the Governor’s Emergency Fund The legislature could amend the \$12.0 million biennial statutory appropriation available for emergencies by increasing the total. While this option would provide access to general fund authority to pay for suppression costs, it could only be accessed if there was a Governor’s declaration of disaster or emergency. If the legislature decides to increase the amount of the emergency fund, it may wish to designate a portion be available at something more than unlimited access to the authority and something less than a requirement of a declaration of disaster or emergency. This would serve the purpose of having a dedicated source of authority to pay fire costs without disrupting normal operations within the department. The executive has proposed this option.

Resource Indemnity Trust

The Montana Constitution (Article IX, Section 2) requires the existence of the Resource Indemnity Trust (RIT) and states, “The principal of the resource indemnity trust shall forever remain inviolate in an amount of one hundred million dollars (\$100,000,000) guaranteed by the state against loss or diversion. In February of 2002, the Governor certified that the balance of the RIT trust had exceeded the \$100 million threshold. Consequently, the trust no longer receives revenue. However, interest earnings are used as a funding source for several funds discussed below.

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.

Figures 5 & 7 shows four elements of RIT as proposed by the executive. The first element shows the RIT revenues and trust balance using the Revenue and Transportation Committee (RATC) projections for fiscal years 2003, 2004, and 2005. As of 2002 fiscal year end, the RIT trust had a balance of approximately \$102.1 million.

Since the RIT reached the constitutionally mandated level of \$100 million, excess trust balance was available for transfer and appropriation. In the order of priority, the legislature transferred and appropriated: 1) \$1 million for a funding switch in DNRC; 2) \$300,000 for the purpose of weed eradication; 3) \$540,000 for the purpose of purchasing securities for water treatment at the former Zortman and Landusky mines, 4) \$120,000 for a Clark Fork River study; and 5) up to \$100,000 for conservation and irrigation district grants. After these transfers, the RIT trust is estimated to be \$100 million.

Figure 5
Resource Indemnity Trust (RIT): Interest Earnings, and Related Expenditure Accounts
2005 Biennium Projections (Including Executive Proposals and Appropriation Requests)

1				
RIT Revenues (RATC estimates)	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Projected Beginning Balance FY 2003		\$102,065,653	\$100,000,979	\$100,000,979
Fund Balance Allocations/transfers				
DNRC Funding Switch with General Fund		(1,000,000)		
Weed Eradication		(300,000)		
Water Treatment (\$540K)		(540,000)		
Clark Fork River Study		(120,000)		
Subdivisions, Cons. Dist., Irrigation grants		(100,000)		
Total Deposits/Legislative Changes		(\$2,060,000)		
RIGWAT Coal, Oil, Natural Gas Proceeds		(4,675)		
RIT Trust Balance	\$102,065,653	\$100,000,979	\$100,000,979	\$100,000,979
2				
RIGWA and Oil and Gas Tax (RATC estimates)	Fiscal 2003	Fiscal 2004	Fiscal 2005	Biennium Total
RIGWA Tax	\$1,480,000	\$3,260,000	\$3,236,000	\$6,496,000
Statutory Allocations -- RIGWA	\$1,080,000	\$1,055,000	\$1,062,000	\$2,117,000
Libby Clean-up Debt Service (Proposed in HB 10)		\$700,000	\$700,000	1,400,000
Groundwater Assessment Account-direct (02289)	366,000	355,000	362,000	717,000
Reclamation & Development-50% of Remainder (02458)	357,000	0	0	0
Natural Resource Worker Scholarship	0	0	0	0
Orphan Share Account- Remainder of RIGWA (02472)	357,000	0	0	0
TOTAL RIGWA STATUTORY ALLOCATIONS	1,080,000	1,055,000	1,062,000	2,117,000
Applicable Oil and Gas Tax	\$400,000	\$2,205,000	\$2,174,000	\$4,379,000
<u>Applicable Portion of Oil and Gas</u>				
Coal Bed Methane Protection	400,000	400,000	400,000	800,000
General Fund	0	1,805,000	1,774,000	
Reclamation & Development-50% of Remainder (02458)	0	0	0	0
Orphan Share Account-50% of Remainder (02472)	0	0	0	0
TOTAL Oil and Gas STATUTORY ALLOCATIONS	400,000	2,205,000	2,174,000	4,379,000
TOTAL RIGWA & OIL AND GAS ALLOCATIONS	\$1,480,000	\$3,260,000	\$3,236,000	\$6,496,000
3				
RIT Interest Earnings (RATC estimates)	Fiscal 2003	Fiscal 2004	Fiscal 2005	Biennium Total
Priority Statutory Allocations of Interest	\$7,377,000	\$7,379,000	\$7,380,000	\$14,759,000
Environmental Contingency Account (02107)**	0	(175,000)	0	(175,000)
Oil & Gas Prod. Damage Mitigation Account (02010)***	0	(50,000)	0	(50,000)
Water Storage Account (02216)	0	(500,000)	0	(500,000)
Groundwater Assessment Account-direct (02289) ****	(300,000)	(300,000)	(300,000)	(600,000)
MSU-Northern Statutory Appropriation (02272)	(240,000)	(240,000)	(240,000)	(480,000)
Fish, Wildlife, and Parks -- Future Fisheries (02022)	(350,000)	(250,000)	(250,000)	(500,000)
Renewable Resource Grant & Loan Program (02272)	(2,000,000)	(2,000,000)	(2,000,000)	(4,000,000)
Reclamation & Development Grants (grants) (02458)	(1,200,000)	(1,200,000)	(1,200,000)	(2,400,000)
Total Allocations	(\$4,090,000)	(\$4,715,000)	(\$3,990,000)	(\$8,705,000)
Amount Available for Further Distribution	\$3,287,000	\$2,664,000	\$3,390,000	\$6,054,000

The second element shows the statutory allocations of resource indemnity and ground water assessment taxes (RIGWA) and the applicable portion of the oil and gas tax. The RIGWA tax and the applicable portion of oil and gas taxes are distributed to a number of natural resource accounts. The following describes the current law revenue sources of the main RIT funds, and is shown in figure 5.

- RIGWA – The state imposes a resource indemnity and ground water assessment (RIGWA) tax on the gross value of coal, as well as most minerals, excluding metals and oil and natural gas. Beginning in fiscal 2003, the first \$366,000 of the RIGWA tax is deposited into the ground water assessment account. Of the remainder, 50 percent is deposited into the reclamation and development account (R&D) for the purpose of making grants to be used for mineral development reclamation projects. Starting in fiscal 2004, an amount is deposited into an account for natural resource worker scholarships to bring the total in that program to \$150,000. All remaining funds are deposited into the orphan share account. The money in the orphan share accounts is available to the department by appropriation and must be used to reimburse remedial action costs and to pay costs incurred defending the orphan share.

Legislation proposed by the Office of Budget and Program Planning would provide an EPA funding match through the issuance of up to \$9.0 million in bonds (authorized under 75-10-623, MCA) that would be used to clean up the Libby and Troy areas. To pay debt service on these bonds, the legislation would utilize the first \$700,000 of the RIGWA tax proceeds, and no funds would go to the R&D or orphan share accounts, or the natural resource workers scholarship fund.

- Applicable portion of oil and gas taxes – A portion of oil and natural gas production taxes are distributed to the main RIT natural resource funds. 15-36-324 (9)(c), MCA, directs the first \$400,000 into the coal bed methane protection account. Money deposited in the account must be used to compensate landowners and water right holders for damages attributable to coal bed methane development and may not be spent until after June 30, 2005. The remainder of the applicable portion of oil and gas proceeds are split with 50 percent going to the R&D fund and 50 percent to the orphan share fund. As a consequence, the R&D and the orphan share accounts would again receive no revenues from this source.

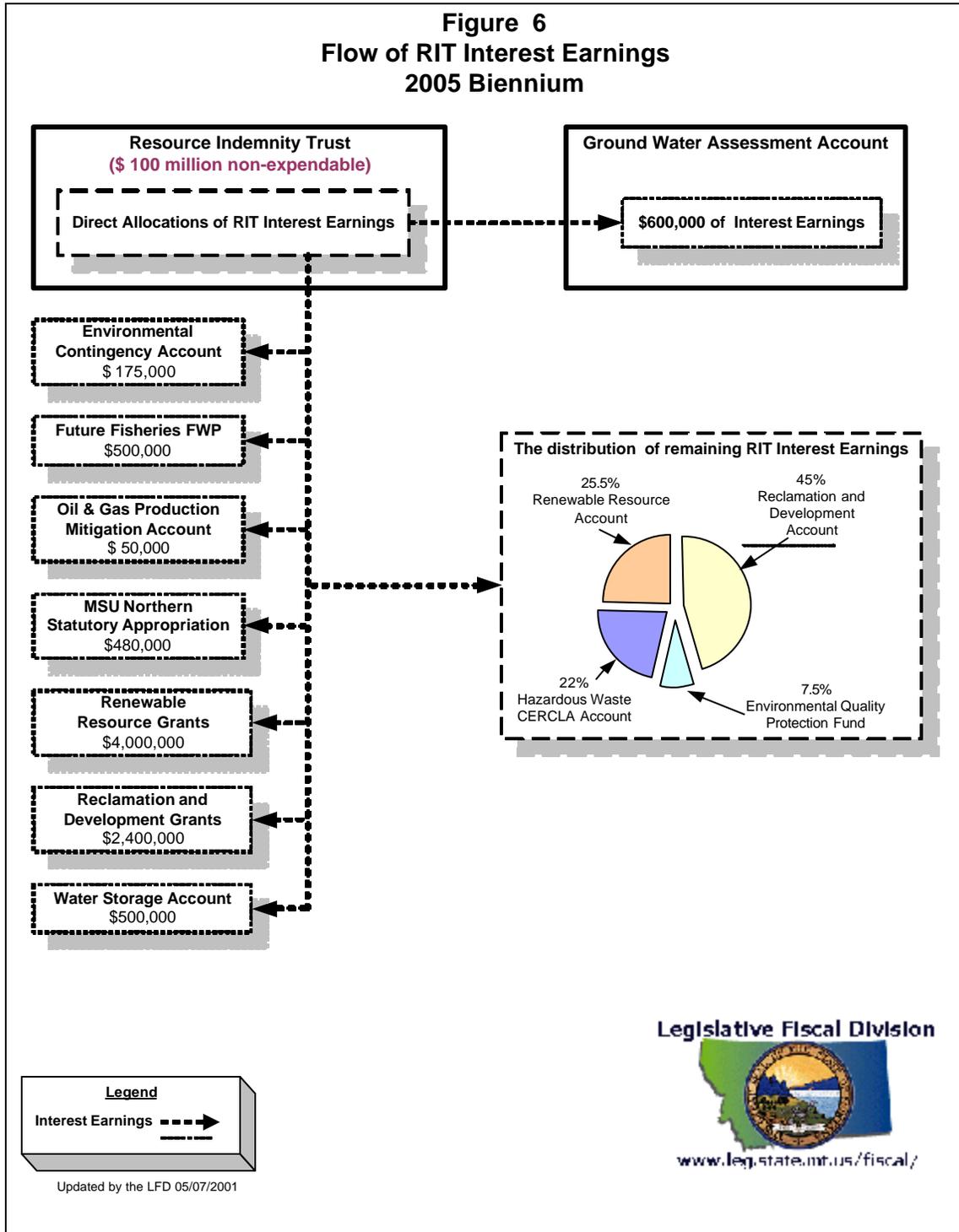
In the August 2002 special session, HB 10 diverted all remaining funds (after the \$400,000 distribution to the coal bed methane account) to the general fund. According to statute, changes would end on June 30, 2003. However, the executive is proposing legislation to continue diverting all remaining funds (after the \$400,000 distribution to the coal bed methane account) to the general fund.

- Metalliferous mines taxes – 7 percent of this funding source is directed to the reclamation and development account. A change proposed by the executive would divert 7 percent of the metalliferous mines tax to the general fund through the end of the 2005 biennium.

Trust Interest

- The third element shows the amount of interest generated by the RIT and the amounts that are allocated by statute for specific purposes in the 2005 biennium. 15-38-202, MCA, directs how interest from the RIT trust will be allocated. Driven by RATC estimates, \$14.8 million of interest is allocated to a number of sources. The constitution does not restrict the spending of interest from the RIT. For the 2005 biennium, statute directly allocates \$8.7 million of the interest for eight purposes.

The executive has proposed changes to the interest distribution through proposed legislation to reduce the amount of interest used for future fisheries projects. Figure 6 illustrates the flow of interest from the RIT for the 2005 biennium.



After the direct allocations are made, the fourth element shows seven main accounts that receive RIT interest and other revenues. After direct interest allocations are made, any interest remaining is now allocated as follows for appropriation by the legislature in HB 2:

- 25.5 percent to the renewable resource account, which funds programs in the Judiciary, Department of Natural Resources and Conservation, State Library Commission, MSU Northern, and the Governor's Office
- 45 percent to the reclamation and development account, which funds programs in the Department of Environmental Quality, Department of Natural Resources and Conservation, and the State Library Commission. This account also receives portions of the RIGWA and the applicable portion of oil and gas tax proceeds
- 22 percent to the hazardous waste/CERCLA account, which funds remediation activities in the Department of Environmental Quality
- 7.5 percent to the environmental quality protection fund, which funds remediation activities in the Department of Environmental Quality

Fund Balances

Of the seven tracked funds that derive income from the RIT related sources, four are projected to have a negative balance at the end of the 2005 biennium based upon the Executive Budget. Positive fund balances are projected for the other three funds as shown in figure 7.

4

Figure 7

Related Expenditure Accounts (2005 biennium totals)	Renewable Resource (02272) 25.5%	Reclamation & Development (02458) 45%	Haz. Waste CERCLA (02070) 22%	Environmental Quality Protect. (02162) 7.5%	Groundwater Assessment (02289)**** 0%	Water Storage (02216) 0%	Orphan Share (02472) 0%
Further Distribution % of RIT Interest	25.5%	45%	22%	7.5%	0%	0%	0%
Beginning Fiscal 2003 Fund Balance (SABHRS)	\$1,735,291	\$1,892,201	\$316,945	\$522,451	\$252,454	\$1,355,112	\$4,224,786
Continuing appropriations	(3,021,609)	(4,543,177)	0	(150,000)	0	(511,136)	(2,135,381)
Reserved for long-term assets (outstanding loans)	(362,823)					(1,993,831)	
Long-term liability						836,946	
Fiscal 2003 appropriations	(1,578,116)	(3,388,647)	(967,846)	(826,407)	(666,000)	0	(26,018)
Fiscal 2003 Legislative Adjustments	0	1,000,000	0	0	0	0	(1,000,000)
Fiscal 2003 revenues (RATC, agency estimates)	3,093,185	3,036,150	732,140	503,525	666,000	641,966	357,000
Projected Available Fund Balance Beginning FY2004	(\$134,072)	(\$2,003,473)	\$81,239	\$49,569	\$252,454	\$329,057	\$1,420,387
Revenues (RATC, agency estimates)							
RIT Interest-direct	\$4,480,000	\$2,400,000			\$600,000	\$500,000	
RIT Interest-further allocation by above %	1,543,770	2,724,300	1,331,880	454,050			
RIGWA Proceeds		0			717,000		-
Metal Mines Tax (7%)		0					
Sweep of Excess Coal Tax & Interest (from 04011)							
STIP/Other Interest			18,000	14,000		34,000	
Cost Recoveries				1,450,000			
Transfers			600,000				(600,000)
Administrative Fees	55,000						
State-owned Project Revenue	-	-	-	-	-	173,000	-
Total Revenues	\$6,078,770	\$5,124,300	\$1,949,880	\$1,918,050	\$1,317,000	\$707,000	(\$600,000)
Executive Appropriations							
House Bills 6 and 7 Grants (Executive Recommended)	\$4,000,000	\$2,400,000					
House Bill 6-Emergency/Private Grants (Recommended)							
MSU-Northern (statutorily appropriated)	480,000						
UM-Bureau of Mines					\$1,332,000		
DNRC-Conservation and Resource Devel. Division	649,282	1,000,000					
DNRC-Water Resources Division						1,870,000	
DEQ-Central Management		72,527	37,172	1,705			
DEQ-Planning, Prevention & Assistance			\$322,013				
DEQ-Enforcement		9,463					
DEQ-Remediation			424,032	1,903,195			2,664,296
DEQ-Permitting & Compliance		3,058,285	1,054,377				
Governor's Office-Flathead Basin Commission	90,020						
Judiciary-Water Court	1,444,788						
Library Commission-NRIS	0	367,412					
Library Commission-State Library Operations	415,110						
House Bill 13 (executive pay plan estimate)	-	-	-	-	-	-	-
Total Appropriations	\$7,079,200	\$6,907,687	\$1,837,594	\$1,904,900	\$1,332,000	\$1,870,000	\$2,664,296
Projected 2005 Biennium Ending Balance	(\$1,134,502)	(\$3,786,860)	\$193,525	\$62,719	\$237,454	(\$833,943)	(\$1,843,909)

** The governor must report on the expenditures from the environmental contingency account in the executive budget. Expenditures are statutorily appropriated.

*** Amounts are deposited to the oil & gas production damage mitigation account to bring the balance up to \$200,000 (82-11-161,MCA). All money in the account is statutorily appropriated.

**** Amounts are deposited to the groundwater assessment account to bring the balance up to \$666,000.

LFD ISSUE

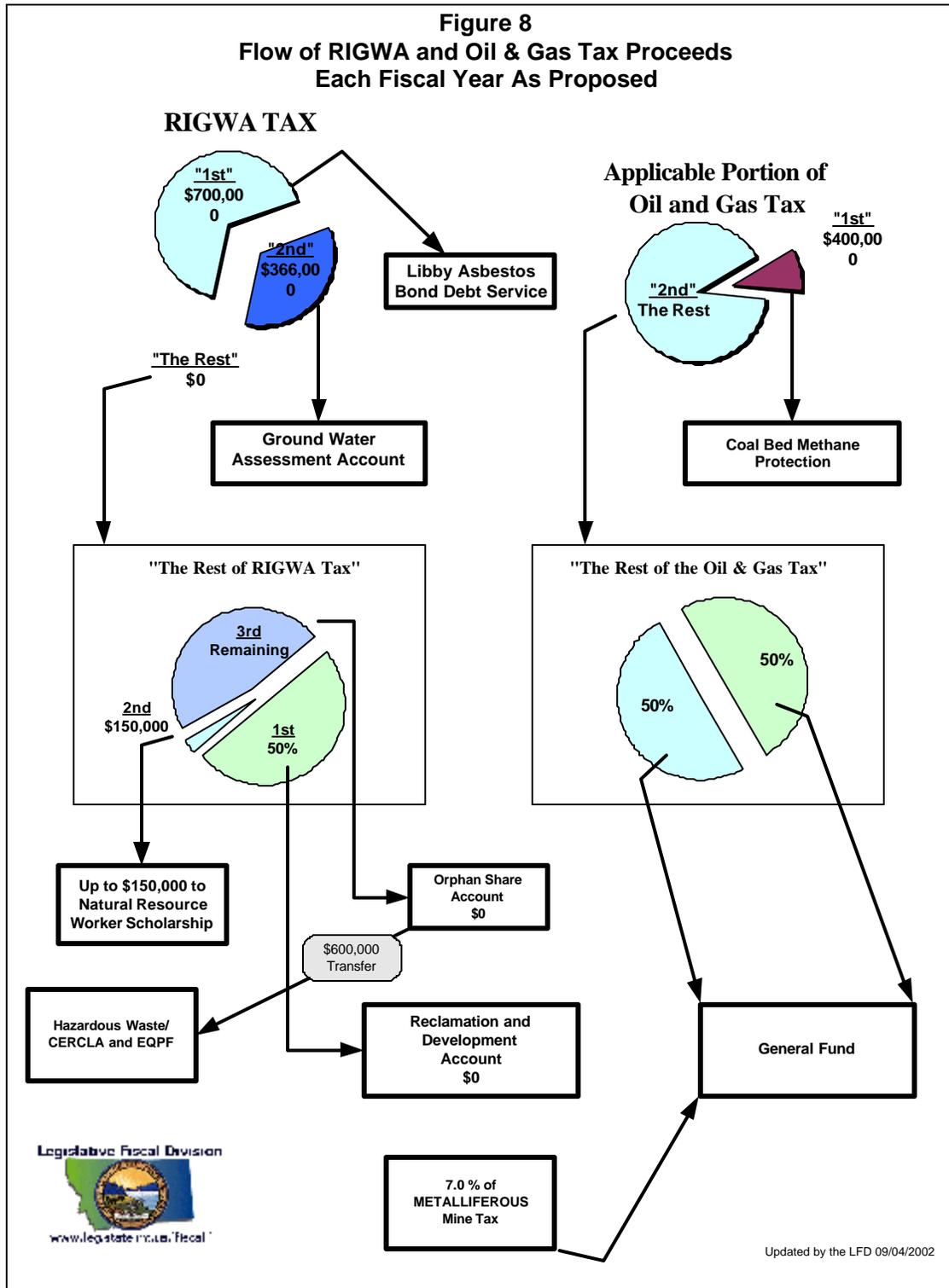
The executive proposes spending from accounts that derive interest from the RIT and related funding sources that exceeds anticipated revenues:

- The allocation of the applicable portion of oil and gas taxes that is used as a funding source for the reclamation and development and orphan share accounts is proposed to be diverted to the general fund through the 2005 biennium. This would have a significant effect on the ending fund balance of these two funds. Also included in that legislation is a change to divert the 7.0 percent portion of metalliferous mines tax away from the reclamation and development account into the general fund through the 2005 biennium.

**LFD
ISSUE
(continued)**

- Based upon Revenue and Transportation Committee revenue projections, \$1.0 million will be generated from RIGWA. If the first \$700,000 of the RIGWA tax was used for debt service, the reclamation and development, groundwater assessment, and orphan share accounts would have reduced projected ending fund balances. Further, SB 322, passed during the 2001 legislative session, modified 15-38-106, MCA, and created a natural resource workers education scholarship program. Based upon the level of RIGWA revenue projections, it is unlikely that this scholarship program would continue to receive distributions.
- The executive is proposing legislation that would allow the department to transfer up to \$600,000 of funds to the hazardous waste CERCLA and/or the environmental quality protection fund to provide a source of cash to fund appropriations made in HB 2. According to the proposed legislation, expenditures may not exceed the amount appropriated in HB 2. This proposed change is problematic for two reasons: 1) without a transfer to the hazardous waste CERCLA account, that account is projected to have a negative fund balance of \$406,475 at the end of the 2005 biennium; and 2) the transfer is proposed to come from the orphan share fund. Before a transfer out of that fund, it is projected to have a negative fund balance of \$1.2 million at the end of the 2005 biennium.
- The executive is proposing legislation to reduce the direct interest allocation to the Department of Fish, Wildlife, and Parks for future fisheries projects by \$100,000 each year of the biennium.

Figure 8 shows the impacts of the proposed changes:



As a consequence, the renewable resource, reclamation and development, water storage, and orphan share accounts are projected to have significant deficit fund balances. Figure 9 illustrates the impacts on the RIT fund balances of implementing tax and interest distribution changes. As shown, the "As Proposed" section represents changes for Libby debt service, diversion of the applicable portion of oil and gas tax and metalliferous mines tax to the general fund, and the

proposed decrease in the direct interest allocation to the Department of Fish, Wildlife, and Parks for future fisheries projects. In contrast, the current law section represents tax and interest distribution levels as they came out of the August 2002 special session.

Figure 9
Resource Indemnity Trust
Current Law / Proposed
Ending Fund Balance Difference on 2005 Projection

	Renewable Resource (02272)	Reclamation & Development (02458)	Haz. Waste CERCLA (02070)	Environmental Quality Protect. (02162)	Groundwater Assessment (02289)	Water Storage (02216)	Orphan Share (02472)
As Proposed	(\$1,134,502)	(\$3,786,860)	\$193,525	\$62,719	\$237,454	(\$833,943)	(\$1,843,909)
Current law (2005 projection (With Revenue Changes)	(1,185,502)	(704,520)	(450,475)	47,719	252,454	(833,943)	1,068,091
Difference	\$51,000	(\$3,082,340)	\$644,000	\$15,000	(\$15,000)	\$0	(\$2,912,000)

Decreased revenues and increasing appropriations over the last couple of biennia have spread the RIT-related funding sources thin. The legislature may wish to examine the following options when contemplating changes to the fiscal 2005 biennium:

Options:

- o Reduce total appropriations. In the four RIT accounts with projected negative ending fund balances, the legislature could reduce agency appropriation levels by a percentage large enough that the projected fund balances will not be negative. Those percentages would be: 1) renewable resources, 16.0 percent; 2) reclamation and development, 54.8 percent; 3) water storage, 44.6 percent; 4) orphan share, 69.2 percent
- o Enact statutory changes to add enough additional revenue into each of the identified funding sources to reflect a positive projected ending fund balance
- o Approve all decision packages and/or legislation that propose to change the how the identified funding sources are utilized

Alternative Pay Plan – Department-wide move to Pay Plan 20

The department is one of several that recently adopted alternative classification and pay plan guidelines. The Montana Human Resources Competency Project (the Competency Project) was initiated by Governor Racicot’s administration and approved by the 1997 legislature on the premise that it would provide a management tool to help state agencies respond to fast-changing human resource issues. The Competency Project provides an alternative classification and pay system with two concepts that provide agency management with increased human resource flexibility. These concepts are competencies and broadbanding.

Competencies are measurable and observable knowledge, skills, abilities, and behaviors that contribute to success in a job. The Broadband Plan (Pay Plan 20) is a two-tiered process of competencies and broad pay bands intended to provide agency flexibility. Broadbanding is a strategy for salary structure that consolidates a large number of pay grades into a few “broad bands”

The purpose of this pay plan was to develop a plan whereby employees and managers with a mechanism to 1) reward demonstrated competencies and service, and 2) to recruit and retain qualified employees. Citing authority given under 2-18-303, MCA and employee turnover of up to 50 percent, the department began an agency-wide migration to based pay plan 20 beginning with an increase in pay.

Although employees received a pay increase through HB 13, the department believed that its ability to recruit and retain qualified employees would be enhanced by increasing pay even more. In order to determine how much additional money to pay employees, the executive conducted a market survey using several widely used survey sources. Based upon that

data, type of position, length of service, and other factors such as historical turnover, employees were given an additional pay increase.

Even though pay increases that were given as part of the Broadband Plan implementation will increase personal service costs, the Office of Budget and Program Planning (OBPP) indicated that they developed a plan to offset the increases in personal service costs due to Broadband Plan pay increases. OBPP staff has indicated that the 2003 legislature could expect to see a method comparable to that used by the Department of Fish, Wildlife, and Parks (FWP) during the 2001 legislature to neutralize the fiscal impacts of broadbanding related pay increases. The method used by FWP involved a series of negative decision packages presented as part of the Executive Budget. These negative decision packages reduced base operations expenditures within the department by the amount of the increase in personal service costs attributable to market-based or compensation-based pay increases associated with the move to the Broadband Plan. Based upon data extracted from SABHRS, the move to pay plan 20 cost the department \$884,888, for all fund types, over the 2005 biennium. Over the biennium, the executive has proposed enough permanent reductions to fund this amount.

Additional Programs for General Fund Reduction Consideration

As part of the ongoing effort to address the current budget shortfall in the general fund, the department was asked to evaluate programs for inclusion on a list of core agency programs, important programs, and beneficial programs. The following is a list of beneficial programs that utilize general fund for a portion of program funding.

Rangeland Management

The Rangeland Resource Program encourages coordination and cooperation among private, state, and federal entities involved in range management, which cover 72,000,000 acres or nearly 70 percent of the state. The program receives guidance from the Rangeland Resource Executive Committee appointed by the Governor. DNRC funds a portion of a federal NRCS employee who serves as range program coordinator. Staff works with local grazing management groups to sponsor workshops, tours, and demonstration projects. In addition, the staff administers a rangeland improvement loan program for the purpose of improving rangelands.

The legislature may wish to consider the following:

- In part, this program provides education and training services to landowners throughout the state that are seeking to improve their private rangelands
- Similar educational opportunities exist from other sources such as colleges, universities, extension agencies, and the internet
- If users choose state government as the best source of these of rangeland educational and seminar services, private landowners and groups should be willing to pay a fee to obtain that knowledge
- Sponsorships for tours, camps and seminars could be obtained from the private sector
- This service is not a service that is core to the mission of the department
- There may be federal grants available that could be used to fund, partially or entirely, the costs of this program
- Elimination of general fund support would result in general fund savings of \$66,000 over the 2005 biennium

Options:

- Eliminate the general fund support and eliminate the program
- Eliminate the general fund support and direct the department to stop program activities until another funding source is obtained
- Collect fees for workshops, tours, demonstration projects, and other activities to offset general fund used by the program
- Do not eliminate the general fund support and retain program activities

Water Resource Education

The Water Resource Education program provides educational services centered on Montana's water laws and how to seek financial and technical support for improving local water management. Program goals include improving water management and water conservation, resolving water conflicts, and actively educating water users to make their own water management decisions.

The legislature may wish to consider the following:

- The Water Resource Education Program provides many types of water resource education to a number of water users and watershed groups across the state, including curricula on water rights, adjudication, Native American water rights, water conservation, Know Your Watershed workshops, water quality, best management practices and support for watershed groups
- The programs are individually designed and based on the educational needs of private water users and landowners
- Similar educational opportunities exist from other sources such as private attorneys, conservation groups, extension agencies, libraries, and the internet
- If users chose state government as the best source of these educational services, users should be willing to pay a fee to obtain that knowledge
- Conflict and dispute resolution services can be obtained from the private sector
- The program utilizes the general fund to serve a relatively narrow group of private landowners and water rights holders
- Elimination of general fund support would result in general fund savings of \$96,367 over the 2005 biennium

Options:

- Eliminate the general fund support and eliminate the program
- Eliminate the general fund support and direct the department to suspend program activities until another funding source is secured
- Direct the department to charge a fee commensurate with the educational activities provided and use the revenue to replace general fund
- Direct the department to conduct all educational activities in Helena
- Do not eliminate the general fund support and retain program activities

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	41.00	0.00	(3.00)	38.00	0.00	(3.00)	38.00	38.00
Personal Services	1,644,545	338,665	(134,685)	1,848,525	339,354	(134,400)	1,849,499	3,698,024
Operating Expenses	586,180	(2,646)	18,300	601,834	(79,402)	0	506,778	1,108,612
Equipment	0	0	0	0	0	0	0	0
Debt Service	257	0	0	257	0	0	257	514
Total Costs	\$2,230,982	\$336,019	(\$116,385)	\$2,450,616	\$259,952	(\$134,400)	\$2,356,534	\$4,807,150
General Fund	1,700,915	358,886	(134,685)	1,925,116	307,819	(134,400)	1,874,334	3,799,450
State/Other Special	425,067	(17,867)	0	407,200	(17,867)	0	407,200	814,400
Federal Special	105,000	(5,000)	18,300	118,300	(30,000)	0	75,000	193,300
Total Funds	\$2,230,982	\$336,019	(\$116,385)	\$2,450,616	\$259,952	(\$134,400)	\$2,356,534	\$4,807,150

Program Description

The Centralized Services Division provides managerial and administrative support services to the department through: 1) the Director's Office, which includes the director, legal staff, and public information; and 2) support services, which manages all financial activities, coordinates information systems, produces publications and graphic materials, and performs general administrative support services. Support services include fiscal affairs, data processing, personnel, legal, reception, and mail. Responsibilities include trust revenue collection and distribution and maintenance of ownership records for trust and non-trust state-owned land.

Program Narrative

Centralized Services Division
Major Program Highlights
<ul style="list-style-type: none"> o The executive is requesting authority to re-wire a building o Targeted reductions include elimination of 3.00 FTE
Major LFD Issues
<ul style="list-style-type: none"> o Reductions to meet target include reductions for pay plan 20

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,700,915	76.2%	\$ 1,925,116	78.6%	\$ 1,874,334	79.5%
02031 Forest Resources - Nursery	-	-	5,000	0.2%	5,000	0.2%
02039 Forestry-Fire Protection Taxes	42,772	1.9%	43,000	1.8%	43,000	1.8%
02052 Rangeland Improvement Loans	19,300	0.9%	15,000	0.6%	15,000	0.6%
02145 Broadwater O & M	8,600	0.4%	9,000	0.4%	9,000	0.4%
02280 Forest Resources-Timber Sales	71,940	3.2%	75,000	3.1%	75,000	3.2%
02340 Coal Sev. Tax Shared Ssr	5,300	0.2%	5,000	0.2%	5,000	0.2%
02430 Water Right Appropriation	26,000	1.2%	27,000	1.1%	27,000	1.1%
02432 Oil & Gas Era	62,500	2.8%	63,000	2.6%	63,000	2.7%
02449 Forest Resources-Forest Improv	28,779	1.3%	29,000	1.2%	29,000	1.2%
02450 State Lands Res Dev	80,000	3.6%	56,200	2.3%	56,200	2.4%
02825 Water Well Contractors	5,300	0.2%	5,000	0.2%	5,000	0.2%
02938 Trust Fund Revenues	74,576	3.3%	75,000	3.1%	75,000	3.2%
03255 Csd Federal Indirect	<u>105,000</u>	<u>4.7%</u>	<u>118,300</u>	<u>4.8%</u>	<u>75,000</u>	<u>3.2%</u>
Grand Total	<u>\$ 2,230,982</u>	<u>100.0%</u>	<u>\$ 2,450,616</u>	<u>100.0%</u>	<u>\$ 2,356,534</u>	<u>100.0%</u>

The Centralized Services program is funded primarily with general fund, resource development funds, coal severance taxes, and federal indirect grant reimbursements. In addition, the department charges an overhead rate to other divisions to recover costs.

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					421,300					422,016
Vacancy Savings					(82,635)					(82,662)
Inflation/Deflation					8,466					8,816
Fixed Costs					33,722					(54,304)
Total Statewide Present Law Adjustments					\$380,853					\$293,866
DP 5 - CSD Operating	0.00	(21,034)	(23,800)	0	(44,834)	0.00	(10,114)	(23,800)	0	(33,914)
Total Other Present Law Adjustments	0.00	(\$21,034)	(\$23,800)	\$0	(\$44,834)	0.00	(\$10,114)	(\$23,800)	\$0	(\$33,914)
Grand Total All Present Law Adjustments					\$336,019					\$259,952

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 5 - CSD Operating - The Executive Budget includes a request for an operating adjustment for rent. The DNRC office is located in a non-state building and rent is not shown as a fixed cost within Department of Administration schedules. A contractual agreement through fiscal year 2005 for the USF&G building in Helena stipulates a rate increase. After the requested increase, rent will cost \$153,327 in fiscal 2004 and \$164,025 in fiscal 2005.

In addition, reductions were taken for separation allowance, costs for the trust land management system, and parking. \$37,930 was deducted for a one time only allowance, \$23,800 was deducted for cost savings involved in moving the database from a mainframe to a desktop platform, and \$1,000 was deducted for parking downtown.

New Proposals	-----Fiscal 2004-----					-----Fiscal 2005-----					
	Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 22 - Re-wiring USF&G Building	21	0.00	0	0	18,300	18,300	0.00	0	0	0	0
DP 7020 - Reduction to Meet Target	21	(3.00)	(134,685)	0	0	(134,685)	(3.00)	(134,400)	0	0	(134,400)
Total	(3.00)	(\$134,685)	\$0	\$18,300	(\$116,385)	(3.00)	(\$134,400)	\$0	\$0	(\$134,400)	

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 22 - Re-wiring USF&G Building - The Executive Budget includes a request for authority to complete a re-wiring project at DNRC headquarters located in the USF&G building in Helena. The basement of the USF&G building houses the Reserved Water Rights Compact Commission, the Conservation and Resource Development Division, the Oil and Gas Division, and the Centralized Services Division Information Technology Bureau. Nearly all the data network wiring in the basement is "Category 3" wiring that is relatively slow for routine data transmission and is incapable of high-speed transmission replacing the Category 3 wiring in the basement of the USF&G building would allow headquarters staff to move to high-speed data transmission. The cost to rewire the 60 network wall jacks will cost \$18,300.

LFD ISSUE	The executive is requesting the appropriation be designated one-time only in nature.
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DP 7020 - Reduction to Meet Target - The Executive Budget includes a request to eliminate 3.00 FTE and associated funding -- the deputy director, a receptionist, and an information support technician. Included in the reduction is \$60,000 each year of the biennium to fund the move to pay plan 20.

LFD ISSUE	Please see the agency-wide issue on the move to pay plan 20.
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Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	17.50	0.00	3.00	20.50	0.00	3.00	20.50	20.50
Personal Services	723,801	97,760	127,006	948,567	118,051	126,769	968,621	1,917,188
Operating Expenses	280,240	66,634	304,290	651,164	68,502	110,290	459,032	1,110,196
Equipment	22,314	2,686	61,000	86,000	2,686	0	25,000	111,000
Total Costs	\$1,026,355	\$167,080	\$492,296	\$1,685,731	\$189,239	\$237,059	\$1,452,653	\$3,138,384
State/Other Special	922,411	271,024	492,296	1,685,731	293,183	237,059	1,452,653	3,138,384
Federal Special	103,944	(103,944)	0	0	(103,944)	0	0	0
Total Funds	\$1,026,355	\$167,080	\$492,296	\$1,685,731	\$189,239	\$237,059	\$1,452,653	\$3,138,384

Program Description

The Oil and Gas Conservation Division administers the Montana oil and gas conservation laws to promote conservation and prevent waste in the recovery of these resources through regulation of exploration and production of oil and gas. The division: 1) issues drilling permits; 2) classifies wells; 3) establishes well spacing units and pooling orders; 4) inspects drilling, production, and seismic operations; 5) investigates complaints; 6) does engineering studies; 7) determines incremental production for enhanced recovery and horizontal wells to implement the tax incentive program for those projects; 8) operates the underground injection control program; 9) plugs orphan wells; and 10) collects and maintains complete well data and production information.

Program Narrative

Oil and Gas Conservation Division Major Program Highlights	
<ul style="list-style-type: none"> ○ Program is funded entirely with state special revenue ○ Seeking authority for coal bed methane activity 	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Oil & Gas Conservation Div.						
	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
Program Funding						
02432 Oil & Gas Era	\$ 922,411	89.9%	\$ 1,685,731	100.0%	\$ 1,452,653	100.0%
03356 Oil & Gas Federal	103,944	10.1%	-	-	-	-
Grand Total	\$ 1,026,355	100.0%	\$ 1,685,731	100.0%	\$ 1,452,653	100.0%

The state special revenue that funds this program comes from oil and gas well taxes and class II injection well annual operating fees. By statute (15-36-324, MCA), certain percentages of the oil production taxes and natural gas taxes are deposited to the account for the board's use. Under 82-11-131, MCA, the board can set the privilege and license tax up to 3/10 of 1 percent of the market value of each barrel of crude petroleum produced and of each 10,000 cubic feet of natural gas produced to comply with 15-36-324, MCA. Section 82-11-137, MCA, provides for a maximum \$300 annual operating fee for each class II injection well. The Board of Oil and Gas Conservation set the fee at \$200. State special

revenue provides 100 percent of the funding.

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					106,804					111,396
Vacancy Savings					(33,225)					(33,408)
Inflation/Deflation					2,368					3,139
Fixed Costs					1,947					3,669
Total Statewide Present Law Adjustments					\$77,894					\$84,796
DP 3 - Oil & Gas Operating Adjustment										
	0.00	0	89,186	0	89,186	0.00	0	104,443	0	104,443
Total Other Present Law Adjustments	0.00	\$0	\$89,186	\$0	\$89,186	0.00	\$0	\$104,443	\$0	\$104,443
Grand Total All Present Law Adjustments					\$167,080					\$189,239

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 3 - Oil & Gas Operating Adjustment - The Executive Budget includes a request for personal services increases including: 1) board member per diem of \$8,200 per year; 2) exempt salary and associated benefits increases of \$14,981 in fiscal 2004 and \$30,863 in fiscal 2005; and 3) overtime of \$1,000 per year. Operating expense increases include: 1) \$60,128 per year to annualize base year expenditures for four on-going contracts (legal services, database consultants and janitorial for Billings and Helena offices); 2) \$1,191 in fiscal 2004 and \$1,566 in fiscal 2005 for increased rent costs for the Billings and Shelby offices; and 3) \$1,000 in fiscal 2004 for heating system repairs. If approved, additional authority for equipment would be added to the base and used to purchase one new field inspector truck each year of the biennium.

New Proposals	-----Fiscal 2004-----					-----Fiscal 2005-----					
	Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 8 - Re-Establish FTE											
22	3.00	0	162,296	0	162,296	3.00	0	137,059	0	137,059	
DP 23 - Heating System Replacement-OTO											
22	0.00	0	30,000	0	30,000	0.00	0	0	0	0	
DP 51 - Coal Bed Methane Impounded Produced Water Study											
22	0.00	0	200,000	0	200,000	0.00	0	0	0	0	
DP 52 - Historical Data Acquisition Project											
22	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000	
Total	3.00	\$0	\$492,296	\$0	\$492,296	3.00	\$0	\$237,059	\$0	\$237,059	

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 8 - Re-Establish FTE - The Executive Budget includes a request to add 3.00 FTE and related authority for operations expenses to address workload increases associated with increased coal bed methane activity. If approved, 1.00 FTE would be an environmental coordinator to do environmental assessments on drilling permits. According to the executive, the number of drilling permits processed has doubled from last biennium and coal bed methane permitting is expected to increase in the 2005 biennium. The other 2.00 FTE would be field inspectors assigned to both coal bed methane and general regulatory activities. The Board establishes the salary of the environmental coordinator as described in 2-15-3303 (3) MCA. These positions had been in the budget, but were deleted by the 2001 legislature after being identified as vacant

and thereby subject to the Cobb amendment in HB2. The equipment portion of the request would be used for a new field inspector truck.

DP 23 - Heating System Replacement-OTO - The Executive Budget includes a request for authority to replace the heating, ventilation, and air conditioning system in the Billings office.

**LFD
COMMENT**

At the request of the executive, the legislature may wish to designate this request as one-time-only in nature.

DP 51 - Coal Bed Methane Impounded Produced Water Study - The Executive Budget includes a request for biennial appropriation authority to study the potential effects of long-term disposal of produced coal bed methane (CBM) water by infiltration ponds and the design criteria for construction, monitoring, and operation of such impoundments permitted by the Board of Oil & Gas Conservation. The board has applied for an additional \$200,000 for the project through the DNRC Reclamation and Development Grant Program. If approved, the project would use the services of an environmental/engineering consultant to develop a project plan, construct monitoring wells, analyze data, and assist the board in developing rules and regulations for the construction and operation of infiltration ponds.

DP 52 - Historical Data Acquisition Project - The Executive Budget includes a request for authority to acquire and maintain historical oil and gas data, well logs, and field information and place this data into electronically retrievable formats. If approved, the executive would utilize contractors and purchase imaging hardware/software to retrieve, image, enter historical data, and store it electronically. After pre-1990 data is complete, existing staff and temporary employees would be used to maintain the data

Language Recommendations

The executive is recommending the following language:

"The department is authorized to decrease state special revenue money in the underground injection control program and increase federal special revenue money by a like amount when the amount of federal EPA funds available for the program becomes known. Any federal special revenue is to be spent before state special revenue."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	22.00	0.50	(1.00)	21.50	0.50	(1.00)	21.50	21.50
Personal Services	1,035,489	130,895	(48,810)	1,117,574	133,834	(48,730)	1,120,593	2,238,167
Operating Expenses	822,712	68,897	0	891,609	(4,527)	0	818,185	1,709,794
Equipment	52,259	0	0	52,259	0	0	52,259	104,518
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	213,373	0	0	213,373	0	0	213,373	426,746
Grants	895,365	(302,154)	0	593,211	(310,961)	0	584,404	1,177,615
Benefits & Claims	500,000	500,000	0	1,000,000	500,000	0	1,000,000	2,000,000
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$3,519,198	\$397,638	(\$48,810)	\$3,868,026	\$318,346	(\$48,730)	\$3,788,814	\$7,656,840
General Fund	1,853,238	530,733	(48,810)	2,335,161	534,956	(48,730)	2,339,464	4,674,625
State/Other Special	1,488,252	(155,944)	0	1,332,308	(257,716)	0	1,230,536	2,562,844
Federal Special	177,708	22,849	0	200,557	41,106	0	218,814	419,371
Total Funds	\$3,519,198	\$397,638	(\$48,810)	\$3,868,026	\$318,346	(\$48,730)	\$3,788,814	\$7,656,840

Program Description

The Conservation and Resource Development Division provides technical, administrative, financial, and legal assistance to Montana's 58 conservation districts by administering the Conservation District Act, Montana Rangeland Resources Act, and the Natural Streambed and Land Preservation Act. The division also manages several loan and grant programs for local communities, local governments, state agencies, and private citizens. The programs include the State Revolving Fund, which currently includes \$150 million loaned to communities for water and waste water systems, Coal Severance Tax loans to governmental entities totaling \$45 million, and private loans for \$16.5 million. Grant programs administered by the division include the Reclamation Development, Renewable Resource, and Conservation District Grant programs.

Program Narrative

<p>Conservation and Resource Development Division Major Program Highlights</p>
<ul style="list-style-type: none"> ○ General fund is the primary funding source and is centered in two bureaus ○ This source supplies over 60 percent of the funding for the program ○ Executive is requesting \$1.0 million over the biennium to address the Crow Tribe settlement ○ Targeted reductions include elimination of 1.00 FTE
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> ○ Targeted reductions included as part of the move to pay plan 20 ○ Some RIT related funds are projected to have negative ending fund balances

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Conservation/Resource Dev Div						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,853,238	52.7%	\$ 2,335,161	60.4%	\$ 2,339,464	61.7%
02052 Rangeland Improvement Loans	21,558	0.6%	22,000	0.6%	22,000	0.6%
02270 Treasure State Endowment	26,000	0.7%	28,000	0.7%	26,000	0.7%
02272 Renewable Resources Grnt/Loans	316,579	9.0%	331,002	8.6%	318,280	8.4%
02316 Go94B/Ban 93D Admin	12,943	0.4%	15,093	0.4%	16,770	0.4%
02340 Coal Sev. Tax Shared Ssr	627,134	17.8%	328,170	8.5%	319,443	8.4%
02433 Grazing District Fees	28,043	0.8%	108,043	2.8%	28,043	0.7%
02458 Reclamation & Development	455,995	13.0%	500,000	12.9%	500,000	13.2%
03178 Res Dev & Cons - Fed	35,650	1.0%	35,650	0.9%	35,650	0.9%
03232 Drinking Water Srf Ffy 00	77,501	2.2%	90,000	2.3%	99,934	2.6%
03245 Wastewater Treatment Grant	64,557	1.8%	74,907	1.9%	83,230	2.2%
Grand Total	<u>\$ 3,519,198</u>	<u>100.0%</u>	<u>\$ 3,868,026</u>	<u>100.0%</u>	<u>\$ 3,788,814</u>	<u>100.0%</u>

This program is primarily funded with general fund, RIT accounts, coal severance taxes, miscellaneous state special revenue funds, federal drinking water and water pollution control funds, and miscellaneous federal sources. The Natural Resource Development Bureau utilizes 46.9 percent of the division general fund to administer grant and loan programs, provide assistance to conservation districts for the administration of water reservations, and assist landowners to develop new irrigation. The programs include the Reclamation and Development, Renewable Resource, Treasure State Endowment, Conservation District Water Reservation, and Irrigation Development programs.

The Conservation District Bureau utilizes 53.1 percent of the available general fund to assist Montana conservation and grazing districts. The programs include Conservation District Supervision, Watershed Efforts and Projects, Rolling Rivers Trailers, Rangeland Management, Grazing District Supervision, Natural Resource Conservation Education, Grants, and Salinity Control Programs.

LFD ISSUE	This program contains base funding from the reclamation and development and renewable resources accounts. Both of these accounts are projected to have significant negative balances at the end of the 2005 biennium. For more information, please see the agency wide RIT issue in the overview section.
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	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					158,547					161,645
Vacancy Savings					(47,760)					(47,884)
Inflation/Deflation					(7)					985
Fixed Costs					6,124					9,061
Total Statewide Present Law Adjustments					\$116,904					\$123,807
DP 12 - Crow Tribe Settlement	0.00	500,000	0	0	500,000	0.00	500,000	0	0	500,000
DP 28 - Grass Conservation Commission	0.00	0	80,000	0	80,000	0.00	0	0	0	0
DP 230 - Coal Severance Tax Shared Acct Reduction	0.00	0	(298,964)	0	(298,964)	0.00	0	(307,691)	0	(307,691)
DP 7009 - Operating and Special Session Adjustments	0.50	(26,801)	4,093	22,406	(302)	0.50	(25,560)	3,770	24,020	2,230
Total Other Present Law Adjustments	0.50	\$473,199	(\$214,871)	\$22,406	\$280,734	0.50	\$474,440	(\$303,921)	\$24,020	\$194,539
Grand Total All Present Law Adjustments					\$397,638					\$318,346

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 12 - Crow Tribe Settlement - The Executive Budget includes a request for Crow Tribe settlement payments. The June 1999 Special Session of the Montana legislature approved the water rights and coal severance tax litigation settlement with the Crow Tribe. The state also authorized a "contribution to settlement" of \$15 million. "The State agrees to contribute the sum of \$15 million, in equal annual installments for a period of no more than 15 years beginning July 1, 1999, to a fund for the use and benefit of the Tribe." Pending final effectiveness of the compact, these funds are paid into escrow. Contract payments of \$500,000 were paid each year of the in the 2003 biennium. Per the escrow agreement, increasing the payments to \$1.0 million in fiscal 2004 and \$1.0 million fiscal 2005 for each year of the biennium will put the state in a better position to fund the agreement by the deadline date. This is a \$500,000 increase each year over the base expenditure amount.

DP 28 - Grass Conservation Commission - The Executive Budget includes a request for a biennial appropriation adjustment due to a vacant executive secretary position. If approved, funding would be provided for contracted services, travel, communications, and supplies and materials associated with the executive secretary position.

DP 230 - Coal Severance Tax Shared Acct Reduction - The Executive Budget includes a request to reduce the coal severance tax shared state special revenue account in grants by \$298,964 in fiscal 2004 and \$307,691 in fiscal 2005. If approved, proposed legislation would reduce the allocation from the coal severance tax shared account from 7.75 percent to 4.18 percent. The current amounts proposed for reduction are based upon executive revenue estimates.

LFD COMMENT	Conservation districts use Coal Tax Funds (CST) for basic operations and in a number of programs that are administered at the local level. The CST funds are used for administration of the 310 permitting law ³ , legal and engineering support, and support of watershed projects at the local level. For more information on the coal severance tax shared state special revenue account, please see the narrative for the Community Development Division within the Department of Commerce.
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DP 7009 - Operating and Special Session Adjustments - The Executive Budget includes a request to add 0.50 FTE and associated operating authority. According to the executive, adding 0.50 FTE would help administer and account for the revolving program loans. One position was vacant for nine months because of recruiting problems in the Irrigation Program. Therefore, full operating costs are not reflected in the base. In addition to the FTE, the executive is proposing the following:

- o Rent and janitorial expenses have increased in Miles City, Billings, and Helena. The buildings, which house the Conservation Districts and Resource Development Bureau, are not-state owned and rent is increasing an average of 5 percent in the next biennium
- o Contracted services are expected to increase because of an increased workload in the reclamation and development and grants program
- o The Irrigation Development program was in a startup phase during fiscal 2002. As a result, the base year reflects only three months of operating expenses due to nine months of vacant FTE. Consequently, communications and travel are understated in the base expenditures
- o 310 grants to conservation districts are reduced by \$3,190 in fiscal 2004 and \$3,270 in fiscal 2005. Contract expenditures for the Natural Resource Conservation Service (NRCS) are reduced by \$25,000 each year and the Yellowstone River contract by \$10,000 each year
- o Special session reductions of \$35,000 each fiscal year are continued

Program	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7020 - Reductions to Meet Target										
23	(1.00)	(48,810)	0	0	(48,810)	(1.00)	(48,730)	0	0	(48,730)
Total	(1.00)	(\$48,810)	\$0	\$0	(\$48,810)	(1.00)	(\$48,730)	\$0	\$0	(\$48,730)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7020 - Reductions to Meet Target - The Executive Budget includes a request for eliminate 1.00 FTE agricultural engineering specialist position that designs irrigation systems. The proposed reductions include \$18,000 each year of the biennium for the move to Pay Plan 20.

LFD ISSUE	Please see agency wide issues related to the move to pay plan 20.
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Language Recommendations

The executive is recommending the following language:

"The department is appropriated up to \$600,000 for the 2005 biennium from the state special revenue account established in 85-1-604 for the purchase of prior liens on property held as loan security as required by 85-1-618."

"The department is authorized to decrease federal special revenue money in the pollution control and/or drinking water revolving fund loan programs and increase state special revenue money by a like amount within the special administration account when the amount of federal EPA CAP funds have been expended or federal funds and bond proceeds will be used for other program purposes."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	109.50	0.00	(1.00)	108.50	0.00	(1.00)	108.50	108.50
Personal Services	4,892,576	555,663	(78,465)	5,369,774	562,336	(78,329)	5,376,583	10,746,357
Operating Expenses	1,817,530	2,266,533	121,869	4,205,932	(61,907)	134,549	1,890,172	6,096,104
Equipment	8,250	0	0	8,250	0	0	8,250	16,500
Capital Outlay	100	0	0	100	0	0	100	200
Grants	0	0	0	0	0	0	0	0
Debt Service	388,654	81,089	0	469,743	81,089	0	469,743	939,486
Total Costs	\$7,107,110	\$2,903,285	\$43,404	\$10,053,799	\$581,518	\$56,220	\$7,744,848	\$17,798,647
General Fund	6,029,101	450,534	(139,596)	6,340,039	504,931	(134,780)	6,399,252	12,739,291
State/Other Special	918,374	2,443,117	183,000	3,544,491	127,367	191,000	1,236,741	4,781,232
Federal Special	159,635	9,634	0	169,269	(50,780)	0	108,855	278,124
Total Funds	\$7,107,110	\$2,903,285	\$43,404	\$10,053,799	\$581,518	\$56,220	\$7,744,848	\$17,798,647

Program Description

The Water Resources Division is responsible for many programs associated with the uses, development, and protection of Montana's water. It manages and maintains the state-owned dams, reservoirs, and canals. The division also develops and recommends in-state, interstate, and international water policy to the director, Governor, and legislature. The division consists of an administration unit and four bureaus: Water Management Bureau, Water Rights Bureau, State Water Projects Bureau, and the Water Operations Bureau.

Program Narrative

<p>Water Resources Division Major Program Highlights</p>
<ul style="list-style-type: none"> o General fund supplies 71.6 percent of the program funding o The executive is seeking authority to repair five dams o Targeted reductions include elimination of 1.00 FTE
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> o A continuation of a water rights verification project is estimated to cost \$488,000 through the end of fiscal 2006

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 6,029,101	84.8%	\$ 6,340,039	63.1%	\$ 6,399,252	82.6%
02104 Miscellaneous State Spec Rev	232,244	3.3%	308,205	3.1%	308,205	4.0%
02145 Broadwater O & M	311,589	4.4%	351,248	3.5%	319,498	4.1%
02177 Cst 90 A Fisheries Mitigation	-	-	64,000	0.6%	-	-
02216 Water Storage St Sp Rev Acct	-	-	1,870,000	18.6%	-	-
02351 Water Project Lands Lease Acct	1,850	0.0%	10,500	0.1%	10,500	0.1%
02409 General License	41,041	0.6%	65,000	0.6%	65,000	0.8%
02430 Water Right Appropriation	115,539	1.6%	303,000	3.0%	311,000	4.0%
02470 State Project Hydro Earnings	156,410	2.2%	511,538	5.1%	161,538	2.1%
02825 Water Well Contractors	59,701	0.8%	61,000	0.6%	61,000	0.8%
03034 Water Resources-Fed	23,000	0.3%	23,000	0.2%	23,000	0.3%
03094 State Assistance Program	112,596	1.6%	61,318	0.6%	61,318	0.8%
03280 Tongue River Fed	-	-	60,794	0.6%	-	-
03308 Water Resources - Federal	<u>24,039</u>	<u>0.3%</u>	<u>24,157</u>	<u>0.2%</u>	<u>24,537</u>	<u>0.3%</u>
Grand Total	\$ 7,107,110	100.0%	\$ 10,053,799	100.0%	\$ 7,744,848	100.0%

The Water Resources Division is funded primarily with general fund, state special revenue, and a minor amount of federal funds.

LFD ISSUE	This program contains a funding request from the water storage account. This account is projected to have a significant negative balance at the end of the 2005 biennium. For more information, please see the agency wide RIT issue in the overview section.
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	-----Fiscal 2004-----				-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					776,837					783,788
Vacancy Savings					(226,774)					(227,052)
Inflation/Deflation					33,468					45,861
Fixed Costs					192,563					218,513
Total Statewide Present Law Adjustments					\$776,094					\$821,110
DP 10 - WRD Operating Expense Adjustments	0.00	(318,292)	86,689	0	(231,603)	0.00	(312,124)	86,689	0	(225,435)
DP 13 - Restore-OTO-State Water Project Rehabilitation	0.00	0	2,220,000	60,794	2,280,794	0.00	0	0	0	0
DP 20 - Broadwater Hydropower Project Maintenance	0.00	0	96,000	0	96,000	0.00	0	0	0	0
DP 7025 - Lease Vehicle Reduction	0.00	(18,000)	0	0	(18,000)	0.00	(14,157)	0	0	(14,157)
Total Other Present Law Adjustments	0.00	(\$336,292)	\$2,402,689	\$60,794	\$2,127,191	0.00	(\$326,281)	\$86,689	\$0	(\$239,592)
Grand Total All Present Law Adjustments					\$2,903,285					\$581,518

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 10 - WRD Operating Expense Adjustments - The Executive Budget includes a request to fund overtime, per diem, and other adjustments for operating expense items throughout the division. If approved, combined reductions would reduce general fund by \$630,416.

DP 13 - Restore-OTO-State Water Project Rehabilitation - The Executive Budget includes a request to restore a one-time biennial appropriation request approved by the 2001 legislature for rehabilitation and repairs associated with the Nevada Creek Dam, North Fork Smith River Dam, Nilan North Dam, Tongue River Dam and Broadwater Hydropower Dam.

- Nevada Creek Dam is an earthen embankment, high-hazard dam that was built in 1938. The concrete in the existing spillway is severely deteriorated and would not withstand a large flood. In the event of failure, there is potential for devastating impact since this project is located on the headwaters of the Blackfoot River, and the flood wave could result in loss of life and would likely cause damage downstream to Milltown and beyond
- The North Fork of the Smith Dam is an earthen embankment, high-hazard dam that was built in 1936. It was inspected by the U.S. Corps of Engineers (COE) in 1980, under the National Dam Inspection Program and found to be unsafe due to inadequate spillway capacity under the dam safety standards in effect at that time. Additionally, the existing spillway concrete has deteriorated to the point that minor repairs are not economical or feasible. If a large flood occurs at this site, the inadequate capacity of the spillway could result in a flood overtopping the earthen dam and creating the likelihood of failure and the loss of life and property
- The Nilan North Dam is an earthen embankment, high-hazard structure constructed in 1952. The outlet structure is in very poor condition, having deteriorated to the point that additional small repairs and patching are not economical or feasible. The accelerating deterioration is primarily a function of continuous freeze-thaw damage and severe cracking. If approved, the repair work would involve replacing the outlet structure
- The Tongue River Dam is undergoing the final stages of repairs and rehabilitation to ensure that the project meets dam safety standards
- The Broadwater Hydropower Dam has bank erosion problems resulting in fence destruction, public access safety concerns, and backhoe operation hazard near the canal intake. If approved, funding would be used to construct stabilizing walls of concrete or landscaping blocks, install new fencing, and replace bridge decking on the dam.

**LFD
ISSUE**

The legislature may wish to consider not approving the portion of this decision package that contains a funding request from the water storage account. If approved as requested, projections indicate that the water storage account would be driven into a negative position. For a more detailed discussion of the water storage account, please see the agency wide issue on the RIT in the agency overview section.

DP 20 - Broadwater Hydropower Project Maintenance - The Executive Budget includes a request for a biennial appropriation to fund fisheries mitigation work required by the FERC operating license and would be used for fisheries habitat evaluation, mitigation, and improvement at the Broadwater Hydropower Plant. If approved, authority would be used to contract with the Department of Fish, Wildlife and Parks (FWP) to perform annual fish population studies and evaluate completed habitat improvement projects built to mitigate impacts from the construction of the power plant.

DP 7025 - Lease Vehicle Reduction - The Executive Budget includes a request to reduce the division's lease vehicle fleet by four vehicles in the 2005 biennium resulting in a general fund reduction of \$32,157.

New Proposals	-----Fiscal 2004-----					-----Fiscal 2005-----					
	Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 19 - Restore-OTO-Water Rights Verification Project	24	0.00	0	160,000	0	160,000	0.00	0	168,000	0	168,000
DP 7002 - Applicants Pay Water Rights Notice Costs	24	0.00	(23,000)	23,000	0	0	0.00	(23,000)	23,000	0	0
DP 7020 - Reduction to Meet Target	24	(1.00)	(116,596)	0	0	(116,596)	(1.00)	(111,780)	0	0	(111,780)
Total	(1.00)	(\$139,596)	\$183,000	\$0	\$43,404	(1.00)	(\$134,780)	\$191,000	\$0	\$56,220	

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 19 - Restore-OTO-Water Rights Verification Project - The Executive Budget includes a request for authority to add modified-level FTE to continue the verification of old water right permits. If approved, the temporary employees would be used to analyze completed questionnaires sent to water users, verifying that the permitted projects are completed and how much water they are actually using.

LFD ISSUE The 2001 legislature authorized the first two years of a projected 4-year proposal to complete the remaining 8,000 of these verifications using additional temporary department staff located in WRD regional offices. If the legislature decides to continue with this project they should be aware that it is an on-going project, and would cost an additional \$488,000 over the next three fiscal years.

DP 7002 - Applicants Pay Water Rights Notice Costs - The Executive Budget includes a request to require applicants for water rights to pay public notice costs for their applications. If approved, general fund would be replaced with state special authority of \$46,000 over the biennium.

LFD COMMENT This adjustment is contingent on amending ARM 36.12.103 to require that applicants pay public notice costs on their water right applications.

DP 7020 - Reduction to Meet Target - The Executive Budget includes a request to eliminate a 1.00 FTE civil engineering specialist position. Adjustments have been made in the Water Rights Bureau, Regional Offices and Water Projects Bureau that reflect the elimination of 1.00 FTE general fund which helped the division convert to pay plan 20.

Language Recommendations

The executive is recommending the following language:

"During the 2005 biennium, up to \$1 million of funds currently in or to be deposited in the Broadwater replacement and renewal account is appropriated to the department for repairing or replacing equipment at the Broadwater hydropower facility."

"During the 2005 biennium, up to \$70,000 of interest earned on the Broadwater water users account is appropriated to the department for the purpose of repair, improvement, or rehabilitation of the Broadwater-Missouri diversion project."

"During the 2005 biennium, up to \$500,000 of funds currently in or to be deposited in the state project hydropower earnings account is appropriated for the purpose of repairing, improving, or rehabilitating department state water projects."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	11.00	0.00	0.00	11.00	0.00	0.00	11.00	11.00
Personal Services	565,772	41,770	0	607,542	46,639	0	612,411	1,219,953
Operating Expenses	149,210	4,037	0	153,247	7,187	0	156,397	309,644
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$714,982	\$45,807	\$0	\$760,789	\$53,826	\$0	\$768,808	\$1,529,597
General Fund	714,982	45,807	0	760,789	53,826	0	768,808	1,529,597
State/Other Special	0	0	0	0	0	0	0	0
Total Funds	\$714,982	\$45,807	\$0	\$760,789	\$53,826	\$0	\$768,808	\$1,529,597

Program Description

The Reserved Water Rights Compact Commission was created by the legislature in 1979 as part of the water rights adjudication effort. It consists of four members appointed by the Governor, two by the President of the Senate, two by the Speaker of the House of Representatives, and one by the Attorney General. Members serve for four years. The commission negotiates water rights with the Indian tribes and federal agencies, which claim federal reserved water rights within the state, to establish a formal agreement (compact) on the amount of water to be allocated to each interest.

Program Narrative

Reserved Water Rights Compact Commission	
Major Program Highlights	
<ul style="list-style-type: none"> ○ The executive is seeking funding to pay for per diem for nine commission members ○ At \$1.5 million, this program is funded entirely with general fund 	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table						
Reserved Water Rights Comp Com						
	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
Program Funding						
01100 General Fund	\$ 714,982	100.0%	\$ 760,789	100.0%	\$ 768,808	100.0%
Grand Total	\$ 714,982	100.0%	\$ 760,789	100.0%	\$ 768,808	100.0%

The Reserved Water Rights Compact Commission is funded entirely with general fund.

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					62,398					67,468
Vacancy Savings					(25,128)					(25,329)
Inflation/Deflation					873					1,049
Fixed Costs					(1,173)					(761)
Total Statewide Present Law Adjustments					\$36,970					\$42,427
DP 6 - RWRCC Operating Adjustment										
	0.00	8,837	0	0	8,837	0.00	11,399	0	0	11,399
Total Other Present Law Adjustments	0.00	\$8,837	\$0	\$0	\$8,837	0.00	\$11,399	\$0	\$0	\$11,399
Grand Total All Present Law Adjustments					\$45,807					\$53,826

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 6 - RWRCC Operating Adjustment - The Executive Budget includes a request for authority to pay per diem for nine Reserved Water Right Compact Commission (RWRCC) members. If approved, this authority would be used to pay mileage and per diem for attendance at quarterly commission meetings as well as frequent negotiating sessions. In addition, an operating adjustment would be used for increased rent. The DNRC office is located in a non-state building and rent is not shown as a fixed cost within the Department of Administration schedules. The rent increase is based on a contractual agreement that runs through fiscal 2005 for the USF&G building in Helena.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	291.36	0.00	(2.60)	288.76	0.00	(2.60)	288.76	288.76
Personal Services	10,764,915	1,902,403	(128,830)	12,538,488	1,918,907	(128,842)	12,554,980	25,093,468
Operating Expenses	5,938,011	226,393	(9,942)	6,154,462	285,071	(8,942)	6,214,140	12,368,602
Equipment	700,346	(37,190)	0	663,156	(37,240)	0	663,106	1,326,262
Capital Outlay	354	0	0	354	0	0	354	708
Grants	0	0	0	0	0	0	0	0
Transfers	389,169	9,170	0	398,339	9,170	0	398,339	796,678
Debt Service	114,394	0	0	114,394	0	0	114,394	228,788
Total Costs	\$17,907,189	\$2,100,776	(\$138,772)	\$19,869,193	\$2,175,908	(\$137,784)	\$19,945,313	\$39,814,506
General Fund	5,906,892	801,115	(216,625)	6,491,382	821,067	(215,949)	6,512,010	13,003,392
State/Other Special	10,863,292	1,064,200	(8,722)	11,918,770	1,115,793	(8,410)	11,970,675	23,889,445
Federal Special	1,137,005	235,461	86,575	1,459,041	239,048	86,575	1,462,628	2,921,669
Total Funds	\$17,907,189	\$2,100,776	(\$138,772)	\$19,869,193	\$2,175,908	(\$137,784)	\$19,945,313	\$39,814,506

Program Description

The Forestry Division is responsible for planning and implementing forestry programs statewide. Forestry responsibilities include protecting Montana's natural resources from wildfire, regulating forest practices, and providing a variety of services to private forest landowners. Specific programs include:

- o Fire and Aviation Management - Protecting 50 million acres of state and private forest and watershed lands from wildfire through a combination of direct protection and county support
- o Forest Practice Regulation - Enforcing Montana's streamside management zone regulations and monitoring the voluntary best management practices program on all forests in Montana
- o Administering Montana's Fire Hazard Reduction Law - Ensuring that the fire hazard created by logging and other forest management operations on private forest lands is reduced, or that additional fire protection is provided until the hazard is reduced
- o Providing Forestry Services - Providing technical forestry assistance to private landowners, businesses and communities
- o Tree and Shrub Nursery - Growing and selling seedlings for conservation and reforestation plantings on state and private lands in Montana

Trust Lands Management

The Trust Land Management Division provides for the administration and management of trust lands granted to the State of Montana by the Enabling Act of 1889. These lands currently total 5.2 million surface acres and 6.2 million mineral acres. Additionally, the division is responsible for the administration of approximately 6,000 miles (40,000+ acres) of beds of navigable waterways. The Trust Land Management Division is divided into four primary programs: forest management, agriculture and grazing management, special use management, and minerals management.

Program Narrative

Forestry Division Major Program Highlights
<ul style="list-style-type: none"> ○ Comprised of the Forestry and Trust Lands Management Divisions ○ Executive is proposing to eliminate 4.15 FTE along with a portion of the State/County Cooperative Fire Protection Program to meet targeted reductions. ○ Executive is seeking authority for an inmate fire crew ○ No rate increase is being sought for the air operations proprietary program
Major LFD Issues
<ul style="list-style-type: none"> ○ A statutory change would allow the use of state special funding if general fund is reduced ○ Federal fire reimbursements must be deposited to a federal special revenue fund

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Forestry						
	Base	% of Base	Budget	% of Budget	Budget	% of Budget
<u>Program Funding</u>	<u>Fiscal 2002</u>	<u>Fiscal 2002</u>	<u>Fiscal 2004</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2005</u>
01100 General Fund	\$ 5,906,892	33.0%	\$ 6,491,382	32.7%	\$ 6,512,010	32.6%
02031 Forest Resources - Nursery	363,409	2.0%	387,522	2.0%	389,119	2.0%
02039 Forestry-Fire Protection Taxes	2,200,091	12.3%	2,497,036	12.6%	2,504,615	12.6%
02073 Forsetry - Slash Disposal	96,944	0.5%	108,288	0.5%	108,297	0.5%
02241 Dsl Recreational Use Acocunt	47,552	0.3%	53,129	0.3%	53,009	0.3%
02280 Forest Resources-Timber Sales	2,021,135	11.3%	2,883,196	14.5%	2,883,165	14.5%
02449 Forest Resources-Forest Improv	1,788,198	10.0%	1,724,340	8.7%	1,730,917	8.7%
02450 State Lands Res Dev	534,109	3.0%	594,109	3.0%	594,109	3.0%
02681 Historic Right-Of-Way Acct	-	-	5,000	0.0%	5,000	0.0%
02938 Trust Fund Revenues	3,811,854	21.3%	3,666,150	18.5%	3,702,444	18.6%
03068 Forest Resources-Fire	714,917	4.0%	909,105	4.6%	910,209	4.6%
03069 Forest Resources - Pfa	<u>422,088</u>	<u>2.4%</u>	<u>549,936</u>	<u>2.8%</u>	<u>552,419</u>	<u>2.8%</u>
Grand Total	<u>\$ 17,907,189</u>	<u>100.0%</u>	<u>\$ 19,869,193</u>	<u>100.0%</u>	<u>\$ 19,945,313</u>	<u>100.0%</u>

The Forestry Division contains six programs funded with general fund, state special revenue, and federal funds. General fund, as a part of the funding for the Air Operations Bureau, is transferred to and spent from the bureau's proprietary fund account for fixed costs. Although the legislature no longer appropriates the proprietary funds, it does set the hourly rates charged for use of department aircraft. Revenue from this charge is also deposited in the proprietary account.

State special revenue generated from the sale of nursery stock and forest improvement fees is used to fund the nursery program. The Land Board approves the variable forest improvement fee when timber sales are approved based on the state's expected costs of slash disposal, road access and maintenance, and reforestation. Landowner fire protection taxes are paid by private forest landowners for wildfire protection. The department is required by statute to collect up to one-

third of the state's fire protection appropriation from private landowners (Section 76-13-207, MCA). The other two-thirds is funded with general fund and federal funds. The department is required to set the tax so that collections equal the amount appropriated by the legislature. Other state special revenues include money from the sale of nursery stock and slash removal assessments on private landowners who cut timber. Fees of \$25 for each slash hazard reduction agreement and \$0.60 per thousand board feet sold, plus forfeited fire hazard reduction bonds, are collected for use by the department.

Federal funds finance a portion of the fire protection, other services, and service forestry programs. Historically, funds reimbursed from federal agencies to the state for the state's wildfire costs are appropriated at \$350,000 federal funds each year from the general fund. A legal opinion issued by Greg Petesch, Code Commissioner of the State of Montana, indicated that practice was incorrect.

According to the opinion, because the reimbursable funds come from the federal government, the deposit should be made to a federal special revenue fund. Although spending for fire costs will likely take place from the general fund, the reimbursement will be required to go to a federal special revenue fund.

Trust Lands management

The Trust Lands Division is primarily funded with trust fund revenue, timber sales, and forest resources fees. The remaining funding is made up of recreational use and state lands resource development. General fund is used primarily to fund salaries for support staff.

Present Law Adjustments	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					2,221,685					2,238,874
Vacancy Savings					(519,282)					(519,967)
Inflation/Deflation					33,871					64,612
Fixed Costs					35,634					54,753
Total Statewide Present Law Adjustments					\$1,771,908					\$1,838,272
DP 7 - TLMD Operating Adjustment	0.00	0	9,312	0	9,312	0.00	0	14,811	0	14,811
DP 11 - Fire Seasonal Pay Exception	0.00	0	66,000	134,000	200,000	0.00	0	66,000	134,000	200,000
DP 21 - Federal Fire Reimbursement	0.00	0	0	112,964	112,964	0.00	0	0	112,854	112,854
DP 27 - TLMD Leased Vehicles	0.00	0	5,005	0	5,005	0.00	0	5,432	0	5,432
DP 7004 - Forestry Operating and Special Session Adjustment	0.00	10,326	(8,739)	0	1,587	0.00	12,294	(7,755)	0	4,539
Total Other Present Law Adjustments	0.00	\$10,326	\$71,578	\$246,964	\$328,868	0.00	\$12,294	\$78,488	\$246,854	\$337,636
Grand Total All Present Law Adjustments					\$2,100,776					\$2,175,908

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7 - TLMD Operating Adjustment - The Executive Budget includes a request for a rent increase in the Helena headquarters based on a contractual rent agreement that runs through June 2005. Since this building is privately owned, rent is not reflected in the Department of Administration fixed cost schedule for rent. Other adjustments in this decision package reflect corrections in expenditures changes among reporting levels.

DP 11 - Fire Seasonal Pay Exception - The Executive Budget includes a request for authority to make the temporary pay exception of 20 percent a permanent increase for the Department of Natural Resources and Conservation (DNRC) firefighters. If approved, this proposal would grant a permanent pay increase of 20 percent for seasonal firefighters to make a pay matrix similar to that of surrounding states (Idaho Department of Lands and Oregon Department of Forestry) with similar programs. The Office of Program and Budget Planning (OBPP) originally approved this pay plan exception for the 2003 biennium as a one-time-only (OTO) budget adjustment. If approved, this request would permanently adopt this pay increase.

DP 21 - Federal Fire Reimbursement - The Executive Budget includes a request for authority to expend federal dollars received in support of federal fire suppression activities. These funds are referred to as the federal fire reimbursement and are received from federal agencies and other states for the use of Department of Natural Resources & Conservation (DNRC) personnel and equipment. DNRC provides assistance to these other entities in managing emergency incidents, such as fire suppression activities. Only those funds received as reimbursement of personnel expenses (up to \$100,000) credited against the operational budget of the fire program or those funds received as payment under equipment use agreements (up to \$250,000) are considered federal fire reimbursement funds. The amount requested represents the authority needed to restore the full \$350,000 for the 2005 biennium.

**LFD
COMMENT**

These reimbursements have historically been deposited to the general fund. However, a recent legislative branch legal opinion indicates that federal reimbursements should be deposited to a federal special revenue fund.

DP 27 - TLMD Leased Vehicles - The Executive Budget includes a request for authority to lease vehicles from the Montana Department of Transportation instead of purchasing new vehicles. This request is for one leased vehicle for the Central Land Office that was authorized by the 2001 legislature, but not received until fiscal 2003. Therefore, the expenditure is not reflected in the base.

DP 7004 - Forestry Operating and Special Session Adjustment - The Executive Budget includes a request for authority to increase operations costs and targeted reductions. If approved, funding would be provided for increases in rent, utilities, communications, janitorial services, fire training through the Northern Rockies Training Center, and the relocation of an interagency dispatch center.

In addition, the Bureau of Indian Affairs, Flathead Agency is raising the fee for providing fire protection on 147,609 acres of state and private lands within the reservation by \$0.04 per acre. The total increase per year is \$5,905 and will be ongoing.

The Forestry Division also proposes to eliminate a portion of the State/County Cooperative Fire Protection Program. The counties affected would be: Missoula, Mineral, Granite, Powell, Sanders, Lincoln, Lake, Ravalli, Flathead, Deer Lodge, and Silver Bow. This will result in a general fund savings of 159,037. However, 76-13-207, MCA, requires that no greater than one-third of the fire appropriation comes from landowner assessments. Thus, the division would also be required to reduce state special revenue funding.

**LFD
ISSUE**

The legislature may wish to consider changing 76-13-207, MCA, to change the two-thirds, one-third split between general fund and state special revenue. This change would enable the department to utilize state special revenue funding in spite of general fund reductions.

New Proposals	-----Fiscal 2004-----					-----Fiscal 2005-----					
	Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 14 - Forestry Restoration of Seasonal FTE	35	1.55	21,731	25,570	0	47,301	1.55	21,704	25,535	0	47,239
DP 26 - Inmate Fire Crew	35	0.00	23,182	11,418	0	34,600	0.00	23,852	11,748	0	35,600
DP 7001 - Fund switch for forest practices programs	35	0.00	(86,575)	0	86,575	0	0.00	(86,575)	0	86,575	0
DP 7020 - Reductions to meet target	35	(4.15)	(174,963)	(45,710)	0	(220,673)	(4.15)	(174,930)	(45,693)	0	(220,623)
Total	(2.60)	(\$216,625)	(\$8,722)	\$86,575	(\$138,772)	(2.60)	(\$215,949)	(\$8,410)	\$86,575	(\$137,784)	

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 14 - Forestry Restoration of Seasonal FTE - The Executive Budget includes a request to restore 1.55 FTE eliminated by the legislature.

LFD ISSUE	The 2001 legislature identified FTE that were vacant for over 7 months and that are not seasonal, already filled, or newly classified. The executive has since identified these positions as seasonal in nature. Accordingly, the legislature may wish to consider these positions as candidates for re-instatement as permanent, seasonal positions.
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DP 26 - Inmate Fire Crew - The Executive Budget includes a request for authority to establish an inmate firefighting crew at the Montana State Prison for use by the department. The executive would use the crew to support wildland fire suppression efforts with a minimal amount of increased costs. If this proposal is approved, the department would request 0.35 modified FTE each year to administer this program.

LFD COMMENT	The 1999 legislature approved funding for an inmate firefighter program out of the Great Falls and Missoula Regional Prisons. The Department of Corrections was unable to complete a work release policy for inmates during the 1999 biennium. DNRC consequently did not spend approved funds and the 2001 legislature eliminated the program.
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DP 7001 - Fund switch for forest practices programs - The Executive Budget includes a request for a funding switch. Service foresters working in forest practices programs and slash hazard reduction programs are primarily funded with general fund. However, the division has recently received additional federal funds and it is likely that these federal funds can be used to fund personal services. If approved, funding would be switched from general fund to federal funds in the amount of \$86,575.

DP 7020 - Reductions to meet target - The Executive Budget includes a request to eliminate a portion of the State/County Cooperative Fire Protection Program and 4.15 FTE. The counties affected would be: Missoula, Mineral, Granite, Powell, Sanders, Lincoln, Lake, Ravalli, Flathead, Deer Lodge, and Silver Bow. This will result in a general fund savings of \$159,037. However, 76-13-207, MCA, requires that no greater than one-third of the fire appropriation comes from landowner assessments. Thus, the division would also be required to reduce state special revenue funding. If approved, this request would include a \$140,000 reduction to reflect the Forestry Division's conversation to pay plan 20.

**LFD
ISSUE**

The legislature may wish to consider changing 76-13-207, MCA, to change the two-thirds, one-third split between general fund and state special revenue. This change would enable the department to utilize state special revenue funding in spite of general fund reductions.

**LFD
ISSUE**

Please see agency wide issues related to the move to pay plan 20.

Proprietary Rates**Program Description**

The Air Operations Program in the Forestry Division is funded from the air operations proprietary account for those costs that can be supported by the aircraft rates charged to agencies that use the aircraft and general fund for fixed costs. The program operates three medium helicopters, two light helicopters, and three single engine fixed-wing airplanes. Aircraft are primarily used for fire detection, support and suppression of wildfires, and reclamation work in the Department of Environmental Quality. Fixed costs are paid by the general fund and fire protection tax revenue since they must be paid regardless of number of hours flown. These costs include hangar rent, insurance, and personnel costs. The general fund and fire protection taxes are appropriated by the legislature and transferred to and spent from the proprietary account. Variable costs that are dependent on the hours flown, such as fuel and maintenance, are recovered through an hourly rate charged to all users of the aircraft. Users of the aircraft include DNRC, other state agencies, federal agencies, and the state's wildfire suppression efforts. This revenue is also deposited to the proprietary account.

Revenues and ExpensesBase year funding

Customer payments are made up primarily of DNRC and the U.S. Forest service.

Expenses incurred by program

The cost drivers for the aircraft rates are the actual expenses needed to maintain the aircraft in an air-worthy condition and remain mission ready for the primary purpose of initial attacking of wild fires on state and federal ground. This includes all costs associated in the operation of and maintaining of that aircraft. There are some factors that contribute to the uncertainty in forecasting future expenses. This includes unforeseen events such as FAA and manufacturer directives, aircraft incidents resulting in unplanned maintenance, and fluctuations in fuel and parts.

Rate Explanation

The reimbursement rates for the operation of the department aircraft are based on the time-life of 5000 hours of aircraft usage determined to maintain the aircraft in its original condition. At the end of 5000 hours, all parts should have been replaced and a new maintenance and operation cycle started. The customer base is very specific and is made up of DNRC land managers and the U.S. Forest Service. The aviation section provides aircraft for fire operations. The aviation section uses this reimbursement rate strictly to maintain the aircraft in flyable condition. Due to the high price of aircraft parts, the department maintains a high fund balance.

In addition, the FAA and the manufacturer can issue service and technical bulletins that mandate compliance to continue operation of that aircraft. Customers are billed at the fixed rate based on the amount of hours and tenths of hours flown. All costs are direct and fixed with no indirect costs associated with these rates.

Rates

Bell UH-1H \$875.00 per hour
 Bell Jet Ranger \$375.00 per hour
 Cessna 180 series \$ 95.00 per hour

The executive is not requesting a rate increase for the 2005 biennium.

Report on Internal Service and Enterprise Funds, 2005 Biennium						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06538	Aircraft Operation	57060	Dept. of Natural Resources & Conservation	Forestry		
					actual	actual
					FY00	FY01
					actual	actual
					FY02	FY03
					budgeted	budgeted
					FY04	FY05
Operating Revenues:						
Fee revenue						
Accommodation Tax						
					162.34	-
					-	-
					38932.35	66654
					20368	22,105
					52,725	52,725
					72760.5	143373.34
					68486	32,310
					127,800	127,800
					290870	523685
					342475	244,929
					315,000	315,000
					396,008	758,140
					445,275	299,344
					495,525	495,525
Investment Earnings						
Securities Lending Income						
Premiums						
Other Operating Revenues						
					162	-
					-	-
					396,170	758,140
					445,275	299,344
					495,525	495,525
Intrafund Revenue						
					-	-
					396,170	758,140
					445,275	299,344
					495,525	495,525
Operating Expenses:						
Personal Services						
					259,680	266,723
					332,917	353,151
					304,290	306,169
					662,833	755,695
					534,095	494,987
					566,003	568,573
					10,355	6,707
					4,752	10,226
					-	-
					-	-
					932,868	1,029,125
					871,764	858,364
					870,293	874,742
Intrafund Expense						
					-	-
					932,868	1,029,125
					871,764	858,364
					870,293	874,742
Operating Income (Loss)						
					(536,698)	(270,985)
					(426,489)	(559,020)
					(374,768)	(379,217)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets						
					-	-
Federal Indirect Cost Recoveries						
					-	-
Other Nonoperating Revenues (Expenses)						
					-	-
					-	-
Income (Loss) Before Operating Transfers						
					(536,698)	(270,985)
					(426,489)	(559,020)
					(374,768)	(379,217)
Contributed Capital						
					-	-
Operating Transfers In (Note 13)						
					355,419	355,419
					389,169	389,169
Operating Transfers Out (Note 13)						
					-	-
					-	-
Retained Earnings/Fund Balances - July 1 - As Restated						
					322,076	140,797
					225,231	187,911
					187,911	18,060
					(181,279)	84,434
					(37,320)	(169,851)
					23,571	19,122
					140,797	225,231
					187,911	18,060
					41,631	60,753
60 days of expenses						
					(Total Operating Expenses divided by 6)	
					155,478	171,521
					145,294	143,061
					145,049	145,790