FIRE FUNDING
OPTIONS TO REDUCE CASH FLOW ISSUES IN THE WILDLAND FIRE PROGRAM OF DNRC

A Report Prepared for the

Legislative Finance Committee
Fire "Bulldog" Committee

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May 24, 2006

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WILDLAND FIRE FUNDING

The Department of Natural Resources and Conservation (DNRC) is charged with providing wildland fire protection for state and private lands. DNRC provides direct protection to 5.2 million acres through its direct protection program, and an additional 45 million acres through the state/county cooperative fire program. The state also has signed an interagency agreement for cooperative wildfire management with federal fire agencies that also have fire protection responsibilities in Montana. Considerable investment has been made in the management of wildland fire for infrastructure, training and initial attack suppression activities. Infrastructure and training activities are funded through HB2 appropriations, while suppression is funded through a supplemental appropriation as shown in Figure 1.

Figure 1
Wildland Fire Funding

Activity	Funding Source	Appropriation
Preparedness	1/3 Assessments, 2/3 General Fund	HB 2
Suppression	General Fund Ending Balance	Supplemental

Since suppression costs are not appropriated, a cash flow situation arises during an active wildland fire season. DNRC must use a combination of tactics, including moving appropriations between programs and fiscal years, seeking disaster declaration to access the Governor's fund, and taking general fund loans, to keep cash flowing during the critical time. After fire mop up activities are completed, the fiscal mop up starts. This includes determining the size of the supplemental appropriation, the severity of the cash situation, cost settlement with other entities and determining total impact on the department. The swirl of activity increases the possibility of a special session if enough authority or cash cannot be found.

The purpose of this report is to provide historical background information, current analyses, and options to reduce or alleviate the cash flow issues in the Forestry Division of the DNRC as it relates to wildland fire preparedness and suppression. A summary of assessment and suppression options concludes the report.

The report stems from the request of the full Legislative Finance Committee (LFC) as part of the approved staff work plan. Senators Mike Cooney and Keith Bales have been appointed "bulldogs" to facilitate the discussion around this issue.

PREPAREDNESS

Key to controlling wildland fire cost is quick response. Initial attack infrastructure includes a fleet of helicopters, trained pilots, seasoned mechanics and trained ground crews. Ground resources include wildland fire engines, fuel vehicles, water tenders and trained staff. This infrastructure is paid for with a combination of general fund and fire assessments.

Fire Assessments – Background

By statute only owners of classified forestland within the boundaries of the direct protection districts (districts where DNRC is the responsible fire protection entity) are assessed a forest fire protection fee. DNRC is directed to assess the owners of classified forest land up to one-third of the amount specified in the appropriation for fire protection costs, which for the 2007 biennium totals $5.0 million. Past legislative and executive direction has been to assess the full one-third of the total appropriation from forested landowners within direct protection boundaries. During FY 2006, the department assessed 5,167,813 acres of classified forestland resulting in $2.5 million in revenues.

Fire protection assessments were handled as a per acre charge with a minimum rate until the legislature changed the formula in 1991. Figure 2 summarizes this information. The current formula allows the department to assess up to $30 per parcel and $0.20 for each acre in excess of twenty. Large and small-forested landowners in direct protection districts are assessed this fee on property tax statements. DNRC does have administrative rules that dictate revenues from the fee be split 50-50 between large and small landowners.

Figure 2
Fire Protection Assessments
History

Year	Per Acre Fee	Minimum Charge	Acre fee > 20 acres	Fee for 50 Acres*
Pre - 1985	$0.16	$6.00	$0.00	$8.00
1985	0.17	14.00	0.00	14.00
1991	0.00	30.00	0.20	40.00

*maximum fee based on the 1/3 rule

Given the level of legislative appropriations, this assessment formula provided ample authority to collect the assessment for fifteen years. The department has reached the current limits and is now unable to meet the one-third policy. Current projections leave DNRC short on assessment funding for FY 2007 by $152,000 and a projected shortage for the 2009 biennium of $807,000.

Options

DNRC has plans to mitigate the shortfall in FY 2007, and has developed options for the potential shortfall in the 2009 biennium. The options fall in three areas; no action on fees, raise current assessment rates, and raise current assessments and diversify fees.

Take No Action on Fees

The legislature could consider keeping the assessments at the statutory maximum. The department would continue to collect $30/parcel and $0.20 for each acre in excess of twenty, which would result in approximately $2.5 million in revenues. Figure 3 below illustrates the potential shortfall in revenues if the legislature maintains the policy that one-third of the appropriation is to be raised from assessments under the current statutory limits.

Figure 3
Fire Assessment Revenue Potential Shortfall

	FY 2008	FY 2009	Biennium Total
Estimated Appropriation	$8,708,039	$8,969,280	$17,677,319
Assessments (1/3)	2,960,733	3,049,555	6,010,288
Projected Assessment Revenues	2,500,000	2,500,000	5,000,000
Potential Assessment Shortfall	$460,733	$549,555	$1,010,288

This estimate does not include any new proposals that could be approved during the 2007 legislative session. Should the legislature extend additional resources to the program, the amount required in assessments would rise.

There are two options to the legislature to mitigate this potential shortfall.

1) The legislature could choose to cover this shortfall with an increased general fund appropriation of $1.0 million for the biennium. Assessments would cover 28 percent of the total fire program appropriation and general fund would cover the remaining 72 percent. This is a change from the current 33/67 split. This option would avoid reductions to the program.

2) The legislature could reduce program expenditures by the same amount. According to the staff of the Fire and Aviation Bureau, this could be achieved through the reduction of one equipment development mechanic, one seasonal pilot, one aircraft mechanic and four additional FTE in both the county cooperative program and the direct protection program. The reduction plan would also include decreasing the output of the equipment development center by five to seven engines per year, and eliminate the operation of one Huey helicopter.

The second option would reduce the number of engines being provided through the county cooperative program, and reduce the resources available for initial attack operations. The risk, though immeasurable, is that the program would not be able to respond to and control a wildland fire within ten acres, thus resulting in a larger and more costly wildland fire.

Raise Current Assessment Rates

The department developed a rate matrix to evaluate the level of assessment required to fund one-third of the projected appropriation from assessments. To increase the current rates, 76-13-201, MCA would need to be changed. The department proposes to set the rate in statute high enough to be viable for a ten-year period. The recommendation is to establish the rates in statute as $48.00 per parcel and $0.42 for each acre in excess of twenty. In order to meet the one-third policy, the actual rates charged to forested landowners would be $36.30 per parcel and $0.32 per acre. This would raise revenues sufficient enough to retain the fire program at its current level. Projections for FY 2008 and FY 2009 are summarized in Figure 4.

The proposed increase represents a 21 percent increase in the per parcel rate and a 60 percent increase in the per acre rate. While the percentage increases seem large, the question becomes "does the forested landowner have an issue with this type of rate increase?"

Figure 4

Project Revenue from Assessments

FY	Per Parcel	Per Acre	Revenue
2006	35.30	0.03	3,160,396
2008	36.30	0.32	3,254,212

In regard to this issue, preliminary conversations were held with a few key interested parties. The Montana Wood Producers Association (MWPA) indicates that they are not in favor of an increase in assessments, but rather the additional funding should come from the general fund. The Montana Association of Forest Owners, as per their website, support a fair and equitable distribution of taxes associated with fire suppression.

Plum Creek Timber is the largest payer of assessments in the state. The General Manager of Northwest Operations, Tom Ray, indicated they could handle a small increase in assessments, if assurances were made that that owners within direct protection boundaries were paying and that the homes in the urban interface see a greater increase.

Raise Assessment and Diversify Fees

Currently, classified forested lands are the only lands being charged as per 76-13-201, MCA. There has been some discussion regarding the expansion of the assessment area to include those areas that are provided protection in the state/county cooperative program (county co-op). Every county in the state participates in this program through an agreement with DNRC, where the county provides fire protection on all state and private lands not covered by an existing agency. This protection is provided through rural fire departments and districts, county government personnel and volunteers. There is not an assessment charged to land owners in these areas.

The proposal under this option is to set the fees for forested parcels within direct protection boundaries to $27.15 per parcel and $0.24 per acre, and levy a $.016 assessment on lands within the county-coop program. This plan would also raise sufficient funds to keep the fire program at its current level. The department set up this proposal to collect 75 percent of the assessment income from the forested landowners and 25 percent from the county co-op landowners. The portion collected from the forested landowners is proportionally split between the large and small landowners.

With this proposal the per parcel amount for forested landowners would be reduced from $30.00 to $27.15, a reduction of $2.85 per parcel. Those private landowners with less than twenty acres would pay less than what they are now paying. The large forest owners would see the per parcel decrease, but would pay $0.04 per acre more than they are currently paying. The county co-op landowners would see a new assessment. Given this situation, it could be argued that the forested landowners are getting a break at the benefit of the county co-op landowners. An alternative would be for the legislature to keep the rate currently assessed to forested landowners and assess a new rate to landowners in county co-op areas.

Because county co-op land is predominantly located in eastern Montana, and forested lands are predominantly in western Montana, this proposal may highlight the geographical differences associated with wildland fire funding. The west is predominantly under direct protection where landowners are assessed a fee for services. The east predominantly is county co-op protection without an assessment to landowners. The west, during wildland fire season, historically utilizes more state resources, while the east receives support when local resources are unable to provide adequate services. Are landowners paying equally in the east and the west for the type of services they receive?

If the legislature wants to see the assessment for fire protection expand to include county co-op lands, the legislature should consider policy to balance the assessment against large and small forested landowners as well as the county co-op lands.

Summary of Assessment Options

The legislature has the following options regarding fire assessments:

- Make no changes to assessments, mitigate the shortfall with program reductions
- Make no changes to assessments, mitigate the shortfall with general fund
- Raise current assessment levels
- Raise current assessment levels and extend the assessment to land in the county co-op program

SUPPRESSION

The current policy to pay fire suppression costs from the general fund ending balance gets the job done. However, the process places the department with cash-flow issues, potentially resulting in unanticipated impacts to two divisions.

Fire Suppression Reimbursement

The issue with fire suppression costs is not how the state share will be paid, but when and how much appropriation authority is needed to operate during and after fire season. When fire costs are paid from appropriations meant for another activity, the department faces an appropriation shortage between the time costs are paid and the time the legislature meets and is able to process supplemental appropriations to establish authority in arrears.

Consider the current condition of the FY2006 fire season. To date, the total fire season cost is $8.8 million, of which $3.0 were covered by other sources. resulting in net costs to the state of $5.8 million. This represents a higher than average fire season, as per Figure 5.

Figure 5

Average Cost of Fire Suppression

Fiscal Year	Total Cost	Reimbursments	Net Cost
2000	$5,205,614	($914,375)	$4,291,239
2001	54,925,104	(44,784,017)	10,141,087
2002	16,417,193	(3,549,700)	12,867,493
2003	6,710,688	(4,684,927)	2,025,761
2004	79,579,965	(44,582,841)	34,997,124
2005	3,969,096	(989,945)	2,979,151
2006	8,806,797	(3,066,927)	5,739,870
7 year averages	25,087,780	(14,653,247)	10,434,532
5 year adjusted average	$20,814,650	($13,483,255)	$7,331,395

To garner enough general fund authority to cover the $5.8 million in net costs, the department has to date:

- Transferred $2.5 million of FY 2007 general fund appropriation for the Forestry Division to FY 2006
- Transferred $2.0 million of FY 2007 general fund appropriation for the Water Division to FY 2006 in the Forestry Division

A third transfer is scheduled to come before the finance committee in June 2006:

- Transfer an additional $1.0 million of FY 2007 general fund appropriation for the Water Division to FY 2006 in the Forestry Division
- Transfer $178,000 of FY 2007 general fund appropriation for the Centralized Services Division to FY 2006 in the Forestry Division

The cumulative effect of the transfers results in DNRC starting FY07 $5.8 million short in general fund authority, established for non-fire purposes. This represents 28 percent of the department's FY07 general fund appropriation.

As the FY07 fire season unfolds, the situation could change dramatically. The department will expend funds to preposition resources, and cover initial attack and ground operations. The immediate costs will be paid for with the $14.28 million of FY07 general fund appropriation left in the department for purpose other than fire suppression. Early on in the 2007 legislative session, the legislature will be asked to back fill the $5.8 million from FY06 fire season and the expense for the FY07 fire season. The net cost to the state for FY07 wildland fire season will be the determining factor of the size of the cash crisis within DNRC for the remainder of the biennium.

If the net costs require the use of the majority of the remaining general fund authority, the department will be required to curtail activities in the Water Resource Division and the Forestry Division. This could mean the department would not meet legislatively mandated goals for the 2007 biennium.

Funding Options

The following funding options are provided to reduce the impact of wildland fire costs on the department. All are based on the average net cost to the state of $7.0 million per year or $14.0 million over the biennium.

Statutory Appropriation

The legislature could establish statutory general fund appropriation of $7.0 million per year or $14 million over the biennium for the sole purpose of wildland fire suppression through legislation. (Or, the statutory appropriation could be based on the most current average net cost to the state.) This would provide appropriation authority to the department to pay for wildland fire costs without utilizing appropriation authority from other programs in most years.

Since the appropriation would be in statute, the legislature would not have to appropriate these funds each session. However, the statute may need revision as the average net cost of fire suppression changes.

Line Item Appropriation

The legislature has the option of providing a line item appropriation for wildland fire suppression. A one-time only, restricted, biennial appropriation could provide the department access to general fund authority to suppress wildland fire. The one time only restriction will keep the appropriation out of the department's base budget, the restricted label limits the appropriation to suppression only, and the biennial restriction allows the flexibility to utilize the funds in either year of the biennium. The legislature could then appropriate funds based on historical averages, current wildland fire conditions, and the availability of general fund.

Modify the Governor's Emergency fund

As discussed earlier, the Governor's emergency fund is available to fund fire suppression when the conditions in 10-3-301, MCA are met and a disaster is declared. Currently 10-3-312, MCA limits the Governor to $16 million in any biennium for this purpose. The legislature could clarify statute to allow access to this fund for those fire suppression costs that do not fall within a declared disaster.

During the 2005 fire season, a disaster was declared based on the severity of the conditions. The fund covered $0.6 million of the $8.8 million season for the qualifying costs that happened during the disaster period. The potential change could allow the department to access the fund prior to utilizing authority from other programs, thus potentially avoiding a cash flow crisis.

Supplemental Appropriation-Still available

The above fire funding options do not eliminate access to the supplemental process should it be needed. This decade has produced wildland fire seasons where the net costs to the state have exceeded the average. In those years, under the proposed options, a supplemental still would have been needed.

Summary of Suppression Options

The legislature has the following options regarding fire assessments:

- Make no changes and continue to fund suppression through supplemental appropriations
- Establish a statutory appropriation
- Propose a language appropriation
- Propose a one-time only, restricted, biennial appropriation

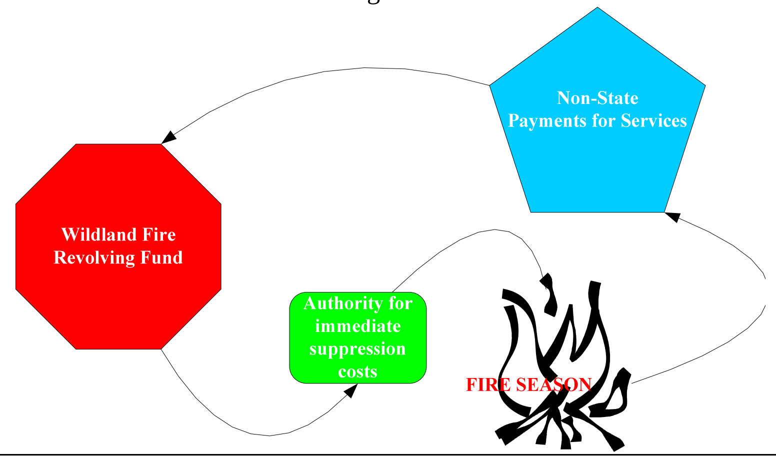
ACCESS TO APPROPRIATION AUTHORITY

The current process is predicated on allowing general fund appropriation authority in arrears based on the severity of the fire season. To establish access to appropriation authority for suppression could alleviate most of the issues imposed from authority shortages. A revolving fund approach could be established if the legislature does not want to appropriate funds each session. The source of revenue to the revolving fund could be the payments the state receives from other entities for fire suppression activities, predominantly the funds come from federal agencies such as the Bureau of Land Management, US Forest Service and the National Park Service. These funds are currently deposited to the general fund.

Wildland Fire Revolving Fund

The idea behind a revolving fund is to deposit payments into a separate fund to be utilized in the next fire season. The repayments would still be based on the characteristics of the previous fire season. DNRC officials would know the size of the fund prior to the next fire season. Since this would be a state special revenue fund, the appropriation authority could be established through the budget amendment process as fire suppression activities occur. Figure 6 depicts the flow of funds.

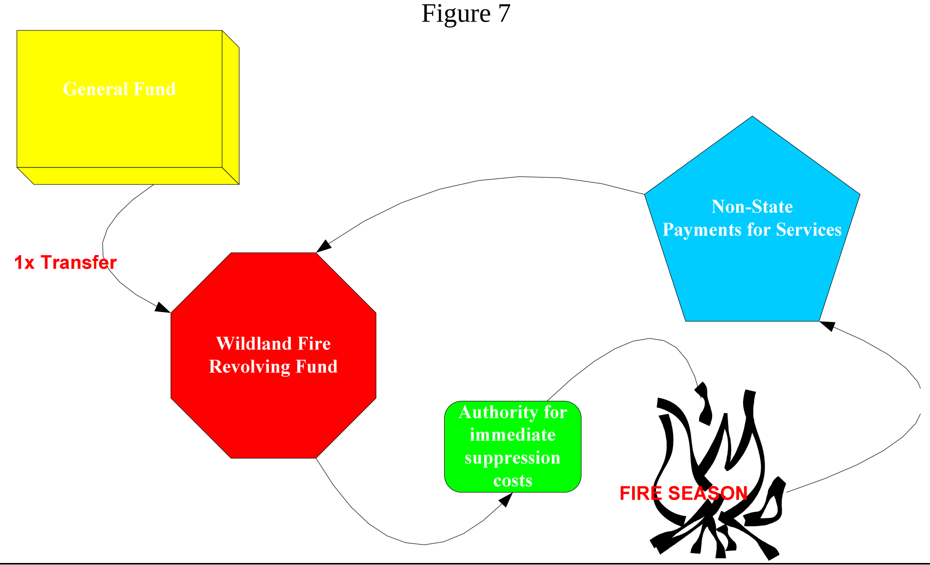
Figure 6



Jump start the Revolving Fund

If the legislature is interested in establishing such a fund and is not interested in waiting for the first cycle of payments, a one-time general fund transfer could be made to start the fund. The transfer would then be supplemented by payments made by other entities. Figure 7 illustrates the transfer.

Figure 7



Process

To establish a revolving fund would require legislation, including guidelines for deposits, fund access and allowable utilization. LFD staff would work with staff from the Legislative Services Division to start this process.

SUMMARY OF ALL OPTIONS

Figure 8 represents the options discussed in this report. The finance committee may recommend any option from any area; the recommendation from the bulldog assignment is below for guidance. LFD staff will provide the necessary coordination for the selected options.

Potential Options for Fire Funding Assessments and Suppression			
Options for Assessments for Infrastructure			
No Change to Assessments, propose shortfall be covered by general fund.	No change to assessments, direct DNRC to make program reductions equal to the amount of the shortfall.	Increase rates to forested landowners only to $36.30/parcel and 0.32/ acre over 20 acres. Establish upper limits in statute of $48/parcel and $0.42/ acre over 20 acres.	Diversify rates to include lands in county co-op areas. Forested landowners would pay $27.15/parcel and $0.24/acre over 20 acres. Land owners in the county co-op areas would pay $0.16/ acre. Limitations in statute would be set at $35/parcel, $0.35 acre for forested land owners and $0.2 for county co-op lands.
Appropriation Options for Suppression			
No change, continue to use supplemental appropriations process.	Establish a statutory appropriation through legislation.	Propose language appropriation in HB 2	Propose OTO/B/R line item appropriation in HB 2
Wildland Fire Revolving Fund			
No change, do not establish the fund		Establish a wildland fire revolving fund with a transfer from the general fund	

CONCLUSION

Wildland fires are a given in Montana. What are not predictable are the location, severity and ultimate cost to the state. By proposing alternatives to assessments or suppression, the legislature can attempt to control the magnitude of the fiscal crisis fire season can produce. It is the age-old adage: pay now or pay later.

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