MINUTES
NATURAL RESOURCES SUBCOMMITTEE
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES

January 23, 1987

The meeting of the Natural Resources Subcommittee was called to order by Chairman Swift on January 23, 1987, at 8:10 a.m. in room 317 of the State Capitol.

All members were present with the exception of Rep. Spaeth who was excused. Also present were Carl Schweitzer, Senior Analyst for the Legislative Fiscal Analyst's Office (LFA) and Karen Vollstedt, Budget Analyst from the Office of Budget and Program Planning (OBPP).

Tape 35A

Department of Livestock

EXHIBIT 1 June 9, 1986 memo from Les Graham to Rep. Manuel

Les Graham presented a paper (Exhibit 1) showing reduction made in general fund in FY 86 and FY 87, and proposed FTE reductions to accommodate a 10% cut in the general fund (EXHIBIT 1).

Sen. Smith stated that there is no way the Department of Livestock can take a further cut beyond the 10% cut, should further cuts be requested. There was a brief discussion. Chairman Swift thanked Director Graham for bringing the information to the subcommittee.

Department of State Lands

EXHIBIT 2 State Lands Testimony
EXHIBIT 3 Department of State Lands, Five-Year Comparison of Income Earned on State Lands

Dennis Hemmer, Director, Department of State Lands, addressed the subcommittee. It is noted that his address for subsequent program overview includes comments on LFA and OBPP budget figures.

There was subcommittee discussion. Sen. Smith asked if Department of Natural Resources and Conservation (DNRC) will have to increase budget to administer EIS's which the Department of State Lands contracts to them. Mr. Hemmer said he assumed they would.

Sen. Smith asked about the over one million dollars worth of certificates held by the department. He said those percentages had increased and decreased dramatically. Sen. Smith asked why the department did not cash in the certificates when they were high. Mr. Hemmer explained that they did not sell any at face value. They put it out for bid and sold them as they came in.

Tape 35B

Reclamation Division

EXHIBIT 4 Reclamation Division, General Statement

Mr. Hemmer presented Exhibit 4 and explained that this division was responsible for regulating all mining related disturbance within the state. Regarding the Hard Rock Mining Company, Senator Smith asked who or what has created the problem. He asked if it is due to economics, regulations, high taxes, etc? Mr. Hemmer replied by stating that most of the problem is due to speculation incompetence.

Carl asked Mr. Hemmer if the department got paid back by the industry and is reclamation being transferred to DNRC. Mr. Hemmer stated that there is no plan on the part of the administration to go forward with the transfer. Mr. Hemmer said that idea was proposed to the industry and the industry opposed the move.

EXHIBIT 5 Land Administration
EXHIBIT 6 Forestry

Mr. Hemmer presented a paper on Land Administration (Exhibit 5). The Lands Division is responsible for activities relating to surface leasing, easements, rights-of-way, land use licenses, oil and gas leasing, mineral leasing, land exchanges and other uses of state trust lands. The program is also responsible for periodic inspections and reviews of these activities to insure that trust land resources are being adequately protected and efficiently managed.

Mr. Hemmer reviewed Exhibit 6, Forestry. The Forestry Division is charged with managing the approximately 500,000 acres of State School Trust Lands that are classified as forest, providing wildfire protection services covering 4,962,795 acres of direct or contracted protection, assisting county cooperative protection of forest and rangelands, providing technical assistance to private forest landowners, and growing seedlings both for reforestation on State Forest Lands, and for conservation plantings.

The meeting was adjourned at 11:45 a.m.

Bernie Swift
Chairman
Natural Resources Subcommittee

DAILY ROLL CALL

NATURAL RESOURCES SUBCOMMITTEE

DATE 1/23/87

NAME	PRESENT	ABSENT	EXCUSED
Senator Boylan	✓		
Representative Devlin	✓		
Representative Manuel	✓		
Senator Smith	✓		
Representative Spaeth	✓		
Senator Story	✓		
Representative Swift	✓		

Form CS-30A
Rev. 1985

Natural Resources Subcommittee
Exhibit 1

June 9, 1986

TO: Chairman Rex Manual
Members of Natural Resources Commission

FROM: Les Les Graham, Executive Secretary to the Board of Livestock

RE: Cost Reduction Summary

Management actions taken to date by the Department of Livestock for F.Y. 86 & 87 to eliminate funding problems.

1.) Cost Saving Measures:

Personal Services:		F.T.E.	Pos.
Inspection & Control Division	$230,000	11.9	15
Animal Health Division	$ 70,000	4.0	4
Lab Division	$ 40,000	1.0	1
Centralized Services Division	$ 17,000	1.0	1
Total	$357,000	17.9	21

Operating Expense:	
Inspection & Control Division	$ 70,000
Animal Health Division	$ 95,000
Total	$165,000

Total Expenditure; Reductions = $522,000

The following represents the reduction to each program by percentages. These reductions have been ordered by the Board of Livestock.

a.) Centralized Services
Total reduction since April, 1985 4.4%

b.) Diagnostic Laboratory
Total reduction since April, 1985 6.1%

c.) Disease Control
Total reduction since April, 1985 9.0%

d.) Milk & Egg
Total reduction since April, 1985 1.5%
(Does not include position to be cut)

e.) Inspection & Control
Total reduction since April, 1985 12.5%

f.) Predator Control
Total reduction since April, 1985 16.8%

g.) Rabies
Total reduction since April, 1985 1.3%

Notes:

a.) This represents an overall Department reduction of approximately 12.1%.

b.) From 1971 - 1986 FTE vacancies and/or position reductions = 29.8%.

c.) In 1985-1987 positions held or cut equal 14.7%.

POSITIONS CUT F.Y. 86 & 87

	F.T.E.	General Fund 86	General Fund 87
Centralized Services	1	2,581	3,585
F.Y. 87 2%			1,179
		2,581	4,764
Diagnostic Laboratory	1	20,140	25,458
F.Y. 87 2%			6,131
		20,140	31,589
Disease Control	3		
Milk & Egg			3,483
2%			4,292
			7,775
Predator	2		
Rabies			1,114
2%			10,454
			11,568
Total F.T.E.	7	22,721	55,696
F.Y. 86 General Fund Reverted		13,061	
		35,782	
F.Y. 86 F.T.E. Cut	5		

Additional Positions Held Vacant:

F.Y.86 - 15.15
F.Y.87 - 12.9

STATE LANDS TESTIMONY

Appropriations Hearing

Opening Remarks

My testimony today will be directed toward the Executive budget proposal on the comparison sheet before you. I will attempt to reconcile the differences between the LFA and Executive columns of the sheet, pointing out the major differences that I have concern with and will discuss the issues addressed by the LFA in the Budget Analysis book. For each program I will discuss the current level first and then address the modified requests. If the Committee desires more detailed information about the various expenditure categories, we will be happy to furnish you that information.

The Department of State Lands is responsible for:

a) managing 5.2 million surface acres and 6.1 million subsurface acres of School Trust Land;

b) mine permitting and reclamation on all land in the state;

c) direct wildfire protection on state and private lands in fire districts in the state and assisting county fire programs; and

d) other Forestry related programs such as technical assistance to private landowners and the production of seedlings for conservation and state forestry by the nursery.

As a result of funding shortfalls, the Department has 14.75 fewer FTE's now than it did 2 years ago. Last January the Environmental Assessment Bureau in the Reclamation Program was phased out because of a lack of funding. The Bureau's primary function was to prepare EIS's on projects that fall under the Montana Environmental Policy Act. Future EIS's will be prepared by contract with the Department of Natural Resources and Conservation and private consulting firms. The phase out of this Bureau resulted in a reduction of 9.00 FTE's in the Reclamation program.

In order to comply with the across-the-board cuts initiated by the Governor, 5.75 FTE's were eliminated from the Forestry program. Depending on the results of this appropriation process, at least one and perhaps two more FTE's will have to be eliminated sometime during the next biennium to stay within the appropriation levels recommended by the Governor's Executive Budget.

We have been able to function with the cuts because of large scale reorganization in every program in the Department and not filling positions when they become vacant. However, there is a limit to what can be done through the reorganization process to save money. At some point in time the effectiveness of the organization will be reduced so that the Department will not be able to accomplish its mandated goals.

Program 01- Central Management Division

General Statement - The function of the Central Management Division is to perform those support services common to all units within the Department such as payroll, claims, revenue collections, air operation, personnel, legal services and data processing.

Current Level Request	FY 88	FY 88
Personal Services:	591,702	591,291
(FTE)	20.00	20.00

Explanation: Included in the Central Management personal services budget are the salaries for the total program which includes the Commissioner's office, legal services, air operations, data processing, accounting and personnel. In addition to performing Department-wide administrative duties, the staff in this program are responsible for receiving and disbursing in excess of $40 million annually in income earned from trust lands.

Changes to Current Level:

This budget reflects the increase and transfer of 2 FTE's from other Programs. These transfers did not increase the Department's authorization for FTE's.

Vacancy Savings - The Executive Budget reduced the personal services request by 4% in FY 88 and 89. This amounted to $24,654 in FY 88 and $24,637 in FY89. This is a significant reduction when you consider that this Program has 20 FTE's and the actual vacancy savings in the current biennium was less than $10,000. In May of 1989, the Department's Data processing Coordinator plans on retiring. We estimate that the termination pay for this position will exceed $12,000. There is nothing budgeted to pay these costs which further increases the shortage in funding for salaries in this Program for FY 88 and 89.

The LFA used the same vacancy savings factor as OBPP and in addition removed one position which amounts to a cut of approximately $28,000 in each year of the 89 Biennium. The transfer of the FTE was identified as an issue and I will discuss it in more detail in the "issue" section of the testimony.

The workload in this program, specifically the cashiering section has increased because of the new Federal Farm Program that was passed by Congress in 1985. We are now taking advanced payments on Federal Farm programs which was never done by DSL in the past and results in more interest for the State because the money is received several months earlier. In addition a significant percentage of the revenue received from the Farm Program is paid to the State by Commodity Certificates. The Certificates have to be recorded and sold to the highest bidder before the revenue can be deposited in the State treasury. Presently we have over $1,000,000 worth of Certificates that are being recorded so that they can be converted to cash and deposited in the State Treasury. Taking advanced payments and processing Commodity Certificates have increased the workload in the cashier section significantly as there is no way to directly tie them to the lease or the grant. I will not attempt to quantify what the interest to the State will be because of not being able to process revenue faster. However, money saved by further reduction in this area could cost the State more because of lost interest.

I request that the Committee adopt OBPP's recommendation for personal services in the Central Management Program.

Contracted Services:	FY 88	FY 89
	$296,917	$225,867

Explanation: Included in contracted services are legal and consulting fees, aircraft and vehicle insurance, printing, Legislative audit fees, janitorial cost for the offices in Helena, and payroll service fees paid to the State Auditor.

Changes to Current Level:

The legal intern program was not included in this request as it has in past budgets. This resulted in a savings of approximately $3,000.00 in FY 88 and 89. As noted earlier, funding for vehicle and aircraft insurance is budgeted in Contracted Services. This figure is developed by the Department of Administration based on an estimate made at least one year in advance. The actual cost of insurance for FY 88 will not be known until June of 1987. During the current biennium, insurance costs have been substantially higher than the estimates that were made for the Executive budget that was presented to the Session in January of 1985. During the current biennium DSL was unable to pay the higher premium and it was absorbed by the Department of Administration.

Both the LFA and OBPP reduced contracted services by $2,902 in FY 88 and OBPP took $4,600 and the LFA took $5,600 in FY 89 for inflation. In addition to these reductions, the LFA reduced the request $7,199 in FY 88 and $2,116 in FY 89. We cannot absorb the additional cuts in this category and request that the Committee approve OBPP's recommendation.

Supplies and Materials:	FY 88	FY 89
	$51,760	$51,760

Explanation: The supplies and materials budget represents the current level expenditures for office and paper supplies, forms and fuel for the six aircraft.

Changes to Current Level: There is basically no change in this expenditure category as compared to FY 85 and 86. OBPP recommended the same level of funding in this category as the base year.

The LFA reduced this category by $2,836 which is below current level. I request that the committee approve OBPP recommendation for this category.

Communication and Transport	FY 88	FY 89
	$18,335	$18,335

Explanation: The communications category includes telephone charges, postage, mailing and messenger services.

Changes to Current Level: There are no changes to current level and both OBPP and the LFA recommended nearly identical amounts for both years of the next biennium..

Travel	FY 88	FY 89
	$14,793	$14,793

Explanation: This category is made up of commercial transportation, DSL aircraft rental, lodging and vehicle milage to meet the travel needs of the Commissioner's office, legal staff and personnel officer.

Changes to Current Level: There are no changes.

Rent:	FY 88	FY 89
	$70,071	$71,461

Explanation: Included in this category are the amounts needed for storage and office space for the Central Office in Helena and the aircraft hangars at the airport.

Changes to Current Level: The lease for office space in Helena will be up for renewal in FY 89 and we anticipate that the square footage costs will increase approximately 15 cents per foot on 9,270 square feet.

I request that the Committee approve OBPP's recommendation for rent.

Utilities:	FY 88	FY 89
	$10,997	$9,441

Explanation: This category includes the gas and electricity for 65 percent of the office space in the Central Office and a hangar in Helena.

Changes to Current Level: Both the LFA and OBPP recommended the same amounts for utilities in the next biennium.

Equipment	FY 88	FY 89
	-0-	-0-

Explanation: In past requests, office and data processing equipment are purchased with funds appropriated in this category. However, in an effort to reduce the request, I did not budget anything for equipment in this program.

Repair and Maintenance	FY 88	FY 89
	$128,972	$127,472

Explanation: The major part of this category is the budget necessary to maintain the six aircraft operated by the Department.

Changes to Current Level: Programmed into both years of the 89 biennium is authority to replace an engine in one of the fixed wing aircraft, rotor hubs and hydraulic servo units in two helicopters. The estimated costs for these parts are $39,000 in FY 818 and $37,500 in FY 89. The LFA reduced the request by $18,700 in each year. The LFA identified aircraft maintenance as an issue and I will talk about it in more detail in that part of the testimony.

Other Expenses:	FY 88	FY 89
	$4,337	$4,337

Explanation: Included in this category are items such as freight and express, the tax assessments on the office in Helena and other miscellaneous item.

Changes to Current Level: There are no changes to current level and no differences between the two budgets.

Grants from State Sources	FY 88	FY 89
	$265,000	$265,000

Explanation: Every session the Legislature appropriates general fund monies to be distributed annually by the Department to those counties that have in excess of six percent of state trust land within their borders. Equalization payments are required by 77-1-501, MCA. Both the Executive Budget and the LFA recommends that $265,000 be distributed among those counties in FY 88 and FY 89 which is identical to what was appropriated for distribution to the counties in the current biennium. During the current biennium this appropriation furnished approximately 78% of the counties' requests for equalization. Both budgets recommend the same amounts for county equalization in the next biennium.

Funding:

The LFA reduced the General Fund by $41,439 in FY 88 and $40,370 in FY 89. In addition, the LFA increased the appropriation in the Resource Development Account by $2,902 in FY 88 and $4,639 in FY 89. They also increased the appropriation in the Grant Reimbursement account by $4,000 in FY 88 and FY 89.

I disagree with the LFA's recommendation to increase the appropriation in these accounts for two reasons:

1) Resource Development funds are restricted in what they can be used for by statute.
2) Both of these accounts have funding problems because of revenue shortfalls.

Increasing the appropriations in these accounts beyond the available funding results in higher cuts than recommended by OBPP and the LFA.

I request that the Committee adopt the levels of funding for each account as recommended by OBPP.

LFA ISSUES

LFA Issue #1

The LFA has removed one position from Central Management because "the legislature did not approve an additional attorney for the department." I beg to differ with the LFA. The position in question was a current level position. The position was converted to a lawyer during the 84-85 biennium. I took this step when we narrowly averted disaster. At that time the two lawyers were working so much compensatory time, they could work no more. They were annually losing comp time and annual leave. In spite of this, all legal work was so far behind lease legal work was not current and neither the violators nor the Department could remember the circumstances surrounding violations. I made the switch when we came within a gnat's eyelash of missing a briefing schedule.

During the 1985 session, after the switch, this subcommittee debated at some length the number of attorneys in the Department. If you will remember, I asked in 1985 for a fourth attorney. At that time, I disclosed freely the current number of attorneys in the agency and both the LFA and the subcommittee were aware of the third attorney. The position is current level and must be retained if the lessees and permit holders are going to be given timely service and if we are to defend the laws the legislature has passed and the decisions I make.

LFA Issue #2 - TWIN BRIDGES

Not included in the LFA budget are the amounts requested in FY 88 and 89 for minimal caretaking services and utilities for the Children's Center in Twin Bridges. I requested $12,600 in each year to pay a caretaker and utilities to keep the buildings from freezing and flooding. This issue was discussed at the January 5, 1987 Supplemental Appropriations hearing and I stated that we will try to sell the facility again. However, if we are not successful in selling the facility, we will have to either provide the minimal caretaking services that we are providing now or certain areas of the facility will have to be secured. Windows should be boarded up, pipes drained, utilities disconnected and certain areas should be fenced off. It is difficult to estimate what the costs will be to close the facility. I request that the Committee appropriate $12,600 in both FY 88 and FY 89 and make it a line item that if the facility is sold, the funds revert.

LFA ISSUE #3 - AIRCRAFT MAINTENANCE

The LFA reduced the Aircraft maintenance request by $18,700 in FY 88 and 89. the reason for the reduction was because of "one time" expenditures in FY 86. In reviewing the costs records for aircraft maintenance for the last 4 1/2 years, the Department has spent a total of $149,943 for "one time" costs over and above expenditures for regularly scheduled maintenance which is required annually and after every 100 hours of use. "One time costs" refer to those costs that occur because an engine fails prematurely, or because of a tail boom strike. In aircraft maintenance, there are no "one time" costs. Every year the Department is required to pay for maintenance that wasn't planned in order to keep the aircraft in a safe operating condition. Knowing these facts in advance may preclude us legally from requesting a budget amendment for "one time" costs in the future.

I request that the committee adopt OBPP recommendation on aircraft maintenance costs.

SECOND ISSUE #1 - PAGE 38 - DISTRIBUTION OF ADMINISTRATIVE COSTS

The LFA has established a schedule based on percentages to fund administrative costs budgeted in the Central Management Program and the General Services Bureau in the Forestry Program with other funding sources used by the Department.

Distributing administrative costs to other funds is legitimate provided it is legal and there is adequate funding in the other accounts to distribute. The LFA's proposal would be difficult to implement for several reasons. With the exception of three accounts that the report lists for cost sharing, the Department currently uses a portion of these funds for administrative costs. Increasing the amount of administrative costs being financed from these funds will decrease the amount of work being done on the ground, which would result in decreased earning from the trust.

The LFA's basis for distribution is invalid. A portion of this division is dedicated to receiving trust revenue. If the costs are to be distributed, they should be reserved to those positions serving the entire agency and based on transactions, not personnel cost.

Using Resource Development, TSI, Nursery and Slash funds for administrative costs would result in cutting projects which will eventually increase earnings from trust lands and could be a violation of the statutes.

Financing administrative costs with project funds would be counter productive and in some cases could be in violation of statute.

Natural Resources Subcommittee
Exhibit 3

DEPARTMENT OF STATE LANDS
FIVE-YEAR COMPARISON OF DISTRIBUTABLE AND NONDISTRIBUTABLE INCOME EARNED ON STATE LANDS

Distributable

	FY 82	FY 83	FY 84	FY 85	FY 86
Grazing	4,143,835	3,528,904	3,544,790	3,149,338	3,262,417
Agricultural Rentals	7,490,102	8,190,240	8,707,955	6,320,985	4,393,681
State Forest Collections	70,820	81,771	90,680	87,937	101,306
Oil & Gas Leases	18,137,234	8,606,869	5,734,132	5,165,457	4,179,648
Oil & Gas Penalties	1,712,358	1,656,910	2,339,310	3,351,509	3,238,254
Oil & Gas Bonus Payments			5,067,079	1,193,789	771,130
Interest on CP's	52,882	45,186	38,998	32,451	43,537
T & L Interest	17,510,142	18,227,292	19,504,214	20,063,601	24,139,563
Other Revenues	407,503	251,147	217,240	205,568	180,062
Transaction Fees	90,911	104,197	86,698	76,762	142,480
Total Distrib. Income	$49,615,787	$40,692,516	$45,391,096	$39,647,397	40,452,078

Nondistributable

	FY 82	FY 83	FY 84	FY 85	FY 86
Install. on Land Sales	134,968	131,969	125,701	98,638	86,315
5% of Annual School Interest Income	2,498,857	1,915,700	1,946,465	3,265,824	1,963,215
Timber Sales	2,231,888	1,726,370	1,814,053	1,933,952	1,105,621
Rights-of-Way	133,989	215,372	201,739	309,084	171,210
Oil Royalties	7,046,575	6,529,812	5,978,431	5,110,269	4,193,476
Gas Royalties	997,386	987,542	1,329,198	1,364,853	1,248,139
Coal Royalties	773,389	997,587	912,148	1,588,970	617,726
Sand & Gravel	48,988	137,615	64,183	87,295	129,763
Miscellaneous	382,422	382,418	178,069	48,295	36,746
Total Nondistrib. Income	$14,248,462	$13,024,112	$12,549,987	$13,807,180	$9,552,211

PROGRAM 03 - RECLAMATION DIVISION

GENERAL STATEMENT

The Reclamation Division is responsible for regulating all mining-related disturbances in the state by administering (1) the Montana Strip and Underground Mine Reclamation Act, (including the regulatory program required by the Federal Surface Mining Control and Reclamation Act of 1977); (2) the Montana Metal Mine Reclamation Act; (3) the Montana Opencut Mining Act; (4) the Montana Strip and Underground Mine Siting Act; (5) the Montana Environmental Policy Act (as it pertains to mining permitting; and (6) the Montana Abandoned Mine Reclamation Program.

The responsibilities of the Reclamation Division include:

(1) reviewing mine applications;

(2) determining reclamation bond amounts;

(3) issuing permits and licenses for exploration and mining of all minerals including sand, gravel, copper, gold, silver, coal and uranium;

(4) field inspections and enforcement activities;

(5) evaluation and approval of reclamation bond releases;

(6) coordination with other state and federal agencies;

(7) preparation of the necessary environmental assessments in the form of a Preliminary Environmental Review or Environmental Impact Statement to insure compliance with the Montana Environmental Policy Act; and

(8) reclamation of abandoned mines.

For administrative purposes the Reclamation Division is divided into the following Bureaus:

1. Coal and Uranium Bureau (Montana Strip and Underground Mine Reclamation Act and Montana Mine Siting Act)
2. Hard Rock Bureau (Montana Metal Mine Reclamation Act)
3. Opencut Bureau (Montana Opencut Mining Act)
4. Abandoned Mine Reclamation Bureau (Abandoned Mine Reclamation Program)

These Bureaus are funded from the following sources:

1. Coal and Uranium Bureau: 20% state 80% federal
2. Hard Rock Bureau: 100% state
3. Opencut Bureau: 100% state
4. Abandoned Mine Reclamation Bureau: 100% federal

RECLAMATION BUDGET

I. PERSONAL SERVICES:		FY 88	FY 89
	Current Level	$919,813	$919,184
	Current Level	32.0 FTE	32.0 FTE

Explanation: Personal Services for the Division includes salaries, employee benefits and health insurance.

Changes to Current Level:

(1) No change to current level.

II. OPERATING EXPENSES		FY 88	FY 89
	Current Level	$2,137,310	$2,016,018
		FY 88	FY 89
A. Contracted Services:	Current Level	1,765,118	1,643,042

Explanation: Contracted Services expenditures for the Reclamation Division generally include consultation and professional services for both permit review and baseline EIS information, data processing, printing expenses and the largest portion being for independent contractor payments for abandoned mine reclamation. Most of these expenses are paid grant monies made available through the Abandoned Mines Program and the Coal Program and assessed fees through MEPA.

Changes to Current Level:

The major changes to current level are listed below:

(1) The Hard Rock Bureau needs budget authorization to spend $100,000 in the form of a biennial appropriation. This money is generated by 82-4-311, MCA (Hard-rock mining account.) As provided for in the Hard Rock Act, "This account shall be available to the department by appropriation and shall be expended for the research, reclamation, and revegetation of land and the rehabilitation of water affected by any mining operations." The Hard Rock Bureau would utilize these funds to perform emergency remedial reclamation on permitted mine sites to prevent eminent catastrophic hazards to public health and safety. In instances where permitted mines have filed for reorganization under Chapter 11 or bankruptcy under Chapter 7, the Department may need interim funding to prevent imminent hazards to public health and safety or environmental damage.

In the event the Department has to forfeit a reclamation bond because the mine permit holder failed to take appropriate remedial action, merely forfeiting the bond does not mean the Department actually has immediate access to the money. This is because (1) the actual bond forfeiture procedure can be very time consuming; (2) once the bond has been forfeited the Department must obtain spending authority through the Budget Amendment process; and (3) we have also experienced instances where the bonding company went defunct. If the Department has money available, the actual contracting of the remedial action can be completed under the emergency contracting provisions as outlined in existing statutes.

It is not anticipated that this fund would be used to reclaim permitted sites in lieu of mine operators supplying adequate reclamation bond for their mining operations.

*(2) The Hard Rock Bureau needs $15,000 for each year of the biennium to fund its portion of a 0.5 FTE Water Quality Liaison position with the Department of Health and Environmental Sciences (DHES). The funding of this position is necessary to provide for better communication and coordination of efforts in the administration of the Montana Water Quality Act with respect to mining operations. At the present time, both agencies have water quality responsibilities, but there is no way to effectively coordinate those responsibilities between the agencies. The funding of the position should help to eliminate duplication of effort and provide a better service to both the private and the public sector. No new FTE's authorization would be required for this position because the DHES already has an FTE that could perform this function. The position would provide for closer coordination of the Metal Mine Reclamation Act and the Water Quality Act.

*Please note that this is 100% state funds.

*(3) The Hard Rock Bureau needs $5,000 for each year of the biennium to allow the bureau to contract with private consultants to provide for specialized technical expertise that is not available within the bureau. (This may include areas such as tailings pond design and stability, seismic evaluations or toxic waste problems.)

*Please note that this is 100% state funds.

*(4) The Hard Rock Bureau needs $10,000 for each year of the biennium to analyze soil and water samples to identify and prevent hazards to public and environmental health and safety in support of its enforcement program and to investigate citizens complaints.

*Please note that this is 100% state funds.

*(5) The Hard Rock Bureau and Opencut Bureaus will need a total of $2,000 ($1,000) each) for FY 88 for printing and distribution costs associated with rule re-writes.

Please note that this is 100% state funds.

*(6) The Abandoned Mine Reclamation Program needs an additional $20,541 for each year of the biennium for helicopter insurance.

*Please note that this is 100% federal funds.

*(7) The Coal and Uranium Bureau needs $35,000 for each year of the biennium to fund its portion of the Department's Information Processing System. The expenditure of these monies is consistent with the Department's Plan and also with the federal coal program requirements of state participation in the Applicant Violator System (AVS) and Technical Information Processing System (TIPS) both of which are being funded at this time by the federal government. The federal government is providing the hardware and software for these programs that are scheduled to be in-place in FY88 and FY 89. The development of an Information Processing System for the Coal Bureau will have applications in the Hard Rock and Opencut Bureaus.

*Please note that 80% ($28,000) is federally funded, and 20% ($7,000) is state funded.

*(8) The Coal and Uranium Bureau needs $10,000 for each year of the biennium for printing and distribution costs associated with rule re-writes. Extensive changes are required due to changes in the federal rules as a

result of federal court decisions made in 1986 (Flannery). In addition, OSMRE has informed DSL another 30 rule changes will be required. The costs in Coal and Uranium are higher than the Hard Rock and Opencut Bureaus because of the greater volume of rules.

*Please note that 80% ($8,000) is federally funded and 20% ($2,000) is state funded.

*(9) The Coal and Uranium Bureau needs $30,000 for FY 88 and $10,000 for FY 89 for legal fees that are associated with coal mine permitting. At the present time the Department decision to issue the Montco permit is being contested. The Department is anticipating continuing legal action and appeals on this decision. Similar cases in other states have been prolonged up to five years or more. Costs in this category are expended for services contracted through the Attorney General's Office, court reporters and other court related costs.

*Please note that 80% is federally funded and 20% is state funded.

*(10) Contracted Services funding in the amount of $417,183 for each year of the biennium will be needed for the preparation of any EIS's for new major mining developments that are deemed to be major state actions significantly effecting the quality of the human environment. The Department will contract with DNRC or private consultants for these services. This is a result of the elimination of the Environmental Analysis Bureau.

*Please note that this is not a new program but only a change in line item funding because of the elimination of the Environmental Analysis Bureau. The funding for this item is 100% MEPA fees as authorized by 75-1-203(2), MCA.

B. Supplies and Materials:

		FY 88	FY 89
	Current Level	$25,117	$25,321

Explanation: The Reclamation Division expenses for supplies and materials cover everyday expenses including small drilling supplies, and photo and reproduction. In order to assure that prospecting plugging procedures are followed and contamination of aquifers is prevented, the Department spot checks drill holes which explains the drilling materials.

Changes to Current Level:

(1) No change to current level.

C. Communications:

		FY 88	FY 89
	Current Level	$35,306	$34,418

Explanation: This pays for phones, mailings and related expenses.

Changes to Current Level:

(1) No change to current level.

D. Travel:

		FY 88	FY 89
	Current Level	$89,892	89,892

Explanation: Most of the Division's travel expenses are incurred during travel for mine inspections and discussions with operators and other agencies. About 1,200 sites are inspected annually and another 100 sites are inspected on a more frequent basis (quarterly and bimonthly).

Changes to Current Level:

(1) No change to current level.

E. Rent and Utilities:

		FY 88	FY 89
Rent	Current Level	$108,589	$109,343
Utilities	Current Level	5,194	5,908
		$113,783	$115,251

Explanation: For office space the Division pays a fixed share of the Department's utilities and rent. For other rental items (i.e. Department Aircraft Rental) the budget is based on the anticipated usage.

Changes to Current Level:

(1) No change to current level.

Repair and Maintenance:		FY 88	FY 89
	Current Level	$10,850	$10,850

Explanation: These expenses are primarily for the repair and maintenance of vehicles and office equipment.

Changes to Current Level:

(1) No change to current level.

Other Expenses:		FY 88	FY 89
	Current Level	$97,244	$97,244

Explanation: Most of the expenses incurred under "other" are the indirect costs of administering federal funds. These expenses are paid to the Centralized Management Division and are included in the grants Reimbursement Account shown in the Centralized Management funding.

Changes to Current Level:

(1) No change to current level.

III. EQUIPMENT:		FY 88	FY 89
	Current Level	$49,050	$30,000

Explanation: The Reclamation Division vehicles are used in the performance of its inspection, enforcement and abandoned mine reclamation responsibilities for all of the Reclamation Division functions.

Changes to Current Level:

The major changes to the current level are listed below:

(1) In FY 88 the Reclamation Division plans to replace three high mileage vehicles. The replacement vehicles will be purchased to replace the following vehicles that are worn out.

(1) 1983 GMC 120,000 miles

(2) 1984 Ford 100,000 miles

(3) 1982 Dodge 100,000 miles

One of these vehicles will be purchased by 100% federal funds. One will be purchased 100% state funds, and the other will be purchased by 80% federal and 20% state funds.

(2) In FY 88 the Reclamation Division needs to purchase one replacement typewriter for the Billings office at a cost of $1,050 and a letter quality printer for the Billings office computer system at a cost of $3,000. The funding for these items ($4,050) is 80% federal ($3,240) and 20% state ($810).

(3) In FY 89 the Reclamation Division needs to purchase two vehicles. These will be replacement vehicles. One of the vehicles will be purchased by 100% federal funds and the other will be purchased with 80% federal and 20% state funds.

IV. <u>CAPITAL OUTLAY</u>:		<u>FY 88</u>	<u>FY 89</u>
	Current Level	$4,960,000	$4,970,000

<u>Explanation</u>: The funds expended for Capital Outlay in the Reclamation Division are 100% federal funds for abandoned mines reclamation projects.

<u>Changes to Current Level</u>:

The Abandoned Mines Program needs authorization to increase its spending authority of federal grants for abandoned mine reclamation projects by an additional $2,419,469 in FY 88 and $2,429,469 in FY 89. This additional spending authority is needed because over the last several years the AML program has been attempting to reclaim a greater number of abandoned mine sites each year to more fully expend the federal funds that are available to Montana.

The projects that have been identified for completion in FY 88 and FY 89 reflect the amount recommended in the OBPP budget.

The funding for this entire program is 100% federal funds. At the present time, the federal law requires that this program terminate in 1992, so it is in the state's best interest to reclaim as many abandoned mine sites as possible prior to program termination.

MODIFICATIONS/LFA ISSUES

ISSUE 4: RECLAMATION SPECIALIST

(LFA Budget Analysis 1989 Biennium, Vol. I, page C-30)

FY 88	FY 89
$92,325	$89,802

The Department anticipates that during the next biennium the Hard Rock Bureau staff will need to be increased by 3 FTE's to meet the demands of the private and public sector due to increased mining activities in Montana. This will result in an increase of the Hard Rock Bureau budget of $92,325 in FY 88 and $89,802 in FY 89. These cost figures are based on actual FY 86 costs for Personal Services and Operating Expenses. The Department anticipates that there will be increased activities in the area of application reviews, MEPA compliance, permit decision-making, problem resolution and inspection and enforcement activities.

This is based on the following:

1. The number of hard rock exploration licenses that have been issued on an annual basis have increased from 12 in 1982 to 16 in 1983 to 18 in 1984 to 29 in 1985 and to 37 in 1986 with an additional 10 to 15 pending exploration license applications.

2. Previous metal prices (gold and silver) have been low for some time. They are now starting to increase.

3. The mining industry has indicated that Montana is Number 2 in potential mine development on a national basis. Therefore, Montana can expect a continued high level of hard rock mining activity.

4. The elimination of the Environmental Analysis Bureau (9 FTE's) has increased the Hard Rock Bureau's workload. The Hard rock Bureau staff now has to take a more active role in the coordination and oversight of the consultants that prepare the EIS's when a significant impact has been identified under MEPA.

5. The number of mine failures due to financial and operating problems on behalf of mine operators are increasing. The process of resolving these problems are very complex and time consuming.

A point that needs to be clarified in the LFA budget recommendation is that the EAB staff was <u>not</u> used as a buffer to review applications under the Metal Mine Reclamation Act. They were used to coordinate the entire EIS process. The point is that now that the EAB no longer exists, by the very nature of the intricacies of the mine permitting/MEPA process, Hard Rock Bureau staff time will be required to coordinate, oversee and in some cases actually write various portions of an EIS document. These functions were previously coordinated by the EAB. Another point that needs to be made is that the DNRC staff will only participate on a contract basis for EIS preparation. If DNRC's workload or expertise is such that they cannot accommodate the requirements of the statutory time frames as required by MEPA, EIS work will be contracted to a private consulting firm. Therefore the Department cannot rely on the DNRC to act as a buffer for the Hard Rock Bureau.

Considering the fact that the hard rock mining industry has been identified as one of the "bright spots" in the Montana economy, I believe that it is worthwhile to make the necessary funding resources available so sound permitting decisions can be made in a timely manner.

ISSUE 5: SECRETARIAL POSITION

(LFA Budget Analyses 1989 Biennium, Vol. I, page C-31)

FY 88	FY 89
$17,445	$17,412

Since the time the Reclamation Division's original budget request was submitted, the Department has implemented a secretarial pool. Therefore, this position is no longer needed and can be deleted from the budget request.

ISSUE 6: RECLAMATION RESEARCH (Hard Rock Reclamation Account)

(LFA Budget Analysis 1989 Biennium, Vol. I, page C-31)

FY 88-89 (Biennial Appropriation)

$100,000

The Hard Rock Bureau needs budget authorization to spend $100,000 in the form of a biennial appropriation. This money is generated by 82-4-311, MCA (Hard-rock mining account.) As provided for in the Hard Rock Act, "This account shall be available to the department by appropriation and shall be expended for the research, reclamation, and revegetation of land and the rehabilitation of water affected by any mining operations." The Hard Rock Bureau would utilize these funds to perform emergency remedial reclamation on permitted mine sites to prevent eminent catastrophic hazards to public health and safety. In instances where permitted mines have filed for reorganization under Chapter 11 or bankruptcy under Chapter 7, the Department may need interim funding to prevent imminent hazards to public health and safety or environmental damage.

In the event the Department has to forfeit a reclamation bond because the mine permit holder failed to take appropriate remedial action, merely forfeiting the bond does not mean the Department actually has immediate access to the money. This is because (1) the actual bond forfeiture procedure can be very time consuming, and (2) once the bond has been forfeited the Department must obtain spending authority through the Budget Amendment process; and (3) we have also experienced instances where the bonding company went defunct. If the Department has money available, the actual contracting of the remedial action can be completed under the emergency contracting provisions as outlined in existing statutes.

It is not anticipated that this fund would be used to reclaim permitted sites in lieu of mine operators supplying adequate reclamation bond for their mining operations.

ISSUE 7: ABANDONED MINE PROGRAM

(LFA Budget Analysis 1989 Biennium, Vol. I, Page C-31)

Montana's abandoned mine reclamation program is governed by the Federal Surface Mining Control and Reclamation Act (SMCRA) of 1977. This law mandates stringent controls over coal mining activities and provides for reclamation of lands disturbed by previous mining practices. Title IV of the Act provides for collection of monies from all coal operators to fund the reclamation of abandoned mines. These monies are collected as a federal tax according to the following schedule:

- 35¢/ton for surface mined coal (non-lignite)
- 15¢/ton for underground mined coal
- 10¢/ton for lignite coal

Fifty percent of such monies are set aside for use in a State Abandoned Mine Reclamation (AMR) Fund. Montana's share is approximately five million dollars per year. Montana's program considers the reclamation of all abandoned mines (coal and hard rock) that constitute a health or safety hazard. As required by the existing federal law, the program will terminate in 1992.

Monies from the Abandoned Mine Fund may be used for reclamation only if the abandoned lands fall under the following categories:

a) Were mined or affected by mining processes prior to August 3, 1977, on which all mining has ceased;

b) Continue to substantially degrade the quality of the environment, prevent or damage the beneficial use of land or water resources, or endanger the health and safety of the public; and

c) There is no continuing reclamation responsibility under state or Federal laws.

If Montana is to fully utilize this program, it is important that Montana spend its allocated portion of these funds because if Montana does not spend these funds, they will be allocated to other states. The program is slated to end in 1992. The level of expenditure is designed consistent with the number of mine problems that have been identified. Along these lines, Montana has been accelerating its on-the-ground reclamation of abandoned mine sites. Even with the OBPP level of funding, unreclaimed abandoned mines will be left at program expiration.

ISSUE 8: FUNDING SWITCH

(LFA Budget Analysis 1989 Biennium, Vol. I, page C-31)

The issue of whether the $1,174,512 should be funded by the General Fund or the Resource Indemnity Trust Fund is beyond the jurisdiction of the Department of State Lands. This is an issue that must be resolved in the legislative process.

SUMMARY

The Reclamation Division's budget request is as follows:

	FY 88	FY 89
Full Time Equivalent Employees	35.0	35.0
I. *Personal Services	$ 994,915	$ 994,153
II. Operating Expenses	2,146,765	2,025,226
III. Equipment	49,550	30,000
IV. Capital Outlay	4,960,000	4,970,000
TOTAL	$8,151,230	$8,019,379

*This figure includes a 4% vacancy savings and the deletion of the ISSUE 5: SECRETARIAL POSITION.

Program 04

LAND ADMINISTRATION

General Statement

The Land Administration Division and its personnel manage school trust lands consisting of approximately 4.5 million acres of surface estate and 6.2 million acres of mineral estate. The Lands Division is responsible for activities relating to surface leasing, easements, rights-of-way, land use licenses, oil and gas leasing, mineral leasing, land exchanges and other uses of state trust lands. The program is also responsible for periodic inspections and reviews of these activities to insure that trust land resources are being adequately protected and efficiently managed.

LAND ADMINISTRATION BUDGET

For the purposes of this presentation, all line items will be addressed, but I will only expand on those areas of special concern to the Lands Division budget.

Personal Services	FY 88	FY 89
	$442,257	$441,995
	18.62 FTE	18.62 FTE

Explanation: Personal Services for the division includes salaries, employee benefits and health insurance.

Changes to Current Level: No changes are included.

Operating Expenses:	FY 88	FY 89
	$131,000	$131,281
Contracted Services:	$ 13,792	$ 13,792

Explanation: Contracted Services expenditures for the Lands Division generally includes insurance, legal fees, printing, photographic services, publicity and film services used in carrying out division responsibilities.

Changes to Current Level:

The Department has requested an increase of $500 in FY 88 and FY 89 to cover the costs of advertising expenses required for the advertisement of leases in newspapers. These advertisements are required for the soliciting of bids on new proposed leases and leases cancelled for violations of statute. This process is required to insure a competitive situation and the highest return to the trust. The Department is seeing that more leases are being cancelled primarily due to the downturn in the farm and ranch economy. Actual expenses in FY 86 were $3,726.

Supplies and Materials:	FY 88	FY 89
	$49,484	$49,737

Explanation: Supplies and Materials for the Lands Division generally include minor tools and instruments, gasoline, maps, photographic supplies, and general office supplies.

Changes to Current Level:

As a result of the new Montana Weed Law (7-22-2116, MCA) the Department is required to control weeds on lands that are state-owned and currently unleased. The Department makes every effort to lease all unleased tracts, however, there are acreages that cannot be leased. Currently, we have approximately 1400 acres of unleased land not including the Northeast quadrant and a multitude of islands in navigable rivers and easements which have reverted back to the Department that have weed infestations. It is anticipated that the division will see an increase in the number of leases being dropped due to weed problems. The Department requested $24,000 to begin a program of weed control on classified grazing and agricultural lands. This figure was based on a cost of $30 per acre on 800 acres of infestation. This request would be used for chemicals used in weed management. In FY 86 the Division spent $860 for weed control. The LFA did not increase weed control costs and reduced inflation on supplies and materials due to an anticipated reduction in computer charges on the main frame system with the Department of Administration. We would urge the Committee to accept the recommendation of the OBPP.

Communication:	FY 88	FY 89
	$27,377	$37,377

Explanation: Communication expenditures are telephone, postage and mailing expenses incurred by the Lands Division.

Changes to Current Level: The Lands Division has requested an increase in postage and mailing $3,064 to pay for additional postage in billing for oil and gas rentals and royalties administered by the division. In FY 86 the Division spent $11,839 for postage and mailing. If the division has the ability to bill for oil and gas rentals and royalties, it is anticipated that quicker turn around time in receiving these payments will result in increased income to both the permanent and interest and income trust funds. The division also has experienced a dramatic increase in mailing costs due to the sending of certified notices to grazing and agricultural lessee that are delinquent on their lease payments. We would request funding for communications based on the OBPP level.

Travel:	FY 88	FY 89
	$20,593	$20,593

Explanation: Travel expenditures are those expenses incurred for meals, lodging and motor vehicle rentals required by the Division staff to carry out their responsibilities, primarily field inspections.

Changes to Current Level: No changes are included.

Rent:	FY 88	FY 89
	$8,617	$8,617

Explanation Rent for the Lands Division is mainly attributable to costs relating to the department aircraft rental and office space expenses in our Area Land Offices.

Changes to Current Level:

In FY 86 the Division spent $8,228 for rent for our Area Land Offices in Glasgow and Miles City. The Department needs these offices to carry out work responsibilities in that region of Montana. The Glasgow Unit Office has over 945,000 acres of land to monitor and inspect and is very necessary for our lessees in the six counties in Northeast Montana. The same situation exists in the Eastern Area office in Miles city which has 9 counties and over 950,000 acres to monitor. The payment of rent is essential to the functions of these offices in particular. The LFA recommended reduction of $2,500 in both FY 88 and FY 89 below the OBPP recommendation would have a serious impact on the Area Land Offices. The Area Land Offices are a service to the lessees that should be retained.

Utilities:	FY 88	FY 89
	$151	$151

Explanation: Utilities are costs incurred for electricity, natural gas, water and sewage in the Area Land Offices.

Changes to Current Level: No changes are included.

Repair and Maintenance:	FY 88	FY 89
	$8,125	$8,125

Explanation: Repair and maintenance expenses are costs incurred on field vehicles and other office equipment items and contracts.

Changes to Current Level: No changes are included.

Other Expenses:	FY 88	FY 89
	$2,819	$2,819

Explanation: These expenses are mainly for training conference registration fees, dues, periodical subscriptions and relocation expenses needed for the Lands Division.

Changes to Current Level: No changes are included

Equipment:	FY 88	FY 89
	$11,432	$11,432

Explanation: Equipment expenditures include any vehicle purchases and office equipment for the Lands Division.

Changes to Current Level:

The Department has requested $11,432 in both FY 88 and FY 89 for the purchase of a 4x4 pickup in each year. One vehicle is for replacement of a 1982 GMC two wheel drive vehicle in Miles City will have an estimated 105,000 miles on it at replacement time in FY 88. The other vehicle would replace a 1982 GMC pickup in Lewistown that will have an estimated 104,000 miles on it at the time of replacement in FY 89. These vehicles are used year around by land use specialists for perform their land inspections and reviews. Because these vehicles are utilized mainly in off road situations, they must be replaced on a regular basis for safety and reliability reasons. The LFA has supported these equipment needs by the division. As a matter of clarification, the LFA supported the purchase of a computer in both FY 88 and FY 89, however, these items have been eliminated from the budget request.

Program 05

RESOURCE DEVELOPMENT

General Statement

The Resource Development Program is a state land investment program which is responsible for deriving the highest and best use of state lands for the support of the School Trust. This program is managed by the Lands Division. The seven FTE are responsible for developing and monitoring projects on state lands that will increase revenue to the trust, preserve or conserve state trust land resources and perfect title to lands claimed by the state. The total funding for this program is derived from a percentage of the Interest and Income Fund not to exceed 2 1/2%. The percentage is determined by the Board of Land Commissioners. No general funds are expended by the program for salaries, operating or capital outlay funds for project development.

RESOURCE DEVELOPMENT BUDGET

For the purposes of the presentation, I will only refer to general comments on the resource development program.

Personal Services:	FY 88	FY 89
	$180,350	$180,403
	7.0 FTE	7.0 FTE

Explanation: The personal services include the salaries, benefits and health insurance for the Resource Development Bureau within the Lands Division.

Changes to Current Level:

No changes are included in this request.

Operating Expenses:	FY 88	FY 89
	$34,835	$35,124

Explanation: In general, the operating expenses for the resource development program are used to evaluate and develop projects on state trust lands. All projects funded out of the resource development program are addressed when a lessee shows an interest in developing state lands in range renovations, irrigation projects, title perfections and the like. The program has experienced a downturn in projects which generally reflects the downturn in agricultural economics at this time. The program is continuing to perfect our water rights on state lands and continue monitoring and updating old projects already completed.

Capital Outlay:	FY 88	FY 89
	$58,000	$78,000

Explanation: Capital Outlay is the funding for which the resource development program pays for its projects on state lands, such as stockwater, range renovations, irrigation operations, saline seep analysis and other land related proposals.

Changes to Current Level:

The OBPP has recommended a budget of $58,000 in FY 88 and $78,000 in FY 89. The LFA has recommended no funding for capital outlay in either year. The level requested by the Department is the minimum level needed. In addition to funding developments on trust land, such as stockwater, irrigation and range renovation, this is the fund used to meet the unforeseen costs that arise when you own land. For example, during the last biennium the fund has been used to pay for:

- SID (Special Improvement District) assessments in the cities of Bozeman and Billings
- Replacing a headgate structure on a state-owned water project in Gallatin County
- A land appraisal for a disputed land exchange in Yellowstone County
- Perfecting title in an oil and gas ownership dispute in Richland County
- One saline seep project in McCone county
- Two range renovations in Chouteau and Gallatin Counties

- twelve projects already approved by the Board of Land Commissioners amounting to over $31,000 that are awaiting initiation statewide.

I would urge the committee to adopt the OBPP funding level, which is a maintenance level at best.

PROGRAM 25 -- FORESTRY

General Statement

The Forestry Division is charged with managing the approximately 500,000 acres of State School Trust Lands that are classified as forest, providing wildfire protection services covering 4,962,795 acres of direct or contracted protection, assisting county cooperative protection of forest and rangelands, providing technical assistance to private forest landowners, and growing seedlings both for reforestation on State Forest Lands, and for conservation plantings.

CURRENT LEVEL BUDGET REQUEST

Overview: The FY 88-89 Forestry Program budget was built as follows:

1. First, because the FY 86 expenditures shown on SBAS include fire suppression expenditures, and because these expenditures were reimbursed by the fire supplemental, the amounts shown for many third level codes of expenditure had to be reduced in order to accurately reflect our FY 86 base expenditure level.
2. Second, the FY 86 level of expenditure was reduced because of the actions of the June Special Session of the Legislature, which called for a downward adjustment of 5% for agency budgets (including special revenue accounts), as well as not funding the FY 87 pay plan. Because our projections show adequate revenue in both our State and federal special revenue accounts for FY 88-89, the full authorization to spend will be needed in these accounts. Therefore, downward adjustments were only made to the general fund portion of the budget. The result was a total downward adjustment of $401,306 in general fund authorization for both FY 88 and 89. Specifically, the cuts were made to personal services (loss of 5.75 FTE) and to capital.

3. The Department reduced the full 5% from the FY 86 base budget. Because the FY 86 budget had already been reduced by 2% prior to the Special Session, we were only required to reduce our budget by an additional 3% (60% of the 5%) for a total cut of 5%. The result is that our budget request includes a cut of 7%, or $108,946 per year more than was called for by the June Special Session.
4. The LFA budget issues and differences with Forestry program have been analyzed by the Department. I will address our differences as I go through the testimony.

	FY 88	FY 89
Personal Services	4,907,064	4,912,585
FTE	203.71	203.71

Explanation: The Forestry personal services budget includes salaries and benefits for both the permanent employees working in the forest resource programs, and for the temporary employees hired to do seasonal work in fire suppression, hazard reduction, timber stand improvement and nursery operation.

Changes to Current Level: The FTE level shown is 14.75 less than what was originally authorized for FY 87. This reduction represents a cut of 5.75 FTE as a result of the adjustments made by the June 1986 Special Session, the transfer of 1.0 FTE to the Central Management Division, and the removal of 8.0 FTE to create the modification to increase timber harvest levels from State Forest Lands. These 8.0 FTE were authorized by the 1985 Legislature for the increased timber harvest, however, they were funded with Resource Development (RD) funds. Those funds were available during the current biennium and our sale level was increased in both FY 86 & 87. However, RD funds will not be available in FY 88-89 to fund this activity, and the Department is, therefore, requesting a funding shift from Resource Development to General Fund. The 8.0

FTEs have been removed from the current level budget and are being re-requested under a budget modification.

Difference between LFA and OBPP: The LFA shows and additional 4.00 FTE in FY88 and 12.97 FTE in FY89. This is because the LFA has included the Block III modification and the timber modification in current level, while OBPP considers both as separate modifications. Taking this into consideration, the LFA budget is 6.80 FTE less in FY88, and 4.98 FTE less in FY89. This is due to the LFA having removed positions from our current level as identified in Issues 11, 12 and 13, and I believe the LFA has made a .18 FTE transposition error in the second year.

Contracted Services	FY 88	FY 89
	951,815	858,027

Explanation: The Contracted Services budget includes funding for ongoing obligations such as fleet insurance, Work Study payments, log scaling, tree planting, forest thinning, brush disposal, building and facility maintenance, data processing and printing. Almost half of this amount is federal dollars which are being passed through to rural fire departments, fire assessment income being passed through to federal fire protection agencies, and direct payment to the Forest Service for contracted fire protection.

Changes to Current Level: Current level was calculated by first removing all FY 86 expenditures that were reimbursed by the FY 86 fire supplemental. The amount requested for FY 88 and FY 89 was then limited to the exact FY 86 level of expenditure, with the following exceptions:

- Insurance requirements are projected to increase by $10,834 (based on estimates provided by the Department of Administration).
- Federal funds and fire assessment collections that are passed-through to federal and county agencies are projected to increase by $5369, due to an

increase in available RCFP funds and the increase in assessment rates approved by the 1985 Legislature.

As a result of the increased amount of timber sold during the current biennium, earmarked revenue available for Brush and TSI work is expected to increase by $262,224 in each year of the 88-89 biennium. Therefore, additional authorization to spend is necessary to accomplish needed tree planting, brush disposal and thinning projects. The reasons for the large increases are:

1. Harvested acres are expected to double in FY 88 & 89 as a result of the increased sale level instituted in FY 86. This will both double workload as well as revenue available to fund projects.
2. We plan to spend out carry-over cash balances of over $125,000 in both the Brush and TSI accounts in order to treat a backlog of project work (onetime only).
3. The 1985 increase in withholding from $8/MBF to $11/MBF will start being fully realized in FY 88.
4. The FY 86 expenditure level in both Brush and TSI was artificially low as a result of resources being diverted to sale preparation. The expenditure level does not reflect the true workload that existed in FY 86, as much project work was delayed until FY 87.

- $7,260 per year is requested for information services system development by the Department of Administration to redesign the computer program for the fire assessment system, which brings in almost 1.1 million dollars in revenue each year. The current system is obsolete as it requires punch card input which is no longer supported by IBM. The Department of Administration advises a total redesign of the system in the coming biennium.
- The payment to the Forest Service for fire protection services is expected to <u>decrease</u> by $73,137 in FY 88 and by $149,361 in FY 89. This is a result

of the proposed continuance of the 10 year plan to eliminate the fire protection acreage imbalance between the State and the Forest Service, through the Block III modification. Please note that the OBPP budget includes a $277,103 in FY 88 and $183,335 in FY 89 under third level category 2155. These numbers are not correct; the correct figures are $199,392 and $123,168. This includes payment to the Forest Service of $195,189 in FY88, and $118,965 in FY89, plus $4,203 to the BIA in each year of the biennium. However, if the Block III modification is not approved, the payment to the Forest Service will increase to $686,559 per year, based on the Forest Service's most recent calculation of their full cost of protection, and the acreage from the 1986 assessment run which has just recently been completed.

Difference between LFA and OBPP: The Executive Budget is $304,165 higher than the LFA in FY88, and $223,451 in FY89. This is partly due to a change submitted by us which was not corrected by OBPP. The difference is $77,711 in FY88, and $60,167 in FY89, and is due to correction to fire protection payments discussed earlier. The LFA has identified this as Issue 14. The LFA also states that the Executive Budget contains an excess of $147,000 in general fund, and has, therefore, removed it. The LFA is correct however. The total correction for the biennium should be $137,878, making the LFA's reduction $9,122 too much. This difference was identified by the Department but was not incorporated in the Executive Budget.

In addition, the LFA has also reduced Contracted Services $28,870 in FY88, and $23,020 in FY89, stating that these amounts reflect consulting contracts which are new and were not in effect in fiscal 1986. Staying within the FY86 base expenditure for contracted services, we have plans to let new contracts as follows:

- Contract cruising and land appraisals for land exchange.

- Fumigation of nursery seedbeds for disease control.
- Contract lumber planing to provide materials for Swan Camp projects.
- Contract for design and construction administration of replacement bridge over the Stillwater River.
- Contract for repair of bridge above Upper Whitefish Lake.

As I have already pointed out, the LFA has included the Block III modification and Timber modification in current level, whereas OBPP shows these modifications separate. The amount for this difference in Contracted Services is $1,554 in FY88, and $3,874 in FY89.

The remaining difference of $203,349 in FY88 and $130,805 in FY89 appears to be the increased budget requested to expend Brush and TSI special revenue to do contract thinning, hazard reduction work on State Lands, and tree planting. This relates to the LFA's Issue 12 on page C-50 regarding Brush and Timber Stand Improvement program revenue projection differences. As will be explained, I do not think that the LFA took into account that the FY86 expenditures were based collecting $8.00 per MBF, rather than the $11.00 per MBF that we are now collecting.

Supplies and Materials	FY 88	FY 89
	502,020	504,911

Explanation: The supplies and materials budget includes the necessary expenditures to support current level program activities. Examples include: seed, containers, fertilizer and other agricultural supplies for the greenhouses and tree nursery; specialized forestry and fire suppression equipment; gasoline and diesel fuel to operate 324 vehicles; supplies to support over 200 FTE; and shop supplies necessary to develop fire tankers and purchase fire suppression equipment for the county fire program.

Changes to Current Level: Current level was again calculated by first removing all FY 86 expenditures that were reimbursed by the FY 86 fire supplemental.

The amount requested for FY 88 and FY 89 was then limited to the exact FY 86 level of expenditure, with the following exceptions:

- An additional $4,025 is requested in FY 88 and an additional $7,457 in FY 89, for gasoline to operate the 324 vehicles assigned to the forestry program. The increase is due to delays (for purposes of vacancy savings) in hiring additional personnel for the increased timber sale program and for the additional protection assumed under Block II. Therefore, FY 86 expenditures do not reflect a full year's gasoline needs.
- An additional $1,040 is requested for diesel fuel for the same reasons as stated for gasoline.

Difference between LFA and OBPP: Again, the LFA budget is higher than OBPP because the Block III and Timber modifications are not in the OBPP current level. These two modifications include supplies and materials that amount to $43,711 in FY88, and $37,967 in FY89 which, when removed from the LFA's budget, reduces the difference to $9,623 in FY88, and $13,136 in FY89. The OBPP budget is now higher than the LFA, in part because of the exceptions that we have requested, as I described above under changes to current level. The remaining differences of $4,558 in FY88 and $4,639 in FY89 can only be explained by the LFA, as our budget is simply the 1986 base, plus the described exceptions for gasoline and diesel fuel.

Communications	FY 88	FY 89
	144,211	143,920

Explanation: The communications budget is necessary to support current level operations with telephone, postage and mailing, data communication circuits, and two-way radio links.

Changes to Current Level: Current level was again calculated by first removing all FY 86 expenditures that were reimbursed by the FY 86 fire supplemental. The amount requested for FY 88 and FY 89 was then limited to the exact FY 86 level of expenditure.

Difference between LFA and OBPP: The LFA budget shows a difference of $8,596 in FY88, and $9,337 in FY89 in this category, partly because of the Block III and the Timber modifications.

Travel	FY 88	FY 89
	80,688	80,586

Explanation: The travel budget provides travel expense reimbursements for field and staff personnel. This travel is necessary to carry out forestry programs State-wide. It includes meals, lodging, vehicle mileage and commercial transportation.

Changes to Current Level: Current level was again calculated by first removing all FY 86 expenditures that were reimbursed by the FY 86 fire supplemental. The amount requested for FY 88 and FY 89 was then limited to the exact FY 86 level of expenditure.

Difference between LFA and OBPP: The budget difference of $4,220 in FY88, and $4,192 is almost entirely as a result of the LFA including the Block III and the Timber modifications in the current level budget. I cannot explain the remaining difference of $376 in FY88 and $46 in FY89.

Rent	FY 88	FY 89
	425,737	445,710

Explanation: Rent includes the lease of office space outside of Helena, leases of facilities for lookouts and radio repeater sites, and storage facilities. Also included are aircraft rental and heavy equipment rental. The majority of the budget is funded with earmarked revenue for the rental of heavy equipment for brush and TSI project work.

Changes to Current Level: Current level was again calculated by first removing all FY 86 expenditures that were reimbursed by the FY 86 fire supplemental.

The amount requested for FY 88 and FY 89 was then limited to the exact FY 86 level of expenditure, with the following exceptions:

- An increase of $139,158 in earmarked authorization is needed to rent heavy equipment for brush and timber stand improvement project work. The increase is necessary because of the increased timber harvesting that will occur as a result of the increased sale level implemented in FY 86-87.
- An additional $20,000 for aircraft rental is requested for FY 89. The Forest Service has informed us that in order to make their retardant aircraft available to us for fire suppression work, we will have to begin to cost-share in their base costs to maintain aircraft availability.

Difference between LFA and OBPP: The Executive Budget is more than the LFA by $94,061 in FY88 and $61,491 in FY89. This difference becomes $95,793 in FY88, and $67,750 in FY89 after taking the Block III and Timber modifications into account. The remaining difference would have to be the increase in budget requested to spend special revenue to contract heavy equipment for Brush and TSI work. Again, this relates to the LFA's Issue 12 on page C-50, regarding Brush and TSI revenue projection differences. I would ask you to accept the OBPP budget in this category.

Utilities	FY 88	FY 89
	77,624	77,622

Explanation: This category includes electricity, natural gas, propane, and garbage and trash removal for 20 offices State-wide, plus the forestry headquarters complex in Missoula.

Changes to Current Level: Current level was again calculated by first removing all FY 86 expenditures that were reimbursed by the FY 86 fire supplemental.

The amount requested for FY 88 and FY 89 was then limited to the exact FY 86 level of expenditure, plus approved inflationary increases.

Difference between LFA and OBPP: After accounting for the difference because of the Block III and Timber modifications, the difference between OBPP and LFA in this category is only $3 each year. I would accept either figure.

Repair and Maintenance	FY 88	FY 89
	340,430	340,256

Explanation: The repair and maintenance budget is necessary to maintain approximately 324 vehicles, buildings and grounds, fire suppression and other equipment, the fire radio network, and office and data processing equipment State-wide.

Changes to Current Level: Current level was again calculated by first removing all FY 86 expenditures that were reimbursed by the FY 86 fire supplemental.

Difference between LFA and OBPP: Again, after accounting for the Block III and Timber modifications, the difference between OBPP and LFA is $2,221 in FY88, and $2,504 in FY89. This is apparently due to a difference of opinion regarding the budget amount we need for microcomputer repair and maintenance contracts.

Other Expenses	FY 88	FY 89
	46,736	46,736

Explanation: This category covers the miscellaneous expenses necessary to support a State-wide program involving over 200 FTE. Examples include personnel relocation expenses, training, freight charges, and various license fees. The Forestry Division maintains an extensive fire training program because of turnover in seasonal fire fighting personnel, and the need to maintain and improve permanent employee competence.

Changes to Current Level: Current level was again calculated by first removing all FY 86 expenditures that were reimbursed by the FY 86 fire supplemental.

The amount requested for FY 88 and FY 89 was then limited to the exact FY 86 level of expenditure.

Difference between LFA and OBPP: Taking into consideration the difference because of the Block III and Timber modifications, the OBPP figure is still higher by $99 each year. I would ask that the OBPP figure be accepted.

Equipment and Intangible Assets	FY 88	FY 89
	317,195	317,304

Explanation: A capital equipment budget is necessary in order to replace worn out or obsolete equipment. This includes equipment used in both forestry work and fire suppression work, and covers both our direct fire protection activities as well as support for the county fire program. The forestry program currently operates 324 vehicles plus numerous snowmobiles, chainsaws, pumps, and other shop and maintenance equipment. The 20 office locations State-wide require standard office equipment, such as typewriters, photocopiers and microcomputers.

In addition, our equipment development shop requires pumps, tanks, hose reels and other equipment in order to develop fire suppression tankers for the county program.

Changes to Current Level: This request represents the minimum amount needed to replace worn out or obsolete equipment on an annual basis. In the past, we have justified each biennial request from a zero base perspective, but in fact have always had a large capital budget. In FY 86 we spent $585,025 on capital equipment. We believe that is a realistic annual level that could serve as a base for future years. However, in deciding how to allocate the 5% budget reduction mandated by the June Special Session, we chose to take part of the cut out of capital. The Budget Office approved this with the understanding that this reduced amount would establish a level of expenditure to be used as a base for future capital budget requests.

Difference between LFA and OBPP: The LFA budget is higher in FY88 by $161,050 and lower by $46,300 in FY89. After adjusting for the Block III and Timber modifications, the OBPP budget is higher by $11,350 in FY88 and $66,500 in FY89. The LFA has cut our capital budget $52,000 the second year because of a perceived reduction of federal funds. (See Issue 15 on page C-33). There is no reduction of federal funds in the Executive Budget for Forestry. We have reduced the federal appropriation for the private land assistance program from FY88 to FY89 by $12,000, but increased the fire federal appropriation in excess of $50,000 each year, by using federal cash on hand to reduce general fund in the fire program. The grant money that we receive from the USFS has not changed, therefore, our revenue projections each year remain the same. This still leaves a difference of $11,300 in FY88, and $14,500 in FY89 which I am unable to explain.

This completes my testimony on the current level budget request for the Forestry program.

I will now discuss the proposed modifications to the Forestry budget.

ISSUE 11

COMPARISON OF EXECUTIVE BUDGET AND LFA CURRENT LEVEL REGARDING THE REMOVAL OF ONE SLASH POSITION

The LFA has removed 1.00 FTE and $30,713 of general funds each year, under the assumption that slash removal funds will not be available to fund the position. The Forestry Division used one-time special revenue funding available in FY 86 to reduce the general funds appropriated for the Slash program. Forestry had a considerable general fund reversion in FY 86, plus had enough to cover $29,000 of fire suppression expenses. This funding shift contributed to the reversion. However, when comparing FY 86 expenses in this program to our current request, it gives a false impression that we are increasing the general fund share of the Slash program. This is a general fund position, and without it, we will be unable to do the inspections required under the Hazard Reduction law.

There are a number of discrepancies between the executive and LFA budgets that may have led to incorrect conclusions. They are:

1. The 1986 Fiscal General Fund request was $64,537 not $23,294 as indicated by the LFA on page C-50. Also, the General Fund portion of the program costs was 59% not 80%.
2. Throughout the LFA's analysis there is an assumption that the Hazard Reduction Program should be funded 50% General Fund and 50% Earmarked Revenue. On page C-50 the LFA states: "To maintain the general fund subsidy at 50%, one position was eliminated." There is no precedence for a 50/50 funding split in this program. Historically the program has been funded as follows:
   a. Most of the efforts and costs associated with the program involve inspections and working with the small contractor on non-industrial private lands. The administrative fees have

never covered the cost of administration. In 1975 we requested that the administrative fees be increased to make the law self-supporting. The legislature did not pass the proposal and continued general fund support. In 1979 the bond rate was increased to $6.00 per thousand board feet but the 4% administration fee still provided only a small amount to help fund the program.

b. Over the last several years the funding split has ranged from 80/20 to 20/80 depending on the number of contracts, state takeovers, volume harvested, earmarked revenue carryover, and the impacts of other forestry programs such as fire suppression and forest management. One of the strengths of our Forestry program has been our flexibility both within programs and between programs, in order to accomplish the total forestry job as efficiently as possible.

The loss of this FTE will have major impacts on the program. Last year over 700 Hazard Reduction Contracts were inspected by hazard reduction foresters, along with their other program responsibilities. With the loss of an FTE we will be unable to make the necessary inspections on agreements in a timely manner and the quality of our work will drop significantly. Loggers will be delayed in getting hazard reduction contracts, required before they can begin logging. There will also likely be a delay in mailing refund checks to loggers after they have completed the required hazard reduction work. Finally, because of delays in both treating slash and making inspections, we could see an increase in fires occurring in slash cost twice as much as non-slash fires to suppress. This could then lead to a higher fire suppression supplemental.

ISSUE 12
TESTIMONY REGARDING COMPARISON OF THE
EXECUTIVE BUDGET AND THE LFA CURRENT LEVEL
AS IT AFFECTS FOREST MANAGEMENT PROGRAMS

In the comparison of the executive budget with the LFA current level, the LFA has addressed two major issues that directly affect forest management programs.

The first issue (issue 12 in the analysis) challenges the need for Brush and Timber Stand Improvement (TSI) expenditures at the level identified in the Executive Budget. Average expenditures for Brush and TSI were taken for each year during a three year period and compared with the actual harvest for the previous year and an "average" cost per thousand board feet harvested was obtained. These figures, along with projected harvest figures supplied by the Department, were used to project budget requirements during the 1989 biennium. As a result, the report recommends a reduction of five FTE's (including a soil scientist) for FY 88 and 3 FTE's (again including a soil scientist) for FY 89. Budget reductions for the biennium are $451,131 for Brush and $204,615 for TSI.

The method used to identify brush and TSI program budget needs for the next biennium by the LFA is logical, however, there are several reasons why it can provide erroneous estimates.

- During FY 86 Brush and TSI expenditures were abnormally low. Since funding (Resource Development) was unsure I diverted efforts from TSI and Brush into putting up sales.
- In the past, there has normally been more need to conduct Brush and TSI activities than there has been cash to conduct these activities. As a result, expenditures have been constrained by available revenue. During the years that were used by the LFA in his analysis, the maximum authorized collections for Brush and TSI combined was $16.00 per thousand board

feet. The combined rate was increased by the Land Board to $22.00 in late FY 85. The LFA figure does not account for the increase.

- Brush and TSI costs are strongly related to the specific conditions of the forest site that is to be treated. Steepness, wetness, soil conditions and others can all influence costs and are not necessarily average from year to year.
- One category of TSI treatment, tree thinning, isn't even associated with harvest. It occurs in forest stands which have usually grown for 15-20 years or longer.

Brush and TSI budgets, as presented by the executive budget, were estimated by first reviewing what was planned to be done during the 1989 biennium (see attached), estimating costs for those activities and then adjusting expenditures by the expected revenue available to conduct these activities. As in the past, the proposed Brush and TSI activities were more than expected revenues and therefore Brush and TSI budgets proposed in the Executive budget are the same as projected revenues.

The only soil scientist the Division employs is currently funded and functioning in a different program with only very indirect ties to the brush and TSI programs. It is difficult to understand how that position was chosen as one to be eliminated if these two programs were reduced.

January 16, 1987

PROPOSED ACTIVITIES 1989 BIENNIUM

BRUSH AND TSI PROGRAMS

PLANTING	548 THOUSAND TREES	
THINNING	3,474 ACRES	
BRUSH DISPOSAL	7,500 ACRES	
SITE PREPARATION	1,319 ACRES	
SLASHING	1,524 ACRES	
TOTAL VALUE		$2,131,020

PROJECTED INCOME - 1989 BIENNIUM (94 MBF @ $22.00/MBF)	2,068,000

Planned activities for the 1989 biennium exceeded projected income. the Executive Brush and TSI budget for the 1989 biennium is $2,081,678. The difference between the Executive budget and projected income is accounted for in cash available from the previous year.

ISSUE 13
COMPARISON OF EXECUTIVE BUDGET AND
LFA CURRENT LEVEL REGARDING
REDUCTIONS TO THE NURSERY

The LFA has removed .80 FTE and $15,775 of general funds because of a reduction in the level of federal funds which help finance the nursery program. In FY 86 we used available one-time federal funds to offset general funds as a budget savings tactic. This action contributed to our year end FY 86 general fund reversion.

A review of the nursery budget will show that it has been reduced significantly in last two years. For example:

1. In FY 86 the legislature appropriated $254,448 for the Nursery program. Because of the required budget cuts only $233,853 was expended. In FY 87 we were appropriated $262,000. Our request for FY 88 and 89 is the reduced 86 figure, $233,000 each year.
2. General fund requirements have been reduced by increasing nursery productivity, thereby growing more trees for the same dollars. Additional seedlings also bring in more revenue, which further reduces the need for general fund.
3. We have increased the price of seedlings, which also reduces the need for general fund. Prices have increased from $7.00 per 100 trees in 1979 to $17.00 in 1987. Some of this increase was due to inflation, but at least $5.00 of the increase is directly attributable to general fund reductions in the program.

If .8 FTE and $15,775 are eliminated from the nursery, the impacts will be reduced production, less weed control, lower quality seedlings and less income, which may in the long run increase the need for general fund. Also, as the seeds sown at the nursery take up to three years to be ready for sale, it is difficult to start a crop with one level of FTE and then try to grow, harvest, package and ship it two to three years later with fewer FTE. Funding and FTE consistency are critical in programs such as the nursery, which have an inherent lag time between initiating an activity and completing it.

The program should not be penalized for using one-time federal dollars to save general fund.

FORESTRY MODIFICATION

BLOCK III FIRE PROTECTION PROPOSAL

Introduction: The Department of State Lands proposes to reduce the amount of contracted wildfire protection acreage by assuming wildfire protection for 413,492 acres of forested land from the contractor (USDA Forest Service) beginning July 1, 1988.

Background: In the early 1900s Montana landowners were faced with a series of devastating fires which caused them to recognize the need for organized forest fire protection. The Legislative Branch of government also recognized that protection of the wildland resources from fire was a benefit to the people of the State and nation as a whole. These events resulted in a cooperative effort between private landowners and the State to form forest fire districts and affidavit units to provide fire protection to the forest lands of Montana. (MCA 76-13-201 & MCA 76-13-201.) The State was given the responsibility of providing fire protection for the State and private forest lands. (MCA 76-11-101.) Federal involvement has included both the direct protection of federal lands, as well as contracting with the State for protection of some State and private lands.

An assessment for forest fire protection is collected by the State from private landowners within forest fire district and affidavit units. These funds are forwarded to the agency designated by the Montana State Land Board as the protection agency. The recognized agencies for Montana includes: the Department of State Lands, the U. S. Forest Service, the Bureau of Land Management, and the Bureau of Indian Affairs. The federal agencies are contracted by the State for the fire protection and are paid by the landowners through the forest fire assessment system.

Under Montana law, the protection of private and State lands within forest fire districts and affidavit units are a State responsibility. As protection costs have continued to rise, the U. S. Forest Service has become increasingly insistent that the State pick up a greater share of the protection load and move towards fulfilling the State's responsibility in total. The alternative to their request would be to pay the Forest Service their full fire protection costs; a cost which normally exceeds the State's cost to provide equal services. As a result, significant changes in assessment would occur.

In 1975 the State assumed the direct wildland fire protection responsibility for the Thompson River District north of Plains, in 1984 for the Fisher River-Wolf Creek District near Libby, and in 1986 the Lincoln/BLM area. These districts are primarily private and State-owned lands. This 1,100,000 acre change in protection responsibility partially offset a 2 million acre imbalance in acres of State and private land protected by the U. S. Forest Service compared with acres of Federal lands protected by the State. In order to correct the imbalance, the State needs to protect more State, private or federal lands.

In 1982, USFS Region 1 notified the State that as of July 1983, they intended to charge the State their actual costs of protection for all acres of State and private land they were currently protecting, unless progress was made towards eliminating the imbalance. Presently, this would be a charge of approximately $679,916 (1,100,658 acres x $.6406/acre - $25,200). (Updated from $679,916 and 1,100,658 acres)

As a result of a study completed by the State in 1981, the Fisher River/Wolf Creek area (Block I) was assigned to the State for protection starting July 1, 1984. Effective July 1, 1986 the Lincoln/BLM area (Block II) became a State responsibility, reducing the USFS/DSL imbalance to approximately 1.1 million acres. Further, joint efforts by the State and Forest Service resulted in the selection of 13 additional units (throughout Western Montana) for fire protection exchange. These units are known collectively as Block III. These selections have been reviewed and approved by local DSL and Forest Service Supervisors, and have been approved by the USFS Regional Forester and Forestry Division Administrator. The decision was based primarily on the following factors.

1. The blocks are composed largely of State and private lands.
2. The State can provide a comparable level of forest fire protection, at less cost than contracting with the Forest Service under the new rates.
3. The blocks are near or adjacent to existing State protection.

Proposal:

By assuming Block III the State will save approximately $226,850 in Fiscal Year 1988 and $235,619 in Fiscal Year 1989 when compared to paying the Forest Service actual cost. Continuation of the Block program will again be analyzed for Fiscal Year 1990, for consideration by the next legislative session, based on a comparison of USFS full costs, and the cost to establish equivalent State protection. General Fund request for FY88 is $264,520 and $235,656 in FY89.

Included in this modification to increase State fire protection are 9.95 FTEs which constitute two full time employees, 29 seasonal firefighters, and extension of time for two employees. Included in operating expenses are:

Expense	Item
Contracted Services	Vehicle insurance
Supplies & Materials	Fire tools, engine and pump fuel, prevention items
Communication & Transportation	Phone service at one fire station
Travel	Training of fire crews and work project travel
Rent	Share of station rent--Condon, aerial patrol
Utilities	Fuel for heat and cooking
Repairs & Maintenance	Repair fire trucks, saws, radios, tools

Capital equipment expenditures would include the purchase of firefighting engine units, pumps, chainsaws and portable radios.

I. Block III Alternative Scenarios:

The Department of State Lands proposes to reduce the 1.1 million acre imbalance of contracted wildfire protection by assuming wildfire protection for approximately 413,000 acres of forested land, referred to as Block III, from the contractor (USDA Forest Service) on July 1, 1988. Joint efforts by the State and Forest Service resulted in the selection of thirteen additional units for exchange.(17) The units are composed largely of State and private lands, near existing State protection and the State can provide a comparable level of protection, at less cost than subcontracting with the Forest Service under the new rates.

As stated in Forest Service correspondence (12&15) they would charge full cost, presently $0.64/acre, or enter into an offset schedule. Under the offset the Forest Service has offered to continue to protect these acres at approximately $0.19/acre if the State will assume protection of lands over 10 years including 300,000 ± acres per biennium. This is the alternative approved by the 1983 and 1985 legislatures and again proposed for the 1987 legislature with Block #3.

It appears the State has three alternatives:

1. Do not take Block #3 an pay Forest Service the full cost.

   Pay Forest Service full cost of protection beginning in FY88. At current rates the State would owe $686,559 net per year.(16)

2. Take Block #3 and continue in Block Reduction Program.

FY88:	CONTRACT	PASS-THRU	OFF-SET	ASSESSMENT SUBSIDY	NET OWED
Acres:	730,528	1,130,426	749,892		
Rate:	x $.19	x $.1945	x $.19		
Total:	$138,800	$ 219,868	($142,479)	($21,000)	$195,189
FY89:					
Acres:	730,528	716,934	749,892		
Rate:	x $.19	x $.1945	x $.19		
Total:	$138,000	$ 139,444	($142,479)	($16,800)	$118,965
***FY90:**					
Total:	.... same as above		....	($12,600)	$123,165

3. Take Block #3 but decide not to take any additional Blocks and pay USFS full cost FY90.

FY90:	CONTRACT	PASS-THRU	OFF-SET	ASSESSMENT SUBSIDY	NET OWED
Acres:	730,528	716,934	749,892		
Rate:	x$.5296	x$.5296	x$.5296		
	$386,888	$379,688	($397,143)	($16,800)	$352,633

* Assumes that a Block 4 is approved beginning in FY90.

We can now compare the cost between the three alternatives as follows:

COST COMPARISON (FY 88-90)

FY88

ALTERNATIVE	FS PAYMENT	ADDITIONAL GEN. FUND	**ADDITIONAL SUPPLEMENTAL	TOTAL ANNUAL COST
1	$ 686,559	0	0	$ 686,559
2	$ 195,189	$ 264,520	0	$ 459,709
3	$ 195,189	$ 264,520	0	$ 459,709

FY89

ALTERNATIVE	FS PAYMENT	ADDITIONAL GEN. FUND	ADDITIONAL SUPPLEMENTAL	TOTAL ANNUAL COST
1	$ 686,559	0	0	$ 686,559
2	$ 118,965	$ 235,656	$ 96,319	$ 450,940
3	$ 118,965	$ 235,656	$ 96,319	$ 450,940

FY90

ALTERNATIVE	FS PAYMENT	ADDITIONAL GEN. FUND	ADDITIONAL SUPPLEMENTAL	TOTAL ANNUAL COST
1	$ 686,559	0	0	$ 686,559
2	$ 123,165	?	$ 96,319	?
3	$ 352,633	$ 220,000	$ 96,319	$ 668,952

* Alternative 2 assumes that a Block 4 is approved for FY90. However, at this time we have not negotiated the actual composition of Block 4 with the Forest Service. Therefore, the additional general fund required in FY90 (in addition to the $220,000 for Block 3) is unknown. This situation can be meaningfully displayed only as part of a future analysis of Block 4 alternatives.

** Additional Suppression Supplemental

1. LFA Average $710,425 / Prot. Acres 3,049,819 = $.23/acre

2. BLK #3 = 413,492 x $.23 = 96,319

In summary, a cost savings of $226,850 in FY88, $235,619 in FY89 and $17,607 in FY90 and onward is shown between alternative 1 and 3. Higher savings is anticipated through alternative 2, but as mentioned the future analysis of Block 4 will be required.

United States Department of Agriculture | Forest Service | Region 1 | Federal Building P.O. Box 7669 Missoula, MT 59807

Reply to: 3170

Date: OCT 14 1986

Dennis Hemmer, Director
Montana Department of State Lands
1625 11th Ave.
Helena, MT 59620

Dear Mr. Hemmer:

At our meeting on September 22, 1986 we discussed the Forest Service's reaction should the State withdraw from the joint program to eliminate the fire protection imbalance.

In this situation, or in the event that the mutually developed schedule is not followed, the Forest Service would begin charging the State the full protection costs rather than the current rates of $0.16/acre for private land and $0.19/acre for State land. The charges would be assessed on a Forest by Forest basis rather than using a state-wide or Regional average. They would be based on the combination of the Forest's FFP expenditures for the previous year and an amount for FFF costs determined by using the expenditures for the last seven years, dropping the high and low years, and averaging the remaining five. These rates would include Forest Service administrative cuts, I.H. crews, smokejumper crews, warehousing and aircraft costs, but charges for land management planning, fuels management and reimbursements would not be assessed. This calculation process has been in place for several years, and although guarantees are impossible, it is not expected to change.

In 1985 the fire protection rates varied from a high of $.94/acre on the Lolo Forest to a low of $0.17/acre on the Beaverhead. The average rate in Montana was $0.57/acre. This is a simple average; however, and it does not consider the ownership distribution in each Forest. When the rate for each Forest is correlated to the amount of State and private land it protects the average increases to approximately $0.65/acre. This is a closer approximation of the average cost the State would pay for full protection, and the increase occurs because more of the State and private land lies in Forests with high protection costs.

The Forest Service is gradually withdrawing from its protection of private lands throughout the nation, and the Northern Region will continue this process in Montana and Idaho. I hope we can do this under the terms of our present arrangement.

Dennis Hemmer, Director

Our organizations have made significant reductions in the imbalance over the past several years and are well on their way to zeroing out by the target date of 1992. I appreciate the State's cooperation and involvement to this point, and we need only look at the situations at Libby and on the Deerlodge and Helena Forests to see that what we have done is mutually beneficial and a viable approach for providing wildland fire protection. I hope our progress can be continued and encourage both your support and your efforts to build an understanding within the State.

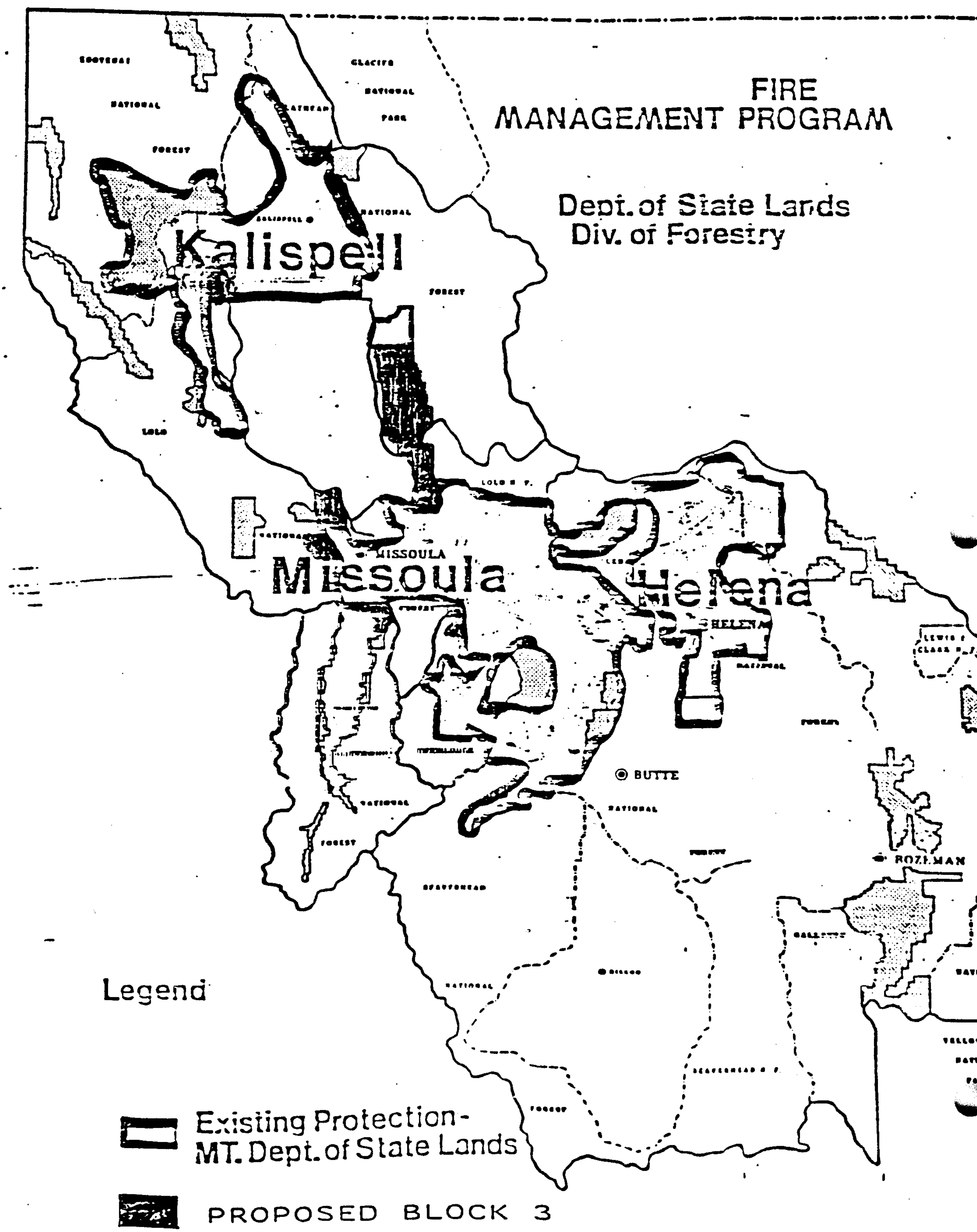
JAMES C. OVERBAY
Regional Forester

cc: Gary Brown

FOREST SERVICE FULL COST OF PROTECTION

NATIONAL FOREST	TOTAL ACRES OF LAND PROTECTED BY EACH FOREST	ACRES OF LAND PROTECTED BY DSL WITHIN EACH FOREST	NET ACRES PROTECTED BY EACH FOREST	FOREST WIDE RATE/ACRE	GROSS AMOUNT DUE FOREST SERVICE
Beaverhead	35,350	0	35,350	0.1688	$5,967
Bitterroot	136,629	0	136,629	0.6189	$84,560
Custer	42,295	0	42,295	0.6932	$29,319
Deer Lodge	56,876	110,409	(53,533)	0.3247	($17,382)
Deer Lodge (BLM)	0	31,619	(31,619)	0.3247	($10,267)
Flathead	199,441	96,054	103,387	0.6688	$69,145
Gallatin	329,599	0	329,599	0.3085	$101,681
Helena	89,835	23,125	66,710	0.7406	$49,405
Helena (BLM)	0	106,619	(106,619)	0.7406	($78,962)
Kootenai	371,696	190,690	181,006	0.7144	$129,311
Lewis & Clark	61,767	0	61767	0.4077	$25,182
Lolo	537,463	111,325	426,138	0.9356	$398,695
Lolo (BLM)	0	80,050	(80,050)	0.9356	($74,895)
SUBTOTAL	1,860,951	749,891	1,111,060	0.6406	$711,759
				Less Assessment Subsidy -	25,000
NET AMOUNT DUE FOREST SERVICE					$686,559

Figures reflect the December 1986 Assessment Summary in which a 10,402 acres increase in protection occurred, resulting in a $6,643 increase in dollars requested in the FY88 budget request if full cost is required.


FIRE
MANAGEMENT PROGRAM
Dept. of State Lands
Div. of Forestry
Kalispell
Missoula
MISSOULA
Helena
HELENA
BUTTE
BOZEMAN
LOLO N. F.
Legend
Existing Protection -
MT. Dept. of State Lands
PROPOSED BLOCK 3

FORESTRY MODIFICATION

TO REPLACE RESOURCE DEVELOPMENT FUNDING WITH GENERAL FUNDS IN ORDER TO CONTINUE THE EXPANDED TIMBER HARVEST ON STATE LANDS

The Department of State Lands administers approximately 568,000 acres of commercial forest land in Montana. This acreage supports a total standing volume of approximately 3.2 billion board feet of timber at different stages of maturity which, when mature, is conservatively valued at 132 million dollars.

The 1985 Legislature approved the expansion of the state timber sale program from 32 million board feet per year to 50 million. This expansion was funded with Resource Development (RD) Funds. The advantages of the expanded timber management program, as presented to the 1985 Legislature, are:

- A direct annual increase in the amount of money deposited in the school trust funds each year as a result of the 18 million board feet increase in sales.
- Increased productivity on State forest lands as a result of an increased removal of mature, overmature and insect and disease infested stands. This would increase growth and therefore the amount of money returned to the trust in the future from the sale of forest products.

Current estimates of revenue to the Resource Development Fund indicate that there will be insufficient revenue to continue to fund the expanded program. It is therefore necessary to seek general funds in the amount of $ 237,656 per year for that portion of the expanded timber sale program approved during the 1985 session.

As a result of the approval of the expanded timber management program, the actual timber sold during FY 1986 was 52.8 million board feet. Timber is usually sold using two to three year contracts, payment is received at the time the timber is cut and prices are adjusted to account for market fluctuations. For these reasons, it is difficult to predict the exact income that will result from timber sold during FY 86. Projected revenue from the timber harvest during Fiscal Years 1988 and 1989 (when harvests are expected to be approximately 50 million board feet) is predicted to be $3,025,000 and $3,437,000 respectively. For comparison, the amount of timber harvested from State forest lands from 1979 to 1985 has averaged 30.7 million board feet, and income during those same years has averaged $2,387,489. This request of $237,656 in general fund to continue the increased harvest from state forest lands is therefore estimated to increase annual income to the various trust accounts by approximately $1,000,000. This request also includes the reinstatement of 8.0 FTE to prepare and administer the additional sales.

FORESTRY MODIFICATION

FOR INCREASE IN HAZARD REDUCTION FEES,

ADMINISTRATIVE FEES AND THREE ADDITIONAL FTEs

Over the past three years, the Forestry Division has been accumulating and analyzing data pertaining to Montana's timber supply. Three basic facts have emerged.

1. Timber harvest levels on public lands have declined, and will stay relatively low through at least the next decade.
2. As public timber harvests have declined, industrial forest lands have had to provide an increasingly larger share of the timber for Montana's wood products industry. For almost the last decade, industrial forest lands, about 11% of Montana's commercial forest land, have provided almost 40% of the harvests. This trend cannot continue due to supply limitations on industrial lands.
3. The result is an increase in demand for non-industrial private timber. This increase is illustrated by the fact that the number of hazard reduction agreements (HRAs) opened in the 1986 Fiscal Year, was 30% higher than the average for the previous four years. This trend is continuing through the first half of the 1987 Fiscal Year.

This increased harvesting on non-industrial private lands has increased our workload under Montana's Hazard Reduction Law. Therefore, authorization is needed to spend an additional $86,280 in FY88 and $77,830 in FY89, and for three (3) additional FTEs. Funding is from earmarked revenue (administration fees). However, the current 4% administration fee is insufficient to cover the cost of adequate inspection and administration. Therefore, a bill is being introduced to raise the administration fee to 10%. Although this increase will still not support the entire program, the increased revenues should cover the costs of the three (3) FTEs.

In addition, the bill will raise the bond required to ensure that hazard reduction or management work is done. The present $6.00 per thousand board feet rate was established in 1979. Although inflation has been low over recent years, it still takes $9.76 to do what $6.00 did eight years ago. In order to provide the necessary incentive for contractors to do the hazard reduction job and to provide sufficient funds for the State to do the work should they default, the bond rate will be increased to $10.00 per thousand board feet.

This modification is addressed under issue 17 in the LFA's budget analysis.

FORESTRY MODIFICATION
FOR ADDITIONAL FTE AND AUTHORIZATION
FOR FW&P CONSERVATION RESERVE WILDLIFE FUNDS

The Department of Fish, Wildlife and Parks, is requesting $50,000 of spending authority in FY88/89 for the purpose of improving wildlife habitat on private lands through the Federal Conservation Reserve Program. They are proposing to use the funds to purchase trees and shrubs from the DSL tree nursery for planting on qualified private lands. Therefore, the Department of State Lands needs additional spending authority of $24,401 in FY88, $24,472 in FY89, and an additional .90 FTE of seasonal labor to cover the costs and workload involved in growing the additional trees and shrubs. The funding source is earmarked revenue, and the FTE will be used for temporary, seasonal labor. This modification is addressed under issue 16 in the LFA's budget analysis.

FORESTRY MODIFICATION

FOR ADDITIONAL NURSERY SEEDLING PRODUCTION

Current demand for conservation and reforestation seedlings has already surpassed the Department's production capacity. Also, the new federal Conservation reserve Program is expected to generate additional demand for seedlings for windbreaks, shelterbelts, reforestation and wet land plantings. Therefore, the Department needs authorization to spend an additional $20,413 in FY88 and $20,440 in FY89, and an additional .7 FTE of seasonal labor in order to increase nursery production. The funding source is earmarked revenue generated by increased sales. This modification is addressed under issue 16 in the LFA's budget analysis.

VISITOR'S REGISTER

Natural Resources SUBCOMMITTEE

AGENCY(S) ______ DATE 1/23/87

DEPARTMENT State Lands

NAME	REPRESENTING	SUP-PORT	OP-POSE
Gary Amestoy	State Lands - Reclamation		
Tim Murphy	" " - Forestry		
Don Underwood	" " "		
Randy Mosley	State Lands		
Don Artley	State Lands - Forestry		
Gary G Brown	State Lands - Forestry		
Jim Williams	DSL		
Kelly Blake	State Lands - Lands		
Don Allen	MT Wood Products Assoc		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT.
IF YOU HAVE WRITTEN COMMENTS, PLEASE GIVE A COPY TO THE SECRETARY.

FORM CS-33A
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