

DEPARTMENT
OF
NATURAL RESOURCES
&
CONSERVATION

Section C

JOINT SUBCOMMITTEE OF HOUSE APPROPRIATIONS
AND SENATE FINANCE AND CLAIMS COMMITTEES

-----Agencies-----

Dept. of Fish, Wildlife, & Parks
Dept. of Environmental Quality
Dept. of Transportation

Dept. of Livestock
Dept. of Natural Resources & Conservation
Dept. of Agriculture

-----Committee Members-----

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Representative Eric Albus
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Senator Mike Cuffe (Vice Chair)
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Senator Jane Ellis

-----Fiscal Division Staff-----

Rob Miller
Alice Hecht
Barb Wagner

Agency Base Budget Comparison

The following table compares the base budget with the requested expenditures for the upcoming biennium by type of expenditure and source of funding.

Agency Base Budget Comparison						
Budget Item	Base Budget FY 2025	Requested Budget FY 2026	Budget FY 2027	Biennium Change from Base		
				Amount	Percent	
PB	25.15	25.15	25.15	0.00	0.0%	
Proprietary Funds	3,993,119	4,180,379	4,188,001	382,142	4.8%	
Total Funds	3,993,119	4,180,379	4,188,001	382,142	4.8%	
Personal Services	2,280,797	2,395,700	2,400,522	234,628	5.1%	
Operating Expenses	1,654,822	1,727,179	1,729,979	147,514	4.5%	
Equipment & Intangible Assets	57,500	57,500	57,500		0.0%	
Total Expenditures	3,993,119	4,180,379	4,188,001	382,142	4.8%	
Total Ongoing	3,993,119	4,180,379	4,188,001	382,142	4.8%	
Total One-Time-Only					0.0%	

Agency Highlights

Department of Natural Resources and Conservation	
Major Budget Highlights	
The Department of Natural Resources and Conservation's non-budgeted proprietary appropriations increased by about \$382,100 above base funding. The entire increase is due to statewide present law adjustments.	

Executive Request

The following table shows the total executive request with the base budget and the statewide present law adjustments, present law adjustments, and new proposals by source of funding.

Department of Natural Resources and Conservation 2027 Biennium Base Budget and Requested Adjustments										
	FY 2026					FY 2027				
	General Fund	State Special	Federal Special	Total Funds	% of Budget Request	General Fund	State Special	Federal Special	Total Funds	% of Budget Request
Base Budget	0	0	0	3,993,119	95.5%	0	0	0	3,993,119	95.3%
Statewide PL										
Personal Services	0	0	0	114,903	2.7%	0	0	0	119,725	2.9%
Fixed Costs	0	0	0	72,380	1.7%	0	0	0	75,173	1.8%
Inflation Deflation	0	0	0	(23)	(0.0%)	0	0	0	(16)	(0.0%)
Total Statewide PL	0	0	0	187,260	4.5%	0	0	0	194,882	4.7%
Present Law (PL)	0	0	0	0	0.0%	0	0	0	0	0.0%
New Proposals	0	0	0	0	0.0%	0	0	0	0	0.0%
Total HB 2 Adjustments	0	0	0	187,260	4.5%	0	0	0	194,882	4.7%
Total Requested Budget	0	0	0	4,180,379		0	0	0	4,188,001	

Funding

The following table shows proposed agency funding for all sources of authority.

Total Department of Natural Resources and Conservation Funding by Source of Authority 2027 Biennium Budget Request							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	85,202,157	1,171,801			86,373,958	39.5%	
02938 TLMD Trust Administration	36,889,724	392,150			37,281,874	17.0%	
02039 Fire Protection Assessments	10,209,133				10,209,133	4.7%	
02048 Conservation District Acct	9,522,706				9,522,706	4.4%	
02470 State Project Hydro Earnings	8,466,220				8,466,220	3.9%	
02431 Water Adjudication	6,956,224				6,956,224	3.2%	
Other State Special Revenue	38,160,013	540,000		2,376,138	41,076,151	18.8%	
State Special Revenue Total	110,204,020	932,150	-	2,376,138	113,512,308	51.9%	
03500 GNA FEDERAL SPECIAL REVENUE				6,380,883	6,380,883	2.9%	
03053 CONSOLIDATED GRANT-FY27	1,096,988				1,096,988	0.5%	
03110 CONSOLIDATED GRANT-FY26	1,096,988				1,096,988	0.5%	
03094 FEMA Federal Grants	541,978				541,978	0.2%	
03595 DW24 SRF Grant	341,018				341,018	0.2%	
Other Federal Special Revenue	1,168,894				1,168,894	0.5%	
Federal Special Revenue Total	4,245,866	-	-	6,380,883	10,626,749	4.9%	
06538 Air Operations Internal Svc.			6,426,478		6,426,478	2.9%	
06003 State Nursery Enterprise Fund			1,941,902		1,941,902	0.9%	
Proprietary Fund Total	-	-	8,368,380	-	8,368,380	3.8%	
Total of All Funds	199,652,043	2,103,951	8,368,380	8,757,021	218,881,395		
Percent of All Sources of Authority	91.2%	1.0%	3.8%	4.0%			

Proprietary revenues are generated from two main sources: the sale of state nursery products and fees charged to other agencies for aircraft services.

Agency Actuals and Budget Comparison

The following table compares FY 2024 actual expenditures, FY 2024 and FY 2025 appropriations, and the expenditures requested for FY 2026 and FY 2027 by type of expenditure and source of funding.

Agency Actuals and Budget Comparison						
Budget Item	Actuals Fiscal 2024	Approp. Fiscal 2024	Approp. Fiscal 2025	Request Fiscal 2026	Request Fiscal 2027	
PB	0.00	25.15	25.15	25.15	25.15	
Personal Services	2,216,887	2,176,229	2,280,797	2,395,700	2,400,522	
Operating Expenses	926,211	1,187,796	1,654,822	1,727,179	1,729,979	
Equipment & Intangible Assets	125,230	450,532	57,500	57,500	57,500	
Total Expenditures	\$3,268,328	\$3,814,557	\$3,993,119	\$4,180,379	\$4,188,001	
Proprietary Funds	3,268,328	915,524	3,993,119	4,180,379	4,188,001	
Total Funds	\$3,268,328	\$915,524	\$3,993,119	\$4,180,379	\$4,188,001	
Total Ongoing	\$3,268,328	\$915,524	\$3,993,119	\$4,180,379	\$4,188,001	
Total OTO	\$0	\$0	\$0	\$0	\$0	

*Proprietary Program Description***Fund 06003 - State Nursery Enterprise Fund***Program Description*

The Montana State Conservation Seedling Nursery produces and distributes seedlings for conservation plantings, including applications such as fire and logging reforestation, farmstead windbreaks, shelterbelts, wildlife habitat, stream stabilization and restoration, and other conservation uses. The program's mission is to produce the highest quality, locally-adapted, source-identified seedlings available for conservation practices in Montana and to ensure affordable seedlings are available to Montana landowners. The nursery grows an average of 900,000 seedlings annually on 87 acres of state land and in 17,760 square feet of greenhouse space. Sixty-seven plant species are currently in production. The Nursery program is funded solely from the Nursery proprietary account and contains 10.92 PB. Statutory authority for the program is in 17-2-102, MCA.

Revenues and Expenses

The primary source of revenue is seedling sales. Other revenue sources are services such as seed collection, cleaning, and storage and selling products for seedling care and protection. The customer base for nursery products and services is comprised of private landowners in Montana, the DNRC Trust Land Management Division, the Department of Fish, Wildlife and Parks, Department of Environmental Quality, Montana Natural Resource Damage Program, the Conservation Reserve Program (CRP), Native American Tribal Governments, the Wildlife Habitat Incentives Program (WHIP), Pheasants Forever, and numerous other conservation programs and organizations. Historic and projected trends in nursery revenue are dependent on conservation activity in the state, landowner access to cost-share dollars for implementation of conservation projects, and long-term seedling production contracts from large scale conservation activities. Revenue potential is also dependent on the number of seedlings available for sale each fiscal year. Sales are predicted two to three years in advance due to the production time needed for each seedling type. This can lead to seedling shortages or surpluses when unforeseen events such as extended drought or extreme fire seasons alter demand for seedlings.

The determining factors that set seedling prices are the actual fixed and variable costs of producing the seedlings. Market pressures from other out-of-state seedling producers can also influence prices. Prices are set to recover all program costs and to increase the year-end carryover balance. Year-end carryover dollars are used for non-typical expenses such as large equipment replacement or for unforeseen expenses such as weather-related crop losses. Since the nursery is funded primarily by seedling sales, all personal services, operating, and capital equipment costs are included when setting prices.

Rate(s) and Rate Explanation

The price of each seedling type is set at the end of the previous fiscal year. Prices are based on the actual production costs for each seedling type. The variables involved in seedling production include seedling stock type (bareroot vs. container), seed cost, propagation difficulty, cull rates, seedling age class, quantity produced, equipment costs, labor costs, and overhead charges. Given these variables, each of the 125-plus seedling types can have a different price, and the price must be adjusted annually to account for changes in fixed and variable costs.

Proprietary Rates

This program is funded with an enterprise fund, which is a type of proprietary fund. As such, the legislature does not appropriate the funds or approve the rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies concerns with the financial position of the fund.

Projected Fund Balance, Including Cash Fluctuations

The projected fund balance for the program is anticipated to decrease gradually over the next three fiscal years according to the required analysis, which incorporates an expectation of expending the full proprietary appropriation each year. However, the program generally tailors its expenditures in accordance with revenues received and available cash in the fund to avoid a negative fund balance.

2027 Biennium Report on Internal Service and Enterprise Funds						
Agency # 57060	Agency Name: Department of Natural Resources and Conservation			Program Name: Forestry and Trust Lands		
	Fund	Fund Name				
	06003	State Nursery Enterprise Fund				
	Actual FY22	Actual FY23	Actual FY24	Budgeted FY25	Budgeted FY26	Budgeted FY27
Operating Revenues:						
Fee and Charges						
Fee Revenue A	654,392	737,531	806,639	800,000	800,000	800,000
Total Operating Revenues	654,392	737,531	806,639	800,000	800,000	800,000
Expenses:						
Personal Services	364,614	487,310	599,053	766,204	780,351	780,934
Other Operating Expenses	123,501	156,133	80,288	136,832	132,944	132,712
Expense B	-	-	-	-	57,500	57,500
Total Operating Expenses	488,115	643,443	679,341	903,036	970,795	971,146
Operating Income (Loss)	166,277	94,088	127,298	(103,036)	(170,795)	(171,146)
Nonoperating Revenues:						
Nonoperating Expenses:						
Total Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers	166,277	94,088	127,298	(103,036)	(170,795)	(171,146)
Change in Net Position	166,277	94,088	127,298	(103,036)	(170,795)	(171,146)
Beginning Net Position - July 1	347,236	513,513	607,601	734,899	631,863	461,068
Change in Net Position	166,277	94,088	127,298	(103,036)	(170,795)	(171,146)
Ending Net Position - June 30	513,513	607,601	734,899	631,863	461,068	289,922
Net Position (Fund Balance) Analysis						

Fund 06538 - Air Operations Internal Svc

Program Description

The Air Operations program in the DNRC Forestry & Trust Lands Division operates and maintains a fleet of ten aircraft, consisting of seven helicopters and three single-engine, fixed-wing aircraft. The aircraft are primarily used for fire detection, support, and suppression of wildfires, as well as reclamation work in the Department of Environmental Quality. The program is funded in part by revenue generated by the aircraft hourly flight rates and in part by the general fund and fire protection assessment revenues. Statutory authority for the program is found in 77-5-103, MCA, and 17-2-102, MCA.

The Air Operations program provides fire suppression capability year-round across the state of Montana to protect lives, property, and natural resources. Historically, additional aviation resources needed for large fire support are ordered through the national interagency system on a call when needed basis, and related costs are charged to the fire suppression fund. Contracted aviation services are available from private contractors, but historically the costs for these services have been two to three times more than the cost of the state-operated aircraft. In fire season 2024, the program supplemented state suppression aircraft capabilities by contracting for an exclusive use, Type 1, tanked helicopter and used state agreements to bring in an air attack, and a large air tanker, charged to preparedness funding in the fire suppression fund.

Revenues and Expenses

Revenues and expenditures are managed through an internal service fund to account for the operational costs of the program. The primary source of revenue is the legislative appropriation for the transfer of general fund and fire protection assessment funds to the proprietary account to cover the fixed costs, which include hangar rent, insurance, and personnel costs (14.23 PB). These fixed costs must be paid regardless of the number of hours flown. Variable costs that are dependent on the hours flown, such as fuel and maintenance, are recovered through an hourly rate charged to all users of the aircraft. Users of the aircraft include DNRC, other state agencies, local government, and federal agencies. Increased flight rates are proposed below to meet increased costs of fuel and parts needed to maintain the flight worthiness of the aircraft.

The cost drivers for the aircraft rates are to recover the actual expenses needed to maintain the aircraft in an air worthy condition and remain mission ready for the purpose of initial attack on wildfires on state, private, and federal ownership; this includes all costs associated with the maintenance and operation of the aircraft. Some factors that contribute to the uncertainty in forecasting future expenses include unforeseen events such as Federal Aviation Administration (FAA) and manufacturer repair and maintenance directives, aircraft mechanical issues resulting in unplanned maintenance, cost fluctuations in fuel and parts, and the length and severity of the fire season. Annual and routine maintenance requirements of aircraft are used to estimate the anticipated future costs. Charges for services do not support any PB for the aviation section. All PB are supported by the general fund and fire protection assessment fixed costs transfer.

The department has limited cooperative agreements to assist federal agencies (U.S. Forest Service, BLM, USFWS, BIA, & NPS) and counties with fire protection. The department also has agreements with other state agencies for non-fire related aircraft rental services. The customers served are comprised primarily of state and private landowners within Montana through initial attack of fires under state direct protection, assistance with fires on county protection, and assistance to federal agencies. Historic and projected trends are dependent on length and severity of the fire seasons. Base year funding by fund type would be comprised primarily from state responsibility and county assistance fires paid by the fire suppression fund (state special revenue) and FEMA and U.S. Forest Service (federal special revenue). SABHRS account code 62525 is used by state customers to record expenses for flight time charges.

Rate(s) and Rate Explanation

The flight rates for the operation of the department aircraft are based on 5,000 hours of aircraft usage. The rate has been determined to maintain the aircraft in its original condition. At the end of 5,000 hours, all parts should have been replaced and a new maintenance/operation cycle started.

Proprietary Rates

The executive proposes an increase to Air Operations Program proprietary rate when compared to the FY 2025 base rates. The figure below shows the rates proposed by the executive for the 2027 biennium.

DNRC Air Operations Program Proprietary Rates			
	FY 2025	FY 2026	FY 2027
	<u>Actual</u>	<u>Proposed</u>	<u>Proposed</u>
Bell UH-1H	\$1,860	\$1,916	\$1,916
Bell Jet Ranger	\$525	\$541	\$541
Cessna 180 Series	\$210	\$216	\$216

This program is funded with an internal service fund, which is a type of proprietary fund. As such, the legislature approves the maximum rate the program may charge during the biennium. They are not the rates the program must charge.

Changes in Level of Fees and Charges

Proposed increases in aircraft flight time rates are shown in the table above. Increases are based on anticipated 3% inflation in the cost of aircraft parts and fuel prices. Fuel prices have increased considerably in recent years and continue to experience volatility.

Projected Fund Balance, Including Cash Fluctuations

The projected fund balance for the program is anticipated to decrease gradually over the next three fiscal years. Revenue estimates are typically conservative, as the length and severity of fire season is difficult to predict. Program operating expenditures would be expected to be lower than projected levels if revenue is received as estimated, indicating fewer hours of flight time billed and aircraft maintenance needs not requiring expenditure of the full appropriation in the proprietary fund.

Working Capital and Fees Commensurate Analysis

Working capital is estimated to be less than the 60 days of cash required to fund operations by approximately \$259,695 in FY 2025, \$368,142 in FY 2026, and \$445,244 in FY 2027.

2027 Biennium Report on Internal Service and Enterprise Funds							
Agency # 57060	Agency Name: Department of Natural Resources and Conservation			Program Name: Forestry and Trust Lands			
	Fund	Fund Name					
	06538	Air Operations Internal Svc.					
		Actual FY22	Actual FY23	Actual FY24	Budgeted FY25	Budgeted FY26	Budgeted FY27
Operating Revenues:							
Fee and Charges							
Fee Revenue A		1,151,890	909,056	802,347	1,000,000	1,100,000	1,100,000
Total Operating Revenues		1,151,890	909,056	802,347	1,000,000	1,100,000	1,100,000
Expenses:							
Personal Services		1,564,966	1,678,767	1,640,785	1,514,593	1,615,349	1,619,588
Other Operating Expenses		1,086,979	933,293	976,355	1,461,912	1,519,450	1,534,374
Total Operating Expenses		2,651,945	2,612,060	2,617,140	2,976,505	3,134,799	3,153,962
Operating Income (Loss)		(1,500,055)	(1,703,004)	(1,814,793)	(1,976,505)	(2,034,799)	(2,053,962)
Nonoperating Revenues:							
Nonoperating Expenses:							
Total Nonoperating Revenues (Expenses)		-	-	-	-	-	-
Income (Loss) Before Contributions and Transfers		(1,500,055)	(1,703,004)	(1,814,793)	(1,976,505)	(2,034,799)	(2,053,962)
Capital Contributions		1,638,877	1,664,652	1,664,652	1,664,652	1,987,735	1,975,473
Change in Net Position		138,822	(38,352)	(150,141)	(311,853)	(47,064)	(78,489)
Beginning Net Position - July 1		585,190	724,012	685,660	535,519	223,666	176,602
Change in Net Position		138,822	(38,352)	(150,141)	(311,853)	(47,064)	(78,489)
Ending Net Position - June 30		724,012	685,660	535,519	223,666	176,602	98,113
Net Position (Fund Balance) Analysis							

FY 2024 Budget Compared to FY 2024 Actual Expenditures

The department expended 85.7% of the proprietary funding budgeted for fiscal year FY 2024, leaving \$546,200 unexpended. Personal services was over expended by \$40,700, operations and equipment combined had \$586,900 unexpended.

FY 2024 Budget Compared to FY 2025 Appropriations

The budget for FY 2025 increased by 4.7% compared to FY 2024. Personal services increased by 4.8%, all other categories increased by 4.2%.

Present Law Adjustments

The "Present Law" Adjustments table shows the changes from the base appropriation to the proposed budget. "Statewide Present Law" adjustments (DP 1, DP 2, DP 3) are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments	Fiscal 2026					Fiscal 2027				
	PB	General Fund	State Special	Federal Special	Total Funds	PB	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	0	0	114,903	0.00	0	0	0	119,725
DP 2 - Fixed Costs	0.00	0	0	0	72,380	0.00	0	0	0	75,173
DP 3 - Inflation Deflation	0.00	0	0	0	(23)	0.00	0	0	0	(16)
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$187,260	0.00	\$0	\$0	\$0	\$194,882

*"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

The decision packages presented are for informational purposes only, offering insights into anticipated changes in expenditure that may affect the rates charged. These decision packages are not approved by the legislature. For internal service funds, the legislature approves the maximum rate that may be charged. For enterprise funds, the legislature reviews the rate and identifies any concerns.

DP 1 - Personal Services -

The executive proposes adjustments to the present law personal services budget. This request has been broken into the following categories, and further detail is shown in the agency summary:

- Legislatively approved changes
- Management decisions
- Budget modifications made to the personal services budget in the 2025 biennium

DP 2 - Fixed Costs -

The executive proposes adjustments to provide the funding required in the proposed budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples include: audit fees, Capitol complex rent, information technology services, etc. The rates charged for these services are approved in the section of the budget that provides the services.

DP 3 - Inflation Deflation -

The executive proposes adjustments to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include in-state state motor pool and motor pool leased vehicles.