FIRE SUPPRESSION COSTS
FY 2008

A Report Prepared for the

Legislative Finance Committee

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FY 2008 FIRE SEASON

The fire season started early this year and continued into late September until the rains arrived. Montana experienced 1,763 fires burning approximately 740,631 acres across all protection and all land ownership. The Department of Natural Resources and Conservation (DNRC) provided initial attack on 432 fires, holding 415 (or 96 percent) to ten acres or less. In the county assistance program, DNRC provided assistance on an additional 138 fires.

Suppression costs in a severe season are eye-opening. As of September 20, 2007 the state has incurred $107.4 million in fire suppression costs, of which $64.7 million is reimbursable by other parties, creating a net cost to the state of $42.7 million. This total compares to an average fire season cost prior to FY 2008 of $13.3 million. This report will address how these costs will be paid.

FY 2008 SUPPRESSION COSTS

Figure 1 depicts the financial state of the FY 2008 fire season as of September 20, 2007. Part One illustrates the status of paid and unpaid obligations. To date, the state has paid $25.5 million of the estimated $107.4 million, leaving an unpaid balance of $81.9 million.

Figure 1
FY 2008 Fire Suppression Costs
As of September 20, 2007

PART 1: FY2008 Actual & Estimated Costs			
Paid State Protection Costs		$25,543,845	
Estimated Remaining Protection Costs		81,909,616	
Paid and Current Obligations			$107,453,461
PART 2: Sources of Funding			
Appropriations- HB 01 Special Session			
Dept. of Natural Resources & Conservation	###########		
Dept. of Military Affairs	(3,000,000)		
			(42,000,000)
Reimbursement Available			
Billable Support - USFS/BLM	(38,318,838)		
FEMA Reimbursement	(26,391,988)		
			(64,710,826)
Unfunded Fire Costs			$742,635

Part Two addresses the funding sources to cover the $107.4 million of estimated costs. HB 1 of the September special session provided $42.0 million in general fund appropriation authority to cover the net cost to the state. Federal reimbursement is anticipated at $38.3 million from cost share negotiations on project fires (project fires are those fires that escape initial attack and include direct protection zones of two or more agencies). An additional $26.4 million is anticipated as the federal share available through emergency assistance granted by the Federal Emergency Management Agency (FEMA) for the Jocko Lakes, Black Cat, Country Club and Ford Road fires.

After all sources of funding are considered, the unfunded portion of the $107.4 million in estimated obligations is $742,635. Most likely, this and any additional costs (such as spring fires) will be funded from the Governor's emergency fund.

FEDERAL REIMBURSEMENTS

The state incurred an estimated $64.7 million of costs that are the responsibility of the federal government. These costs are categorized in two areas: 1) those that are reimbursable by federal agencies through cost share agreements; and 2) those that are covered through FEMA declarations.

Federal Emergency Management Agency Declarations

FEMA declarations are date and time sensitive. Cost share is allowed up to 75 percent of costs incurred during the declaration period. As of September 20, 2007, the state has incurred $37.7 million in costs related to fires that have received a FEMA declaration. The maximum amount available for recovery would be $28.3 million. The DNRC has estimated recovery at $26.4 million to account for non-allowable costs or costs outside the declaration period.

Cost Share Agreements

There are three methods available to line staff in negotiating cost share. They are:

1. You Order You Pay (YOYP) – Each agency is fiscally responsible for the resources they order, regardless of where they are used on the incident.
2. Acres Burned – Costs are shared based on the acreage percentage of the fires within an agency's protection area.
3. Cost Apportionment – Costs are shared based upon the usage of resources for operational periods. Direct costs are shared based upon assignment in the incident action plan or actual use. Support costs are shared proportionately to the direct costs.

A majority of this season's project fires were negotiated on the "acres burned" philosophy. To collect on those agreements, DNRC staff will be required to gather all documentation and submit claims to each federal entity. That entity will then review the documentation and determine the validity of the claim prior to payment. These costs will be recovered over the next 6 to 12 months.

Cost Negotiation Team

Negotiating cost share can be an on-going process as fires move rapidly across multiple direct protection zones. As such there are four project fires (Jocko Lakes, Black Cat, Ford Road and Chippy Creek) where the cost share methodology has yet to be established. In order to address this issue a four member cost negotiation team made up of two members from DNRC, one from the US Forest Service (USFS), and one from the Bureau of Indian Affairs (BIA), was created with the goal to determine a fair, accurate and justifiable cost share agreement. The agreements would be provided to the three agency administrators for approval.

The team has agreed to eliminate the "You Order You Pay" option but is also considering three other cost share options:

1. Miles of Control Line Built – Cost share is based on a percentage of the total perimeter of the fire for each agency's protection area. This assumes an average level of effort put for each mile of line through all protection areas.
2. Percentage of Total Perimeter Miles – Cost share is based in the final fire perimeter. This method would reflect suppression efforts by protection agency area but may not be representative of area burned.
3. Cost shared equally among the agencies.

A sample comparison of cost share in millions on a fictional fire valued at $5.0 million could be:

Agency	Acres Burned	Cost Apportionment	Miles of Control Line	Percentage of Total Perimeter	Equal Split
DNRC	13% - $0.65	25% - $1.25	45% - $2.25	47% - $2.35	33.3% - $1.665
USFS	52% - $2.6	40% - $2.0	20% - $1.0	17% - $0.85	33.3% - $1.665
BIA	35% - $1.75	35% - $1.75	35% - $1.75	36%- $1.8	33.3% - $1.665

Given the variety of options in front of the negotiation team, the state's share of a $5.0 million fire varies between $0.65 and $2.35 million. This fictional example creates an unknown financial factor of $1.7 million.

The process of negotiating these four project fires is just getting underway. At this writing, there is no way to estimate what the financial impact to the state will be from this negotiation process. Per Figure 1, DNRC is estimating collecting $38.3 million from cost share agreements. With this new process, the state and federal split on these four fires is subject to change. Therefore, the state cost of the FY 2008 fire season may rise.

CASH FLOW

The state has incurred $64.7 million in estimated costs that are the responsibility of another party. DNRC still has the obligation to pay the bills while cost settling with FEMA and other entities occur. Given the time lags associated with cost settlement, cash flow may become an issue.

When federal reimbursements are received they are processed through budget amendments to establish federal authority to cover such costs. If federal reimbursements are not timely, DNRC may have to pledge federal reimbursements as repayment collateral and obtain a general fund loan.

At this time, DNRC anticipates up to $10.0 million in federal reimbursements to secure a short-term general fund loan to pay fire costs incurred on behalf of the federal government. This allows the state to meet obligations without waiting on the federal government.

AVERAGE COST OF FIRE SUPPRESSION

The average cost of fire suppression has risen from $13.3 million in FY 2007 to $19.1 million in FY 2008. The Legislative Fiscal Division calculates the average by utilizing the previous seven years of data, removing the high and low seasons, and dividing by five. The average increases because the severity of the last two seasons, including FY 2008, has caused a moderate season to be rolled off the seven year stretch and the severe season of FY 2004 to be rolled into the average. This season represents the seven year high in all three areas. Figure 2 demonstrates the calculation.

Figure 2
Average Cost of Fire Suppression

Fiscal Year	Total Cost	Reimbursments	Net Cost
2002	$16,417,193	$3,549,700	$12,867,493
2003	6,710,688	4,684,927	2,025,761
2004	79,579,965	44,582,841	34,997,124
2005	3,969,096	989,945	2,979,151
2006	8,302,312	3,240,042	5,062,270
2007	61,000,318	21,290,928	39,709,390
2008 (through 9/20/2007)	*$107,453,461*	*$64,710,826*	*$42,742,635*
7 year average	40,490,433	20,435,601	20,054,832
5 year adjusted average	$34,402,095	$15,469,688	$19,123,086

FY 2009 COSTS

HB 3 of the September 2007 Special Session set aside $40.0 million into a fire suppression fund. This funding is available on July 1, 2008 to cover state costs of fire suppression. If the state experiences an average fire season, ample funding will be available. If a repeat of this season occurs, the entire portion could be spent.

This bill does not provide for any authority after FY 2009. The sunset, and any other changes, would need to be addressed during the 2009 regular session should the legislature wish to continue the fund.

CONCLUSION – FIRE COSTS

The FY 2008 fire season left many acres burned, a few buildings destroyed and a net cost to the state of $42.7 million. Between HB 1 appropriations and the Governor's emergency fund, the estimated state share of those fires will be covered.

However, if the $64.7 million owed to the state does not materialize, the burden on the state will increase proportionately. Because of this risk, LFD staff will monitor the cost settlement process and provide updates to the Legislative Finance Committee.

FIRE SUPPRESSION COMMITTEE

HB 1 of the September 2007 Special Session created a Fire Suppression Committee to conduct a comprehensive fire suppression study. Members of this committee include Senators Cobb, Williams, Liable, Lewis, Pease and Hansen and Representatives Ripley, Koopman, Vincent, Wilson, Keane and Bolstad. The committee will be staffed by Leanne Heisel from the Legislative Services Division, Barb Smith from the Legislative Fiscal Division, and Todd Everts as legal staff. The first meeting of the committee will be held Monday, October 29 in Helena.

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