

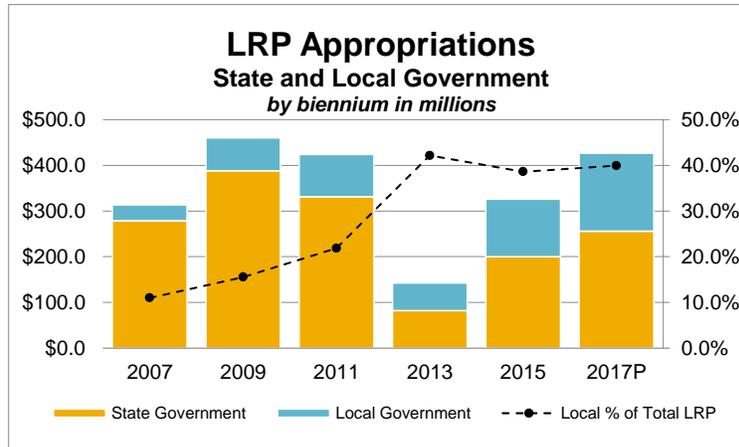
LONG-RANGE PLANNING PROGRAMS OVERVIEW

Long-Range Planning Description

(note: some items in this section were changed on 1/8/2015 to reflect HB 5 as introduced)

Long-Range Planning (LRP) programs are devoted to the creation and upkeep of major state infrastructure. That said, LRP programs do not include the state roads and highway construction and maintenance programs, which are included in HB 2.

LRP budgets may be broadly classified as either state or local government capital projects (infrastructure projects) programs. The figure below shows the level of appropriations provided by category over time. In the 2013 and 2015 biennia, appropriations to the local government grants



programs have increased as a proportion of total LRP appropriations. In the 2009, 2011, and 2013 biennia, the legislatures increased local government grant awards by increasing program funding through general fund transfers. In the 2017 biennium, the executive proposal would follow the pattern of providing greater appropriations for the grant programs by adding to funding with the proceeds from bond issues.

The LRP budget analysis typically focuses on nine programs, which include:

- Long-Range Building Program (LRBP) – acquisition, construction, and major maintenance of state owned lands and buildings, administered by Department of Administration
- State Building Energy Conservation Program (SBECF) – energy efficiency improvements to state owned buildings, administered by Department of Environmental Quality
- Long-Range Information Technology Program (LRITP) – major information technology build and upgrade, administered by Department of Administration
- Treasure State Endowment Program (TSEP) – water, wastewater, and bridge infrastructure grants to local governments, administered by the Department of Commerce
- Treasure State Endowment Regional Water Program (TSEPRW) – matching funds for major regional water projects, administered by the Department of Natural Resources and Conservation
- Renewable Resource Grant and Loan Program (RRGL) – water conservation grants and loans to local governments, administered by the Department of Natural Resources and Conservation
- Reclamation and Development Grant Program (RDGP) – grants for the reclamation of lands degraded by mineral exploration and mining activities, administered by the Department of Natural Resources and Conservation
- Cultural and Aesthetic Grant Program (C&A) – arts and cultural grants, administered by the Montana Arts Council
- Quality School Facility Grants Program (Quality Schools) – grants for major maintenance, repairs, and upgrades of K-12 school facilities, administered by the Department of Commerce

LONG-RANGE PLANNING PROGRAMS OVERVIEW

In the 2017 biennium, two additional program will be included in the LRP budgets, which are:

- Eastern Montana Grants Program (TSEP-EMGP) – grants for public facility infrastructure and public safety improvement projects, administered by the Department of Commerce
- Broadband Infrastructure Development – grants for broadband infrastructure development, administered by the Department of Commerce

Long-Range Planning Comparison

The figure below compares the proposed 2017 biennium executive budget to the levels of appropriation provided by the 2015 Legislature by program and source of funding.

The executive proposes total LRP budgets of \$426.6 million. This is \$101.1 million more than the LRP budgets in the 2015 biennium. The significant change is related to proposed funding from bond proceeds of \$227.2 million.

In the 2017 biennium, the highest level of proposed appropriation is the LRBP, \$233.6 million. It is important to keep in mind that 30% of this particular program is funded by non-governmental funds (Authorizations – principally donations received by the Montana University System). At the other end of the spectrum, the smallest program is the C&A, where interest earnings on the trust are anticipated to be historically low. Low interest earnings are expected to impact available funding for several other LRP budgets including the TSEP and the TSEPRW programs. General fund is not expended through LRP programs, but is included in the figure as transfers that are proposed in the LRITP.

Long-Range Planning Budget Comparison (millions)				
Budget Item	Appropriations FY 14-15	Proposals FY 16-17	Biennium Change	Biennium % Change
	<u>Appropriated</u>	<u>Proposed</u>		
Long-Range Building Program (LRBP)	\$175.6	\$233.6	\$58.0	33.0%
State Building Energy Conservation Program (SBECP)	3.5	2.5	(1.0)	-28.6%
Long-Range Information Technology Program (LRITP)	20.9	20.0	(0.9)	-4.2%
Broadband Infrastructure Development (BbD)	0.0	15.0	15.0	-
Treasure State Endowment Program (TSEP)	35.0	27.2	(7.8)	-22.3%
Eastern Montana Grant Program (TSEP-EMGP)	0.0	45.0	45.0	-
Treasure State Regional Water Program (TSEPRW)	17.0	3.3	(13.7)	-80.8%
Renewable Resource Grant and Loan Program (RRGL)	54.2	40.4	(13.8)	-25.4%
Reclamation and Development Grant Program (RDGP)	6.2	8.0	1.8	28.2%
Cultural and Aesthetic Grant Program (C&A)	0.8	0.4	(0.4)	-47.4%
Quality Schools Grant Program (QSFP)	12.4	31.2	18.8	151.6%
Total Costs	\$325.5	\$426.6	\$101.1	31.0%
Capital Projects Fund (Capital)	\$66.6	\$15.8	(\$50.8)	-76.3%
General Fund (GF) ¹	11.5	12.0	\$0.5	4.8%
State Special (SS)	136.8	80.7	(56.1)	-41.0%
Federal Special (FS)	26.2	20.7	(5.5)	-20.9%
Bonds and Loans (Bonds)	24.7	227.2	202.5	819.4%
Proprietary Fund (Prop)	1.0	0.0	(1.0)	-100.0%
Authorization (Author)	58.9	70.2	11.4	19.3%
Total Funds	\$325.5	\$426.6	\$101.1	31.0%

¹General Funds are transfers to the Long-Range Information Technology Capital Project Funds

LONG-RANGE PLANNING PROGRAMS OVERVIEW

Long-Range Planning Discussion

LRP projects are administered by various state agencies, but the provision of services has historically been similar in each of the programs:

- Project requests are received by the program either from state agencies, local governments, or private entities
- Project requests are reviewed by the particular agency, board, or council and ranked, or prioritized, based on program specifications
- The Governor reviews the list of requests, determines the level of funding available for projects, and presents a list of funded project recommendations to the legislature in the form of a separate funding bill
- If the legislature agrees to appropriate funds and authorize the various projects, money is distributed through the recipient to private contractors, generally through a competitive bid process

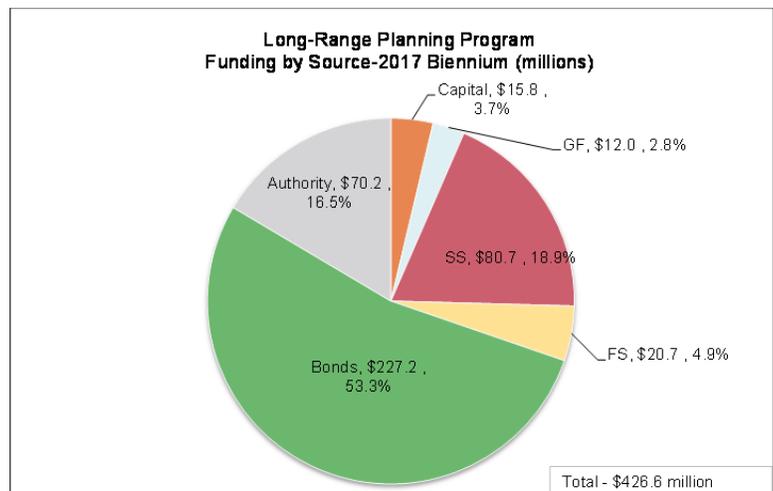
The legislature's work with the LRP budget differs in several ways from the work of other joint subcommittees, which include:

- 1) LRP programs do not have a "base" budget. In LRP budget negotiations, the legislature does not consider matters of fixed costs, FTE and pay plan issues, or changes from the base. LRP budgets are functionally viewed and appropriated as zero-based budgets.
- 2) LRP programs might be thought of as one-time-only appropriations. When funding is requested for any specific project, the funding needs do not continue. For state agency projects, there may be increased need for operations and maintenance dollars in the future, but the project itself is finished and in some cases there is no need for future state support at all.
- 3) LRP budget is presented to the subcommittee as a set of project recommendations. While the agency (HB 2) budget subcommittees work with the base budget and feature decision points (DP's) for legislative consideration, the LRP budget does not have such DP's. In fact, the entire budget is essentially a set of DP's for project spending.

Funding

In large part, LRP programs are fully financed with statutorily dedicated allocations of funds. Generally the program/project budget is strictly based on the amount of revenue estimated to be available for the program. The revenues come from a variety of sources including various tax allocations and in several cases interest earnings from dedicated trusts. The only exception to this rule is seen in the LRITP, which does not have a funding source dedicated to the program and relies on general fund transfers and agency funds to support the cost of the program.

The figure to the right shows the funding of the LRP budget for the 2017 biennium. Total funding proposed for the 2017 biennium LRP budgets is \$426.6 million. Generally, the LRP budgets are funded primarily from state special revenue funds. However, in the 2017 biennium \$227.2 million, or 53.3% of total budget funding, is



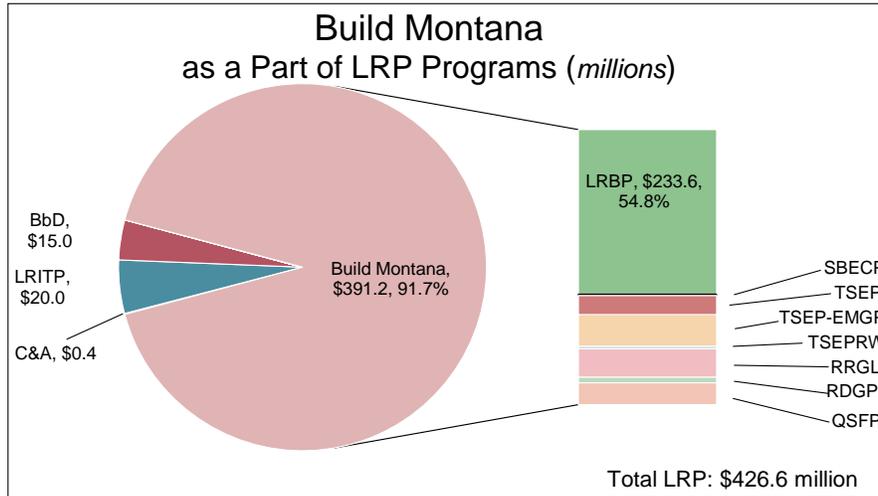
derived from bond proceeds. State special revenue of \$80.7 million, or 18.9% of funding, follows. Authorizations, 16.5% of total funding, are not appropriations and exist in the LRBP because legislative approval is required to expend donations (and other types of funds that do not require appropriation) on major building projects with costs in excess of \$150,000. More detail on the funding and appropriations of the LRP programs is found in the program sections of this report.

LONG-RANGE PLANNING PROGRAMS OVERVIEW

Build Montana Act

(note: some items in this section were changed on 1/8/2015 to reflect HB 5 as introduced)

The executive has featured most of the LRP budgets in what is titled the “Build Montana Act”. As shown in the figure below, eight of the budgets and 91.7% of the funding for the LRP budgets are included as components of the executive proposal, which will be introduced in HB 5. Of all the programs that will be reviewed in the LRP budgets, three programs, LRITP, C&A grants, and the new broadband infrastructure, are not included in the Build Montana proposal.



The figure below, again a subset of the information provided thus far, shows the programs that will be used in this proposal along with the recommended appropriations by fund type.

Build Montana Program <i>in millions</i>							
Executive Proposal	Capital Project	State Special	GO Bond Proceeds	CST Bond Proceeds	Federal Special	Author.	Total
Long-Range Building Program (LRBP)	\$15.8	\$31.2	\$103.1	\$0.0	\$13.4	\$70.2	\$233.6
State Building Energy Conservation Program (SBECP)		2.5					2.5
Treasure State Endowment Program (TSEP)		16.8	10.4				27.2
Eastern Montana Grant Program (TSEP-EMGP)			45.0				\$45.0
Treasure State Regional Water Program (TSEPRW)		3.3					3.3
Renewable Resource Grant and Loan Program (RRGL)		7.5	6.3	26.6			40.4
Reclamation and Development Grant Program (RDGP)		6.3	1.7				8.0
Quality Schools Grant Program (QSFP)		12.2	19.1				31.2
Total	\$15.8	\$79.6	\$185.6	\$26.6	\$13.4	\$70.2	\$391.2

The executive proposal provides an unusual manner of presentation for the single new and seven continuing programs. First, the programs will be contained in one single bill. Typically, each of the programs are contained in separate pieces of legislation.

The legislation will require a super-majority vote for passage of the entire bill. The debt from general obligation bonds (GO) requires an affirmative vote of 2/3rd of the members of each house of the legislature for passage of the bond authorization and thereby the related appropriations. However, the proposal includes the use of coal-severance tax bond (CST) proceeds. These bonds are guaranteed by, and at times the interest rates are subsidized by, the coal-severance tax trust. Consequently, the coal severance tax bond section of the Build Montana legislation will require an affirmative vote of 3/4 of the members of each house of the legislature for passage of the coal severance tax bond components of the legislation.

LONG-RANGE PLANNING PROGRAMS OVERVIEW

LFD ISSUE

Program Risk (NEW)

HB 5 as introduced includes the authorization for \$212.2 million of bond issues. As such, HB 5 will require an affirmative vote of 2/3rd of the members of each house of the legislature for passage. Along with the bond approval, the bill also contains numerous appropriations amounting to \$108.8 million in anticipated state and federal funds and the authorization of \$70.2 million of non-state funds (typically donations) for capital projects. Under normal circumstances, these appropriations and the provision of authority would require only a simple majority of each house for passage.

As introduced, if HB 5 is unable to garner a 2/3rd vote of the legislature, most of the LRP programs will be stranded in the 2017 biennium. This creates an unusually high amount of risk for the various programs included in HB 5. To eliminate/reduce the risk, the legislature may want to consider the following options:

- Request committee/subcommittee bills to replace HB 5.
 - Two bills for the two bond issue types and associated appropriations.
 - The equivalent of the five normal program bills (typically HB 5, 6, 7, 11, 15).
- Amend the non-bond funded appropriations from the bill and replace with the equivalent of the normal bills.
- Amend the bond sections and appropriations from the bill and replace in bills exclusively related to bonding.
- Amend the bill to contain coordination language providing that if not passed by a 2/3rd vote of each house, the bond authority and associated appropriations would be null and void.
- Replace the bond authority and associated appropriations with OTO cash infusions.
- Do nothing.

HB 5 includes one “new program”, the Eastern Montana Grants Program. However, this program comes in the form of a four-year expansion to the Treasure State Endowment Program (TSEP). For the purposes of this report, the program will be referred to as the TSEP Eastern Montana Grants Program, or TSEP-EMGP. The legislation includes statutory amendments that would allow TSEP grants to be used for “public safety infrastructure related to law enforcement, fire protection, or emergency services.” For more information on the Eastern Montana Grant Program, see F-22 of this report.

LFD ISSUE

Statutory Amendments / Riders

The Governor may only make line-item amendments in appropriation bills, which would include all LRP bills. Over time, the legislatures have made program related statutory amendments in the various LRP budget bills, generally to revise certain provisions for program operation and administration. The legislature did make program modifications in one of the LRP bills in the 2013 session, which were subsequently line-item vetoed by the executive as “unrelated riders”. In light of this action, the legislature may want to re-consider the practice of placing statutory amendments in LRP bills.

In *Cobb v. Schweitzer*, a rider is defined as an unrelated substantive piece of legislation incorporated in the appropriation bill. In the case of the line item veto to a LRP bill in 2013, the executive determined the statutory amendment unrelated, although that might have been argued. Because ultimately inclusion of statutory amendments are subject to the executive’s interpretation of the term “unrelated rider”, any statutory changes are at risk for line-item veto.

In HB 5, the executive requests statutory amendments for the implementation of the Eastern Montana Grant Program. The amendments are required to allow the Department of Commerce to distribute grant funds without the need for legislative authorization of the projects. In keeping with the position stated above, the legislature may want to discuss whether it is appropriate to include the statutory

LONG-RANGE PLANNING PROGRAMS OVERVIEW

amendments provided by the executive in HB 5. Some options available for legislative consideration include:

- Eliminate the statutory amendments from HB 5
- Request a committee/subcommittee companion bill to enact the amendments
- Do nothing

Bond Issuance

The Build Montana Act is in large part funded through bond proceeds. To achieve the objectives of the proposal, \$185,592,754 of state general obligation (GO) bonds would be issued. The costs of the bonds would be incurred by the general fund, including issuance costs and debt service. There is limited certainty related to when the bond proceeds will be needed. All of the programs that would make use of the bond authority are long-term endeavors. Generally, a certain amount of planning is needed prior to the call for the funds, and that function takes time. Consequently, bond issues are spread over a few years following legislative authorization of the associated projects.

For the purpose of the balance sheet, the executive estimates that the bonds will be issued half in FY 2016 and half in FY 2017. The general fund balance sheet includes bond issuance costs of approximately 0.05% for each of the expected issues and a small amount of debt service costs over the biennium. The following figure provides a preliminary estimate of the debt service on the \$185.6 million of bond issuance, making use of the executives suggested issuance schedule. Note that included in this analysis is the assumed issuance of \$6.715 million¹ of outstanding bond issuance authority. Further assumptions used in the calculation of debt service related to this proposal are shown at the top of the figure below.

¹ \$39.5 million of bond issuance authority and related appropriations are included in the LRBP proposal for the Montana Heritage Center. This project was provided \$7.5 million of bond authority and related appropriation by the 2005 Legislature. Preliminary planning has been completed for the project at a cost of \$785,000. Consequently, there is a current balance of \$6.715 million of bond authority remaining for this project. This analysis assumes that the balance will be issued for the project.

LONG-RANGE PLANNING PROGRAMS OVERVIEW

Build Montana Debt Service Estimate					
Assumptions:					
Combined Amount of Issues	\$192,307,754				
Two Issues with Two Payments per Fiscal Year Issued 10/2016 and 10/2017					
Each Issue Amount:	\$96,153,877				
Annual Fixed Rate of Interest:	4.2%				
Years to Maturity	20				
FY	Beginning Balance	Principal	Interest	Total FY Payment	Ending Balance
2016	\$96,153,877	\$1,557,682	\$2,019,231	\$3,576,913	\$94,596,195
2017	190,750,072	4,771,866	5,958,873	10,730,739	185,978,207
2018	185,978,207	6,564,781	7,742,871	14,307,652	179,413,425
2019	179,413,425	6,843,397	7,464,255	14,307,652	172,570,028
2020	172,570,028	7,133,838	7,173,814	14,307,652	165,436,190
2021	165,436,190	7,436,605	6,871,047	14,307,652	157,999,584
2022	157,999,584	7,752,222	6,555,430	14,307,652	150,247,362
2023	150,247,362	8,081,234	6,226,418	14,307,652	142,166,128
2024	142,166,128	8,424,210	5,883,442	14,307,652	133,741,918
2025	133,741,918	8,781,742	5,525,910	14,307,652	124,960,176
2026	124,960,176	9,154,448	5,153,204	14,307,652	115,805,728
2027	115,805,728	9,542,972	4,764,681	14,307,652	106,262,757
2028	106,262,757	9,947,985	4,359,667	14,307,652	96,314,772
2029	96,314,772	10,370,187	3,937,465	14,307,652	85,944,585
2030	85,944,585	10,810,308	3,497,344	14,307,652	75,134,276
2031	75,134,276	11,269,109	3,038,543	14,307,652	63,865,167
2032	63,865,167	11,747,381	2,560,271	14,307,652	52,117,786
2033	52,117,786	12,245,952	2,061,701	14,307,652	39,871,835
2034	39,871,835	12,765,682	1,541,970	14,307,652	27,106,153
2035	27,106,153	13,307,470	1,000,182	14,307,652	13,798,682
2036	13,798,682	10,295,340	435,400	10,730,739	3,503,343
2037	3,503,343	3,503,343	73,570	3,576,913	0
Total:		\$192,307,754	\$93,845,290		

This analysis provides that total GO bond debt service would incur a cost of \$14.3 million to the general fund in the 2017 biennium. In later years of debt service, the cost would be \$28.6 million per biennium. Over the 20 year life of the bonds, total interest would result in costs of \$93.8 million.

Again, this analysis is based on the executive issuance schedule. Historically, bonds for the LRBP have been issued over a three-year period beginning at least one year following the legislative approval. Additionally, some of the local government infrastructure program grants are paid out as project cost reimbursements, suggesting that bonds could be issued over a longer timeframe. Consequently, this analysis likely moves costs up in time at a greater speed than is likely.

HB 5 Appropriations

As mentioned, HB 5 contains what would normally be seven Long-Range Planning bills. The program appropriations are provided in the various sections of the legislation. The figure to the right provides a quick guide for the location of the program appropriations by the program name, usual program legislation, and section of HB 5. The appropriations specific to bond proceeds, with the exception of those for the LRBP, are found in Sec. 28 as biennial appropriations.

Location of Appropriations (NEW)			
Program	Normal	Cash Approp. Section No.	Bond
			Approp. Section No.
LRBP-Cash Prg. HB 5		2-4	-
LRBP-Bond Prg. HB 14		2	2
SBCEP HB 5		3	-
TSEP HB 11		19	27
TSEPRW HB 11		24	-
RRGL - Grants HB 6		8	27
RRGL - Loans HB 8		13	-
RDGP HB 7		9	27
QSFP HB 15		26	27