

LONG-RANGE PLANNING PROGRAMS OVERVIEW

Long-Range Planning Description

Generally, 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. Most of the projects that come through the programs require more than one biennium to complete and bear significant costs. As such, the legislature chose to move projects out of the individual agency budgets and analyze and fund the programs as separate budgetary components. The LRP budget analysis typically focuses on eight programs, and in the 2013 biennium a ninth program will be added to the list, the Quality Schools Facilities Program. The nine programs 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 (SBECP) – 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 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 severance activities, administered by the Department of Natural Resources and Conservation
- Cultural and Aesthetic Grant Program (C&A) – arts and historical grants, administered by the Montana Arts Council
- Quality School Facility Grants Program (QSFP) – grants for major maintenance of K-12 school facilities (initial appearance in LRP), administered by the Department of Commerce

Long-Range Planning projects are administered by various state agencies, but the provision of services is similar in each of the programs. First, project requests are received by the program either from state agencies, local governments, or private entities. With prioritization a key element of establishing the LRP budgets, project requests are reviewed by the particular agency, board, or council and ranked, or prioritized, based on program specifications. Next, 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. In most cases, the program legislation will include a single appropriation based on the amount of funds expected to be available for the projects/grants costs. If the legislature agrees to appropriate funds and authorize the various projects, money is distributed to private contractors, generally through a competitive bid process. In most cases, program funds also cover the administrative costs of the program and are appropriated in the general appropriations act.

The legislature's work with the LRP budget differs in several ways from the work of other joint subcommittees. One important difference is that the 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. Instead, the legislature may discuss the space and IT needs of agencies related to their project requests, as well as the needs of local governments and individuals as they relate to the particular program. Unlike most of the agency budgets, the 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 in the same way that agency programs continue. For state agency projects, there may be increased need for maintenance dollars in the future, but the project itself is finished. In the case of the various LRP grant programs, there is no need for future state support at all. Finally, the LRP budget is presented as a set of recommended programs. While the agency budgets work with the base budget and feature decision packages (DP's) for the legislature, the LRP budget does not have DP's. In fact, the entire budget is essentially a set of DP's for project spending.

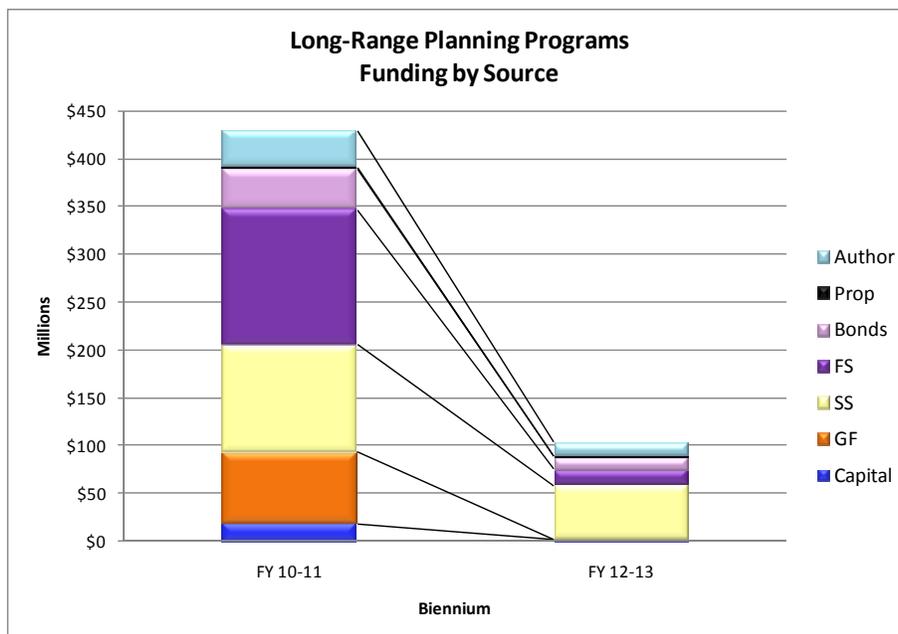
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Long-Range Planning Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Long-Range Planning Budget Comparison (in millions)				
Budget Item	Budget FY 10-11	Budget FY 12-13	Biennium Change	Biennium % Change
Long-Range Building Program (LRBP)	\$208.800	\$62.484	(\$146.317)	-70.1%
State Building Energy Conservation Program (SBECP)	23.238	0.000	(23.238)	-100.0%
Long-Range Information Technology Program (LRITP)	99.252	0.000	(99.252)	-100.0%
Treasure State Endowment Program (TSEP)	33.854	1.000	(32.854)	-97.0%
Treasure State Regional Water Program (TSEPRW)	15.000	0.000	(15.000)	-100.0%
Renewable Resource Grant and Loan Program (RRGL)	29.963	20.934	(9.029)	-30.1%
Reclamation and Development Grant Program (RDGP)	7.027	6.849	(0.178)	-2.5%
Cultural and Aesthetic Grant Program (C&A)	0.915	0.725	(0.190)	-20.8%
Quality Schools Grant Program (QSFP)	11.658	12.069	0.411	3.5%
Total Costs	\$429.708	\$104.062	(\$325.647)	-75.8%
Capital Projects Fund (Capital)	\$18.865	\$2.420	(\$16.445)	-87.2%
General Fund (GF)	74.446	0.000	(74.446)	-100.0%
State Special (SS)	112.388	56.447	(55.942)	-49.8%
Federal Special (FS)	141.889	16.886	(125.003)	-88.1%
Bonds and Loans (Bonds)	41.571	13.724	(27.846)	-67.0%
Proprietary Fund (Prop)	1.750	0.250	(1.500)	-85.7%
Authorization (Author)	38.800	14.335	(24.465)	-63.1%
Total Funds	\$429.708	\$104.062	(\$325.647)	-75.8%

The executive proposes total Long-Range Planning (LRP) budgets of \$104.1 million, as shown in the figure above. This is 75.8% less than the LRP budgets in the 2011 biennium. In the 2013 biennium, the largest source of program funding is state special revenue and there is no general fund proposed to be appropriated in any of the programs. In the upcoming biennium, the greatest amounts of appropriations are proposed for the Long-Range Building Program (LRBP). The figure below shows the comparison of the LRP budgets by funding source.



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LRP Highlights

Long-Range Planning Major Budget Highlights
<ul style="list-style-type: none"> ◆ \$104.1 million of appropriations for six of the nine LRP programs ◆ 2013 biennial proposal is 75.8% less than the 2011 biennium <ul style="list-style-type: none"> • 71% reduction in LRP budgets • Three programs (four if counting TSEP with a \$1.0 million recommended appropriation) are not funded in the 2013 biennium
Legislative Action Issues
<ul style="list-style-type: none"> ◆ The executive budget makes policy decisions that the Legislature will need to review and prioritize ◆ Total reduction of several programs that provide funds that may impact the economy and employment of the state ◆ Undeveloped executive proposals in initial executive budget

Long-Range Planning Discussion

The LRP budgets include total funds appropriations of \$104.1 million for the 2013 biennium. This is 75.8% less than the total funds appropriations of the 2011 biennium. A small portion of the decrease can be tied to the fact that in the 2011 biennium, general funds “freed-up” through the addition of federal special funds to what were typically general fund supported programs. In 2009, the legislature made a policy decision that it would be prudent to expend these “one-time only” freed-up dollars for projects of a one-time only nature. In the 2013 biennium, when funds are tight, the executive budget does not recommend general fund support of the LRP programs. Additionally, \$22.0 million of the federal funds appropriated in the 2011 biennium can be directly traced to funding from the American Recovery and Reinvestment Act of 2009 (ARRA) as appropriations to the State Building Energy Conservation Program (SBECP). After adjusting for these two inputs to the 2011 biennium budget, the change to LRP budgets represents a reduction of \$229.5 million, or 68.8%, of the LRP budget traditional funds.

Reduction Proposals

The LRP budget will not include a 5% reduction plan. As mentioned above, there is no base in the LRP budget. However, the comparison table on the top of page F-1 shows the program reductions that have been proposed for the LRP programs. The only LRP program that is increased in the 2013 is the Quality Schools Facilities Program (QSFP), with proposed growth of 3.5%.

As mentioned above, the executive budget will not support any of the LRP programs with general fund transfers in the 2013 biennium and most of the programs will have a smaller budget than in the 2011 biennium. Additionally, many of

General Fund Enhancements from LRP Programs			
Program	Description	Action	General Fund Impact
LRBP	Project reduction / elimination	Transfer of Funds	\$10,685,622
LRBP	Program funds reduction	Transfer of Funds	1,000,000
LRITP	Project reduction / elimination	Transfer of Funds	10,737,033
TSEP	Program funds reduction	Transfer of Funds	17,614,270
TSEP/RW	Program funds reduction	Transfer of Funds	4,823,825
QSFP	Temporary funding reduction	Statutory change	8,470,261
QSFP	Debt-service funding switch	Legislative change	<u>17,172,000</u>
Total Proposed Enhancements from LRP Programs			<u>\$70,503,011</u>

the programs are recommended for significant reductions and in some cases (4 programs) the dedicated program funds are recommended to be transferred to the general fund. In short, the executive theme for LRP budgets in

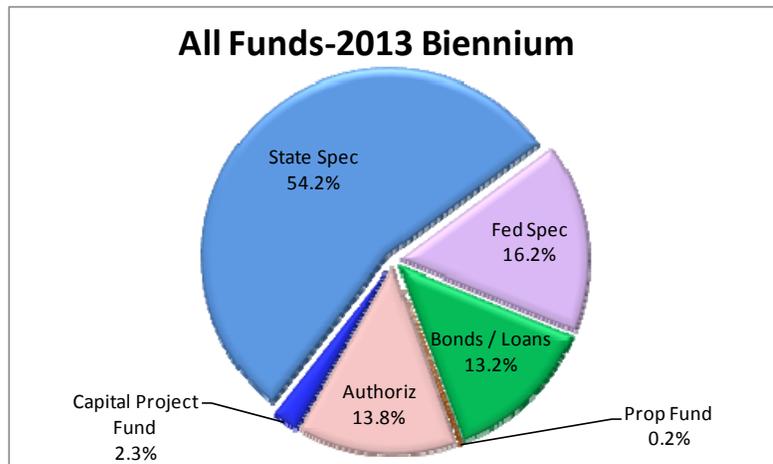
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the 2013 biennium is significant reduction. The figure above shows the various proposals for “enhancement of the general fund” through the LRP budgetary funds. The general fund will benefit by \$70.5 million if the legislature agrees with all the executive proposals.

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 from program dedicated revenue is seen in the LRITP. The LRITP was established by the Sixtieth Legislature, but no funding source was dedicated to the program. Consequently, the program relies on general fund transfers to fund many of the state agency projects, unless there are projects in the program that have their own revenue, state-special, federal special, bond proceeds. As a result, the LRP budgets will generally be presented in a separate piece of legislation, typically in one of the “low-numbered” House bills.

The LRP budget is primarily appropriated from state special revenue funds. There is no general fund proposed for the LRP programs in the 2013 biennium. The figure to the right shows the funding of the LRP budget for the 2013 biennium. Over 54% of the proposed appropriations would be funded with state special revenue. Federal special appropriations account for 16% of the budget. Authorizations, 13.9% of total funding, are not appropriations and exist in the LRP budget (in 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. Notable in the 2013 biennium, capital project fund appropriations are an insignificant 2.3% of the total budget. This is in part due to corrections made in the LRBP capital project fund. More detail on the funding of LRP programs is found in the program sections of this report.



Major Legislative Action Issues

The issues related to the LRP budget focus mainly on the lack of information provided in the executive budget. The LRP dollars are spent on private sector contracts for various types of construction projects, the reductions may impact the state economy.

LFD ISSUE

Undeveloped Budget Proposals

By statute (Title 17, Chapter 7), the executive is required to submit a budget proposal to the Legislative Fiscal Analyst on November 15 (of the year prior to the start of the legislative session). According to 17-7-123, the proposal should include “...balanced financial plan for funds subject to appropriation”. The executive recommendation of Nov. 15, 2010 for the several of the LRP budgets did not include information of the appropriations or a full picture of the transfers that would be recommended. Consequently, to determine the level of appropriation and the status of the state special revenue fund, the Legislative Fiscal Division (LFD) was required to extract information from the related bill drafts. In such cases, staff is faced with the challenge of preparing a budget analysis that is pegged either to the printed executive budget or the draft legislation, and trying to determine which is intended to be the executive budget proposal.

The executive budget revision of December 15, 2010 contained a number of changes related to the transfers of

LONG-RANGE PLANNING PROGRAMS OVERVIEW

funds from the LRP budgets. Among the changes were a reduction of the transfer of TSEP funds to the general fund (changed from \$18.5 million to \$17.6 million) and a new transfer of LRBP funds (\$1.0 million from the LRBP capital projects fund). The LFD was not informed of the changes, but learned of them when the program bills were introduced to the public. The information was then confirmed in the executive budget revision.

The legislature may want to consider statutory revisions that will enhance the submittal of budgetary details by the executive. One option is to clarify the level of detail required to be submitted with the executive budget. Another possible solution would be to accelerate the budget submittal dates so legislative staff would have adequate time to request additional budget details if the information submitted is inadequate. When major revisions to the executive budget are submitted on December 15, it can be difficult for staff to ferret out details and have a complete analysis done prior to the convening of the legislature.

LFD ISSUE

Reduction of Funding

The executive budget proposes significant reductions to the various LRP programs and in some cases the transfer of funds from the statutory dedicated use to support (or enhance) the general fund. The legislature will be required to analyze the full spectrum of budget policies to make changes to the executive budget proposal. For example, if the legislature should choose to fund the TSEP local government grants, they will need to be prepared to find other sources of revenue (other program reductions or tax increases) to replace the funds that are proposed to be transferred to the general fund. Requiring these actions bears significant policy implications and will require a great deal of legislative time and effort.

LFD ISSUE

Reduction of LRP Budgets May Negatively Impact the Montana Economy

LRP projects help to bring money and jobs to the Montana economy. Most of the programs support the construction industry by pushing building dollars out into the state. With actual reductions of \$71 million in LRP programs, the impact to the economy could be significant. Often the LRP budgets directly leverage federal and local funds for projects, expanding the full economic impact of the projects. For example, each dollar of TSEP directly leverages \$4 of other infrastructure funding (federal grants, state grants, and loans). Additionally, “a one-time diversion of TSEP funds could result in the loss of up to 475 construction and engineering jobs and \$92 million to Montana's economy over the next two years.”¹ As such, the policy decision of not funding or reducing funding to these projects may have a significant impact on the state economy.

All state spending impacts the economy, but with consideration of the potential for matching dollars for LRP projects, the economic impact could be greater than, for example, reducing other state services. In an economy where unemployment is unusually high and spending is inhibited, the legislature will need to consider the executive proposals for LRP reductions.

¹ Great Falls Tribune, *Shift of Infrastructure Funds Raises Questions*, John Adams, December 2, 2010.

LONG-RANGE BUILDING PROGRAM

Program Description

In 1963, the legislature enacted the Long-Range Building Program (LRBP) to provide funding for construction, alteration, repair, and maintenance of state-owned buildings and grounds. The program, as established in Title 17, Chapter 7, part 2, MCA, was developed in order to present a single, comprehensive, and prioritized plan for allocating state resources for the purpose of capital construction and repair of state-owned facilities. The program is administered by the Architecture and Engineering Division (A&E) of the Department of Administration. Historically, the LRBP has been funded with a combination of cash accounts and bonding. The various types of cash accounts include state and federal special revenue funds, other funds (such as university and private funds), and LRBP capital project funds.

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Long-Range Building Program				
Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Projects Cost	<u>Appropriated</u> \$208,800,468	<u>Proposed</u> \$62,483,830	(\$146,316,638)	-70.07%
Total Costs	\$208,800,468	\$62,483,830	(\$146,316,638)	-70.07%
Capital Projects	\$18,865,000	\$2,420,000	(\$16,445,000)	-87.17%
State Special	57,056,400	28,593,330	(28,463,070)	-49.89%
Federal Special	55,150,500	16,885,500	(38,265,000)	-69.38%
Proprietary ¹	1,750,000	250,000	(1,500,000)	-85.71%
Authorization ¹	38,800,000	14,335,000	(24,465,000)	-63.05%
General Fund ²	37,178,568	0	(37,178,568)	-100.00%
Bond Issue/Loans	0	0	0	n/a
Total Funds	\$208,800,468	\$62,483,830	(\$146,316,638)	-70.07%
Project Reduction Proposal				
Capital Projects Reductions	(\$10,685,622)			
Capital Projects Fund Reduction	(\$1,000,000)			
General Fund	11,685,622			
¹ Does not Require Appropriation but Requires Approval of Legislature				
² Transfers to Capital Project Funds in 2011 biennium				

As seen in the figure above, the executive proposes a total LRBP budget of \$62.5 million for the 2013 biennium. This is \$146.3 million, or 70.1%, less than the LRBP budget in the 2011 biennium. Included in the figure above is the project reduction proposed by the executive where the executive recommends the elimination/reduction of \$10.7 million of LRBP projects and an equivalent transfer to the general fund. The December 15 executive budget revision also proposes a transfer of \$1.0 million from the LRBP capital projects fund to the general fund.

LONG-RANGE BUILDING PROGRAM

Program Highlights

Long-Range Building Program (DOA)	
Major Budget Highlights	
<ul style="list-style-type: none">◆ The executive budget is significantly reduced, 70.1%, from the budget of the 2011 biennium◆ No general fund enhancement in the 2013 biennium<ul style="list-style-type: none">• The LRBP has received general fund transfers for the past 3 biennia• The LRBP was enhanced in the 2011 biennium with \$37.2 million of general fund transfers◆ The executive proposes to eliminate \$10.7 million of LRBP projects authorized by previous legislatures◆ Projects funded with LRBP capital project funds are \$2.4 million, or 3.9% of the total budget<ul style="list-style-type: none">• Most of the recommended projects are life safety and serious deferred maintenance concern• 58.1%, \$1.4 million, of the LRBP funds are recommended for two projects in the Montana university system◆ 43.3% of the total project funding is recommended for FWP project/program funding	
Major LFD Issues	
<ul style="list-style-type: none">◆ The executive budget proposal recommends the reduction or elimination of seven projects previously authorized by the legislature<ul style="list-style-type: none">• Only the legislature can reduce/eliminate projects• Transfers from the LRBP capital projects fund are a component of the general fund balance sheet• If the Sixty-second Legislature does not agree with the project reductions/eliminations, the Legislature will be required to find equivalent reductions elsewhere to retain the estimated general fund balance	

Program Narrative

In the LRBP budget for the 2013 biennium, the executive recommends a cash only program; no general obligation bonds are recommended for new construction or major deferred maintenance projects. The executive budget also recommends the elimination or reduction of the appropriations of seven projects authorized by previous legislatures. The funds that would be “freed-up” through the reductions are proposed to be transferred to the general fund. The LRBP appropriations, as well as the recommended project reductions/eliminations and fund transfers will be presented in HB 5. With available program cash expected to be significantly limited, most of the LRBP capital project fund budget is dedicated to life safety concerns, security, and hazard mitigation.

With the limited funding in the 2013 biennium, most of the building program recommendations are for Fish, Wildlife, and Parks (FWP) projects. Many of the recommended appropriations for FWP projects result from statutory license fee earmarks that are dedicated to specific hunting and habitat objectives. Some FWP appropriations, like those for hatcheries, administrative buildings, and state parks maintenance projects, provide for the maintenance of existing infrastructures. One project of note is the Milltown Dam Park Improvements. This project will provide funds for the construction of facilities at the newly acquired Milltown State Park. The project, with appropriations of \$1.7 million, will be funded with Natural Resource Development (NRD) funds and

LONG-RANGE BUILDING PROGRAM

federal funds. Operations and maintenance at the new park will be paid by the NRD funds for the first five years, but the state will be required to assume operations and maintenance costs afterwards. Another FWP project of interest is the Home to Hunt Access. This appropriation of \$600,000 is funded from a new statutory license fee earmarked for securing access across private lands to public lands. The funding will be used to secure access from willing sellers through purchases of right-of-way easements or fee title acquisitions.

Several project reductions are proposed in the executive budget. The reductions, initially proposed in mid FY 2010, are shown in the figure below along with the session and bill where the appropriations were made. Also included in the table are the amounts of the original appropriations, the amounts of the LRBP capital project appropriations, and the proposed reductions. A brief description of the project status follows the table.

Governor Austerity Measures (February 2010) - LRBP Project Reduction Proposal						
Project	Session	Bill No.	Original Appropriation	LRBP Appropriation	Proposed LRBP Reduction	
Receiving Hospital Renovation, MT State Hospital	5/2007SS	HB 4	\$5,800,000	\$5,800,000	\$4,500,000	
Expansion of Food Services, MSP	5/2007SS	HB 4	1,930,000	1,637,000	1,191,402	
New Building for Youth Transition Center, Great Falls	2009	HB 5	1,310,000	1,310,000	1,250,000	
Office of Public Assistance, Wolf Point	2009	HB 5	2,250,000	2,250,000	2,234,220	
Statewide Facilities Planning	2009	HB 5	400,000	400,000	400,000	
Infrastructure Repairs, State Capitol, Helena	2009	HB 5	800,000	500,000	500,000	
Auto Tech Center Design, MSU-Northern	5/2007SS	HB 4	<u>800,000</u>	<u>800,000</u>	<u>610,000</u>	
Total LRBP Project Reduction Proposals			<u>\$13,290,000</u>	<u>\$12,697,000</u>	<u>\$10,685,622</u>	

**LFD
COMMENT**

A major component of the LRBP budget is what is termed as the Governor’s “austerity measures”. In FY 2010, the Governor was faced with a significant decline in state revenue, which triggered the actions required in 17-7-140, MCA. The provisions of this statute require that the executive reduce state spending. In addition to reducing spending, the Governor recommended the reduction or elimination of certain LRBP projects. However, to realize the savings associated with the projects, the legislature must agree with the project reductions, strike or reduce the project appropriation from the original piece of legislation, and transfer the funds from the LRBP capital projects fund to the general fund. The transfers from the LRBP capital projects fund are included in the executive budget general fund balance sheet.

Receiving Hospital Renovation, MT State Hospital - This project, with total appropriations of \$5.8 million, consisted of the receiving hospital at the Montana State Hospital and upgrades at the Xanthopoulos building. The proposed reduction of \$4.5 million only applies to the receiving hospital component of the project. The Xanthopoulos building upgrades are in construction and will be completed with \$1.3 million of the appropriation.

Expansion of Food Services at Montana State Prison – With legislative agreement, the reduction of this project would provide funds to enable the transfer of \$1.2 million to the general fund. The project was approved to expand the food service factory at the state prison and increase inventory and product storage capacity. The renovation would have allowed the prison to switch to a single serving system with food chillers. The reduction does not include eliminating the planned use of \$290,000 of Department of Correction proprietary funds, which in combination with the remaining \$445,598 of capital project appropriation will fund work in the freezer and production area.

New Building for Youth Transition Center, Great Falls - This appropriation of \$1.3 million of LRBP funds was planned for the construction of a new 19 bed youth transition center. The current center occupies leased space. To date, \$60,000 has been expended on preliminary planning work, and while the state entered into an architectural contract, continuing contracted work has been stopped. If the legislature agrees to the project reduction, \$1.3 million of LRBP capital project funds could be freed up for return to the general fund.

LONG-RANGE BUILDING PROGRAM

Office of Public Assistance, Wolf Point - This project, with a total appropriation of \$2.3 million, was approved to construct a new 5,000-5,600 gross square foot office of public assistance. The project would replace currently leased space. At this time, \$15,780 has been expended on preliminary planning work and the state has entered into an architectural contract. The continuing contracted work has been stopped. With legislative agreement for the project reduction, \$2.2 million of LRBP capital project funds could be transferred to the general fund.

Statewide Facilities Planning – This appropriation of \$400,000 of LRBP capital project funds was intended to provide planning for MT Agricultural Experiment stations, MT Veterans’ Homes, and Department of Corrections master plan efforts. At this time, the planning has been stopped, and with legislative approval the appropriation could be eliminated and the funds transferred to the general fund.

Infrastructure Repairs, State Capitol, Helena - This project, appropriated for \$800,000 in total funds, was planned to continue capitol major maintenance and repairs. Major repairs would include repairs to the copper dome and replacement and restoration of skylights. This project was also funded with an appropriation of \$300,000 of General Service Division proprietary funds, which are not recommended for reduction. The reduction of this appropriation could provide \$500,000 of capital project funds to transfer to the general fund.

LFD COMMENT

The primary purpose of the \$500,000 LRBP capital project fund appropriation for Infrastructure Repairs was to perform vital repairs to the copper dome of the Capitol Building. Over time, wind and weather have loosened the copper panels of the dome, a significant problem for several reasons. First, if any of the panels were to break loose it could cause harm to people or possessions on the ground. Second, the building interior has no other protection from the elements if panels were to disengage and be lost or destroyed. For the time being, stop-gap measures have been taken to keep the panels in place, but the legislature should be aware that these measures do not completely mitigate the problem, and the intended repairs to the dome will be required in the future.

Auto Tech Center Design, MSU-Northern - This project appropriation of \$800,000 was provided to design the consolidated of the auto diagnostics, metal arts, and auto mechanics programs. The project was intended to result in designs for a new facility on the Northern campus. At this time, the project will be taken through initial project planning. With \$190,000 expended, enough planning has been completed to bring a basic building plan to a future legislature. If the legislature agrees with the reduction, \$610,000 of the LRBP capital project funds could be transferred to the general fund.

LONG-RANGE BUILDING PROGRAM

Project List

The figure below shows the projects recommended by the executive, listed by agency. The listed projects will be requested in the LRBP cash program bill, HB 5, and are numbered to indicate priority.

Long-Range Building Program - Cash Projects Executive Recommendation - 2013 Biennium							
Executive Recommendations - Cash Projects by Fund Type							
Rank	Agency / Project	LRBP					Total
		Capital Project	State Special	Fed Special	Proprietary	Authorization	
Department of Administration							
3	Install Fire Protection Systems - Montana Law Enforcement Academy	\$600,000					\$600,000
5	Elevator & ADA Modifications, Capitol Complex		\$800,000				800,000
8	Mechanical & Energy Projects, Capitol Complex		1,592,500				1,592,500
Subtotal Department of Administration		\$600,000	\$2,392,500	\$0	\$0	\$0	\$2,992,500
Department of Corrections							
6	Repair Building 15 Roof - Riverside Youth Correctional Facility, Boulder	215,000					215,000
Subtotal Department of Corrections		\$215,000	\$0	\$0	\$0	\$0	\$215,000
Department of Military Affairs							
7	Replace Armory Roofs, Statewide			930,000			930,000
12	Federal Spending Authority			2,500,000			2,500,000
Subtotal Department of Military Affairs		\$0	\$0	\$3,430,000	\$0	\$0	\$3,430,000
Department of Fish, Wildlife, and Parks							
18	Parks Program		2,351,000	1,700,000			4,051,000
19	Habitat Montana		8,668,000	200,000			8,868,000
20	Future Fisheries		1,274,000				1,274,000
21	Fishing Access Site Protection		1,474,000	400,000			1,874,000
22	Upland Game Bird Program		1,181,800				1,181,800
23	Hatchery Maintenance		575,000	575,000			1,150,000
24	Admin Facilities Repair & Maint		1,570,500				1,570,500
25	Grant Programs/Federal Projects		258,000	2,000,000			2,258,000
26	Milltown Dam Park Improvements		927,530	730,500			1,658,030
27	Wildlife Habitat Maintenance		970,000				970,000
28	Dam Maintenance		50,000				50,000
29	Smith River Corridor Enhancements		150,000				150,000
30	Waterfowl Program		509,000				509,000
31	Community Fishing Ponds		50,000				50,000
32	Fishing Access Site Acquisition		279,000				279,000
33	Bighorn Sheep Habitat		538,000				538,000
34	Home to Hunt Access		600,000				600,000
Subtotal Department of Fish, Wildlife, and Parks		\$0	\$21,425,830	\$5,605,500	\$0	\$0	\$27,031,330
Department of Natural Resource and Conservation							
16	Aircraft Hangar, Kalispell				250,000		250,000
Subtotal Department of Natural Resources and Conservation		\$0	\$0	\$0	\$250,000	\$0	\$250,000
Department of Public Health and Human Services							
1	Replace Security Key System - MDC, Boulder	200,000					200,000
15	Preliminary Design - SW Montana Veterans' Home, Butte		475,000				475,000
Subtotal Department of Public Health and Human Services		\$200,000	\$475,000	\$0	\$0	\$0	\$675,000
Department of Transportation							
9	Statewide Maintenance, Repair & Small Projects		2,142,000				2,142,000
17	Equipment Storage Buildings, Statewide		2,158,000				2,158,000
Subtotal Department of Transportation		\$0	\$4,300,000	\$0	\$0	\$0	\$4,300,000
Montana University System							
2	Install Fire Protection Systems - Montana University System	530,000			260,000		790,000
4	Hazard Mitigation Projects - Montana University System	875,000		2,850,000	1,075,000		4,800,000
13	General Spending Authority, UM - All Campuses				6,000,000		6,000,000
14	General Spending Authority, MSU - All Campuses				6,000,000		6,000,000
Subtotal Montana University System		\$1,405,000	\$0	\$2,850,000	\$0	\$13,335,000	\$17,590,000
Statewide Projects							
10	Spending Authority, Utility Energy Conservation Funds					1,000,000	1,000,000
11	Authority to Spend Federal Grant Funds			5,000,000			5,000,000
Subtotal Statewide Projects		\$0	\$0	\$5,000,000	\$0	\$1,000,000	\$6,000,000
Total Cash Program:		<u>\$2,420,000</u>	<u>\$28,593,330</u>	<u>\$16,885,500</u>	<u>\$250,000</u>	<u>\$14,335,000</u>	<u>\$62,483,830</u>

LONG-RANGE BUILDING PROGRAM

Funding

As shown in the fund balance table to the right, the LRBP fund will start the 2013 biennium with a negative fund balance of \$7.0 million (see LFD Comment below). Fund revenues include a 2.6% distribution of cigarette tax revenue, \$3.5 million in the biennium, and 12.0% distribution of coal severance tax revenue, \$12.7 million in the biennium. Other income includes interest earnings on LRBP fund balances and supervisory fees paid to the A&E. The supervisory fees shown in this analysis differ from the fund balance presented in the executive budget because after further review the estimated fees were determined to be higher than could be expected considering the reduced project list. Total revenue in the 2013 biennium is expected to be \$17.3 million.

The table includes the reduction/elimination of \$10.7 million of LRBP capital projects and a transfer of \$10.7 million from the LRBP fund to the general fund. As previously mentioned, this action will require legislative approval. There is a zero impact to the LRBP fund when the project eliminations and transfer of funds are taken together. The executive budget suggests that the transfer will occur in FY 2011.

Long-Range Building Program Fund (05007)	
Fund Balance Projection 2013 Biennium	
Estimated Beginning Fund Balance-(7/1/2011)	(\$6,993,848)
Revenue Projections¹	
Cigarette Tax	\$3,505,000
Coal Severance Tax	12,669,000
Interest Earnings	808,900
Supervisory Fees	<u>350,000</u>
2013 Biennium Revenues	17,332,900
Executive Proposal-Project Elimination and Transfer⁵	
Project Eliminations, February 2010	10,685,622
Transfer of LRBP Funds to General Fund	<u>(10,685,622)</u>
	0
Expenditures	
Operating Costs-A & E Division ⁵	(3,943,622)
Debt Service-2003G ²	(2,054,381)
Debt Service-2005A ³	(2,194,019)
Funding Switch ⁴	<u>1,330,000</u>
Total Expenditures	(6,862,022)
Balance Available for Capital Projects	3,477,030
Executive Proposals LRBP Cash Account ⁵	<u>(2,420,000)</u>
Balance	\$1,057,030
12/15-Executive Transfer Proposal	<u>(1,000,000)</u>
12/15-Revised Ending Cash Balance - (6/30/2013)	<u>\$57,030</u>
<small>¹Based on RTIC revenue estimates</small>	
<small>²Refinance of 1996D issue</small>	
<small>³Refinance portions of 1997B and 1999C issues</small>	
<small>⁴Debt Service Funding Switch, 2001 legislative session</small>	
<small>⁵Based on executive budget proposal</small>	

The normal LRBP expenditures from the fund, amounting to \$6.9 million, include the administrative costs of the A&E Division and the debt service on two bond issues. Also seen in the expenditure section of the table is a debt service funding switch of \$665,000 per year from the LRBP fund to the general fund, which the 2001 Legislature authorized in HB 14 to reduce LRBP debt service costs related to the 1996D bond issue (refinanced with 2003G), the 1997B bond issue, and the 1999C (refinanced with 2005A) bond issues.

The fund will have an available balance of \$3.5 million for capital projects in the 2013 biennium. As shown, approximately \$2.4 million is recommended in the executive budget for cash program projects, leaving an estimated balance of \$1.1 million at the end of the 2013 biennium. The estimated ending fund balance, as prepared by the LFD, is slightly higher than that shown in Section F of the executive budget, primarily because of higher coal severance tax revenues estimates, as adopted by the Revenue and Transportation Interim Committee (RTIC).

Note: The FY 2013 ending fund balance of the LRBP cash fund was expected to be \$1.1 million (now shown in the above figure as “balance”). However, the executive is expected to revise the original budget on December 15 and propose to transfer \$1.0 million of LRBP funds to the general fund. As shown in the figure above, this action will reduce the LRBP ending fund balance to \$57,030 by the end of the 2013 biennium.

LONG-RANGE BUILDING PROGRAM

LFD COMMENT

FY 2013 Beginning Fund Balance

The beginning fund balance for the LRBP capital projects fund is shown to be significantly negative at the end of the 2011 biennium. Approximately 44% of the shortfall can be attributed to reduced interest earnings on the balance in the LRBP capital project fund and lower than anticipated tax distributions. The remainder of the negative balance is the result of incorrect calculations of outstanding obligations in past biennia. The Long-Range Planning subcommittee may wish to request more information on the cause of the negative beginning fund balance from the staff of A&E division.

LFD ISSUE

SBCEP Energy Savings Transfers to the LRBP

In past years, the State Building Energy Conservation Program (SBCEP), administered by the Department of Environmental Quality (DEQ), has made transfers of “energy savings” to the LRBP, but as seen in the fund balance table above, there is no transfer included in the LRBP revenue stream for the 2013 biennium. In November 2009, the Legislative Audit Division conducted a performance audit on the SBCEP. The audit findings suggested that in recent years the program had failed to comply with the statutory requirement of transferring the energy cost savings in excess of projected debt service to the LRBP from the collection of “savings” paid to DEQ by the agencies who had participated in energy conservation construction projects. The audit noted two examples where transfers were not in compliance with the statutory requirement, *“...the SBCEP collected \$56,500 after bond retirement in fiscal year 2005; however, we found the SBCEP transferred approximately \$36,000 to the LRBP that year. In addition, while the SBCEP collected over \$400,000 after bond retirement from fiscal years 2007 to 2009, there have not been any corresponding transfers to the LRBP during that period (page 10).”*

DEQ explains that there were no funds available to sweep to the LRBP because they were needed to pay bond costs for larger bonds in 2005 and 2007. Several factors including rising fuel costs, agency interest in the program, and overall economics – significantly increased the demand for the services offered by the SBCEP and bonds were sold for higher amounts in 2005 and 2007. There’s a lag time between when debt service begins and when the savings from the projects deliver the revenue to cover that debt service. When the program operates at a stable level, it can cover that lag time with existing savings and still have money available to sweep to LRBP. However, the significant ramp up required the use of additional savings, which normally would have been swept to LRBP, to help cover this lag time on the larger bonds.

For this reason, DEQ acknowledges the “time gap” in making transfers of energy savings to the LRBP, and administrative staff at DEQ, state, “We’re now starting to reach a point where some of the projects from the larger bonds are delivering savings, and it appears we’ll be in a position to resume the sweep. While the more cautious approach would be to wait until fiscal year end, we do think we can make an interim sweep, and we had targeted doing so before the end of the calendar year. At this point we anticipate we’ll be able to sweep up to \$200,000 to LRBP with minimal risk of not having adequate funds to cover debt service.”

Since FY 2008, the SBCEP has operated under different conditions. The SBCEP projects have not been funded with bond proceeds and the requirement for transfers of energy savings in excess of estimated debt service no longer apply.

In the Long-Range Planning subcommittee hearings for the LRBP, the subcommittee members may wish to check with the program representatives to ensure that the transfer mentioned above has taken place and determine if future transfers or “sweeps” will occur as statutorily required.

STATE-BUILDING ENERGY CONSERVATION PROGRAM

Program Description

The State Building Energy Conservation Program (SBECP), administered by the Department of Environmental Quality (DEQ), was established by the 1989 Legislature to reduce operating costs of state facilities by identifying and funding cost-effective energy efficiency improvement projects. Statutory authority is found in Title 90, Chapter 4, part 6, MCA. Energy efficiency improvements include projects such as:

- Replacing old, inefficient boilers
- Upgrading inefficient lighting
- Increasing ventilation system efficiency
- Insulating buildings
- Providing more effective temperature controls
- Upgrading water conservation systems

SBECP projects are designed so that energy savings exceed costs. The estimated savings of energy costs are used to reimburse the project costs and finance operational costs. In the past, projects were funded through a bonded program, and reimbursements in excess of the projected debt service were statutorily required to be transferred to the Long-Range Building Program (LRBP)¹. Beginning in FY 2008, bond proceeds were no longer used to fund the program. The 2007 Legislature funded SBECP projects with an appropriation of general fund and the 2009 Legislature funded projects with appropriations of general fund and federal special funds. With those changes, the program was modified to treat the funds in a revolving fashion, and project reimbursements, plus the interest on the outstanding debt related to the project, are expected to support future projects and program administrative costs. Program recommendations encourage conservation measures which have a service life of at least 15 years. However, energy savings are expected to continue throughout the life of the project.

Projects come to the SBECP either directly because of the energy saving benefits or in conjunction with projects planned under the Long Range Building Program. DEQ offers state agencies assistance in evaluating energy use and identifying energy conservation projects. Program engineers evaluate all projects proposed for the LRBP to assess the energy savings potential on proposed remodeling projects. Projects with the potential for energy savings are funded through the SBECP, and are often jointly funded with the LRBP deferred maintenance funds.

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - State Building Energy Conservation Program				
Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Number of Projects ¹	10	0	(10)	-100.00%
Projects Costs	<u>Appropriated</u> \$23,238,000	<u>Proposed</u> \$0	(\$23,238,000)	-100.00%
Total Costs	\$23,238,000	\$0	(\$23,238,000)	-100.00%
Federal Special (ARRA)	\$21,738,000	\$0	(\$21,738,000)	-100.00%
General Fund ²	1,500,000	0	(1,500,000)	-100.00%
Total Funds	\$23,238,000	\$0	(\$23,238,000)	-100.00%

¹The ten major projects are comprised of numerous smaller projects

²Transfers to SBECP Capital Project Funds

¹ See LFD Issue on page F-7 of this report.

STATE-BUILDING ENERGY CONSERVATION PROGRAM

As seen in the figure above, the executive proposes no new appropriations in the SBECF for the 2013 biennium. This is \$23.2 million, or 100%, less than the SBECF budget in the 2011 biennium.

Program Highlights

State Building Energy Conservation Program Major Budget Highlights
<ul style="list-style-type: none">◆ No new appropriations for the SBECF◆ 100% total funds reduction for 2013 biennium◆ Executive budget anticipates 2011 biennium appropriations will be adequate to keep the program busy through 2013 biennium
Major LFD Issues
<ul style="list-style-type: none">◆ Transfers to the LRBP, as required in statute, are not expected to be made in the 2013 biennium (see issue on page F-7)

Program Narrative

No new appropriations are included in the executive budget for the State Building Energy Conservation Program (SBECF) in the 2013 biennium. The executive budget assumes that the appropriations of last biennium, primarily federal funds provided to DEQ through the American Recovery and Reinvestment Act of 2009 (ARRA), will provide sufficient work for the program in the 2013 biennium. As noted in the executive budget, 9 projects have been completed, 43 projects are in construction, 17 projects are in design, and 18 projects are in planning (all as component pieces of the 10 primary projects mentioned in the program comparison table). According to the staff at DEQ, the U.S. Department of Energy (DOE) required that the federal funds (ARRA federal special funds as appropriated for the 2011 biennium SBECF) be fully obligated by September 30, 2010 and expended by April 2012.

The DEQ believe that there will be \$3 million of unused appropriation authority for energy conservation projects in the 2013 biennium. Because the original appropriations were contained in the LRBP, the appropriation authority is ongoing until the point of project completion. The projects that will be undertaken in the SBECF in the 2013 biennium are consistent with the scope and definition of the projects as discussed with the Sixty-first Legislature for the 2011 biennium.

Funding

Funding for the SBECF was modified by the Sixtieth and the Sixty-first Legislatures. The result is that the program has been fashioned to operate as a “revolving project” program. As previously determined (and shown in the 2011 Fiscal Report, Section F), once agencies begin reimbursing the program for the energy conservation projects appropriated by the 2011 Legislature, total reimbursements should generate about \$1.9 million per year for new projects and administrative costs. However, the full list of projects has not been completed and the current reimbursements are not anticipated to be sufficient to support additional projects in the 2013 biennium.

LONG-RANGE INFORMATION TECHNOLOGY PROGRAM

Program Description

The Long-Range Information Technology Program (LRITP) is a program developed to fund large information technology (IT) projects. The LRITP consolidates large IT investments in one appropriation bill and defines major IT enterprises as capital projects. All projects included in the LRITP bill are overseen by the state chief information officer (CIO) within the Department of Administration (DOA).

The consolidation of major IT projects is intended to achieve several goals. First, IT projects are complex and require significant and time intensive planning, design, and management efforts, and by designating the projects as “capital projects”, the appropriation continues until completion of the project, as statutorily authorized in 2-17-560, MCA. Second, centralized project oversight is expected to enhance project management and foster stronger partnerships between agencies and the state CIO. Finally, having all the major projects in one piece of legislation is anticipated to provide the legislature with a broad vision of the state IT program and related investments.

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Long-Range Information Technology Program				
Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
	<u>Appropriated</u>	<u>Proposed</u>		
Projects Cost	\$99,251,745	\$0	(\$99,251,745)	-100.00%
Total Costs	\$99,251,745	\$0	(\$99,251,745)	-100.00%
State Special	\$6,385,567	\$0	(\$6,385,567)	-100.00%
Federal Special	65,000,000	0	(65,000,000)	-100.00%
General Fund ¹	12,866,178	0	(12,866,178)	-100.00%
Bond Issue/Loans	15,000,000	0	(15,000,000)	-100.00%
Total Funds	\$99,251,745	\$0	(\$99,251,745)	-100.00%
Project Reduction Proposal				
Capital Projects Fund	(\$10,737,033)			
General Fund	10,737,033			
Total Project Reduction Impact	\$0			
¹ Includes \$8.4 million of transfers to the LRITP capital project fund in 2011 biennium				

As seen in the figure above, the executive proposes no new appropriations in the LRITP for the 2013 biennium. This is \$99.3 million, or 100%, less than the LRITP budget in the 2011 biennium. Included in the figure above is the project reduction proposed by the executive where the executive recommends the elimination/reduction of \$10.7 million of LRITP projects and an equivalent transfer to the general fund. The proposal has a net \$0 impact on the funding of the LRITP.

Program Highlights

Long-Range Information Technology Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive budget proposal is a reduction of 100%, from the budget of the 2011 biennium ◆ No general fund enhancement in the 2013 biennium

LONG-RANGE INFORMATION TECHNOLOGY PROGRAM

<ul style="list-style-type: none"> • The LRITP has received general fund transfers for the past 2 biennia • The LRITP was enhanced in the 2011 biennium with \$12.9 million of general fund appropriations and transfers ◆ The executive proposes to eliminate \$10.3 million of LRITP projects authorized by previous legislatures
Major LFD Issues
<ul style="list-style-type: none"> ◆ The executive budget proposal recommends the reduction of three projects authorized by previous legislatures <ul style="list-style-type: none"> • Only the legislature can reduce/eliminate projects • Transfers from the LRITP capital projects fund are a component of the general fund balance sheet • If the Sixty-second Legislature does not agree with the project reductions, the Legislature will be required to find equivalent reductions elsewhere to retain the estimated general fund balance ◆ Significant loss of previously anticipated federal fund ◆ DPHHS will remain out of compliance with the federal IT requirements with their current Child and Adult Protective Services system

Program Narrative

There are no new project appropriations included in the executive budget proposal for the LRITP in the 2013 biennium. The executive budget does recommend the reduction of the appropriations of three projects authorized by previous legislatures. If the legislature agrees with the proposal, the funds that would be “freed-up” through the reductions would to be transferred to the general fund. The LRITP project reductions and fund transfers will be presented in HB 10.

Several project reductions are proposed in the executive budget. The reductions are shown in the figure below along with the session and bill that the project was included in, the amount of the original appropriation, the amount of the LRITP capital project appropriation, and the proposed project reduction. A brief description of the project status follows the table.

Governor Austerity Measures (February 2010) - LRITP Project Reduction Proposal						
Project	Session	Bill No.	Original Appropriation	LRITP Appropriation	Proposed LRITP Reduction	
Child and Adult Protective Services (CAPS) System	5/2007SS	HB 4	\$27,150,000	\$15,204,000	\$10,273,760	
Judicial Branch Information Technology Project	5/2007SS	HB 4	2,909,470	2,909,470	340,000	
Efficiency Through Imaging, DOR	2009	HB 10	3,366,178	3,366,178	123,273	
Total LRITP Reduction Proposals			<u>\$33,425,648</u>	<u>\$21,479,648</u>	<u>\$10,737,033</u>	

LFD COMMENT	<p>A major component of the LRITP budget is what is termed as the Governor’s “austerity measures”. In FY 2010, the Governor was faced with a significant decline in state revenue, which triggered the actions required in 17-7-140, MCA. The provisions of this statute require that the executive reduce state spending. In addition to reducing spending, the Governor recommended the reduction or elimination of certain LRITP projects. However, to realize the savings associated with the projects the legislature must agree with the project reductions, reduce the project appropriation from the original piece of legislation, and transfer the funds from the LRITP capital projects fund to the general fund. The transfers from the LRITP capital projects fund are included in the executive budget general fund balance sheet. Consequently, if the legislature does not agree with the project reductions and transfers, the general fund balance will be reduced.</p>
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LONG-RANGE INFORMATION TECHNOLOGY PROGRAM

MACWIS (Child and Adult Protective Services, CAPS) Project - This project, with total appropriations of \$27.2 million, was intended to replace the current CAPS system with a new system, now referred to as the Montana Automated Child Welfare Information System (MACWIS). The project was intended to better meet the needs of the users and to bring the system into compliance with mandated reporting requirements. The project included an appropriation of \$15.2 million of LRITP capital project funds and \$12.0 million of federal special funds. With legislative agreement, this proposal would reduce the LRITP appropriation by \$10.3 million and transfer the related monies to the general fund. This appropriation reduction will create a loss of \$8.1 million in matching federal funds. From the original appropriation, approximately \$1.5 million has been expended on project design, \$2.9 million has been transferred to the MMIS project, and \$0.5 million has been transferred to the TANF/SNAP project. The project design is complete and is expected to be of value in the future when the department will again request appropriations for the project.

LFD COMMENT

In testimony before the 2007 Legislature, DPHHS discussed the urgent need CAPS (MACWIS) project and discussed how the current system was out of compliance with federal information technology standards. The agency now indicates that the federal partners will permit Montana to continue to claim CAPS operational funding at the SACWIS (State Automated Child Welfare Information System) federal participation rate and are working with DPHHS to address federal compliance issues. DPHHS representatives have also stated that they will request appropriation for the new MACWIS project again at some point in the future. The members of the Long-Range Planning Subcommittee may wish to further question the representatives of DPHHS to determine if the once stated urgency for the project still exists and if the potential consequences to the program, for the continued use of a system that is out of compliance with the federal SACWIS standards, could result in unexpected costs to the agency in the near-term (reduction of the federal participation rate for CAPS operations).

Judicial Branch Information Technology Project – The Judicial Branch IT project, originally appropriated at \$2.9 million from the LRITP capital projects fund, was planned to provide funding for the continuation of the Judicial Branch court modernization to meet the needs of the branch and conforming to current IT standards. The executive proposal recommends reducing the original appropriation by \$340,000. If the legislature agrees, the funds would be transferred from the LRITP capital projects fund to the general fund. To date, completed courtroom technology projects include upgrading 22 court reporting and recording systems, installation of 9 new court video sites, expansion of court video services in 3 sites, upgrade of audio systems in 16 courtrooms, and wiring 16 courtrooms for data connectivity. With the proposed reduction, the Branch will be unable to install or upgrade electronic evidence display systems as originally planned. The Branch may request funding to complete the project in the future.

Efficiency through Imaging, Department of Revenue (DOR) – This project, with total appropriations of \$3.4 million of LRITP capital project funds, was intended to make the handling of paper returns and other documents more efficient and improve the DOR business processes in the areas of compliance, tax processing, and information technology. The reduction proposal, with legislative agreement, would reduce the appropriation by \$123,273. This reduction is projected to have no adverse impacts to the project, as the funds were budgeted to cover potential project contingencies. With the project already contracted and moving forward, the budgetary risks and the need for contingency funds is reduced.

Funding

Projects in the LRITP are funded through a number of sources including LRITP capital project funds, state special funds, federal special funds, and bond issue proceeds. However unlike other LRP programs, the LRITP does not have a dedicated source of funding (tax revenue distributions or interest earnings). Since the inception of the program in 2008, the legislature has provided transfers of general fund one-time only dollars in support of the program and projects. For the 2013 biennium, the executive budget does not recommend any transfers of general fund. Additionally, the budget proposal does not recommend any projects appropriated from state special funds, federal special funds, or bond issue proceeds.

TREASURE STATE ENDOWMENT PROGRAM

Program Description

The Treasure State Endowment Program (TSEP), administered by the Department of Commerce (DOC), is a state infrastructure finance program approved by Montana voters with the passage of Legislative Referendum 110 in June 1992. Grant funding for the program is derived from the interest earnings of the Treasure State Endowment trust. According to 90-6-702, MCA, the purpose of TSEP is to assist local governments in funding infrastructure projects that will:

- Create jobs for Montana residents
- Promote economic growth in Montana by helping to finance the necessary infrastructure
- Encourage local public facility improvements
- Create a partnership between the state and local governments to make necessary public projects affordable
- Support long-term, stable economic growth in Montana
- Protect future generations from undue fiscal burdens caused by financing necessary public works
- Coordinate and improve infrastructure financing by federal, state, local government, and private sources
- Enhance the quality of life and protect the health, safety, and welfare of Montana citizens

Infrastructure projects include drinking water systems, wastewater treatment facilities, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, and bridges. The maximum grant award is \$750,000.

Eligible applicants include cities, towns, counties, tribal governments, consolidated local governments, county or multi-county water, sewer or solid waste districts, and other authorities as defined in 75-6-304, MCA. TSEP applications are submitted to the DOC on a biennial basis where they are evaluated according to seven statutory priorities. The seven statutory priorities focus on projects that:

- Solve urgent and serious public health or safety problems or that enable local governments to meet state or federal health or safety standards
- Reflect greater need for financial assistance than other projects
- Incorporate appropriate, cost-effective technical design and provide thorough, long-term solutions to community public facility needs
- Reflect substantial past efforts to ensure sound, effective, long-term planning and management of public facilities and that attempt to resolve the infrastructure problem with local resources
- Enable local governments to obtain funds from sources other than TSEP
- Provide long-term, full-time job opportunities for Montanans, provide public facilities necessary for the expansion of a business that has a high potential for financial success, or maintain the tax base or encourage expansion of the tax base
- Are high local priorities and have strong community support

Program Budget Comparison

The following figure summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

TREASURE STATE ENDOWMENT PROGRAM

Program Comparison - Treasure State Endowment Program				
Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	\$200,416,137	\$225,744,137	\$25,328,000	12.64%
Trust Earnings	17,865,751	19,682,000	1,816,249	10.17%
Number of Grants (infrastructure)	66	0	(66)	-100.00%
	<u>Appropriated</u>	<u>Proposed</u>		
Grants Cost	\$33,854,171	\$1,000,000	(\$32,854,171)	-97.05%
Total Costs	\$33,854,171	\$1,000,000	(\$32,854,171)	-97.05%
State Special	\$18,800,000	\$1,000,000	(\$17,800,000)	-94.68%
General Fund ¹	8,542,171	0	(\$8,542,171)	-100.00%
Bond Issue/Loans	6,512,000	0	(\$6,512,000)	-100.00%
Total Funds	\$33,854,171	\$1,000,000	(\$32,854,171)	-97.05%
Transfer Proposal				
State Special		(\$17,614,270)		
General Fund		17,614,270		
<small>¹ Transfer to state special revenue fund and estimated for use in the 2011 biennium</small>				

As seen in the figure above, the executive proposes TSEP grant funding of \$1.0 million in the 2013 biennium. This level of appropriation will provide funds for emergency grants and preliminary engineering grants. This is \$32.8 million, or 97.1%, less than the TSEP budget in the 2011 biennium. Included in the figure above is the proposal to transfer \$17.6 million from the TSEP state special fund to the general fund.

Program Highlights

Treasure State Endowment Program
Major Budget Highlights
<ul style="list-style-type: none"> ◆ \$17.6 million transfer of TSEP funds to the general fund in the 2013 biennium ◆ The executive budget proposes extending the coal severance tax distributions to the TSEP trust for an additional five years until 2021 ◆ Program funding is reduced 97% from the 2011 biennium, projects are reduced by 100% ◆ The recommendation includes funding for emergency and preliminary engineering grants
Major LFD Issues
<ul style="list-style-type: none"> ◆ Elimination of the TSEP grants in the 2013 biennium will negatively impact local government infrastructure projects ◆ Elimination of TSEP grants in the 2013 biennium may have a significant impact on the Montana economy (see issue on page F-5) ◆ The proposal does not consider the requirement that the program borrow funds to fully fund grants authorized by the 61st Legislature <ul style="list-style-type: none"> • HB 11 from the 2009 Legislative Session provided an appropriation for up to \$6.2 million in borrowed funds for grant requests • The loan repayment will further reduce the funds available for funding other priorities

TREASURE STATE ENDOWMENT PROGRAM

- ◆ The proposed expenditures and transfers in the executive budget proposal exceed the anticipated revenues
- ◆ If the Sixty-second Legislature does not agree with the transfer of TSEP funds to the general fund, the Legislature will be required to find equivalent reductions elsewhere to retain the estimated general fund balance

Program Narrative

The executive budget proposal for the 2013 biennium will be presented in HB 11. The proposal includes total appropriations of \$1.0 million for TSEP, \$100,000 for emergency grants and \$900,000 for preliminary engineering grants. The proposal also includes a transfer of \$17.6 million of TSEP interest earnings to the general fund.

While the executive recommendation does not include an appropriation for local government grants, the TSEP had initiated plans to have a grant program in the 2013 biennium. The local government grant requests were accepted and the ranking process was completed at the agency level. The prioritized TSEP list is found in the Section F Appendix on page F-47 of this report.

LFD ISSUE

Transfer of TSEP Funds Will Negatively Impact Local Governments

Local government infrastructure (water/wastewater) projects require substantial time and money to bring to the application process of the TSEP. Additionally, those local governments whose systems are out of compliance with drinking and wastewater standards will need to find other sources of funding to bring their systems into compliance.

The local governments who have applied for TSEP funds have already expended funds for the engineering reports used in the TSEP prioritization process. In addition, public meetings have been held for discussion of the proposed project and financial packages have been compiled. In short, local governments have invested significant amounts of time and effort with the anticipation of being prioritized “in the funding” for the 2013 biennium TSEP program. While delaying the project will not totally require starting from scratch for the 2015 TSEP program, there is little question that the engineering reports will need to be updated, the local interest will need to be reevaluated, and the funding packages will need to be revised. The elimination of the program in the 2013 biennium will inevitably force applicants to pay additional costs for their projects.

Often times, TSEP projects are planned to correct serious problems with current systems. Many local governments have systems that are out of compliance with state and federal drinking water and wastewater standards. Without the assistance of the TSEP, it is likely to take more time and money to bring the system back into compliance. Some of the local governments do not have the access to sufficient funds to fix the problem, and in those cases, the problem may not be resolved and the local governments could potentially face fines for their lack of compliance. In other cases, local governments may attempt to replace the TSEP component of their funding package with loans, resulting in higher costs to the citizens.

There could be a negative impact to local governments related to the lack of appropriation for TSEP grants. The Long-Range Planning subcommittee may wish to determine if this executive proposal, to transfer TSEP funds to the general fund, is logical and justifiable under the circumstances.

The executive budget recommendation extends the coal severance tax distribution to the TSEP trust for an additional five years. Currently, the endowment receives 50% of the coal severance tax statutorily deposited into the permanent coal tax trust (approximately 25% of the total tax receipts). The distribution is statutorily scheduled to end on June 30, 2016. The statutory amendment, included in HB 11, will extend the distribution until June 30, 2021.

TREASURE STATE ENDOWMENT PROGRAM

Funding

TSEP administrative costs and grant appropriations are funded with the interest earnings from a coal severance tax endowment trust. The TSEP trust is a “sub-trust” of the permanent coal severance tax trust. The corpus of the sub-trust has grown since its formation in 1992. The TSEP trust balance is expected to be \$200.4 million by the end of the 2011 biennium and is expected to grow by \$25.3 million by the end of the 2013 biennium.

The fund balance table below shows the projected ending fund balance of the treasure state endowment state special revenue account for the 2013 biennium under present law assumptions. The TSEP account will begin the biennium with a negative beginning fund balance of \$3.2 million. The negative beginning fund balance of July 1, 2011 results from the amount of grants that were authorized by the 2009 Legislature. It was the intent of the Sixty-first Legislature to fund all the 2011 biennium grant requests on the condition that they meet the program “start-up conditions” by the deadline of June 30, 2011. To provide the funding for the grants, the 2009 version of HB 11 contained an appropriation of up to \$6.2 million in borrowed funds. The TSEP has statutory authority to borrow funds from the Board of Investments, per 90-6-701(1)(b), MCA for local government grants. At this time, the need for borrowed funds is estimated to be \$3.3 million, and the loan will be repaid through the future earnings of the trust. The negative beginning fund balance is expected to be offset with the loan.

TSEP interest earnings are expected to be \$19.7 million for the biennium. There are several expenditures recommended from the TSEP state special fund. First, there is an expenditure of \$1.1 million for the administrative costs of the program, which will be appropriated in the general appropriations act. In past years, the fund supported administrative costs at the Department of Natural Resources and Conservation (DNRC), but the Sixty-first Legislature amended the TSEP statutes to allow only the DOC to access the fund for the administrative program costs. While an appropriation is included in the executive budget, the appropriations will be recommended for elimination in the legislative budget negotiations.

Treasure State Endowment Fund (02270) Fund Balance Projection 2013 Biennium	
Estimated Beginning Fund Balance (7/01/2011)	(\$3,246,651)
Estimate of Loan	\$3,250,000
Revenue Projections¹	
FY 2012 Interest Earnings	\$9,484,000
FY 2013 Interest Earnings	<u>10,198,000</u>
2013 Biennium Revenues	\$19,682,000
Proposed Expenditures²	
Administration - Commerce	(\$1,127,022)
Administration - DNRC	(56,000)
Emergency Grants	(100,000)
Preliminary Engineering Grants	(900,000)
Loan Repayment Expense ³	<u>(840,039)</u>
Total Expenditures	<u>(\$2,967,061)</u>
Balance	\$16,718,289
Proposed Transfer to General Fund ²	<u>(17,614,270)</u>
Estimated Ending Fund Balance - (6/30/2013)	<u>(\$895,981)</u>
<small>¹Based on RTIC estimates</small>	
<small>²Based on executive budget proposal</small>	
<small>³Assumptions are for a loan of \$3.3 million for 10 years at a 5% rate of interest</small>	

This fund balance analysis assumes that the costs will be eliminated. Other expenses appropriated in the TSEP bill include \$100,000 for the emergency grants program and a \$900,000 appropriation for preliminary engineering grants.

The TSEP balance sheet also includes the statutory appropriation of \$840,039 for the 2013 biennium payments of the expected loan. The executive budget did not include any detail related to the loan repayment. This debt service expense is estimated by the LFD and assumes that TSEP would require a loan of \$3.3 million to cover the costs of all the grant awards of the 2011 biennium. Additional assumptions include a loan maturity of 10 years and an interest rate of 5%.

Finally, the executive proposes to transfer \$17.6 million from the TSEP fund to the general fund to balance the budget and provide an adequate general fund ending fund balance. In the original executive budget proposal, the amount transferred from the TSEP fund to the general fund was proposed to be \$18.5 million, but upon recognition of the negative ending fund balance in the TSEP fund that would result from the \$18.5 million transfer, the proposed transfer is expected to be reduced. With that transfer, the fund balance analysis shows that the TSEP state special revenue fund would be over expended by \$895,981. The options available to the legislature are seen in the LFD Issue below.

TREASURE STATE ENDOWMENT PROGRAM

LFD ISSUE

Negative Ending Fund Balance in the TSEP Fund

The TSEP state special fund spending proposals of the executive budget exceeds the anticipated revenue of the fund. Consequently, changes must be made to provide a positive ending fund balance.

At this time, the fund is estimated to be over expended by \$895,981. Options that the legislature might consider to correct the imbalance include:

- Reducing the administrative costs (\$1.1 million)
- Reducing or eliminating the emergency and preliminary engineering grants (\$1.0 million)
- Reducing the transfer to the general fund (\$17.6 million)
- Any combination of the above mentioned items

LFD ISSUE

Legislative Approval Required

The executive balance sheet (*Governor's Executive Budget, Fiscal Years 2012-2013, Volume 1, page 1*) contains transfers of state special funds to the general fund as a way to provide the estimated ending fund balance of \$238.5 million. A portion of the balance sheet transfers are from the transfer of \$18.5 million of TSEP funds to the general fund (as originally proposed, but this amount is expected to be changed to \$16.7 million in the December 15 executive budget revisions). Consequently, if the Sixty-second Legislature does not agree with policy of transferring funds from the TSEP fund (and not funding local government water and sewer infrastructure grants), and if the legislature wants to retain the ending fund balance of \$238.5 million, then the legislature will be required to review the full range of budget priorities and tax policies to determine what other actions could be taken to replace the funds.

TREASURE STATE REGIONAL WATER PROGRAM

Program Description

The 1999 Legislature created the treasure state endowment regional water system fund as a new sub-trust within the coal tax permanent trust. The program is administered by the Department of Natural Resources and Conservation (DNRC). The Treasure State Endowment Program Regional Water System (TSEPRW), established in 90-6-715, MCA, was created to:

“...finance regional drinking water systems that supply water to large geographical areas and serve multiple local governments, such as projects in north central Montana, from the waters of the Tiber reservoir, that will provide water for domestic use, industrial use, and stock water for communities and rural residences that lie south of the Canadian border, west of Havre, north of Dutton, and east of Cut Bank and in northeastern Montana, from the waters of the Missouri River, that will provide water for domestic use, industrial use, and stock water for communities and rural residences that lie south of the Canadian border, west of the North Dakota border, north of the Missouri River, and east of range 39.”

Two projects that have received federal authorization and now qualify for a match of federal funding are the Fort Peck Indian Reservation/Dry Prairie Regional Water System (Fort Peck/Dry Prairie) and the Rocky Boy’s Indian Reservation/North Central Montana Regional Water System (Rocky Boy’s/NC Montana). The federal government estimates total project costs for Fort Peck/Dry Prairie at approximately \$310 million and the Rocky Boy’s/NC Montana at approximately \$345 million (amounts as adjusted for inflation and indexed to 2012 by the US Bureau of Reclamation). The costs include a nonfederal (state and local) match of over \$21 million for the Dry Prairie project and more than of \$36 million for the NC Montana project. The federal government match for each regional water project local dollar is between \$9 and \$12. The local match is split evenly between the state and the local regional water authority, unless hardship is proved. In cases of hardship, the split is 75% for the state and 25% for the regional water authority.

LFD COMMENT

With the increased appropriations in the 2011 biennium, there is a likelihood that, from the perspective of the state match, the Dry Prairie water project could be completed by the end of the biennium.

A third project, the Dry-Redwater Regional Water System, would bring water to portions of Garfield, McCone, Richland, Prairie, and Dawson counties. The Dry-Redwater Regional Water Authority was established in FY 2006. A project feasibility study was completed in FY 2007. Engineering estimates of the cost of this system, including a surface water treatment plant and water delivery system, exceed \$110 million (\$112 million requested in Federal authorization legislation introduced in August 2008).

A fourth project, the Musselshell-Judith Regional Water System (Central Montana Regional Water Authority), has not qualified for federal funding, but it has received program approval from the state. The project received status as a regional water authority early in FY 2006. The system would serve over a dozen communities along the Judith and Lower Musselshell Rivers, at a total estimated cost of \$90 million to \$100 million, with groundwater wells as the source of the water.

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

TREASURE STATE REGIONAL WATER PROGRAM

Program Comparison - Treasure State Endowment Regional Water Program				
Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	\$61,211,781	\$72,538,781	\$11,327,000	18.50%
Trust Earnings	5,209,823	6,585,000	1,375,177	26.40%
	<u>Appropriated</u>	<u>Proposed</u>		
Project Cost	\$15,000,000	\$0	(\$15,000,000)	-100.00%
Total Costs	\$15,000,000	\$0	(\$15,000,000)	-100.00%
State Special	\$7,000,000	\$0	(\$7,000,000)	-100.00%
General Fund ¹	8,000,000	0	(\$8,000,000)	-100.00%
Total Funds	\$15,000,000	\$0	(\$15,000,000)	-100.00%
Transfer Proposal				
State Special		(\$4,823,825)		
General Fund		4,823,825		
¹ Transfer to state special revenue fund in 2011 biennium				

As seen in the figure above, the executive proposes no new appropriations for the TSEPRW program in the 2013 biennium. This is \$15.0 million, or 100%, less than the TSEPRW budget in the 2011 biennium. Included in the figure above is the proposal to transfer \$4.8 million from the TSEPRW state special fund to the general fund.

Program Highlights

Treasure State Endowment Regional Water Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ \$4.8 million transfer of TSEPRW funds to the general fund in the 2013 biennium ◆ Projects are reduced by 100%
Major LFD Issues
<ul style="list-style-type: none"> ◆ If the Sixty-second Legislature does not agree with the transfer of TSEPRW funds to the general fund, the Legislature will be required to find equivalent reductions elsewhere to retain the estimated general fund balance

Program Narrative

The executive budget proposal for the 2013 biennium will be presented in HB 11. No appropriations are proposed for TSEPRW projects. The proposal does include a transfer of \$4.8 million of TSEPRW interest earnings to the general fund.

Funding

The TSEPRW trust is a “sub-trust” of the permanent coal severance tax trust. The corpus of the sub-trust has grown since its formation in 1999 with distributions of 25% of the coal severance tax deposited into the coal tax trust (12.5% of the total coal severance tax). The trust will continue to receive coal tax distributions until June 30, 2016. The trust balance is expected to be \$61.2 million by the end of the 2011 biennium and is expected to grow by \$11.3 million by the end of the 2013 biennium. The interest earned from the fund is transferred into the state

TREASURE STATE REGIONAL WATER PROGRAM

special fund authorized in Title 90, Section 6, part 7, MCA, to provide a match for federal and local monies for the purpose of developing large water systems.

The figure to the right shows the fund balance calculation for the TSEPRW account for the 2013 biennium. The beginning fund balance is expected to be \$0 at the beginning of the 2013 biennium, indicating that the program plans to fully expend the project appropriations provided for the 2011 biennium. The trust earnings are expected to be \$6.6 million in the 2013 biennium. Statutorily, the interest earnings of the trust may be used to fund the administrative expenses for the program, and the executive recommendation proposes an administrative appropriation of \$1.4 million for the 2013 biennium, which will be appropriated in the general appropriation act. Most of the remaining TSEPRW funds, \$4.8 million are proposed to be transferred to the general fund, leaving a balance of \$337,547 at the end of the 2013 biennium.

TSEP Regional Water System Fund (02015) Fund Balance Projection 2013 Biennium		
Estimated Beginning Fund Balance (7/1/2011)		\$0
Revenue Projections ¹		
2012 Interest Earnings	\$3,089,000	
2013 Interest Earnings	<u>3,496,000</u>	
2011 Biennium Revenues		6,585,000
Proposed Expenditures ²		
Administration - DNRC		(1,423,628)
Balance		\$5,161,372
Proposed Transfer to General Fund ²		<u>(4,823,825)</u>
Estimated Ending Fund Balance - (6/30/2013)		<u>\$337,547</u>
<small>¹Based on RTIC estimates</small>		
<small>²Based on executive budget proposal</small>		

LFD ISSUE	<p>Legislative Approval Required</p> <p>The executive balance sheet (<i>Governor's Executive Budget, Fiscal Years 2012-2013, Volume 1, page 1</i>) contains transfers of state special funds to the general fund as a way to provide the estimated ending fund balance of \$238.5 million. A portion of the balance sheet transfers result from the transfer of \$4.8 million of TSEPRW funds to the general fund. Consequently, if the Sixty-second Legislature does not agree with policy of transferring funds from the TSEPRW fund, and if the legislature wants to retain the ending fund balance of \$238.5 million, then the legislature will be required to review the full range of budget priorities and tax policies to determine what other actions could be taken to replace the funds.</p>
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RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

Program Description

The Renewable Resource Grant and Loan (RRGL) program was created by the 1993 Legislature. This program combines the former Renewable Resource Development Program, established in 1975, and the Water Development Program, established in 1981. As outlined under Title 85, Chapter 1, part 6, MCA, the purpose of the RRGL is to fund projects that “enhance Montana's renewable resources through projects that measurably conserve, develop, manage, or preserve resources.”

The Department of Natural Resources and Conservation (DNRC) administers the RRGL program, which involves a biennial application process. DNRC and a technical review team initially evaluate each application for economic and technical feasibility, as well as to ensure that proposed projects are located in Montana. Qualifying applications are then examined according to six criteria:

- Financial feasibility
- Adverse environmental impact
- Technical merit
- Public benefit
- Renewable Resource Benefit

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Renewable Resource Grant and Loan Program				
Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Number of Grants	89	59	(30)	-33.71%
	<u>Appropriated</u>	<u>Proposed</u>		
Grants Program	\$9,904,593	\$7,210,000	(\$2,694,593)	-27.21%
Loan Program	20,058,795	13,724,457	(6,334,338)	-31.58%
Total Costs	\$29,963,388	\$20,934,457	(\$9,028,931)	-30.13%
State Special	\$5,755,797	\$7,210,000	\$1,454,203	25.27%
Bonds-Loan Program	20,058,795	13,724,457	(6,334,338)	-31.58%
General Fund	4,148,796	0	(4,148,796)	-100.00%
Total Funds	\$29,963,388	\$20,934,457	(\$9,028,931)	-30.13%

As seen in the figure above, the executive proposes a total of \$20.9 million of appropriations for the RRGL programs in the 2013 biennium. Of the proposed appropriations, \$7.2 million is for various grant programs/projects and \$13.7 is for the loan program (only a reauthorization of previous authorized loans). This is \$9.0 million, or 30.1%, less than the RRGL budget in the 2011 biennium. Both components of the RRGL are proposed to be reduced in the 2013 biennium, with the grant program proposed to be reduced by 27.2% and the loan program proposed to be reduced by 31.6%.

Program Highlights

Renewable Resource Grant and Loan Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ \$5.8 million appropriation in the RRGL program will support 59 grants ◆ Total fund reduction of 27%

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

<ul style="list-style-type: none"> • No general fund transfers to the state special revenue fund • State special revenue fund increase of 25% ◆ Loan program includes only reauthorization of past loans
Major LFD Issues
<ul style="list-style-type: none"> ◆ RRGL and TSEP grants are both required for some projects <ul style="list-style-type: none"> • No TSEP grants in the 2013 biennium • RRGL grants alone may not fully support the project ◆ The executive budget over appropriates the state special revenue fund

Program Narrative – Grant Program

The RRGL program consists of two elements. First, there is a grant program that provides funding for various natural resource programs, the largest of which are the grants to local governments for projects that conserve, develop, manage, or preserve resources (RRGL). Included in the RRGL program are the appropriations for emergency grants and project planning grants. Project planning grants benefit local governments by providing funds to facilitate the application for the RRGL grant program. Other grant programs included in this budget include the irrigation grants program (providing grants for irrigation projects throughout the state) and the private grant program (benefits individuals with conservation projects). The second element of the RRGL is a loan program that provides low interest loans to various entities for conservation projects. More detail on the loan program is provided beginning on page F-32.

The figure below is a priority listing of the RRGL grants recommended in the executive budget for the 2013 biennium. DNRC received a total of 112 grant applications from local governments, from which 110 are recommended for grants at a cost of \$10,598,971. While the executive budget mentions only that there are \$10.6 million of recommended RRGL grants, HB 6 (RRGL bill) will contain an appropriation for \$5.8 million for local government grants. This level of appropriation is a 27% reduction of the total funding of the 2011 biennium and could provide funding for the first 59 grants in the project list. Along with the local government grant proposals, the executive proposal also includes appropriations for \$100,000 to fund the emergency grant program, \$800,000 for project planning grants, \$300,000 for irrigation development grants, \$50,000 for private grants, and \$180,000 for a state water plan and inventory. Total recommended appropriations for the RRGL program are \$7.2 million.

Renewable Resource Grants (RRGL) 2013 Biennium				
Rank	Applicant	Grant Requested	Grant Recommended	Cumulative Total
1	Mt Dnrc Wrđ Hydropower Feasibility Study	\$100,000	\$100,000	\$100,000
2	X Sheridan, Town Of Wastewater System Improvements	100,000	100,000	200,000
3	X Deer Lodge, City Of Wastewater System Improvements	100,000	100,000	300,000
4	Fergus Cd Big Spring Creek Stream Restoration, Machler Conserv Easement	100,000	100,000	400,000
5	Mt Dnrc Trust Land Management Division Smith Lake Dam Rehabilitation	100,000	100,000	500,000
6	X Culbertson, Town Of Wastewater System Improvements	100,000	100,000	600,000
7	X Upper And Lower River Road Wsd Water And Wastewater System Improvements	100,000	100,000	700,000
8	Beaverhead Cd Poindexter Slough Fishery Enhancement	100,000	100,000	800,000
9	Pondera Cd Pondera County C Canal	100,000	100,000	900,000
10	Buffalo Rapids Project District I Irrigation System Improvements- Lateral 26.4	100,000	100,000	1,000,000
Sub-Total:		\$1,000,000	\$1,000,000	

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

Renewable Resource Grants (RRGL) 2013 Biennium				
Rank	Applicant	Grant Requested	Grant Recommended	Cumulative Total
	Balance:	\$1,000,000	\$1,000,000	
11	Pondera Cd Irrig Infra Improv- Pondera Wasteway Rehab & Water Quality Improv	100,000	100,000	1,100,000
12	Flathead County Bigfork Stormwater System Improvements	100,000	100,000	1,200,000
13	X Hebggen Lake Estates County Wsd Wastewater System Improvements	100,000	100,000	1,300,000
14	X Harlem, City Of Wastewater System Improvements	100,000	100,000	1,400,000
15	X Polson, City Of Water System Improvements	100,000	100,000	1,500,000
16	X Amsterdam-Churchill Csd No. 307 Wastewater System Improvements	100,000	100,000	1,600,000
17	Stanford, Town Of Water System Improvements	100,000	100,000	1,700,000
18	Mt Department Of Fish, Wildlife & Parks Chadbourne Diversion Dam Repair And Selective Fish Passage Retrofits	99,500	99,500	1,799,500
19	Helena Valley Id Irrigation System Improvements -Pump No 2 Rehab	100,000	100,000	1,899,500
20	X Belt, Town Of Water System Improvements	100,000	100,000	1,999,500
21	X Sun Prairie Village County Wsd Water System Improvements	100,000	100,000	2,099,500
22	Fort Belknap Indian Community Water Conservation Project	100,000	100,000	2,199,500
23	Sweet Grass County Cd Big Timber Creek Channel Stabilization Project	99,998	99,998	2,299,498
24	Sidney Water Users Id Increasing Irrigation Efficiency: District 1 & 2, Phase 3	100,000	100,000	2,399,498
25	Sidney Water Users Id Increasing Irrigation Efficiency: District 5, Lateral 2	100,000	100,000	2,499,498
26	Clinton Id Irrigation System Improvements Schoolhouse Pipeline	100,000	100,000	2,599,498
27	East Bench Id Main Canal Check Structure Rehabilitation	100,000	100,000	2,699,498
28	Lower Musselshell Cd Delphia Melstone Irrigation Structure Rehabilitation/Canal Lining	100,000	100,000	2,799,498
29	Madison Cd South Meadow Creek Water Efficiency	100,000	100,000	2,899,498
30	Confederated Salish And Kootenai Tribes Jocko Upper S Canal Lining	100,000	100,000	2,999,498
31	Malta Id Dodson North Canal Siphons Replacement Project	100,000	100,000	3,099,498
32	X Roberts Carbon County Wsd Water And Wastewater System Improvements	100,000	100,000	3,199,498
33	Chippewa Cree Tribe Dry Fork Farms Irrigation Enhancement Project	97,429	97,429	3,296,927
34	Flathead Joint Boc Jocko Upper J Canal Diversion Structure	100,000	100,000	3,396,927
35	Lockwood Id Irrigation System Improvements - Intake Canal Spillway Replacement	100,000	100,000	3,496,927
36	Glendive, City Of Gi Feasibility Study	100,000	100,000	3,596,927
37	Fort Shaw Id Irrigation System Improvements	100,000	100,000	3,696,927
	Sub-Total:	\$3,696,927	\$3,696,927	

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

Renewable Resource Grants (RRGL)					
2013 Biennium					
Rank	Applicant		Grant Requested	Grant Recommended	Cumulative Total
		Balance:	\$3,696,927	\$3,696,927	
38	Mt Dnrc Wrd East Fork Rock Creek Diversion And Fish Screen Project		100,000	100,000	3,796,927
39	Daly Ditches Id Irrigation System Improvements- Hedge Canal		100,000	100,000	3,896,927
40	X Gallatin Gateway County Wsd Wastewater System Improvements		100,000	100,000	3,996,927
41	Greenfields Id Irrigation System Improvements -Big Coulee		100,000	100,000	4,096,927
42	Park Cd Irrigation System Improvements- Park Branch Paradise Canal		100,000	100,000	4,196,927
43	Huntley Project Id Irrigation System Improvements- Lower Canal Seepage Lining		100,000	100,000	4,296,927
44	Anaconda - Deer Lodge County Water System Improvement: System Wide Water Meter Installation		100,000	100,000	4,396,927
45	X Fairfield, Town Of Water System Improvements		100,000	100,000	4,496,927
46	Fort Peck Tribes Irrigation System Improvements Lateral L-2M Rehab		100,000	100,000	4,596,927
47	X Hardin, City Of Water System Improvements		100,000	100,000	4,696,927
48	Bitter Root Id Improvements- Siphon 1, Phase 2		100,000	100,000	4,796,927
49	X North Havre County Wdt Water System Improvements		100,000	100,000	4,896,927
50	Roundup, City Of Musselshell Watershed Sustainable Irrigation Management		60,000	60,000	4,956,927
51	Mt Dnrc Water Resources Division Clark Fork River Basin Task Force		32,000	32,000	4,988,927
52	Green Mountain Cd Tuscor Creek Restoration Project		84,778	84,778	5,073,705
53	X Lewistown, City Of East Fork Dam Repair		100,000	100,000	5,173,705
54	Crow Tribe Of Indians Water System Improvements Phase 4A		100,000	100,000	5,273,705
55	X Hill County Wdt Water System Improvements		100,000	100,000	5,373,705
56	X Roundup, City Of Water System Improvements		100,000	100,000	5,473,705
57	Kevin, Town Of Water System Improvements, Phase 3		100,000	100,000	5,573,705
58	X Lacasa Grande Wsd Wastewater System Improvements		100,000	100,000	5,673,705
59	Whitefish, City Of Haskill Basin Water Conservation And Preservation Project		100,000	100,000	5,773,705
Projects below this line are recommended only with available funding					
60	Ravalli County Phase 3 Lidar Mapping For Flood Hazard Id		75,000	75,000	5,848,705
61	X Lockwood Wsd Wastewater System Improvements		100,000	100,000	5,948,705
62	Teton Cd Eureka Reservoir Improvements		100,000	100,000	6,048,705
63	X East Helena, City Of Wastewater System Improvements		100,000	100,000	6,148,705
64	X Missoula County Wastewater System Improvements- Spring Meadows Addition		100,000	100,000	6,248,705
		Sub-Total:	\$6,248,705	\$6,248,705	

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

Renewable Resource Grants (RRGL) 2013 Biennium					
Rank	Applicant		Grant Requested	Grant Recommended	Cumulative Total
		Balance:	\$6,248,705	\$6,248,705	
65	Missoula County Lidar Mapping		50,000	50,000	6,298,705
66	Mt Dnrc Wrđ Irrig Syst Improv- Martinsdale Supply Canal Headworks Rehab		98,688	98,688	6,397,393
67	Ravalli County Environmental Health Bitterroot Valley Septic Systems Impact Model, Phase 2		73,745	73,745	6,471,138
68	Foys Lakeside County Wsd Water Syst Improv: Main Replacement And System Wide Metering		100,000	100,000	6,571,138
69	X Pablo Lake County Wsd Water System Improvements		100,000	100,000	6,671,138
70	X Cut Bank, City Of Water System Improvements, Phase 4		100,000	100,000	6,771,138
71	University Of Montana Nat Heritage Prg Wetland & Riparian Mapping, L&M Musselshell		99,934	99,934	6,871,072
72	Bozeman High School, District #7 Mandeville Creek Restoration And Community Ed Project		100,000	100,000	6,971,072
73	White Sulpher Springs, City Of Water System Improvements		100,000	100,000	7,071,072
74	Mt Dnrc Wrđ Cooney And Deadman'S Basin Automated Instrumentation		100,000	100,000	7,171,072
75	Park Cd Irrigation Infrastructure Improvements- Livingston Ditch		100,000	100,000	7,271,072
76	Carbon Cd Irrigation System Improvements- Whitehorse Canal		82,950	82,950	7,354,022
77	X Ronan, City Of Stormwater System Improvements		100,000	100,000	7,454,022
78	Fromberg, Town Of Water System Improvements		100,000	100,000	7,554,022
79	X Jordan, Town Of Water System Improvements		100,000	100,000	7,654,022
80	Lower Yellowstone Irrigation Project Boc Lyipboc Scada And Water Measurement Project		100,000	100,000	7,754,022
81	Butte-Silver Bow City-County Government Big Hole River (Bhr) Pumpstation Rehab		100,000	100,000	7,854,022
82	X Manhattan, Town Of Water System Improvements		100,000	100,000	7,954,022
83	North Powell Cd Blackfoot Irrigation Efficiency		60,000	60,000	8,014,022
84	Kalispell, City Of Woodland Park Pond Remediation		100,000	100,000	8,114,022
85	Mt Dnrc Wrđ Streamstats Interactive Web Map Application		100,000	100,000	8,214,022
86	X Libby, City Of Wastewater System Improvements		100,000	100,000	8,314,022
87	Toston Id Crow Creek Pumping Plant Rehabilitation		100,000	100,000	8,414,022
88	X Em-Kayan County Wsd Water System Improvments		100,000	100,000	8,514,022
89	Gallatin County Swđ Logan Landfill Waste-To-Energy Feasibility Study		100,000	100,000	8,614,022
90	Hill County Cd Milk River Basin Riparian & Hydro Restor-Invasive Species Removal		54,245	54,245	8,668,267
91	X Brady County Wsd Water System Improvements		100,000	100,000	8,768,267
		Sub-Total:	\$8,768,267	\$8,768,267	

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

Renewable Resource Grants (RRGL) 2013 Biennium					
Rank	Applicant		Grant Requested	Grant Recommended	Cumulative Total
		Balance:	\$8,768,267	\$8,768,267	
92	Lincoln Cd Sinclair Creek Watershed Improvements		100,000	100,000	8,868,267
93	Tin Cup Wsd Lake Dam Improvements		94,638	94,638	8,962,905
94	X Melrose Wsd Wastewater System Improvements		100,000	100,000	9,062,905
95	X Augusta Wsd Wastewater System Improvements		100,000	100,000	9,162,905
96	Target Range Wsd Replacing Obsolete Septic Systems		100,000	100,000	9,262,905
97	Carbon Cd Irrigation Improvements Project- Pleasant Valley Canal Rehab		100,000	100,000	9,362,905
98	Troy, City Of Water System Improvements		100,000	100,000	9,462,905
99	Mt Dnrc Wrd Water Resource Survey Framework		71,000	71,000	9,533,905
100	University Of Montana Dev Wolf Pop Mntr Tech To Advance Mgt & Conserv Of Wildlife In Mt		100,000	100,000	9,633,905
101	Lockwood Area/Yellowstone County Wsd Water System Improvements		100,000	100,000	9,733,905
102	X Eureka, Town Of Wastewater System Improvements		100,000	100,000	9,833,905
103	X Joliet, Town Of Water System Improvements		100,000	100,000	9,933,905
104	University Of Montana Exper Assmt: Eco & Soc Dimensions Of Human Bear Conflict Mitig		99,067	99,067	10,032,972
105	X Bigfork County Wsd Water System Improvements		100,000	100,000	10,132,972
106	Park County Shields River Surface And Groundwater Analysis		83,713	83,713	10,216,685
107	Petroleum County Cd Horse Creek Coulee Water Storage Project		82,286	82,286	10,298,971
108	X Shelby, City Of West Interceptor Project		100,000	100,000	10,398,971
109	Sidney, City Of Optimizing Water Development From The Well Field		100,000	100,000	10,498,971
110	X Thompson Falls, City Of Water System Improvements-Ashley Creek Transmission Main		100,000	100,000	10,598,971
Projects below this line are not recommended for funding					
	Cascade Cd Whitmore Ravine Erosion Control And Storm Drainage, Phase 1		100,000		10,598,971
	Paradise Valley Id Main Canal Water Measurement Project		64,116		10,598,971
Total RRGL Grants Requested/Recommended			<u>\$10,763,087</u>	<u>\$10,598,971</u>	
X Coordination Indicator / Indicates TSEP Grant Request					

LED ISSUE	<p>Undeveloped Budget Proposals (RRGL and RDGP)</p> <p>By statute (Title 17, Chapter 7), the executive is required to submit a budget proposal to the Legislative Fiscal Analyst on November 15 (of the year prior to the start of the legislative session). According to 17-7-123, the proposal should include "...balanced financial plan for funds subject to appropriation". The executive proposal of Nov. 15, 2010 for the RRGL and RDGP grant programs budgets did not include the amounts proposed for the appropriations of projects. Consequently, to determine the level of</p>
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RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

appropriation and the status of the state special revenue fund, the LFD was required to extract information from the related bill drafts. In these cases, staff is faced with the challenge of preparing a budget analysis that is pegged either to the printed executive budget or the draft legislation, and trying to determine which is intended to be the executive budget proposal.

The legislature may want to consider statutory revisions that will enhance the submittal of budgetary details by the executive. One option is to clarify the level of detail required to be submitted with the executive budget. Another possible solution would be to accelerate the budget submittal dates so legislative staff would have adequate time to request additional budget details if the information submitted is inadequate. When major revisions to the executive budget are submitted on December 15, it is impossible for staff to ferret out details and have a complete analysis done prior to the convening of the legislature.

LFD ISSUE

RRGL Projects Often Rely on TSEP Funding

Local governments contemplating the construction of water and wastewater infrastructure projects often rely on numerous sources of funding when developing their financial packages for what are always costly propositions. One of the major sources that local governments look to for financial assistance is the Treasure State Endowment Grant Program (TSEP). In the 2013 biennium, the executive budget does not include funding for TSEP infrastructure grants, but instead transfers most of the interest earnings to the general fund.

The RRGL grant table above includes an indicator, “X” next to those local governments who also applied for a TSEP grant. Of the 110 RRGL grant recommendations, 37 local governments (34%) pursued both RRGL and TSEP grants. Given the \$5.8 million HB 6 appropriation, 19 of the 59 local governments (32%) that might anticipate RRGL grants in the 2013 biennium had applied for both programs.

The RRGL provides up to \$100,000/grant while TSEP provides up to \$750,000/grant. Consequently, the TSEP grant becomes a more important component of the project funding package. In some cases, without the TSEP grant, local governments will not be able to go forward with their project. The Long-Range Planning subcommittee may wish to request information from DNRC to determine which of the dual grant funded projects will not be feasible without a TSEP grant. At that time, the subcommittee will have the information to decide if the expected 19 projects should be removed from the prioritized list.

Funding

The funding for both the RRGL and (following) RDGP programs is managed from one fund, titled the “natural resource projects fund”. For information related to the funding of the RRGL program, see page F-36.

Program Narrative – Loan Program

The second element of the RRGL program is the loan program. The loan program, typically proposed in HB 8, will authorize the issuance of coal severance tax bonds to finance RRGL project loans. Proceeds from the issuance of bonds are used to fund the loans, with loan repayments used to pay the debt service. Loans have differing interest rates based on the borrower’s financial capacity for loan repayment. The interest payments on some of the bonds are subsidized with earnings from the coal severance tax bond fund. Because these are general obligation bonds, they constitute state debt that requires a two-thirds vote of the members of each house. Moreover, because money from the coal severance tax bond fund is pledged for debt service payments on the bonds, the RRGL loan/bond bill will also require a three-fourths vote of the members of each house, as directed by the Montana Constitution.

The executive budget recommendation does not contain requests for new loans in the 2013 biennium. However, the RRGL bond bill, typically designated as HB 8, will include the reauthorization of three loans originally authorized by the 2011 Legislature. The total request for bond authority and appropriation is \$13.7 million and

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

includes loan re-authorizations of \$6.3 million, \$5.6 million for loans to projects that may not have completed RRGL grant requirements, and an additional amount of \$1.8 million to establish a reserve for the bonds.

Renewable Resource Loans 2013 Biennium		
Loans-Sponsor/Project	Loan Recommendation	Cumulative Total
Section 1¹		
Subsection (2) Projects (4.5% or State bond rate, whichever is lower-15 years)		
DNRC-Water Resource Division (WRD)		
Ruby Dam Rehabilitation Project-Phase 2	\$2,000,000	\$2,000,000
Subsection (3) Projects (3.0% or State bond rate, whichever is lower-20 years)		
DNRC-Conservation and Resource Development Division (CARDD)		
Refinance Existing Debt or Rehabilitation of Water and Sewer Facilities	2,859,000	4,859,000
Subsection (4) Projects (4.5% or State bond rate, whichever is lower-30 years)		
Sunset Irrigation District		
Sunset Irrigation District	<u>1,465,266</u>	6,324,266
Total Loan Authorizations:	\$6,324,266	
Additional Loan Authorizations ² :	5,610,044	
Loan Reserve:	<u>1,790,147</u>	
Total Bond Request	<u>\$13,724,457</u>	
¹ Section 1 are loans to be reauthorized		
² To finance loans in lieu of grants for grants recommended in the RRGL program		
NOTE: Projects are grouped by differences in loan circumstances and interest rates.		

Funding

The RRGL loan program is financed with coal severance tax bond issues. The Board of Examiners will be authorized to issue coal severance tax bonds in the amount of \$13.7 million, which would be appropriated to the DNRC for financing the projects identified in the bill. The DNRC loan recommendations for the 2013 biennium are included in the figure above. The repayments of the loans financed with coal severance tax bonds are used to pay the debt service. Because the loans authorized in the RRGL loan/bond bill are sometimes offered at reduced rates, coal severance tax revenues subsidize these reduced rates. Consequently, less principal is invested in the Treasure State Endowment Fund, the Treasure State Endowment Regional Water System Fund, and the Economic Development Trust. As a result, the trust receives reduced interest earnings.

RECLAMATION AND DEVELOPMENT GRANT PROGRAM

Program Description

The Reclamation and Development Grants Program (RDGP) is designed to fund projects that, "...indemnify the people of the state for the effects of mineral development on public resources and that meet other crucial state needs serving the public interest and the total environment of the citizens of Montana" (90-2-1102, MCA).

As provided in statute, projects approved in the RDGP are intended to:

- Repair, reclaim, and mitigate environmental damage to public resources from non-renewable resource extraction
- Develop and ensure the quality of public resources for the benefit of all Montana citizens

The RDGP is administered by DNRC, which solicits, evaluates, and ranks applications on a biennial basis. In accordance with 90-2-1113, MCA, priority consideration is given to the Montana Board of Oil and Gas Conservation for \$600,000 in grants and to any government entity for abandoned mine reclamation projects for \$800,000 in grants over the biennium. No grant may exceed \$300,000. Public entities eligible to apply for grants include state and local governments, political subdivisions, and tribal governments. Applications are evaluated according to specific criteria related to:

- Public benefit
- Need and urgency
- Appropriateness of technical design
- Financial feasibility
- Project management/organization

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Reclamation and Development Grant Program				
Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Number of Grants	23	23	0	0.00%
Grants Cost	<u>Appropriated</u> \$7,027,122	<u>Proposed</u> \$6,849,000	(\$178,122)	-2.53%
Total Costs	\$7,027,122	\$6,849,000	(\$178,122)	-2.53%
State Special	\$5,232,856	\$6,849,000	\$1,616,144	30.88%
General Fund	1,794,266	0	(1,794,266)	-100.00%
Total Funds	\$7,027,122	\$6,849,000	(\$178,122)	-2.53%

As seen in the figure above, the executive proposes appropriations of \$20.9 million for the RDGP program in the 2013 biennium. Of the proposed appropriations, \$6.0 million will fund reclamation and development grants and \$0.8 million will fund project planning grants. This is \$178,122, or 2.5%, less than the RDGP budget in the 2011 biennium.

Program Highlights

Reclamation and Development Grant Program	
Major Budget Highlights	
◆	\$6.0 million appropriation in the RDGP will support 23 RDGP grants
◆	Total fund reduction of 2.5%

RECLAMATION AND DEVELOPMENT GRANT PROGRAM

<ul style="list-style-type: none"> • No general fund transfers to the state special fund • State special fund increase of 31%
Legislative Action Issues
<ul style="list-style-type: none"> ◆ The executive budget over appropriates the state special fund

Program Narrative

The figure below shows a priority listing of the RDGP grants recommended by the executive for the 2013 biennium. DNRC received 29 applications requesting grants of \$7.7 million, from which 26 grants requesting \$6.9 million are recommended.

Reclamation and Development Grants (RDGP) 2013 Biennium				
Rank	Sponsor/Title	Grant Requested	Grant Recommended	Cumulative Total
1	MBOGC Eastern District Orphaned Well Plug & Abandonment & Site Restoration	\$300,000	\$300,000	\$300,000
2	MBOGC Northern/Eastern District Orphaned Well Plug & Abandonment & Site Restoration	300,000	300,000	600,000
3	Ruby Valley CD Alder Gulch - Phase I Improvements	300,000	300,000	900,000
4	MDEQ Forest Rose Mine & Mill Site Reclamation	300,000	300,000	1,200,000
5	MDEQ Lily/Orphan Boy Mine Reclamation	300,000	300,000	1,500,000
6	Sanders Co Managing Aquatic Invasive Plant Species to Protect Montana's	300,000	300,000	1,800,000
7	MFWP Big Spring Creek PCB Remediation	300,000	300,000	2,100,000
8	MDNRC St. Mary & Milk River Basins Water Management Initiative	250,000	250,000	2,350,000
9	MDEQ Sand Coulee Public Water Supply System Restoration	300,000	300,000	2,650,000
10	Pondera Co Pondera County Oil & Gas Well Plug & Abandon Project	100,000	100,000	2,750,000
11	Teton Co Teton County Oil & Gas Well Plug & Ab&on	60,000	60,000	2,810,000
12	Fort Peck Tribes Reclamation of the Philip Red Eagle 2-25 Salt Water Disposal	254,782	254,782	3,064,782
13	MBOGC Southern District Orphaned Lease Battery Site Restoration	200,000	200,000	3,264,782
14	Shelby Shelby Refinery	300,000	300,000	3,564,782
15	Missoula Co Ninemile Creek Mining District - Phase II	228,345	228,345	3,793,127
16	MDEQ Zortman & L&usky Mines - Source Control Prioritization & Feasibility Evaluation	300,000	300,000	4,093,127
17	Missoula, City of Missoula Sawmill Site Wood Reclamation	300,000	300,000	4,393,127
18	Butte-Silver Bow Co Butte Mining District: Reclamation & Protection Project (Phase III)	300,000	300,000	4,693,127
Sub-Total:		4,693,127	4,693,127	

RECLAMATION AND DEVELOPMENT GRANT PROGRAM

Reclamation and Development Grants (RDGP) 2013 Biennium				
Rank	Sponsor/Title	Grant Requested	Grant Recommended	Cumulative Total
	Balance:	\$4,693,127	\$4,693,127	
19	Fergus Co Road Department Pentachlorophenol "Penta" Cleanup	300,000	300,000	4,993,127
20	Meagher Co CD Thomas Creek Placer	162,797	162,797	5,155,924
21	MDEQ Beal Pit Run On Controls, Pond Removal	300,000	300,000	5,455,924
22	Crow Tribe of Indians Big Horn River Restoration	300,000	300,000	5,755,924
23	Richland Co CD Lower Yellowstone River Bank Restoration	293,078	293,078	6,049,002
Projects below this line are recommended only with available funding				
24	MDEQ Landusky Mine - Clarifier Construction	300,000	300,000	6,349,002
25	MFWP Impacts of Energy Development & Leasing Stipulations on Mule Deer Habitat Selection, Distribution, & Population Dynamics	300,000	300,000	6,649,002
26	Anaconda-Deerlodge Co Anaconda Superfund Remediation Trails Program	300,000	300,000	6,949,002
Projects below this line are not recommended for funding				
	Cascade Co CD (withdrawn) Whitmore Ravine Erosion Control Project Coordinator	253,000	0	6,949,002
	Cascade Co CD Whitmore Ravine Erosion Control & Storm Drainage, Phase 1	300,000	0	6,949,002
	Powder River CD Predevelopment Hydrology Determination for the Proposed Otter Creek Coal Mine Within the Regional Framework	239,496	0	6,949,002
Total R&D Grants Requested/Recommended		<u>\$7,741,498</u>	<u>\$6,949,002</u>	

While the executive budget mentions that there are 26 recommended projects amounting to \$6.9 million of RDGP grants, HB 7 (RDGP bill) will contain an appropriation for \$6.0 million for reclamation and development grants. This level of appropriation is a 2.5% reduction of the total funding of the 2011 biennium and could provide funding for the first 23 grants in the project list. The executive proposal also includes an appropriation \$800,000 for project planning grants. In accordance with 90-2-1113, MCA, priority consideration is given to the Montana Board of Oil and Gas Conservation for \$600,000 in grants (projects ranked 1 and 2) and to any government entity for abandoned mine reclamation projects for \$800,000 in grants (actual authorization of \$900,000 for projects ranked 3, 4, and 5) over the biennium.

Funding

The natural resource projects account funds appropriations for natural resource grants authorized by the legislature in the RRGL and the RDGP, as well as various other natural resource programs. The account receives the income from the following sources:

- Interest income of the resource indemnity trust (RIT) fund as provided in and subject to the conditions of 15-38-202, MCA (\$3.5 million each fiscal year for the purpose of making grants)
- Resource indemnity and ground water assessment tax (RIGWA) under provisions of 15-38-106, MCA (50% of the remaining proceeds, after appropriations for CIRCLA debt service, and \$366,000 to the groundwater assessment account, for the purpose of making grants)
- Oil and gas production tax as provided in 15-36-331, MCA (2.16% of oil and natural gas production taxes remaining after the distributions pursuant to subsections (2) and (3))
- Excess coal severance tax proceeds allocated by 85-1-603, MCA to the renewable resource loan debt service fund (above debt service requirements as provided in and subject to the conditions of 85-1-619, MCA)

RECLAMATION AND DEVELOPMENT GRANT PROGRAM

As shown in the fund balance table to the right, the natural resource project account will have a beginning fund balance of \$749,484 in the 2013 biennium. This beginning fund balance is primarily the result of greater than anticipated revenues from the oil and natural gas tax. Revenues for the biennium, as provided in the Revenue and Transportation Interim Committee (RTIC) estimates, are expected to be \$12.6 million.

Appropriations from the natural resource projects account are authorized in Title 15, Chapter 38, MCA, which states, "Appropriations may be made from the natural resources projects state special revenue account for grants and loans for designated projects and the activities authorized in 85-1-602 and 90-2-1102", the RRGL and RDGP programs. In the 2013 biennium, the executive budget recommends total appropriations of \$7.2 million for RRGL program and \$6.8 million for the RDGP program from the natural resource projects account. Because the executive recommendation appropriates more than the anticipated revenues, the ending fund balance is a negative \$707,331.

Natural Resource Project Account (02577)	
Fund Balance Projection 2013 Biennium	
Estimated Beginning Fund Balance (7/1/2011)	\$749,484
Revenue Projections ¹	
RIT Interest Earnings	\$7,000,000
Resource Indemnity & Groundwater Tax	818,172
Oil and Natural Gas Tax	4,513,513
Excess Coal Tax Proceeds	250,000
Loan Re-payment	500
Administrative Fees	<u>20,000</u>
2013 Biennium Revenues	12,602,185
HB 6 Appropriations ²	
Emergency Grants	(\$100,000)
Project Planning Grants	(800,000)
Irrigation Development Grants	(300,000)
Water Project Private Grants	(50,000)
State Water Plan and Inventory	(180,000)
Proposed RRGL Grants	<u>(5,780,000)</u>
Total RRGL Appropriations	(\$7,210,000)
HB 7 Appropriations ³	
Project Planning	(\$800,000)
Proposed RDGP Grants	<u>(6,049,000)</u>
Total RDGP Appropriations	<u>(6,849,000)</u>
Estimated Ending Fund Balance (6/30/2013)	<u>(\$707,331)</u>

¹RTIC recommendations
²Executive grant proposal, HB 6
³Executive grant proposal, HB 7

LFD ISSUE Negative Ending Fund Balance
 The natural resource project state special revenue fund is expected to end the 2013 biennium with a negative ending fund balance, when considering the Revenue and Transportation Interim Committee (RTIC) revenue estimates and the executive budget recommendation. The negative ending fund balance results from the proposed over appropriation of the fund. According to the Montana Constitution, Article VIII, Section 9, appropriations by the legislature shall not exceed anticipated revenue. After review of the RRGL and RDGP budgets, the Long-Range Planning Subcommittee will be required to adjust the total appropriations to agree with the anticipated revenues.

- The options available to the subcommittee include:
- Reduce project appropriations for the RRGL and RDGP programs (and reduce the authorized grants)
 - Reduce or eliminate other grant programs/projects
 - A combination of the above mentioned items

CULTURAL AND AESTHETIC GRANT PROGRAM

Program Description

The Cultural and Aesthetic Grant Program (C&A), as provided in Title 22, Chapter 2, part 3, MCA, is administered by the Montana Arts Council (MAC). Interest earnings from a statutory trust, which receives coal severance tax revenues, fund the grant program. By statute, the interest from the cultural trust is to be appropriated for protection of works of art in the State Capitol and other cultural and aesthetic (C&A) projects, 15-35-108, MCA.

Grant applications for cultural and aesthetic projects are submitted to the MAC on a biennial basis. Eligible applicants include the state of Montana and regional, county, city, town, or Indian tribal governments. A 16-member Cultural and Aesthetic Projects Advisory Committee, with eight members appointed by the Montana Arts Council and eight appointed by the Montana Historical Society, reviews each application. The committee prioritizes the requests and makes funding recommendations to the legislature as part of the executive budget. All grants require legislative approval in accordance with 22-2-306 through 309, MCA.

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Cultural and Aesthetic Trust				
Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	\$11,389,656	\$11,986,656	\$597,000	5.24%
Trust Earnings	1,082,130	1,099,000	16,870	1.56%
Number of Grants	97	83	(14)	-14.43%
	<u>Appropriated</u>	<u>Proposed</u>		
Grants Cost	\$885,400	\$694,976	(\$190,424)	-21.51%
Capitol Complex Works of Art	30,000	30,000	0	0.00%
Total Costs	\$915,400	\$724,976	(\$190,424)	-20.80%
State Special	\$915,400	\$724,976	(\$190,424)	-20.80%
Total Funds	\$915,400	\$724,976	(\$190,424)	-20.80%

As seen in the figure above, the executive proposes appropriations of \$724,976 for the C&A grant program in the 2013 biennium. Of the proposed appropriations, \$694,976 will fund C&A grants and \$30,000 will fund works of art in the capitol complex. This is \$190,424, or 21.5%, less than the C&A budget in the 2011 biennium.

Program Highlights

Cultural and Aesthetic Grant Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ 83 grant recommendations, a reduction of 14% from the 2011 biennium ◆ Overall program reductions of 21%
Legislative Action Issues
<ul style="list-style-type: none"> ◆ Proposal provides negative ending fund balance

CULTURAL AND AESTHETIC GRANT PROGRAM

Program Narrative

The executive recommendation for C&A grants will be introduced in HB 9. The first C&A priority recommended for funding is a \$30,000 appropriation to the Montana Historical Society for the care and conservation of capitol complex artwork, in accordance with 2-17-805, MCA. The second priority is 83 C&A grant awards totaling \$694,976. The recommended awards are listed in the figure below in priority order within four categories, which include Special Projects costing \$4,500 or less, Special Projects greater than \$4,500, Operational Support Projects, and Capital Expenditure Projects. In the 2013 biennium there are no projects recommended in the fifth, "Challenge Grant", category.

Cultural and Aesthetic Grants (C&A)					
2013 Biennium					
Grant Rank	Grant Number	Applicant	Grant Requested	Grant Recommended	Cummulative Total
Special Project <= \$4500					
1	1607	Signatures from Big Sky	\$4,500	\$4,500	\$4,500
2	1604	Miles City Speakers Bureau	4,000	4,000	8,500
3	1609	Upper Swan Valley Historical Society Inc	4,400	4,400	12,900
4	1603	Mai Wah Society	4,400	3,000	15,900
5	1606	Montana Storytelling Roundup	4,500	3,000	18,900
6	1608	String Orchestra of the Rockies	4,500	3,000	21,900
7	1610	Yellowstone Ballet Company	4,500	3,000	24,900
8	1600	Clay Arts Guild	3,560	2,500	27,400
9	1605	Mission Valley Friends of the Arts	4,500	2,000	29,400
Projects below this line are not recommended for funding					
10	1601	Council for the Arts	4,000	0	29,400
11	1602	Granite County Museum and Cultural Center	<u>4,500</u>	<u>0</u>	29,400
Total Special Projects < \$4500			\$47,360	\$29,400	
Special Project > \$4500					
1	1621	Humanities Montana	\$50,000	\$15,000	44,400
2	1632	The CoMotion Dance Project	17,477	10,000	54,400
3	1617	Emerson Center for the Arts & Culture	8,000	7,000	61,400
4	1630	Musikanten Inc	8,009	8,009	69,409
5	1622	KUFM-TV	25,090	7,500	76,909
6	1634	Whitefish Theatre Co	20,000	9,000	85,909
7	1611	Bitter Root Cultural Heritage Trust	10,000	5,000	90,909
8	1626	Montana Historical Society	36,035	7,500	98,409
9	1614	Broadwater Productions, Inc.	29,945	10,000	108,409
10	1620	Hockaday Museum of Art	38,343	9,000	117,409
11	1631	Queen City Ballet Company	14,000	5,000	122,409
12	1624	Missouri Valley Development Corporation	20,000	5,000	127,409
13	1635	Zootown Arts Community Center	11,000	5,000	132,409
14	1623	Missoula Art Museum	22,500	7,500	139,909
15	1613	Bozeman Symphony Society	20,000	8,000	147,909
16	1633	Tobacco Valley Improvement Assoc, Board of Arts	12,256	2,500	150,409
17	1619	Hamilton Players, Inc.	37,750	4,400	154,809
18	1612	Bitter Root Valley Historical Soc/Ravalli Co Musm	15,000	3,000	157,809
19	1615	Butte-Silver Bow Public Archives	20,000	5,000	162,809
20	1629	Museum of the Rockies	44,967	5,000	167,809
21	1627	Montana Museum of Art & Culture	25,800	5,000	172,809
22	1618	Fraternal Order of Eagles	25,000	4,000	176,809
Projects below this line are not recommended for funding					
23	1625	Montana Ballet Company	4,500	0	176,809
24	1616	Butte-Silver Bow Public Library	<u>21,000</u>	<u>0</u>	176,809
Total Special Projects > \$4500			\$536,672	\$147,409	

CULTURAL AND AESTHETIC GRANT PROGRAM

Cultural and Aesthetic Grants (C&A)					
2013 Biennium					
Grant Rank	Number	Applicant	Grant Requested	Grant Recommended	Cummulative Total
Balance:					\$176,809
Operational Support					
SSO1	1668	Museums Association of Montana	\$13,800	\$10,000	186,809
SSO2	1665	Montana Preservation Alliance	40,000	15,000	201,809
SSO3	1662	Montana Arts	40,600	12,500	214,309
SSO4	1657	MAGDA	25,000	12,000	226,309
SSO5	1628	Montana Performing Arts Consortium	36,600	12,500	238,809
SSO6	1663	Montana Association of Symphony Orchestras	21,500	12,500	251,309
SSO7	1664	Montana Dance Arts Association	24,850	12,000	263,309
1	1689	YMCA Writer's Voice	31,000	15,000	278,309
2	1685	VSA Arts of Montana	13,050	10,112	288,421
3	1649	District 7 Human Resources Development Council	30,000	15,000	303,421
4	1666	Montana Shakespeare in the Parks	40,000	15,000	318,421
5	1638	Archie Bray Foundation	50,000	12,500	330,921
6	1647	Carbon County Historical Society	30,000	16,000	346,921
7	1654	Helena Symphony Society, Inc.	40,000	15,000	361,921
8	1648	Custer County Art & Heritage Center	32,000	13,000	374,921
9	1679	Stillwater Historical Society	17,500	12,000	386,921
10	1640	Beaverhead County Museum	22,550	16,000	402,921
11	1651	Glacier Symphony and Chorale	30,000	13,000	415,921
12	1673	Pondera History Association (PHA)	24,000	12,000	427,921
13	1677	Schoolhouse History & Art Center	58,474	15,000	442,921
14	1655	Holter Museum of Art	70,000	12,500	455,421
15	1686	Western Heritage Center	30,000	12,000	467,421
16	1652	Great Falls Symphony	24,000	12,000	479,421
17	1644	Butte Citizens for Preservation and Revitalization	16,940	12,000	491,421
18	1642	Billings Symphony Society	25,000	12,000	503,421
19	1641	Big Horn Arts and Craft Association	20,000	12,000	515,421
20	1636	Alberta Bair Theater	60,000	10,000	525,421
21	1639	Art Mobile of Montana	30,000	12,000	537,421
22	1680	Sunburst Foundation	12,800	8,000	545,421
23	1661	Montana Artists Refuge	10,000	5,000	550,421
24	1643	Butte Center for the Performing Arts	30,000	8,000	558,421
25	1671	Paris Gibson Square Museum of Art	60,000	10,000	568,421
26	1656	Intermountain Opera Association	20,000	8,000	576,421
27	1658	MCT, Inc.	30,000	7,500	583,921
28	1674	Rimrock Opera	25,532	7,500	591,421
29	1683	The Montana Repertory Theatre	50,028	5,000	596,421
30	1645	Butte Symphony Association	23,020	7,500	603,921
31	1676	Rocky Mountain Ballet Theatre	23,090	8,000	611,921
32	1669	North Valley Music School	19,379	8,000	619,921
33	1650	Gallatin Historical Society	14,000	6,000	625,921
34	1678	Southwest Montana Arts Council	23,105	8,000	633,921
35	1687	World Museum of Mining	46,458	5,000	638,921
36	1688	Yellowstone Art Museum	100,000	8,000	646,921
37	1653	Helena Presents/Myma Loy Center	24,000	8,000	654,921
38	1637	Alpine Artisans	23,150	4,000	658,921
39	1670	Northwest Montana Historical Society	20,000	5,000	663,921
40	1660	Missoula Cultural Council	3,680	3,680	667,601
41	1682	The Equinox Theatre	50,000	2,000	669,601
42	1667	Friends of the Museum of the Plains Indian	7,960	2,000	671,601
43	1672	Pondera Arts Council	21,900	2,000	673,601
Projects below this line are not recommended for funding					
44	1646	Carbon County Arts Guild & Depot Gallery	62,900	0	673,601
45	1675	River and Plains Society, Inc	24,000	0	673,601
46	1681	The Children's Museum of Northeast Montana	32,084	0	673,601
47	1659	Miles City Preservation Office	6,000	0	673,601
48	1684	Vigilante Theatre Company	<u>28,500</u>	<u>0</u>	673,601
Total Operational Support			\$1,688,450	\$496,792	

CULTURAL AND AESTHETIC GRANT PROGRAM

Cultural and Aesthetic Grants (C&A)					
2013 Biennium					
Grant Rank	Number	Applicant	Grant Requested	Grant Recommended	Cummulative Total
			Balance:		\$673,601
Capital Expenditure					
1	1691	Fort Peck Fine Arts Council, Inc.	\$18,380	\$16,375	\$689,976
2	1692	Laurel Revitalization League Inc.	8,000	5,000	694,976
Projects below this line are not recommended for funding					
3	1690	Ewam	30,000	0	694,976
Total Capital Expenditure			\$56,380	\$21,375	
Total C&A Grants Requested/Recommended			<u>\$2,328,862</u>	<u>\$694,976</u>	

Funding

Funding for the C&A program comes from the interest earnings from the cultural trust. The trust receives a statutory dedicated 0.63% of coal severance tax revenues. At the end of the 2011 biennium, the cultural trust balance is projected to be approximately \$11.4 million, and the balance is expected to grow by approximately \$597,000 during the 2013 biennium.

The figure to the right shows the projected balance of the C&A state special fund for the 2013 biennium. Based on the assumptions adopted by the Revenue and Transportation Interim Committee (RTIC), interest earnings of the cultural trust will total \$1.1 million for the 2013 biennium. Expenditures for the C&A program are limited by the amount of interest earned from the trust investments. The executive budget proposal includes \$406,245 for administrative expenses and the folklife program (as appropriated in the general appropriations act). In the 2013 biennium, program administration costs are almost 37% of the total available program funds. The administrative cost ratio is higher than usual in the 2013 biennium because the trust is expected to earn lower interest income through the period. Program expenditures also include \$30,000 for a statutorily required appropriation for capitol complex works of art, and grant funding proposals of \$694,976.

Cultural & Aesthetic Grant Fund (02009)	
Fund Balance Projection, 2013 Biennium	
Estimated Beginning Fund Balance (7/1/2011)	\$0
Revenue Projections ¹	
FY 2012 Interest Earnings	\$543,000
FY 2013 Interest Earnings	<u>560,000</u>
2011 Biennium Revenues	\$1,103,000
Proposed Expenditures	
Administration and Folklife ²	(\$406,245)
Capitol Complex Works of Art	(30,000)
Grants ³	<u>(694,976)</u>
Total Expenditures	(\$1,131,221)
Estimated Ending Fund Balance (6/30/2013)	<u>(\$28,221)</u>
¹ RTIC recommendations	
² Executive general appropriations act proposal	
³ Executive grant proposal	

Using the RTIC revenue estimates and the executive budget proposals, the ending fund balance is projected to be a negative \$28,221. The negative balance is caused by the difference of the revenue estimates of the RTIC and the executive branch. To correct the negative balance, the legislature may wish to consider changes in the recommended program appropriations.

LFD COMMENT	<p>In past biennia, the C&A grant program has experienced interest earnings that have not kept pace with legislative appropriations. When revenue shortfalls occur, language contained in the C&A appropriation bill has provided for a reduction of grants, those awards greater than \$4,500, on a pro-rata basis. While some grant recipients are able to absorb the lower grant terms, in a number of cases program plans for the grant dollars are established and irreversible, causing financial harm to the recipient. To mitigate the negative effects of interest income shortfalls, past legislatures have allowed a “cushion” of around 3.5% of all grant awards as an ending fund balance in the C&A grants fund. The 62nd Legislature’s Long-Range Planning Subcommittee may wish to consider making changes in the current level of program appropriations to provide a “cushion” or ending fund balance in the C&A grants fund (02009).</p>
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CULTURAL AND AESTHETIC GRANT PROGRAM

**LFD
ISSUE****Negative Ending Fund Balance**

The cultural and aesthetic grants state special fund is expected to end the 2013 biennium with a negative ending fund balance, in consideration of the Revenue and Transportation Interim Committee (RTIC) revenue estimates and the executive budget spending recommendation. The negative ending fund balance results from an over appropriation of the fund in the executive recommendation. According to the Montana Constitution, Article VIII, Section 9, appropriations by the legislature shall not exceed anticipated revenue. After review of the C&A budget, the Long-Range Planning Subcommittee may wish to consider adjustments the total appropriations of the fund. Options for corrective action include:

- Recommend that the appropriate subcommittee reduce the administrative appropriation
- Reduce grant appropriations and related grant authorizations
- A combination of the above mentioned items

QUALITY SCHOOL FACILITY GRANT PROGRAM

Program Description

The Quality Schools Facilities Grant Program (QSFP) is a competitive grant program, administered by the Department of Commerce (DOC), which was created to provide infrastructure grants, matching planning grants, and emergency grants to public school districts in Montana. The statute creating the program was passed by the Sixty-first Legislature and is found in 90-6-801, MCA. The principal objectives of the QSFP are to:

- Solve urgent and serious public health or safety problems, or enable public school districts to meet state or federal health or safety standards
- Provide improvements necessary to bring school facilities up to current local, state, and federal codes and standards
- Enhance public school districts' ability to offer specific services related to the requirements of the accreditation standards provided for in Section 20-7-111, MCA
- Provide long-term cost-effective benefits through energy-efficient design
- Incorporate long-term, cost-effective benefits to school facilities, including the technology needs of school facilities
- Enhance educational opportunities for students

Grants are made through an application process available to all of the 421 school districts across the state. In the role of prioritizing grants, the DOC must consider (without preference or priority) the following attributes of a school facility project application:

- The need for financial assistance
- The fiscal capacity of the public school district to meet the conditions established in 90-6-812
- Past efforts to ensure sound, effective, long-term planning and management of the school facility and attempts to address school facility needs with local resources
- The ability to obtain funds from other sources
- The importance of the project and support for the project from the community

Program Budget Comparison

The following table summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Quality School Facility Program				
Budget Item	Budget 2011 Biennium	Budget 2013 Biennium	Biennium Change	Biennium % Change
Number of Grants	33	30	(3)	-9.09%
	<u>Appropriated¹</u>	<u>Proposed</u>		
Grants Costs	\$11,658,037	\$12,069,265	\$411,228	3.53%
Total Costs	\$11,658,037	\$12,069,265	\$411,228	3.53%
State Special	\$11,242,334	\$12,069,265	\$826,931	7.36%
General Fund	415,703	0	(415,703)	-100.00%
Total Funds	\$11,658,037	\$12,069,265	\$411,228	3.53%
<small>¹ Total program appropriations for the 2011 biennium include \$12 million appropriated in HB 152 less administrative costs of \$757,666 plus transferred appropriation authority from the Quick Start program of \$415,703</small>				

Program Highlights

Quality School Facility Grant Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ Appropriation of \$11.1 million would fund 30 grants ◆ The number of grants is reduced by 3, or 9%, from the 2011 biennium

QUALITY SCHOOL FACILITY GRANT PROGRAM

♦ Grant appropriations are increased by 3.5% from the 2011 biennium
Legislative Issues
♦ The executive budget proposes multiple reductions of QSFP funds in the 2013 biennium

Program Narrative

DOC received 66 complete applications requesting over \$30 million in project grant funds, from which 30 grants requesting \$11.1 million are recommended. The QSFP is expected to be presented to the Sixty-second Legislature in HB 15. The figure below shows a priority listing of the QSFP grants recommended by the executive for the 2013 biennium.

Quality School Facility Grant Program (QSFP) 2013 Biennium				
Rank	Applicant / County / Description	Grant Requested	Grant Recommended	Cumulative Total
1	Big Sandy, Chouteau Lighting Retrofit and Occupancy Sensors	\$124,340	\$124,340	\$124,340
2	Sweet Grass Co HS, Sweet Grass Update/Remodel of Ventilation/ Air Handling System	207,500	207,500	331,840
3	Somers, Flathead Replace roof at Somers Middle School	418,142	418,142	749,982
4	Box Elder, Hill Four-classroom addition to the elementary school	799,590	799,590	1,549,572
5	Winnett, Petroleum Complete new shop building; purchase equipment	565,450	314,107	1,863,679
6	White Sulphur Springs, Meagher Replace boiler with geothermal heating system	350,000	350,000	2,213,679
7	Helena Elementary, Lewis & Clark ADA Compliance for 5 Schools	1,429,796	1,429,796	3,643,475
8	Gardiner, Park Energy efficiency upgrades	77,500	43,694	3,687,169
9	Centerville, Cascade Boiler Replacement	148,534	148,534	3,835,703
10	Shelby Elementary, Toole Correct building envelope leakage	146,904	146,904	3,982,607
11	Fair-Mont-Egan, Flathead Classroom Addition	379,110	379,110	4,361,717
12	Livingston, Park Replace failing roof	709,336	709,336	5,071,053
13	Corvallis, Ravalli Construction of a new vocational facility	1,086,516	901,318	5,972,371
14	North Star, Hill Install fire alarm systems	123,386	123,386	6,095,757
15	Choteau, Teton Remedy safety issues at district's food service facilities	344,400	344,400	6,440,157
16	Miles City, Custer Temperature controls upgrade	442,841	442,841	6,882,998
17	Shelby HS, Toole Lighting retrofit	102,985	102,895	6,985,893
18	Rocky Boy, Hill Emergency Generator Replacement	72,650	72,650	7,058,543
19	Whitefish, Flathead Phase I redevelopment of HS campus (gym)	738,239	658,019	7,716,562
20	Colstrip, Rosebud Temperature controls upgrade	329,153	329,153	8,045,715
Sub-Total:		\$8,596,372	\$8,045,715	

QUALITY SCHOOL FACILITY GRANT PROGRAM

Quality School Facility Grant Program (QSFP) 2013 Biennium				
Rank	Applicant / County / Description	Grant Requested	Grant Recommended	Cumulative Total
	Balance:	\$8,596,372	\$8,045,715	
21	Whitehall, Jefferson Roof replacement on High School	534,232	534,232	\$8,579,947
22	Stanford, Judith Basin Boiler Replacement	220,500	220,500	8,800,447
23	Grass Range, Fergus Air-lock doors & breezeway	38,315	38,315	8,838,762
24	Superior, Mineral Life Skills classroom and locker room expansion	521,162	521,162	9,359,924
25	Geraldine, Chouteau Energy efficiency improvements	164,000	106,900	9,466,824
26	Bozeman HS, Gallatin Lighting retrofit	109,087	109,087	9,575,911
27	Frazer, Valley Installation of high efficiency boiler	243,086	243,086	9,818,997
28	Libby, Lincoln Replace HS boiler	391,470	391,470	10,210,467
29	Hamilton, Ravalli Boiler & heat distribution system replacement	751,000	751,000	10,961,467
30	Bozeman Elementary, Gallatin Lighting retrofit	107,798	107,798	11,069,265
Total QSFG Grants Requested/Recommended		<u>\$11,677,022</u>	<u>\$11,069,265</u>	

Funding

In the May 2007 Special Session, the legislature passed SB 2, which created a new school facility improvement fund, in 20-9-516, MCA. The fund was established to provide money to schools for two purposes. First, the state special fund provides money for a \$1.0 million/FY statutory appropriation to schools for information technology upgrades. Second, the fund provides money for infrastructure grants, matching planning grants, and emergency grants to public school districts in Montana. The money deposited in the fund may be used for major deferred maintenance, improving energy efficiency in school facilities, or critical infrastructure in school districts. For a number of years, before actual program development, the only income to the fund was royalties from mineral development on state lands, as directed in SB 2. By the end of FY 2010 (the last year that royalty income was deposited into the fund), the total royalty income deposited in the facility and technology fund was \$53.1 million, which would act as the seed money for the new program.

The school facility and technology fund is expected to begin the biennium with \$44.5 million, the funds remaining from the “seed money” mentioned above. The fund would normally receive revenues from the following sources:

- Public land trust power site rent (streambed rents) under the provisions of 77-4-208(2), MCA (ninety-five percent of all rental payments received under this section must be deposited in the school facility and technology account provided for in 20-9-516) – set in current law to begin January 1, 2012
- Timber harvest income under the provisions of 20-9-516(2)(a), MCA (the income attributable to the difference between the average sale value of 18 million board feet and the total income produced from the annual timber harvest on common school trust lands during the fiscal year)

The fund balance table below shows the executive budget recommendations for the 2013 biennium. The executive budget proposes to delay the starting date of the streambed rents to the QSFP fund for one biennium, with the income flowing instead to the state guarantee account for the 2013 biennium. Accepting this assumption, total revenue for the fund is expected to be \$5.3 million in the 2013 biennium.

QUALITY SCHOOL FACILITY GRANT PROGRAM

The total executive expenditure proposal is \$32.0 million. The expenditures include administrative expenses for the department of commerce of \$729,373, which will be appropriated in the general appropriations act. For the 2013 biennium only, the executive budget proposes to “switch” the payment of school facility debt service, a statutory appropriation of \$17.2 million, to the facility and technology fund. The remaining appropriations are related to the 2013 biennium QSFP and include \$100,000 for emergency grants, \$900,000 for facility deferred maintenance project planning, and \$11.1 million for grants to school districts for facility projects. Considering the revenue projections and all the executive proposals, the QSFP ending fund balance is expected to be \$17.8 million.

School Facility and Technology Fund (02218) Fund Balance Projection 2013 Biennium		
Estimated Beginning Fund Balance (7/01/2011)		\$44,506,034
Revenue Projections ¹		
Public Land Trust Power Site Rent²	\$8,470,261	
Timber Harvest Income	<u>5,300,000</u>	
2013 Biennium Revenues		5,300,000
Proposed Expenditures ²		
Administration - Commerce	(729,373)	
School Facility Fund Switch (Section E)	(17,172,000)	
Technology Statutory Appropriation (\$1.0 million/FY)	(2,000,000)	
Emergency Grants (Biennial)	(100,000)	
Planning Grants	(900,000)	
School Facility Grants	<u>(11,069,265)</u>	
Total Expenditures		<u>(31,970,638)</u>
Estimated Ending Fund Balance - (6/30/2013)		<u>\$17,835,396</u>
<small>¹Based on RTIC estimates</small>		
<small>²Based on executive budget proposal</small>		

**LFD
COMMENT**

The executive budget proposes multiple reductions of funds that are set aside for school facility upgrades. The legislature may wish to review these changes in light of their priorities, but the actions related to the changes will not occur in HB 15, and the Long-Range Planning Subcommittee will not be directly involved in those policy decisions.

The reductions to the QSFP fund include a proposal to delay the start of the flow of the streambed rents for a biennium. In current law, the flow of revenue is set in law to begin January 1, 2012 and is expected to bring \$8.5 million in revenue to the QSFP fund. The proposal would allow the funds to flow into the state guarantee account for the 2013 biennium. The second reduction is a funding switch of the debt service currently paid from the state guarantee account to the QSFP fund. This funding switch, equaling an expected \$17.2 million, will cost the fund over a third of the monies expected in the fund in the 2013 biennium. The funding switch is a one-time only proposal for the 2013 biennium. For more information on these and other related issues, refer to section E of the Legislative Budget Analysis, 2013 biennium.

The policy implications of the QSFP fund reductions are significant and complex. The policy decisions will not be included in the QSFP bill, HB 15, but will be contained in other pieces of legislation (presumably heard in the Education Subcommittee). The members of the Long-Range Planning Subcommittee may want to discuss issues related to these reductions at the meetings of the full House Appropriation Committee.

SECTION F APPENDIX

The following figure includes the grant requests made to the Treasure-State Endowment Program for the 2013 biennium. This list is shown in priority order, following the ranking process of the program. This list is included as an appendix item because the executive budget did not recommend an appropriation to fund TSEP grants in the 2013 biennium. The executive instead proposed to transfer the funds from the TSEP state special revenue fund to the general fund (for more information see the TSEP section of this report on page F-18).

Treasure State Endowment Program (TSEP) 2013 Biennium					
Rank ¹	Applicant	Type of Project	Amount Requested	Proposed Grant Award	Cumulative Proposed Award
1	Hardin, City of	Water	\$500,000	\$500,000	\$500,000
2	Park County	Bridge	555,626	555,626	1,055,626
3	Sheridan, Town of	Wastewater	750,000	750,000	1,805,626
4	Yellowstone County	Bridge	157,227	157,227	1,962,853
5	Madison County	Bridge	699,931	699,931	2,662,784
6	Brady County W&S District	Water	750,000	750,000	3,412,784
7	Carter Choteau County W&S District	Water	750,000	750,000	4,162,784
9	Sun Prairie Village Co. W&S District	Water	625,000	625,000	4,787,784
7	Sweet Grass County	Bridge	156,678	156,678	4,944,462
10	Beaverhead County	Bridge	426,941	426,941	5,371,403
11	Carbon County	Bridge	406,695	406,695	5,778,098
12	Jefferson County	Bridge	218,634	218,634	5,996,732
13	Hebgen Lake Estates County W&S District	Wastewater	720,000	720,000	6,716,732
14	Augusta W&S District	Wastewater	295,000	295,000	7,011,732
15	Gallatin Gateway County W&S District	Wastewater	750,000	750,000	7,761,732
16	Fergus County	Bridge	276,157	276,157	8,037,889
17	Melrose W&S District	Wastewater	162,000	162,000	8,199,889
18	Blaine County	Bridge	434,309	434,309	8,634,198
19	Deer Lodge, City of	Wastewater	500,000	500,000	9,134,198
19	Lincoln County	Bridge	287,827	287,827	9,422,025
21	West Yellowstone/Hebgen Basin Refuse Disposal Dist.	Solid Waste	246,563	246,563	9,668,588
22	Eureka, Town of	Wastewater	625,000	625,000	10,293,588
23	Fairfield, Town of	Water	500,000	500,000	10,793,588
23	Ravalli County	Bridge	142,616	142,616	10,936,204
25	Granite County	Bridge	276,408	276,408	11,212,612
25	Roundup, City of	Water	500,000	500,000	11,712,612
27	Roberts - Carbon Co. W&S District	Wastewater	500,000	500,000	12,212,612
28	Lockwood W&S District	Wastewater	750,000	750,000	12,962,612
29	North Havre County Water District	Water	590,000	590,000	13,552,612
29	Sand Coulee Water District	Water	282,966	200,966	13,753,578
31	East Helena, City of	Wastewater	750,000	750,000	14,503,578
32	Bigfork W&S District	Water	750,000	750,000	15,253,578
33	Custer County	Wastewater	750,000	750,000	16,003,578
34	Crow Tribe for Crow Agency	Water	750,000	750,000	16,753,578
35	Hill County	Bridge	174,082	174,082	16,927,660
36	Polson, City of	Water	625,000	625,000	17,552,660
37	Big Horn County	Bridge	138,462	138,462	17,691,122
38	Thompson Falls, City of	Water	444,000	444,000	18,135,122
38	Joliet, Town of	Water	625,000	625,000	18,760,122
40	Amersterdam-Church Sewer District No. 307	Wastewater	750,000	750,000	19,510,122
41	LaCasa Grande W&S District	Wastewater	750,000	750,000	20,260,122
42	Sanders County for Paradise	Wastewater	500,000	500,000	20,760,122
43	Shelby, City of	Water	750,000	625,000	21,385,122
44	Hill County Water District	Water	750,000	625,000	22,010,122
45	Libby, City of	Wastewater	750,000	750,000	22,760,122
46	Manhattan, Town of	Water	750,000	625,000	23,385,122
47	Jordan, Town of	Water	500,000	500,000	23,885,122
48	Belt, Town of	Water	500,000	500,000	24,385,122
49	Em-Kayan Village W&S District	Water	500,000	466,000	24,851,122
49	Pablo-Lake County W&S District	Water	500,000	500,000	25,351,122
51	Ronan, City of	Stormwater	500,000	500,000	25,851,122
52	Forsyth, City of	Wastewater	500,000	500,000	26,351,122
53	Harlem, City of	Wastewater	750,000	625,000	26,976,122
54	Upper-Lower River Rd W&S District	Water/Wastewater	500,000	500,000	27,476,122
55	Cut Bank, City of	Water	500,000	500,000	27,976,122
56	Fallon County	Bridge	500,000	500,000	28,476,122
57	Culbertson, Town of	Wastewater	625,000	625,000	29,101,122
58	Bozeman, City of	Wastewater	500,000	500,000	29,601,122
59	Missoula County for Spring Meadows	Wastewater	500,000	0	29,601,122
Total			\$30,717,122	\$29,601,122	

¹ Some projects have the same rank number indicating they tied.

Note: Grants would be funded in priority order as available funds allow