

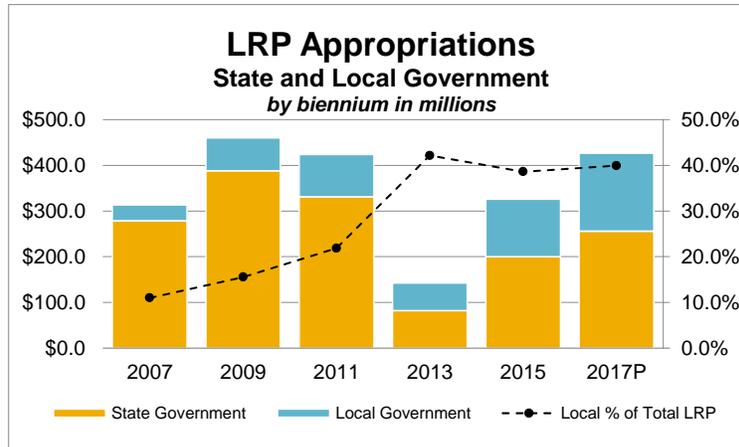
LONG-RANGE PLANNING PROGRAMS OVERVIEW

Long-Range Planning Description

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

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

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



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

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

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

LONG-RANGE PLANNING PROGRAMS OVERVIEW

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

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

Long-Range Planning Comparison

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

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

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

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

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

LONG-RANGE PLANNING PROGRAMS OVERVIEW

Long-Range Planning Discussion

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

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

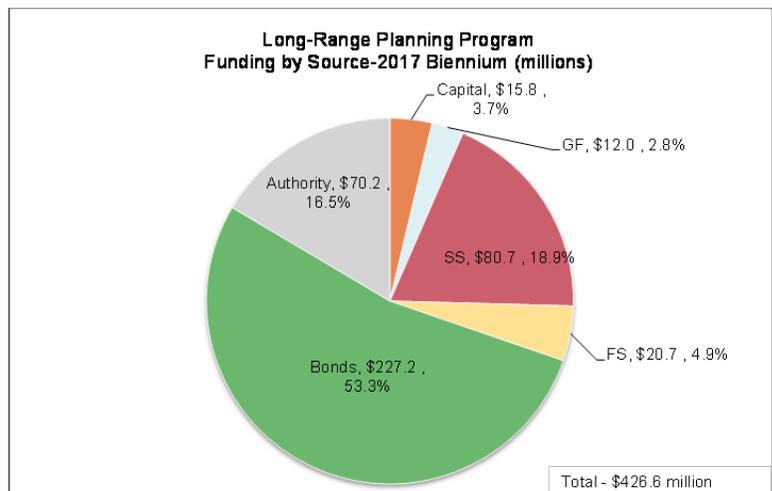
The legislature's work with the LRP budget differs in several ways from the work of other joint subcommittees, which include:

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

Funding

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

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



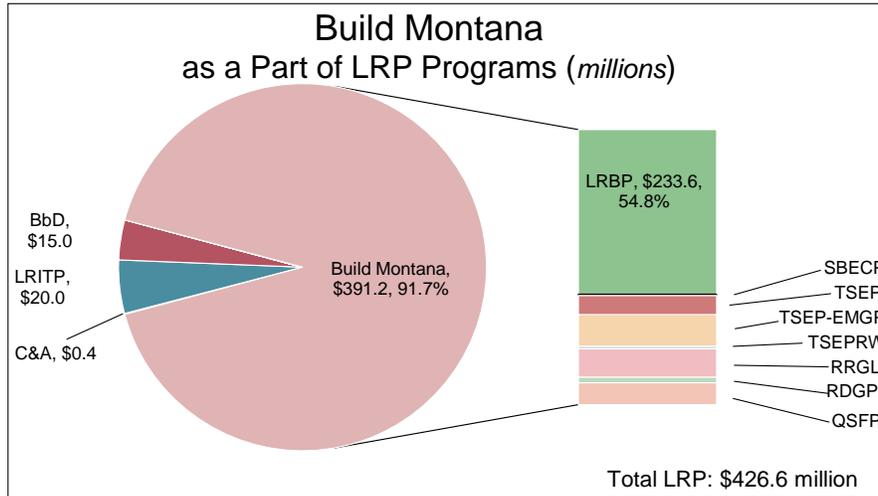
derived from bond proceeds. State special revenue of \$80.7 million, or 18.9% of funding, follows. Authorizations, 16.5% of total funding, are not appropriations and exist in the LRBP because legislative approval is required to expend donations (and other types of funds that do not require appropriation)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

LONG-RANGE PLANNING PROGRAMS OVERVIEW

Build Montana Act

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

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



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

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

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

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

LONG-RANGE PLANNING PROGRAMS OVERVIEW

LFD ISSUE

Program Risk (NEW)

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

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

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

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

LFD ISSUE

Statutory Amendments / Riders

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

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

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

LONG-RANGE PLANNING PROGRAMS OVERVIEW

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

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

Bond Issuance

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

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

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

LONG-RANGE PLANNING PROGRAMS OVERVIEW

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

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

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

HB 5 Appropriations

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

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

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 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
	<u>Appropriated</u>	<u>Proposed</u>		
LRBP Project Costs	\$175,566,000	\$233,587,500	\$58,021,500	33.05%
SBECP Project Costs	3,500,000	2,500,000	(\$1,000,000)	-28.57%
Total Costs	\$179,066,000	\$236,087,500	\$57,021,500	31.84%
Capital Projects	\$60,626,000 *	\$15,806,500	(\$44,819,500)	-73.93%
State Special	32,860,000	33,651,000	791,000	2.41%
Federal Special	26,130,000	13,350,000	(12,780,000)	-48.91%
Proprietary ¹	600,000	0	(600,000)	-100.00%
Authorization ¹	58,850,000	70,200,000	11,350,000	19.29%
Bond Issue/Loans	0	103,080,000	103,080,000	-
Total Funds	\$179,066,000	\$236,087,500	\$57,021,500	31.84%
¹ Does not require appropriation but requires approval of the legislature				
*Includes transfers of \$45.6 million from the general fund to the capital project fund in 2015 biennium				

Program Discussion

As seen in the figure above, the executive proposes a total LRBP budget of \$236.1 million for the 2017 biennium. This is \$57.0 million more than the LRBP budget in the 2015 biennium, when the program was increased by a \$45.6 million transfer from the general fund. The proposal would provide the funding for three new facilities and five major building renovation projects. The figure above contains the executive proposals for the LRBP cash and bonded programs and the State Building Energy Conservation Program (SBECP), which is included in the LRBP program table. The budget also includes a \$25.5 million capital project budget for Fish, Wildlife, and Parks (FWP), who administers the appropriations. Funding in the FWP capital project program is used for improvements to parks and fishing access sites, land acquisition, and other FWP capital projects. The LRBP sections in HB 5, Sec. 2 through Sec. 4, would provide \$236.1 million in appropriations and spending authority. Of the total appropriations, \$2.5 million are included for the state building energy program described on F-12. Of that total, \$103.1 million is funded with bond proceeds, and \$70.2 million are funded with non-state fund spending authority². Projects included for the purpose of authorization include two new university

² The use of "authority" in the LRBP section is a reference to funds for major construction projects that do not require appropriation, but due to the sizable cost of the project and the potential of future costs to the state must be authorized by the legislature. These funds are typically not "state funds" and include donations and various types of university funds.

LONG-RANGE BUILDING PROGRAM

system buildings, an engineering building at MSU Bozeman and a new facility for the Bitterroot College, and \$6.0 million for capital improvements and maintenance at university campuses across the state.

A full list of the projects contained in the executive LRBP proposal, including the proposed appropriation by fund type, is found on figure A1 of the Section F Appendix. Detailed project descriptions are provided in the Vol. 3 of the Governor's Budget.

Project Highlights

Some LRBP project highlights and legislative considerations include:

- The Montana Heritage Center proposal is again included in the LRBP proposal, requesting \$39.5 million of state funds from the sale of GO bonds, augmenting previous appropriations and authorizations. The project, originally approved by the 2005 Legislature, was approved with \$7.5 million of bond authority and the authorization to use up to \$30.0 million of donated funds to construct the building. To date, the Historical Society has received \$3.4 million in various pledges and donations for the project (\$1.35 million is a donation of land and \$1.38 is a pledge contingent upon state project funding approved by the legislature). The projected cost of the building has increased over time by \$12.4 million, to a total cost estimate, including previous planning expenditures, of \$49.9 million. Of the total project cost, \$2.9 million would be funded through donations and \$47.0 million from state funds (\$7.5 million from the 2005 session and \$39.5 million proposed for the 2017 biennium). Since the 2005 project approval, \$785,000 of the initial bond authority has been issued to fund the preliminary design work on the facility. In a related action, the 2009 Legislature approved an amendment to the original legislation that would designate the building location to the corner of 6th Avenue and Roberts St. in Helena. Funding for the project was proposed in the 2013 executive budget, but the Legislature did not approve the project appropriation.
- The executive's bond proposal would provide \$3.5 million of bond proceed funding for two projects in the state parks system, a fire system upgrade at Bannack state park and upgrades to the electrical system at Lewis and Clark Caverns. The agency has requested these projects for several biennia, but they have not been included in the executive budget until now. Undertaking these projects would eliminate these deficiencies at the facilities and would reduce the deferred maintenance backlog of the state parks.
- The Department of Public Health and Human Services First Step project would provide the facilities for the executive proposal for the First Step initiative. This project, funded with \$7.6 million of LRBP capital project funds, would be used to construct a new secure 20-bed wing at the Montana State Hospital. Additionally, the funding would create a 25-bed secure dementia unit at the Montana Mental Health Nursing Care Center by renovating what is currently office and administrative space. More information on the First Step initiative can be found in Sec. B of the Legislative Budget Analysis.
- The Library Renovation project at MUS Billings would focus on significant deferred maintenance in the 1960's constructed three story facility. According to the university system, the building has had a boiler replaced and minor maintenance since its construction. The appropriation of \$2.65 million of bond proceeds would provide funding for a sprinkler and alarm system and renovate two of the largest classrooms on the campus, as well as providing American Disabilities Act (ADA) compliance updates. This project would provide a reduction in the state's deferred maintenance backlog by making ADA accessibility and code and life safety improvements to the only non-compliant building on the campus.

LONG-RANGE BUILDING PROGRAM

LFD COMMENT

In the 2013 session, the legislature provided a number of significant appropriations for the university system that required substantial fundraising in order to full fund the projects. In September 2014, the university and A&E provided an update on the progress of the projects. The following figure provides information related to the projects as of the September report; including the project title and school, the state funding and authority, and comments on the progress of the projects and the fundraising efforts.

University Projects Dependant on Donations					
Project	LRBP		Total	Comments on Progress	
	Capital Project	Authority			
Athlete Academic Center, UM-Missoula	\$0	\$2,500,000	\$2,500,000	Under construction.	
Automotive Technology Center, MSU-Northern	4,900,000	3,000,000	7,900,000	Design work in progress. / MSU: Significant fundraising progress with positive expectations of meeting goal.	
Construct Missoula College UM – UM-Missoula	29,000,000	3,000,000	32,000,000	Construction contract awarded. Ground breaking has taken place. / MUS: MOU between MUS and A&E is in place.	
General Spending Authority, MUS - All Campuses		2,000,000	2,000,000	\$3.0 million of total HB 5 line was provided directly to MUS.	
Jabs Hall, MSU-Bozeman		19,565,000	19,565,000	In construction. Substantial completion anticipated in October 2014. Note: \$435,000 of total authority transferred to the university.	
Main Hall Renovation, Ph 3, U of M - Western	4,000,000	500,000	4,500,000	Design work in progress. / MUS: Fundraising should be completed by the end of this calendar year and construction will follow.	
Mansfield Library Student Success, UM-Missoula		3,200,000	3,200,000		
Natural Resource Research Center Addition, MT Tech-UM	5,000,000	5,000,000	10,000,000	Design in progress. MOU (for design) between MUS and A&E in place. / MUS: Fundraising is nearing completion,	
Gilkey Executive Education Center, UM-Missoula		9,300,000	9,300,000	Authority (university funds) transferred to UofM.	
Science & Instruct. Tech Building Addition, MSU-Billings	10,000,000	5,000,000	15,000,000	Preliminary design in progress. / MUS: Fundraising is slower than expected, and most likely will not be completed prior to the end of this calendar year.	

- The Engineering Building project at Montana State University is requested as a \$60.0 million authority only project that requires no state funds. The proposed building would provide a 120,000 square foot expansion of the College of Engineering Innovation Center. The university has received a pledge for \$50.0 million and will need to raise an additional \$10.0 million to complete the entire project.
- The Bitterroot College Facility project provides the authority to use donated funds for the construction of a new 16,000 square foot facility on three acres for the new Bitterroot College.
- The Romney Hall renovation would address a significant amount of the Montana State University deferred maintenance backlog. The project would be funded with \$28.0 million of state funds derived through GO bond issuance. The renovation project would facilitate a comprehensive adaptive reuse of the building, reduce or eliminate areas of critical deficiency in the building's HVAC, plumbing and electrical systems, and address safety issues including fire and ADA code compliance regarding egress and interior circulation, and increase capacity for higher use of prime space.

LONG-RANGE BUILDING PROGRAM

Funding

As shown in the fund balance table below, the LRBP fund will start the 2015 biennium with a fund balance of \$2.9 million. Fund revenues include a 2.6% distribution of cigarette tax revenue, \$3.7 million in the biennium, and 12.0% distribution of coal severance tax revenue, \$14.5 million in the biennium.

Other income includes interest earnings on LRBP fund balances and supervisory fees paid to the A&E. The fund will also receive bond proceeds in the amount of \$103.1. More information on the executive proposal for bonds through the Build Montana Act may be found in the Sec. F Overview, page F-4. Total revenue in the 2017 biennium is expected to be \$124.8 million.

Other fund expenditures, including the administrative costs of the A&E Division and the debt service on two bond issues, are expected to cost \$9.8 million. The debt service costs are offset by a funding switch of \$665,000 per year from the LRBP fund to the general fund, authorized by the 2001 Legislature.

Long-Range Building Program Fund (05007)			
Fund Balance Projection 2017 Biennium			
Estimated Beginning Fund Balance-(7/1/2015)			\$2,879,038
			Biennium
Estimated Revenue ¹	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
Cigarette Tax	\$1,848,600	\$1,807,000	\$3,655,600
Coal Severance Tax	7,164,000	7,380,000	14,544,000
Interest Earnings	1,278,980	1,278,980	2,557,959
Supervisory Fees	341,825	341,825	683,650
Energy Savings Transfer	125,000	125,000	250,000
Bond Proceeds	103,080,000		<u>103,080,000</u>
2017 Biennium Revenues			124,771,209
Expenditures			
Operating Costs-A & E Division ⁵	(\$2,116,951)	(\$2,116,856)	(\$4,233,807)
Debt Service-2003G ²	(1,702,866)	(1,706,124)	(3,408,990)
Debt Service-2005A ³	(1,096,719)	(1,098,169)	(2,194,888)
Funding Switch ⁴	665,000	665,000	1,330,000
LRBP Program Proposal	(118,886,500)		<u>(118,886,500)</u>
Total Expenditures			(127,394,185)
Estimated Ending Fund Balance (6/30/2017)			<u>\$256,062</u>
¹ Based on HJ2 estimates			
² Refinance of 1996D issue			
³ Refinance portions of 1997B and 1999C issues			
⁴ Debt Service Funding Switch, 2001 Legislative Session			
⁵ Based on HB 2 proposals			

The total executive proposal for capital projects in the 2017 biennium to be funded through the LRBP fund is \$118.9 million. The balance of the LRBP projects proposed by the executive are funded from other sources as shown on page F-8. After consideration of all revenues and expenditures, the LRBP fund is expected to finish the 2017 biennium with a balance of \$256,062. The estimated ending fund balance, as prepared by the LFD, is \$210,214 higher than that shown in Section F of the executive budget, primarily because of generally higher coal severance tax and cigarette tax revenues estimates, as included in HJ 2.

LFD COMMENT	<p>Many of the projects included in the LRBP budget proposal will result in the addition of new square footage to the state's building inventory. New space is often accompanied by additional operational and maintenance costs in future years. Additionally, some of the projects may result in new program and staffing costs. Due to this characteristic of the LRBP projects, subcommittee chairs tasked with the budget development for the proposed new space impacted agencies may want to consider joining the LRP subcommittee meetings to hear the details of the projects and to gain an awareness of the future cost impacts of the new space.</p>
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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
- * Insulating buildings
- * Upgrading inefficient lighting
- * Providing more effective temperature controls
- * Increasing ventilation system efficiency
- * 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). 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 (ARRA funds). With those funding changes, the program was modified to become a revolving fund, 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 improvement.

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 and renovation projects. Projects with the potential for energy savings are funded through the SBECP, and are often jointly funded with the LRBP deferred maintenance funds.

02701

Program Budget Comparison

The following figure 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 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
	<u>Appropriated</u>	<u>Proposed</u>		
Projects Costs	\$3,500,000	\$2,500,000	(\$1,000,000)	-28.57%
Total Costs	\$3,500,000	\$2,500,000	(\$1,000,000)	-28.57%
State Special Revenue	\$3,500,000	\$2,500,000	(\$1,000,000)	-28.57%
Total Funds	\$3,500,000	\$2,500,000	(\$1,000,000)	-28.57%

Program Discussion

The executive proposal for the SBECP is \$2.5 million, \$1.0 million less that appropriated for the program in the 2015 biennium. The program appropriation is found in section 4 of HB 5. A list of SBECP projects, costs, anticipated energy savings and years of expected repayments is seen in the figure below. Detailed project descriptions are provided in Vol. 3 of the Governor's Budget.

STATE-BUILDING ENERGY CONSERVATION PROGRAM

State Building Energy Conservation Program Executive Recommendation - 2017 Biennium				
Department	Project Title	Project Costs	Est. Annual Savings	Simple Payback/Yrs
Corrections	Dairy Digester	\$600,000	\$40,000	15.0
Administration	Capital Complex Energy Improvements	1,150,000	74,000	15.5
	1100 Last Chance Gulch Mechanical Upgrades	150,000	11,000	13.6
University System	Campus Lighting Upgrades	600,000	60,000	10.0
Total Funding / Savings		\$2,500,000	\$185,000	

Note: Simple payback years do not include the interest charged by the SBCEP in support of the program administrative costs. As a result, actual payback years will vary slightly from the years shown.

Funding

The SBCEP has been fashioned to operate in a method similar to a “revolving loan program”. Agencies in effect borrow from the program for the costs of the project, and then reimburse the program for those costs with the savings realized through the projects. In addition to the project costs, agencies also pay an interest rate equal to 3.0% of project costs, which funds the administrative costs of the program. Total “loan” repayments are expected to generate approximately \$1.8 million per year through the 2017 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 intended 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 facilitates a broad vision of the state IT program and related investments.

Program Budget Comparison

The following figure 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 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
Projects Cost	<u>Appropriated</u> \$20,876,785	<u>Proposed</u> \$20,000,000	(876,785)	-4.2%
Total Costs	\$20,876,785	\$20,000,000	(\$876,785)	-4.2%
Capital Project Fund ¹	\$5,975,000	\$0	(5,975,000)	-
General Fund ¹	11,451,785	12,000,000	548,215	4.8%
State Special	3,060,000	650,000	(2,410,000)	-78.8%
Federal Special	40,000	7,350,000	7,310,000	18275.0%
Other/Proprietary	350,000	0	(350,000)	-100.0%
Total Funds	\$20,876,785	\$20,000,000	(876,785)	-4.2%

¹General fund is a transfers to the capital project fund

Program Discussion

As seen in the figure above, the executive proposes \$20.0 million for the 2017 biennium in the LRITP. The proposal will be presented in HB 10, and represents a reduction of \$876,785, or 4.2%, from total appropriations provided in the 2015 biennium. The proposal includes a transfer of \$12.0 million from the general fund to the LRITP fund to support major IT projects. The 2017 biennium proposal, listed by project and funding type, is presented in the figure on the following page.

LONG-RANGE INFORMATION TECHNOLOGY PROGRAM

Long-Range Information Technology Program (LRITP) Executive Recommendation - 2017 Biennium				
Agency / Decision Point / Project	LRITP Capital			Total
	Projects Funds	State Special	Federal Special	
Administration				
Network Equipment	\$5,589,000			\$5,589,000
Data Protection Initiative	1,887,000			1,887,000
Statewide Public Safety Communications System	2,000,000			2,000,000
Department of Corrections				
Security System Replacements/Assessments	1,200,000			1,200,000
Judicial Branch				
Court Technology Improvement Program	834,000			834,000
Department of Justice				
Court Data Exchange Enhancement	490,000			490,000
Transportation				
PPMS, Risk Based Management, Linear Referencing System		650,000	4,350,000	5,000,000
Financial Management Suite			3,000,000	3,000,000
Total Projects	\$12,000,000	\$650,000	\$7,350,000	\$20,000,000

The details behind the projects requested for the 2017 biennium LRITP, along with a status of projects awarded in the 2015 biennium, are presented in Vol. 9 of the Governor's Executive Budget.

Funding

Unlike other Long-Range Planning programs, the LRITP does not have a dedicated source of funding for major IT projects. Instead, state agencies support their project costs through agency administered state and federal special revenue funds. For agencies primarily supported by general fund, transfers are made from the general fund to the LRITP capital projects fund in support of the agency requests. In the 2017 biennium, the executive proposes a transfer of \$12.0 million to the LRITP capital projects fund.

Project Highlights

Some LRITP project highlights and legislative considerations include:

- The Network Equipment project would support equipment upgrades to the state's network, SummitNet, which provides voice, video, and data services to the state employees across the state and 22,000 devices. The equipment has reached end-of-life/end-of-support and is no longer supported by vendors. Replacing and upgrading this equipment will allow the state to maintain existing network services, and in some cases, add additional bandwidth to support agency requests to enhance existing or implement new information technology applications. Equipment upgrades will also increase network security and disaster recovery services.
- Statewide Public Safety Communications System (DOA) – This proposal would provide operational, tactical, and interoperable communications for federal, state and local agencies. The system currently has approximately 6,000 federal, state and local subscribers. This request would replace or upgrade radio and link sub-system components that are nearing end-of-life and are at risk of failure. Site equipment requiring replacement or upgrade include radio base

LONG-RANGE INFORMATION TECHNOLOGY PROGRAM

stations/repeaters, electrical equipment (rectifiers/inverters), antenna combiners, and microwave components.

LFD COMMENT

The total cost of the Public Safety Communications system is estimated at \$120 million. To date, approximately \$70 million has been expended on the project. The project has received appropriations several times through the LRITP, which include:

- 2007 Session – two appropriations amounting to \$8.1 million for system build out
- 2009 Session - \$1.0 million for additional build out funding

Cumulatively, the state has expended approximately \$12.5 million, with appropriations from the LRITP and HB 2, for build out of the project. Federal partners have supplied much of the remainder of the funding. Since the last build out appropriation in 2007, there have been no more appropriations for that purpose. Additionally, federal appropriations for the project has ceased. There are several sections of the state without coverage from the public safety communications system, and there is no certainty when funding will be available to finish the estimated \$50 million of build out costs.

The more recent appropriations have been and are being requested for maintenance of the existing system. In the 2013 session, the Public Safety Communications system received an appropriation for \$3.0 million for upgrades to the network hardware and software, telecommunication circuit leases, and equipment extended warranties. The appropriation request for the 2017 biennium is likewise a maintenance request. The \$2.0 million request will fund the replacement of and upgrades to equipment at the existing system communication sites. According to the State Information Technology Division, the maintenance costs for the public safety system will be an ongoing expense to the state.

- Court Technology Improvement Program (JUD) – This proposal would to continue the Judicial Branch's efforts to modernize courts. Projects include upgrading failing interactive video equipment; implementing audio technology, and upgrading outdated/end-of-life technology. This request would also implement new e-filing technology including scanners, mobile devices, and public workstations.

LFD COMMENT

The Judicial Branch has invested in the modernizing courtroom technology over the past four biennia. The 2007 Legislature provided an appropriation of \$2.9 million, reduced to \$2.6 million by the 2011 Legislature, which has funded court technology and courtroom infrastructure projects since that time. To date, the funding has been expended on enterprise licenses for a statewide case management system and courtroom technology. At the end of FY 2014, \$1.2 million of the authority remained, which is currently under contract. The \$834,000 request will continue efforts to modernize courts and court rooms.

BROADBAND INFRASTRUCTURE DEVELOPMENT

Program Description

The executive budget proposal includes an appropriation and the authority to issue \$15.0 million of bonds for broadband infrastructure development. The proposal would create a competitive grants program that could be accessed by telecommunications companies to expand broadband infrastructure across the state. The program would be administered by the Department of Commerce (DOC). The bond authorization and bond proceeds appropriation will be included in HB 14.

Program Budget Comparison

Because the Broadband Infrastructure Development proposal creates a new program, there is no biennial comparison available.

Program Discussion

LFD ISSUE

Lack of Information At This Time

The executive proposal for the Broadband Infrastructure Development program does not include information related to the distribution of the program funds or how the program is to be administered. The lack of information makes it difficult to provide an in-depth analysis of the proposal at this time.

Funding

The Broadband Infrastructure Development proposal is funded with the proceeds of \$15.0 million of state general obligation (GO) bonds. The costs of the bonds would be incurred by the general fund, including issuance costs and debt service. There is limited certainty related to when the bond proceeds will be needed.

For the purpose of the balance sheet, the executive estimates that the bonds will be issued in FY 2016. The general fund balance sheet includes bond issuance costs of approximately 0.05% for the issue and a small amount of debt service costs over the biennium. The following figure provides a preliminary estimate of the debt service on the \$15.0 million of bond issuance, making use of the executives suggested issuance schedule. Further assumptions used in the calculation of debt service related to this proposal are shown at the top of the figure below.

BROADBAND INFRASTRUCTURE DEVELOPMENT

Broadband Infrastructure Debt Service Estimate					
Assumptions:					
One Issues with Two Payments per Fiscal Year					
Issued 10/2016					
Each Issue Amount:	\$15,000,000				
Annual Fixed Rate of Interest:	4.4%				
Years to Maturity	20				
FY	Beginning Balance	Principal	Interest	Total FY Payment	Ending Balance
2016	\$15,000,000	\$237,751	\$330,000	\$567,751	\$14,762,249
2017	14,762,249	491,308	644,193	1,135,501	14,270,941
2018	14,270,941	513,163	622,338	1,135,501	13,757,778
2019	13,757,778	535,991	599,510	1,135,501	13,221,787
2020	13,221,787	559,834	575,667	1,135,501	12,661,953
2021	12,661,953	584,738	550,764	1,135,501	12,077,215
2022	12,077,215	610,749	524,752	1,135,501	11,466,466
2023	11,466,466	637,918	497,584	1,135,501	10,828,548
2024	10,828,548	666,295	469,207	1,135,501	10,162,253
2025	10,162,253	695,934	439,567	1,135,501	9,466,319
2026	9,466,319	726,892	408,609	1,135,501	8,739,427
2027	8,739,427	759,227	376,274	1,135,501	7,980,199
2028	7,980,199	793,001	342,501	1,135,501	7,187,198
2029	7,187,198	828,277	307,225	1,135,501	6,358,922
2030	6,358,922	865,122	270,380	1,135,501	5,493,800
2031	5,493,800	903,606	231,896	1,135,501	4,590,194
2032	4,590,194	943,802	191,700	1,135,501	3,646,393
2033	3,646,393	985,786	149,716	1,135,501	2,660,607
2034	2,660,607	1,029,638	105,864	1,135,501	1,630,969
2035	1,630,969	1,075,440	60,062	1,135,501	555,529
2036	555,529	555,529	12,222	567,751	0
Total		\$15,000,000	\$7,710,030		

The executive assumptions for this proposed issue considers that the bonds may be taxable, which increases the rate of interest the state will be required to pay. Based on the assumptions, the debt service on this issue would be \$1.7 million in the 2017 biennium. In later biennia, the cost to the general fund would be \$2.3 million.

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

The Sixty-second Legislature changed the TSEP statutes to provide parameters by which bridge construction could be funded in the program. The new language included in 90-6-710, MCA states:

...the department shall prepare and submit two lists containing the recommended projects and the recommended form and amount of financial assistance for each project to the governor, prioritized pursuant to subsection (2) and this subsection. One list must contain the ranked and recommended bridge projects, and the other list must contain the remaining ranked and recommended infrastructure projects referred to in 90-6-701(3)(a). Each list must be prioritized pursuant to subsection (2) of this section, but the department may recommend up to 20% of the interest earnings anticipated to be deposited into the treasure state endowment fund established in 17-5-703 during the following biennium for bridge projects.

TREASURE STATE ENDOWMENT PROGRAM

As a result, the TSEP budget analysis will be provided in two sections, one for bridge projects and another for infrastructure projects.

Program Budget Comparison

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

Program Comparison - Treasure State Endowment Program				
Budget Item	Budget 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	\$245,090,000	\$271,760,000	\$26,670,000	10.9%
Trust Earnings	19,075,659	19,940,000	864,341	4.5%
Number of Grants Funded (infrastructure)	48	40	(8)	-16.7%
Number of Grants Funded (bridge)	16	11	(5)	-31.3%
	<u>Appropriated</u>	<u>Proposed</u>		
Infrastructure Grants Cost	\$29,491,637	\$11,799,510	(\$17,692,127)	-60.0%
Bridge Grants Cost	4,491,901	3,988,000	(503,901)	-11.2%
Other Grants Cost	1,000,000	1,000,000	0	0.0%
Bonded Grants Cost	0	10,407,568 **	10,407,568	-
Total Costs	\$34,983,538	\$27,195,078	(\$7,788,460)	-22.3%
State Special	\$34,983,538 *	\$16,787,510	(\$18,196,028)	-52.0%
Bond Proceeds	0	10,407,568	10,407,568	-
Total Funds	\$34,983,538	\$27,195,078	(\$7,788,460)	-22.3%
* Includes \$13.3 million transferred from the general fund				
** Included in Sec. 28 of LC 719				

Program Discussion

As seen in the figure above, the executive proposes TSEP grant funding of \$27.2 million in the 2017 biennium. The proposal will be presented in Sec. 20 through 22 of HB 5. This level of appropriation would provide funds for emergency grants, \$100,000, and infrastructure planning grants, \$900,000. The proposal also includes an appropriations for bridge projects, \$4.5 million, and infrastructure projects, \$21.7 million, \$10.4 million of which would be funded with the proceeds from the Build Montana Bond Program, found in Sec. 28 of HB 5. (Note, the figure above disaggregates the total infrastructure and bridge grant costs by funding type, cash or bonds. The following discussion refers to the total proposed for each of the grant types) For more information on the Build Montana Act, see F-4 of this report. As proposed for the 2017 biennium, bridge projects of up to \$4.0 million may be funded through the interest earnings of the TSEP trust, per 90-6-710, MCA, as quoted above. Overall, the proposal is reduction of 22.3% from the 2015 biennium, but it is useful to remember that the Sixty-third Legislature provided a transfer of \$13.3 million from the general fund for TSEP projects for the 2015 biennium projects.

A complete list of the requested TSEP bridge and infrastructure projects; including the total project cost, the requested grant amount, and the recommended grant amount may be seen in Figure A2 in the Section F appendix. The details behind the grants requested for the 2017 biennium TSEP, along with a status of grants awarded in the 2015 biennium, are presented in Vol. 4 of the Governor's Executive Budget.

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

TREASURE STATE ENDOWMENT PROGRAM

trust. The corpus of the sub-trust has grown since its formation in 1992. The TSEP trust balance is expected to be \$245.1 million by the end of the 2015 biennium and is expected to grow by \$26.7 million by the end of the 2017 biennium. The trust has accumulated 25% of the coal tax revenues since its inception, but as of the end of FY 2016 will no longer receive new revenues. As a result, barring changes by the legislature, the TSEP trust will remain inviolate at the estimated amount of \$271.76 million throughout time.

The fund balance table below shows the projected ending fund balance of the treasure state endowment state special revenue account for the 2017 biennium under present law assumptions. The TSEP account will begin the biennium with a beginning fund balance of negative \$104,530. The negative balance results from lower than anticipated interest and earnings in the 2015 biennium. TSEP interest and earnings are expected to be \$19.9 million for the biennium. Additionally, the executive proposal for Build Montana would add \$10.4 million in bond proceeds to the program to fund local government grant projects.

Treasure State Endowment Fund (02270)			
Fund Balance Projection 2017 Biennium			
Estimated Beginning Fund Balance (7/01/2015)			(\$104,530)
Revenue Projections ¹	<u>2016</u>	<u>2017</u>	<u>Bien</u>
Interest/Investment Earnings	9,852,000	10,088,000	\$19,940,000
Bond Proceeds	10,407,568		<u>10,407,568</u>
2017 Biennium Revenues			\$30,347,568
Proposed Expenditures ²			
Administration - Commerce	(637,839)	(637,818)	(\$1,275,657)
Emergency Grants			(100,000)
Infrastructure Planning Grants			(900,000)
Bridge Grants			(4,534,552)
Infrastructure Grants			<u>(21,660,526)</u>
Total Expenditures			(\$28,470,735)
Estimated Ending Fund Balance - (6/30/2017)			<u>\$1,772,303</u>
¹ Based on HJ2 estimates			
² Based on executive budget proposal			

There are several expenditures recommended from the TSEP state special fund. First, there is an expenditure of \$1.3 million for the administrative costs of the program, which will be appropriated in HB 2. Other expenses appropriated in the TSEP section of HB 5, Sec. 20, include \$100,000 for the emergency grants program and a \$900,000 appropriation for preliminary engineering grants. Finally, HB 5 will provide one appropriation of \$15.8 million to provide funding, through the interest earnings of the trust, for bridge and infrastructure projects in Sec. 20 and another appropriation of \$10.1 million in Sec. 28, which is strictly related to bond proceeds. Of the total appropriation, \$4.5 million will be available to fund bridge projects and \$21.4 million will be available for infrastructure projects. The fund is estimated to have a balance of \$1.8 million at the end of the 2017 biennium.

LFD COMMENT	<p>The TSEP fund is estimated to have a significant balance at the end of the 2017 biennium. The reason for the excessive fund balance is thought to be related to differences in revenue projections between the executive and the legislature. Without adjustment, the fund is expected to begin the next biennium with \$1.8 million on hand. Given the sizable balance, the legislature may consider reducing the amount of bond issue authority and its associated bond appropriation and increasing the appropriation for the trust earnings in the program, thereby reducing the estimated ending fund balance.</p>
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TREASURE STATE ENDOWMENT PROGRAM, EASTERN MONTANA GRANT PROGRAM

Program Description

The executive proposes an “Eastern Montana” infrastructure grant program (TSEP-EMGP). The program would be administered by the Department of Commerce and will be run through the Treasure State Endowment Program. To establish the program, HB 5 (Sec. 23-24) would amend two of the TSEP statutes as follows:

- First, infrastructure project types are expanded in 90-6-701 to include
 - Public safety infrastructure related to law enforcement, fire protection, or emergency services.

LFD ISSUE

Amendment Language is Vague

The changes to statute recommended by the executive for TSEP-EMGP is vague. In the amendment to 90-6-701, MCA, the language mentions public safety infrastructure. While this terminology is expanded, there is no certainty related to what is meant. This could mean that acceptable projects could range from vehicles and equipment to facilities. The legislature may want to consider strengthening the statutory amendment to more specifically state the meaning of public safety infrastructure as the body may interpret it.

- Next, language is added to 90-6-710 permitting the agency to award grants
 - Beginning June 1, 2015, the department shall receive proposals from local or tribal governments impacted by growth associated with oil and gas development for community planning and for drinking water, wastewater treatment, or public safety infrastructure projects for an existing or future population. The department shall award grants from June 1, 2015 until April 30, 2016 and distribute the funds appropriated in [section 28(2)(d)] on a reimbursement basis from June 1, 2015 until June 29, 2019. Any funds appropriated in [section (28)(2)(d)] not obligated under this subsection to a local or tribal government by June 30, 2016, must revert to the general fund.

LFD ISSUE

Delegation of Authority

The Legislature would be delegating authority to the DOC (or the executive) under the TSEP-EMGP program. Unlike TSEP, the Legislature would have no role in making a determination of where or to whom the funds, or tax dollars, would be going. This program would allow the DOC to use its judgment in making that determination based on the limited information provided in the statutory amendment. In addition to the questions related to the types of infrastructure that would be included in the program, where the funds would be distributed is also at issue. The amendment mentions that applications will be taken from local or tribal governments impacted by growth associated with oil and gas development. Should the legislature choose to delegate this authority to DOC, it may want to better outline the conditions under which the local governments would receive grants with consideration to the following:

- What is meant by impacted by oil and gas development?
 - Will the funds be distributed exclusively to Eastern Montana (as dubbed in the executive proposal)?
 - What is meant exactly by Eastern Montana?
- Where is the oil and gas development in relation to the local government?
- What type of an impact is being experienced by the local government?
- What type of planning has the local government undertaken with relation to the project?
- What type of infrastructure is needed to address the impact?

TREASURE STATE ENDOWMENT PROGRAM, EASTERN MONTANA GRANT PROGRAM

LFD ISSUE (continued)

- How much will the infrastructure cost?
- What part of the cost is the local government contributing to the project?
- What part of the cost would be contributed by the state?
- How will the agency prioritize projects?
- How much community support is there for the project?

The language changes are recommended by the executive to provide a mechanism by which grants could be awarded in the 2017 biennium. The department will accept applications from and award grants from the \$45.0 million appropriation to various types of local governments impacted by oil and gas development for 11 months (June 1, 2015 to April 30 2016). After the April 30, 2016 deadline, TSEP will open up its regular biennial grant application cycle for water, wastewater, solid waste, stormwater, and bridge infrastructure for award during the 2017 legislative session. The appropriation for this program is provided in Sec. 28. The bond proceeds are included as a component of the Build Montana Act. For more information on the bond proposal see F-4 of this report.

LFD COMMENT

If the legislature agrees with the proposal for the EMGP, it may be helpful to request that DOC report how many grants have been awarded, the types of projects approved, the amount of funding awarded for the project, and the progress of the project to the Legislative Finance Interim Committee on a regular basis over the biennial interim.

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 state’s share of the financial obligation for these projects was met in full with the appropriations of the 2013 Legislature.

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, and a project feasibility study was completed in FY 2007. A fourth project, the Musselshell-Judith Regional Water System (Central Montana Regional Water Authority), has not qualified for federal funding, but has received program approval from the state. Both of these projects are progressing through planning phases specified by the Department of Interior and are seeking federal authorization.

The Regional Water Authorities prioritize the construction projects. Each system prioritizes projects based on several criteria but the top three are:

- Need (is there a boil order in the town or an urgent need for the construction)
- Feasibility (can the project move forward this biennium given the Regional Water System infrastructure already in place?)
- Cost & Funding (Is the project affordable based on available funds? This is dependent on Federal and State funds and if the local community is prepared to pay their share)

LFD COMMENT

The following statutory language (90-6-715, MCA) restricts the use of TSEPRW funds.

“(1)(a) The treasure state endowment regional water system special revenue account may be used to: (i) provide matching funds to plan and construct regional drinking water systems in Montana...”

Through time, legislative staff has strictly interpreted this language to mean a match to federal funding. The two projects approved for federal funding by Congress included full match rates for the participating entities (federal government, state government, and local governments). However, the language is vague and does not specify from whom the match is intended. Indeed the language could be interpreted more liberally to mean a match provided by the impacted local governments and/or the regional water authorities. Furthermore, the language is permissive (may) and ultimately does not require that the program funds be used as a match.

Regional water projects are large and costly systems; as an example the two federally authorized projects had cost estimates of \$303 and \$375 million. The Dry Redwater project is expected to cost

TREASURE STATE REGIONAL WATER PROGRAM

LFD COMMENT (continued)

\$300 million and the Musselshell-Judith project \$85 million. With program funding as provided in the TSEPRW alone and given a rate of return of 5%, it would take in excess of 70 years to fully fund the costs of the Dry Redwater regional water system (or 20 years for the Musselshell-Judith regional water project). That said, the assistance of the federal government in the planning and construction of these projects is very important.

Should the legislature wish to continue the TSEPRW program (see issue below), the legislature may want to consider changes to statutes. Options available to the Legislature include:

- Amend statute to require the match be from either local or federal funds
- Amend statute to require the match be made from federal funds only
- Amend statute to remove the permissive language, may, and replace with strict language, shall or must
- Make both changes
- Draft a new section to the code that more explicitly lays out the program funding conditions
- Do nothing

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 - Treasure State Endowment Regional Water Program				
Budget Item	Budget 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	\$79,470,000	\$0	(\$79,470,000)	-100.00%
Trust Earnings	7,664,540	3,270,000	(4,394,540)	-57.34%
	<u>Appropriated</u>	<u>Proposed</u>		
Projects Funding	\$17,000,000	\$3,259,761	(\$13,740,239)	-80.82%
Total Costs	\$17,000,000	\$3,259,761	(\$13,740,239)	-80.82%
State Special	\$17,000,000 *	\$3,259,761	(\$13,740,239)	-80.82%
Total Funds	\$17,000,000	\$3,259,761	(\$13,740,239)	-80.82%
* Includes \$8.4 million transferred from the general fund				

Program Discussion

The executive budget proposal TSEPRW for the 2017 biennium will be presented in HB 5, Sec. 25. As seen in the figure above, the executive proposes project funding of \$3.3 million in the 2017 biennium. The proposal is an reduction of 80.8% from the 2015 biennium, but it is useful to remember that in the prior biennium, the legislature provided a transfer of \$8.4 million from the general fund to the TSEPRW fund for projects in the 2015 biennium. Were it not for the general fund transfer, the change in appropriation level would be a reduction of 31.4%.

The \$17.0 million of appropriation provided by the 2013 Legislature fully funded the state's match of the cost of the Fort Peck/Dry Prairie and the Rocky Boy's/NC Montana water projects. The two newer projects have not been authorized by the federal government and are not expected to receive funding for the projects until that occurs. As a result, it is not known whose dollars the state's funding would match.

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

TREASURE STATE REGIONAL WATER PROGRAM

into the coal tax trust (12.5% of the total coal severance tax). The trust balance is expected to be \$79.5 million by the end of the 2015 biennium, but the trust is sunset from law as of July 1, 2016 with the sub-trust balance expected to be reverted to the permanent trust of the coal severance tax trust. Through FY 2016, the interest earned from the trust is transferred into the state special revenue fund authorized in Title 90, Section 6, part 7, MCA, to provide a match for the development of large water systems.

The figure to the right shows the fund balance calculation for the TSEPRW account for the 2017 biennium. The beginning fund balance is expected to be a negative \$1.5 million at the beginning of the 2017 biennium. The negative balance results from lower than anticipated interest earnings from the trust experienced in recent years. Because under current law the TSEPRW will expire mid-biennium, the trust earnings are only expected to be \$3.3 million in

TSEP Regional Water System Fund (02015)				
Fund Balance Projection 2017 Biennium				
Estimated Beginning Fund Balance (7/1/2015)				(\$1,505,026)
Revenue Projections¹				
Interest Earnings	FY 2016	FY 2017	Bien	
	\$3,268,620	\$0	\$3,268,620	3,268,620
2017 Biennium Revenues				
Proposed Expenditures				
Administration - DNRC ²	(116,698)	(116,698)	(233,396)	
Regional Water Authority Admin. Grants ²	(921,500)	(921,500)	(1,843,000)	
Grant Appropriation	(3,259,761)		(3,259,761)	
Total 2017 Proposed Expenditures				(5,336,157)
Estimated Ending Fund Balance - (6/30/2017)				(\$3,572,563)
<small>¹Based on HJ2 estimates</small>				
<small>²Based on executive budget proposal HB 2</small>				

the biennium, as estimated in HJ 2. Statutorily, the interest earnings of the trust may be used to fund the administrative expenses for the program, and the executive recommendation proposes a DNRC administrative appropriation of \$0.2 million and a \$1.8 million grants appropriation for the administrative costs of the four regional water authorities, recommended in the general appropriation act. The appropriation of \$3.3 million is proposed for regional water project matching funds. Without action on the part of the Sixty-fourth Legislature to continue the TSEPRW program, the \$1.0 million administrative appropriations in FY 2017 will not occur, which will then leave the fund with a negative balance of \$2.5 million. Ultimately, the fund cannot support the amount of appropriations recommended by the executive without legislative action to continue the program or provide additional funding.

LFD
ISSUE

Negative Ending Balance

As shown in the fund balance figure above, under current law the TSEPRW program and funding source is set to expire mid-biennium and the fund is expected to finish the biennium with a negative ending fund balance. According to the Montana Constitution, Article VIII., Section 9, "Appropriations by the legislature shall not exceed anticipated revenue." There are a number of options available to the legislature related to the status of this fund, which include:

- Reducing the appropriation for TSEPRW in HB 5
- Recommending a reduction of HB 2 appropriations to the Sec. C subcommittee, either administrative assistance to the regional water authorities or program administrative costs
- Continuing the TSEPRW trust, thereby increasing revenues for the 2017 biennium
- Transfer additional revenues into the program to cover the costs of the appropriations

LFD
COMMENT

Agency Statutory Amendment Request

At the request of DNRC, LC 718 is expected to be introduced to continue the TSEPRW. When the legislation implementing the TSEPRW was passed by the 1999 Legislature, it contained a termination date for the statutory amendments, which at that time was 2013. Since, the termination date was revised to 6/30/2016. The legislation would eliminate the termination date from the original legislation.

TREASURE STATE REGIONAL WATER PROGRAM

LFD ISSUE

The End of TSEPRW Funding

In 17-5-703, MCA, which provides for the distributions of the coal severance tax to the named trusts, all reference to the TSEPRW trust will disappear as of July 1, 2016 (mid-way in the 2017 biennium). Furthermore, the state special fund used for the purpose of appropriation as provided in 90-6-715, MCA (provided as temporary) will likewise disappear. When the trust disappears from statute, there will no longer be any mention of the TSEPRW program in statute, which could be inferred as the end of the program altogether. Yet, if the program continues, and without statutory changes, another source of program funding will be required to support program costs and water authority administration costs, not to mention regional water construction.

TSEPRW started when the Ft. Peck/Dry Prairie and Rocky Boy/North Central regional water authorities were formed. Since, the state funding for the construction projects has been met and some federal project funding has been received. However, two additional regional water authorities have been formed, the Dry Redwater nor the Musselshell Judith, which has extended the need for the program and program funding. Neither of these systems have received federal recognition as regional water systems, although both have sought authorization. Without federal authorization, it is unlikely that federal funds will be directed to the projects. Consequently, even if the TSEPRW trust continued to exist, system construction may be delayed.

The statute is not specific about the handling of the TSEPRW funds as they disappear from the law. As such, legislative staff believe that the balance of the TSEPRW trust will revert to the permanent trust, increasing the flow of investment earnings to the general fund.

On June 30, 2016, 90-6-715 (the program statutory guidelines and state special revenue fund) will terminate. Legislative legal staff has suggested that 17-1-503 would guide the actions related to the fund. The statute states, "The balance remaining in each special revenue account terminated pursuant to legislative review must be deposited in the general fund." Without legislative action to change the law, it is likely that any uncommitted or encumbered balance would likely be transferred to the general fund.

The Legislature has options for addressing this issue before the funding for the TSEPRW program funding is eliminated. Ultimately, the Legislature must decide if the program as currently managed should continue. If not, then the termination of the trust and the TSEPRW statute will eliminate, if nothing else, the current funding. If, however, the legislature wants to continue the program the following options may help to frame a discussion:

- Insert the TSEPRW trust back into 17-5-703
- Eliminate the temporary status of 90-6-715
- Provide statute to better substantiate the program

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 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
Number of Grants Funded	90	100	10	11.1%
	<u>Appropriated</u>	<u>Proposed</u>		
Grants Cost	\$8,967,632	6,072,614	(\$2,895,018)	-32.3%
Other Grants	3,485,686	1,400,000	(2,085,686)	-59.8%
Bonded Grants Cost	0	6,311,134	6,311,134	-
Tribal Compact Funding	17,000,000	0	(17,000,000)	-100.0%
Loan Program	24,711,793	26,602,374	1,890,581	7.7%
Total Costs	\$54,165,111	\$40,386,122	(\$13,778,989)	-25.4%
State Special	\$29,453,318 *	\$7,472,614	(\$21,980,704)	-74.6%
CST Bond Proceeds	24,711,793	26,602,374	1,890,581	7.7%
GO Bond Proceeds	0	6,311,134	6,311,134	-
Total Funds	\$54,165,111	\$40,386,122	(\$13,778,989)	-25.4%
* Includes \$20.5 million transferred from the general fund				

Program Discussion

As seen in the figure above, the executive proposes a total of \$40.4 million of appropriations for the RRGL programs in the 2017 biennium. Of the proposed appropriations, \$13.8 million is for various grant projects and \$26.6 million is for the loan program. The RRGL grant proposals are included in HB 5, Sec. 8, and the loan proposals are included in Sec. 13 through 19. The 2017 biennium budget proposal is \$13.8 million, or 25.4%, less than the RRGL budget in the 2015 biennium, but it is useful to remember that in the prior biennium the legislature provided transfers of \$20.5 million from the general fund to the RRGL program in the 2015 biennium for the state’s share of tribal compact funding and projects in the 2015 biennium.

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

A complete list of the requested RRGL projects; including the total project cost and the recommended grant amount may be seen in Figure A3 in the Section F appendix. The details behind the grants requested for the 2017 biennium RRGL, along with a status of grants awarded in the 2015 biennium, are presented in Vol. 6 of the Governor's Executive Budget.

Grant Program

DNRC received a total of 105 grant applications from local governments, from which 100 are recommended for grants at a cost of \$12.4 million. The RRGL grants programs are presented in HB 5, Sec. 8. Along with the appropriation of \$6.1 million for the local government grants, the executive RRGL grants proposal will also include appropriations for \$100,000 to fund the emergency grant program, and \$700,000 for project planning grants. The executive recommendation also includes grants for other natural resource projects which include:

- \$200,000 for irrigation development grants
- \$300,000 for watershed grants, projects that will lead to the restoration of the form and natural function of a watershed that may include projects for restoration planning, nutrient loading studies, infrastructure assessment, stormwater control, development of bank storage areas, and the like
- \$100,000 for septic loan grants, grants to counties to create a small revolving loan fund to provide low interest loans to individuals needing to make repairs on wastewater treatment systems. The effort is directed to the elimination of contamination to bodies of water in the state

The executive proposal also includes an appropriation of \$6.3 million for RRGL grants, found in Sec. 28, that would be funded with the proceeds from the Build Montana Bond Program. For more information on the Build Montana Act, see F-4 of this report.

Loan Program

The second element of the RRGL program is the loan program. The loan program, proposed in HB 5, Sec. 13 through 19, 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 and the repayment of the loans fund the debt service. Loans have differing interest rates based on the state's bond rate. The interest payments on some of the bonds may be subsidized with earnings from the coal severance tax bond fund. Because money from the coal severance tax bond fund is pledged for debt service payments on the bonds, the applicable sections of HB 5 will require a three-fourths vote of the members of each house, as directed by the Montana Constitution.

The project loans included in the RRGL loan program are seen in the figure on the following page. Loans would include the reauthorization of two loans originally authorized by the 2015 Legislature. The proposal also includes loans for the Deadmans Basin project, a state owned project where the water users' association will be responsible for the payment of the debt. Four project loans amounting to \$2.7 million would be used in combination with grant proceeds for renewable resource projects, and DNRC requests \$5.0 million of bond proceeds to refinance higher interest debt for water and sewer facilities. The total request for bond authority and appropriation is \$26.6 million and includes an additional amount of \$2.4 million to establish a reserve for the bonds.

RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

Renewable Resource Loans 2017 Biennium			
Loans-Sponsor/Project	County	Proposal	Cumulative Total
<u>Loans with interest rates of 3.0% or State bond rate, whichever is lower-20 years</u>			
DNRC-Conservation and Resource Development Division (CARDD)			
Refinance Existing Debt or Rehabilitation of Water and Sewer Facilities	Statewide	\$5,000,000	\$5,000,000
<u>Loans with interest rates of 4.0% or State bond rate, whichever is lower-30 years¹</u>			
Dry Praire Retional Water System			
Local Share	Roosevelt	6,000,000	11,000,000
North Central Regional Water System			
Local Share	Hill	10,000,000	21,000,000
<u>Loans with interest rates of 4.0% or State bond rate, whichever is lower-20 years</u>			
Deadmans Basin Project, State Owned Project			
Irrigation Infrastructure	Wheatland	500,000	21,500,000
Bitter Root Irrigation District			
Siphon 1 - Phase 3 Improvements Project	Ravalli	1,773,976	23,273,976
Highwood			
Wastewater System Improvments	Choteau	60,000	23,333,976
Yellowstone Boys and Girls Ranch			
Wastewater System Improvments	Yellowstone	800,000	24,133,976
Dillon			
Water System Improvments	Beaverhead	<u>50,000</u>	24,183,976
Total Loan Authorizations:		\$24,183,976	
Loan Reserve:		<u>2,418,398</u>	
Total Bond Request		<u>\$26,602,374</u>	
¹ Loans to be reauthorized			
NOTE: Projects are grouped by differences in loan circumstances and interest rates.			

Funding

The funding for the RRGL is provided through the “natural resource projects” state special revenue fund. To view the full natural resource projects fund balance analysis see page F-31. 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 \$26.6 million, which would be appropriated to the DNRC for financing the projects identified in the bill.

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. However, if any balance of a prior biennium grant remains unobligated, the new grants must be reduced by the balance. The program is also required to prioritize \$800,000 of funding to any government entity for abandoned mine reclamation projects. RDGP grants are limited to \$500,000. 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 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
Number of Grants	19	17	(2)	-10.5%
	<u>Appropriated</u>	<u>Proposed</u>		
Grants Cost	\$4,418,645	\$4,781,215	\$362,570	8.2%
Other Grants Cost	1,825,000	1,514,000	(\$311,000)	-17.0%
Bonded Grants Cost	0	1,707,693	\$1,707,693	-
Total Costs	\$6,243,645	\$8,002,908	\$1,759,263	28.2%
State Special	\$6,243,645	\$6,295,215	\$51,570	0.8%
GO Bond Proceeds	0	1,707,693	1,707,693	-
Total Funds	\$6,243,645	\$8,002,908	\$1,759,263	28.2%

Program Discussion

As seen in the figure above, the executive proposes appropriations of \$8.0 million for the RDGP program in the 2017 biennium, as presented to the legislature in HB 5, Sec. 9. The RDGP program received 20 applications requesting grants of \$7.7 million, from which 17 grants are recommended to receive \$6.5 million. Appropriations in Sec. 9 include \$4.8 million for RDGP grants and \$800,000 to fund project planning grants. The executive proposal also includes an appropriation of \$1.7 million for RDGP grants, found in Sec. 28, that would be funded with the proceeds from the Build Montana Bond

RECLAMATION AND DEVELOPMENT GRANT PROGRAM

Program. For more information on the Build Montana Act, see F-4 of this report. The executive recommendation includes grants for other natural resource projects which include:

- \$500,000 for the control of aquatic invasive species
- \$214,000 for a grant to the Montana Salinity Control Association

A complete listing of the RDGP grants may be seen in figure A4 in the Section F appendix. The details behind the grants requested for the 2017 biennium RDGP, along with a status of grants awarded in the 2015 biennium, are presented in Vol. 5 of the Governor's Executive Budget.

Funding

The natural resource projects account funds appropriations for natural resource grants and projects authorized by the legislature. Primary programs funded through the account are the RRGL and the RDGP 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)

Natural Resource Project Account (02577)				
2017 Biennium				
Estimated Beginning Fund Balance (7/1/2015)				\$1,352,575
		Biennium		
Revenue Projections ¹	FY 2016	FY 2017	Total	
RIT Interest Earnings	\$3,082,461	\$2,873,302	\$5,955,764	
Resource Indemnity & Groundwater Tax	853,290	964,319	1,817,609	
Oil and Natural Gas Tax	2,064,451	2,139,665	4,204,116	
Administrative Fees	31,000	0	31,000	
Bond Proceeds RRGL	6,311,134	0	6,311,134	
Bond Proceeds RDGP	1,707,694	0	<u>1,707,694</u>	
2017 Biennium Revenues				20,027,317
RRGL Appropriations				
Emergency Grants			(100,000)	
Project Planning Grants			(700,000)	
Irrigation Development Grants			(200,000)	
Watershed Grants			(300,000)	
Septic Loan Grants			(100,000)	
Proposed RRGL Project Grants			(6,072,615)	
Proposed RRGL Bonded Project Grants			<u>(6,311,134)</u>	
Total RRGL Appropriations				(13,783,749)
RDGP Appropriations				
Project Planning			(800,000)	
Aquatic Invasive Species Control			(500,000)	
Montana Salinity Control Association			(214,000)	
Proposed RDGP Project Grants			(4,781,215)	
Proposed RDGP Bonded Project Grants			<u>(1,707,694)</u>	
Total RDGP Appropriations				(8,002,909)
Estimated Ending Fund Balance (6/30/2017)				<u>(\$406,766)</u>
¹ HJ 2				

RECLAMATION AND DEVELOPMENT GRANT PROGRAM

As shown in the fund balance table above, the natural resource project account is estimated to have a beginning fund balance of \$1.4 million in the 2017 biennium. This beginning fund balance is primarily the result of greater than anticipated revenues from the oil and natural gas tax. Revenues for the 2017 biennium, as provided in the Legislative Fiscal Division (LFD) estimates, are expected to be \$20.0 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 2017 biennium, the executive budget recommends total appropriations of \$13.8 million for the RRGL program and \$8.0 million for the RDGP program from the natural resource projects account. The ending fund balance at the end of the 2017 biennium is projected to be a negative \$406,766.

LFD ISSUE

Negative Ending Balance

As shown in the fund balance figure above, the natural resource projects account is expected to finish the biennium with a negative ending fund balance. According to the Montana Constitution, Article VIII., Section 9, "Appropriations by the legislature shall not exceed anticipated revenue." There are a number of options available to the Legislature related to the status of this fund, which include:

- Reduce the appropriations for the RRGL program in HB 5, Sec. 8
- Reduce the appropriations for the RDGP program in HB 5, Sec. 9
- Increase the bond proceed funding for either or both of the programs in HB 5, Sec. 28 and 29
- Increase revenues on an OTO or ongoing basis by adding funds from the general fund or other sources

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 the 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 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	\$12,580,000	\$13,190,000	\$610,000	4.8%
Trust Earnings	1,006,003	960,000	(46,003)	-4.6%
Number of Grants	81	73	(8)	-9.9%
	<u>Appropriated</u>	<u>Proposed</u>		
Grants Cost	\$758,650	\$385,132	(\$373,518)	-49.2%
Capitol Complex Works of Art	30,000	30,000	0	0.0%
Total Costs	\$788,650	\$415,132	(\$373,518)	-47.4%
State Special	\$788,650	\$415,132	(\$373,518)	-47.4%
Total Funds	\$788,650	\$415,132	(\$373,518)	-47.4%

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 73 C&A grant awards totaling \$385,132. The recommended awards are prioritized 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 2017 biennium, appropriations for the C&A program would be 47.4% less that appropriated in the 2015 biennium.

A complete listing of the C&A grants may be seen in figure A5 in the Section F Appendix. The details behind the grants requested for the 2017 biennium C&A, along with a status of grants awarded in the 2015 biennium, are presented in Vol. 7 of the Governor's Executive Budget.

Funding

Funding for the C&A program comes from the interest earnings from the cultural trust. The trust receives a statutorily dedicated 0.63% of coal severance tax revenues. At the end of the 2015 biennium, the cultural trust balance is projected to be approximately \$12.6 million, and the balance is expected to grow by approximately \$610,000 during the 2017 biennium.

CULTURAL AND AESTHETIC GRANT PROGRAM

The figure to the right shows the projected balance of the C&A state special fund for the 2017 biennium. The fund is expected to begin the 2015 biennium with a \$0 fund balance. This balance occurs because the interest earnings of the 2015 biennium are projected to be lower than anticipated by the 2013 Legislature and the program will need to reduce the authorized grants in light of the shortfall. The estimates, provided in HJ 2, include interest earnings of \$960,000 for the 2017 biennium. Expenditures for the C&A program are limited by the amount of interest earned from the trust investments. The executive budget proposal includes appropriations of \$322,719 for administrative expenses and \$142,154 for the Folklife program (as appropriated in HB 2). In the 2017 biennium, HB 2 appropriations are almost 48.5% of the total program revenues. Program expenditures also include \$30,000 for a statutorily required appropriation for capitol complex works of art, and grant funding proposals of \$385,132, which are expected to result in a ending fund balance in FY 2017 of \$79,995.

Cultural & Aesthetic Grant Fund (02009) Fund Balance Projection, 2017 Biennium			
Estimated Beginning Fund Balance (7/1/2015)			(\$0)
Revenue Projections¹			
Interest Earnings	\$487,000	\$473,000	\$960,000
2017 Biennium Revenues			960,000
Proposed Expenditures			
MAC Administration ²	(163,006)	(159,713)	(322,719)
Folklife ²	(71,160)	(70,994)	(142,154)
Capitol Cmplx Works of Art			(30,000)
Grants			(385,132)
Total Expenditures			(880,005)
Estimated Ending Fund Balance (6/30/2017)			<u>\$79,995</u>
<small>¹ HJ2 estimates</small>			
<small>² Executive proposal (HB 2)</small>			

LFD COMMENT

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.

A shortfall in interest earnings is currently occurring in the C&A grants program. The shortfall is expected to be approximately \$200,000. Consequently, additional grants of \$81,000, as authorized by the 63rd Legislature will not be funded. Also, grants of greater than \$4,500 may be reduced by approximately 20%. 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.

To mitigate the negative effects of interest income shortfalls, past legislatures have provided an ending fund balance in the C&A grants fund. The 2013 Legislature provided an estimated ending fund balance of \$29,312 for the 2015 biennium, but that cushion was not sufficient to cover the serious impact of low interest earnings. For the 2017 biennium, the interest earnings projections are lower than has been projected in past biennia. With more conservative estimates, shortfalls as experienced in the current biennium may be avoided. Furthermore, the cushion of nearly \$80,000 may help to avoid the need to reduce grants in the 2017 biennium.

In the 2015 biennium version of HB 9, language is included to allow for an increase grant awards, should the interest earnings manifest at higher than expected levels. While this language leaves an amount of uncertainty about the exact amount of the appropriation, it provides a mechanism through which the authorized grants could be increased, without creating expectations of higher levels of grants for the recipients. The legislature may consider a discussion about including this language in the 2017 biennium, and may consider reporting requirements for the Arts Council should the interest earnings of the trust permit the increase or reduction of the authorized grants.

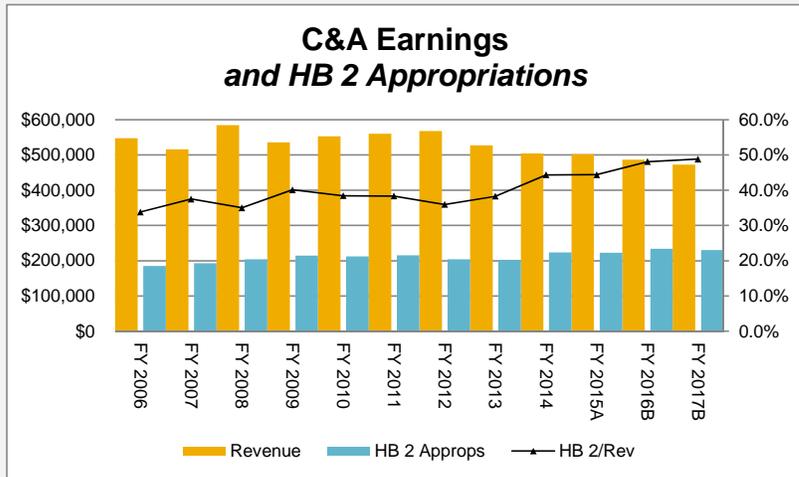
CULTURAL AND AESTHETIC GRANT PROGRAM

LFD ISSUE

C&A Impacts of Low Interest Earnings

The C&A grant program is funded with the interest earnings of the cultural trust. In recent years, the trust earnings have been low due to the low yields of the trust investments, primarily consisting of bonds. In the 2017 biennium, interest earnings are expected to be \$960,000, or an average of \$480,000 per fiscal year. After accounting for other obligations of the fund; administrative costs and the Folklife program (HB 2 appropriations), and funding statutorily required for the purchase of works of art in the capitol complex, funds remaining for the C&A grants program are \$465,127, or 48.5% of the total income expected in the fund. The amount of funding available for grants in the 2017 biennium will be lower than ever experienced.

With the reduced income seen in the 2015 biennium and expected in the 2017 biennium, HB 2 appropriations are proposed at \$464,983, or 48.4% of the total funding available and are only slightly less than the amount of funds available for grants. As seen in the accompanying figure, while the appropriations of HB 2 have not increased significantly in nominal terms, they have increased significantly in relation to the total earnings of the fund.



There are options the Legislature could consider in this situation. The Legislature could:

- Move administrative costs out of the C&A fund temporarily (or ongoing)
- Supply additional funding for the grant program
- Do nothing

QUALITY SCHOOL FACILITY GRANT PROGRAM

Program Description

The Quality Schools Facilities Grant Program (quality schools grants program), 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 title 90, chapter 6, part 8, MCA. The principal grant ranking criteria of the quality schools grants are:

- Solve urgent and serious public health or safety problems, or enable public school districts to meet state or federal health or safety standards
- Address deferred maintenance by repairing or replacing existing building components that are inoperable, difficult to service, or that lack minimum integrity
- 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 give preference to school facility projects involving repairs to existing facilities over projects involving construction of new facilities and consider 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 Grant Program				
Budget Item	Budget 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
Number of Grants	30	53	23	76.7%
	<u>Appropriated</u>	<u>Proposed</u>		
Project Costs Cash	\$11,418,642	\$11,160,979	(\$257,663)	-2.3%
Project Costs Bonds	0	19,086,359	19,086,359	-
Other Grants	1,000,000	1,000,000	0	0.0%
Total Costs	\$12,418,642	\$31,247,338	\$18,828,696	151.6%
State Special	\$12,418,642	\$12,160,979	(\$257,663)	-2.1%
GO Bond Proceeds	\$0	\$19,086,359	\$19,086,359	-
Total Funds	\$12,418,642	\$31,247,338	\$18,828,696	151.6%

Program Narrative

DOC received 53 complete applications requesting over \$30.2 million in project grant funds, from which 53 grants are recommended. The quality schools grant program will be presented to the Sixty-fourth Legislature in HB 5, Sec. 27. Grant recommendations are 151.6% higher than appropriated in the 2015 biennium, primarily because of the bond funding proposed in the program.

QUALITY SCHOOL FACILITY GRANT PROGRAM

A complete listing of the quality schools grants may be seen in figure A6 in the Section F Appendix. The details behind the grants requested for the 2017 biennium quality schools program, along with a status of grants awarded in the 2015 biennium, are presented in Vol. 8 of the Governor's Executive Budget.

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 funding to schools for facility and technology improvement purposes. The state special fund provides money for a \$1.0 million/FY statutory appropriation to schools for information technology upgrades. The fund also 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. In the 2011 legislative session, the state obligation to assist school districts with the costs of bond issues for new facilities was directed to the school facility and technology fund.

The school facility and technology fund is expected to begin the biennium with \$168,050. For the 2017 biennium, the fund will receive revenues from the following sources:

- 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)
- Beginning July 1, 2014, public land trust power site rent 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)

LFD ISSUE

Inadequate Funding

Under present law the school facility and technology account is unable to maintain past appropriation levels without additional infusions from the general fund or other revenue sources. As demonstrated in the fund balance figure, without changes to the budget the appropriations exceed anticipated revenue and the fund is expected to finish the 2017 biennium with a negative fund balance.

When the quality school facilities account was created, it received distributions of federal mineral royalties per 17-6-340, MCA, which resulted in a fund balance exceeding \$50 million. In subsequent years, the legislature also provided funding from the income attributable to timber harvests greater than 18 million board feet obtained from school trust lands and the rental income received from power site leases. These sources of funding were thought to be adequate to cover the costs of the \$1.0 million/year school technology statutory appropriation and the usual costs associated with quality schools program.

In the 2011 session, the legislature directed the funding of the state's assistance with K-12 facility bond issues to the school facility and technology account. This component of the guaranteed base aid to schools was paid in earlier years with general fund. This state obligation has been paid through the revenues of the account for two biennia, which was feasible due to the previously mentioned account balance. However, as of the end of the 2015 biennium, the fund balance will be fully expended. The account will no longer has the revenue capacity to fund the requested amount of the debt assistance obligation.

For the 2017 biennium, the executive budget proposes a new revenue source for the account, the natural resource development payments, which is discussed in detail later in this report. Yet, the

QUALITY SCHOOL FACILITY GRANT PROGRAM

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(continued)**

legislature has options on how to manage the imbalance in the account. Some options that may be considered include:

- Reduce or eliminate the quality schools grant program
- Change statute to move some or all of the state debt obligation for new facilities to the general fund
- Reduce or eliminate other costs from the fund
- Add another source of revenues to the account
- Accept the executive recommendation pertaining to the natural resource development payments

The school facility and technology fund is estimated to start the 2017 biennium with a balance of \$351,970. For the 2017 biennium, the state contribution to school debt obligation is expected to be \$17.2 million. The fund is also responsible for a \$1.0 million per year statutory appropriation which provides technology upgrades to school districts. The 2013 Legislature amended statute allowing the administrative costs related to the grant program to be paid from the fund. In the 2017 biennium, administrative costs are proposed at \$765,070. The remaining appropriations are related to the 2015 biennium quality schools grant program and include \$100,000 for emergency grants, \$900,000 for facility project planning, and \$11.2 million for grants to school districts for facility projects. Under the executive proposal, there is an appropriation in HB 5, Sec. 28, for \$19.1 million of bond authority to fund additional quality schools projects. Considering the revenue projections and all the executive spending proposals and including the bond proceeds and appropriations, the quality schools grant program ending fund balance is expected to be negative \$5.3 million.

School Facility and Technology Fund (02218)			
Fund Balance Projection 2017 Biennium			
Estimated Beginning Fund Balance (7/01/2015)			(\$351,970)
		Biennium	
Revenue Projections ¹	FY 2016	FY 2017	Total
Timber Harvest Income	2,503,000	2,627,000	5,130,000
Public Land Trust Power Site Rent	4,521,000	4,527,000	9,048,000
Natural Resource Development Payment ²	4,900,000	8,100,000	13,000,000
Bond Proceeds	19,086,359		<u>19,086,359</u>
2017 Biennium Revenues			46,264,359
Proposed Expenditures			
School Facility Debt Obligation ³	(8,586,000)	(8,586,000)	(17,172,000)
Technology Statutory Appropriation	(1,000,000)	(1,000,000)	(2,000,000)
Administrative Expenses - Commerce ³	(382,802)	(382,268)	(765,070)
Emergency Grants			(100,000)
Planning Grants			(900,000)
School Facility Grants - Cash			(11,160,979)
School Facility Grants - Bonds			<u>(19,086,359)</u>
Total Expenditures			(51,184,408)
Estimated Ending Fund Balance - (6/30/2017)			<u>(\$5,272,019)</u>
¹ HJ2			
² Based on executive proposal			
³ Based on executive proposal (HB 2)			

**LFD
ISSUE**

Negative Ending Balance

As shown in the fund balance figure above, the school facility and technology account is expected to finish the biennium with a negative ending fund balance. According to the Montana Constitution, Article VIII., Section 9, "Appropriations by the legislature shall not exceed anticipated revenue." There are a number of options available to the legislature related to the status of this fund, which include:

- Reduce the appropriations for the quality schools program in HB 5, Sec. 27
- Reduce the appropriations for the quality schools program in HB 5, Sec. 28
- Increase the bond proceed funding for the program in HB 5, Sec. 28 and Sec. 29
- Reduce the school facility debt obligation, suggesting that the Sec. E subcommittee fund the appropriation with an additional source of revenue
- Increase funding for the account on a OTO or ongoing basis with revenue from the general fund or other funding sources

QUALITY SCHOOL FACILITY GRANT PROGRAM

LFD COMMENT

The executive proposes a new source of funding for the school facility and technology account, the K-12 natural resource development funding (NRD). This source of funding resulted from SB 175 in the 2013 Legislative Session. The funding is a calculation based on the amount of funding sufficient to offset the local levies on a statewide basis that have resulted from the inflationary increases to the per-ANB and basic entitlements costs for K-12 education.

The calculation is funded through transfers from the general fund, which in the 2017 biennium are estimated to be \$13.0 million. Based on these estimates, the transfer would not resolve the funding shortfall in the 2017 biennium. However, early estimates out of the school funding model provide \$22.0 million of funding in the 2019 biennium.