

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 | Budget | Biennium Change | Biennium % Change |
| | 2015 Biennium | 2017 Biennium | | |
| | <u>Appropriated</u> | <u>Proposed</u> | | |
| LRBP Project Costs | \$175,566,000 | \$233,587,500 | \$58,021,500 | 33.05% |
| SBECF 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 (SBECF), 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.

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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.

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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.

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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

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.