

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:

- o Repair, reclaim, and mitigate environmental damage to public resources from non-renewable resource extraction
- o 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:

- o Public benefit
- o Need and urgency
- o Appropriateness of technical design
- o Financial feasibility
- o 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.

Budget Item	Program Comparison - Reclamation and Development Grant Program			
	Budget 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
Number of Grants	19	17	(2)	-10.5%
Appropriated		Proposed		
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

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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
Revenue Projections ¹	<u>FY 2016</u>	<u>FY 2017</u>	<u>Biennium</u>
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			<u>(8,002,909)</u>
Estimated Ending Fund Balance (6/30/2017)			<u>(\$406,766)</u>

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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:

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