LONG-RANGE PLANNING OVERVIEW

Executive Summary

The executive proposal would provide a mix of cash and bond funding for Long-Range Planning (LRP) projects. Total LRP appropriations are $281.1 million, including $9.6 million of non-state dollars (authority/donations). Of the state funding used in the programs $7.2 million would be budgeted in capital project funds, $37.1 million from state special revenue funds, $21.9 million from federal special revenue funds, and $205.3 million from the proceeds of bond issues.

The executive proposes to transfer $57.3 million of the LRP dedicated funding to the general fund and replace those funds, while proposing additional infrastructure spending, with the proceeds of $157.4 million in general obligation (GO) bonds. In overarching terms, the executive proposal provides an increase of $108.3 million in state funding for LRP programs.

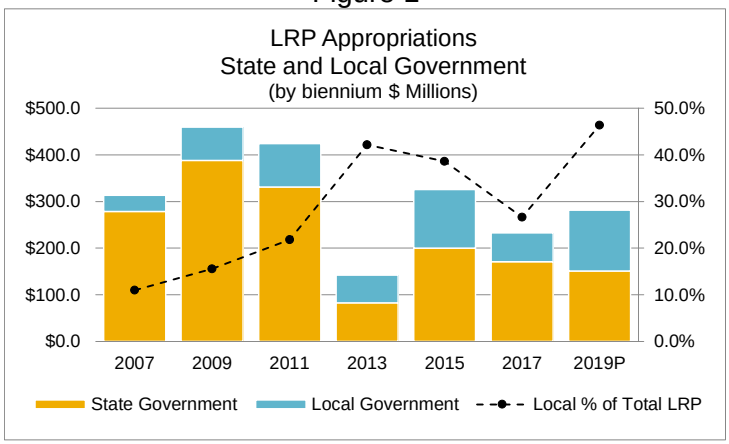
The executive proposal includes several major changes from the 2017 biennium LRP budgets, which exclusively made use of dedicated program funding in support of the budget. Significant changes include a greater amount of loans requested through the coal severance tax (CST)/Renewable Resource Loans Program, funding for a new grants program, funding for state participation in the integrated test center (a project underway in Wyoming), requests for two new buildings, and major renovations at another.

State and Local Infrastructure Projects

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 appropriated in HB 2.

LRP budgets may be broadly classified as either state government or local government capital projects (infrastructure projects) programs. Figure 1 shows the level of appropriations provided by category over time. In the 2013 and 2015 biennia, appropriations to the local government grants programs

Figure 1



increased as a proportion of total LRP appropriations. In the 2009, 2011, and 2015 biennia, the legislatures increased local government grant awards by increasing program funding through general fund transfers. In the 2019 biennium, the executive proposal would follow the pattern of providing greater appropriations for the local government programs by adding funding with the proceeds from bond issues. In the 2019 budget, local government funding is increased by proposals that add $47.0 million through a new Montana Community Grants and Loan Program (MCGL) and increasing coal severance tax loans to local governments (and irrigation districts) by approximately $20.0 million.

LONG-RANGE PLANNING OVERVIEW

Long-Range Planning Description

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 (SBECP) – energy efficiency improvements to state owned buildings, administered by Department of Environmental Quality
- Long-Range Information Technology Program (LRITP) – major information technology build and upgrade, administered by Department of Administration (no budget request for the 2019 biennium)
- 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 (no budget request for the 2019 biennium, but these type of projects would be eligible under the MCGL)
- 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

In the 2019 biennium, one additional program will be included in the LRP budget proposal, which is:

- Montana Community Grants and Loan Program (MCGL) – TSEP-like grants for public facility infrastructure and public safety improvement projects. The program will be administered by the Department of Commerce
    - Integrated Test Center Participation (ITCP) – MCGL would specifically direct grant funding for the state's participation in the Wyoming Integrated Test Center project. The center studies the capture, sequestration and management of carbon emissions from coal fired power plants

Long-Range Planning Comparison

Figure 2 compares the proposed 2019 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 $281.1 million. This is $48.5 million more than the LRP budgets in the 2017 biennium. Significant aspects of this budget include:

- Increased loan funding in the Renewable Resource Grant and Loan Program (RRGL)
- Funding for a new Community Grants and Loan Projects appropriation (MCGL)
- Funding for construction of the Montana Heritage Center and the Southwestern Veterans' Home (LRBP)
- Funding for the Romney Hall renovation project at the Montana State University (LRBP)

In the 2019 biennium, the executive LRP proposal does not recommend any appropriations for the Long-Range Information Technology Program (LRITP) and the Treasure State Endowment Regional Water Program (TSEPRW), which are usually included in this budget.

Figure 2

Long-Range Planning Budget Comparison ($ millions) Budget Item / Funding Source	Appropriations FY 16-17	Proposed FY 18-19	Biennium Change	Biennium % Change
Long-Range Building Program (LRBP)	$132.8	$147.1	$14.2	10.7%
State Building Energy Conservation Program (SBECP)	2.5	3.7	$1.2	48.0%
Long-Range Information Technology Program (LRITP)	35.4	0.0	($35.4)	-100.0%
Treasure State Endowment Program (TSEP)	18.9	17.8	($1.2)	-6.2%
Montana Community Grants and Loans (MCGL)	0.0	47.0	$47.0	-
Integrated Test Center Participation (ITCP)	0.0	3.0	$3.0	-
Treasure State Regional Water Program (TSEPRW)	4.3	0.0	($4.3)	-100.0%
Renewable Resource Grant and Loan Program (RRGL)	33.1	52.5	$19.4	58.8%
Reclamation and Development Grant Program (RDGP)	5.3	4.2	($1.1)	-20.0%
Cultural and Aesthetic Grant Program (C&A)	0.4	0.5	$0.1	13.3%
Quality Schools Grant Program (QSFP)	0.0	5.4	$5.4	-
Total Costs	$232.7	$281.1	$48.5	20.8%
Capital Projects Fund (Capital)	$26.2	$7.2	($19.0)	-72.5%
General Fund (GF)[1]	0.0	$0.0	0.0	-
State Special (SS)	71.8	37.1	(34.7)	-48.4%
Federal Special (FS)	35.7	21.9	(13.8)	-38.7%
Total Bonds (Bonds)	27.5	205.3	177.8	647.1%
General Obligation Bonds Subtotal	*0.0*	*157.4*	*157.4*	-
Coal Severance Tax Bonds Subtotal	*27.5*	*47.9*	*20.5*	*74.5%*
Proprietary Fund (Prop)	0.0	0.0	0.0	-
Subtotal State Funds	161.2	271.5	110.3	68.4%
Authorization (Author)	71.5	9.6	(61.8)	-86.5%
Total Funds	$232.7	$281.1	$48.5	20.8%

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) The LRP budget is presented to the subcommittee as a set of project recommendations. While the HB 2 budget subcommittees work with agency base budgets and decision packages (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 one-time-only project spending as provided in individual bills.

Funding

Historically, 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.

Figure 3

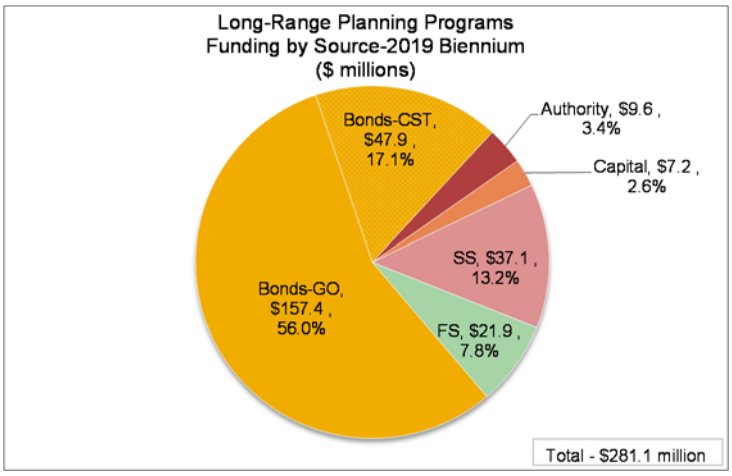


Figure 3 shows the funding of the LRP budget for the 2019 biennium. Total biennial funding proposed for the LRP budgets is $281.1 million. Generally, the LRP budgets are funded primarily from state special revenue funds. However, in the 2019 biennium $205.3 million, or 73.0% of total budget funding, is derived from bond proceeds (GO and CST). Capital project fund proposals are $7.2 million, state special revenue funds are $37.1 million, and federal special revenue funds are $21.9 million. Authorizations, $9.6 million or 3.4% 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.

As mentioned above, most of the LRP programs are funded with dedicated revenues. In the 2017 biennium, the $232.7 million of appropriations provided were made from dedicated revenues, agency funds, and non-state authority. In the 2019 LRP budget proposal, $57.3 million of the program dedicated revenues would be transferred to the general fund. The transfers are included as a component of HB 14, the "Jobs and Infrastructure in Montana" or bond bill.

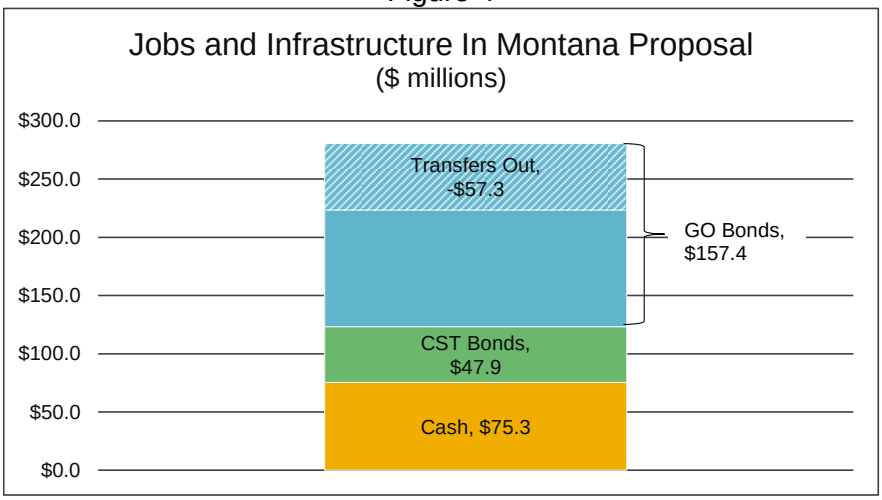
Jobs and Infrastructure in Montana Proposal

The executive has featured most of the LRP budgets in what is titled the "Jobs and Infrastructure in Montana Proposal," LRP programs involved in the proposal include all the programs shown above in Figure 2 except the C&A program and the LRITP. One of the programs, the TSEPRW is involved only due to the transfers to the general fund (includes no appropriations). The proposal would add one new program referred to as the Montana Community Grant and Loan Projects (MCGL). This proposal includes one specific grant along with grant and loan appropriations that would follow the project types, laws, and rules of the TSEP.

The Jobs and Infrastructure in Montana proposal is substantially contained in HB 14, the Creating Jobs in Montana Act. HB 14 has historically been thought of as the LRBP bond bill. In the 2017 Session, HB 14 is the bonding bill, but provides bond authorizations/appropriations for those state and local government programs included in the executive Jobs and Infrastructure in Montana Proposal. HB 14 is the heart of the proposal, but is augmented by what are thought of as the "normal LRP bills"; HB 5, HB 6, HB 7, HB 8, and HB 11; which provide funding from the designated revenue sources for emergency grants, project planning grants, and various grants that do not require legislative individual project authorization. HB 5, as proposed by the executive would appropriate projects funded exclusively with agency funds (capital project, state special revenue, federal special revenue, and other non-state dollars).

HB 14 would provide the appropriations from bond proceeds for most of the LRP projects and grants, and would include transfers of the dedicated revenue to the general fund. Figure 4 demonstrates the recommended funding, including the transfers as an offset to the bond proceeds in the Jobs and Infrastructure in Montana proposal. The gold "Cash" bar in Figure 4 includes capital project, state special revenue, and federal special revenue funds.

Figure 4

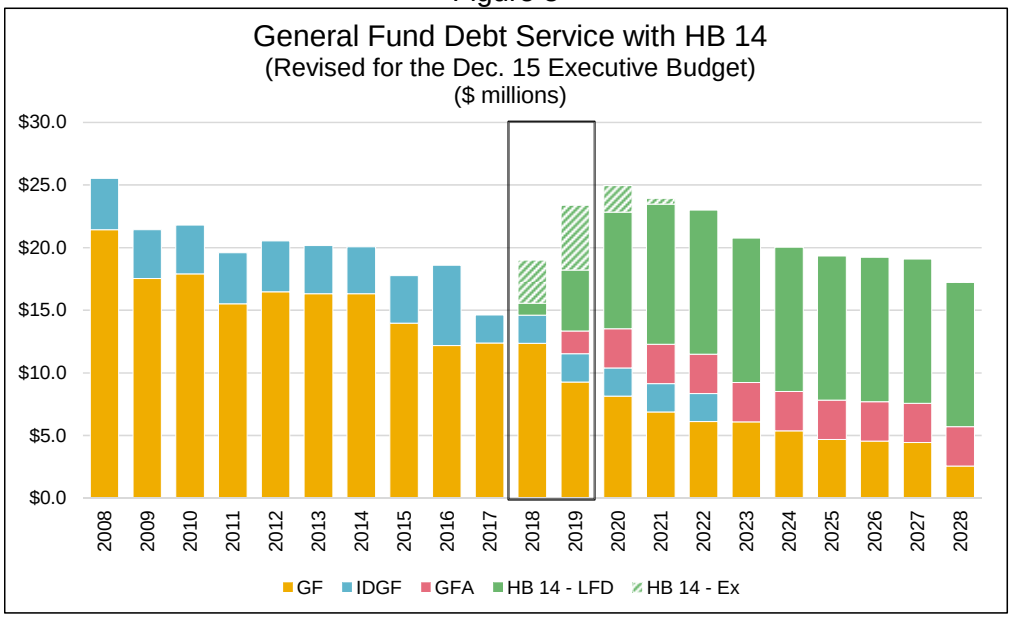


Note: Because HB 14 authorizes the issuance of general obligation bonds (GO), the legislation requires a 2/3 vote of each house of the legislature to be approved.

Bond Issue Debt Service

The Creating Jobs in Montana Act, as proposed in HB 14, is in large part funded through bond proceeds. To achieve the objectives of the proposal, $157.4 million of state 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 about when the bonds will be issued, since the types of projects and grants included in the legislation vary widely. Most of the projects are long-term endeavors that take years to complete, but some of the grants disperse funds more quickly. Figure 5 provides a graphic overview of general fund debt service, including the debt service for the proposed HB 14 bonds under two sets of assumptions, one as used by the executive in the calculations for the balance sheet and one using LFD assumptions.

Figure 5



Included in Figure 5 are:

- GF – Debt service paid directly from the general fund. Much of the GF debt service is paid on bonds issued for state building construction projects, but also includes the purchase of school trust lands
- IDGF – Debt service that is paid from funds that would flow into the general fund were it not paying this cost. Included in this group are construction at the state hospital (special revenue bonds) and the debt service of the State Building Energy Conservation Program
- GFA – Projected debt service on GO bonds that have been authorized by not issued. This group includes debt authorized for two tribal compacts, one major water project, and the Heritage Center/Betty Babcock Museum. Should HB 14 be passed and approved as introduced, the debt service associated with the museum project is likely to be issued
- HB 14-LFD – Projected debt service for HB 14 with bonds issued over a 3½ year period with interest rates ranging from 3.43% for the first issue to 4.93% for the last
- HB 14-Ex – Projected debt service for HB 14 using the executive assumption with bonds issued over a 4 year period and interest rates ranging from 3.75% for the first issue to 4.50% for the last

The current general fund debt service (as paid directly from the general fund) is projected to be $12.4 million in FY 2018 and $9.3 million in FY 2019. The reduction occurs as older bond issues reach term and are paid off. Under the executive assumptions, HB 14 would add debt service costs of $4.4 million in FY 2018 and $10.0 million in FY 2019. In future years, the annual debt service payments would be $11.6 million. The calculations of the LFD indicate a more gradual near-term increase in debt service than the executive, primarily based upon an assumption of bond issues occurring over a longer period of time. In FY 2018, the LFD projection would be $946,208 and in FY 2019 $4.9 million. In future years, the fully issued cost projected by the LFD would be $11.5 million.

Should HB 14 be passed and approved by the legislature, it is likely that the previously authorized $6.715 million of bonds for the Montana Heritage Center/Betty Babcock Museum would be issued. This outstanding bond authority, indicated by the pink bars in Figure 5, would add $498,639 per year to the general fund GO debt service costs.

The full amortization schedules for the LFD HB 14 debt is found in item A-1 of the Section F Appendix.

Build Montana Trust Proposal

As proposed by the executive, LC 905 would establish the Build Montana Trust Fund, a new sub-trust within the permanent coal severance tax trust. This legislation would redirect coal severance taxes currently flowing into the coal severance tax permanent trust, or 75% of coal severance taxes (after any costs of the coal tax bond fund), into the new Build Montana Trust Fund. Before FY 2017, those taxes flowed into the Treasure State Endowment Program (50%) sub-trust and the TSEP Regional Water sub-trust (25%). Those coal severance taxes, along with interest earnings within the Build Montana Trust, will continue to flow into the account and must be retained within the Build Montana Trust until the balance reaches $50 million.

This proposed legislation does not itself create a program for administration or distribution of future interest earnings once the program meets this $50 million threshold. The Build Montana Trust is projected to reach a balance of $50 million around FY 2020. Should this legislation be passed and approved, a program will need to be developed for administration and distribution of these infrastructure funds.

Note: While this piece of legislation interacts with the coal severance tax, it does not remove funds from the trust, instead creating a new sub-trust. Removing funds from the trust, other than the income generated by the trust, requires a ¾ vote of the members of each house of the legislature. Since this legislation does not remove funds from the trust, it only requires a simple majority vote of each house.

LFD COMMENT LC 905 does not include a programmatic structure for the use of the interest earnings generated by the trust. While it is likely to be FY 2020 before expendable funds would be available, the Sec. F Subcommittee may want to consider program administration and distribution guidelines or recommendations.

LFD COMMENT Should the 65th Legislature pass LC 905, the legislation would prevent the appropriation of the interest earnings from the new sub-trust until the balance of the trust, or corpus, reaches $50 million. The Legislative Fiscal Division estimates that the threshold will be met in the middle of FY 2020. At a level of $50 million, the sub-trust would be expected to generate $1.8 million per year of interest earnings based upon current interest rates.

In light of the low level of earnings on the $50 million threshold, the legislature may consider increasing the threshold to an amount that would produce sufficient earnings to provide for a larger initial program.

LFD COMMENT The LRP subcommittee would be the likely place for the future hearings related to the appropriations of the Build Montana Program, just as it is for the other coal severance sub-trust programs such as TSEP and TSEP Regional Water. However, LC 905 is categorized as a general bill, and as such may not be heard in the Sec. F Subcommittee. Should that be the case, staff will keep the subcommittee informed on when and in what committees the legislation is being heard.

LFD COMMENT LC 905 would redirect coal severance tax distributions that currently flow into the permanent coal severance tax trust. The associated interest earnings of the permanent trust is statutorily appropriated from the general fund for the purpose of reducing the unfunded liability in the Montana public employees retirement system. According to the estimates of the Legislative Fiscal Division, the redirection of the tax flow would reduce interest funding for the pension system by $1.7 million over the 2019 biennium.