

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 ³				
Budget Item	Budget 2013 Biennium	Budget 2015 Biennium	Biennium Change	Biennium % Change
	<u>Appropriated</u>	<u>Proposed</u>		
LRBP Project Costs	\$82,333,830	\$268,916,000	\$186,582,170	226.62%
SBECP Project Costs	0	3,500,000	\$3,500,000	-
Total Costs	\$82,333,830	\$272,416,000	\$190,082,170	230.87%
Capital Projects	\$2,670,000	\$17,426,000	\$14,756,000	552.66%
State Special	39,255,830	29,260,000	(9,995,830)	-25.46%
Federal Special	25,823,000	26,130,000	307,000	1.19%
Proprietary ¹	250,000	600,000	350,000	140.00%
Authorization ¹	14,335,000	84,800,000	70,465,000	491.56%
General Fund ²	0	16,300,000	16,300,000	-
Bond Issue/Loans	0	97,900,000	97,900,000	-
Total Funds	\$82,333,830	\$272,416,000	\$190,082,170	230.87%
¹ Does not Require Appropriation but Requires Approval of Legislature ² Transfers to Capital Project Fund in 2015 biennium ³ Revised for 1/7/2013 Governor's Changes				

Note: The projects and project appropriations of the LRBP cash program agree with changes made through the 1/7/2013 budget proposals and do not agree with HB 5 as introduced.

Program Discussion

As seen in the figure above, the executive proposes a total LRBP budget of \$272.4 million for the 2015 biennium. This is \$190.1 million greater than the LRBP budget in the 2013 biennium, when the program was constrained by reductions in then anticipated revenues. The figure above contains the executive proposals for the LRBP cash and bonded programs and the State Building Energy Conservation Program (SBECP), which will be presented in HB 5. The budget also includes the capital project budget for Fish, Wildlife, and Parks, who administer most the designated appropriations. The HB 5 budget would provide \$89.1 million in appropriations and \$11.6 million of authority¹ for 2 new buildings and 32 projects for major maintenance, renovations, energy conservation improvements, and land purchases. Also included in the figure above is the executive bonding proposal, which will be presented to the legislature in HB 14. The bonding proposal is notable for being the first executively introduced bond proposal for building construction since the 2001 biennium. The bonding proposal would provide appropriation authority for \$97.9 million of general obligation bond proceeds (payable through the general fund) and \$73.8 million of authority.

¹ 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

The HB 14 budget would provide for the construction of 6 new buildings, 1 addition project, and 5 significant major deferred maintenance projects. A complete list of the LRBP projects, that would be included in both HB 5 and HB 14, by fund type may be seen in Figure F.1 in the Section F appendix.

The HB 14 proposal funds projects with the proceeds of general obligation bonds. Consequently, the cost would be assumed by the general fund. According to the Office of Budget and Program Planning, the general fund costs are expected to be \$3.3 million in FY 2014 and \$6.6 million in FY 2015. These figures assume a 3.0% interest rate with a 20 year maturity on the bonds.

Calculations show that the annual debt service cost of the \$97.9 million of authority, given the mentioned assumptions, would be \$6.6 million. However, many of the projects are contingent upon fundraising of non-state funds and will need to raise significant amounts of money to begin construction, and it unlikely that the total amount of the authorized bonds could be issued in the 2015 biennium.

At this time, the Legislative Fiscal Division has not received sufficient information to provide a credible estimate of the future debt service costs for HB 14, but will continue work to get a sound estimate of the future debt service costs before the HB 14 hearings.

Note: HB 14 would establish state debt and as such must be authorized by a two-thirds vote of the members of each house of the legislature (Montana Constitution, Article VIII, Section 8).

LFD ISSUE

Potential for Project Delays

Most of the projects included in HB 14, the bond bill, require a match of other “non-state” funds. HB 14 is expected to contain the following language in the proposed section 7 of the bill, titled Capital projects – contingent funds:

“If a capital project is financed in whole or in part with appropriations contingent upon the receipt of other funding sources in [listed projects], the department of administration may not let the projects for bid until the agency has submitted a financial plan for approval by the director of the department. A financial plan may not be approved by the director if:

- (1) the level of funding provided under the financial plan deviates substantially from the funding level provided in [listed projects] for that project; or,*
- (2) the scope of the capital project is substantially altered or revised from the capital project presented to the 63rd legislature.”*

This language requires that a substantial portion of the project costs from non-state sources be obtained by or guaranteed to the agency prior to letting the project for bid. Furthermore, the agencies are not allowed to substantially change the scope of the project outlined in legislative hearings, making it difficult for the agencies to plan a phased project. As a result, this language may cause a substantial delay in construction of some of the projects. In the cases of the Heritage Center, the Missoula College of Technology, and the Northern Automotive Technology projects, non-state funds in the form of donations could be difficult to raise and could delay the project for an unknown period of time.

Some LRBP project highlights and legislative considerations include:

- New Low Side Units at Montana State Prison – This project, with a total cost of \$26.0 million, is proposed as the largest of the cash projects in the 2015 LRBP executive budget. The project would replace the low-security housing units “A”, “B”, and “C” with two new 320-bed units at Montana State Prison. The 640 beds provided by this project will result in increased capacity of approximately 120 beds

LONG-RANGE BUILDING PROGRAM

in order to meet the prison's current 10-year low-security occupancy projections. Upon completion, the existing low-security housing units will no longer be occupied or staffed.

- Montana Heritage Center – The project for the Montana Heritage Center encompasses both the construction of a new facility and upgrades to the existing building. The new structure would provide 45,330 square feet for new museum display space. The renovation of the existing facility would provide additional public accessibility and increase space for archival storage, office space, and workspace. The two units would be connected by an underground passage. The request for a new museum has been considered by the legislature for a number of years and past actions include:
 - 2005 Session – Legislature provided \$7.5 million in bond proceed appropriation and \$30.0 million in authority for the new museum (to the time of this writing, \$768,536 of the bond proceed appropriation has been expended on preliminary design and \$6,731,464 of the appropriation is still in existence)
 - 2009 Session – Legislature approved locating the museum at 6th Ave. and Roberts streets in Helena
 - Plans include using the remaining portion of the 2005 bond issue and appropriation, meaning there would be a total of \$29.7 million in bond authority along with \$35.5 million of authority to expend donations for the project
- Install Safety Handrails in the Capital – This project addresses a significant safety concern at the capitol building. The request would install a handrail down the center of the grand staircase in the capital. In the 2011 Legislative Session, a legislator fell down the staircase, suffering significant injuries. It is thought that the hand rails would reduce the potential for another fall and reduce state liability
- New Montana University System Buildings – The LRBP bond proposal includes 7 significant construction projects funded with a combination of \$64.9 million in bond proceeds and \$40.5 million in authority. As proposed, a couple of these projects raise concerns:
 - Missoula College of Technology, Missoula – This proposal would provide \$22.0 million of bond proceeds and \$25.0 million of authority for the construction of a new facility. This proposal has been discussed for a number of years, and in the 2007 session, the legislature provided \$500,000 to fund planning and design for the new facility. Because the colleges of technology typically do not receive donations for new buildings, like the universities, obtaining the donations for this project could delay the construction of the project.
 - Automotive Technology Center, MSU Northern – This proposal would provide \$2.9 million of bonds and \$5.0 million of authority for the major renovation of the existing Automotive Technology Center. These upgrades reduce the deferred maintenance backlog by making upgrades and improvements to the existing facility. In the 2007 Session, the legislature provided \$800,000 in LRBP capital project funds for planning and design purposes. The appropriation was reduced to \$190,000 in the 2011 session. Because Northern typically does not receive significant donations for new buildings; obtaining the donations for this project could delay the construction of the project.
- Jobs Hall, MSU-Bozeman – This project is included in HB 14, but does not propose the sale of bonds for construction, and instead only requests spending authority to use non-state funds. Contrasting the fundraising challenges mentioned in the preceding two projects, MSU-Bozeman has already received most of the funds for the requested authority. If HB 14 is not passed, MSU will lack legislative authority to construct this building.

LONG-RANGE BUILDING PROGRAM

LFD COMMENT

The LRBP is a program developed to provide the major maintenance of state owned buildings, and the Montana University System operates approximately 2/3rd of the state funded buildings. Typically, the University System maintenance requests are funded with LRBP capital project funds at a level close to that ratio. However, the 2015 executive budget proposal does not provide any LRBP capital project funds for maintenance at the University System in the cash program (HB 5) and includes only the authority to expend \$11.0 million in university funds for maintenance programs.

The University System does have a strong presence in the bonded program (HB 14) and many of the requests of the bond program do make reductions in the state's deferred maintenance backlog. However, because of the bond bill creates state debt and requires a two-thirds vote of each house, it will be harder to get the legislation passed. Should the bill be unsuccessful, the University System will have fewer funds available for major maintenance projects at campuses statewide.

Funding

As shown in the fund balance table to the right, the LRBP fund will start the 2015 biennium with a fund balance of \$815,287. Fund revenues include a 2.6% distribution of cigarette tax revenue, \$3.5 million in the biennium, and 12.0% distribution of coal severance tax revenue, \$14.2 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 a transfer of \$16.3 million from the general fund and bond proceeds of \$97.9 million, authorized in HB 14. Total revenue in the 2015 biennium is expected to be \$132.6 million.

The normal LRBP expenditures from the fund, amounting to \$8.0 million, include the administrative costs of the A&E Division and the debt service on two bond issues. Also seen in the expenditure section of the table is a debt service funding switch of \$665,000 per year from the LRBP fund to the general fund, which the 2001 Legislature authorized in HB 14 to reduce LRBP debt service costs related to the 1996D bond issue (refinanced with 2003G), the 1997B bond issue, and the 1999C (refinanced with 2005A) bond issues.

The fund will have an available balance of \$125.5 million for capital projects in the 2015 biennium. As shown, approximately \$128.1 million is recommended in the executive budget for the LRBP projects, leaving an estimated balance of a negative \$2.7 million at the end of the 2015 biennium. The estimated ending fund balance, as prepared by the LFD, is lower than that shown in Section F of the executive budget, primarily because of lower coal severance tax revenues estimates, as estimated by the Legislative Fiscal Division.

Long-Range Building Program Fund (05007)																																			
Fund Balance Projection 2015 Biennium (including the 1/7/2013 Governor's Amendments)																																			
Estimated Beginning Fund Balance-(7/1/2013)			\$815,287																																
Revenue Projections ¹		<table border="1"> <thead> <tr> <th></th> <th style="text-align: center;">FY 2014</th> <th style="text-align: center;">FY 2015</th> <th style="text-align: center;">Biennium Total</th> </tr> </thead> <tbody> <tr> <td>Cigarette Tax</td> <td style="text-align: right;">\$1,768,000</td> <td style="text-align: right;">\$1,708,000</td> <td style="text-align: right;">\$3,476,000</td> </tr> <tr> <td>Coal Severance Tax</td> <td style="text-align: right;">6,948,000</td> <td style="text-align: right;">7,236,000</td> <td style="text-align: right;">14,184,000</td> </tr> <tr> <td>Interest Earnings</td> <td style="text-align: right;">177,271</td> <td style="text-align: right;">174,967</td> <td style="text-align: right;">352,238</td> </tr> <tr> <td>Supervisory Fees</td> <td style="text-align: right;">155,681</td> <td style="text-align: right;">155,681</td> <td style="text-align: right;">311,362</td> </tr> <tr> <td>Energy Savings Transfer</td> <td style="text-align: right;">40,000</td> <td style="text-align: right;">40,000</td> <td style="text-align: right;">80,000</td> </tr> <tr> <td>General Fund Transfer</td> <td style="text-align: right;">16,300,000</td> <td></td> <td style="text-align: right;">16,300,000</td> </tr> <tr> <td>Bond Proceeds</td> <td style="text-align: right;">97,900,000</td> <td></td> <td style="text-align: right;"><u>97,900,000</u></td> </tr> </tbody> </table>		FY 2014	FY 2015	Biennium Total	Cigarette Tax	\$1,768,000	\$1,708,000	\$3,476,000	Coal Severance Tax	6,948,000	7,236,000	14,184,000	Interest Earnings	177,271	174,967	352,238	Supervisory Fees	155,681	155,681	311,362	Energy Savings Transfer	40,000	40,000	80,000	General Fund Transfer	16,300,000		16,300,000	Bond Proceeds	97,900,000		<u>97,900,000</u>	
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2015 Biennium Revenues			132,603,600																																
Expenditures																																			
Operating Costs-A & E Division	(\$1,850,988)	(\$1,849,966)	(\$3,700,954)																																
Debt Service-2003G ²	(1,695,725)	(1,697,101)	(3,392,826)																																
Debt Service-2005A ³	(1,092,327)	(1,098,076)	(2,190,403)																																
Funding Switch ⁴	665,000	665,000	<u>1,330,000</u>																																
Total Expenditures			(7,954,183)																																
Balance Available for Capital Projects			125,464,704																																
Executive Proposals LRBP ⁵			(128,126,000)																																
Balance			(\$2,661,296)																																

¹SI2
²Refinance of 1996D issue
³Refinance portions of 1997B and 1999C issues
⁴Debt Service Funding Switch, 2001 legislative session
⁵Based on HB 2, HB 5, and HB 14 executive proposals

LONG-RANGE BUILDING PROGRAM

LFD ISSUE

FY 2015 Ending Fund Balance is Estimated to be Negative

The LRBP capital projects fund balance is estimated to be significantly negative at the end of the 2015 biennium. The shortfall can be attributed to differences in the LFD and OBPP revenue estimates for the coal severance tax and the cigarette tax.

The Montana Constitution, Article VIII, Section 9, requires:

“Appropriations by the legislature shall not exceed anticipated revenue.”

As illustrated in the figure above, the proposed appropriations would exceed the anticipated revenues. Because of this requirement, the Long-Range Planning subcommittee may wish to consider taking actions to provide a positive balance in the LRBP capital projects fund. Options include:

- 1) Reducing project appropriations
- 2) Increasing the transfer of monies from the general fund