

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 was developed in order to present a single, comprehensive, and prioritized plan for allocating the state's resources for the purpose of capital construction and repair of state-owned facilities. 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 the capital projects fund (long-range building fund).

The figure below summarizes capital project appropriations for each biennium since 1985.

History of Capital Projects Appropriated by Biennium 1985 Biennium to 2005 Biennium (in millions)						
Biennium	LRBP Projects Fund	General Fund	Other Funds	Total Cash (3) Projects	G.O. Bonds	Total Cash & Bonded Projects
	1985	\$10.870	\$0.000	\$15.693	\$26.563	\$39.335
1987	10.518	-	19.202	29.720	8.550	38.270
1989	6.247	-	11.440	17.687	-	17.687
1991	7.515	-	21.556	29.071	3.823	32.894
1993	8.382	1.768	70.052	80.202	48.561 (1)	128.763
1995	3.119	2.600 (2)	30.898	36.617	6.460	43.077
1997	(4) 7.835	-	145.191	153.026	41.865	194.891
1999	9.160	-	69.164	78.324	43.319	121.643
2001	7.515	0.170	107.936	115.621	33.404	149.025
2003	5.490	-	75.325	80.815	25.025	105.840
2005	3.282	-	76.458	79.740	-	79.740

(1) The 1993 legislature reduced the prison expansion by \$12.7 million.
 (2) HB46 diverted cigarette tax revenues from the capital projects fund to a state special revenue fund for the
 (3) Other funds include non-general fund sources, such as state and federal special revenue funds, private contributions and miscellaneous "other" funds
 (4) Excludes the \$3.5 million general fund appropriation to OPI for state advances and reimbursements for school

SUMMARY OF LEGISLATIVE ACTION

HB 5 contains the cash authorizations for the LRBP. The legislature authorized 49 projects with a total project cost of \$79.7 million. All the projects will be funded with cash as follows:

- \$3.3 million long-range building funds
- \$24.0 million state special revenue
- \$11.3 million federal special revenue
- \$41.1 million "other" funds

The figure on the following page shows, by agency, the projects approved by the legislature. These projects were included in HB 5.

Long-Range Building Program - Cash Projects					
HB 5 - 2005 Biennium					
Project	LRPC Recommendations for HB 5 "Cash" Projects				
	LRBP	State Special	Federal Special	Other Funds	Total
Department of Administration					
Roof Repairs/Replacements Statewide	\$956,000				\$956,000
Code/Deferred Maintenance & Disability Access Statewide	515,000				515,000
Repair/Replace Deteriorated Campus Infrastructure, Statewide	300,000			300,000	600,000
Capitol Renovation Arbitration	305,000				305,000
Replace Electrical Primary Radial System, UM--Butte	240,500			120,000	360,500
Hazardous Material Mitigation Fund, Statewide	220,000				220,000
State Public Health Laboratory, Phase 2			1,474,000		1,474,000
Repair Front Stairs at State Capitol			130,000	400,000	530,000
Land Acquisition--Capitol Complex				600,000	600,000
Replace/Update Health Sciences HVAC, UM Missoula	202,000				202,000
Reconstruct Canal Bridge, MSU-Billings	150,000			150,000	300,000
Schematic Design, UM-Helena College of Technology	175,000				175,000
Skaggs Building Addition, UM-Missoula				11,500,000	11,500,000
Interpretive Center and Nature Trail, Yellow Bay, UM-Missoula				3,700,000	3,700,000
Herrick Hall Renovation, MSU-Bozeman				10,000,000	10,000,000
Sherrick Hall Renovation, MSU-Bozeman				5,000,000	5,000,000
Department of Corrections					
Dairy Expansion--Montana Correctional Enterprises				725,000	725,000
Department of Fish, Wildlife, and Parks					
Future Fisheries Program		910,000			910,000
Fishing Access Site Maintenance		275,000			275,000
Fishing Access Site Protection		600,000			600,000
Fishing Access Site Acquisition		550,000	200,000		750,000
Hatchery Maintenance		575,000	575,000		1,150,000
Community Fishing Ponds		0	50,000		50,000
FWP Dams Repair		500,000			500,000
Habitat Montana		6,900,000			6,900,000
Upland Game Bird Program		2,300,000			2,300,000
Wildlife Habitat Maintenance		800,000			800,000
Migratory Bird Stamp Program		225,000			225,000
Bighorn Sheep Enhancements		75,000			75,000
Brush Lake Acquisition		180,000			180,000
Motorboat Recreation Site Improvements		1,250,000			1,250,000
Cultural & Historical Park Improvements		800,000			800,000
Federal Land & Water Conservation Fund Grants			2,900,000		2,900,000
Federal Trails Grants			1,900,000		1,900,000
Federal Off-Highway Vehicle Trails Grants		375,000			375,000
Federal Wallop/Breaux Projects			1,500,000		1,500,000
Administrative Facilities Repair & Maintenance		800,000			800,000
Montana Wildlife Rehabilitation and Nature Center Complex		100,000	500,000	2,600,000	3,200,000
Department of Military Affairs					
Federal Spending Authority			2,000,000		2,000,000
Re-roof Armories Statewide			90,212		90,212
Department of Public Health and Human Services					
Upgrade Spratt Building and Campus Electrical, MSH-Warm Springs	218,000				218,000
Demolish Dormitory at MT Veteran's Home		231,600			231,600
Renovate Historic "Old Main" Building at MT Veteran's Home		2,252,000			2,252,000
Department of Transportation					
New Equipment Storage Facilities, Statewide		2,725,000			2,725,000
Facility Maintenance, Repair and Small Projects, Statewide		1,620,860			1,620,860
Montana University System					
General Spending Authority--All MSU Campuses				2,500,000	2,500,000
General Spending Authority--All UM Campuses	0	0	0	3,500,000	3,500,000
Total Cash Programs:	<u>\$3,281,500</u>	<u>\$24,044,460</u>	<u>\$11,319,212</u>	<u>\$41,095,000</u>	<u>\$79,740,172</u>

EXECUTIVE BUDGET COMPARISON

The legislature appropriated funds totaling \$79.7 million for capitol projects in the 2005 biennium compared to the executive recommendation of \$46.1 million, an increase of approximately 73 percent. Two reasons explain the dramatic difference. First, the Executive Budget was based on proposed law, which was not passed. This provided the LRBP cash account with approximately \$1.0 million of additional funding. Second, the Executive Budget did not include several Montana University projects, which in past biennia were included in the initial budget. Significant changes from the Executive Budget are described below.

<u>Funding Source</u>	<u>Executive Recommendation</u>	<u>Legislative Appropriations</u>
LRBP Funding	\$2,281,500	\$3,281,500
State Special Revenue	24,518,600	24,044,460
Federal Special Revenue	11,319,212	11,319,212
Other	8,015,000	41,095,000
Total Funding	<u>\$46,134,312</u>	<u>\$79,740,172</u>

Repair/Replace Deteriorated Campus Infrastructure

The executive recommended an appropriation of \$300,000 from LRBP cash to repair or replace deteriorated campus infrastructure at various agency campuses throughout the state. The legislature increased the appropriation with \$300,000 of auxiliary funds.

Code/Deferred Maintenance & Disability Access

The executive recommended a \$550,000 appropriation of LRBP cash for projects throughout the state, which will remedy life-safety, disability access, and code and deferred maintenance deficiencies. The legislature both increased the original recommendation by \$35,000 then transferred \$70,000 of the funding to the University of Montana (UM), Butte project, leaving a total appropriation of \$515,000.

Hazardous Materials Mitigation Fund, Statewide

The executive did not recommend hazardous materials mitigation in the 2005 biennium. The legislature added \$220,000 in LRBP cash for this purpose.

Replace Electrical Primary Radial System, UM Butte

The executive recommended an appropriation of \$170,500 in LRBP cash and \$190,000 in auxiliary funds for the UM-Butte project. The legislature added \$70,000 in additional LRBP cash to the project appropriation and reduced the auxiliary fund allocation to \$120,000.

Replace/Update Health Sciences Heating, Ventilation, and Air-Conditioning (HVAC), UM-Missoula

The Fifty-eighth Legislature appropriated \$202,000 in LRBP cash funds to replace the HVAC system in the Health Sciences Building on the UM-Missoula campus. This appropriation was not included in the Executive Budget.

Reconstruct Canal Bridge, Montana State University (MSU)-Billings

The canal bridge on the MSU-Billings campus has deteriorated significantly, so the legislature appropriated \$300,000 for a project to reconstruct the bridge. \$150,000 of LRBP cash and \$150,000 of

University funds will be used to fund the reconstruction. The canal bridge reconstruction was not included in the Executive Budget.

Schematic Design, UM-Helena College of Technology (HCOT)

Not included in the Executive Budget, the legislature approved an appropriation of \$175,000 to fund the completion of the schematic design for a new facility at UM-HCOT.

Addition to Skaggs Building, UM-Missoula

The legislature approved \$11.5 million in spending authority comprised of federal special revenue (FSR), donations, grants, state special revenue (SSR), and higher education funds, for the addition to the Skaggs Building on the Missoula campus of the University of Montana. The executive requested that the legislature hear and approve this project. As such, it was not included in the Executive Budget.

Crown of the Continent Ecosystem Interpretive Center

The legislature approved \$3.7 million in spending authority comprised of FSR, donations, grants, SSR, and higher education funds, for the interpretive center and nature trail at Yellow Bay, on Flathead Lake. The executive requested that the legislature hear and approve this project. As such, it was not included in the Executive Budget.

Herrick Hall Renovation, MSU-Bozeman

The legislature approved \$10.0 million in spending authority comprised of FSR, donations, grants, SSR, and higher education funds, for the adaptive renovation of MSU at Bozeman's Herrick Hall. The executive requested that the legislature hear and approve this project. As such, it was not included in the Executive Budget.

Sherrick Hall Renovation, MSU-Bozeman

The legislature approved \$5.0 million in spending authority comprised of FSR, donations, grants, SSR, and higher education funds, for the adaptive renovation of the MSU - Bozeman Sherrick Hall. The project will include provisions for additional College of Nursing faculty and creation of distance learning classrooms. The executive requested that the legislature hear and approve this project. As such, it was not included in the Executive Budget.

Upgrade Spratt Building & Campus Electrical, Montana State Hospital (MSH)-Warm Springs

Not included in the Executive Budget, the legislature approved an appropriation of \$218,000 to correct code, licensure, and deferred maintenance deficiencies in the Spratt Building. Improvements will be made to the campus electrical distribution system to increase the reliability of the power supply to all the buildings at Warm Springs.

New Equipment Storage Facilities, Statewide

The executive originally recommended an appropriation of \$3.0 million to the Department of Transportation for new equipment storage facilities. On recommendation of the department, the appropriation was reduced to \$2.7 million.

General Spending Authority, MSU-All Campuses

The general spending authority for MSU was not included in the executive recommendation. The legislature approved the appropriation of \$2.5 million for capital improvements to MSU campus facilities.

Facility Maintenance, Repair, and Small Projects, Statewide

The executive originally recommended an appropriation of \$2.0 million to the Department of Transportation for routine and annual preventative maintenance. On recommendation of the department, the appropriation was reduced to \$1.6 million.

Brush Lake Acquisition

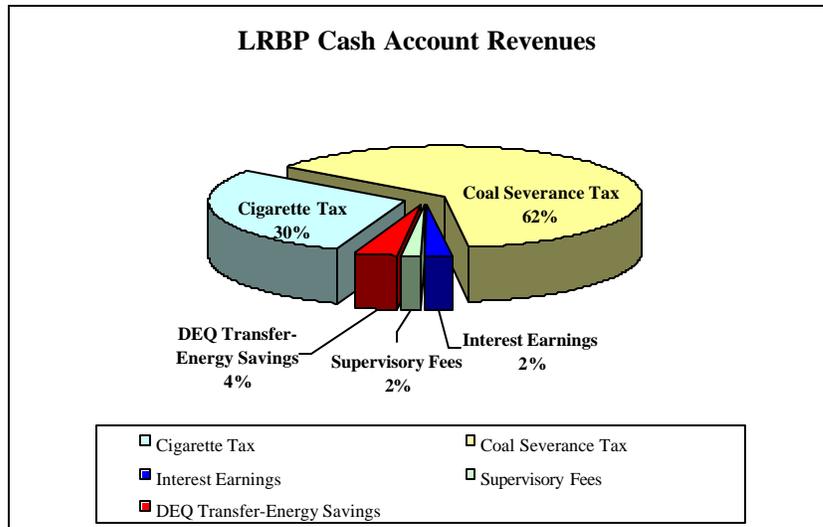
The executive did not recommend the Brush Lake acquisition. The Fifty-eighth Legislature added an \$180,000 appropriation of state special revenue for its purchase. The purchase of Brush Lake will be funded with matching funds from Wallop-Breaux funds.

FUNDING

Funding for the Long-Range Building Program comes from various sources: the LRBP fund, state special revenue funds, federal funds, and other funds (such as university funds, private funds, and capitol land grant funds).

LRBP account revenues include 4.3 percent of cigarette tax revenue and 12.0 percent of coal severance tax revenue. Other income includes LRBP interest earnings, State Building Energy Conservation (SBEC) program savings, and supervisory fees paid to the Architecture and Engineering Division (A&E) of the Department of Administration. The proportional contribution of each of the revenue sources to the LRBP cash account is seen in the chart to the right.

A portion of LRBP revenues is received from the SEBC program. Through this program, the state issues general obligation (G.O.) bonds, uses the bond proceeds to pay for energy efficiency improvements, then uses the resulting energy cost savings to pay the debt service on the bonds. The projects are designed so that the cost savings exceed the bond debt service payments. Excess savings are transferred to the long-range building program.



The figure on the right shows the projected fund balance for the LRBP account for the 2005 biennium. The LRBP fund will collect \$11.4 million in revenues over the 2005 biennium. A&E is funded with \$2.5 million for operating expenses, appropriated in HB 2. The debt service for bonds authorized by the 1995 Legislature is also paid through the LRBP cash account. Approximately \$3.3 million is requested for cash projects in HB 5, leaving an estimated fund balance of \$78,177 at the end of the 2005 biennium.

Detailed Project Descriptions

House Bill 5 – Cash Projects

Department of Administration

- Roof Repairs or Replacements, Statewide - \$956,000 LRBP Cash Account – Repair and replace roofs on various state-owned buildings throughout the state, including University facilities
- Replace Electrical Primary Radial System, UM-Butte - \$360,500 Total (\$240,500 LRBP Cash Account, \$120,000 UM Plant Account) – Replace and repair outdated campus primary electrical radial system with loop feed at MT Tech of UM-Butte
- Code/Deferred Maintenance & Disability Access, Statewide - \$515,000 LRBP Cash – Projects located throughout the state that will remedy life-safety, disability access, code and deferred maintenance deficiencies
- Repair/Replace Deteriorated Campus Infrastructure, Statewide - \$300,000 LRBP Cash Account – Repair or replace deteriorated campus infrastructure at various agency campuses throughout the state
- Capitol Renovation Arbitration - \$305,000 LRBP Cash – This project will pay the state’s obligation related to the arbitration settlement for the Capitol Renovation project
- Hazardous Material Mitigation Fund - \$220,000 LRBP Cash Account – Abate asbestos and other hazardous materials encountered in projects that pose a threat to the environment and people
- State Public Health Laboratory, Phase 2 - \$1,474,000 Bio-terrorism Account FSR – This project will authorize the continuation of federally funded upgrades to the State Health Lab, located in Helena
- Repair Front Stairs at State Capitol - \$530,000 Total (\$130,000 Capitol Restoration Account FSR, \$400,000 Capital Building Fund) – This project will provide immediate repair of the granite stairs and support structure of the front stairs of the Capitol building
- Land Acquisition, Capitol Complex - \$600,000 Capital Building Account – To provide funds for acquisition of property within and immediately adjacent to the Capitol Complex, as it becomes available
- Replace/Update Health Sciences HVAC, UM-Missoula - \$202,000 LRBP Cash Account – This project will replace the existing chilled water system with a ground water cooling system. The project will be augmented with State Bonded Energy Program funds
- Reconstruct Canal Bridge, MSU-Billings - \$300,000 Total (\$150,000 LRBP Cash Account, \$150,000 University funds) – This project will provide the authority to renovate or replace the bridge at the southern entrance to the MSU-Billings campus
- Schematic Design, UM-Helena College of Technology - \$175,000 LRBP Cash Account – This project will fund the completion of the schematic design for the new HCOT facility

Long-Range Building Program Account Fund Balance Projection, 2005 Biennium	
Estimated Beginning Cash Balance (July 1, 2003)	(\$1,055,922)
*Revenues, 2005 Biennium:	
Cigarette Tax	\$3,392,516
Coal Severance Tax	7,113,000
Interest Earnings	251,100
Supervisory Fees	202,192
DEQ Transfer-Energy Savings	404,295
Total Revenues	11,363,103
Funds Available	10,307,181
Expenditures:	
Operating Costs-A & E Division	(2,471,259)
Debt Service-1996D	(3,542,320)
Debt Service-1997B	(882,967)
Debt Service-1999C	(1,380,958)
Debt Service Funding Switch, 2001 legislative session	1,330,000
Total Expenditures-Excluding Capital Projects	(6,947,504)
Funds Available for Capital Projects	3,359,677
Funding Proposals LRBP Cash Account:	(3,281,500)
LRBP Ending Fund Balance	<u>\$78,177</u>
*Based on HJ 2 revenue estimates	

- Skaggs Building Addition, UM-Missoula - \$11,500,000, FSR, Donations, Grants, SSR, and Higher Education Funds - This project provides the spending authority for an addition of 59,000 gross square feet to the south end of the Skaggs Building on the Missoula Campus
- Interpretive Center and Nature Trail, Yellow Bay, UM-Missoula \$3,700,000 FSR, Donations, Grants, SSR, and Higher Education Funds - This project will provide the spending authority for the Crown of the Continent Ecosystem Interpretive Center and Nature Trail
- Herrick Hall Renovation, MSU-Bozeman - \$10,000,000 FSR, Donations, Grants, SSR, and Higher Education Funds - This project will provide spending authority for the adaptive renovation of Herrick Hall on the Bozeman Campus
- Sherrick Hall Renovation, MSU-Bozeman - \$5,000,000 FSR, Donations, Grants, SSR, and Higher Education Funds - This project will provide spending authority for the adaptive renovation, to include provisions for additional College of Nursing faculty, and creation of distance learning classrooms

Department of Corrections

- MCE Dairy Milking Parlor Expansion - \$725,000 Prison Account– Construct a new building to house a dairy milking parlor, replacing the existing facility

Department of Fish, Wildlife, and Parks (FWP)

- Future Fisheries - \$910,000 Total (\$210,000 River Restoration Account SSR, \$700,000 RIT Funds SSR) – Provide funding for the statewide fish habitat restoration projects
- Fishing Access Sites Maintenance - \$275,000 Total (\$195,000 General License Account SSR, \$80,000 Fishing Access SSR) – This project will provide funds for noxious weed control, general maintenance activities, and stream bank stabilization
- Fishing Access Site Protection - \$600,000 General License Account SSR – This project will provide for installation and rehabilitation of basic public use facilities including latrines and road repairs
- Fishing Access Sites Acquisitions - \$750,000 Total (\$550,000 Fishing Access Acquisition Fund SSR, \$100,000 FWP Restoration Grant FSR, \$100,000 State Wildlife Conservation Fund FSR) – This program provides funding that enables the department to acquire public interest in lands for angler access to public water ways
- Hatchery Maintenance - \$1,150,000 Total (\$575,000 General License Account SSR, \$575,000 FWP Restoration Grant FSR) – This project will provide funding for the timely repair and preventive maintenance of the nine state fish hatcheries across the state
- Community Fishing Ponds - \$50,000 FWP Restoration Grant FSR – This project will provide funds for the development of community fishing ponds and promote efforts for family fishing adventures
- FWP Dam Repair - \$500,000 General License Account SSR – This project will provide funding for the repair of Park Lake dam, a department-owned high-hazard dam
- Habitat Montana - \$6,900,000 Wildlife Habitat Acquisition Account SSR - Provides for the acquisition of wildlife habitat via easement, lease, or fee
- Upland Game Bird Program – \$2,300,000 Total (\$2,150,000 Upland Game Bird License Account SSR, \$150,000 Upland Game Bird Planting SSR) – This program provides private landowners with funding to restore or establish habitat for upland species across the state
- Wildlife Habitat Maintenance - \$800,000 Wildlife Habitat Trust SSR – This program provides for maintenance of department wildlife lands, including monitoring compliance with conservation easements
- Migratory Bird Stamp Program – \$225,000 Waterfowl License Account SSR – Provides for the protection and enhancement of wetland habitat
- Big Horn Sheep Enhancements Program – \$75,000 Bighorn Sheep License Account SSR - This project provides for the protection and enhancement of bighorn sheep habitat

- Brush Lake Acquisition - \$180,000 – State Parks Miscellaneous Account SSR – This project will provide funds for the acquisition of Brush Lake as a state park
- Motorboat Recreation - \$1,250,000 Total (\$450,000 Motor Boat Fees Account SSR, \$50,000 General License Account SSR, \$750,000 Highways SSR) – This project will provide needed improvements at motorboat sites, including road and ramp maintenance, and related facilities. Specific park road repairs funded with highway SSR must include:
 - Miscellaneous chipseal projects at Thompson Falls, Logan, West Shore, Lake Mary Ronan (\$100,000)
 - Cooney Residence, SP (\$60,000)
 - Hell Creek, SP (\$200,000)
- Cultural & Historical Parks - \$800,000 Total (\$50,000 Real Estate Trust Account SSR, \$750,000 Highways SSR) – This project will rehabilitate facilities, infrastructure, roads, interpretive displays, and roads. Specific park road repairs funded with highway special revenue must include:
 - Giant Springs rehabilitation of parking and entrance (\$60,000)
 - Traveler’s Rest, State Park (SP) (\$100,000)
 - Clark’s Lookout, SP (\$80,000)
 - Ulm Pishkum, SP (\$200,000)
- Federal Land & Water Conservation Fund Grants - \$2,900,000 Federal Land, Water, and Conservation Funds Account FSR – This project will provide federal funding for the acquisition and development of public outdoor recreation facility and infrastructure projects of local communities as well as FWP park sites
- Federal Trails Grants - \$1,900,000 Parks Account FSR – This project distributes federal trail grant funds to eligible and selected projects statewide
- Federal Off-Highway Vehicle (OHV) Trails Grants – \$375,000 OHV Fuel Tax Account SSR - This project will provide funds for the OHV grant program statewide - Grants include weed control, maintenance, and education efforts
- Federal Wallop-Breaux Projects - \$1,500,000 Federal Wallop-Breaux (WB) Funds FSR – Federal WB funding is available to the department for qualifying motorboat sites via the established program - In the 2005 biennium, \$270,000 of WB funds will be used for the Brush Lake acquisition
- Administrative Facilities Repair and Maintenance - \$800,000 Total (\$480,000 General License Account SSR, \$320,000 Real Estate Trust Account SSR) – Ongoing maintenance and repair at sites statewide as required to keep up the condition of facilities and protect them from deterioration
- Montana Wildlife Rehabilitation and Nature Center Complex - \$3,200,000 Total (\$100,000 General License Account SSR, \$500,000 State Wildlife Grants Account FSR, \$2,600,000 Private Contracts Account) - This project continues development of the education portion of the Montana Wildlife Rehabilitation and Nature Center Complex

Department of Military Affairs

- Federal Spending Authority - \$2,000,000 FSR – This appropriation allows for federal funds to be used for repair and maintenance and facility improvements
- Re-roof Armories Statewide - \$90,212 FSR – This project will replace roofing to keep from damaging building components and contents

Department of Public Health and Human Services

- Upgrade Spratt Building and Campus Electrical, MSH-Warm Springs - \$218,000 LRBP Cash Account – This project will correct code, licensure, and maintenance deficiencies in the Spratt Building
- Demolish Dormitory at MT Veteran's Home - \$231,600 Cigarette Tax Revenue Account – This project will fund the demolition and removal of the old Men’s Dormitory Building at Montana Veterans Home

- Renovate Historic "Old Main" Building at MT Veteran's Home - \$2,252,000 Old Main Building Fund Account SSR – This project will authorize the expansion of the Old Main Building at the Montana Veterans' Home

Department of Transportation

- New Equipment Storage Facilities, Statewide - \$2,725,000 Highways SSR – Construct new buildings at various locations throughout the state for maintenance equipment and personnel
- Facility Maintenance, Repair and Small Projects, Statewide - \$1,620,000 Highways SSR – Provide routine annual preventative maintenance to ensure facilities are maintained and small improvement projects

University of Montana

- General Spending Authority, All MSU Campuses - \$2,500,000 FSR, Donations, Grants, SSR, and/or Higher Education Funds – This project will provide spending authority to MSU for capital improvements to campus facilities
- General Spending Authority, All UM Campuses - \$3,500,000 FSR, Donations, Grants, SSR, and/or Higher Education Funds – This project will provide spending authority to UM for capital improvements to campus facilities

Other Legislation

SJR 15

SJR 15 urges the creation of a new state park at Brush Lake, contingent on funding. This resolution directs FWP to prioritize funding for the purchase of the Brush Lake property.

SB 336

SB 336 will implement improvements in the operation and funding of the state park system. This legislation assesses an optional fee of \$4 for each passenger car or truck less than 8,001 pounds gross vehicle weight. The fees will be placed in a state special revenue account to be used, "for state parks, for fishing access sites, and for the operation of state owned facilities at Virginia City and Nevada City". From this account, the Department of Fish, Wildlife, and Parks will fund the purchase of Brush Lake.

SB 407

SB 407 increased the tax on cigarettes to increase revenue to the general fund. As a result, the distribution percentage to the LRBP fund was reduced to hold the fund harmless. Where the fund had received 15.85 percent of an 18 cent tax, it will now receive 4.3 percent of the 70 cent tax. The change results in a small increase in funding in fiscal years 2003, 2004, and 2005. The increases of \$6,132, \$36,792, and \$6,724 for the respective fiscal years are included in the fund balance projections for the 2005 biennium.

TREASURE STATE ENDOWMENT

PROGRAM DESCRIPTION

The Treasure State Endowment Program (TSEP) is a state infrastructure-financing program approved by Montana voters with the passage of Legislative Referendum 110 in June 1992. Grant funding for the program is derived from investment earnings on coal severance tax funds. TSEP loans are funded with proceeds from bonds backed by coal severance tax collections. 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 water systems, solid waste disposal and separation systems, and bridges.

Eligible applicants include cities, towns, counties, and tribal governments, or county or multi-county water, sewer, or solid waste districts. TSEP applications are submitted to the Department of Commerce on a biennial basis where they are evaluated according to a two-step process and are ranked according to: 1) seven statutory priorities, and 2) relative financial need. 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 project
- Incorporate appropriate, cost-effective technical design and that 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 Department of Commerce (DOC) administers the TSEP grants and makes recommendations for grant and loan awards to the Governor. The Governor makes funding recommendations to the Montana legislature. The legislature makes the final decisions on the award of TSEP funds.

SUMMARY OF LEGISLATIVE ACTION

The 2003 legislature passed HB 11 providing the funding for the TSEP grants program and the TSEP regional water program. Legislative actions on the two programs are discussed below in detail.

TSEP Grants

The 2003 legislature authorized \$16.8 million for 43 infrastructure projects in HB 11. This is a significant increase, 11 percent, from the previous biennium and is driven by increased interest earnings from the TSEP trust. The figure on the right shows the historic TSEP grant and loan awards since the program inception.

The figure on the next page lists the grant awards authorized for the 2005 biennium. HB 11 provides:

Biennium	Number of Approved Projects		(in Millions)	
	Grants	Loans	Grant Awards	Loan Awards
1995	20	4	\$3.966	\$0.168
1997	15	0	4.991	-
1999	22	4	9.111	1.905
2001	21	0	12.596	-
2003	34	0	15.172	-
2005	43	0	16.826	-

“If funds deposited in the treasure state endowment special revenue account during the biennium ended June 30, 2005, are insufficient to fully fund the projects numbered 1 through 40, ...the 59th legislature is encouraged to give priority to funding to these projects from deposits into the treasure state endowment special revenue account made during the 2007 biennium, before projects authorized by the 59th legislature receive funding from the account.”

HB 11 also requires the 2005 legislature to review projects 1 through 40 that have not completed certain conditions and determine if any grants should be withdrawn.

The legislature authorized a \$100,000 emergency appropriation from the treasure state endowment special revenue account for any critical infrastructure projects that might arise in the biennium. HB 11 states:

“The projects eligible for emergency grants must be necessary to remedy conditions that if allowed to continue until legislative approval could be obtained would endanger the public health or safety and expose the applicant to substantial financial risk” and “the department may not make an emergency grant if it determines that through the implementation or reasonable management practices, the applicant can forestall the risks to health or safety until the legislative approval can be obtained.”

Treasure State Endowment Program Grants Authorized HB 11 - 2005 Biennium				
Rank Order	Applicant	Utility	Grant Recommendation	Cummulative Awards
1	Lewis & Clark County	Bridge	\$170,575	\$170,575
2	Judith Basin County/Geysers District	Water	330,000	500,575
3	Madison County	Bridge	174,529	675,104
4	Town of Chinook	Wastewater	500,000	1,175,104
5	Sweet Grass County	Bridge	235,954	1,411,058
6	Stillwater County	Bridge	500,000	1,911,058
7	Power-Teton County District	Water	500,000	2,411,058
8	Richland County	Bridge	351,625	2,762,683
9	Town of Stanford	Water	500,000	3,262,683
10	Town of Hamilton	Water	500,000	3,762,683
11	Town of Troy	Water	500,000	4,262,683
12	Town of Scobey	Wastewater	500,000	4,762,683
13	Missoula	Wastewater	500,000	5,262,683
14	Blain County	Bridge	322,782	5,585,465
15	Upper-Lower River Road District	Water/Wastewater	500,000	6,085,465
16	Town of Polson	Water	500,000	6,585,465
17	Town of Conrad	Water	500,000	7,085,465
18	Town of Glendive	Storm Water	139,133	7,224,598
19	Sheavers Creek District	Water	500,000	7,724,598
20	Gallatin County	Bridge	500,000	8,224,598
21	Gardiner/Park County District	Water	500,000	8,724,598
22	Phillips Co Green Meadows District	Water	112,500	8,837,098
23	Town of Geraldine	Water	500,000	9,337,098
24	Missoula County	Wastewater	499,335	9,836,433
25	Ramsay County District	Water	255,000	10,091,433
26	Cooke City-Park County District	Water	500,000	10,591,433
27	Worden Ballentine District	Water	500,000	11,091,433
28	Town of Wolf Point	Wastewater	500,000	11,591,433
29	Town of Ryegate	Water	478,700	12,070,133
30	Cascade County	Bridge	230,840	12,300,973
31	Town of Libby	Water/Wastewater	500,000	12,800,973
32	Beaverhead County District (Wisdom)	Wastewater	500,000	13,300,973
33	Hill County	Bridge	175,803	13,476,776
34	Town of Jordan	Water	459,883	13,936,659
35	Pablo-Lake County District	Wastewater	500,000	14,436,659
36	Town of Ekalaka	Wastewater	154,197	14,590,856
37	Pondera County	Bridge	137,500	14,728,356
38	Black Eagle District	Wastewater	214,200	14,942,556
39	Lake County Solid Waste District	Solid Waste	500,000	15,442,556
40	Sheridan County	Bridge	210,775	15,653,331
41	Town of Whitefish	Water	500,000	16,153,331
42	City of Belgrade	Wastewater	500,000	16,653,331
43	Yellowstone County	Bridge	172,710	16,826,041
Total Authorized Grant Awards:			\$16,826,041	

TSEP Loans

Section 90-6-703, MCA, also provides for loans to eligible applicants as well as grants. Only eight loans have been authorized by the legislature since the program's inception in fiscal 1994. To date, none of the successful applicants have opted to secure a TSEP loan. The 2005 biennium Executive Budget did not include any TSEP loan requests.

EXECUTIVE BUDGET COMPARISON

The Executive Budget recommended grant funding at approximately \$7.0 million. With the project additions implemented by the legislature, grant funding is \$15.8 million, with additional authorizations of \$1.0 million should funds become available. This action increased the number of grants by 24, from 19 grants to 43. TSEP grants were increased by approximately 126.0 percent from the Executive Budget in both dollar and project terms.

The legislature increased the amount available for grants in three ways. First, the Executive Budget relied on proposed legislation that the Fifty-eighth Legislature did not pass. Consequently, the legislature appropriated \$8.5 million in grants above the Executive Budget. At the request of the department, the legislature reverted \$203,000 in excessive grant authority of prior year grants for Richland County and the City of Boulder to the TSEP fund. The department further requested a reversion of an emergency grant allocation of \$100,000 from the 2001 biennium for the City of Conrad. Finally, the legislature terminated a prior year grant to Hill Co., which increased the grant fund by for \$500,000. In total, the legislature approved a TSEP program that is \$9.8 million higher than the Executive Budget.

FUNDING

In July 1993, \$10.0 million was transferred from the coal severance tax permanent trust fund to the treasure state endowment trust fund. In addition, the trust receives 75 percent of coal severance tax revenues deposited into the permanent trust through fiscal 2003. This percentage is reduced to 50 percent starting July 2003 and will continue at that level until June 30, 2013. Funding for TSEP grants comes from the investment earnings on the treasure state endowment trust, which is deposited into a TSEP state special revenue account. TSEP investment earnings for the 2005 biennium are projected to total \$16.3 million.

The figure on the right shows the projected fund balance for the treasure state endowment state special revenue account for the 2005 biennium. Total new revenue and carryover funds in this account are estimated at \$17.1 million for the biennium. Administrative expenses of approximately \$0.8 million are increased from previous biennia with the addition of 1 FTE, an engineering position to be filled during the 2005 biennium. After deducting administrative costs from estimated available funds, \$15.8 million is available for grants. As such, available grant funds will fund only 40 of the 43 grants authorized by the legislature.

Treasure State Endowment Program Fund Balance Projection, 2005 Biennium		
Estimated Beginning Fund Balance ¹		\$303,000
Revenue Projections ²		
2004 Interest	7,871,000	
2005 Interest	8,472,000	
Terminated Grant	<u>500,000</u>	
2005 Biennium Funds Available		16,843,000
Total Funds Available		17,146,000
Proposed Expenditures		
Administration - Commerce	(812,305)	
Administration - DNRC	(54,000)	
Emergency Grants	(100,000)	
Preliminary Engineering Grants - SA	(425,000)	
Total Expenditures		<u>(1,391,305)</u>
Funds Available for Grants		15,754,695
Proposed Grants		<u>(15,653,331)</u>
		<u>\$101,364</u>

¹ Beginning fund balance includes reverted emergency grant and excess project funds.
² Revenue projections are based on HJR 2.

OTHER LEGISLATION

HB 176

The Fifty-eighth Legislature approved HB 176, which transfers responsibility for administration of the TSEP regional water system from the Department of Commerce (DOC) to the Department of Natural Resource and

Conservation (DNRC). Additionally, HB 176 allows for the expenses associated with the administration of that program to be paid from the TSEP regional water system fund.

TREASURE STATE ENDOWMENT REGIONAL WATER SYSTEM

PROGRAM DESCRIPTION

The 1999 Legislature created the treasure state endowment regional water system fund as a new account within the coal tax permanent trust. The TSEP Regional Water System, 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 stockwater 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 stockwater 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.”

Although no state funds have been expended to date, two projects have been authorized from these funds: the Fort Peck Indian Reservation/Dry Prairie Regional Water System (DPRWS) and the Rocky Boy's Indian Reservation/North Central Montana Regional Water System (NCMRWS). The federal government provides current estimates for the projects. DPRWS is estimated at a total cost of \$220.0 million, which includes a local match of \$18.4 million. The NCMRWS project is expected to cost \$229.0 million, with a local match of \$18.4 million.

SUMMARY OF LEGISLATIVE ACTION

HB 11 authorizes an appropriation of up to \$3.9 million for the 2005 biennium from the TSEP regional water interest account to provide for the state's share for regional water system projects. HB 176, passed by the Fifty-eighth Legislature, changed the administration of this program from the DOC to the DNRC. Additionally, HB 176 amends 90-6-715, MCA, to provide funding of administrative expenses for state and local entities associated with regional drinking water systems.

EXECUTIVE BUDGET COMPARISON

The legislature approved the executive recommendation for an appropriation of up to \$3.9 million of the TSEP regional water interest. This amount is limited by the amount of interest actually earned in the 2005 biennium.

FUNDING

Since July 1, 1999, 25 percent of the deposits to the coal severance permanent trust have flowed into the TSEP regional water trust account. The interest earned from the fund is deposited into the account authorized in Title 90, Section 6, part 7, MCA, to provide a match for federal and local monies for the purpose of developing large regional water systems. The 2005 legislature approved use of the interest earnings to fund administrative expenses for the program. The funds for administrative expenses are appropriated in HB 2. Remaining funds of \$4.6 million will be available for the regional water projects.

Potentially, the continued funding of administrative expenses could significantly impact the ability for the fund to meet the required match of the construction costs. As seen in the figure on the left, in the 2005 biennium there

will be an appropriation of \$660,023 for the administrative expenses associated with the program. Given the long-term nature of these projects, administrative expenses could be ongoing for 10 years. If this proves to be the case, and if the administrative expense approved in the 2005 biennium continue to be typical, total costs could amount to over \$3.3 million over 10 years.

TSEP Regional Water Fund Balance Projection, 2005 Biennium (in millions)			
	FY 2004	FY 2005	2005 Biennium
Estimated Beginning Fund Balance			\$2,196,354
Revenue Projections *			
Interest Earnings	\$1,404,000	\$1,670,000	<u>3,074,000</u>
Total Revenues			5,270,354
Proposed Expenditures			
Administrative Expenses	(330,793)	(329,230)	(660,023)
Funds Available for Regional Water Projects			<u>\$4,610,331</u>

*Estimates from HJR 2 recommendations

STATE BUILDING ENERGY CONSERVATION

PROGRAM DESCRIPTION

The State Building Energy Conservation (SBEC) program, operated by the Department of Environmental Quality (DEQ), was established by the 1989 legislature to reduce operating costs for state facilities by identifying and funding cost-effective energy efficiency improvement projects. Energy efficiency improvements include:

- Replacing old, inefficient boilers
- Upgrading inefficient lighting
- Increasing ventilation system efficiency
- Insulating buildings
- Providing more effective temperature controls

Through this program, the state issues general obligation (G.O.) bonds, uses the bond proceeds to pay for energy efficiency improvements on state-owned buildings, then uses the resulting energy cost savings to pay the debt service on the bonds. The projects are designed so that the cost savings exceed the bond debt service payments. Excess savings are transferred to the Long-Range Building Program (LRBP). In August 2003, the first bonds issued to the SBEC program will be closed, and funds previously used for debt service will be transferred into the LRBP. To date, 52 energy conservation projects have been completed through the SBEC program, and an additional 12 projects are in various stages of completion. Since the program's inception, the state has spent \$4.2 million in oil overcharge funds and \$6.5 million in G.O. bond proceeds to fund projects.

SUMMARY OF LEGISLATIVE ACTION

Through HB 12, the legislature authorized the state Board of Examiners to issue up to \$2.5 million in G.O. bonds for the SBEC program. The legislature approved a biennial appropriation to DEQ amounting to \$400,000 from the bond proceeds to fund the analysis, design, and program administration. Following is a list of projects approved for the 2005 biennium. Cost estimates for these projects were not provided to the legislature, although the legislature was assured that all projects are confirmed to provide adequate savings in energy costs to fully fund the debt service of the bonds required to provide the funding for each project.

Projects in Design or Construction:

Dept of Public Health and Human Services

MT Mental Health Nursing Care Center, Lewistown

Energy efficiency upgrades are being included in the design of a new cooling system for the facility. An energy study is being completed on the heating plant to identify energy improvements.

Projects in Development:

Dept of Administration

Mitchell Building, Helena

A cooling system upgrade will provide energy and water savings. Other efficiency measures will be identified through additional studies.

Dept of Public Health and Human Services

Spratt Building, Warm Springs

An upgrade in the lighting and temperature control system in building is planned. Other efficiency upgrades will be identified through additional studies.

Dept of Corrections

Montana State Prison, Deer Lodge

A campus-wide energy study is near completion to determine a comprehensive list of eligible energy savings projects.

Dept of Fish, Wildlife, and Parks

FWP Headquarters, Kalispell

FWP Headquarters, Missoula

Lighting system upgrades, with rebates from the Northwestern Utility USBC Program, are planned.

University of Montana

Health Sciences Building, Missoula

A cooling system upgrade with ground water cooling replacing mechanical cooling is planned.

Preliminary LRBP Projects:

All of the proposed HB 12 projects have been coordinated with the Long-Range Building Program, as directed in statute.

In addition to the projects listed above, HB 12 affords DEQ the option of expending funds during the biennium “to respond to energy saving opportunities.” In other words, should energy efficiency projects arise during the interim that would become unfeasible or uneconomical if not pursued until the next legislature, DEQ has the authority to move forward as long as funding is available.

HB 5 contains language that requires DEQ to review capital projects for potential inclusion in the state energy conservation program. If a project is found to result in energy improvements, it must be submitted to the energy conservation program for co-funding consideration. Co-funding provided under the energy conservation program must be used to offset or add to the authorized funding for the project, and the amount will depend on the annual utility savings resulting from the facility improvement.

EXECUTIVE BUDGET COMPARISON

The Fifty-eighth Legislature approved the executive recommendation for the SBEC program without changes.

RESOURCE INDEMNITY TRUST GRANT AND LOAN PROGRAM

PROGRAM DESCRIPTION

Resource indemnity trust (RIT) funds are a major source of revenue for several natural resource agencies and programs, including the Renewable Resource Grant and Loan Program (RRGL) and the Reclamation and Development Grant Program (RDGP). The RIT receives income from two sources: 1) the resource indemnity and ground water assessment tax (RIGWAT); and 2) an allocation of oil and gas tax revenues. The Board of Investments invests funds deposited in the RIT and some of the investment earnings are used to fund the RRGL and RDGP. For more detailed information on the allocation and expenditure of other RIT proceeds and RIT interest earnings, see the Department of Natural Resources and Conservation (DNRC) summary in Section C of the LFD Fiscal Report, Volume 4.

RENEWABLE RESOURCE GRANT AND LOAN

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 (DNRC) administers the RRGL, 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
- Need
- Urgency

DNRC submits a list of funding recommendations to the Governor, who reviews the list and submits recommendations to the legislature. Funding for projects comes in the form of grants and/or loans made to both public and private entities. The legislature has final approval for the awarding of RRGL grants (HB 6) and loans (HB 8).

SUMMARY OF LEGISLATIVE ACTION

The 2003 legislature passed two appropriation bills for the RRGL Program. HB 6 contains appropriations for renewable resource grants, and HB 8 contains appropriations for renewable resource loans. HB 6 grant applications that are authorized by the legislature but will not receive funding due to a shortage of funds are eligible to apply for a loan as provided in HB 8.

HB 6 - Grants

The figure on the following page shows the RRGL grants awarded for the 2005 biennium. The 2003 legislature authorized \$3,679,068 to fund a prioritized list of 44 projects. While 44 projects are approved for funding, only the first 40 will be funded with the revenues available. The 2003 legislature intends that each of the grant projects listed after the Richland County Irrigation District (Irrigation Potential Study) will not receive grant funds unless a higher priority project withdraws all or part of their project need or if additional revenues becomes available.

EXECUTIVE BUDGET COMPARISON

The 2003 legislature eliminated and reduced select grants, which increased the number of renewable resource grants. The Executive Budget recommended 38 projects funded at the requested levels. The legislature reduced numerous grant amounts to provide funding for an additional six projects. Additionally, the legislature increased the emergency grant allocation, which provides funding for two additional projects during the 2005 biennium.

Renewable Resource Grant and Loan Program HB 6 - 2005 Biennium				
Rank	Applicant	Project	HB 6 Grants Authorized	Cummulative Total
1	Scobey, City of	Wastewater System Improvements	\$100,000	\$100,000
2	Dawson County	Yellowstone River Floodplain Management	75,000 *	175,000
3	Flathead Basin Commission	Ashley Creek Headwater Restoration	99,700	274,700
4	Missoula, City of	Rattlesnake Neighborhood Sewer Collection System	100,000	374,700
5	North Powell Conservation District	Blackfoot River Habitat, Water Quality and Restoration	62,600	437,300
6	Montana Department of Agriculture	Monitoring Well Network for the Assessment of Ag Chemicals	100,000	537,300
7	Paradise Valley Irrigation District*	Hillside Lateral	100,000	637,300
8	Ramsay County Water and Sewer District	Water System Improvements	100,000	737,300
9	Missoula County	Mullen Road Corridor Sewer Project - Phase I	100,000	837,300
10	Park County	North Park County Water Resources Protection and Management Plan	75,000	912,300
11	Sheaver's Creek Water and Sewer District	Water System Improvements	100,000	1,012,300
12	Stanford, Town of	Water System Improvements	100,000	1,112,300
13	Hamilton, City of	Water Distribution Improvements	100,000	1,212,300
14	Park County-Cooke City Water District	Water System Improvements	100,000	1,312,300
15	Milk River Joint Board of Control*	St. Mary Siphon Expansion Joint Replacement	100,000	1,412,300
16	Buffalo Rapids Irrigation District	Refit of Glendive Pumping Plant	100,000	1,512,300
17	Mill Creek Irrigation District	Mill Lake Dam Rehabilitation	100,000	1,612,300
18	Montana Department of Natural Resources and Conservation	Seepage Monitoring Project - DNRC Dams	97,646	1,709,946
19	Sidney Water Users Irrigation District	Increasing Irrigation Efficiency	100,000	1,809,946
20	Stillwater County	Yellowstone River Floodplain Management within Stillwater County	75,000 *	1,884,946
21	Yellowstone County	Yellowstone River Floodplain Management	75,000 *	1,959,946
22	Worden Ballantine Yellowstone County Water and Sewer District	Water Distribution System	100,000	2,059,946
23	Ryegate, Town of	Water System Improvements	100,000	2,159,946
24	Malta Irrigation District*	Replacement and Modification of Check Structures	100,000	2,259,946
25	Judith Basin County	Geyser Water System Improvements	100,000	2,359,946
26	Sheridan, Town of	Water System Improvements	100,000	2,459,946
27	Pablo-Lake County Water and Sewer District	Wastewater Treatment System	100,000	2,559,946
28	Fort Belknap Irrigation District*	Sugar Factory Lateral Project	100,000	2,659,946
29	Montana Department of Natural Resources and Conservation	North Fork of the Smith River Dam Rehabilitation	100,000	2,759,946
30	Conrad, City of	Raw Water Intake and Pump Station Improvements	100,000	2,859,946
31	Lewis and Clark County Water Quality Protection District	Groundwater Sustainability in North Hills Area, Helena	50,000	2,909,946
32	Power Teton County Water and Sewer District	Water System Improvements	100,000	3,009,946
33	Phillips County Green Meadows Water and Sewer District	Water System Improvements	100,000	3,109,946
34	Chinook Division Irrigation Joint Board of Control*	Fresno Dam - Gate Leaf Seals	100,000	3,209,946
35	Upper/Lower River Road Water and Sewer District	Water System Improvements	100,000	3,309,946
36	Gallatin Local Water Quality District	Dedicated Monitoring Well Network for the Gallatin Valley	50,000	3,359,946
37	Troy, City of	Water System Improvements	100,000	3,459,946
38	Montana Department of Corrections	Rehabilitation of Prison Ranch Dam	80,000	3,539,946
39	Fort Shaw Irrigation District	Water Quality and Quantity Improvement - Phase III	89,122	3,629,068
40	Richland County Conservation District	Irrigation Potential of Groundwater Underlying the Lower Yellowstone Valley	50,000	3,679,068
41	Pablo-Lake County Water and Sewer District	Water Distribution Improvements	100,000	3,779,068
42	Cut Bank, City of	Water System Improvement	100,000	3,879,068
43	Pleasant View Homesites County Water and Sewer District	Water System Improvements	100,000	3,979,068
44	Gardiner-Park County Water District	Water System Improvements	100,000	4,079,068

* Single Asterisk, following name, designates projects eligible for and may be designated for use as a nonfederal match for the federal funding required for the settlement of the Fort Belknap/Montana Water Right Compact.

* Single Asterisk, following amount, designates projects where the DNRC may determine the dollar portions for each project.

FUNDING

In accordance with 15-38-202, MCA, a total of \$2.0 million in RIT interest earnings is allocated to the Renewable Resource Grant and Loan Program (RRGL) account each year for the purpose of making grants, providing \$4.0 million in funds for grants during the biennium. From the statutory allocation, \$100,000 is appropriated to DNRC for planning grants and \$220,932 is appropriated for emergency projects in Section 1 of HB 6. The legislature recommended further allocations of the emergency grant funds as follows:

- o \$50,000 - Hysham Irrigation District (Hydraulic Analysis).
- o \$20,000 - Cartersville Irrigation District (Sand Creek Siphon Rehabilitation).
- o Both projects are contingent on startup in fiscal 2004.
- o \$150,932 for other emergency projects.

The figure on the right shows the projected ending fund balance for the renewable resource grant fund. The table illustrates the fund allocation along with the separate appropriations from Sections 1 and 2 of HB 6.

HB 8 – Loans

HB 8 authorizes the issuance of coal severance tax bonds to provide for RRGL projects. Proceeds from the issuance of bonds are used to fund the loans, with loan repayments used to pay the debt service. Because these are general obligation bonds, they constitute a state debt that required a two-thirds vote of the members of each house. Moreover, because money from the coal severance tax bond fund is pledged for debt service payments on the bonds, HB 8 also required a three-fourths vote of the members of each house, as directed by the Montana constitution.

Renewable Resource Grants and Loans Fund Balance Projection, 2005 Biennium	
Statutory Allocation 15-38-202, MCA	\$4,000,000
HB 6, Section 1	
Planning Grants	(\$100,000)
Emergency Grants*	(220,932)
Total Section 1 Appropriations:	(320,932)
Funds available for grants	3,679,068
Grants, Section 2	(3,679,068)
Projected Ending Fund Balance	\$0
* Hysham (\$50,000, reserved for 1 yr.)	
* Cartersville (\$20,000, reserved for 1 yr.)	

The figure on the following page lists the loans awarded for the 2005 biennium. Total bond authority in HB 8 is \$11.7 million. Of this amount, \$10.7 million is appropriated for loans and \$1.1 million is for loan reserve. HB 8 authorizes two new loans totaling \$2.9 million and reauthorizes six loans, previously authorized by the 2001 legislature, which total \$7.8 million. The funds from seven of the nine loans will be used for dam rehabilitation; the two remaining loans will be used for community water and wastewater projects. Interest rates on the loans are subsidized at rates based on the borrowers’ affordability. According to DNRC, approximately \$0.6 million of annual coal severance tax revenue is used to fund these subsidies.

EXECUTIVE BUDGET COMPARISON

The legislature reduced the executive recommendation by one loan. A \$400,000 loan for a Hill County water treatment plant was not approved. The loan reduction caused a subsequent reduction in the requested loan reserve of \$40,000, creating a total reduction from the executive recommendation of \$440,000 or approximately 4.0 percent.

Renewable Resource Program Loans HB 8 - 2005 Biennium		
Loans-Sponsor/Project	Legislative Appropriation	Cumulative Total
Section 1, Group A Projects* (4.5% interest-20 years)		
Buffalo Rapids		
Refit of Glendive Pumping Plant	\$1,315,000	\$1,315,000
Mill Creek Irrigation District		
Mill Lake Dam Rehabilitation	572,000	1,887,000
Montana DNRC		
North Fork of the Smith River Dam Rehabilitation	557,000	2,444,000
Hill County		
Beaver Creek Dam Outlet Works Repair	500,000	2,944,000
Section 2, Group A Projects** (2.0% below long term bond rate for 1st 5 years, market rate for remaining 15 years)		
Lockwood Water and Sewer District		
Wastewater Collection and Treatment Works	3,300,000	6,244,000
Section 2, Group B (2.25% interest-20 years)		
Department of Natural Resources and Conservation		
Nevada Creek Dam Rehabilitation	494,041	6,738,041
Section 2, Group C Projects (4.5% 1st \$250,000, 2.25% next \$250,000, 0.0% for anything over \$500,000)		
Lower Willow Creek Drainage District		
Lower Willow Creek Dam Rehabilitation	1,350,000	8,088,041
Malta Irrigation District		
Repair and Modification of Dodson Diversion Dam	2,274,950	10,362,991
Section 2, Group D Projects (4.5 % interest-20 years)		
Canyon Creek Irrigation District		
Canyon Lake Dam and Wyant Lake Dam	300,000	10,662,991
	Total Loan Authorizations:	\$10,662,991
	Loan Reserve:	1,066,299
	Total Bond Authorization	<u>\$11,729,290</u>
* Section 1 projects meet the provisions of 17-5-702, MCA.		
** Section 2 projects may not complete the requirements needed to obtain the loan funds prior to June 30, 2003.		
NOTE: Projects are grouped by differences in interest rates.		

Other Legislation

SB 5

SB 5 amends 85-1-624, MCA, to allow the DNRC to have outstanding aggregate principal on the amount of renewable resource bonds of \$30.0 million. Previously, the aggregate principal was restricted to \$20.0 million. This change will allow the renewable resource loan program, authorized in HB 8, to offer new loans in the future. In fiscal 2003, the aggregate principal on renewable resource bonds had reached \$19.0 million.

RECLAMATION AND DEVELOPMENT GRANT PROGRAM

Resource indemnity trust (RIT) interest earnings in the amount of \$2.4 million are to be deposited into the reclamation and development grant account in the 2005 biennium for the purpose of making grants (15-38-202, MCA). The Reclamation and Development Grant Program (RDGP) received \$3.0 million prior to legislative actions of the August 2002 Special Session. At that time, the amount of interest flowing into the program was reduced by 20 percent through the 2005 biennium. The 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 under 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 the Department of Natural Resource and Conservation (DNRC), which solicits, evaluates, and ranks each application on a biennial basis. Those 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

No grant may exceed \$300,000. DNRC forwards a list of recommendations to the Governor, who reviews the list and submits funding recommendations to the legislature. The legislature gives the final approval on grant requests.

LEGISLATIVE ACTION

The figure on the following page lists the RDGP grants approved by the 2003 legislature. The appropriation of \$2.4 million will totally fund the first 10 projects and partially fund the 11th, the Sheridan County Conservation District. HB 7 provides that:

“Funds not accepted by grantees or funds not used by higher-ranked projects and activities must be provided for projects and activities lower on the priority list that otherwise would not receive funding.”

The legislature approved, in HB 554, a temporary reduction of the grant priority given in 90-2-222, MCA, for the 2005 biennium only. The authority for the Montana Board of Oil and Gas (MBOG) was reduced from \$600,000 to \$200,000 and the \$800,000 biennium authority for the abandoned mine reclamation was eliminated. This provided the legislature more flexibility in funding community projects in the 2005 biennium.

Reclamation and Development Grants HB 7 - 2005 Biennium			
Project Sponsor	Project Name	Grants	Cummulative Total
Big Horn Conservation District	Groundwater Monitoring-Tongue & Powder River Watersheds	\$300,000	\$300,000
Sunburst, Town of	Sunburst Water Supply Renovation	185,249	485,249
Montana Governor's Office	Growing Carbon	300,000	785,249
Montana Board of Oil and Gas Conservation	Oil and Gas Plug and Abandonment	200,000	985,249
Toole County	2003 Plugging and Abandonment	240,000	1,225,249
Montana Board of Oil and Gas Conservation	2003 Northern District Plug and Abandonment	300,000	1,525,249
Montana Board of Oil and Gas Conservation	2003 Southern District Plug and Abandonment	100,000	1,625,249
Montana Department of Environmental Quality	Washington Mine and Millsite Reclamation	300,000	1,925,249
Powell County	CMC Roundhouse Site Cleanup	76,400	2,001,649
Montana Department of Environmental Quality	Drumlummon Tailings, Goldsil-Mine Waste Reclamation	300,000	2,301,649
Sheridan County Conservation District	Reclaiming Oilfield Brine Contaminated Soils	150,000	2,451,649
Montana Department of Natural Resources and Conservation	Planning Grants	50,000	2,501,649
Fergus County Conservation District	Central Montana Aquifer Project	150,000	2,651,649
Judith Basin Conservation District	Judith Basin Aquifer Restoration and Conservation	70,000	2,721,649

Two prior years grants amounting to \$502,500 were terminated by the 2003 legislature. The first terminated grant was to the City of Townsend (East Pacific Mine Reclamation), authorized in the 1999 session for \$202,500. The second terminated grant was to Powell County for the Ontario wet tailings reclamation project. This project was approved during the 2001 session for a grant of \$300,000. The legislature gave the DNRC permission to use the terminated grant funds for administration and program costs.

EXECUTIVE BUDGET COMPARISON

The Fifty-eighth Legislature reestablished the priority rank for the projects listed in HB 7 to fund a greater number of community projects. This action resulted in fewer grants to the MBOG and the DEQ. The new rankings allowed the total requested funding for the Governor's Office Growing Carbon Project, where recommended funding was increased from \$150,000 to \$300,000. The legislature also re-ranked a request for Powell County for \$76,400 to provide the match for the cleanup of the Chicago-Milwaukee Corporation (CMC) Roundhouse site.

Other Legislation

HB 554

HB 554 reduced the grant priority to the MBOG from \$600,000 to \$200,000 and eliminated the priority for abandoned mine reclamation projects given in 90-2-222, MCA, for the 2005 biennium only. The bill offered the legislature more flexibility in funding community projects in HB 7.

CULTURAL AND AESTHETIC GRANT PROGRAM

PROGRAM DESCRIPTION

The Cultural and Aesthetic Grant Program, administered by the Montana Arts Council (MAC), is funded by investment earnings from a statutory trust. The trust receives 0.63 percent of coal severance tax revenues. By statute, the interest from the cultural trust is to be appropriated for protection of works of art in the State Capitol and other cultural and aesthetic (C&A) projects (15-35-108, MCA). Legislation passed by the Fifty-fifth Legislature resulted in a number of changes to the amount and use of the revenue the C&A project account receives. A discussion of these changes is provided below under "Funding."

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 MAC and eight appointed by the Montana Historical Society (MHS), reviews each application. The committee prioritizes the requests and makes funding recommendations to the legislature as part of the Executive Budget. Grants require legislative approval according to Title 22, Chapter 2, part 3, MCA.

Biennium	C&A Funds Appropriated	General Fund Appropriated	Funds Expended	Number of Projects
1979	\$50,000		\$50,000	1
1981	140,000		140,000	3
1983	641,680		602,042	15
1985	823,479		810,704	39
1987	1,476,511		1,414,114	63
1989	1,211,817		1,099,290	53
1991	1,298,788		1,184,661	65
1993	1,551,323		1,531,239	88
1995	1,706,735		1,266,784	93
1997	857,926		852,003	77
1999	1,489,453		1,416,787	79
2001	634,939	600,000	1,163,906	76
2003	705,425	532,575 *	1,209,375	74
2005	659,000	499,150	N/A	81

* \$198,575 of general fund support replaced with lodging facility tax in fiscal 2003

The figure on the right provides an historic perspective of the Cultural and Aesthetic Grant Program. Funding of the projects is from the C&A interest account and general fund, unless otherwise noted.

SUMMARY OF LEGISLATIVE ACTION

As passed by the 2003 legislature, HB 9 appropriates Cultural Trust interest earnings deposited into the C&A project account for two specific purposes. The first priority funding is a \$30,000 appropriation to the MHS for the care and conservation of Capitol Complex artwork in accordance with 5-11-115, MCA. The second priority is for 81 C&A grant awards totaling \$804,150. These awards are listed, in priority order, in the following figure.

General fund was included as a source of C&A grant funding for the 2005 biennium. This was done because in 1997 approximately half of the Cultural Trust corpus was used to purchase Virginia and Nevada City properties. The short-term effect of that action was to reduce the ability of the Cultural Trust to earn interest that is transferred to the C&A project account. The 2003 legislature appropriated \$499,150 of general fund for this reason.

EXECUTIVE BUDGET COMPARISON

The executive recommended funding 81 projects at a total cost of \$804,150, plus \$30,000 for Capitol Mural Restoration and \$311,323 in HB2 for administration of the Montana Arts Council. The legislature approved the executive's recommendation for the 2005 biennium, without change. In the event that C&A trust fund interest revenue falls short of the estimates, HB 9 provides a process for reducing grant amounts:

“if money in the cultural and aesthetic projects account is insufficient to fund projects at the appropriation levels ... reductions to all projects will be made on a pro rata basis.”

Cultural and Aesthetic Program Grants					
HB 9 - 2005 Biennium					
Organization	Amount Authorized	Cummulative Total	Organization	Amount Authorized	Cummulative Total
Category 1-Special Projects <\$4,500			Category 3-Operational Support, cont.		
1 Montana Storytelling Roundup	\$4,500	\$4,500	9 Western Heritage Center	\$15,000	\$420,650
2 Miles City Speakers Bureau	4,500	9,000	10 Billings Symphony Society	15,000	435,650
3 Friends of Chief Plenty Coups Assn	4,500	13,500	11 Montana Repertory Theatre	15,000	450,650
4 Council for the Arts, Lincoln	2,500	16,000	12 Shakespeare in the Parks	15,000	465,650
5 Sunburst Community Service Foundation	2,700	18,700	13 VSA arts of Montana	12,000	477,650
6 International Choral Festival	4,000	22,700	14 Alberta Bair Theater	15,000	492,650
7 Montana Wool Growers Association	3,700	26,400	15 Butte Center for the Performing Arts	15,000	507,650
8 Crow Tribe	2,250	28,650	16 MCT, Inc.	15,000	522,650
9 Hobson Community Library	2,500	31,150	17 Intermountain Opera	12,000	534,650
Category 2-Special Projects >\$4,500			18 Montana Assoc of Symphony Orchestras	8,000	542,650
1 Montana Committee for the Humanities	27,000	58,150	19 Garnet Preservation Association	12,000	554,650
2 KUFM-TV, Montana PBS	18,000	76,150	20 Yellowstone Art Museum	16,000	570,650
3 Whitefish Theatre Company	12,000	88,150	21 Rocky Mountain Ballet Theater	6,000	576,650
4 Montana Performing Arts Consortium	20,000	108,150	22 Montana Ballet Company	5,000	581,650
5 Rattlesnake Productions	15,000	123,150	23 Myrna Loy Center	16,000	597,650
6 Montana Historical Society	12,000	135,150	24 Butte Symphony Association	15,000	612,650
7 Montana Preservation Alliance	15,000	150,150	25 Vigilante Theatre Company	11,000	623,650
8 MonDak Historical and Art Society	4,500	154,650	26 District 7 HRDC Growth Thru Art	10,000	633,650
9 Grandstreet Theatre	10,000	164,650	27 Museums Association of Montana	12,000	645,650
10 Art Mobile of Montana	12,500	177,150	28 Emerson Cultural Center	10,000	655,650
11 Glacier Orchestra & Chorale	10,000	187,150	29 Carbon County Historical Society	8,000	663,650
12 Bozeman Symphony	10,000	197,150	30 Montana Arts	10,000	673,650
13 Montana Alliance for Arts Education	10,000	207,150	31 Mo-Trans Dance Company	5,000	678,650
14 V I A S, Inc	10,000	217,150	32 Young Audiences of Western Montana	8,000	686,650
15 Hockaday Museum of Art	13,000	230,150	33 Gallatin County Historical Society	7,500	694,150
16 Rimrock Opera	10,000	240,150	34 Northwest Montana Historical Society	7,500	701,650
17 Missoula Symphony Association	7,000	247,150	35 Montana Dance Arts Association	3,000	704,650
18 Paris Gibson Square	8,000	255,150	36 Billings Cultural Partners	2,500	707,150
19 Going-To-The-Sun Institute	8,000	263,150	37 Big Horn Arts and Crafts Association	5,000	712,150
20 Yellowstone Ballet Company	3,500	266,650	38 Carbon County Arts Guild	6,000	718,150
21 Feathered Pipe Foundation	2,000	268,650	39 Montana Chorale	5,000	723,150
22 Huntley Project Museum of Irrigated Ag	4,000	272,650	Category 4-Capital Expenditures		
23 Montana Mandolin Society	1,000	273,650	1 Archie Bray Foundation	16,500	739,650
Category 3-Operational Support			2 Great Falls Civic Center	10,000	749,650
1 Schoolhouse History and Art Center	16,000	289,650	3 Livingston Depot Foundation	10,000	759,650
2 Custer County Art Center	20,000	309,650	4 Lewistown Art Center	2,500	762,150
3 Writer's Voice (Billings YMCA)	20,000	329,650	5 Art Museum of Missoula	15,000	777,150
4 Great Falls Symphony Association Inc.	18,000	347,650	6 Billings Preservation Society	10,000	787,150
5 MAGDA	15,000	362,650	7 Moosehorn Club	2,000	789,150
6 Holter Museum of Art	16,000	378,650	8 N.Missoula Community Dev. Corporation	5,000	794,150
7 Museum of the Rockies	15,000	393,650	9 Tobacco Valley Improvement Assoc. Board	5,000	799,150
8 MT Agricultural Center & Museum	12,000	405,650	10 Cascade Co Historical Society	5,000	804,150
				HB 9 Total	<u>\$804,150</u>

FUNDING

Prior to the 1997 legislative session, the C&A Grant Program was funded entirely with interest earnings from the cultural trust fund. However, the 1997 legislature appropriated \$3.9 million, approximately half of the trust corpus, to help fund the purchase of Virginia City and Nevada City properties.

To compensate for the lost interest earnings that would result from the reduced corpus, the 1997 legislature allocated 0.87 percent of coal severance tax revenue to the C&A project account for the 1999 biennium only, an increase of 0.24 percent from the previous allocation of 0.63 percent. Beginning in fiscal year 2000, 15-35-108, MCA, provides that 0.63 percent of coal severance tax income will again flow into the trust. The remaining 0.24 percent of coal severance taxes allocated to the C&A project account for the 1999 biennium, was previously part

of the flow into the general fund. Beginning in fiscal year 2000, this amount was once again statutorily allocated to the general fund. Thus, for the 2005 biennium, the only funding for the C&A program provided for in statute is the interest income from the cultural trust.

In fiscal 2002, two actions were taken to increase revenues to the general fund. First, the C&A project grants were reduced by \$25,000. Next, the distribution from the coal severance tax was diverted out of the Cultural Trust and into the general fund. The elimination of the flow caused a reduction in interest available for fiscal 2003 by approximately \$6,000. Additionally, during the special session of August 2002, general fund support of \$198,575 in the fiscal 2003 was replaced with lodging facility use tax revenue. The aggregate effect of these actions was a shortfall in revenues to support the C&A grants.

The figure on the right shows the projected funding for the Cultural & Aesthetic project account for the 2003 biennium. The beginning fund balance is estimated to be zero because revenues are projected to be less than total appropriations in the 2003 biennium. Interest income from the coal tax-funded Cultural Trust is projected to be \$659,000 for the 2003 biennium.

Projected expenditures are from the C&A grants and the HB 2 general appropriations act. As previously noted, the first priority in HB 9 is the \$30,000 appropriation to the MHS for the care and conservation of the Capitol Complex artwork. The figure to the left also shows expenditures from the C&A project account of \$311,323 for Administration and Folklife.

This appropriation is made to MAC in HB 2, and the amount is based on the estimated costs that MAC incurs to administer the C&A Grant Program and the Montana Folklife Program.

Cultural & Aesthetic Grant Program	
Fund Balance Projection, 2005 Biennium	
Estimated Beginning Fund Balance	\$0
Revenue Projections *	
Fiscal 2004 Interest	322,000
Fiscal 2005 Interest	<u>337,000</u>
Total Funds Available	659,000
Proposed Expenditures	
Administration and Folklife	(311,323)
Capitol Mural Restoration	(30,000)
Grants	(804,150)
Total Expenditures	(1,145,473)
General Fund Appropriation (HB 9)	<u>499,150</u>
Ending Fund Balance	<u>\$12,677</u>
*Estimates from HJR 2 recommendations	

LIBBY BOND PROGRAM

PROGRAM DESCRIPTION

The Environmental Protection Agency (EPA) announced on October 24, 2002, that the asbestos contamination in the Libby area has been officially listed on the National Priority List under the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). In 1983, legislators determined that the existence of hazardous substances and contaminants in the environment and hazardous waste disposal sites posed a significant health hazard through potential and actual contamination of the environment. In 1983, the legislature mandated, in 75-10-601, MCA, cooperation under CERCLA to “provide for the disposal and control of such hazardous substances and contaminants in a safe and environmentally sound manner.”

The Libby Bond Program (LBP) furnishes the mechanism to provide funding for the cleanup efforts in Libby and Troy and will be administered by the Department of Environmental Quality (DEQ). In the absence of a viable potentially responsible party, the state is required under section 104 of CERCLA to provide a 10 percent match for remedial action expenditures and to provide for 100 percent of any subsequent costs associated with the operations and maintenance of the remedy. The EPA has already spent approximately \$55 million on emergency removal actions to eliminate immediate asbestos threats. The LBP will provide bonded funds for asbestos removal in yards and homes in both Libby and Troy. Continued remedial action is expected to cost another \$60 million to \$65 million in Libby and \$10 million to \$15 million in Troy.

Asbestos contamination occurred when workers from Libby and Troy came home with asbestos imbedded in their work clothes. Asbestos was released into the air and transferred to the walls, floors, ceilings, and home furnishings and family members. Vermiculite, used as a source of insulation for walls and attics, worked its way through cracks and light fixtures. Yards were contaminated when vermiculite was brought home for use in residential yards and gardens.

LEGISLATIVE ACTION

The legislature passed HB 10, which authorizes the use of the Resource Indemnity and Groundwater Assessment (RIGWA) tax for the payment of the debt service associated with the bonds. The bonds are required to provide a 10 percent match for federal CERCLA funds. Persons engaged in or carrying on the business of mining, extracting, or producing minerals pay the tax annually. The debt service is anticipated to cost approximately \$430,630 per year during the 2005 biennium. In the 2005 biennium, the debt service will reduce both reclamation and development grants and the orphan share account by \$215,315 per year.

EXECUTIVE COMPARISON

When the executive developed the budget for the LBP, there were questions concerning the timing of the bonding for the federal CERCLA match. The executive had proposed that \$9.0 million of the bond authority would be needed in the 2005 biennium. This level of bonding would require debt service of approximately \$700,000 per year, for bonds with a 20-year life and at 5.0 percent interest.

After negotiations between the DEQ and EPA, an agreement was reached to bond approximately \$5.0 million of the state match during the 2005 biennium. This agreement reduced the debt service requirement for the biennium from \$700,000 per year to \$430,630 per year. The debt service estimate is based on a \$5.0 million, 20-year bond earning 5.0 percent interest. This is a 38.5 percent reduction in costs to the RIGWA collections over the biennium and will allow the Department of Natural Resource and Conservation to continue projects in the renewable resource and orphan share programs.

LIBBY BOND PROGRAM

FUNDING

The legislature authorized CERCLA general obligation (G.O.) bonds and will deposit the proceeds into the hazardous waste CERCLA account authorized under 75-10-623, MCA. Present law limits G.O. bond authority, as a match to federal CERCLA funding, to \$10 million (75-10-625, MCA). 75-10-622, MCA establishes a separate account for the debt service payment of the bonds. HB 10 directs a flow of the RIGWA tax into the debt service account in the amount needed to pay the annual debt service payments.