

# 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 state 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).

Figure 1 summarizes capital project appropriations for each biennium since 1999.

**Figure 1**  
**Long Range Building Program Capital Projects Appropriations**  
**by Fund Type and Biennium**

| Biennium | LRBP Cash   | Other State Funds | State Special  | Federal Special | Authority Only (2) | Total LRBP Cash Program | G.O. Bonding   | Total LRBP Program |
|----------|-------------|-------------------|----------------|-----------------|--------------------|-------------------------|----------------|--------------------|
| 1999     | \$9,159,658 |                   | \$24,058,107   | \$15,092,557    | \$30,013,619       | \$78,323,941            | \$43,319,315   | \$121,643,256      |
| 2001     | 7,515,000   | \$170,000 (1)     | 22,204,804     | 39,236,497      | 46,495,000         | 115,621,301             | 33,403,750     | 149,025,051        |
| 2003     | 5,489,660   |                   | 20,420,275     | 15,800,000      | 39,105,080         | 80,815,015              | 25,025,286     | 105,840,301        |
| 2005     | 3,281,500   |                   | 24,044,460     | 11,319,212      | 41,095,000         | 79,740,172              |                | 79,740,172         |
| 2007     | 35,438,075  | 500,000 (3)       | 26,945,974 (4) | 19,984,000      | 139,697,500        | 222,565,549             | 53,100,000 (5) | 275,665,549        |
| 2009     | 139,676,000 | 18,000,000 (6)    | 51,947,160 (7) | 48,178,978      | 46,600,000         | 304,402,138             |                | 304,402,138        |

(1) General Fund  
 (2) Projects that require authority only to use higher education funds, proprietary funds, and General Service internal service funds, appropriations are not required  
 (3) Capitol Land Grant Funds  
 (4) Excludes the HB 5 appropriation of \$133.8 million for Highway 93 construction projects (this is not a LRBP projects)  
 (5) Excludes the HB 540 bond authorization of \$19.5 million for the St. Mary's Water Project and the Ft. Belknap Water Compact (these are not LRBP project)  
 (6) Includes capitol land grant (\$4 million), FWP capital projects (\$10 million), and General Fund Appropriations (\$4 million)  
 (7) Includes an appropriation of \$26.0 million for Highway 93 construction projects (this is not a LRBP project)

## SUMMARY OF LEGISLATIVE ACTION

HB 4, passed in the May 2007 special session, contains the cash appropriations for the LRBP. The Sixtieth Legislature authorized 84 projects with a total project cost of \$304.4 million. The projects will be funded as follows:

- o \$139.7 million long-range building capital project funds
- o \$18.0 million in "other" types of funds
  - o \$4.0 million capitol land grant funds
  - o \$10.0 million in FWP capital project funds
  - o \$4.0 million in state general funds
- o \$51.9 million state special revenue (includes Highway 93 project, which is not a LRBP project)
- o \$48.2 million federal special revenue
- o \$46.6 million donations, grants, higher education funds, and proprietary funds
- o No projects funded with bond proceeds

Figure 2 shows, by agency, the projects approved by the legislature. These projects were included in HB 4 of the May 2007 special session. Several projects included in HB 4 are not considered LRBP projects. For example, HB 4 contained an appropriation for the state building energy program (SBEC) and appropriations for the long-range information technology program (LRITP). The SBEC and LRITP appropriations are not included in the table above and will not be discussed in this section. For more information concerning these programs, see F-15 (SBEC program) and F-17 (LRITP). A Department of Transportation road project, the US Highway 93 Construction, Evaro to Polson, is not a LRBP project, but is included in the tables of this section. More information on the US Highway 93 project can be found in Volume 3, Section A (Department of Transportation) of the Legislative Fiscal Report.

Figure 2  
Long-Range Building Program - Cash Projects  
Project Appropriations and Authorizations - HB 4 - 2009 Biennium

| Project  | Appropriations and Authorizations - Cash Projects |               |              |             |               |               | Total        |
|--|---|---------------|--------------|-------------|---------------|---------------|--------------|
|  | LRBP  | State Special | Fed Special  | Other Funds | General Funds | Authorization |              |
| <b>Department of Administration</b>                        |   |               |              |             |               |               |              |
| Roof Repairs and Replacements                              | \$3,000,000                                       | \$392,160     | \$68,040     |             |               |               | \$3,460,200  |
| Code/Deferred Maintenance Projects                         | 2,300,000   |               |              |             |               |               | 2,300,000    |
| Hazardous Materials Abatement                              | 500,000   |               |              |             |               |               | 500,000      |
| Code/Deferred Maintenance Projects, Capitol Complex        |   |               |              |             |               | 550,000       | 550,000      |
| Upgrade Fire Protection Systems                            | 500,000   |               |              |             |               |               | 500,000      |
| Fire Protection Measures, Capitol Complex                  |   |               |              |             |               | 500,000       | 500,000      |
| Upgrade State Environmental Laboratory, Helena             | 1,000,000   |               | 1,000,000    |             |               |               | 2,000,000    |
| Repair/Preserve Building Envelopes                         | 1,500,000   |               |              |             |               |               | 1,500,000    |
| Campus Infrastructure Projects                             | 1,000,000   |               |              |             |               |               | 1,000,000    |
| Mechanical System Improvements, Capitol Complex            |   |               |              |             |               | 1,900,000     | 1,900,000    |
| MT Law Enforcement Academy, Phase 2 DM                     | 500,000   |               |              |             |               |               | 500,000      |
| New Classroom Building, MT Law Enforcement Academy         | 3,750,000   |               |              |             |               |               | 3,750,000    |
| Enterprise System Services Centers (Capitol Land Grant)    | 10,500,000  |               |              |             | 4,000,000     |               | 14,500,000   |
| Campus Master Planning                                     | 400,000   |               |              |             |               | 250,000       | 650,000      |
| Challenge Grant for Super Computer, UM-MT Tech             | 259,000   |               |              |             |               | 7,000,000     | 7,259,000    |
| <b>Department of Commerce</b>                              |   |               |              |             |               |               |              |
| Preservation & Improvements, Virginia and Nevada Cities    | 2,000,000   |               |              |             |               |               | 2,000,000    |
| Cowboy Hall of Fame  |   |               |              |             | 500,000       |               | 500,000      |
| <b>Department of Corrections</b>                           |   |               |              |             |               |               |              |
| Housing Unit Upgrades, MT State Prison                     | 1,200,000   |               |              |             |               |               | 1,200,000    |
| Expand Work Dorm, MSP                                      | 2,500,000   |               |              |             |               |               | 2,500,000    |
| Expand Food Service Capacity, MSP (DOC Proprietary Funds)  | 1,637,000   |               |              |             |               | 293,000       | 1,930,000    |
| <b>Department of Military Affairs</b>                      |   |               |              |             |               |               |              |
| Readiness Center, Miles City                               | 2,480,000   |               | 7,510,970    |             |               |               | 9,990,970    |
| Armed Forces Reserve Center, Missoula (Other-General Fund) |   |               | 30,903,968   |             | 3,500,000     |               | 34,403,968   |
| Construct Female Showers and Latrines                      | 290,000   |               | 290,000      |             |               |               | 580,000      |
| Montana State Veterans' Cemetery Expansion                 |   |               | 1,206,000    |             |               |               | 1,206,000    |
| DES Mobile Command Post                                    | 172,500   |               |              |             |               |               | 172,500      |
| Federal Spending Authority                                 |   |               | 2,000,000    |             |               |               | 2,000,000    |
| Sub-Total  | \$35,488,500                                      | \$392,160     | \$42,978,978 | \$4,000,000 | \$4,000,000   | \$10,493,000  | \$97,352,638 |

Figure 2 (cont.)  
 Long-Range Building Program - Cash Projects  
 Project Appropriations and Authorizations - HB 4 - 2009 Biennium

| Project  | Appropriations and Authorizations - Cash Projects |               |              |              |               |               |               | Total |
|--|---|---------------|--------------|--------------|---------------|---------------|---------------|-------|
|  | LRBP  | State Special | Fed Special  | Other Funds  | General Funds | Authorization |               |       |
| Balance:   | \$35,488,500                                      | \$392,160     | \$42,978,978 | \$4,000,000  | \$4,000,000   | \$10,493,000  | \$97,352,638  |       |
| <b>Department of Fish, Wildlife, and Parks</b>             |   |               |              |              |               |               |               |       |
| Hatchery Maintenance                                       |   | 500,000       |              |              |               |               | 500,000       |       |
| Admin Facilities Repair & Maintenance                      |   |               | 800,000      |              |               |               | 800,000       |       |
| Future Fisheries   |   |               | 1,314,000    |              |               |               | 1,314,000     |       |
| FAS Maintenance  |   |               | 350,000      |              |               |               | 350,000       |       |
| FAS Site Protection  |   |               | 800,000      |              |               |               | 800,000       |       |
| Community Fishing Ponds                                    |   |               | 50,000       |              |               |               | 50,000        |       |
| Upland Game Bird Program                                   |   |               | 1,258,000    |              |               |               | 1,258,000     |       |
| Wildlife Habitat Maintenance                               |   |               | 1,200,000    |              |               |               | 1,200,000     |       |
| Migratory Bird Stamp Program                               |   |               | 360,000      |              |               |               | 360,000       |       |
| Bighorn Sheep  |   |               | 250,000      |              |               |               | 250,000       |       |
| Parks Program  | 500,000   | 4,950,000     |              | 2,300,000    |               |               | 7,750,000     |       |
| Grant Programs/Federal Projects                            |   |               | 320,000      | 2,800,000    |               |               | 3,120,000     |       |
| FAS Acquisition  |   |               | 460,000      | 100,000      |               |               | 560,000       |       |
| Habitat Montana  |   |               | 6,180,000    |              |               |               | 6,180,000     |       |
| Access Montana (FWP capital project fund)                  |   |               |              |              | 10,000,000    |               | 10,000,000    |       |
| FWP Dams Repair  |   |               | 100,000      |              |               |               | 100,000       |       |
| <b>Department of Justice</b>                               |   |               |              |              |               |               |               |       |
| Purchase Forensic Science Lab Building                     | 7,250,000   |               |              |              |               |               | 7,250,000     |       |
| <b>Department of Natural Resources and Conservation</b>    |   |               |              |              |               |               |               |       |
| Code/DM and Small Projects, DNRC Unit Campuses - Statewide | 750,000   |               |              |              |               |               | 750,000       |       |
| Co-Locate DNRC/DEQ, Kalispell                              | 3,500,000   |               |              |              |               |               | 3,500,000     |       |
| Consolidate DNRC Divisions, Missoula                       | 2,000,000   |               |              |              |               |               | 2,000,000     |       |
| Building Addition - Billings Oil and Gas Office            |   |               | 750,000      |              |               |               | 750,000       |       |
| Bridge Replacement/Repair                                  |   |               | 750,000      |              |               |               | 750,000       |       |
| <b>Department of Public Health and Human Services</b>      |   |               |              |              |               |               |               |       |
| Receiving Hospital Renovations, MSH, Warm Springs          | 5,800,000   |               |              |              |               |               | 5,800,000     |       |
| Renovate/Improve Support Services, MSH                     | 4,500,000   |               |              |              |               |               | 4,500,000     |       |
| Improvements MMHNCC, Lewistown                             | 750,000   |               |              |              |               |               | 750,000       |       |
| Montana Veterans' Home Improvements                        |   |               | 1,413,000    |              |               |               | 1,413,000     |       |
| Improve Campus, MSH - Warm Springs                         | 1,280,000   |               |              |              |               |               | 1,280,000     |       |
| <b>Montana School for the Deaf and Blind</b>               |   |               |              |              |               |               |               |       |
| Replace Boiler   | 600,000   |               |              |              |               |               | 600,000       |       |
| Cottage Improvements                                       |   |               |              |              |               | 372,000       | 372,000       |       |
| <b>Department of Transportation</b>                        |   |               |              |              |               |               |               |       |
| Equipment Storage Buildings, Statewide                     |   |               | 2,700,000    |              |               |               | 2,700,000     |       |
| Statewide Maint. Repair & Small Projects                   |   |               | 1,050,000    |              |               |               | 1,050,000     |       |
| US Highway 93 Projects                                     |   |               | 26,000,000   |              |               |               | 26,000,000    |       |
| Sub-Total  | \$62,418,500                                      | \$51,947,160  | \$48,178,978 | \$14,000,000 | \$4,000,000   | \$10,865,000  | \$191,409,638 |       |

Figure 2 (cont.)  
 Long-Range Building Program - Cash Projects  
 Project Appropriations and Authorizations - HB 4 - 2009 Biennium

| Project   | Appropriations and Authorizations - Cash Projects |                     |                     |                     |                    |                     | Authorization        | Total |
|---|---|---------------------|---------------------|---------------------|--------------------|---------------------|----------------------|-------|
|   | LRBP  | State Special       | Fed Special         | Other Funds         | General Funds      |                     |                      |       |
| Balance:  | \$62,418,500                                      | \$51,947,160        | \$48,178,978        | \$14,000,000        | \$4,000,000        | \$10,865,000        | \$191,409,638        |       |
| <b>Montana University System</b>                          |   |                     |                     |                     |                    |                     |                      |       |
| Code Compliance/Deferred Maintenance, MUS                 | 3,600,000   |                     |                     |                     |                    |                     | 3,600,000            |       |
| Systems Improvements, MT-Tech COT                         | 925,000   |                     |                     |                     |                    |                     | 925,000              |       |
| Steam Distribution System Upgrades, Phase 2, UM-Missoula  | 2,000,000   |                     |                     |                     |                    | 1,000,000           | 3,000,000            |       |
| Renovate Clapp Building, UM-Missoula                      | 821,000   |                     |                     |                     |                    |                     | 821,000              |       |
| Renovate Armory Gym, MSU-Northern                         | 400,000   |                     |                     |                     |                    | 3,250,000           | 3,650,000            |       |
| Renovate Main Hall, UM-Western                            | 4,500,000   |                     |                     |                     |                    |                     | 4,500,000            |       |
| Renovate McMullen Hall, MSU-Billings                      | 1,924,500   |                     |                     |                     |                    |                     | 1,924,500            |       |
| Stabilize Masonry, MSU-Bozeman                            | 2,600,000   |                     |                     |                     |                    |                     | 2,600,000            |       |
| Classroom/Laboratory Upgrades - Montana University System | 2,000,000   |                     |                     |                     |                    |                     | 2,000,000            |       |
| Utility Infrastructure Improvements, MSU-Bozeman          | 500,000   |                     |                     |                     |                    | 50,000              | 550,000              |       |
| Supplement Helena COT Expansion                           | 4,500,000   |                     |                     |                     |                    | 135,000             | 4,635,000            |       |
| Supplement Great Falls College of Technology Addition     | 3,000,000   |                     |                     |                     |                    |                     | 3,000,000            |       |
| Supplement Billings College of Technology Expansion       | 2,217,000   |                     |                     |                     |                    |                     | 2,217,000            |       |
| COT Long-Range Planning, UM-Missoula                      | 500,000   |                     |                     |                     |                    |                     | 500,000              |       |
| Auto Tech Center Design, MSU-Northern                     | 800,000   |                     |                     |                     |                    |                     | 800,000              |       |
| Renovate Gaines Hall, MSU-Bozeman                         | 28,500,000  |                     |                     |                     |                    |                     | 28,500,000           |       |
| Law School Addition, UM - Missoula                        | 4,200,000   |                     |                     |                     |                    | 5,050,000           | 9,250,000            |       |
| Augment Petroleum, Bureau of Mines & Geology, UM-MT Tech  | 5,200,000   |                     |                     |                     |                    |                     | 5,200,000            |       |
| School of Journalism Building, UM-Missoula                | 500,000   |                     |                     |                     |                    |                     | 500,000              |       |
| Increase Authority - Museum of the Rockies, MSU-Bozeman   |   |                     |                     |                     |                    | 3,500,000           | 3,500,000            |       |
| School of Education Building, UM-Missoula                 |   |                     |                     |                     |                    | 7,500,000           | 7,500,000            |       |
| New Parking Structure, UM-Missoula                        |   |                     |                     |                     |                    | 5,000,000           | 5,000,000            |       |
| MSU-AES, Research Centers and FarmsProjects               | 5,000,000   |                     |                     |                     |                    | 1,250,000           | 6,250,000            |       |
| Animal Bioscience Facility, MSU-Bozeman                   | 3,570,000   |                     |                     |                     |                    |                     | 3,570,000            |       |
| General Spending Authority, UM-All Campuses               |   |                     |                     |                     |                    | 4,000,000           | 4,000,000            |       |
| General Spending Authority, MSU-All Campuses              |   |                     |                     |                     |                    | 5,000,000           | 5,000,000            |       |
| Total LRBP Cash Program                                   | <u>\$139,676,000</u>                              | <u>\$51,947,160</u> | <u>\$48,178,978</u> | <u>\$14,000,000</u> | <u>\$4,000,000</u> | <u>\$46,600,000</u> | <u>\$304,402,138</u> |       |

### EXECUTIVE BUDGET COMPARISON

The legislature appropriated and authorized project funds totaling \$304.4 million for capital building projects in the 2009 biennium compared to the executive recommendation of \$304.0 million, an increase of approximately 0.1 percent. The Sixtieth Legislature made several changes to LRBP project appropriations, but the total changes resulted in a negligible change in total program costs. The more substantial changes from the executive budget are described below.

| Funding Source                        | Executive Recommendation | Legislative Appropriation | Percent Change |
|---------------------------------------|--------------------------|---------------------------|----------------|
| LRBP Capitol Projects Fund            | \$130,130,000            | \$139,676,000             | 7.34%          |
| Capitol Land Grant Fund               | 4,000,000                | 4,000,000                 | 0.00%          |
| FWP Capital Projects Fund             | 15,000,000               | 10,000,000                | -33.33%        |
| State Special Revenue Accounts        | 53,197,160               | 51,947,160                | -2.35%         |
| Federal Special Revenue Accounts      | 48,178,978               | 48,178,978                | 0.00%          |
| State General Fund                    | 3,500,000                | 4,000,000                 | 14.29%         |
| Authorizations (donations and grants) | <u>49,978,000</u>        | <u>46,600,000</u>         | <u>-6.76%</u>  |
| Total Funding                         | <u>\$303,984,138</u>     | <u>\$304,402,138</u>      | 0.14%          |

*University Appropriation / Authorization*

The executive recommended appropriations and authorizations for university facilities of \$92.9 million. The legislature increased authorizations by \$20.1 million to \$113.0 million. The legislature increased the funding provided to three college of technology projects authorized in the 2007 session. Funding for the Helena College of Technology (COT), the Great Falls COT and the Billings COT projects was negatively effected by unexpectedly high construction inflation over the past two years. The new funding, an additional \$3.2 million at Helena COT, \$3.0 million at Great Falls COT, and \$2.22 at Billings COT, will allow the projects to go forward with plans that more closely resemble the original project concepts. Furthermore, the legislature provided project planning and design funding the Missoula COT, \$500,000, and for the auto tech center at Havre, \$800,000. The legislature also increased deferred maintenance funding for the Montana State University (MSU) agricultural experiment stations by \$4.6 million in LRBP funds and \$750,000 in authority. Other changes the legislature made to the university projects list include new funding of \$3.6 million for the MSU Animal Bioscience building project, \$500,000 for the University of Montana (UM) School of Journalism building project, an increase of \$2.0 million for the Petroleum/Bureau Mines & Geology project Montana Tech, and an increase of \$750,000 of funding for the UM Law School building project. At the request of university system personnel, the legislature also eliminated \$4.5 million of authority for the proposed Physiological and Nutritional Lab at UM.

*Enterprise System Services Centers*

The executive recommended an appropriation to the Department of Administration (DOA) for \$20.2 million of LRBP capital projects funds and \$4.0 million of Capitol Land Grant funds for the construction of two new buildings to house the statewide IT systems operations, the Enterprise System Services Center. The legislature reduced the appropriation to \$10.5 of LRBP funds and \$4.0 million of Capitol Land Grant funds. The reduced funding will allow the DOA to construct a building in Helena. The new building will have adequate facilities and space for the state IT and network needs along with ample space for the offices of the personnel needed to operate and maintain the equipment. Additionally, enough funding is provided to construct a remote backup site for the state’s IT system.

*The Challenge Grant for the Super Computer*

The executive recommended an appropriation to DOA for \$2.8 million of LRBP capital projects funds for the state match and the authority to accept a \$7.0 million dollar grant for a “super computer”. The legislature reduced the LRBP appropriation to \$259,000, the amount required to prepare a study on the feasibility of accepting the grant. The authority to accept donations was not changed.

*Fish, Wildlife and Parks Capital Projects*

The executive recommended an appropriation of \$15.0 million for the Department of Fish, Wildlife, and Parks (FWP) Access Montana project. The funding would be used to purchase land for access to public lands and waterways. The legislature reduced the appropriation to \$10.0 million.

**FUNDING**

LRBP Cash Program 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 2.6 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 energy savings, and supervisory fees paid to the Architecture and Engineering Division (A&E) of the Department of Administration.

In the 2009 biennium, the executive recommended one-time-only general fund transfers to the LRBP capital projects account in the total amount of \$101.8 million. Transfer monies will fund most of the extensive project list included in the 2009 biennium. The legislature changed the amount of the transfers in several different actions throughout the session, and the resulting transfers to the LRBP increased by \$24.4 million, up to \$126.1 million. A portion of the large transfer increase was the result of replacing a \$14.3 million transfer to the LRBP, originally recommended as a part of the 2007 regular session HB 2, with an increase in the HB 4 transfers.

The LRBP one-time-only general fund transfers included in HB 4 are conditioned on a \$100 million estimated ending fund balance, creating the potential for significant LRBP funding problems in the future. As stated in HB 4, “if at any time during the 2009 biennium the office of budget and program planning projects a 2009 biennium unreserved ending general fund balance of less than \$100 million, the office of budget and program planning may direct the department of administration to reduce the fund transfers.” The legislature did not provide a mechanism to reestablish the authorized level of transfers in HB 4, should the transfers be reduced. Capital project appropriations remain valid appropriations until the project is completed, and the LRBP has historically suffered inadequate funding. Should the transfers to the LRBP be reduced, the program could be required to fund portions of the extensive list of approved projects from the program’s declining future earnings.

|   |  |
|---|--|
| Estimated Beginning Cash Balance-(7/1/2007)               | \$4,605,746                                      |
| Revenue Projections <sup>1</sup>                          |  |
| Cigarette Tax   | \$3,871,000                                      |
| Coal Severance Tax  | 8,870,000  |
| Interest Earnings   | 3,300,239  |
| Supervisory Fees  | 649,336  |
| DEQ Transfer - Energy Savings                             | 82,365   |
| One Time General Fund Transfers <sup>2</sup>              | 126,115,884                                      |
| 2009 Biennium Revenues                                    | 142,888,824                                      |
| Expenditures  |  |
| Operating Costs-A & E Division <sup>3</sup>               | (3,536,355)                                      |
| Debt Service-2005A <sup>4</sup>                           | (1,022,440)                                      |
| Debt Service-2003G <sup>5</sup>                           | (3,607,245)                                      |
| Debt Service-1999C  | (854,018)  |
| Debt Service-1997B  | (270,803)  |
| Funding Switch <sup>6</sup>                               | 1,330,000  |
| Total Expenditures  | (7,960,861)                                      |
| Balance Available for Capital Projects                    | 139,533,709                                      |
| LRBP Cash Program <sup>2</sup>                            | (139,676,000)                                    |
| Estimated Ending Cash Balance - (6/30/2009)               | <u>(\$142,291)</u>                               |
| <sup>1</sup> HJR 2  | <sup>5</sup> Refinance of 1996D issue            |
| <sup>2</sup> HB 4 (ss)                                    | <sup>6</sup> DS Funding Switch, 2001 Legislature |
| <sup>3</sup> HB 2 (ss)                                    |  |
| <sup>4</sup> Refinance portions of 1997B and 1999C issues |  |

Figure 4 shows the projected fund balance of the LRBP account for the 2009 biennium. The LRBP fund will collect \$16.7 million in revenues over the 2009 biennium. A portion of LRBP revenues are received from the SEBC program. Historically the state has issued general obligation bonds, using the proceeds to pay for energy efficiency improvements. The resulting energy cost savings are used to pay the debt service on the bonds and costs of the program. Excess savings, \$82,365 in the 2009 biennium, are then transferred to the LRBP. The LRBP program was also provided with one-time general fund transfers amounting to \$126.1 million, which will enable the program to make significant headway in the backlog of deferred maintenance that currently exists in the state. Total new revenues for the LRBP capital projects account are \$142.9 million in the 2009 biennium.

Expenditures of the LRBP program include A&E administrative costs and debt service costs. A&E administration is funded with \$3.5 million for operating expenses, appropriated in HB 2 of the May 2007 special session. After consideration of a \$1.3 million funding switch, established by the 2001 Legislature, the LRBP is responsible for \$4.4 million of debt service for bonds authorized by the 1995 Legislature. Total expenditures are \$8.0 million for the 2009 biennium.

Approximately \$139.5 million is expected to be available for capital projects in the 2009 biennium. The legislature appropriated \$139.7 million from the LRBP capital projects account for cash projects in HB 4. Consequently, the LRBP capital projects account is expected to have a negative ending fund balance of \$142,291 at the end of the 2009 biennium. Because LRBP projects are long-range appropriations, a negative ending fund balance is less critical than for other parts of the budget. It is not likely that all projects will be fully paid for in the 2009 biennium. If funds are insufficient for projects in the 2009 biennium, any shortage will be funded in the 2011 biennium. Much of the negative ending fund balance in the LRBP capital projects fund is explained by the impacts of pay plan adjustments, HB 13, and retirement system contributions, HB 131, which increased the expected contribution of LRBP capital projects funds for the purpose of administrative costs by \$121,391.

#### LRBP Funding Inadequacy

While not readily apparent in the 2009 biennium, the LRBP continues to experience reduced revenues that could become a significant problem in the future. After conducting a comprehensive study of LRBP funding during the 2005-2007 interim, the Legislative Finance Committee brought forward one proposal to the Sixtieth Legislature that could have remedied the funding inadequacy in the LRBP, but the legislature did not pass the measure. Consequently, the LRBP will continue to experience funding inadequacies in future biennia.

The LRBP cash program has been supported by distributions from cigarette tax for many years. Coal severance tax support was added to the LRBP to provide debt service payments on three bond issues and since has become increasingly important to the support of the program. These two revenue sources provide the greatest part of the funding for the LRBP cash program. However, the base of the cigarette tax is expected to decline in future years.

Since the early 1980's, LRBP account revenues have declined from an annual proportion of 1.74 percent to a current 0.15 percent of building replacement value. A&E recommends that not less than 1 percent, or nearly \$11.5 million, of building replacement value should be re-invested in state owned buildings annually for maintenance of Montana's \$1.1 billion of general fund supported state owned buildings (including the University System). The 1 percent of building replacement value addresses construction needs beyond what would be considered typical operations and maintenance included in the operational budgets of the state agencies.

Deferred maintenance occurs as necessary maintenance projects are postponed until a future date, typically as a result of funding issues. In Montana, the primary funding issue has been the inadequacy of funding in the LRBP. Deferred maintenance has accumulated over time, creating a backlog of projects. The most recent estimate of that backlog is over \$200 million. Estimates show that the large influx of one-time only funding eliminated in the range of \$40 million to \$65 million of the deferred maintenance backlogged projects, leaving the estimated deferred maintenance backlog at approximately \$150 million.

In time, the legislature will need to address the funding inadequacy of the LRBP. Without action, the funding for the LRBP will continue to decline. Analysis suggests that by the year 2011, available LRBP funding will not support the most urgent of needs, roof and foundation replacement, hazard materials abatement, and code deferred maintenance projects. Without additional funding, the deferred maintenance backlog will continue to increase and more state owned buildings could fall into disrepair.

Capitol Land Grant Revenue Funding

Capitol land grant revenue, derived from trust lands designated in the Enabling Act for the state capitol complex, has been used in the past as a source of LRBP funding. In recent biennia, the fund has been used with increasing importance as a vehicle to fund the capitol complex maintenance activities of the General Services Division. In the 2009 biennium, capitol complex maintenance is again funded through the state general fund, freeing up capitol land grant funds for use in the LRBP.

The Sixtieth Legislature appropriated funding for one project, with a last priority for funding, from the capital land grant revenue fund. The single appropriation, \$4.0 million for partial funding of the Enterprise Systems Services Centers, will be funded with capitol land grant revenue as funds become available. The legislature also eliminated one capitol land grant project, the Capitol Complex Feasibility Study, appropriated in the 2005 session. The project will be incorporated into the Campus Master Planning project, authorized in HB 4. If funds are not sufficient to fully fund the project in the 2009 biennium, as indicated by the estimated ending fund balance in the capitol land grant fund, the shortfall will be funded in the 2011 biennium.

|   |                           |
|---|---------------------------|
| Estimated Beginning Fund Balance-(7/1/2007)     | \$2,419,322               |
| Revenue Projections <sup>1</sup>                |                           |
| 2008 Interest Income & Earnings                 | 1,157,292                 |
| 2009 Interest Income & Earnings                 | 1,217,027                 |
| HB 160 General Fund Appropriation               | <u>29,149</u>             |
| 2009 Biennium Revenues                          | 2,403,468                 |
| Expenditures                                    |                           |
| Debt Service - 2003G                            | (828,236)                 |
| Debt Service - Justice Building                 | <u>(140,565)</u>          |
| Total Expenditures                              | <u>(968,801)</u>          |
| Balance Available for Capital Projects          | 3,853,989                 |
| Enterprise System Services Centers <sup>2</sup> | <u>(4,000,000)</u>        |
| Estimated Ending Fund Balance - (6/30/2009)     | <u><u>(\$146,011)</u></u> |
| <sup>1</sup> HJR 2                              |                           |
| <sup>2</sup> HB 4 (ss)                          |                           |

Figure 5 shows the projected fund balance of capitol land grant account for the 2009 biennium. Revenues for the account are projected to be \$2.4 million in the 2007 biennium. A portion of the revenues are derived from the impact of HB 160, passed in the regular legislative session. HB 160 implements several audit recommendations concerning the repayment of administrative costs inappropriately diverted from trust lands accounts, including the capitol land grant account, to subsidize the administrative costs of Morrill Act trust lands. The authorized repayment for the capitol land grant account will be \$29,149. Other revenues for the capitol land grant fund include the interest and earnings derived from the capitol land grant trust. Appropriations from the fund include two statutory appropriations for debt service, amounting to slightly less than \$1.0 million. After accounting for the \$4.0 million appropriation to the Enterprise System Services Centers, the ending fund balance of the capitol land grant fund is projected to be negative \$146,011. Because capitol land grant projects are long-range appropriations, a negative ending fund balance is less critical than for other parts of the budget. It is not likely that all projects funded with capitol land grant funds will be fully paid for in the 2009 biennium. If funds are insufficient for projects in the 2009 biennium, any shortage will be funded in the 2011 biennium.

**Detailed Project Descriptions**

***HB 4 – Cash Projects***

LRBP appropriations and authorizations amounting to \$304.4 million for capital projects were approved in HB 4. Appropriations were made from 32 different capital project, state special revenue, federal special revenue, and higher education fund accounts. Of the \$304.4 million, \$278.4 million was appropriated for LRBP projects. The



remaining \$26.0 million was appropriated for highway improvements within the U.S. Highway 90 corridor between Evaro and Polson. A brief description of the long-range building projects included in HB 4 is seen below.

#### Department of Administration

- Roof Repairs and Replacements - \$3,460,200 Total (\$3,000,000 LRBP Capital Projects Funds, \$392,160 State Special Revenue, \$68,040 Federal Special Revenue) – This project will repair and replace roofs on various state-owned buildings and university facilities.
- Code/Deferred Maintenance Projects - \$2,300,000 LRBP Capital Projects Fund – This project will remedy life safety, disability access, code, and deferred maintenance deficiencies statewide.
- Hazardous Materials Abatement - \$500,000 LRBP Capital Projects Funds – This project will abate asbestos and other hazardous materials encountered in projects, as required by regulatory guidelines.
- Code/Deferred Maintenance Projects, Capitol Complex - \$550,000 General Services Proprietary Funds – This project will authorize code compliance and deferred maintenance projects at a number of capitol complex facilities.
- Upgrade Fire Protection Systems - \$500,000 LRBP Capital Projects Funds – This project will repair, upgrade, or replace existing fire protection systems throughout the state, including universities.
- Fire Protection Measures, Capitol Complex - \$500,000 General Services Proprietary Funds – This project will improve fire detection and suppression systems in capitol complex buildings.
- Upgrade State Environmental Laboratory, Helena - \$2,000,000 Total (\$1,000,000 LRBP Capital Projects Funds, \$1,000,000 Federal Special Revenue) – This project will upgrade and remodel the Montana Environmental Laboratory.
- Repair/Preserve Building Envelopes - \$1,500,000 LRBP Capital Projects Funds – This project will repair exterior elements of buildings, including window repairs & replacements, to improve building envelope performance.
- Campus Infrastructure Projects - \$1,000,000 LRBP Capital Projects Funds – This project facilitates the repair, replace, and improve deteriorated campus infrastructure at agency campuses throughout the state.
- Mechanical System Improvements, Capitol Complex - \$1,900,000 General Services Proprietary Funds – This project will authorize elevator and other mechanical system improvements at buildings within the capitol complex.
- Deferred Maintenance, Phase 2, MT Law Enforcement Academy - \$500,000 LRBP Capital Projects Funds – This project is the second phase of continuing efforts to address the highest priority deferred maintenance needs at MLEA.
- New Classroom Building, MT Law Enforcement Academy - \$3,750,000 LRBP Capital Projects Funds – This project will construct a new state-of-the-art training and classroom building at the Montana Law Enforcement Academy campus in Helena.
- Enterprise System Services Centers - \$14,500,000 Total (\$10,500,000 LRBP Capital Projects Funds, \$4,000,000 Capitol Land Grant Funds) – This project will construct new Enterprise System Services Centers in two Montana locations to replace the aging ITSD Mitchell Building facility.
- Campus Master Planning - \$650,000 Total (\$400,000 LRBP Capital Projects Funds, \$250,000 General Services Proprietary Funds) – This project will conduct master planning for the capitol complex and the Department of Corrections adult male and female correctional facilities. This project will incorporate the goals of the “Capitol Annex or Alternatives Feasibility Study”, approved as a LRBP project in the 2005 legislative session and terminated in HB 4.
- Challenge Grant for Super Computer, UM-MT Tech - \$7,259,000 Total (\$259,000 LRBP Capital Projects Funds, \$7,000,000 Donations) - This project provides state funds to develop plans for and authority to use non-state funds to construct improvements and purchase equipment for a super computer facility to be located at UM-MT Tech in Butte.

#### Commerce

- Historic Preservation and Supporting Improvements, Virginia & Nevada Cities - \$2,000,000 LRBP Capital Projects Funds – This project will provide funds for deferred and capital maintenance projects on

various buildings at Virginia City and Nevada City. Project funds will be provided to the Department of Commerce, and construction work will not be administered or managed by the A&E division.

- Grant to Montana Cowboy Hall of Fame - \$500,000 General Fund – This appropriation is a one-time only grant to the Department of Commerce that may be used for site development and project planning.

#### Department of Corrections

- Housing Unit Upgrades, MT State Prison - \$1,200,000 LRBP Capital Projects Funds – The project will replace door controls and provide support space for high security housing units.
- Expand Work Dorm, MSP - \$2,500,000 LRBP Capital Projects Funds – This project will construct a 100 bed work dorm addition.
- Expand Food Service Capacity, MSP - \$1,930,000 Total (\$1,637,000 LRBP Capital Projects Funds, \$293,000 DOC Proprietary Funds) – This project will provide for the expansion of the food factory and increase inventory and product storage capacity.

#### Department of Military Affairs

- Readiness Center, Miles City - \$9,990,970 Total (\$2,480,000 LRBP Capital Projects Funds, \$7,510,970 Federal Special Revenue) - This project will provide a 56-person readiness center to serve the peace time missions of the 1063rd Horizontal Engineer Company. As stated in HB 4, if the federal government provides sufficient funding to pay for the new facility entirely (up to \$14.0 million), the LRBP capital project appropriation will not be required to cover the costs of the facility. If federal funding for the entire project materializes, \$80,000 of the LRBP funds will be appropriated for facility improvements at the Montana military museum, and the remaining \$2.4 million will be transferred to the state general fund.
- Armed Forces Reserve Center, Missoula - \$34,403,968 Total (\$30,903,968 Federal Special Revenue, \$3,500,000 State General Fund) – The plan for the new armed forces reserve center calls for the state owned land, occupied by the current armed forces reserve center facility, to be sold. As noted in HB 4, the proceeds of the sale will be used to pay the costs of the land sale, purchase new land, and to house the soldiers currently occupying the Missoula center until the new facility is complete. The new facility will house all elements of the Montana National Guard and the U.S. Army Reserves located in Missoula.
- Construct Female Showers and Latrines - \$580,000 Total (\$290,000 LRBP Capital Projects Funds, \$290,000 Federal Special Revenue) - This project adds showering and latrine facilities to National Guard armories that were constructed with minimal facilities for females.
- Montana State Veterans' Cemetery Expansion - \$1,206,000 Federal Special Revenue – This project will facilitate the expansion of the State Veteran's Cemetery at Fort Harrison for veteran's and/or veteran spouses interment.
- DES Mobile Command Post - \$172,500 LRBP Capital Projects Funds – This project will construct a garage/storage facility for the Montana Disaster and Emergency Services Mobile Command Post.
- Federal Spending Authority - \$2,000,000 Federal Special Revenue – This project will provide repair and maintenance, minor construction, and facility improvements at military facilities.

#### Department of Fish Wildlife & Parks

- Hatchery Maintenance - \$500,000 State Special Revenue – This project will provide funding for the timely repair and preventive maintenance at nine state fish hatcheries across the state.
- Admin Facilities Repair & Maintenance - \$800,000 State Special Revenue – This project provides ongoing maintenance and repair at sites statewide as required to keep up the condition of facilities and protect them from deterioration.
- Future Fisheries - \$1,314,000 State Special Revenue – This project provides funding for statewide fish habitat restoration projects.
- FAS Maintenance - \$350,000 State Special Revenue – This project provides funds for noxious weed control, latrine pumping, general maintenance, and streambank stabilization at fishing access sites.
- FAS Site Protection - \$800,000 State Special Revenue – This project will provide for installation and rehabilitation of basic public use facilities such as roads, latrines, boat ramps, etc. at fishing access sites.

## LONG-RANGE PLANNING

## LONG-RANGE BUILDING PROGRAM

- Community Fishing Ponds - \$50,000 State Special Revenue – This project will provide funds for the development of community fishing ponds and promote efforts for family fishing adventures.
- Upland Game Bird Program - \$1,258,000 State Special Revenue – This project provides landowners with funding to restore/establish habitat and also implements the mandatory pheasant release program.
- Wildlife Habitat Maintenance - \$1,200,000 State Special Revenue – This project provides for the maintenance of department wildlife lands, including monitoring compliance of conservation easements.
- Migratory Bird Stamp Program - \$360,000 State Special Revenue – This project provides for the protection and enhancement of wetland habitat.
- Bighorn Sheep - \$250,000 State Special Revenue – This project includes funding for the protection of mountain sheep habitat through the acquisition of interest in land either by easement, fee title or lease.
- Parks Program - \$7,750,000 Total (\$500,000 LRBP Capital Projects Funds, \$4,950,000 State Special Revenue, \$2,300,000 Federal Special Revenue) – This project will rehabilitate existing facilities, infrastructure, and roads at state park sites.
- Grant Programs/Federal Projects - \$3,120,000 Total (\$320,000 State Special Revenue, \$2,800,000 Federal Special Revenue) – This project includes the state OHV grants, and Recreational Trails grants.
- FAS Acquisition - \$560,000 Total (\$460,000 State Special Revenue, \$100,000 Federal Special Revenue) – This program provides funding which enables the department to acquire interest in lands for angler access to public waterways.
- Habitat Montana - \$6,180,000 State Special Revenue – This project provides for the acquisition of wildlife habitat via easement, lease, or fee.
- Access Montana - \$10,000,000 FWP Capital Project Funds- This project provides funds to acquire lands for future public access to Montana's cultural, historic, and recreational lands statewide.
- FWP Dams Repair - \$100,000 State Special Revenue – This project will provide funding for the repair of department-owned dams.

### Department of Justice

- Purchase Forensic Science Lab Building - \$7,250,000 LRBP Capital Projects Funds – This project will provide funds for the purchase of Forensic Science Lab building located in Missoula.

### Department of Natural Resources and Conservation

- Code/Deferred Maintenance and Small Projects, DNRC Unit Campuses – Statewide - \$750,000 LRBP Capital Projects Funds – This project provides for repair, improvement, and preventive maintenance at DNRC units and facilities statewide.
- Co-Locate DNRC/DEQ, Kalispell - \$3,500,000 LRBP Capital Projects Funds – This project will construct new facilities for co-location between three DNRC divisions and one field office within DEQ.
- Consolidate DNRC Divisions, Missoula - \$2,000,000 LRBP Capital Projects Funds – This project will consolidate the DNRC Forestry and Water Resources Divisions in Missoula.
- Building Addition – Billings Oil and Gas Office - \$750,000 State Special Revenue – This project will expand agency-owned building to include a large hearing/teleconferencing facility and to provide additional office and storage space.
- Bridge Replacement/Repair - \$750,000 State Special Revenue – This project will utilize SSR funding (Forest Improvement) to repair and/or replace existing bridges on state forest lands.

### Department of Public Health & Human Services

- Receiving Hospital Renovations, MSH, Warm Springs - \$5,800,000 LRBP Capital Projects Funds – This project will provide for the renovation and remodeling at the Receiving Hospital building at Montana State Hospital for the WATCH program and improved security at the Xanthopoulos building.
- Renovate/Improve Support Services, MSH - \$4,500,000 LRBP Capital Projects Funds – This project will remodel the administration annex building at Montana State Hospital, and provide for other support services improvements.
- Montana Mental Health Nursing Care Center Improvements, Lewistown – \$750,000 LRBP Capital Projects Funds – This project will provide for the installation of an emergency generator and fuel tank at Montana Mental Health Nursing Care Center.

## LONG-RANGE PLANNING

## LONG-RANGE BUILDING PROGRAM

- Montana Veterans' Home Improvements, Columbia Falls - \$1,413,000 State Special Revenue – This project will construct HVAC, roadway/parking, and dining/activities area improvements at Montana Veterans' Home.
- Improve Campus, MSH - Warm Springs - \$1,280,000 LRBP Capital Projects Funds – This project will address deteriorated campus infrastructure within the DPHHS Warm Springs and Boulder campuses.

### Montana School for the Deaf & Blind

- Replace Boiler - \$600,000 LRBP Capital Projects Funds - This project replaces a worn out steam boiler with new energy efficient boilers to conserve utility costs.
- Cottage Improvements, Montana School for the Deaf & Blind, Great Falls - \$372,000 Grants – This project will provide spending authority for remodeling six cottage wings to include flooring, furniture, plumbing fixtures, and painting.

### Montana Department of Transportation

- Equipment Storage Buildings, Statewide - \$2,700,000 State Special Revenue – This project provides for the construction of new buildings at various locations throughout the state. These buildings will house road maintenance equipment and personnel.
- Statewide Maintenance Repair & Small Projects - \$1,050,000 State Special Revenue – This project will provide routine/annual preventive maintenance to ensure existing facilities are maintained. The project also funds small construction projects statewide.
- US Highway 93 Projects - \$26,000,000 State Special Revenue – This project will provide spending authority to complete construction of the Highway US93 project authorized by the 2005 Legislature.

### Montana University System

- Code Compliance/Deferred Maintenance, MUS - \$3,600,000 LRBP Capital Projects Funds – This project will provide funds for modifications to correct various code/deferred maintenance and ADA deficiencies at numerous academic facilities.
- Systems Improvements, MT-Tech COT - \$925,000 LRBP Capital Projects Funds – This project will provide for the repair/replacement of failed electrical hot water heat piping system and repair/upgrade building's lighting control system.
- Steam Distribution System Upgrades, Phase 2, UM-Missoula - \$3,000,000 Total (\$2,000,000 LRBP Capital Projects Funds, \$1,000,000 Donations, Grants, and/or Higher Education Funds) – This project will fund Phase 2 of the university efforts to repair and upgrade campus steam distribution system in accordance with 2004 engineering study.
- Renovate Clapp Building, UM-Missoula - \$821,000 LRBP Capital Projects Funds – This project will provide for the removal of remaining asbestos on 3rd floor, including deferred and adaptive renovations to bring the 3rd floor up to its full potential.
- Renovate Armory Gym, MSU-Northern - \$3,650,000 Total (\$400,000 LRBP Capital Projects Funds, \$3,250,000 Donations, Grants, and/or Higher Education Funds) – This project will replace library and armory gym boiler, replace gym heating, ventilation and air conditioning equipment and provide a wellness center.
- Renovate Main Hall, UM-Western - \$4,500,000 LRBP Capital Projects Funds – This project addresses deferred maintenance, code and life safety issues in Main Hall at UM-Western
- Renovate McMullen Hall, MSU-Billings - \$1,924,500 LRBP Capital Projects Funds – MSU-Billings – This project is a phased renovation/rehabilitation of McMullen Hall.
- Stabilize Masonry, MSU-Bozeman - \$2,600,000 LRBP Capital Projects Funds – This project will correct problems with masonry veneers on buildings.
- Classroom/Laboratory Upgrades – Montana University System - \$2,000,000 LRBP Capital Projects Funds – This project will provide for the repair and upgrade classroom and laboratory buildings at various university system campuses statewide.
- Utility Infrastructure Improvements, MSU-Bozeman - \$550,000 Total (\$500,000 LRBP Capital Projects Funds, \$50,000 Donations, Grants, and/or Higher Education Funds) – This project will provide for the

- design and install solutions for utility infrastructure capacity and maintenance problems, failures, regulatory noncompliance, and safety problems.
- Supplement HCOT Expansion - \$4,635,000 Total (\$4,500,000 LRBP Capital Projects Funds, \$135,000 Donations, Grants, and/or Higher Education Funds) – This project will provide for deferred maintenance, adaptive renovations, and movable furnishings at various HCOT facilities.
  - Supplement Great Falls College of Technology Addition - \$3,000,000 LRBP Capital Projects Funds – This appropriation will provide funding to complete the current renovation project, including finishing the Industrial Trades Facility and expand the building to provide high-bay space to accommodate an instructional welding shop, metal fabrication shop, and associated storage spaces.
  - Supplement Billings College of Technology Expansion - \$2,217,000 LRBP Capital Projects Funds – This appropriation will fund completion of unfinished new space which was constructed with funding from the previous legislature.
  - COT Long-Range Planning, UM-Missoula - \$500,000 LRBP Capital Projects Funds – This project will provide for a schematic design for consolidating the three Missoula College of Technology campuses.
  - Auto Tech Center Design, MSU-Northern - \$800,000 LRBP Capital Projects Funds – This project will design capital improvements consolidating the auto diagnostics, metal arts, and auto mechanics programs.
  - Renovate Gaines Hall, MSU-Bozeman - \$28,500,000 LRBP Capital Projects Funds – MSU-Bozeman: This project provides for renovations to accommodate chemistry and other programs, replace mechanical and electrical systems, and correct code deficiencies.
  - Law School Addition, UM-Missoula - \$9,250,000 Total (\$4,200,000 LRBP Capital Projects Funds, \$5,050,000 Donations, Grants, and/or Higher Education Funds) – This project increases spending authority and state funding for the 43,800 gross square foot (gsf) UM Law School Addition.
  - Augment Petroleum/Bureau Mines & Geology, UM-MT Tech - \$5,200,000 LRBP Capital Projects Funds – This project will provide supplemental funding to the original appropriation to construct the new Petroleum/MBMG facility at MT Tech.
  - School of Journalism Building, UM-Missoula - \$500,000 LRBP Capital Projects Funds – This appropriation will provide funds for equipment and furnishings at the new School of Journalism building.
  - Increase Authority – Museum of the Rockies, MSU-Bozeman - \$3,500,000 Donations, Grants, and/or Higher Education Funds – This project will add authority to the museums expansion and renovation approved by the 59th Legislature.
  - School of Education Building, UM-Missoula - \$7,500,000 Donations, Grants, and/or Higher Education Funds - This project will construct a 20,000 gsf addition to the Education Building with non-state funds.
  - New Parking Structure, UM-Missoula - \$5,000,000 Donations, Grants, and/or Higher Education Funds - This project provides authority to construct a new parking structure on the UM-Missoula campus
  - MT Agricultural Extension Services, Research Centers and Farms - \$6,250,000 Total (\$5,000,000 LRBP Capital Projects Funds, \$1,250,000 Donations, Grants, and/or Higher Education Funds) – This project provides for facility renovations, repairs and improvements at various agricultural research centers and farms located throughout the state.
  - Animal Bioscience Facility, MSU-Bozeman - \$3,570,000 LRBP Capital Projects Funds – This project augments private funding, donations, and grants to construct a new animal bioscience facility at the MSU-Bozeman campus.
  - General Spending Authority, UM-All Campuses - \$4,000,000 Donations, Grants, and/or Higher Education Funds – This project provides authority for the purpose of making capital improvements to campus facilities.
  - General Spending Authority, MSU-All Campuses - \$5,000,000 Donations, Grants, and/or Higher Education Funds – MSU-All Campuses: This project provides the authority for the purpose of making capital improvements to campus facilities.

### ***Future Maintenance Recommendations of the Long-Range Planning Subcommittee***

While considering new buildings on university campuses, the legislature analyzed the uses of proposed buildings prior to approving the projects. The purpose of the analysis was to determine what portion of the future operations and maintenance costs of the new buildings should fall to the responsibility of the state.

In their analysis, the long-range planning subcommittee used the following set of assumptions in determining future operations and maintenance responsibility of new legislatively authorized space:

- o Current unrestricted funds (CUF) will always fund the operations and maintenance for the instruction portion of new space.
- o Portions of new space will be presumed to be funded with CUF, but may be negotiated in space that is instruction related. Instruction related space includes activities and functions that support the instruction program such as libraries, student services, academic support, institutional support, and Native American student centers.
- o The operation and maintenance costs of space occupied by sponsored research and public services will be negotiated. Other sources of revenue should be applied first before seeking CUF for the costs of operations and maintenance.
- o Non-academic space is never funded with CUF.

The recommendations of the long-range planning subcommittee should be considered in future biennia when determining the operations and maintenance responsibilities for new university building space authorized in the 2007 legislative session. The long-range planning recommendations are seen on the next page in figure 6.

Figure 6

| Long-Range Planning Subcommittee Future Operations and Maintenance Recommendations |          |             |                        |                            |                 |       |
|--|----------|-------------|------------------------|----------------------------|-----------------|-------|
| Project  | Location | Instruction | Instruction<br>Related | Sponsored                  |                 | Total |
|  |          |             |                        | Research or<br>Public Ser. | Non<br>Academic |       |
| Renovate Gaines Hall   | Bozeman  | 100%        |                        |                            |                 | 100%  |
| Law School Addition  | Missoula | 40%         | 60%                    |                            |                 | 100%  |
| Museum of the Rockies  | Bozeman  | 40%         | 10%                    | 20%                        | 30%             | 100%  |
| School of Education Building   | Missoula | 58%         | 42%                    |                            |                 | 100%  |
| New Parking Structure  | Missoula |             |                        |                            | 100%            | 100%  |
| Augment Petroleum Building   | Butte    | 50%         |                        | 50%                        |                 | 100%  |

## OTHER LEGISLATION

### ***HB 160***

HB 160 implements several audit recommendations concerning the repayment of administrative costs inappropriately diverted from trust lands accounts, including the capitol land grant account, to subsidize the administrative costs of Morrill Act trust lands.

### ***HB 480***

The Daly Mansion was purchased by the state of Montana in 1986 through the Montana Estate Tax Forgiveness Act, in conjunction with a loan from the National Trust for Historic Preservation. It is a public/private state historic site, under the sponsorship of the Montana State Historical Society, and operated by the Daly Mansion Preservation Trust (DMPT). The state of Montana leases the Mansion and approximately 50 acres of grounds to the DMPT. HB 480 provides appropriations of \$25,000 in FY 2008 and FY 2009 from the state general fund to the Department of Commerce for maintenance and restoration of the Daly Mansion and grounds.

### ***HB 574***

HB 574 contains an appropriation of \$50,000 from the state general fund to the Department of Commerce for grants to assist in the restoration and renovation of historical and cultural arts centers impacted by disasters. This bill was written in reaction to the fire that destroyed the Rialto Theater in Deer Lodge. The department will use a competitive application process to award grants to fund restoration of facilities such as the Rialto.

***SB 184***

SB 184 changes the qualifications that dictate which construction projects of the Montana Heritage Preservation and Development Commission must have Architectural and Engineering Division review. The bill also clarifies the requirements concerning the need for Commission construction projects to conform to state law. The bill increases the threshold for which the Commission is required to obtain legislative consent for building projects from \$200,000 to \$300,000. This law will allow the Heritage Commission to undertake larger projects, with the funds provided in HB 4, without the required A&E review and supervision.

# STATE BUILDING ENERGY CONSERVATION PROGRAM

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## PROGRAM DESCRIPTION

The State Building Energy Conservation (SBEC) program, operated by the Department of Environmental Quality (DEQ), was established by the 1989 Legislature. According to the State Building Energy Conservation Act, codified in Title 90, Chapter 4, part 6, MCA, the program is designed 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
- Upgrading inefficient water systems

Until FY 2004, the definitions for Title 90, Chapter 4, part 6, MCA, allowed only energy conservation projects to be included in the SBEC program. In 2003, the Fifty-eighth Legislature amended the statute to define energy cost savings as “savings in utility costs to a state agency”. Consequently, water conservation projects can now be funded through the program.

The SBEC program is usually a bonded program, but in the 2009 biennium the program is funded with cash. Usually, the state issues general obligation (G.O.) bonds to the SBEC program. The bond proceeds are used to pay for energy efficiency improvements and the resulting energy cost savings 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). To date, 61 energy conservation projects have been completed through the SBEC program, and additional projects are in various stages of completion. Since program inception, the state has spent a total of \$4.4 million in oil overcharge funds and \$14.8 million in G.O. bond proceeds to fund the projects.

## SUMMARY OF LEGISLATIVE ACTION

The Sixtieth Legislature approved a state general fund one-time-only appropriation of \$3.0 million for a SBEC “cash program”, and provided a mechanism for a revolving project fund in HB 4 of the May 2007 special session. The funding will be expended from the state general fund on projects in the 2009 biennium. The realized energy savings from projects funded with state general fund will be deposited into an energy conservation repayment account, established in HB 4. Those funds and resulting interest earnings will be made available to the department to fund the costs of the energy conservation program. Some examples of projects that may be started in the 2009 biennium, funds allowing, are contained in Figure 7. 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 costs of the upgrades and the program.

HB 4 also contains language that requires DEQ to review capital projects (Long-Range Building Program) 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. All of the proposed projects have been coordinated with the Long-Range Building Program, as directed in statute.



Figure 7  
State Building Energy Conservation Program  
Potential Projects - 2009 Biennium

| Agency / Project  | Project Discription   |
|---|---|
| <b>All Agencies</b>   |   |
| Statewide Building Envelope Upgrades                                | Energy efficient features for building envelopes  |
| <b>Department of Administration</b>                                 |   |
| Environmental Labs, Cogswell*                                       | Energy efficient measures to replace and upgrade fume hood equipment and control system               |
| Capitol Complex*  | Energy efficient boiler/chiller equipment   |
| Law Enforcement Academy*  | Energy efficient systems when the building is being renovated for HVAC, lighting, and envelope        |
| <b>Department of Corrections</b>                                    |   |
| Men's Prison, Housing Units*  | Energy efficient measures and replacing controls systems  |
| Men's Prison, Food Service Facilities*                              | Energy efficient systems for food service facilities  |
| Men's Prison, Kitchen   | Lighting upgrades, control systems, and new HVAC system   |
| Men's Prison, Dairy and Laundry                                     | Integrate renewable energy projects into existing operations  |
| <b>Department of Military Affairs</b>                               |   |
| Military Affairs Facilities, Statewide*                             | Added insulation on repaired and replaced roofs   |
| <b>Department of Natural Resources and Conservation</b>             |   |
| Missoula DNRC Headquarters*   | Efficient lighting  |
| <b>Department of Public Health and Human Services</b>               |   |
| Montana Veterans' Home*   | HVAC improvements, replacement of old boilers and controls, replacement of older ventilation          |
| Montana Mental Health Nursing Care Center*                          | Emergency generator equipment, electrical system upgrades and lighting efficiency upgrades            |
| Montana State Hospital, Xanthopoulos*                               | Energy efficient measures in replacing major heating/cooling equipment in building                    |
| Montana Mental Health Nursing Care Center*                          | Energy efficient measures in the temperature controls and envelope                                    |
| Montana State Hospital Campus*                                      | Upgrades to the campus heating system   |
| Montana State Hospital, Xanthopoulos                                | Expanding geothermal utilization at the campus  |
| <b>Department of Fish, Wildlife and Parks</b>                       |   |
| Miles City FWP  | Equipment and lighting project upgrades at the hatchery   |
| State Parks   | Energy efficient, alternative energy, and water conservation technologies installed at fishing access |
| <b>Board of Public Education</b>                                    |   |
| School for Deaf and Blind, Bitterroot Hall                          | Upgrade heating / cooling systems and equipment   |
| School for Deaf and Blind   | Water conservation / well water to replace existing treated city water for irrigation                 |
| <b>Department of Labor and Industry</b>                             |   |
| Job Service Centers   | Lighting system improvements at three Job Service Buildings   |
| <b>Montana University System</b>                                    |   |
| UM College of Technology-Helena*                                    | Energy improvements to the existing building HVAC and lighting systems                                |
| UM College of Technology-Butte*                                     | Replacing or repairing the heating system, and installing energy efficient lighting system            |
| UM-Northern Armory Gym*   | Energy efficient measures in replacing major heating / cooling equipment in building                  |
| MSU-Billings, McMullan*   | Installation of energy efficient systems  |
| MSU-Northern, Autotech Classroom*                                   | Energy efficient lighting fixtures and controls   |
| MSU-Bozeman, Campus*  | Energy efficient and water conservation measures for the campus energy / water distribution system    |
| UM, Law School*   | Install energy efficient HVAC systems in existing building and addition                               |
| UM Western, PE and Auxiliary Buildings                              | HVAC and heating upgrades for energy efficiency   |
| UM, Music Building  | Improvements on the additional energy project systems   |
| MSU Northern, Pershing and Brockman Ctr.                            | Heating system upgrades, new hydronic hot water system  |
| UM, Mansfield Library and Par TV Bldgs.                             | Energy efficient measures in replacing major heating / cooling equipment                              |
| MSU-Billings Campus   | Replace existing boilers  |
| * Denotes projects coordinated with the Long-Range Building Program |   |

## EXECUTIVE BUDGET COMPARISON

The 2009 biennium executive budget recommended a change in the funding mechanism for the state building energy conservation program. Rather than issuing bonds for the program, the proposed legislation would have authorized state debt of up to \$6.0 million, borrowed through a loan from the Board of Investments inter-cap loan program. The proposal, establish in HB 495, was not approved. Instead, the Sixtieth Legislature funded the program with a \$3.0 million appropriation of state general fund one-time-only in HB 4. This represents an overall reduction of \$3.0 million in project funding for the 2009 biennium.

# LONG-RANGE INFORMATION TECHNOLOGY PROGRAM

## PROGRAM DESCRIPTION

The Long-Range Information Technology Program (LRITP) constitutes an alternative method of funding large information technology (IT) investments. The LRITP consolidates all major IT projects, those costing in excess of \$2.0 million, in one appropriation bill and defines major IT enterprises as capital projects. All of the executive branch projects included in the LRITP program will be administered by the state chief information officer (CIO) within the Department of Administration (DOA).

The consolidation of major IT projects is intended to achieve several goals. First, IT projects are complex and require significant and time intensive planning, design, and management efforts. Most of the project funds are appropriated to the DOA for the state CIO. As a result of centralized administration, oversight of these projects will be easier, project management will be enhanced, and stronger partnerships between agencies and the state CIO will be fostered. Next, with the designation of “capital projects”, the appropriations continue through the completion of the project, as statutorily authorized in 17-7-212, MCA. Because the projects take significant amount of time to complete, this will allow projects to move forward without the need for subsequent appropriations in future biennia. Finally, because all the major projects are in one piece of legislation, the legislature will have a broader vision of the state IT program and related investments.

## SUMMARY OF LEGISLATIVE ACTION

HB 4, passed in the May 2007 special session, contains the appropriations for the LRITP. The Sixtieth Legislature authorized 10 projects with a total project cost of \$80.8 million. The projects will be funded as follows:

- o \$43.8 million long-range information technology funds
- o \$30.3 million federal special revenue
- o \$6.6 million state general funds

Figure 8 below shows, by agency, the projects approved by the legislature.

| Figure 8<br>Long-Range Building Consolidated Information Technology Projects (LRCIT)<br>Project Appropriations - HB 4 - 2009 Biennium |                     |                     |                    |                     |
|---|---------------------|---------------------|--------------------|---------------------|
| Agency / Project / Discription  | Appropriations      |                     |                    | Total               |
|   | LRITP               | Fed. Special        | General Fund       |                     |
| <b>Department of Administration</b>   |                     |                     |                    |                     |
| Network Upgrades  |                     |                     | \$4,645,000        | \$6,687,000         |
| State expansion and improvement projects  | \$2,042,000         |                     |                    |                     |
| University Research Network   |                     |                     |                    |                     |
| Expanded capacity for university system research  | 568,000             |                     | 568,000            | 1,136,000           |
| Public Safety Radio Consortium  |                     |                     |                    |                     |
| Expansion of key public safety radio sites  | 4,595,000           |                     | 405,000            | 5,000,000           |
| Public Safety Radio Interoperability  |                     |                     |                    |                     |
| Redundant controller and transmission, public safety wireless   | 3,500,000           |                     |                    | 3,500,000           |
| <b>Department of Public Health and Human Services</b>   |                     |                     |                    |                     |
| TANF Eligibility Systems  |                     |                     |                    |                     |
| Replace TEAMS system  | 7,625,000           | 8,600,000           |                    | 16,225,000          |
| CHIMES  |                     |                     |                    |                     |
| Replace TEAMS system  | 550,000             | 550,000             |                    | 1,100,000           |
| Food Stamp Eligibility Systems  |                     |                     |                    |                     |
| Replace TEAMS system  | 6,535,000           | 6,535,000           |                    | 13,070,000          |
| Child and Adult Protective Services System  |                     |                     |                    |                     |
| Replace CAPS system   | 15,204,000          | 11,946,000          |                    | 27,150,000          |
| Medicaid Disease Codes  |                     |                     |                    |                     |
| Replace current code system for federal agreement   | 300,000             | 2,700,000           |                    | 3,000,000           |
| <b>Judicial Branch</b>  |                     |                     |                    |                     |
| Court Technology Projects   |                     |                     |                    |                     |
| Records management & courtroom technology improvements  | 2,909,470           |                     | 1,025,530          | 3,935,000           |
| <b>Total Projects</b>   | <b>\$43,828,470</b> | <b>\$30,331,000</b> | <b>\$6,643,530</b> | <b>\$80,803,000</b> |

Through their analysis of the LRITP, the legislature made several changes to the program as introduced. The following changes had no overall fiscal impact to program costs. Significant program changes include the following:

- The legislature found that portions of the project costs were not capitalizable, or could not be considered as capital expenses or depreciated. Non-capitalizable project costs include items such as maintenance leases and software maintenance. As a result, these types of costs could not be paid through a capital projects account. With the help of the agencies, the legislators developed a non-capitalizable cost schedule and reduced the capital project funds by a like amount. The non-capitalizable costs were then appropriated directly from the general fund.
- The legislature determined that the potential for infringement on public enterprise existed in the program as initially developed. Consequently, the legislature placed restrictions on some of the IT projects to ensure that the state could not hinder market competition. The restrictions, found in HB 4, are as follows:
  - The network upgrades appropriation may not be used to acquire, operate, or maintain unused fiber-optic facilities in competition with the private sector. The network upgrades project must be performed by contracted services pursuant to Title 18, chapter 4.
  - The university research network, part of a national research network infrastructure, serves entities within and outside this state. The Montana university system shall use the university research network infrastructure only for the purpose of supporting the research and education missions of the Montana university system. The Montana university system may not use the university research network infrastructure for traditional internet, voice, video, or other telecommunications services beyond those required for research networks.
  - The Montana university system or any entity associated with the university system may not resell any portion of the university research network to nonuniversity entities other than research collaborators.
  - The university research network may not replace any telecommunications network services that are provided by the department of administration to any state agency, city, county, consolidated government, or school district under Title 2, chapter 17, part 5.
  - The Montana university system shall provide a comprehensive biennial report of the university research network activities for the biennium beginning July 1, 2007, to the legislature in its next regular session as provided in 5-11-210 (MCA) and shall submit to a biennial audit of the university research network activities beginning with the biennium beginning July 1, 2009.

## EXECUTIVE BUDGET COMPARISON

The legislature appropriated funds and authorized projects totaling \$80.8 million for capital IT projects in the 2009 biennium compared to the executive recommendation of \$84.8 million, a reduction of approximately \$4.0 million or 4.7 percent. The reduction resulted from the legislature's choice not to fund one project, the statewide E-911 project with a cost of \$4.0 million, proposed in the executive recommendation.

## FUNDING

The total cost of projects in the LRITP is \$80.8 million. Project funding will come from a combination of LRITP capital project funds, federal funds, and state general funds. The LRITP funds are derived through a series of one-time-only transfers, amounting to \$43.8 million, from the state general fund. In the case of most of the projects for the Department of Public Health and Human services, the LRITP funds contribute a match to federal funds. All non-capitalizable costs are appropriated directly from the state general fund.

Most of the LRITP one-time only general fund transfers included in HB 4 are conditioned on a \$100 million estimated ending fund balance, creating the potential for significant funding problems in the future of the LRITP (a general fund one-time-only transfer to the Judicial Branch is not included in the condition). As stated in HB 4, "if at any time during the 2009 biennium the office of budget and program planning projects a 2009 biennium unreserved ending general fund balance of less than \$100 million, the office of budget and program planning may direct the department of administration to reduce the fund transfers." The legislature did not provide a mechanism to reestablish the authorized level of transfers in HB 4, should the transfers be reduced. Capital project

appropriations remain valid appropriations until the project is completed, and the legislature funded the LRITP at only the amount required to complete the projects. Should the transfers to the LRITP be reduced, the program could be required to seek additional funding in the 2011 biennium.

## Detailed Project Descriptions

### *HB 4 – IT Projects*

#### Department of Administration

- The Network Expansion funding will be used to acquire hardware, software communications links, and transport services from the private sector to support bandwidth upgrades to state offices, university campuses and other qualifying non-profits providing government services. The goal of this project is to develop a state network in which the telecommunications networks are scalable, secure, reliable, and capable of supporting the growing dependence on IT.
- The University Research Network project provides funding for access to regional and national broadband networks supporting the research and education mission of the state University System. The funding for this project will be used to acquire hardware, fiber and support services needed to connect to existing regional and national research networks.
- The Public Safety Radio Consortium project will support the multi-year build-out of the Interoperability Montana wireless public safety radio system.
- The Public Safety Radio Interoperability program will support the deployment of a redundant controller and transmission system for the Interoperability Montana wireless public safety radio system.

#### Department of Public Health and Human Services

- The LRITP projects for the Department of Public Health and Human Services includes five projects. All the systems recommended for replacement are old and built on technology platforms that are out of date. Current systems are restrictive in the capacity for change and upgrade and are difficult to support.
  - Three projects (TANF Eligibility, CHIMES, and Food Stamps Eligibility projects) will replace the TEAMS system. The TEAMS mainframe system is inefficient and does not meet the needs of the users. Many eligibility functions must be performed manually outside of the system (replacement of CHIMES began in an earlier biennium and the appropriation will fund project completion).
  - The new Child and Adult Protective Services System will replace the current CAPS system. The CAPS system no longer meets the needs of the users and does not meet mandated reporting requirements.
  - Finally, the Medicaid Disease Code project will replace the International Classification of Diseases-9-Clinical Modification System and implement a set of new procedural and diagnosis codes for the Medicaid Management Information System of federal coding and reporting.

#### Judicial Branch

- The Court Technology Projects will provide funding to continue the Judicial Branch efforts to modernize the courts in a manner that meets the needs of the branch while conforming to current information technology standards. The projects will include records management and courtroom technology improvements.

# TREASURE STATE ENDOWMENT PROGRAM

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## 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. 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 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 Sixtieth Legislature passed HB 512, in the regular session, 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 2007 Legislature appropriated \$18.0 million of Treasure State Endowment trust earnings and \$17.6 million of Board of Investment (BOI) borrowed funds for 56 infrastructure projects, emergency and project planning grants, and a grant to the renewable resource grant program in HB 512 for the 2009 biennium. From appropriated funds, \$32.6 million was appropriated for local government infrastructure projects. Figure 9 shows the historic TSEP grant and loan awards since the program inception.

In the 2009 biennium, the TSEP program received 57 requests for grants and recommended funding for 56 of the requests. The Sixtieth Legislature approved sufficient funding for all the recommendations. Grants will be funded on a first-come first-serve basis in the 2009 biennium. Funding for projects will be made available in the order that the grantees satisfy the conditions detailed in HB 512. The most significant of the conditions requires the grantee to document that other matching funds required for completion of the project are firmly committed.

In addition to the 56 TSEP local government infrastructure grants, the Sixtieth Legislature also authorized a \$2.2 million grant to the DNRC in FY 2009. The purpose of this grant is to fund local government renewable resource projects. The grant will only be awarded in the amount of the anticipated funding shortfall for the 78 grants authorized in HB 6. Any unreserved funds remaining at the end of FY 2009 must be remitted to the DOC for repayment of the loans. For more details on the renewable resource grant program, see page F-28 of this volume of the 2009 biennium fiscal report.

Along with the local government infrastructure grants, the legislature authorized a \$100,000 emergency grant appropriation from the treasure state endowment special revenue account for any critical infrastructure projects that might arise in the biennium. The legislature also appropriated \$600,000 for preliminary-engineering grants. Finally, the legislature terminated a grant approved in the 2001 legislative session. The terminated grant was awarded to the Lockwood Water and Sewer District in the amount of \$500,000.

**EXECUTIVE BUDGET COMPARISON**

The executive budget recommended \$18.0 million of total appropriations from the interest earnings of the TSEP trust for the 2009 program. The legislature appropriated \$18.0 million of interest earnings from the trust and Board of Investment (BOI) loan proceeds of \$17.6 million. The executive budget recommendation would have funded 31 grants. The additional loan appropriation ensures full funding of all 56 grant requests and the \$2.2 million DNRC grant. The total increase in appropriations is \$17.6 million and an additional 25 projects are authorized. The grant to the renewable resource program will allow up to 22 more renewable resource grants to be funded. Figure 10 shows the list of project grants authorized by the Sixtieth Legislature.

Figure 9  
Treasure State Endowment Program  
Grant and Loan Awards by Biennium

| Biennium | Number of Projects<br>Approved & Funded |       | Grants<br>Awarded | Loan<br>Awards |
|----------|---|-------|-------------------|----------------|
|          | Grants                                  | Loans |                   |                |
| 1995     | 20                                      | 4     | \$3,966,000       | \$168,000      |
| 1997     | 15                                      | 0     | 4,991,000         |                |
| 1999     | 22                                      | 4     | 9,111,000         | 1,905,000      |
| 2001     | 28                                      | 0     | 11,432,000        |                |
| 2003     | 31                                      | 0     | 13,672,000        |                |
| 2005     | 40                                      | 0     | 15,653,000        |                |
| 2007     | 40                                      | 0     | 15,968,000        |                |
| 2009*    | 56                                      | 0     | 32,631,715        |                |

\* HB 512

**Figure 10**  
**Treasure State Endowment Grants (TSEP)**  
**Grant Authorizations HB 512 - 2009 Biennium**

| Applicant  | Project Type     | Grant               | Cumulative |
|--|------------------|---------------------|------------|
|  |                  | Authorization       | Total      |
| Lewis & Clark County for Woodlawn Park Addition            | Water            | \$596,420           | \$596,420  |
| Bainville, Town of   | Wastewater       | 715,000             | 1,311,420  |
| Madison County   | Bridge           | 370,100             | 1,681,520  |
| Sweet Grass County   | Bridge           | 151,493             | 1,833,013  |
| Powell County  | Bridge           | 263,074             | 2,096,087  |
| Circle, Town of  | Wastewater       | 750,000             | 2,846,087  |
| Harlem, City of  | Water            | 750,000             | 3,596,087  |
| Jordan, Town of  | Wastewater       | 700,000             | 4,296,087  |
| Thompson Falls, City of                                    | Water            | 363,000             | 4,659,087  |
| Twin Bridges, Town of                                      | Wastewater       | 750,000             | 5,409,087  |
| Seeley Lake – Missoula County Water District               | Water            | 750,000             | 6,159,087  |
| Fergus County  | Bridge           | 238,362             | 6,397,449  |
| Sunny Meadows Missoula Co. Water & Sewer District          | Water            | 325,000             | 6,722,449  |
| Tri County Water District                                  | Water            | 313,500             | 7,035,949  |
| Blaine County  | Bridge           | 617,017             | 7,652,966  |
| Loma County Water & Sewer District                         | Water            | 750,000             | 8,402,966  |
| Ekalaka, Town of   | Water/Wastewater | 706,369             | 9,109,335  |
| Stillwater County  | Bridge           | 407,500             | 9,516,835  |
| Sheridan, Town of  | Wastewater       | 750,000             | 10,266,835 |
| Carter-Chouteau County Water & Sewer District              | Water            | 750,000             | 11,016,835 |
| Bigfork County Water/Sewer District                        | Wastewater       | 750,000             | 11,766,835 |
| Dayton/Lake County Water & Sewer District                  | Wastewater       | 750,000             | 12,516,835 |
| Judith Basin County  | Bridge           | 192,215             | 12,709,050 |
| Pinesdale, Town of   | Water            | 750,000             | 13,459,050 |
| Power-Teton County Water & Sewer District                  | Water            | 604,286             | 14,063,336 |
| Superior, Town of  | Water            | 600,000             | 14,663,336 |
| RAE Subdivision County Water and Sewer District No. 313    | Water            | 750,000             | 15,413,336 |
| Jefferson County   | Bridge           | 295,800             | 15,709,136 |
| Fort Benton, City of                                       | Stormwater       | 750,000             | 16,459,136 |
| Laurel, City of  | Wastewater       | 750,000             | 17,209,136 |
| Yellowstone County   | Bridge           | 97,079              | 17,306,215 |
| Neihart, Town of   | Water            | 223,000             | 17,529,215 |
| Three Forks, City of                                       | Wastewater       | 750,000             | 18,279,215 |
| Manhattan, Town of   | Water            | 600,000             | 18,879,215 |
| Cut Bank, City of  | Water            | 550,000             | 19,429,215 |
| Whitehall, Town of   | Wastewater       | 750,000             | 20,179,215 |
| Crow Tribe for Crow Agency                                 | Wastewater       | 750,000             | 20,929,215 |
| Big Sandy, Town of   | Wastewater       | 750,000             | 21,679,215 |
| Fairfield, Town of   | Wastewater       | 750,000             | 22,429,215 |
| Hamilton, City of  | Wastewater       | 750,000             | 23,179,215 |
| Gallatin County for Hebgen Lake                            | Wastewater       | 750,000             | 23,929,215 |
| Shelby, City of  | Water            | 750,000             | 24,679,215 |
| Whitefish, City of   | Wastewater       | 750,000             | 25,429,215 |
| Panoramic Heights/Mountain Riverheights County Water Dist. | Water            | 191,500             | 25,620,715 |
| Custer County  | Bridge           | 63,750              | 25,684,465 |
| Brady County Water District                                | Wastewater       | 750,000             | 26,434,465 |
| Elk Meadows Ranchettes Water District                      | Water            | 410,000             | 26,844,465 |
| Polson, City of  | Water            | 750,000             | 27,594,465 |
| Darby, Town of   | Water            | 750,000             | 28,344,465 |
| Goodan Keil County Water District                          | Water            | 532,250             | 28,876,715 |
| Butte-Silver Bow   | Water            | 750,000             | 29,626,715 |
| Columbia Falls, City of                                    | Wastewater       | 750,000             | 30,376,715 |
| Mineral County/Saltse Water & Sewer District               | Wastewater       | 390,000             | 30,766,715 |
| North Valley County Water & Sewer District                 | Water            | 750,000             | 31,516,715 |
| Red Lodge, City of   | Water            | 750,000             | 32,266,715 |
| Black Eagle Cascade County Water & Sewer District          | Water            | <u>365,000</u>      | 32,631,715 |
|  |                  | <u>\$32,631,715</u> |            |

**FUNDING**

In July 1993, \$10.0 million was transferred from the coal severance tax permanent trust fund to the treasure state endowment trust fund. Initially the TSEP trust received 50 percent of the coal severance tax distribution deposited in the permanent coal trust. From FY 2000 to FY 2003, the distribution was increased to 75 percent of permanent trust distribution. Beginning July 2003, the percentage was reduced back to 50 percent and will continue at that level until June 30, 2016. 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 2009 biennium are projected to total \$18.4 million.

The TSEP program has the statutory authority to borrow funds from the BOI. The authority, found in 90-6-701(b), MCA, states that, “The treasure state endowment program may borrow from the board of investments to provide additional financial assistance for local government infrastructure projects under this part, provided that no part of the loan may be made from retirement funds.” The Sixtieth Legislature made use of this authority for funding TSEP local government projects in the 2009 biennium. The legislature also provided a “local government project grant” to the renewable resource grant program. The legislature intended the TSEP program to use of the loan authority to fund the renewable resource grant. The debt service for any loans provided through 90-6-701, MCA, will be paid through the interest and earnings of the Treasure State Endowment Trust.

Figure 11 shows the projected fund balance for the TSEP state special revenue fund for the 2009 biennium. Total new revenue, loan proceeds, and carryover funds in this account are estimated at \$36.6 million for the biennium. After deducting the administrative appropriations, the emergency grants and preliminary engineering grants and increasing the balance by the terminated and reduced grant appropriations approved in earlier biennia, \$34.8 million is available for grants. As such, available grant funds will fund all 56 of the grants authorized by the legislature and the DNRC renewable resource grant.

Since the inception of the TSEP, DNRC has been appropriated TSEP interest earnings to cover costs associated with TSEP loan issuance and administration. As shown in Figure 11, the legislature approved a \$56,000 appropriation to the DNRC for loan administration for the 2009 biennium. However, the Fifty-ninth legislature amended section 90-6-703, MCA to eliminate the TSEP loan program. Since the elimination of the TSEP loan program, there is no longer a financial justification for the transfer of TSEP funds in support of the DNRC loan program. Prior to the passage of HB 512, the DNRC appropriation had been removed from the DNRC funding matrix. Subsequently, the appropriation was reauthorized in HB 2 of the May 2007 special session.

The TSEP state special revenue account is expected to have a negative ending fund balance of \$99,065 at the end of the 2009 biennium. Though not recommended, a small negative ending fund balance is not considered critical. It is thought to be unlikely that all the requested grants will request funding in the 2009 biennium. The negative ending fund balance is explained by several actions of the Sixtieth Legislature. First, \$56,000 to DNRC was appropriated in HB 2 during the May 2007 special session. Next, there were unanticipated impacts of pay plan adjustments, HB 13, and retirement system contributions, HB 131, which increased the contribution of TSEP funds for the purpose of administrative costs by \$33,273.

|  |                    |
|--|--------------------|
| Estimated Beginning Fund Balance (7/01/2007)                 | \$635,666          |
| <b>Revenue Projections<sup>1</sup></b>                       |                    |
| 2008 Investment Earnings                                     | \$8,950,000        |
| 2009 Investment Earnings                                     | 9,489,000          |
| Loan Proceeds  | <u>17,563,890</u>  |
| 2009 Biennium Revenues                                       | \$36,002,890       |
| <b>Proposed Expenditures</b>                                 |                    |
| Administration - Commerce <sup>2</sup>                       | (1,084,078)        |
| Administration - DNRC <sup>2</sup>                           | (56,000)           |
| Emergency Grants <sup>3</sup>                                | (100,000)          |
| Water/Sewer Preliminary-engineering Grants <sup>3</sup>      | <u>(600,000)</u>   |
| Total Expenditures   | (1,840,078)        |
| <b>Treasure State Endowment Grants for Local Projects</b>    |                    |
| Proposed Grants  | (32,697,543)       |
| Renewable Resource Grant and Loan Program Grant <sup>3</sup> | <u>(2,200,000)</u> |
| Estimated Ending Fund Balance - (6/30/2009)                  | <u>(\$99,065)</u>  |
| <sup>1</sup> HJR 2   |                    |
| <sup>2</sup> HB 2 (ss)                                       |                    |
| <sup>3</sup> HB 512  |                    |



**Debt Service**

HB 512 authorizes the TSEP program to borrow funds from the BOI, as needed, if the interest and earnings from the Treasure State Endowment Trust are not sufficient to fund all the grants authorized in the bill. Consequently, a certain portion of TSEP interest and earnings will be obligated to the debt service of those borrowed funds. The use of TSEP interest and earnings to pay debt service will impact future available funds in the TSEP “cash” program.

Figure 12 provides an analysis of the debt service associated with \$17.6 million of borrowed funds. The table shows an estimate of future interest and earnings derived from the Treasure State Endowment Trust, the debt service on \$17.6 million, and the resulting funds available for grants to local government infrastructure projects in the TSEP “cash” program. As seen in the table, TSEP trust interest and earnings are expected to experience slow continuous growth through FY 2016, at which time the coal severance tax distributions to the TSEP trust will be eliminated. From FY 2017 forward, TSEP interest and earnings are expected to remain constant. The issuance of debt in the TSEP program will reduce the expected growth in interest and earnings for the TSEP “cash” program through the life of the loan.

The analysis in Figure 12 is based on a set of assumptions. It is important to recognize that this analysis is an estimate. If interest rates and/or borrowing timelines change, these payments may change. The assumptions used to generate this analysis are as follows:

- Coal severance tax deposits into the TSEP trust will remain constant at the annual average of the 2009 biennium
- Interest earned on the trust fund bond pool, used to calculate the interest and earnings of the trust, will remain constant at 5.5%
- The entire amount of the appropriated loan proceeds, \$17.6 million is borrowed from the BOI
- The interest on the BOI loan will be 5.45%
- Debt service payments will begin in FY 2010

| Bien. | Interest &<br>Earnings | Debt Service  | Available for<br>Cash Program |
|-------|------------------------|---------------|-------------------------------|
| 2009  | \$18,439,000           |               | \$18,439,000                  |
| 2011  | 20,775,640             | (\$3,524,000) | 17,251,640                    |
| 2013  | 22,769,830             | (3,524,000)   | 19,245,830                    |
| 2015  | 24,764,020             | (3,524,000)   | 21,240,020                    |
| 2017  | 26,259,662             | (3,524,000)   | 22,735,662                    |
| 2019  | 26,259,662             | (3,524,000)   | 22,735,662                    |
| 2021  | 26,259,662             | (3,524,000)   | 22,735,662                    |
| 2023  | 26,259,662             | (3,524,000)   | 22,735,662                    |
| 2025  | 26,259,662             | (1,762,000)   | 24,497,662                    |

The debt service, if the total loan appropriation of \$17.6 million is borrowed, is estimated to cost \$3.5 million per biennium through the 2025 biennium. In such a case, the debt service will cost the program the equivalent of 4.7 grants awarded at the amount of \$750,000 in each biennium.

This analysis can be considered the worst case scenario, from the perspective of the TSEP “cash program”. The analysis assumes that all appropriated loan proceeds will be borrowed. According to personnel at the DOC, it is unlikely that all approved TSEP grant projects will come forward for funding in the 2009 biennium. However, it is expected that the DNRC will request the renewable resource grant of \$2.2 million. If the TSEP program borrows only \$2.2 million from the BOI, debt service under the same set of assumptions is estimated to be \$430,000 per biennium, or a project cost of about half of a \$750,000 grant.

# **TREASURE STATE ENDOWMENT REGIONAL WATER PROGRAM**

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## **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 Program (TSEPRW), 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.”

Two projects that have received federal authorization and now qualify for a match of federal funding are the Fort Peck Indian Reservation/Dry Prairie Regional Water System (Fort Peck/Dry Prairie) and the Rocky Boy’s Indian Reservation/North Central Montana Regional Water System (Rocky Boy’s/NC Montana). The federal government estimates total project costs for Fort Peck/Dry Prairie at approximately \$252 million and the Rocky Boy’s/NC Montana at approximately \$286 million. The costs include a local match of almost \$20 million for the Dry Prairie project and over \$31 million for the NC Montana project. The federal government match for each regional water project local dollar is between \$12 and \$20. The local match is split evenly between the state and the local regional water authority, unless hardship is proved. In cases of hardship, the split is 75 percent for the state and 25 percent for the regional water authority.

A third project, the Central Montana Regional Municipal Water System (Musselshell Valley), has not qualified for federal funding, but it has received program approval from the state. The Musselshell Valley project received status as a regional water authority in early FY 2006. The system would serve over a dozen communities along the Judith and Lower Musselshell Rivers, at a total estimated cost of \$50 million.

A fourth project, the Dry-Redwater Regional Water System, would bring water to portions of Garfield, McCone, Richland and Dawson counties. The Dry-Redwater Regional Water Authority was established in FY 2006. A project feasibility study is expected to be completed in FY 2007. Preliminary estimates of the cost of this system, including a surface water treatment plant and long distance water delivery system, are expected to exceed \$70 million.

The Fifty-eighth Legislature transferred administration of the TSEPRW program from the Department of Commerce to the Department of Natural Resources and Conservation (DNRC). Administrative activities and actual construction of the TSEPRW projects began in the 2005 biennium. TSEPRW construction funds appropriated in the 2003 session provided the first match to federal dollars for regional water projects. The costs of program administration are appropriation HB 2 of the May 2007 special session.

## **SUMMARY OF LEGISLATIVE ACTION**

The Sixtieth Legislature established two sources of funding for the TSEPRW program in the 2009 biennium. In HB 512, the legislature appropriated \$6.7 million from the interest earnings of the TSEPRW trust. The funds can be distributed to regional water authorities that have met certain conditions including:

- An executed agreement with DNRC
- A DNRC approved management plan
- A financial accounting system that conforms to GAAP principles
- A detailed preliminary engineering report

The legislature also authorized \$17.2 of coal severance tax bond authority for the TSEPRW program in HB 8 of the 2007 regular session. From the bond authorization, the legislature appropriated \$15.4 for construction costs for regional water projects. The legislature also appropriated \$1.8 million for a loan reserve for the TSEPRW bonds. The debt service on all bonds issued will be paid from the earnings of the TSEPRW trust. For more details related to the issuance of bonds for the TSEPRW program, see page F-33 of this volume of the 2009 biennium fiscal report.

## EXECUTIVE BUDGET COMPARISON

The executive budget did not include an appropriation for the TSEP regional water program.

## 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 and earnings from the trust is deposited into the state special revenue 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. As shown in Figure 13, interest and earnings in the 2009 biennium are projected to be \$4.4 million, and available cash for the 2009 biennium regional water program is expected to be \$8.0 million. The 2007 Legislature appropriated \$1.3 million for administrative expenses in HB 2 from the May 2007 special session. The appropriation for regional water grants included in HB 512 was \$6.7 million. Debt service for the bonds authorized in HB 8 will be an obligation of the TSEP regional water account, and in the 2009 biennium the debt service cost is expected to be \$126,705. Resulting from the unplanned debt service, the July 1, 2009 ending fund balance of the TSEPRW fund is estimated to be negative \$126,003. Though not recommended, a small negative ending fund balance is not considered critical in the TSEPRW program account. If a funding shortage should materialize, the department will have access to the TSEPRW bond issue proceeds to fund the projects.

|   |                  |                     |
|---|------------------|---------------------|
| Estimated Beginning Fund Balance (7/1/2007) |                  | \$3,555,310         |
| Revenue Projections <sup>1</sup>            |                  |                     |
| 2008 Investment Earnings                    | \$2,082,000      |                     |
| 2009 Investment Earnings                    | <u>2,348,000</u> |                     |
| 2009 Biennium Revenues                      |                  | 4,430,000           |
| TSEPRW Appropriations <sup>2</sup>          |                  |                     |
| Administration - DNRC <sup>2</sup>          | (1,298,608)      |                     |
| TSEPRW Grants <sup>3</sup>                  | (6,686,000)      |                     |
| TSEPRW Debt Service <sup>4</sup>            | <u>(126,705)</u> |                     |
| Total Appropriations                        |                  | <u>(8,111,313)</u>  |
| Estimated Ending Fund Balance (6/30/2009)   |                  | <u>(\$126,003)</u>  |
| <sup>1</sup> HJR 2                          |                  | <sup>2</sup> HB 512 |
| <sup>3</sup> HB 2 (ss)                      |                  | <sup>4</sup> HB 8   |

### Debt Service

HB 8 authorizes the BOI to issue \$17.2 million of coal severance tax bonds for the TSEPRW program. Consequently, a certain portion of TSEPRW interest and earnings will be obligated to the debt service of those bond issues. The use of TSEPRW interest and earnings to pay debt service will impact future available funds in the TSEPRW “cash” program.

Figure 14 provides an analysis of the debt service associated with \$16.7 million of bond issues. The table shows an estimate of future interest and earnings derived from the Treasure State Regional Water Endowment Trust, the debt service on \$16.7 million, and the resulting “cash” program funds available for grants to regional water projects. As seen in the table, TSEPRW trust interest and earnings are expected to experience slow continuous growth through FY 2016, at which time the coal severance tax distributions to the trust will be eliminated. From FY 2017 forward, TSEPRW interest and earnings are expected to remain constant.

The analysis in Figure 14 is based on a set of assumptions. It is important to recognize that this analysis is an estimate. If interest rates and/or bond issuance timelines change, the debt service costs will change as a result. The assumptions used to generate this analysis are as follows:

- o Coal severance tax deposits into the TSEPRW trust will remain constant at the annual average of the 2009 biennium

- o Interest earned on the trust fund bond pool, used to calculate the interest and earnings of the trust, will remain constant at 5.5%
- o Bonds of \$5.6 million will be issued in the 2009 biennium, the 2011 biennium, and the 2013 biennium
- o Bond issues have a 20 year maturity
- o Interest rates vary between 3.05% and 4.3%

The debt service on \$16.7 million of bonds is estimated to cost \$2.4 million per biennium once all the bonds are issued. While the impact of the debt service in the 2009 biennium is small, less than 3 percent of the total interest and earnings, the debt service will have a greater impact in future biennia, when the debt service cost will absorb nearly 30 percent of the interest and earnings of the trust.

In the 2005 legislative session, the TSEPRW program was given \$5.0 million of bond authorization, developing a new bonded program for the regional water program. In the 2007 biennium, none of the bond authority was exercised, and on request of DNRC, the Sixtieth Legislature allowed the program to retain the \$5.0 million of bond authority. After receiving the additional \$17.2 million of bond authority in HB 8, DNRC personnel determined that the \$5.0 million of bond authority provided in the 2005 session was no longer needed, and the department would not request issuance of those bonds during the 2009 biennium.

**Figure 14**  
**TSEPRW Funds Available for Cash**  
**Program (biennial)**

| Bien. | Interest & Earnings | Debt Service | Available for Cash Program |
|-------|---------------------|--------------|----------------------------|
| 2009  | \$4,429,797         | \$126,705    | \$4,303,092                |
| 2011  | 5,426,006           | 923,386      | 4,502,620                  |
| 2013  | 6,403,783           | 1,736,621    | 4,667,162                  |
| 2015  | 7,381,560           | 2,422,353    | 4,959,208                  |
| 2017  | 8,114,894           | 2,439,190    | 5,675,705                  |
| 2019  | 8,114,894           | 2,437,115    | 5,677,779                  |
| 2021  | 8,114,894           | 2,434,515    | 5,680,379                  |
| 2023  | 8,114,894           | 2,434,893    | 5,680,002                  |
| 2025  | 8,114,894           | 2,431,794    | 5,683,100                  |
| 2027  | 8,114,894           | 2,433,485    | 5,681,409                  |
| 2029  | 8,114,894           | 2,428,143    | 5,686,752                  |
| 2031  | 8,114,894           | 1,620,080    | 6,494,814                  |
| 2033  | 8,114,894           | 808,553      | 7,306,342                  |

**OTHER LEGISLATION**

***HB 8***

The Sixtieth Legislature approved HB 8, which provides bond authority for a match to federal dollars to construct TSEP regional water system building projects.

# RENEWABLE RESOURCE GRANT AND LOAN PROGRAM

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## PROGRAM DESCRIPTION

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 and Conservation (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

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 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 2007 Legislature passed several bills in the regular session that impact the RRGL Program. HB 6 contains appropriations for renewable resource grants, HB 8 contains appropriations for renewable resource loans, HB 116 creates a new funding stream and account for the program, and HB 512 provides a TSEP grant that funds certain renewable resource grants. Legislative actions for the RRGL program are discussed below in detail.

### HB 6 - Grants

The Sixtieth Legislature appropriated funds for several purposes in HB 6. First, the legislature appropriated \$5.5 million from the newly created natural resource projects account created in HB 116 to fund a prioritized list of projects. Additional appropriations include \$100,000 for emergency grants, \$400,000 for project planning grants, \$300,000 for irrigation development planning grants, and \$100,000 for a comprehensive irrigation study. HB 512 contained a \$2.2 million grant to the DNRC, which will enable DNRC to fund all the recommended grant requests. Figure 15 shows the RRGL grants authorized for the 2009 biennium in HB 6.

## EXECUTIVE BUDGET COMPARISON

Figure 15 shows a priority listing of the RRGL grants recommended by the executive for the 2007 biennium. DNRC received a total of 80 applications for the RRGL program. HB 6, as introduced, included a list of 77 projects costing \$7.6 million. The executive recommended \$5.0 million of funding for the first 51 projects. The executive recommendation also included recommendations of \$100,000 to fund the DNRC emergency grant program, \$400,000 for project planning grants, \$300,000 for irrigation development grants, and \$100,000 for a comprehensive irrigation study. Total RRGL appropriations recommended in the executive budget amounted to \$5.9 million. The legislature authorized 78 grants for the RRGL program grants and appropriated \$5.5 million in HB 6 and \$2.2 million in HB 512 to fund the grants. The legislature also appropriated the recommended funds for the emergency grants, project planning grants, irrigation development grants, and the comprehensive irrigation study. Total legislative appropriations amount to \$8.6 million. The legislature increased appropriations for the RRGL over the recommendations contained in the executive budget by \$2.7 million, or approximately 46 percent.

**Figure 15**  
**Renewable Resource Grant and Loan Program (RRGL)**  
**Grant Authorizations HB 6 - 2009 Biennium**

| Sponsor/Title   | Project Type | Grant Authorized | Cummulative Total |
|---|--------------|------------------|-------------------|
| Green Mountain Conservation District                          |              |                  |                   |
| Crow Creek Restoration Project                                | Watershed    | \$70,559         | \$70,559          |
| Twin Bridges, Town of   |              |                  |                   |
| Twin Bridges Wastewater System Improvements                   | Wastewater   | 100,000          | 170,559           |
| Fort Peck Tribes  |              |                  |                   |
| Fort Peck D-4 Drain Water Conservation Improvements           | Irrigation   | 100,000          | 270,559           |
| North Powell Conservation District                            |              |                  |                   |
| Blackfoot Drought and Water Conservation Project              | Watershed    | 84,347           | 354,906           |
| Bainville, Town of  |              |                  |                   |
| Bainville Wastewater System Improvements                      | Wastewater   | 100,000          | 454,906           |
| Petrolia Irrigation District                                  |              |                  |                   |
| Petrolia Irrigation Rehabilitation Project                    | Irrigation   | 100,000          | 554,906           |
| Montana Department of Natural Resources and Conservation      |              |                  |                   |
| *Ackley Lake Dam Rehabilitation                               | Dam          | 100,000          | 654,906           |
| Cut Bank, City of   |              |                  |                   |
| Cut Bank Water System Improvements                            | Water        | 100,000          | 754,906           |
| Whitehall, Town of  |              |                  |                   |
| Whitehall Wastewater System Improvements                      | Wastewater   | 100,000          | 854,906           |
| Montana Department of Natural Resources and Conservation      |              |                  |                   |
| *East Fork Siphon Replacement and Main Canal Lining Project   | Irrigation   | 100,000          | 954,906           |
| Loma County Water and Sewer District                          |              |                  |                   |
| Loma Water System Improvements                                | Water        | 100,000          | 1,054,906         |
| Panoramic Mountain River Heights County Water District        |              |                  |                   |
| Panoramic Mountain River Heights Water System Improvements    | Water        | 100,000          | 1,154,906         |
| Montana Department of Natural Resources and Conservation      |              |                  |                   |
| *Smith Creek Canal Seepage Abatement and Rehabilitation Prj.  | Irrigation   | 100,000          | 1,254,906         |
| Goodan-Keil County Water District                             |              |                  |                   |
| Goodan- Keil Water Improvement Project                        | Water        | 100,000          | 1,354,906         |
| Montana Department of Natural Resources and Conservation      |              |                  |                   |
| Middle Creek Dam Automated Instrumentation                    | Dam          | 100,000          | 1,454,906         |
| Polson, City of   |              |                  |                   |
| Polson Water System Improvements                              | Water        | 100,000          | 1,554,906         |
| Hill County   |              |                  |                   |
| Beaver Creek Dam Seepage Control Berm                         | Dam          | 100,000          | 1,654,906         |
| Gallatin County, Hebgen Lake Estates RID 322                  |              |                  |                   |
| Hebgen Lake Wastewater System Improvements                    | Wastewater   | 100,000          | 1,754,906         |
| Three Forks, City of  |              |                  |                   |
| Three Forks Wastewater System Improvements                    | Wastewater   | 100,000          | 1,854,906         |
| Mineral County Saltese Water and Sewer District               |              |                  |                   |
| Saltese Wastewater System Improvements                        | Wastewater   | 100,000          | 1,954,906         |
| Carbon Conservation District                                  |              |                  |                   |
| Phase I Hydrogeology & Water Bal. of East/West Bench Aquifers | Groundwater  | 100,000          | 2,054,906         |
| Fergus County Conservation District                           |              |                  |                   |
| Upper and Lower Carter Pond Dam Reconstruction                | Dam          | 100,000          | 2,154,906         |
| Brady County Water and Sewer District                         |              |                  |                   |
| Brady Wastewater System Improvements                          | Wastewater   | 100,000          | 2,254,906         |
| Beaverhead Conservation District                              |              |                  |                   |
| Big Hole Ditch Improvement Project                            | Irrigation   | 100,000          | 2,354,906         |
| Superior, Town of   |              |                  |                   |
| Superior Water System Improvements                            | Water        | 100,000          | 2,454,906         |
| Sunny Meadows Missoula County Water and Sewer District        |              |                  |                   |
| Sunny Meadows Water System Improvements                       | Water        | 100,000          | 2,554,906         |
| Tri County Water and Sewer District                           |              |                  |                   |
| Tri County Water System Improvements                          | Water        | 100,000          | 2,654,906         |
| Philipsburg, Town of  |              |                  |                   |
| Philipsburg Wastewater System Improvements                    | Wastewater   | 100,000          | 2,754,906         |

| Figure 15 (cont.)   |              |                  |                   |  |
|---|--------------|------------------|-------------------|--|
| Renewable Resource Grant and Loan Program (RRGL)            |              |                  |                   |  |
| Grant Authorizations HB 6 - 2009 Biennium                   |              |                  |                   |  |
| Sponsor/Title   | Project Type | Grant Authorized | Cummulative Total |  |
| Fort Peck Tribes  |              |                  |                   |  |
| 58 Main Structure Replacement for Water Management          | Irrigation   | 100,000          | 2,854,906         |  |
| Sanders County  |              |                  |                   |  |
| Eliminating Failed Septic Systems in Sanders County         | Groundwater  | 100,000          | 2,954,906         |  |
| Malta Irrigation District                                   |              |                  |                   |  |
| Dodson North Canal Regulating Reservoir                     | Irrigation   | 100,000          | 3,054,906         |  |
| Red Lodge, City of  |              |                  |                   |  |
| Red Lodge Water System Improvements                         | Water        | 100,000          | 3,154,906         |  |
| Elk Meadows Ranchettes County Water District                |              |                  |                   |  |
| Elk Meadows Water System Improvements                       | Water        | 100,000          | 3,254,906         |  |
| Rae Water and Sewer District                                |              |                  |                   |  |
| Rae Water System Improvements                               | Water        | 100,000          | 3,354,906         |  |
| Stillwater Conservation District                            |              |                  |                   |  |
| Stillwater-Rosebud Watershed, Surface Water/Groundwater     | Groundwater  | 100,000          | 3,454,906         |  |
| East Bench Irrigation District                              |              |                  |                   |  |
| East Bench Irrigation District Canal Lining                 | Irrigation   | 100,000          | 3,554,906         |  |
| Dayton Lake County Water and Sewer District                 |              |                  |                   |  |
| Dayton Wastewater System Improvements                       | Wastewater   | 100,000          | 3,654,906         |  |
| Milk River Irrigation Project Joint Board of Control        |              |                  |                   |  |
| Saint Mary Canal, Halls Coulee Drop 3, Plunge Pool Repair   | Irrigation   | 100,000          | 3,754,906         |  |
| Yellowstone Conservation District                           |              |                  |                   |  |
| Modeling Aquifer Response to Urban Sprawl, W. Billings Area | Groundwater  | 59,991           | 3,814,897         |  |
| Ravalli County  |              |                  |                   |  |
| Improved Resource Protection, Floodplain Hazard Mapping     | Floodplain   | 100,000          | 3,914,897         |  |
| North Valley County Water and Sewer District                |              |                  |                   |  |
| North Valley County Water System Improvements               | Water        | 100,000          | 4,014,897         |  |
| Sheridan, Town of   |              |                  |                   |  |
| Sheridan Wastewater System Improvements                     | Wastewater   | 100,000          | 4,114,897         |  |
| Neihart, Town of  |              |                  |                   |  |
| Neihart Water System Improvements                           | Water        | 100,000          | 4,214,897         |  |
| Greenfields Irrigation District                             |              |                  |                   |  |
| Muddy Creek Wastewater and Erosion Reduction Project        | Watershed    | 100,000          | 4,314,897         |  |
| Bynum Teton County Water and Sewer District                 |              |                  |                   |  |
| A New Source of Drinking Water for Bynum, Phase 1           | Water        | 100,000          | 4,414,897         |  |
| Whitefish, City of  |              |                  |                   |  |
| Whitefish Wastewater System Improvements                    | Wastewater   | 100,000          | 4,514,897         |  |
| Power Teton County Water and Sewer District                 |              |                  |                   |  |
| Power Teton Water System Improvements                       | Water        | 100,000          | 4,614,897         |  |
| Sidney Water Users Irrigation District                      |              |                  |                   |  |
| Sidney Water Users Increasing Irrigation Efficiency Phase 2 | Irrigation   | 100,000          | 4,714,897         |  |
| Jordon, Town of   |              |                  |                   |  |
| Jordon Wastewater System Improvements                       | Wastewater   | 100,000          | 4,814,897         |  |
| Beaverhead County   |              |                  |                   |  |
| Blacktail Deer Creek Flood Mitigation Project               | Floodplain   | 100,000          | 4,914,897         |  |
| Seeley Lake Missoula County Water District                  |              |                  |                   |  |
| Seeley Lake Water System Improvements                       | Water        | 100,000          | 5,014,897         |  |
| Manhattan, Town of  |              |                  |                   |  |
| Manhattan Water System Improvements                         | Water        | 100,000          | 5,114,897         |  |
| Lewis and Clark County                                      |              |                  |                   |  |
| L&C Fairgrounds, Dunbar Area Water System Improvements      | Water        | 100,000          | 5,214,897         |  |
| Columbia Falls, City of                                     |              |                  |                   |  |
| Columbia Falls Wastewater System Improvements               | Wastewater   | 100,000          | 5,314,897         |  |
| Hamilton, City of   |              |                  |                   |  |
| Hamilton Wastewater System Improvements                     | Wastewater   | 100,000          | 5,414,897         |  |

Figure 15 (cont.)  
Renewable Resource Grant and Loan Program (RRGL)  
Grant Authorizations HB 6 - 2009 Biennium

| Sponsor/Title  | Project Type   | Grant<br>Authorized | Cummulative<br>Total |
|--|----------------|---------------------|----------------------|
| Hysham Irrigation District                                       |                |                     |                      |
| Hysham Irrigation District Infrastructure Improvement            | Irrigation     | 100,000             | 5,514,897            |
| Shelby, City of  |                |                     |                      |
| Shelby Water System Improvements                                 | Water          | 100,000             | 5,614,897            |
| Montana Department of Natural Resources and Conservation         |                |                     |                      |
| Community Tree Planting Grants                                   | Forestry       | 100,000             | 5,714,897            |
| Ronan, City of   |                |                     |                      |
| Ronan Wastewater System Improvements                             | Wastewater     | 100,000             | 5,814,897            |
| Pondera County Conservation District                             |                |                     |                      |
| Marias River Watershed Baseline Assessment                       | Watershed      | 100,000             | 5,914,897            |
| Sheridan County  |                |                     |                      |
| Raymond Dam Rehabilitation                                       | Dam            | 100,000             | 6,014,897            |
| Montana Department of Environmental Quality                      |                |                     |                      |
| Geothermal Assessment and Outreach Partnership                   | Energy         | 99,963              | 6,114,860            |
| Thompson Falls, City of  |                |                     |                      |
| Thompson Falls Water System Improvements                         | Water          | 100,000             | 6,214,860            |
| Missoula County Lolo RSID 901                                    |                |                     |                      |
| Lolo Wastewater System Improvements, Phase 2                     | Wastewater     | 100,000             | 6,314,860            |
| Chester Irrigation District                                      |                |                     |                      |
| Chester Irrigation Project: Phase 2, Water Service Contract      | Irrigation     | 100,000             | 6,414,860            |
| Pinesdale, Town of   |                |                     |                      |
| Pinesdale Water System Improvements                              | Water          | 100,000             | 6,514,860            |
| Ekalaka, Town of   |                |                     |                      |
| Ekalaka Water and Wastewater System Improvements                 | Wtr & Wstwater | 100,000             | 6,614,860            |
| Sweet Grass Conservation District                                |                |                     |                      |
| West Boulder Point of Diversion Rehabilitation Project           | Watershed      | 44,500              | 6,659,360            |
| Livingston, City of  |                |                     |                      |
| Glass Pulverizer for the City of Livingston                      | Solid Waste    | 100,000             | 6,759,360            |
| Montana State University   |                |                     |                      |
| Channel Response Assessment for the Upper Blackfoot              | Watershed      | 100,000             | 6,859,360            |
| Darby, Town of   |                |                     |                      |
| Darby Water System Improvements                                  | Water          | 100,000             | 6,959,360            |
| Sunburst, Town of  |                |                     |                      |
| Sunburst Backup Water Supply Wells                               | Water          | 99,236              | 7,058,596            |
| Sunset Irrigation District                                       |                |                     |                      |
| Sunset Irrigat. District Gravity Flow Group Irrigation Pipelines | Irrigation     | 100,000             | 7,158,596            |
| Geyser Judith Basin County Water and Sewer District              |                |                     |                      |
| Geyser Water System Improvements                                 | Water          | 100,000             | 7,258,596            |
| Black Eagle Water and Sewer District                             |                |                     |                      |
| Black Eagle Water System Improvements                            | Water          | 100,000             | 7,358,596            |
| Glacier County Conservation District                             |                |                     |                      |
| Marias River Bridge Road Stabilization                           | Watershed      | 100,000             | 7,458,596            |
| Buffalo Rapids Project, District 2                               |                |                     |                      |
| Open Lateral Conversion to Pipeline                              | Irrigation     | 100,000             | 7,558,596            |
| Buffalo Rapids Project, District 1                               |                |                     |                      |
| Open Lateral 34.5 Conversion to Pipeline                         | Irrigation     | <u>100,000</u>      | 7,658,596            |
| Total Projects   |                | <u>\$7,658,596</u>  |                      |

## FUNDING

Funding for the RRGL program was revised with the passage of HB 116 in the 2007 regular session. HB 116 eliminated 85-1-604, MCA, which was the RRGL state special revenue account that funded the RRGL program, and established a “natural resource project” account. The new account will be used to fund two natural resource programs, the renewable resource grant program and the reclamation and development grant program. According to the terms of HB 116, the natural resource project will be codified as part of Title 15, Chapter 38, MCA. The natural resource projects account will receive the income from the following sources:



- o Interest income of the resource indemnity trust fund as provided in and subject to the conditions of 15-38-202, MCA (\$3.5 million each fiscal year for the purpose of making grants)
- o Resource indemnity and ground water assessment tax under provisions of 15-38-106, MCA (50% of the remaining proceeds, after appropriations for CIRCLA debt service, and \$366,000 to the groundwater assessment account, for the purpose of making grants)
- o Oil and gas production tax as provided in 15-36-331, MCA (1.45% of oil and natural gas production taxes remaining after the distributions pursuant to subsections (2) and (3), increases to 2.16% in June, 2011)
- o Excess coal severance tax proceeds allocated by 85-1-603, MCA to the renewable resource loan debt service fund (above debt service requirements as provided in and subject to the conditions of 85-1-619, MCA)
- o Fees or charges collected by the department for the servicing of loans, including arrangements for obtaining security interests

|   |  |
|---|--|
| Estimated Beginning Fund Balance-(7/1/2007) | \$300,000                              |
| Revenue Projections <sup>1</sup>            |  |
| Resource Indemnity Trust Interest           | \$7,000,000                            |
| RIGWA Tax                                   | 603,000                                |
| Oil and Natural Gas Tax                     | 3,255,000                              |
| Excess Coal Tax Proceeds                    | 250,000                                |
| STIP Earnings                               | 5,000                                  |
| Administrative Fees                         | 25,000                                 |
| Orphan Share <sup>2</sup>                   | 800,000                                |
| TSEP Grant <sup>3</sup>                     | <u>2,200,000</u>                       |
| 2009 Biennium Revenues                      | 14,138,000                             |
| RDGP Appropriations <sup>4</sup>            | (5,586,422)                            |
| RRGL Appropriations <sup>5</sup>            |  |
| Emergency Grants                            | (100,000)                              |
| Project Planning                            | (400,000)                              |
| Irrigation Development                      | (300,000)                              |
| Comprehensive Irrigation Report             | (100,000)                              |
| Renewable Resource Grants                   | <u>(7,700,000)</u>                     |
| Total RRGL Appropriations                   | <u>(8,600,000)</u>                     |
| Estimated Ending Fund Balance - (6/30/2009) | <u>\$251,578</u>                       |
| <sup>1</sup> HJR 2                          | <sup>4</sup> HB 7 Grant Appropriations |
| <sup>2</sup> HB 116 Transfer                | <sup>5</sup> HB 6 Grant Appropriations |
| <sup>3</sup> HB 512 Grant Appropriation     |  |

As shown in Figure 16, the natural resource project account will have a beginning fund balance of \$300,000 in the 2009 biennium. This beginning fund balance results from the termination of one grant, authorized in the 2003 legislative session, in HB 7. Revenues for the biennium are expected to be \$14,138,000. Account revenues include the various tax distributions, interest and earnings, excess coal tax proceeds, administrative fees, a one-time-only transfer from the orphan share state special revenue account of \$800,000, included in HB 116, and, in FY 2009, a grant of \$2.2 million from the Treasure State Endowment Program.

Appropriations from the natural resource projects account will be authorized in the new section of code developed in HB 116, Title 15, Chapter 38, MCA. The new statute states, "Appropriations may be made from the natural resources projects state special revenue account for grants and loans for designated projects and the activities authorized in 85-1-602 and 90-2-1102", the renewable resource grant and loan program and the reclamation and development grant program (RDGP). In the 2009 biennium, total appropriations from the natural resource projects account for the RDGP program are \$5.6 million and appropriations for the RRGL program are \$8.6 million. The resulting ending fund balance is estimated to be \$251,578.

## **HB 8 – Loans**

HB 8 authorizes the issuance of coal severance tax bonds to provide for loans for RRGL projects, and in the 2009 biennium, TSEPRW bonds. This section of Long-Range Planning report will discuss only the authorizations for the RRGL loan program bonds. For more information on bonded funds for regional water projects, refer to page F-25 of this report.

Proceeds from the issuance of bonds are used to fund RRGL loans. Loan repayments are used to pay the debt service on the loans. In some cases, interest rates charged to loans is less than the interest rate of the bond issue. In such cases, a distribution from the coal severance tax subsidizes the difference in the interest cost. Because the issues are coal severance tax bonds, the coal severance tax permanent trust is pledged for debt service payments on the bonds.

Figure 17 lists the loans awarded by the Sixtieth Legislature for the 2009 biennium. Total bond authority in HB 8 is \$26.3 million. The \$17.2 million of authorization for the TSEPRW program is included in this HB 8 table, but will not be discuss in this section. The legislature provided bond authorization of \$9.1 million for the RRGL loan program. RRGL appropriations include \$2.8 million for 6 water project loans and \$3.0 million to provide refinancing for community water projects. Another \$2.7 million is appropriated for loans to communities who have urgent project needs and did not qualify for grants and \$0.7 million is appropriated as a loan reserve. The funds for three of the seven loans will be used for dam rehabilitation, and the three 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. Coal severance tax revenue is used to fund the subsidies.

## **FUNDING - LOANS**

RRGL program bond authority is provided in 85-1-624, MCA. Money in the coal severance tax bond fund is pledged for the payment of the principal and interest of the bond issue requested in HB 8, as directed in Title 17, Chapter 5, part 7, MCA.

## **EXECUTIVE BUDGET COMPARISON**

The Sixtieth Legislature made several changes to the executive recommendation for the RRGL loan program. First, the initial executive budget recommended contained only \$3.7 million of coal severance tax bond authority. However, when HB 8 was introduced, it contained \$7.5 million in bond authority. The office of budget and program planning acknowledged that the budget was intended to contain \$7.5 million of bond authority. To the loan list contained in HB 8, the legislature added a loan authorization for the Sunset Irrigation District in the amount \$1.5 million and increased the appropriation for the loan reserve fund by approximately \$100,000. For the RRGL loan budget, the legislature increased total bond authorization by \$1.6 million, or 21 percent, from the introduced version of HB 8.

**Figure 17**  
**Renewable Resource Loans (RR) and Treasure State Regional Water (TSEPRW) Bonding**  
**HB 8 - 2009 Biennium**

| Loans-Sponsor/Project   | Loan Authorization       | TSEPRW                     |                     |
|---|--------------------------|----------------------------|---------------------|
| <b>Section 1</b>  |                          |                            |                     |
| <b>Subsection (2) Projects (4.5% or State bond rate, whichever is lower-20 years)</b> |                          |                            |                     |
| Montana Department of Natural Resources and Conservation                              |                          |                            |                     |
| Ackley Lake Dam Rehabilitation  | \$200,000                |                            |                     |
| Montana Department of Natural Resources and Conservation                              |                          |                            |                     |
| Smith Creek Canal Seepage Abatement and Rehabilitation Project                        | 50,000                   |                            |                     |
| <b>Subsection (3) Projects (3.0% -20 years)</b>                                       |                          |                            |                     |
| Montana Department of Natural Resources and Conservation                              |                          |                            |                     |
| Community Refinance Projects  | 3,000,000                |                            |                     |
| <b>Subsection (4) Projects (4.5% or State bond rate, whichever is lower-30 years)</b> |                          |                            |                     |
| Sunset Irrigation District  |                          |                            |                     |
| Gravity Flow Irrigation Pipelines   | 1,465,266                |                            |                     |
| <b>Subsection (5) Projects (3.0% or State bond rate, whichever is lower-30 years)</b> |                          |                            |                     |
| Montana Department of Natural Resources and Conservation                              |                          |                            |                     |
| East Fork Siphon Replacement and Main Canal Lining Project                            | 400,000                  |                            |                     |
| <b>Section 2</b>  |                          |                            |                     |
| <b>Subsection 2 Projects (4.5% or State bond rate, whichever is lower-20 years)</b>   |                          |                            |                     |
| Mill Creek Irrigation District  |                          |                            |                     |
| Mill Lake Dam Rehabilitation  | 572,000                  |                            |                     |
| Montana Department of Natural Resources and Conservatio                               |                          |                            |                     |
| Martinsdale Dam Riprap Project  | 90,000                   |                            |                     |
| <b>Section 7</b>  |                          |                            |                     |
| Regional Water Projects   | 0                        | 15,400,000                 |                     |
| Total Projects  | <u>\$5,777,266</u>       | <u>\$15,400,000</u>        |                     |
| <b>Summary of HB 8 Authorizations / Bond Authority</b>                                |                          |                            |                     |
|   | <b><u>RRGL Bonds</u></b> | <b><u>TSEPRW Bonds</u></b> | <b><u>Total</u></b> |
| RR Loan Authorizations  | \$5,777,266              |                            | \$5,777,266         |
| Regional Water Project Authorization  |                          | \$15,400,000               | 15,400,000          |
| RR Loans in Lieu of Grants  | 2,658,596                |                            | 2,658,596           |
| RR and TSEPRW Loan Reserve  | <u>685,570</u>           | <u>1,758,016</u>           | <u>2,443,586</u>    |
| <b>Total Bond Authorization</b>   | <u>\$9,121,432</u>       | <u>\$17,158,016</u>        | <u>\$26,279,448</u> |

## OTHER LEGISLATION

### **HB 116**

HB 116 revised the funding for many natural resource programs in the Department of Natural Resource and Conservation and the Department of Environment Quality. The renewable resource grants program (RRGL) and the reclamation and development grant program (RDGP) are among the effected programs.

HB 116 was a legislative attempt to eliminate problems experienced in the spending from RIT accounts. Some of the accounts that were affected include the RRGL program account, the RDGP program account, the CLRCLA account, and the Orphan Share Account. Historically, legislatures have experienced difficulties in balancing the spending from these accounts. Reasons for the difficulties included the excessive transfer of program funding from the general fund to the RIT accounts and more than one appropriation subcommittee making appropriations from the accounts.

HB 116 created two new accounts, providing an account specifically for the grant programs. Distributions of the RIT interest earnings and other account revenues were redistributed to provide adequate funding for the multiple program needs. More information on the impacts of HB 116 can be found in Volume 4, Section C, of the Legislative Fiscal Report.

# RECLAMATION AND DEVELOPMENT GRANT PROGRAM

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## PROGRAM DESCRIPTION

The Reclamation and Development Grant Program (RDGP) is designed to fund projects that, “..indemnify the people of the state for the effects of mineral development on public resources and that meet other crucial state needs serving the public interest and the total environment of the citizens of Montana” (90-2-1102, MCA).”

As provided in statute, projects approved 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 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

DNRC forwards a list of recommendations to the executive, who reviews the list and submits funding recommendations to the legislature for appropriation.

## LEGISLATIVE ACTION

Figure 18 lists the RDGP grants approved by the 2007 Legislature. The legislature appropriated \$4.8 million for 18 authorized reclamation and development grants. The legislature also appropriated \$800,000 for a new program of project planning grants. Total legislative appropriations totaled \$5.6 million.

The Sixtieth Legislature added two projects to the authorized project list, a \$300,000 grant to the Flathead Basin Commission for a British Columbia / Montana action plan and a \$289,922 grant for the Butte Native Plant Propagation Nursery project at Montana Tech. The legislature also increased the grant funding for the Department of Environmental Quality (DEQ) Swift Gulch Placer Tailings and Wetland Establishment project from \$150,000 to \$300,000 and decreased the grant funding for the DEQ Interactions in Swift Gulch and the Adjacent Landusky Pit Complex project from \$300,000 to \$150,000. The legislature reduced \$200,000 of the \$1.0 million appropriation for RDGP project planning grants. According to DNRC personnel, the reduction would not be recognized as detrimental because project planning grants are a new facet of the program, and there is uncertainty about the actual need for project planning grants.

Finally, the legislature terminated one grant to the DEQ approved in the 2003 legislative session. The grant was authorized for reclamation activities at the Drumlummon and Goldsil Mines.

## FUNDING

Funding for the RDGP program was revised with the passage of HB 116 in the 2007 regular session. HB 116 eliminated 90-2-1104, MCA, which was the RDGP state special revenue account that funded the RDGP program, and established a “natural resource project” account. The new account will be used to fund two natural resource programs, the reclamation and development grant program and the renewable resource grant program. According to the terms of HB 116, the natural resource project will be codified as part of Title 15, Chapter 38, MCA. The natural resource projects account will receive the income from the following sources:

- o Interest income of the resource indemnity trust fund as provided in and subject to the conditions of 15-38-202, MCA (\$3.5 million each fiscal year for the purpose of making grants)
- o Resource indemnity and ground water assessment tax under provisions of 15-38-106, MCA (50% of the remaining proceeds, after appropriations for CIRCLA debt service, and \$366,000 to the groundwater assessment account, for the purpose of making grants)
- o Oil and gas production tax as provided in 15-36-331, MCA (1.45% of oil and natural gas production taxes remaining after the distributions pursuant to subsections (2) and (3), increases to 2.16% in June, 2011)
- o Excess coal severance tax proceeds allocated by 85-1-603, MCA to the renewable resource loan debt service fund (above debt service requirements as provided in and subject to the conditions of 85-1-619, MCA)
- o Fees or charges collected by the department for the servicing of loans, including arrangements for obtaining security interests

**Figure 18**  
**Reclamation and Development Grants (RDGP)**  
**Grant Authorizations HB 7 - 2009 Biennium**

| Sponsor/Title   | Grant Authorization       | Cumulative Total |
|---|---------------------------|------------------|
| MT Board of Oil and Gas Conservation  |                           |                  |
| 2007 Southern District Orphaned Well Plug & Abandonment & Site Restoration  | \$300,000                 | \$300,000        |
| MT Board of Oil and Gas Conservation  |                           |                  |
| 2007 Northern District Orphaned Well Plug & Abandonment & Site Restoration  | 300,000                   | 600,000          |
| MT Department of Environmental Quality  |                           |                  |
| Snowshoe Mine Reclamation Project   | 300,000                   | 900,000          |
| MT Department of Environmental Quality  |                           |                  |
| Bald Butte Mine and Millsite Reclamation Project  | 300,000                   | 1,200,000        |
| MT Department of Natural Resources and Conservation   |                           |                  |
| St. Mary Facilities Rehabilitation  | 300,000                   | 1,500,000        |
| Powell County   |                           |                  |
| Milwaukee Roundhouse Voluntary Cleanup  | 286,000                   | 1,786,000        |
| MT Department of Natural Resources and Conservation   |                           |                  |
| Reliance Refinery   | 300,000                   | 2,086,000        |
| Central Montana Water Authority   |                           |                  |
| Utica Well 2  | 300,000                   | 2,386,000        |
| MT Board of Oil and Gas Conservation  |                           |                  |
| Southern District Tank Battery Cleanup  | 300,000                   | 2,686,000        |
| Meagher County CD   |                           |                  |
| Hydrologic Investigation of the Smith River Watershed   | 300,000                   | 2,986,000        |
| MT Department of Environmental Quality  |                           |                  |
| Belt Acid Mine Drainage Mitigation  | 282,000                   | 3,268,000        |
| MT Department of Environmental Quality  |                           |                  |
| Swift Gulch Placer Tailings and Wetland Establishment   | 300,000                   | 3,568,000        |
| Broadwater CD   |                           |                  |
| Whites Gulch Reclamation Fish Barrier Project   | 24,500                    | 3,592,500        |
| MT Department of Environmental Quality  |                           |                  |
| Landusky Mine – Characterization of Surface Water/Groundwater Interactions in Swift Gulch and the Adjacent Landusky Pit Complex | 150,000                   | 3,742,500        |
| Big Horn CD   |                           |                  |
| Montana Regional Coalbed Methane  | 160,000                   | 3,902,500        |
| Gallatin Local Water Quality District   |                           |                  |
| Assessment and Distribution of Pharmaceuticals  | 294,000                   | 4,196,500        |
| Flathead Basin Commission   |                           |                  |
| British-Columbia-Montana Action Plan  | 300,000                   | 4,496,500        |
| Montana Tech of the University of Montana   |                           |                  |
| Butte Native Plant Propagation Nursery  | 289,922                   | 4,786,422        |
| <b>Total Projects</b>   | <b><u>\$4,786,422</u></b> |                  |



# 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 distributions of coal severance tax. 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).

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 | Funds<br>Appropriated | General Fund<br>Appropriated | Funds<br>Expended | Number of<br>Projects<br>Funded |
|----------|-----------------------|------------------------------|-------------------|---------------------------------|
| 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             |                              | 1,267,952         | 93                              |
| 1997     | 857,926               |                              | 852,003           | 77                              |
| 1999     | 1,489,453             |                              | 1,416,787         | 79                              |
| 2001     | 634,939               | \$600,000                    | 1,163,905         | 76                              |
| 2003     | 705,425               | 532,575 <sup>1</sup>         | 1,176,602         | 74                              |
| 2005     | 659,000               | 499,150                      | 1,135,473         | 81                              |
| 2007     | 1,371,020             | 100,275                      | 1,326,015 Est.    | 84                              |
| 2009     | 1,148,033             |                              | N/A               | 82                              |

<sup>1</sup> \$198,575 of general fund support replaced with lodging facility tax in FY 2003.

Figure 20 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

The Sixtieth Legislature passed HB 9 in the regular session, which included a one-time general fund transfer of \$1.5 million to the Cultural Trust in the 2009 biennium. This action was taken to replace the remaining \$500,000 of corpus taken for the purchase of Virginia and Nevada Cities and to provide greater interest earnings for grants.

As passed by the legislature, HB 9 appropriates Cultural Trust interest earnings deposited into the C&A state special revenue 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 82 C&A grant awards totaling \$698,770. These awards are listed, in priority order, in Figure 21. 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 projects with funding greater than \$4,500 will be made on a pro rata basis.”

## EXECUTIVE BUDGET COMPARISON

The Sixtieth Legislature made no changes to the executive budget recommendation for the C&A grant program.

Figure 21  
Cultural and Aesthetic Grants (C&A)  
Grant Authorizations HB 9 - 2009 Biennium

| Grant No.                          | Applicant                                | Grant Authorized | Cummulative Total | Grant No.                  | Applicant                                 | Grant Authorized | Cummulative Total |
|------------------------------------|--|------------------|-------------------|----------------------------|---|------------------|-------------------|
| <b>Special Project &lt; \$4500</b> |  |                  |                   | 1293                       | Yellowstone Art Museum                    | 9,000            | 368,000           |
| 1207                               | Signatures from the Big Sky              | \$4,500          | \$4,500           | 1280                       | Paris Gibson Sq Museum of Art             | 13,000           | 381,000           |
| 1202                               | Flathead Valley Community College        | 2,000            | 6,500             | 1278                       | Myrna Loy Center                          | 9,000            | 390,000           |
| 1205                               | Miles City Speakers Bureau               | 4,000            | 10,500            | 1249                       | Butte Center for the Performing Arts      | 12,000           | 402,000           |
| 1208                               | Valley County Historical Museum          | 4,000            | 14,500            | 1264                       | Missoula Children's Theatre               | 10,000           | 412,000           |
| 1200                               | Council for the Arts, Lincoln            | 2,500            | 17,000            | 1260                       | Holter Museum of Art                      | 12,000           | 424,000           |
| 1204                               | Metropolitan Opera National Council      | 1,000            | 18,000            | 1252                       | Carbon County Historical Society          | 11,000           | 435,000           |
| <b>Special Project &gt; \$4500</b> |  |                  |                   | 1256                       | Grandstreet Theatre/Broadwater Production | 12,000           | 447,000           |
| 1228                               | Montana Committee for the Humanities     | \$22,000         | 40,000            | 1274                       | Montana Repertory Theatre                 | 10,000           | 457,000           |
| 1224                               | Helena Symphony Orchestra and Chorale    | 10,000           | 50,000            | 1287                       | Southwest Montana Arts Council            | 8,000            | 465,000           |
| 1236                               | Pondera History Association              | 10,000           | 60,000            | 1243                       | Archie Bray Foundation                    | 10,000           | 475,000           |
| 1239                               | Western Heritage Center                  | 10,000           | 70,000            | 1266                       | Montana Ag Center & Museum                | 8,000            | 483,000           |
| 1225                               | KUFM-TV, Montana PBS                     | 10,000           | 80,000            | 1290                       | Whitefish Theatre Company                 | 10,000           | 493,000           |
| 1213                               | Butte Citizens for Pres & Revitalization | 10,000           | 90,000            | 1255                       | Pioneer Museum/ Gallatin Hist Museum      | 5,000            | 498,000           |
| 1229                               | Montana Historical Society               | 7,000            | 97,000            | 1288                       | Vigilante Theatre Company                 | 8,000            | 506,000           |
| 1240                               | Yellowstone Chamber Players              | 6,000            | 103,000           | 1292                       | Writer's Voice (Billings YMCA)            | 12,000           | 518,000           |
| 1217                               | CoMotion Dance                           | 10,000           | 113,000           | 1251                       | Carbon County Arts Guild                  | 7,000            | 525,000           |
| 1222                               | Glacier Symphony & Chorale               | 7,000            | 120,000           | 1281                       | Pondera Arts Council                      | 5,000            | 530,000           |
| 1232                               | Montana Performing Arts Consortium       | 15,000           | 135,000           | 1282                       | Rimrock Opera Company                     | 10,000           | 540,000           |
| 1231                               | Montana Museum of Art & Culture          | 5,000            | 140,000           | 1247                       | Billings Symphony Society                 | 8,000            | 548,000           |
| 1234                               | Montana Shakespeare Co/Artists Group     | 6,000            | 146,000           | 1283                       | Rocky Mountain Ballet Theater             | 7,000            | 555,000           |
| 1219                               | Emerson Cultural Center                  | 7,000            | 153,000           | 1250                       | Butte Symphony Association                | 8,000            | 563,000           |
| 1227                               | Montana Alliance for Arts Ed             | 5,000            | 158,000           | 1246                       | Big Horn Arts & Crafts Association        | 7,000            | 570,000           |
| 1220                               | Equinox Theatre Company                  | 8,000            | 166,000           | 1289                       | VSA arts of Montana                       | 6,000            | 576,000           |
| 1216                               | Children's Museum of Bozeman             | 5,000            | 171,000           | 1271                       | Montana Ballet Company                    | 5,000            | 581,000           |
| 1226                               | Missoula Art Museum                      | 5,000            | 176,000           | 1291                       | World Museum of Mining                    | 8,000            | 589,000           |
| 1210                               | Alpine Artisans                          | 6,000            | 182,000           | 1279                       | NW MT Hist Soc/ Mus at Central Sch        | 5,000            | 594,000           |
| 1223                               | Headwaters Dance Co                      | 5,000            | 187,000           | 1263                       | Mission Valley Friends of the Arts        | 4,000            | 598,000           |
| 1241                               | Yellowstone Historic Center              | 8,000            | 195,000           | 1294                       | Young Audiences of Western MT             | 6,000            | 604,000           |
| <b>Operational Support</b>         |  |                  |                   | 1245                       | Artisan Dance                             | 4,000            | 608,000           |
| 1267                               | Montana Art Gallery Director's Assoc     | \$15,000         | 210,000           | 1258                       | Hamilton Players, Inc                     | 6,000            | 614,000           |
| 1276                               | Museums Association of Montana           | 10,000           | 220,000           | 1275                       | Museum of the Rockies                     | 6,000            | 620,000           |
| 1270                               | Montana Assoc of Symphony Orchestras     | 5,000            | 225,000           | 1284                       | CM Russell Museum                         | 9,000            | 629,000           |
| 1269                               | Montana Arts                             | 10,000           | 235,000           | 1261                       | Intermountain Opera                       | 8,000            | 637,000           |
| 1272                               | Montana Dance Arts Association           | 5,000            | 240,000           | 1254                       | District 7 HRDC Growth Thru Art           | 8,000            | 645,000           |
| 1253                               | Custer County Art & Heritage Center      | 15,000           | 255,000           | 1262                       | Miles City Preservation Comm              | 2,270            | 647,270           |
| 1285                               | Schoolhouse History & Art Center         | 14,000           | 269,000           | <b>Capital Expenditure</b> |   |                  |                   |
| 1242                               | Alberta Bair Theater                     | 14,000           | 283,000           | 1295                       | Butte-Silver Bow Public Archives          | \$15,000         | \$662,270         |
| 1248                               | Bozeman Symphony Society                 | 11,000           | 294,000           | 1300                       | Mai Wah Society/ Museum                   | 17,500           | 679,770           |
| 1244                               | Art Mobile of Montana                    | 14,000           | 308,000           | 1297                       | City of Shelby                            | 8,000            | 687,770           |
| 1286                               | Shakespeare in the Parks                 | 15,000           | 323,000           | 1303                       | Yellowstone Ballet Company                | 3,000            | 690,770           |
| 1259                               | Hockaday Museum of Art                   | 14,000           | 337,000           | 1302                       | TVIA -Board of Arts                       | 8,000            | 698,770           |
| 1257                               | Great Falls Symphony Association Inc     | 9,000            | 346,000           | Total Projects             |   | <u>\$698,770</u> |                   |
| 1273                               | Montana Preservation Alliance            | 13,000           | 359,000           |                            |   |                  |                   |



**FUNDING**

Figure 22 shows the estimated funding for the C&A project account for the 2009 biennium. The beginning fund balance is estimated to be zero because revenues are projected to be less than total appropriations in the 2007 biennium. Interest income from the coal tax-funded Cultural Trust is projected to be \$1,006,000 for the 2009 biennium and new interest resulting from the deposit of a \$1.5 million state general fund one-time-only transfer, approved in HB 9, is estimated to equal \$166,410. Total revenues available to the C&A grant program in the 2009 biennium are \$1.2 million.

Total administrative expenses of \$402,434 are appropriated in HB 2 from the May 2007 special session. Impacts of pay plan adjustments, HB 13, and retirement system contributions, HB 131, increased the contribution of C&A funds for the purpose of administrative costs by \$16,829. When summed, total administrative costs of the C&A grant program will be \$419,263 in the 2009 biennium. HB 9 contains an appropriation for capitol complex artwork of \$30,000 and the grant program appropriation is \$698,770. Total appropriations for the C&A grant program for the 2009 biennium are \$1.1 million. The 2009 biennium ending fund balance for the C&A grant fund is estimated to be \$24,377.

|  |                    |
|--|--------------------|
| Estimated Beginning Fund Balance (7/1/2007)  | \$0                |
| Revenue Projections <sup>1</sup>   |                    |
| 2008 Investment Earnings   | \$496,000          |
| 2009 Investment Earnings   | 510,000            |
| Investment Earnings from GF Transfer <sup>2</sup>  | <u>166,410</u>     |
| 2009 Biennium Revenues   | 1,172,410          |
| C&A Appropriations:  |                    |
| Administration and Folklife <sup>3</sup>   | (419,263)          |
| Capitol Complex Works of Art   | (30,000)           |
| Grants   | <u>(698,770)</u>   |
| Total Appropriations   | <u>(1,148,033)</u> |
| Estimated Ending Fund Balance (6/30/2009)  | <u>\$24,377</u>    |
| <hr/>  |                    |
| <sup>1</sup> HJR 2   |                    |
| <sup>2</sup> Based on transfer of \$1,500,000 July 1, 2008 and average interest rates of 5.54% in FY 2008 and 5.55% in FY 2009 |                    |
| <sup>3</sup> HB 2 (ss)   |                    |