



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Director
AMY CARLSON

DATE: January 21, 2022
 TO: Revenue Interim Committee
 FROM: Katy Callon, Fiscal Analyst
 RE: Montana Infrastructure Costs Estimation

This memo is to provide the Revenue Interim Committee additional detail pertaining to Montana’s projected infrastructure costs as part of its HJ 6 study. The data provided is what is currently known about specific infrastructure types and presents a best approximation of needs or costs to fund the needs of those infrastructure types. This includes infrastructure currently funded by the coal severance tax trust fund, as well as other types, if information is available.

The following table shows infrastructure costs by type, estimated total project costs or needs, and the investment that is currently provided during the 2023 biennium or is anticipated through the Bipartisan Infrastructure Law. The remaining balance may serve as a best estimation of remaining needs for those specific infrastructure types.

Infrastructure Type	Total Estimated Project Cost (in millions)	State-Directed Investment - 2023 Biennium Appropriations & Anticipated Funding	Remaining Balance (Estimated Cost Less State-Directed Investment)
Water/Wastewater- ARPA Minimum Allocation & Competitive Grants, Round 1	1,612.9	388.0	1,224.9
Regional Water Projects	1,108.0	15.0	1,093.0
Irrigation	166.0	10.4	155.6
<i>St. Mary's Diversion Systems Project</i>	305.0	100.0	205.0
State-Owned Dams & Canals	239.0	0.6	238.4
State Buildings	1,267.7	410.1	857.6
Schools - Based on 2008 Facility Assessment	470.0	26.4	443.6
Broadband	Unknown	366.5	Unknown
Total, Excluding Unknown Estimates	5,168.6	1,267.0	4,218.1

The infrastructure types not addressed in this report include locally owned buildings, highways/streets and sidewalks, parks and recreation facilities, airports, solid waste facilities, railroads, ports, and energy generation and transmission infrastructure.

Infrastructure Cost Estimation by Type

Water/Wastewater

Water and wastewater infrastructure are funded with a variety of sources; this section presents an overview of state-directed funding that is currently authorized for water and wastewater projects.

Two of the primary state-directed funding sources for water and wastewater infrastructure are the Montana Coal Endowment Program (MCEP, formerly known as Treasure State Endowment Program or TSEP) and the Renewable Resource Grant and Loan (RRGL) program. MCEP was approved by Montana voters with the passage of Legislative Referendum 110 in June 1992; its purpose is to assist local governments in funding infrastructure projects such as drinking water, wastewater treatment, sanitary sewer and storm sewer systems, solid waste disposal and separation systems, and bridges. The RRGL program was created by the 1993 Legislature to fund projects that “enhance Montana’s renewable resources through projects that measurably conserve, develop, manage, or preserve resources.”

The 2023 biennium was unique in that federal COVID-related funding was available under the American Rescue Plan Act (ARPA) and appropriated by the Montana Legislature for various purposes, including infrastructure investments such as water and wastewater systems. In addition to funding the MCEP and RRGL programs, the 2021 Legislature appropriated funding for two grant programs to address water and sewer infrastructure.

The total funding for the two grant programs is \$388.0 million. Cities, towns, and counties are eligible to apply for funding under the minimum allocation grant program. This funding is allocated to local governments based on the gas tax allocation formula and requires a match. ARPA funding available for this program totals \$150.0 million. The other program, the competitive grant program, is open to cities, towns, counties, consolidated city-counties, other political subdivisions or local government bodies of the state, school districts, regional water authorities, water districts, sewer districts, irrigation districts, water user associations, conservation districts, and tribal governments. The funding level for this program is \$238.0 million. Grants for each project are limited to \$2.0 million and a match is required. Grants are being approved by the Infrastructure Advisory Commission, and then the Governor gives final approval for the awards. There is a funding dashboard available, detailing the funds awarded to entities through these programs: <https://gov.mt.gov/arpadashboard/>

Given the extent of funding available, more project applications are being submitted than are normally received for the state’s water/wastewater grant programs. This data provides a clearer picture of the needs that may exist, although it is not comprehensive. In the first round of applications for both programs, **total project costs identified were approximately \$1.6 billion**; \$834.6 million of ARPA funding was requested, with local matching funds totaling \$778.2 million. As of January 5, 2021, \$158.9 million has been awarded.

Regional Water Systems

In 1999, the Legislature created the Montana coal endowment regional water system (MCEPRW, formerly Treasure State Endowment Program Regional Water or TSEPRW) fund as a sub-trust within the coal tax permanent trust. The program was created to provide the state match for the receipt of federal and local funds for the four large regional water projects in the state. As of January 2021, the following were the total cost estimates for the projects:

- Fort Peck-Dry Prairie Regional Water System – \$342.0 million
- Rocky Boy’s North Central Montana Regional Water System - \$409.0 million
- Central Montana Regional Water System - \$87.0 million
- Dry-Redwater System - \$270.0 million

Since 2002, the state has expended approximately \$48.4 million for these regional water system projects. In addition to the \$5.0 million appropriated by the 2021 Legislature for the 2023

biennium, ARPA funds totaling \$10.0 million were also appropriated for these projects. Finally, under the Bipartisan Infrastructure Law, passed in November of 2021, \$1.0 billion was appropriated for seven federally authorized rural water projects, including three of Montana's rural water system projects. The Bureau of Reclamation will be allocating the funding.

Irrigation

The RRGL program provides grant funding for irrigation projects; approximately \$4.2 million of funding was provided for irrigation projects in the 2023 biennium. Additionally, \$10.0 million of ARPA funding was allocated for competitive grants for irrigation projects that provide a water quality benefit; the deadline for the first round of this funding was January 14, 2022.

In 2007, the Legislature authorized funding to prepare an inventory of irrigation infrastructure in the state.¹ The purpose was to provide an understanding of the condition of existing irrigation systems throughout the state and an estimated cost for completing necessary improvements. Information was gathered through a mail survey sent to irrigation water supply organizations and through on-site evaluations of ten irrigation systems. Outside of state water projects and US Bureau of Reclamation projects, the statewide cost estimate to bring irrigation infrastructure to full operating condition was \$131.7 million. In 2021 dollars, **that cost estimate is now \$166.0 million.**

Saint Mary's Diversion System Project

The Saint Mary's diversion system diverts the flow into the North Fork Milk River via a 90-year-old, 29-mile long facility; the Milk River flow is utilized by irrigators, municipalities, and for recreational and wildlife benefits. **The current cost estimate for this project is \$305 million.** The Bipartisan Infrastructure Law includes \$100 million for the Saint Mary's project, bringing the remaining balance to \$205 million. It is anticipated that federal funding from the Bureau of Reclamation will cover \$79.4 million or 26.04% of the project cost, and the remaining cost is expected to be covered by the state and water users.

Dams

For the 2023 biennium, the RRGL program funded \$625,000 for dam projects.

There are currently 22 state-owned dams and 250 miles of canals for supply, storage, and delivery of irrigation and stock water, in addition to the Missouri River Toston hydroelectric facility. According to the Department of Natural Resources and Conservation, **total investment needed for these dams and canals is estimated to be \$239.0 million.**

State-Owned Buildings

The Long-Range Building Program (LRBP) was authorized by the Legislature in 1963 to provide funding for construction, alteration, repair, and maintenance of state-owned buildings and grounds. Funding for the LRBP comes from various sources, including the LRBP capital projects accounts, state special revenue accounts, federal special revenue accounts, and other non-state funds (university funds, private funds, and capitol land grant funds). There are two categorizations of projects:

¹ <http://dnrc.mt.gov/divisions/cardd/docs/publications/InventoryofIrrigationInfrastructureinMontana.pdf>

- major repair projects including renovation, alteration, replacement or repair projects with a total cost of less than \$2.5 million, as well as new facility projects with a total construction cost of less than \$250,000
- capital development projects including renovation, construction, alteration, site, or utility project with a total cost of \$2.5 million or more, as well as new facility construction projects with a construction cost of \$250,000 or more

For the 2023 biennium, the Legislature appropriated \$410.1 million for capital projects.

Although not the largest funding source for capital projects, the LRBP major repairs account is the primary source of funding for the major maintenance of general fund supported buildings in the state building program. Dedicated revenues for this account include:

- 2.6% distribution of cigarette tax revenue
- 12.0% distribution of coal severance tax revenue
- HB 2 appropriated general fund transfer (transfers to bring annual major repairs spending to the level of 0.6% of the current replacement value of all LRBP eligible buildings)

For the general fund transfer, 17-7-222, MCA specifies that the minimum level of funding for major repair projects is 0.6% of the replacement cost of existing LRBP eligible buildings for each fiscal year. This change was enacted by the 2019 Legislature. For the 2023 biennium, \$17.5 million of general fund transfer was authorized in accordance with the statute. In contrast, \$8.0 million of coal severance tax revenue was anticipated for the LRBP.

On top of the **\$376.2 million of unfunded requests** for funding from the 2023 Legislative Session for the LRBP and ARPA Section 604 capital projects funds, the Architecture & Engineering (A&E) Division has identified an additional **\$891.5 million in facility deficiencies and needs** based upon data received from Montana State University, Corrections, and Department of Administration. While this is not a comprehensive inventory of all state-building repair and replacement needs, it provides an example of the magnitude of those needs for agencies that have projected their infrastructure needs. A&E is currently in the process of undertaking a statewide facility condition assessment of all state-owned general fund-supported infrastructure and in subsequent biennia will be able to present to the legislature more detailed information about state-owned building conditions and deficiencies.

School Facilities

There is coal severance tax funding directed for school facilities; HB 260 of the 2017 Legislative Session directed that, beginning in FY 2018, 75.0% of the coal tax allocation to the coal trust fund would be directed to the school facilities fund. Under current law, those funds will continue to build the school facilities sub-trust until the corpus balance reaches \$200.0 million. In accordance with 20-9-635, MCA, a combination of funding from the general fund, earnings from the school facilities fund, and state special revenue from the school major maintenance account is paid to schools for school facility needs. This statute specifies that the 2023 biennium appropriation for these payments is \$20.0 million with \$10.0 million allocated for each fiscal year.

In addition to that funding, in 2019, the Legislature created a one-time-only local government infrastructure financing program, the Delivering Local Assistance Program, to provide funding for grants to local governments for infrastructure and school facility projects. Of the

approximately \$12.7 million of remaining budget established for this program for the 2023 biennium, \$2.8 million has been expended. \$2.3 million of the expenditures were for 11 school district facility projects.

In terms of costs related to school facility infrastructure, the best available data is the 2008 K-12 Public Schools Facility Condition Assessment that was conducted by the A&E Division of the Department of Administration. This study identified deficiencies and calculated cost allowances to remediate the deficiencies. The statewide cost allowances totaled \$359.0 million in 2007 dollars. Updated to current dollars (2021), **those cost allowances total \$470.0 million.** Because that study was a snapshot in time, it is unknown to what extent schools have addressed the deficiencies found in the study and what new deficiencies have arisen since then.

Broadband

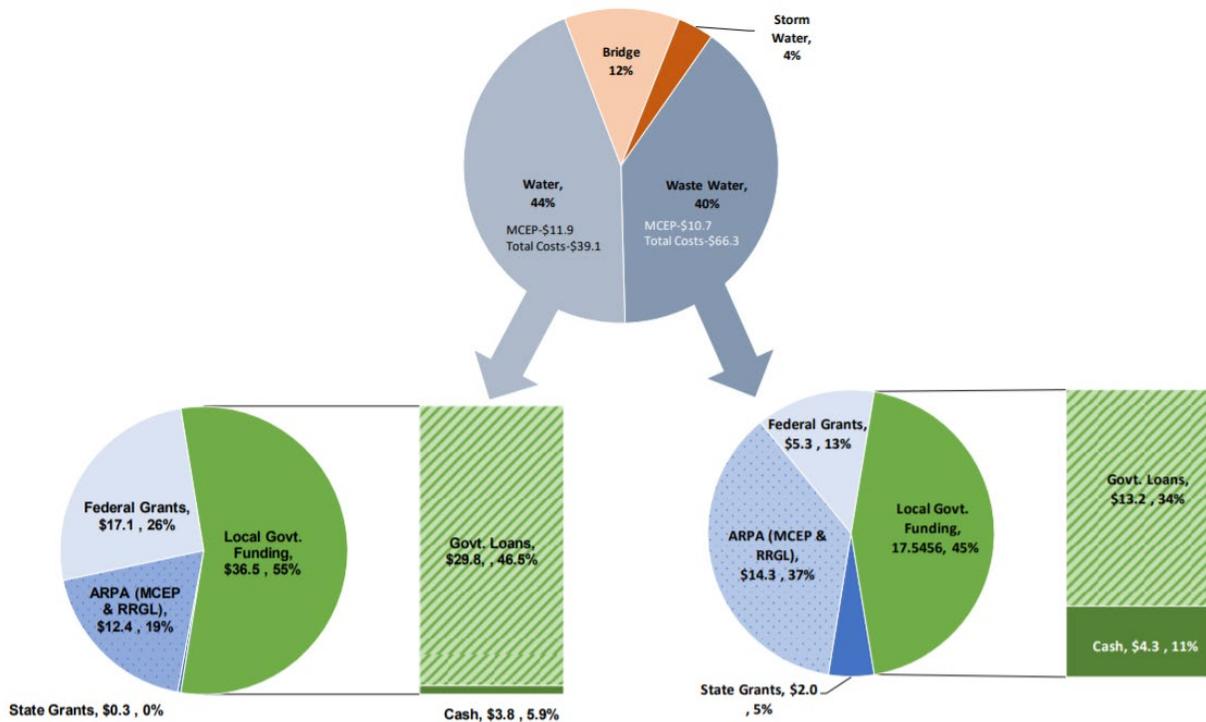
Broadband is a relatively new infrastructure type to be addressed by the state, especially as it is, for the most part, privately owned. The focus of the public investment is intended to increase service to those areas that are rural and/or are currently unserved or underserved. ARPA funding allocated for investment in broadband is approximately \$266.0 million. This funding is for mapping efforts to identify needs and for competitive grants. Additionally, the 2021 Legislature passed SB 297, the ConnectMT Act, establishing a broadband infrastructure deployment program to provide grants that help fund broadband infrastructure projects in areas that are unserved or underserved; \$500,000 was appropriated for this program. Finally, Montana is expected to receive a minimum of \$100.0 million for broadband infrastructure through the Bipartisan Infrastructure Law.

In terms of infrastructure needs, the National Telecommunications and Information Administration has published a broadband indicator of needs map, which includes Montana: <https://broadbandusa.maps.arcgis.com/apps/webappviewer/index.html?id=e2b4907376b548f892672ef6afbc0da5> Indicators are based on usage and speed tests. For the ARPA funding, the Communications Advisory Commission is also looking at a mapping project to assist with identification of needs. The grant program, funded with ARPA funds, is anticipated to be open for applications for its first round in spring 2022. The funding requests and total project costs identified through the grant program process may serve as an approximation for broadband infrastructure needs.

Funding Composition for Infrastructure Projects

In addition to state-directed funding for infrastructure projects, there is often federal funding utilized as well as local government funding, including both cash and bonds. This varies based on the type of infrastructure and funds available. The following shows MCEP funding and how those projects are typically funded, as an example.

The 2021 Legislature provided the Montana Coal Endowment Program (MCEP) with \$26.7 million in appropriation authority for the 2023 biennium. In this biennium, the Legislature funded the program exclusively with HB 632 ARPA funds and did not make use of the interest earnings from the coal severance tax trust. The trust interest earnings for the 2023 biennium will be retained for MCEP projects in future biennia. The graphic below shows the break-out of project types funded in the 2023 biennium and highlights the overall project funding for water and wastewater projects (\$ in millions).



As can be seen in the charts, most of the funding, 55.0% for water and 45.0% for wastewater, is local government funding.

Data Sufficiency

The estimated infrastructure costs presented are approximations based on current data available. While requested funding through state grant programs can provide an indication of funding needed, it is unlikely that requests capture total funding needs. When more funding is available, such as has been the case with ARPA funding, entities are more likely to submit requests as there is a greater likelihood of success. Nevertheless, there is not currently a comprehensive database or assessment presenting funding needs for each infrastructure type.

For some of the data that is available, such as the school facilities assessment, it shows needs at a certain time, a snapshot of what was needed. Because it is not updated on a regular basis, the data is now outdated and, therefore, may be limited in usefulness.

An investment to collect the data and keep the data updated regularly is needed for comprehensive and up-to-date data on infrastructure deficiencies and funding needs for both local and state-owned infrastructure.

Coal Severance Tax Trust Fund Considerations

In terms of the sub-trust funding flows, deposits into both the Montana Coal Endowment Fund and the Montana Coal Endowment Regional Water System Fund sub-trusts terminated at the end of FY 2016; interest earnings are currently appropriated for projects funded by those programs.

Looking ahead, the Big Sky Economic Development Trust Fund currently receives 25% (12.5% of the total) of the remaining coal severance tax revenues after deposits in the coal tax bond fund. That deposit is set to terminate at the end of FY 2025.

The school facilities fund receives 75.0% of the coal tax allocation to the coal trust fund; this corpus is capped at \$200.0 million, per statute. Once that cap is reached, the flow will be terminated.

For both of these funds, once the flow is terminated due to sunset or reaching the cap, those flows will be redirected to the permanent funds. They can be re-directed based on legislative action.