

# State and Local Infrastructure

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# INFRASTRUCTURE – STATE AND LOCAL TRENDS AND PRESSURES

## *Executive Summary*

All forms of Montana governments have historically exhibited a tendency to postpone major infrastructure construction and maintenance either until times of booming economic conditions or until the systems fail to function or meet the service demands. This has led to inconsistent funding levels and often reactive investment, or meeting the infrastructure needs on what may be thought of as an emergency basis, instead of consistent funding and planning proactively to avoid infrastructure emergencies from occurring.

In recent years, state government has taken steps to improve funding consistency and measurement of outcomes-over-time for general fund supported state infrastructure programs, making possible better planning and prioritization for state-owned infrastructure as well as the potential for additional funding for state-funded local government grant programs. The ability to take a more proactive approach with infrastructure investments is aided by the fact that state financial policy and capitol appropriations are governed by one legislative body.

Contrasted with state agencies, local governments are governed independently with over 180 individual municipalities and counties making decisions unique to each community's needs and financial situation. While this report will show that local governments have increased spending on critical infrastructure there is no comprehensive baseline data or standardized reporting procedure that allows evaluation of sufficiency of infrastructure funding or measurement of outcomes-over-time on a statewide basis. That said, local governments have consistently expressed concerns about urgent infrastructure needs that are unmet and straining their funding resources.

The purpose of this report is to assess past state and local infrastructure investment, and identify trends and pressures for possible action in the state's plan to address infrastructure improvements.

The principal categories of infrastructure that are addressed in this report are broken into two main groupings:

- 1) State-funded infrastructure, which includes:
  - a. state-owned buildings,
  - b. highway construction and major maintenance, and
  - c. state financial assistance in local government infrastructure through various grant programs.
- 2) Various forms of local government infrastructure, including roads.

This distinction is made in order to separate those types of infrastructure that have state programs currently in place to fund infrastructure, in whole or in part, versus those types of infrastructure that rely upon local jurisdictions for funding. What's important to note is that although not directly associated with a state-funded program, the latter category may be impacted by state-level decisions.

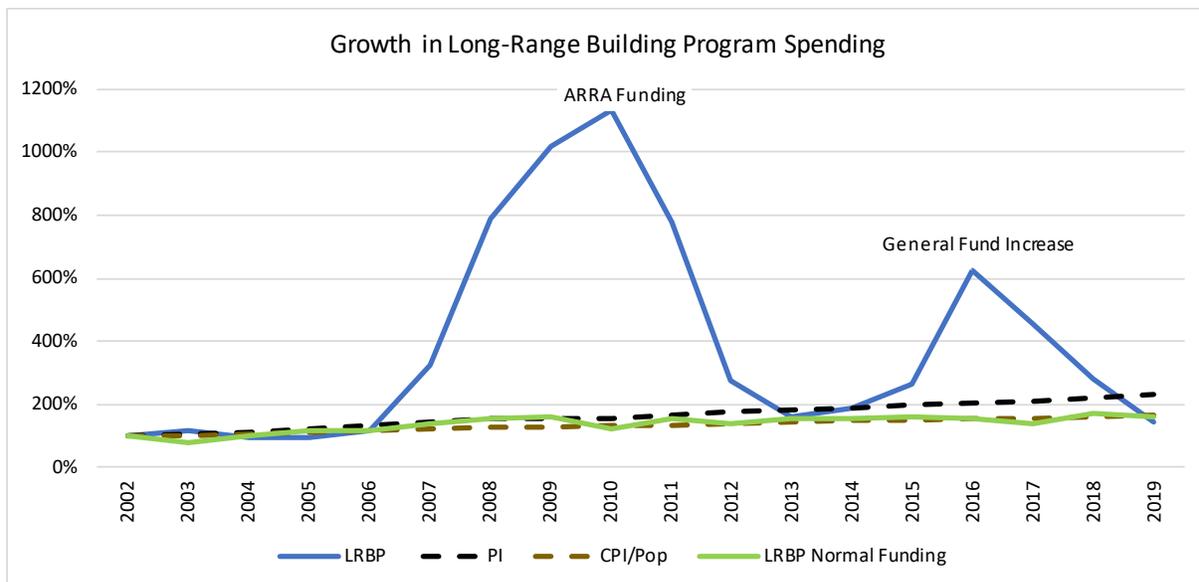
## *State-Funded Infrastructure*

State-owned infrastructure includes but is not limited to state and university facilities and associated campuses, recreational sites, state parks, and highways and bridges. Typically, all except for Montana Department of Transportation (MDT) highways and bridges are appropriated or authorized as part of the state's Long-Range Building Program (LRBP). Highways and bridges are appropriated within the state's general appropriations act, HB 2, as part of the MDT budget.

## State Buildings and Lands

The funding of the investments of state-owned buildings and lands can come from general fund, state special revenue, federal special revenue, or non-state sources such as donations and grants. Due to the demands placed upon the state general fund the legislature typically puts greater scrutiny on funding decisions related to state-owned infrastructure supported by the general fund, and state-owned infrastructure that is supported by other funding sources for which funding shortfalls would have a high probability of being backfilled with general fund. An example of the latter category is a shortfall in coal severance taxes flowing into the Long-Range Building Program for major repair projects that, by statute, would be replaced with general fund.

*The following economic benchmarks were used for analysis of growth trends: growth in economy as measured by personal income and the combined rate of population and inflation. These are used as measurements of comparison related to Montana's economy. The growth of these indicators is indexed to 2002, and the source of data used to calculate these benchmarks is IHS Markit.*

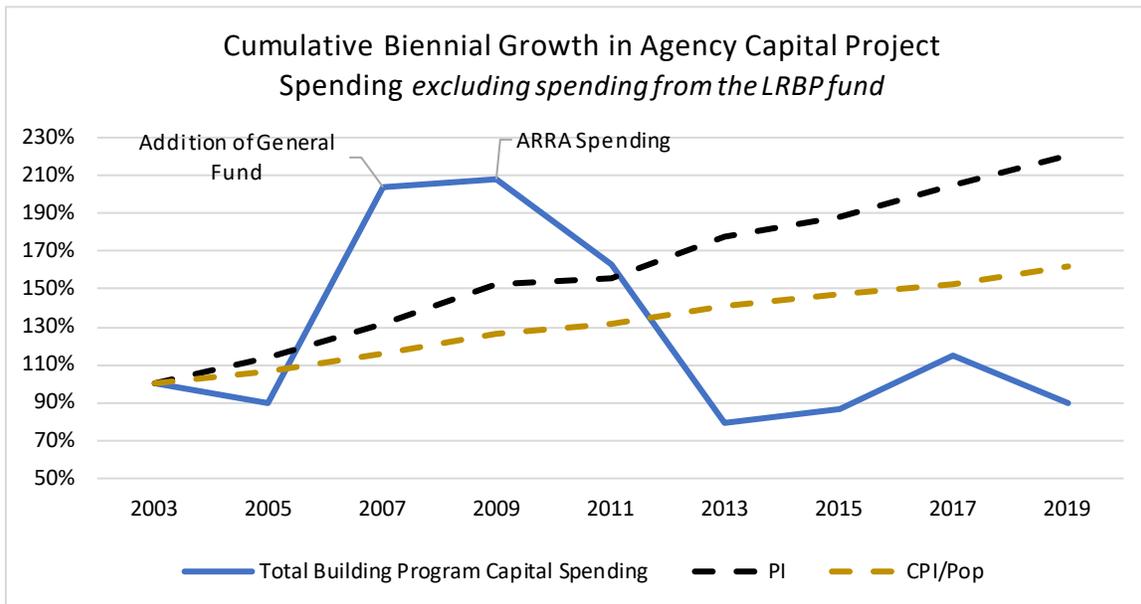


As shown in the chart above, the normal funding stream of the LRBP has tracked the level of population and inflation growth. When available, as applies to all governmental infrastructure spending, occasional infusions of state general fund or federal stimulus funds have been used to finance additional infrastructure projects.

As an improvement in the way that state building major maintenance projects are prioritized and appropriated, the 2017 Legislature put in place the requirement of facility condition assessments (SB 43, 2017 Session) for state-owned buildings reliant upon the general fund. This new requirement of the building program will provide a feedback loop of data available to focus funds on the state's highest priorities and show if funding levels are making sufficient progress over time to stabilize or decrease the deferred maintenance needs of those state-owned facilities.

Most state-owned building and lands maintained by non-general fund sources are deemed to be fully supported by their normal funding streams and would typically not be backfilled with general fund. Examples of this include infrastructure funded through the Department of Fish, Wildlife, and Parks (FWP) general license

account such as fishing access site improvements, where it is assumed that general license fees would be increased if required expenditures are projected to exceed revenues.

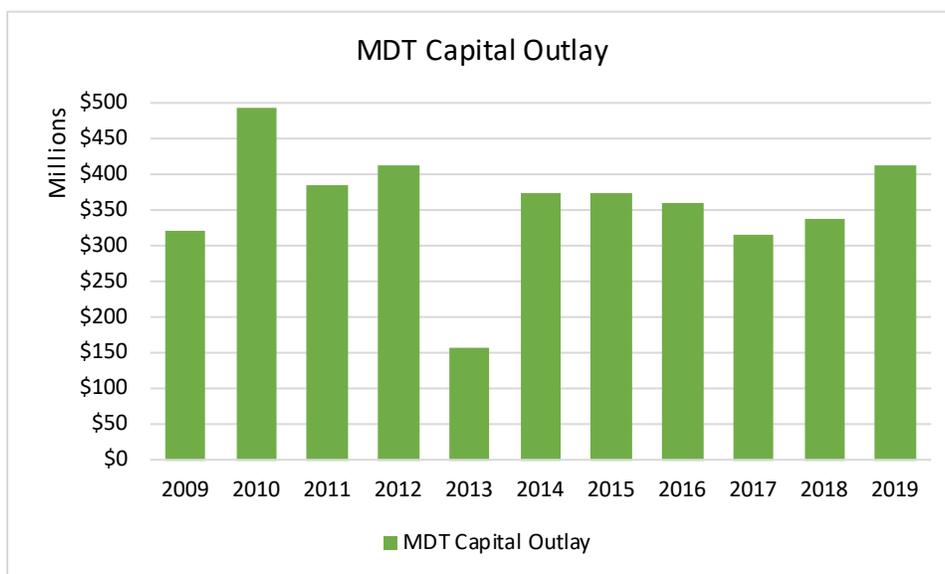


As seen in the figure above, these non-general fund project expenditures are volatile and significantly influenced by individual federal appropriations such as funding for a new armory for the Department of Military Affairs, the timing of large FWP land acquisitions, and the expenditure of non-state funds such as large donations for Montana University System buildings. Temporary spending shifts in 2007 and 2017 coincide with points in time when economic conditions were favorable in the state and additional general fund was allocated for agency infrastructure improvements. Another major impact occurs with the impacts of the federal American Recovery and Relief Act (ARRA), which in state government resulted in freeing up general fund revenues for use in capital projects. Aside from the shifts, overall spending has declined compared with the measures of the Montana economy. When measured between the points of the 2003 biennium and the 2019 biennium, there is a total decline of 10% in spending or an annual average reduction of 1%.

In the figure above, FWP exhibits the highest level of spending, making up an average of 37% of the spending. FWP expenditures consist of the acquisition of land, care and maintenance of parks and fishing hatchery and access facilities, and the construction and maintenance of FWP offices. Additionally, the expenditures in the Department of Military Affairs represent 22% of total expenditures. In general, agency spending was constrained in the 2019 biennium due to an economic downturn in the state, including transfers of certain state special revenue funds to the state general fund.

State Highway Construction and Maintenance Capital Expenditures

The Montana Department of Transportation (MDT) is responsible for the construction and maintenance of Montana’s multi-modal transportation system. With that in mind, the agency’s entire \$1.3 billion biennial budget can be thought of as an infrastructure program that affects all forms of transportation, including the administration of state owned airports and transit equipment within the state. In this analysis, the focus will be on the MDT responsibility for the construction and major maintenance of the state’s highway system, with costs that represent the largest infrastructure investment in the state government. The agency, as a whole, is funded with a combination of approximately 60% federal and 40% state funds which are mainly derived from state and federal fuel taxes. The federal aid construction program is funded at a federal to state ratio of 87:13.



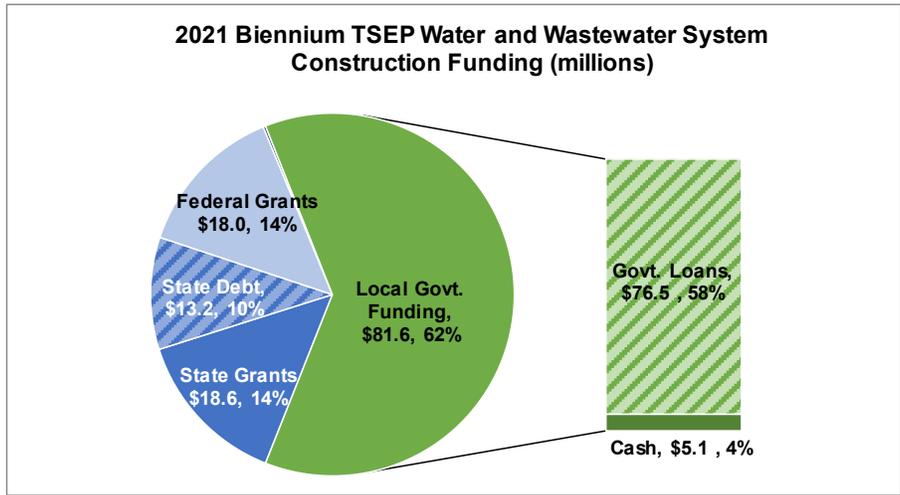
As seen in the figure above, MDT capital costs consist primarily of investments in highways, but may include some costs for improvements at airports and equipment used in highway protection and maintenance activities. In 2019, capital investments by MDT were \$413 million. MDT capital outlay increased between 2010 and 2012. The increase was due to an influx of American Recovery and Reinvestment Act (ARRA), funding that required a 0% state match to federal highway construction dollars. The decline of 2013 was related to an accounting change that corrected prior year investments. Between 2014 and 2016 MDT capital outlay expenditures resumed a more usual pattern. In 2017 and 2018, MDT experienced a state fuel tax funding shortfall which constrained spending on the construction of capital construction projects.

With state funding shortfalls that began occurring in 2012, the Legislature passed HB 473, referred to as the Bridge and Road Safety and Accountability Act (BaRSAA), which increased the fuel taxes and allowed the agency to return to a more normal pattern of capital expenditure. Total fuel taxes were set to increase in four steps over a six-year period. The legislation will increase the gas tax rate by 22% over the period and the diesel tax rate by 7%. MDT will receive 35% of the tax increases with local governments receiving the remainder for road projects through a match program as outlined in 15-70-130, MCA. The increase is intended to allow MDT to match the distributions of federal funds for federal-aid highway construction projects. At this time, the increase reconciled the state funding shortfall and is anticipated to provide sufficient funding for highway construction over the next decade.

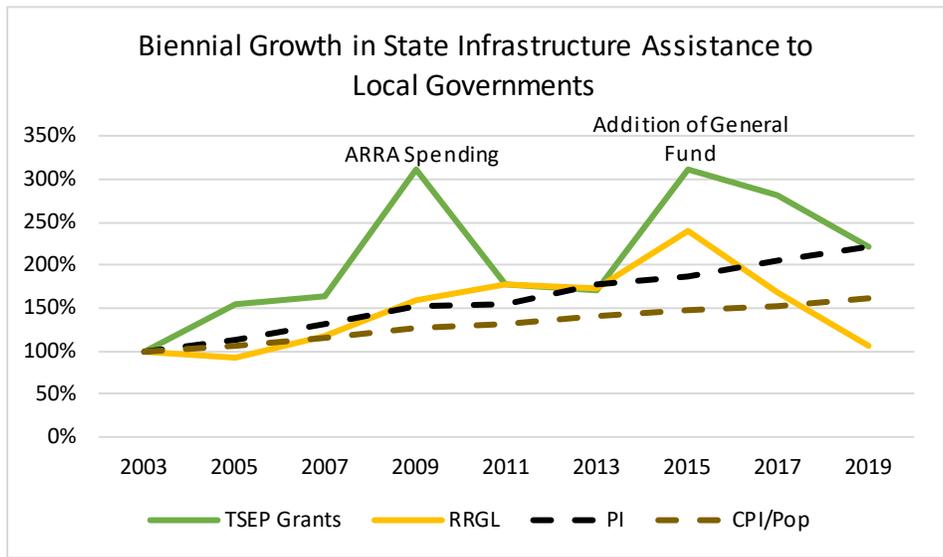
As mentioned earlier, the federal government provides 87% of the funding for federal-aid highway projects. The federal funding is the major determinant in the level of highway infrastructure construction that occurs in the state, and continued receipt of the federal funds is critical in maintaining the state's highways. The current federal transportation bill, the Fixing America's Surface Transportation (FAST) Act, is set to expire in 2020.

#### State Assistance with Local Government Infrastructure through Grants

In addition to state-owned infrastructure, the state funds several programs aimed to assist local governments in the construction of various types of local government infrastructure projects including bridges, drinking water or wastewater systems, solid waste, and irrigation infrastructure. Although this funding is important to the overall financing of these projects, most of the funds for these projects, particularly drinking water and wastewater projects, consists of local government cash or loans.

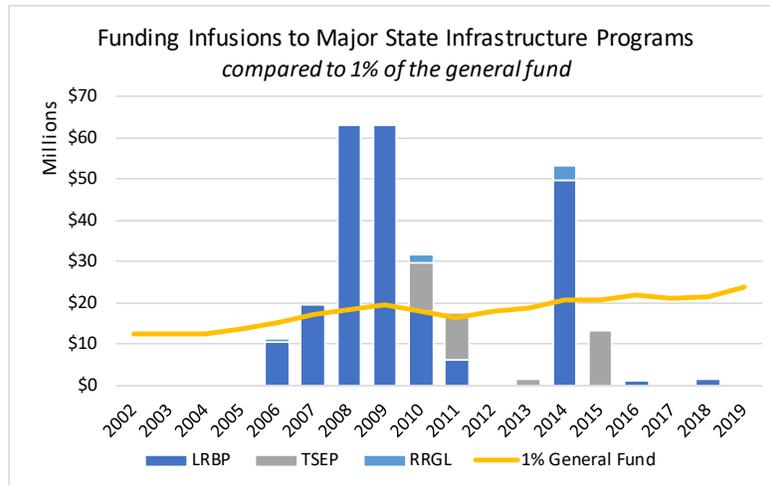


As demonstrated in the figure above, water and wastewater projects approved for grant funding in the 2021 biennium Treasure State Endowment Program (TSEP) are funded 38% with state and federal governmental grants. The remaining 62% of project funding is paid directly by the local governments, the majority of which is expected to come through various state and federal loan programs. These loan programs, such as the state revolving loan program and the federal rural development loan program, charge lower rates of interest than borrowing from a non-governmental source.



The figure above focuses on two of the programs that the state uses to provide assistance to local governments for infrastructure funding, TSEP and the Renewable Resource Grant program (RRGL). The figure demonstrates actual spending through the programs on a biennial basis and highlights the volatile history of funding. Much of the volatility is related to instances when the legislature provided additional funds for infrastructure, as in the 2009 biennium when there were funding increases related to ARRA and in the 2015 biennium when program funding was increased through transfers of general fund. However, there have also been times when normal funding was reduced through transfers back to the general fund, as is apparent in the 2019 biennium. The reduction of the program revenues constrained spending in the biennium. Over the time-period shown in the figure, the average annual rate of growth of both programs has been 4% per year.

Although there are still pressures present in state-funded infrastructure, recent legislation (HB 553, 2019 Session) is expected to provide a greater level of predictability and funding consistency in future years. The legislation does not stipulate exactly how much of the new specified funding stream will be dedicated to each type of state-funded infrastructure, but it does allow the legislative process to target the available funds where they are most needed as appropriations are determined every two years.



As noted earlier, the state major infrastructure programs have received additional funding infusions, when economic conditions allow, and most often from the general fund. HB 553 creates a “capital development fund” that will make available 1% of general fund annual revenues for capital improvements. These funds may be used to enhance funding for state-owned infrastructure or state-funded local government infrastructure programs. While the use of the fund will be dependent on legislative appropriation, the figure above provides a perspective of the funding differences through time, were HB 553 in place over the 17-year period of this analysis. Whereas occasional infusions of funds have been a historic occurrence in the infrastructure programs, a consistent infusion of 1% of general fund revenues annually would have resulted in the addition of \$46 million or 17% greater funding.

**Local Infrastructure Details**

The local government infrastructure parts of this report will primarily use capital outlay data provided by the U.S. Department of Census. This section of the report will focus on municipalities, counties, combined county/cities, special districts, and school districts. While school districts are included in the total local government figures of capital outlay, school district capital outlay will not be included in the remainder of the report. One constant in the data is a shift occurring between 2007 and 2012, which may be the result of infrastructure financing assistance related to ARRA.

Note: Due to the appearance of a lack of reporting and/or changes in the coding in the 2002 Census data, this section of the report will only include observations from the 2007, 2012, and 2017 Census reports, or a ten-year analysis term.

As will be demonstrated in this section, local governments have increased spending on capital outlay over the analysis period. Overall, spending on capital outlay has increased at an annual average rate of 6% when schools are included. Excluding schools, local government capital outlay has increased by 5%, an amount that exceeds the measures of economic growth. Leading the increases are the costliest of capital outlay categories, drinking water and wastewater systems improvements where the growth has averaged 9% and 13% annually. As shown in the figure on the top of page 6 of this report, TSEP Water and Wastewater Construction Funding, approximately 58% of the costs of these projects are funded through state and federal low interest rate loans which are then repaid through fees and charges.

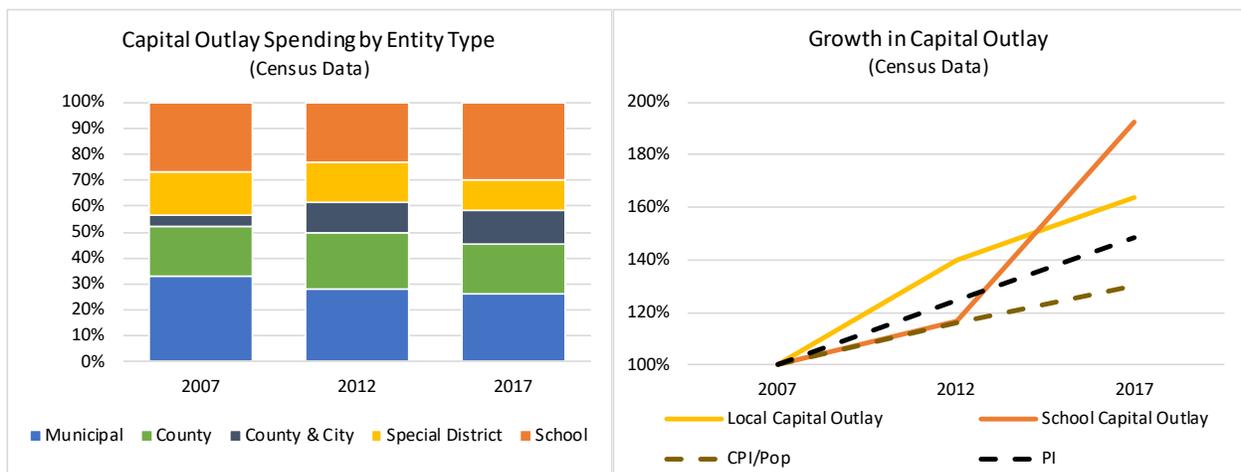


*While the local government entities (municipalities, counties, county/cities, and special districts) know their budgets on an individual basis, the Census is the single resource where historical revenue and expenditure data of all local government entities is compiled in a comprehensive format.*

As stated, the rate of growth in local government capital outlay has exceeded the measures of state economic growth over the ten years analyzed, however without more detailed local government data it is unknown how much of this capital outlay growth is related to the decline in federal infrastructure grants, increases in regulatory requirements, chipping away at deferred maintenance backlog, or other causes.

**Local Government Infrastructure**

The types of local government infrastructure discussed in this report include: buildings, public schools, parks, recreational facilities, drinking water, wastewater, storm water, solid waste, roads including sidewalks and bridges, and cemeteries. Over time, the capital outlay of most, if not all, local government infrastructure types is impacted by cost increases of project engineering and construction and by changes in environmental regulations.



Note: Local government capital outlay may include the costs of capitalizable equipment

As indicated by the figure above at the left, the spending mix of capital outlay for local government entities has changed over time. Generally, municipalities have had a greater need for infrastructure investment, and therein greater costs, due to the cost of water and wastewater facilities. As shown in the figure to the right, the growth in spending for capital outlay has increased at rates that exceed the combined rate of the Consumer Price Index (CPI) and population and Montana personal income growth. The total average annual growth of capital outlay

for all local government entities has been 6%, with capital outlay for schools growing at a 7% rate and capital outlay for all other forms of local governments combined growing at 5%. Capital outlay in municipalities has increased at an average rate of 3%.

The services required, and how they are paid, can be different and unique to each type of local government entity. It is not this report’s intent to suggest all local infrastructure is funded in the same way. However, each type of infrastructure covered is generally funded similarly by most of local government entities. This report strives to indicate the predominant trend in funding by local governments to help decisionmakers understand existing funding mechanisms and consider viable solutions to funding risks and pressures as well as which are more effectively addressed by changes or actions at the state level or local level.

The Montana State Council of the American Society of Civil Engineers produces an “Infrastructure Report Card” report every two years that is meant to be a very high-level assessment of the scale, condition, and need of various types of infrastructure present in the state of Montana. The following table provides an overview of infrastructure types, along with information about the magnitude of each type of infrastructure present in the state and predominant funding sources for capital improvements, as extracted from the 2018 report.

Infrastructure Type	Information	Primary Infrastructure Funding Sources
Bridges	11.2 million sq. ft. of deck 4,471 public bridges 2,484 state owned 1,987 locally owned	State funding: Federal Highway Administration (FHWA) distributions, state fuel taxes, and gross vehicle weight fees Local funding: annual distributions of fuel tax revenues based on formulas in Montana statute, new fuel tax grants with fuel tax increase, TSEP, and other state and local grants Other sources of local revenues including special mill levies and general revenues
Dams	64,000 reservoirs 3,258 large dams (at least 25’ in height and greater than 15 acre-feet storage or store more than 50 acre-ft and are at more than 6 feet high)	State and federal dams funding: grants, loans, congressional and legislative appropriation Local/individual/irrigator dams funding: loans and user fees
Drinking Water	2,162 water systems operated by public and private entities	Revenue Bonds (debt serviced with user rates), voter approved general obligation bonds, federal or state loan program bonds (SRF), state and federal grants, user and service charge, reserve funds, and special assessments (special improvement districts, tax increment financing districts, etc.)
Wastewater	229 public wastewater systems serving 62% of the population Other is private septic tanks and drain fields	Revenue bonds, SRF loans, impact fees, reserves, grants and user rates ***Loan funding is treated as revenue bonds
Storm Water	14 permitted small municipal separate storm sewer systems	General tax funds, street assessments, state and federal grants, and other utility fees
Solid Waste	32 municipal solid waste landfills ***Uncounted county landfills May include recycling	Property taxes (mills) Fees and assessments
School Facilities	821 K-12 public schools 436 elementary schools 214 middle schools 171 high schools (statistics from 2008)	Property taxes that repay bond issues (the state provides assistance with K-12 facility bonded debt) K-12 school reserves State and federal grants
Roads	12,946 State/Federal centerline road mileage 62,062 Local centerline miles (from 2016 Montana Department of Transportation Fact Book)	State funding: Federal Highway Administration (FHWA) distributions and from state fuel taxes and gross vehicle weight fees Local funding: annual distributions of fuel tax revenues based on formulas in Montana statute, new fuel tax grants with fuel tax increase Other sources of local revenues including special road levies and general revenues ***Special Improvement District assessments

Data from Montana Infrastructure Report Card, 2018

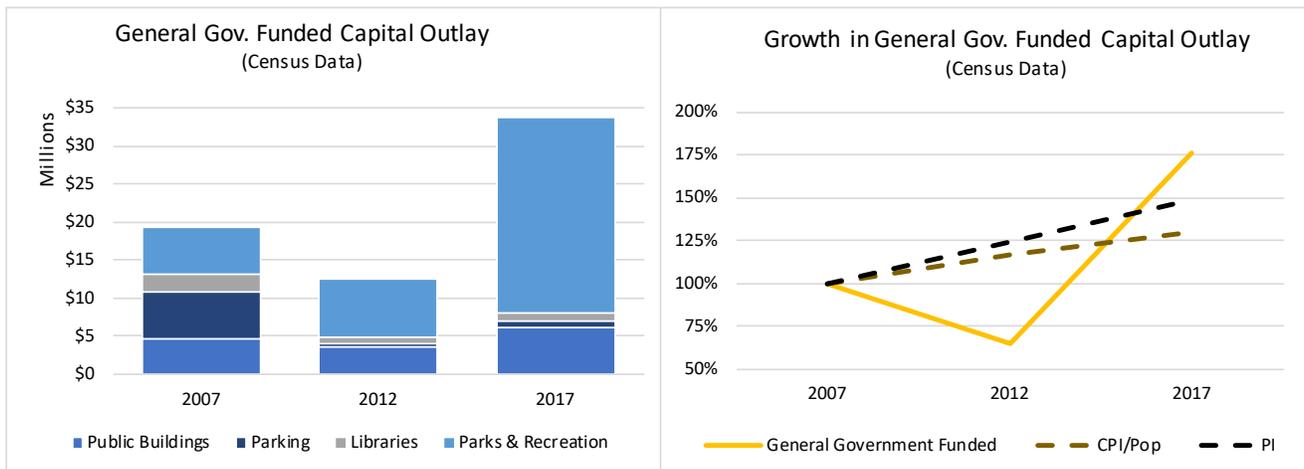
By: Montana State Council of American Society of Civil Engineers

\*\*\*Additional information provided by local government stakeholders

The remainder of this report will provide more detail on the major types of infrastructure owned by municipalities, counties, combined county & cities, and special districts, including how those types of infrastructure are generally funded and how capital outlay for each entity has changed between 2007 and 2017. For these entities, two main categories of funding mechanisms are present, funding via the local government general fund, or funding by other means such as fees for service, improvement districts, special levies, etc.

**Infrastructure Supported by Local General Government Funds**

Infrastructure that generally falls into this category includes roads, parks, recreational facilities such as municipal pools, city halls, civic centers, county courthouses, police and fire stations, and other buildings not associated with fee-driven services like buildings that house wastewater and water treatment facilities. Infrastructure primarily supported with local general government funds has the greatest potential of being negatively affected by state limitations on non-voted property tax increases.



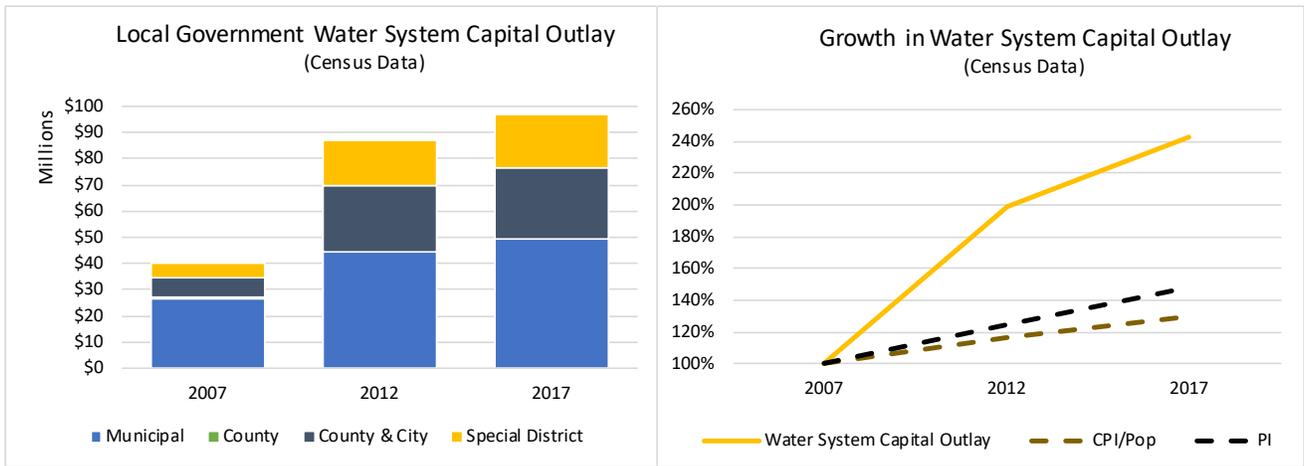
Like state government infrastructure spending, the construction and improvements of these types of infrastructure are highly related to the availability of sufficient funds within the budget. As seen in the figures above, the nature of financing for these items is highly volatile and a single project within a local government can skew the data. If the cost is significant, local governments may need to seek voter approval through passage of a bond levy, using bond proceeds to finance such projects.

**Infrastructure Supported by Fees, Charges, and Special Levies, etc.**

Many types of infrastructure are more directly associated with the provision of specific public services and consequently capital outlay is supported through fees, charges, and special levies. This category of infrastructure includes, but is not limited to, drinking water, wastewater, and storm water, and solid waste facilities. Many factors go into increased costs of fee supported infrastructure including inflation in engineering and construction costs and changes in environmental regulations.

Drinking Water:

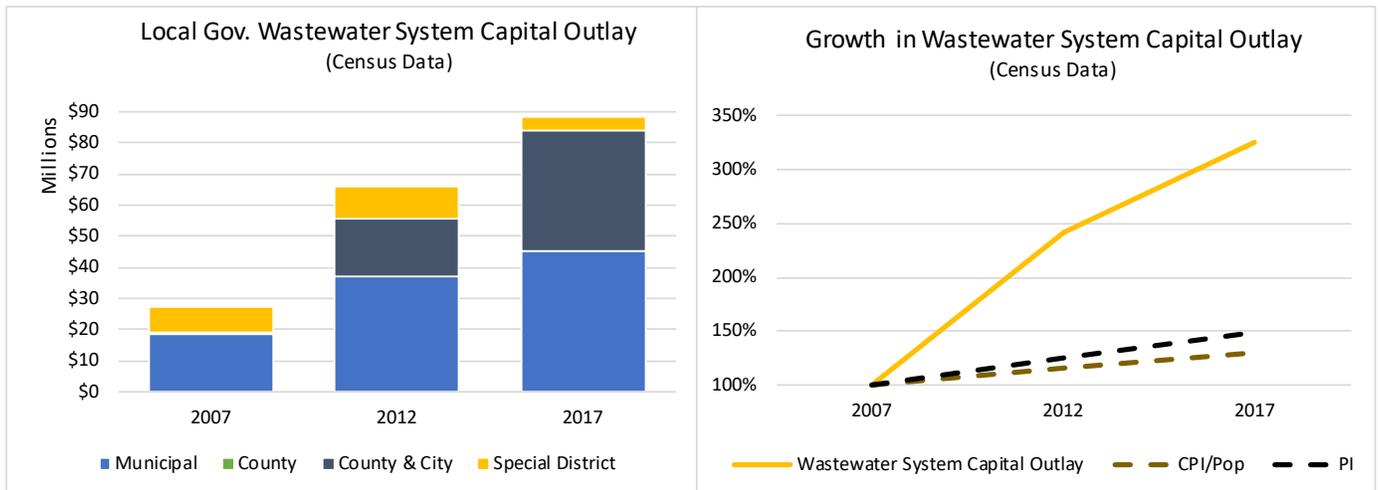
Most of the spending on water infrastructure is made at the local level, primarily through a rate-based system. In Montana water infrastructure is funded using: revenue bonds (debt serviced with user rates); voter approved general obligation bonds; federal or state loan program bonds-State Revolving Fund (SRF) (debts serviced with user rates); state and federal grants; user and service charges; reserve funds; and special assessments (special improvement districts, tax increment financing districts, etc.).



The costs of water infrastructure were reported at \$97 million in 2017. Spending on local government drinking water systems occurs principally in municipalities, accounting for an average of 54% of total spending on this infrastructure type over the period analyzed. Spending in special districts, averaging 19% of the total is related to the construction of systems in unincorporated communities in Montana. Between 2007 and 2017, growth in the spending on water infrastructure increased by 143%, or an average of 9% per year.

Wastewater:

Wastewater facilities are the highest cost infrastructure facilities. Typically, municipalities will use revenue bonds, the SRF Loan program, impact fees, reserves, grants and user rates to finance wastewater infrastructure improvements.



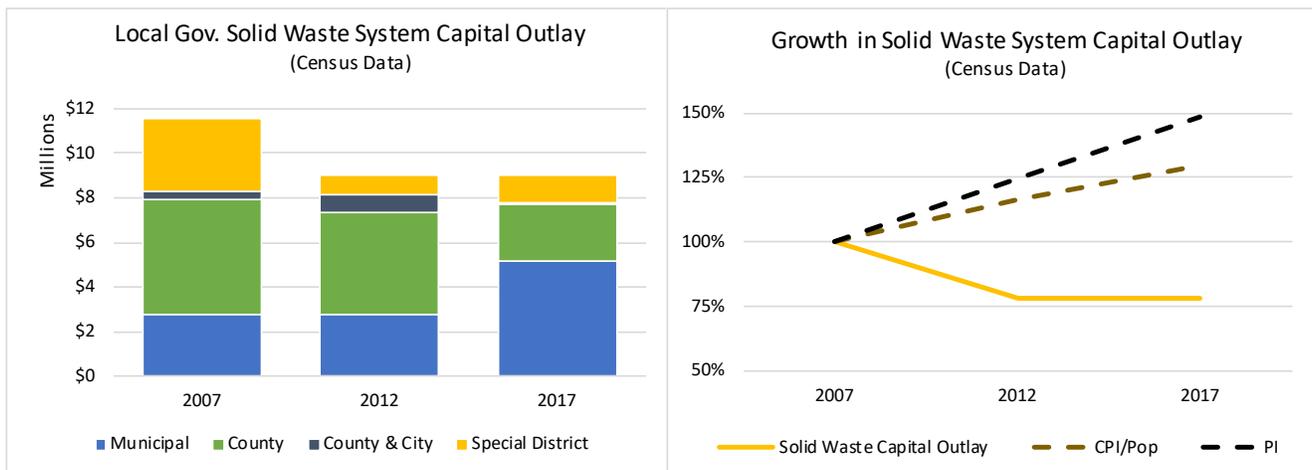
Capital outlay for wastewater infrastructure was \$88 million in 2017. Spending on wastewater systems occurs principally in municipalities, accounting for an average of 56% of total spending on this infrastructure type over the ten-year period. Spending in special districts, averaging 13% of the total is related to the construction of systems in unincorporated communities in Montana. Between 2007 and 2017, growth in the spending on water infrastructure increased by 225%, or an average of 13% per year.

Storm Water:

Fourteen Montana municipalities have dedicated, or permitted, storm water facilities. Local governments typically rely on general tax funds, street assessments, and other utilities to pay for necessary work. While storm water grants are offered through some of the state and federal grant programs, there is not wide use of the grant funding for this purpose. There is not a break out storm water capital outlay in the Census data, however in special districts there are many drainage districts that report annual costs of \$66,000 in 2017.

Solid Waste:

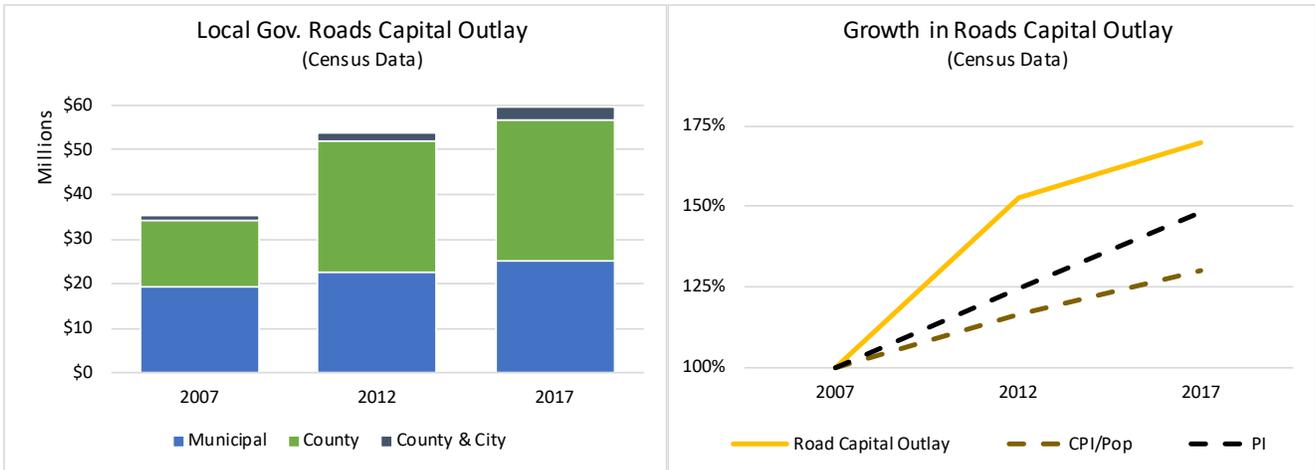
There are a wide range of methods used to charge customers for solid waste facility improvements including property taxes, monthly billing, pay as you throw, etc. In addition, some entities do not provide curbside pickup and that is billed through another provider.



Solid waste facilities have lower capital costs than other types of infrastructure. As evident in the data, solid waste facilities are one of the types of infrastructure where counties are spending at a greater level, with an average of 42% of the total spending on this infrastructure type over the ten-year period. Municipalities average 36% of the spending. The capital outlay in solid waste facilities declined by 22% between 2007 and 2012, but has been near constant since. The decline in capital outlay for solid waste facilities may be related in large part to a lack of reporting, especially in special districts.

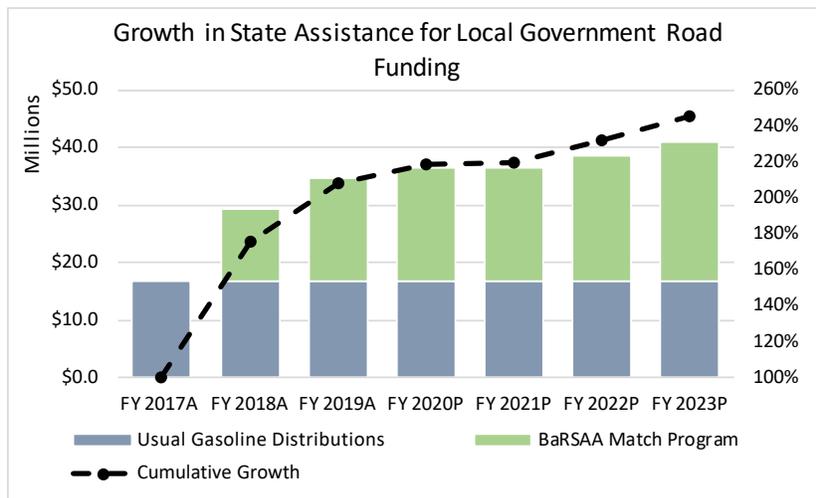
Roads:

Road construction and maintenance is another high cost infrastructure pursuit for local governments. Local government funding for road infrastructure varies depending on the type of local government and the resources available. To finance the work on roads, local governments make use of state fuel tax distributions, road levies, grants, general government revenues, Payments in Lieu of Taxes (PILT) funds, special improvement districts, street maintenance districts, and federal funding coming through, but not limited to, the Urban Pavement Preservation Program, Surface Transportation Program, Congestion Mitigation and Air Quality Improvement Program, and the Transportation Alternatives Program.



Capital outlay for road infrastructure was \$60 million in 2017. Spending on roads is primarily a function of county and municipal governments averaging 51% and 45% respectively of the total costs of services in the period. The total growth in the spending on road infrastructure increased by 70% over the 10 years of this analysis, or an average of 5% per year.

Not apparent in the figure above is the local government impact of the BaRSAA fuel tax increase. The majority, 65%, of the fuel tax increase will flow to local governments. Due to the step-up approach of the increase, the full impact will not be apparent until 2023. However, initial changes will be seen in the local government budgets of 2018.



The figure above shows the distributions of fuel taxes to local governments and highlights the changes to funding brought about through BaRSAA. This figure shows the availability of funds from BaRSAA, but local governments must request project funding through the “match program” as established in 15-70-130, MCA. To qualify for the program, local governments must provide a match of \$1 of local government funds to \$20 of BaRSAA/match program funds. By 2023, the BaRSAA will increase the fuel taxes available to local government by 146% when compared to the pre-BaRSAA level.

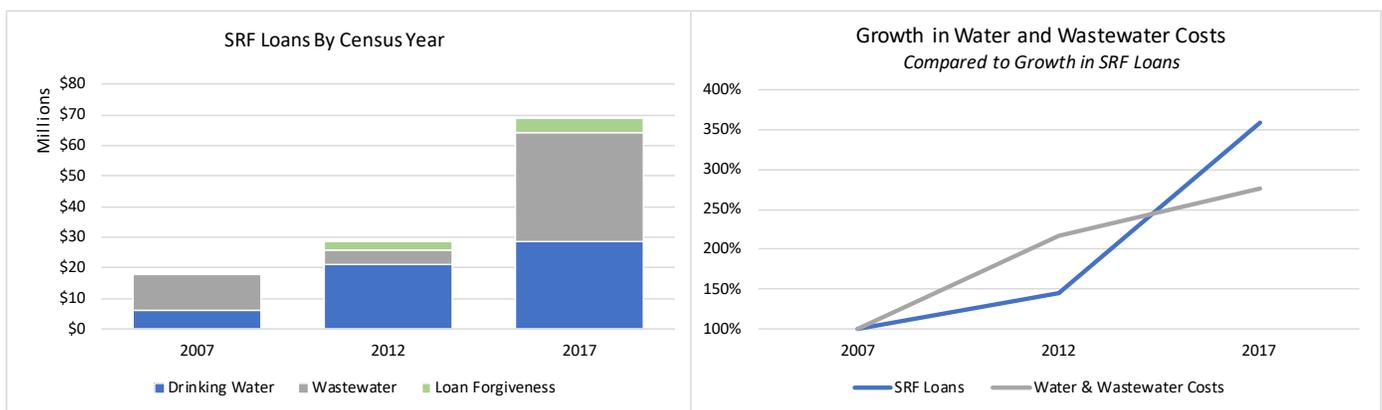
**Major Local Government Infrastructure Funding and Funding Shifts**

Drinking water and wastewater facilities are one of the most necessary, critical, and expensive infrastructure in local governments. Financing for these projects is typically drawn from multiple sources. Aspects of the various

programs are outlined below making use of the average funding packages of the 2021 biennium TSEP to exemplify overall financing:

- 14% in State Grants
  - Principally TSEP and RRGL but occasionally grants from other state government agencies
  - Available funding sources are expected to be flat in future years
  - Includes the potential for State Revolving Fund Loans (SRF) forgiveness, which are essentially grants and are limited in future years
- 14% in Federal Grants
  - Principally federal Community Development Block Grants (CDBG) and Rural Development (RD) grants
  - Funding is limited and subject to federal appropriation in future years
- 13% in State Debt
  - First time that state general fund supported debt has been used to finance local government infrastructure
  - Legislative decision if state debt funding will occur in future years
- 62% in Local Financing
  - 58% are in various types of debt financing
    - Principally from SRF programs and federal RD loan programs, due to higher levels of flexibility and lower interest rate loans
    - Funding is limited in SRF and RD programs and consequently these programs are “competitive loan programs”
    - Loans may be sought through the state’s Inter-cap loan program
    - Non-TSEP projects may be financed with revenue bonds
    - Loans are repaid through fees
  - 4% is funding through local government cash resources, typically from water and wastewater system reserves

Over the time period analyzed in this report, with water and wastewater system construction and maintenance costs increasing at an annual rate of 9% and 13% respectively or 11% collectively, state and federal assistance in financing these projects was essentially flat causing local governments to increasingly assume debt. The increased reliance upon debt to finance projects is exemplified in the figures below, which show the increase in local government loans authorized through the SRF programs.



SRF loans have increased by 14% per year over the 10-year period of this analysis. Furthermore, this rate of growth was reduced with the introduction in 2009 SRF of loan forgiveness. The loan forgiveness aspect of SRF came through ARRA, and those federal funds that came into SRF will be revolved forever. As seen in the figure to the right, SRF loans have grown at a faster pace than the actual local capital outlay for water and wastewater systems. This may be a reflection of the lack of growth in state and federal grant assistance.

## **Conclusions and Recommendations**

State and local governments have historically had the propensity to underinvest in the construction and major maintenance of their infrastructure. State government has recently taken steps to address its infrastructure needs by increasing fuel taxes for construction and maintenance of state highways. State government has also increased funding for upkeep of its existing facility inventory, instituting facility condition assessment protocols for all general fund supported facilities and using trended facility assessment data to track capital improvement backlog and funding sufficiency over time. In addition, the 2019 Legislature approved HB 553 which provides an additional funding mechanism that can be used for further state capital improvement needs and/or assistance to local governments for their major infrastructure needs.

Local governments have increased capital outlay for critical infrastructure, but have increasingly turned to various forms of debt financing to pay for the improvements as infrastructure funding needs have increased and outside funding sources have remained flat or decreased. The local government Census data used in this report provides levels of spending on capital outlay for various types of infrastructure but does not provide information related to the age, value, capacity, and capital improvement needs of the existing local systems. Although any one of the over 180 individual local government entities may have a good handle on their own community's infrastructure assets and needs, no consistent and comprehensive statewide data source is available to evaluate local government infrastructure statewide – information necessary to identify total financial needs and develop trends to track funding sufficiency into the future. This leaves state legislators with a lack of information upon which to base policy and funding decisions, and local government stakeholders with the lack of conclusive evidence sufficient to obtain state-level changes.

### **Recommendations for infrastructure:**

1. State and local highways, roads, and bridges: track results of recently passed legislation

Due to the recent and significant legislation that has changed infrastructure funding and policy related to state-funded infrastructure programs, the LFD recommends observation and evaluation for now. Fuel tax increases legislated during the 2017 Session will continue to occur incrementally until FY 2023, at which time they will be fully implemented. This was a significant change in funding for both state highways and local government gas tax distributions, and funding levels for all recipients will continue to increase into the next biennium.

2. Major maintenance of state facilities: track results of recently passed legislation

Policy changes related to major maintenance funding for state-owned buildings has increased funding above current levels, but more importantly created consistency of funding and a strategy for observation of outcomes based upon the new funding levels. Although funding was increased for major maintenance of existing state-owned general fund supported buildings, the funding level adopted by the legislature was below that generally existing in other states; however, the addition of new capital development funds described in the next paragraph introduces additional funding possibilities to address major maintenance needs. The LFD

recommends ongoing monitoring of outcomes to identify funding sufficiency issues if they arise, and report to the Legislative Finance Committee as required by SB 43 (2017 Session) on a biennial basis.

**3. State and local capital improvements: track results of recently passed legislation**

HB 553 (2019 Session) created a new funding level for capital improvements to existing state-owned facilities, creation of new additions or facilities, and additional or supplementary funding for local government infrastructure programs – all based upon legislative priorities and appropriation. The legislation is silent about what proportion of funding goes to state infrastructure versus local government infrastructure, leaving the final decision for each legislature.

**4. Local infrastructure: next steps to improved information**

The major impediment to legislative policy and funding decisions is the lack of consistent and comprehensive statewide data necessary to evaluate local government infrastructure needs, funding sufficiency, and future trends and pressures. For most types of local government infrastructure, with the exception of buildings, there are generally no universally accepted recommendations related to a standard level of annual capital outlay or upkeep. An example of this is water and wastewater treatment facilities, which are typically unique to a jurisdiction and best management practices are to develop capital improvement plans tailored to the design of the facilities and their individual components.

The Montana League of Cities and Towns (MLCT), Montana Association of Counties (MACo), the Montana Municipal Interlocal Authority, and the MACo Property & Casualty Trust have impressive data sets related to the value and location/ownership/function of local government infrastructure that could be enhanced, combined, and updated on an annual or otherwise recurring basis. That data, combined with annual capital outlay and capital improvement plan data to be provided by local governments, could be developed into a consistent and comprehensive statewide data source for evaluation of local government infrastructure needs, spending levels, backlog, and funding sufficiency over time. For this database objective to be achieved the vast majority of local government entities will need to report, and they will need to be reporting information that has never been required in this form by the state. If MLCT, MACo, and members of the Montana Legislature feel that this recommendation has merit, the LFD will work with MLCT and MACo in the further develop a plan to gather the data to present to the Legislative Finance Committee, the Local Government Interim Committee, and to the MLCT and MACo boards for consideration and further direction.