

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA



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To: Senator Dan Salomon, Chair of the Legislative Finance Committee
Members of the Legislative Finance Committee

From: Ryan Osmundson, Budget Director
Office of Budget and Program Planning

Re: ARPA Proposed Fund Switch and Revenue Replacement Allocation

Date: June 13, 2022

The American Rescue Plan Act (ARPA) provided \$119.9 M to the State of Montana referred to as Capital Projects funds or "Section 604" funds. Eligible uses of these funds are broken into two categories: presumptively eligible projects and case-by-case review projects. Presumptively eligible projects include broadband, digital connectivity technology projects, and multi-purpose community facility projects. Case-by-case eligible projects must directly enable work, education, AND health monitoring.

Section 7 of HB 632 designates the intended use of the Capital Projects funds for physical infrastructure construction or improvements for "state-owned buildings and facilities and associated infrastructure as well as within the Montana university system, including community colleges in the state." HB 632 further goes on to define a process for the state Department of Administration to use to identify potential projects.

Unlike State Fiscal Recovery funds, which do not require advanced approval prior to expenditure, Capital Projects funds require a project plan to be submitted in advance and to be approved by the US Treasury Department before the state will receive any funds or any expenditures can occur. On March 4, 2022, the state submitted five projects, which had been recommended by the Infrastructure Advisory Commission and approved by Governor Gianforte, for consideration and approval by the US Treasury Department. To date, the state has received no formal communication regarding the submissions but has received multiple informal communications indicating that the projects will not be approved. In addition, the Governor's office worked through the offices of both Senator Tester and Senator Daines and received the same informal message that the projects would not be approved.

The projects that were submitted were a broadband infrastructure and connectivity upgrade at the Montana School for the Deaf and Blind, a classroom connectivity and remote learning project at the Montana Law Enforcement Academy, an air support and training facility for the Montana National Guard, an updated facility for the Montana Department of Corrections for its re-entry services program, and the Veterinary Diagnostic Laboratory for the Department of Livestock. These projects totaled \$86,885,785.

The Treasury Department has indicated that their focus is on approving broadband projects as their preferred use for the available Capital Projects funding. In light of this information, and a looming deadline of September 24, 2022, for project applications, the executive proposes review and comment (1*) for a shift of funding sources to move State Capital Projects funds to broadband and State Fiscal Recovery funds for 4 of the 5 Capitol projects as well as other uses within the Economic Transformation and Stabilization and Workforce Development Advisory Commission (referred to as “EWAC”) purview. Funding switches are authorized by Section 26 (2)(b)(ii) of HB 632.

In addition, the executive requests review and comment related to use of the remaining capacity for projects under the revenue replacement category (2*) authorized by ARPA and addressed in Section 26 (3) and (4) of HB 632.

The two items are interrelated and explained in the tables that follow.

1*. Fund Switch

HB 632 as passed:

Original			
HB 632 Totals	602	604	Totals
Health	17,750,000	-	17,750,000
Communications	275,000,000	-	275,000,000
Infrastructure - H2O	458,523,806	0	458,523,806
Infrastructure - Buildings	-	119,900,000	119,900,000
EWAC	150,000,000		150,000,000
All Other	4,644,721	-	4,644,721
Total	\$ 905,919,129	\$ 119,900,000	\$ 1,025,819,129

Note: HB 632 appropriated \$119.3 million for Section 604 funds, but the actual award is \$119.9 million. For clarity, the \$119.9 million is used in this document

HB 632 as proposed including fund switch:

Proposed			
HB 632 Totals	602	604	Totals
Health	17,750,000	-	17,750,000
Communications	155,100,000	119,900,000	275,000,000
Infrastructure - H2O	458,523,806	0	458,523,806
Infrastructure - Buildings	60,685,785		60,685,785
EWAC	150,000,000	-	150,000,000
Business Innovation/EWAC Eligible Use	59,214,215		59,214,215
All Other	4,644,721	-	4,644,721
Total	\$ 905,919,129	\$ 119,900,000	\$ 1,025,819,129

The funding switch will allow for the same level of funding for broadband projects as provided in the original HB 632. Of note is that broadband funding will also come to the state from the Bipartisan Infrastructure Law (also known as IIJA). The switch will allow 4 of the 5 approved and submitted projects to be funded from State Fiscal Recovery Funds under the “revenue replacement” use category. The fifth project, the Veterinary Diagnostic Lab, will be funded from state funds as authorized in Section 34 of HB 632.

2*. Revenue Replacement

At its September 2021 meeting, the Legislative Finance Committee provided review and comment related to \$112.2 million of program expenditures under the revenue replacement designation as provided for in Section 26 of HB 632. The total available revenue replacement capacity for the state is \$189,745,947. The executive seeks review and comment for the remaining \$77,545,947 of revenue replacement capacity. The table below shows the breakout of funds between revenue replacement and eligible use expenditures and programs. Not included in the table are \$2.5 million for HB 6 and 11 projects that were not eligible under the guidance as well as \$60,685,785 million for the 4 previously approved and submitted capital project proposals (not including the Veterinary Diagnostic Lab). The primary component of the \$77.5 million is the \$60.7 million for the capital projects with the remainder going toward economic transformation, stabilization, or workforce development to be vetted by that advisory commission.

EWAC Allocations	Eligible Use	Revenue Replacement	Total
Return-to-Work Bonuses	3,664,200		3,664,200
Affordable Housing Gap Financing	15,000,000		15,000,000
Rapid Retraining	4,000,000	6,000,000	10,000,000
Workforce Training Grants		10,000,000	10,000,000
Yellowstone County Econ Stab		2,315,000	2,315,000
Healthcare Worker Recruitment		4,350,000	4,350,000
Value Added Ag		7,875,418	7,875,418
Down Payment Assistance		37,000,000	37,000,000
Ag Transportation		2,000,000	2,000,000
Administrative Costs	6,258,426	-	6,258,426
Replace UI Benefits IT System	13,150,000		13,150,000
Business Innovation/EWAC Eligible Uses	<u>40,580,815</u>	<u>57,020,356</u>	<u>97,601,171</u>
Total	\$ 82,653,441	\$ 126,560,774	\$ 209,214,215
Total Available	\$ 82,653,441	\$ 126,560,774	\$ 209,214,215

Proposals for the UI Benefits IT System as well as Business Innovation or Eligible Use programs must seek recommendation from the EWAC and approval by the Governor prior to implementation.

CC:

Members of the ARPA Infrastructure Advisory Commission

Members of the ARPA Economic Transportation and Stabilization and Workforce Development Commission

Members of the ARPA Communications Advisory Commission