

LONG-RANGE PLANNING OVERVIEW

Executive Summary

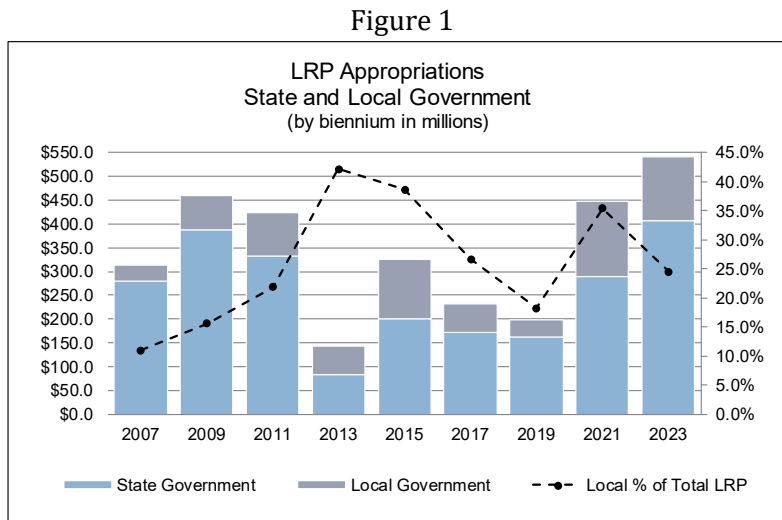
The executive proposal for Long-Range Planning (LRP) programs would provide a mix of cash and bond funding for state and local government infrastructure projects. Total LRP appropriations proposed by the executive are \$449.0 million. Additionally, the executive proposal includes \$91.3 million of non-state dollars (authority / donations). The executive proposed and the LRP subcommittee will review the budgets of nine programs, which includes one new program titled the Montana Historic Preservation Grant Program (MHPG).

The MHPG was initiated by the 2019 Legislature in SB 338. The new program, funded with a distribution of the accommodation sales tax, provides funding to state and local governments, historic properties organizations, and individuals for construction projects that preserve historic buildings in the state.

State and Local Infrastructure Projects

Long-Range Planning (LRP) programs are devoted to the creation and upkeep of major infrastructure. That said, LRP programs do not include the state roads and highway construction and maintenance programs, which are appropriated within the Montana Department of Transportation budget in HB 2.

LRP budgets may be broadly classified as either state government or state-funded local government capital (infrastructure projects) programs. Figure 1 shows the level of biennial appropriations provided by category over time.



Between the 2007 and the 2013 biennia, appropriations to the local government grants programs increased as a proportion of total LRP appropriations. In the 2009, 2011, and 2015 biennia, the legislatures increased local government grant awards by increasing program funding with general fund transfers. In the 2021 biennium, the legislature increased state and local infrastructure funding with the proceeds of general obligation bonds. In the interim years, LRP budgets were lower due to the absence of additional funding.

In the 2023 biennium, the executive proposes increasing the statutory LRP revenues with the addition of bond proceeds. 25% of the total proposed appropriations will assist local governments with their infrastructure project costs. Changes made by the 2019 Legislature to the state building program, principally related to the major maintenance of state buildings, increased the proposal for state infrastructure spending, lowering the percent of local government grants as a portion of the total LRP budget.

LONG-RANGE PLANNING OVERVIEW

Long-Range Planning Description

Beginning in the 2023 biennium, the LRP budget analysis will focus on nine programs, which include:

- Long-Range Building Program (LRBP) – acquisition, construction, and major maintenance of state-owned lands and buildings, administered by Department of Administration – HB 5 & HB 14
- State Building Energy Conservation Program (SBECP) – energy efficiency improvements to state-owned buildings, administered by Department of Environmental Quality – HB 5
- Long-Range Information Technology Program (LRITP) – major state information technology builds and upgrades, administered by Department of Administration – HB 10
- Treasure State Endowment Program (TSEP) – water, wastewater, and bridge infrastructure grants to local governments, administered by the Department of Commerce – HB 11 & HB 14
- Treasure State Endowment Regional Water Program (TSEPRW) – matching funds for major regional water projects, administered by the Department of Natural Resources and Conservation – HB 11
- Renewable Resource Grant and Loan Program (RRGL) – water conservation grants and loans to local governments, administered by the Department of Natural Resources and Conservation – HB 6, HB 8, & HB 14
- Reclamation and Development Grant Program (RDGP) – grants for the reclamation of lands degraded by mineral exploration and mining activities, administered by the Department of Natural Resources and Conservation – HB 7 & HB 14
- Cultural and Aesthetic Grant Program (C&A) – arts and cultural grants, administered by the Montana Arts Council – HB 9
- (NEW) Montana Historic Preservation Grant Program (MHPG) – historic preservation grants, administered by the Department of Commerce – HB 12

Long-Range Planning Comparison

Figure 2 compares the proposed 2023 biennium executive budget to the levels of appropriation provided by the 2021 Legislature, by program and source of funding. The executive proposes total LRP budgets of \$540.3 million. This is \$93.2 million, or 20.9%, more than the LRP budget appropriations in the 2021 biennium. Significant aspects of this budget include:

- Present law increase for major repairs (maintenance) funding in the Long-Range Building Program (LRBP) per 17-7-222, MCA
- Appropriation of the distribution of the accommodation sales tax for the Heritage Center/Betty Babcock Museum
- Appropriations for construction of the Dept. of Livestock Veterinarian Diagnostic & Dept. of Ag Analytical Labs in Bozeman and a UM Forestry Conservation and Science Lab at UM-Missoula
- Five major information technology projects (LRITP), funded 82.0% with federal funds
- Funding for all grant requests in the TSEP, RRGL, and RDGP

LONG-RANGE PLANNING OVERVIEW

Figure 2

Long-Range Planning Budget Comparison (\$ millions)				
Budget Item / Funding Source	Appropriations FY 20-21	Proposed FY 22-23	Biennium Change	Biennium % Change
Long-Range Building Program (LRBP)	\$250.4	\$349.9	\$99.4	39.7%
<i>State Building Energy Conservation Program (SBECP)</i>	3.6	3.7	0.1	2.8%
Long-Range Information Technology Program (LRITP)	38.6	58.0	19.4	50.2%
Treasure State Endowment Program (TSEP)	31.2	27.7	(3.4)	-11.0%
Delivering Local Assistance	21.5	0.0	(21.5)	-100.0%
Treasure State Regional Water Program (TSEPRW)	5.0	5.0	0.0	0.0%
Renewable Resource Grant and Loan Program (RRGL)	93.3	89.6	(3.7)	-3.9%
Reclamation and Development Grant Program (RDGP)	5.8	6.6	0.8	13.6%
Cultural and Aesthetic Grant Program (C&A)	0.5	0.3	(0.1)	-25.1%
Montana Historic Grant Program (MHGP)	0.8	3.2	2.4	298.7%
Total Costs	\$447.1	\$540.3	\$93.2	20.9%
Capital Projects Fund (Capital)	\$22.1	\$83.8	\$61.8	279.7%
General Fund (GF)	\$18.8	0.0	(18.8)	-100.0%
State Special (SS)	96.4	99.1	2.7	2.8%
Federal Special (FS)	71.0	95.9	24.9	35.1%
Total Bonds (Bonds)	161.8	170.1	8.3	5.1%
<i>General Obligation Bonds Subtotal</i>	79.9	91.5	11.7	14.6%
<i>Coal Severance Tax Bonds Subtotal</i>	82.0	78.6	(3.4)	-4.1%
Proprietary Fund (Prop)	4.8	0.0	(4.8)	-100.0%
Subtotal State Funds	374.9	449.0	74.1	19.8%
Authorization (Author)	72.1	91.3	19.2	26.6%
Total Funds	\$447.1	\$540.3	\$93.2	20.9%

LRP Description

LRP projects are administered by various state agencies, but the provision of services has historically been similar in each of the programs:

- Project requests are received by the program either from state agencies, local governments, or private entities
- Project requests are reviewed by the agency, board, or council and ranked, or prioritized, based on program specifications
- The Governor reviews the list of requests, determines the level of funding available for projects, and presents a list of funded project recommendations to the legislature in the form of separate funding bills
- If the legislature agrees to appropriate funds and authorize the various projects, money is distributed through the recipient to private contractors, generally through a competitive bid process

The legislature's work with the LRP budget differs in several ways from the work of other joint subcommittees, which include:

1. LRP programs do not have a "base" budget. In LRP budget negotiations, the legislature does not consider matters of fixed costs, FTE and pay plan issues, or changes from the base. LRP budgets are functionally viewed and appropriated as zero-based budgets.
2. LRP projects are principally continuing appropriations and the budget authority does not end in two-years, like with HB 2 appropriations. Instead, the budgets are continued until project completion or subsequent legislative action.
3. LRP programs might be thought of as one-time-only appropriations. When funding is requested for any specific project, the capital funding needs do not continue once completed. For projects resulting in new construction or additions to state space, there may be increased need for operations and maintenance dollars in the future, but the capital funding for the project itself is finished.

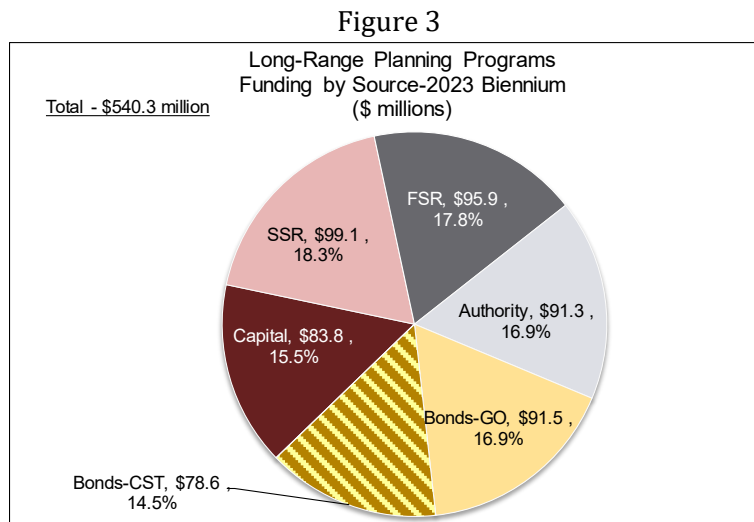
LONG-RANGE PLANNING OVERVIEW

- The LRP budget is presented to the subcommittee as a set of project recommendations. While the HB 2 budget subcommittees work with agency base budgets and decision packages (DP's) for legislative consideration. The LRP budget does not have DP's. In fact, one might consider the entire budget as a set of DP's for one-time-only project spending as provided in individual bills.

Funding

Historically, LRP programs are fully financed with statutorily dedicated allocations of funds. Generally, the program/project budget is strictly based on the amount of revenue estimated to be available for the program. The revenues come from a variety of sources including various tax allocations and in several cases interest earnings from dedicated trusts.

Figure 3 shows the funding of the LRP budget for the 2023 biennium. Total biennial funding proposed for the LRP budgets is \$540.3 million. The total executive LRP budget proposal includes \$83.8 million of capital project funds, \$99.1 million of state special revenue funds, \$95.9 million of federal special revenue funds, bond proceeds of \$170.1 million including GO and CST bonds, and \$91.3 million of authority to spend university funds, donations and other forms of non-state resources. Authorizations exist in the LRPB because legislative approval is required to expend non-state resources on major building projects with costs more than \$150,000. More detail on the funding and appropriations of the LRP programs is found in the program sections of this report.



LFD

COMMENT

The dedicated funding of five of the LRP programs is substantially or totally reliant on the investment earnings on trust balances. Over the past decade, interest rates have been low causing reduced program funding. In the early 2000's, long term interest rates returned approximately 7.0% on investments. But in FY 2020, the return was just 3.35%. Interest rates are projected to be low again in the 2023 biennium causing cash project funding reductions in some of the LRP programs when compared to the 2021 biennium.

Capital Development Funding or Pay-As-You-Go Infrastructure

The 2019 Legislature created a new funding source for capital development projects for state and local government infrastructure, that has been referred to as a “working rainy-day fund.” In accordance with 17-7-208, MCA, the executive must propose annual transfers of general fund into a new capital developments account for appropriation to the A&E division for capital projects subject to legislative authorization. The transfers are equal to the following:

- 1.0% of the amount of the certified unaudited state general fund revenue, including transfers, minus:
 - General fund general obligation bonds debt service for existing bond issues
 - Projected general fund general obligation bonds debt service for authorized but unissued plus newly proposed bonds
- Per 17-7-130(6), the capital development fund also receives “overflow transfers from the budget stabilization account”, deposits greater than 4.5% of general fund appropriations in the second year of the biennium (\$4.7 million in FY 2021)

Transfers to the account will not occur if the executive has accessed the budget stabilization reserve fund in the immediately preceding 11 months or has made spending reductions pursuant to 17-7-140. The executive and the legislature may reduce the amount of the transfer proposed for HB 2. Additionally, the state treasurer may temporarily borrow, without interest, from the account to address cash balance deficiencies in the general fund so long as a loan would not impair the account from meeting any legal obligations. These provisions make the account a “working rainy-day fund.”

The funds in the account can be used for capital development projects, defined as:

- a) renovation, construction, alteration, site, or utility project with a total cost of \$2.5 million or more;
- b) new facility with a construction cost of \$250,000 or more; or
- c) purchase of real property for which an appropriation is required to fund the purchase.

Funds in this account may be appropriated for the funding of state or local government infrastructure.

The executive budget proposal includes a present-law adjustment in HB 2 of \$5.7 million in FY 2022 and \$8.2 million in FY 2023 for the capital development transfer. However, in a new proposal the executive recommended eliminating the transfer. If the legislature agrees with this action, there will be no capital development transfer in the 2023 biennium.

LONG-RANGE PLANNING OVERVIEW

Montana Infrastructure Proposal

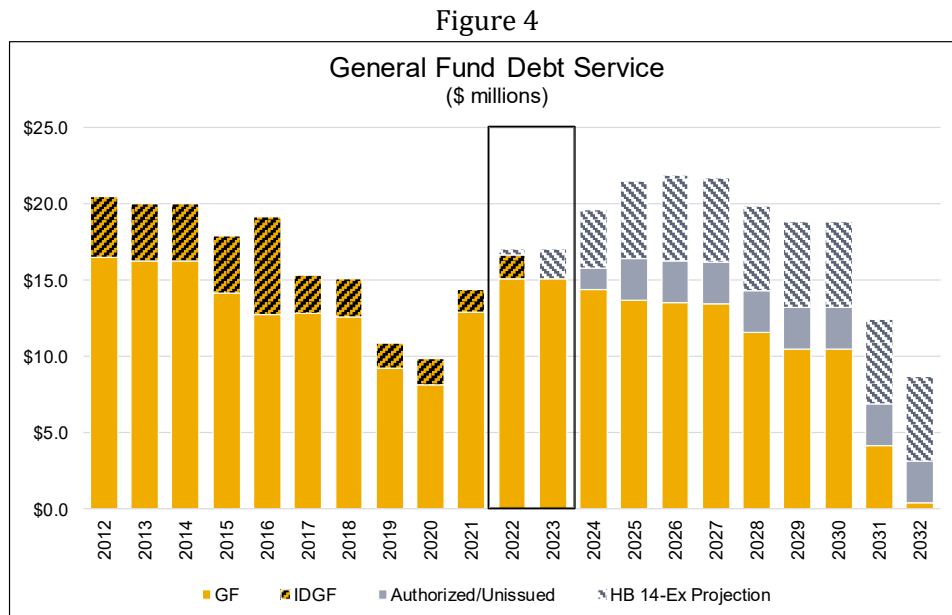
The executive has featured most of the LRP budgets in what is titled the “Montana Infrastructure” proposal of \$499.4 million. The executive’s proposal incorporates all the LRP programs except the C&A program and adds the new MHPG program.

The executive’s proposal will be contained in the “normal LRP bills”; HB 5, HB 6, HB 7, HB 8, HB 10, HB 11, HB 12, and the request for general obligation bonds will be in HB 14. The Montana Infrastructure proposal totals \$499.4 million and makes up over 92.0% of the total LRP program appropriations as provided in this report.

GO Bond Issue Debt Service

The Infrastructure in Montana proposal includes \$91.5 million of general obligation bond proceeds (16.9% of the total LRP funding proposed) contained in HB 14. The costs of these bonds, issuance costs and debt service, would be incurred by the general fund. There is limited certainty about when the bonds will be issued, since the types and timelines of the projects and grants included in the legislation vary widely. Most of the projects are long-term endeavors that take years to complete, but some of the grant programs disperse funds more quickly. For the purposes of this analysis, the bonds will be shown as anticipated by the executive as five separate issues.

Figure 4 provides a graphic overview of general fund debt service, including the debt service for the proposed HB 14 bonds as provided in the executive balance sheet and continuing those assumptions into future years.



Included in Figure 4 are:

- Gold (GF) – General obligation (GO) bonds paid by the general fund. The bond issues related to this debt service primarily funded the construction of state government buildings and beginning in FY 2019 local government infrastructure projects (\$30.2 million in the 2023 biennium)
- Gold Hatched (IDGF) – This category includes special revenue bonds that are paid indirectly through the general fund. The related bond issue covered the costs of improvements at Montana State Hospital. Debt service on this bond is paid by funds that would otherwise flow into the general fund. The issue is expected to be paid in full in FY 2022 (\$1.5 million in the 2023 biennium)

LONG-RANGE PLANNING OVERVIEW

- Grey (Authorized/Unissued) – This category includes the projections for debt services costs on authorized but unissued bonds (\$38.5 million of authority). The bonds are authorized for the costs of two tribal compacts, St. Mary’s diversion system improvements, and the balance of the bonds authorized by the 2019 Legislature (HB 562). Because of the uncertainty of when these bonds may be issued, debt service is not included in the 2023 biennium
- Black Hatched (HB 14-Ex Projection) – This category illustrates the debt service costs of the HB 14 as shown on the executive balance sheet (\$2.4 million in the 2023 biennium)

In the 2023 biennium, the debt service paid directly and indirectly through the general fund for existing bond issues is expected to average \$15.9 million per year. The debt service for the proposal in HB 14, as calculated by the executive, is based on 20-year maturities and are expected to be sold in five issues. The bonds are projected to have a general fund debt service cost of \$0.4 million in FY 2022 and \$2.0 million in FY 2023. Once all bonds are issued, the projected annual cost HB 14 debt service would be \$5.6 million per year.

Debt Limitations

The 2019 Legislature (HB 553) imposed two limits on the legislative ability to authorize general fund general obligation (GFGO) bonds. The limits are included in 17-5-802, MCA.

The first limit prohibits the legislature from authorizing new GFGO bonds if state debt is greater, or would be greater, as a result of proposed new bond authorizations, than 0.6% of the fair market value of all property within the state (\$1,114.5 million). For this measure, state debt is defined to include:

- The outstanding balance of existing GFGO bonds (\$67.1 million)
- The authorized but unissued GFGO bonds (as of 7/1/2020: \$89.3 million)¹
- The total amount of unfunded actuarial accrued liability of the public retirement systems that does not amortize in 30 years (\$130.0 million)

In the 2023 biennium, based upon these limitations the legislature could authorize up to \$828.1 million in GFGO bonds. The executive HB 14 proposal of \$91.5 million in GFGO bonds falls within this guideline.

The second statutory limit prohibits the legislature from authorizing new GFGO bonds if the annual fiscal year costs of the current and proposed GFGO debt service would exceed 1.5% of annual general fund revenues, measured at 7/1/2020 (\$38.0 million).

- Current GFGO debt service for FY 2022 is \$15.1 million and FY 2023
- HB 14 proposal of debt service for FY 2022 is \$0.4 million and for FY 2023 is \$2.0 million
- The total debt service cost measured for this limit is \$15.5 million in FY 2022 and \$17.1 million in FY 2023
- Both fiscal years are within the limit of 1.5% of general fund

¹The amount of authorized but issued debt differs from the amounts used in the debt analysis on page F-6 because bond issues have been sold since 7/1/2020.