

MEMORANDUM

September 13, 2021

TO: Legislative Finance Committee

FROM: Kurt Alme, Budget Director

RE: Updates

1. American Rescue Plan Act (ARPA) – Comments to Interim Final Rule to Section 602

The OBPP has not yet received any responses to the letter containing comments to the Interim Final Rule to Section 602 reviewed with this Committee at its July 1, 2021, meeting and submitted in July to the U. S. Department of the Treasury (“Treasury”).

2. American Rescue Plan Act (ARPA)

On August 31, 2021, OBPP submitted to Treasury and posted on the <https://arpa.mt.gov/> website the ARPA State Recovery Plan report, covering the period through July 31, 2021.

3. Status of ARPA Funds

Through the ARPA, Congress appropriated various funding streams directly to Montanans through federal agencies; directly to tribal governments, counties and cities with a population of at least 50,000 (Billings, Great Falls and Missoula); and through the state (our latest estimate of this amount is approximately \$2B).

Approximately \$43.2M was received by the state from Treasury and distributed to towns with less than 50,000 people. Treasury will distribute the same amount to the state by June 1, 2022, to distribute to the same towns. The Legislature appropriated the remaining ARPA funds to be distributed to the state through HB 632. Since then, at various times, the federal government has distributed funding streams to the state.

House Bill 632 also created four Advisory Commissions to recommend programs and projects to Governor Gianforte to be funded by some of the funding streams. The Advisory Commissions have made many recommendations, all of which have been approved by the Governor, except those involving Revenue Replacement funds awaiting input from this Committee.

As agencies are ready to use funds appropriated for a specific purpose under HB 632, or recommended by an Advisory Commission and approved by Governor Gianforte, the OBPP allocates those funds. Agencies are in the process of obligating and expending those allocated funds.

A report showing the status of these funding streams will be provided to this Committee.

4. Allocation of First Tranche of ARPA State Fiscal Recovery (Section 602) Funds

In Section 602 of ARPA, Congress appropriated \$906M (about \$3M less than anticipated in HB 632) of State Fiscal Recovery (“SFR”) Funds to Montana.

In May, Treasury notified 30 states that it intended to withhold half of their SFR Funds for up to 12 months. Treasury withheld those amounts for states with lower unemployment rates. On June 1, Montana received the first tranche of funds, which was \$453M. Thus, although HB 632 appropriated the full \$906M of SFR Funds, Montana only has \$453M to obligate until we receive the second tranche, which could be as late as next June.

Based on the work of the ARPA Advisory Commissions to date and the readiness of the programs set forth in HB 632, the OBPP has created a working allocation of first tranche and second tranche funds. A report setting forth that allocation entitled “First Tranche Allocation” is being provided to this Committee with this Update.

We would appreciate any input on this working allocation from the LFC.

5. ARPA Revenue Replacement Funds

Subsection 26(3) of HB 632 provides that the OBPP may calculate the amount of Revenue Replacement funds available and recommend to the Governor and the LFC an amount to be allocated among the appropriations of ARPA Section 602 funds in HB 632. Subsection 26(4) provides that the LFC shall review the recommendation on the use of revenue replacement funds at its next meeting and take up to 15 days following its meeting to review and provide written comment on the recommendation. The OBPP may provide a response to the comments within 15 days of receiving the LFC’s comments.

At the last meeting of this Committee on July 1, the LFD providing a calculation of the amount of Revenue Replacement funds that may be available to the state for calendar year 2020, based on the Treasury guidance received to date. That amount was a range from \$181M to \$240M. The OBPP has calculated a similar range.

The OBPP recommends that up to \$112.2M of Revenue Replacement funds be allocated among appropriations up to the following amounts:

- a. \$6M Rapid Retraining (Accelerate Workforce Training program). HB 632 Section 12(2).
- b. \$10M ARPA Workforce Training Grant Program. HB 632 Section 12.
- c. \$93.5M Business Innovation and Value-Added Agriculture, if needed. HB 632 Section 12.
- d. \$1.4M HB 6 water and sewer projects, ineligible as ARPA Water and Sewer Infrastructure Projects. HB 632 Section 34 and 36.
- e. \$1.3M HB 14 water and sewer projects, ineligible as ARPA Water and Sewer Infrastructure Projects. HB 632 Sections 34 and 39.

A copy of the program proposals recommended by the Advisory Commissions for items a and b, and the description of the categories for Program Development for c, recommended by the Economic Transformation and Stabilization, and Workforce Development Advisory Commission are being provided to this Committee with this Update.

6. Use of ARPA Funds to Offset a Reduction in Net Tax Revenue of the State

ARPA does not permit State Recovery Funds under Section 602 to offset a reduction in net tax revenue of the state.

As a result of this ARPA provision, the legislature included “tax savings clauses” in several tax reduction bills during the last session. Those clauses generally provide that if the implementation of a section of the bill will result in the reduction or repayment of ARPA funds, then that section terminates on the date of certification by the Budget Director. Effectively, no later than December 10 in each calendar year from 2021 through 2024, the Budget Director must determine whether a potential reduction or repayment of ARPA funds will result from the enactment of a tax bill. If he determines that it will, the Budget Director must notify this Committee of the determination and it will respond within 20 days with any recommendations regarding the determination. If the Budget Director does not change his determination, he will provide written certification to this Committee and the Code Commissioner of the need to implement a tax savings clause for the bill.

The OBPP will continue to monitor the Treasury guidance and the state financial situation, but under the guidance provided by Treasury to date, the state is not expected to have a reduction net tax revenue in any year during the covered period (3/3/21 – 12/13/24). A copy of the OBPP memorandum setting forth this analysis is being provided to this Committee with this Update.

7. Performance Manager for ARPA and Management Purposes

At the July 1 LFC meeting, we updated this Committee that in order to help agencies develop and track ARPA and state agency performance measures, the executive created a Performance Manager position. The modified position is being funded with both federal coronavirus funds and general funds from SB 191. The position is in the process of being filled.

8. Efficiency Study.

Section 4 of HB 330 directs this Committee to study the efficiencies of operations of government. To assist this Committee, the OBPP will provide periodic updates on the program efficiency review project being undertaken by the executive branch.

9. State Bond Rating.

On August 26, Fitch Ratings reaffirmed the state’s government obligation bond rating at AA+, with a stable outlook. In support of the strong rating, Fitch cited Montana’s “diversifying economic base, solid growth prospects, low liability position and conservative financial practices.” In addition, Fitch attributed the state’s strong fiscal management practices to the state’s ability to “maintain steady operating performance, address spending priorities for education, health care and infrastructure, and build formal reserves.”

10. Fire Fund.

Through September 12, 2021, \$54M of state fire-fighting costs are estimated to have been incurred. The balance of the Fire Fund, after being fully funded at the end of the 2021 fiscal year, was \$106M.