



MONTANA LEGISLATIVE BRANCH

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Director
AMY CARLSON

DATE: January 7, 2026

TO: Water Policy Interim Committee

FROM: Barb Wagner, Fiscal Analyst

RE: Federal actions on funding relevant to Montana water policy

The Water Policy Interim Committee (WPIC) requested an update on federal funding changes to water-related programs. The October 22, 2025 meeting of the Legislative Finance Committee (LFC) included a full report on state level impacts of H.R. 1 and the federal fiscal year (FFY) 2026 federal budget as proposed by the President. This report and additional materials are available on the [LFC's website under the meeting materials tab](#) under the October 22, 2025 sub-heading.

Additionally, a continuing resolution ([P.L. 119-37](#)) was approved and signed on November 12, 2025, ending the federal government shutdown. This continuing resolution funded federal government operations at FFY 2025 levels through January 30, 2026, with some exceptions. Given that the FFY 2025 levels were also established by a continuing resolution at FFY 2024 levels, the current funding levels are generally based on FFY 2024 appropriations.

P.L. 119-37 also included three full-year FFY 2026 appropriation bills (Agriculture, Legislative Branch, and Veteran Affairs/Military Construction). The legislation also prevents PAYGO sequestration during FFY 2026 and reimburses states for costs incurred during the shutdown.

What Happened to Water-Related Appropriations?

Programs generally funded through the Interior bill are appropriated at the FFY 2025 levels until January 30, 2026, including the U.S. Forest Service, the Environmental Protection Agency, and most of the Department of Interior. The Congressional Research Service provides additional details on the exemptions to the FFY 2025 funding levels for [Energy and Water Development](#) and [Department of the Interior, Environment, and Related Agencies](#).

Specifically, the community development block grant and the state revolving fund, which support low-interest loans and grants to local drinking and wastewater systems, were continued at FFY 2025 levels through January 30, 2026. As described in the October report to the LFC, the community development block grant funds supported \$11.4 million of water projects in HB 6 and HB 11 during the 2025 biennium. The state revolving fund will support 26 drinking water projects and 26 wastewater projects in FY 2026 with a total of \$111.5 million in loans, some of which are eligible for loan forgiveness.

Programs funded through the agriculture appropriations bill were provided with full-year appropriation in P.L. 119-37. According to [USAspending.gov](https://www.usaspending.gov), Montanans were awarded \$1.5 billion from U.S. Department of Agriculture programs in FFY 2025 through direct payments, grants, and contracts, with \$66.3 million directed through the Natural Resources Conservation Service (supporting wetlands restoration and other programs) and \$45.1 million through the Rural Utilities Service (supporting rural infrastructure, including water and wastewater projects). The Congressional Research Service provides a summary of [FFY 2026 agriculture appropriation levels by program](#).

What is Going to Happen Next?

P.L. 119-37 ended the government shutdown, but only funded government operations through January 30, 2026. Congress must act to provide funding by this point to prevent another federal government shutdown.

P.L. 119-37 also prevented PAYGO sequestration during FFY 2026. Conceptually, PAYGO requires legislation to be budget neutral (meaning that tax cuts or mandatory spending increases be offset by corresponding tax increases or mandatory spending cuts), with the President required to sequester funding if Congress does not meet PAYGO requirements.

Federal Budget Pressure is Likely to Continue

As stated in the report to the LFC, the federal budget deficit has been generally increasing over the past 30 years, adding to the national debt. The non-partisan Congressional Budget Office (CBO) [reports the FFY 2025](#) deficit was \$1.8 trillion or 6.0% of the U.S. Gross Domestic Product. Significant deficits and increasing borrowing costs increase the risk to states that the future of federal funds received by states may look significantly different than the past few decades of experience would suggest.