

## **CAPITAL DEVELOPMENT ACCOUNT AND RELATED TOPICS**

The capital development (CD) account, established in HB 553 in the 2019 session, was developed to provide a cash funding source for capital projects. The account also acts as one of the state's reserve funds and is available for non-interest borrowing in times of general fund need. The account, per [17-7-208, MCA](#) receives funds from several sources including:

- 1) Annual general fund transfers from HB 2.
  - a) 1.0% of the certified unaudited state general fund revenue, as determined by or before August 15 of the year preceding a legislative session, less the: anticipated general fund general obligation bond debt service for bonds previously authorized by the legislature, and projected general fund debt service for general fund general obligation bonds proposed in the executive budget.
  - b) Recommendations to increase or reduce the appropriated transfers may be proposed by the executive or authorized by the legislature.
- 2) Overflow funding from the budget stabilization reserve fund (BSR) as provided in [17-7-130 \(6\)](#).
  - a) If the balance of the BSR exceeds an amount equal to 4.5% of all general fund appropriations in the second year of the biennium, then 50.0% of any funds in excess of that amount must be transferred to the capital development account.
- 3) Other deposits/transfers made by the legislature.

The capital development fund may be used for long range building program projects, for transfers to other infrastructure accounts/programs, to pay down general fund general obligation state debt, or delay, forgo, or reduce general fund general obligation bond issuance.

### *Capital Development Account Fund Balance*

The following figure shows the projected capital development account fund balance for the 2023 biennium.

Capitol Development Account Fund Balance Analysis - 2023 Biennium					
Account 05031					
	FY 2020 Actual	FY 2021 Actual	FY 2022 Projected	FY 2023 Projected	2023 Bien. Projected
Beginning Fund Balance	\$0	\$0	\$228,302,398	\$218,434,943	\$228,302,398
Revenues					
Transfers from BSA - 8/2020	0	4,702,398	0	0	0
HB 2 Capital Development Transfer	0	0	0	0	0
HB 14 GF Transfer	0	58,600,000	0	0	0
SB 191 GF Transfer	0	165,000,000	0	0	0
Transfers from BSR - 8/2021	0	0	115,084,337	0	115,084,337
Total Revenues	0	228,302,398	115,084,337	0	115,084,337
Expenditures					
Prior Biennia Projects	0	0	0	0	0
2023 Biennium Projects	0	0	75,103,792	0	75,103,792
Unissued Bond Reserve <sup>1</sup>	0	0	38,548,000	0	38,548,000
Presumably non-qualifying HB 632 Projects <sup>2</sup>		0	11,300,000	0	11,300,000
Total Expenditures/Appropriations	0	0	124,951,792	0	124,951,792
Estimated Ending Fund Balance	\$0	\$228,302,398	\$218,434,943	\$218,434,943	\$218,434,943
<sup>1</sup> This amount is not established as an appropriation in the account but is listed here to reserve the funds for the time that would offset bond authorization per the requirements of SB 191. <sup>2</sup> This amount of projects are tentitively determined to ineligdable for funding under ARPA Sec. 604, based on guidance provided by the Federal Treasury.					

As seen in this figure, the CD account received an overflow transfer of \$4.7 million from the BSR account in August 2020. While the legislature did not approve HB 2 appropriated general fund transfers in the 2021 version of HB 2, the legislature authorized general fund transfers of \$58.6 million in HB 14 and \$165.0 million in SB 191. Those transfers were made in FY 2021 and resulted in a FY 2022 beginning fund balance of \$228.4 million.

In FY 2022, the CD account received an overflow transfer from the BSR of \$115.1 million. FY 2022 appropriations/obligations for the account include:

- 1) Multiple appropriations from 2021 session versions of HB 5 and HB 14 that amount to \$75.1 million;
- 2) The requirement from SB 191 that all authorized but unissued general fund general obligation bonded debt authority be funded with CD account funds, which amount to \$38.5 million (occurring as the needs arise);  
and
- 3) A projected amount for HB 14 projects that were thought to be an appropriate use of federal ARPA funds in HB 632 (2021) but have since been determined to be ineligible under federal treasury guidance, which total \$11.3 million. HB 632 requires those projects deemed ineligible for ARPA Section 604 funds to be funded from the CD account. This HB 632 contingency is discussed in more detail in the next section of this report.

As a result, the CD account is projected to finish the 2023 biennium with a balance of \$218.4 million. This amount is subject to change based on the potential of project funding decisions by the Office of Budget and Program Planning (OBPP) and any further guidance of the federal government related to the projects appropriated in HB 632. Additionally, there may be another overflow transfer to the account in FY 2023.

### *Capital Development Account as Contingency in HB 632*

During the 2021 Legislative Session, the legislature passed HB 632, making use of federal American Rescue Plan Act (ARPA), Sec. 604 – Capital Fund, monies for state capital projects. At that time the legislative decisions were guided by the text of the federal legislation which stated: “must be used to carry out critical capital projects directly enabling work, education, and health monitoring, including remote options, in response to the public health emergency with respect to the Coronavirus Disease (COVID-19)”. Ultimately, when the state received the final guidance from the U.S. Treasury on Capital Fund uses, it was made known that any project eligible for funding needed to meet all three of the conditions (work/education/health monitoring) and the state would be required to request a grant project funding.

After review of the guidance, OBPP determined (at least initially) that only one of the projects funded with HB 632 Sec. 604 dollars would qualify for the Capital Funds, the Montana Veterinary Diagnostic and Ag Analytics Labs to be constructed in Bozeman, and OBPP has stated that they will file a grant request for the single project. The initial assessment is that the remainder of the projects would not qualify for this funding. The state costs for the Livestock and Ag Labs were appropriated in HB 14 at an amount of \$36.1 million. From the total appropriations, \$9.8 million was appropriated directly from the capital development account and \$26.2 million was appropriated through the ARPA funds

HB 632 made provisions for the funding of projects if federal requirements differed from the 2023 Legislature’s interpretation of the law. The following text was included in Sec. 34 (2) of 632 and stated, “If any portion of the allocations for projects outlined in [section 39] are determined to be ineligible for funding through the American Rescue Plan Act, a like portion of funding for those projects shall be: (a) appropriated from the capital developments long-range building program account provided for in [17-7-209](#), MCA for projects funded through [section 1] of House Bill No. 14.” The projects deemed ineligible under the initial OBPP assessment include:

- \$6.5 million for the expansion of the liquor warehouse
- \$4.8 million for the renovation of the University of Montana, Western, Block Hall facility

There were also \$6.7 million of capital projects that were expected to be funded Capital Funds in HB 632 but have been found to be ineligible given the federal rules. Language in HB 632 indicates that the projects would be

funded through the LRBP major repairs fund. Given the revised fund balance of the major repairs account, the addition of the \$6.7 million in HB 5 projects, could result in an over-appropriation of the account. While the account may become over-appropriated due to the changes, it will not be over-expended.

### *Capital Development Account Connections to Bonding and Debt Service*

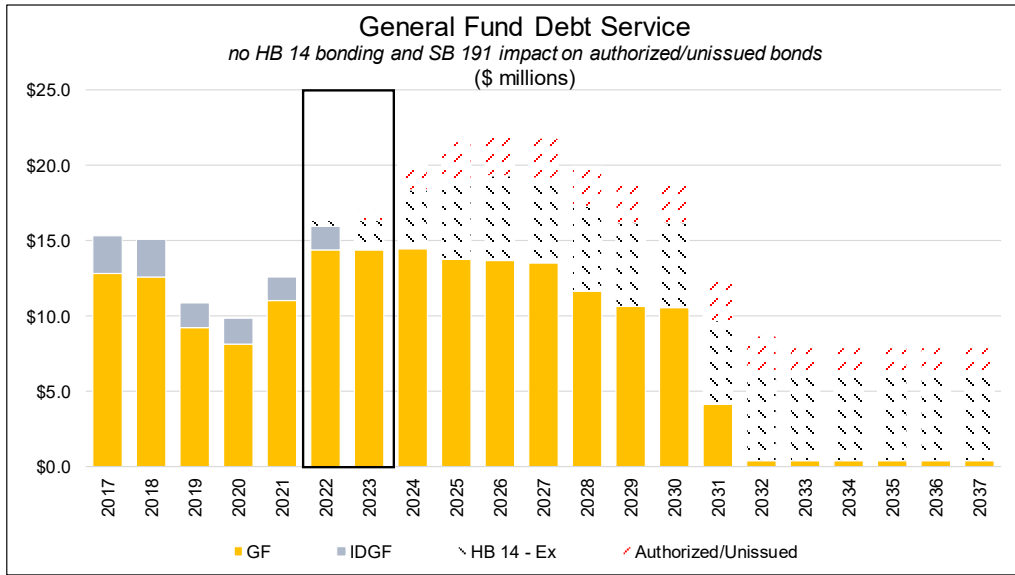
As mentioned above, one of the sources of revenue/income for the CD account includes annual transfers from the general fund authorized in HB 2. This amount of the transfer, as provided in [17-7-208, MCA](#), is based on the calculations mentioned on page 1.:

Statute additionally gives the legislature the authority to determine if there will be transfer in HB 2. In the 2021 Session, the legislature did not approve the HB 2 transfers, but instead replaced the HB 2 transfers with a transfer in SB 191.

A couple of actions by the legislature served to reduce the amounts that would be subtracted from the 1.0% of the certified general fund balances in the future. The actions include:

1. The change of HB 14 from a bond bill to a cash bill (black hatched bars in the figure below), and  
(This change will result in a reduced amount of future general fund general obligation debt service costs)
2. The SB 191 requirement that bond authority that has been authorized by the legislature but has not yet been issued be paid for from the capital development fund (red hatched bars in the figure below).  
(This change will also result in a reduced amount of future general fund general obligation debt service costs)

The figure below shows an updated graphic representation of the general fund general obligation debt service, as projected out into the future. The figure has been updated with the actions of HB 14 and SB 191.



The figure above makes use of projections made prior to the beginning of the legislative session. The analysis does not consider future bond authorization. Additionally, the projections for the debt service of HB 14 portray the legislation as introduced to the legislature and does not include additional projects that were added to HB 14 by the legislature.

In a projection of the change in debt service costs, the change in funding in HB 14 and the requirements of paying cash for all authorized but unissued bonds could lead to an increase in the transfers to the capital development account in the 2025 biennium of as much as \$16 million (over the two year period). In short, the legislature’s actions lead to future savings to the general fund which could be shifted to HB 2 transfers into the capital development account.