

# LONG-RANGE PLANNING OVERVIEW

## Section F

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### JOINT SUBCOMMITTEE OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

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#### -----Agencies-----

Long-Range Building Program  
State Building Energy Conservation Program  
Long-Range Information Technology Program  
Montana Coal Endowment Program  
Montana Coal Regional Water Program

Renewable Resource Grant & Loan Program  
Reclamation & Development Grants Program  
Cultural & Aesthetic Grant Program  
Montana Historic Preservation Grant Program

#### -----Committee Members-----

##### House

Representative John Fitzpatrick (Chair)  
Representative Scott Rosenzweig  
Representative Paul Tuss  
Representative Mike Vinton

##### Senate

Senator John Esp (Vice Chair)  
Senator Ellie Boldman

#### -----Fiscal Division Staff-----

Erica Thomas

# LONG-RANGE PLANNING OVERVIEW

## Executive Summary

This budget analysis has been updated for the December 16, 2024 amendments to the Governor’s Office. Appendix A17 at the end of this document summarizes the changes.

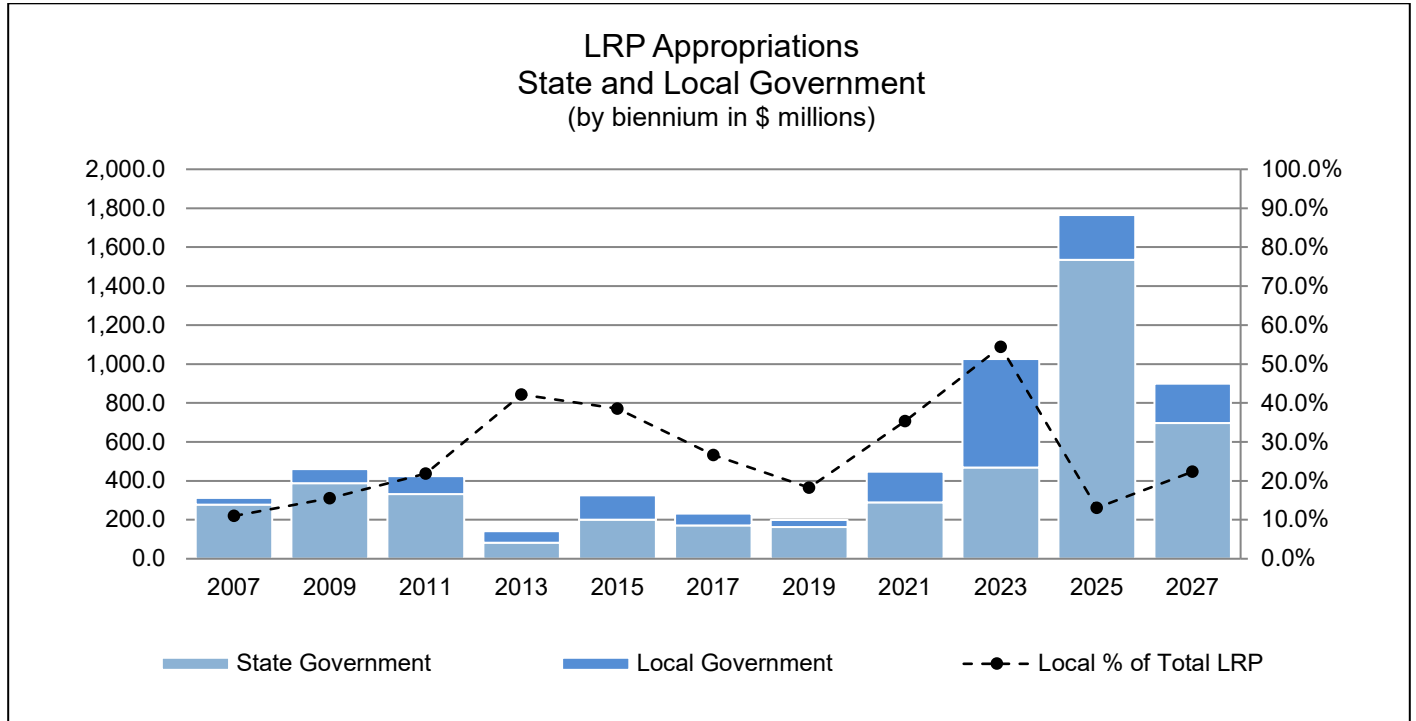
The executive proposal for Long-Range Planning (LRP) programs would provide a mix of cash and general obligation bond funding for state and local government infrastructure projects. Total LRP appropriations proposed by the executive are \$976.2 million. Of this, \$94.8 million is federal funding. Additionally, the executive proposal includes \$76.3 million of non-state dollars (authority/ donations). The LRP subcommittee will review the proposed budgets of nine programs.

## State and Local Infrastructure Projects

Long-Range Planning (LRP) programs are devoted to the creation and upkeep of major infrastructure. However, this excludes the state roads and highway construction and maintenance programs, which are appropriated in HB 2.

LRP budgets may be broadly classified as either state government or local government capital (infrastructure projects) programs. Figure 1 shows the level of biennial appropriations provided by category over time. Between the 2007 and the 2023 biennia, appropriations to the local government grant programs increased as a proportion of total LRP appropriations. But this amount dropped in the 2025 biennium, and under the executive proposal will increase to approximately 20.6%.

Figure 1



In the 2009, 2011, and 2015 biennia, the legislature 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 ticked

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down, and no additional funding was provided. Changes made by the 2019 Legislature to the state building program, principally related to the major maintenance of state buildings, increased the proportion of state infrastructure spending, lowering the percent of local government grants as a portion of the total budget.

The 2021 legislature authorized federal American Rescue Plan Act (ARPA) funding for state and local water and sewer infrastructure, totaling \$462.7 million under HB 632 that included significant investment in local water and wastewater infrastructure. Utilization of federal funding in the 2023 biennium, rather than state special revenue, for traditional local infrastructure funding programs such as the Montana Coal Endowment Program and the Renewable Resource Grants and Loans program allowed those programs to have more funding available for grants in the 2025 biennium proposal.

In the 2027 biennium proposal, increases in the total current replacement value of all state-owned general fund supported facilities has increased the statutory funding for the Major Repairs account resulting in more funding to address deferred maintenance of existing state buildings. The 2027 biennium proposal also includes a change in funding for the State Building Energy Conservation Program, which will no longer be bond funded but instead will shift to a self-sustaining revolving loan fund, and no appropriation was requested for the 2027 biennium for this program. And instead of funding individual projects, the LRITP program has proposed a total funding level by agency, which will provide more flexibility when soliciting bids for the projects.

### **Long-Range Planning Description**

In the 2027 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 the Department of Administration – HB 5
- State Building Energy Conservation Program (SBECP) – energy efficiency improvements to state-owned buildings, administered by the Department of Environmental Quality – HB 5
- Long-Range Information Technology Program (LRITP) – major state information technology builds and upgrades, administered by the Department of Administration – HB 10
- Montana Coal Endowment Program (MCEP) – water, wastewater, and bridge infrastructure grants to local governments, administered by the Department of Commerce – HB 11
- Montana Coal Endowment Regional Water Program (MCEPRW) – 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
- 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
- Cultural and Aesthetic Grant Program (C&A) – arts and cultural grants, administered by the Montana Arts Council – HB 9
- 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 2027 biennium executive budget to the levels of appropriation provided by the 2025 biennium budget by program and source of funding. The executive proposes total LRP budgets of \$976.2

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million. This is \$566.5 million, or 36.7%, less than the LRP budget appropriations in the 2025 biennium. Significant aspects of this proposed budget include:

- Increased capital development appropriations for investment in state-owned and Montana university system buildings, for new construction and larger repair and replacement projects, and new funding for deferred maintenance of the capitol complex
- Major repairs (maintenance) funding in the LRBP totaling \$49.9 million and capital development funding in the LRBP totaling \$671.0 million
- Long-Range Information Technology Program (LRITP) funding totaling \$54.2 million for 34 projects within 10 state agencies
- No general fund bonds have been proposed to help pay for the state infrastructure proposals; apart from the coal severance tax bonds for local government infrastructure, the proposal is funded with cash

Figure 2

<b>Long-Range Planning Budget Comparison (\$ millions)</b>					
Budget Item / Funding Source	Appropriations FY 24-25	Proposed Budget FY 26-27	Biennium Change	Biennium % Change	
HB 5 Long-Range Building Program (LRBP)	\$ 1,131.6	\$ 720.9	\$ (410.7)	-36.3%	
<i>State Building Energy Conservation Program (SBECP)</i>	\$ 3.7	\$ -	\$ (3.7)	-100.0%	
<i>Operations &amp; Maintenance Funding<sub>1</sub></i>	\$ 11.2	\$ 5.8	\$ (5.4)	0.0%	
HB 10 Long-Range Information Technology Program (LRITP)	\$ 240.3	\$ 54.2	\$ (186.1)	-77.4%	
HB 11 Montana Coal Endowment Program (MCEP)	\$ 31.0	\$ 23.8	\$ (7.2)	-23.2%	
HB 11 Montana Coal Endowment Regional Water Program (MCEPRW)	\$ 10.0	\$ 10.0	\$ -	0.0%	
HB 6 & 8 Renewable Resource Grant and Loan Program (RRGL)	\$ 115.1	\$ 146.2	\$ 31.1	27.0%	
HB 7 Reclamation and Development Grant Program (RDGP)	\$ 5.7	\$ 13.9	\$ 8.2	143.9%	
HB 9 Cultural and Aesthetic Grant Program (C&A)	\$ 0.6	\$ 1.0	\$ 0.4	69.8%	
HB 12 Montana Historic Grant Program (MHPG)	\$ 8.5	\$ 6.2	\$ (2.3)	-27.1%	
<b>Total Costs</b>	<b>\$ 1,542.8</b>	<b>\$ 976.2</b>	<b>\$ (566.6)</b>	<b>-36.7%</b>	
General Fund (GF)	\$ 10.3	\$ 83.0	\$ 72.7	705.8%	
Capital Projects Fund (Capital)	\$ 813.5	\$ 397.3	\$ (416.2)	-51.2%	
State Special (SS)	\$ 230.2	\$ 191.5	\$ (38.7)	-16.8%	
Federal Special (FS)	\$ 140.7	\$ 94.8	\$ (45.9)	-32.6%	
Total Bonds (Bonds)	\$ 98.9	\$ 133.3	\$ 34.4	34.8%	
<i>General Obligation Bonds Subtotal</i>	\$ -	\$ -	\$ -	0.0%	
<i>Coal Severance Tax Bonds Subtotal</i>	\$ 98.9	\$ 133.3	\$ 34.4	34.8%	
Proprietary Fund (Prop)	\$ 1.4	\$ -	\$ (1.4)	-100.0%	
<b>Subtotal State Funds</b>	<b>\$ 1,295.0</b>	<b>\$ 899.9</b>	<b>\$ (395.1)</b>	<b>-30.5%</b>	
<i>Authorization (Author)</i>	\$ 247.7	\$ 76.3	\$ (171.4)	-69.2%	
<b>Total Funds</b>	<b>\$ 1,542.7</b>	<b>\$ 976.2</b>	<b>\$ (566.5)</b>	<b>-36.7%</b>	

### LRP Description

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

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- Project requests are received by the program either from state agencies, the Montana university system, local governments, or private entities
- Project requests are reviewed by the receiving 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, positions budgeted 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 either through statutory re-appropriation language or by the accounting accrual process
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 need for additional operations and maintenance dollars in the future, but the capital funding for the project itself is finished
4. 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 below shows the funding of the LRP budget for the 2027 biennium. Total biennial funding proposed for the LRP budgets is \$976.2 million including the authority only funding. For the majority of LRP programs, the total of LRP budgets is funded primarily from state special revenue (SSR) funds, and for the 2027 biennium the executive proposal includes \$191.5 million of SSR, or 19.6% of the LRP budgets. However, capital project funds, used almost exclusively in Long-Range programs, are \$397.3 million (40.7% of the executive proposal) and makes up the largest funding source in the 2027 biennium.

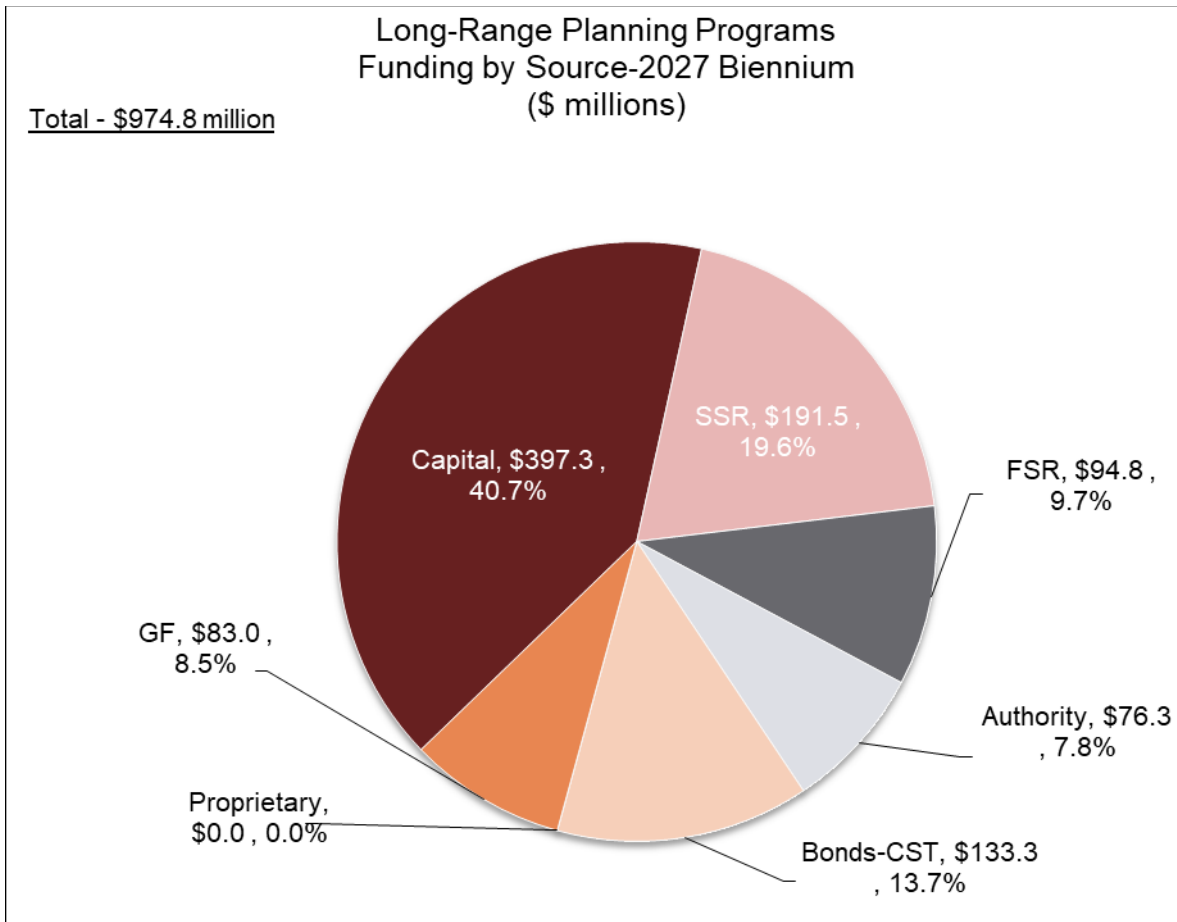
Coal severance tax bonds, for which debt service is repaid by the local governments for their renewable resource projects, total \$133.3 million (13.7% of the executive proposal).

Federal special revenue funds requested total \$94.8 million (9.7% of the executive proposal). This funding is for long-range building program projects, particularly DMA and FWP projects, and long-range information technology projects, primarily for the Department of Health and Human Services (DPHHS).

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Authorizations of \$76.3 million consist of non-state funding that does not require appropriation and are made up of university funds, donations, and other forms of non-state resources. Authorizations exist in the LRBP because, with only a few exceptions such as Montana University System (MUS) auxiliary facilities, legislative approval is required for any state or MUS building projects that cost more than \$300,000 (18-2-102, MCA). More detail on the funding and appropriations of the LRP programs is found in the program sections of this report.

Figure 3



**LFD**

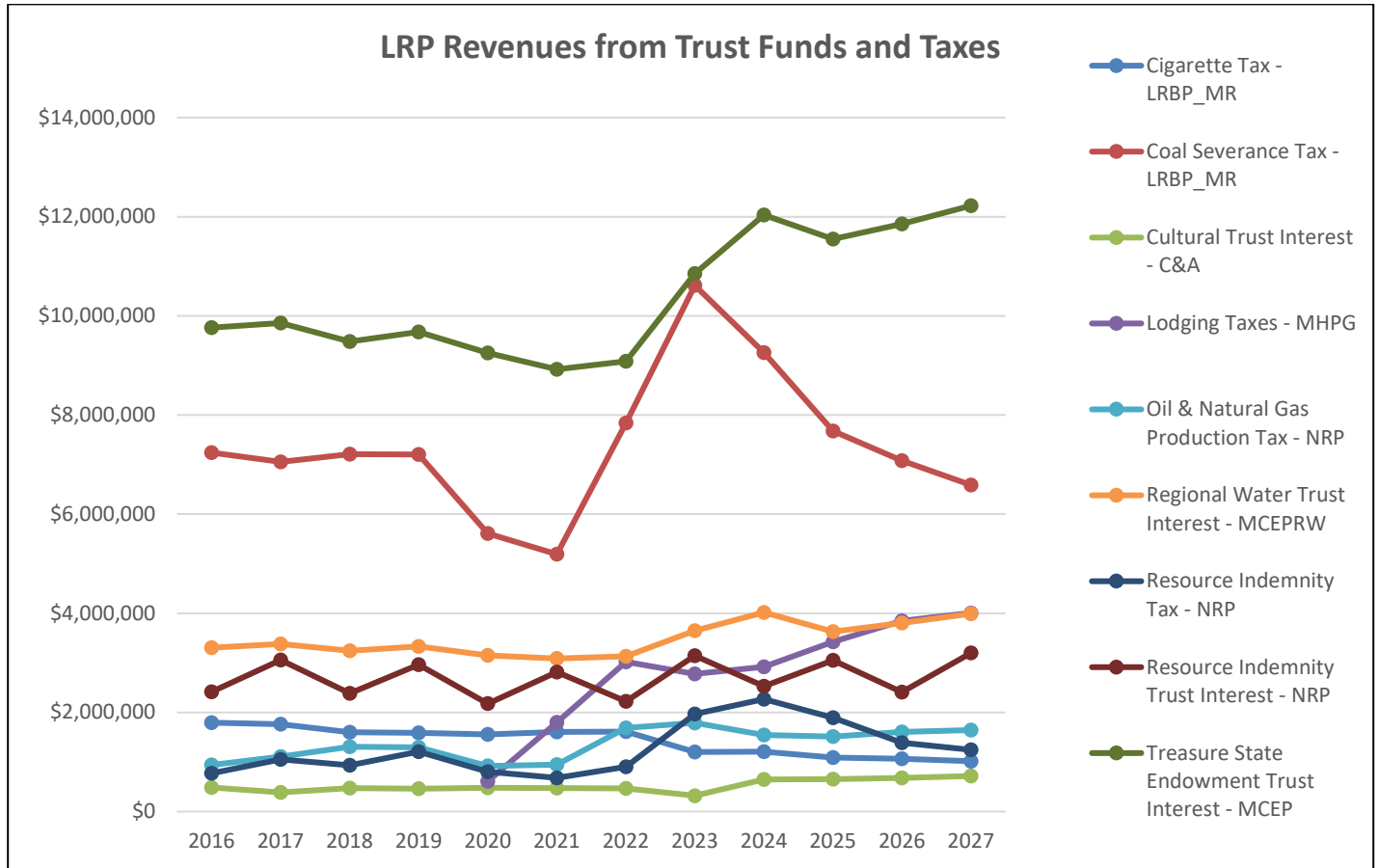
**COMMENT**

The dedicated funding of five of the LRP programs is either substantially or totally reliant on the investment earnings from trust balances. Over the past decade, interest rates have been reduced 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 3.4%. Interest rates increased in the 2025 biennium to 4.8% in FY 2024 and 4.99% in FY 2025, causing cash project funding increases in some of the LRP programs when compared to the 2023 biennium. However, the Board of Investments is projecting these interest rates to decrease to 3.79% in FY 2026, 3.08% in Fiscal Year 2027, and just 2.88% in Fiscal Year 2028. This will mean less funds available from investment earnings for the LRP programs that depend on the interest earnings.

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Figure 4 shows the revenue received from various interest earnings and taxes in each program over the last decade.

Figure 4



### Capital Development Funding

The 2019 Legislature created a new funding source for capital development projects that has been referred to as a “working rainy-day fund”. As seen in 17-7-208, MCA, the executive will propose annual transfers of general fund into the capital developments account, and the legislature may appropriate the transfer in the HB 2 budget of the Department of Administration, which houses the Architecture and Engineering (A&E) Division. The transfers are equal to the following:

- 1.0% of the amount of the certified unaudited state general fund revenue, including transfers, less:
  - 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, MCA, the capital development fund may receive overflow transfers from the budget stabilization account, under specific economic circumstances

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, MCA. The executive and the legislature may reduce the amount of the transfer proposed for HB 2.

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
- c) purchase of real property for which an appropriation is required to fund the purchase

Additionally, the terms of use of the account allows the legislature to transfer unencumbered funds from the account only to supplement the funding of local infrastructure.



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### Infrastructure in Montana Proposal

The executive has featured most of the LRP budgets in what is titled the “Infrastructure in Montana” proposal of \$976.2 million. The executive’s proposal incorporates all the LRP programs except the C&A program. Please note that no appropriation request was made for the SBECF program.

#### **New Provisions**

- **6 year Capital Development Facilities Strategic Plan & Planning Studies**

HB 5 includes a new requirement in future budget submissions for each state agency and institution to submit a six-year capital development facilities strategic plan to DOA A&E Division. Excluding major repair projects greater than \$2,500,000, any project must be in the capital development facilities strategic plan to be included in the department’s capital development project request.

Additionally, DOA is appropriated \$2.0 million for the purpose of capital development project planning studies for agencies, including the university system, on capital projects that are anticipated to be greater than a total project cost of \$10.0 million. Prior to DOA usage of the funds, the agencies are required to submit individual capital project applications along with their six-year facilities strategic plans and make recommendations to OBPP. The planning study must contain the full narrative and explanation of the needs, project scope and programmatic information, design and construction schedule, itemized total capital project cost, any future staffing costs and any future O&M costs.

- **Market, Supply Chain & Inflationary Impacts**

DOA is also appropriated \$10.0 million for a reserve fund for Market, Supply Chain & Inflationary Impacts. Prior to using the funds, DOA must submit a recommendation with sufficient justification for approval to OBPP. Funding may not be used to expand beyond the scope of a project authorized by the legislature.

- **Reporting Requirements**

For any capital project funded with a contingency of the receipt of other funding sources, there is a new requirement for the agency or institution develop a financing plan/agreement and to submit a report to the Joint Appropriations Subcommittee for Long Range Planning each Session indicating the status of the other sources of funding, how much funding has been received, projections of when the funding is projected to be received, or if the project should be cancelled.

Details for projects for each program can be found on the executive budget proposal webpage:

<https://budget.mt.gov/Budgets/> Volumes 3-10 provide additional project information for each program.

The executive’s proposal will be contained in the “normal LRP bills”, including HB 5, HB 6, HB 7, HB 8, HB 10, HB 11, and HB 12. The Infrastructure in Montana proposal totals \$976.2 million and makes up over 99.9% of the total LRP program proposed appropriations as provided in this report.