



Federal Budget Impacts to State and Local Government in Montana

October 22, 2025

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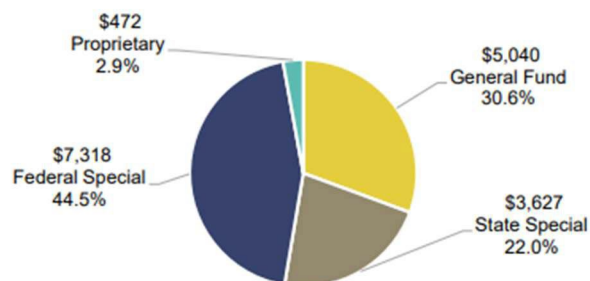
Introduction and Context

The 2027 biennium House Bill 2 budget is 44.5% federal funds, 30.6% general fund, and 22.0% state special funds. In general, staff and legislators tend to focus first on the general fund and then state special funds, with federal funds receiving the least attention during the budgeting process. While this approach generally makes sense, recent and potential future federal action has required staff to become more familiar with federal funding that impacts the state.

Montana state and local governments will be financially impacted by the action taken by the federal government, both in revenue and expenditures. This report begins to explain significant recent federal actions and potential future actions relative to federal budget and revenue decisions. This report is a first step, and legislators and staff should expect an increased attention to federal actions impacting states in the future. Several recent and potential future federal actions are significant for states, including:

1. The President proposed his budget in May 2025, known as the “skinny budget”. This budget proposal may not be moving in Congress, but it is an indication of the priorities of the President.
2. The President has made budget reductions via various means without Congressional action on existing appropriations. Some of these actions are being litigated. This type of change is the most difficult to track and is currently not included in this report.
3. Congress passed a federal fiscal year (FFY) 2025 reconciliation bill through H.R. 1 known as the “One Big Beautiful Bill” that has indirect impacts to revenue, direct impacts to expenditures, and indirect impact to revenue and expenditures through potential “PAYGO Sequestration”.
4. No budget has been passed and approved for FFY 2026, which began on October 1, 2025. This has led to a partial shutdown in federal operations. In Congress, the House and the Senate appropriations bills, none of which have yet passed, differ from the President’s budget proposal.

2027 Biennium Legislative Budget by Fund Type
Total Funds - HB 2 Only
Total = \$16,457 (\$ Millions)



It is uncertain what budget will ultimately pass this year. While budget stalemates have occurred in the past, the financial condition of the federal government has eroded over the past few years and deficits are projected by the Congressional Budget Office (CBO) to increase due to the changes made in H.R. 1, the “One Big Beautiful Bill Act”.

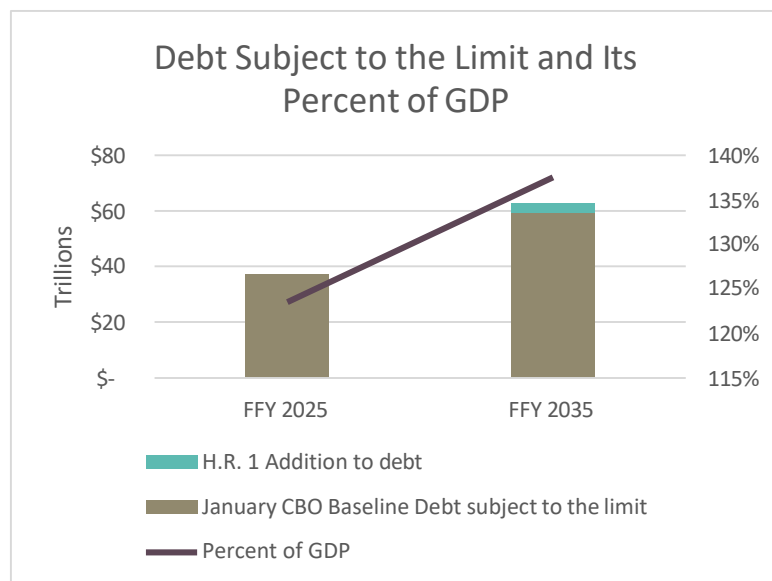
Federal Budget Pressure is Likely to Continue

The federal budget has had a growing deficit over the past 30 years that accelerated with the pandemic response and other action. The revenues collected each year are less than expenditures and the proportion of that difference has grown. In Montana we typically refer to this as a negative structural balance.

The most recent report from the non-partisan Congressional Budget Office on [October 8](#) stated that the FFY 2025 deficit was \$1.8 trillion, which is 6.0% of U.S. Gross Domestic Product. This negative structural balance or deficit in FFY 2025 was comprised of \$5.2 trillion of revenue and \$7.0 trillion of expenditures. Expenditures exceeded revenues by 34.6%.

At some point, the growth in the deficit and debt will cause economic strain that will force the reduction of the deficit. In preparation for this, the Congressional Budget Office published a document that discussed the possible ways to balance the federal budget called “[Options for Reducing the Deficit: 2025 to 2034](#)”. This report is the latest in a series of such reports and offers policymakers clues on how a reduction in federal deficits may evolve.

Recent Action May Worsen the Deficit



According to the [Congressional Budget Office, H.R. 1 will increase the deficit](#) and debt of the federal government. The CBO forecast [in January of 2025](#) stated that the FFY 2026 budget deficit would be \$1.7 billion. Action taken in H.R. 1 is estimated to increase the deficit by between \$0.5 and \$0.6 trillion annually over the next several years. Over a ten-year period, it is anticipated to increase the debt by \$3.4 trillion. The adjacent graphic describes the increasing debt. Using S&P Global Market estimate of FFY

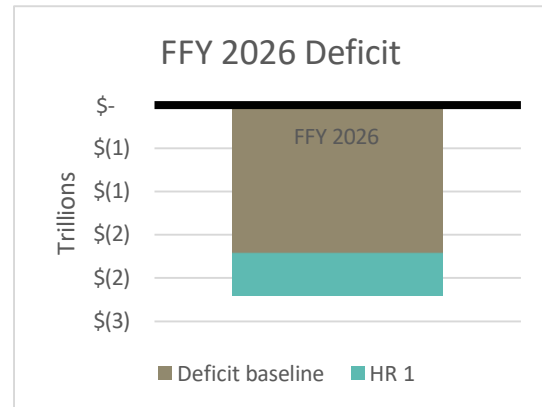
2035 GDP yields a debt subject to the limit¹ of 138% of GDP in FFY 2035.

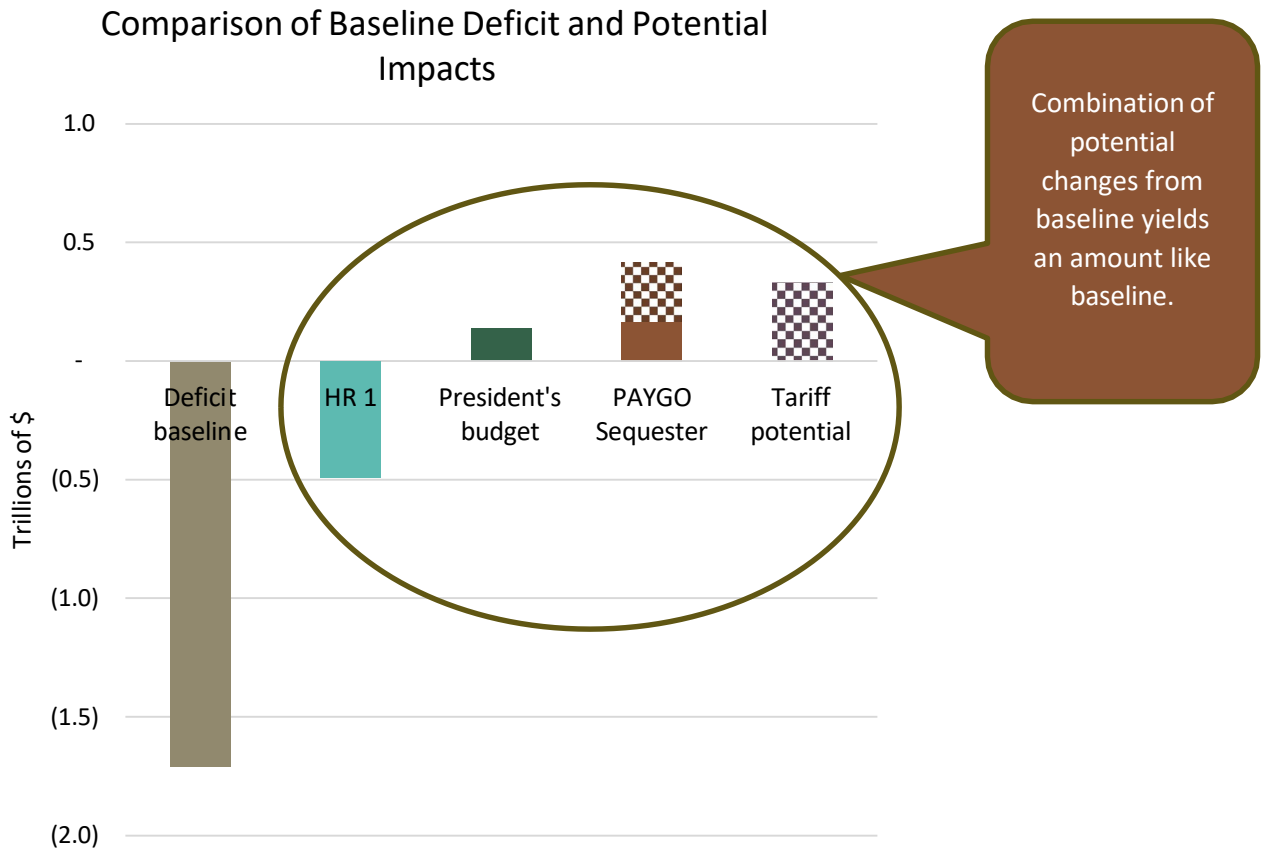
U.S. annual GDP is \$30 trillion in federal fiscal year 2025. Using the S&P Global Market estimate of FFY 2026 GDP, the annual increase in deficit from H.R. 1 is 1.5%. Adding this to the annual deficit estimated by the CBO in January would grow the annual budget deficit from 6.0% of GDP in FFY 2025 to 7.1% of GDP in FFY 2026.

¹ The federal debt limit is a legal restriction set by Congress on the total amount of money the U.S. government can borrow to meet its existing obligations, such as Social Security, Medicare, and military salaries.

Other actions beyond H.R. 1 could impact the federal deficit:

- The President's budget request (skinny budget) reduces discretionary spending by \$140 billion or \$0.14 trillion. House and Senate versions of the budget reduce spending by lower amounts.
- [CBO estimate of the PAYGO sequester reductions](#) would require the Office of Management and Budget (OMB) to reduce \$415 billion or \$0.41 trillion in reductions. The program reductions available to be reduced under the PAYGO sequester is estimated at \$165 billion. It is uncertain how the OMB could bridge the gap.
- Tariffs are raising revenue that may partially offset the deficit. Without accounting for the economic impact of tariffs or action that the courts may take, current tariffs are anticipated to raise revenue by \$3.3 trillion and reduce interest payments by \$4 trillion over 10 years. The CBO has not published annual amounts, but if the amounts were divided over the 10 years, with some simple assumptions about growth the distribution, the deficit could be reduced by \$0.33 trillion per year or little over 1% of GDP.
- The following graphic summarizes this high-level view of the federal deficit. Note that tariffs and the uncertain part of the PAYGO are shown in checkerboard pattern. All estimates in this summary are rough approximations of data that is available on the CBO website and interpretations of that data.





The net impact of the above assumptions may offset the increased deficit caused by H.R. 1, but it will not eliminate the baseline deficit, nor the growing debt. Current interest payments on the debt are about \$1 trillion or 13.5% of the budget. It is unknown how much debt and deficit will be acceptable to the markets or when severe economic strain related to federal borrowing could occur.

Summary of Federal Action and Potential Action

H.R.1 (One Big Beautiful Bill Act)

H.R. 1 includes three major impacts to Montana – revenue impacts, federal funding impacts, and potential impacts associated with Pay-As-You-Go (PAYGO) Sequestration. H.R. 1 was a reconciliation bill and did not need to cross the 60-vote filibuster threshold in the U.S. Senate.

Revenue – Included in H.R. 1 are multiple tax provisions that will impact Montana’s individual income tax collections. These impacts are discussed in the ‘General Revenue’ section of this report below.

Federal Funding – H.R. 1 impacts federal funding, or federal revenues, in several programs that currently make up significant portions of Montana’s budget. The most significant impacts are in the state’s Medicaid program and Supplemental Nutrition Assistance Program (SNAP). H.R. 1 also includes the Rural Health Transformation Program (RHTP), which makes available (upon an accepted application) to each

state \$100 million per year for 5 years (FFY 2026-2030), plus additional amounts to be determined by CMS.

H.R. 1 Federal Funding Impact by State Fiscal Year to Montana		
	SFY 2026	SFY 2027
Medicaid	Little or no impact	Lower state and federal fund spend tied to lower enrollment (work requirements and other eligibility impacts start January 2027). A rough estimate for SFY 2027 is a reduction of \$151.0 million in federal funds due to lower enrollment and spending ²
SNAP	Tighter work requirements could reduce enrollment and state and federal fund spend, impact expected to be modest	Increased state match for administration: anticipated to be in the range of \$6-8.4 million (more state funds required, less federal funds)
RHTP*	Addition of \$100.0 million federal funds	Addition of \$100.0 million federal funds
*Assumes successful application. Could be significantly higher than \$100.0 million per year.		

PAYGO Sequestration Potential – The Congressional Budget Office estimates H.R. 1 increases federal deficits by \$3.4 trillion over 10 years. Absent a bypass or other type of fix, H.R. 1 will trigger Pay-As-You-Go³ sequestration across-the-board cuts in January 2026.

Federal sequestration law requires certain reductions in the federal budget. Many large areas of federal spending, such as Medicaid and Social Security, are exempt. Some federal funding areas subject to sequestration would impact the states. Key areas of reduction include Social Services Block Grant, Promoting Safe and Stable Families, Maternal, Infant, and Early Childhood Home Visiting, fish and wildlife funding, and some highway funding.

According to an August 15, 2025, letter from the CBO the estimated required sequestration amount in FFY 2026 is \$415 billion, with resources available to the Office of Management and Budget to reduce of about \$165 billion. Of that \$165 billion, about \$30 billion is tied to programs that flow through state and/or local governments. These potential impacts are discussed at the state agency level later in this document.

FY 2026 Presidential Budget Request – The “Skinny Budget”

The FY 2026 Presidential budget was released in May 2025. It is about \$140 billion lower than the FY 2025 enacted budget. The skinny budget reduces nondefense discretionary spending by 23% and

² Estimate based on work of KFF here: <https://www.kff.org/medicaid/allocating-cbos-estimates-of-federal-medicaid-spending-reductions-across-the-states-enacted-reconciliation-package/>

³ Pay-As-You-Go Act was passed in 2010. Statutory PAYGO sequestrations have not been implemented and have been avoided 8 times since 2010.

increases defense discretionary spending by 13%. While this budget is unlikely to be implemented in whole, it reflects the administration's priorities. The budget proposal was released in sufficient detail to permit analysis by LFD staff. Potential impacts are discussed at the state agency level later in this document.

The FY 2026 Shutdown

FFY 2026 began on October 1, 2025, without a budget, continuing resolution, or other funding vehicle in effect. Congress can pass new appropriations or a continuing resolution (CR) to provide for spending in FFY 2026. As of October 15, 2025, none of the 12 regular federal appropriations bills have passed.

The last shutdown was in 2018 and lasted for 34 days. This was a partial shutdown as some of the appropriations bills had been enacted. About 800,000 federal employees were impacted. Some national parks were closed or had certain services suspended.

Prior to the 2018 shutdown the 2013 shutdown occurred in the first half of October 2013. This shutdown led to a furlough of about 800,000 federal employees, as well as a halt in the operation of national parks and museums. Many federal websites were inoperable at this time.

Federal agency contingency plans generally continue essential services (Medicaid, Medicare, Social Security, and others) in the event of a shutdown, although certain services such as eligibility verification could be impacted.

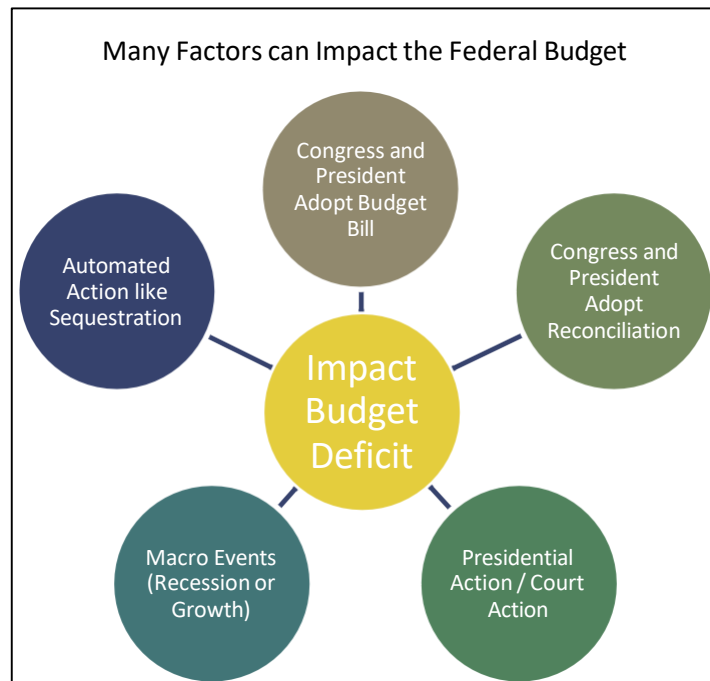
The National Conference of State Legislatures published a guide on federal services during a shutdown in November of 2023. This summary may be useful to policymakers and can be found at <https://www.ncsl.org/state-legislatures-news/details/what-happens-to-government-services-during-a-federal-shutdown>

Executive/Presidential Funding Actions

Another area of federal action for states to be aware of is rescissions or other similar actions that prevent the expenditure of federal dollars appropriated by Congress. The current administration has used this practice several times, and litigation often follows as a response. The U.S. Supreme Court did permit the current administration to employ a "pocket rescission" related to foreign aid in a decision issued at the end of September 2025.

Federal Actions - In Sum

Federal budgeting is poised to be a challenging policy area in upcoming years. 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.



Remainder of the Report

The remainder of this report discusses impacts to revenue from H.R. 1 and potential PAYGO sequestration before discussion, by budget section, of the estimated impacts of H.R. 1, the skinny budget, PAYGO sequestration, and the CBO deficit reduction options for each agency that may receive reductions.

General Revenue

H.R.1 Impacts

H.R.1 was signed into law on July 4, 2025. Included in this legislation are multiple tax provisions that will impact Montana's individual income tax collections. In addition to making permanent many of the provisions from the Tax Cuts and Jobs Act (TCJA) which was passed in December of 2017, new provisions were added that will reduce Montana's tax liabilities. The table below contains LFD's estimates on the impacts to Montana's individual income tax collections.

Provision in H.R.1	Estimated Annual Impact (\$Millions)
Additional Standard Deduction	(\$23.4)
Additional Deduction for Seniors	(\$35.6)
Car Loan Interest Deduction	(\$6.6)
No Tax on Tip Income	(\$4.0)
No Tax on Overtime	(\$37.0)
Charitable Contribution (Begins in TY 2026)	(\$7.5)
Estimated Total	(\$114.2)

Note that there is limited Montana-specific data on auto-loan interest and overtime hours. Furthermore, unlike the other provisions which are retroactive to January 1, 2025, the additional deduction for charitable contributions begins in tax year 2026.

[HB 337](#) (Montana Legislature, 2025 Session) will lower individual income tax rates and widen income tax brackets at the beginning of calendar years 2026 and 2027. The lowered rates and widened brackets will likely decrease the estimates in the table above by small amounts, but some of this impact will be muted by growth in incomes.

U.S. Mineral Royalties

H.R. 1 reduced the federal royalty rate for coal leases from 12.5% to 7% and the oil and gas royalty rate for new leases from 16.67% to 12.5%. These changes create uncertainty for future state and local revenue collections from U.S. mineral royalties. Wyoming is currently projecting a large revenue loss under these changes, as detailed on [page 5 of their July 2025 Revenue Update](#).

If the 7% coal royalty rate had been in effect during FY 2025, revenues to the State General Fund would have decreased by approximately \$4.8 Million. Going forward, the reduction in the coal royalty rate is expected to significantly diminish revenues unless offset by increased production levels.

Counties will also be impacted as there is a 25% share of US mineral royalty funds with the counties. Big Horn and Rosebud Counties are expected to experience the greatest fiscal impacts. If the new rate had been in effect in FY 2025, Big Horn County revenues would have been reduced by \$1.1 Million and Rosebud County by \$0.4 Million.

The revised royalty rate for oil and gas applies only to new leases, so this will have a less immediate impact. Since FY 2022, an average of 1.35 oil rigs have operated in Montana each month, and it remains uncertain whether the rate reduction will influence future drilling activity.

PAYGO Sequestration Impacts

Included in the PAYGO sequestration is a reduction in federal outlays for the portion of U.S. Mineral Revenue that the federal government shares with state and local governments. The [Fiscal Report Volume 2](#) describes the split of revenues with the federal government that is received by the Montana state and local governments for U.S. Mineral Revenue. Total funds received by the state have varied from a high of \$51 million to a low of \$16 million since FY 2014. These funds are shared between state and local government with 25.0% going to local government and 75.0% being deposited in the state general fund. The HJ 2 amounts for the 2027 biennium and estimates for the 2029 biennium are shown in the table to the right.

The counties receiving the largest portion of these funds are: Big Horn, Rosebud, Fallon, Powder River, Richland, and Roosevelt.

	Total	General	
<i>in millions</i>	Revenue	Fund	Local Funds
FY 2026	18.84	14.13	4.71
FY 2027	17.93	13.45	4.48
FY 2028	17.08	12.81	4.27
FY 2029	16.35	12.26	4.09

State Expenditure Impacts from Federal Actions

As discussed above, state expenditures of federal special revenue funds will be impacted by action taken at the federal level. The Legislative Fiscal Division has provided a table that includes the estimated impacts of H.R. 1, the skinny budget, PAYGO sequestration, and the CBO options for each agency that may receive reductions. These estimates are based on the best information available at the time of this report and will be updated as more information becomes available. This section outlines the methodology used by the Legislative Fiscal Division to develop the estimates for each type of federal action and provides a statewide overview of the impacts by section of the budget.

Methodology

H.R. 1

Legislative Fiscal Division analysts used a variety of methods to develop estimates for the reductions included in H.R. 1. This includes using information in budget change documents submitted by agencies for changes that have already occurred as well as using the state's accounting system, and information from the CBO and the [Kaiser Family Foundation](#) to develop estimates for reductions that will be occurring in FY 2027. This report shows all reductions on an **annual basis**, even if the reductions begin in FY 2027.

Skinny Budget

FFIS provided details on estimated reductions in the skinny budget, which included specific federal grants (by unique identifier) and the percentage reduction at a national level. The Legislative Fiscal Division applied the FFIS percentage reductions by federal grant to the FY 2025 federal grants awarded to State of Montana agencies included on USAspending.gov using the unique identifier to determine the impact to the State of Montana.

Analysts identified several federal grants that potentially could receive reductions that were not included in the USAspending.gov data on FY 2025 federal grants awarded. In these cases, analysts provide estimates using a different methodology and described the alternative methodology below the table.

PAYGO Sequestration

FFIS provided details on the programs that are subject to PAYGO sequestration. The Legislative Fiscal Division worked to align these programs to the FY 2025 federal grants awarded to each state agency. The identified programs were reduced by 100.0% in the tables because of the requirements of PAYGO sequestration. PAYGO sequestration has been law since 2010 but has always been avoided before going into effect.

Congressional Budget Office Options

The CBO published a document that discussed the possible ways to move closer to a balanced federal budget called "[Options for Reducing the Deficit: 2025 to 2034](#)". The Legislative Fiscal Division worked to align the programs included in this document to the FY 2025 federal grants awards. The reductions included in the CBO document are frequently provided as a range of reductions, so the tables included at the state agency level include an 'X' if the CBO document considers potential reductions to a federal grant.

Overview of Statewide Expenditure Impacts from Federal Actions

Overall, the state expended \$4.3 billion in federal special revenue funding (including Section 8 vouchers) in FY 2025. The statewide impacts from H.R. 1, the skinny budget, and PAYGO sequestration include:

- H.R. 1 is estimated to reduce federal special revenue expenditures by \$236.4 million or 5.5% when compared to FY 2025 actual expenditures from federal funds. The Department of Health and Human Services, Department of Transportation, and Department of Natural Resources and Conservation are all impacted by H.R. 1. In addition to the reductions, H.R. 1 also includes the Rural Health Transformation Program (RHTP), which makes available (upon an accepted application) to each state \$100.0+ million per year for 5 years (FFY 2026-2030)
- The skinny budget is estimated to reduce federal special revenue expenditures by \$174.9 million or 4.1% when compared to FY 2025 actual expenditures from federal funds. These reductions occur in many state agencies and detailed explanations of the estimated impacts of these reductions are included in the next sections of this report
- PAYGO sequestration is estimated to reduce federal special revenue expenditures by \$62.9 million or 1.5% when compared to FY 2025 actual expenditures from federal funds. Most of the reductions are related to federal aid in wildlife restoration in the Department of Fish, Wildlife, and Parks

The table below provides a summary of the estimated reductions by section of the budget. Additional details at a state agency level are provided in the next section of this report and includes write-ups on the estimated reductions related to H.R. 1 and the skinny budget. Further work will need to be done by the Legislative Fiscal Division on the estimated reductions from PAYGO sequestration and the CBO options as LFD has just begun their analysis in these areas.

Estimated Annual Federal Special Revenue Expenditure Reductions from Federal Actions (\$ millions)



Section A – General Government

Department of Commerce

Department of Commerce					
FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)					
	FY 2025 Federal Grant	H.R. 1	Reductions		CBO
			Skinny Budget	Sequestration	
Grid Infrastructure Deployment And Resilience	\$ 747.5	\$ -	\$ -	\$ -	
Section 8 Housing Choice Vouchers	34.2	-	(34.2)	-	
Community Development Block Grants	6.2	-	(6.2)	-	X
Housing Trust Fund	3.1	-	-	(3.1)	
Home Investment Partnerships Program	2.8	-	(2.8)	-	
Section 8 Housing Assistance Payments Program	1.3	-	-	-	
Lower Income Housing Assistance Program Section 8 Moderate Rehab	1.0	-	(1.0)	-	
State Trade Expansion	0.9	-	-	-	
Developmental Disabilities Basic Support and Advocacy	0.5	-	(0.0)	-	
Mainstream Vouchers	0.2	-	-	-	
Small Business Development Centers	0.1	-	-	-	
	<u>\$ 797.8</u>	<u>\$ -</u>	<u>\$ (44.2)</u>	<u>\$ (3.1)</u>	

Estimated State Expenditure Impacts from the Skinny Budget

In FY 2025 the Department of Commerce expended \$165.9 million in federal and Section 8 funding. The skinny budget includes estimated reductions to the department's federal and Section 8 funding of approximately \$44.2 million. The table above provides a high-level summary of proposed reductions, and additional details are provided below on the programs included in the skinny budget.

Section 8 Housing Choice Vouchers – Federal Grant Eliminated

The Section 8 Housing Choice Voucher program helps very low-income families, elderly, and disabled individuals secure safe, sanitary housing through the United States Department of Housing and Urban Development (HUD). In using contracted field agencies, this program allows for tenants to pay 30.0% of their income towards rent and utilities, with subsidies covering the rest. Within this program, 3,120 households are currently using these vouchers as of August 2025 with the department continuing to issue new vouchers.

Community Development Block Grants – Federal Grant Eliminated

The Community Development Block Grant (CDBG) program provides funds to cities, towns, and counties with fewer than 50,000 residents. The general purpose for these funds is to develop and preserve affordable housing, provide community services, and create and retain jobs. The Department of Commerce did not fund any projects in this program in FY 2025 but has received four applications during the Fall 2025 application period. The state match portion of this funding, specifically on the administrative side, is dependent on the timing of the funding. Through HB 6 and HB 11 of the 2025 Session, CDBG funding is considered when looking at the overall project funding for 16 different projects (8 drinking water projects and 8 wastewater projects, which are listed in Appendix A). The \$11.5 million in CDBG funding discussed in these bills are awards from federal FY 2025 and are not part of the potential federal reductions to this program but are provided for perspective on potential federal funding changes.

Home Investment Partnership Program – Federal Grant Eliminated

The Home Investment Partnership Program (HOME) is a federal block grant utilized for the development, construction, and creation of affordable housing for low-income households. This program is administered through the Housing MT Division of the Department of Commerce with other uses being the granting of funds to local governments and nonprofits throughout the state to completed qualified projects. The department requests a 5.0% match made by the applying entity for the use of these funds, with the match often exceeding this amount. However, there no penalty for not providing a match. This program was used to fund 2 projects in FY 2025 with a combined award of \$1.3 million.

Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation – Federal Grant Eliminated

This program provides housing assistance to low-income individuals and families for specific housing units. Eligible housing units include those which have been moderately rehabilitated and contracted through HUD. This program currently has 95 vouchers across seven properties. As of the end of January 2026, the agency expects two properties, and the 36 total vouchers within these properties, to be exiting the program.

Department of Labor and Industry

Department of Labor and Industry					
FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)					
	FY 2025 Federal Grant	H.R. 1	Reductions		
			Skinny Budget	Sequestration	CBO
Employment Service/Wagner-Peyser Funded Activities	\$ 5.3	\$ -	\$ (4.9)	\$ -	-
Unemployment Insurance	4.6	-	-	-	(4.6)
WIOA National Dislocated Worker / WIA National Emergency Grants	4.3	-	-	-	-
WIOA Adult Program	3.6	-	(3.6)	-	-
Reentry Employment Opportunities	0.9	-	(0.9)	-	-
Labor Force Statistics	0.8	-	-	-	-
Jobs for Veterans State Grants	0.7	-	-	-	-
Temporary Labor Certification for Foreign Workers	0.5	-	-	-	-
Consultation Agreements	0.4	-	(0.0)	-	-
Occupational Safety and Health Program	0.1	-	-	-	-
Compensation and Working Conditions	0.1	-	-	-	-
Work Opportunity Tax Credit Program (WOTC)	0.0	-	-	-	-
Market Protection and Promotion	0.0	-	-	-	-
	<u>\$ 21.3</u>	<u>\$ -</u>	<u>\$ (9.5)</u>	<u>\$ (4.6)</u>	

Estimated State Expenditure Impacts from the Skinny Budget

In FY 2025, the Department of Labor and Industry expended \$36.3 million in federal funds. The skinny budget includes estimated reductions to the department's federal funding of approximately \$9.5 million. The table above provides a high-level summary of proposed reductions, and additional details are provided below on the programs included in the skinny budget.

Employment Service/Wagner-Peyser Funded Activities – Federal Grant Reduced by 92.8%

This program, that primarily lies within the Workforce Services Division of the Department of Labor and Industry, provides federal funding to support the 18 job service offices throughout the state, along with

the business engagement team within the division. Although there is not a required state match for these funds, state special revenue funds from the Employment Security Account are often matched with this federal funding.

WIOA Adult Program – Federal Grant Eliminated

Federal funds associated with this program also lie within the Workforce Services Division of the Department of Labor and Industry. This program is primarily used to train individuals through various training, apprenticeship, and work-based learning programs with support also being used towards case management of these individuals.

Also, within the umbrella of Workforce Innovation and Opportunity Act (WIOA) funding is the adult education and financial literacy program that was transferred to the Department of Labor and Industry from the Office of Public Instruction at the beginning of state FY 2026. This program supports training for adults in reading, writing, math, and English language proficiency. In state FY 2025, the Office of Public Instruction supported approximately 3,500 individuals through this program.

Reentry Employment Opportunities – Federal Grant Eliminated

The Reentry Employment Opportunities program provides federal funding to the Department of Labor and Industry for the retraining and support of previously incarcerated individuals reentering the workforce. This is provided on a case-by-case basis to these individuals and largely consists of a grant to the entity providing these services.

Department of Military Affairs

Department of Military Affairs					
FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)					
	FY 2025 Federal Grant	H.R. 1	Reductions		
			Skinny Budget	Sequestration	CBO
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	\$ 9.4	\$ -	\$ -	\$ -	-
Homeland Security Grant Program	5.7	-	(1.4)	-	-
Flood Mitigation Assistance	5.3	-	-	-	-
State and Local Cybersecurity Grant Program	3.7	-	(3.7)	-	-
National Dam Safety Program	3.3	-	-	-	-
Emergency Management Performance Grants	3.0	-	-	-	-
Veterans Cemetery Grants Program	2.8	-	-	-	-
Hazard Mitigation Grant	2.5	-	-	-	-
Non-Profit Security Program	1.2	-	-	-	-
STARBASE Program	0.7	-	-	-	-
Interagency Hazardous Materials Public Sector Training and Planning	0.2	-	-	-	-
Earthquake Consortium	0.1	-	-	-	-
	<u>\$ 37.9</u>	<u>\$ -</u>	<u>\$ (5.1)</u>	<u>\$ -</u>	<u>-</u>

Estimated State Expenditure Impacts from the Skinny Budget

In FY 2025, the Department of Military Affairs expended \$69.9 in federal funds. The skinny budget includes estimated reductions to the department's federal funding of \$5.1 million. The table above provides a high-level summary of proposed reductions, and additional details are provided below on the programs included in the skinny budget.

State and Local Cybersecurity Grant Program – Federal Grant Eliminated

This program, within the Disaster and Emergency Services Program of the Department of Military Affairs, provides cybersecurity grant funding to state and local governments. The primary purpose of these grants is the improvement of cybersecurity in a variety of areas. This grant provided support towards 58 local government entities and school districts in FY 2025.

Homeland Security Grant Program – Federal Grant Reduced by 25.0%

Federal funding through this program is administered by the Disaster and Emergency Services Division of the Department of Military Affairs. This is utilized by the agency to fulfill both state priority projects and projects applied for by local and tribal governments. State of Montana priority projects include support of the Montana Analysis and Technical Information Center, six regional hazardous material (HazMat) teams, four regional explosive ordinance disposal (EOD) teams, cybersecurity support to the Montana Association of Counties (MACo), among others. Additionally, this funding provides support for Operation Stonegarden to aid 17 county sheriff offices and coordination between law enforcement agencies to improve border security.

Section B – Department of Public Health and Human Services

Department of Health and Human Services FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)					
	FY 2025 Federal Grant	H.R. 1	Reductions Skinny Budget Sequestration	CBO	
Medicaid (benefits and administration)	\$ 1,924.6	\$ (151.0)	\$ (3.6)	\$ -	X
Supplemental Nutrition Assistance Program	125.1	(8.4)	-	-	
Children's Health Insurance Program - SARC	83.2	-	-	-	
Temporary Assistance for Needy Families	38.2	-	-	-	
Low-Income Home Energy Assistance	23.6	-	(23.6)	-	
Child Care and Development Block Grant	22.8	-	(0.6)	-	
WIC Special Supplemental Nutrition Program	16.2	-	-	-	
Rehabilitation Services Vocational Rehabilitation Grants*****	15.4	-	(1.7)	-	
State Administrative Matching Grants for SNAP	13.8	-	-	-	
Veterans State Nursing Home Care	12.4	-	-	-	
Child Support Services	11.9	-	-	-	
Grants under \$1.0 million with No Proposed Reductions	11.5	-	-	-	
Summer Electronic Benefit Transfer Program for Children	10.6	-	-	-	
Child Care Mandatory/Matching Funds - Child Care Development Fund	10.2	-	-	-	
Adoption Assistance	9.8	-	-	-	
Every Student Succeeds Act/Preschool Development Grants (OTO)	8.0	-	(8.0)	-	
National School Lunch Program	7.8	-	-	-	X
Weatherization Assistance for Low-Income Persons***	7.2	-	(3.2)	-	X
Foster Care Title IV-E	6.4	-	-	-	
Block Grants for Prevention and Treatment of Substance Abuse*	5.6	-	(8.5)	-	
Maternal, Infant and Early Childhood Home Visiting Grant	5.5	-	-	(5.5)	
Special Programs for the Aging, Title III, Part C, Nutrition Services	4.5	-	-	-	
Opioid STR	4.3	-	(4.3)	-	
Food Distribution Program on Indian Reservations	4.0	-	-	-	
Guardianship Assistance	4.0	-	-	-	
Community Services Block Grant	3.7	-	(3.7)	-	
Money Follows the Person Rebalancing Demonstration	3.4	-	-	-	
Maternal and Child Health Federal Consolidated Programs	3.2	-	(1.5)	-	
Social Services Block Grant	2.4	-	-	(2.4)	
Special Programs-Aging, Title III, Part B, Supportive Services, Sr Centers	2.1	-	-	-	
Block Grants for Community Mental Health Services**	1.9	-	(3.5)	-	
Maternal and Child Health Services Block Grant to the States	1.9	-	(0.1)	-	
Housing Opportunities for Persons with AIDS (OTO)	1.6	-	(1.6)	-	
Special Education-Grants for Infants and Families	1.5	-	-	-	
State Rural Hospital Flexibility Program*****	1.2	-	(1.0)	-	
CDC and Prevention Investigations and Technical Assistance	1.1	-	-	-	
Child Nutrition Discretionary Grants Limited Availability (OTO)	1.1	-	(1.1)	-	
CDC/Prevention Collaboration - Academia to Strengthen Public Health	1.1	-	(0.3)	-	
Refugee/Entrant Assistance State/Replacement Designee Administer	1.1	-	(1.1)	-	
National Family Caregiver Support, Title III, Part E	1.0	-	-	-	
Substance Abuse/ Mental Health Services Projects (OTO) ****	0.9	-	(1.5)	-	
Emergency Solutions Grant Program	0.7	-	(0.0)	-	
MaryLee Allen Promoting Safe and Stable Families Program	0.6	-	-	(0.6)	
Commodity Supplemental Food Program	0.4	-	(0.4)	(0.4)	
Sexually Transmitted Diseases (STD) Prevention and Control Grants	0.3	-	(0.3)	-	
Supported Employment Services - Most Significant Disabilities	0.2	-	(0.2)	-	
Community-Based Child Abuse Prevention Grants	0.2	-	(0.0)	-	
Early Hearing Detection and Intervention	0.2	-	(0.2)	-	
Project Grants and Cooperative Agreements for Tuberculosis Control	0.1	-	(0.1)	-	
Emergency Medical Services for Children	0.1	-	(0.1)	-	
Injury Prevention/Control Research and State and Community Based	0.1	-	(0.0)	-	
	<u>\$ 2,418.5</u>	<u>\$ (159.4)</u>	<u>\$ (70.1)</u>	<u>\$ (8.8)</u>	

* Estimate based off of FY 2025 actuals
 ** Estimate based off of FY 2025 actuals
 *** Estimated base off of the federal notice of award for FY 2025 and only reflects the formula award
 **** Estimate based off of average award expenditures from FY 2023 to FY 2025
 ***** Estimate based off of the federal notice of award for FY 2025
 ***** Estimate based off of FY 2025 actuals

In the 2027 biennium DPHHS funding (HB 2 & statutory) is 69.3% federal funds, or \$5.2 billion federal funds, with 22.6% general fund and 8.1% state special revenue funds. The most significant expenditure -side impacts of H.R. 1 are concentrated in DPHHS, and skinny budget reductions are also significant in DPHHS. The impacts of both H.R. 1 and the potential impacts of the skinny budget are discussed below.

State Expenditure Impacts from H.R. 1

H.R.1 impacts federal funding, or federal revenues, in several programs that currently make up significant portions of Montana's budget. The most significant impacts are in the state's Medicaid program and Supplemental Nutrition Assistance Program (SNAP). H.R. 1 also includes the Rural Health Transformation Program (RHTP), which makes available (upon an accepted application) to each state \$100 million per year for 5 years (FFY 2026-2030), plus additional amounts to be determined by the federal Centers for Medicare and Medicaid Services (CMS). More detail is included on page 7.

Medicaid:

Significant changes to Medicaid in H.R. 1 include:

- Work requirements for certain Medicaid expansion adults beginning January 1, 2027. Montana's Medicaid expansion program already includes similar work requirements, although a modification to the program permitting these requirements has never been approved by CMS. Montana's DPHHS has submitted for approval of this change, and approval and finalization of such a change is expected to take 6-12 months
- Requiring redeterminations of eligibility for Medicaid expansion adults every 6 months beginning January 1, 2027 (current practice is every 12 months)
- Banning new or increased provider taxes, effective on enactment. Montana currently has provider taxes that draw federal Medicaid match on nursing homes, inpatient hospital services, and outpatient hospital services. HB 56 (2025 session), which was signed by the Governor on May 5, 2025, adds a new provider tax/fee on ambulance services. It is unclear if the provisions of H.R. 1 would permit the fee in HB 56 to draw Medicaid match
 - Provider tax thresholds are capped at 5.5% beginning October 1, 2027, and phasing down to 3.5% in 2032 and beyond. This provision does not apply to nursing homes. Montana's Hospital Utilization Fee (HUF) provider taxes are in the range of 2.1%, so would not be impacted by this provision in 2032
- Requires states to impose cost sharing for certain services on expansion adults with over 100% FPL beginning October 1, 2028. Cost sharing may not exceed \$35 per service or 5% of the individual's income
- Changes the retroactive eligibility date for Medicaid from 90 days prior to enrollment to 30 days prior to enrollment beginning January 1, 2027

These changes will likely have the net effect of lowering the state's Medicaid member-months (number of people on Medicaid in a given month) due to tightened eligibility requirements, especially for the Medicaid expansion population.

This shift could lower the amount of matching federal funds associated with Montana's hospital utilization fees (inpatient and outpatient) as the ratio of persons served by hospitals shifts away from the 9:1 match associated with Medicaid expansion services and toward the ~1.8:1 match generated by services provided to traditional Medicaid enrollees. H.R. 1 also prevents the state from raising the current provider taxes (hospital and nursing home utilization fees) or establishing new taxes/fees with a similar structure at some future date.

SNAP:

Significant changes to SNAP in H.R. 1 include:

- A state match requirement for benefits tied to payment error rate. Montana's error rate is between 7-8%, so SNAP benefits would require a 10% state match, which equates to a cost of \$16.9 million in additional state funds per year based on FFY 2024 expenditure levels. This provision begins October 1, 2027
- Increased state match for SNAP administration starting October 1, 2026. This provision would cost \$8.4 million in additional state funds per year for Montana based on FFY 2024 expenditure levels
- Changes to work requirements in SNAP, effective upon enactment: Changes the exceptions for ABAWD (Able Bodied Adults Without Dependents) SNAP work requirements by increasing the age ABAWDs must continue working from 54 to 64. Also changes the definition of "dependent child" from under 18 years old to under 14. Exempts individuals who are "Indians, Urban Indians, California Indians, and other Indians" who are eligible for Indian Health Services

Rural Health Transformation Program:

- Effective October 1, 2025 - Establishes a rural health transformation program that will provide \$50.0 billion in grants to states (\$10 billion per year from FFY 2026-2030) to be used for payments to rural health care providers. Half of this amount will be distributed by formula across states; the other half will be distributed by CMS based on state rural populations and needs
- Assuming a successful application, states will receive a minimum of \$100.0 million per year for 5 years – FFY 2026-2030. Initial support is expected to begin at the start of CY 2026
- Montana could receive significantly more than \$500.0 million over this five-year period, assuming a successful application, depending on how CMS distributes the second \$25.0 billion in the RHTP

Estimated State Expenditure Impacts from the Skinny Budget

In FY 2025 the Department of Public Health and Human Services expended \$2,644.9 million in federal funds. The skinny budget includes estimated reductions to the department's federal funding of approximately \$70.1 million. The table at the beginning of the Health and Human Services section provides a high-level summary of proposed reductions, and additional details are provided below on the programs included in the skinny budget.

Low Income Home Energy Assistance Program – Federal Grant Eliminated

The Low-Income Home Energy Assistance Program (LIHEAP) provides financial assistance to low-income households to pay a portion of their home heating and/or cooling costs. In Montana, means-tested LIHEAP benefits are paid directly to service providers for heating homes of eligible households during the winter. States receive LIHEAP funds as a block grant based on a formula that takes into consideration low-income home energy expenditures. Actual grant levels depend upon federal appropriations for LIHEAP set by Congress. The proposed federal budget would eliminate traditional LIHEAP benefits completely.

Block Grants for Prevention and Treatment of Substance Abuse – Federal Grant Eliminated

The Block Grants for Prevention and Treatment of Substance Abuse are dispersed with the intent to help plan, implement, and evaluate activities that prevent and treat substance use; 20% of the federal funding received must be used for primary prevention strategies which include but are not limited to information dissemination, education, and problem identification and referral efforts. This grant is administered by the Behavioral Health and Developmental Disabilities Division. No state match is required but states are required to meet a maintenance of effort provision. In the federal statute authorizing this grant, the maintenance of effort provision is defined as “[maintaining] expenditures of non-Federal amounts for such services at a level that is not less than average level of such expenditures maintained by the State for 2-year period preceding the first fiscal year for which the State receives such a grant.” For Montana, the first applicable fiscal year was FFY 1994. The proposed federal budget would eliminate these block grants, and the state would no longer be bound to meet the maintenance of effort provision.

Every Student Succeeds Act/Preschool Development Grants (OTG) – Federal Grant Eliminated

Preschool Development Grants Birth through Five (PDG B-5) are meant to help strengthen early childhood systems and their ability to prepare all children to enter kindergarten. Montana received a renewal grant for this program of \$24.0 million starting in 2023 through December of 2025. In Montana, these grants have been used to support workforce apprenticeship programs, redesign the Stars to Quality quality-rating improvement system, and offer a universal home visiting pilot among other early childhood education system expansion efforts. These grants involve a 30.0% minimum state match or no less than \$7.2 million state funds. The grant is administered through the Early Childhood and Family Support Division. Enactment of the proposed federal budget would eliminate the PDG B-5 grants.

Opioid STR – Federal Grant Eliminated

State Opioid Response grants are provided to states for the purpose of addressing the overdose crisis by expanding access to medications for opioid use disorders as well as supporting the continuum of prevention, harm reduction, treatment and recovery. These grants are awarded based on a formula that considers overdose death rates and treatment needs and do not require state matching funds. The authority is administered through the Behavioral Health and Developmental Disabilities Division. The proposed federal budget would eliminate the Opioid STR grant.

Community Service Block Grant – Federal Grant Eliminated

Under the Community Service Block Grant (CSBG), states administer the annual block grant funding to eligible entities that work to reduce poverty, revitalize low-income communities, and empower low-income families and individuals in rural and urban areas to become fully self-sufficient. CSBG funded services and activities may include housing, nutrition, utility, transportation assistance, employment, education, and other income and asset building services, and crisis and emergency services. States may only utilize up to five percent of the block grant for administrative costs. CSBG funding to states is determined by a proportional entitlement formula that also guarantees a “minimum allotment” for smaller states, including Montana, that is, 0.5% of the total CSBG funding available for distribution. The proposed federal budget would eliminate CSBG funds completely.

Medicaid (Benefits and Administration) – Federal Administration Match Reduced by 4.0%

State Medical Assistance Programs (Medicaid) are eligible for matching federal funds for their state expenditures. States are awarded funds quarterly based on a formula and their estimates of funds needed to provide Medicaid benefits. Medicaid administration, however, provides a fixed 50.0% match of federal funding which in Montana totals approximately \$89.9 million. The proposed budget changes would reduce the federal share of Medicaid administration by an estimated \$3.6 million.

Block Grants for Community Mental Health Services – Federal Grant Eliminated

The Community Mental Health Services block grant is provided to states with the objective of supporting grantees in carrying out plans for providing comprehensive community mental health services for adults with serious mental illness as defined by the Psychiatric Association’s *Diagnostic and Statistical Manual (DSM) of Mental Disorders* and children with serious emotional disturbances as defined in the DSM. Allotments are based on a formula in part influenced by state population demographics. Maintenance of effort is required for grantees. In the federal statute authorizing this grant, the maintenance of effort provision is defined as “[maintaining] expenditures of non-Federal amounts for community health services at a level that is not less than average level of such expenditures maintained by the State for 2-year period preceding the fiscal year for which the state is applying for the grant.” The proposed federal budget would eliminate the Community Mental Health Services block grant completely, and the state would no longer be bound to meet the maintenance of effort provision.

Weatherization Assistance for Low-Income Persons – Federal Grant Eliminated

The Weatherization Assistance Program provides free energy efficiency services for homes of eligible low-income households. Services include free energy audits and home improvements such as adding insulation, sealing air leaks, and repairing or upgrading heating and cooling systems. The WAP is a formula grant program with a base allocation for each state to prevent large swings in allocation year over year. The additive grant amount is determined by a state’s low-income population as a percentage of all U.S. low-income households, the state’s climate, and residential energy expenditures or the financial burden that energy use places on low-income households. The Infrastructure and Jobs Act also provided a one-time grant of nearly \$17.9 million to Montana in 2022. The proposed federal budget would eliminate the formula WAP grant completely.

Housing Opportunities for Persons with AIDS (OTO) – Federal Grant Eliminated

The Housing Opportunities for Persons with AIDS (HOPWA) Program provides grants to states, local communities and nonprofit organization for housing assistance and related supportive services for low-

income persons living with HIV/AIDS and their families. HOPWA provides funding through a formula program as well as a competitive grants. The annual HOPWA appropriation is divided between the two programs – 90 percent for formula program grants distributed amongst applicants and 10 percent for competitive program grants. States are eligible for HOPWA formula grants if there are more than 2,000 HIV/AIDS cases outside of eligible metropolitan statistical areas. Although Montana does not qualify for the formula program, it received a HOPWA competitive grant in FFY 2023. The proposed budget would eliminate further funding for both HOPWA programs.

Rehabilitation Services Vocational Rehabilitation Grants to States – Federal Grant Reduced by 10.0%

The State Vocational Rehabilitation (VR) Services Program awards annual grants to state VR programs to assist in operation of VR programs and delivering services to individuals with disabilities so they may prepare for and engage in competitive integrated employment or supported employment outcomes. Each state is required to reserve and use at least 15.0% of its grant award for providing or arranging pre-employment transition services for students with disabilities. Funds are distributed to states based on a statutory formula that considers population size and per capita income. States are expected to share in 21.3% of the total program cost. The proposed budget would reduce state allocations by 10.0%.

A small amount of this funding passes through to the Montana School for the Deaf and Blind.

Substance Abuse and Mental Health Services Projects of Regional and National Significance (OTO) – Federal Grant Reduced by 43.4%

The Substance Abuse and Mental Health Services Projects of Regional and National Significance grant program is meant to address substance abuse treatment, prevention and mental health needs on a regional basis. In Montana, this grant helps fund the 988 crisis line, outpatient services for pregnant and postpartum women with substance use disorders, and the partnerships for success strategic prevention framework. This grant requires no state match, and the funding is administered by the Behavioral Health and Developmental Disabilities Division. The proposed federal budget could reduce state allocations by up to 43.4%.

Maternal and Child Health Federal Consolidated Programs – Federal Grant Reduced by 45.5%

The Maternal and Child Health Federal Consolidated programs, in Montana referred to as the Maternal and Child Health block grant, helps fund a variety of programs aimed at improving maternal, child, and family health. Montana programs that this grant funds include Fetal, Infant, Child & Maternal Mortality Review (FICMMR); Newborn Metabolic & Hearing Screening; Adolescent Health; Maternal & Child Health Coordination; Oral Health; Home Visiting; and Pregnancy Telehealth. States apply for this funding each year and the funding is allocated with a formula which takes into account the funds historically allocated to each state and the proportion of low-income children in each state relative to low-income children nationwide. States must provide at least \$3 of match funding for every \$4 of federal block grant funding received, or about 43.0% of total spending. A state must also maintain a level of contribution above the state's FFY 1989 levels of funding. The Early Childhood and Family Support Division administers this funding. The proposed federal budget could reduce state allocations by up to 45.5%. This reduction would potentially lower Montana's state match obligation though the FFY 1989 contribution floor may not change depending on federal action.

A small amount of this funding passes through to the Montana School for the Deaf and Blind to provide hearing screenings for newborns.

State Rural Hospital Flexibility Program – Federal Grant Eliminated

The Rural Hospital Flexibility Program (Flex) enables state-designated entities to support critical access hospitals in quality improvement, quality reporting, performance improvement, and to create a program to establish or expand the provision of rural emergency medical services. Only states with certified Critical Access Hospitals are eligible for the program. To receive Flex funding, states must apply and develop and maintain a rural health plan, but no matching funds are required. Flex funding consists of cost-based, Medicare-certified CAH payments as well as grants to support rural organized systems of care. The proposed federal budget would eliminate this funding completely.

Child Nutrition Discretionary Grants Limited Availability (OTO) – Federal Grant Eliminated

Montana received a one-time-only Summer EBT Technology Grant, totaling \$1.1 million, that was offered noncompetitively through an equitable allocation to all Summer EBT coordinating agencies. When school is out for the summer, Summer EBT provides \$120 in grocery benefits per school-age child whose families receive SNAP, TANF, FDPIR, or who qualify for free or reduced-price school meals. The grant provided funding for investments in technology infrastructure that support effective enrollment, ensure accurate benefit delivery, and establish proper controls for the program. The proposed budget would eliminate any further technology grant awards for Summer EBT.

Refugee and Entrant Assistance State/Replacement Designee Administered Programs – Federal Grant Eliminated

This federal funding provides resources for the Refugee Assistance Program. The program provides services aimed at helping refugees settle and become self-sufficient including but not limited to translation services, English language classes, and American cultural orientation classes and resources, as well as skill-building opportunities. The federal funding requires no state match. Though this funding is administered through the Director's Office in DPHHS, the program itself is contracted out to private non-profits. The proposed federal budget would eliminate this funding completely.

Child Care and Development Block Grant – Federal Grant Reduced by 2.8%

The Child Care and Development block grant is one of several federal funding mechanisms that fund the Montana Best Beginnings Child Care Scholarship and the Stars to Quality program. This block grant is federal discretionary funding allocated by a formula that takes into account the number of children a state has under 5 years of age relative to the rest of the country, the number of youths receiving free and reduced-price lunch relative to the rest of the country and a measure of per capita income. Though there are state matching funds required within the Best Beginnings program, this particular federal block grant does not require any state matching funds. The funds are administered by the Early Childhood and Family Support Division. The proposed federal budget could reduce the state allocation by up to 2.8%.

Section C – Natural Resources and Transportation

Department of Transportation

Department of Transportation FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)				
	FY 2025 Federal Grant	H.R. 1	Reductions Skinny Budget Sequestration	CBO
HIGHWAY PLANNING AND CONSTRUCTION (OTO)	\$ 632.5	\$ (55.0)	\$ -	\$ -
FORMULA GRANTS FOR RURAL AREAS AND TRIBAL TRANSIT PROGRAM	22.9	-	-	-
BUSES AND FACILITIES FORMULA AND LOW/NO EMISSIONS PROGRAMS	5.0	-	-	-
ENHANCED MOBILITY OF SENIORS AND INDIVIDUALS WITH DISABILITIES	3.5	-	-	-
STATE AND COMMUNITY HIGHWAY SAFETY	3.0	-	-	-
NATIONAL PRIORITY SAFETY PROGRAMS	2.7	-	-	-
FEDERAL LANDS ACCESS PROGRAM	2.5	-	-	-
MOTOR CARRIER SAFETY ASSISTANCE	2.3	-	-	-
MOTOR CARRIER SAFETY ASSISTANCE GRANT/COOPERATIVE AGREEMENT	2.0	-	-	-
AIRPORT IMPROVEMENT, COVID-19 AIRPORTS, IIJA	1.9	-	-	-
NATIONAL INFRASTRUCTURE INVESTMENTS (OTO)	1.9	(21.6)	-	-
MINIMUM PENALTIES-REPEAT OFFENDERS DRIVING WHILE INTOXICATED	1.8	-	-	-
RECREATIONAL TRAILS PROGRAM	1.4	-	-	-
METROPOLITAN AND STATE AND NON-METROPOLITAN PLANNING	0.7	-	-	-
NATIONALLY SIGNIFICANT FREIGHT AND HIGHWAY PROJECTS	0.4	-	-	-
HIGHWAY TRAINING AND EDUCATION	0.2	-	-	-
HAZARDOUS MATERIALS STATE INSPECTION (HMSI) GRANT	0.1	-	-	-
NHTSA DISCRETIONARY SAFETY GRANTS/COOPERATIVE AGREEMENTS	0.1	-	-	-
	<u>\$ 684.8</u>	<u>\$ (76.5)</u>	<u>\$ -</u>	<u>\$ -</u>

State Expenditure Impacts from H.R. 1

In FY 2025 the Montana Department of Transportation (MDT) expended \$640.5 million in federal funds. H.R.1 includes reductions to the department's federal funding of approximately \$76.5 million.

National Infrastructure Investments and Highway Planning and Construction Programs – Federal Grants Eliminated

Currently two discretionary grants have been cancelled totaling \$76.5 million in budget amendment authority in FY 2026. These were a part of the Neighborhood Access and Equity (NAE) grant program, which provides funding through the national infrastructure investments program and the highway planning and construction program. Discretionary or competitive grants are awards for one-time projects that MDT applied directly to the federal government for and are not part of MDT's ongoing funding. These may result in the cancellation of projects or portions of projects that are difficult to fund through traditional channels. The impacted projects are Reconnecting East Missoula project and the Ninepipes project on highway 93. Both were a part of the NAE grant program. These grants are not part of the transportation formula funding that makes up the majority of federal dollars in HB 2.

Department of Natural Resources and Conservation

Department of Natural Resources and Conservation FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)				
	FY 2025 Federal Grant	H.R. 1	Reductions Skinny Budget Sequestration	CBO
CLIMATE POLLUTION REDUCTION GRANTS	\$ 49.8	\$ (0.5)	\$ -	\$ -
COOPERATIVE FIRE PROTECTION AGREEMENT	6.8	-	-	-
COOPERATIVE FORESTRY ASSISTANCE	4.9	-	(3.8)	-
GOOD NEIGHBOR AUTHORITY	2.5	-	-	-
COOPERATING TECHNICAL PARTNERS	2.4	-	-	-
UNDERGROUND INJECTION CONTROL PROGRAM: CLASS VI CARBON	1.9	-	-	-
COLUMBIA RIVER BASIN RESTORATION	1.6	-	(0.3)	-
GOOD NEIGHBOR AUTHORITY	1.3	-	-	-
IJA RESTORATION/REVEGETATION	0.9	-	-	-
STATE & PRIVATE FORESTRY HAZARDOUS FUEL REDUCTION PROGRAM	0.8	-	(0.4)	-
INFLATION REDUCTION ACT LANDSCAPE SCALE RESTORATION	0.5	-	-	-
COMMUNITY ASSISTANCE PROGRAM STATE SUPPORT SERVICES ELEMEN	0.3	-	-	-
SMALL AND DISADVANTAGED COMMUNITIES DRINKING WATER	0.3	-	(0.0)	-
BIPARTISAN INFRASTRUCTURE ACT NURSERY VEGETATION	0.3	-	-	-
NATIONAL DAM SAFETY PROGRAM	0.2	-	-	-
IJA COMMUNITY WILDFIRE DEFENSE GRANTS	0.2	-	-	-
WILDLIFE RESOURCE MANAGEMENT	0.2	-	-	-
FISH AND WILDLIFE COORDINATION ACT	0.0	-	-	-
WOOD UTILIZATION ASSISTANCE	0.0	-	(0.0)	-
NPS CONSERVATION, PROTECTION, OUTREACH, AND EDUCATION	0.0	-	-	-
URBAN AND COMMUNITY FORESTRY PROGRAM	-	-	(0.0)	-
	<u>\$ 74.8</u>	<u>\$ (0.5)</u>	<u>\$ (4.7)</u>	<u>\$ -</u>

State Expenditure Impacts from H.R. 1

H.R. 1 rescinded several grants provided under the Inflation Reduction Act to Section C agencies, the largest of which is a 1.0% reduction in the Climate Pollution Reduction grant awarded to the Department of Natural Resources and Conservation (DNRC). DNRC was awarded \$49.8 million under this grant to conduct reforestation and restoration in areas impacted by wildfire, plant trees in urban and community forests, mitigate and extinguish underground coal seam fires, reduce harmful algae blooms, implement innovations to reduce agricultural fertilizer use, improve grazing management planning, and implement a feedlot innovation program to improve animal waste management systems. Much of the funding was scheduled to be distributed to other government organizations through sub-awards, including \$7.1 million to local and tribal governments, \$1.0 million to the Department of Environmental Quality, and \$21.0 million to the Department of Agriculture. The 1.0% rescission reduces funding by approximately \$498,000.

In addition, DNRC has been awarded \$2.6 million for urban and community forest management and forest landowner support that may be impacted by H.R. 1. Roughly \$2.4 million of these grants remain unspent, but the rescission amount is unclear.

Estimated State Expenditure Impacts from the Skinny Budget

In FY 2025, the Department of Natural Resources and Conservation (DNRC) expended \$156.9 million in federal funds. The skinny budget includes estimated reductions to the department's federal funding of

approximately \$4.7 million. The table above provides a high-level summary of proposed reductions, and additional details are provided below on the programs included in the skinny budget.

Cooperative Forestry Assistance – Federal Grant Eliminated

The Cooperative Forestry Assistance funds several projects to increase forest health and reduce the risk of wildfire. DNRC had four grants under this program in the last biennium with a total of \$10.0 million awarded and \$6.2 million expended in FY 2024 and FY 2025. Most of the unspent award amount is available to spend in the 2027 biennium, but the skinny budget proposal eliminates the remainder of the grant, reducing the awarded amount by \$3.8 million.

State & Private Forestry Cooperative Fire Assistance – Federal Grant Reduced by 81.8%

This program increases capacity for rural fire fighting forces to prevent and control wildfires on nonfederal and rural lands. DNRC was awarded \$961,000 under three grant projects in FY 2024 with \$448,000 expended through FY 2025. Roughly \$461,000 of the remaining funds were budgeted in FY 2026 and later, but these funds would be reduced by 81.8% in the skinny budget, leaving \$83,000.

Columbia River Basin Restoration Program – Federal Grant Reduced by 7.0%

Funding to reduce toxic pollution in the Columbia River Basin was reduced by 7.0% in the skinny budget. DNRC was awarded \$5.4 million in FY 2025 and \$432,000 was expended. Assuming the remaining amount is reduced by the proposed 7.0%, available funding available through FY 2030 would be reduced by \$346,000.

Wood Utilization Assistance – Federal Grant Reduced by 71.4%

The Wood Utilization Assistance provides technical assistance to organizations about new wood utilization technologies and products to effectively manage forests and provide greater economic opportunities to forest landowners. DNRC was awarded a \$70,000 grant under this program in FY 2025 and has expended \$13,800. Proposed cuts would eliminate 71.4% of the remaining funding, or \$40,000.

Small and Disadvantaged Communities Drinking Water – Federal Grant Reduced by 2.8%

Working with the Department of Environmental Quality (DEQ), DNRC received \$1.9 million in FY 2025 from the Small and Disadvantaged Communities Drinking Water program, which provides grant assistance to local communities for clean drinking water. The skinny budget proposes to reduce the remaining funding by 2.8%, reducing available spending in FY 2026 by \$37,700. Reductions in this program for DEQ are covered in the next section.

Urban and Community Forestry Program – Federal Grant Eliminated

This program provides funding for forest management in “urban” areas where people live nearby and use the forest for recreation. DNRC was awarded \$94,000 and expended \$62,000 in FY 2025. The remaining \$32,000 would be eliminated under the skinny budget.

Department of Environmental Quality

Department of Environmental Quality FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)					
	FY 2025 Federal Grant	H.R. 1	Reductions		
			Skinny Budget	Sequestration	CBO
STATE ENERGY PROGRAM	\$ 76.2	\$ -	\$ (5.1)	\$ -	
CLEAN WATER STATE REVOLVING FUND	15.2	-	-	-	
GRID INFRASTRUCTURE DEPLOYMENT AND RESILIENCE	7.9	-	-	-	
DRINKING WATER STATE REVOLVING FUND	6.9	-	-	-	
PERFORMANCE PARTNERSHIP GRANTS	3.0	-	-	-	
ABANDONED MINE LAND RECLAMATION (AMLR)	2.3	-	-	(2.3)	
SUPERFUND STATE, POLITICAL SUBDIVISION, INDIAN TRIBE SITE-SPECIFIC	2.2	-	-	-	
MANUFACTURING/ENERGY SUPPLY CHAIN DEMONSTRATIONS	2.0	-	-	-	
STATE AND TRIBAL RESPONSE PROGRAM GRANTS	1.7	-	(0.9)	-	
ACTIVITIES RELATING TO THE CLEAN AIR ACT	1.1	-	-	-	
NONPOINT SOURCE IMPLEMENTATION GRANTS	1.1	-	(0.2)	-	
ENVIRONMENTAL QUALITY AND PROTECTION	0.7	-	-	-	
ENVIRONMENTAL INFORMATION EXCHANGE NETWORK PROGRAM	0.3	-	(0.1)	-	
WATER POLLUTION CONTROL STATE, INTERSTATE, AND TRIBAL PROGRAM	0.2	-	(0.2)	-	
WATER QUALITY MANAGEMENT PLANNING	0.2	-	-	-	
STATE HEATING OIL AND PROPANE PROGRAM	0.0	-	-	-	
Water Infrastructure-Small/Underserved Communities Contaminants	-	-	(0.5)	-	
Capitalization Grants For Drinking Water State Revolving Funds	-	-	(0.1)	-	
Capitalization Grants For Clean Water State Revolving Funds	-	-	(0.5)	-	
	<u>\$ 120.8</u>	<u>\$ -</u>	<u>\$ (7.7)</u>	<u>\$ (2.3)</u>	

Estimated State Expenditure Impacts from the Skinny Budget

In FY 2025 the Department of Environmental Quality expended \$84.2 million in federal funds. The skinny budget includes estimated reductions to the department's federal funding of approximately \$7.7 million. The table above provides a high-level summary of proposed reductions, and additional details are provided below on the programs included in the skinny budget.

State Energy Programs – Federal Grant Eliminated

In FY 2025 the state received \$5.1 million in federal grants for the state energy program. Under this program, state agencies, the Montana University System, and community colleges can implement energy saving upgrades, such as improved lighting, advanced building controls, improved insulation and infiltration control, HVAC replacements, and more sophisticated system controls. The projects must meet payback criteria so that energy cost savings cover the investment, creating a revolving fund that supports future projects. It is anticipated that all funding will be eliminated.

State and Tribal Response Program Grants – Federal Grant Reduced by 43.5%

In FY 2025 the state received about \$2.1 million in grants under the EPA's State and Tribal Response Program. These grants provide non-competitive funding to states and federally recognized tribes to build or enhance their capacity to manage contaminated site cleanups, maintain site inventories, and engage communities. It is anticipated this funding will be reduced by 43.5% or \$935,100.

Capitalization Grants for Clean Water State Revolving Funds

In FY 2025 the department received about \$2.6 million from the U.S. Environmental Protection Agency (EPA) for grants designed to help states establish revolving loan funds that finance municipal wastewater

treatment projects and other initiatives aimed at improving water quality. Under this program, states receive federal funds and then use them to provide low-interest or subsidized loans to local governments. These loans are repaid over time, allowing the funds to be reused for future projects. It is anticipated this funding will be reduced by 33.2% or about \$660,500.

Water Infrastructure for Small and Underserved Communities Contaminants Grants – Federal Grant Reduced by 2.8%

In FY 2025 the department received about \$18.9 million under this program. The program helps small or disadvantaged communities respond to emerging contaminants in drinking water by funding state programs for water quality testing, remediation, and compliance efforts. It is anticipated this funding will be reduced by 2.8% or \$523,900.

Nonpoint Source Implementation Grants – Federal Grant Reduced by 13.0%

In FY 2025 the state received about \$1.8 million to supports states and tribes in reducing nonpoint source pollution under this program. Nonpoint source pollution includes agricultural runoff, septic systems, and stormwater. Grants under this program are used to implement best practices, conduct monitoring, and develop watershed plans. It is anticipated this funding will be reduced by 13.0% or \$229,300.

Other Federal Grants to DEQ

Other anticipated reduction totaling \$192,000 currently support water pollution control programs, and development of environmental information systems for data exchange among federal, state, and tribal agencies.

The Department of Fish, Wildlife, and Parks

Department of Fish, Wildlife, and Parks					
FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)					
	FY 2025 Federal Grant	H.R. 1	Reductions		
			Budget	Sequestration	CBO
WILDLIFE RESTORATION AND BASIC HUNTER EDUCATION AND SAFETY	\$ 39.1	\$ -	\$ -	\$ (39.1)	
INFLATION REDUCTION ACT - FOREST LEGACY PROGRAM	35.8	-	-	-	
FOREST LEGACY PROGRAM	7.1	-	(0.8)	-	
SPORT FISH RESTORATION	1.3	-	-	(1.3)	
STATE WILDLIFE GRANTS	0.9	-	-	-	
OUTDOOR RECREATION ACQUISITION, DEVELOPMENT AND PLANNING	0.7	-	-	-	
VOLUNTARY PUBLIC ACCESS AND HABITAT INCENTIVE PROGRAM	0.4	-	-	-	
COLUMBIA RIVER FISHERIES DEVELOPMENT PROGRAM	0.4	-	-	-	
SOIL AND WATER CONSERVATION	0.2	-	-	-	
WHITE-NOSE SYNDROME NATIONAL RESPONSE IMPLEMENTATION	0.1	-	-	-	
PARTNERSHIP AGREEMENTS	0.0	-	-	-	
COOPERATIVE ENDANGERED SPECIES CONSERVATION FUND	-	-	(0.0)	-	
HISTORIC PRESERVATION FUND GRANTS-IN-AID	-	-	(0.1)	-	
	<u>\$ 85.9</u>	<u>\$ -</u>	<u>\$ (0.9)</u>	<u>\$ (40.4)</u>	

Estimated State Expenditure Impacts from the Skinny Budget

In FY 2025 the Department of Fish, Wildlife, and Parks expended \$165.3 million in federal funds. The skinny budget includes estimated reductions to the department's federal funding of approximately \$880,000. The table above provides a high-level summary of proposed reductions, and additional details are provided below on the programs included in the skinny budget.

Forest Legacy Program – Federal Grant Reduced by 2.3%

In FY 2025 the state received about \$33.2 million under this program. The Forest Legacy Program is a conservation effort by the U.S. Forest Service and states to protect private forest lands at risk of development. Landowners typically sell conservation easements rather than full ownership. The program promotes sustainable forest use while preserving habitat, water quality, recreation, and timber resources. Federal funds support up to 75.0% of project costs, with a 25.0% non-federal match required. It is anticipated that this funding will be reduced by 2.3% or \$773,000.

Historic Preservation Funds Grants – Federal Grant Reduced by 93.5%

In FY 2025 the state received \$75,000 under this program. Administered by the National Park Service, this program issues formula and project grants to states, tribes, and local governments to identify, evaluate, and protect historic properties, including planning, surveys, education, and preservation efforts. It is anticipated that this funding will be reduced by 93.5% or about \$70,100.

Cooperative Endangered Species Conservation – Federal Grant Reduced by 36.9%

In FY 2025 the state received \$100,000 under this program. The program provides grants to states to support conservation of endangered or threatened species through habitat protection, surveys, planning, monitoring, restoration, acquisitions, and public education. The Montana State Library receives a portion of this funding for the Montana Natural Heritage Program's work to collect and manage data about at-risk species in the state. It is anticipated that this funding will be reduced by 36.9% or about \$36,900.

Section D – Judicial Branch, Law Enforcement, and Justice

Estimated State Expenditure Impacts from the Skinny Budget

Department of Justice

Department of Justice FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)				
	FY 2025 Federal Grant	H.R. 1	Reductions Skinny Budget Sequestration	CBO
STATE MEDICAID FRAUD CONTROL UNITS	\$ 0.9	\$ -	\$ -	\$ -
CRIME VICTIM COMPENSATION	0.6	-	-	(0.6)
SUPPORT FOR ADAM WALSH ACT IMPLEMENTATION GRANT PROGRAM	0.4	-	-	-
MISSING CHILDREN'S ASSISTANCE	0.3	-	-	-
DNA BACKLOG REDUCTION PROGRAM***	-	-	-	-
Violence Against Women Formula Grants**	-	-	(0.3)	-
Paul Coverdell Forensic Sciences Improvement Grant Program**	-	-	(0.2)	-
SEXUAL ASSAULT SERVICES FORMULA PROGRAM**	-	-	(0.2)	-
Edward Byrne Memorial Justice Assistance Grant Program*	-	-	(0.1)	-
Title V Delinquency Prevention Program (OTO)*	-	-	(0.1)	-
Encourage Arrest Policies/Enforcement of Protection Orders (OTO)*	-	-	(0.0)	-
Crime Victims Assistance****	-	-	-	(3.0)
	<u>\$ 2.3</u>	<u>\$ -</u>	<u>\$ (0.8)</u>	<u>\$ (3.7)</u>
*Program reductions are estimated off the average of expenditures for the three most recent fiscal years **Program reductions are estimated of award amounts received in 2025 or anticipated award amounts not yet received but which applications have been completed ***Federal cuts at the national level not anticipated to impact the State of Montana ****Award for FFY 2023 through FFY 2027				

Estimated State Expenditure Impacts from the Skinny Budget

In FY 2025, the Department of Justice expended \$18.3 million in federal funds. The skinny budget includes estimated reductions to the department's federal funding of approximately \$818,000. The table above provides a high-level summary of proposed reductions, and additional details are provided below on the programs included in the skinny budget.

The Montana Board of Crime Control (MBCC) is a State Administering Agency attached to the Department of Justice that provides financial assistance opportunities through state and federal grants, training, and technical support. The MBCC consists of an 18-member board and Youth Justice Council appointed by the Governor. A few grants administered by the MBCC that are potentially impacted by proposed federal reductions are described below.

Violence Against Women Act (VAWA) Formula Grant also referred to as STOP (Services, Training, Officers, Prosecutors) Violence Against Women Act – Federal Grant Reduced by 25.5%

The Services, Training, Officers, Prosecution (STOP) Violence Against Women Act (VAWA) formula funds are allocated from the Office on Violence Against Women (OVW) to fund law enforcement agencies, city and county governments, and non-profit organizations that aid victims of domestic violence, dating violence, stalking, and sexual assault. The OVW prioritizes subgrants in the following categories: law enforcement, prosecution, victim services, discretionary, state and local courts. In FY 2025, MBCC was

awarded \$1.0 million in funding. The OVW requires that priority categories are funded at the following minimum percentage of the total federal allocation/award:

- Law Enforcement 25.0%
- Prosecution 25.0%
- Victim Services 30.0% (at least 10.0% of which must support programs that provide culturally specific and culturally competent services designed to meet the needs of specific racial and ethnic minority groups)
- State and Local Courts 5.0%

The OVW allows a maximum of 15.0% of the total federal award to be directed toward discretionary projects and at least 20.0% of the total federal award must be set aside for projects that meaningfully address sexual assault in at least two of the above priority categories (victim services, law enforcement, prosecution, victim services, courts). Matching contributions of 25.0% (cash or in-kind) of the total cost of the STOP VAWA project (federal funds plus local match) are required and must be derived from non-federal sources. All funds designated as match are restricted to the same uses as the federal funds and must be expended within the grant period. Federally recognized tribes and victim services providers are not required to provide match. This program is estimated to receive reductions of approximately \$271,000 or 25.5%.

Paul Coverdell Forensic Sciences Improvement Grant Program – Federal Grant Reduced by 70.6%

This grant, through the U.S. Department of Justice Bureau of Justice Assistance, serves as an initiative designed to aid state and local forensic laboratories and medical examiners/coroners by improving timelines for forensic services, reducing backlogs, and maintaining and upgrading laboratory equipment or technology. The 2025 Paul Coverdell grant solicitation has been released by U.S. Department of Justice Bureau of Justice Assistance. MBCC intends to apply for the formula grant. Based on projections from the Bureau of Justice Assistance, the MBCC estimates to receive no less than \$287,541. The Montana State Crime Lab is a pass through subgrantee of the funds. Based on projections for the current formula grant, to which the MBCC would be applying for, this program is estimated to receive reductions of approximately \$203,000 or 70.6%.

Sexual Assault Services Formula Program – Federal Grant Reduced by 23.6%

This is a program under the Office on Violence Against Women (OVW). The MBCC received approximately \$789,000 in funding in FY 2025 and acts as the distributing agency of these funds. Program funds are designed to supplement other funding sources directed at addressing sexual assault on the state and territorial level. Rape crisis centers and other nonprofit organizations, such as dual programs providing both domestic violence and sexual violence intervention services, assist sexual assault victims through the healing process, as well as assisting victims through the medical, criminal justice, and other social support systems. This program is estimated to receive reductions of \$186,000 or 23.6%. Funding may support items including but not limited to:

- Crisis services/hotlines
- Supporting advocates who accompany victims to forensic examinations, court hearings, and law enforcement interviews

- Addressing barriers for tribal and underserved communities (language or cultural)
- Giving referrals to specific services (medical, counseling, legal, etc.)
- Developing and distributing educational information about services

Edward Byrne Memorial Justice Assistance Grant Program – Federal Grant Reduced by 6.8%

This program is funded through the U.S. Department of Justice Bureau of Justice Assistance and is purposed with providing state and local and tribal governments with funding for a wide range of criminal justice activities such as law enforcement, prosecution, prevention and education, and technology improvements, among other activities. Funding is received by the MBCC which acts as the state administering agency for awards to subgrantees. The MBCC has received funding for this program annually, but the FFY 2025 JAG funding opportunity has not been released yet. It is unclear if funding for this program in Montana will be eliminated entirely or not. In Montana, funding has been used to establish multi-jurisdictional drug task forces, support drug treatment courts and pre-sentencing/pre-trial diversion programs, and to provide for educational information around prevention for potential at-risk youth. This program is estimated to receive reductions of \$71,000 or 6.8%.

Title V Delinquency Prevention Program (DPP) (OTO) – Federal Grant Reduced by 24.6%

The MBCC received and has been spending down a one-time discretionary award for this program of approximately \$1.0 million. Funding for the program was provided in FFY 2020 and has expired at the end of federal FY 2025. The DPP program provided funding to implement evidence-based strategies to combat youth delinquency. It addressed the unmet needs of at-risk or delinquent youth, through a continuum of delinquency prevention programs for young people, who have had or who are likely to have contact with the juvenile justice system. This program is estimated to receive reductions of \$63,000 or 24.6%.

Department of Corrections

Department of Corrections					
FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)					
	FY 2025 Federal Grant	H.R. 1	Skinny Budget	Sequestration	CBO
CHILDREN OF INCARCERATED PARENTS (CAMPP Grant)	\$ -	\$ -	\$ -	\$ -	-
Rural Education Assistance Program (REAP Grant)**	0.0	-	(0.0)	-	-
STATE CRIMINAL ALIEN ASSISTANCE PROGRAM (SCAAP Grant)*	-	-	(0.0)	-	-
	<u>\$ 0.0</u>	<u>\$ -</u>	<u>\$ (0.1)</u>	<u>\$ -</u>	-
*Program reductions were estimated from an average of expenditures for the prior three fiscal years					
**Program reductions were estimated off 2025 award amounts					

Estimated State Expenditure Impacts from the Skinny Budget

In FY 2025, the Department of Corrections expended \$12.7 million in federal funds. The skinny budget includes estimated reductions to the department's federal funding of approximately \$67,000. The table above provides a high-level summary of proposed reductions, and additional details are provided below on the programs included in the skinny budget.

State Criminal Alien Assistance Program (SCAAP) – Federal Grant Eliminated

This federal program provides funding to the state of Montana to help cover costs for housing incarcerated undocumented criminal aliens who have been convicted of at least one felony or two misdemeanors and are being held for at least four consecutive days. Uses of funds are restricted for correctional purposes including facility operations, staff time, maintenance, etc. This program is estimated to be fully reduced which would equate to approximately \$40,000 when considering the average expenditures related to these funds from the prior three fiscal years.

Section E – Education

Office of Public Instruction

Office of Public Instruction					
FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)					
	FY 2025 Federal Grant	H.R. 1	Reductions		CBO
			Skinny Budget	Sequestration	
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	\$ 57.8	\$ -	\$ -	\$ -	
National School Lunch Program	47.5	-	-	-	X
Special Education Grants to States	46.1	-	-	-	
IMPROVING TEACHER QUALITY STATE GRANTS	10.8	-	(10.8)	-	
STUDENT SUPPORT AND ACADEMIC ENRICHMENT PROGRAM	6.7	-	(6.7)	-	
IMPROVING TEACHER QUALITY STATE GRANTS	4.0	-	-	-	
MIGRANT EDUCATION STATE GRANT PROGRAM	1.9	-	(1.9)	-	
Adult Education - Basic Grants to States	1.6	-	(1.6)	-	
FRESH FRUIT AND VEGETABLE PROGRAM	1.3	-	-	-	
Special Education Preschool Grants	1.3	-	(1.3)	-	
State Administrative Expenses for Child Nutrition	1.0	-	-	-	
Comprehensive Literacy Development	0.9	-	(0.9)	-	
RURAL EDUCATION	0.8	-	(0.8)	-	
ENGLISH LANGUAGE ACQUISITION STATE GRANTS	0.5	-	(0.5)	-	
EDUCATION FOR HOMELESS CHILDREN AND YOUTH	0.4	-	(0.4)	-	
TITLE I STATE AGENCY PROGRAM - NEGLECTED/DELINQUENT CHILDREN	0.3	-	(0.3)	-	
MIGRANT EDUCATION COORDINATION PROGRAM	0.1	-	-	-	
	<u>\$ 182.9</u>	<u>\$ -</u>	<u>\$ (25.2)</u>	<u>\$ -</u>	

Estimated State Expenditure Impacts from the Skinny Budget

In FY 2025 the Office of Public Instruction expended \$337.9 million in federal funds. The skinny budget includes estimated reductions to the department's federal funding of approximately \$25.2 million. The table above provides a high-level summary of proposed reductions, and additional details are provided below on the programs included in the skinny budget.

Improving Teacher Quality State Grants (Title II) – Federal Grant Eliminated

Title II funding provides grants to the Office of Public Instruction and subgrants to local school districts to increase student achievement consistent with the challenging state academic standards; improve the quality and effectiveness of teachers, principals, and other school leaders; increase the number of teachers, principals, and other school leaders who are effective in improving student academic achievement in schools; and provide low-income and minority students greater access to effective teachers, principals, and other school leaders.

Funding is awarded to Montana on a formula basis. In exchange for receiving funds, state agencies are held accountable to the public for improvements in academic achievement. Title II provides these agencies the flexibility to use these funds creatively to address challenges to teacher and principal quality, whether they concern preparation and qualifications of new teachers and school leaders, recruitment and hiring, induction, professional development, retention, or the need for more capable principals and other school leaders to serve as effective school leaders. It is estimated that this program will be eliminated, and reductions will total \$10.8 million.

Student Support and Academic Enrichment Program (Title IV) – Federal Grant Eliminated

The Student Support and Academic Enrichment (SSAE) Program improves student academic achievement by increasing the capacity of states, school districts, schools, and local communities to provide all students with access to a well-rounded education, improve school conditions for student learning, and improve the use of technology to improve the academic achievement and digital literacy for all students. Funding is awarded to Montana on a formula basis. It is estimated that this program will be eliminated, and reductions will total \$6.7 million.

Funds Transferred to Other State Agencies

OPI also transfers some relatively small amounts of education funds to the Montana School for the Deaf and Blind (MSDB) and the Department of Public Health and Human Services (DPHHS). The funding for MSDB includes federal awards for Early Hearing Detection and Intervention, Comprehensive Literacy Development, and Special Education Preschool Grants. The funding for DPHHS is for adult education at the Montana State Hospital.

Office of the Commissioner of Higher Education

Office of the Commissioner of Higher Education FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)				
	FY 2025 Federal Grant	H.R. 1	Reductions Skinny Budget Sequestration	CBO
CTE - State Grants	\$ 6.8	\$ -	\$ -	\$ -
GEAR UP	4.3	-	(4.3)	-
TRIO Talent Search	0.7	-	-	-
TRIO EOCs	0.1	-	-	-
	<u>\$ 11.9</u>	<u>\$ -</u>	<u>\$ (4.3)</u>	<u>\$ -</u>

Estimated State Expenditure Impacts from the Skinny Budget

In FY 2025 the Office of the Commissioner of Higher Education (OCHE) expended approximately \$9.7 million in federal funds. The skinny budget includes estimated reductions to the department's federal funding of approximately \$4.3 million. The table above provides a high-level summary of proposed reductions, and additional details are provided below on the programs included in the skinny budget. This section only covers federal funds that pass through OCHE itself and the state accounts. Federal impacts to campuses are covered in the Montana University System section below.

Notably, the Work Force Development program uses Perkins grants to support career in technical education programming throughout the state, and the Educational Outreach program has utilized Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP), Educational Opportunity Center, and Talent Search grants to provide support for potential postsecondary students.

GEAR UP – Federal Grant Eliminated

The skinny budget has proposed the elimination of the GEAR UP program, which had previously provided funding amounting to approximately \$3.5 million, and in FY 2025 with the start of a new 7-year grant cycle obligated approximately \$4.3 million to OCHE. GEAR UP is a program that aims to help students prepare for postsecondary education after high school graduation. The program serves students in 7-12th grade in twelve rural school districts across Montana, and provides services like tutoring, dual enrollment course opportunities, financial aid counseling and advising, and funding for the ACT test. By

the end of the grant, GEAR UP had aimed to serve approximately 8,800 students. According to FFIS, the skinny budget has also proposed the elimination of a TRIO program, but the proposed change impacts direct grants to other institutions, not funding for Educational Opportunity Centers that OCHE has received.

Montana State Library

Montana State Library FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)					
	FY 2025 Federal Grant	H.R. 1	Reductions Skinny Budget	Sequestration	CBO
Grants to States	\$ 1.4	\$ -	\$ (1.4)	\$ -	
Wildlife Resource Management	0.3	-	-	-	
	<u>\$ 1.7</u>	<u>\$ -</u>	<u>\$ (1.4)</u>	<u>\$ -</u>	

Estimated State Expenditure Impacts from the Skinny Budget

In FY 2025 the Montana State Library expended approximately \$1.8 million in federal funds. The skinny budget includes estimated reductions to the department's federal funding of approximately \$1.4 million. The table above provides a high-level summary of proposed reductions, and additional details are provided below on the programs included in the skinny budget.

Grants to States – Federal Grant Eliminated

The Institute of Museum and Library Services (IMLS) Library Services and Technology Act (LSTA) Grants to States program supports state libraries' state and local initiatives and services as outlined in the LSTA. Those initiatives and services include expanding library services and capacity and improving access to information. Federal matching requirements from authorizing legislation require that state library administrative agencies contribute 34.0% of total LSTA funding; these matching funds may include state, local, or non-federal funding sources.

The Montana State Library received approximately \$1.5 million of the LSTA Grants to States Program funds in FY 2025 and expended 94.4% of that authority. The agency used the LTSA 2024 award and state and local matching funds to finance several MSL initiatives, including:

- Library resource sharing efforts, including interlibrary loans and digital access to materials
- Online access to historical and cultural resources from school, library, and government information and archives
- Accessible reading materials to people with disabilities and mobile recordings of stories and histories in Indigenous languages
- Continuing education and consultation services to local libraries
- Lifelong learning supports and access to information

It is estimated that this program will be eliminated, and reductions of federal funds will total \$1.4 million.

Montana Historical Society

Montana Historical Society FY 2025 Federal Grants Awarded and Potential Reductions from Federal Action (\$ Millions)					
State Historic Preservation Office	FY 2025	Reductions			
	Federal Grant	H.R. 1	Skinny Budget	Sequestration	CBO
	\$ 1.0	\$ -	\$ (1.0)	\$ -	
	\$ 1.0	\$ -	\$ (1.0)	\$ -	

Estimated State Expenditure Impacts from the Skinny Budget

In FY 2025 the Montana Historical Society expended approximately \$2.0 million in federal funds. The skinny budget includes estimated reductions to the department's federal funding of approximately \$1.0 million. The table above provides a high-level summary of proposed reductions, and additional details are provided below on the programs included in the skinny budget. The agency also expended funds on various one-time-only projects using federal funds awarded in prior fiscal years, which are not shown in the table above. These include grants for development of the Heritage Center and historic preservation projects.

State Historic Preservation Office – Federal Grant Eliminated

The largest and most consistent source of federal funding to the Montana Historical Society have been grants for the State Historic Preservation Office. These funds have provided support to perform duties required by the National Historic Preservation Act and Montana State Antiquities Act, and include identifying and documenting historic sites, facilitating the nomination of sites for listing in the National Register of Historic Places, and otherwise assisting in preserving historic areas. The presidential skinny budget has proposed a 100.0% reduction for state grants for this program, of which the most recent grant in FY 2025 was approximately \$1.0 million.

Potential Federal Impacts for Non-State Expenditures

K-12 School Districts

Impact Aid – No Proposed Reductions

In addition to federal funds that are passed through the Office of Public Instruction to local school districts, the federal government also provides some funds directly to school districts. Montana-received Impact Aid provides funding directly to local school districts that have lost property tax revenue due to the presence of tax-exempt federal property or that have experienced increased expenditures due to the

enrollment of federally connected children. This includes local school districts with concentrations of children residing on tribal reservation lands, military bases, and low-rent housing properties and school districts with high concentrations of federal national forest land. Most Impact Aid funds, except for specific payments for construction and children with disabilities, are considered general aid to the recipient school districts. School districts may use Impact Aid funds in whatever manner they choose in accordance with their local and state requirements. Montana school districts received approximately \$77.6 million in Impact Aid in FY 2025. Though there are currently no proposed cuts to Impact Aid, the level of funding may be of interest to the legislature due to the state's constitutional duties to provide and fund the system of quality public education.

Montana University System

Research Grants -Reductions Planned but Details are not Available

Federal grant reductions may also impact research grant funding available to Montana campuses, though the extent and scope of potential reductions to campus activities is not yet known. Research grants typically use a portion of the grant to fund the operations and maintenance of research facilities through indirect costs, and a loss of these funds may drive the need for alternate funding for those facilities. However, OCHE has not received any recent notices of withdrawn or stopped research grants, and an alternative funding model has been proposed that may address the issues of reducing or eliminating indirect costs.

Included in the skinny budget are proposed reductions to several grants that university units have consistently received in the past. These include grants for agricultural experiment stations, extension services, and the operation of state offices of rural health. Other proposed reductions are to grants that have historically been provided on a less-consistent basis. These include agriculture and food research, cooperative forestry research, soil and water conservation research, and promotion of the arts. If these grant reductions take place, annual losses to campuses are estimated at \$5.5 million across all programs.

In addition, there are several grants that have been awarded to universities which have been obligated but not yet spent. These grants have periods of performances that are scheduled to end at various points between 2026 and 2028. If proposed reductions reduce funding available to these awarded grants, an estimated \$2.9 million of currently obligated funds may be eliminated. Programs with proposed cuts include substance abuse and mental health services projects, maternal and child health programs, mental and behavioral health education and training, a grant for research into the restoration of the Columbia River Basin, pollution prevention programs, and economic development technical assistance grants.

Local Governments

Airport Improvement Projects - Federal Grant Reduced by 1.2%

For funding received by local governments from the federal government a substantial portion is first administered to the state or state agencies and passed through to local government entities. However, there is a portion of funding that is directly given to localities within the State of Montana for specific purposes.

In looking at federal funding provided to local governments consistently over a 5-year period that is labelled as a potential funding reduction through the proposed skinny budget, there is one grant identified. The identified funding is awarded through the Federal Aviation Administration. These grants, entitled Airport Improvement Projects, total approximately \$93.8 million in awards given in FY 2025 to local governments across the state. Included within local governments are cities, counties, consolidated city-county governments, airports, and airport authorities. These grants were distributed to 56 local governments in FY 2025, including 38 counties, 11 airports or airport authorities, 6 cities or towns, and 1 consolidated city-county government. Within the proposed skinny budget is a 1.2% reduction to these funds, which creates an estimated \$1.2 million reduction across these entities, based upon FY 2025 awards.

The majority of federal funds received by local governments are first awarded to the state or various state agencies. Of this funding, the agencies with the largest portion of this include the Department of Public Health and Human Services, Department of Commerce, Department of Natural Resources and Conservation, and the Department of Military Affairs.

Federal Payment in Lieu of Taxes (PILT)- Federal Grant Reduced by 1.2%

Federal Payment in Lieu of Taxes (PILT) payments are administered to counties across the country to reimburse local governments for having nontaxable federal lands within their county. This program is conducted through the U.S. Department of Interior with the amount paid being formulaic in nature. Within the State of Montana \$46.6 million was distributed in federal PILT payments in federal FY 2025 with the counties receiving the largest amounts being Flathead County (\$4.0 million), Ravalli County (\$3.5 million), and Lewis and Clark County (\$3.3 million). In looking at the entire country, \$622 million was paid for this program in FY 2024, an estimated \$643 million was to be paid in FY 2025, with the FY 2026 estimated payments in the skinny budget being \$635 million.

Given this slight reduction (1.2%), and assuming this decrease is applied equally to all states, this would equate to a reduction of \$559,000 for counties within the state. This reduction would set the total federal PILT payments given to the State of Montana at \$46.0 million for FY 2026.

State Revolving Loan Funds – Potential Reductions but Details are not Available

These federal revolving loan programs, sometimes referred to as state revolving loan funds (SRF), are loan programs provided through the federal government for states to primarily administer this funding to local governments for infrastructure projects. The two types of funds from the federal government, both from the Environmental Protection Agency (EPA), are the Drinking Water State Revolving Fund (DWSRF) and the Clean Water State Revolving Fund (CWSRF). This program allows for local governments to obtain funding from the state with benefits that may not be offered on the private market including, lower interest rates, partial principal forgiveness, and flexibility in repayment. As loans are repaid within this program, that funding then becomes available to be redistributed for use elsewhere in the state. Additional work will be done by the Legislative Fiscal Division to better understand the impacts of federal funding on the state revolving loan programs. See Appendix B for additional information on these programs and the intended use plans for FY 2026.

Nonprofits

Further research will be necessary if the Legislative Finance Committee would like to determine the impact of federal funding reductions on non-profit and other private entities across the state. The funding for some of these entities will be lower, but there are no estimates readily available.

APPENDIX A

2025 Biennium Community Development Block Grants

The table below shows the CDBG funding that was considered when looking at projects included in HB 6 and HB 11. The \$11.5 million in CDBG funding discussed in these bills are awards from federal FY 2025 and are not part of the potential federal reductions to this program but are provided for perspective on the types of projects that could be impacted.

Water and Waste Water Projects in HB 6 and HB 11 (2025 Biennium)						
Funded with Community Development Block Grant Funds						
Entity	Project Type	Population	CDBG Grant	Per Capita	Percent of Total Project Cost	
Libby	Waste Water	3,421	\$ 434,000	\$ 127	41.0%	
Wolf Point	Waste Water	2,437	750,000	308	30.0%	
Ronan	Waste Water	2,304	750,000	326	6.9%	
Malta	Drinking Water	1,882	750,000	399	19.9%	
Whitehall	Drinking Water	1,128	750,000	665	44.5%	
Darby	Waste Water	906	750,000	828	36.0%	
Pinesdale	Drinking Water	901	750,000	832	37.1%	
St. Ignatius	Waste Water	850	750,000	882	13.0%	
Joliet	Waste Water	648	750,000	1,157	49.0%	
Circle	Drinking Water	560	750,000	1,339	28.6%	
Twin Bridges	Drinking Water	418	750,000	1,794	35.4%	
Willow Creek Sewer District	Waste Water	300	750,000	2,500	37.4%	
Basin Water and/or Sewer District	Drinking Water	200	750,000	3,750	49.5%	
Richey	Drinking Water	162	750,000	4,630	31.6%	
Harrison Water and Sewer District	Waste Water	162	750,000	4,630	19.3%	
Martinsdale Water and Sewer District	Drinking Water	75	<u>536,500</u>	7,153	40.6%	
Total			\$ 11,470,500			

APPENDIX B

The State of Montana administers two revolving funds that offer low-interest loans for drinking water and wastewater infrastructure projects, which include the Drinking Water State Revolving Fund and the Clean Water State Revolving Fund. These funds are supported by matching federal contributions, covering roughly 80% of total project costs.

Communities that meet Montana's criteria for being economically disadvantaged may qualify for additional subsidies, including principal forgiveness, where a portion of the loan does not need to be repaid. Access to the state revolving funds loans also helps communities leverage funding from other state and federal programs. Decreases in federal funding would impact the ability of local governments to fund projects.

Drinking Water State Revolving Fund

For Fiscal Year 2026, Montana plans to fund 26 drinking water projects through the Drinking Water State Revolving Fund (DWSRF), totaling just over \$67.0 million and benefiting approximately 172,000 residents. These projects include upgrades to treatment plants, construction of new wells, installation of storage tanks, distribution system expansions, and rehabilitation of existing systems. Out of the 26 projects, 16 are eligible for partial loan forgiveness, focusing support on smaller or disadvantaged systems. In total, \$48.2 million or 73.4% of all funding is eligible for forgiveness.

The table below summarizes the DWSRF intended use plan for FY 2026.

Drinking Water State Revolving Funds Projects Anticipated to Receive Funding in FY 2026								
Project Rank	Project	Population Served	Project Description	SRF Cost	Eligible Forgiveness	Interest Rate	Term Years	
1	Anderson School	255	New treatment systems for 4-log virus inactivation.	53,000		2.50%	20	
5	CMRWA	1,900	Install a pipeline from Phase 1 to Roundup. New well #4.	11,934,262	Yes	2.50%	40	
7	Absarokee WSD	1,000	Cartridge filtration.	821,000	Yes	2.50%	20	
8	Harlem	822	Water distribution and WTP improvements for DBPs.	770,000		2.50%	20	
11	Whitehall	1,038	New 1-million-gallon storage tank.	2,687,000	Yes	2.50%	20	
13	Boulder	1,400	Phase 1 – New well and distribution system improvements.	1,274,000	Yes	2.50%	20	
14	Deer Lodge	3,056	Water main installation.	2,000,000	Yes	2.50%	20	
18	Chester	847	WTP improvements for DBPs.	433,300		2.50%	20	
22	Thompson Falls	1,460	New well and transmission main, new storage tank, and replace distribution mains.	1,365,538	Yes	1.75%	20	
23	Twin Bridges	235	New well, new storage, and distribution work.	350,000		2.50%	20	
24	Power-Teton WSD	172	Project to include new proposed ground water source for District.	1,384,300	Yes	1.75%	20	
27	Loma CWD	300	Main extensions for rural customers with source water quality/quantity issues.	707,000	Yes	2.50%	20	
35	View Vista Village WSD	213	Distribution system improvements.	734,364	Yes	2.50%	20	
36	Red Lodge	2,212	Water System Improvements.	4,846,000	Yes	2.50%	20	
37	Clearview Heights WD	30	Distribution system improvements.	850,000	Yes	2.50%	30	
38	Havre	9,786	Distribution system improvements.	4,401,000	Yes	2.50%	20	
46	Bigfork WSD	4,449	Distribution system improvements.	1,627,000		2.50%	20	
48	Kalispell	23,421	Replace the second of two existing concrete water storage tanks with wooden roofs.	7,892,000	Yes	2.50%	30	
49	Boulder	1,400	Phase 2 – New storage tank and generators.	2,128,000	Yes	2.50%	20	
52	Circle	481	Distribution system improvements.	650,000	Yes	2.50%	20	
67	Missoula	75,757	2026 Distribution system improvements including main.	9,697,964		2.50%	20	
71	Choteau	1,713	New well and transmission main.	3,010,000	Yes	2.50%	20	
74	Richey	186	Distribution system improvements.	625,000		2.50%	20	
78	Helena	32,024	West side service and crosstown connector.	4,271,000		2.50%	20	
79	Lockwood	7,463	New storage.	2,223,000	Yes	2.50%	20	
92	Roberts WSD	299	Well house and pump rehabilitation.	275,000	Yes	2.50%	20	
TOTAL		171,919		67,009,728				

Source: DEQ Drinking Water State Revolving Fund Base And Supplemental Intended Use Plan And Project Priority List For FY 2026 as Amended

Clean Water State Revolving Fund

The Clean Water State Revolving Fund (for wastewater projects) will support 26 projects totaling \$44.5 million. Of these, 13 projects are expected to receive up to \$17.8 million in loan forgiveness.

Loan terms typically span 20 years, with some extending up to 30 or 40 years based on project needs. While the standard interest rate is 2.50%, some communities qualify for a reduced rate of 1.75%.

The table below shows the intended use plan for Clean Water State Revolving Fund FY 2026.

Clean Water State Revolving Fund Intended Use Plan FY 2026	
<u>Project</u>	<u>Cost</u>
Belgrade Lagoon Rehabilitation	\$3,000,000
Big Fork West Trunk Main	1,372,618
Denton Lagoon rehabilitation	1,632,653
Drummond Lagoon Improvements	1,530,612
Hardin Waste Water Treatment System	3,443,213
Harrison Collection and Force Main	700,000
Hideaway Community (Columbia Falls)	470,000
Jordan Treatment Expansion	1,303,000
Kalispell Fermenter	3,100,000
Lockwood Sewer	5,900,000
Morning Star (Kalispell)	137,100
Superior Waste Water Treatment	2,030,000
White Sulphur Springs Collection Extension	283,624
Red Lodge Collection System Improvements	980,000
View Vista Collection System	1,100,000
Kalispell - Green Acres	427,200
Kalispell Biosolids Project	2,900,000
Wolf Point Collection System	1,000,000
Hingham Waste Water Treatment	5,000,000
Victor Waste Water Improvements	696,068
Hideaway Community Water and Sewage	1,015,700
Darby Collection And UV System	2,020,000
Whitehall Lift Station	291,138
Riverside Connecting to Bozeman	2,853,000
Willow Creek Collection and Spray Irrigation	141,022
DNRCResource Development Bureau (NPS)	1,209,400
Total	\$44,536,348