

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - 1st SPECIAL SESSION

SUBCOMMITTEE ON LONG-RANGE PLANNING

Call to Order: By REP. MARY ELLEN CONNELLY, CHAIR, on January 4, 1992, at 9:00 a.m., in Room 317, Capitol Building, Helena.

ROLL CALL

Members Present:

Rep. Mary Ellen Connelly, Chair (D)
Sen. Bob Hockett, Vice Chairman (D)
Rep. Francis Bardanouve (D)
Sen. Ethel Harding (R)
Sen. J.D. Lynch (D)
Rep. Bob Thoft (D)

Members Excused: Sen. J.D. Lynch

Staff Present: Jim Haubein, Principal Fiscal Analyst (LFA)
Jane Hamman, Senior Budget Analyst (OBPP)
Jo Lahti, Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Announcements/Discussion: Discussion on how to cut Long Range Projects.

REP. MARY ELLEN CONNELLY, Chair, asked about the Cultural and Aesthetics Grants. Mr. Haubein, LFA, handed out EXHIBIT 1. There are two options: reduce grants in HB 9 by 8%, or divert 42.7% of the Coal Severance Tax going into the Trust Fund to replace general fund money in the agency operating budget in FY 1993 only. That would cover 8% of those grants. See Page 3 of EX 1. It would take a relatively simple committee bill to divert the coal tax.

REP. BARDANOUVE said, the Trust will lose money for one year, but interest will be lost forever.

REP. THOFT remarked, Option 2 is the least disruptive. He asked David Nelson if he would support Option 2 over Option 1. Mr. Nelson agreed. It is limited to one year; it diverts only a portion of the flow, the Trust must be protected; and it meets the 8% recommendation.

MOTION: REP. THOFT moved Option 2 be adopted. SEN. HOCKETT seconded the motion. Motion carried unanimously by voice vote by those present.

Mr. Haubein will prepare a committee bill diverting a portion of the coal severance tax.

The second area is the Resource Indemnity Trust (RIT) Grants. He explained three options proposed to reach the 8% recommended in the governor's budget cuts. Page 4 of EX 1 sets out the figures for each option.

REP. BARDANOUE said, there is a big gap between the three options; #3 is too radical.

REP. THOFT asked that Option #2 be further discussed.

Karen Barclay, Director of the Department of Natural Resources and Conservation (DNRC), handed out EXHIBIT 2 which is a list of projects above the funding line and also shows those projects which have already been contracted. These programs are within the DNRC and have already been cut 9.55%, and the funds have already been diverted to the general fund. It was accepted \$133,000 of RIT moneys should be used to offset general fund money; 3% has already been taken. Whatever else is done would be over that 3%. Putting money back in will be a monumental task. Each applicant has already taken cuts. Matching funds will be lost, and there are other impacts. EX 2 shows moneys available but doesn't include water storage money which it was testified is available. The Governor had committed those moneys to the Tongue River Indian Program. Option #3 would be diverting money. They felt the \$133,000 plus 24% of grants not prioritized was sufficient contribution to the State's dilemma.

Mr. Haubein said, this list just recognizes funds available and points out that some of that grant money has already been contracted for. EXHIBIT 3 The Resource Indemnity Trust Interest Accounts The funding line was drawn at #16 of the combined Water Development and Renewable Resource Development accounts. Some projects above that line had been contracted and funds obligated. A portion of the bottom line has already been obligated.

Mr. Haubein looked at an 8% reduction in the Water Development schedule and found that would be \$64,000. It would come down to just below the Fort Shaw Irrigation project. The ones committed are above that line. Renewable Resources came up to the Broadwater Conservation District, #1 is the only \$100,000 contract not committed. The 8% cut would not hit any of the contracts here.

Ms. Barclay said they are not suggesting it would impact those already contracted. The funds available are the ones shown here. They are not obligated yet. She suggested in looking at 8% they should look at only the ones that are available subtracting out those contracted.

MOTION: REP. BARDANOUE moved to accept Option #2 on Page 4 of EX 1. REPS. THOFT and HARDING, and SEN. HOCKETT thought the RIT

program in the DNRC had already committed more than 8% to the general fund. This motion died for lack of a second.

REP. CONNELLY asked if the DNRC had looked at the lists to see whether there are some that are not going to be used or have a different funding mechanism. Lima Dam has been offered an option that would save the state some money. Ms. Barclay said, as they go through these contractual arrangements for each applicant they do that. They have to be able to sign the contract and do the work as part of the original deliberations. They also look for other methods of funding such as federal or local funds. Many are already requiring matches. Their money comes in quarterly and they cannot contract until they have the money. No one on the list appears to be going to drop their application. Others are hoping they will be eligible.

Mr. Haubein suggested when looking at the other grants, possibly an 8% reduction in the Long Range Building Projects Capital Projects Fund cash account should be looked at. EXHIBIT 4 That could be diverted to pick up some of the general fund remaining in those three University projects. This is just the cash portion. There is \$8,032,000 in the cash portion that expands all agencies. This is not bonding money.

Tom O'Connell, Administrator of Architect & Engineering, said none of the Capital Projects have been cut the 8%. The only projects they are recommending to be cut are those under general fund money. See Table 2 of EXHIBIT 4. Those projects were added during the legislative process. The projects funded by the \$8 Million are projects that were all requested by an agency during the Long Range Building Process. They were prioritized by the Governor's office and recommended to this committee as part of the Long Range Building Program. Projects funded by the general fund were recommended as part of that process as well. They were not prioritized at that time by his office because there were other needs they thought were greater throughout the State.

Capital Projects Fund money includes funds for Institutions, Military Affairs, University System, etc. If this amendment is accepted, the cuts will be \$8 Million, \$4 Million of which is for the University System which in effect would cut out other maintenance type projects if this is done. Projects such as roofing, steam lines, handicap, fire alarm, etc. would be cut. If you think you are going to be cutting some necessary needs, that simply won't happen with this. You will be shifting a reduction to some other projects throughout the system. As the list was presented, they tried to look at the needs throughout the State. The programs presented were their highest priorities and were in this program to begin with. There are unmet maintenance needs everywhere. The \$3 Million appropriated was above and beyond what there was money for.

If he had his choice, he would drop some projects rather than try to reduce some by 8% which would be almost impossible. To cut 8%

from the smaller projects will hurt them worse than cutting 8% from the bigger projects. The whole cash program is based on repair, maintenance, health, and safety type needs. This option shifts over to different projects. Some of these projects could be looked at.

REP. BARDANOUE asked if there is any possibility of doing some cutting in this area, the committee could get some pertinent figures. Other committee members agreed.

Mr. Marks said quite a bit of the money in this Capital Projects Fund has to do with planning for bonded projects. There are some projects where all the planning money was not needed. **Mr. O'Connell** said there is not enough money in the cash portion to carry them completely through the planning projects. If that were reduced they would have to borrow internally to get to the point of selling bonds on the projects.

Mr. Haubein explained this option would reduce some of the capital projects and replace the general fund in the second column. It is quite similar to what is being done with DNRC and the Arts Council. It is simply freeing up money to replace general fund money built into this budget.

Mr. O'Connell explained part of that money was expended as of July 1 to pay a loss on the prison mediation that was just concluded. Some others have made expenditures and some have not. He would try to prioritize them. The four projects discussed yesterday funded by the general fund were added during the legislative process. They were the only four projects in the building program funded by general fund money.

Ms. Hamman explained the Executive budget recommended 8% cuts in those general fund projects. **EXHIBIT 5** The option being discussed would cut some of the priority projects in Long Range Building and fund a portion of those general fund projects remaining in the University System, so general fund money would be replaced with those general fund projects still intact. Action has already been taken on three projects in the University System. The balance remaining in those projects is what is being discussed. Instead of it being funded entirely out of general funds, a portion would now be funded with the cigarette tax long range building money, and a portion would be funded with general funds. Cut some of the other projects in long range building and use that money to replace general fund money at Northern. The difference is that has not been cut here.

Mr. O'Connell thought he could have the figures requested by 2:00 p.m. The committee will meet then to hear his report.

REP. CONNELLY asked the committee's opinion when talking about inmate labor. This is not in the call, but could be talked about. About \$4 Million could have been saved in construction of that prison had inmate labor been used. Given problems of the State,

this should be looked at.

Mr. Haubein handed out **EXHIBIT 6**. He looked into this somewhat, picking up the figures used in the 1991 Session, and calculated interest costs if it had to have been financed. The issue of inmate labor wouldn't reduce the cost for that project. That allows that project to be expanded, and the expansion is the work being done by inmate labor so there is no change in the appropriation here. This would be a statutory change that does not reduce an appropriation or create a funding switch or anything, and the legislative council opinion is that it would not fit within the governor's call as it stands right now. That could be explored further if requested. This would not impact the budget. It allows them to use inmate labor to do those things they can't do now, because they were not allowed to use inmate labor. It simply allows them to use inmate labor. There is no cost involved.

Ms. Hamman thought it could have an impact on the next legislature because there was an expression of legislative intent during the last regular session that if the prison could not complete the work that needed to be done through the Department of Administration (DOA) with the amount that was appropriated, and there is about a \$3 Million difference there, they would come back to the next regular session for an additional appropriation to enable the project to be finished. They will have to rework the design and some of the outlying facilities wouldn't be begun. Future planning will determine what would or would not be done.

Mr. O'Connell said they are into the design process for the prison project right now. They requested \$20 Million for this project, which was received. That was based upon some of the work being done with inmate labor. When they were not allowed to do that, they did not receive any additional money for the project. To make the project work they have to look at leaving parts of the project undone. They can't build the entire prison project without using inmate labor with the same amount of funding originally requested. They are in the process of trying to prioritize facilities within the complex to determine which are the highest and lowest priorities of the Department of Corrections and of the prison itself, so a complete facility will not be built because of lack of funds. Request for additional funds will probably be made sometime in the future.

REP. BARDANOUE remarked, he could see no fault anywhere with the construction of the prison facilities. If all the safety measures had been properly used, there would never have been a riot. The physical plant was not at fault. Most of the safety things were never used. It was failure on the part of personnel and not the facility.

REP. THOFT said this is a long-term impact, and does not affect the present budget.

Mr. Haubein handed out EXHIBIT 7 which is the language required to prohibit funding of those grants acted on yesterday when taking \$133,000 from the RIT funds.

MOTION/VOTE: REP. THOFT moved the language in both NEW SECTION 14 and New Section 15 be adopted. SEN. HOCKETT seconded the motion. Motion carried unanimously by voice vote by those present.

Bill Rose, Director of Facilities, Montana State University (MSU), says the DOA had some comments on reducing the capital funds projects by 8% that would have a devastating effect. It does have a long-term effect in major and deferred maintenance areas. They have begun a facilities condition inventory process, an audit process, of all their facilities to come up with some sense of just how bad that deferred maintenance need is. MSU alone has upwards of \$70 Million in deferred maintenance. It is necessary to look at capital assets and physical facilities as it is done for the grant programs.

MSU has taken a hit already in general fund moneys to reduce their match portion for the Eng./Phys. Science Complex. They would be taking another hit for that same facility if general fund planning moneys are taken out of the cash fund in the Long Range Building and Planning (LRBP).

REP. THOFT commented, it has not been unusual for an institution to take money out of maintenance and spend it in other places. He is not aware of their priorities. Mr. Rose said that has not happened in his area in his four years at MSU.

REFUNDING OF BONDS

REP. BARDANOUE is not in favor of refunding outstanding bonds. It will cost money in the long run.

Mr. Haubein thought the DOA already has the authority to refinance without any change in the law. Language to show intent could be stated.

REP. BARDANOUE said if it weren't for the requirement to change the present tax-exempt bonds to non-tax exempt bonds, he might be in favor of refunding.

Mr. Marks explained the Board of Examiners has the authority to grant debt, and this would be another issuance of debt. If the legislature demanded a refinancing, they would have to get a bill through to do that because the Constitution does give the Board of Examiners that authority. The DOA is merely a tool of that Board. They make recommendations to the Board for debt issuances but that decision has to be made by the Board.

Karen Munro passed out EXHIBIT 8 Additional Information on Bonds which she explained. Basically, refinancing would take the

present debt service cost savings and use them for operating costs of the state, which is considered primarily deficit refinancing. Rating agencies might not downgrade the State's rating by refinancing alone, but that combined with planned issuances of \$61 Million in the next year for two years could result in a downgrade. The rating agencies also look at the economy of the state, the budget condition, the authority of the governor to make cuts, etc. Outstanding debt is a main factor, but other items are looked at. Principal repayments could be started right away or postponed. Several options are available. Extending principal payments however would cost more money.

SEN. HARDING asked, is it correct it could cost \$4.5 Million over the life of the bonds from 1993-1999 in order to free up \$8 Million? **Ms. Munro** said yes, based on several assumptions.

REP. BARDANOUVE asked why it would cost more for new bonds. **Ms. Munro** explained it would be to avoid having double payments in some future years for prison and university bond payments if new debt is issued.

Ms. Munro explained current debt is \$46 Million. In a normal budget environment with a good economy, refinancing would not be considered. It is not cost-effective. It is a policy call.

SCHOOL BONDING

Bob Marks, Director of DOA, handed out **EXHIBIT 9**, an opinion of the bond counsel saying since they could not issue a qualified opinion, they could not go ahead and sell their debt after July 1 at a reasonable cost. That, of course, is contingent upon the Supreme Court ruling in the lawsuit that certain school districts brought against the state relative to equalization. The governor asked the Board of Investments for a program that would help some of those districts in the meantime and allow the issuance of Bond Anticipation Notes (BAN) by the school districts upon which they could apparently get a good opinion. The net cost to the districts would be 6.25% to 6.5% interest rate. The school bond market right now, if they could be sold, would be in that same range. If the 1993 legislature figured a solution to the equalization court lawsuit for capital facilities, under the plan the Board of Investments (BI) has, the districts would be expected to issue their own bonds and pay off their BAN. The school districts could have an advantage or disadvantage in interest rates when reissuing the bonds.

Another alternative would be for the State to guarantee about \$25 Million for those districts who meet certain criteria as to health, safety, code violations, accreditation standards, etc. They would be able to borrow on that \$25 Million set aside and reserved for that purpose. That would also be considered by the rating agencies and the financial advisor to be additional debt. The State is already up to their recommended limit with the four projects developed during the 1991 Session. Proposed debt levels

are apt to cause downgrading of rating.

Mr. Marks said the Administration has some real concerns about putting such issuance into call. To do so will require a 2/3 vote of the legislature to increase the debt, and to authorize the Board of Examiners to issue new debt which this would be considered to be. A judgment call of \$25 million was to be put into a bill, but is subject to change. Some school districts are going to a vote this spring, and some have already passed authority by the voters to issue debt on the local level. This money would be to accommodate those districts that are set to go before the legislature meets in 1993.

REP. THOFT asked, if you add \$25 million to our existing debt, would that really jeopardize our bond rating? **Mr. Marks** said the refinancing thing alone may not do it, but the greater concern is that if the Legislature comes out with more debt obligations and the Montana government stays on a schedule of spending more money than ongoing revenues are producing, that concerns them. If all those things are added up, that casts doubt in the minds of the people who do the rating. The top considered safe was about \$70 million in the last session according to financial people. Since then they have become uncomfortable with that figure. They think our bonding is high enough now.

REP. THOFT thought the school districts might like such bonding and want to continue with the state guarantee. Should a school district be sued, the state would be liable also.

REP. BARDANOUVE said one disadvantage of waiting would be the possibility of having to pay a little higher interest rate down the road when dealing with the Board of Investments as lender. **Mr. Marks** advised the BI issuance costs would be about 2%. Commercial lenders felt if the voters had approved a capital amount, unless things had changed drastically between the time people voted on it up to the time the bonds were actually sold, that authority would continue to the point of issue.

SEN. HOCKETT asked, what is the possibility of the BI issuing bonds for a longer time period to avoid refinancing and to get a better rate than presently offered?

REP. THOFT thought such bonding could cause the state financial difficulties.

Mr. Marks said if the rating gets downgraded, that will also spread over to revenue bonds. Rating agencies will deny officially that it would have an effect on revenue bonds, but they still perceive revenue bonds are a better buy than general obligation bonds. School Districts determine their long range construction needs, have an architect sketch about how much it will cost for the new facilities, then they determine how much bonding capability a district has, which is limited to a certain valuation of approximately 30%. Then the board of trustees makes

a resolution that they intend to issue debt under their authority to issue debt. Prior to the Supreme Court decision, and prior to the opinion of the Bond Counsel, if the voters approve that, then they would issue bonds. They then get bids on the project, and the approved cost is added to property taxes. The Bond Counsel felt they could not issue an unqualified opinion. School districts felt those bonds would be a mockery because of that, or they would get a very unfavorable rating because of the possible risk of suit because of not being able to issue an unqualified opinion.

SEN. NATHE explained the court decision that came down in February 1989 regarding school equalization which also curtailed capital construction. **EXHIBIT 10** After the legislature amended the Special Session of 1989, in December of 1989 the court called in both parties to that lawsuit. At that time the court issued another statement that 'all bonds issued prior to July 1, 1991 were deemed valid'. That is all they said. The bond Counsel is saying the court said 'deem valid on July 1, 1991, anything after that is questionable', which is causing the school districts problems. What the court is basically saying is that the 1991 Session solved the problem they did not solve. The only attempt to solve the problem was in the case of Plentywood. They have been able to afford a direct appropriation they knew would fly.

The school equalization funding committee had a bill before the House Appropriation asking to set \$25 Million aside in an equalization fund for capital construction which was killed in committee. But according to bond counsel, if that had happened it was an indication the legislature was trying to solve the problem. Since that did not happen, the school districts are on the spot.

REP. CONNELLY asked if the BI program is set up in place. **SEN. NATHE** said that program is pretty much set up in place. The interest rate would be higher than if they went to the open market right now. The BI is regulated by the Prudent Man rule and has to earn a profitable rate for the money they loan. It is questionable if the BI would lower its rate because school districts issue bonds which are tax-exempt at a very fair rate.

SEN. CHET BLALOCK, District #43, is Chairman of the School Funding Committee set up by the Legislature last Session, also Co-chairman of the Interim Committee to continue the study of school funding after HB 28 was passed. The Supreme Court of Montana said we have to equalize, not only the funding for the school building construction program throughout Montana, but also for transportation and capital outlay. They recommended to the legislature that be done. Transportation was equalized somewhat, and \$5 million was granted for capital outlay. If that had passed, probably they would not have had the Supreme Court decision saying the bonds up to July 1, 1991 were O.K. Implication was that all those afterwards would not be not O.K. Dorsey, Whitney and the other Torgenson firms upon which they

rely, said they cannot issue bonds without qualified opinions which are required to get the best rate.

In the last meeting some work was done on putting the general obligation authority of the State behind the bonds. Because of the record of Montana school districts, and they don't know of any school district that has ever reneged on bonds, they thought the risk to the State would be minimal. At the end of the meeting in November it was thought this was the way to go, but they have run into trouble as expressed here. The problem is that if one irate taxpayer comes in from one of those districts and says what you are doing is unconstitutional, and that is upheld, then for a couple of years the state would have to pay the debt service on those bonds.

Plentywood is the outstanding example of where relief is really needed. Clancy also has authorized sale of bonds but can't sell them at this point because they can't get a decent rate. Helena is also looking at this. Because of what this might do to the state bond rating, the BI offer might be more acceptable. The BI has set aside \$59 million for community projects within Montana. They would not be able to use all of that \$59 million because a lot of it is dedicated to towns and cities who may want to have them purchase bonds. Whatever program is adopted will be limited. The BI may be able to help Plentywood with \$1.4 million, Clancy \$3.5 million, and West Glacier approximately \$1.8 million. The BI has been asked to keep their program up front because it may be necessary to fall back on them.

It will be incumbent on the 1993 Legislature to take care of this equalization of capital outlay. Given the tight situation the State is in, capital outlay traditionally runs about 5% of the total state school budgets, the legislature may say they will equalize state capital outlay of 1/2 of 1% all across the state, which would be the equalization.

From the time these lawsuits started, and the school districts of the state joined in that lawsuit, they wanted equalization based on the number of students and on taxable valuation. That is what the Supreme Court looked at and said the effort from Montana was to be equal for every child in the schools, and it will be necessary to equalize it for the taxpayers. When that is done, there is always the danger it can go either way. You can equalize upward and say we are going to give you more money from the state so there is more state backing and more help for every student out there with their education, or that can be dropped which the schools may be facing because of the financial straits of Montana.

REP. BARDANOUE reminded them they have equalized upward allowing the richer ones to get way ahead. HB 28 allowed that. **SEN. BLAYLOCK** did not think with the state's straitened situation, it will work that way on capital outlay. There just is not the money. **REP. BARDANOUE** said the 40 mill levy will never keep up

with the costs of inflation.

Mr. Marks suggested having BI people explain their program which might not need any legislation. (The Committee decided to ask Dave Lewis, Director of the Board of Investments, to attend a meeting).

Linda Nelson commented she was disappointed for her constituents, but understands the situation and agrees with SEN. BLAYLOCK and Mr. Marks. She is glad there is a possible backup plan.

SEN. NATHE would like to have seen, and he may continue to push this additional option for those schools. Students will be the ones who will benefit if these problems can be solved.

The Subcommittee recessed at 11:30 a.m. until 2:00 p.m. January 4, 1992.

Tom O'Connell, State Architect, had been asked to look at the capital projects fund money and come up with a potential list of projects that might be reduced so some of the general fund money could be offset. He handed out EXHIBIT 11. The rationale used was to go back to the original long range building requests. When the agencies submit their request, it is prioritized. The list will have a LRBP priority. Not all of the capital projects of which there were 54 or 56 overall, had cigarette tax money in them. He started at the bottom of the list to see what could come out. The first priorities are health, safety, repair, and maintenance items. Some projects did not readily relate to these items. Those are the ones concentrated on.

The Multipurpose Building, Northern Ag Research Center, was not included as a recommendation to the legislature. They have a bad situation there. It is new construction eliminating some problems. It was not prioritized by the Regents, was not prioritized high by MSU or by experiment people, so he thought it was a candidate to be looked at for removal from the project fund program.

The second item was prioritized #30 out of 31 prioritized in the Long Range Building book. It was to acquire land and preplan an armory in Billings. It was not a high priority as submitted by Military Affairs. By deleting \$150,000 of capital projects money, it will not allow Military Affairs to purchase land for an armory. It was matching money for \$200,000 federal money to begin preplanning work, however, without the purchase of property the preplanning work will be difficult to do. This could jeopardize federal money if the \$150,000 of cigarette tax is taken away.

Priority #27, the Plan Metallurgy Building Remodel at Montana Tech was a relatively low priority project in the building plan, and can be delayed. It is not going to immediately correct a health, safety item, etc. It would update some badly outdated labs, but as other maintenance needs have been delayed, this can

be also.

Item #26, Plan Chem/Pharm Renovations, UM, is the same situation of having outdated chemistry labs built in 1920-1930, that have had very little work done, and can be delayed because of lack of funds.

Item #24 to Construct Unit Office, Plains, State Lands, for \$235,000. Currently those people are operating out of a doublewide mobile home. It doesn't serve their needs at all. It was funded and they are in the process of hiring an architect, but do not have any contracts signed. It is a new facility and those are always a lower priority.

Some projects have huge amounts of federal match in them. By using several thousand dollars of capital projects money \$1 million of federal money could be received. This is particularly true with Military Affairs. However, there didn't seem to be any logic to try to gain \$5,000 or \$10,000 and lose all kinds of federal spending authority.

Project #4 is Hazardous Material Abatement, Statewide, DOA. Every cent of this could be well spent. The reduction of \$7,500 would leave a balance of \$610,000 to do that work. That project was reduced during the Session from \$650,000, so \$7,500 is not going to make a great deal of difference to them.

The total of the above projects is \$642,500 recommended for potential cuts. Some of these projects are badly needed but have not been prioritized or completely identified or finalized as yet.

Discussion regarding windows for the museum at Montana Tech in Butte revealed this project did not qualify for energy retrofit funds.

MOTION: REP. THOFT moved the Subcommittee accept the Long Range Building Program capital projects listed on EX 11 for deletion from the program.

SEN. HOCKETT thought the window retrofit had no more priority than some of the other projects, and could be added to the list. Farmers in the area have raised approximately \$50,000 for the Ag Research project in Havre.

REP. THOFT asked if this is 8%. SEN. HOCKETT stated the general fund had already been reduced in this area by 8%.

SEN. HARDING reluctantly seconded the motion.

The Department of Military Affairs would like to switch the \$150,000 reduction from the #30 plan Acquire Land & Preplan Armory, Billings as Mr. O'Connell suggested, for a \$150,000 reduction in Armory Additions and alterations statewide which was

already #29. They would like to reverse those and delete the Armory Addition and alterations statewide for \$150,000. They would like the federal special fund revenue closer to that be left in. They are about 3/4 of the way towards land acquisition right now in the Billings area.

AMENDMENT TO MOTION: REP. THOFT moved to amend his motion to switch #30 plan to Acquire Land & Preplan Armory, Billings, for #29 Armory Additions. Each is for \$150,000 and makes no difference in the proposed total reduction.

REP. BARDANOUE did not like to eliminate the Multipurpose Building at Northern.

AMENDMENT TO MOTION: SEN. HOCKETT moved to substitute elimination of the Multipurpose Building for Ag Research at Northern for the \$142,000 Window Retrofit at Montana Tech. REP. BARDANOUE seconded the motion. The Ag Research building has a higher priority.

Montana Tech people objected to such heavy reductions as the Metallurgy building and window retrofit. They thought it unfair.

Randy Mosely, Department of State Lands, stated the work at Plains was very high priority and they disliked losing the office. They have been trying for a long time to get this built.

REP. THOFT asked Mr. O'Connell if there were some approximately \$58,000 project that could be better eliminated than the Metallurgy Lab at Montana Tech. It seems unfair to take so much from one entity.

REP. CONNELLY, CHAIR, explained the motion on the floor is to switch the windows for the Multipurpose Building at Northern.

Jane Hamman, OBPP, said, HB 454 also allowed the system to keep all of its reversions and put them into maintenance and equipment needs. It may be \$500,000 is a reasonable figure on a system the size of the University. The other aspect is that there will be additional unbudgeted funds from natural gas for between \$700,000 and \$1 Million that can go into some of these projects. The third factor that will increase the money available to the University System is the timber bill. Assuming that passes to change the deposit of sale of timber revenue to the Interest and Income Account, which gets distributed to the units except for Northern, there will be an increase of at least \$1.5 Million to the university system per year. The sale of timber on state lands presently goes into the permanent fund. The executive budget proposal will put that into the Interest and Income Account to be distributed to the nine trust beneficiaries of school trust lands.

\$4.5 million has been put into the Executive Budget, the largest share going to the common school trust because of the shortfall

in the equalization account. There will be another approximately \$2.1 Million going to the remaining eight trusts besides the University System, Pine Hills, and the School for the Deaf and Blind. At least \$1.5 Million of that \$2.1 Million will be going to the University System over and above other income. Money is no longer appropriated to the University System money. In the 1987 Session that was all replaced with general funds, so they just receive that interest and income money on budget now.

REP. BARDANOUE thought the trust money was to replace general fund money. Ms. Hamman explained in the common school trust, the school foundation, the indirect beneficiaries are the other eight trusts. Interest and Income Account is for the other eight trusts. The majority of that is for the University System, Pine Hills and the School for the Deaf and Blind are very small and those are appropriated in the General Appropriations Act. The University System is not appropriated. It is no longer used as an offset against appropriations.

MOTION: REP. THOFT withdrew his above motion and SEN. HOCKETT withdrew his motion to amend. REP. THOFT moved Northern Ag Research be funded, make the switch with the Armory requested by the Military Affairs, plan the Metallurgy Building Remodelling at Montana Tech, strike the windows along with the three other projects on EX 11, make up the difference needed with general fund money. This totals to where \$58,000 would be taken out of the \$600,000 Deferred Maintenance Cash Account.

Ms. Hamman explained, the Tech windows for \$142,000, \$150,000 for Armory Additions statewide, the Plan Chem/Pharm Renovations for \$50,000, Unit Office at Plains for \$235,000 and \$7,500 of the Hazardous Material Abatement fund are being eliminated, which is a total of \$584,500, subtracted from the \$642,500 shown on EX 11, shows a deficit of \$58,000 which would be taken out of the Deferred Maintenance General Fund Appropriation for the University System Account to get to the \$642,500.

REP. BARDANOUE seconded the motion.

Mr. O'Connell explained the state money for the Armory Additions statewide is there because the federal government does not recognize some of the upfront costs required, such as soil testing. There is a potential problem there because of so many sites where soil testing would take place. There are millions of dollars of federal money that encompass facilities throughout the state. A lot of this money requires a state match of which there is none when the Armory Additions was deleted. There is about \$16 Million of federal authority but zero of capital project money to match that.

Mr. Hutchinson, Commissioner of Higher Education, explained that at the Regent's meeting one project was approved for Montana State University. The Regents have allocated those dollars to the campus and the dollars are currently being planned to be used.

They recognize the need for that \$58,000, but instead of taking it out of the Deferred Maintenance which is so critical to the university system, they would prefer that money come out of the Montana State University matching money for the Physical Science/Engineering Building. Mr. Malone agreed to take that hit. This would shift the burden from Maintenance to the public. They are looking at a \$2.1 Million fund raising effort. The building is essentially designed now, and \$50,000 has already been raised. They are confident they can raise that extra amount, although it is more difficult to do so.

MOTION AMENDMENT: REP. THOFT moved to amend his Motion to take \$58,000 out of the match money for the Physical Science/Engineering Building instead of the Deferred Maintenance account money.

Mr. Marks recognizes this might be a concern with the appropriation authority for other funds so that MSU can go out and pick up that \$58,000. Also the 8% cut they took previously might be included, so if that were added to what they call Other Funds, such a motion would keep them whole. They say they can raise the money, but they can't spend it without being given spending authority.

VOTE ON THE AMENDED MOTION: Amended motion carried unanimously by those present by voice vote.

MOTION: REP. THOFT moved the spending authority for MSU be increased by \$133,000 which includes a previous \$75,000 reduction. SEN. HOCKETT seconded the Motion.

VOTE: Motion carried unanimously by those present by voice vote.

SCHOOL BONDING

Probably no Executive Action will be taken on School Bonding in this subcommittee. REP. BARDANOUVE remarked SEN. NATHE had told him he will try to go through the Board of Investments (BI).

Dave Lewis, Director of the BI, explained for background, the Board voted at its last meeting to allow them to proceed to prepare a BI bond issue for \$50 Million that would in effect provide funds that be available to relend to the school districts. They would buy school district debt and guarantee that debt and reissue those. However, the Board did not want a long term project. They wanted it to be a short term emergency relief situation that would get the school districts through this construction season with the assumption the next legislature would successfully deal with the equalization issue as far as school construction is concerned, at which time the school districts could issue their own bonds. BI costs would probably be in the neighborhood of 6.25% to 6.5%. The downside is that the school districts would have to issue their own bonds after the

next legislature assuming the equalization issue is dealt with to the satisfaction of the bond counsel. Interest rates might be higher in two years than now.

Another possibility is the state allowing a general obligation package for the school bonds, but the rating agencies and others are concerned as to the overall level of general obligation debt the state would be incurring. The BI is offering a short term package, limited to \$15 Million because they didn't want to be the school district bond pool for all projects. They wanted to be able to deal with the highest priority health and safety items. If a package of requests exceeded \$15 Million, they would take another look at it because they might be able to go up to \$20 or \$25 Million if they really had to, but they didn't want to go beyond the highest priority construction projects. The Board discussed this at length, but isn't very excited about doing this. They think it is very important the school districts move ahead with their own long term debt.

Should state obligation bonds be used to fund these necessary projects, the school districts would be required to reissue long term debt as soon as possible even if it were at a higher rate of interest because the state would not want to have this obligation for 20 years. The risk of higher interest rates would ensue in either case.

Application materials have been sent to the districts. Many people are waiting to see what will happen during this session. If they have no other option, they may choose the BI offer.

REP. BARDANOUVE expressed concern about issuing state general obligation bonds because of a possible change in the state bond rating.

SEN. HOCKETT asked what effect using the BI offer would have on the state's rating. Mr. Lewis advised the Board was given statutory authority in 1983 to issue up to \$50 Million debt backed with a Board guarantee. They have an \$18 Million revolving pool they lend to various government entities. The \$50 Million has been considered acceptable in all bond rating since 1983 and as long as they don't exceed that, it won't affect the bond rating. Originally short term was considered to be about three years, but some districts would be happy with just two years because they want to reissue as soon as possible. Keeping it short may push a resolution more quickly.

REP. BARDANOUVE said there is some sentiment for retiring present bond debt. He is against doing this.

SEN. NATHE asked for a step by step cost for the BI proposal. Does the school district issue bonds you buy in their entirety? There is a charge there which is a wash except for the interest. Possibly the legislature solves the problem of equalization, then the school board has to reissue bonds in the same amount to the

general public, banks and individuals who buy them in order to get more money to come back to buy back the bonds they issued to the BI in the first place. That is where the added costs come from, but it also raises the question of whether they have the statutory authority to allow the school districts to pay double the percentage that was limited because there will be bonds outstanding to the BI, and then they will have to issue bonds again in the same identical amount. Are they going to exceed their bonded indebtedness limits? Mr. Lewis said, when they calculated the cost of the money to the school districts at 6.25% that includes the cost of issuance, because they can sell these two-year bonds for probably 4.5 - 4.75, so with their cost it would be about 6.25%, which is about what the districts would have to pay on the open market now anyway. The extra cost will come when the school district gets ready to reissue their own long-term bonds. They will have to pay the bond counsel for another bond opinion. The BI has to have a bond counsel opinion when they issue these bonds, and the school districts will have to have another opinion when they reissue the bonds in another two years on a long-term basis.

Should the BI loan the school districts money on a cash basis covered by a note for two years, the BI would probably have to have about 8.25% interest at this point because of the risk involved.

Military Affairs asked the subcommittee to take \$1,000 from the Kitchen Upgrade account of \$45,000 and replace it in the Armory Addition account so they would have some authority to obtain federal matching funds. This would leave \$44,000 in the Kitchen Upgrade Account. With zero authority they cannot do anything.

MOTION: REP. BARDANOUVE moved \$1,000 be taken from the Kitchen Upgrade authority and be placed in the Armory Addition account. SEN. HOCKETT seconded the motion. Motion carried unanimously by those present by voice vote. REP. THOFT and SEN. LYNCH were absent.

ADJOURNMENT

Adjournment: Committee adjourned at 11:45 a.m.

M. E. Connelly

REP. MARY ELLEN CONNELLY, CHAIR

Jo Lahti

JO LAHTI, SECRETARY

MEC/jl

HOUSE OF REPRESENTATIVES
LONG-RANGE PLANNING SUBCOMMITTEE

ROLL CALL

DATE Jan 4, 1992

NAME	PRESENT	ABSENT	EXCUSED
REP. FRANCIS BARDANOUVE	✓		
SEN. ETHEL HARDING	✓		
SEN. BOB HOCKETT, VICE-CHAIRMAN	✓		
SEN. J.D. LYNCH			✓
REP. BOB THOFT	✓		
REP. MARY ELLEN CONNELLY, CHAIR	✓		

HR:1991
CS10DLRLCALONGRP.MAN

**LONG RANGE PLANNING COMMITTEE
EXECUTIVE ACTION**

1. Cultural and Aesthetics Grants

Option 1) Reduce grants in HB 9 by 8 percent. This would allow \$103,686 of funds to replace a like amount of general fund in the agency operating budget.

Option 2) Divert 42.7 percent of Coal Tax going to the trust fund and use these funds (\$103,865) to replace general fund in the agency operating budget in fiscal 1993 only. This will not decrease the amount in the grant funds. This will require a committee bill to change the allocation of coal tax.

2. RIT Grants

Option 1) Reduce grants by 8 percent of funds available as shown in the Cash Flow Analysis.

Option 2) Reduce grants and water storage funds by 8 percent as shown in the Cash Flow Analysis.

Option 3) Reduce all uncommitted grants.

Funds available from the committee selecting any of the three options above could be used to replace general funds in the agency's operating budget.

3. Long Range Building Projects

Option 1) Reduce projects funded by the Capital Projects Fund by 8 percent (\$642,584) and use the funds to replace a like amount of general fund in the universities' projects.

Cultural Trust proposed modification to reduce amount into corpus by 43% for fiscal year 1993 only is indicated by bold type:

15-35-108. (Temporary) Disposal of severance taxes.

(3)

(j) 1.667% to a nonexpendable trust fund for the purpose of protection of works of art in the state capitol and for other cultural and aesthetic projects. **Beginning July 1, 1992, and ending June 30, 1993, the percent shall be reduced by 43% to .95%.** Income from this trust fund shall be appropriated for protection of works of art in the state capitol and for other cultural and aesthetic projects.

Section (3) (l) indicates that all other revenues from severance taxes collected under the provisions of this chapter are automatically to the credit of the general fund of the state.

No further change should be required.

Option 1

Calculation of 8% cut to C&A grants

1992-93 biennium C&A grants	1,296,080
8% of C&A grants	103,686
<hr/>	
Projected revenue to Cultural Trust corpus FY 93 (from LFA analysis page Summary 39)	243,000
Percent of reallocation to meet 8% cut	42.67%
Current percentage allocated per statute above	1.667%
Percentage to generate reallocation of 43%	0.05%

Option 2

Diversions of Trust Revenue	1.667	}	0.712 = \$ 103,865
Remaining Trust Revenue			0.955 = \$ 139,314
			<hr/> 243,179

RESOURCE INDEMNITY TRUST INTEREST ACCOUNTS 1993 BIENNIUM

	Water Development 30%	Renewable Resources 8%	Reclamation & Development 46%
Beginning Balance	1,046,250	0	604,812
Projected Revenues			
RIT Interest *	4,967,303	1,324,614	7,616,531
Coal Tax	359,597	359,597	0
State Owned Project Revenue	410,000	0	0
Loan Repayments	1,113,993	131,344	0
Administrative Fees	50,000	0	0
Total Funds Available	7,947,143	1,815,555	8,221,343
Appropriation			
Debt Service	1,229,964	380,231	0
DNRC	3,462,144	438,549	2,831,331
State Water Projects	991,000	0	0
Reserved Water Rights	0	0	603,591
State Lands	0	0	1,652,146
Water Courts	977,425	0	0
State Library	0	198,273	175,472
EQC	0	0	26,451
Pay Plan	206,508	43,370	308,753
Total Disbursements	6,867,041	1,060,423	5,597,744
Available Grant Funds	810,077	566,349	2,623,599
Water Storage	270,026	188,783	
End Balance	0	0	0

$\frac{2}{3}$ % of Available Grant Funds - \$ 64,806 \$ 45,308 \$ 209,888 - \$ 320,002
 $\frac{2}{3}$ % of Available Grant Funds w/ water Storage \$ 86,408 \$ 60,411 \$ 209,888 - \$ 356,707
 $\frac{1}{3}$ committed \$ 556,909 \$ 566,349 (1,176,966) 2,623,599 - \$ 3,746,857 (3,689,223) -

Projects with funding and not obligated

Water Development and Renewable Resource Development

Rank	Project Sponsor	Amount
1	Chinook Irr. Dist	100,000
2	Lower Musselshell CD	Contracted
3	Glasgow Irr. Dist	Contracted
4	Yellowstone County	Contracted
5	Greenfields Irr. Dist	100,000
6	Mt St. Lib.	Contracted
7	Jefferson Valley CD	50,000
8	Flathead Joint Bd	Contracted
9	Neihart	49,975
10	L&C County CD	100,000
11	Ekalaka	49,975
12	MSU/ MT Water Course	100,000
13	Stillwater CD	56,848
14	Broadwater CD	100,000
15	DNRC Water MGMT	100,000
16	Polson	76,055
Total		882,853
8 percent		70,628

Reclamation and Development

Rank	Project Sponsor	Amount
1	Butte-Silver Bow	Contracted
2	Chinook Division Irr. Dist.	300,000
3	Judith Basin CD	Contracted
4	DHES/Cent MT Hlth Dist.	300,000
5	MT Board of Oil and Gas	300,000
6	MT Board of Oil and Gas	295,000
7	Mt Salinity Control	137,500
8	MSU/Reclamaion Researc	82,885
9	Carbon County Et. Al.	Contracted
10	DHES Water Quality	146,620
11	MT Mnes & Geology	39,749
12	MT Board of Oil and Gas	144,000
13	Toole County	105,000
Total		1,850,754
8 percent		148,060

EXHIBIT 3
 DATE 1/14/92
 LRB Subcenter

RESOURCE INDEMNITY TRUST INTEREST ACCOUNTS

House Bill 6

This bill appropriates the Water Development and Renewable Resource Development grants and loans to the Department of Natural Resources and Conservation for the 1993 biennium. Table 1 shows the grants for both programs in priority order, the loans authorized for both programs, and the Water Development grants and loans reauthorized.

Table 1
 Water Development and Renewable Resource Grants and Loans
 1993 Biennium

Grant Recipient	Project	Water Dev.		Renewable Loans
		Grants	Res. Grants	
WATER DEVELOPMENT				
Chinook Irrigation District	Milk River Water Supply	\$100,000		\$150,000
Lower Musselshell Conservation Dist.	River Management Tools	72,539		50,000
Glasgow Irrigation District	Improving Water Use Efficiency	100,000		50,000
Greenfields Irrigation District	Gravity Sprinkler Planning	100,000		50,000
Montana State Library	Drought Monitoring System	58,364		50,000
Jocko, Mission, & Flathead Irrigation Dist.	Flathead Irrigation Information System	92,000		50,000
Lewis and Clark County Irrigation Dist.	Nilan Water Conservation	100,000		50,000
Private Applicant - Beaverhead County	Ruby Creek Dam Feasibility Study	14,708		50,000
Private Applicant - Town of Sockett	Wastewater Collection and Treatment	50,000		50,000
Fort Shaw Irrigation District	Rehabilitation of Headworks & "A" Diversion	50,000		50,000
Town of Dutton	Water Storage Reservoir	91,319		50,000
Phillips Conservation District	Moisture Monitoring Project	53,382		200,000
Private Applicant - Sun River Community	Sun River Water System	7,500		100,000
Town of Chinook	Milk River Weir Replacements			80,950
Town of Belt	Sewage System Improvements			100,000
Town of Glasgow	Water and Wastewater			14,169
Missoula Health Department	Linda Vista Sewer Interceptor			
Town of Fairfield	Waterway			

Water Dev. Renewable

RESOURCE INDEMNITY TRUST INTEREST ACCOUNTS

<u>Grant Recipient</u>	<u>Project</u>	<u>Grants</u>	<u>Res. Grants</u>	<u>Loans</u>
RENEWABLE RESOURCES				
Yellowstone County Conservation District	Streambank Reinforcement		\$100,000 ✓	
Jefferson Valley Conservation District	Cereal-Legume Energy Efficient Crop Rotation		48,677	150,000
Town of Nelihart	Water System Improvements		50,000	100,000
Town of Ekalaka	Water Supply and Storage		49,975	
Montana State University	Public Education in Water Management		100,000	
Stillwater Conservation District	Evaluation of Plastic Lining and Fabrication		56,848	
Broadwater Conservation District	Irrigation Water Management Demonstration		100,000	
Dept. of Natural Resources and Conservation	Beaverhead County Ground Water Study		100,000	
City of Polson	Wellhead Protection Program		76,055	
Town of Three Forks	Water System Improvements		100,000	
Fort Shaw Irrigation Project	Rehabilitation and Betterment Study		50,000	
Government of Butte-Silver Bow	Blacktail Creek Restoration		100,000	
Liberty County Conservation District	Sweetgrass Hills Ground Water Study		100,000	
Missoula County Conservation District	Irrigation Diversion Alternatives		85,250	
Fallon County	Baker Lake Erosion Control and Rec. Path		15,361	
Darby School District No. 8	Park Project		25,300	62,500
Meagher County Conservation District	South Side Canal Lining Project		37,500	
Dept. of Natural Resources and Conservation	Battle Creek Storage Unit		82,000	
Total Current Projects		\$889,812	\$1,276,966	\$1,007,619
REAUTHORIZED WATER DEVELOPMENT GRANTS AND LOANS				
Sun Prairie Village Water & Sewer Dist.	Water System Improvements			\$200,000
Carbon County/City of Roberts	Water System Improvements			142,500
City of Shelby	Water System Rehabilitation	\$25,000		75,000
Sage Creek Water District	Water District Expansion			158,600
Town of Cascade	Water Distribution and Supply	50,000		150,000
City of Belgrade	Meter Installation & Water Main Replacement	50,000		150,000
Town of Hysham	Water System Improvements	50,000		150,000
East Glacier Water & Sewer Dist.	Middle Creek Diversion	40,000		76,380
Eastern Sanders Conservation District*	Little Bitterroot Recharge Enhancement	86,300		
Total Reauthorizations		\$301,300		\$1,102,480

* Reauthorization removes the requirement for matching federal funds.

DATE 1/4/92
ARB Submittal

RESOURCE INDEMNITY TRUST INTEREST ACCOUNTS

The grants for both programs are in priority order. If revenues are insufficient to fund all grants, the grants of lower priority will not be awarded. Language in the bill allows projects in the Renewable Resource Development program that cannot be funded because of insufficient revenues to be funded from Water Development funds if there are excess funds available and if they meet the Water Development program ranking criteria.

Loans of up to \$200,000 come from Water Development bond proceeds. Loans for greater than \$200,000 come from the Water Development coal severance tax bonds and are authorized in House Bill 7. House Bill 6 provides that applicants that did not receive grants may apply for a loan. The interest rate for the loan must be at the rate paid for the bonds issued.

House Bill 6 also contains an appropriation to the Department of Natural Resources and Conservation of up to \$125,000 from the Water Development state special revenue account to be used for emergency projects.

The bill contains language expressing the intent of the legislature that a minimum of \$1 million be available for the Water Development Grants program and a minimum of \$1 million be available for the Renewable Resource Development Grants program for the 1993 legislative session. Diversion of the RIT Interest funds to other programs in past sessions has decreased the funds available for these grant programs.

RESOURCE INDEMNITY TRUST INTEREST ACCOUNTS

House Bill 8

(S-35-108)
(3d)
(3h)

Table 2 lists the grants for Reclamation and Development in priority order.

Table 2
Reclamation and Development Grants
1993 Biennium

<u>Grant Recipient</u>	<u>Projects</u>	<u>Reclamation & Development</u>
Government of Butte-Silver Bow	Water, Air, Soils Testing and Evaluation Center	\$ 296,113
Chinook Irrigation District	Milk River Water Supply Project	300,000
Judith Basin Conservation District	Community-Led Rural Development in Montana	170,000
Dept. of Health and Environmental Sciences	Arro Refinery Cleanup	300,000
Montana Board of Oil and Gas Conservation	Abandoned Well Plugging Project "A"	300,000
Montana Board of Oil and Gas Conservation	Abandoned Well Plugging Project "B"	295,000
Montana Salinity Control Association	Soil and Water Nonpoint Source Pollution Control	137,500
Montana State University	Effect of Sodium, Chlorine, and Total Salts from Treated Cyanide Solutions on Soils	82,885
Carbon and Stillwater Counties and City of Big Timber	Integrated Waste Management in Southcentral Montana	45,437
Dept. of Health and Environmental Sciences	Nonpoint Pollution Control Project	146,620
Montana Bureau of Mines and Geology	Downhole Geophysical Logging Techniques	39,749
Montana Board of Oil and Gas Conservation	Abandoned Well Plugging Project "C"	144,000
Toole County	North Toole County Reclamation Project	105,000
Carbon, Chouteau, Custer Dawson, and Lake Counties	Pesticide Contamination Cleanup	300,000
Government of Butte-Silver Bow	Upper Clark Fork River Basin Coordinator	60,000
Dept. of Natural Resources and Conservation	Arsenic in Upper Missouri River Basin	179,330
Department of State Lands	Well Assessment and Abandonment	300,000
Department of State Lands	Comet Mine Wetlands Development	250,700
Glacier County Conservation District	Evaluation of Ground Water Contamination	197,453
Dept. of Health and Environmental Sciences	Water Resources in Clark's Fork Yellowstone River Basin	218,250
Sheridan County Conservation District	Oil Field Waste Contamination	134,736
Yellowstone County	LIS/GIS Project	50,000
Montana State University	Trout Stream Restoration	45,500
Montana Salinity Control Association	Supplemental Funding Nonpoint Source Pollution	62,500
Total Grants		\$4,160,773

RESOURCE INDEMNITY TRUST INTEREST ACCOUNTS

The grants authorized in this bill exceed the available revenues for the projects. The legislature gave the departments the flexibility to approve grants of lower priority in the event additional revenues become available or if any of the projects of higher priority are not awarded.

The bill reauthorizes grants of \$107,000 from the 1987 legislature and \$300,000 from the 1989 legislature made to the Department of State Lands for the Blackfoot River reclamation project and transfers the appropriation of \$407,000 to the Department of Health and Environmental Sciences (DHES). This transfer was made because DHES has the authority to pursue cost recovery from parties responsible for the river contamination.

The bill also includes language which states that it is the legislature's intent that a minimum of \$3 million be available for the Reclamation and Development grants program for the 1993 legislative session.

House Bill 7

Table 3 lists the Water Development loans from the coal severance tax bond proceeds contained in House Bill 7. This table shows the grant recipient, project, term, and loan amount for both the new loans and loans reauthorized. This table also includes the Evergreen Wastewater project reauthorized in House Bill 648.

RESOURCE INDEMNITY TRUST INTEREST ACCOUNTS

Table 3
Water Development Loans from Coal Severance Tax Bond Proceeds
1993 Biennium

Recipients	Projects	Loan Terms	New Loans	Reauthorized Loans
NEW LOANS				
City of Forsyth	Water Treatment Plant Improve.	2% Subsidy-5 years, Bond rate 15 years	\$1,948,916	
Seely Lake-Msla Co Water Dist	Water Treatment Plant	2% Subsidy-5 years, Bond rate 15 years	922,150	
Columbia Falls	Water Improvements	1% Subsidy-5 years, Bond rate 15 years	1,163,720	
Huntley Irrigation District	Diversión Structure and Canal	No Interest Subsidy, 20 year loan	749,797	
Beaverhead Co Sewer District	Lima Dam Rehabilitation	3% for 30 years, Est. Subsidy 4.5%	3,040,000	
Mill Creek Water & Sewer Dist	Gravity Irrigation Sprinkler	6% for 30 years, Est. Subsidy 1.5%	151,000	
Lakeside Water & Sewer Dist	Wastewater Facility	6% for 30 years, Est. Subsidy 1.5%	251,700	
REAUTHORIZED LOANS				
East Bench Irrigation District	Gravity Sprinkler	4% for 30 years, Est. Subsidy 3.5%		\$ 431,000
Somers Co Water & Sewer Dist	Sewer Project	3% Subsidy-5 years, Bond rate 15 years		3,151,960
Evergreen Water & Sewer Dist*	Wastewater Facilities	3% Subsidy-5 years, Bond rate 15 years		3,778,028
Lake Co/Big Arm Sewer Dist	Sewer	3% Subsidy-5 years, Bond rate 15 years		2,283,893
City of Glendive	Water Treatment Plant	2% Subsidy-5 years, Bond rate 15 years		4,075,000
City of Whitefish	Water treatment & Distribution	2% Subsidy-5 years, Bond rate 15 years		6,035,800
Town of Wibaux	Water Strg/Transmission Line	2% Subsidy-5 years, Bond rate 15 years		272,500
Town of East Glacier	Water System	2% Subsidy-5 years, Bond rate 15 years		484,270
Pondera Conservation District	Irrigation System Rehab.	2% Subsidy-5 years, Bond rate 15 years		750,000
Town of Browning	Sewage Treatment Improvements	No Interest Subsidy, 20 year loan		447,014
Anaconda-Deer Lodge County	Wastewater Effluent Disposal	No Interest Subsidy, 20 year loan		500,000
Town of Dutton	Water Supply Construction	4% Subsidy-5 years, Bond rate 15 years		150,000
Total Loans			\$8,227,283	\$22,359,465

*Includes HB 648 reauthorization of \$3,266,900 for the Evergreen Wastewater Project

In addition to the reauthorized loans in the table, House Bill 7 contains language reauthorizing any remaining balance in the Broadwater Dam bond proceeds account to be used for completion of the project.

RESOURCE INDEMNITY TRUST INTEREST ACCOUNTS

Section 8 of the bill authorizes the Board of Examiners to issue revenue bonds to refund coal severance tax bonds if the refunding is beneficial to the state. Debt service payments for these revenue bonds would come from loan receipts. The bonds would not be backed by the coal tax fund and would not be a state debt.

The terms for the seven new loans authorized in House Bill 7 are shown in Table 4. With the exception of the loan for the Huntley Irrigation District, all the loans are subsidized by coal tax revenues. These subsidies reduce the revenues deposited in the permanent coal tax trust fund. Table 4 shows the anticipated reduction in the coal tax trust fund during the loan period due to the subsidies for the new loans. The calculations are based on an average interest earnings of 7.5 percent.

Table 4
Water Development Loan Subsidy Cost to Coal Tax
1991 Session

Years	Forsyth	Seeley Lake	Col. Falls	Huntley	Beaverhead	Mill Creek	Lakeside	Totals
1-5	\$190,987	\$ 90,369	\$57,254	\$0	\$ 426,485	\$ 6,271	\$10,453	\$ 781,819
6-20	35,338	16,722	10,188	0	1,279,454	18,813	31,359	1,391,874
21-30	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>852,970</u>	<u>12,542</u>	<u>20,906</u>	<u>886,418</u>
Totals	\$226,325	\$107,091	\$67,442	\$0	\$2,558,909	\$37,626	\$62,718	\$3,060,111

Other Legislation

House Bill 240 - This bill expands the projects eligible for Reclamation and Development grants to include projects that provide research and demonstration of farming practices that reduce agricultural chemical use.

House Bill 498 - This act authorizes the use of unexpended bond proceeds from the 1985 series Water Development bond issue for Water Development loans. This bill also increases the amount of the loans from \$100,000 to \$200,000.

Senate Bill 313 - Senate Bill 313 clarifies the state's water storage policies. One of the provisions of the bill sets aside 25 percent of the money available for Water Development and Renewable Resource Development grants in the 1993 biennium in a separate account to be available for water storage projects for the 1993 legislature. This reduces the funds available for grants in the 1993 biennium, which was anticipated when the grants for the two programs were approved by the 1991 legislature.

DATE 1/4/92

HBB Substitute

OIL OVERCHARGE FUNDS

1991 Legislation

House Bills 10, 524, and 777 appropriate \$3,305,000 in oil overcharge funds for energy conservation projects and programs for the 1993 biennium. Oil overcharge funds are allocated to the state by the federal Department of Energy as a result of federal court action requiring certain producers to pay restitution for violation of federal oil price and allocation controls between 1973 and 1981. These funds cannot be used to replace state funds and may only be used for programs authorized under federal law. Table 1 lists the projects in priority order appropriated in three bills and the state agency responsible for each of the programs.

Table 1
Oil Overcharge Funds
1993 Biennium

<u>Project</u>	<u>Agency</u>	<u>Amount</u>
Energy Savings Projects Administration	Department of Natural Resources & Conservation	\$ 400,000
Low-Income Home Weatherization	Dept. of Social and Rehabilitation Services	1,150,000
Low-Income Energy Assistance Program	Dept. of Social and Rehabilitation Services	100,000
Biological Weed Control	Department of Agriculture	200,000
Vegetable Oil as Fuel Substitute	Department of Natural Resources & Conservation	200,000
Retrofitting Local Government Buildings	Department of Natural Resources & Conservation	235,000
Conservation Districts Tech. Assistance	Department of Natural Resources & Conservation	100,000
Low-Income Home Heating Tank Replacement	Department of Health and Environmental Sciences	200,000
Wind Farm Transmission Study (HB 524)	Department of Natural Resources & Conservation	70,000
Institutional Conservation Program	Department of Natural Resources & Conservation	650,000
Total		\$3,305,000

House Bill 777 includes an appropriation of \$400,000 to the Department of Natural Resources and Conservation from the oil overcharge funds to administer energy savings projects for state-owned buildings, as authorized in Title 90, Chapter 4, Part 6, MCA. The bill states that this appropriation has higher priority than any other projects funded from the oil overcharge funds.

The Home Weatherization program provides home weatherization assistance to families whose incomes are below the 125 percent federal poverty level, as provided in Section 90-4-201, MCA. These funds supplement the appropriation for this program in House Bill 2.

The appropriation for the Low-Income Energy Assistance program will be used to match private contributions to Energy Share, Inc., which assists persons not eligible for federal low-income energy assistance whose incomes are less than 150 percent of the federal poverty level. These funds may only be used for clients' fuel bills or other energy needs.

OIL OVERCHARGE FUNDS

The appropriation for Biological Weed Control to the Department of Agriculture is to continue the collection and distribution of biological agents to control leafy spurge and spotted knapweed. The project will reduce energy consumption by reducing the need for repeated chemical applications.

The Department of Natural Resources and Conservation is appropriated \$200,000 for demonstration of vegetable oil fuel substitutes or extenders designed to reduce petroleum consumption and result in a new potential cash crop for Montana farmers. These funds must be matched dollar-for-dollar with private or federal funds. The appropriation must be used to: 1) contract with Montana farmers to grow high oleic safflower strains such as montola 2000; 2) field test lube oil additive mixes to minimize polymerization in diesel engines that use vegetable oil; 3) evaluate testing results from safflower fuel oil use; and 4) perform preliminary market development for montola 2000 or high oleic strains.

The appropriation for retrofitting local government buildings is to be used for grants to public or private entities to develop programs for retrofitting local government buildings with energy conservation measures similar to the state building energy conservation program established in Title 90, Chapter 4, Part 6, MCA. The Department of Natural Resources and Conservation must report to the 53rd Legislature on work completed, recommendations for self-sustaining local government building conservation programs, and legislation necessary to implement the program.

The Department of Natural Resources and Conservation is appropriated \$100,000 for use by conservation districts for energy efficiency or renewable energy projects, specifically in agricultural projects.

The appropriation for low-income home heating tank replacement is made to the Department of Health and Environmental Sciences to remove and replace home heating oil tanks and lines that are losing fuel or that are over 30 years old. This assistance can only be made for residences that are occupied by recipients of the Low-Income Energy Assistance program. These funds may not be used to clean soil or water contaminated by leaking home heating oil tanks or lines.

The appropriation for the wind farm transmission study in House Bill 524 to the Department of Natural Resources and Conservation is to assess the ability of the present electrical transmission system and the development of utility-scale wind farms in Montana to reduce future costs to electric rate-payers and encourage the development of a Montana natural resource. There is a 2-to-1 match requirement with this appropriation.

The appropriation for the Institutional Conservation program will provide energy conservation to schools and hospitals. This appropriation has the lowest priority and will be the first reduced if revenues are not sufficient to fund all programs.

House Bill 777 authorizes the issuance of \$3 million in general obligation bonds to fund energy savings projects in state-owned buildings in compliance with Title 90, Chapter 4, Part 6, MCA. The projects listed in the bill are for the University of Montana, Eastmont Human Services Center, Pine Hills School, and the Cogswell Building. Section 90-4-606, MCA, requires that the estimated energy savings for the projects be equal to or greater than the debt service for the bonds. This bill received the necessary two-thirds vote approving a state debt.

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CULTURAL & AESTHETICS GRANT PROGRAM

The Cultural and Aesthetics Grants program, which is administered by the Montana Arts Council, is funded by the interest from a non-expendable trust which receives a portion of the coal severance tax revenues. By statute, the interest from this must be used for protection of works of art in the state capitol and for other cultural and aesthetic projects. All grants must be approved by the legislature.

Table 1 details the total appropriations, actual expenditures, and numbers of projects funded since the program began.

Table 1
Cultural Aesthetic Projects

Biennium	Appropriated	Expended	Projects	History
1979	\$50,000	\$50,000	1	
1981	140,000	140,000	3	
1983	641,680	601,477	15	
1985	823,479	811,116	39	
1987	1,476,511	1,442,870	63	
1989	1,211,817	1,208,217	52	
1991	1,298,788	N/A	74	
1993	1,296,080	N/A	101	

CULTURAL & AESTHETICS GRANT PROGRAM

Table 2 shows the projected funding for the Cultural and Aesthetics Grants for the 1993 biennium.

Table 2
Cultural & Aesthetics Fund
Fund Balance Projection
1993 Biennium

Estimated Beginning Fund Balance	\$262,766
Revenues	
Interest	1,314,855
Funds Available	\$1,577,621
Expenditures	
Administration	\$133,549
Evaluations	11,000
Grants	<u>1,296,080</u>
Total Expenditures	<u>\$1,440,629</u>
Ending Fund Balance	\$136,992

House Bill 1008 enacted by the 1991 legislature created a separate trust for this program. Prior to fiscal 1992, a portion of coal severance tax collections were deposited in the Park Acquisition trust. Of the interest earned on that trust, two-thirds was allocated for park acquisition and maintenance and one-third for the cultural and aesthetics grant program. Effective July 1, 1991 House Bill 1008 provides that one-third of the trust principal be placed in a separate trust, with all the interest dedicated to the cultural and aesthetics grant program. This new trust will receive 0.63346 percent of coal tax collections.

Table 3 lists the grants which were appropriated in House Bill 9 in the 1991 session for these projects. Projects are listed in priority order and will be funded in that order as funds become available.

CULTURAL & AESTHETICS GRANT PROGRAM

Table 3
Cultural & Aesthetic Grants, 1993 Biennium
House Bill 9 Appropriations

<u>Name of Project</u>	<u>Appropriation</u>
1 MSU Shakespeare in the Parks	\$27,500
2 Montana Arts Council	50,000
3 Montana Institute of the Arts Fund	15,000
4 Helena Presents	30,000
5 Vigilante Theater Company	15,500
6 Montana Performing Arts Concert	40,000
7 Yellowstone Art Center	50,000
✓ 8 UM Montana Repertory Theater	50,000
9 MSU KUSM Public Television	32,500
10 Native American Cultural Institute	9,000
11 Alberta Bair Theater Corp.	10,000
12 Montana Historical Society	73,400
✓ 13 Hockaday Center for the Arts	15,000
14 Montana Arts Council	35,000
15 Young Audiences of Western MT	10,000
✓ 16 Missoula Children's Theater	35,000
17 Montana Art Gallery Director's Association	25,000
✓ 18 International Choral Festival	5,000
19 Montana Committee for the Humanities	25,000
20 Watershed Foundation	27,500
21 Town of Sunburst	10,000
✓ 22 Dull Knife Memorial College Library	20,000
23 Aleph Movement Theater	10,000
24 Beall Park Art Center	3,500
25 Custer County Art Center	15,000
26 Bigfork Center for the Performing Arts	15,000
27 Lewistown Arts Center	1,500
✓ 28 Missoula Children's Theater	15,000

CULTURAL & AESTHETICS GRANT PROGRAM

<u>Name of Project</u>	<u>Appropriation</u>
29 Northern Lights Institute	10,000
✓30 Helena Civic Center	10,000
31 Western Heritage Center	15,000
✓32 Paris Gibson Square	5,000
✓33 Montanans for Quality TV	10,000
34 Fort Peck Fine Arts Council	20,000
35 Montana Indian Art & Cultural Association	10,000
✓36 Great Falls Symphony Association	10,000
✓37 String Orchestra of the Rockies	10,000
38 Yellowstone Chamber Players	10,000
39 Blackfeet Community College	2,000
40 Fox Committee for the Performing Arts	10,000
41 Hellgate Writers, Inc.	13,000
42 Alberta Bair Theater Corp.	8,767
43 Bigfork Center for the Performing Arts	17,534
✓44 Glacier Orchestra and Chorale	21,917
45 Beall Park Art Center	8,767
46 Billings Symphony Society	13,150
47 Yellowstone Art Center	17,534
48 Clack Museum Foundation	13,150
49 Gallatin County Historical Society	8,767
50 MSU Shakespeare in the Parks	17,534
✓51 Great Falls Symphony Association	21,918
52 Bitterroot Public Library Fund	17,332
53 Carbon County Arts Guild	5,000
✓54 Montanans for Quality TV	10,000
✓55 Grandstreet Theater	10,000
56 Powder River Historical Society	2,000
57 Livingston Depot Foundation	12,000
58 Montana Ballet Company	7,500
59 Garden City Ballet	7,500
60 Montana Ag Center of Fort Benton	4,000
✓61 Garfield County Library	5,000
62 Custer County Art Center	7,000

CULTURAL & AESTHETICS GRANT PROGRAM

Name of Project	Appropriation
63 Helena Symphony Society	10,000
✓64 Missoula Symphony Association	5,000
✓65 Montana Association of Symphony Orchestra	10,000
66 Montana State Theater Association	3,000
67 Montana Public TV Association	10,000
68 Montana Dance Arts Association	5,000
✓69 Billings Preservation Society	30,000
70 Daly Mansion Preservation Trust	15,000
71 Blackfeet Community College	2,000
72 Growth Thru Art, Inc.	10,000
73 Broadway 215	4,000
74 Very Special Arts Montana	10,000
75 Celebrate Missoula	10,000
76 Copper Village Museum	5,000
77 Custer County Art Center	3,000
78 Gallatin County Historical Society	2,500
79 Treasure County 89'ers	3,000
80 Granite County Museum/Cultural Center	5,000
81 Montana Alliance for Arts Education	5,000
✓82 Stevensville Museum	2,500
83 Bitterroot Community Band	1,000
✓84 Montana Puppet Guild	4,000
85 Daly Mansion Preservation Trust	15,000
86 MSU School of Art	18,000
87 Garnet Preservation Association	5,000
88 Big Sky Association for the Arts	10,000
89 Dillon Depot Restoration Committee	2,000
90 UM KUFM Radio	3,000
91 Biddle Community Heritage Center	1,000
92 Prairie County Museum	3,000
93 Bannack State Park	2,310
94 Milwaukee Rode Cultural Project	4,000
95 Museum of the Northern Great Plains	10,000
96 Old Trail Museum	5,000

CULTURAL & AESTHETICS GRANT PROGRAM

<u>Name of Project</u>	<u>Appropriation</u>
97	5,000
Helena Arts Council	5,000
Helena Arts Council	5,000
99 Archie Bray Foundation	5,000
100 Archie Bray Foundation	5,000
101 Big Fork Village Art and Cultural Center	1,000
TOTAL	<u>\$1,296,080</u>

EX 4

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Largest Capital Projects Budget

The 52nd Legislature approved \$142.17 million of capital projects for the 1993 biennium. This is by far the largest capital project program approved by any session of the Montana legislature. The 1993 biennium program exceeds the program approved for the 1983 biennium (the next largest biennial construction program) by \$76.27 million. Table 1 shows the total capital projects appropriated for the 1983 through the 1993 biennia.

Table 1
Capital Projects Appropriated by Legislature

<u>Biennium</u>	<u>Total Projects</u>	<u>Capital Projects Funds</u>	<u>G.O. Bonds</u>
1983	\$60,294,450	\$11,700,007	\$35,833,505
1985	65,897,869	10,870,292	39,334,695
1987	38,270,308	10,517,666	8,550,000
1989	17,686,787	6,246,547	0
1991	32,864,127	7,514,608	3,822,800
1993	142,165,699	8,032,298	61,260,830

House Bill 5

This bill appropriates \$133.50 million for capital projects in the 1993 biennium, including \$61.26 million in general obligation bonds for five construction projects (two for the Department of Institutions, two for the university system, and one for the Department of Military Affairs). Table 2 lists the projects contained in House Bill 5, showing the cost of each project by agency.

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Table 2
Capital Construction Program
1993 Biennium

Agency	Capital Projects Fund	General Fund	State Special Revenue	Federal Special Revenue	Other Revenue	LRBF Bond Proceeds	Total
ADMINISTRATION							
Hazardous Materials Abatement	\$617,500				\$150,000		\$ 767,500
Construction Litigation	345,000						345,000
Alternate Water Supply					50,000		50,000
Property Acquisition			\$500,000	\$1,000,000	123,014		123,014
Statewide Building Retrofit					500,000		2,000,000
Total Department of Administration	\$962,500	\$0	\$500,000	\$1,000,000	\$823,014	\$0	\$ 3,285,514
COMMERCE							
Pavement - West Yellowstone Airport					\$ 51,773		\$ 51,773
FISH, WILDLIFE, & PARKS							
Remove Underground Storage Tanks			\$ 150,000				\$ 150,000
Headquarters Maint. & Improvements			85,000				85,000
Property Development			360,000				360,000
State Parks Development & Improve.			3,798,500	1,124,500			4,923,000
Fish Hatchery Maintenance			37,500	112,500			150,000
Fishing Access Site Improvements			286,000	858,000			1,144,000
Motorboat Access Site Facilities			67,000	201,000			268,000
River Restoration			219,000				219,000
Fishing Access Site Acquisition			881,000				881,000
Wildlife Habitat Maintenance			304,000				304,000
Wildlife Habitat Acquisition			4,923,356				4,923,356
Waterfowl Habitat Enhancement			399,500				399,500
Bighorn Sheep Habitat Acquisition			48,500				48,500
Total Dept. of Fish, Wildlife, & Parks	\$ 0	\$0	\$11,559,356	\$2,296,000	\$0	\$0	\$13,855,356
STATE LANDS							
Maint. & Improve. Projects	\$118,280			\$ 100,000			\$ 218,280
Construct Unit Office	235,000		191,900				235,000
Construct Greenhouses							191,900
Total Department of State Lands	\$353,280	\$0	\$ 191,900	\$ 100,000	\$0	\$0	\$ 645,180

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UNIVERSITY SYSTEM			
Replace Roofs	\$1,154,550	\$ 350,000	\$ 1,504,550
Improve Underground Utilities	296,000	200,000	496,000
Improve Handicap Access	335,000		335,000
Improve Sidewalks & Fire Access	86,000		86,000
Deferred Maintenance	\$ 600,000		600,000
MONTANA STATE UNIVERSITY			
Centennial Mall	1,165,290	1,600,000	1,600,000
Engineering/Physical Science Bldg.		\$18,401,510	22,235,000
UNIVERSITY OF MONTANA			
Install Fire Alarm	70,000		70,000
Plan Chem/Pharm Renovations	50,000		50,000
Various Improvements		2,584,600	2,584,600
Life Science Bldg		\$12,000,000	12,000,000
Business Administration Bldg.	604,705	1,858,320	13,022,975
EASTERN MONTANA COLLEGE			
Primary Electrical Vault	31,000	14,000	45,000
Computer Equipment			600,000
MT. COLLEGE OF MINERAL SCIENCE			
Plan Metallurgy Bldg. Remodel	50,000		50,000
Retrofit Windows in Museum	(142,000)		142,000
NORTHERN MONTANA COLLEGE			
Gym Repairs		1,700,000	3,000,000
AGRICULTURAL EXPERIMENT STATION			
Multi-Pur. Bldg. N. Ag Resrch. Cntr.	150,000		150,000
WESTERN MONTANA COLLEGE			
Repair Heating System	57,900		57,900
Remodel Student Union		600,000	600,000
VOCATIONAL-TECHNICAL CENTER			
Replace Carpet - Great Falls	60,000		60,000
Total University System	\$4,252,445	\$3,000,000	\$0 \$12,000,000 \$11,075,120 \$31,424,485 \$61,752,050
Total Appropriated	\$8,032,298	\$3,000,000	\$14,112,356 \$34,823,332 \$12,271,883 \$61,260,830 \$133,500,699

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As Table 2 shows, \$3 million of general fund was appropriated to the university system. This appropriation was contingent upon passage and approval of House Bill 959, which has been signed by the Governor.

Major Projects

Fish, Wildlife, and Parks

There are two major projects included in the \$13.86 million appropriation for the department's capital projects: 1) \$4.92 million for the development and improvement of state parks; and 2) \$4.92 million for the acquisition of wildlife habitat from funds specifically earmarked for that purpose.

Military Affairs

The legislature appropriated \$16.31 million for additions and renovation of 19 state-owned armories throughout the state. The funding is almost entirely from federal sources, with \$150,000 coming from the capital projects fund. In addition, \$1.23 million was appropriated for the construction of the Libby armory. Funding for this project includes \$400,000 from general obligation bond proceeds and \$827,000 in anticipated federal funds.

Institutions

Two prison construction projects were approved for the Department of Institutions. For the \$20.24 million expansion of the men's prison at Deer Lodge, design costs (\$877,500) are funded from the capital projects fund and the remainder funded by general obligation bond proceeds of \$19.36 million. The estimated cost of this project was based on use of inmate labor in some of the construction work. House Bill 339 and House Bill 1005, which would have authorized the use of inmate labor for projects exceeding \$25,000, were not enacted by the legislature. Without the use of inmate labor, the additional construction cost are estimated to be \$1.67 million. Since no additional appropriation for these increased cost was added, some portion of the project may have to be scaled back to stay within the appropriation.

The second project was the women's correctional center for \$10.08 million. Prior to the 1991 session, the department requested bids from communities throughout Montana for proposals to build a 200-bed women's correctional center, which would be leased by the state. House Bill 528 enacted by the legislature placed in statute the criteria for the site selection of the facility and provided that the selection would be made by a committee composed of legislators, the public, and executive branch officials. During the session, the facility was reduced from 200 beds to 120 beds and entirely financed by general obligation bonds authorized in House Bill 5. Because no separate appropriation was made for the initial cost of \$562,400 to design and plan the facility, the Department of Administration plans to pay this cost with a general fund loan which will be repaid when the bonds are sold.

University System

Three major projects for the construction of new buildings in the university system were approved:

- 1) Engineering/Physical Science Building - Montana State University This project was included in the Executive Budget with a 15 percent match to be provided by the university. The legislature reduced the match to 12 percent and provided \$500,000 of general fund, contingent upon passage and approval of House Bill 959. This project is funded by: 1) \$1.17 million of capital projects funds;

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- 2) \$500,000 of general fund; 3) \$2.17 million of match funds from the university; and 4) \$18.40 million of bond proceeds from general obligation bonds.
- 2) Business Administration Building - University of Montana This building, which is designed to serve 1,181 students and 78 faculty, required a 15 percent match by the university in the Executive Budget. The legislature reduced this match to 12 percent. Funding for this project is \$604,705 of capital projects funds for the design work, \$1.86 million from the university as match, and \$13.02 million from general obligation bond proceeds.
- 3) Life Science Building - University of Montana This \$12 million project will be funded from federal funds which require no state match.

The Executive Budget recommended renovation of a vacant residence hall at Eastern Montana College at a cost of \$1.23 million funded by general obligation bonds and 15 percent matching funds from the college. The legislature eliminated this project to finance the match reduction for the other two university building projects.

The Executive Budget also included a new gymnasium for \$8 million at Northern Montana College to be financed by funds raised by the college. The legislature approved a scaled-down project funded by \$1.3 million of general fund and \$1.7 million of funds from other sources raised by the college. This \$3 million will make all necessary life safety repairs to the building which includes replacement of roofs and structural repairs to the swimming pool. In addition, other improvements, such as locker room repairs, will be made.

Contingency Language in House Bill 5

House Bill 5 contains several sections with contingency language. Following are the most significant:

Section 6 - Subpart (6) of this section allows \$490,000 of federal funds and \$163,333 of state special funds to be transferred between certain projects for the Department of Fish, Wildlife, and Parks if House Bill 386 and Senate Bill 415 are not passed and approved. Since House Bill 386 was vetoed by the Governor, this transfer can be made.

Section 14 - Subpart (3) of this section reappropriates funds for the Lake Elmo project which requires a dollar-for-dollar match with local funds. However, the funds for this specific project are reserved only through June 30, 1991. If matching funds have not been deposited by that date, the funds can be used by the department for any other state park improvements providing there are dollar-for-dollar matching local funds.

Section 15 - This section will allow the Department of Administration to use inter-entity loans for planning and design costs prior to receipt of bond proceeds. The department anticipates using these loans for planning and design of the Women's Correctional Facility and for the Montana Developmental Center construction project authorized in House Bill 963.

Section 16 - Subpart (2) of this section requires that the universities have the matching funds committed for the two building projects funded by bonds before any bond proceeds can be expended for construction.

Section 21 - Language was added to the bill making projects in House Bill 5 a higher priority than projects in other bills. So, House Bill 20, which appropriates capital project funds for Montana's contribution for the national memorial honoring women veterans

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and servicemen at Arlington National cemetery, will be funded only if sufficient money is available in the account to fund all House Bill 5 projects.

Capital Projects Fund

The capital projects fund is referred to as the state's "Cash Building Program". The revenues in this fund include the return of the \$1 million of the funds appropriated for the Mansfield Center in the 1983 session. Since these funds were appropriated from the capital projects fund, when they are returned to the state they will be deposited into this account. It is anticipated the funds will be returned by the end of fiscal 1991.

The projected revenues include the additional two-cent increase in cigarette tax enacted during the 1989 session for the construction of a new veterans' home. Since the funds for this project have been set aside, the additional tax now goes into the capital projects fund to be used for state construction projects. Table 3 shows the projected fund balance for the 1993 biennium.

Table 3
 Capital Projects Fund
 Projected Fund Balance, 1993 Biennium

Estimated Beginning Cash Balance	\$1,159,125
Revenues	
Cigarette Tax	\$6,841,123
Interest	629,150
Supervisory Fees & Oth.	142,000
Mansfield Center Funds	<u>1,000,000</u>
Total Revenues	\$8,612,273
Funds Available	\$9,771,398
Expenditures	
HB 2 Architecture & Engineering Operations*	\$1,460,399
HB 5 Capital Projects	8,032,298
HB 20 Women's Memorial at Arlington	<u>20,000</u>
Total Expenditures	\$9,512,697
Estimated Ending Fund Balance*	\$258,701

*Does not include pay plan increase.

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Other Legislation Impacting Capital Construction

House Bill 20 - This bill appropriates \$20,000 from the capital projects fund to the Department of Military Affairs as Montana's contribution toward the construction of the National Women in Military Service for America Memorial at Arlington National Cemetery.

House Bills 234 and 957 - The 1989 legislature passed House Bills 202 and 547, which increased the cigarette tax by two cents and authorized the expenditure of the additional revenue for planning and construction of a 100-bed veterans' home to be located in eastern Montana. House Bill 234 reappropriates \$1,991,987 from the capital projects fund and \$3,669,237 of federal funds for the construction of this veterans' home. House Bill 957 names the new facility the Eastern Montana Veterans' Home.

House Bill 500 - This bill establishes a Capitol Restoration Commission, which will seek private funds for on-going historical restoration and preservation of the Capitol Building.

House Bill 528 - House Bill 528 defines the process and criteria for the site selection of the Montana's Women's Correctional Facility.

House Bill 963 - This bill provides an appropriation to the Department of Administration of \$8,665,000 for construction projects at the Montana Developmental Center. The projects include a day activities building, food service building, six new cottages, and a vehicle storage building to be constructed on the north side of the river. The existing buildings on the north side will be either renovated or demolished. Since there was no specific appropriation for planning and design costs for this facility, the department will use an inter-entity loan to provide cash for these costs and repay the loan when funding becomes available. There are no plans for use of the campus and buildings on the south side of the river.

These projects will be funded by a loan from the Health Facilities Authority (HFA), which will issue bonds. The loan from HFA's bond proceeds, which is defined as a limited obligation, may be secured by a mortgage on the land and buildings at the center. The bill requires that all revenues collected for the facility (medicaid and third party reimbursement) be deposited into a special revenue account to be used for the loan repayment. Excess revenues in the account are to be transferred to the general fund. Currently, all revenue from these sources is deposited in the general fund.

The Department of Institutions estimates that increased federal funding due to depreciation costs of the new construction coupled with decreased operating costs will provide a savings to the general fund when the project is completed and the new buildings are in service.

House Bill 1008 - House Bill 1008 provides approximately \$886,000 of funding during the 1993 biennium for the parks maintenance projects appropriated in House Bill 5. The funding in the bill is provided by diverting two-thirds of the coal tax revenues currently going to the Parks Acquisition trust fund to a state special revenue account during the 1993 biennium. In the 1995 biennium, this revenue will again be deposited in the trust.

LONG RANGE PLANNING

Executive Budget Proposal

Description	Fiscal 1992			Fiscal 1993			
	Pgm	General Fund	Other Funds	Total Funds	General Fund	Other Funds	Total Funds
House Bill 2							
1) MSU Engineering Bldg.	NA	(\$75,000)		(\$75,000)			
2) NMC Gymnasium	NA	(82,500)		(82,500)			
3) U-System Deferred Maint.	NA	(82,500)		(82,500)			
4) Capitol Parking Lot	NA	(50,000)		(50,000)			
Totals		(\$290,000)		(\$290,000)	\$0	\$0	\$0

1-3) See explanation under General Fund Appropriation in HB 5.

General Fund Appropriations in HB 5

4) Capitol Parking Lot House Bill 5 appropriated \$123,014 from the Capitol Land Grant fund to repair parking lots in the capitol complex area. The Executive Budget proposes to reduce this appropriation by \$50,000. Since the unexpended balance of the Capitol Land Grant funds is transferred to the general fund each year, this action would increase the general fund revenue.

As shown in the Table 1, House Bill 5 contained four general fund projects for the university system, totalling \$3 million. This table shows the status of these appropriations, as of November 30, 1991. The only appropriation that had been spent is the funding for purchase of a new computer for Eastern Montana College. As shown in the table above, the Executive Budget proposes an 8 percent reduction (\$240,000) in the remaining three appropriations.

Table 1
 General Fund Appropriations HB 5

Project	Appropriated	Expended Through 11/30/91	Balance Remaining
U-System Deferred Maint.	\$600,000	\$0	\$600,000
EMC Computers	600,000	600,000	0
MSU Eng./Science Bldg.	500,000	0	500,000
NMC Gymnasium	<u>1,300,000</u>	<u>0</u>	<u>1,300,000</u>
Totals	\$3,000,000	\$600,000	\$2,400,000

Status of Major Construction Projects

The current status of each major construction project financed by bonding or loan authorized by the 1991 legislature is shown below:

Women's Correctional Facility - The architect was selected by the Board of Examiners in November and the contract signed in December.

Men's Prison Expansion - The architect was selected by the Board of Examiners in November and the contract signed in December.

MSU Engineering/Science Bldg. - The architect was selected by the Board of Examiners in October and the contract signed in December.

U of M Business Admin. Bldg. - The architect was selected by the Board of Examiners in October and the contract signed in December.

Montana Developmental Center - Advertising is currently being done for architects. The selection of the architect is scheduled for completion by February, 1992.

The contracts with architects contain provisions that the state may cancel at any time and pay only for the services rendered to date.

Debt Service Payments

Table 3 shows the debt service payments for the existing general obligation bonds paid from the general fund. In addition, the table shows the projected general fund debt service payment schedules for the \$61.3 million of general obligation bonds authorized by the 1991 legislature to fund construction of the men's and women's prisons and the university buildings.

108(3)(j) MCA, which receives its revenues from a portion of coal severance tax. Under current law, interest from the trust may only be used for cultural and aesthetic grants approved by the legislature and for administrative costs associated with the grants incurred by the Montana Arts Council and the advisory committee.

As Table 4 shows, \$295,335 of these grants have not been committed as of this date. In addition, grant agreements contain language stating funding is contingent upon availability of revenues and/or any subsequent action taken by the legislature. Unspent funds could be transferred to the general fund by statutory amendment.

Table 4
Cultural And Aesthetics Grants (House Bill 9)
Approved by 1991 Session

<u>Grants</u>	<u>Appropriated</u>	<u>Committed Nov. 30, 1991</u>	<u>Balance Remaining</u>
Cultural & Aesthetics	\$1,296,080	\$1,000,745	\$295,335

Water Development, Renewable Resources, and Reclamation - Grants Interest

Each session, the legislature authorizes grants to public and private entities from three accounts: water development,

renewable resources, and reclamation. As Table 5 shows, these accounts receive most of their funding from interest earned on the constitutionally established Resource Indemnity Trust (RIT). Funds in these accounts are used to fund state agency operations, as well as grant projects.

Table 6
Status of RIT Grants

<u>Grants</u>	<u>Appropriated</u>	<u>Committed Nov. 30, 1991</u>	<u>Balance Remaining</u>
Water Development			
1991 Session	\$889,812	\$322,903	\$566,909
1989 Session	631,668	478,400	153,268
1987 Session	591,712	519,212	72,500
1985 Session	1,688,400	1,588,400	100,000
Renewable Resources			
1991 Session	\$1,276,966	\$100,000	\$1,176,966
1989 Session	1,132,570	1,013,350	119,220
1987 Session	411,674	325,374	86,300
Reclamation			
1991 Session	\$4,160,773	\$341,550	\$3,819,223
1989 Session	2,896,522	2,896,522	0
1987 Session	3,740,961	3,644,445	96,516
1985 Session	<u>4,198,476</u>	<u>4,128,476</u>	<u>70,000</u>
Totals	\$21,619,534	\$15,358,632	\$6,260,902

EXHIBIT 6
 DATE 1/4/92
LRB Submitter

Prison Construction Projects

<u>Project</u>	<u>Costs With Inmate Labor</u>	<u>Costs W/O Inmate Labor</u>	<u>Difference</u>
Roofs Board of Pardons & Warehouses	\$30,000	\$66,915	\$36,915
Seal Prison Bldg.	25,000	61,540	36,540
Expand Industries Facilities	335,976	537,560	201,584
Expand Prison	20,238,245	21,908,710	1,670,465
	<u>\$20,629,221</u>	<u>\$22,574,725</u>	<u>\$1,945,504</u>
Interest Costs to Bond the Inmate Labor Costs for the Prison Construction	0	1,242,310	\$1,242,310
Total Costs	<u>\$20,629,221</u> =====	<u>\$23,817,035</u> =====	<u>\$3,187,814</u> =====

Interest costs based on bonding for 20 years at 6 percent.

EXHIBIT 7
DATE 1/4/92
KR Suberwite

NEW SECTION Section 14. Section 12, Chapter 551, Laws of 1991, is amended to read:

Section 1. Appropriations established. For any entity...conservation. Grants to state entities from prior bienniums are reauthorized for completion of contract work except for: 1) Carbon County/ Roberts Water System - \$47,500; 2) Cascade Water System - \$50,000; and 3) Cascade Landfill and Park - \$11,711.

New Section Section 15. Section 5, Chapter 552, Laws of 1991, is amended to read:

Section 1. Appropriations established. For any entity...conservation. Grants to state entities from prior bienniums are reauthorized for completion of contract work except for: 1) Cataract Creek Reclamation - \$21,565; and 2) Grasshopper Creek Restoration - \$2,274.

approved

Karen Murie
Dept. of Administration
DATE 1/4/92
L.A. Submitter

ADDITIONAL INFORMATION ON BONDS

61.3 million	current authorized new debt
(8.1) million	refunding proposal:
8.4 million	delay biennium principal payment
-----	issue new bonds to make existing debt
	payments
61.6 million	total proposed new debt
25.0 million	proposal for state guarantee on
-----	school district bonds
86.6 million	revised total of all proposals

Debt Threshold

The State's Financial Advisor has advised the State that the upper maximum threshold on new debt issuances is \$60-65 million. Debt beyond this level could jeopardize our current long term bond rating. The 1991 Legislature authorized \$61.3 million in new debt for the State for the two prisons and university buildings.

A drop in Montana's bond rating from the current "AA" to an "A+" could cost between 5-15 basis points in the interest borrowing rate. (For example if the interest rate was 5.00%, this rate would increase to 5.05%-5.15%). This equates to a cost of approximately \$500-\$1,500 annually per million dollars of bonds issued. Assuming a 20 year maturity on the newly authorized \$61.3 million in debt, this equates to additional interest costs of \$610,000 - \$1.8 million over the life of the bonds.

Refunding Proposal

Advantages:

- Current biennium savings of approximately \$8.5 million (roughly \$8 million is in the general fund)

Disadvantages:

- Postpones current debt onto future years. May artificially create budgetary savings now but leave State with built-in budget imbalance in the future.
- State incurs additional interest costs of approximately \$2.7 million over life of the bonds. *in 6 yr time frame*
- Potential negative impact on state's bond rating due to appearance of deficit financing.
- Considered more as "one-shot item" to balance budget rather than addressing the solution of "on-going" revenues & expenses.
- Results in additional costs associated with the issuance of the new debt (prisons & universities) due to probable delay of principal repayment.

EXHIBIT 9
DATE 1/4/92
K.R. Suberante

BOARD OF INVESTMENTS
DEPARTMENT OF COMMERCE



STAN STEPHENS, GOVERNOR

CAPITOL STATION

STATE OF MONTANA

(406) 442-1970

TELEFAX (406) 449-6579

HELENA, MONTANA 59620

MEMORANDUM

TO: Chuck Brooke
FROM: Dave Lewis, Executive Director
DATE: January 3, 1992
RE: School Bond Matter

There is a concern that the Board's proposed program to finance school general obligation bonds on a short term basis may be substantially more expensive than if school districts were able to issue their long term bonds. The difference should actually not be very significant.

The Board's proposed program is to issue bond anticipation notes (BANs) and require that school districts refinance the BAN's when they can obtain an unqualified legal opinion.

The Board's BANs could be issued today at a approximate interest rate of between 4.75 and 5%. We estimate that the costs of issuance would be between about 2.5 and 3% of the bond issue. The effective rate to the school districts for the BAN issue would be approximately 6.25 to 6.5% for the two year period.

If the districts sold their bonds in today's market, the 20-year, fixed rate would be in the range of 6.25%.

The difference between the costs to the district is small and occurs only for the two years the BANs are outstanding.

The key difference is that the Districts would bear the uncertainty of where interest rates will be when they refinance into long term bonds.

EXHIBIT 10
DATE 1/4/92
V.R. Subernte

SCHOOL BONDING SUMMARY
1992 SPECIAL LEGISLATIVE SESSION
DEPARTMENT OF ADMINISTRATION

Historically, school districts have issued tax-exempt bonds secured by voter approved levies. Since the courts have rendered certain funding practices as inequitable, school districts have been unable to issue bonds for capital projects because they are unable to get an unqualified opinion from bond counsel.

The Joint Interim Subcommittee on School Funding suggested that a bill be drafted to accommodate school districts in their attempt to issue bonds for capital construction. One of the options being investigated is the issuance of tax-exempt bonds by the school districts backed by a State guarantee. The Department of Administration was asked to participate in this proposal. Following is a summary of the items discussed.

If the State were to guarantee a local school district's bonds, the easiest method is to pledge the full faith and credit of the state. Pledging a specific revenue source has several problems that cloud the pledge. Since there is a strong possibility that litigation could result in the State assuming the debt payments of the school district, the rating agencies would consider the guarantee as being a general obligation of the State. Basically, this means that the guarantee will be similar to the Legislature approving a new \$25 million (or whatever limitation is set) building with the general fund making the debt payments.

As mentioned above, the "contingent liability" of the State's pledge on the school district bonds would count towards the State's outstanding general obligation debt. However, if the equity issue (for capital construction) was settled in the future, there would be minimal liability for payment by the State. Under this scenario, the rating agencies would deduct out the amount of bonds outstanding with the State's guarantee when calculating the debt ratios for the State. Thus, even though the State would be guaranteeing to maturity the school district bonds issued between the effective date of passage of the bill and 1/1/93 (timeframe proposed in draft bill), the effect on the State's bond rating would be minimized once the equity issue was settled.

It had been suggested that the State guarantee be dropped off the school district issue after a set period of time. Bond ratings are given to the maturity of the bond issue. Therefore, the State's guarantee would be on the school district bonds, that were issued between the effective date of passage of the bill and 1/1/93, until maturity. If a school district refinanced its bonds in the future, the State guarantee could be dropped at that time. A State guarantee for a temporary timeframe would lessen the marketability of the bonds and probably not be a workable option.

The State guarantee on the school district bonds in and of itself would probably not impact the State's long term bond rating. Other factors rating agencies consider are:

- amount of debt outstanding and existing payment schedules
- economy of the State (ex. unemployment, health of basic industries - agriculture, tourism, etc.)
- overall budget of the state (growth of the state)
- administration and management of the State (ex. Governor's ability to make reductions in event of revenue shortfall)

If the school bonding proposal is approved by the Legislature, this amount will count toward new debt issuances. It is conceivable that the Legislature would need to prioritize the projects for school bonding, prisons, and university buildings.

Debt Threshold

The State's Financial Advisor has advised the State that the upper maximum threshold on new debt issuances is \$60-\$65 million. Debt beyond this level could jeopardize our current long term bond rating. The 1991 Legislature authorized \$61.3 million in new debt for the State.

A drop in Montana's bond rating from a "AA" to a "A+" could cost between 5-15 basis points in the interest borrowing rate. This equates to a cost of approximately \$500-\$1,500 annually per million dollars of bonds issued. Assuming a 20 year maturity on the newly authorized debt, this equates to additional interest costs of \$610,000 - \$1.8 million.

016-1111

ELEMENT 11
DATE 1/4/92
Submittal

LONG RANGE BUILDING PROGRAM
CAPITAL PROJECTS FUND
OPTION TO REDUCE PROJECTS

<u>LRBP Priority</u>	<u>Project</u>	<u>Amount</u>
NA	Multipurpose Building, Northern Ag Research Center	\$150,000
30	Acquire Land & Preplan Armory, Billings	150,000
27	Plan Metallurgy Building Remodel, Montana Tech	50,000
26	Plan Chem/Pharm Renovations, UM	50,000
24	Construct Unit Office, Plains, State Lands	235,000
4	Hazardous Material Abatement, Statewide, D of A (\$610,000 Balance for projects)	<u>7,500</u>
TOTAL		\$642,500

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Senators COMMITTEE BILL NO. _____

DATE Jan 4, 1992 SPONSOR(S) _____

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James E Todd	ULM			
Ron Beck	DWRC			
John T. Hays	ONRC			
Carleen Layne	MT Arts Council			
David Nelson	MT. D.V.S. Council			
Gloria HERMANSON	MT Cultural Advocacy			
Claudia Montague	Self			
Jim Stinson	WRIS YMSL			
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Karen Bowler	DNRC			
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