



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0180
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Title:	Revise regional water laws
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Primary Sponsor:	Smith, Bridget
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Status:	As Introduced
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| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input checked="" type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	(\$2,270,000)	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$2,270,000)	(\$2,580,000)	(\$2,620,000)
State Special Revenue	\$0	\$3,108,715	\$2,907,417	\$2,703,128
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>(\$2,580,000)</u>	<u>(\$2,620,000)</u>

Description of fiscal impact:

After June 30, 2016, current law states the Treasure State Endowment Program (TSEP) regional water program and trust ceases. The funds in the TSEP regional water trust become part of the coal tax permanent fund and interest earnings from that trust go to the general fund.

This legislation repeals the termination of the trust and allows interest earnings to continue to be spent for TSEP regional water activities from the TSEP regional water state special revenue account. The TSEP regional water trust would no longer get deposits from the coal tax flow of funds.

FISCAL ANALYSIS

Assumptions:

- Article IX, Section 5 of the Montana Constitution established a permanent trust fund into which at least half of coal severance tax revenues must be deposited. Currently 50% of coal severance tax revenues are

deposited into the coal severance tax permanent trust fund. The coal severance tax permanent trust fund is composed of a number of separate funds (17-5-703, MCA). One of these funds is the TSEP regional water system fund. Interest earnings from the TSEP regional water system fund are used to assist local governments in financing regional water, wastewater, and sanitation projects (90-6-715, MCA).

2. At the beginning of each fiscal year, the state treasurer is required to determine the amount necessary to meet all principal and interest payments on bonds payable from the coal severance tax bond fund during the next 12 months and retain that amount in the bond fund. Any remaining amounts above this are distributed to certain other funds using a formula set in statute, including the TSEP regional water fund which currently receives 25% of the distribution (17-5-703(3)(b), MCA). Under current law, the TSEP regional water fund ceases to exist after June 30, 2016, with the existing corpus and the 25% distribution from the coal severance tax bond fund being allocated to the coal severance tax permanent fund.
3. The elimination of the TSEP regional water fund under current law would result in approximately \$94,233,000 of corpus being transferred from the TSEP regional water fund to the coal severance tax permanent fund. The increased corpus in the coal severance tax permanent fund would boost interest earnings from the fund starting in FY 2017. Since interest earnings from the coal severance tax permanent fund are deposited to the general fund, this would have a positive impact on general fund revenue and is incorporated into the HJ 2 estimate for Coal Trust Interest earnings.
4. Based on current law, the 25% distribution from the coal severance tax bond fund to the TSEP regional water fund would be allocated to the coal severance tax permanent fund beginning in FY 2017. This new distribution to the coal severance tax permanent fund is estimated to be \$7,117,884 in FY 2017, \$7,140,952 in FY 2018, and \$7,380,038 in FY 2019. This increase to the fund balance in the coal severance tax permanent fund would increase interest earnings from the fund, leading to an increase in general fund revenue and is incorporated into the HJ 2 estimate for Coal Trust Interest earnings.
5. HB 180 will allow the TSEP regional water fund to remain intact, but eliminates the distribution from the coal severance tax bond fund to the TSEP regional water fund effective July 1st, 2016. Under HB 180, the estimated \$94,233,000 of corpus in the TSEP regional water fund would remain in the fund instead of being transferred to the coal severance tax permanent fund; however, the coal severance tax permanent fund would receive the 25% distribution from the coal severance tax bond fund that was previously allocated to the TSEP regional water fund.
6. Based on HJ 2 estimates which assume the corpus of the TSEP regional water trust would transfer to the coal severance tax permanent fund, the impact of HB 180 is a net loss to general fund revenue through forgone interest earnings on the corpus in the coal severance tax permanent fund. Since the bill retains the TSEP regional water fund, there is a positive impact to state special revenue through continued interest earnings on the corpus of the fund.
7. The TSEP regional water trust fund earns interest. That interest is appropriated and used to conduct regional water activities. Those activities include construction planning and administration of those systems.
8. FY 17 state special revenue expenditures from the TSEP regional water state special revenue fund are included in the Executive's current HB 2 budget request, and are assumed to continue on into FY 18 and FY 19, and as a result, are not included in this fiscal note.
9. The following table shows the net spendable interest for the TSEP regional water fund based on the corpus balance (assumption 3) multiplied by the trust fund bond pool rates established in HJ 2 for FY 2017 and OBPP extrapolations for FY 2018 and FY 2019.

STATE SPECIAL REVENUE RESULTING FROM HB 180			
	FY 2017	FY 2018	FY 2019
Spendable interest from corpus in TSEP RWS fund	\$3,108,715	\$2,907,417	\$2,703,128

10. The following table shows the reduction to general fund revenue for FY 17 through FY 19, and net FY 17 impact of HB 180 on the statutory appropriation to the Montana Public Employees’ Retirement System. Because the statutory appropriation is capped at \$21 million through FY 19 there is no expenditure reduction assumed in FY 2018 and FY 2019 as the general fund revenue from coal trust interest less the 15-35-108, MCA, statutory appropriation exceed \$21 million under current law, as well as under changes proposed in HB 180.

Present Law	FY 2017	FY 2018	FY 2019
HJ 2 General Fund Coal Trust Interest Earnings	\$22.49	\$30.44	\$31.15
15-35-108, MCA, Statutory Appropriations	\$3.07	\$3.07	\$3.07
15-35-108(9)(b)(v) HB 454 PERS Defined Benefit Plan SA	\$19.43	\$27.38	\$28.09
HB 180 Proposed	FY 2017	FY 2018	FY 2019
General Fund Coal Trust Interest Earnings	\$20.22	\$27.86	\$28.53
15-35-108, MCA, Statutory Appropriations	\$3.07	\$3.07	\$3.07
15-35-108(9)(b)(v) HB 454 PERS Defined Benefit Plan SA	\$17.15	\$24.79	\$25.47
Net Reduction to General Fund Revenue	\$2.27	\$2.58	\$2.62
Net Reduction to 15-35-108(9)(b)(v) HB 454 PERS Defined Benefit Plan SA*	\$2.27	\$0.00	\$0.00
* 15-35-108(9)(b)(v) HB 454 PERS Defined Benefit Plan SA is capped at \$21 million through FY 2019			

	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>	<u>FY 2018</u> <u>Difference</u>	<u>FY 2019</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
15-35-108 PERS SA	\$0	(\$2,270,000)	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>(\$2,270,000)</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	(\$2,270,000)	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>(\$2,270,000)</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	\$0	(\$2,270,000)	(\$2,580,000)	(\$2,620,000)
State Special Revenue (02)	\$0	\$3,108,715	\$2,907,417	\$2,703,128
TOTAL Revenues	<u>\$0</u>	<u>\$838,715</u>	<u>\$327,417</u>	<u>\$83,128</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$0	(\$2,580,000)	(\$2,620,000)
State Special Revenue (02)	\$0	\$3,108,715	\$2,907,417	\$2,703,128

Technical Notes:

1. Financial analysis of HB 454 in the 2013 Legislative session assumed the corpus of the TSEP regional water trust would remain intact beyond June 30, 2016. While estimates of coal trust interest earnings (and as a result the statutory appropriation to the PERS (15-35-108(9)(b)(v), MCA) may vary between the 2017 biennium and the 2015 biennium, the proposed FY 17 reduction in the statutory appropriation to the PERS (15-35-108(9)(b)(v), MCA) as a result of this legislation has no direct impact on the financial status of the pension system as the passage of this legislation would sync up with assumptions used in fiscal notes and actuarial analyses conducted as a result of HB 454 during the 2013 Legislative session.

Sponsor's Initials

Date

Budget Director's Initials

Date