

# TREASURE STATE ENDOWMENT PROGRAM

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## Program Description

The Treasure State Endowment Program (TSEP), administered by the Department of Commerce (DOC), is a state infrastructure finance program approved by Montana voters with the passage of Legislative Referendum 110 in June 1992. Grant funding for the program is derived from the interest earnings of the Treasure State Endowment trust. According to 90-6-702, MCA, the purpose of TSEP is to assist local governments in funding infrastructure projects that will:

- Create jobs for Montana residents
- Promote economic growth in Montana by helping to finance the necessary infrastructure
- Encourage local public facility improvements
- Create a partnership between the state and local governments to make necessary public projects affordable
- Support long-term, stable economic growth in Montana
- Protect future generations from undue fiscal burdens caused by financing necessary public works
- Coordinate and improve infrastructure financing by federal, state, local government, and private sources
- Enhance the quality of life and protect the health, safety, and welfare of Montana citizens

Infrastructure projects include drinking water systems, wastewater treatment facilities, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, and bridges. The maximum grant award is \$750,000.

Eligible applicants include cities, towns, counties, tribal governments, consolidated local governments, county or multi-county water, sewer or solid waste districts, and other authorities as defined in 75-6-304, MCA. TSEP applications are submitted to the DOC on a biennial basis where they are evaluated according to seven statutory priorities. The seven statutory priorities focus on projects that:

- Solve urgent and serious public health or safety problems or that enable local governments to meet state or federal health or safety standards
- Reflect greater need for financial assistance than other projects
- Incorporate appropriate, cost-effective technical design and provide thorough, long-term solutions to community public facility needs
- Reflect substantial past efforts to ensure sound, effective, long-term planning and management of public facilities and that attempt to resolve the infrastructure problem with local resources
- Enable local governments to obtain funds from sources other than TSEP
- Provide long-term, full-time job opportunities for Montanans, provide public facilities necessary for the expansion of a business that has a high potential for financial success, or maintain the tax base or encourage expansion of the tax base
- Are high local priorities and have strong community support

The Sixty-second Legislature changed the TSEP statutes to provide parameters by which bridge construction could be funded in the program. The new language included in 90-6-710, MCA states:

*...the department shall prepare and submit two lists containing the recommended projects and the recommended form and amount of financial assistance for each project to the governor, prioritized pursuant to subsection (2) and this subsection. One list must contain the ranked and recommended bridge projects, and the other list must contain the remaining ranked and recommended infrastructure projects referred to in 90-6-701(3)(a). Each list must be prioritized pursuant to subsection (2) of this section, but the department may recommend up to 20% of the interest earnings anticipated to be deposited into the treasure state endowment fund established in 17-5-703 during the following biennium for bridge projects.*

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As a result, the TSEP budget analysis will be provided in two sections, one for bridge projects and another for infrastructure projects.

## Program Budget Comparison

The following figure summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Program Comparison - Treasure State Endowment Program				
Budget Item	Budget 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	\$245,090,000	\$271,760,000	\$26,670,000	10.9%
Trust Earnings	19,075,659	19,940,000	864,341	4.5%
Number of Grants Funded (infrastructure)	48	40	(8)	-16.7%
Number of Grants Funded (bridge)	16	11	(5)	-31.3%
	<u>Appropriated</u>	<u>Proposed</u>		
Infrastructure Grants Cost	\$29,491,637	\$11,799,510	(\$17,692,127)	-60.0%
Bridge Grants Cost	4,491,901	3,988,000	(503,901)	-11.2%
Other Grants Cost	1,000,000	1,000,000	0	0.0%
Bonded Grants Cost	0	10,407,568 **	10,407,568	-
<b>Total Costs</b>	<b>\$34,983,538</b>	<b>\$27,195,078</b>	<b>(\$7,788,460)</b>	<b>-22.3%</b>
State Special	\$34,983,538 *	\$16,787,510	(\$18,196,028)	-52.0%
Bond Proceeds	0	10,407,568	10,407,568	-
<b>Total Funds</b>	<b>\$34,983,538</b>	<b>\$27,195,078</b>	<b>(\$7,788,460)</b>	<b>-22.3%</b>
* Includes \$13.3 million transferred from the general fund				
** Included in Sec. 28 of LC 719				

## Program Discussion

As seen in the figure above, the executive proposes TSEP grant funding of \$27.2 million in the 2017 biennium. The proposal will be presented in Sec. 20 through 22 of HB 5. This level of appropriation would provide funds for emergency grants, \$100,000, and infrastructure planning grants, \$900,000. The proposal also includes an appropriations for bridge projects, \$4.5 million, and infrastructure projects, \$21.7 million, \$10.4 million of which would be funded with the proceeds from the Build Montana Bond Program, found in Sec. 28 of HB 5. (Note, the figure above disaggregates the total infrastructure and bridge grant costs by funding type, cash or bonds. The following discussion refers to the total proposed for each of the grant types) For more information on the Build Montana Act, see F-4 of this report. As proposed for the 2017 biennium, bridge projects of up to \$4.0 million may be funded through the interest earnings of the TSEP trust, per 90-6-710, MCA, as quoted above. Overall, the proposal is reduction of 22.3% from the 2015 biennium, but it is useful to remember that the Sixty-third Legislature provided a transfer of \$13.3 million from the general fund for TSEP projects for the 2015 biennium projects.

A complete list of the requested TSEP bridge and infrastructure projects; including the total project cost, the requested grant amount, and the recommended grant amount may be seen in Figure A2 in the Section F appendix. The details behind the grants requested for the 2017 biennium TSEP, along with a status of grants awarded in the 2015 biennium, are presented in Vol. 4 of the Governor's Executive Budget.

## Funding

TSEP administrative costs and grant appropriations are funded with the interest earnings from a coal severance tax endowment trust. The TSEP trust is a "sub-trust" of the permanent coal severance tax

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trust. The corpus of the sub-trust has grown since its formation in 1992. The TSEP trust balance is expected to be \$245.1 million by the end of the 2015 biennium and is expected to grow by \$26.7 million by the end of the 2017 biennium. The trust has accumulated 25% of the coal tax revenues since its inception, but as of the end of FY 2016 will no longer receive new revenues. As a result, barring changes by the legislature, the TSEP trust will remain inviolate at the estimated amount of \$271.76 million throughout time.

The fund balance table below shows the projected ending fund balance of the treasure state endowment state special revenue account for the 2017 biennium under present law assumptions. The TSEP account will begin the biennium with a beginning fund balance of negative \$104,530. The negative balance results from lower than anticipated interest and earnings in the 2015 biennium. TSEP interest and earnings are expected to be \$19.9 million for the biennium. Additionally, the executive proposal for Build Montana would add \$10.4 million in bond proceeds to the program to fund local government grant projects.

Treasure State Endowment Fund (02270) Fund Balance Projection 2017 Biennium			
Estimated Beginning Fund Balance (7/01/2015)			(\$104,530)
Revenue Projections <sup>1</sup>	<u>2016</u>	<u>2017</u>	<u>Bienn</u>
Interest/Investment Earnings	9,852,000	10,088,000	\$19,940,000
Bond Proceeds	10,407,568		<u>10,407,568</u>
2017 Biennium Revenues			\$30,347,568
Proposed Expenditures <sup>2</sup>			
Administration - Commerce	(637,839)	(637,818)	(\$1,275,657)
Emergency Grants			(100,000)
Infrastructure Planning Grants			(900,000)
Bridge Grants			(4,534,552)
Infrastructure Grants			<u>(21,660,526)</u>
Total Expenditures			(\$28,470,735)
Estimated Ending Fund Balance - (6/30/2017)			<u>\$1,772,303</u>
<sup>1</sup> Based on HJ2 estimates			
<sup>2</sup> Based on executive budget proposal			

There are several expenditures recommended from the TSEP state special fund. First, there is an expenditure of \$1.3 million for the administrative costs of the program, which will be appropriated in HB 2. Other expenses appropriated in the TSEP section of HB 5, Sec. 20, include \$100,000 for the emergency grants program and a \$900,000 appropriation for preliminary engineering grants. Finally, HB 5 will provide one appropriation of \$15.8 million to provide funding, through the interest earnings of the trust, for bridge and infrastructure projects in Sec. 20 and another appropriation of \$10.1 million in Sec. 28, which is strictly related to bond proceeds. Of the total appropriation, \$4.5 million will be available to fund bridge projects and \$21.4 million will be available for infrastructure projects. The fund is estimated to have a balance of \$1.8 million at the end of the 2017 biennium.

<b>LFD COMMENT</b>	<p>The TSEP fund is estimated to have a significant balance at the end of the 2017 biennium. The reason for the excessive fund balance is thought to be related to differences in revenue projections between the executive and the legislature. Without adjustment, the fund is expected to begin the next biennium with \$1.8 million on hand. Given the sizable balance, the legislature may consider reducing the amount of bond issue authority and its associated bond appropriation and increasing the appropriation for the trust earnings in the program, thereby reducing the estimated ending fund balance.</p>
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