

TREASURE STATE ENDOWMENT REGIONAL WATER PROGRAM

Program Description

The 1999 Legislature created the treasure state endowment regional water system fund as a new sub-trust within the coal tax permanent trust. The Treasure State Endowment Program Regional Water System (TSEPRW), established in 90-6-715, MCA, was created to provide a state match for the receipt of federal funds for large regional water projects. The program is administered by the Department of Natural Resources and Conservation (DNRC). Interest from the trust can be distributed as a match to federal funds to regional water authorities that have met certain conditions including:

- An executed agreement with DNRC
- A DNRC approved management plan
- A financial accounting system that conforms to GAAP principles
- A detailed preliminary engineering report

The interest from the trust is also used to pay administrative costs to the DNRC and the four regional water authorities:

- Dry Prairie Regional Water Authority (federally authorized)
- North Central Montana Regional Water Authority (federally authorized)
- Dry-Redwater Regional Water Authority
- Musselshell-Judith Regional Water Authority

Summary of Legislative Action

The legislature provided appropriations of \$4.3 million for the TSEPRW program for the 2017 biennium in HB 11. The appropriation was greater than recommended by the executive due to the passage of HB 180. In current law, the TSEPRW sub-trust was scheduled to sunset as of July 1, 2016. At that time, the corpus of the sub-trust would have been deposited into the permanent trust and would have started generating increased interest earnings for the uses of the general fund. HB 180 continued the sub-trust through June 30, 2031. While the sub-trust will not receive any new income in future years, the sub-trust will remain to the benefit of the TSEPRW program.

According to the fiscal note of HB 180, the program will receive additional income of \$3.1 million in FY 2017. This income was not anticipated in the executive budget request. With consideration of the new revenue generated in the sub-trust, the Sixty-fourth Legislature provided coordination in HB 11 that increased the existing appropriation by \$1.0 million with passage of the bill. The coordination language also directed DNRC to provide a grant of up to \$441,848 to the Central Montana Regional Water Authority for the Musselshell-Judith Rural Water System Resources Monitoring project.

The remaining appropriation is expected to finalize the state share for the two federally authorized regional water projects: the Dry Prairie Regional Water and the North Central Montana Regional Water projects. The Sixty-third legislature had made provisions to satisfy the state share of the projects. However, the actual interest from the TSEPRW fund was lower than anticipated during the 2013 session and the state funded projects were not completed. At this time, it is anticipated that the interest earnings of the 2017 biennium will be sufficient to fully fund the two projects.

Funding

The figure on the following page shows the estimate for the TSEPRW fund balance. The TSEPRW fund is expected to begin the 2017 biennium with a \$0 balance. Interest and earnings in the 2017 biennium are projected to be \$6.4 million. The legislature made several appropriations from the TSEPRW fund in the 2017 biennium. Appropriations in HB 2 include \$233,396 for the administrative costs of DNRC and \$1.8 million for administrative grants that fund the activities of the four regional

water authorities. After the \$4.3 million appropriation for the state match for regional water projects, the fund is expected to have a fund balance of \$39,163 at the end of the 2017 biennium.

TSEP Regional Water System Fund (02015)				
Fund Balance Projection 2017 Biennium				
Estimated Beginning Fund Balance (7/1/2015)				\$0
Revenue Projections ¹	FY 2016	FY 2017	Bien	
Interest Earnings	\$3,266,605	\$3,108,715	\$6,375,320	6,375,320
2017 Biennium Revenues				
Expenditures				
Administration - DNRC ²	(116,698)	(116,698)	(233,396)	
Regional Water Authority Admin. Grants ²	(921,500)	(921,500)	(1,843,000)	
Grant Appropriation	(4,259,761)		(4,259,761)	
Total 2017 Expenditures				(6,336,157)
Estimated Ending Fund Balance - (6/30/2017)				\$39,163
¹ Based on HJ2 estimates				
² Based on executive budget proposal HB 2				

Executive Budget Comparison

As seen in the figure below, the legislature increased the appropriation for the regional water program by \$1.0 million, or 30.7% from the executive budget proposal. The legislature increased the amount of funds appropriated, based on the passage of HB 180, as described above. The increase in appropriation results from an additional year of interest made available through the legislation.

Program Comparison - Treasure State Endowment Regional Water Program				
Budget Item	Budget 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	\$79,470,000	\$85,050,000	\$5,580,000	7.02%
Trust Earnings	7,664,540	6,378,715	(1,285,825)	-16.78%
Budget Item	Executive Budget 2017 Biennium	Legislative Budget 2017 Biennium	Change	% Change
Projects Funding	<u>Proposed</u> \$3,259,761	<u>Appropriated</u> \$4,259,761	\$1,000,000	30.68%
Total Costs	\$3,259,761	\$4,259,761	\$1,000,000	30.68%
State Special	\$3,259,761	\$4,259,761	\$1,000,000	30.68%
Total Funds	\$3,259,761	\$4,259,761	\$1,000,000	30.68%

Other Legislation

HB 8 – This legislation provides Renewable Resource loans from the proceeds of Coal Severance Tax bonds. Loan repayments are used to pay the debt service on the bonds. For the 2017 biennium, the legislation reauthorizes 30 year loans to the Dry Prairie Regional Water Authority, \$6.0 million, and the North Central Regional Water Authority, \$10.0 million, to fully fund the local share of the regional water projects. The loans, originally provided by the Sixty-third Legislature, were not issued in the 2015 biennium. If the loans are taken, the regional water authorities will repay the debt. If the authorities pursue this, or any other, funding for the local share of the regional water projects in the near future, the remaining financial obligation of these regional water projects will be the responsibility of the federal government. For more information on the Renewable Resource Loan Program, see page F-26 of this report.

HB 180 – As discussed earlier in this section, this legislation provided for the continuation of the Treasure State Regional Water sub-trust, allowing the program to continue until 2031.