

TREASURE STATE 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 program is administered by the Department of Natural Resources and Conservation (DNRC). The Treasure State Endowment Program Regional Water System (TSEPRW), established in 90-6-715, MCA, was created to:

“...finance regional drinking water systems that supply water to large geographical areas and serve multiple local governments, such as projects in north central Montana, from the waters of the Tiber reservoir, that will provide water for domestic use, industrial use, and stock water for communities and rural residences that lie south of the Canadian border, west of Havre, north of Dutton, and east of Cut Bank and in northeastern Montana, from the waters of the Missouri River, that will provide water for domestic use, industrial use, and stock water for communities and rural residences that lie south of the Canadian border, west of the North Dakota border, north of the Missouri River, and east of range 39.”

Two projects that have received federal authorization and now qualify for federal funding are the Fort Peck Indian Reservation/Dry Prairie Regional Water System (Fort Peck/Dry Prairie) and the Rocky Boy’s Indian Reservation/North Central Montana Regional Water System (Rocky Boy’s/NC Montana). The state’s share of the financial obligation for these projects was met in full with the appropriations of the 2013 Legislature.

A third project, the Dry-Redwater Regional Water System, would bring water to portions of Garfield, McCone, Richland, Prairie, and Dawson counties. The Dry-Redwater Regional Water Authority was established in FY 2006, and a project feasibility study was completed in FY 2007. A fourth project, the Musselshell-Judith Regional Water System (Central Montana Regional Water Authority), has not qualified for federal funding, but has received program approval from the state. Both of these projects are progressing through planning phases specified by the Department of Interior and are seeking federal authorization.

The Regional Water Authorities prioritize the construction projects. Each system prioritizes projects based on several criteria but the top three are:

- Need (is there a boil order in the town or an urgent need for the construction)
- Feasibility (can the project move forward this biennium given the Regional Water System infrastructure already in place)
- Cost & Funding (is the project affordable, dependent on federal and state funds, and is the community prepared to pay their share)

Program Budget Comparison

Figure 14 summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Figure 14

Program Comparison - Treasure State Endowment Regional Water Program				
Budget Item	Budget 2017 Biennium	Budget 2019 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	\$92,336,697	\$92,336,697	\$0	0.00%
Trust Earnings*	6,443,118	6,861,265	418,147	6.49%
	<u>Appropriated</u>	<u>Proposed</u>	<u>Change</u>	<u>% Change</u>
Projects Funding	\$4,259,761	\$0	(4,259,761)	-100.00%
Total Costs	\$4,259,761	\$0	(\$4,259,761)	-100.00%
State Special	\$4,259,761	\$0	(4,259,761)	-100.00%
Total Funds	\$4,259,761	\$0	(\$4,259,761)	-100.00%
*2017 Biennium Trust Earnings are actual FY 2016 earnings and projected FY 2017 earnings				

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Program Discussion

As seen in Figure 14, the executive budget does not include appropriation proposals for the TSEPRW in the 2019 biennium.

LFD COMMENT	<p>The Rocky Boy's/NC Montana regional water project begins at the waters of the Tiber reservoir, east of Shelby. Recently, the waters of the reservoir tested positive for the larvae of aquatic invasive mussels. To date, no adult mussels have been located in the reservoir, and it is not known if the larvae will be able to survive the harsh Montana winter to become adults.</p> <p>If the detected larvae do grow into adult mussels and invade the Tiber reservoir, the protection and management of the Tiber water infrastructure could be costly. DNRC is currently seeking cost estimates for the related maintenance. The Sec. F Subcommittee may want to discuss the need for project funding for the purpose of maintenance related to the mussel invasion with DNRC agency representatives.</p>
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Funding

The TSEPRW trust is a “sub-trust” of the permanent coal severance tax trust. The corpus of the sub-trust has grown since its formation in 1999 with distributions of 25% of the coal severance tax deposited into the coal tax trust (12.5% of the total coal severance tax). In FY 2017, the trust will no longer receive deposits of tax dollars in the sub-trust and the trust balance will be capped. As of the end of FY 2016, the balance was \$92.3 million. The interest earned from the trust is transferred into the state special revenue fund authorized in Title 90, Section 6, part 7, MCA, to provide a match for the development of large “regional” water systems.

Figure 15

TSEP Regional Water System Fund (02015) Fund Balance Projection 2017-2019 Biennium			
	FY 2018 Projected	FY 2019 Projected	Projected 2019 Biennium
Estimated Beginning Fund Balance	\$0	(\$668,889)	\$0
Revenue Projections ¹			
Total Revenues	3,325,049	3,536,216	6,861,265
Expenditures			
Administration - DNRC ²	242,938	242,938	485,876
Regional Water Authority Admin. Grants ²	716,000	716,000	1,432,000
Total Expenditures	958,938	958,938	1,917,876
General Fund Transfers - HB 14	3,035,000	3,035,000	6,070,000
Estimated Ending Fund Balance	(\$668,889)	(\$1,126,611)	(\$1,126,611)
¹ HJ 2			
² HB 2			

Figure 15 shows the fund balance calculation for the TSEPRW account for the 2019 biennium. The beginning fund balance is expected to be \$0 at the beginning of the 2019 biennium, assuming all appropriation authority is expended at the level of 2017 biennium interest earnings for the fund. The trust earnings are expected to be \$6.9 million in the biennium, as estimated in HJ 2. Statutorily, the interest earnings of the trust may be used to fund the administrative expenses for the program, and the executive proposes 2019 biennium appropriations of \$485,876 for DNRC administration and \$1.4 million for the administrative costs of the four regional water authorities, which would be appropriated in the general appropriation act, HB 2. While the executive does not request a construction appropriation for TSEPRW, it does recommend transfers of \$6.1 million from regional water interest earnings to the general fund in Sec. 28 of HB 14, the Creating Jobs in Montana Act. The transfer, along with the administrative appropriations, would exceed the projected level of funding and result in a negative balance of \$1.1 million.

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LFD ISSUE

Appropriations and Transfers Exceed Anticipated Revenue

While the TSEPRW Fund will never go negative, Figure 15 demonstrates that the executive's plan for appropriations and transfers will exceed the expected interest earnings of the TSEPRW trust. According to the Montana Constitution, Article VIII., Section 9, "Appropriations by the legislature shall not exceed anticipated revenue." The options available to the legislature related to the status of this fund include:

- Reduce the administrative appropriations in HB 2
- Reduce the \$6.0 million of transfers to the general fund in HB 14