

TREASURE STATE ENDOWMENT PROGRAM

Program Description

The Treasure State Endowment Program (TSEP) is a local government infrastructure-financing program approved by Montana voters with the passage of Legislative Referendum 110 in June 1992. Grant funding for the program is derived from investment earnings on coal severance tax funds. According to 90-6-702, MCA, the purpose of TSEP is to assist local governments in funding infrastructure projects. Eligible applicants include cities, towns, counties, and tribal governments, county or multi-county water, sewer, or solid waste districts. The TSEP is administered by the Department of Commerce (DOC). The TSEP administrators recommend and the legislature authorizes grants through a procedure that ranks the projects according to seven statutory priorities and relative financial need. Projects are generally funded in priority order, given the amount of interest earnings anticipated in the biennium.

Summary of Legislative Action

The 2013 Legislature appropriated \$35.0 million for TSEP in HB 11 for the 2015 biennium, after choosing to fund all grant requests. From the total appropriations, \$4.5 million funds 16 bridge grants, \$29.5 million funds 48 infrastructure grants, \$100,000 funds emergency grants, and \$900,000 funds project planning grants. To fully fund the grant appropriations, the legislature provided a transfer of \$13.3 million from the general fund to the TSEP state special fund. The 2011 Legislature made changes to the TSEP program, requiring bridge projects to be ranked separately from infrastructure projects and limiting the funding for bridge projects to up to 20% of the interest earnings of the Treasure State Endowment trust. The grants to local governments authorized by the legislature are seen in figures below. Given the legislature's intent to assess bridges separately, the bridge projects and infrastructure projects are shown separately in the figures below.

Treasure State Endowment Program (TSEP) Grants Authorized - HB 11 - 2015 Biennium				
Applicant/County	Type of Project	Total Project Cost	Grants Authorized	Cumulative Total
<u>Bridge Grants</u>				
Missoula County	Bridge	\$960,745	\$480,372	\$480,372
Lewis & Clark County	Bridge	462,986	231,493	711,865
Granite County	Bridge	752,008	376,004	1,087,869
Carbon County	Bridge	911,350	455,675	1,543,544
Ravalli County	Bridge	424,978	212,489	1,756,033
Powell County	Bridge	641,880	320,940	2,076,973
Judith Basin County	Bridge	470,423	235,211	2,312,184
Blaine County	Bridge	509,347	254,000	2,566,184
Anaconda-Deer Lodge Co.	Bridge	624,209	312,104	2,878,288
Jefferson County	Bridge	763,764	381,882	3,260,170
Stillwater County	Bridge	410,056	205,028	3,465,198
Park County	Bridge	219,990	109,955	3,575,153
Glacier County	Bridge	563,854	281,927	3,857,080
Big Horn County	Bridge	474,925	237,462	4,094,542
Chouteau County	Bridge	357,841	178,920	4,273,462
Yellowstone County	Bridge	<u>436,878</u>	<u>218,439</u>	4,491,901
Total TSEP Bridge Grants Authorized		<u>\$8,985,234</u>	<u>\$4,491,901</u>	

Treasure State Endowment Program (TSEP)				
Grants Authorized - HB 11 - 2015 Biennium				
Applicant/County	Type of Project	Total Project Cost	Grants Authorized	Cumulative Total
Infrastructure Grants				
Craig Co WSD, Lewis & Clark	Waste Water	3,332,755	\$750,000	\$750,000
Glendive, Dawson ²	Waste Water	8,879,392	750,000	1,500,000
Manhattan, Gallatin	Water	1,855,000	750,000	2,250,000
Cascade, Cascade	Water	2,069,051	750,000	3,000,000
Pinesdale, Ravalli	Water	2,474,000	750,000	3,750,000
Musselshell Co WSD, Musselshell	Water	900,250	450,125	4,200,125
Valier, Pondera	Waste Water	2,060,190	750,000	4,950,125
Hill County - North Havre, Hill	Waste Water	423,000	211,500	5,161,625
Hot Springs, Sanders	Water	1,185,100	592,550	5,754,175
Chinook, Blaine	Water	2,998,400	750,000	6,504,175
Roundup, Musselshell	Water	1,250,273	500,000	7,004,175
Dawson Co/West Glendive, Dawson	Waste Water	3,047,631	750,000	7,754,175
Seeley Lake Sewer Dist, Missoula	Waste Water	6,907,000	750,000	8,504,175
Three Forks, Gallatin	Waste Water	4,529,155	750,000	9,254,175
Libby, Lincoln	Water	8,797,000	750,000	10,004,175
South Wind WSD, Cascade	Water & WW	1,974,500	750,000	10,754,175
Richland County, Richland	Waste Water	2,165,000	750,000	11,504,175
Amsterdam/Churchill Sewer Dist., Gallatin	Waste Water	3,161,268	750,000	12,254,175
Philipsburg, Granite	Water	1,120,000	550,000	12,804,175
Dutton, Teton	Water	832,555	408,500	13,212,675
Fort Benton, Chouteau	Waste Water	4,230,000	750,000	13,962,675
Moore, Fergus	Waste Water	1,880,000	625,000	14,587,675
Forsyth, Rosebud	Waste Water	3,434,700	500,000	15,087,675
Vaughn Co WSD, Cascade	Waste Water	1,972,645	750,000	15,837,675
Choteau, Teton	Waste Water	7,773,477	750,000	16,587,675
Boulder, Jefferson	Waste Water	4,882,000	625,000	17,212,675
Polson, Lake	Water	1,480,620	625,000	17,837,675
Cut Bank, Toole	Waste Water	8,131,000	625,000	18,462,675
White Sulphur Springs, Meagher	Waste Water	988,000	460,500	18,923,175
Conrad, Pondera	Water	1,479,995	625,000	19,548,175
Winnett, Petroleum	Waste Water	2,304,000	750,000	20,298,175
Malta, Phillips	Water	6,157,500	500,000	20,798,175
Harlowton, Wheatland	Waste Water	1,611,000	625,000	21,423,175
Stevensville, Ravalli	Waste Water	3,770,630	750,000	22,173,175
Lodge Grass, Big Horn	Waste Water	3,721,000	750,000	22,923,175
Harlem, Blaine	Waste Water	2,363,829	625,000	23,548,175
Winifred, Fergus	Waste Water	2,513,000	500,000	24,048,175
Havre, Hill	Waste Water	8,966,411	500,000	24,548,175
Fairfield, Teton	Waste Water	2,629,753	625,000	25,173,175
Miles City, Custer	Waste Water	8,400,800	500,000	25,673,175
Drummond, Granite	Waste Water	2,342,000	750,000	26,423,175
Alberton, Mineral	Waste Water	581,000	292,000	26,715,175
Eureka, Lincoln	Water	1,100,000	550,000	27,265,175
Shelby, Toole	Stormwater	2,116,799	625,000	27,890,175
Belt, Cascade	Waste Water	2,525,205	625,000	28,515,175
Joliet, Carbon	Waste Water	2,388,000	154,200	28,669,375
Hamilton, Ravalli	Waste Water	2,301,000	322,262	28,991,637
Plevna, Fallon	Water	<u>1,100,000</u>	<u>500,000</u>	29,491,637
Total TSEP Infrastructure Grants Authorized		<u>\$153,105,884</u>	<u>\$29,491,637</u>	
Total TSEP Projects			<u>\$33,983,538</u>	

Funding

The fund balance table on the following page shows the projected ending fund balance of the TSEP state special revenue fund for the 2015 biennium. The TSEP fund is estimated to begin the biennium with a fund balance of \$1.5 million. The beginning fund balance results primarily from the grants that were unable to meet the startup conditions by the stated deadline.

TSEP interest earnings are expected to be \$21.4 million for the biennium. The legislature transferred \$13.3 million from the general fund to the TSEP fund to provide sufficient funds to cover the costs of all bridge and infrastructure grant requests. Total revenues are expected to be \$34.7 million in the 2015 biennium.

The legislature made several appropriations from the TSEP state special fund. First, \$1.2 million was appropriated for the administrative costs of the program in HB 2 and includes an estimate for the impact of employee pay raises provided in HB 13. Other appropriations in the TSEP bill include \$100,000 for the emergency grants and a \$900,000 appropriation for preliminary engineering grants. Finally, the legislature provided an appropriation of \$34.0 million (which includes \$4.5 million for bridge grants and \$29.5 million for infrastructure grants) for TSEP grants. By the end of the 2015 biennium, the TSEP state special fund is expected to have an ending fund balance of \$22,984.

Treasure State Endowment Fund (02270)	
Fund Balance Projection 2015 Biennium	
Estimated Beginning Fund Balance (7/01/2013)	\$1,480,756
Revenue Projections ¹	
FY 2014 Interest Earnings	\$10,383,000
FY 2015 Interest Earnings	10,998,000
General Fund Transfer	<u>13,300,000</u>
2015 Biennium Revenues	\$34,681,000
Appropriations	
Administration ²	(\$1,155,234)
Emergency Grants	(100,000)
Preliminary Engineering Grants	(900,000)
Bridge Grants	(4,491,901)
Water Infrastructure Grants	<u>(29,491,637)</u>
Total Expenditures	(\$36,138,772)
Estimated Ending Fund Balance - (6/30/2015)	<u>\$22,984</u>
¹ SJ2	
² Includes administrative costs included in HB 2, including the 2% increase in vacancy savings, and HB 13 estimated impacts	

Executive Budget Comparison

The executive budget recommended \$19.3 million of appropriations from the interest earnings of the TSEP trust for the 2015 biennium to fund 6 bridge grants and 25 infrastructure grants. The legislature chose to fund all grant requests, increasing the proposed budget to include funding for 16 bridge grants and 48 infrastructure grants. To fund the local government grants, the legislature made use of both unexpended TSEP fund balance and a transfer of general fund into the TSEP fund. Consequently, the legislature increased the TSEP budget by 80.9% from the executive proposal.

Program Comparison - Treasure State Endowment Program				
	2013 Biennium	2015 Biennium	Change	% Change
Trust Balance (End of Biennium)	\$238,947,000	\$268,523,000	\$29,576,000	12.4%
Trust Earnings	19,747,477	21,558,000	1,810,523	9.2%
Budget Item	Executive Recommendation 2015 Biennium	Legislative Budget 2015 Biennium	Change	% Change
Number of Grants Funded (bridge)	6	16	10	166.7%
Number of Grants Funded (infrastructure)	25	48	23	92.0%
	<u>Proposed</u>	<u>Appropriated</u>		
Bridge Grants Cost	\$1,879,691	\$4,491,901	\$2,612,210	139.0%
Water Infrastructure Grants Cost	16,462,675	29,491,637	13,028,962	79.1%
Other Grants Cost	1,000,000	1,000,000	0	0.0%
Total Costs	\$19,342,366	\$34,983,538	\$15,641,172	80.9%
State Special	\$19,342,366	\$21,683,538	\$2,341,172	12.1%
General Fund	0	13,300,000	13,300,000	-
Total Funds	\$19,342,366	\$34,983,538	\$15,641,172	80.9%

Other Legislation

HB 454 – Section 2 of this legislation changed the date when coal severance tax revenues would stop flowing into the Treasure State Endowment Fund from June 30, 2020 to June 30, 2016. This action will reduce new revenue to flowing into the trust principal and subsequently reduce the interest earnings available for future grants, beginning in FY 2017. As seen in the figure on the previous page, the trust is estimated to grow by approximately \$30 million between fiscal year end 2013 and FYE 2015. As a rough estimate based on the assumption of constant tax deposits over the four years, the principal of the trust will lose approximately \$60 million. At an average rate of trust return, 5.5% annually, this change will ultimately reduce interest earnings by an estimated \$3.3 million per fiscal year.