

# MONTANA COAL REGIONAL WATER PROGRAM

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## Program Description

The 1999 Legislature created the Montana coal 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 executive recommendation for Montana coal endowment regional water system grants is contained in HB11.

The Montana Coal Endowment Program Regional Water System (MCEPRW), 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.”

Three 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), the Rocky Boy’s Indian Reservation/North Central Montana Regional Water System (Rocky Boy’s-NC Montana), and the Central Montana Musselshell-Judith Regional Water System (Central Montana Regional Water Authority). The state’s share of the financial obligation for these projects was met in full with the authorization provided by the 2015 Legislature.

A fourth project, the Dry-Redwater Regional Water System, would bring water to portions of Garfield, McCone, Richland, Prairie, and Dawson counties has not yet qualified for federal funding. This system has received approval from the state. These systems are progressing through planning phases specified by the Department of Interior and are seeking federal authorization, and the Dry-Redwater Regional Water Authority is seeking federal authorization.

The Regional Water Authorities prioritize the construction projects and DNRC prioritizes project funding 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?)

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## Program Budget Comparison

Figure 13 summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

Figure 13

Program Comparison - Treasure State Endowment Regional Water Program				
Budget Item	Budget 2023 Biennium	Budget 2025 Biennium	Biennium Change	Biennium % Change
	<u>Appropriated</u>	<u>Proposed</u>	<u>Change</u>	<u>% Change</u>
Projects Funding	5,000,000	7,000,000	2,000,000	40.0%
Total Costs	\$5,000,000	\$7,000,000	\$2,000,000	40.0%
State Special	0	7,000,000	7,000,000	140.0%
ARPA 9901-602 (HB 632)	5,000,000	0	(5,000,000)	0.0%
Total Funds	\$5,000,000	\$7,000,000	\$2,000,000	40.0%

## Executive Proposal

As seen in Figure 13, the executive requests \$7.0 million of appropriations for the MCEPRW program that will be included in HB 11. The executive proposal for project funding is an increase of \$2.0 million over the project funding in the 2023 biennium. Unlike the other LRP local government grant program, the MCEPRW funding does is not provided for specific grant requests, but instead is made available for project phases within a single large project which will provide water to large rural areas. The conditions for the disbursement of funding are listed in HB 11 and include:

- The execution of an agreement with DNRC
- Having an approved project management plan
- Having an acceptable accounting system
- Having a detailed preliminary engineering report

## Funding

The MCEPRW trust is a “sub-trust” of the permanent coal severance tax trust. The corpus of the sub-trust is fixed at \$98.1 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.

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Figure 14

MCEP Regional Water System Fund Balance Analysis - 2025 Biennium Accounts 09047 and 02015					
	FY 2022 Actual	FY 2023 Projected	FY 2024 Projected	FY 2025 Projected	2025 Biennium
Estimated Beginning Fund Balance	\$5,267,833	\$4,342,695	\$4,988,088	\$512,653	\$4,988,088
Fund Balance Adjustment		(338,868)			
Total		4,003,827			
Revenue Projections <sup>1</sup>					
Total Revenues	3,131,093	3,338,433	3,617,000	3,868,000	7,485,000
Expenditures					
Administration - DNRC <sup>2</sup>	112,738	157,000	342,435	346,806	689,241
Regional Water Authority Admin. Grants <sup>2</sup>	746,000	939,391	750,000	750,000	1,500,000
Prior Biennia Authority	3,197,493	1,257,781	0	0	0
2025 Biennium Grants	<u>0</u>	<u>0</u>	<u>7,000,000</u>	<u>0</u>	<u>7,000,000</u>
Total Expenditures/Appropriations	4,056,231	2,354,172	8,092,435	1,096,806	9,189,241
Estimated Ending Fund Balance	\$4,342,695	\$4,988,088	\$512,653	\$3,283,847	\$3,283,847
<sup>1</sup> HJ 2					
<sup>2</sup> HB 2					

Figure 14 shows the projected fund balance of the MCEPRW fund for the 2025 biennium. The fund balance is projected to be \$5.0 million at the beginning of the 2025 biennium. In the 2023 biennium, \$5.0 million in MCEPRW project grants were funded with federal ARPA funds, rather than the interest earnings. This allowed those interest earnings to be available in the 2025 biennium. The trust earnings are expected to be \$7.5 million in the 2025 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 2025 biennium appropriations of \$689,000 for DNRC administration and \$1.5 million for the administrative costs of the four regional water authorities, which would be appropriated in the general appropriation act, HB 2. The executive proposal for 2025 biennium MCEPRW grants is \$7.0 million and is projected to result in a fund balance of \$3.3 million at the end of the 2025 biennium. For more information on trust earnings, refer to page F-5 of this report.

The 2021 legislature, in addition to appropriating \$5.0 million in federal ARPA funds for MCEPRW grants, allocated \$10.0 million or \$2.5 million for each of the four regional water authorities, in HB 632, Section 5. The allocation is from the water and wastewater appropriation provided in HB 632, Section 2. These funds are valid for use in the 2025 biennium and require a one-to-one match from other funds secured through grants or loans, possibly including the loans authorized in HB 8. For more information on loans in HB 8, see the next section of this report.