

# 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. Bridge projects are limited to 20.0% of the ordinary earnings from the TSEP trust (90-6-710, MCA). As a result, the TSEP projects will be provided in two sections, one for bridge projects and another for infrastructure projects.

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

## Program Budget Comparison

The following table compares the 2021 biennium appropriated budget and the 2023 biennium budget request by type of expenditure and source of funding.

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Figure 10

Program Comparison - Treasure State Endowment Program				
Budget Item	Budget 2021 Biennium	Budget 2023 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	268,044,102	268,044,102	\$0	0.0%
Trust Earnings	18,191,820	15,583,019	(2,608,801)	-14.3%
<b>Budget Item</b>	<b>Appropriated</b>	<b>Proposed<sup>1</sup></b>	<b>Change</b>	<b>% Change</b>
Number of Grants Funded (infrastructure)	40	41	1	2.5%
Number of Grants Funded (bridge)	11	7	(4)	-36.4%
Infrastructure Grants Cost	\$17,757,847	\$23,577,698	\$5,819,851	32.8%
Bridge Grants Cost	4,962,316	3,169,451	(1,792,865)	-36.1%
Other Grants Cost	8,471,390	1,000,000	(7,471,390)	-88.2%
<b>Total Costs</b>	<b>\$31,191,553</b>	<b>\$27,747,149</b>	<b>(\$3,444,404)</b>	<b>-11.0%</b>
State Special	18,590,000	14,039,251	(4,550,749)	-24.5%
Bond Proceeds	12,601,553	13,707,898	1,106,345	8.8%
<b>Total Funds</b>	<b>\$31,191,553</b>	<b>\$27,747,149</b>	<b>(\$3,444,404)</b>	<b>-11.0%</b>
<sup>1</sup> HB 11 and HB 14				

### Program Discussion

Figure 10 shows the executive proposal for appropriations of \$27.7 million for the 2023 biennium, 11.0% less than appropriated for the 2021 biennium. For the 2023 biennium, the TSEP program is requested in HB 11 and HB 14. The program funding is requested as follows:

- TSEP emergency grants appropriation of \$100,000 – HB 11, TSEP funds
- TSEP project planning grants appropriation of \$900,000 – HB 11, TSEP funds
- TSEP bridge grants appropriation of \$3.2 million – HB 11, TSEP funds
- TSEP infrastructure project grant appropriation of \$9.9 million – HB 11, TSEP funds
- TSEP infrastructure project grant appropriation of \$13.7 million – HB 14, GO bond proceeds

A complete list of the requested TSEP bridge and infrastructure projects; including the total project cost, and the recommended grant amount may be seen in appendix item A-4 of this report. The details behind the grants requested for the 2023 biennium TSEP program along with a status of grants awarded in the 2021 biennium are presented in [Vol. 4 of the Governor’s Executive Budget](#).

### Funding

The 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 trust. The corpus of the sub-trust is fixed at \$268.0 million. The interest earned from the trust is transferred into the state special revenue fund authorized in 90-6-701, MCA, where it is available for appropriation.

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Figure 11

TSEP Fund Balance Analysis - 2023 Biennium Accounts 09044 and 02270					
	FY 2020 Actuals	FY 2021 Projected <sup>3</sup>	FY 2022 Projected	FY 2023 Projected	2023 Bien.
Beginning Fund Balances (09044 and 02270)	\$13,274,368	\$13,614,311	(\$637,779)	(\$7,224,283)	(\$637,779)
Adjustment to Grant Funding	0	0	0	0	0
Beginning Fund Balances	\$13,274,368	\$13,614,311	(\$637,779)	(\$7,224,283)	(\$637,779)
Trust Earnings <sup>1</sup>	9,252,925	8,938,895	8,166,194	7,416,825	15,583,019
Expenditures					
HB 2 TSEP Administration <sup>2</sup>	654,787	694,967	713,447	712,042	1,425,489
Emergency Grants	30,000	70,000	100,000		100,000
Project Planning Grants	102,496	797,504	900,000		900,000
2021 Biennium & Prior Biennia Grants	8,125,700	21,628,513	0	0	0
2023 Biennium Executive Proposal	0	0	<u>13,039,251</u>		<u>13,039,251</u>
Total Expenditures	8,912,983	23,190,984	14,752,698	712,042	15,464,740
<b>Projected Ending Fund Balance</b>	<b>\$13,614,311</b>	<b>(\$637,779)</b>	<b>(\$7,224,283)</b>	<b>(\$519,499)</b>	<b>(\$519,499)</b>
<sup>1</sup> HJ 2 Projections					
<sup>2</sup> HB 2					
<sup>3</sup> Assumes all appropriation authority is expended in FY 2021					

Figure 11 shows the projected ending fund balance of the treasure state endowment state special revenue account for the 2023 biennium. The TSEP account is projected to begin the 2023 biennium with a balance of negative \$0.6 million. The negative balance results from interest earnings that were lower than was anticipated in the budget adopted by the 2019 Legislature. For more information on trust earnings, refer to page F-4 of this report.

TSEP interest and earnings are projected to be \$15.6 million in the 2023 biennium. The executive budget proposal recommends several appropriations from the TSEP state special fund. First, in HB 2 there is a recommendation for appropriations of \$1.4 million for the administrative costs of the program. In HB 11 the executive budget proposal includes \$100,000 for the emergency grants program, \$900,000 for project planning grants, and \$13.0 million for infrastructure project grants. As a result, based upon the HJ 2 revenue estimate adopted by the legislature the fund is estimated to have a negative balance of \$519,499 at the end of the 2023 biennium.

**LFD  
COMMENT**

The TSEP account will never go negative, instead Figure 11 demonstrates that the executive proposed appropriations in the TSEP account will exceed the expected interest earnings of the TSEP trust. The LFD analysis makes use of the legislative HJ 2 revenue projections, which may be lower than the projections used by the executive when developing the budget, resulting in a negative balance. The Section F subcommittee might consider the following options:

- Request a reduction of the administrative appropriations in HB 2
- Reduce the TSEP appropriation in HB 11 and increase the TSEP appropriation in HB 14
- Reduce the TSEP appropriation in HB 11 and fund fewer projects
- Do nothing and leave the account with a projected negative balance

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**LFD**

**COMMENT**

The executive proposal for TSEP appears to be aimed to provide funding for all the TSEP projects requested for the 2023 biennium. HB 11 provides funding for the highest ranked 17 infrastructure projects and HB 14 provides funding for the lower ranked 24 infrastructure projects.

If revenues are received as anticipated in HJ 2, there is a potential that some grants listed in HB 11 would not be funded while all the grants in HB 14 would be. Were that to occur, the program would be funding lower ranked grants via HB 14 over some of the more highly ranked grants in HB 11. The LRP subcommittee might consider the following actions to remove this funding incongruity:

- Include all the grants in priority order in HB 11, eliminate the grants list in HB 14, and reference the TSEP grant grants in HB 11 in the HB 14 appropriation
- List all the grants in both bills and provide that all project funding would occur in priority order
- Leave the potential funding incongruity as it currently exists