

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 provided by the 2015 Legislature.

A third project, the Dry-Redwater Regional Water System, would bring water to portions of Garfield, McCone, Richland, Prairie, and Dawson counties. A fourth project, the Musselshell-Judith Regional Water System (Central Montana Regional Water Authority), has not yet qualified for federal funding. Both systems have received approval from the state. These systems are progressing through planning phases specified by the Department of Interior and are 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 a need for good quality/quantity of water?)
- 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

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

Figure 12

Program Comparison - Treasure State Endowment Regional Water Program				
Budget Item	Budget 2021 Biennium	Budget 2023 Biennium	Biennium Change	Biennium % Change
Trust Balance (End of Biennium)	\$98,104,588	\$98,104,588	\$0	0.00%
Trust Earnings	6,245,962	5,403,615	(842,347)	-13.49%
	<u>Appropriated</u>	<u>Proposed</u>	<u>Change</u>	<u>% Change</u>
Projects Funding	5,000,000	5,000,000	0	0.00%
Total Costs	\$5,000,000	\$5,000,000	\$0	0.00%
State Special	5,000,000	5,000,000	0	0.00%
Total Funds	\$5,000,000	\$5,000,000	\$0	0.00%

Program Discussion

As seen in Figure 12, the executive requests \$5.0 million of appropriations for the TSEPRW program that will be included in HB 11. The executive proposal is equal to the appropriation provided for the 2021 biennium. Unlike the other LRP local government grant programs, the TSEPRW funding is not provided for in specific grant requests, but instead is made available for projects that will result 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 TSEPRW 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 13

TSEP Regional Water System Fund Balance Analysis - 2023 Biennium					
Accounts 09047 and 02015					
	FY 2020 Actual	FY 2021 Projected	FY 2022 Projected	FY 2023 Projected	2021 Biennium
Estimated Beginning Fund Balance	\$2,766,782	\$3,507,982	\$539,354	(\$2,640,237)	\$539,354
Revenue Projections ¹					
Total Revenues	3,152,999	3,092,963	2,829,800	2,573,815	5,403,615
Expenditures					
Administration - DNRC ²	137,140	156,746	156,746	156,746	313,491
Regional Water Authority Admin. Grants ²	746,000	852,645	852,645	852,645	1,705,291
Prior Biennia Authority	1,528,659	5,052,200	0	0	0
2023 Biennium Executive Proposal	<u>0</u>	<u>0</u>	<u>5,000,000</u>	<u>0</u>	<u>5,000,000</u>
Total Expenditures	2,411,799	6,061,591	6,009,391	1,009,391	7,018,782
Estimated Ending Fund Balance	\$3,507,982	\$539,354	(\$2,640,237)	(\$1,075,813)	(\$1,075,813)
¹ HJ 2					
² HB 2					

Figure 13 shows the projected fund balance of the TSEPRW fund for the 2023 biennium. The fund balance is projected to be \$539,354 at the beginning of the 2021 biennium, assuming all appropriation authority is expended in FY 2019. The trust earnings are expected to be \$5.4 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 2023 biennium appropriations in HB 2 of \$313,491 for DNRC administration and \$1.7 million for the administrative costs of the four regional water authorities. The executive proposal for the TSEPRW appropriation in HB 11 is \$5.0 million and is projected to result in a fund balance of negative \$1.1 million at the end of the 2023 biennium. For more information on trust earnings, refer to page F-4 of this report.

LFD

COMMENT

The TSEPRW account will never go negative, instead Figure 11 demonstrates that the executive proposed appropriations in the TSEPRW account will exceed the expected interest earnings of the TSEPRW 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 TSEPRW appropriation in HB 11
- Do nothing and leave the account with a projected negative balance