

TREASURE STATE ENDOWMENT 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 Treasure State Endowment Program Regional Water System (TSEPRW), established in 90-6-715, MCA, was created to provide a state match for the receipt of federal funds for large regional water projects. The program is administered by the Department of Natural Resources and Conservation (DNRC). Interest from the trust can be distributed as a match to federal funds to regional water authorities that have met certain conditions including:

- An executed agreement with DNRC
- A DNRC approved management plan
- A financial accounting system that conforms to GAAP principles
- A detailed preliminary engineering report

The interest from the trust is also used to pay administrative costs to the DNRC and the four regional water authorities:

- Dry Prairie Regional Water Authority (federally authorized)
- North Central Montana Regional Water Authority (federally authorized)
- Dry-Redwater Regional Water Authority
- Musselshell-Judith Regional Water Authority

Summary of Legislative Action

The legislature provided a \$17.0 million appropriation to fully fund the state share for the two federally authorized regional water projects: the Dry Prairie Regional Water, \$5.0 million towards the estimated total project cost of \$317 million, and the North Central Montana Regional Water, \$12.0 million towards the estimated total cost of \$361 million. To date, the TSEPRW fund has provided \$10.8 million towards the costs of the Dry Prairie system and \$9.6 towards the costs of the North Central system. The appropriation will allow the state to invest in the system during the 2015 biennium and mitigate the future construction inflation costs that would occur if the state were to support the projects over a prolonged period of time. The figure below shows the proposed projects that will be undertaken with the state funding.

Treasure State Endowment Regional Water Program Projects - HB 11 - 2015 Biennium	
Project Title	State's Share Project Cost
Dry Prairie Regional Water Authority	
East Medicine Lake Distribution Phase II	\$270,000
Medicine Lake-to-Plentywood Mainline	1,900,000
Glasgow Area B & D	360,000
Frazer to Porcupine Creek	<u>2,470,000</u>
Total Dry Prairie State Share	<u>\$5,000,000</u>
North Central Regional Water Authority	
Core Pipeline Segment #3	\$450,000
Conrad-to-Brady mainline for Brady interim supply	2,300,000
Shelby-to-Cut Bank for Cut Bank interim supply	<u>9,250,000</u>
Total North Central State Share	<u>\$12,000,000</u>

While the TSEPRW program will continue to be tasked with oversight and administration of the Dry Prairie and North Central projects, the program (and its available matching funds) will be more focused on the Dry-Redwater and the Musselshell-Judith projects in the future. The systems are seeking federal authorization at this time. Given the statutory condition that the program funding is to provide a match to federal funds, federal authorization is vital to the state's assistance in those system's water projects. All future construction funding will be available for these projects and any other regional water systems that may be developed.

Funding

TSEP Regional Water System Fund (02015)	
Fund Balance Projection 2015 Biennium	
Estimated Beginning Fund Balance (7/1/2013)	\$3,081,730
Revenue Projections ¹	
2014 Interest Earnings	\$3,287,000
2015 Interest Earnings	3,591,000
General Fund Transfer	<u>8,400,000</u>
2015 Biennium Revenues	15,278,000
Proposed Expenditures	
Administration - DNRC ²	(177,012)
Regional Water Authority Admin. Grants (HB 2)	(1,169,000)
Regional Water State Share	<u>(17,000,000)</u>
Total Proposed Expenditures	(18,346,012)
Estimated Ending Fund Balance - (6/30/2015)	<u>\$13,718</u>
¹ SI2	
² Includes administrative costs included in HB 2, including the 2% increase in vacancy savings, and HB 13 estimated impacts	

The figure to the left shows the estimate for the TSEPRW fund balance. The TSEPRW fund is expected to begin the 2015 biennium with a \$3.1 million balance. Interest and earnings in the 2015 biennium are projected to be \$6.9 million. To fund the state share of the two federally authorized regional water projects, the legislature transferred \$8.4 million from the general fund to the TSEPRW state special fund. As a result, the program will have \$15.3 million of revenue in the 2015 biennium. The legislature made several appropriations from the TSEPRW fund in the 2015 biennium. Appropriations in HB 2 include \$177,012 for the administrative costs of DNRC and \$1.2 million for administrative grants that fund the activities of the four regional water authorities. After the \$17.0 million appropriation for the state match for regional water projects, the fund is expected to have a fund balance of \$13,718 at the end of the 2015 biennium.

Executive Budget Comparison

As seen in the figure to the left, the legislature increased the appropriation for the state match on regional water by \$8.1 million, or 91.0% from the executive budget proposal. The legislature reduced the amount of funds appropriated from the state special fund, since the fund was initially over appropriated, and provided a transfer from the general fund of \$8.4 million.

Program Comparison - Treasure State Endowment Regional Water Program				
	2013 Biennium	2015 Biennium	Change	% Change
Trust Balance (End of Biennium)	\$76,396,000	\$91,170,000	\$14,774,000	19.3%
Trust Earnings	5,971,667	6,949,000	977,333	16.4%
Budget Item	Executive Recommendation 2015 Biennium	Legislative Budget 2015 Biennium	Change	% Change
	<u>Proposed</u>	<u>Appropriated</u>		
Projects Funding	\$8,900,000	\$17,000,000	\$8,100,000	91.0%
Total Costs	\$8,900,000	\$17,000,000	\$8,100,000	91.0%
State Special	\$8,900,000	\$8,600,000	(\$300,000)	-3.4%
General Fund	0	8,400,000	8,400,000	-
Total Funds	\$8,900,000	\$17,000,000	\$8,100,000	91.0%

Other Legislation

HB 8 – This legislation provides Renewable Resource loans from the proceeds of Coal Severance Tax bonds. Loan repayments are used to pay the debt service on the bonds. This legislation provides 30 year loans to the Dry Prairie Regional Water Authority, \$6.0 million, and the North Central Regional Water Authority, \$10.0 million, to fully fund the local share of the regional water projects. The regional water authorities will repay the principal and interest (4.5% or the state bond rate, whichever is lower) on their respective loans. If the authorities pursue this, or any other, funding for the local share of the regional water projects in the near future, the remaining financial obligation of these regional water projects will be the responsibility of the federal government. For more information on the Renewable Resource Loan Program, see page F-30 of this report.

HB 454 – Section 2 of this legislation changed the date when coal severance tax revenues would stop flowing into the Treasure State Endowment Regional Water 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 \$15 million between FYE 2013 and FYE 2015. As a rough estimate based on the assumption constant tax deposits over the four years, the principal of the trust will lose approximately \$30 million. At an average rate of trust return, 5.5% annually, this change will ultimately reduce interest earnings by an estimated \$1.7 million per fiscal year.