

TREASURE STATE ENDOWMENT PROGRAM

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.

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

The Sixty-second Legislature changed the TSEP statutes to provide parameters by which bridge construction could be funded in the program. The new language included in 90-6-710, MCA states:

...the department shall prepare and submit two lists containing the recommended projects and the recommended form and amount of financial assistance for each project to the governor, prioritized pursuant to subsection (2) and this subsection. One list must contain the ranked and recommended bridge projects, and the other list must contain the remaining ranked and recommended infrastructure projects referred to in 90-6-701(3)(a). Each list must be prioritized pursuant to subsection (2) of this section, but the department may recommend up to 20% of the interest earnings anticipated to be deposited into the treasure state endowment fund established in 17-5-703 during the following biennium for bridge projects.

As a result, the TSEP budget analysis will be provided in two sections, one for bridge projects and another for infrastructure projects.

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Program Budget Comparison

The following figure summarizes the proposed executive budget for the program by biennium, type of expenditure, and source of funding.

| Program Comparison - Treasure State Endowment Program | | | | |
|---|-------------------------|-------------------------|--------------------|----------------------|
| Budget Item | Budget 2013 Biennium | Budget 2015 Biennium | Biennium Change | Biennium % 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% |
| Number of Grants Funded (water) | 30 | 25 | (5) | -16.7% |
| Number of Grants Funded (bridge) | 12 | 6 | (6) | -50.0% |
| | <u>Appropriated</u> | <u>Proposed</u> | | |
| Water Infrastructure Grants Cost | \$9,714,529 | \$16,462,675 | \$6,748,146 | 69.5% |
| Bridge Grants Cost | 4,039,049 | 1,879,691 | (\$2,159,358) | -53.5% |
| Other Grants Cost | 1,000,000 | 1,000,000 | \$0 | 0.0% |
| Total Costs | \$14,753,578 | \$19,342,366 | \$4,588,788 | 31.1% |
| State Special | \$14,753,578 | \$19,342,366 | \$4,588,788 | 31.1% |
| Total Funds | \$14,753,578 | \$19,342,366 | \$4,588,788 | 31.1% |

Note: The TSEP infrastructure grants projects that are proposed for funding and the total appropriation amount differ from the November 15 executive budget release but agree with changes made to the executive budget and included in HB 11 as introduced.

Program Discussion

As seen in the figure above, the executive proposes TSEP grant funding of \$19.3 million in the 2015 biennium. The proposal will be presented in HB 11. This level of appropriation will provide funds for emergency grants, \$100,000, and preliminary engineering grants, \$900,000. The proposal also includes an appropriation of \$18.3 million to fund bridge projects, \$1.9 million, and infrastructure projects, \$16.5 million. As proposed for the 2015 biennium, bridge projects would be funded at 8.7% of total anticipated revenues. Overall, the proposal is an increase of 31.1% from the 2013 biennium, but it is useful to remember that in the 2013 biennium, the legislature provided a transfer of \$1.6 million from the TSEP funds to the general fund. A complete list of the requested TSEP bridge and infrastructure projects; including the total project cost, the requested grant amount, and the recommended grant amount may be seen in Figure F.2 in the Section F appendix.

Funding

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 has grown since its formation in 1992. The TSEP trust balance is expected to be \$238.9 million by the end of the 2013 biennium and is expected to grow by \$29.6 million by the end of the 2015 biennium.

The fund balance table at the right shows the projected ending fund balance of the treasure state endowment state special revenue account for the 2015 biennium under present law assumptions. The TSEP account will begin the biennium with a beginning fund balance of \$1.5 million. The

| Treasure State Endowment Fund (02270) | |
|--|---------------------|
| Fund Balance Projection 2015 Biennium | |
| Estimated Beginning Fund Balance (7/01/2013) | \$1,488,756 |
| Revenue Projections ¹ | |
| FY 2014 Interest Earnings | \$10,403,000 |
| FY 2015 Interest Earnings | <u>11,155,000</u> |
| 2015 Biennium Revenues | \$21,558,000 |
| Proposed Expenditures ² | |
| Administration - Commerce | (\$1,128,331) |
| Emergency Grants | (100,000) |
| Preliminary Engineering Grants | (900,000) |
| Bridge Grants | (1,879,691) |
| Water Infrastructure Grants ³ | <u>(16,462,675)</u> |
| Total Expenditures | (\$20,470,697) |
| Estimated Ending Fund Balance - (6/30/2015) | <u>\$2,576,059</u> |
| ¹ Based on LFD estimates | |
| ² Based on executive budget proposal | |
| ³ As revised from the 11/15/2012 Executive Budget | |

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beginning fund balance of July 1, 2013 is projected to result from higher than anticipated interest and earnings in the 2013 biennium, as estimated by the Legislative Fiscal Division (LFD). TSEP interest earnings are expected to be \$21.6 million for the biennium. There are several expenditures recommended from the TSEP state special fund. First, there is an expenditure of \$1.1 million for the administrative costs of the program, which will be appropriated in HB 2. Other expenses appropriated in the TSEP bill include \$100,000 for the emergency grants program and a \$900,000 appropriation for preliminary engineering grants. Finally, HB 11 will provide one appropriation of \$18.3 million to provide funding for bridge and infrastructure projects. Of the total appropriation, \$1.9 million will be available to fund bridge projects and \$16.5 million will be available for infrastructure projects (please note the slight rounding error provided in these numbers).