

MONTANA COAL ENDOWMENT REGIONAL WATER SYSTEM

Section F

JOINT SUBCOMMITTEE OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

-----Agencies-----

Long-Range Building Program	Renewable Resource Grant & Loan Program
State Building Energy Conservation Program	Reclamation & Development Grants Program
Long-Range Information Technology Program	Cultural & Aesthetic Grant Program
Montana Coal Endowment Program	Montana Historic Preservation Grant Program
Montana Coal Regional Water Program	

-----Committee Members-----

House

Representative John Fitzpatrick (Chair)
Representative Scott Rosenzweig
Representative Paul Tuss
Representative Mike Vinton

Senate

Senator John Esp (Vice Chair)
Senator Ellie Boldman

-----Fiscal Division Staff-----

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MONTANA COAL ENDOWMENT REGIONAL WATER SYSTEM

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

Figure 14

Program Comparison - Montana Coal Endowment Regional Water Program				
Budget Item	Budget 2025 Biennium	Budget 2027 Biennium	Biennium Change	Biennium % Change
	<u>Appropriated</u>	<u>Proposed</u>	<u>Change</u>	<u>% Change</u>
Projects Funding	\$ 10,000,000	\$ 10,000,000	\$ -	0.0%
Total Costs	\$ 10,000,000	\$ 10,000,000	\$ -	0.0%
State Special	\$ 10,000,000	\$ 10,000,000	\$ -	0.0%
Total Funds	\$ 10,000,000	\$ 10,000,000	\$ -	0.0%

Executive Proposal

As seen in Figure 14, the executive requests \$10.0 million of appropriations for the MCEPRW program that will be included in HB 11. This is the same amount of funding that was in the 2025 biennium so there is no change. Unlike the other LRP local government grant program, the MCEPRW funding 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 15

MCEPRW Regional Water System Fund Balance Analysis - 2027 Biennium					
Funds 02015					
	FY 2024 Actual	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	2027 Biennium Projected
Estimated Beginning Fund Balance	\$ 5,930,547	\$ 8,965,521	\$ 1,368,992	\$ (106,418)	\$ 1,368,992
Revenue Projections ¹					
Coal Subtrust Earnings	\$ 4,018,031	\$ 3,628,296	\$ 3,801,339	\$ 3,989,587	\$ 7,790,926
Expenditures					
Administration - DNRC ² & Regional Water Authority	\$ 206,691	\$ 305,625	\$ 276,749	\$ 276,749	\$ 553,498
Regional Water Authority Admin. Grants ²	\$ 608,000	\$ 891,923			\$ -
Prior Biennia Grants	\$ 24,483	\$ 168,000			\$ -
2025 Biennium Grants	\$ 140,724	\$ 9,859,276	\$ 5,000,000	\$ 5,000,000	\$ 10,000,000
Fund Balance Adjustment	\$ 3,160	\$ -			\$ -
Total Expenditures/Appropriations	\$ 983,058	\$ 11,224,824	\$ 5,276,749	\$ 5,276,749	\$ 10,553,498
Estimated Ending Fund Balance	\$ 8,965,520	\$ 1,368,992	\$ (106,418)	\$ (1,393,580)	\$ (1,393,580)
¹ HJ 2					
² HB 2					

Figure 15 shows the projected fund balance of the MCEPRW fund for the 2025 biennium. The fund balance is projected to be nearly \$1.4 million at the beginning of the 2027 biennium. Statutorily, the interest earnings of the trust may be used to fund the administrative expenses for the program, and it is estimated the 2027 biennium appropriations will include \$553,497 for DNRC administration which would be appropriated in the general appropriation act, HB 2. The executive proposal for 2027 biennium MCEPRW grants is \$10.0 million and is projected to result in a negative fund balance of \$1.4 million at the end of the biennium, however, please note that if revenues are not sufficient, the department will be limited by the cash available in the fund. For more information on trust earnings, refer to page F-5 of this report.