

# FISCAL NOTE

**Bill #:** HB225

**Title:** Dedicate coal severance tax funds for higher education

**Primary**

**Sponsor:** Trudi Schmidt

**Status:** Second Reading

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Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## Fiscal Summary

	<b><u>FY2002</u></b> <b><u>Difference</u></b>	<b><u>FY2003</u></b> <b><u>Difference</u></b>
<b>Expenditures:</b>		
State Special Revenue	\$0	\$415,350
<b>Revenue:</b>		
General Fund	\$0	\$(461,500)
State Special Revenue	\$0	\$415,350
Trust Fund	\$0	\$46,150
<b>Net Impact on General Fund Balance:</b>	\$0	\$(461,500)

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<b><u>Yes</u></b>	<b><u>No</u></b>		<b><u>Yes</u></b>	<b><u>No</u></b>	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached	X		Family Impact Form Attached

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## Fiscal Analysis

### ASSUMPTIONS:

1. This bill would create a higher education trust fund within the coal severance tax trust fund on July 1, 2002. It would transfer \$6.5 million from the coal severance tax permanent fund to the new education trust fund on July 1, 2002.
2. Interest earnings on the coal severance tax permanent fund are deposited in the general fund. The rate of return on both the coal tax permanent fund and the new higher education trust fund will be 7.1% in fiscal 2003. This bill would reduce interest earnings deposited in the general fund by \$461,500 (7.1% of \$6.5 million) in fiscal 2003.
3. Interest earnings on the new higher education trust fund will be \$461,500. Ten percent of the interest and earnings on the education trust fund, \$46,150, would be re-deposited in the fund. Ninety percent,

(continued)

\$415,350, would be deposited in a special revenue account to be used for financial aid to students attending a unit of the Montana university system.

4. This bill would have no administrative impacts on the Department of Revenue.

FISCAL IMPACT:

	FY2002	FY2003
<u>Expenditures:</u>	<u>Difference</u>	<u>Difference</u>
Student Financial Aid	\$0	\$415,350

Funding:

State Special – Regents Financial Aid	0\$	\$415,350
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Revenues:

General Fund (01)	\$0	\$(461,500)
State Special – Regents Financial Aid (02)	\$0	\$415,350
Trust Fund – Higher Education Trust (09)	\$0	\$46,150

Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund (01)	\$0	\$(461,500)
State Special – Regents Financial Aid (02)	\$0	\$0
Trust Fund – Higher Education Trust (09)	\$0	\$46,150

LONG-RANGE IMPACTS:

This bill would transfer \$20 million from the coal severance tax permanent fund to the new higher education trust fund at the beginning of each fiscal year from 2004 through 2007. It would transfer \$13.5 million at the beginning of fiscal 2008. In addition, 10% of the interest and earnings is re-deposited each year. The following table shows transfers from the permanent fund to the higher education trust fund, and the resulting changes in balances and interest earnings for fiscal years 2003 through 2010, assuming that the interest rate on the trust funds continues to be 7.1%.

Fiscal Year	Transfer from Permanent Fund to Higher Education Fund	Balance of Higher Education Fund	Interest on Education Fund	Interest to University System	Interest Redeposited in Higher Education Fund	Cumulative Reduction in Balance of Permanent Fund	Reduction in Interest to General Fund
2003	\$6,500,000	\$6,500,000	\$461,500	\$415,350.0	\$46,150	\$6,500,000	\$461,500
2004	\$20,000,000	\$26,546,150	\$1,884,777	\$1,696,299.0	\$188,478	\$26,500,000	\$1,881,500
2005	\$20,000,000	\$46,734,628	\$3,318,159	\$2,986,342.7	\$331,816	\$46,500,000	\$3,301,500
2006	\$20,000,000	\$67,066,444	\$4,761,717	\$4,285,545.7	\$476,172	\$66,500,000	\$4,721,500
2007	\$20,000,000	\$87,542,615	\$6,215,526	\$5,593,973.1	\$621,553	\$86,500,000	\$6,141,500
2008	\$13,500,000	\$101,664,168	\$7,218,156	\$6,496,340.3	\$721,816	\$100,000,000	\$7,100,000
2009	\$0	\$102,385,983	\$7,269,405	\$6,542,464.3	\$726,940	\$100,000,000	\$7,100,000
2010	\$0	\$103,112,924	\$7,321,018	\$6,588,915.8	\$732,102	\$100,000,000	\$7,100,000

The balance in the higher education fund and interest earnings on the fund would continue to grow over time as 10% of the interest is re-deposited. Interest payments to the university system would exceed the reduced interest to the general fund beginning in fiscal 2021.