FISCAL NOTE

Bill #: SB 495

Title: Revise state land laws to increase funding for trust

Primary Sponsor: Fred Thomas

Status: Second Reading - Amended

____ ____

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Expenditures:		
General Fund	$(42,621,000)	$(43,600,000)
State Special Revenue	$47,672,118	$49,019,552
Revenue:		
General Fund	$(42,621,000)	$(43,600,000)
State Special Revenue	$47,672,118	$49,019,552
Net Impact on General Fund Balance:	**$0**	**$0**

Yes	No		Yes	No	
	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

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

1. School Interest and Income revenue currently deposited to the state general fund would be deposited to the newly created guarantee account. HJR2 estimates are $42,621,000 in FY02 and $43,600,000 in FY03.
2. Section 5 would become effective January 1 2003 if SB493 is passed by the voters.No effects of this passage are included in this fiscal note.
3. This bill would authorize the board of investments and the department of natural resources and conservation to enter into a contract with the following provisions:
   a) The Board of Investments would make a loan of no more than $75 million from the coal severance tax permanent fund to the Department of Natural Resources and Conservation to the guarantee fund.

b) The Department of Natural Resources and Conservation would use the loan proceeds to buy the next thirty years of net (after needs of trust land administration are met) mineral royalty receipts from school trust lands. The loan proceeds would be paid to the common school trust fund, and, for thirty years, all mineral royalties from school trust lands would be deposited in a new special revenue account called the guarantee account.
c) Each fiscal year, a fixed percentage of mineral royalties deposited in the guarantee account would be used to repay principal on the loan. This percentage is 0% for fiscal 2002 and 2003, 20% for fiscal 2004 and 2005, 25% for fiscal years 2006 through 2011, and 34% for fiscal years 2012 through 2031.
d) Each fiscal year, an amount equal to the interest on the remaining loan balance would be transferred to the general fund to replace lost interest on the coal severance tax permanent fund.

4. Projected net mineral royalties on school lands are $5,186,802 in fiscal 2002 and $5,903,132 in fiscal 2003. Royalties vary from year to year. The average net is projected to be $4.47 million. The amount that the Board of Investments would pay for this revenue stream is $37,430,000.
5. Estimated expenditures of DNRC from the trust land administration fund are $3,715,558 in FY02 and $3,712,355 in FY03. These expenditures are anticipated to grow 3 percent per year in the future.
6. Under current law, all mineral royalties from school lands are deposited in the common school trust fund. Under this bill, any mineral royalties not required to pay principle or interest on the loan contract in assumption #2 would be used for school equalization.
7. In fiscal 2002, no royalty income would be used to repay the principle of the loan, and $2,713,675 would be paid into the general fund to replace lost interest on the coal severance tax permanent fund. The remaining royalties, $2,473,127 ($5,186,802 - $2,713,675), would be used for school equalization.
8. This bill increases the average balance in the school trust fund in fiscal 2002 by $37,430,000. The projected rate of interest paid by the trust fund is 7.25%. The additional interest would be $2,713,675 (7.25% x $37,430,000).
9. 95% of interest earned on the common school trust fund is deposited in the guarantee fund to be used for school equalization and 5% is deposited in the trust fund. This bill would increase revenue to the guarantee fund for school equalization in fiscal 2002 by $5,051,118 ($2,473,127 + 95% of $2,713,675).
10. In fiscal 2003, no royalty income would be used to repay the principle of the loan, and $2,713,675 would be paid into the general fund to replace lost interest on the coal severance tax permanent fund. The remaining royalties, $3,189,457 ($5,903,132 - $2,713,675), would be paid into the guarantee fund to be used for school equalization.
11. Under this bill the school permanent fund is essentially capped as royalty payments and trust land administration will consume all new deposits. Under current law the balance would have increased by the net amount of nondistributable incomes less the allocation for trust land administration.
12. This is $52,306,625 ($58,290,000 + 5% of $4,226,025 - $6,194,676). The additional interest would be $3,792,230 (7.25% x 52,306,625).
13. This bill would increase revenue to the guarantee fund for school equalization in fiscal 2003 by $5,419,552 ($3,189,457 + 95% of $2,713,675).

Department of Natural Resources

14. Department of Natural Resources and Conservation management of mineral properties to generate royalty revenue over the next 30 years will be the same regardless of whether or not SB495 is adopted.
15. The mineral production income sale in SB495 is a stand-alone proposal that, if adopted, would be implemented regardless of whether or not the referendum to allow investment of a portion of the public school fund in equities is approved by the voters in November 2002.

16. DNRC would not actually purchase mineral ownership rights, but would instead allocate the appropriate amount of mineral production royalty revenue to service the loan from the coal severance tax permanent fund over the next 30 years.
17. The loan amount is set at an amount that will fully compensate the public school fund for the amount of future mineral production royalty revenue that will be allocated to loan service and distribution to school trust beneficiaries over the next 30 years.
18. Article X, Section 4 of the Constitution of Montana authorizes the board of land commissioners to manage school lands. MCA 77-1-202, specifies that the land board's authority is subject to the investment authority of the board of investments for the funds arising from the leasing, use, sale, and disposition of those lands. DNRC anticipates that the execution of a loan contract will require approval by both boards.
19. After the coal severance tax permanent fund loan is fully paid, subsequent mineral production royalty revenue will again be deposited into the public school fund.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
Expenditures:		
Local Assistance – School equalization aid	$5,051,118	$5,419,552
Funding:		
General Fund	$(42,621,000)	$(43,600,000)
State Special Revenue (02)	$47,672,118	$49,019,552
Revenues:		
General Fund	$(42,621,000)	$(43,600,000)
State Special Revenue (02)	$47,672,118	$49,019,552
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund	$0	$0
State Special Revenue (02)	$0	$0

LONG-RANGE IMPACTS:

This bill would increase the balance in the common school trust fund and interest earnings from the fund in fiscal 2002 as the $37,430,000 payment is deposited. It would reduce the growth of the trust fund because no royalties would be deposited in the trust fund in fiscal years 2002 through 2031. The trust fund balance will decline then grow if SB493 is passed by the voters. Payments for school equalization are higher under this bill than under current law and may continue to be higher if SB493 is approved.

Actual payments are likely to differ from this for two reasons. One is that royalties earned on school trust lands vary from year to year. In recent years, they have ranged from about $4 million to about $8 million.

School trust mineral production royalty revenue over the next 30 years will be dedicated to servicing the loan from the coal severance tax permanent fund, with surplus cash flow distributed to the school trust beneficiaries. At the end of the loan arrangement established by SB495, mineral royalties will again be placed into the school trust permanent funds.

TECHNICAL NOTES:

Department of Revenue

1. Section 3 requires that all distributable revenue, as defined in Section 1, must be deposited in the new guarantee account and distributed to school districts. MCA 77-1-601 - 613 requires payment of portions of this revenue into the resource development account and the state timber sale account.

Department of Natural Resources

2. DNRC's trust land management functions are funded out of revenues generated. One significant source of operations funding is from the trust land administration account referenced in 77-1-108 and –109, MCA. Budget authorization from the legislature is required, but the annual cap level of available funding is established by 77-1-108(2), MCA as the sum of 1.125% of the book value balance in the nine nonexpendable trust funds on January 1st preceding the new biennium. The 1.125% figure is based on the anticipated permanent fund balance for the trusts. In this note it has been assumed the trust land administration costs will be deducted prior to distribution to the guarantee fund.

Office of Public Instruction

3. Section 3 designates the distribution of funds from the guarantee account to schools for entitlements however there is no appropriation or adjustment of statutory entitlements. Implementation of this section will require amendments to entitlements and appropriation of funds.
4. Sections 20-9-342 and 20-9-343 allocating the school interest and income money to the general fund will have to be amended to coordinate with this act.