

EXHIBIT NO. \_\_\_\_\_

DATE Feb. 18, 2015

BILL NO. \_\_\_\_\_

# MONTANA COAL SEVERANCE TAX



Department of Natural Resources & Conservation  
January 2015

## Coal Severance Tax

Within 30 days of the end of each calendar quarter, coal severance taxes are paid to the state, and 50% of these are deposited into the **Coal Severance Tax Trust Fund** by the DOR. Six accounts are established within the Trust: (1) the **Coal Severance Tax Bond Fund**, (2) the **Treasure State Endowment Regional Water System Fund**, (3) the **Big Sky Economic Development Fund**, (4) the **Treasure State Endowment Fund**, (5) the **Coal Severance Tax Permanent Fund**, and (6) the **Coal Severance Tax Income Fund** (see Figure attached).

1. Coal tax revenues that flow into the trust are initially deposited into the **Coal Severance Tax Bond Fund** (Bond Fund) and made available for payment of debt service on Coal Severance Tax Bonds. The DNRC informs the DOR, during the state fiscal year, of the amount necessary to meet all principal and interest payments on bonds payable from the Bond Fund. The DOR retains that amount in the Bond Fund.

2. The **Treasure State Endowment Regional Water System Fund** was established to provide state funding for regional water systems. The Rocky Boy's North Central Regional Water Authority and the Fort Peck/Dry Prairie Regional Water System were federally authorized. Two additional regional systems, Dry Redwater and Central Montana have been formed. During the fiscal year, 25% of the amount in excess of what is retained in the Bond Fund is deposited into the Regional Water System Fund.

3. The 2005 legislature created the **Big Sky Economic Development Fund**. This fund provides interest earnings for grants and loans used for economic development projects working with local governments and certified regional development corporations. During the state fiscal year, 25% of the amount in excess of what is retained in the Bond Fund is deposited into the Big Sky Economic Development Fund. The program

is administered by the Department of Commerce.

4. The **Treasure State Endowment Fund** (Endowment Fund) was established when voters approved the ballot measure on June 2, 1992. During the state fiscal year, 50% of the amount in excess of what is retained in the Bond Fund is deposited into the Endowment Fund. The Department of Commerce notifies the DOR when interest earnings are needed to fund local infrastructure projects. The DOR then transfers the interest earnings from the Endowment Fund into the **Treasure State Endowment Special Revenue Account** (Revenue Account). The Department of Commerce then approves disbursement of funds to authorized local governments. Interest earnings not transferred to the Revenue Account for projects are retained in the Endowment Fund.

5. The **Coal Severance Tax Permanent Fund** (Permanent Fund) receives no new tax proceeds. The fund balance within the trust is invested by the Board of Investments. The earnings from the Permanent Fund are deposited into the General Fund. State law allows up to 25% of the Permanent Fund to be invested in the Montana economy.

6. Investment income on the deposits in the Bond Fund, and the Permanent Fund is periodically transferred into the **Coal Severance Tax Income Fund**. The entire balance in the Income Fund is transferred into the General Fund on a monthly basis.

7. Under the Coal Severance Tax Loan Program, the state sells coal severance tax bonds and loans the proceeds to local governments for various infrastructure projects. The borrowers make semiannual or annual loan payments, which upon receipt are credited to a **Debt Service Account**. The terms of the loans vary, but generally involve an interest rate subsidy. The loan

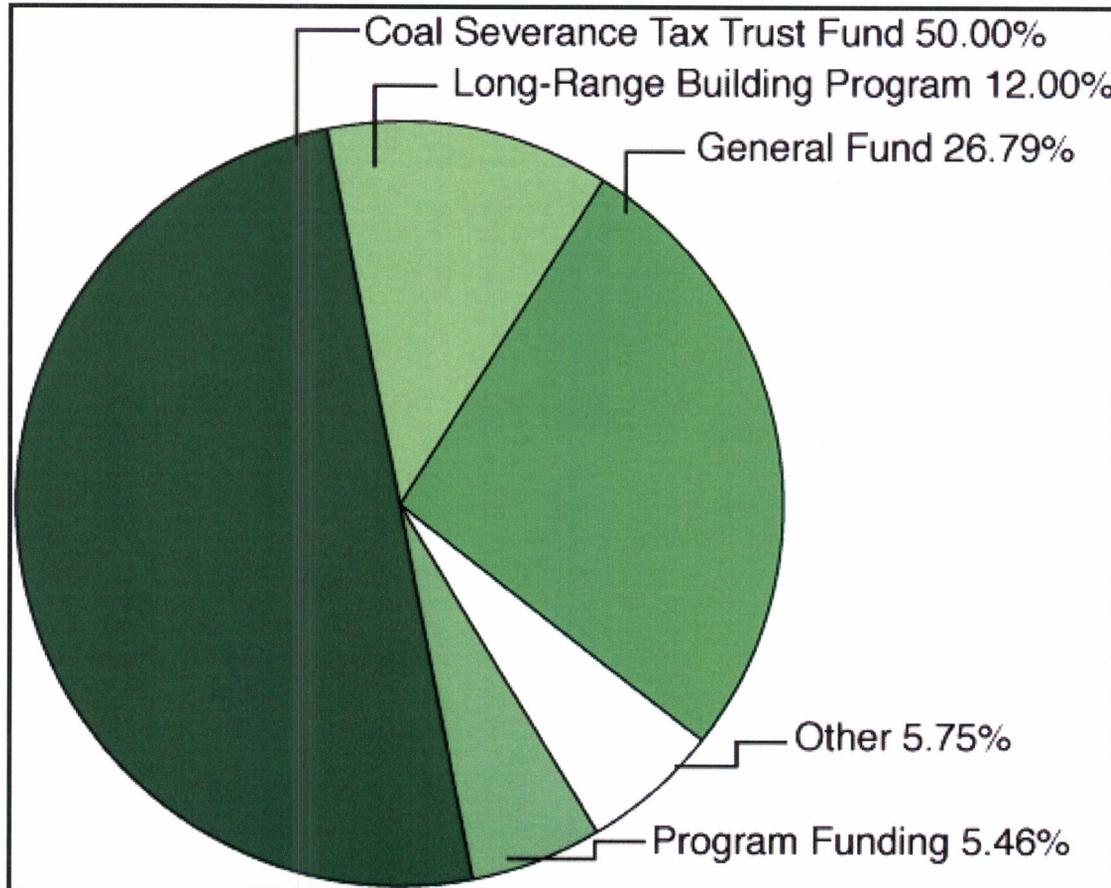
program and debt service accounts are administered by DNRC.

8. Debt service payments on the bonds are due each June 1 and December 1. To the extent that funds on hand in the Debt Service Account are insufficient to pay principal and interest on the bonds when due, funds are transferred into the Debt Service Account from the Bond Fund. On January 1 of each year, funds are transferred into the Debt Service Account from the Bond Fund to the extent necessary to cause the balance in the Debt Service Account to equal one-twelfth of the next two

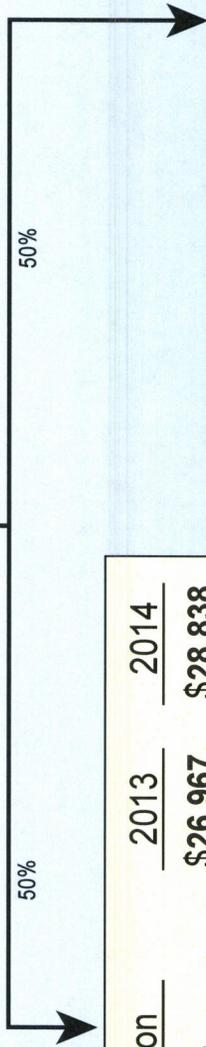
ensuing semiannual debt service payments. DNRC provides written notice to the DOR if funds are needed to pay debt service or to make the required transfer on January 1. On January 1 of each year, DNRC also sweeps the Debt Service Account of funds in excess of one-twelfth of the next two ensuing semiannual debt service payments. The excess is returned to the Bond Fund.

9. On each June 1 and December 1, the state pays debt service on the bonds from amounts on hand in the Debt Service Account. Payments are made by DNRC.

**Allocation of Coal Severance Tax - for FY 2014**

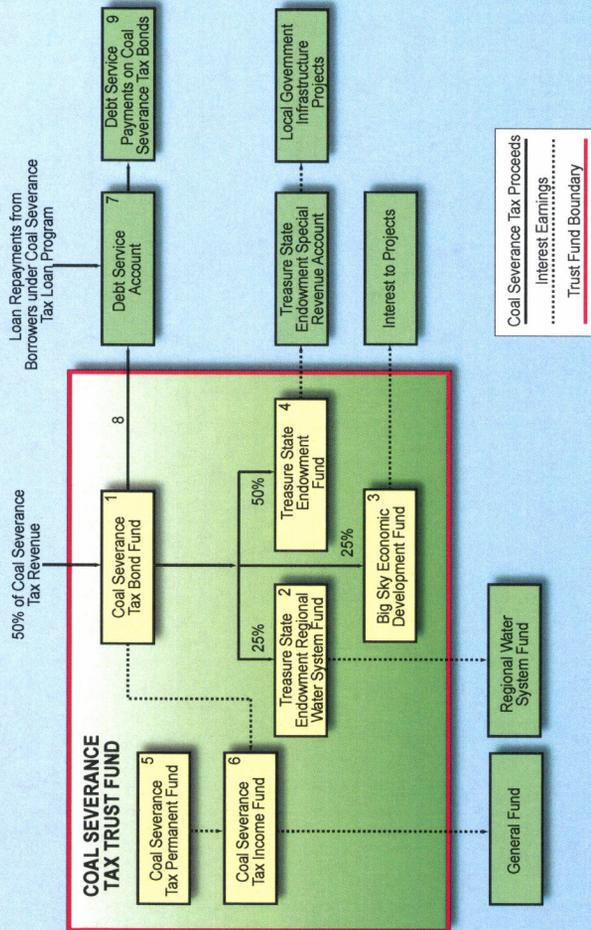


# Coal Severance Tax Collections



Account	Allocation	2013	2014
Trust Fund	50%	\$26,967	\$28,838

## Coal Severance Tax Trust Fund Flow of Funds Summary



## Coal Severance Tax Spendable Allocation

Tax	Allocation	FY 2013 (\$1,000)	FY 2014 (\$1,000)
Coal Severance Tax Collections	100%	\$ 53,934	\$ 57,676
Coal Severance Tax Trust Fund	50.00%	26,967	28,838
General Fund *(23.8% FY13, 26.7% FY 14)	*	12,638	15,203
Long-Range Building Program	12.00%	6,472	6,921
Program Funding	5.46%	2,944	3,149
Other			
Oil, Gas, and Coal Natural Resources *(5.8% FY13, 2.9% FY 14)	*	3,128	1,672
Parks Acquisition and Management Trust	1.27%	684	732
Renewable Resource Loan Debt Service	0.95%	512	548
Cultural and Aesthetic Trust and Capitol Art	0.63%	339	363
Coal and Uranium Mine Permit & Reclamation Payment		250	250

\*Allocation % change in each year



