Coal Trust Interest Earnings (Article IX, Section 5)

1. Model Characteristics

- There are three entities that contribute to coal trust interest earnings.
  - Interest accrues from balances held in commercial loans, the trust fund bond pool (TFBP), and the short-term investment pool (STIP).
- Quarterly coal tax trust fund balances are estimated by summing together the predicted balances of the three investment categories mentioned above.
- Quarterly rates of return are projected for each component of the coal tax trust fund.
  - The rate of return on commercial loans is predicted to decline steadily over the forecast period.
  - STIP rates of return are estimated via a simple linear regression with the federal funds rate as the independent variable, and the predictions are adjusted for model error.
  - TFBP rates of return are predicted based on yield-to-maturity data from the BOI.
- Income for each component of the trust fund is determined by applying each interest rate to its respective balance and then summing to determine total trust fund income.
- Interest earnings from the balances in the coal tax trust fund are added to any income occurring due to capital gain or interest from balances held in the coal tax bond fund and coal tax income fund. Administrative expenses are subtracted from total income to determine coal trust total revenue.

2. Model Data

- Data for the coal trust interest earnings model is obtained primarily from the BOI and IHS Economics.

3. Key Variables

- Commercial loan balance, TFBP balance, and STIP balance.
- Commercial loan interest rate, TFBP interest rate, STIP interest rate.

4. Other Important Points

- STIP rates of return are tied to the federal funds rate and so are subject to federal monetary policy. It is expected that the Federal Reserve is going to raise short-term interest rates sometime in the latter half of CY 2015. If so, the STIP rate of return will begin to rise.
- Rates of return on balances held in the TFBP are expected to remain subdued for the near future. Relatively low-yield bonds acquired in recent years have yet to mature.