

Coal Trust Interest

Revenue Description

The coal trust is one of several trusts set up with money from the Coal Severance Tax. The interest money from this fund is for a variety of purposes with the majority going to fund the Public Employees Retirement System.

[Article IX, Section 5](#) of the Montana Constitution requires that 50% of all coal severance tax revenue be deposited in a permanent coal trust fund in which appropriation of the principal requires a three-fourths vote of each house of the legislature. Coal severance tax funds flowing into the trust fund are first used to secure and subsidize state bonds issued to finance water resource and renewable resource development projects and activities. The remaining funds are then split 50% (25% of total revenue) to the Treasure State Endowment trust fund, 25% (12.5% of total revenue) to the Treasure State Endowment Regional Water System trust fund, and 25% (12.5% of total revenue) to the Big Sky Economic Development trust fund.

The permanent trust fund currently does not receive coal severance tax revenue; however, the distributions to the treasure state endowment trust fund and the treasure state endowment regional water system trust fund terminate on June 30, 2016. After this date, amounts that had been distributed to the two treasure state trust funds will be distributed to the permanent fund. By statute, interest earned on the coal severance tax permanent trust that is not earmarked to other programs is deposited to the general fund.

For more information on the coal permanent trust earnings and distributions, see the chart in the [Coal Severance Tax](#) section.

Statutory Reference

Distribution – [Montana Constitution, Article IX, Section 5](#); [17-5-704, MCA](#); [15-35-108, MCA](#)

Applicable Tax Rates: N/A

Collection Frequency: Monthly

Distribution

Interest earned on the coal severance tax permanent trust fund that is deposited to the general fund is statutorily appropriated as follows:

- \$65,000 to the cooperative development center;
- \$625,000 for the growth through agriculture program provided for in [Title 90, chapter 9](#);
- \$1.275 million to the research and commercialization account created in [90-3-1002](#);
- to the Department of Commerce for specific projects:
 - \$125,000 for a small business development center;
 - \$50,000 for a small business innovative research program;
 - \$425,000 for certified regional development corporations;
 - \$200,000 for the Montana manufacturing extension center at MSU-Bozeman; and
 - \$300,000 for export trade enhancement
- After the above payments, up to \$21 million is appropriated to the public employees' retirement system defined benefit plan trust fund

Comparison of Legislative and Executive Forecasts

The difference between the legislative and executive forecasts is due to the difference in the estimated balance in FY 2017, as the legislative estimate assumes that the coal permanent trust

Interest Earnings

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balance will receive the current principle of regional water trust fund once the trust sunsets at the end of FY 2016.

Coal Trust Interest (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$20.550	\$19.870	\$20.050	\$60.470
Legislative Forecast	20.473	19.849	22.491	62.813
Difference	\$0.077	\$0.021	(\$2.441)	(\$2.343)
% Difference	0.4%	0.1%	-10.9%	-3.7%

Forecast Risks

- Short and long term interest rates
- Bond rates

Revenue Estimate Methodology

Data

The Board of Investments (BOI) provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future long-term interest rates are provided by the BOI and short-term rates are provided by IHS.

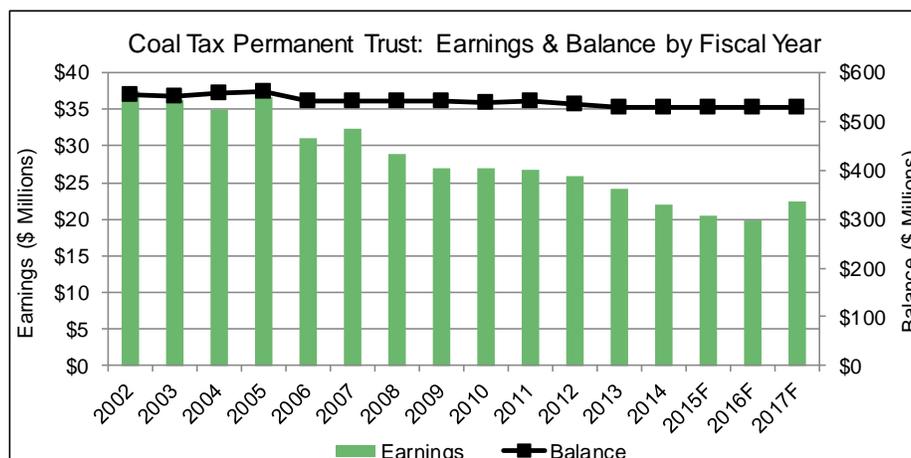
Analysis

The coal trust was created from distributions of the coal severance tax. The Constitution requires that 50% of the coal severance tax collections be distributed into the permanent coal trust; currently, the required coal tax revenue flows into the three sub-trusts and none of the tax revenue is deposited into the permanent coal trust.

Each of the following interest or income components are estimated independently and combined to produce the estimate:

- Trust funds bond pool (TFBP)
- In-state investments
- Short-term investment pool (STIP)

The TFBP was formed in 1995 to manage the fixed investments held in the state's major trust funds. Each trust owns "shares" of the pool and interest earnings are paid to each trust on a per-share basis. Yearly return rate estimates provided by the BOI are applied to the current and estimated future trust balance to produce a TFBP earnings estimate.



Interest Earnings

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The BOI is required by statute to invest 25% of the coal tax trust in the Montana economy. In-state investments primarily consist of loans to Montana business entities and earnings are equal to the interest charged on the loans.

STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. STIP earnings are modeled on an average short-term interest rate based on IHS projections of three short-term investments

After the estimates are calculated, the projected earnings the sources are combined to reach total coal trust interest revenue, and the revenues are distributed as described above.

Revenue Estimate Assumptions

FY	Total Rev. \$ Millions	GF Rev. \$ Millions	TFBP Interest \$ Millions	In_State Interest \$ Millions	Other Interest \$ Millions	STIP Interest \$ Millions
A 2002	\$37.605	\$37.605	\$23.318	\$8.765	\$0.402	\$1.097
A 2003	36.298	36.298	21.079	10.501	0.028	0.388
A 2004	34.907	34.907	22.274	8.722	0.055	0.451
A 2005	36.752	36.752	21.419	8.231	2.310	0.691
A 2006	31.106	31.106	16.718	8.338	0.346	2.117
A 2007	32.335	32.335	17.616	10.085	1.220	1.378
A 2008	28.855	28.855	17.570	9.346	0.154	1.501
A 2009	26.958	26.958	16.071	11.264	0.572	0.229
A 2010	26.914	26.914	16.102	11.454	0.119	0.060
A 2011	26.783	26.783	16.687	10.416	0.585	0.053
A 2012	25.840	25.840	17.618	8.701	0.128	0.041
A 2013	24.153	24.153	16.664	7.083	0.453	0.032
A 2014	21.996	21.996	16.058	5.114	0.112	0.013
F 2015	20.473	20.473	15.393	4.860	0.193	0.026
F 2016	19.849	19.849	14.703	4.860	0.184	0.101
F 2017	22.491	22.491	17.210	4.860	0.189	0.233

FY	TFBP Long Term Rate	Non Pool STIP Rate	Non Pool In State Rate	Non Pool STIP Bal \$ Millions	Non Pool In-State Bal \$ Millions	Invested TFBP Bal. \$ Millions	TFBP Growth Rate
A 2002	0.0%	4.4%	5.6%	\$26.722	\$168.249	\$310.879	0.0%
A 2003	7.0%	1.2%	6.2%	37.107	169.738	291.809	7.0%
A 2004	7.4%	1.1%	5.4%	41.478	156.146	306.809	7.4%
A 2005	7.0%	1.5%	5.4%	48.814	150.708	308.116	7.0%
A 2006	5.6%	4.3%	5.4%	50.510	160.850	287.914	5.6%
A 2007	6.2%	3.3%	5.6%	33.159	199.324	284.926	6.2%
A 2008	5.7%	6.1%	4.9%	15.911	182.302	328.895	5.7%
A 2009	5.1%	1.3%	5.9%	20.176	201.284	307.515	5.1%
A 2010	5.1%	0.3%	5.8%	17.745	194.937	324.357	5.1%
A 2011	5.0%	0.3%	5.7%	16.065	168.605	343.015	5.0%
A 2012	4.9%	0.3%	5.6%	13.821	139.779	369.515	4.9%
A 2013	4.5%	0.2%	5.5%	20.572	116.898	373.829	4.5%
A 2014	4.3%	0.1%	4.6%	9.237	105.821	380.291	4.3%
F 2015	4.0%	0.3%	4.6%	9.237	105.821	386.866	4.0%
F 2016	3.7%	1.1%	4.6%	9.237	105.821	393.553	3.7%
F 2017	3.5%	2.5%	4.6%	9.237	105.821	492.554	3.5%

