

Regional Water Trust Interest

Revenue Description

The Regional Water trust is one of several trusts set up with money from the coal severance tax. The Treasure State Endowment (TSE) Regional Water System trust fund receives 12.5% of total coal severance tax collections. Interest earned on the fund is used to provide matching funds to plan and construct regional drinking water systems in Montana and fund state and local entity administrative expenses. Except for administrative expenses, state funds must be matched equally by local funds. The funds in the account are further restricted to finance regional drinking water systems from the waters of the Tiber reservoir and the Missouri River within specific geographic areas.

This sub-trust is scheduled to sunset at the end FY 2016, at which point the balance of the sub-trust will be transferred to the coal permanent trust. For more information on the coal permanent trust earnings and distributions, see the chart in the [Coal Severance Tax](#) section.

[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 receives no coal severance tax revenue.

Statutory Reference

Distribution – [Montana Constitution, Article IX, Section 5](#); [17-5-703 \(4b\), MCA](#); [90-6-715, MCA](#)

Date Due – Monthly ([17-5-703\(4d\), MCA](#))

Applicable Tax Rates: N/A

Collection Frequency: Monthly

Distribution

Interest earnings are deposited to a state special revenue fund and appropriated to the Department of Natural Resources and Conservation to fund eligible projects and pay administrative expenses.

Forecast Risks

- Short and long-term interest rates
- Bond rates
- Coal price and production

Revenue Estimate Methodology

Data

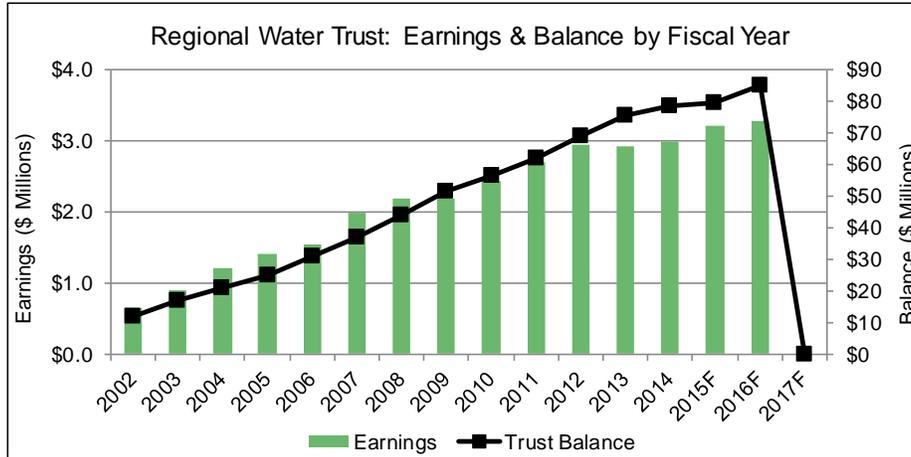
The Board of Investments (BOI) provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by IHS and historic interest collections are obtained from SABHRS.

Analysis

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

- Trust fund bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

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. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. TFBP earnings are forecast by applying estimated return rates, provided by the BOI, to the current and forecast trust balance.



The chart illustrates the sunset of the regional water trust at the end of FY 2016. It is assumed that the balance will be transferred to the coal permanent trust.

STIP interest is earned on the temporary investment of trust funds. Funds are acquired from activities such as new deposits and investment sales. Funds are held in STIP until the BOI determines that conditions are favorable for deposit in the TFBP. Short-term interest forecasts from IHS are applied to money not invested in the TFBP to calculate future STIP earnings.

Coal severance tax distributions to the trust are considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested in the TFBP. These new trust deposits are forecast using estimates of coal severance tax collections.

Interest Earnings

Regional Water Trust Interest

Revenue Estimate Assumptions

FY	Total Rev. \$ Millions	GF Rev. \$ Millions	TFBP Interest \$ Millions	STIP Interest \$ Millions	Invested Balance \$ Millions	TFBP Long Term Rate
A 2002	\$0.643	\$0.000	\$0.611	\$0.033	\$10.274	0.0%
A 2003	0.894	-	0.865	0.030	14.914	6.9%
A 2004	1.201	-	1.174	0.027	18.248	7.1%
A 2005	1.396	-	1.340	0.056	22.148	6.6%
A 2006	1.527	-	1.391	0.137	26.747	5.7%
A 2007	1.979	-	1.772	0.206	32.597	6.0%
A 2008	2.175	-	1.970	0.205	38.247	5.6%
A 2009	2.179	-	2.073	0.105	44.807	5.0%
A 2010	2.419	-	2.393	0.025	50.572	5.0%
A 2011	2.685	-	2.664	0.021	57.292	4.9%
A 2012	2.937	-	2.913	0.023	62.342	4.9%
A 2013	2.912	-	2.896	0.016	70.292	4.4%
A 2014	2.993	-	2.988	0.006	76.542	4.1%
F 2015	3.207	-	3.200	0.007	79.469	3.7%
F 2016	3.269	-	3.241	0.027	85.053	3.5%
F 2017	-	-	0.223	0.063	-	3.4%

FY	Net Coal Tax New Deposit \$ Millions	STIP Balance \$ Millions	Non Pool STIP Rate
A 2002	\$3.952	\$1.579	2.7%
A 2003	3.678	1.894	1.7%
A 2004	3.943	2.694	1.2%
A 2005	4.704	2.765	2.0%
A 2006	4.478	3.826	4.1%
A 2007	5.095	3.908	5.3%
A 2008	5.666	5.611	4.3%
A 2009	6.196	6.786	1.7%
A 2010	5.522	5.488	0.4%
A 2011	6.871	7.188	0.3%
A 2012	6.593	7.198	0.3%
A 2013	7.072	4.646	0.3%
A 2014	7.210	1.958	0.2%
F 2015	6.158	1.958	0.3%
F 2016	6.480	1.958	1.1%
F 2017	6.639	1.958	2.5%

