
Legislative Fiscal Division

Revenue Estimate Profile

Coal Trust Interest

Revenue Description: This revenue source represents the interest gained on the Coal Trust. 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 (shown in the distribution chart) 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 and that the principal of the trust "shall forever remain inviolate unless appropriated by a three-fourths vote of each house". 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. With the enactment of House Bill 249 by the 2005 Legislature, beginning FY 2006 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 no longer receives coal severance tax revenue. By statute, interest earned on the coal severance tax permanent trust that is not earmarked to other programs is deposited to the general fund. When calculating interest earnings, the impact of loans made from the trust, such as the in-state investment program, is taken into account. With the enactment of HB 454 by the 2013 Legislature, amounts distributed 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 and earn additional interest.

As of October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to a newly-created trust fund bond pool (TFBP). The majority of permanent coal tax trust funds are invested as part of the TFBP. Some funds, however, are invested on a short-term basis in the state's short-term investment pool (STIP). In addition, state law provides that trust funds may be used for in-state commercial loans to stimulate economic development. The state Constitution prohibits the investment of the permanent trust in common stock.

Statutory Reference:

Tax Rate - NA

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

Date Due - NA

Applicable Tax Rate(s): N/A

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

FY 2014 – FY 2019

Up to \$21,000,000 to the Public Employees' Retirement System defined benefit plan trust fund

\$1,275,000 – to the research and commercialization state special revenue account

\$625,000 – for the growth through agriculture program

\$425,000 – to the Department of Commerce for certified regional development corporations

\$300,000 – to the Department of Commerce for export trade enhancement

\$200,000 – to the Department of Commerce for the Montana manufacturing extension center at MSU-Bozeman

\$125,000 – to the Department of Commerce for a small business development center

\$65,000 – to the Cooperative Development Center

\$50,000 – to the Department of Commerce for a small business innovative research program

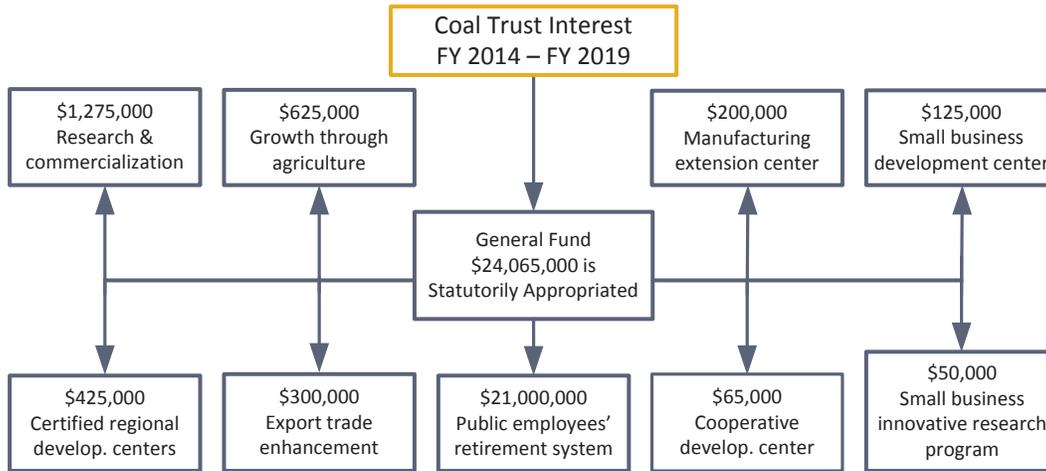
Total: \$24,065,000

Legislative Fiscal Division

Revenue Estimate Profile

Coal Trust Interest

Distribution Chart:



Summary of Legislative Action:

Senate Bill 136 – The legislation provides for an additional \$15 million from the permanent coal tax trust fund to fund loans to first-time eligible veteran home buyers. The money is from investments by the Board of Investments from the permanent coal tax trust fund. The program is administered by the Board of Housing. Interest earned from the permanent fund investments and deposited to the general fund is reduced after the bill becomes effective July 1, 2013.

Coal Trust Interest – Legislation Passed by 63rd Legislature			
General Fund Impact (\$ Millions)			
Bill Number and Short Title	FY 2013	FY 2014	FY 2015
SB0136 Revise veterans home loan program laws	\$0.000	(\$0.070)	(\$0.149)
Total General Fund Impact	\$0.000	(\$0.070)	(\$0.149)

Collection Frequency: Monthly

% of Total General Fund Revenue:

FY 2004 – 2.53%	FY 2007 – 1.76%	FY 2010 – 1.65%
FY 2005 – 2.40%	FY 2008 – 1.47%	FY 2011 – 1.5%
FY 2006 – 1.82%	FY 2009 – 1.49%	FY 2012 – 1.38%

Revenue Estimate Methodology:

Data

The data used to estimate interest earnings from the coal trust are obtained from the Board of Investments (BOI), IHS, and the state accounting system (SABHRS). The 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

The coal trust was created from distributions of the coal severance tax. While the Constitution requires that 50% of the coal severance tax collections be distributed into the coal trust, in early the 1990's the first sub-trust was created and two more were subsequently formed. 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.

Legislative Fiscal Division

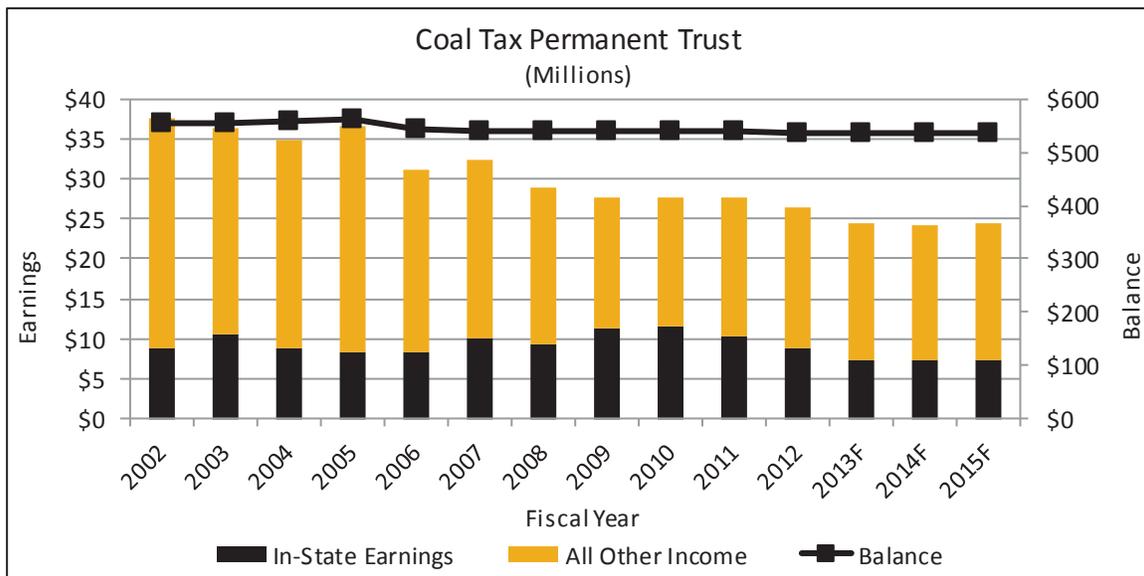
Revenue Estimate Profile

Coal Trust Interest

To forecast the coal trust interest earnings, four interest/income components are estimated independently and summed. The interest/income components include:

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

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 top bar of the figure below. To estimate TFBP earnings, the base year rate of return generated by the pool, as reported by the BOI, is adjusted during the forecast period for maturing securities. The applicable new long-term rate for these securities is based on an average of four long-term rates projected by IHS.



As seen in the figure above, earnings from in-state investments are the second largest source of income to the coal tax trust. The BOI is required by statute to invest 25% of the coal tax trust in the Montana economy. Investments must be made to maximize the long-term benefit to 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. The in-state balance is held constant throughout the biennium because no new flow of revenue is expected.

STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed based on IHS projections of three short-term investments. The average of these rates is then converted to a fiscal year basis.

Payback interest earnings result from a loan of \$46.4 million to the common school trust fund, approved in SB 495 during the 2003 session, was re-paid at the end of FY 2010. Interest on the loan was required to equal the rate of return generated by the TFBP. Additional income was derived from payment of the loan principal. Principal repayments were temporarily placed into STIP and earn interest until invested in the TFBP. Loan interest paid into the trust declined as the outstanding principal was repaid.

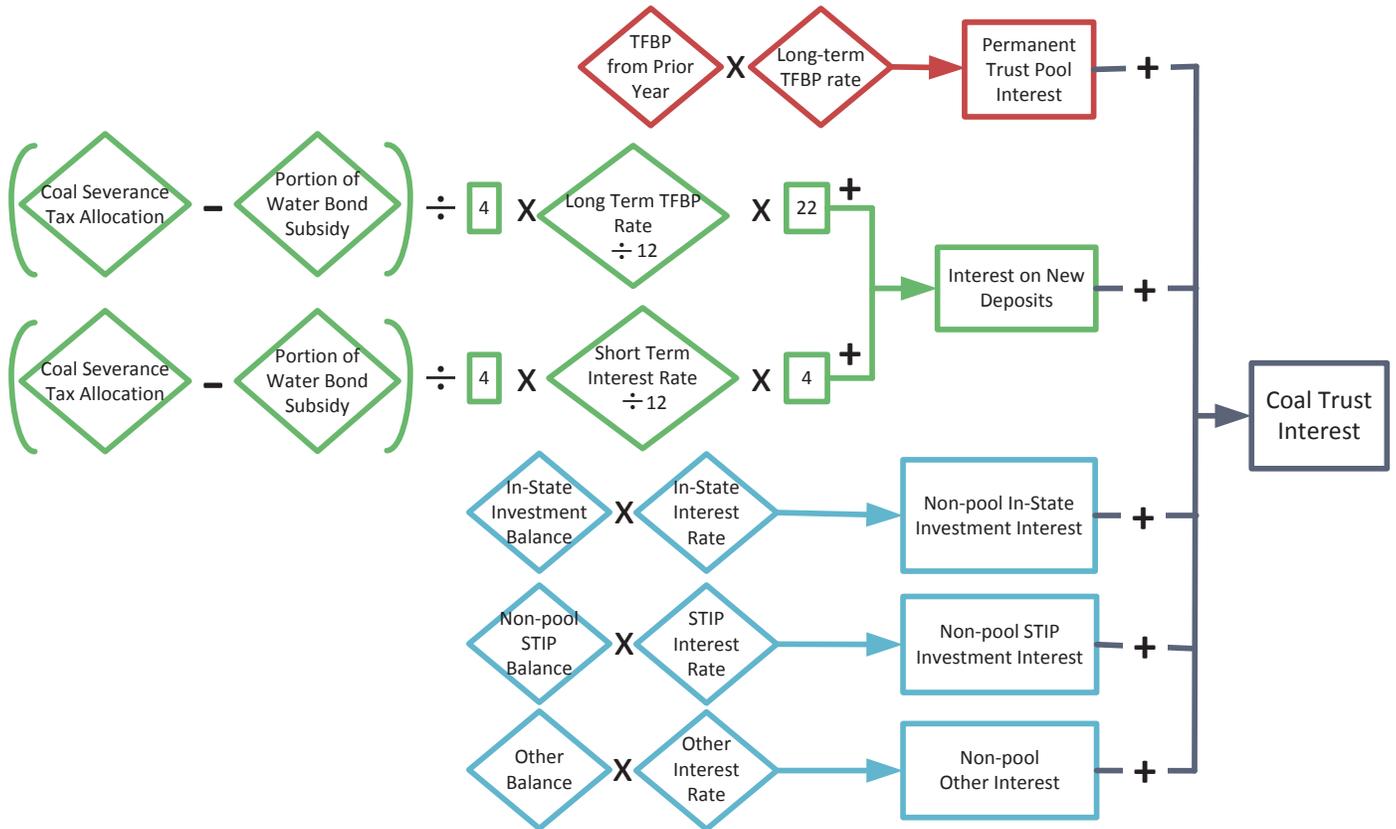
After the estimates are calculated, the projected earnings from the four sources are combined to reach total coal trust interest revenue, and the revenues are distributed as described above.

Legislative Fiscal Division

Revenue Estimate Profile

Coal Trust Interest

Forecast Methodology:



Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in Senate Joint Resolution 2. It does not reflect changes, if any, enacted by the 2013 Legislature that may affect future estimates of this revenue source.

	t	Total Rev.	GF Rev.	TFBP	In_State	Other	STIP	Payback
	Fiscal	Millions	Millions	Interest	Interest	Interest	Interest	Interest
				Millions	Millions	Millions	Millions	Millions
Actual	2002	37.605	37.605	23.318	8.765	0.402	1.097	3.370
Actual	2003	36.298	36.298	21.079	10.501	0.028	0.388	3.307
Actual	2004	34.907	34.907	22.274	8.722	0.055	0.451	3.405
Actual	2005	36.752	36.752	21.419	8.231	2.310	0.691	3.006
Actual	2006	31.106	31.106	16.718	8.338	0.346	2.117	2.256
Actual	2007	32.335	32.335	17.616	10.085	1.220	1.378	1.505
Actual	2008	28.855	28.855	17.570	9.346	0.154	1.501	0.283
Actual	2009	26.958	26.958	16.071	11.264	0.572	0.229	0.000
Actual	2010	26.914	26.914	16.102	11.454	0.119	0.060	0.000
Actual	2011	26.783	26.783	16.687	10.416	0.585	0.053	0.000
Actual	2012	25.840	25.840	17.618	8.701	0.128	0.041	0.000
Forecast	2013	24.451	24.451	17.219	7.213	-0.131	0.035	0.000
Forecast	2014	24.424	24.424	17.219	7.213	-0.159	0.036	0.000
Forecast	2015	24.411	24.411	17.219	7.213	-0.189	0.053	0.000

Legislative Fiscal Division

Revenue Estimate Profile

Coal Trust Interest

	t	Net Coal Tax New Deposit	Bond Subsidy	New Deposit Long Term	Non Pool STIP	Non Pool In State	Non Pool Loan	Gains
	Fiscal	Millions	Millions	Rate	Rate	Rate	Rate	Millions
Actual	2002	0.000	0.265	6.2%	2.6%	5.6%	7.3%	0.654
Actual	2003	0.000	0.780	5.7%	1.4%	6.2%	7.0%	0.994
Actual	2004	3.943	1.474	5.4%	1.3%	5.4%	7.3%	0.000
Actual	2005	4.704	1.294	5.2%	2.4%	5.4%	7.3%	0.857
Actual	2006	0.000	0.417	5.2%	4.1%	5.4%	7.3%	1.332
Actual	2007	0.000	0.000	5.4%	4.7%	5.6%	6.2%	0.531
Actual	2008	0.000	0.000	5.3%	3.1%	4.9%	5.7%	0.000
Actual	2009	0.000	0.803	5.1%	1.0%	5.9%	5.1%	(0.381)
Actual	2010	0.000	0.085	4.8%	0.2%	5.8%	5.1%	0.000
Actual	2011	0.000	2.704	4.4%	0.1%	5.7%	5.0%	0.000
Actual	2012	0.000	1.043	3.8%	0.1%	5.6%	4.9%	0.000
Forecast	2013	0.000	0.000	3.4%	0.1%	5.2%	4.9%	0.000
Forecast	2014	0.000	0.000	3.8%	0.1%	5.2%	4.9%	0.000
Forecast	2015	0.000	0.000	4.2%	0.2%	5.2%	4.9%	0.000

	t	Non Pool STIP Bal	Non Pool In-State Bal	Non Pool Loan Bal	SB495 Loan Payment	Invested Balance	Average Return	SB69 Impacts
	Fiscal	Millions	Millions	Millions	Millions	Millions	Rate	Millions
Actual	2002	26.722	168.249	46.367				
Actual	2003	37.107	169.738	46.367				
Actual	2004	41.478	156.146	46.367				
Actual	2005	48.814	150.708	44.546	1.821	552.184	6.6%	
Actual	2006	50.510	160.850	41.896	2.650	541.170	5.7%	
Actual	2007	33.159	199.324	31.047	10.849	548.455	5.9%	
Actual	2008	15.911	182.302	11.574	19.473	538.681	5.4%	
Actual	2009	20.176	201.284	0.000	11.574	528.974	5.2%	(0.292)
Actual	2010	17.745	194.937	0.000	0.000	537.040	5.2%	(0.584)
Actual	2011	16.065	168.605	0.000	0.000	527.685	5.3%	(0.301)
Actual	2012	13.821	139.779	0.000	0.000	523.115	5.1%	0.115
Forecast	2013	13.821	139.779	0.000	0.000	523.115	4.7%	0.115
Forecast	2014	13.821	139.779	0.000	0.000	523.115	4.7%	0.115
Forecast	2015	13.821	139.779	0.000	0.000	523.115	4.7%	0.115

Total Rev. = Invested Balance × Average Return

GF Rev. = Total Rev.

Legislative Fiscal Division

Revenue Estimate Profile

Coal Trust Interest

Revenue Projection:

