
Legislative Fiscal Division

Revenue Estimate Profile

Cultural Trust Interest

Revenue Description: This revenue source represents the interest gained on the Cultural Trust. The Cultural Trust is one of several trusts set up with money from the Coal Severance Tax. The interest money from this fund is used primarily for works of art in the capitol and for other cultural and aesthetic projects.

Beginning in FY 1976, a portion of coal severance tax revenue was deposited into the Parks Acquisition and Arts Protection trust fund. The 1991 Legislature split the principal of this trust into two separate trusts, the Parks Acquisition trust and the Arts Protection trust (cultural trust), with coal severance taxes allocated to each one. The 1997 Legislature appropriated \$3.9 million from the cultural trust fund for the immediate purchase of Virginia and Nevada City properties. This action resulted in a loss of trust interest revenue that otherwise would be used to fund cultural and aesthetic (C&A) projects in the state during the 1999 biennium. Thus, beginning July 1, 1997, and ending June 30, 1999, 0.87% in coal severance tax revenue was allocated to an account in the state special revenue fund to compensate for the lost interest earnings and the previous 0.63% distribution of coal severance tax to the cultural trust was eliminated. Except for FY 2003, beginning July 1, 1999, the amount of 0.63% is once again statutorily allocated to the cultural trust, the interest from which is to be used for the purpose of protection of works of art in the capitol and for other cultural and aesthetic projects. The August 2002 special legislative session eliminated the allocation for FY 2003 only. In HB 9, the 2005 Legislature transferred \$3,412,500 from the general fund to the trust and the 2007 Legislature transferred \$1,500,000 from the general fund to the trust. Both these actions increase the earnings from the trust.

Statutory Reference:

Tax Rate - NA

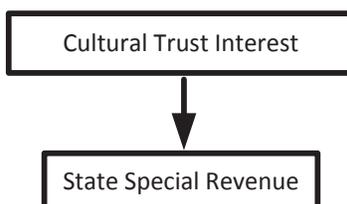
Distribution (MCA) - 15-35-108(6), 22-2-305

Date Due - NA

Applicable Tax Rate(s): N/A

Distribution: All income from the trust is deposited in a state special revenue fund to be appropriated for protection of works of art in the state capitol and for other cultural and aesthetic projects.

Distribution Chart:



Summary of Legislative Action: The 63rd Legislature did not enact legislation that impacted this source.

Collection Frequency: Monthly

% of Total General Fund Revenue: N/A

Revenue Estimate Methodology:

Data

The data used to estimate the interest and earnings of the cultural trust are collected from the Board of Investments (BOI), IHS, and the state accounting system (SABHRS). The BOI provides historic interest earnings from the trust as well as the gains and losses from the sale of investment instruments. Projections of interest rates are provided by IHS, and historic earnings are provided from SABHRS. No adjustments are required on the raw data in preparation for analysis.

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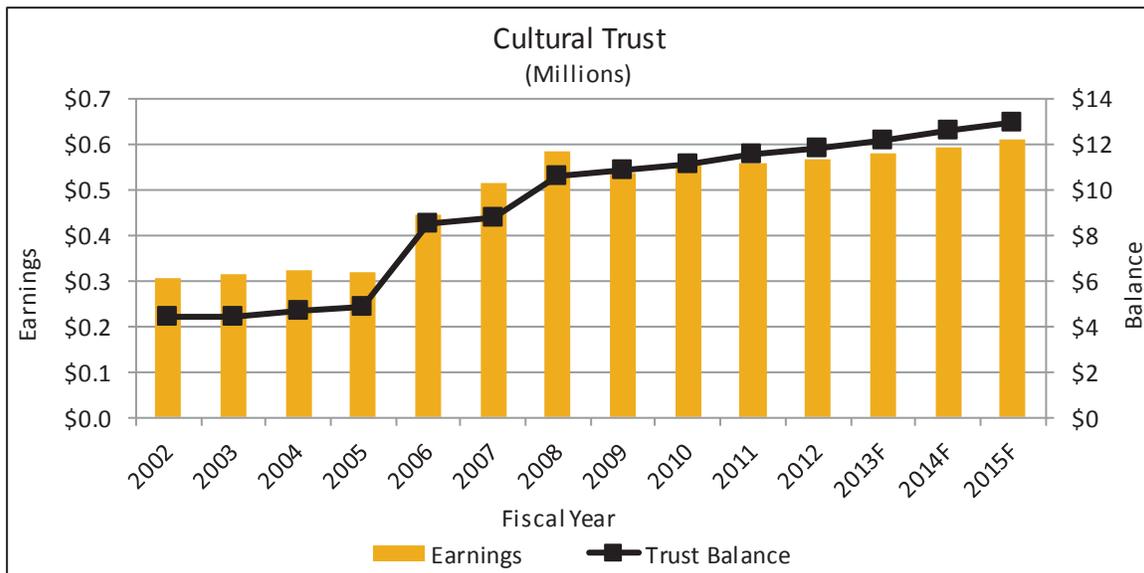
Analysis

The cultural trust, formed in the late 1970's, was created from distributions of the coal severance tax. The cultural trust receives coal tax distributions at the rate of 0.63% of the total tax. In several years of budget stress, the coal tax distribution to the cultural trust was temporarily eliminated or reduced. The principal of the trust was reduced by \$3.9 million in FY 1997 and the funds were used for the purchase of Virginia and Nevada Cities. In FY 2006, the trust was reimbursed for \$3.4 million, substantially increasing the principal of the trust, as shown in the figure below.

To forecast the cultural trust interest earnings, each of three interest/income components are estimated independently and combined. The estimated interest/income components include:

- The trust funds bond pool (TFBP)
- The 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. TFBP earnings are the largest source of earnings for the trust. The TFBP earnings are estimated by applying a long-term interest rate to the projected TFBP balance. The applicable long term rate is an average of four rates projected by IHS: the corporation Aaa bond rate, the corporate Baa bond rate, the rate on 10-year treasury bonds, and the rate on 30-year treasury bonds.



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. To estimate future STIP earnings, an average short-term interest rate is developed, based on IHS projections of the interest rates on three and six-month corporate loans and three and six-month treasury bills.

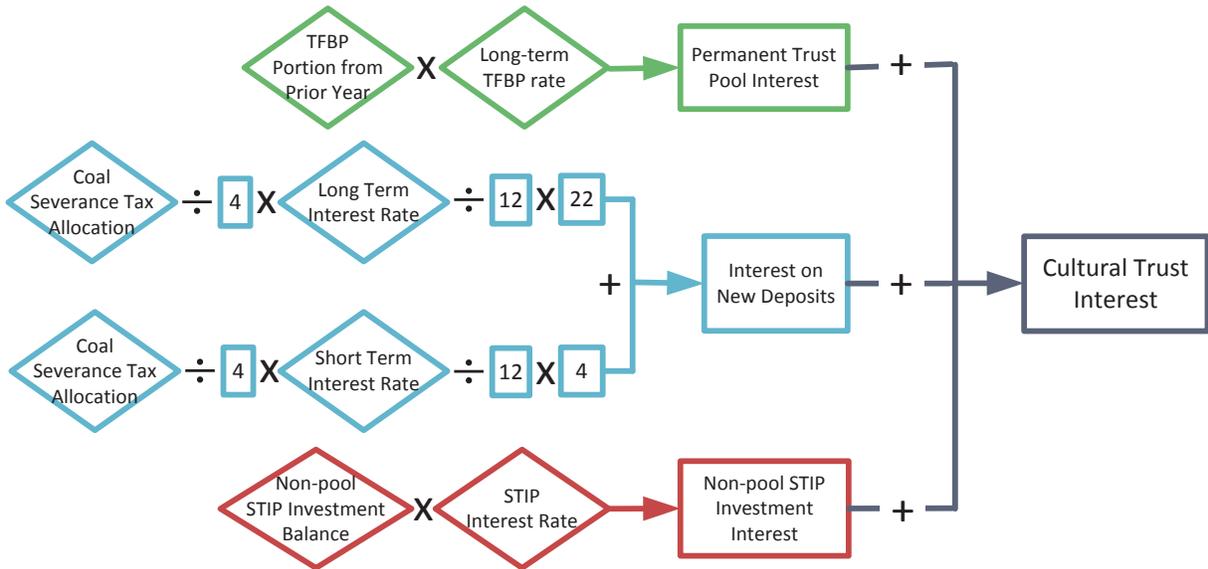
The 0.63% coal severance tax distribution to the cultural trust is considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested in the TFBP. The interest earned on new deposits is estimated by summing STIP earnings for one month with TFBP earnings for the remainder of the year.

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Forecast Methodology:



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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.

	<u>t</u>	<u>Total Rev.</u>	<u>GF Rev.</u>	<u>TFBP</u>	<u>STIP</u>	<u>Invested</u>	<u>Average</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Interest</u>	<u>Interest</u>	<u>Balance</u>	<u>Return</u>
				<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Rate</u>
Actual	2002	0.305	0.000	0.304	0.001		
Actual	2003	0.314	0.000	0.310	0.001	4.518	7.0%
Actual	2004	0.326	0.000	0.325	0.001	4.693	6.9%
Actual	2005	0.318	0.000	0.316	0.002	4.932	6.5%
Actual	2006	0.447	0.000	0.421	0.026	8.478	5.3%
Actual	2007	0.516	0.000	0.513	0.003	8.785	5.9%
Actual	2008	0.584	0.000	0.573	0.011	10.595	5.5%
Actual	2009	0.535	0.000	0.534	0.001	10.862	4.9%
Actual	2010	0.553	0.000	0.553	0.000	11.096	5.0%
Actual	2011	0.561	0.000	0.559	0.000	11.436	4.9%
Actual	2012	0.568	0.000	0.567	0.001	11.786	4.8%
Forecast	2013	0.580	0.000	0.574	0.006	12.132	4.8%
Forecast	2014	0.593	0.000	0.586	0.007	12.497	4.7%
Forecast	2015	0.608	0.000	0.600	0.008	12.877	4.7%

	<u>t</u>	<u>Net Coal Tax</u>	<u>New Deposit</u>	<u>Non Pool</u>	<u>Non Pool</u>
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Long Term</u>	<u>STIP</u>	<u>STIP Bal</u>
		<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>
Actual	2002	0.199	6.2%	2.6%	0.102
Actual	2003	0.000	5.7%	1.4%	0.063
Actual	2004	0.199	5.4%	1.3%	0.088
Actual	2005	0.237	5.2%	2.4%	0.092
Actual	2006	0.226	5.2%	4.1%	0.063
Actual	2007	0.257	5.4%	4.7%	0.060
Actual	2008	0.286	5.3%	3.1%	0.191
Actual	2009	0.312	5.1%	1.0%	0.137
Actual	2010	0.278	4.8%	0.2%	0.071
Actual	2011	0.346	4.4%	0.1%	0.006
Actual	2012	0.332	3.8%	0.1%	0.076
Forecast	2013	0.346	3.4%	0.1%	0.076
Forecast	2014	0.365	3.8%	0.1%	0.076
Forecast	2015	0.380	4.2%	0.2%	0.076

$$\text{Total Rev.} = \text{Invested Balance} \times \text{Average Return}$$

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Revenue Projection:

