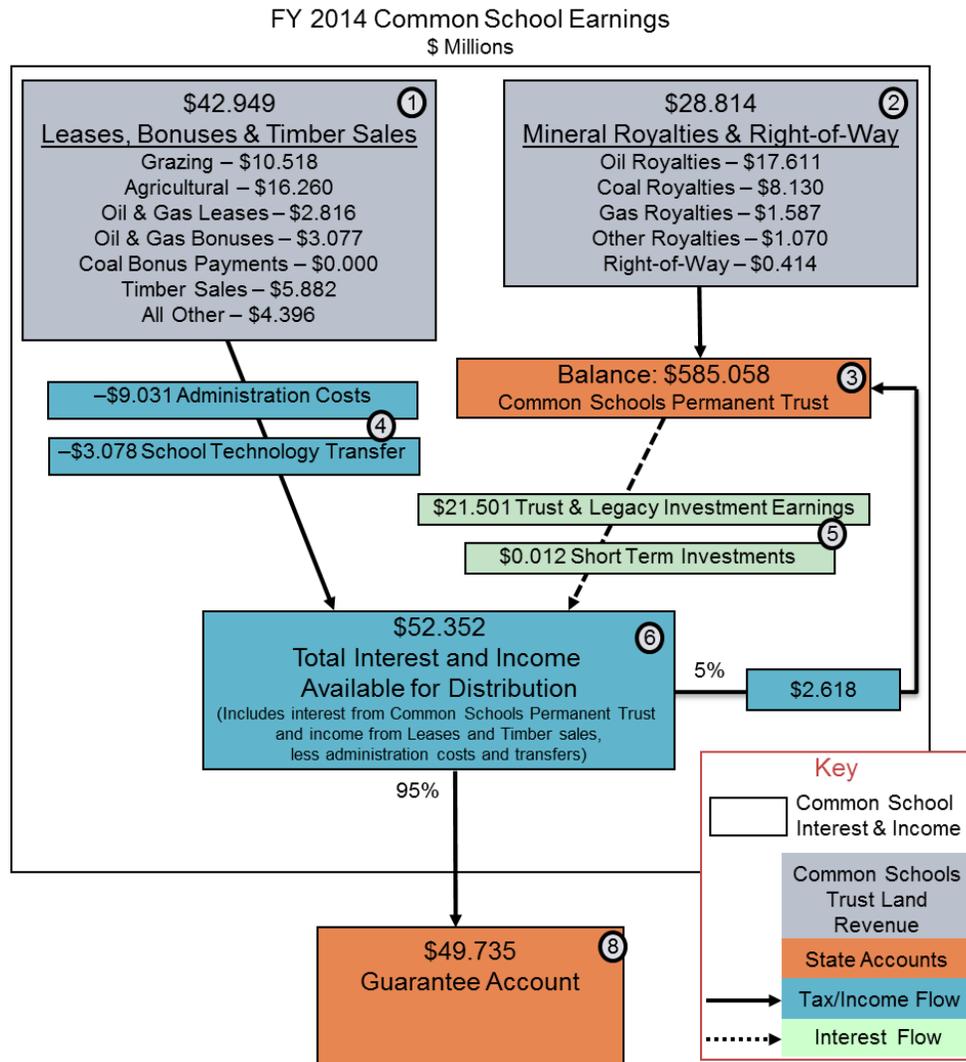


Common School Interest and Income

Revenue Description

The Common School Trust is a fund set up for the support of public schools using income generated from state common school trust land and the subsequent interest on the account. Lands granted by the federal government to the state for the benefit of public schools and various state institutions generate income through rents or crop shares for agricultural purposes, royalties from the sale of mineral rights, and sales of timber. The revenue estimate is net of administration costs for the Department of Natural Resources and Conservation (DNRC) and any other school-related transfers. The chart below shows the FY 2014 earnings and distribution, with subsequent descriptions of each numbered box.



❶ Leases, Bonuses & Timber Sales: Lands granted by the federal government to the state for the benefit of public schools generate income. Common school lands produce two kinds of revenue: 1) distributable income such as interest earnings, agricultural rents or crop shares, and timber sale revenue; and 2) permanent income that is returned to the trust as income from the sale of minerals, land, and easements. Box 1 is the distributable income. This common school land revenue includes leases, bonuses and timber sales under 18 million board feet. Revenue from timber sales over 18 million board feet is transferred to the school facility and technology account ([20-9-516, MCA](#)).

## **Interest Earnings**

## **Common School Interest and Income**

② Mineral Royalties & Right-of-Way: This portion is deposited directly into the common schools permanent trust and includes sales of part of all of a piece of common schools trust land including extractable resources such as oil, natural gas, and coal.

③ Common Schools Permanent Trust: The [Enabling Act](#) states that “proceeds from the sale and other permanent disposition of any of the said lands and from every part thereof, shall constitute permanent funds for the support and maintenance of the public schools and the various State institutions for which the lands have been granted.” The Common Schools Permanent Trust is the permanent trust account in which school dedicated funds are held.

④ Costs & Transfer: The amount of revenue deposited to the guarantee account is net of amounts diverted for DNRC administration costs and those deposited directly to the school facility and technology account shown in Box 4. The administration costs diversion funds operational costs in DNRC for common school lands. The school facility and technology account receives timber revenue in excess of 18 million board feet ([77-1-218, MCA](#)). This reduces the amount of revenue distributable to the Guarantee Account.

⑤ Investment Earnings: Funds in the Common Schools Permanent Trust are invested by the [Montana Board of Investments](#), with the interest earned available for distribution. The majority of the revenue, the Trust & Legacy Investment Earnings, comes from fixed-income investments. A small amount comes from short-term investments which is interest on the cash when it comes into the Montana Board of Investments and before it is invested in the longer-term Trust Funds Investment Pool.

⑥ Common School Trust Land Interest and Income: This amount is commonly referred to as common school interest and income. It is comprised of the income from leases, bonuses, and timber (Box 1) less costs and transfers (Box 4), plus interest from the Common Schools Permanent Trust (Box 5). The money is distributed as follows:

- 95% is transferred to the state special revenue guarantee account which is statutorily appropriated for schools
- 5% is reinvested in the Common Schools Permanent Trust

⑦ Additional transfers which are not shown here, but are included in the [Guarantee Account](#) section.

⑧ Guarantee Account: This is the state special revenue fund ([20-9-104, MCA](#)) which is statutorily appropriated to schools in the form of BASE aid. It is comprised of common school interest and income and other appropriations and is the first source of state school funding (used before general fund).

Note that the common school revenue is not the only source of guarantee account revenue; see the [Guarantee Account](#) section for more information on total revenue transferred to that account.

### **Statutory Reference**

Distribution – [Montana Constitution Article X, Section 5](#); [20-9-342, MCA](#); [20-9-622, MCA](#)  
[Enabling Act](#), Section 10

Other – DNRC trust land administration diversion ([77-1-108, MCA](#) & [77-1-109, MCA](#))  
DNRC land bank administration diversion ([77-2-362, MCA](#))

Date Due – Last business day of February following the calendar year in which the money was received ([20-9-342, MCA](#)).

**Applicable Tax Rates:** N/A

### **Collection Frequency**

Revenue is received monthly; distribution to the state special revenue fund occurs three times per year.

### **Distribution**

As described above, 95% of interest and income from the common school permanent trust fund (excluding a portion of timber sale revenue and after amounts diverted for DNRC administration) is distributed to the state special revenue guarantee account and is statutorily appropriated for schools. The remaining 5% is

## Interest Earnings

## Common School Interest and Income

deposited to the permanent trust fund. The amount of timber sale revenue over 18 million board feet is deposited to the school facility and technology account. The amounts deposited to the guarantee account are shown in this revenue source.

### Summary of Legislative Action

[Senate Bill 34](#) – This legislation revises laws related to funding and access for the sale of state cabin or home sites. The legislation allows for voluntary funding of survey costs by the cabin site lessees or owners of the improvements.

[Senate Bill 56](#) – This legislation revises the DNRC notice requirements regarding use of navigable riverbeds.

[Senate Bill 326](#) – This legislation requires the DNRC Trust Land Management Division (TLMD) to post notice and issue a press release or public service announcement prior to implementing restrictions to recreational use on state lands.

Common School Interest and Income – Legislation Passed by 64th Legislature			
State Special Revenue Impact (\$ Millions)			
Bill Number and Short Title	FY 2015	FY 2016	FY 2017
SB0034 Facilitate cabin and home-site sales	\$0.000	(\$0.005)	(\$0.007)
SB0056 Revise river bed laws	0.000	0.005	0.005
SB0326 Revise state land laws	0.000	(0.000)	(0.000)
<b>Total State Special Revenue Impact</b>	<b>\$0.000</b>	<b>(\$0.000)</b>	<b>(\$0.003)</b>

### Forecast Risks

- Commodity prices and production
- Bond rates

### Revenue Estimate Methodology

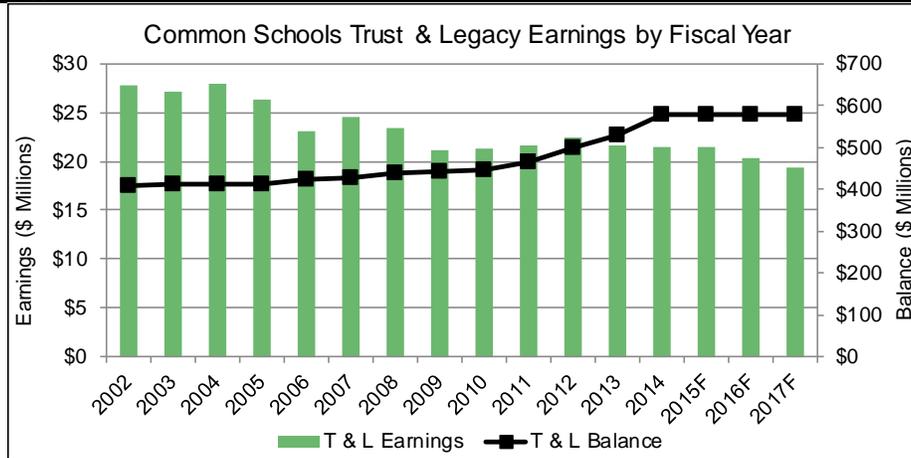
#### Data

Data from SABHRS provides a history of each individual interest and income revenue component from which estimates can be made. DNRC annual reports and other data provide additional information such as mineral prices and production. DNRC provided data for easement sales and timber harvest volumes. IHS provides future estimates of West Texas Intermediate oil and national well head natural gas prices.

#### Analysis

In addition to interest earnings, the revenue components for this source are made up of timber, grazing, and agricultural fees, oil and gas bonuses, leases and penalties, mineral royalties and miscellaneous rentals. They are typically estimated using a moving average of recently completed fiscal years' collections

The monetary assets of the common school trust are pooled with monetary assets of other land trusts (termed "Trust and Legacy") and invested by the Board of Investments (BOI) in the trust funds bond pool (TFBP). To forecast the total interest earned, estimated rates of return provided by the BOI are applied to the current and forecast invested balance. Money not invested in the TFBP earns interest at a short-term rate which is forecast by IHS.



Diversions fund operational costs in DNRC, but reduce the amount of permanent and distributable revenue that would have been deposited to the common school trust or distributed to the trust beneficiaries. The cost estimates are provided by DNRC.

The estimate assumes that distributable revenue is used to fund DNRC costs. The total expenditures requested to be made from the Trust Land Administration Account can be funded from distributable revenue, permanent revenue, or a combination of the two. It is up to the DNRC to decide. If permanent revenue is chosen, the corpus of the trust will not grow as rapidly as it would have and interest earnings from the trust will be less. If distributable revenue is chosen, the amount deposited to the guarantee account to fund public schools will be less, thus requiring more funding from the general fund.

**Revenue Estimate Assumptions**

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2015 Legislature that may affect future estimates of this revenue source.

FY	Total Rev. \$ Millions	TFBP Interest \$ Millions	STIP Interest \$ Millions	Common School Share T&L	Trust Land Admin
A 2002	\$50.875	\$29.627	\$0.103	93.3%	(\$3.326)
A 2003	48.977	29.147	0.068	93.1%	(3.619)
A 2004	55.663	30.087	0.054	92.9%	(3.600)
A 2005	68.036	28.106	0.270	92.7%	(3.885)
A 2006	82.606	24.428	0.408	92.8%	(3.977)
A 2007	70.429	26.207	0.268	92.7%	(3.968)
A 2008	83.026	25.160	0.129	92.6%	(4.053)
A 2009	61.821	22.711	0.066	92.6%	(9.991)
A 2010	133.315	22.916	0.018	93.2%	(8.674)
A 2011	60.144	23.194	0.033	92.9%	(8.837)
A 2012	102.391	24.175	0.028	93.0%	(8.717)
A 2013	61.098	23.189	0.022	92.9%	(9.200)
A 2014	66.194	23.042	0.007	93.3%	(9.093)
F 2015	61.657	21.989	0.006	93.3%	(9.070)
F 2016	48.825	20.810	0.026	93.3%	(8.918)
F 2017	54.362	19.636	0.062	93.3%	(9.003)

**Interest Earnings**

**Common School Interest and Income**

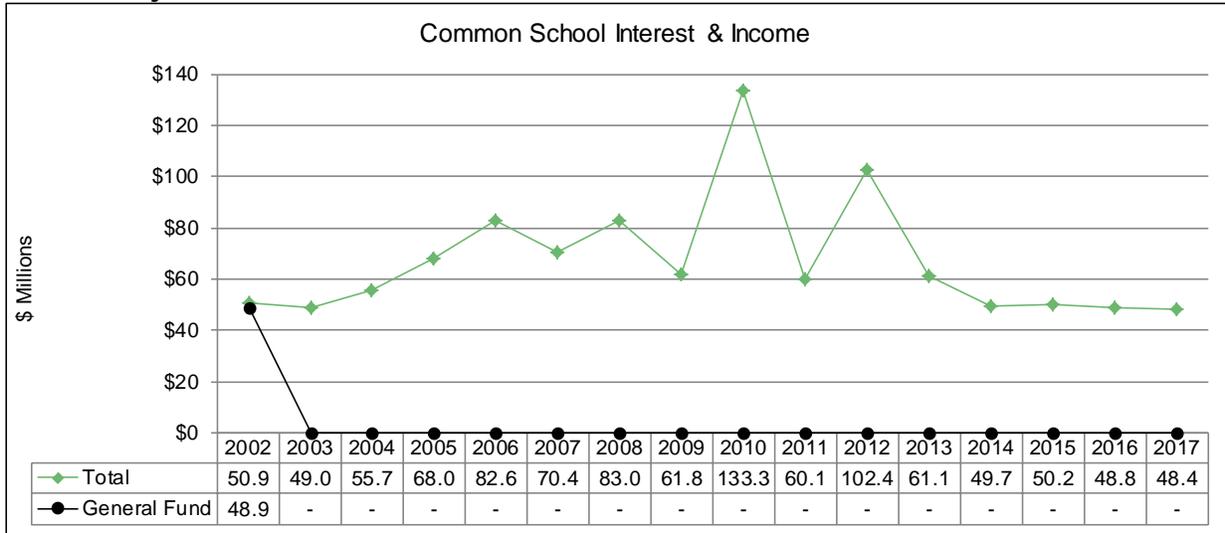
FY	Trust Income New Deposit \$ Millions	T&L Balance \$ Millions	TFBP Long Term Rate	STIP Balance \$ Millions	STIP Rate
A 2002	\$2.348	\$407.655	0.0%	\$7.334	0.0%
A 2003	2.363	410.554	7.1%	6.242	1.0%
A 2004	2.972	410.654	7.3%	7.050	0.8%
A 2005	1.458	410.654	6.8%	12.107	2.8%
A 2006	1.425	423.154	5.9%	3.863	5.1%
A 2007	7.174	428.154	6.2%	14.954	2.8%
A 2008	3.102	439.153	5.8%	2.461	1.5%
A 2009	4.126	441.153	5.2%	4.161	2.0%
A 2010	10.710	444.653	5.2%	11.340	0.2%
A 2011	22.233	464.553	5.1%	15.565	0.2%
A 2012	31.633	498.053	5.0%	11.492	0.2%
A 2013	35.482	531.053	4.5%	13.436	0.2%
A 2014	35.440	578.053	4.2%	2.546	0.1%
F 2015	25.459	578.053	3.8%	2.546	0.2%
F 2016	23.236	578.053	3.6%	2.546	1.0%
F 2017	26.377	578.053	3.4%	2.546	2.5%

FY	Grazing \$ Millions	Agriculture \$ Millions	Oil & Gas Lease \$ Millions	Oil & Gas Bonus \$ Millions	Oil & Gas Penalty \$ Millions	Misc./Other Rentals \$ Millions	Avista Lease \$ Millions
A 2002	\$5.467	\$6.999	\$1.540	\$0.478	\$0.335	\$1.244	
A 2003	5.243	7.975	1.575	0.301	0.399	1.349	
A 2004	4.971	8.051	1.649	0.871	0.534	2.156	
A 2005	5.918	8.816	1.893	3.827	0.641	2.057	
A 2006	6.277	9.453	2.331	13.005	0.864	2.193	
A 2007	7.057	9.408	2.506	2.102	1.067	2.510	
A 2008	6.408	12.282	2.701	2.154	0.812	6.418	
A 2009	6.470	14.081	2.760	11.828	0.541	6.795	
A 2010	5.861	10.985	2.873	7.243	0.615	85.247	
A 2011	5.984	13.464	2.937	13.234	1.008	2.840	\$4.260
A 2012	7.471	15.009	3.672	15.104	1.411	3.162	4.382
A 2013	9.271	16.925	3.420	2.022	1.300	2.950	4.504
A 2014	10.518	16.260	2.816	3.077	1.254	3.142	4.573
F 2015	9.087	16.593	2.338	5.460	1.041	3.142	-
F 2016	9.625	16.427	1.997	5.460	0.890	3.142	-
F 2017	9.743	16.510	2.193	5.460	0.977	3.142	-

FY	Int. STIP \$ Millions	Int. Trust \$ Millions	Timber \$ Millions	Oil Royalties \$ Millions	Gas Royalties \$ Millions	Coal Royalties \$ Millions	Other Royalties \$ Millions
A 2002	\$0.305	\$27.775	\$3.625	\$2.390	\$1.523	\$2.837	\$0.144
A 2003	0.189	27.202	3.606	3.682	1.995	3.877	0.148
A 2004	0.200	27.991	0.667	4.852	2.718	4.677	0.170
A 2005	0.408	26.306	3.652	7.966	4.330	4.240	0.194
A 2006	0.642	23.048	2.879	14.759	6.317	4.180	0.356
A 2007	0.733	24.541	1.929	15.133	5.083	3.729	0.148
A 2008	0.606	23.428	2.251	19.367	5.660	5.865	0.156
A 2009	0.293	21.094	1.855	14.809	4.738	7.841	0.485
A 2010	0.063	21.370	2.990	12.478	2.841	4.984	0.488
A 2011	0.042	21.570	2.713	12.621	2.329	8.497	0.285
A 2012	0.053	22.515	1.886	14.371	1.468	7.400	0.894
A 2013	0.032	21.564	3.206	17.133	1.202	6.803	0.825
A 2014	0.012	21.501	2.804	17.611	1.588	8.131	1.070
F 2015	0.006	21.434	2.793	11.299	1.641	8.004	1.070
F 2016	0.026	20.263	2.483	8.829	1.342	8.342	1.070
F 2017	0.062	19.339	2.483	11.755	1.700	8.644	1.070

**Interest Earnings  
Revenue Projection**

**Common School Interest and Income**



**Revenue History**

