
Legislative Fiscal Division

Revenue Estimate Profile

Coal Trust Interest

Revenue Description: 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 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.

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 permanent coal tax trust fund is deposited into the general fund. Statute further annually statutorily appropriates interest income from \$140 million of the coal severance tax permanent fund as follows:

FY 2011 - 2013

\$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

\$3,065,000

FY 2014 - 2020

\$3,650,000 – to the research and commercialization state special revenue account

\$1,250,000 – 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

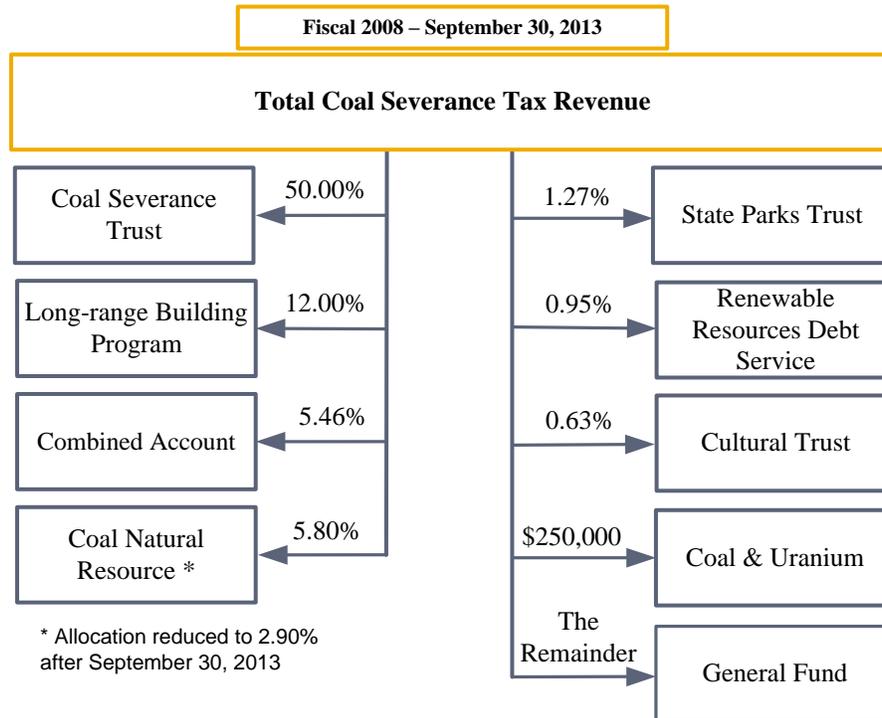
\$6,065,000

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Distribution Chart:



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. The principal or corpus of the coal trust (the portion that generates general fund interest) now stands at \$536.9 million.

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

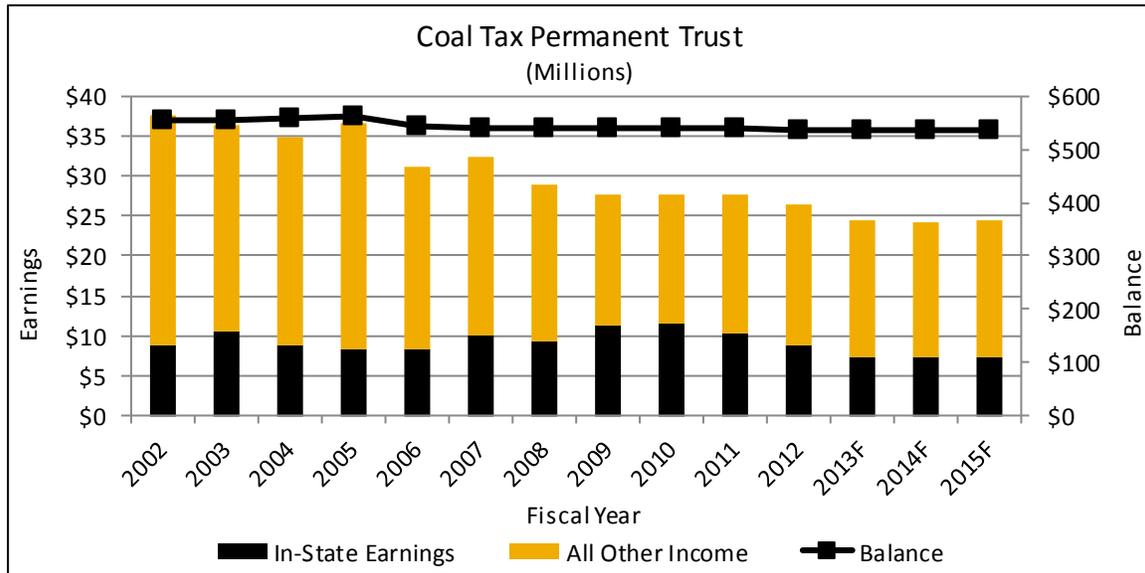
- Trust funds bond pool (TFBP)
- In-state investments
- Short-term investment pool (STIP)
- Payback interest

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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. The average fiscal year short-term rate is expected to be 0.039% in FY 2013, 0.043% in FY 2014, and 0.14% in FY 2015.

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.

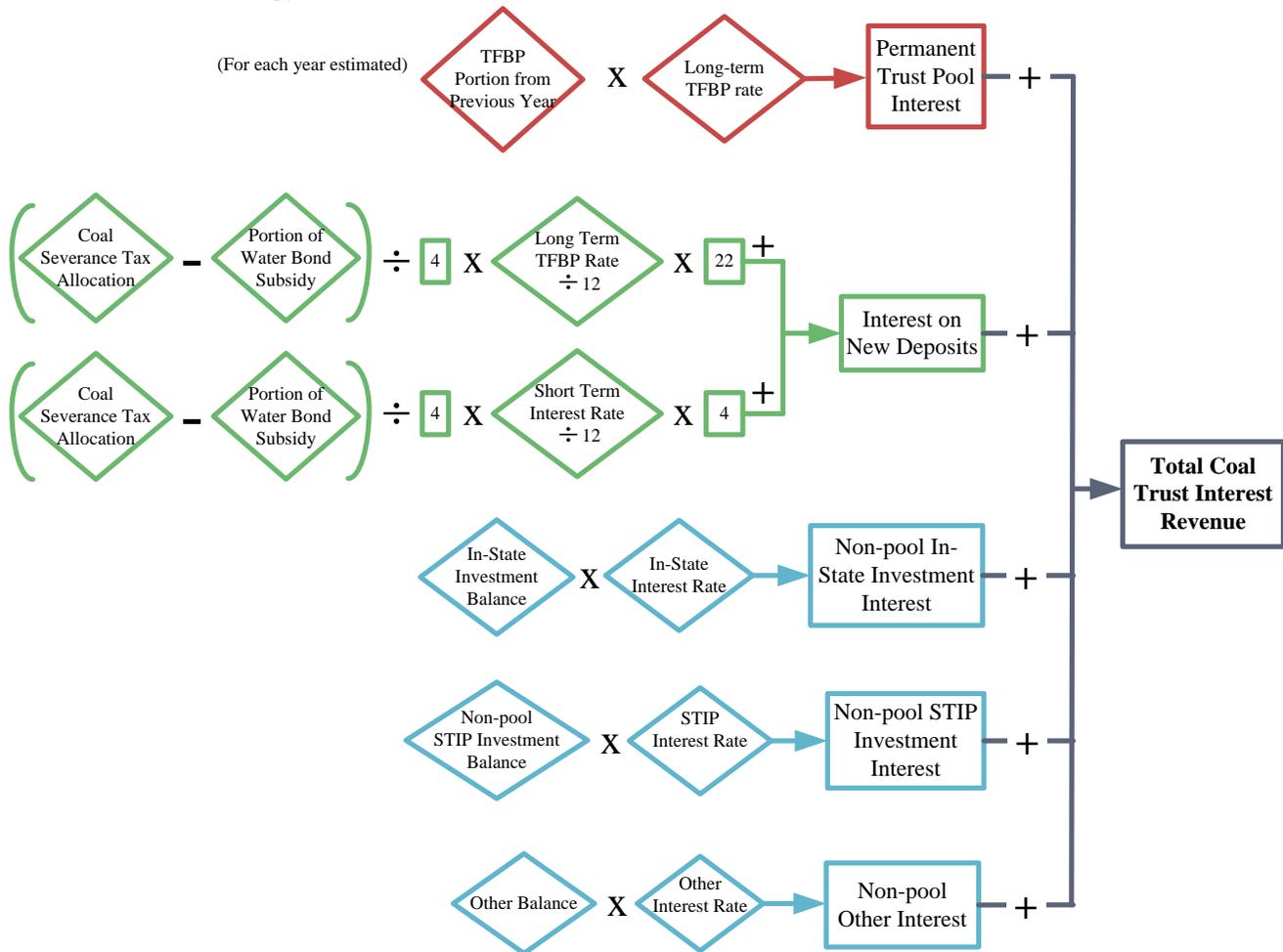
After the estimates are calculated, the projected earnings from the four sources are combined to reach total coal trust interest revenue, and the revenues are distributed as described above.

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Coal Trust Interest

Forecast Methodology:



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Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	In_State	Other	STIP	Payback
	<u>Fiscal</u>	<u>Millions</u>						
Actual	2000	39.195	39.195					
Actual	2001	37.660	37.660					
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	24.455	24.455	17.219	7.213	-0.131	0.039	0.000
Forecast	2014	24.431	24.431	17.219	7.213	-0.159	0.043	0.000
Forecast	2015	24.498	24.498	17.219	7.213	-0.189	0.140	0.000

	t	Net Coal Tax	Bond	New Deposit	Non Pool	Non Pool	Non Pool	
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Subsidy</u>	<u>Long Term</u>	<u>STIP</u>	<u>In State</u>	<u>Loan</u>	<u>Gains</u>
		<u>Millions</u>	<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>
Actual	2000	0.000	0.194	6.8%	5.4%	0.0%	0.0%	
Actual	2001	0.000	0.481	6.7%	4.7%	0.0%	0.0%	
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	3.5%	0.1%	5.2%	4.9%	0.000
Forecast	2014	0.000	0.000	3.9%	0.2%	5.2%	4.9%	0.000
Forecast	2015	0.000	0.000	4.5%	0.5%	5.2%	4.9%	0.000

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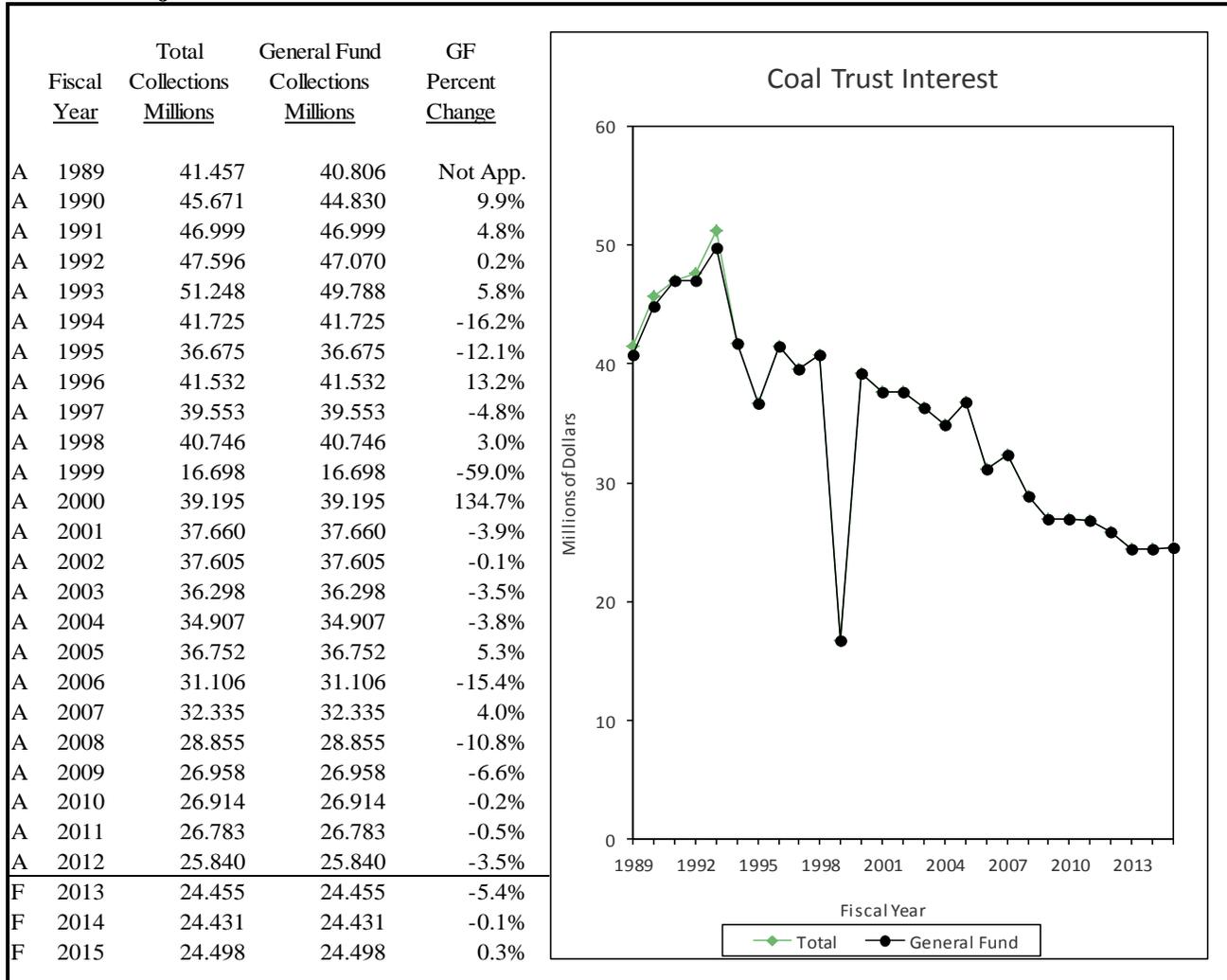
	t	Non Pool STIP Bal	Non Pool In-State Bal	Non Pool Loan Bal	SB495 Loan Payment	Invested Balance	Average Return Rate	SB69 Impacts
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>		<u>Millions</u>
Actual	2000	15.335	127.567	0.000				
Actual	2001	22.785	145.402	0.000				
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.								

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Revenue Projection:



Data Source(s): Board of Investments, SABHRS, *Wall Street Journal*, IHS

Contacts: Board of Investments