
Legislative Fiscal Division

Revenue Estimate Profile

Deaf and Blind Trust Interest and Income

Revenue Description: Lands granted by the federal government to the state for the benefit of public schools and various state institutions generate income. These lands produce revenue through rents or crop shares for agricultural purposes, royalties from the sale of mineral rights, and sales of timber. Income from certain portions of public school/institution lands has been designated for support of the School for the Deaf and Blind. Thus, some of these funds are deposited into a component of the trust and legacy trust fund referred to as the Deaf and Blind trust, which generates interest earnings for the state. As of October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to a newly-created Trust Funds Bond Pool (TFBP). The majority of trust and legacy 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). The state constitution prohibits the investment of the permanent trust in common stock.

With the enactment of SB 65 by the 2009 Legislature, up to 25% of Deaf and Blind trust revenue can be diverted to the trust land administration account to fund Department of Natural Resources and Conservation (DNRC) administration costs. This revenue can include distributable revenue, mineral royalties, and timber revenue. Diversions reduce the amount of revenue distribute to the trust beneficiaries. Revenue diverted from the Deaf and Blind permanent trust fund reduces the growth of the trust balance and, hence, reduces the amount of distributable interest earnings. The legislation was effective July 1, 2009.

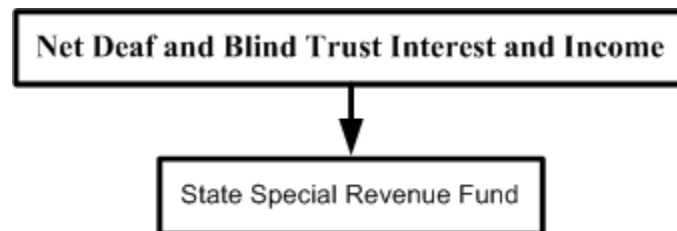
Statutory Reference:

Tax Rate – NA
Distribution (MCA) – 20-8-110
Enabling Act, Sections 11 & 17
Other (MCA) – DNRC trust land administration diversion (77-1-108 & 109)
DNRC land bank administration diversion (77-2-362)

Applicable Tax Rate(s): N/A

Distribution: Interest and income from the trust, net of amounts to fund DNRC administration, are allocated to the School for the Deaf and Blind.

Distribution Chart:



Collection Frequency: Monthly

% of Total General Fund Revenue: N/A

Revenue Estimate Methodology:

The estimate for interest and income from the Deaf and Blind trust determines the net revenue that will be distributed to the trust beneficiary. This means that in addition to estimating the various distributable revenues from the trust, estimates of the diversions that reduce the amount of distributable or permanent revenue must also be estimated. Therefore, the estimated amounts shown for this revenue source are not total revenues, but are net of diversions. Permanent revenue (revenue that is not distributed, but remains in the trust such as from mineral royalties), is estimated as part of the entire Trust and Legacy account (T & L) and earnings are apportioned to this trust according to the number of shares owned.

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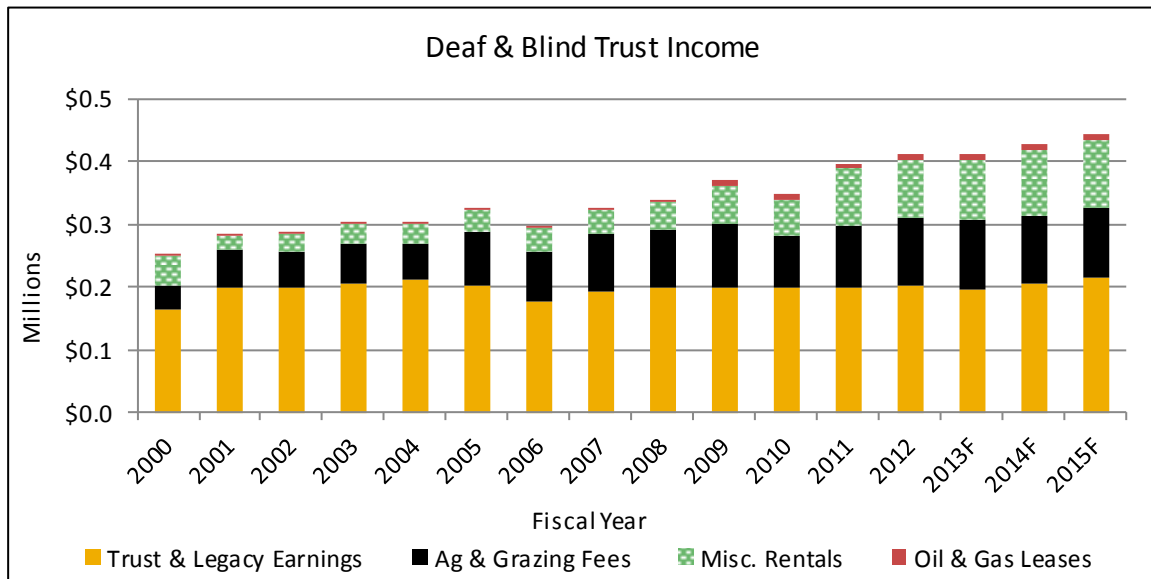
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Data

Data from the state accounting system (SABHRS) provide a history of each individual interest and income revenue component from which estimates can be made. Department of Natural Resources and Conservation (DNRC) annual reports and other data provide additional information such as mineral production and timber estimates. Estimates for diversion amounts were provided by DNRC and used for the forecast years.

Analysis

The estimate is derived by first estimating the distributable revenue components and then estimating the amounts of the diversions.



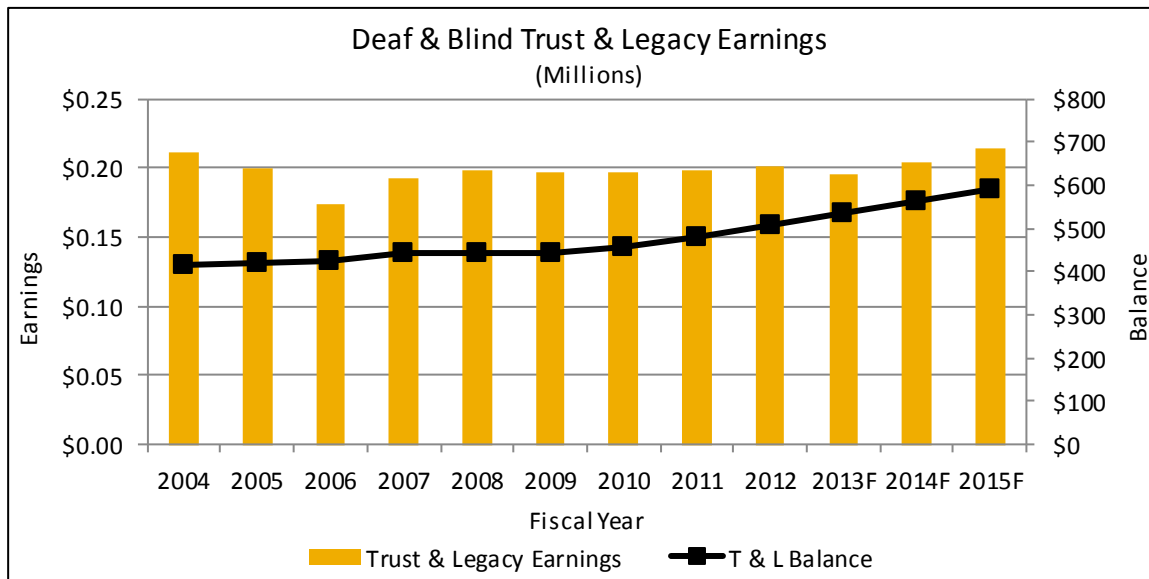
Revenue Components

- Trust and Legacy Earnings (see the figure below) – The monetary assets of the trust are pooled with monetary assets of other land trusts in the T & L and invested by the Board of Investment in the trust funds bond pool. Based on the number of share each trust owns, a share of the earnings is deposited in each trust. The Deaf and Blind trust share is 0.8%. The total pool earnings is a sum of the following:
 - Earnings from new deposits – New deposits in the pool initially earn interest at the short-term rate before it is invested in a longer term investment.
 - Earnings from existing balance – The majority of these funds have been invested in bonds purchased over the past several year and average a return rate of 5.2%.
 - Non-portfolio earnings – Money not invested in the trust funds bond pool earns interest at the short-term rate.
Once the total amount of the pool earnings has been estimated by summing the above three items, the Deaf and Blind trust share of 0.8% is applied.

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2. Grazing Fees – Rates are tied to the price of cattle, which is expected to be similar to the most recent fiscal year. Therefore, the amount of fees received in the base year is used in all forecast years.
3. Miscellaneous Rentals - These are small income components that are combined and estimated together. For each fiscal year estimated, the estimate is based on a 10-year average annual growth rate.
4. Agricultural Fees – Fees are based on a crop share basis. Commodity prices are expected to be similar to the most recent fiscal year; therefore, the fees received in the base year are used in all forecast years.
5. Oil & Gas Leases – For each fiscal year estimated, the estimate is the average of the previous two years.

Diversions

1. Diversions fund administration costs in DNRC, but reduce the amount of revenue distributed to the trust beneficiaries or permanent revenue deposited to the trust fund. To determine future diversion amounts, estimates from the DNRC were used for all forecast years. All the costs are funded with distributable revenue.

Adjustments and Distribution

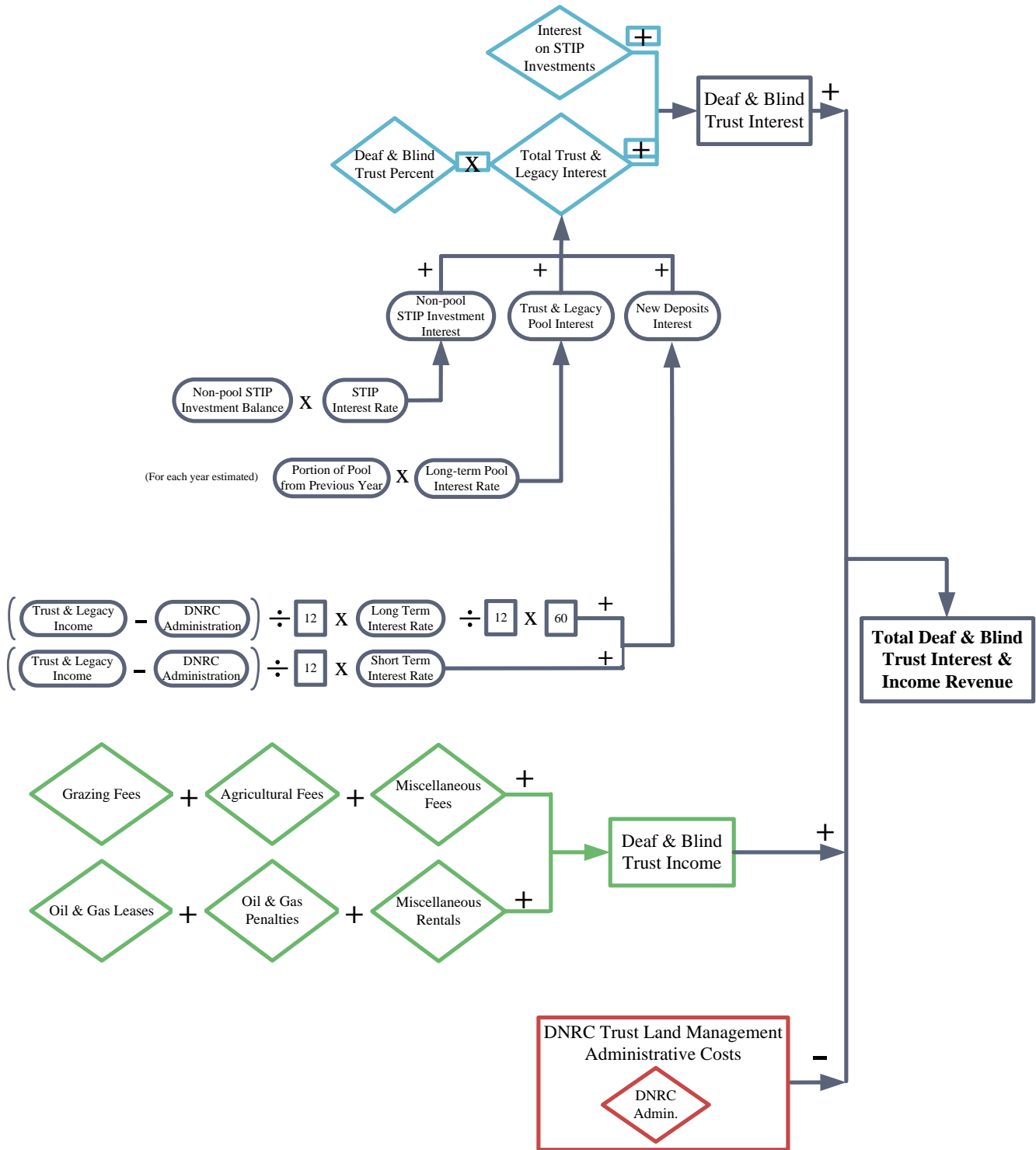
Once total revenue and total diversions have been estimated, the net amounts are distributed to the state special revenue fund.

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Forecast Methodology:



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Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	STIP	Deaf &
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Interest</u>	<u>Interest</u>	<u>Blind Share</u>
				<u>Millions</u>	<u>Millions</u>	<u>T&L</u>
Actual	2002	0.284	0.000	29.627	0.103	0.007
Actual	2003	0.300	0.000	29.147	0.068	0.007
Actual	2004	0.299	0.000	30.087	0.054	0.007
Actual	2005	0.319	0.000	28.106	0.270	0.007
Actual	2006	0.291	0.000	24.428	0.408	0.007
Actual	2007	0.323	0.000	26.207	0.268	0.007
Actual	2008	0.334	0.000	25.160	0.129	0.008
Actual	2009	0.373	0.000	22.711	0.066	0.009
Actual	2010	0.265	0.000	22.916	0.018	0.009
Actual	2011	0.327	0.000	23.194	0.033	0.009
Actual	2012	0.242	0.000	24.175	0.028	0.008
Forecast	2013	0.288	0.000	23.209	0.411	0.008
Forecast	2014	0.246	0.000	24.111	0.512	0.008
Forecast	2015	0.265	0.000	25.245	0.641	0.008

	t	Trust Income	Trust Land	New Deposit	Non Pool	Non Pool
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Admin.</u>	<u>Long Term</u>	<u>STIP</u>	<u>STIP Bal</u>
		<u>Millions</u>	<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>
Actual	2002	2.348	0.000	6.2%	2.6%	7.334
Actual	2003	2.363	0.000	5.7%	1.4%	6.242
Actual	2004	2.972	0.000	5.4%	1.3%	7.050
Actual	2005	1.458	0.000	5.2%	2.4%	12.107
Actual	2006	1.425	0.000	5.2%	4.1%	3.863
Actual	2007	7.174	0.000	5.4%	4.7%	14.954
Actual	2008	3.102	0.000	5.3%	3.1%	2.461
Actual	2009	4.126	0.000	5.1%	1.0%	4.161
Actual	2010	10.710	0.000	4.8%	0.2%	11.340
Actual	2011	22.233	0.000	4.4%	0.1%	15.565
Actual	2012	31.517	0.000	3.8%	0.1%	11.492
Forecast	2013	25.974	0.000	3.5%	0.1%	11.492
Forecast	2014	29.101	0.000	3.9%	0.2%	11.492
Forecast	2015	27.623	0.000	4.5%	0.5%	11.492

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	t	Grazing	Agriculture	Misc.	O&G Lease	O&G Bonus	O&G Penalty	Misc.
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	0.041	0.015	0.000	0.002	0.000	0.000	0.030
Actual	2003	0.043	0.023	0.000	0.002	0.000	0.000	0.032
Actual	2004	0.039	0.016	0.000	0.002	0.000	0.000	0.033
Actual	2005	0.048	0.039	0.000	0.002	0.000	0.000	0.033
Actual	2006	0.051	0.030	0.000	0.002	0.000	0.000	0.037
Actual	2007	0.061	0.029	0.000	0.002	0.000	0.003	0.040
Actual	2008	0.056	0.036	0.000	0.002	0.000	0.003	0.043
Actual	2009	0.062	0.042	0.000	0.009	0.008	0.003	0.060
Actual	2010	0.056	0.027	0.000	0.009	0.000	0.003	0.057
Actual	2011	0.057	0.042	0.000	0.008	0.000	0.001	0.091
Actual	2012	0.066	0.043	0.000	0.010	0.042	0.000	0.092
Forecast	2013	0.066	0.043	0.000	0.009	0.000	0.000	0.098
Forecast	2014	0.066	0.043	0.000	0.009	0.000	0.000	0.104
Forecast	2015	0.066	0.043	0.000	0.009	0.000	0.000	0.110

	t	Int. Land	Int. STIP	Int. Trust	Timber	Res. Dev.	TLMD Adm.
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	0.000	0.000	0.199	0.000	-0.003	
Actual	2003	0.000	0.000	0.203	0.000	-0.003	
Actual	2004	0.000	0.000	0.212	0.000	-0.003	
Actual	2005	0.000	0.000	0.201	0.000	-0.004	
Actual	2006	0.000	0.000	0.175	0.000	-0.003	
Actual	2007	0.000	0.000	0.193	0.000	-0.004	
Actual	2008	0.000	0.000	0.199	0.000	-0.004	
Actual	2009	0.000	0.000	0.197	0.000	-0.005	
Actual	2010	0.000	0.000	0.198	0.000	0.000	-0.085
Actual	2011	0.000	0.000	0.198	0.000	0.000	-0.207
Actual	2012	0.000	0.000	0.201	0.000	0.000	-0.142
Forecast	2013	0.000	0.000	0.196	0.000	0.000	-0.124
Forecast	2014	0.000	0.000	0.205	0.000	0.000	-0.179
Forecast	2015	0.000	0.000	0.215	0.000	0.000	-0.178

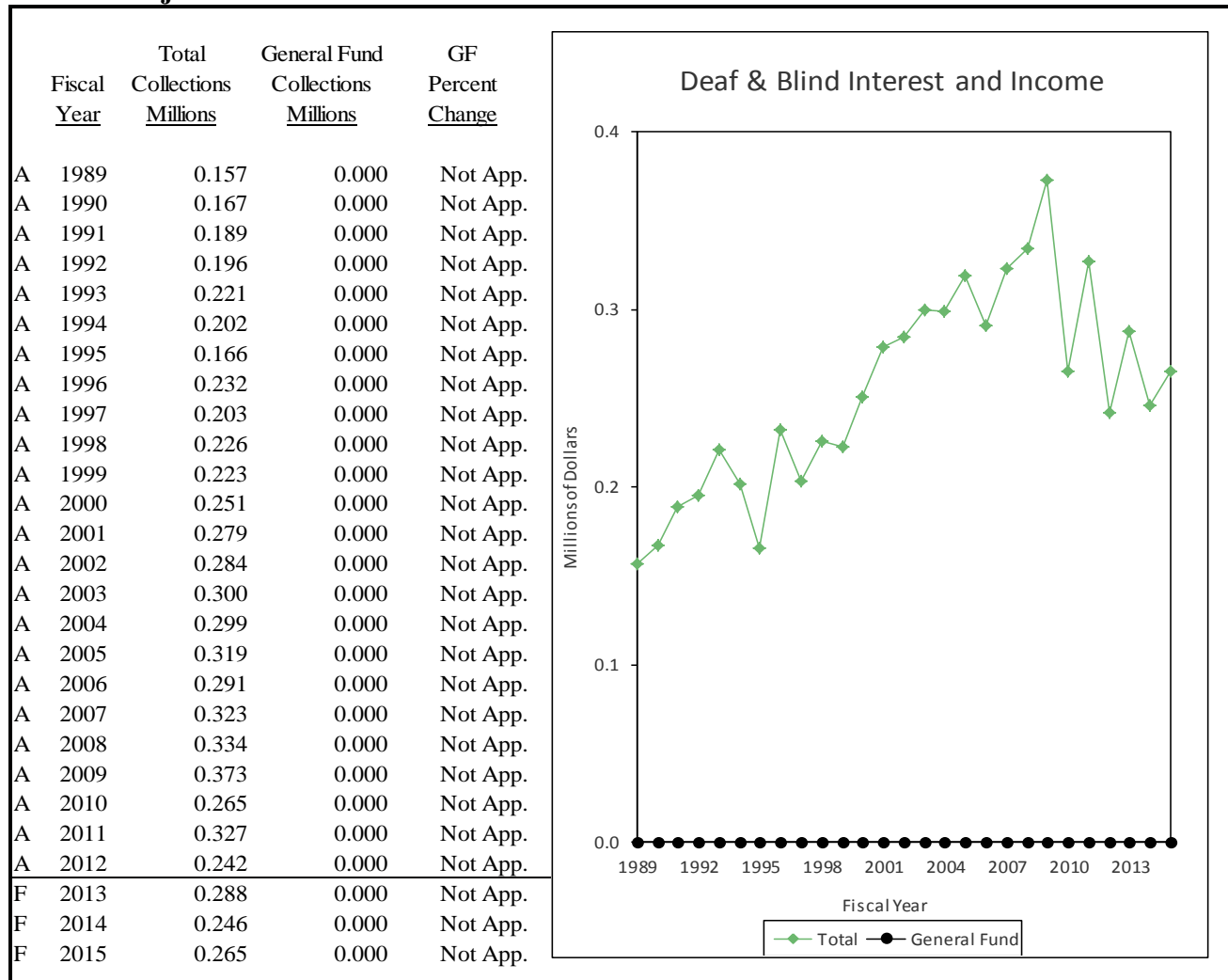
Total Rev. = Grazing + Agriculture + O&G Lease + O&G Bonus + O&G Penalty + Misc. +
Int. Land + Int. Stip + Int. Trust + Timber + Res. Dev. + TLMD Adm.

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Revenue Projection:



Data Source(s): Board of Investments, SABHRS, *Wall Street Journal*, IHS, Department of Natural Resources and Conservation

Contacts: Department of Natural Resources and Conservation