
Legislative Fiscal Division

Revenue Estimate Profile

Resource Indemnity Trust Interest

Revenue Description: Article IX, Section 2 of the Montana Constitution and Title 15, Chapter 38, MCA, requires that certain resource extraction taxes, as determined by the legislature, be placed in a trust. The principal of the Resource Indemnity Trust (RIT) "shall forever remain inviolate in an amount of one hundred million dollars (\$100,000,000), guaranteed by the state against loss or diversion." Once the principal of the trust reaches \$100 million, any additional tax deposits may be appropriated. Interest earnings on the RIT are to be spent to improve the total environment and rectify damage to the environment. It is also the legislature's intent that the use of interest earnings for operations of state government be minimized.

On July 1, 2002 the Governor by executive order certified to the Secretary of State that the RIT balance had reached \$100 million. In prior years, the RIT had received revenue from the resource indemnity and ground water assessment tax and the oil and gas tax. Because these allocations of revenue are no longer deposited to the trust, the trust balance will remain constant and interest earnings will be dependent only on the interest rates.

Statutory Reference:

Tax Rate – NA

Distribution (MCA) – Montana Constitution, Article IX, Section 2; 15-38-202(2), use of earnings (15-38-203)

Date Due – NA

Applicable Tax Rate(s): N/A

Distribution: Statute allocates RIT interest earnings in the following manner:

- 1) At the beginning of the biennium, an amount not to exceed \$50,000 to the oil and gas mitigation account to bring the balance up to \$200,000. Money in this account is statutorily appropriated to the Board of Oil and Gas Conservation for the cost of plugging wells that have been abandoned and for which no responsible party can be found;
- 2) At the beginning of the biennium, \$500,000 to the water storage state special revenue account to provide loans and grants for water storage projects;
- 3) At the beginning of the biennium, \$175,000 to the environmental contingency fund which is statutorily appropriated upon authorization of the Governor for unanticipated public needs arising from certain disasters and emergencies;
- 4) \$3.5 million annually to the natural resources projects state special revenue account for distribution as grants;
- 5) \$300,000 annually to the ground water assessment account to improve ground water management and protection;
- 6) \$500,000 annually to the future fisheries program for bull trout and cutthroat trout recovery; and
- 7) of the remaining RIT interest earnings: a) 65% to the natural resources operations state special revenue account for program and administrative costs; b) 26% to the hazardous waste/CERCLA state special revenue account for superfund activities; and c) 9% to the environmental quality protection state special revenue fund for additional clean-up activities.

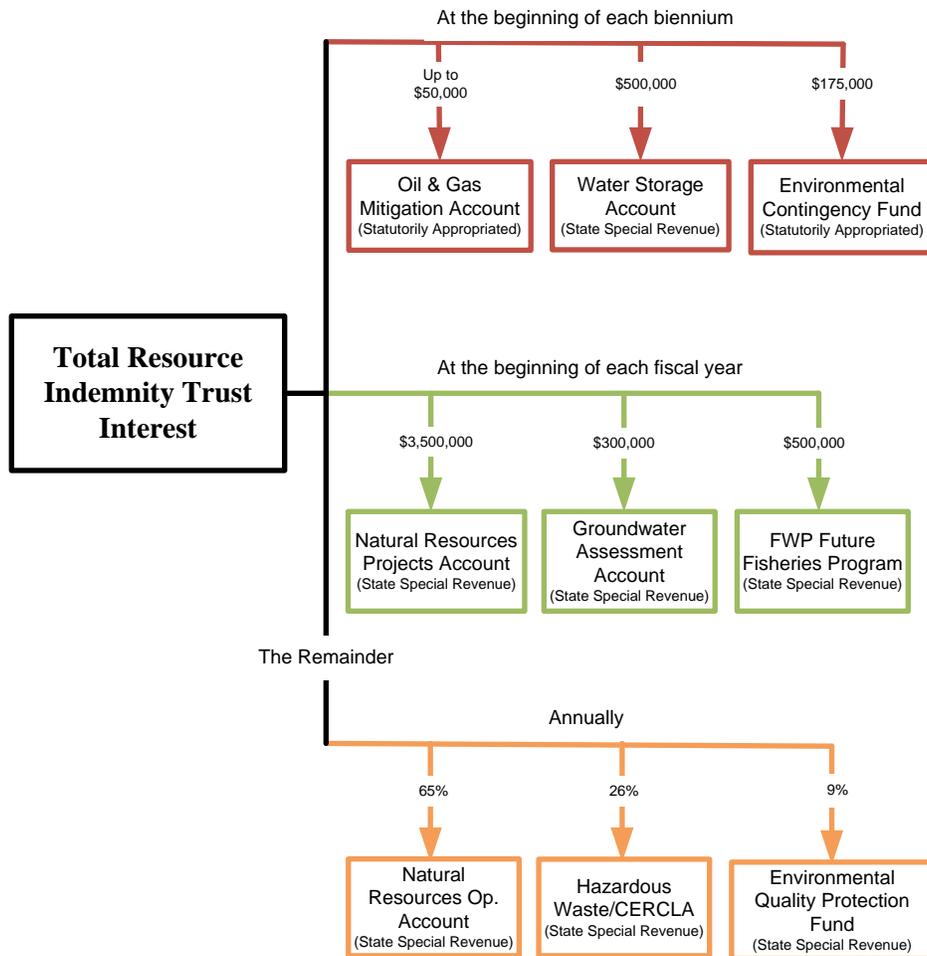
The Department of Natural Resources and Conservation administers two of the RIT interest accounts which are used for grants, loans, and administrative costs: the renewable resource grant and loan program account and the reclamation and development grant account. These accounts also receive funding from other sources. All grants and loans made from these accounts require legislative approval. Grants must also be appropriated.

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Distribution Chart:



Collection Frequency: Monthly

% of Total General Fund Revenue: N/A

Revenue Estimate Methodology:

Data

The data used to estimate interest earnings from the resource indemnity (RIT) 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 RIT trust, formed in the mid 1970's, was created from distributions of the resource indemnity and ground water assessment tax (RIGWA) and the oil and gas tax. The resource indemnity trust reached its constitutionally required principal of \$100 million in FY 2002. As a result, the trust no longer receives new income from tax distributions. The principal or corpus of the resource indemnity trust now stands at \$100 million, as shown by the line in the figure below. No new deposits are anticipated for the trust.

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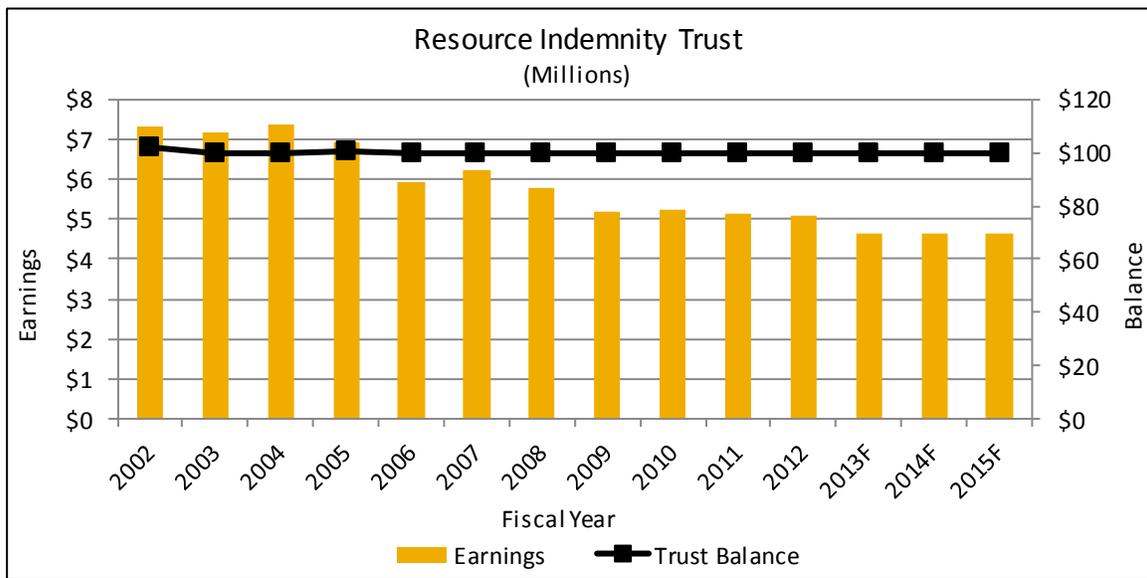
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To forecast the resource indemnity trust interest earnings, each of the following three interest/income components are estimated independently and combined:

- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits (if anticipated)

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 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 long-term rate for these securities is based on a two-year average of four long-term rates projected by IHS. The applicable rates are multiplied by the trust balance to determine earnings.



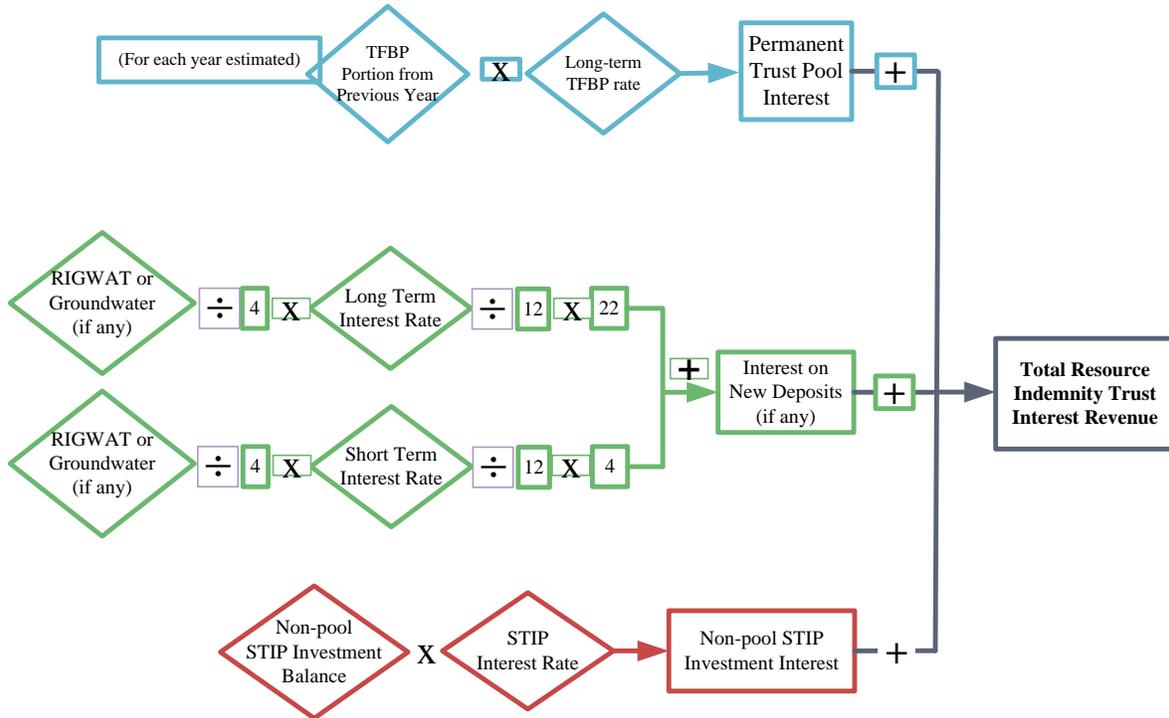
STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed, based on IHS projections of three short-term investments. Because no new deposits are anticipated for the trust, STIP earnings are projected for only non-pool balances.

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Resource Indemnity Trust Interest

Forecast Methodology:



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Resource Indemnity Trust Interest

Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	STIP	Invested	Average
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Balance</u>	<u>Return</u>
				<u>Interest</u>	<u>Interest</u>	<u>Millions</u>	<u>Rate</u>
Actual	2002	7.321	0.000	7.286	0.034		
Actual	2003	7.174	0.000	7.161	0.013		
Actual	2004	7.380	0.000	7.375	0.005	100.644	7.3%
Actual	2005	6.247	0.000	6.890	0.012	100.910	6.8%
Actual	2006	5.916	0.000	5.897	0.019	100.506	5.9%
Actual	2007	6.220	0.000	6.198	0.023	100.723	6.2%
Actual	2008	5.801	0.000	5.786	0.015	100.504	5.8%
Actual	2009	5.197	0.000	5.191	0.006	100.484	5.2%
Actual	2010	5.213	0.000	5.212	0.001	100.434	5.2%
Actual	2011	5.135	0.000	5.133	0.001	100.442	5.1%
Actual	2012	5.064	0.000	5.062	0.001	100.420	5.0%
Forecast	2013	4.661	0.000	4.660	0.001	100.420	4.6%
Forecast	2014	4.661	0.000	4.660	0.001	100.420	4.6%
Forecast	2015	4.664	0.000	4.660	0.004	100.420	4.6%

	t	Net Tax	New Deposit	Non Pool	Non Pool
	<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	1.589	6.2%	2.6%	2.176
Actual	2003	0.000	5.7%	1.4%	0.741
Actual	2004	0.000	5.4%	1.3%	0.644
Actual	2005	0.252	5.2%	2.4%	0.910
Actual	2006	0.000	5.2%	4.1%	0.506
Actual	2007	0.000	5.4%	4.7%	0.723
Actual	2008	0.000	5.3%	3.1%	0.504
Actual	2009	0.000	5.1%	1.0%	0.484
Actual	2010	0.000	4.8%	0.2%	0.434
Actual	2011	0.000	4.4%	0.1%	0.442
Actual	2012	0.000	3.8%	0.1%	0.420
Forecast	2013	0.000	3.5%	0.1%	0.420
Forecast	2014	0.000	3.9%	0.2%	0.420
Forecast	2015	0.000	4.5%	0.5%	0.420

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	t	Hazardous Waste	Environmental Quality	Renewable Resource	Reclamation Development	Environmental Contingency
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	0.534	0.185	3.357	2.219	0.175
Actual	2003	0.679	0.231	3.027	2.588	0.000
Actual	2004	0.564	0.192	2.894	2.354	0.175
Actual	2005	0.475	0.162	2.790	2.171	0.000
Actual	2006	0.169	0.059	2.435	1.728	0.175
Actual	2007	0.437	0.151	2.744	2.088	0.000
Actual	2008	0.202	0.070	0.000	0.000	0.175
Actual	2009	0.188	0.065	0.000	0.000	0.175
Actual	2010	0.049	0.017	0.000	0.000	0.175
Actual	2011	0.217	0.075	0.000	0.000	0.000
Actual	2012	0.048	0.017	0.000	0.000	0.028
Forecast	2013	0.094	0.032	0.000	0.000	0.000
Forecast	2014	0.000	0.000	0.000	0.000	0.000
Forecast	2015	0.095	0.033	0.000	0.000	0.000

	t	Water Storage	Oil & Gas Receipts	FWP Receipts	Groundwater Receipts	NR Operation Receipts	NR Projects Receipts
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	0.5000	0.0500	0.0000	0.3000	0.0000	0.0000
Actual	2003	0.0000	0.0000	0.3500	0.3000	0.0000	0.0000
Actual	2004	0.5000	0.0500	0.3500	0.3000	0.0000	0.0000
Actual	2005	0.0000	0.0000	0.3500	0.3000	0.0000	0.0000
Actual	2006	0.5000	0.0500	0.5000	0.3000	0.0000	0.0000
Actual	2007	0.0000	0.0000	0.5000	0.3000	0.0000	0.0000
Actual	2008	0.5000	0.0500	0.5000	0.3000	0.5043	3.5000
Actual	2009	0.0000	0.0000	0.5000	0.3000	0.4693	3.5000
Actual	2010	0.5000	0.0500	0.5000	0.3000	0.1222	3.5000
Actual	2011	0.0000	0.0000	0.5000	0.3000	0.5425	3.5000
Actual	2012	0.5000	0.0500	0.5000	0.3000	0.1205	3.5000
Forecast	2013	0.0000	0.0000	0.5000	0.3000	0.2347	3.5000
Forecast	2014	0.4855	0.0000	0.4855	0.2913	0.0000	3.3986
Forecast	2015	0.0000	0.0000	0.5000	0.3000	0.2366	3.5000

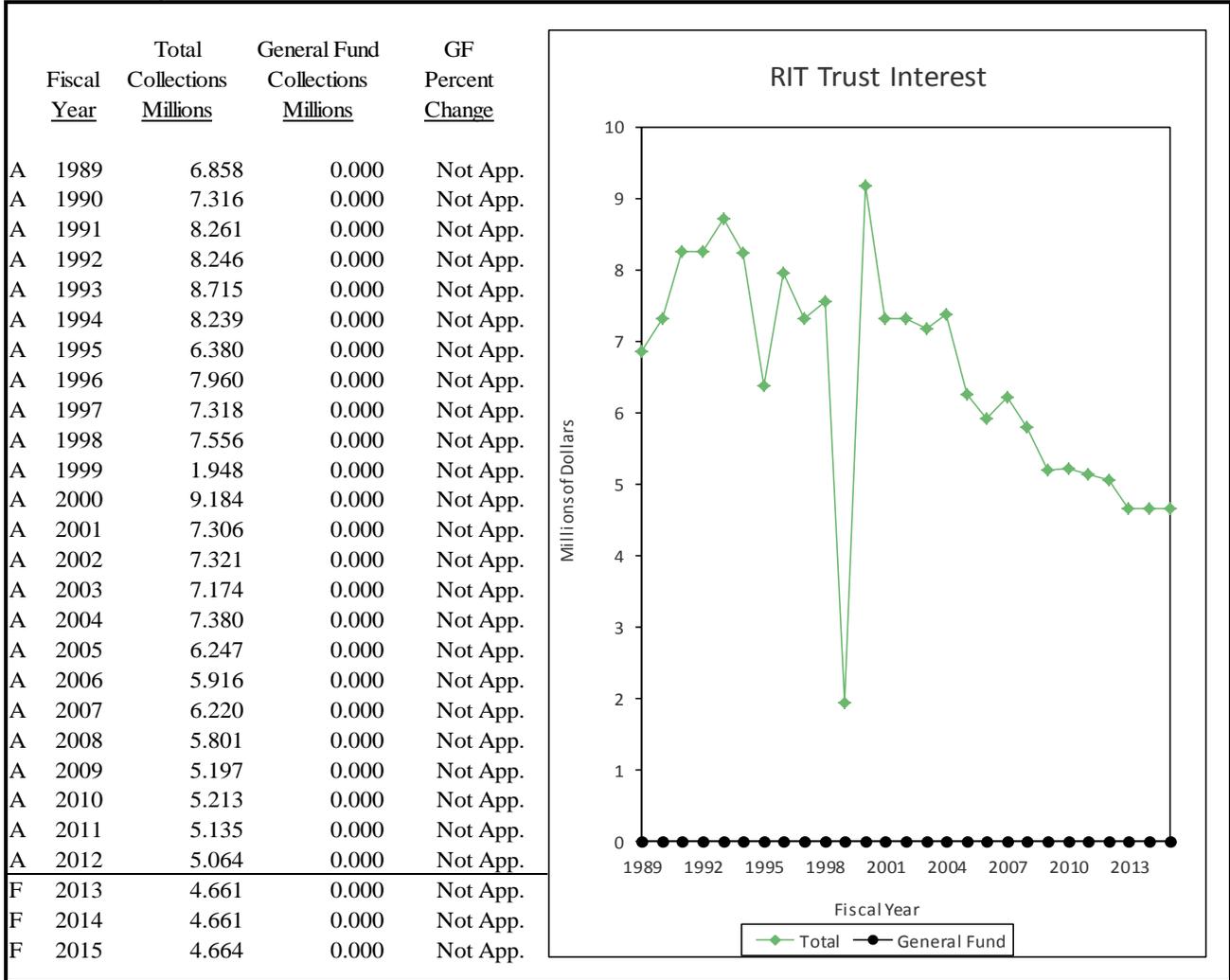
Total Rev. = Invested Balance × Average Return

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Revenue Projection:



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

Contacts: