
Legislative Fiscal Division

Revenue Estimate Profile

Treasure State Endowment Trust Interest

Revenue Description: In the June 1992 election, voters approved a referendum to create the Treasure State Endowment Fund (TSEF) within the permanent coal tax trust fund. The TSEF received a \$10 million grant from the permanent trust principal in FY 1994 and received 37.5% of total coal severance tax collections from July 1999 through June 2003. Beginning FY 2004, the trust receives 25% of total collections. Interest earned on the TSEF is used to finance local infrastructure projects, as prioritized by the departments of Commerce and Natural Resources and Conservation and authorized by the legislature via the Treasure State Endowment Program (TSEP). The deposit of coal severance tax revenue to this fund terminates the end of 2020.

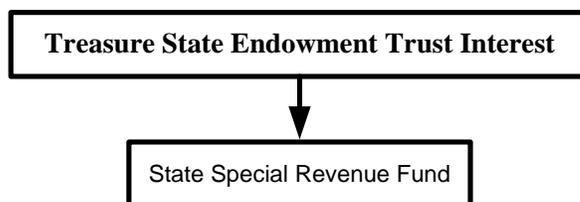
Statutory Reference:

Tax Rate – NA
Distribution (MCA) – 17-5-703 (4c); use of earnings (90-6-701(2))
Date Due (MCA) – Monthly (17-5-703 (4c))

Applicable Tax Rate(s): N/A

Distribution: Interest earnings are allocated to the Department of Commerce to fund TSEP.

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 treasure state endowment (TSE) trust is 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 TSE trust was created from distributions of the coal severance tax. The TSE trust was formed early in the 1990's as a sub-trust to the permanent coal trust. The Constitution requires that 50% of the coal severance tax collections be distributed to the coal trust, and 50% of that distribution (after the water bond debt service obligation is met) or 25% of total coal severance tax revenues is distributed to the TSE trust.

To forecast the TSE trust interest earnings, each of the following four interest/income components are estimated independently and combined:

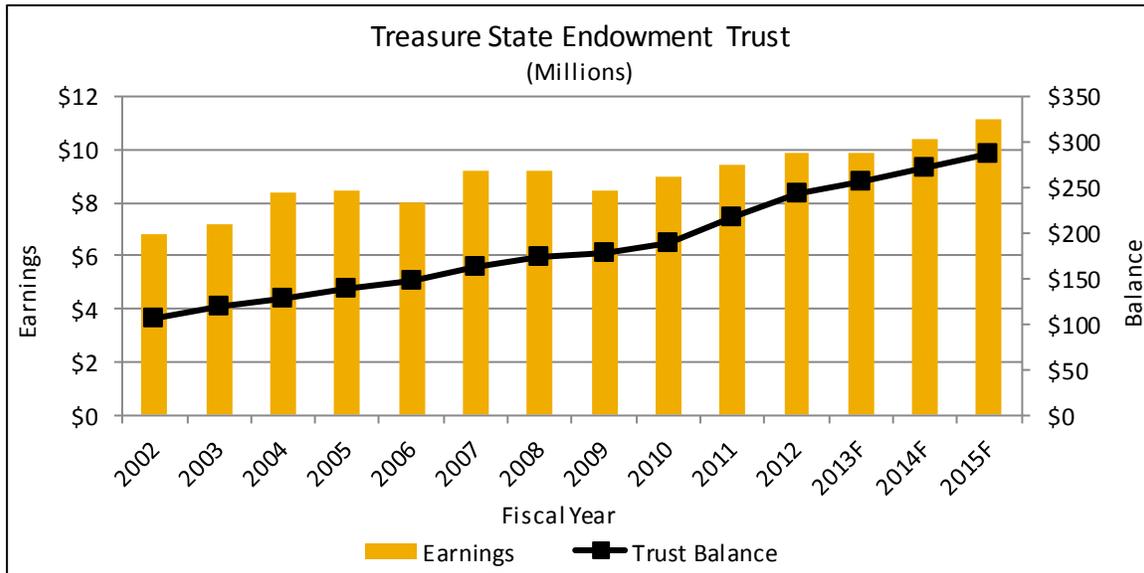
- Trust funds bond pool (TFBP)
- In-state investments
- Short-term investment pool (STIP)
- New trust deposits

Legislative Fiscal Division

Revenue Estimate Profile

Treasure State Endowment Trust Interest

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 new long-term rate for these securities is based on an average of four long-term rates projected by IHS.



Earnings from in-state investments have historically been the second largest source of income to the TSE trust. The BOI is required by statute to invest 25% of 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. In the 2015 biennium, the average loan rate is forecast to be 4.1%.

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.

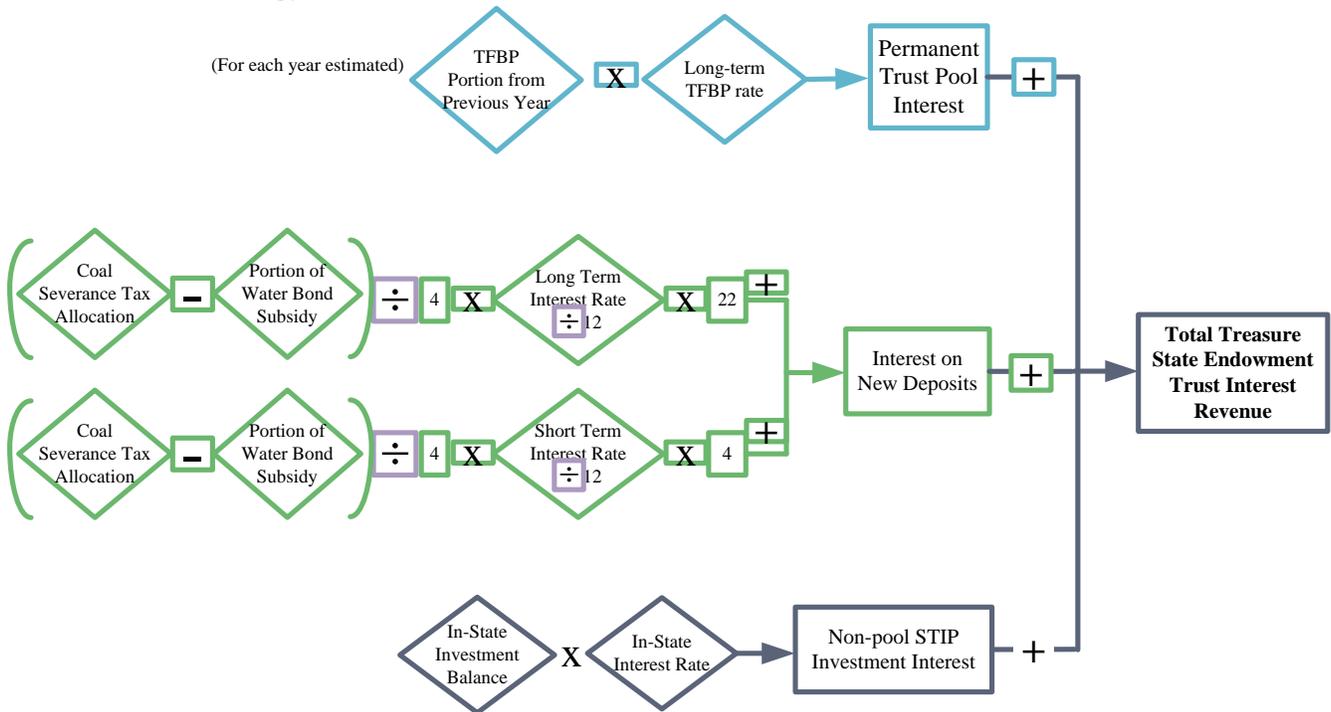
Coal severance tax distributions to the TSE trust are considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested 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.

Legislative Fiscal Division

Revenue Estimate Profile

Treasure State Endowment Trust Interest

Forecast Methodology:



Legislative Fiscal Division

Revenue Estimate Profile

Treasure State Endowment Trust Interest

Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	STIP	Loan	Invested	Average
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Rate</u>
Actual	2002	6.805	0.000	5.140	0.135	1.531		
Actual	2003	7.175	0.000	5.719	0.092	1.365		
Actual	2004	8.349	0.000	6.930	0.086	1.333	127.176	6.6%
Actual	2005	8.482	0.000	7.272	0.237	0.970	137.336	6.2%
Actual	2006	8.039	0.000	7.001	0.514	0.523	147.151	5.5%
Actual	2007	9.225	0.000	8.102	0.719	0.404	161.366	5.7%
Actual	2008	9.194	0.000	8.296	0.639	0.259	172.310	5.3%
Actual	2009	8.450	0.000	8.131	0.182	0.141	177.724	4.8%
Actual	2010	8.940	0.000	8.799	0.026	0.118	188.798	4.7%
Actual	2011	9.416	0.000	9.287	0.029	0.104	207.687	4.5%
Actual	2012	9.866	0.000	9.742	0.049	0.079	225.263	4.4%
Forecast	2013	9.881	0.000	9.559	0.274	0.051	238.974	4.1%
Forecast	2014	10.403	0.000	10.035	0.320	0.051	253.449	4.1%
Forecast	2015	11.155	0.000	10.599	0.508	0.051	268.523	4.2%

	t	Net Coal Tax	New Deposit	Non Pool	Non Pool	Non Pool	Non Pool
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Long Term</u>	<u>STIP</u>	<u>Loan</u>	<u>STIP Bal</u>	<u>Loan Bal</u>
		<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	11.855	6.2%	2.6%	8.3%	7.427	17.859
Actual	2003	11.034	5.7%	1.4%	7.4%	11.675	18.814
Actual	2004	7.886	5.4%	1.3%	8.3%	10.527	13.435
Actual	2005	9.409	5.2%	2.4%	8.8%	12.141	8.681
Actual	2006	8.955	5.2%	4.1%	7.1%	11.708	6.039
Actual	2007	10.190	5.4%	4.7%	7.5%	14.764	4.750
Actual	2008	11.333	5.3%	3.1%	7.5%	14.042	2.115
Actual	2009	12.391	5.1%	1.0%	7.3%	6.445	1.727
Actual	2010	11.044	4.8%	0.2%	7.1%	5.990	1.561
Actual	2011	13.743	4.4%	0.1%	6.9%	11.411	1.427
Actual	2012	13.186	3.8%	0.1%	6.6%	19.140	0.990
Forecast	2013	13.711	3.5%	0.1%	5.2%	19.140	0.990
Forecast	2014	14.475	3.9%	0.2%	5.2%	19.140	0.990
Forecast	2015	15.074	4.5%	0.5%	5.2%	19.140	0.990

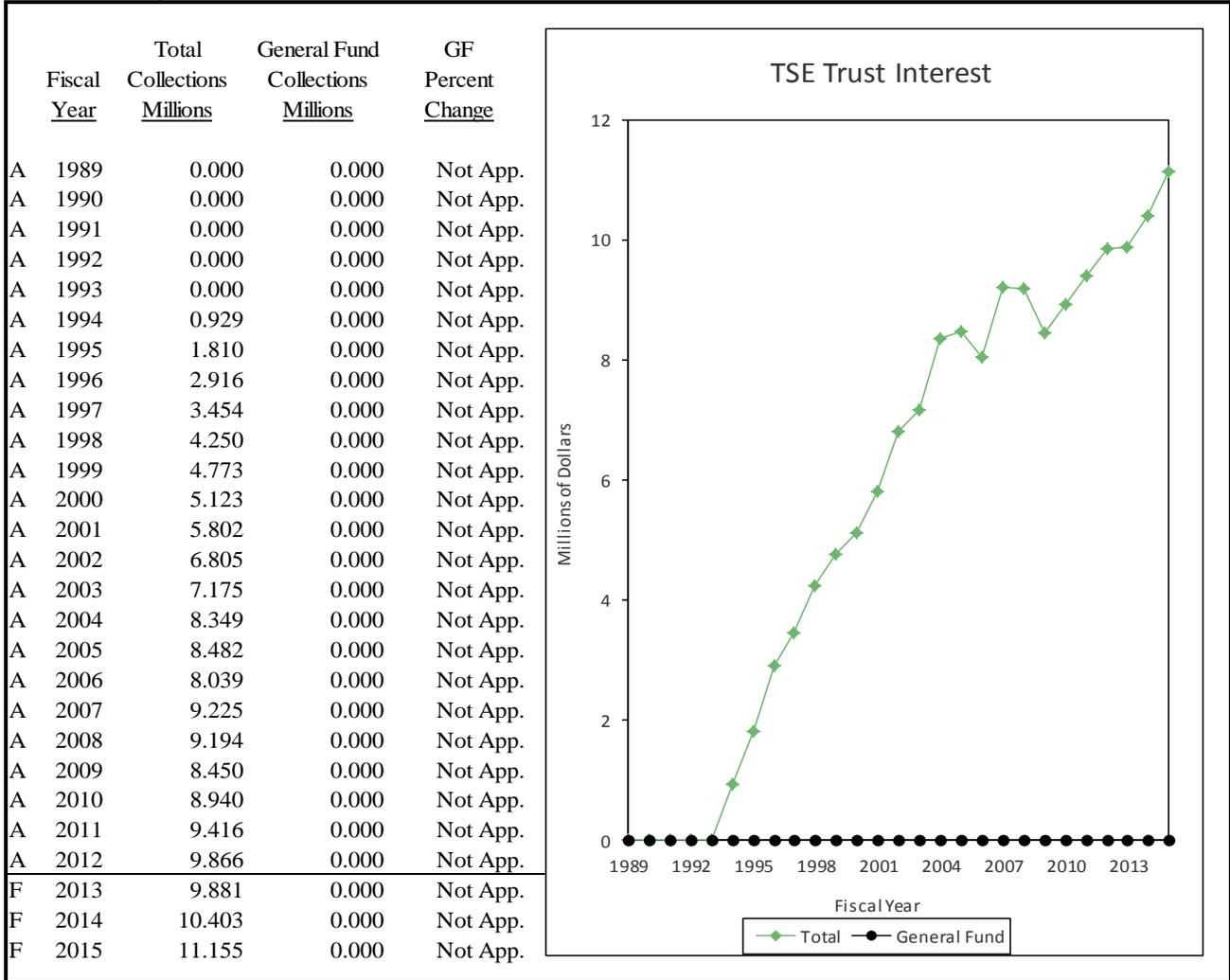
Total Rev. = Invested Balance × Average Return

Legislative Fiscal Division

Revenue Estimate Profile

Treasure State Endowment Trust Interest

Revenue Projection:



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

Contacts: Department of Commerce and Department of Natural Resources and Conservation