



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

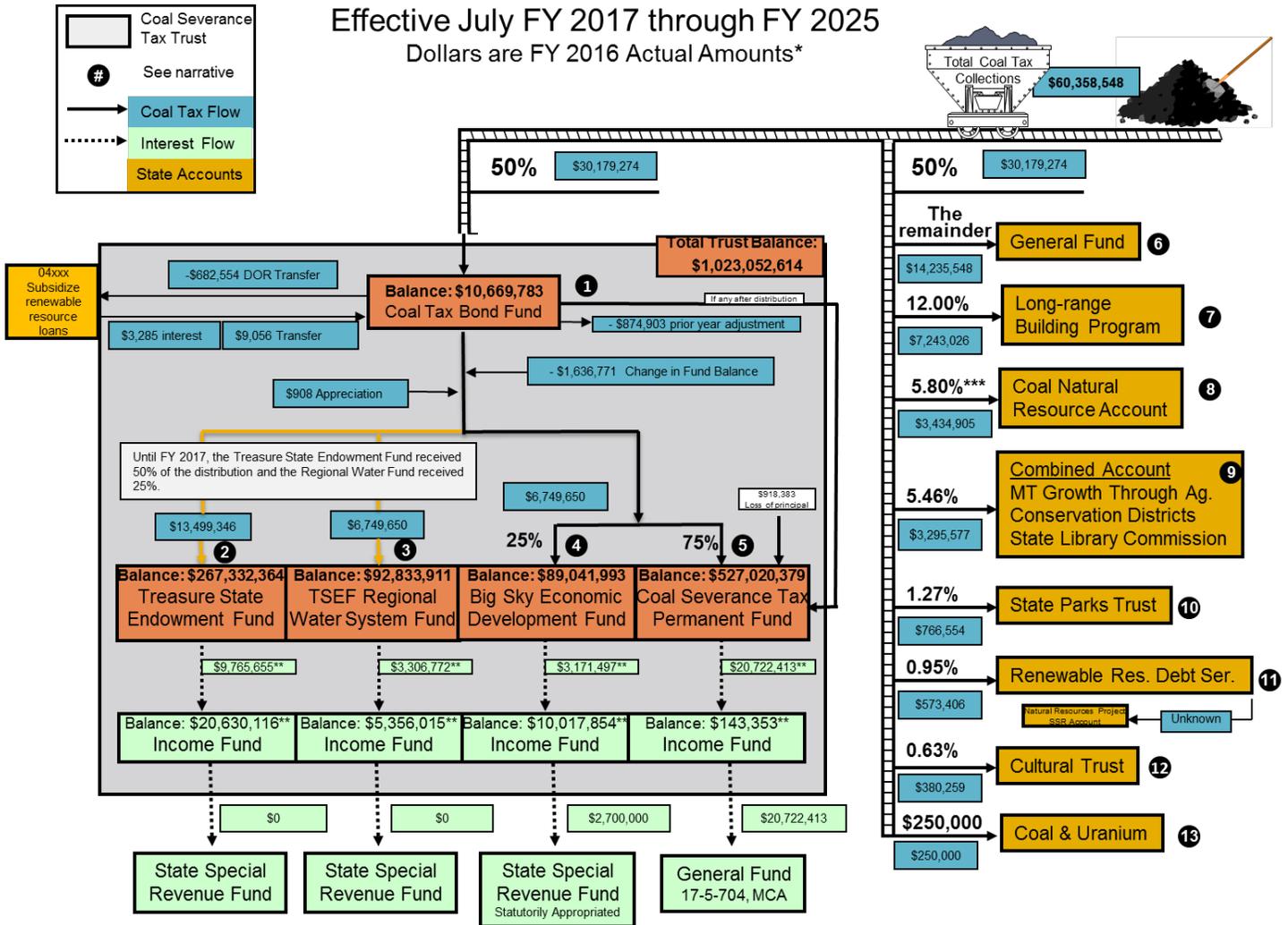
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Director  
AMY CARLSON

### COAL SEVERANCE TAX TRUST FUND

Effective July FY 2017 through FY 2025

Dollars are FY 2016 Actual Amounts\*



\* Current year  
 \*\* Excludes unrealized investment gains and losses  
 \*\*\* Increases from 2.9% to 5.8% for FY 2016 and FY 2017

As directed by [Article IX, Section 5](#) of the Montana Constitution, the coal severance tax trust fund receives 50% of total coal severance tax collections. The money flows through five sub-trust funds. In order, these five are:

#### 1) Coal Tax Bond Fund ([Title 17, Chapter 5, Part 7](#))

– The legislature authorizes the sale of coal severance tax bonds to finance renewable resource projects ([Title 85, Chapter 1, Part 6](#)) and local government infrastructure projects ([Title 90,](#)

[Chapter 6, Part 7](#)). A maximum of \$250 million in bonds is authorized as loans for renewable resource projects ([17-5-719, MCA](#)) to provide:

- 1) a healthy economy;
- 2) alleviation of social and economic impacts created by coal development; and
- 3) a clean and healthful environment.

The total amount of outstanding principal of renewable resource bonds at any time cannot exceed \$30 million ([85-1-624, MCA](#)). An amount equal to the following year's principal and interest payments is maintained in the fund. Money in the fund is pledged to pay the debt service on the bonds if interest and principal payments by the loan recipients are insufficient to fully pay the debt service. Bonds are authorized, projects approved, loan rates established, and bond proceeds are appropriated by the legislature to the Department of Natural Resources in House Bill 8.

## **2) Treasure State Endowment Fund**

In June 1992, the voters approved a legislative referendum establishing the treasure state endowment program. Initially funded with \$10 million from the permanent fund, the fund received 75% (37.5% of the total) of the remaining coal severance tax revenue after deposits (if any) to the coal tax bond fund and the school bond contingency loan fund (HB 44 in the 2007 session eliminated this fund) through the 2003 biennium. From then through FY 2016, the fund received 50% (25% of the total). Projects are approved and interest earnings from the fund are appropriated to the Department of Commerce by the legislature in House Bill 11 as grants for local government infrastructure projects. The deposit of coal severance tax revenue into this fund terminated at the end of FY 2016.

## **3) Treasure State Endowment Regional Water System Fund**

The 1999 Legislature established the treasure state endowment program to fund regional water system projects. Projects are restricted to drinking water systems that provide water for domestic, industrial, and stock water use for communities and rural residences that lie in specific northcentral and northeastern geographic areas. Projects are approved and interest earnings from the fund are appropriated to the Department of Commerce by the legislature in House Bill 11 as grants for local government infrastructure projects. Until the end of FY 2016, the fund received 25% (12.5% of the total) of the remaining coal severance tax revenue after deposits in the coal tax bond fund. The deposit of coal severance tax revenue into this fund terminated at the end of FY 2016, and the fund terminates at the end of FY 2031 ([HB 180, 2015 Session](#)).

## **4) Big Sky Economic Development Fund**

The 2005 Legislature established the big sky economic development program (House Bill 249) to fund qualified economic development projects. The fund receives 25% (12.5% of the total) of the remaining coal severance tax revenue after deposits (if any) in the coal tax bond fund and the school bond contingency loan fund (HB 44 in the 2007 session eliminated this fund). The deposit of coal severance tax revenue to this fund terminates the end of FY 2025. Grants and loans are available to local governments for economic development projects and to certified regional development corporations for the purposes of:

- 1) creating good-paying jobs for Montana residents;
- 2) promoting long-term, stable economic growth;
- 3) encouraging local economic development organizations; and
- 4) retaining or expanding existing businesses

Grants and loans are approved by and interest earnings from the fund are statutorily appropriated to the Department of Commerce. Money not spent for administration must be used: 1) 75% to

local and tribal governments for job creation efforts; and 2) 25% to certified regional development corporations and economic development organizations.

### **5) Permanent Fund**

Prior to the establishment of the previous four funds, all the coal severance tax revenue distributed to the trust fund was deposited to the permanent fund. From FY 2000 through FY 2003, the permanent fund did not receive any deposits of coal severance tax revenue. From FY 2004 through FY 2005, the fund received 25% of the remaining coal severance tax revenue after deposits (if any) in the coal tax bond fund and the school bond contingency loan fund (HB 44 in the 2007 session eliminated this fund). From FY 2006 through FY 2016 no coal severance tax revenue was been deposited to the fund. Starting in FY 2017, the permanent fund began receiving 75% of the remaining coal severance tax revenue after deposits. Interest earnings from the fund, audit revenue, and interest and penalties are deposited to the general fund ([17-5-704, MCA](#)).

General fund is appropriated in the general appropriation act (House Bill 2), in statute (statutory appropriations), or in other pieces of legislation. Interest income from the permanent fund deposited into the general fund is statutorily appropriated to 1) \$65,000 to the cooperative development center; 2) \$625,000 for the growth through agriculture program provided for in Title 90, chapter 9; 3) \$1.275 million to the research and commercialization state special revenue account created in 90-3-1002; 4) to the Department of Commerce for specific projects. The Department of Commerce projects include 1) \$125,000 for a small business development center; 2) \$50,000 for a small business innovative research program; 3) \$425,000 for certified regional development corporations; 4) \$200,000 for the Montana manufacturing extension center at Montana state university-Bozeman; and 5) \$300,000 for export trade enhancement. After those payments, up to \$21 million is appropriated to the public employees' retirement system defined benefit plan trust fund. Effective FY 2020, the smaller statutory appropriations from the permanent fund interest cease, and up to \$24 million is appropriated to the public employees' retirement system defined benefit plan trust fund.

### **COAL SEVERANCE TAX RELATED FUNDS**

The other 50% of the coal severance tax revenue is distributed to the following eight funds outside of the coal severance tax trust fund ([15-35-108, MCA](#)).

### **6) General Fund (the remainder after all other allocations)**

As the name suggests, the money in this account is used for any purpose the legislature wants to appropriate funding. The largest four expenditures (FY 2015) of general fund by [function](#) were: 1) public schools – 35%; 2) human services – 21%; 3) higher education – 10%; and 4) Department of Corrections 9%. The largest four types of general fund expenditures by [type](#) (excluding combined transfers) are: 1) local assistance – 44%; 2) personal services – 16%; 3) benefits & claims – 15%; and 4) operating expenses – 10%. The general fund revenue generated from the coal severance tax is statutorily appropriated to the Montana Public Employees' Retirement System (PERS).

### **7) Long-range Building Program Account (12.00%)**

Coal severance tax revenue in this account can be used for long-range building projects or for general obligation bond debt service. The legislature appropriates the money in House Bill 5 to finance building projects at universities, vocational education institutions, state buildings and state institutions. Debt service payments are statutorily appropriated and are currently servicing debt for capitol restoration, the UM pharmacy/psychology and chemistry buildings, MSU central

heating plant and underground utilities, Montana state prison expansion, and regional correctional facilities.

**8) Coal Natural Resource Account (2.90% going to 5.8% in FY 2016 and FY 2017)**

Created by the 2005 Legislature (and amended by the 2009 Legislature in SB 23), the account receives a portion of the coal severance tax revenue. Money in the account is appropriated to the coal board in House Bill 2 for local impact grants and administrative costs. Due to Senate Bill 100 enacted by the 2009 Legislature, the coal tax allocation was doubled to 5.80% beginning FY 2010. After September 2013, the allocation decreased to 2.9%. The allocation was again increased to 5.8% for FY 2016 and FY 2017, and will revert back to 2.9% in FY 2018 ([HB 228, 2015 Session](#)).

**9) Combined Account (5.46%)**

The distribution of coal severance taxes to this account is appropriated to certain state agencies by the legislature in House Bill 2 and, beginning FY 2006, can be spent for the following three purposes:

Montana growth through agriculture – Money is granted or loaned by the Agriculture Development Council to businesses for agricultural development projects that stimulate agriculture

Conservation districts – The money is distributed to the conservation districts on the basis of need

State Library Commission – The money is distributed by the commission to public library federations

**10) State Parks Trust (1.27%)**

The distribution to this trust is for the purpose of parks acquisition or management. Interest earnings from the trust is appropriated to the Department of Fish, Wildlife, and Parks by the legislature in House Bill 2 and House Bill 5 for the acquisition, development, operation, and maintenance of state parks, recreational areas, public camping grounds, historic sites, and monuments.

**11) Renewable Resource Debt Service Fund (0.95%)**

Money in this fund is used to service debt on coal severance tax bonds used to finance renewable resource projects. This is in addition to any coal tax paid from the Coal Tax Bond Fund (number 1 above). Bonds are authorized, projects approved, loan rates established, and bond proceeds are appropriated by the legislature to the Department of Natural Resources in House Bill 8.

**12) Cultural Trust (0.63%)**

The distribution to this trust is for the purpose of protecting works of art in the capitol and for other cultural and aesthetic projects. Interest earnings from the trust are appropriated to the Montana Arts Council by the legislature in House Bill 9 for these purposes.

**13) Coal and Uranium Mine Permitting and Reclamation Program (\$250,000)**

Enacted by House Bill 688 by the 2007 Legislature, coal severance tax revenue is deposited to the state special revenue account and appropriated in House Bill 2 to the Department of Environmental Quality to administer and enforce coal and uranium mine reclamation (Title 82, Chapter 4, Part 2).