

Interest Earnings

Coal Trust Interest

Common School Interest and Income

Treasury Cash Account Interest



Legislative Fiscal Division

Revenue Estimate Profile

Coal Trust Interest

Revenue Description: Article IX, Section 5 of the Montana Constitution requires that 50.0 percent 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 state bonds issued to finance water resource and renewable resource development projects and activities. Through fiscal 2003, the funds are then split 75 percent to the treasure state endowment trust fund and 25 percent to the treasure state endowment regional water system trust fund. With the enactment of House Bill 610 by the 2001 legislature, beginning fiscal 2004 the funds are then split 50 percent to the treasure state endowment trust fund, 25 percent to the treasure state endowment regional water system trust fund, and 25 percent to the permanent trust fund. 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 for the Montana Science and Technology Alliance, are 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. However, this prohibition is removed if the constitutional amendment put on the ballot by Senate Bill 493 (enacted by the 2001 legislature) is approved by the electorate.

Applicable Tax Rate(s): N/A

Distribution: Interest earned on the permanent coal tax trust fund is deposited into the general fund.

Summary of Legislative Action:

House Bill 444 – The Department of Justice is appropriated \$990,000 for the 2003 biennium as a loan from the coal severance permanent fund. The purpose of the appropriation is to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims and any appeals against the Atlantic Richfield Company. The resulting loss in transfers of trust interest earnings to the general fund is expected to be \$17,573 in fiscal 2002 and \$52,718 in fiscal 2003. Any reimbursements received must be deposited in the coal severance tax permanent fund. The legislation required a three-quarters vote of each house of the legislature.

House Bill 610 – Beginning fiscal 2004, the one-half of total coal severance tax collections deposited in the coal trust are allocated 50 percent to the treasure state endowment fund (a reduction from 75 percent), 25 percent to the TSEP regional water system fund, and 25 percent to the permanent fund (an increase from 0 percent). These changes will result in greater interest earnings for the general fund and lesser interest earnings for the Treasure State Endowment Program beginning fiscal 2004.

Senate Bill 495 (as amended by HB 41) – In conjunction with House Bill 41, Senate Bill 495 changes the portion of school funding provided by the common school trust. The main points of the legislation are:

1. Interest and income from the common school trust are deposited to a subfund of the general fund called the guarantee account;
2. The Department of Natural Resources and Conservation is authorized to purchase the mineral production rights from the common school trust;
3. A loan of up to \$75 million from the coal severance trust permanent fund will be used to purchase the mineral production rights and deposited in the common school trust;
4. Any mineral royalties from the purchased rights are deposited to the guarantee account;
5. After principal and interest payments on the loan used to purchase the mineral production rights are paid, the remaining money in the guarantee account is available for distribution to school districts; and
6. Upon electorate approval of a constitutional amendment (contained in Senate Bill 493), the public school trust may be invested in private corporate capital stock.

Legislative Fiscal Division

Revenue Estimate Profile

Coal Trust Interest

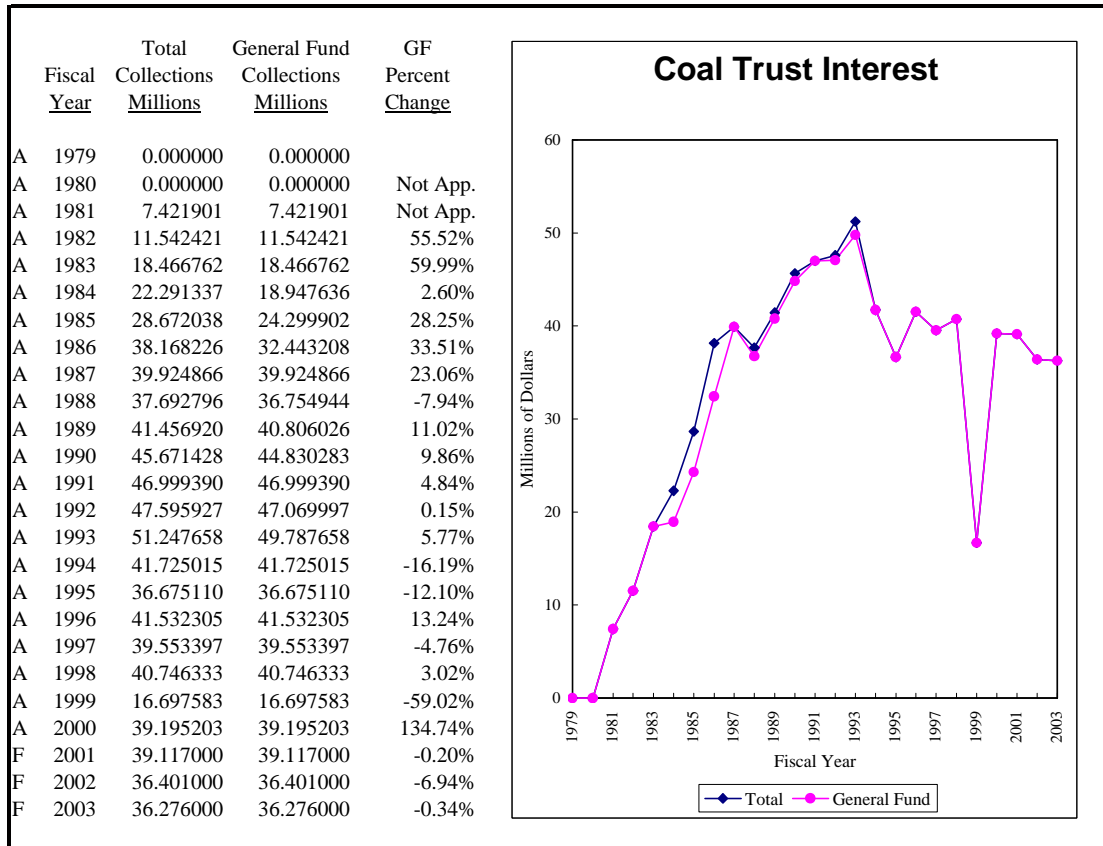
Although it is estimated that the cost of the mineral production rights will be \$37.43 million, the legislature appropriated \$75 million from the coal severance permanent fund to be loaned for this purpose. Based on a \$37.43 million loan from the coal severance permanent fund, the loss of interest earnings that would have been deposited to the general fund is estimated to be \$2,714,000 in each year of the 2003 biennium. The legislation required a three-quarters vote of each house of the legislature.

Coal Trust Interest -- Legislation Passed by 57th Legislature Estimated General Fund Impact for the 2003 Biennium			
<u>Bill Number and Short Title</u>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>
HB0444 Reauthorize natural resource damage program		(17,573)	(52,718)
SB0495 Revise state land laws to increase funding for trust		(2,714,000)	(2,714,000)
Total Estimated General Fund Impact	<u>\$0</u>	<u>(\$2,731,573)</u>	<u>(\$2,766,718)</u>

Statute: Title 17, Chapter 6, MCA

% of Total FY 2000 General Fund Revenue: 3.37%

Revenue Projection:



Legislative Fiscal Division

Revenue Estimate Profile

Coal Trust Interest

NOTE:

Due to the transition to a new state accounting system and other factors, an unusually large number of accounting errors occurred in fiscal 2000. The errors not only impact the general fund, but other funds as well. To correct these errors and ensure an accurate Comprehensive Annual Financial Report for the state, adjustments must be made in fiscal 2001 as prior year adjustments. The actual fiscal 2000 revenue shown in the table above was adjusted for these accounting errors and has been audited by the Legislative Auditor.

The general fund adjustment to this general fund revenue source that was known as of November 10, 2000 is -\$9,508,574.

Revenue Estimate Assumptions

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2001 legislature that may affect future estimates of this revenue source.

	<u>t</u>	<u>Total Rev.</u>	<u>GF Rev.</u>	<u>Trust Shares</u>	<u>Total Shares</u>	<u>Trust Pool</u>	<u>Other Pool</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Interest</u>	<u>Income</u>
						<u>Millions</u>	<u>Millions</u>
Actual	2000	39.195203	39.195203	4.313079	11.821189	78.564737	5.084671
Forecast	2001	39.117000	39.117000	4.313079	11.821189	78.564737	5.063916
Forecast	2002	39.133000	39.133000	4.313079	11.821189	78.564737	5.084671
Forecast	2003	39.043000	39.043000	4.313079	11.821189	78.564737	4.966292

	<u>t</u>	<u>Pool Short</u>	<u>Gains</u>				
	<u>Fiscal</u>	<u>Term Interest</u>	<u>Losses</u>	<u>Fees</u>	<u>Amortizations</u>	<u>Lending</u>	<u>Accretions</u>
		<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	2.402942	0.697222	-0.197184	-1.337427	0.283705	3.235413
Forecast	2001	2.382187	0.697222	-0.197184	-1.337427	0.283705	3.235413
Forecast	2002	2.402942	0.697222	-0.197184	-1.337427	0.283705	3.235413
Forecast	2003	2.284563	0.697222	-0.197184	-1.337427	0.283705	3.235413

	<u>t</u>	<u>Net Coal Tax</u>	<u>Bond</u>	<u>New Deposit</u>		<u>Non Pool</u>	<u>Non Pool</u>	<u>Non Pool</u>
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Subsidy</u>	<u>Interest</u>	<u>Long Term</u>	<u>STIP</u>	<u>STIP Bal</u>	<u>STIP Int</u>
		<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	0.000000	0.000000		7.3910%	6.2520%	15.334577	
Forecast	2001	0.000000	0.403796	0.000000	7.3690%	6.1980%	15.334577	0.950437
Forecast	2002	0.000000	0.445295	0.000000	7.3910%	6.2520%	15.334577	0.958718
Forecast	2003	0.000000	0.411765	0.000000	7.3780%	5.9440%	15.334577	0.911487

Legislative Fiscal Division

Revenue Estimate Profile

Coal Trust Interest

	<u>t</u> <u>Fiscal</u>	Non Pool In-State <u>Rate</u>	Non Pool In-State Bal <u>Millions</u>	Non Pool In-State Int <u>Millions</u>	Non Pool Other <u>Rate</u>	Non Pool Other Bal <u>Millions</u>	Non Pool Other Int <u>Millions</u>
Actual	2000						
Forecast	2001	6.0000%	127.567412	7.654045	6.7759%	0.000000	0.000000
Forecast	2002	6.0000%	127.567412	7.654045	6.7759%	0.000000	0.000000
Forecast	2003	6.0000%	127.567412	7.654045	6.7759%	0.000000	0.000000

	<u>t</u> <u>Fiscal</u>	Non Pool MSTA <u>Rate</u>	Non Pool MSTA Bal <u>Millions</u>	Non Pool MSTA Int. <u>Millions</u>	Non Pool MSTA Inc. <u>Millions</u>	Non Pool MSTA Total <u>Millions</u>
Actual	2000					
Forecast	2001	6.7759%	0.000000	0.000000	0.000000	0.000000
Forecast	2002	6.7759%	0.000000	0.000000	0.000000	0.000000
Forecast	2003	6.7759%	0.000000	0.000000	0.000000	0.000000

Legislative Fiscal Division

Revenue Estimate Profile

Common School Interest and Income

Revenue Description: Lands granted by the federal government to the state for the benefit of public schools generate income. The common school trust is actually part of the trust and legacy trust fund that includes nine other trusts. Prior to fiscal 1996, income from the common school trust was deposited in the state equalization account. Beginning in fiscal 1996, this income was deposited in the general fund, as mandated by SB 83, passed by the 1995 legislature. The common school lands produce two kinds of revenue: 1) distributable income such as interest earnings, agricultural rents or crop shares, and timber sale revenue; and 2) permanent income that is returned to the trust such as income from the sale of minerals, land, and easements. Excluding timber revenue and after deducting 3.0 percent of the revenue for use by the Department of Natural Resources and Conservation (DNRC), distributable revenues are deposited 95.0 percent to the general fund and, due to Senate Bill 48 (discussed below), the remaining 5.0 percent is available to fund the Trust Land Management Division of DNRC. The 3.0 percent allocation to DNRC is used for resource development purposes. Timber revenue is allocated: 1) first by DNRC to fund its timber program in the amount appropriated by the legislature; 2) the amount received above the value of 18 million board feet is deposited into the state special revenue fund for technology equipment and training and is statutorily appropriated (House Bill 41 enacted by the 2001 legislature); and 3) any remainder for the support of public schools.

Senate Bill 48, passed by the 1999 legislature, provides for the diversion of the following funds for the purpose of funding the Trust Land Management Division in the DNRC: 1) mineral royalties; 2) revenues from the sale of easements; and 3) 5.0 percent of interest and income previously credited to the common school trust. The amount of the money diverted from the common school trust reduces the growth of the trust fund balance and, hence, reduces the amount of distributable interest earnings.

As of October 1, 1995, all fixed-income investments held by the state's major trust funds (which includes the trust and legacy fund of which the common school trust is a part), were transferred to a newly-created Trust Fund Bond Pool (TFBP). The majority of common school 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 common school trust funds in common stock. However, this prohibition is removed by House Bill 41 (enacted by the 2001 legislature) if the constitutional amendment put on the ballot by Senate Bill 493 (enacted by the 2001 legislature) is approved by the electorate.

Senate Bill 495 (enacted by the 2001 legislature) authorizes DNRC to purchase the mineral production rights (with a loan from the coal severance trust) from the common school trust. Since the royalties from any rights purchased would no longer be deposited to the trust, interest earnings would decrease. However, additional interest earnings will be generated from the proceeds of the mineral production rights sale.

Applicable Tax Rate(s): N/A

Distribution: As described above, interest and income from common school lands (excluding timber sales and amounts deducted to fund DNRC) is distributed 95.0 percent to the general fund. The remaining 5.0 percent is available to fund the Trust Land Management Division with the remainder deposited to the trust fund.

Summary of Legislative Action:

House Bill 2 – The amount of money appropriated from certain accounts inversely impacts the amount of general fund revenue from various sources. Although these amounts are estimated prior to the session based on appropriations requested in the Executive Budget, final appropriations set by the legislature may differ. The legislature appropriated more from the timber sales account administered by the Department of Natural Resources and Conservation than was estimated, thus reducing the amount of timber sale revenue deposited to the general fund.

House Bill 41 – As with Senate Bill 495, House Bill 41 provides for the deposit of common school trust interest and income into a subfund of the general fund. In addition, revenue from the sale of timber in excess of 18 million board feet is now deposited in a state special revenue fund and statutorily appropriated. Previously this revenue, estimated at \$1,600,000 in fiscal 2002 and \$800,000 in fiscal 2003, was deposited in the general fund and appropriated in House Bill 2.

Legislative Fiscal Division

Revenue Estimate Profile

Common School Interest and Income

Senate Bill 495 (as amended by HB 41) – In conjunction with House Bill 41, Senate Bill 495 changes the portion of school funding provided by the common school trust. The main points of the legislation are:

1. Interest and income from the common school trust are deposited to a subfund of the general fund called the guarantee account;
2. The Department of Natural Resources and Conservation is authorized to purchase the mineral production rights from the common school trust;
3. A loan of up to \$75 million from the coal severance trust permanent fund will be used to purchase the mineral production rights and deposited in the common school trust;
4. Any mineral royalties from the purchased rights are deposited to the guarantee account;
5. After principal and interest payments on the loan used to purchase the mineral production rights are paid, the remaining money in the guarantee account is available for distribution to school districts; and
6. Upon electorate approval of a constitutional amendment (contained in Senate Bill 493), the public school trust may be invested in private corporate capital stock.

Although it is estimated that the cost of the mineral production rights will be \$37.43 million, the legislature appropriated \$75 million from the coal severance permanent fund to be loaned for this purpose. Under the legislation, the loan amount will be deposited to the guarantee account and paid to the common school trust. Interest earnings from the \$37.43 million will be distributed 95 percent to the guarantee account (\$2,570,000 each fiscal year) and 5 percent for DNRC administration. Principal payments on the loan begin in fiscal 2004 and the loan agreement must pledge 20 percent of the royalties in the guarantee account for fiscal years 2004 and 2005, at least 25 percent for fiscal years 2006 through 2011, and not less than 34 percent thereafter for loan payments. For the 2003 biennium, an estimated \$5,187,000 in fiscal 2002 and \$5,903,000 of royalties will be deposited to the guarantee account and are available for distribution to school districts. The legislation required a three-quarters vote of each house of the legislature.

Common School Interest and Income -- Legislation Passed by 57th Legislature			
Estimated General Fund Impact for the 2003 Biennium			
<u>Bill Number and Short Title</u>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>
HB0002 General appropriations act		(83,137)	(48,016)
HB0041 Revise laws governing dedicated revenue and statutory appropriations		(1,600,000)	(800,000)
SB0495 Revise state land laws to increase funding for trust		7,765,000	8,481,000
Total Estimated General Fund Impact	<u>\$0</u>	<u>\$6,081,863</u>	<u>\$7,632,984</u>

Statute: Title 20, Chapter 9 and Title 77, Chapter 1, MCA

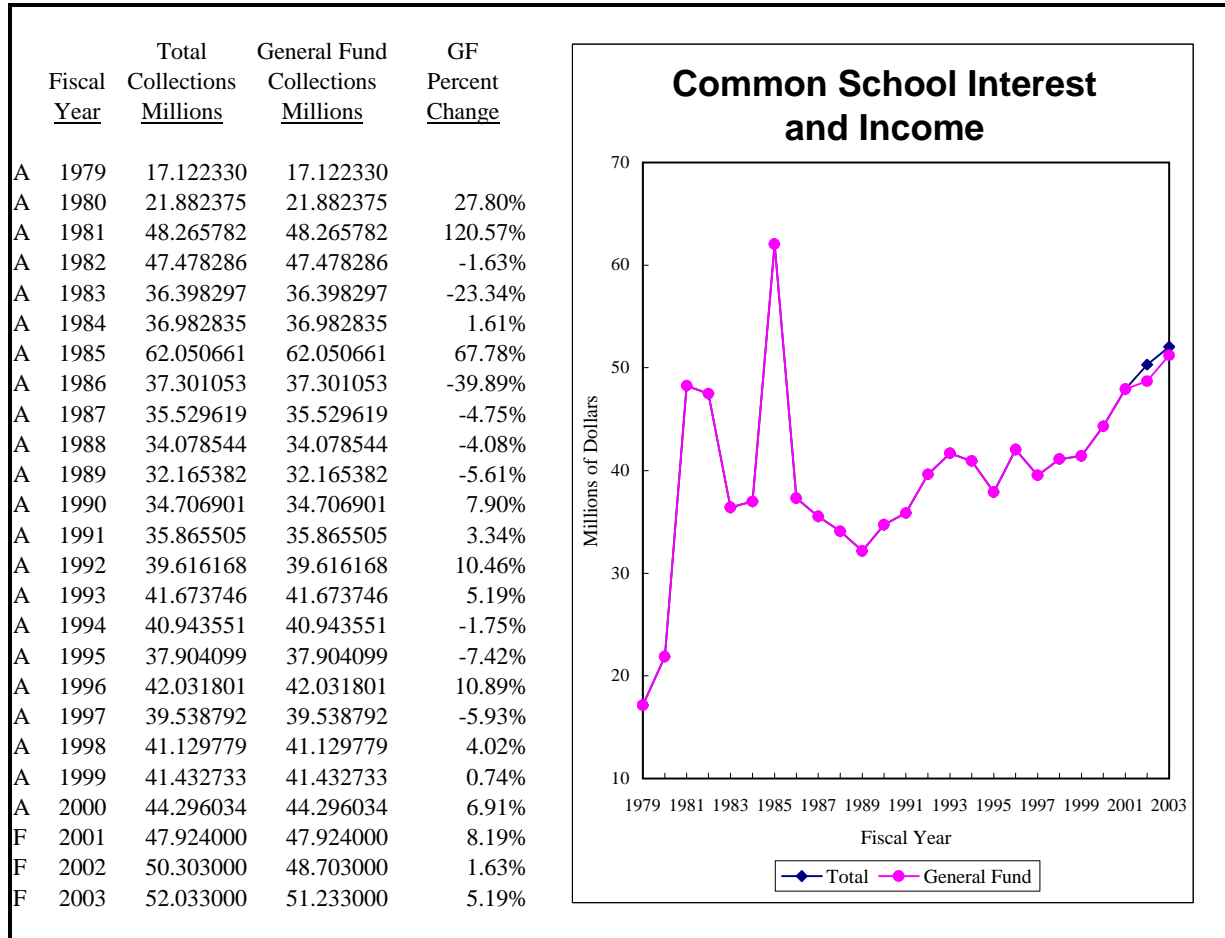
% of Total FY 2000 General Fund Revenue: 3.81%

Legislative Fiscal Division

Revenue Estimate Profile

Common School Interest and Income

Revenue Projection:



Revenue Estimate Assumptions

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2001 legislature that may affect future estimates of this revenue source.

Legislative Fiscal Division

Revenue Estimate Profile

Common School Interest and Income

	t	Total Rev.	GF Rev.	Trust Shares	Total Shares	Trust Pool	Other Pool	Common
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Interest</u>	<u>Income</u>	<u>School Share</u>
						<u>Millions</u>	<u>Millions</u>	<u>T&L</u>
Actual	2000	44.296034	44.296034	3.583217	11.821189	78.564737	5.084671	0.938562
Forecast	2001	47.924000	47.924000	3.583217	11.821189	78.564737	5.077838	0.938562
Forecast	2002	42.621000	42.621000	3.583217	11.821189	78.564737	5.084671	0.938562
Forecast	2003	43.600000	43.600000	3.583217	11.821189	78.564737	4.938141	0.938562

	t	Pool Short	Gains				
	<u>Fiscal</u>	<u>Term Interest</u>	<u>Losses</u>	<u>Fees</u>	<u>Amortizations</u>	<u>Lending</u>	<u>Accretions</u>
		<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	2.402942	0.697222	-0.197184	-1.337427	0.283705	3.235413
Forecast	2001	2.396109	0.697222	-0.197184	-1.337427	0.283705	3.235413
Forecast	2002	2.402942	0.697222	-0.197184	-1.337427	0.283705	3.235413
Forecast	2003	2.256412	0.697222	-0.197184	-1.337427	0.283705	3.235413

	t	Trust Income	Trust Land	New Deposit		Non Pool	Non Pool	Non Pool
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Admin.</u>	<u>Interest</u>	<u>Long Term</u>	<u>STIP</u>	<u>STIP Bal</u>	<u>STIP Int</u>
		<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	10.962021	0.000000					
Forecast	2001	6.505141	-3.478551	0.253308	7.3690%	6.1980%	11.676486	0.723709
Forecast	2002	7.111158	-3.742886	0.757307	7.3910%	6.2520%	11.676486	0.730014
Forecast	2003	8.194991	-3.737578	1.322663	7.3780%	5.9440%	11.676486	0.694050

	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	2000	4.065911	9.053155	0.000000	1.328220	1.277231	0.261334	1.127779
Forecast	2001	4.765911	9.030172	0.000000	1.343636	6.682821	0.222374	1.228463
Forecast	2002	4.765911	9.023642	0.000000	1.399842	0.515021	0.220232	1.366014
Forecast	2003	4.765911	9.152148	0.000000	1.480473	0.547065	0.221141	1.573707

	t	Int. Land	Int. STIP	Int. Trust	Timber	Res. Dev.	Net	Timber Not
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Subject 95%</u>
								<u>Millions</u>
Actual	2000	0.000566	0.706653	23.905761	5.379555	-0.513416	44.263112	
Forecast	2001	0.000397	0.880758	24.712901	2.253294	-0.698201	47.923900	0.450000
Forecast	2002	0.000268	0.789691	25.193796	2.069690	-0.518720	42.621318	0.744000
Forecast	2003	0.000175	0.768211	25.648976	2.200242	-0.532213	43.600544	1.320000

Legislative Fiscal Division

Revenue Estimate Profile

Treasury Cash Account Interest

Revenue Description: The Department of Commerce Board of Investments is responsible for investing all state funds. Title 17, Chapter 6, MCA, provides guidelines under which the funds must be invested. Unless specifically stated by statute, all interest earned on these investments is deposited in the general fund account. Treasury cash is invested in a mixture of short and medium-term investments. Consequently, the interest assumptions adopted by the legislature incorporate a blend of short and intermediate-term rates. When needed to address cash flow problems, the state typically issues tax and revenue anticipation notes (TRANS). The legislature would then adopt TRANS issuance assumptions, since this affects the average investable balance. TRANS are anticipated at \$20.0 million in each year of the 2003 biennium.

Applicable Tax Rate(s): N/A

Distribution: All investment earnings on the treasury cash account (TCA) are deposited into the general fund.

Summary of Legislative Action:

Senate Bill 80 – Interest earnings from money in the Montana heritage preservation and development account are now deposited in the account rather than in the general fund. Based on an average balance of \$500,000, the Historical Society estimates the loss in general fund revenue will be \$25,000 each fiscal year.

Treasury Cash Account Interest -- Legislation Passed by 57th Legislature Estimated General Fund Impact for the 2003 Biennium			
<u>Bill Number and Short Title</u>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>
SB0080 Revise heritage preservation commission laws		(25,000)	(25,000)
Total Estimated General Fund Impact	<u>\$0</u>	<u>(\$25,000)</u>	<u>(\$25,000)</u>

Statute: Title 17, Chapter 6, MCA

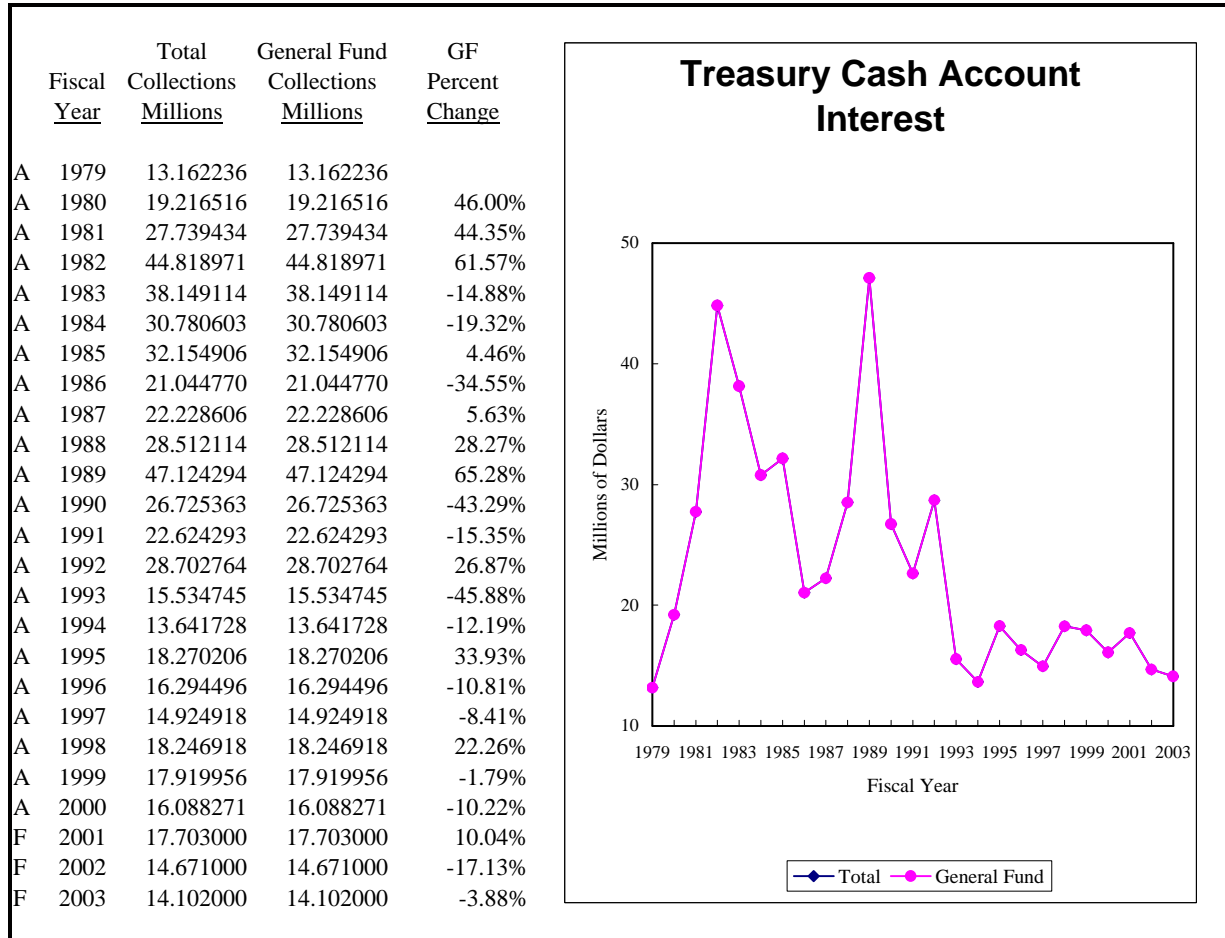
% of Total FY 2000 General Fund Revenue: 1.38%

Legislative Fiscal Division

Revenue Estimate Profile

Treasury Cash Account Interest

Revenue Projection:



Revenue Estimate Assumptions

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2001 legislature that may affect future estimates of this revenue source.

Legislative Fiscal Division

Revenue Estimate Profile

Treasury Cash Account Interest

	<u>t</u>	<u>Total Rev.</u>	<u>GF Rev.</u>	<u>Avg. Bal.</u>	<u>Interest</u>	<u>Issue</u>	<u>TRANS</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Cost</u>
Actual	2000	16.088271	16.088271	303.627590	0.052987	0.000000	0.000000
Forecast	2001	17.703000	17.703000	268.828705	0.065854	0.042519	0.000000
Forecast	2002	14.696000	14.696000	222.702750	0.065991	0.042607	0.639105
Forecast	2003	14.127000	14.127000	222.702750	0.063437	0.040958	0.614370

	<u>t</u>	<u>Base Bal.</u>	<u>TRANS</u>	<u>TRANS</u>	<u>Legislation</u>	<u>DOT Bal.</u>	<u>GF Bal.</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Length</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	303.628000	0.000000	0.000000	0.000000	28.702840	183.800000
Forecast	2001	268.828705	0.000000	0.000000	0.000000	20.000000	116.578000
Forecast	2002	207.702750	20.000000	0.750000	0.000000	0.000000	116.578000
Forecast	2003	207.702750	20.000000	0.750000	0.000000	0.000000	116.578000

