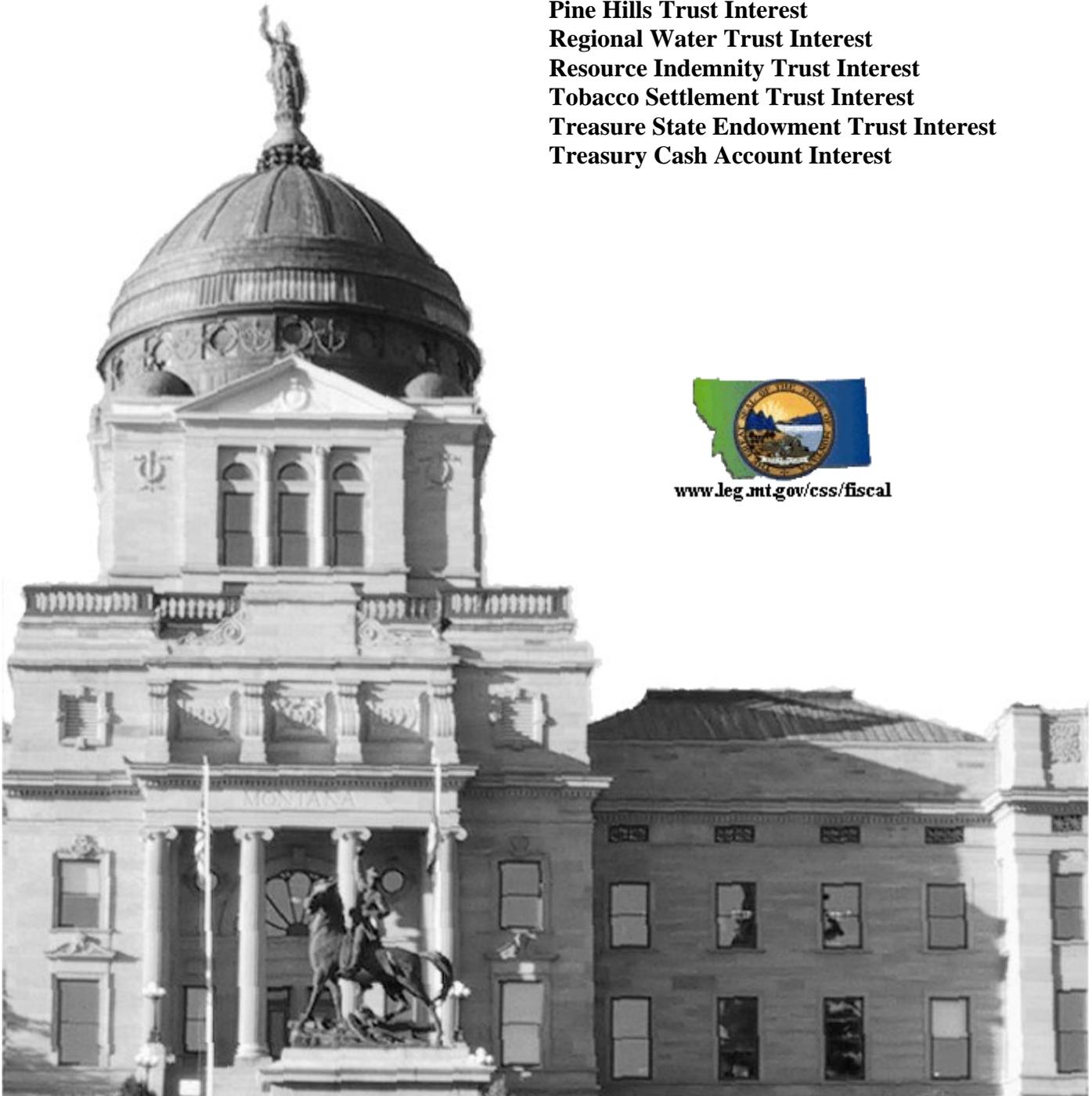


# Interest Earnings

**Capital Land Grant  
Coal Trust Interest  
Common School Interest & Income  
Cultural & Aesthetics Trust Interest  
Deaf & Blind Trust Interest  
Economic Development Trust Interest  
Parks Trust Interest  
Pine Hills Trust Interest  
Regional Water Trust Interest  
Resource Indemnity Trust Interest  
Tobacco Settlement Trust Interest  
Treasure State Endowment Trust Interest  
Treasury Cash Account Interest**



[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)





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# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

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**Revenue Description:** Lands granted by the federal government to the state generate income from a variety of sources. Section 12 of the *Enabling Act* requires that income generated on certain sections of federally granted land be used for public buildings at the state capital for construction, repair, renovation, and other permanent improvements of state buildings. Capital land grant funds can also be used for the acquisition of land for such buildings, as well as the payment of principal and interest on bonds issued for any of these purposes.

Non-permanent sources of revenue generated from capital land grant lands include: grazing fees, agricultural fees, miscellaneous fees and rentals, and oil and natural gas leases and penalties. Statute requires that 3.0 percent of total non-permanent revenue be diverted to the Department of Natural Resources and Conservation (DNRC) for resource development purposes. Senate Bill 48, passed by the 1999 legislature, allows an amount up to 10 percent of the previous year's revenue to be diverted each year to a state special revenue account used to fund the Trust Land Management Division of DNRC. Permanent sources of revenue generated from capital land grant lands include timber sales and oil and natural gas royalties. A portion of timber sale revenue is diverted to DNRC to fund a portion of its timber program based on the amount appropriated by the legislature (the remaining portion is funded with timber sale revenue from the common school and other land trusts that generate timber revenue).

#### Statutory Reference:

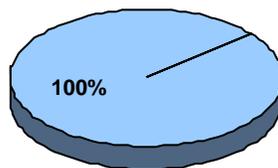
- Tax Rate – NA
- Tax Distribution (MCA) – 18-2-107
- Other (MCA) – DNRC trust land administration diversion (77-1-109)
  - DNRC timber sale program diversion (77-1-613)
  - DNRC land bank administration diversion (77-2-362)
  - DNRC resource development diversion (77-1-607)
- Enabling Act, Sections 10, 12 & 17

**Applicable Tax Rate(s):** N/A

**Distribution:** After divisions for DNRC administration, all remaining capital land grant income is deposited into a capital projects fund to be used for projects on the state capital complex in accordance with the provisions of Section 12 of the *Enabling Act*.

#### Distribution Chart:

**Capital Projects Fund**



**Summary of Legislative Action:** The 60th Legislature did not enact legislation that impacted this revenue source.

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

The estimate for interest and income from the capital land grant trust is conducted with the goal of deriving the amount of revenue that will be distributed to the trust beneficiary. This means that in addition to estimating the various revenues from the capital land grant trust, estimates of the various diversions that reduce the amount of revenue deposited to the guarantee account must also be estimated. Therefore, the estimated amounts shown for this revenue source are not total revenues, but are net of diversions. Since all of the trust income is distributed, the trust has no monetary corpus.

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

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#### Data

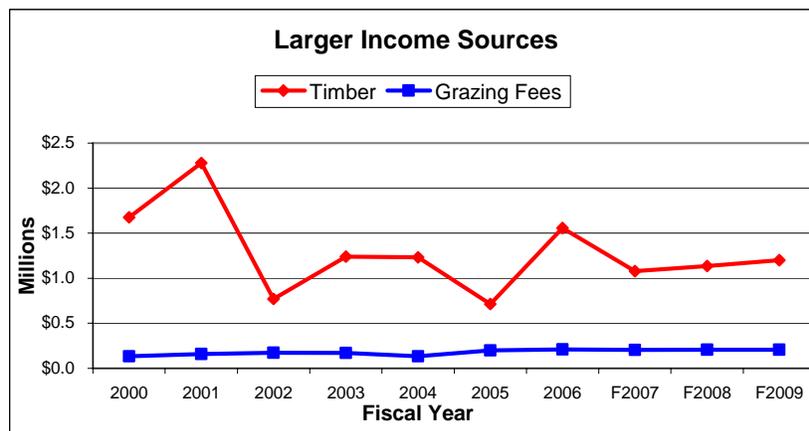
Data from SABHRS provide a history of each individual interest and income revenue component from which estimates can be made. Department of Natural Resources and Conservation (DNRC) annual reports provide additional information such as mineral prices and production. Budget submissions on the state budgeting system (MBARS) provide anticipated amount of diversions.

#### Analysis

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

#### Revenue Components

1. Timber – Estimates of timber harvest from capital land grant trust lands are taken directly from DNRC estimates provided on November 13, 2006 (see the figure below).
2. Grazing Fees – Rates are tied to the price of cattle. With the currently high cattle prices, FY 2007 grazing rates were increased by \$0.75 per animal unit month. DNRC personnel anticipate that cattle prices will remain strong in FY 2007 increasing revenues above FY 2006 levels, but will soften in the next biennium (see the figure below). Based on this information and the cattle futures markets, the estimate for a fiscal year is the average of the previous two years.

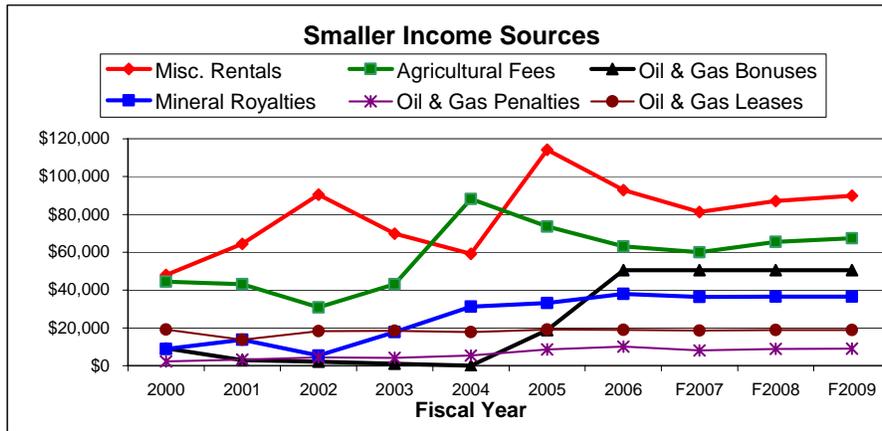


3. Miscellaneous Rentals - These are small income components that are combined and estimated together. For each fiscal year estimated, the estimate is based on the average annual growth rate of the previous four years with the highest and lowest amounts removed.
4. Agricultural Fees - Fees are based on a crop share basis. Although prices are currently high, production is down. DNRC personnel anticipate that prices will remain strong in the next biennium, but overall revenue will decline slightly from FY 2006 levels (see the figure below). Based on this information and historical trends, the estimate for a fiscal year is based on the average annual growth rate of the previous five years with the highest and lowest amounts removed.
5. Oil & Gas Bonuses - With record highs in energy prices, competition to obtain mineral leases has increased, resulting in larger bonus payments. Estimates continue the amount received in FY 2006.
6. Oil & Gas Leases – For each fiscal year estimated, the estimate is the average of the previous three years.
7. Mineral Royalties – Mineral royalties are received from oil and natural gas. Oil royalties are estimated by increasing the previous fiscal year's production by the growth rate obtained from average annual growth from for the previous 13 years. For natural gas royalties, estimates continue at the amount received in FY 2006.
8. Oil & Gas Penalties – For each fiscal year estimated, the estimate is the average of the previous three years.

# Legislative Fiscal Division

## Revenue Estimate Profile

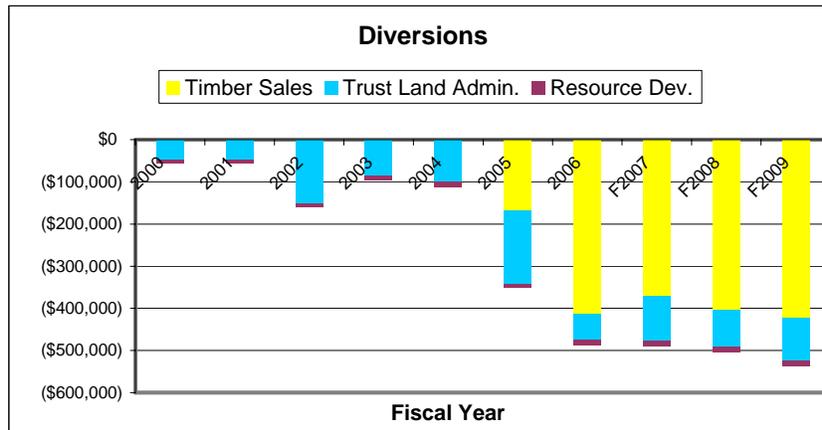
### Capital Land Grant Interest and Income



#### Diversions

Diversions fund operational costs in DNRC, but reduce the amount of revenue distributed to the trust beneficiaries (see the figure below). To determine future diversion amounts, DNRC's present law budget amounts are used.

1. Trust Land Administration Account – Of the total expenditures requested to be made from this account, a portion is funded by capital land grant trust revenue. That portion is determined by multiplying the previous year's costs by the ratio of the previous year's cost to the revenue from two years previous. In FY 2006, the capital land grant trust funded 15.2 percent of total expenditures.
2. Timber Sales Account – A portion of timber sale revenue from the capital land grant trust is used to fund costs associated with the timber sale program on the trust lands. Other trusts with timber revenue also pay into this account. The portion each pays is the ratio of its timber sale revenue to the total state-wide timber sale revenue multiplied by the total cost of the program.
3. Resource Development Account – Three percent of all income from the trust is diverted to an account to fund resource development on the trust lands. Mineral royalties are excluded.



# Legislative Fiscal Division

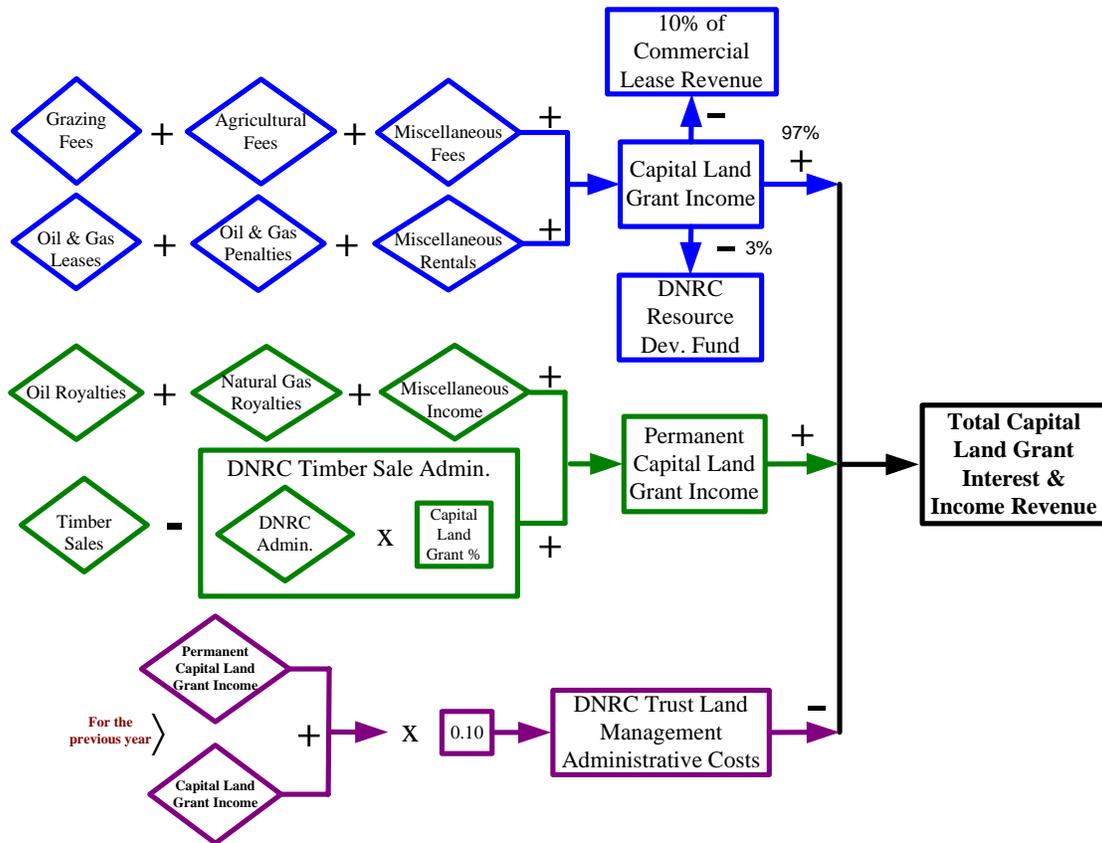
## Revenue Estimate Profile

### Capital Land Grant Interest and Income

Adjustments and Distribution

Once total revenue and total diversions have been estimated, the net amounts are distributed 100 percent to the capital project fund.

**Forecast Methodology:**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

#### 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 2007 legislature that may affect future estimates of this revenue source.

	<u>Fiscal</u>	<u>Total Rev.</u> <u>Millions</u>	<u>GF Rev.</u> <u>Millions</u>	<u>TFBP</u> <u>Interest</u> <u>Millions</u>	<u>STIP</u> <u>Interest</u> <u>Millions</u>	<u>Capital</u> <u>Land Share</u> <u>T&amp;L</u>
Actual	2000	1.920809	0.000000			0.000000
Actual	2001	2.527118	0.000000			0.000000
Actual	2002	1.065036	0.000000	29.627056	0.102664	0.000000
Actual	2003	0.808807	0.000000	29.146744	0.068370	0.000000
Actual	2004	1.976678	0.000000	30.087011	0.053502	0.000000
Actual	2005	0.853171	0.000000	28.106281	0.269698	0.000000
Actual	2006	1.589963	0.000000	24.428206	0.408162	0.000000
Forecast	2007	1.072000	0.000000	23.781663	0.363942	0.000000
Forecast	2008	1.157000	0.000000	24.148202	0.225490	0.000000
Forecast	2009	1.217000	0.000000	24.280867	0.225102	0.000000

	<u>Fiscal</u>	<u>Trust Income</u> <u>New Deposit</u> <u>Millions</u>	<u>Trust Land</u> <u>Admin.</u> <u>Millions</u>	<u>New Deposit</u> <u>Long Term</u> <u>Rate</u>	<u>Non Pool</u> <u>STIP</u> <u>Rate</u>	<u>Non Pool</u> <u>STIP Bal</u> <u>Millions</u>
Actual	2000	10.969295		7.0160%	5.4290%	11.676486
Actual	2001	12.667780	-0.048140	6.8850%	4.7390%	6.984553
Actual	2002	2.348339	-0.151480	6.3380%	2.5650%	7.334239
Actual	2003	2.363355	-0.085162	5.7290%	1.3600%	6.242273
Actual	2004	2.971526	-0.098964	5.3650%	1.2650%	7.049634
Actual	2005	1.457756	-0.172683	5.1950%	2.3890%	12.106697
Actual	2006	1.425106	-0.062659	5.2480%	4.0720%	3.862666
Forecast	2007	6.537106	-0.107876	5.4970%	4.6690%	3.862666
Forecast	2008	1.425106	-0.081070	5.7460%	4.5980%	3.862666
Forecast	2009	1.425106	-0.084814	5.9680%	4.5570%	3.862666

# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

	<u>t</u>	<u>Grazing</u>	<u>Agriculture</u>	<u>Misc.</u>	<u>O&amp;G Lease</u>	<u>O&amp;G Bonus</u>	<u>O&amp;G Penalty</u>	<u>Misc.</u>
	<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	0.132580	0.044452	0.000000	0.019153	0.009104	0.002343	0.048046
Actual	2001	0.159924	0.043153	0.000000	0.013722	0.002980	0.003287	0.064391
Actual	2002	0.173945	0.030825	0.000000	0.018286	0.002180	0.004428	0.090509
Actual	2003	0.170050	0.043195	0.000000	0.018497	0.001020	0.004170	0.069849
Actual	2004	0.132298	0.088177	0.000000	0.017818	0.000000	0.005399	0.059222
Actual	2005	0.197466	0.073605	0.000000	0.019107	0.018820	0.008633	0.114164
Actual	2006	0.210403	0.063134	0.000000	0.019001	0.050616	0.010166	0.092845
Forecast	2007	0.203935	0.059978	0.000000	0.018642	0.050616	0.008066	0.081347
Forecast	2008	0.207169	0.065572	0.000000	0.018917	0.050616	0.008955	0.087096
Forecast	2009	0.205552	0.067437	0.000000	0.018853	0.050616	0.009062	0.089971

	<u>t</u>	<u>Int. Land</u>	<u>Int. STIP</u>	<u>Int. Trust</u>	<u>Res. Dev.</u>	<u>Lease Total</u>	<u>Timber Cost</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	0.000000	0.000000	0.000000	-0.007670	0.248008	
Actual	2001	0.000000	0.000000	0.000000	-0.008268	0.279189	
Actual	2002	0.000000	0.000000	0.000000	-0.008838	0.311335	
Actual	2003	0.000000	0.000000	0.000000	-0.009311	0.297470	0.000000
Actual	2004	0.000000	0.000000	0.000000	-0.012622	0.290292	0.000000
Actual	2005	0.000000	0.000000	0.000000	-0.009255	0.422540	-0.168516
Actual	2006	0.000000	0.000000	0.000000	-0.012793	0.433372	-0.412499
Forecast	2007	0.000000	0.000000	0.000000	-0.012678	0.409906	-0.369449
Forecast	2008	0.000000	0.000000	0.000000	-0.013150	0.425175	-0.382916
Forecast	2009	0.000000	0.000000	0.000000	-0.013245	0.428246	-0.389291

	<u>t</u>	<u>Oil Roy.</u>	<u>Gas Roy.</u>	<u>Timber</u>	<u>Misc.</u>	<u>Perm. Total</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	0.004394	0.004489	1.675671	0.028247	1.712801
Actual	2001	0.005659	0.008068	2.278363	0.010894	2.302984
Actual	2002	0.003264	0.002190	0.769197	0.005891	0.780542
Actual	2003	0.004461	0.013330	1.238901	0.023329	1.280021
Actual	2004	0.003492	0.027817	1.231369	0.846964	2.109642
Actual	2005	0.005271	0.027867	0.712329	0.030226	0.607177
Actual	2006	0.005020	0.033062	1.558251	0.036352	1.220186
Forecast	2007	0.003280	0.033062	1.080000	0.023350	0.770243
Forecast	2008	0.003455	0.033062	1.135000	0.024586	0.813187
Forecast	2009	0.003538	0.033062	1.200000	0.026286	0.873595

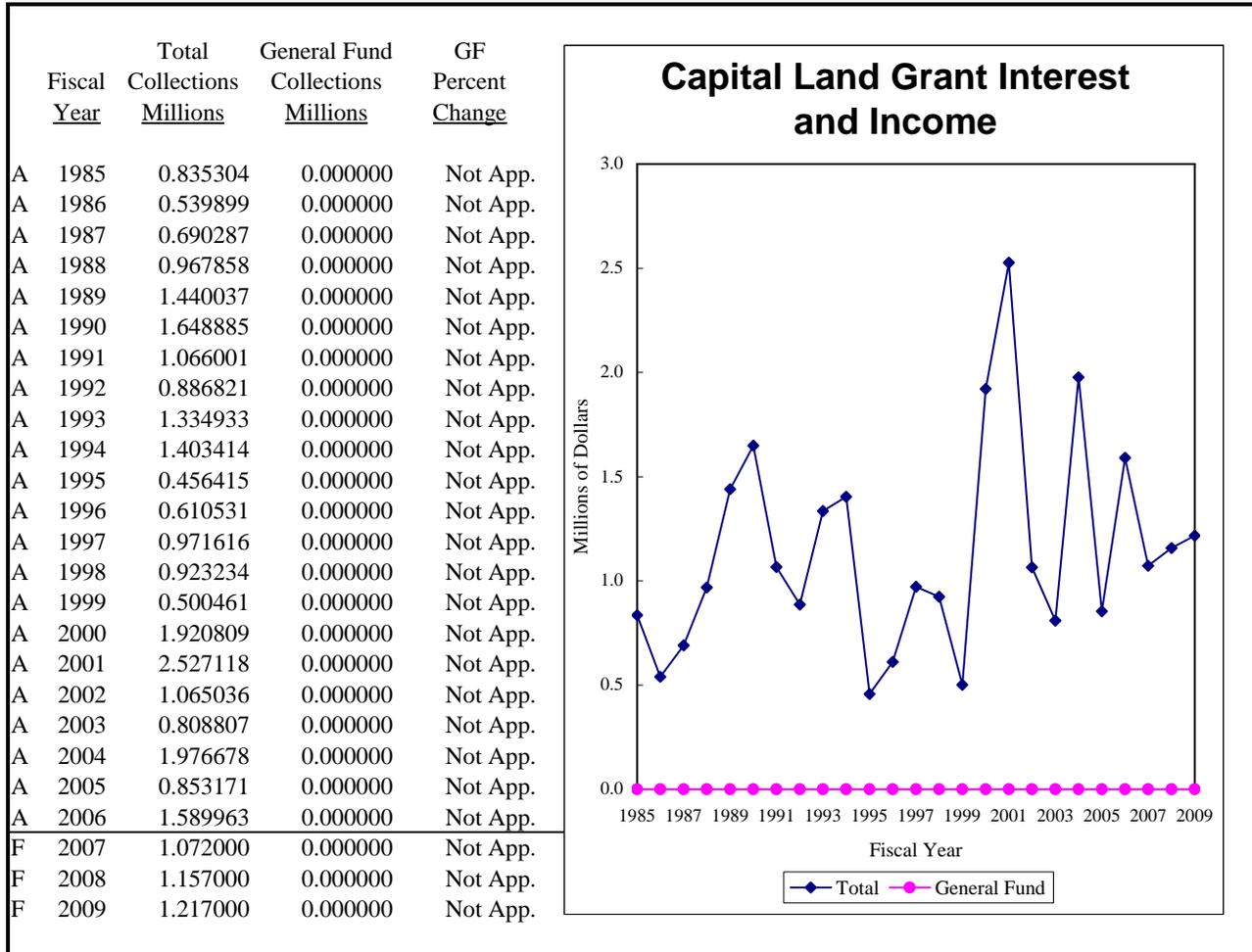
Total Rev. = Grazing + Agriculture + O&G Lease + O&G Bonus + O&G Penalty + Misc. +  
 Int. Land + Int. Stip + Int. Trust + Timber + Res. Dev. + Oil Roy. + Gas Roy. + Timber + Misc. +  
 Timber Cost + Trust Land Admin.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

#### Revenue Projection:



# 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 and subsidize state bonds issued to finance water resource and renewable resource development projects and activities. With the enactment of House Bill 249 by the 2005 legislature, beginning fiscal 2006 the remaining funds are then split 50 percent (25 percent of total revenue) to the treasure state endowment trust fund, 25 percent (12.5 percent of total revenue) to the treasure state endowment regional water system trust fund, and 25 percent (12.5 percent of total revenue) to the big sky economic development trust fund. The permanent trust fund no longer receives coal severance tax revenue. 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 the in-state investment program, 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 (see SB 489 in "Summary of Legislative Action").

#### Statutory Reference:

Tax Rate - NA

Distribution (MCA) - Montana Constitution, Article IX, Section 5; 17-5-704; 15-35-108

Date Due - NA

**Applicable Tax Rate(s):** N/A

**Distribution:** Interest earned on the permanent coal tax trust fund is deposited into the general fund. Statute further annually statutorily appropriates interest income from \$140 million of the coal severance tax permanent fund as follows:

#### Fiscal 2006 - 2010

\$3,650,000 – to the research and commercialization state special revenue account

\$1,250,000 – for the growth through agriculture program

\$425,000 – to the Department of Commerce for certified regional development corporations

\$300,000 – to the Department of Commerce for export trade enhancement

\$200,000 – to the Department of Commerce for the Montana manufacturing extension center at MSU-Bozeman

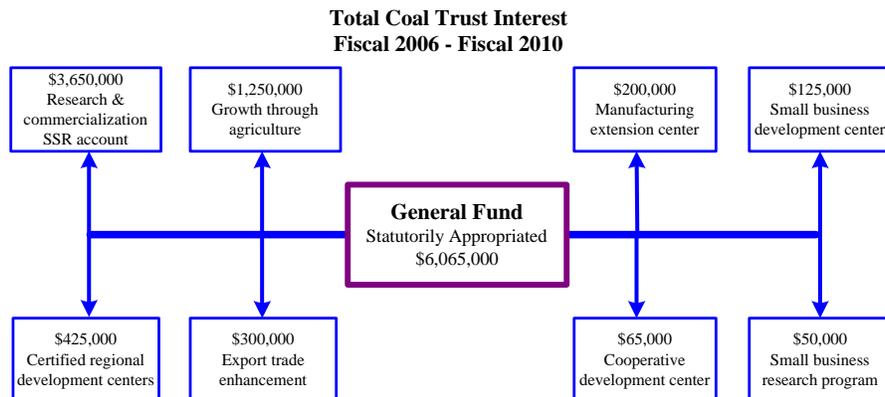
\$125,000 – to the Department of Commerce for a small business development center

\$65,000 – to the Cooperative Development Center

\$50,000 – to the Department of Commerce for a small business innovative research program

\$6,065,000

#### Distribution Chart:



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

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#### Summary of Legislative Action:

House Bill 298 – The Department of Justice is appropriated the unexpended amount from the \$650,000 of loan proceeds appropriated by the 2003 legislature for the 2005 biennium from the coal severance tax permanent fund. The unexpended amount is estimated to be \$400,000. The purpose of the loan and 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. Because the removal of the money from the trust results in a smaller invested balance, the resulting loss in transfers of trust interest earnings to the general fund is expected to be \$11,320 I FY 2008 and \$22,640 in FY 2009. If any reimbursements of the money spent are received, they must be deposited in the coal severance tax permanent fund. The appropriation is effective July 1, 2007.

Senate Bill 69 – The legislation allows the Board of Investments to loan more than 25 percent of money in the permanent coal tax trust fund to: 1) assist employee-owned enterprises in creating new jobs or retaining current jobs for Montana residents; 2) enhance economic development if the loan will create at least 15 additional basic sector jobs; and 3) make loans jointly with financial institutions if at least 10 new jobs would be created. The limit on the total amount of loans for number 2 above was increased from \$50 million to \$80 million and the limit on the total amount of loans for number 3 above was increased from \$50 million to \$70 million. Because the rate of return on these loans are less than the rate of return received from investments in the trust funds bond pool, earnings from the coal severance tax trust fund that are deposited to the general fund are reduced by \$292,050 beginning in FY 2009 with larger reductions projected for the 2011 biennium. The legislation is effective July 1, 2007.

Senate Bill 489 – The legislation submits a constitutional amendment to Montana voters. If approved by the electorate, it would allow the Board of Investments to invest up to 25 percent of public funds in private corporate capital stock. Retirement funds can already be invested in private corporate capital stock and would not be bound by the 25 percent limit. The state compensation insurance fund assets can already be invested in private corporate capital stock and are currently bound by the 25 percent limit. Assets of funds such as the common school fund, permanent funds of the Montana university system, resource indemnity trust, tobacco settlement trust, and the coal severance trust funds would be subject to the constitutional amendment. Fiscal impacts of SB 489 are unknown. The amendment is effective upon approval by the electorate.

Coal Trust Interest -- Legislation Passed by 60th Legislature			
Estimated General Fund Impact for Fiscal 2007,2008,2009			
<u>Bill Number and Short Title</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>
HB0298 Reauthorize natural resource damages program		(11,320)	(22,640)
SB0069 Revise value-added loan program laws			(292,050)
Total Estimated General Fund Impact	<u>\$0</u>	<u>(\$11,320)</u>	<u>(\$314,690)</u>

#### % of Total General Fund Revenue:

FY 2004 – 2.53%  
FY 2005 – 2.40%  
FY 2006 – 1.82%

#### Revenue Estimate Methodology:

##### Data

The data used to estimate interest earnings from the coal trust are obtained from the Board of Investments (BOI), Global Insight, 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 Global Insight and historic interest collections are obtained from SABHRS.

##### Analysis

The coal trust was created from distributions of the coal severance tax. While the Constitution requires that 50 percent of the coal severance tax collections be distributed into the coal trust, in early the 1990’s the first sub-trust was created and two more were subsequently formed. Currently, the required coal tax revenue flows into the three sub-trusts and none of the tax revenue is deposited into the permanent coal trust. The principal or corpus of the coal trust (the portion that generates general fund interest) now stands at \$542.8 million.

# Legislative Fiscal Division

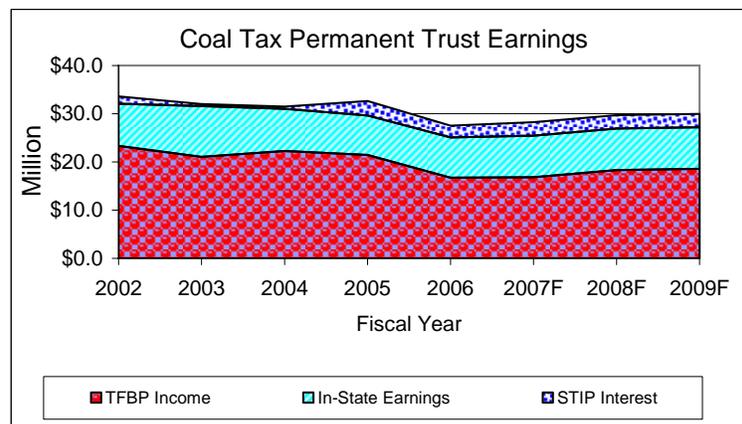
## Revenue Estimate Profile

### Coal Trust Interest

To forecast the coal trust interest earnings, four interest/income components are estimated independently and summed. The interest/income components include:

- Trust funds bond pool (TFBP)
- In-state investments
- Short-term investment pool (STIP)
- Payback 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 (fiscal 2006) 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 Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal years 2007 through 2009, respectively. Coal trust earnings from TFBP interest are expected to be \$16.8 million in fiscal 2007, \$18.4 million in fiscal 2008, and \$18.6 million in fiscal 2009.



As seen in the figure above, earnings from in-state investments are the second largest source of income to the coal tax trust. The BOI is required by statute to invest twenty-five percent of the 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. The in-state balance of \$160.8 million and rate of return of 5.4 percent are held constant throughout the biennium because no new flow of revenue is expected. This yields an in-state earnings estimate of \$8.6 million for each fiscal year.

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 Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$2.81 million, \$2.78 million, and \$2.76 million for fiscal years 2007 through 2009, respectively.

Payback interest earnings result from a loan of \$46.4 million to the common school trust fund, approved in SB 495 during the 2003 session. Interest on the loan is required to equal the rate of return generated by the TFBP. Additional income is derived from payment of the loan principal. Principal repayments may be temporarily placed into STIP and earn interest until invested in the TFBP. Loan interest paid into the trust declines as the outstanding principal is repaid. Earnings on loan principal payments are projected by applying the TFBP long-term interest rate to the principal payments. The total earnings are expected to be \$1.7 million in fiscal 2007, \$0.42 million in fiscal 2008, and \$0 in fiscal 2009.

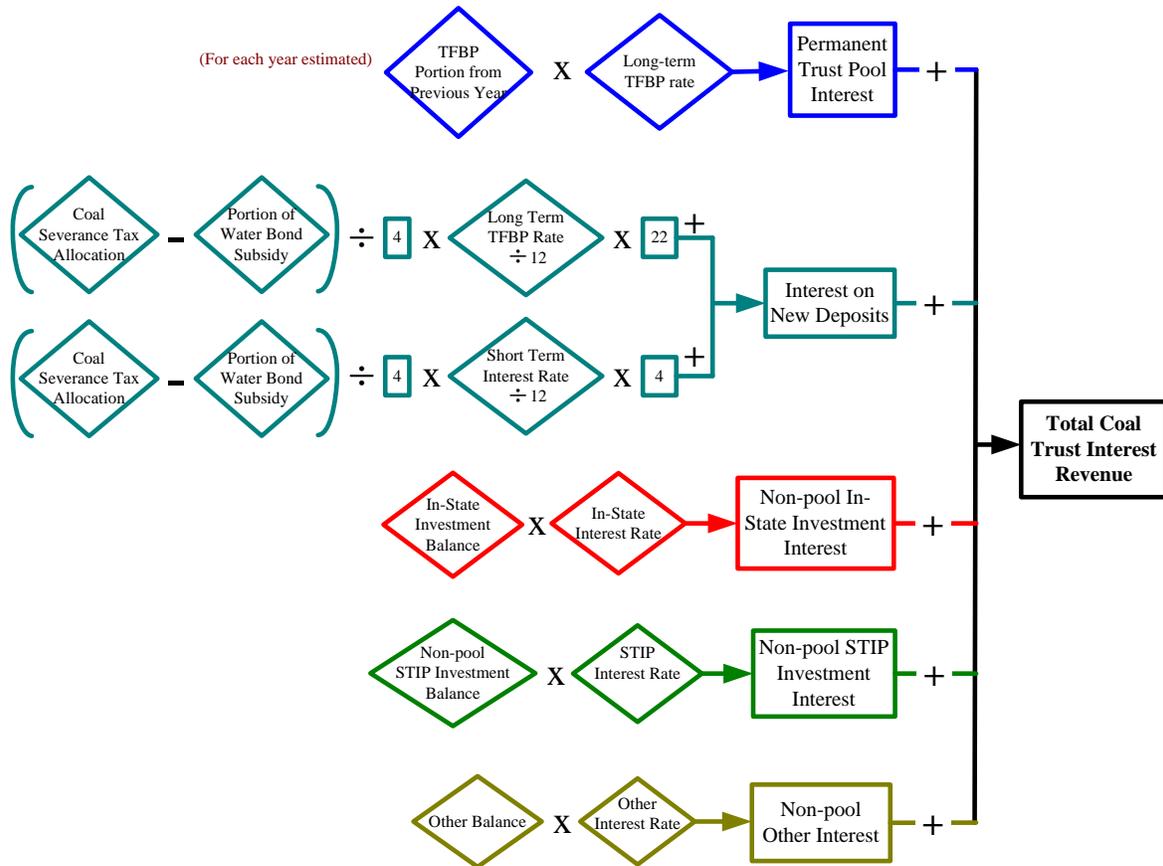
# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

When the estimates are combined, the interest and earnings of the coal trust are expected to be \$29.96 million in fiscal 2007, \$29.93 million in fiscal 2008, and \$29.95 million in fiscal 2009.

#### Forecast Methodology:



#### 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 2007 legislature that may affect future estimates of this revenue source.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

	t	Total Rev.	GF Rev.	TFBP	In_State	Other	STIP	Payback
	Fiscal	Millions	Millions	Interest	Interest	Interest	Interest	Interest
				Millions	Millions	Millions	Millions	Millions
Actual	2000	39.195203	39.195203					
Actual	2001	37.659527	37.659527					
Actual	2002	37.605247	37.605247	23.317933	8.764717	0.401582	1.096936	3.369611
Actual	2003	36.297863	36.297863	21.079491	10.501432	0.027838	0.388276	3.306650
Actual	2004	34.907273	34.907273	22.273639	8.721596	0.055237	0.451386	3.405415
Actual	2005	36.751940	36.751940	21.418762	8.231060	2.309776	0.691339	3.005668
Actual	2006	31.106170	31.106170	16.717821	8.337924	0.345783	2.116771	2.255822
Forecast	2007	29.959000	29.959000	16.790797	8.609325	0.345783	2.468552	1.744862
Forecast	2008	29.927000	29.927000	18.120058	8.609325	0.345783	2.431023	0.421208
Forecast	2009	29.945000	29.945000	18.580843	8.609325	0.345783	2.409355	0.000000

	t	Net Coal Tax	Bond	New Deposit	Non Pool	Non Pool	Non Pool	
	Fiscal	New Deposit	Subsidy	Long Term	STIP	In State	Loan	Gains
		Millions	Millions	Rate	Rate	Rate	Rate	Millions
Actual	2000	0.000000	0.193782	6.3380%	5.4290%	0.0000%	0.0000%	
Actual	2001	0.000000	0.480790	6.8850%	4.7390%	0.0000%	0.0000%	
Actual	2002	0.000000	0.264847	6.3380%	2.5650%	5.5888%	7.2673%	0.654469
Actual	2003	0.000000	0.780492	5.7290%	1.3600%	6.2141%	7.0000%	0.994175
Actual	2004	3.943085	1.473545	5.3650%	1.2650%	5.3526%	7.3445%	0.000000
Actual	2005	4.704314	1.294028	5.1950%	2.3890%	5.3648%	7.3445%	0.856503
Actual	2006	0.000000	0.417249	5.2480%	4.0720%	5.3524%	7.3445%	1.332049
Forecast	2007	0.000000	0.034794	5.4970%	4.6690%	5.3524%	5.6201%	0.000000
Forecast	2008	0.000000	-0.092139	5.7460%	4.5980%	5.3524%	5.6218%	0.000000
Forecast	2009	0.000000	0.792783	5.9680%	4.5570%	5.3524%	5.6338%	0.000000

	t	Non Pool	Non Pool	Non Pool	SB495 Loan	Invested	Average
	Fiscal	STIP Bal	In-State Bal	Loan Bal	Payment	Balance	Return
		Millions	Millions	Millions	Millions	Millions	Rate
Actual	2000	15.334577	127.567412	0.000000			
Actual	2001	22.784722	145.401756	0.000000			
Actual	2002	26.721811	168.249355	46.366904			
Actual	2003	37.107451	169.737929	46.366904			
Actual	2004	41.478106	156.145542	46.366904			
Actual	2005	48.813893	150.70809	44.546044	1.820860	552.184009	0.066125
Actual	2006	50.50952	160.849807	41.895873	2.650171	541.169460	0.057480
Forecast	2007	50.50952	160.849807	31.046823	10.849050	541.169460	0.055360
Forecast	2008	50.50952	160.849807	7.492408	23.554415	541.169460	0.055301
Forecast	2009	50.50952	160.849807	0.000000	7.492408	541.169460	0.055334

Total Rev. = Invested Balance \* Average Return  
 GF Rev. = Total Rev.

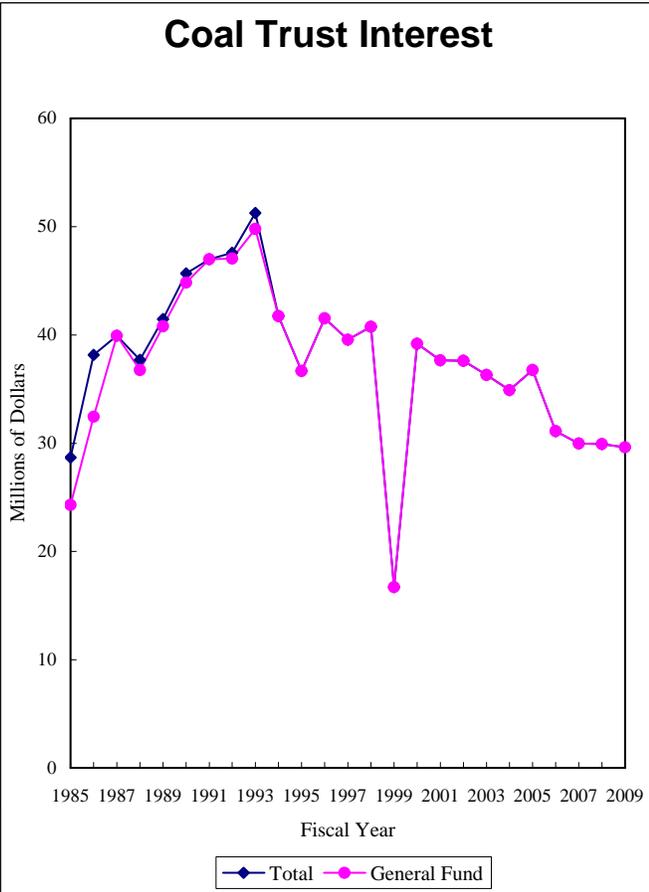
# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	28.672038	24.299902	Not App.
A 1986	38.168226	32.443208	33.51%
A 1987	39.924866	39.924866	23.06%
A 1988	37.692796	36.754944	-7.94%
A 1989	41.456920	40.806026	11.02%
A 1990	45.671428	44.830283	9.86%
A 1991	46.999390	46.999390	4.84%
A 1992	47.595927	47.069997	0.15%
A 1993	51.247658	49.787658	5.77%
A 1994	41.725015	41.725015	-16.19%
A 1995	36.675110	36.675110	-12.10%
A 1996	41.532305	41.532305	13.24%
A 1997	39.553397	39.553397	-4.76%
A 1998	40.746333	40.746333	3.02%
A 1999	16.697583	16.697583	-59.02%
A 2000	39.195203	39.195203	134.74%
A 2001	37.659527	37.659527	-3.92%
A 2002	37.605247	37.605247	-0.14%
A 2003	36.297863	36.297863	-3.48%
A 2004	34.907273	34.907273	-3.83%
A 2005	36.751940	36.751940	5.28%
A 2006	31.106000	31.106000	-15.36%
F 2007	29.959000	29.959000	-3.69%
F 2008	29.916000	29.916000	-0.14%
F 2009	29.630000	29.630000	-0.96%



\* Includes -\$24,479,593 in unrealized losses as booked on the state accounting system

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

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**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, interest and income from the common school trust was deposited in the state equalization account. Beginning in fiscal 1996, this interest and income was deposited in the general fund, as mandated by SB 83, passed by the 1995 legislature. Beginning fiscal 2003, House Bill 7 from the August 2002 special legislative session changed the deposit to the state special revenue guarantee account and statutorily appropriated the money for schools. The estimates show the amount of revenue deposited to the guarantee account and are net of amounts diverted (of mineral royalties, timber sale revenue, and income) for DNRC administration costs. Included is timber revenue for school technology and the amounts of mineral royalty revenue that are required to pay interest and principal on the SB 495 loan. These items are explained below.

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 (see the effects of Senate Bill 495 from the 2003 legislative session below), land, and easements. Excluding the amount of timber sale revenue diverted for DNRC administration and school technology and after a 3.0 percent deduction of the revenue for use by the Department of Natural Resources and Conservation (DNRC), 95 percent of distributable revenue is available to fund schools 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 to DNRC to fund a portion of its timber program based on the amount appropriated by the legislature (the remaining portion is funded with timber sale revenue from the capital land grant and other land trusts that generate timber revenue); 2) the amount received from production over 18 million board feet is deposited into the state special revenue fund for school technology equipment and training and is statutorily appropriated to OPI (House Bill 41 enacted by the 2001 legislature and House Bill 7 from the August 2002 special legislative session); 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 include the trust and legacy fund of which the common school trust is a part), were transferred to a newly-created Trust Funds 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 (see SB 69 under "Summary of Legislation"). Interest income is distributed 95 percent to the guarantee account and 5 percent is available for DNRC administration with the remainder deposited to the trust.

Senate Bill 495 (enacted by the 2001 legislature) authorized DNRC to purchase the mineral production rights (with a loan from the coal severance trust) from the common school trust. The department subsequently purchased \$138.9 million of net future mineral royalties from the school trust for \$46.4 million. Since these royalties will no longer be deposited to the trust, interest earnings from the trust corpus are lessened. It is estimated that the trust balance will be at least \$92.5 million less after all the \$138.9 million has been distributed. Based on mineral royalty estimates for the 2009 biennium, it is anticipated that the \$138.9 million in net mineral royalties will be achieved in the 2011 biennium. When this occurs, mineral royalties will again become part of the trust corpus and will generate additional earnings. For further information and analysis on Senate Bill 495 contact the Legislative Fiscal Division for a copy of the two-part report: "Senate Bill 495-Implementation, Impacts and Implications".

#### Statutory Reference:

Tax Rate – NA

Distribution (MCA) – Montana Constitution Article X, Section 5; 20-9-342 (school technology); 20-9-622 (guarantee account)

Other (MCA) – DNRC trust land administration diversion (77-1-109)

    DNRC timber sale program diversion (77-1-613)

    DNRC land bank administration diversion (77-2-362)

    DNRC resource development diversion (77-1-607)

    DNRC commercial leasing diversion (77-1-905)

    Enabling Act, Section 10

Date Due - the last business day of February following the calendar year in which the money was received (20-9-342).

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

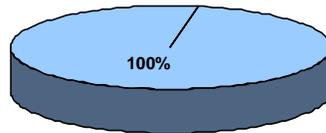
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**Applicable Tax Rate(s):** N/A

**Distribution:** As described above, interest and income from common school lands (including a portion of timber sales and after amounts diverted for DNRC administration) are distributed 95.0 percent to the state special revenue guarantee account and are statutorily appropriated for schools. The remaining 5.0 percent is available to fund the Trust Land Management Division with the remainder deposited to the trust fund. The portion of mineral royalties not used for DNRC administration or to repay SB 495 principal and interest is deposited to the guarantee account and, with the enactment of SB 2 (May 2007 special session), transferred to the new school facility improvement account. The amounts deposited to the guarantee account are shown in this revenue source.

Distribution Chart:

**State Special Revenue Fund**



#### **Summary of Legislative Action:**

**Special Session - House Bill 2** – The amount of money appropriated from certain accounts impacts the amount of revenue from various sources. Although these revenue amounts are estimated prior to the session based on present law appropriations requested in the Executive Budget and finalized in HJ 2, final appropriations set by the legislature (such as those in HB 2, HB13, HB63, and HB131) may differ and, thus, may affect revenue. Because the legislature appropriated different amounts from the timber sales account and the trust land administration account (DNRC), income from the common school trust deposited to the guarantee account decreases \$143,887 in FY 2008 and \$716,040 in FY 2009. Because money in the guarantee account is statutorily appropriation, expenditure will change by the same amounts.

**Special Session - Senate Bill 2** – Although the legislation does not change the amount of revenue deposited to the guarantee account, it does temporarily change the use of the money in the account. Once the loan authorized in SB 495 (2001 session) has been repaid (estimated to be in FY 2008), all net mineral royalties from common school trust lands deposited to the guarantee account are transferred to a school facility improvement state special revenue account. However, once net mineral royalties sold under SB 495 total \$138.9 million, the mineral royalties will once again become part of the common school trust corpus and will no longer be deposited to the guarantee account or transferred to the school facility improvement account. It is anticipated that the \$138.9 million amount will be reached in FY 2010. Between FY 2008 and 2010, approximately \$52.4 million will be transferred from the guarantee account to the school facility improvement account. This amount will not be available to fund base aid and statutory appropriations from the guarantee account will be reduced by \$52.4 million. Money in the school facility improvement account must be used to implement the recommendations of the school facility condition and needs assessment and energy audit conducted under SB 1 (December 2005 special session) for : 1) major deferred maintenance; 2) improving energy efficiency in school facilities; and 3) critical infrastructure in school districts. The legislation is effective July 1, 2007.

**House Bill 37** – The Department of Natural Resources and Conservation is allowed to control weeds on leased state lands and to bill the lessee for the costs plus a penalty up to 50 percent of the costs. Revenue from reimbursements of the actual costs is deposited in the resource development account and the penalty revenue is deposited 95 percent to the guarantee account (\$2,375 each year) and 5 percent to the common school trust (\$125 each year). Since revenue in the guarantee account is statutorily appropriated, expenditures increase by the same amounts. The legislation is effective October 1, 2007.

**House Bill 160** – General fund revenue of \$14,803 is transferred to the common school trust as reimbursement for past inappropriate diversions. Of the additional earnings from this amount, 95 percent or \$827 in FY 2008 and \$798 in FY 2009 is deposited to the guarantee account. The legislation is effective July 1, 2007.

**Senate Bill 25** – The Department of Natural Resources and Conservation is authorized to use contract harvesting to harvest timber products from state trust lands. Rather than selling the timber on the stump, contract harvesting allows the department to retain ownership of the products and contract for the harvesting, sorting, and hauling of the products and to sell the various timber products through competitive bids. The legislation allows the department to exceed the annual sustained harvest level by up to 5 percent using contract harvesting to address forest health concerns. It is estimated that 1.0 million additional board feet from common school trust land will be harvest by this method beginning in FY 2009 at a value of \$325,000. Gross revenue from contract harvesting will be

# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

deposited into a new contract harvesting state special revenue account as a subaccount of the timber sales account. Appropriations of \$280,000 from this account may be used to pay contract timber harvesting costs, except personnel services costs for state employees, with net proceeds distributed to the appropriate trust. Up to \$500,000 from the timber sale account is transferred to the contract harvesting account. Since the additional net revenue of \$45,000 in FY 2009 is additional harvest above 18 million board feet, the revenue is deposited to the guarantee account and is statutorily appropriated to the Office of Public Instruction for school technology purchases and training in FY 2010. The legislation is effective on passage and approval.

Senate Bill 489 – The legislation submits a constitutional amendment to Montana voters. If approved by the electorate, it would allow the Board of Investments to invest up to 25 percent of public funds in private corporate capital stock. Retirement funds can already be invested in private corporate capital stock and would not be bound by the 25 percent limit. The state compensation insurance fund assets can already be invested in private corporate capital stock and are currently bound by the 25 percent limit. Assets of funds such as the common school fund, permanent funds of the Montana university system, resource indemnity trust, tobacco settlement trust, and the coal severance trust funds would be subject to the constitutional amendment. Fiscal impacts of SB 489 are unknown. The amendment is effective upon approval by the electorate.

Common School Interest and Income -- Legislation Passed by 60th Legislature			
Estimated State Special Revenue Impact for Fiscal 2007,2008,2009			
<u>Bill Number and Short Title</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>
SS HB0002 General appropriations act		(143,882)	(716,040)
HB0037 Weed control on state land		2,375	2,375
HB0160 Repay land trusts for prior diversions		827	798
SB0025 Revise contract timber harvest laws			325,000
Total Estimated State Special Revenue Fund Impact	<u>\$0</u>	<u>(\$140,680)</u>	<u>(\$387,867)</u>

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

The estimate for interest and income from the common school trust is conducted with the goal of deriving the net amount of revenue that will be deposited to the guarantee account. This means that in addition to estimating the various revenues from the common school trust, estimates of the various diversions that reduce the amount of revenue deposited to the guarantee account must also be estimated. Therefore, the estimated amounts shown for this revenue source are not total revenues, but are net of diversions.

#### 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 provide additional information such as mineral prices and production. Budget submissions on the state budgeting system (MBARS) provide anticipated amount of diversions. DNRC personnel are contacted for their views on potential future factors that may influence revenues such as easement sales, changes in grazing and agricultural rentals, and timber harvest volumes. Global Insight provides future estimates of West Texas Intermediate oil and Henry Hub natural gas prices.

#### Analysis

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

#### Revenue Components

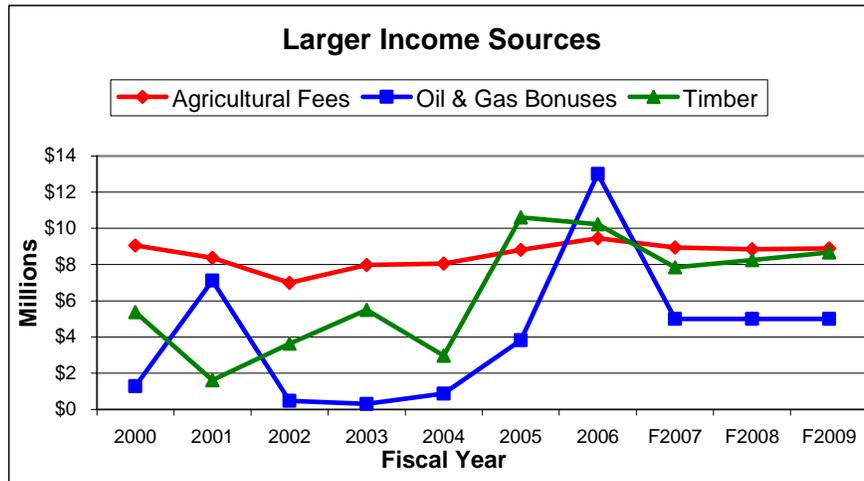
1. Agricultural Fees – Fees are based on a crop share basis. Although prices are currently high, production is down. DNRC personnel anticipate that prices will remain strong in the next biennium, but overall revenue will decline slightly from FY 2006 levels (see the figure below). Based on this information and crop futures markets, revenue declines 5.4 percent in FY 2007, declines 1.1 percent in FY 2008 and increases 0.6 percent in FY 2009.
2. Timber – Estimates of timber harvest from common school trust lands are taken directly from DNRC estimates provided November 13, 2006.

# Legislative Fiscal Division

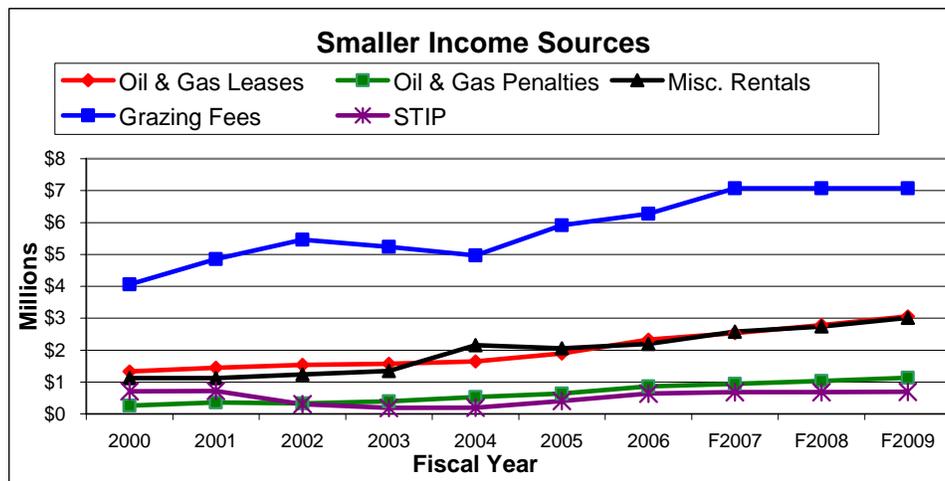
## Revenue Estimate Profile

### Common School Interest and Income

3. Oil & Gas Bonuses – With record highs in energy prices, competition to obtain mineral leases has increased, resulting in large bonus payments. This is primarily from oil and gas leases that increased over 21 percent in number of leases and in acreage from FY 2005. Bonus payments in FY 2006 were \$13.0 million or 3.4 times more than payments in FY 2005. The estimates are \$5.0 million each year. This is a reduction from the \$13.0 million received in FY 2006, but above the \$3.8 million received in FY 2005.



4. Grazing Fees – Rates are tied to the price of cattle. With the current high cattle prices, FY 2007 grazing rates were increased by \$0.75 per animal unit month. DNRC personnel anticipate that cattle prices will remain strong in FY 2007 increasing revenues above FY 2006 levels, but will soften in the next biennium. Based on this information and cattle futures markets, the FY 2007 estimate increases 12.65 percent from FY 2006 and stays constant for the 2009 biennium.
5. Oil & Gas Leases – For each fiscal year estimated, an average annual growth rate over the previous seven year period was applied beginning with FY 2006 collections.
6. Oil & Gas Penalties – For each fiscal year estimated, the ratio of the previous year’s penalties to the previous year’s oil and gas lease revenue was multiplied by that year’s estimate for oil and gas lease revenue.
7. Miscellaneous Rentals - These are small income components that are combined and estimated together. For each fiscal year estimated, an average annual growth rate over the previous three year period was applied beginning with FY 2006 collections.
8. Short-term Investment Pool (STIP) – Because revenue initially deposited in the common school trust is invested on a short-term basis (about one month) before being invested in the T & L fund, a short-term rate is used to calculate the earnings. The short-term rate is a composite of Global Insight forecasts for the 3-month commercial paper, 3-month treasury bill, and 6-month treasury bill rates.



# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

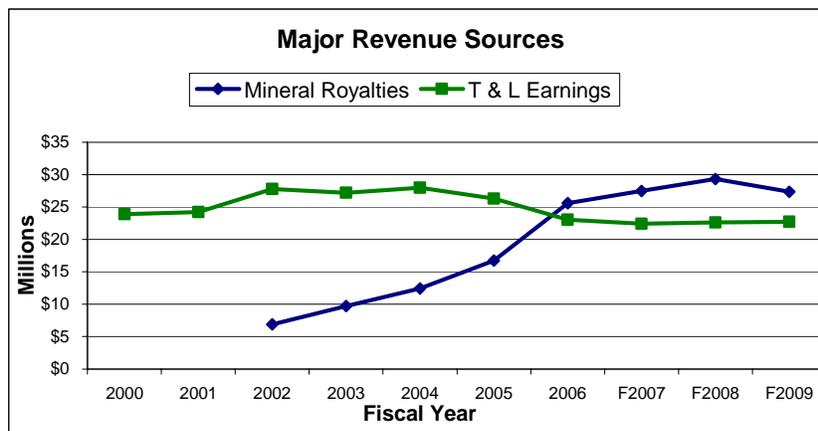
9. Mineral Royalties – Mineral royalties are received from the mining of oil, natural gas, coal, sand and gravel, and other smaller sources. Due to the passage of SB 495 by the 2001 legislature effective FY 2002, mineral royalties will be considered distributable income until a net amount (net of diversions that fund trust land administration) of \$138.9 million has been distributed. After that time, mineral royalties will again be deposited to the common school trust and will become part of the trust corpus. The additional corpus will generate additional earnings. It is expected that the effects of SB 495 will terminate in the 2011 biennium. The figure below shows total mineral royalties since FY 2002. The estimate for mineral royalties is obtained by multiplying together estimates for production, price, and the applicable royalty rate.

- Production – Oil and natural gas production is estimated by increasing the previous fiscal year’s production by the growth rate obtained from a two-year average of the estimates for statewide oil and natural gas production (see the Oil and Natural Gas Production Tax profile). Coal production on state lands comes primarily from a single coal company. Information on projected production and percentage of production on state lands was obtained by surveying coal companies, including the main company producing on state lands. The average of this company’s prior two calendar year’s production estimates is multiplied by the estimated percentage of production on state lands. All other mineral production was held constant at the FY 2006 level.
- Price – Oil prices are calculated by multiplying the current year’s West Texas Intermediate price by the ratio of the Montana price for the previous fiscal year to the West Texas Intermediate oil price for the previous fiscal year. A weighted average is then calculated to derive a fiscal year price. The same methodology is used for natural gas with the driving factor being the Henry Hub price. Coal price is determined by increasing the previous fiscal year’s price by a growth rate obtained from a two year average of the calendar year estimates for coal prices (see the Coal Severance Tax profile).

10. Trust and Legacy Earnings – The monetary assets of the common school trust are pooled with monetary assets of other land trusts (termed “Trust and Legacy”) 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. For the common school trust, the actual FY 2006 share percentage of 92.8 is used. In FY 2007, a major addition to the investable corpus of the common school trust is expected from the sale of a right-of-way near Kalispell worth approximately \$5.1 million. The estimation of the total pool earnings is a three stage process:

- Earnings from new deposits – New deposits in the pool are estimated to be \$6.5 million in FY 2007 and \$1.4 million each year thereafter. This additional money initially earns interest at the short-term rate (4.7 percent) before it is invested in a longer term investment (5.5 percent).
- Earnings from existing balance – The TFBP balance in FY 2006 was \$423.2 million. These funds have been invested in bonds purchased over the past several year and average slightly higher rates of return (5.63 percent) than more recently purchased bonds.
- Non-portfolio earnings – Money not invested in the trust funds bond pool earns interest at the short-term rate of 4.8 percent on a balance of \$3.9 million, the actual balance from FY 2006.

Once the total amount of the pool earnings has been estimated by summing the above three items, the common school share of 92.8 percent is applied.



# Legislative Fiscal Division

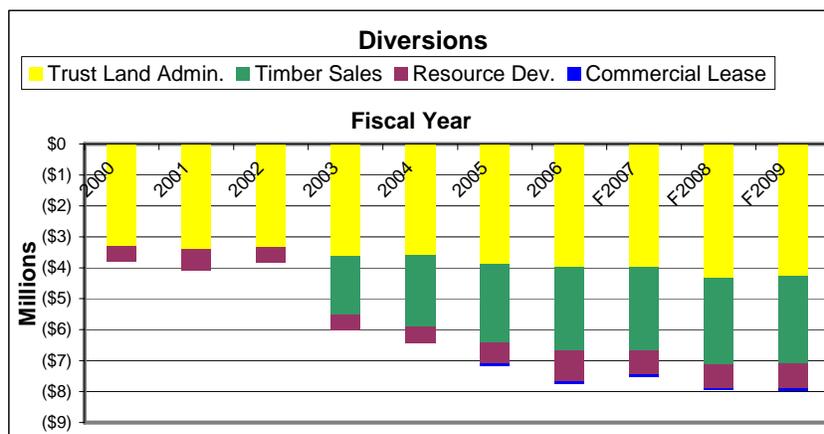
## Revenue Estimate Profile

### Common School Interest and Income

#### Diversions

Diversions fund operational costs in DNRC, but reduce the amount of revenue distributed to the trust beneficiaries (see the figure below). To determine future diversion amounts, DNRC's present law budget amounts are used.

- **Trust Land Administration Account** – Of the total expenditures requested to be made from this account, 97.8 percent (the actual portion from FY 2006) of the expenditures are funded by common school trust revenue. A portion of mineral royalties and permanent income is diverted to this account to fund department's activities in managing the common school trust lands. The portion of permanent revenue is determined by multiplying the amount of permanent revenue by the ratio of permanent revenue to the sum of mineral royalties and permanent revenue. Mineral royalty revenue funds the remainder of the expenditures.
- **Timber Sales Account** – A portion of timber sale revenue from the common school trust is used to fund costs associated with the timber sale program on the trust lands. Other trusts with timber revenue also pay into this account. The portion each pays is the ratio of its timber sale revenue to the total state-wide timber sale revenue multiplied by the total cost of the program. In FY 2006, the common school trust funded 78.7 percent of total expenditures.
- **Resource Development Account** – Three percent of all income from the common school trust is diverted to an account to fund resource development on the trust lands. Interest earnings are not included in the calculations.
- **Commercial Leasing Account** – Ten percent of revenue received from commercial leases is diverted to an account to fund activities associated with administering the leases.



#### Adjustments and Distribution

Once total revenue and total diversions have been estimated, the net amounts are distributed:

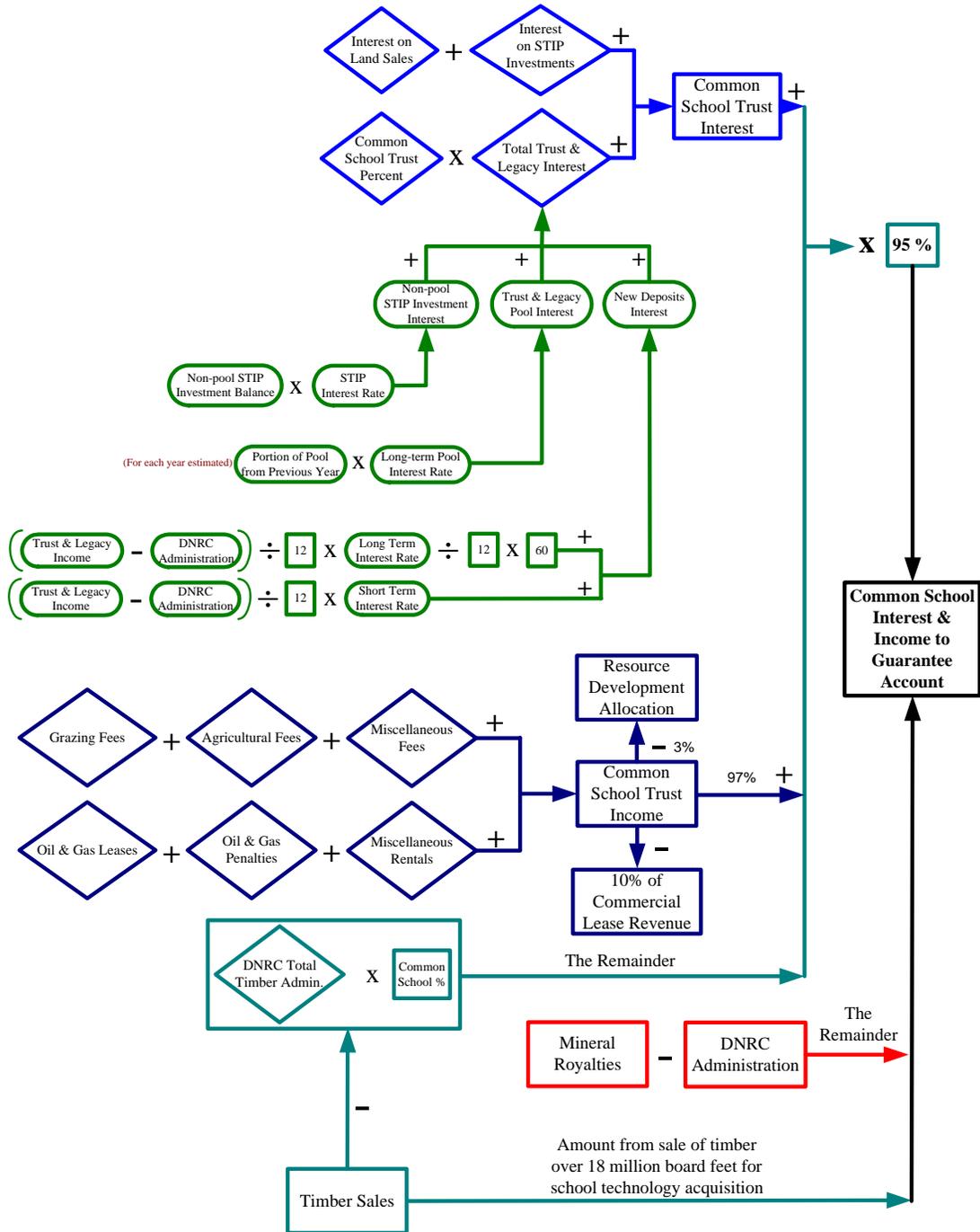
- 95 percent of the net amount of interest and income, excluding timber and mineral royalties, is deposited to the guarantee account and the remaining 5 percent is returned to the trust. The money deposited to the guarantee account is used for public schools.
- The value received from timber sales over 18 million board feet is distributed to the guarantee account to fund school technology. The amount of money distributed to the account in one year is spent in the next year.
- The remaining amount of timber (if any) is distributed 95 percent to the guarantee account and 5 percent is returned to the trust. The money deposited to the guarantee account is used for public schools.
- From FY 2007 to FY 2009, mineral royalties are distributed to the guarantee account. The money is first used to pay the remaining principal of the Senate Bill 495 loan of \$46.4 million from the coal severance tax trust and to pay interest to the general fund. The remainder (if any) is used for public schools.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

**Forecast Methodology:**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

#### 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 2007 legislature that may affect future estimates of this revenue source.

	Year	Total Rev. Millions	GF Rev. Millions	TFBP Interest Millions	STIP Interest Millions	Common School Share T&L	SB495 Loan Pay. Millions	Trust Land Expense Millions
Actual	2000	44.296034	44.296034			0.938562		
Actual	2001	46.845895	46.845895			0.923235		
Actual	2002	50.875186	48.937673	29.627056	0.102664	0.932906		
Actual	2003	48.977342	0.000000	29.146744	0.068370	0.931091	0.000000	-3.551119
Actual	2004	55.663022	0.000000	30.087011	0.053502	0.928698	-1.820860	-3.311911
Actual	2005	68.035764	0.000000	28.106281	0.269698	0.927050	-2.650171	-3.679601
Actual	2006	82.605539	0.000000	24.428206	0.408162	0.928000	-10.849050	-3.904704
Forecast	2007	75.414000	0.000000	23.781663	0.363942	0.928000	-23.554415	-3.907551
Forecast	2008	77.794000	0.000000	24.148202	0.225490	0.928000	-7.492408	-4.249206
Forecast	2009	77.049000	0.000000	24.280867	0.225102	0.928000	0.000000	-4.188911

	Year	Trust Income New Deposit Millions	New Deposit Long Term Rate	Non Pool STIP Rate	Non Pool STIP Bal Millions	SB495 Interest Millions
Actual	2000	10.969295	7.0160%	5.4290%	11.676486	
Actual	2001	12.667780	6.8850%	4.7390%	6.984553	
Actual	2002	2.348339	6.3380%	2.5650%	7.334239	
Actual	2003	2.363355	5.7290%	1.3600%	6.242273	
Actual	2004	2.971526	5.3650%	1.2650%	7.049634	
Actual	2005	1.457756	5.1950%	2.3890%	12.106697	-3.005668
Actual	2006	1.425106	5.2480%	4.0720%	3.862666	-2.255822
Forecast	2007	6.537106	5.4970%	4.6690%	3.862666	-1.744862
Forecast	2008	1.425106	5.7460%	4.5980%	3.862666	-0.421208
Forecast	2009	1.425106	5.9680%	4.5570%	3.862666	0.000000

	Year	Grazing Millions	Agriculture Millions	Misc. Millions	O&G Lease Millions	O&G Bonus Millions	O&G Penalty Millions	Misc. Millions
Actual	2000	4.065911	9.053155	0.000000	1.328220	1.277231	0.261334	1.127779
Actual	2001	4.850839	8.376539	0.000000	1.448285	7.118093	0.355322	1.121433
Actual	2002	5.467322	6.998644	0.000000	1.540472	0.478224	0.334699	1.243778
Actual	2003	5.243241	7.974945	0.000000	1.575356	0.300943	0.399347	1.348894
Actual	2004	4.970961	8.051131	0.000000	1.648808	0.870693	0.533758	2.156382
Actual	2005	5.918241	8.816342	0.000000	1.893296	3.826961	0.640759	2.057478
Actual	2006	6.276945	9.453271	0.000000	2.330531	13.005123	0.864068	2.193462
Forecast	2007	7.070979	8.942794	0.000000	2.539121	5.000000	0.941405	2.579373
Forecast	2008	7.070979	8.844423	0.000000	2.785385	5.000000	1.032710	2.738064
Forecast	2009	7.070979	8.897490	0.000000	3.058166	5.000000	1.133846	3.011709

# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

	t	Int. Land	Int. STIP	Int. Trust	Timber	Res. Dev.	Commercial Lease
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	0.000566	0.706653	23.905761	5.379555	-0.513416	
Actual	2001	0.000290	0.715090	24.206450	1.623592	-0.698124	
Actual	2002	0.000063	0.305319	27.775111	3.624785	-0.504023	
Actual	2003	0.019744	0.188794	27.201941	3.605510	-0.499362	
Actual	2004	0.002900	0.199526	27.991422	0.666749	-0.517845	
Actual	2005	0.025797	0.408384	26.305944	3.651789	-0.686492	-0.067175
Actual	2006	0.000000	0.641609	23.048141	2.878508	-1.003369	-0.067975
Forecast	2007	0.000000	0.687182	22.407121	2.642941	-0.812210	-0.067975
Forecast	2008	0.000000	0.685890	22.618786	2.739689	-0.824147	-0.067975
Forecast	2009	0.000000	0.692093	22.741539	2.879748	-0.845166	-0.067975

	t	Total Timber	Timber Sales Pgm.	School Technology	Oil Royalties	Gas Royalties	Coal Royalties	Other Royalties
	<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	5.379555	0.000000	0.000000				
Actual	2001	1.623592	0.000000	0.000000				
Actual	2002	3.624785	0.000000	1.822162	2.390492	1.523062	2.836919	0.144369
Actual	2003	5.507588	-1.674571	0.000000	3.681611	1.995499	3.877054	0.148393
Actual	2004	2.968369	-1.940581	3.178988	4.851597	2.718035	4.676964	0.169754
Actual	2005	10.602272	-2.536323	4.414160	7.965516	4.329847	4.239865	0.194346
Actual	2006	10.227223	-2.707327	4.641388	14.759265	6.317280	4.179503	0.355698
Forecast	2007	7.855000	-2.687059	2.525000	16.778111	5.512014	4.754047	0.417794
Forecast	2008	8.250000	-2.783311	2.727000	16.997563	7.159912	4.748062	0.417794
Forecast	2009	8.675000	-2.814252	2.981000	15.326470	6.793833	4.825116	0.417794

	t	Oil Production	Gas Production	Coal Production	Oil Price	Gas Price	Coal Price	Excess Royalties To Trust
	<u>Fiscal</u>	<u>Barrels</u>	<u>MCF's</u>	<u>Tons</u>	<u>\$/Barrel</u>	<u>\$/MCF</u>	<u>\$/Ton</u>	
Actual	2000	0.923777	5.050552	3.273552	22.670000	1.880000	11.650000	
Actual	2001	0.889786	6.294741	3.285378	26.470000	3.930000	12.000000	
Actual	2002	0.911057	5.892287	1.835880	20.320000	1.910000	11.800000	
Actual	2003	1.017463	5.380950	3.494901	28.140000	3.200000	9.590000	
Actual	2004	1.122987	5.720200	3.911826	31.020000	3.950000	8.600000	
Actual	2005	1.400063	7.240046	3.720126	44.690000	5.090000	9.120000	
Actual	2006	2.024282	7.878173	4.079399	57.240000	6.640000	8.630000	
Forecast	2007	2.190154	8.103262	4.452926	58.928454	5.441773	8.540986	0.000000
Forecast	2008	2.238107	7.997893	4.492360	58.420122	7.161798	8.455355	0.000000
Forecast	2009	2.063911	7.743900	4.620860	57.122581	7.018513	8.353625	0.000000

Total Rev. = (Grazing + Agriculture + O&G Lease + O&G Bonus + O&G Penalty + Misc. + Int. Land + Int. Stip + Int. Trust + Timber + Res. Dev. + Commercial Lease) \* .95 + Oil Roy. + Gas Roy + Coal Roy. + Other Roy. + School Technology + Trust Land Admin. - Excess Royalties To Trust

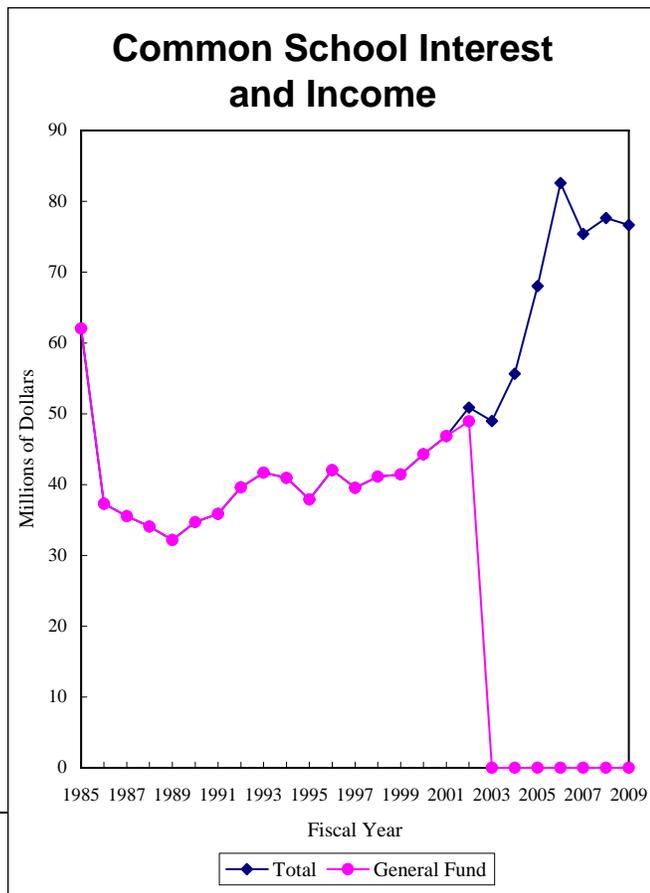
# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
1985	62.050661	62.050661	Not App.
1986	37.301053	37.301053	-39.89%
1987	35.529619	35.529619	-4.75%
1988	34.078544	34.078544	-4.08%
1989	32.165382	32.165382	-5.61%
1990	34.706901	34.706901	7.90%
1991	35.865505	35.865505	3.34%
1992	39.616168	39.616168	10.46%
1993	41.673746	41.673746	5.19%
1994	40.943551	40.943551	-1.75%
1995	37.904099	37.904099	-7.42%
1996	42.031801	42.031801	10.89%
1997	39.538792	39.538792	-5.93%
1998	41.129779	41.129779	4.02%
1999	41.432733	41.432733	0.74%
2000	44.296034	44.296034	6.91%
2001	46.845895	46.845895	5.76%
2002	50.875186	48.937673	4.47%
2003	48.977342	0.000000	-100.00%
2004	55.663022	0.000000	Not App.
2005	68.035764	0.000000	Not App.
2006	82.605539	0.000000	Not App.
2007	75.414000	0.000000	Not App.
2008	77.653000	0.000000	Not App.
2009	76.661000	0.000000	Not App.



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Cultural Trust Interest

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**Revenue Description:** Beginning in fiscal 1976, a portion of coal severance tax revenue was deposited into the Parks Acquisition and Arts Protection trust fund. The 1991 legislature split the principal of this trust into two separate trusts, the Parks Acquisition trust and the Arts Protection trust (cultural trust), with coal severance taxes allocated to each one. The 1997 legislature appropriated \$3.9 million from the cultural trust fund for the immediate purchase of Virginia and Nevada City properties. This action resulted in a loss of trust interest revenue that otherwise would be used to fund cultural and aesthetic (C&A) projects in the state during the 1999 biennium. Thus, beginning July 1, 1997, and ending June 30, 1999, 0.87 percent in coal severance tax revenue was allocated to an account in the state special revenue fund to compensate for the lost interest earnings and the previous 0.63 percent distribution of coal severance tax to the cultural trust was eliminated. Except for fiscal 2003, beginning July 1, 1999, the amount of 0.63 percent is once again statutorily allocated to the cultural trust, the interest from which is to be used for the purpose of protection of works of art in the capitol and for other cultural and aesthetic projects. The August 2002 special legislative session eliminated the allocation for fiscal 2003 only.

#### Statutory Reference:

Tax Rate - NA

Distribution (MCA) - 15-35-108(6), 22-2-305

Date Due - NA

**Applicable Tax Rate(s):** N/A

**Distribution:** All income from the trust is deposited in a state special revenue fund to be appropriated for protection of works of art in the state capitol and for other cultural and aesthetic projects.

#### Distribution Chart:



**Summary of Legislative Action:** House Bill 9 – In addition to appropriating interest earnings from the cultural trust fund, HB 9 transfers \$1.5 million general fund to the cultural trust at the beginning of FY 2008. Earnings from the additional corpus are \$83,129 in FY 2008 and \$83,282 in FY 2009. The legislation is effective July 1, 2007.

Cultural Trust Interest -- Legislation Passed by 60th Legislature			
Estimated State Special Revenue Impact for Fiscal 2007,2008,2009			
<u>Bill Number and Short Title</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>
HB0009 Cultural and aesthetic grants		83,129	83,282
Total Estimated State Special Revenue Fund Impact	<u>\$0</u>	<u>\$83,129</u>	<u>\$83,282</u>

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

##### Data

The data by used to estimate the interest and earnings of the cultural trust are collected from the Board of Investments (BOI), Global Insight, and the state accounting system (SABHRS). The BOI provides historic interest earnings from the trust as well as the gains and losses from the sale of investment instruments. Projections of interest rates are provided by the GI, and historic earnings are provided from SABHRS. No adjustments are required on the raw data in preparation for analysis.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Cultural Trust Interest

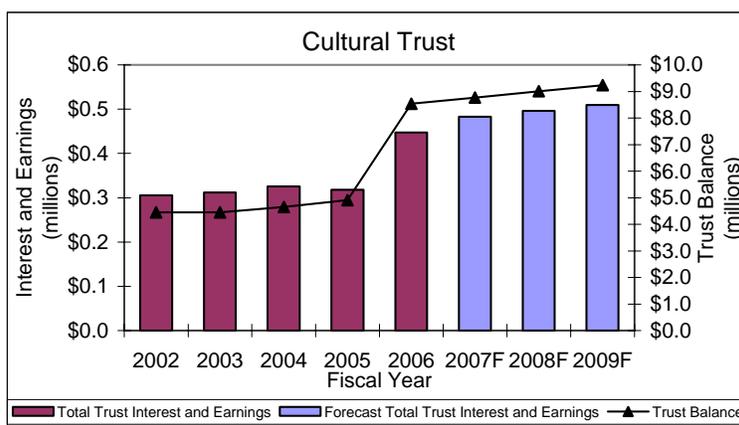
#### Analysis

The cultural trust, formed in the late 1970's, was created from distributions of the coal severance tax. The cultural trust receives coal tax distributions at the rate of 0.63 percent of the total tax. In several years of budget stress, the coal tax distribution to the cultural trust was temporarily eliminated or reduced. The principal of the trust was reduced by \$3.9 million in fiscal 1997 and the funds were used for the purchase of Virginia and Nevada Cities. In fiscal 2006, the trust was reimbursed for \$3.4 million, substantially increasing the principal of the trust. The principal or corpus of the cultural trust now stands at \$8.5 million, as demonstrated by the line in the figure below. Estimates of future deposits to the cultural trust are developed in the coal severance tax projection and are expected to be \$231,000 in fiscal 2007, \$238,000 in fiscal 2008, and \$228,000 in fiscal 2009.

To forecast the cultural trust interest earnings, each of three interest/income components are estimated independently and combined. The estimated interest/income components include:

- The trust funds bond pool (TFBP)
- The short term investment pool (STIP)
- New trust deposits

The TFBP was formed in 1995 to manage the fixed investments held in the state's major trust funds. TFBP earnings are the largest source of earnings for the trust. The TFBP earnings are estimated by applying a long-term interest rate to the projected TFBP balance. The applicable long term rate is an average of four rates projected by Global Insight and includes the corporation Aaa bond rate, the corporate Baa bond rate, the rate on 10-year treasury bonds, and the rate on 30-year treasury bonds. The average rate is then factored to produce a fiscal year average rate. The fiscal year long-term rate is expected to be 5.50 percent, 5.75 percent, and 5.97 percent for fiscal years 2007 through 2009, respectively. When the rates are applied to the TFBP balance, expected TFBP interest is \$472,910 in fiscal 2007, \$485,608 in fiscal 2008, and \$499,283 in fiscal 2009.



STIP interest is earned on the temporary investment of trust funds. Funds are acquired from activities such as new deposits and investment sales. Funds are held in STIP until the BOI determines that conditions are favorable for deposit in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed, based on Global Insight projections of the interest rates on three and six-month corporate loans and three and six-month treasury bills. The average rates are then factored to a fiscal year average rate. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the cultural STIP balance, STIP estimates are \$3,103; \$3,056; and \$3,029 for fiscal years 2007 through 2009.

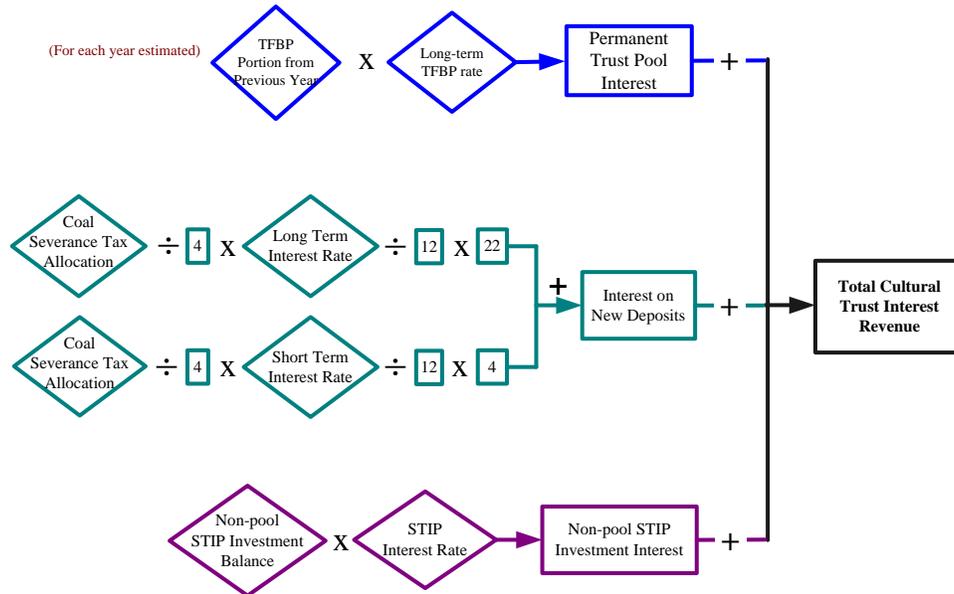
The 0.63 percent coal severance tax distribution to the cultural trust is considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month 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. For the cultural trust, new deposits are expected to earn interest of \$6,719; \$7,180; and \$7,102 for fiscal years 2007 through fiscal 2009, respectively.

When the estimates are combined, the interest earnings of the cultural trust are expected to be \$482,732 in fiscal 2007, \$495,844 in fiscal 2008, and \$509,414 in fiscal 2009.

# Legislative Fiscal Division

## Revenue Estimate Profile Cultural Trust Interest

### Forecast Methodology:



### 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 2007 legislature that may affect future estimates of this revenue source.

	t	Total Rev.	GF Rev.	TFBP	STIP	Invested	Average
	Fiscal	Millions	Millions	Interest	Interest	Balance	Return
				Millions	Millions	Millions	Rate
Actual	2000	0.253951	0.000000				
Actual	2001	0.286146	0.000000				
Actual	2002	0.305355	0.000000	0.304397	0.000957		
Actual	2003	0.314131	0.000000	0.310495	0.001135	4.518165	0.069526
Actual	2004	0.325684	0.000000	0.324526	0.001158	4.693455	0.069391
Actual	2005	0.318333	0.000000	0.316149	0.002184	4.932287	0.064541
Actual	2006	0.447040	0.000000	0.421171	0.025868	8.478110	0.052729
Forecast	2007	0.483000	0.000000	0.472910	0.009822	8.709110	0.055428
Forecast	2008	0.496000	0.000000	0.485608	0.010236	8.947110	0.055419
Forecast	2009	0.510000	0.000000	0.499283	0.010131	9.175110	0.055521

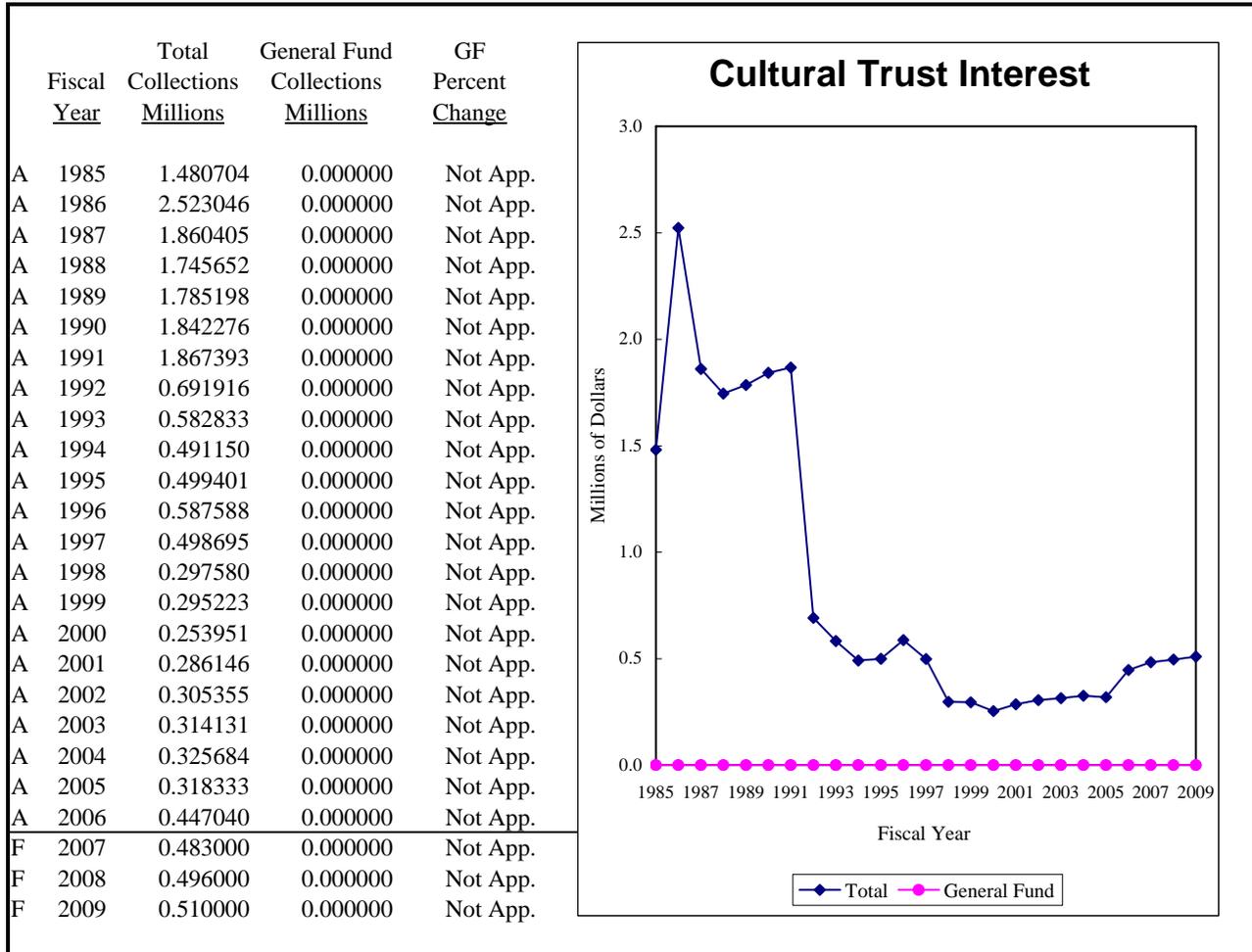
	t	Net Coal Tax	New Deposit	Non Pool	Non Pool
	Fiscal	New Deposit	Long Term	STIP	STIP Bal
		Millions	Rate	Rate	Millions
Actual	2000	0.212426	7.0160%	5.4290%	0.249639
Actual	2001	0.203724	6.8850%	4.7390%	0.028633
Actual	2002	0.199168	6.3380%	2.5650%	0.102287
Actual	2003	0.000000	5.7290%	1.3600%	0.062902
Actual	2004	0.198731	5.3650%	1.2650%	0.088412
Actual	2005	0.237097	5.1950%	2.3890%	0.092433
Actual	2006	0.225676	5.2480%	4.0720%	0.063498
Forecast	2007	0.231000	5.4970%	4.6690%	0.063498
Forecast	2008	0.238000	5.7460%	4.5980%	0.063498
Forecast	2009	0.228000	5.9680%	4.5570%	0.063498

Total Rev. = Invested Balance \* Average Return

# Legislative Fiscal Division

## Revenue Estimate Profile Cultural Trust Interest

### Revenue Projection:



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

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**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.

In accordance with statute, 3.0 percent of Deaf and Blind trust interest and income is diverted to the Department of Natural Resources and Conservation (DNRC) to be used for resource development purposes. 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. In addition, a portion of timber sale revenue is diverted to fund a portion of DNRC's timber program. The amount of the money diverted from the Deaf and Blind trust reduces the growth of the trust fund balance and, hence, reduces the amount of distributable interest earnings.

#### Statutory Reference:

Tax Rate – NA

Distribution (MCA) – 20-8-110

Other (MCA) – DNRC trust land administration diversion (77-1-109)

DNRC timber sale program diversion (77-1-613)

DNRC land bank administration diversion (77-2-362)

DNRC resource development diversion (77-1-607)

DNRC commercial lease diversion (77-1-905)

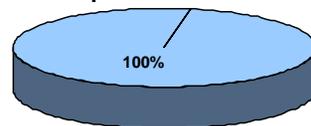
Enabling Act, Sections 11 & 17

**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:

State Special Revenue Fund



**Summary of Legislative Action:** The 60th Legislature did not enact legislation that impacted this revenue source.

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

The estimate for interest and income from the Deaf and Blind trust is conducted with the goal of deriving the net amount of 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 various diversions that reduce the amount of distributable 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 timber and mineral royalties), is estimated as part of the entire Trust and Legacy account (T & L) and earnings are portioned to this trust according to the number of shares owned.

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

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#### Data

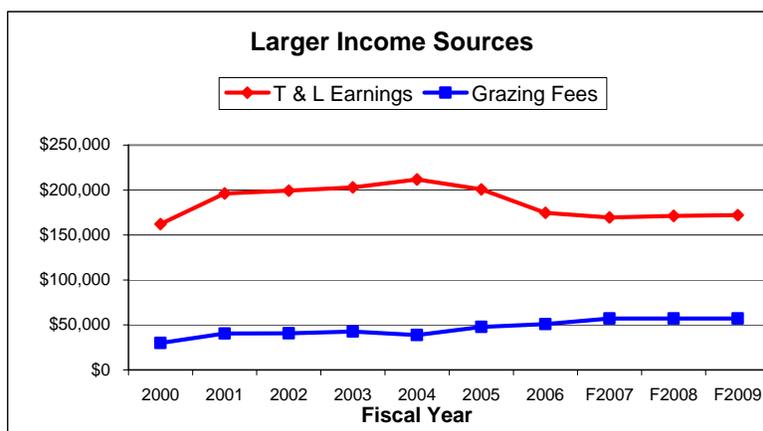
Data from the state accounting system (SABHRS) provide a history of each individual interest and income revenue component from which estimates can be made. Department of Natural Resources and Conservation (DNRC) annual reports provide additional information such as mineral prices and production and timber estimates. Budget submissions on the state budgeting system (MBARS) provide anticipated amount of diversions.

#### Analysis

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

#### Revenue Components

1. 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. For the Deaf and Blind trust, the actual FY 2006 share percentage of 0.7 is used. The estimation of the total pool earnings is a three stage process:
  - Earnings from new deposits – New deposits in the pool are estimated to be \$6.5 million in FY 2007 and \$1.5 million in FY 2008 and FY 2009. This additional money initially earns interest at the short-term rate (4.7 percent) before it is invested in a longer term investment (5.5 percent).
  - Earnings from existing balance – The pool balance in FY 2006 was \$423.2 million. These funds have been invested in bonds purchased over the past several year and average slightly higher rates of return (5.63 percent) than more recently purchased bonds.
  - Non-portfolio earnings – Money not invested in the trust funds bond pool earns interest at the short-term rate of 4.8 percent on a balance of \$3.9 million, the actual balance from FY 2006.Once the total amount of the pool earnings has been estimated by summing the above three items, the Deaf and Blind trust share of 0.7 percent is applied.
2. Grazing Fees – Rates are tied to the price of cattle. With the currently high cattle prices, FY 2007 grazing rates were increased by \$0.75 per animal unit month. DNRC personnel anticipate that cattle prices will remain strong in FY 2007 increasing revenues above FY 2006 levels, but will soften in the next biennium (see the figure below). Based on this information and cattle futures markets, the FY 2007 estimate increases 12.65 percent from FY 2006 and stays constant for the 2009 biennium.

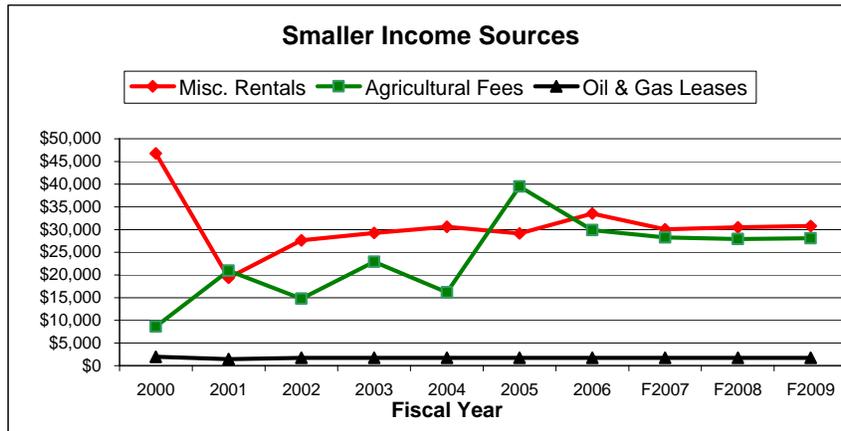


3. Miscellaneous Rentals - These are small income components that are combined and estimated together. For each fiscal year estimated, the estimate is based on the average annual growth rate of the previous four years with the highest and lowest amounts removed.
4. Agricultural Fees – Fees are based on a crop share basis. Although prices are currently high, production is down. DNRC personnel anticipate that prices will remain strong in the next biennium, but overall revenue will decline slightly from FY 2006 levels (see the figure below). Based on this information and crop futures markets, revenue declines 5.4 percent in FY 2007, declines 1.1 percent in FY 2008 and increases 0.6 percent in FY 2009.
5. Oil & Gas Leases – For each fiscal year estimated, the estimate is the average of the previous three years.

# Legislative Fiscal Division

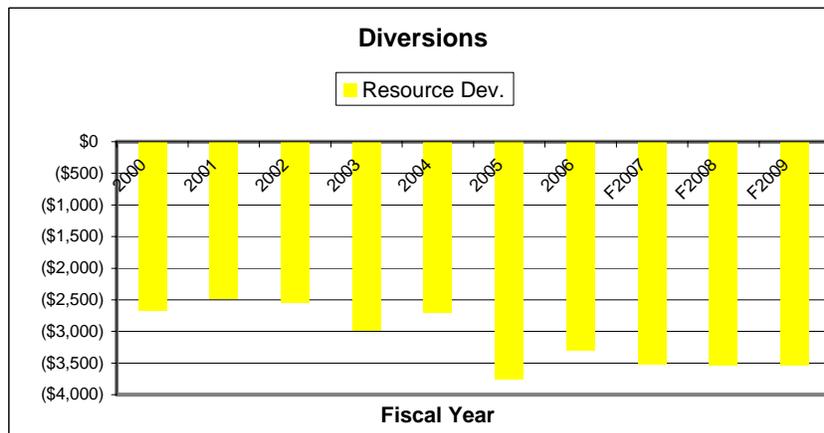
## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income



#### Diversions

Diversions fund operational costs in DNRC, but reduce the amount of revenue distributed to the trust beneficiaries (see the figure below). To determine future diversion amounts, DNRC's present law budget amounts are used. The only diversion that affects distributable revenue is the three percent of all income from the trust that is diverted to an account to fund resource development on the trust lands.



#### Adjustments and Distribution

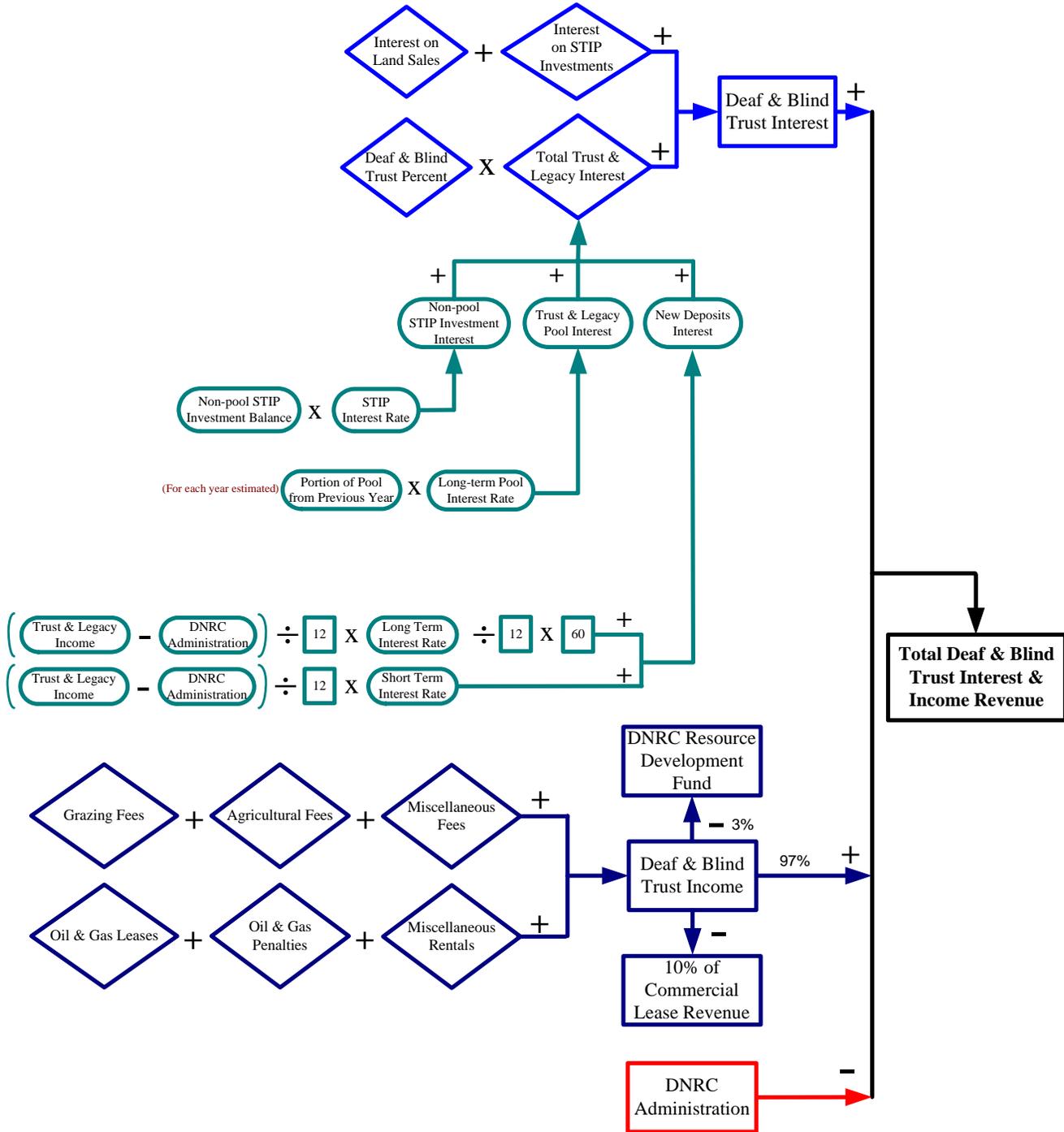
Once total revenue and total diversions have been estimated, the net amounts are distributed 100 percent to the state special revenue fund.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

**Forecast Methodology:**



**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 2007 legislature that may affect future estimates of this revenue source.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

	t	Total Rev.	GF Rev.	TFBP	STIP	Deaf &
	Fiscal	Millions	Millions	Interest	Interest	Blind Share
				Millions	Millions	T&L
Actual	2000	0.251003	0.000000			0.006369
Actual	2001	0.278974	0.000000			0.007485
Actual	2002	0.284290	0.000000	29.627056	0.102664	0.006697
Actual	2003	0.299569	0.000000	29.146744	0.068370	0.006947
Actual	2004	0.299050	0.000000	30.087011	0.053502	0.007029
Actual	2005	0.318818	0.000000	28.106281	0.269698	0.007072
Actual	2006	0.290605	0.000000	24.428206	0.408162	0.007029
Forecast	2007	0.284000	0.000000	23.781663	0.363942	0.007029
Forecast	2008	0.286000	0.000000	24.148202	0.225490	0.007029
Forecast	2009	0.287000	0.000000	24.280867	0.225102	0.007029

	t	Trust Income	Trust Land	New Deposit	Non Pool	Non Pool
	Fiscal	New Deposit	Admin.	Long Term	STIP	STIP Bal
		Millions	Millions	Rate	Rate	Millions
Actual	2000	10.969295		7.0160%	5.4290%	11.676486
Actual	2001	12.667780	0.000000	6.8850%	4.7390%	6.984553
Actual	2002	2.348339	0.000000	6.3380%	2.5650%	7.334239
Actual	2003	2.363355	0.000000	5.7290%	1.3600%	6.242273
Actual	2004	2.971526	0.000000	5.3650%	1.2650%	7.049634
Actual	2005	1.457756	0.000000	5.1950%	2.3890%	12.106697
Actual	2006	1.425106	0.000000	5.2480%	4.0720%	3.862666
Forecast	2007	6.537106	0.000000	5.4970%	4.6690%	3.862666
Forecast	2008	1.425106	0.000000	5.7460%	4.5980%	3.862666
Forecast	2009	1.425106	0.000000	5.9680%	4.5570%	3.862666

	t	Grazing	Agriculture	Misc.	O&G Lease	O&G Bonus	O&G Penalty	Misc.
	Fiscal	Millions	Millions	Millions	Millions	Millions	Millions	Millions
Actual	2000	0.030113	0.008628	0.000000	0.001980	0.001280	0.000000	0.046783
Actual	2001	0.040496	0.020937	0.000000	0.001440	0.000480	0.000000	0.019365
Actual	2002	0.040733	0.014776	0.000000	0.001740	0.000050	0.000000	0.027618
Actual	2003	0.042676	0.022940	0.000000	0.001740	0.000000	0.000000	0.029242
Actual	2004	0.038658	0.016168	0.000000	0.001740	0.000000	0.000000	0.030636
Actual	2005	0.047753	0.039470	0.000000	0.001740	0.000000	0.000000	0.029180
Actual	2006	0.050892	0.029866	0.000000	0.001740	0.000000	0.000000	0.033529
Forecast	2007	0.057330	0.028253	0.000000	0.001740	0.000000	0.000000	0.030041
Forecast	2008	0.057330	0.027942	0.000000	0.001740	0.000000	0.000000	0.030526
Forecast	2009	0.057330	0.028110	0.000000	0.001740	0.000000	0.000000	0.030782

	t	Int. Land	Int. STIP	Int. Trust	Timber	Res. Dev.
	Fiscal	Millions	Millions	Millions	Millions	Millions
Actual	2000	0.000000	0.000000	0.162218	0.000000	-0.002664
Actual	2001	0.000000	0.000000	0.196256	0.000000	-0.002482
Actual	2002	0.000000	0.000000	0.199373	0.000000	-0.002548
Actual	2003	0.000000	0.000000	0.202971	0.000000	-0.002988
Actual	2004	0.000000	0.000000	0.211848	0.000000	-0.002697
Actual	2005	0.000000	0.000000	0.200675	0.000000	-0.003758
Actual	2006	0.000000	0.000000	0.174578	0.000000	-0.003294
Forecast	2007	0.000000	0.000000	0.169719	0.000000	-0.003521
Forecast	2008	0.000000	0.000000	0.171323	0.000000	-0.003526
Forecast	2009	0.000000	0.000000	0.172252	0.000000	-0.003539

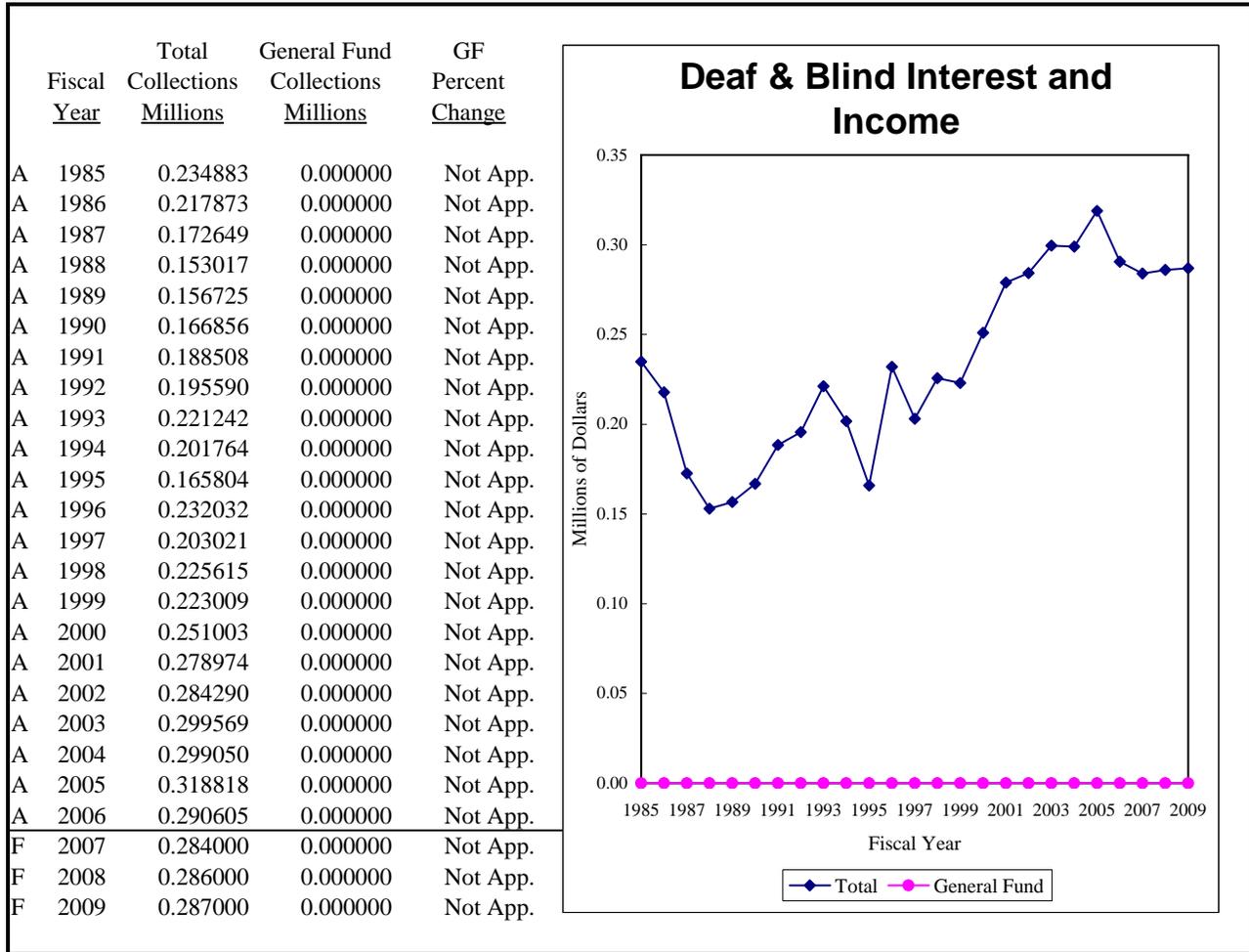
Total Rev. = Grazing + Agriculture + O&G Lease + O&G Bonus + O&G Penalty + Misc. +  
Int. Land + Int. Stip + Int. Trust + Timber + Res. Dev.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

**Revenue Projection:**



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Economic Development Trust Interest

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**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 and subsidize state bonds issued to finance water resource and renewable resource development projects and activities. With the enactment of House Bill 249 by the 2005 legislature, beginning fiscal 2006 the remaining funds are then split 50 percent (25 percent of total revenue) to the treasure state endowment trust fund, 25 percent (12.5 percent of total revenue) to the treasure state endowment regional water system trust fund, and 25 percent (12.5 percent of total revenue) to the big sky economic development trust fund. The permanent trust fund no longer receives coal severance tax revenue.

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 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.

#### Statutory Reference:

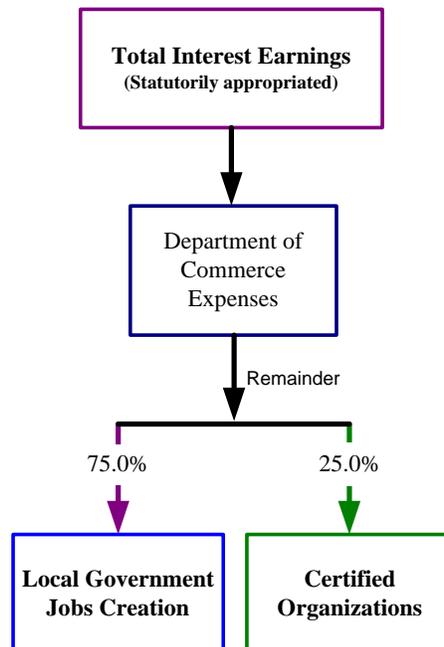
- Tax Rate – NA
- Distribution (MCA) – 17-5-703 (5b); use of earnings (90-1-205)
- Date Due (MCA) – monthly (17-5-703(5b))

**Applicable Tax Rate(s):** N/A

**Distribution:** Interest earnings are deposited to a state special revenue fund and are statutorily appropriated to the Department of Commerce to pay administrative expenses with the remainder for:

1. 75% to local governments to be used for job creation; and
2. 25% to certified regional development corporations and economic development organizations

#### Distribution Chart:



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Economic Development Trust Interest

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**Summary of Legislative Action:** The 60<sup>th</sup> Legislature did not enact legislation that impacted this revenue source.

**% of Total General Fund Revenue:** N/A

- Economic Factors
  - Prevailing national interest and bond rates
  - Inflationary pressures
  - Coal price
  - Coal production costs
- Social Factors - None
- Legislative Factors
  - State legislative impacts
    - Coal severance tax and distribution related changes
    - Constitutional restrictions on types of investments (i.e. no investments in equities)
    - Appropriations from the trust sub-fund
  - Federal legislative impacts

#### Revenue Estimate Methodology:

##### Data

The data used to estimate interest earnings from the big sky economic trust are obtained from the Board of Investments (BOI), Global Insight, 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 Global Insight and historic interest collections are obtained from SABHRS.

##### Analysis

The economic trust was created from distributions of the coal severance tax. The economic trust was formed in fiscal 2006 as a sub-trust to the permanent coal trust. The Constitution requires that 50 percent of the coal severance tax collections be distributed to the coal trust, and 25 percent of that distribution (after the water bond debt service obligation is met) or 12.5 percent of total coal severance tax revenues is distributed to the Big Sky Economic Development trust. The principal or corpus of the trust now stands at \$24.8 million. Estimates of future deposits to the trust are developed in the coal severance tax projection and are expected to be \$4.6 million in fiscal 2007, \$4.7million in fiscal 2008, and \$4.3 million in fiscal 2009.

To forecast the economic trust interest earnings, each of three interest/income components are estimated independently and combined. The estimated interest/income components include:

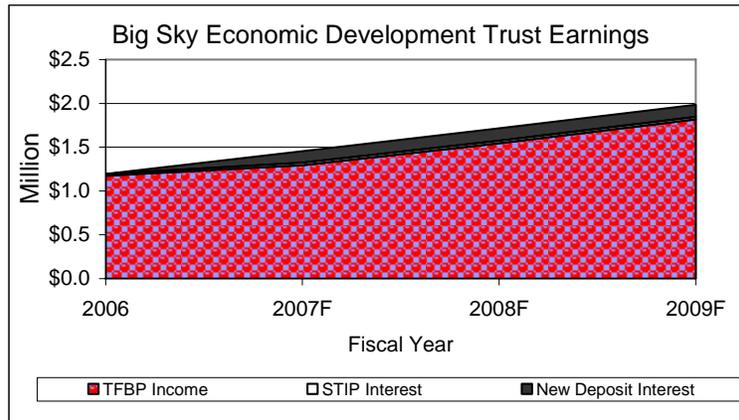
- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

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 (fiscal 2006) 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 Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal years 2007 through 2009, respectively. Big Sky Economic Development trust earnings from TFBP interest are expected to be \$1.29 million in fiscal 2007, \$1.54 million in fiscal 2008, and \$1.82 million in fiscal 2009.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Economic Development Trust Interest

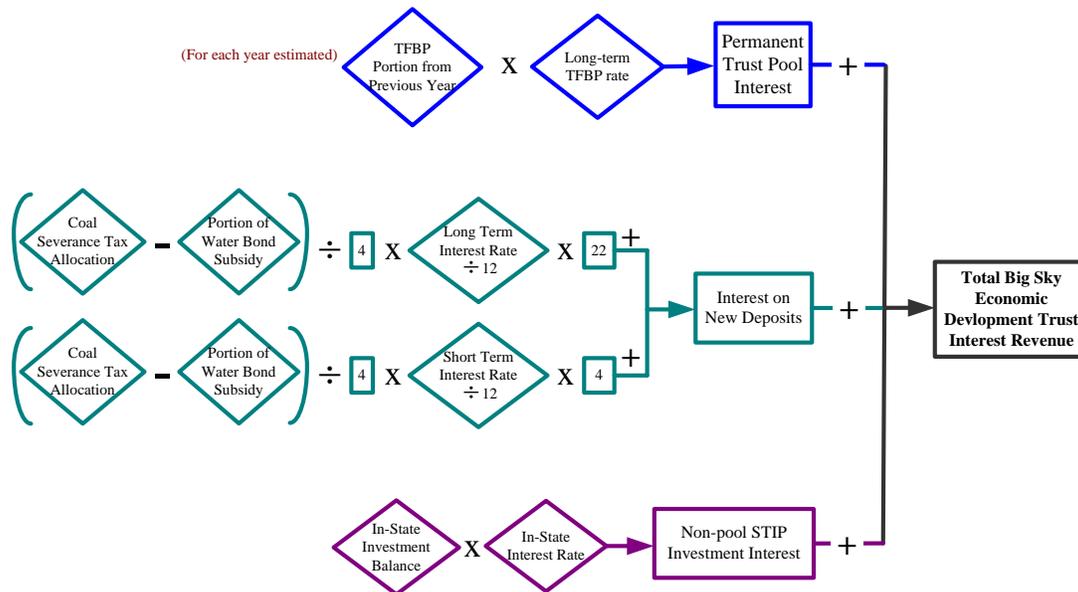


STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed, based on Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$29,742; \$29,290; and \$29,029 for fiscal years 2007 through 2009.

Coal severance tax distributions to the 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. For the cultural trust, new deposits are expected to earn interest of \$132,920; \$143,054; and \$134,634 for fiscal years 2007 through fiscal 2009, respectively.

When the estimates are combined, the interest earnings of the trust are expected to be \$1.46 million in fiscal 2007, \$1.72 million in fiscal 2008, and \$1.98 million in fiscal 2009.

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Economic Development Trust Interest

#### 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 2007 legislature that may affect future estimates of this revenue source.

	Year	Total Rev. Millions	GF Rev. Millions	TFBP Interest Millions	STIP Interest Millions	Loan Interest Millions	Invested Balance Millions	Average Return Rate
Actual	2000	0.000000	0.000000					
Actual	2001	0.000000	0.000000					
Actual	2002	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2003	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2004	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2005	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2006	1.193690	0.000000	1.174442	0.019250	0.000000	23.608298	0.050562
Forecast	2007	1.455000	0.000000	1.292608	0.162662	0.000000	28.178298	0.051645
Forecast	2008	1.716000	0.000000	1.544212	0.172344	0.000000	32.920298	0.052143
Forecast	2009	1.982000	0.000000	1.819447	0.163663	0.000000	37.242298	0.053249

	Year	Net Coal Tax New Deposit Millions	New Deposit Long Term Rate	Non Pool STIP Rate	Non Pool STIP Bal Millions
Actual	2000	0.000000	6.3380%	5.4290%	0.000000
Actual	2001	0.000000	6.8850%	4.7390%	0.000000
Actual	2002	0.000000	6.3380%	2.5650%	0.000000
Actual	2003	0.000000	5.7290%	1.3600%	0.000000
Actual	2004	0.000000	5.3650%	1.2650%	0.000000
Actual	2005	0.000000	5.1950%	2.3890%	0.000000
Actual	2006	4.477691	5.2480%	4.0720%	0.608562
Forecast	2007	4.570000	5.4970%	4.6690%	0.608562
Forecast	2008	4.742000	5.7460%	4.5980%	0.608562
Forecast	2009	4.322000	5.9680%	4.5570%	0.608562

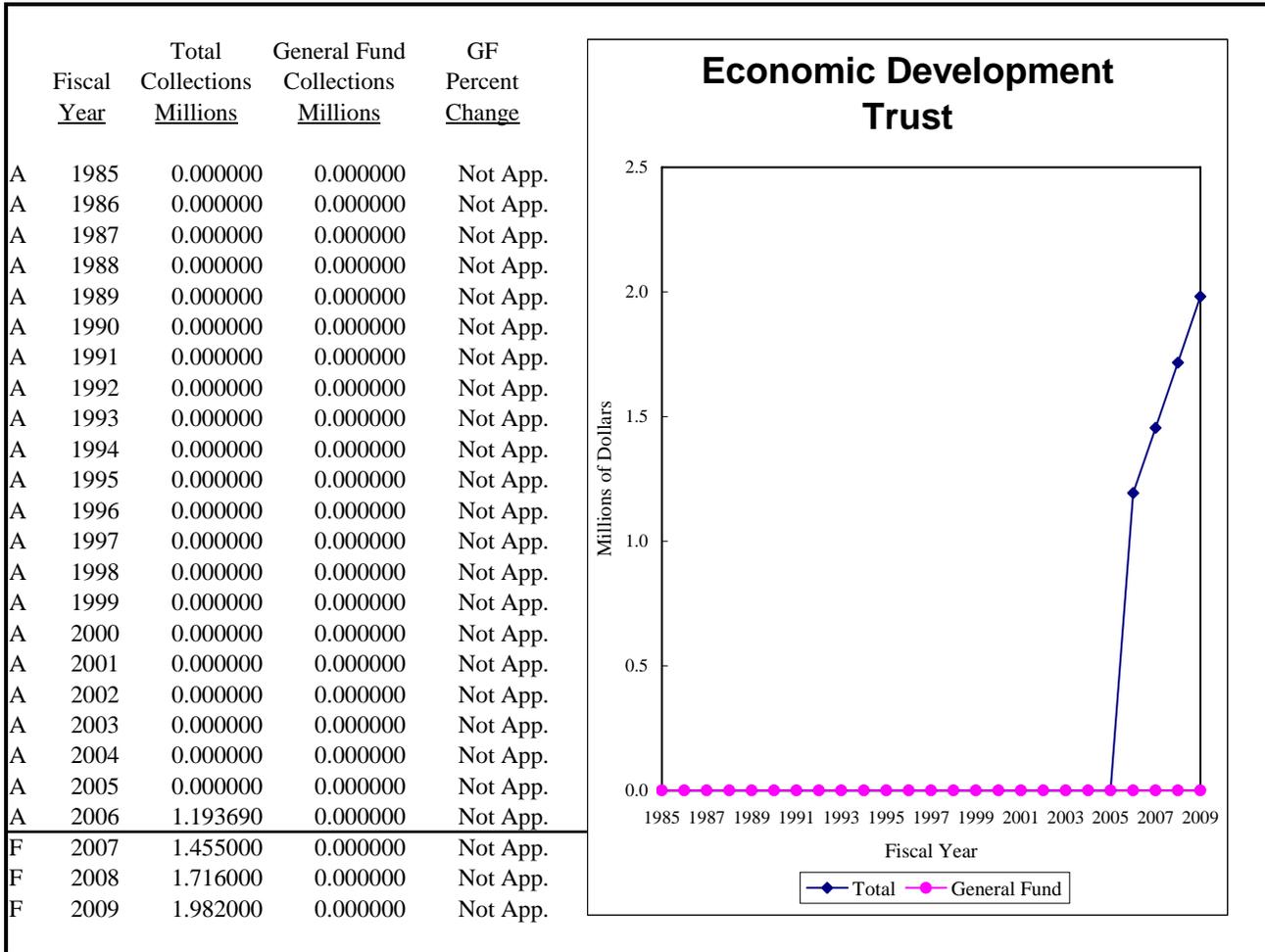
Total Rev. = Invested Balance \* Average Return

# Legislative Fiscal Division

## Revenue Estimate Profile

### Economic Development Trust Interest

#### Revenue Projection:



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Parks Trust Interest

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**Revenue Description:** Beginning in fiscal 1976, a portion of coal severance tax revenue was deposited into the Parks Acquisition and Arts Protection trust fund. The 1991 legislature split the principal of this trust into two separate trusts, the Parks Acquisition trust (parks trust) and the Arts Protection trust (cultural trust), with coal severance taxes allocated to each one. Except for fiscal 2003, the amount of 1.27 percent of coal tax revenues is statutorily allocated to the parks trust for the purpose of parks acquisition or management. The August 2002 special legislative session eliminated the allocation for fiscal 2003 only. Income from the parks trust must be appropriated for the acquisition, development, operation, and maintenance of state parks, state recreational areas, state monuments, and state historical sites under control of the Department of Fish, Wildlife and Parks.

#### Statutory Reference:

Tax Rate – NA  
Distribution (MCA) – 15-35-108(4)  
Date Due – NA

**Applicable Tax Rate(s):** N/A

**Distribution:** Interest earnings on the parks trust are allocated to the Department of Fish, Wildlife, and Parks and deposited to a state special revenue fund.

#### Distribution Chart:



**Summary of Legislative Action:** The 60th Legislature did not enact legislation that impacted this revenue source.

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

##### Data

The data used to estimate interest earnings from the parks trust are obtained from the Board of Investments (BOI), Global Insight, 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 Global Insight and historic interest collections are obtained from SABHRS.

##### Analysis

The parks trust, formed in the late 1970's, was created from distributions of the coal severance tax. The parks trust receives coal tax distributions at the rate of 1.27 percent of the total tax. In one year of budget stress, the coal tax distribution to the parks trust was temporarily eliminated. The principal or corpus of the parks trust now stands at \$17.4 million, as demonstrated by the line in the figure below. Estimates of future deposits to the parks trust are developed in the coal severance tax projection and are expected to be \$465,000 in fiscal 2007, \$479,000 in fiscal 2008, and \$459,000 in fiscal 2009.

To forecast the parks trust interest earnings, each of three interest/income components are estimated independently and combined. The estimated interest/income components include:

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

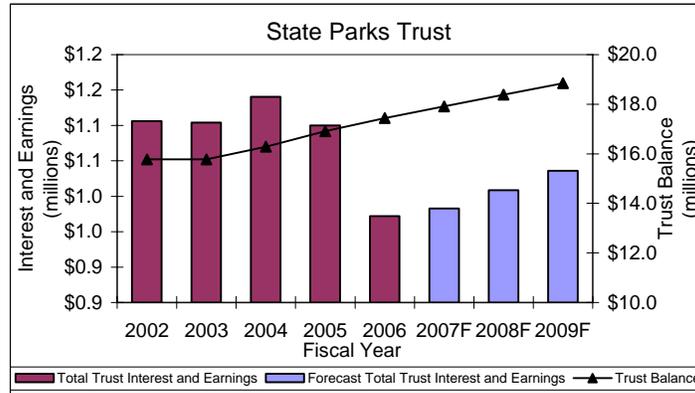
The TFBP was formed in 1995 to manage the fixed investments held in the state's major trust funds. Each trust owns "shares" of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. To estimate TFBP earnings, the base year (fiscal 2006) rate of return generated by the pool, as reported by

# Legislative Fiscal Division

## Revenue Estimate Profile

### Parks Trust Interest

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 Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal years 2007 through 2009, respectively. Parks trust earnings from TFBP interest are expected to be \$946,197 in fiscal 2007, \$971,758 in fiscal 2008, and \$999,281 in fiscal 2009.

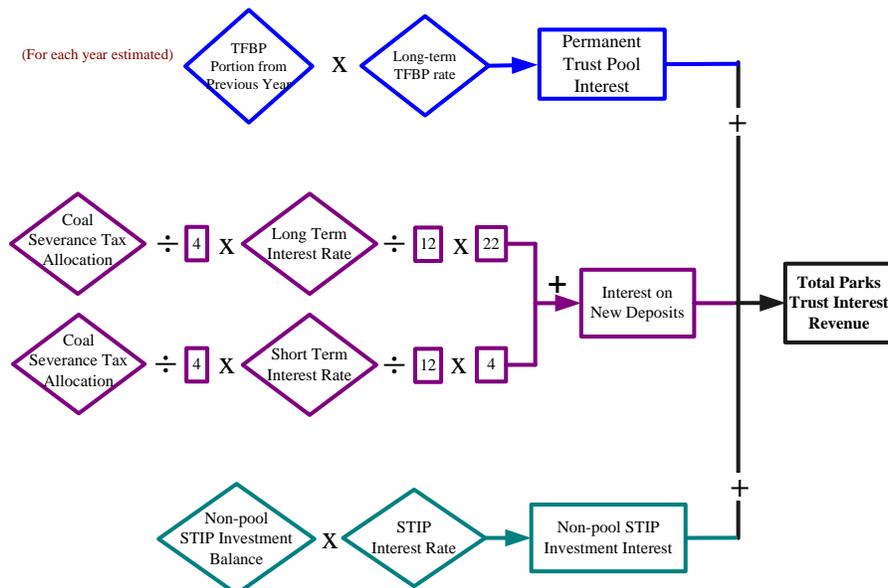


STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed, based on Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$22,925; \$22,577; and \$22,376 for fiscal years 2007 through 2009.

The 1.27 percent coal severance tax distribution to the parks trust is 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. For the parks trust, new deposits are expected to earn interest of \$13,525; \$14,450; and \$14,298 for fiscal years 2007 through fiscal 2009, respectively.

When the estimates are combined, the interest earnings of the parks trust are expected to be \$982,647 in fiscal 2007, \$1,008,785 in fiscal 2008, and \$1,035,955 in fiscal 2009.

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Parks Trust Interest

#### 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 2007 legislature that may affect future estimates of this revenue source.

	<u>t</u>	<u>Total Rev.</u>	<u>GF Rev.</u>	<u>TFBP</u>	<u>STIP</u>	<u>Invested</u>	<u>Average</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Interest</u>	<u>Interest</u>	<u>Balance</u>	<u>Return</u>
				<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Rate</u>
Actual	2000	1.050621	0.000000				
Actual	2001	1.083002	0.000000				
Actual	2002	1.105962	0.000000	1.100417	0.005545		
Actual	2003	1.115050	0.000000	1.101342	0.002596		
Actual	2004	1.140447	0.000000	1.138429	0.002019	16.189248	0.070445
Actual	2005	1.100104	0.000000	1.095405	0.004699	16.772286	0.065591
Actual	2006	0.971827	0.000000	0.957207	0.014619	17.305023	0.056159
Forecast	2007	0.983000	0.000000	0.946197	0.036450	17.770023	0.055298
Forecast	2008	1.009000	0.000000	0.971758	0.037027	18.249023	0.055279
Forecast	2009	1.036000	0.000000	0.999281	0.036674	18.708023	0.055375

	<u>t</u>	<u>Net Coal Tax</u>	<u>New Deposit</u>	<u>Non Pool</u>	<u>Non Pool</u>
	<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	2000	0.450466	6.3380%	5.4290%	0.301775
Actual	2001	0.410682	6.8850%	4.7390%	0.177151
Actual	2002	0.401498	6.3380%	2.5650%	0.308519
Actual	2003	0.000000	5.7290%	1.3600%	0.140270
Actual	2004	0.400617	5.3650%	1.2650%	0.328045
Actual	2005	0.477958	5.1950%	2.3890%	0.236285
Actual	2006	0.454933	5.2480%	4.0720%	0.469081
Forecast	2007	0.465000	5.4970%	4.6690%	0.469081
Forecast	2008	0.479000	5.7460%	4.5980%	0.469081
Forecast	2009	0.459000	5.9680%	4.5570%	0.469081

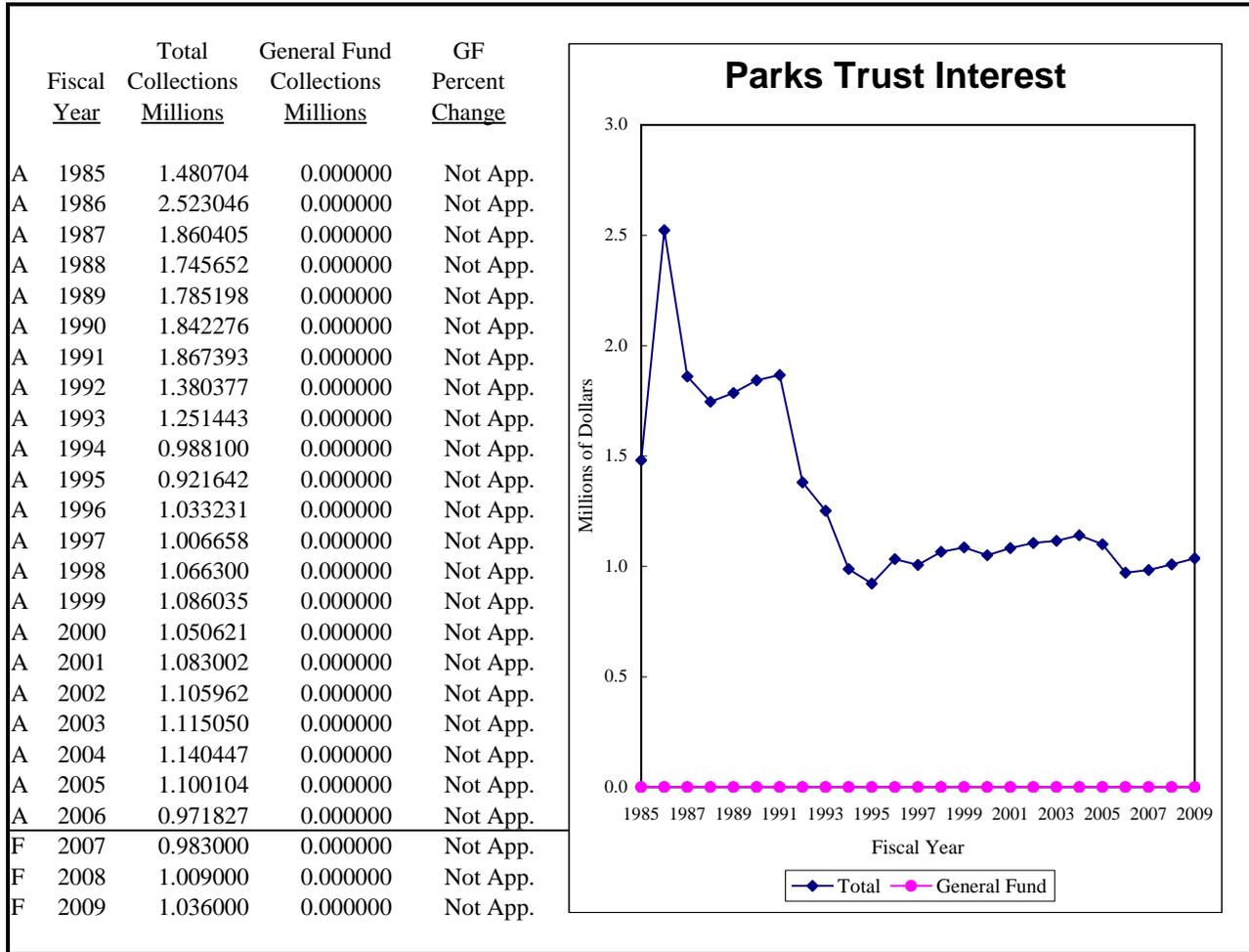
Total Rev. = Invested Balance \* Average Return

# Legislative Fiscal Division

## Revenue Estimate Profile

### Parks Trust Interest

#### Revenue Projection:



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

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**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 the support of the Pine Hills youth correctional facility. Thus, some of these funds are deposited into a component of the trust and legacy trust fund referred to as the Pine Hills 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.

In accordance with statute, 3.0 percent of Pine Hills interest and income is diverted to the Department of Natural Resources and Conservation (DNRC) to be used for resource development purposes. 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. In addition, a portion of timber sale revenue is diverted to fund a portion of DNRC's timber program. The amount of the money diverted from the Pine Hills trust reduces the growth of the trust fund balance and, hence, reduces the amount of distributable interest earnings.

#### Statute:

Tax Rate – NA

Distribution (MCA) – 17-3-1003

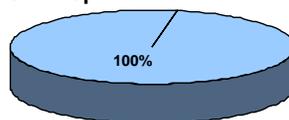
Other (MCA) – DNRC trust land administration diversion (77-1-109)  
DNRC timber sale program diversion (77-1-613)  
DNRC land bank administration diversion (77-2-362)  
DNRC resource development diversion (77-1-607)  
DNRC commercial lease diversion (77-1-905)  
Enabling Act, Sections 11 & 17

**Applicable Tax Rate(s):** N/A

**Distribution:** Interest and income from the trust, net of amounts to fund DNRC administration, is allocated to the Department of Corrections for support of the Pine Hills youth correctional facility.

#### Distribution Chart:

State Special Revenue Fund



**Summary of Legislative Action:** The 60th Legislature did not enact legislation that impacted this revenue source.

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

The estimate for interest and income from the Pine Hills trust is conducted with the goal of deriving the net amount of revenue that will be distributed to the trust beneficiary. This means that in addition to estimating the various distributable revenues from the capital land grant trust, estimates of the various diversions that reduce the amount of distributable 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 timber and mineral royalties), is estimated as part of the entire Trust and Legacy account (T & L) and earnings are portioned to this trust according to the number of shares owned.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

#### Data

Data from 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 provide additional information such as mineral prices and production and timber estimates. Budget submissions on the state budgeting system (MBARS) provide anticipated amount of diversions.

#### Analysis

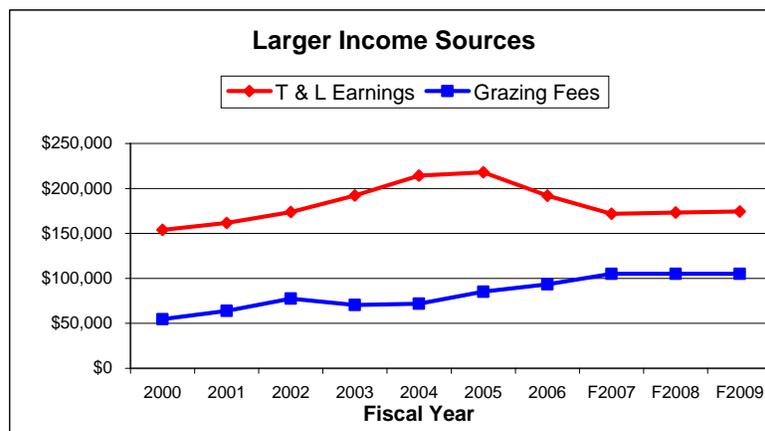
The estimate is derived by first estimating the distributable revenue components and then estimating the amounts of the diversions.

#### Revenue Components

1. 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. For the Pine Hills trust, the actual FY 2006 share percentage of 0.7 is used. The estimation of the total pool earnings is a three stage process:
  - Earnings from new deposits – New deposits in the pool are estimated to be \$6.5 million in FY 2007 and \$1.5 million each year thereafter. This additional money initially earns interest at the short-term rate (4.7 percent) before it is invested in a longer term investment (5.5 percent).
  - Earnings from existing balance – The pool balance in FY 2006 was \$423.2 million. These funds have been invested in bonds purchased over the past several year and average slightly higher rates of return (5.63 percent) than more recently purchased bonds.
  - Non-portfolio earnings – Money not invested in the trust funds bond pool earns interest at the short-term rate of 4.8 percent on a balance of \$3.9 million, the actual balance from FY 2006.

Once the total amount of the pool earnings has been estimated by summing the above three items, the Pine Hills trust share of 0.7 percent is applied.

2. Grazing Fees – Rates are tied to the price of cattle. With the currently high cattle prices, FY 2007 grazing rates were increased by \$0.75 per animal unit month. DNRC personnel anticipate that cattle prices will remain strong in FY 2007 increasing revenues above FY 2006 levels, but will soften in the next biennium (see the figure below). Based on this information and cattle futures markets, the FY 2007 estimate increases 12.65 percent from FY 2006 and stays constant for the 2009 biennium.



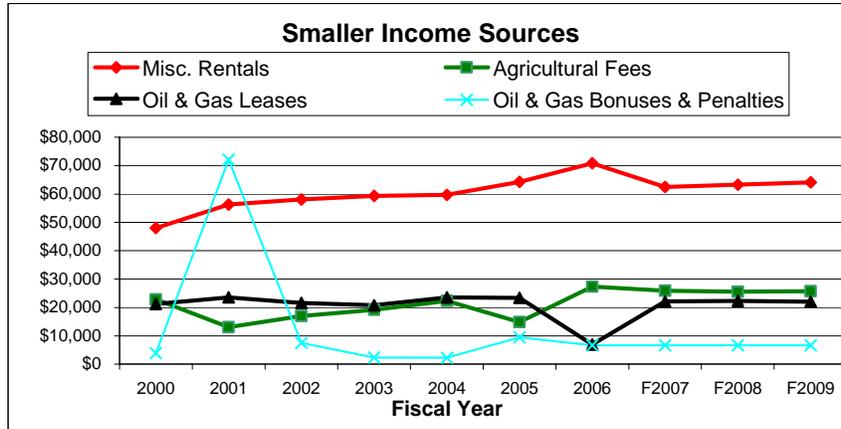
3. Miscellaneous Rentals - These are small income components that are combined and estimated together. For each fiscal year estimated, the estimate is based on the average annual growth rate of the previous four years with the highest and lowest amounts removed.
4. Agricultural Fees – Fees are based on a crop share basis. Although prices are currently high, production is down. DNRC personnel anticipate that prices will remain strong in the next biennium, but overall revenue will decline slightly from FY 2006 levels (see the figure below). Based on this information and crop futures markets, revenue declines 5.4 percent in FY 2007, declines 1.1 percent in FY 2008 and increases 0.6 percent in FY 2009.
5. Oil & Gas Leases – For each fiscal year estimated, the estimate is the average of the previous three years.

# Legislative Fiscal Division

## Revenue Estimate Profile

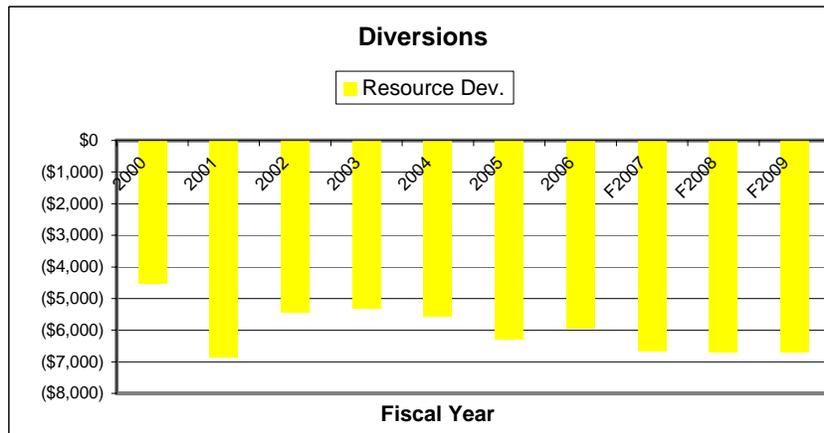
### Pine Hills Interest and Income

6. Oil & Gas Bonuses & Penalties - For each fiscal year estimated, the estimate continues the amount from FY 2006.



#### Diversions

Diversions fund operational costs in DNRC, but reduce the amount of revenue distributed to the trust beneficiaries (see the figure below). To determine future diversion amounts, DNRC's present law budget amounts are used. The only diversion that affects distributable revenue is the three percent of all income from the trust that is diverted to an account to fund resource development on the trust lands.



#### Adjustments and Distribution

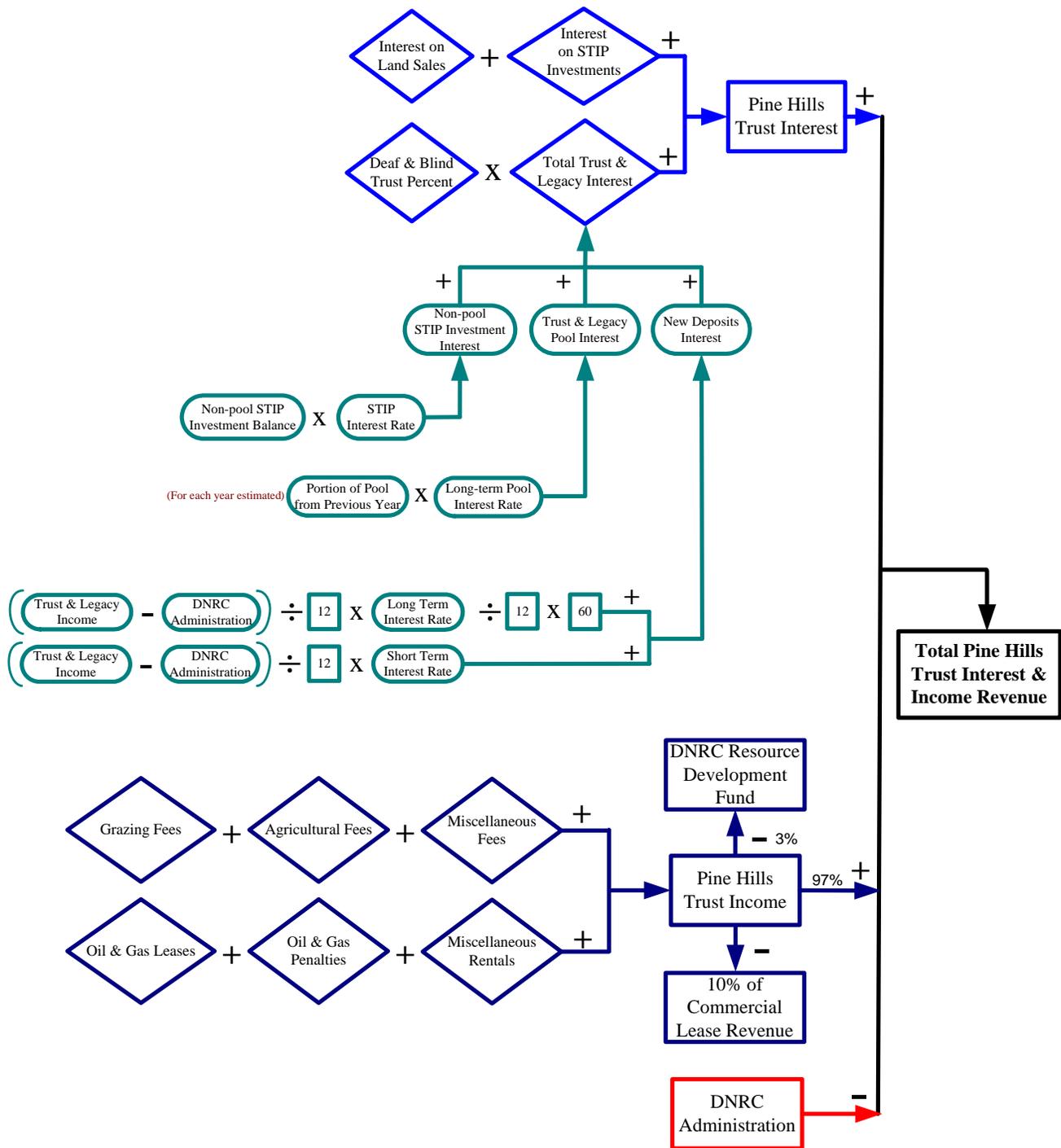
Once total revenue and total diversions have been estimated, the net amounts are distributed 100 percent to the state special revenue fund.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

#### Forecast Methodology:



#### 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 2007 legislature that may affect future estimates of this revenue source.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

t	Total Rev.	GF Rev.	TFBP	STIP	Pine	
Fiscal	Millions	Millions	Interest	Interest	Hills Share	
			Millions	Millions	T&L	
Actual	2000	0.304760	0.000000		0.006048	
Actual	2001	0.390483	0.000000		0.006167	
Actual	2002	0.355497	0.000000	29.627056	0.102664	0.005835
Actual	2003	0.364450	0.000000	29.146744	0.068370	0.006580
Actual	2004	0.394224	0.000000	30.087011	0.053502	0.007114
Actual	2005	0.415343	0.000000	28.106281	0.269698	0.007114
Actual	2006	0.396937	0.000000	24.428206	0.408162	0.007114
Forecast	2007	0.387000	0.000000	23.781663	0.363942	0.007114
Forecast	2008	0.389000	0.000000	24.148202	0.225490	0.007114
Forecast	2009	0.391000	0.000000	24.280867	0.225102	0.007114

t	Trust Income	Trust Land	New Deposit	Non Pool	Non Pool	
Fiscal	New Deposit	Admin.	Long Term	STIP	STIP Bal	
	Millions	Millions	Rate	Rate	Millions	
Actual	2000	10.969295		7.0160%	5.4290%	11.676486
Actual	2001	12.667780	0.000000	6.8850%	4.7390%	6.984553
Actual	2002	2.348339	0.000000	6.3380%	2.5650%	7.334239
Actual	2003	2.363355	0.000000	5.7290%	1.3600%	6.242273
Actual	2004	2.971526	0.000000	5.3650%	1.2650%	7.049634
Actual	2005	1.457756	0.000000	5.1950%	2.3890%	12.106697
Actual	2006	1.425106	0.000000	5.2480%	4.0720%	3.862666
Forecast	2007	6.537106	0.000000	5.4970%	4.6690%	3.862666
Forecast	2008	1.425106	0.000000	5.7460%	4.5980%	3.862666
Forecast	2009	1.425106	0.000000	5.9680%	4.5570%	3.862666

t	Grazing	Agriculture	Misc.	O&G Lease	O&G Bonus	O&G Penalty	Misc.	
Fiscal	Millions	Millions	Millions	Millions	Millions	Millions	Millions	
Actual	2000	0.054682	0.022855	0.047965	0.021231	0.000000	0.003895	0.000000
Actual	2001	0.063912	0.013002	0.056236	0.023526	0.066599	0.005510	0.000000
Actual	2002	0.077707	0.016967	0.058062	0.021550	0.000000	0.007482	0.000000
Actual	2003	0.070606	0.019163	0.059332	0.020743	0.000000	0.002359	0.000000
Actual	2004	0.071968	0.022278	0.059705	0.023583	0.000000	0.002283	0.000000
Actual	2005	0.085325	0.014803	0.064296	0.023390	0.000590	0.008881	0.000000
Actual	2006	0.093321	0.027332	0.070787	0.006895	0.002960	0.003690	0.000000
Forecast	2007	0.105126	0.025856	0.062436	0.022088	0.002960	0.003690	0.000000
Forecast	2008	0.105126	0.025572	0.063311	0.022259	0.002960	0.003690	0.000000
Forecast	2009	0.105126	0.025725	0.064107	0.022006	0.002960	0.003690	0.000000

t	Int. Land	Int. STIP	Int. Trust	Timber	Res. Dev.	
Fiscal	Millions	Millions	Millions	Millions	Millions	
Actual	2000	0.000000	0.000086	0.154047	0.000000	-0.004521
Actual	2001	0.000000	0.000000	0.161698	0.000000	-0.006864
Actual	2002	0.000000	0.000000	0.173729	0.000000	-0.005450
Actual	2003	0.000000	0.000000	0.192247	0.000000	-0.005326
Actual	2004	0.000000	0.000000	0.214407	0.000000	-0.005561
Actual	2005	0.000000	0.000000	0.218058	0.000000	-0.006300
Actual	2006	0.000000	0.000000	0.191952	0.000000	-0.005931
Forecast	2007	0.000000	0.000000	0.171772	0.000000	-0.006665
Forecast	2008	0.000000	0.000000	0.173394	0.000000	-0.006688
Forecast	2009	0.000000	0.000000	0.174335	0.000000	-0.006708

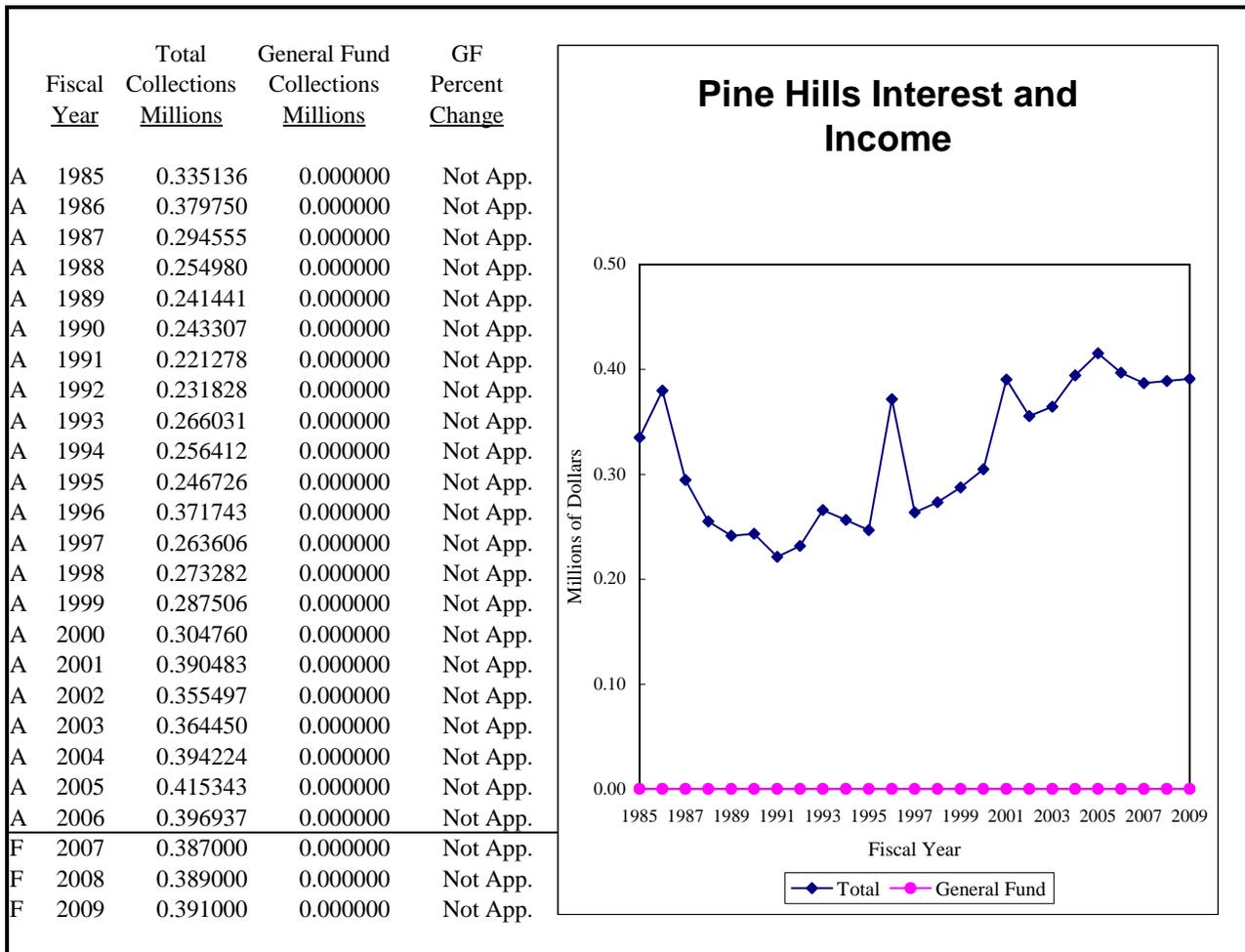
Total Rev. = Grazing + Agriculture + O&G Lease + O&G Bonus + O&G Penalty + Misc. +  
Int. Land + Int. Stip + Int. Trust + Timber + Res. Dev.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

#### Revenue Projection:



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Regional Water Trust Interest

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**Revenue Description:** The 1999 legislature (Senate Bill 220) created the Treasure State Endowment (TSE) Regional Water System Fund within the permanent coal tax trust fund. The fund receives 12.5 percent of total coal severance tax collections through June 2016. Interest earned on the fund is used to provide matching funds to plan and construct regional drinking water systems in Montana and fund state and local entity administrative expenses. Except for administrative expenses, each state dollar must be matched equally by local funds. The funds in the account are further restricted to finance regional drinking water systems from the waters of the Tiber reservoir and the Missouri River within specific geographic areas. The program terminates the end of June 2016.

#### **Statutory Reference:**

Tax Rate – NA  
Distribution (MCA) – 17-5-703 (4b); use of earnings (90-6-715)  
Date Due (MCA) – monthly (17-5-703(4d))

**Applicable Tax Rate(s):** NA

**Distribution:** Interest earnings are deposited to a state special revenue fund and appropriated to the Department of Natural Resources and Conservation to fund eligible projects and pay administrative expenses.

#### Distribution Chart:



**Summary of Legislative Action:** The 60th Legislature did not enact legislation that impacted this revenue source.

**% of Total General Fund Revenue:** N/A

#### **Revenue Estimate Methodology:**

##### Data

The data used to estimate interest earnings from the regional water trust are obtained from the Board of Investments (BOI), Global Insight, 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 Global Insight and historic interest collections are obtained from SABHRS.

##### Analysis

The regional water trust was created from distributions of the coal severance tax. The regional water trust was formed in 2000 as a sub-trust to the permanent coal trust. The Constitution requires that 50 percent of the coal severance tax collections be distributed to the coal trust, and 25 percent of that distribution (after the water bond debt service obligation is met) or 12.5 percent of total coal severance tax revenues is distributed to the regional water trust. The principal or corpus of the regional water trust now stands at \$30.7 million. Estimates of future deposits to the trust are developed in the coal severance tax projection and are expected to be \$4.6 million in fiscal 2007, \$4.7million in fiscal 2008, and \$4.3 million in fiscal 2009.

To forecast the regional water trust interest earnings, each of three interest/income components are estimated independently and combined. The estimated interest/income components include:

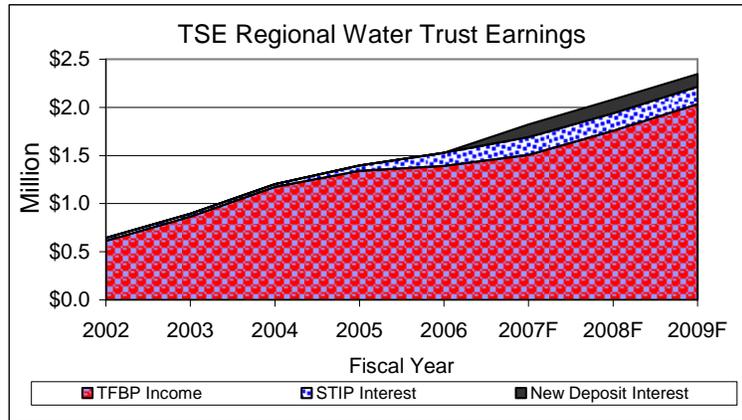
- Trust fund bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

# Legislative Fiscal Division

## Revenue Estimate Profile

### Regional Water 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 (fiscal 2006) 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 Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal years 2007 through 2009, respectively. Regional water trust earnings from TFBP interest are expected to be \$1.50 million in fiscal 2007, \$1.75 million in fiscal 2008, and \$2.03 million in fiscal 2009.



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 Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$186,972; \$184,130; and \$182,489 for fiscal years 2007 through 2009, respectively.

Coal severance tax distributions to the regional water 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. For the regional water trust, new deposits are expected to earn interest of \$132,920; \$143,054; and \$134,634 for fiscal years 2007 through fiscal 2009, respectively.

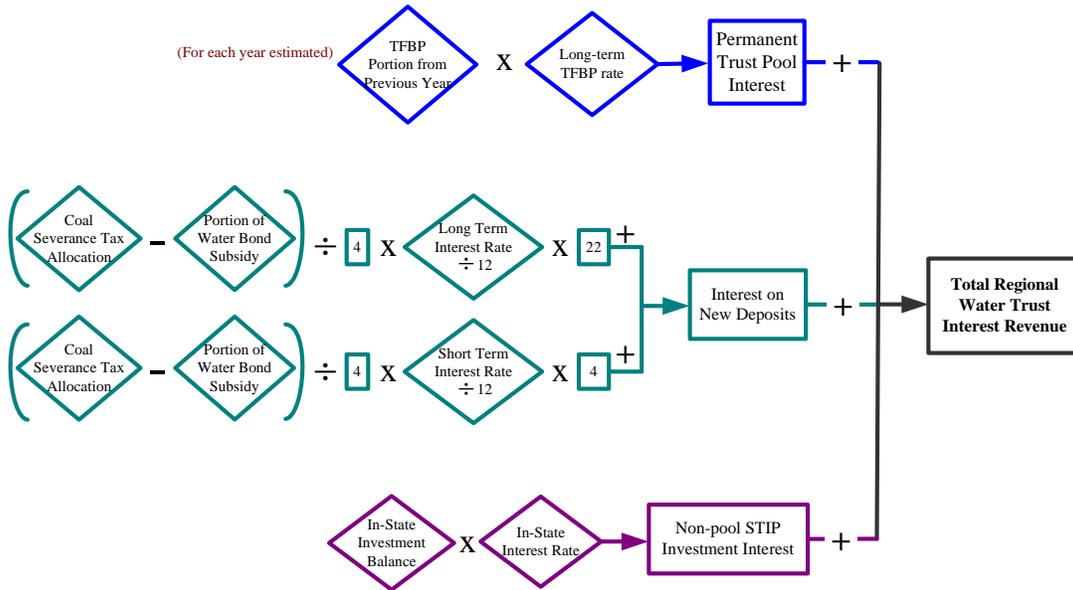
When the estimates are combined, the interest earnings of the regional water trust are expected to be \$1.82 million in fiscal 2007, \$2.08 million in fiscal 2008, and \$2.35 million in fiscal 2009.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Regional Water Trust Interest

#### Forecast Methodology:



#### 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 2007 legislature that may affect future estimates of this revenue source.

	t	Total Rev.	GF Rev.	TFBP	STIP	Loan	Invested	Average
	Fiscal	Millions	Millions	Interest	Interest	Interest	Balance	Return
				Millions	Millions	Millions	Millions	Rate
Actual	2000	0.032058	0.000000					
Actual	2001	0.370163	0.000000					
Actual	2002	0.643133	0.000000	0.610527	0.032606	0.000000		
Actual	2003	0.894258	0.000000	0.864661	0.029598	0.000000		
Actual	2004	1.201061	0.000000	1.173660	0.027401	0.000000	20.942460	0.057351
Actual	2005	1.396302	0.000000	1.340362	0.055941	0.000000	24.913396	0.056046
Actual	2006	1.527443	0.000000	1.390830	0.136614	0.000000	30.573159	0.049960
Forecast	2007	1.823000	0.000000	1.503235	0.319892	0.000000	35.143159	0.051877
Forecast	2008	2.082000	0.000000	1.754903	0.327184	0.000000	39.885159	0.052202
Forecast	2009	2.348000	0.000000	2.030587	0.317123	0.000000	44.207159	0.053107

	t	Net Coal Tax	New Deposit	Non Pool	Non Pool
	Fiscal	New Deposit	Long Term	STIP	STIP Bal
		Millions	Rate	Rate	Millions
Actual	2000	4.433724	6.3380%	5.4290%	3.441977
Actual	2001	4.042147	6.8850%	4.7390%	0.845223
Actual	2002	3.951756	6.3380%	2.5650%	1.578601
Actual	2003	3.677943	5.7290%	1.3600%	1.894047
Actual	2004	3.943085	5.3650%	1.2650%	2.693965
Actual	2005	4.704314	5.1950%	2.3890%	2.765447
Actual	2006	4.477691	5.2480%	4.0720%	3.825680
Forecast	2007	4.570000	5.4970%	4.6690%	3.825680
Forecast	2008	4.742000	5.7460%	4.5980%	3.825680
Forecast	2009	4.322000	5.9680%	4.5570%	3.825680

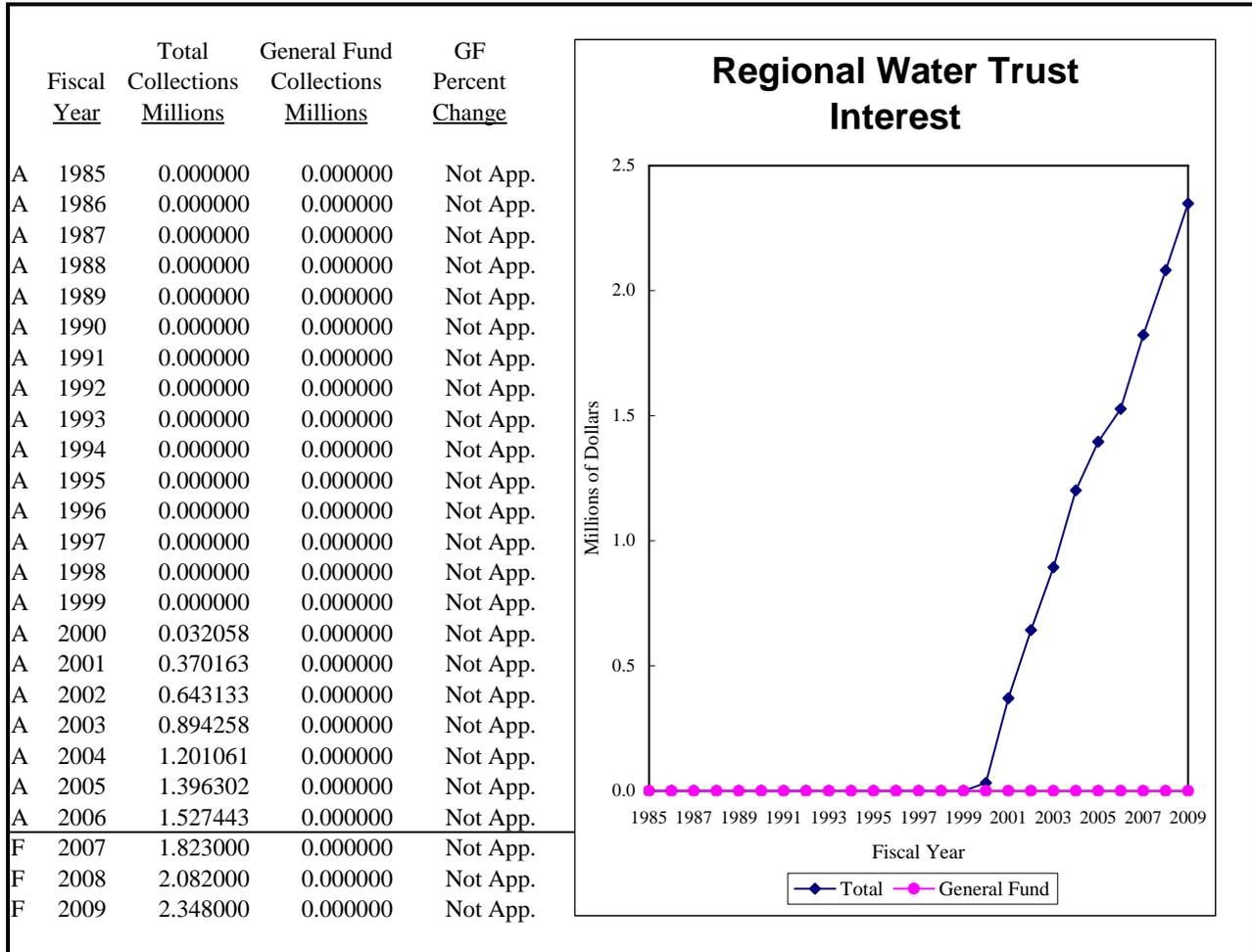
Total Rev. = Invested Balance \* Average Return

# Legislative Fiscal Division

## Revenue Estimate Profile

### Regional Water Trust Interest

#### Revenue Projection:



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

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**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 \$100.0 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.

Prior to July 1, 2002 when the Governor by executive order certified to the Secretary of State that the RIT balance had reached \$100 million, 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) \$3.5 million annually to the natural resources projects state special revenue account for distribution as grants;
- 4) \$300,000 annually to the ground water assessment account to improve ground water management and protection;
- 5) \$500,000 annually to the future fisheries program for bull trout and cutthroat trout recovery;
- 6) \$175,000 annually to the environmental contingency fund which is statutorily appropriated upon authorization of the Governor for unanticipated public needs arising from certain disasters and emergencies [and for natural resource restoration (valid only for the 2009 biennium)]; and
- 7) of the remaining RIT interest earnings: a) 65 percent to the natural resources operations state special revenue account for program and administrative costs; b) 26 percent to the hazardous waste/CERCLA state special revenue account for superfund activities; and c) 9.0 percent to the environmental quality protection state special revenue fund for additional clean-up activities.

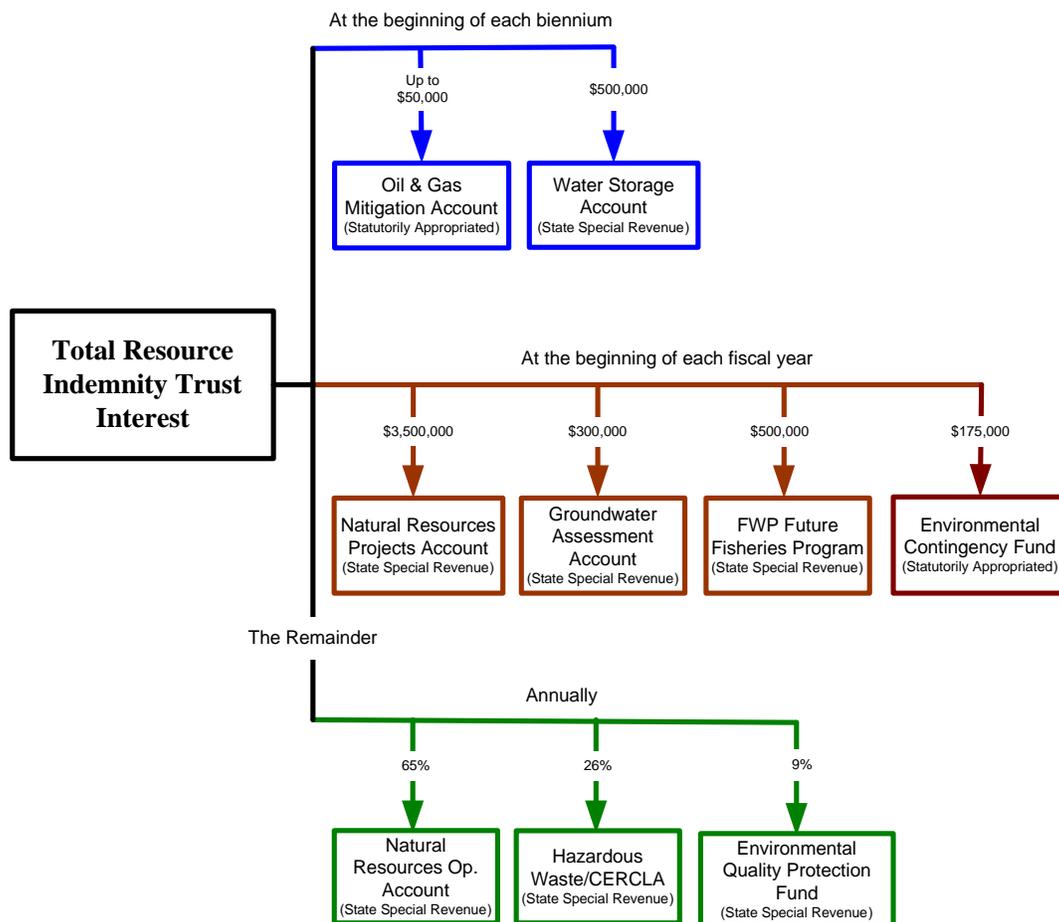
The Department of Natural Resources and Conservation administers two of the RIT interest accounts which are used for grants, loans, and administrative costs: the natural resources projects account and the natural resources operations account. These accounts also receive funding from other sources. All grants and loans made from these accounts require legislative approval. Grants must also be appropriated.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

Distribution Chart:



### Summary of Legislative Action:

House Bill 116 – In addition to changing the distribution of “Resource Indemnity Trust Interest” revenue, this legislation also changes the oil and natural gas production tax revenue and the distribution of the resource indemnity tax revenue. The revenue effects and details of the latter changes are shown in the “Oil & Natural Gas Production Tax” and “Resource Indemnity Tax” revenue source sections. The legislation repeals the renewable resource grant and loan program account and the reclamation and development grants account. It creates the natural resources operations account (to fund administration and operating costs) and the natural resources projects account (to fund grants and loans). Allocations of RIT interest are changed:

- The biennial \$175,000 allocation to the environmental contingency account is changed to an annual allocation, thus doubling the revenue allocation and the amount statutorily appropriated
- The use of the environmental contingency account is expanded to include natural resource restoration and remediation, but only for the 2009 biennium
- The annual allocation to the natural resources operations account (formerly the renewable resource grant and loan program account) is increased from \$2.0 million to \$3.5 million
- The annual \$1.5 million allocation to the former reclamation and development grants account is eliminated
- The annual \$240,000 allocation to the MSU Northern environmental sciences account and its statutory appropriation are eliminated
- The June 30, 2009 termination date for the \$500,000 annual allocation for the future fisheries program is removed
- The 35 percent allocation of the remainder to the former renewable resource grant and loan program account is eliminated
- The 30 percent allocation of the remainder to the natural resources operations account (formerly the reclamation and development grants account) is increased to 65 percent.

The legislation is effective July 1, 2007.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

Senate Bill 489 – The legislation submits a constitutional amendment to Montana voters. If approved by the electorate, it would allow the Board of Investments to invest up to 25 percent of public funds in private corporate capital stock. Retirement funds can already be invested in private corporate capital stock and would not be bound by the 25 percent limit. The state compensation insurance fund assets can already be invested in private corporate capital stock and are currently bound by the 25 percent limit. Assets of funds such as the common school fund, permanent funds of the Montana university system, resource indemnity trust, tobacco settlement trust, and the coal severance trust funds would be subject to the constitutional amendment. Fiscal impacts of SB 489 are unknown. The amendment is effective upon approval by the electorate.

RIT Trust Interest -- Legislation Passed by 60th Legislature			
Estimated General Fund Impact for Fiscal 2007,2008,2009			
<u>Bill Number and Short Title</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>
HB0116 Revise RIT funding laws			
Total Estimated General Fund Impact	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**% 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), Global Insight, 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 Global Insight 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 fiscal 2002. As a result, the trust no longer receives new income from tax distributions. The trust does receive any excess revenue available from collections of the RIGWA tax at the end of the fiscal year. The principal or corpus of the resource indemnity trust now stands at \$100.023 million, as shown by the line in the figure below. No new deposits are anticipated for the trust.

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

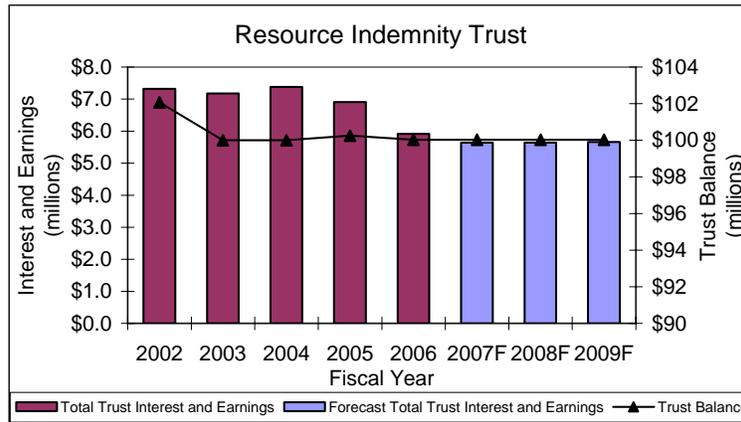
- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits (if anticipated)

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 (fiscal 2006) 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 Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal years 2007 through 2009, respectively. RIT trust earnings from TFBP interest are expected to be \$5.62 million in fiscal 2007, \$5.622 million in fiscal 2008, and \$5.63 million in fiscal 2009.

# Legislative Fiscal Division

## Revenue Estimate Profile

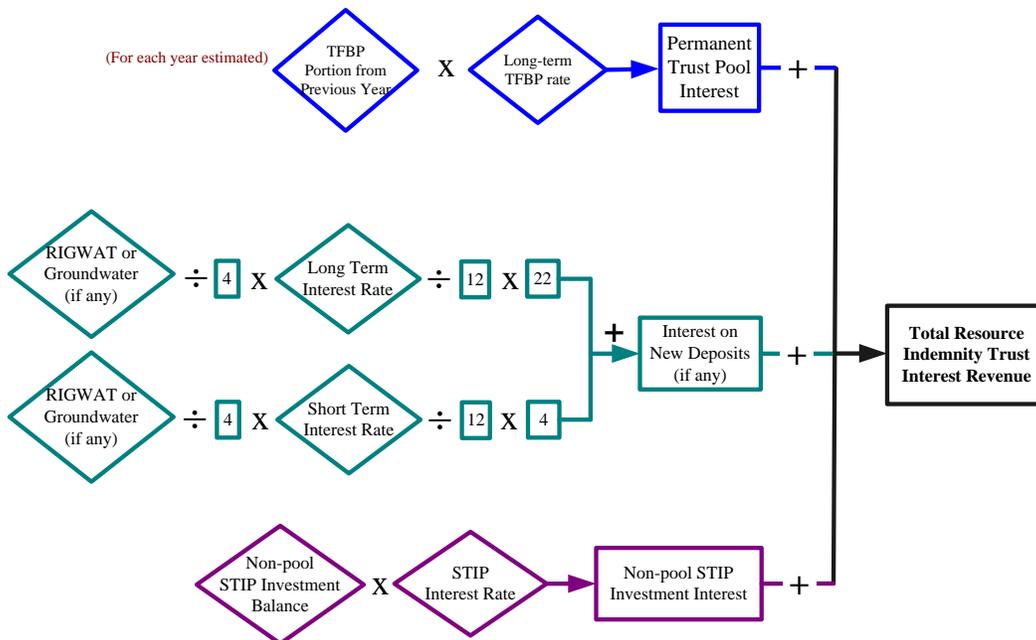
### Resource Indemnity Trust Interest



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 Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$24,753; \$24,377; and \$24,160 for fiscal years 2007 through 2009.

As mentioned earlier, no new deposits are anticipated for the 2009 biennium. When the estimates are combined, the interest earnings of the RIT trust are expected to be \$5.64 million in fiscal 2007, \$5.65 million in fiscal 2008, and \$5.66 million in fiscal 2009.

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

#### 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 2007 legislature that may affect future estimates of this revenue source.

	Year	Total Rev. Millions	GF Rev. Millions	TFBP Interest Millions	STIP Interest Millions	Invested Balance Millions	Average Return Rate
Actual	2000	9.184060	0.000000				
Actual	2001	7.305993	0.000000				
Actual	2002	7.320563	0.000000	7.286083	0.034480		
Actual	2003	7.174342	0.000000	7.161271	0.013072		
Actual	2004	7.380242	0.000000	7.375168	0.005073	100.644275	0.073330
Actual	2005	6.247097	0.000000	6.889636	0.012289	100.909672	0.068397
Actual	2006	5.915563	0.000000	5.896878	0.018684	100.506457	0.058858
Forecast	2007	5.645000	0.000000	5.620099	0.024753	100.506457	0.056164
Forecast	2008	5.646000	0.000000	5.621799	0.024377	100.506457	0.056177
Forecast	2009	5.658000	0.000000	5.633799	0.024160	100.506457	0.056294

	Year	Net Tax New Deposit Millions	New Deposit Long Term Rate	Non Pool STIP Rate	Non Pool STIP Bal Millions
Actual	2000	3.391472	6.3380%	5.4290%	3.712675
Actual	2001	2.205880	6.8850%	4.7390%	1.557391
Actual	2002	1.588631	6.3380%	2.5650%	2.175871
Actual	2003	0.000000	5.7290%	1.3600%	0.740511
Actual	2004	-0.000188	5.3650%	1.2650%	0.644299
Actual	2005	0.252454	5.1950%	2.3890%	0.909696
Actual	2006	0.000000	5.2480%	4.0720%	0.506481
Forecast	2007	0.000000	5.4970%	4.6690%	0.506481
Forecast	2008	0.000000	5.7460%	4.5980%	0.506481
Forecast	2009	0.000000	5.9680%	4.5570%	0.506481

	Year	Hazardous Waste Millions	Environmental Quality Millions	Renewable Resource Millions	Reclamation Development Millions	Environmental Contingency Millions
Actual	2000	0.941319	0.319852	3.721445	3.176444	0.175000
Actual	2001	0.796322	0.274126	3.259425	2.676120	0.000000
Actual	2002	0.534446	0.185001	3.356669	2.219447	0.175000
Actual	2003	0.678555	0.231326	3.026507	2.587954	0.000000
Actual	2004	0.564353	0.192393	2.894137	2.354359	0.175000
Actual	2005	0.474561	0.161782	2.790060	2.170694	0.000000
Actual	2006	0.169146	0.058551	2.435169	1.727697	0.175000
Forecast	2007	0.287300	0.099450	2.571500	1.886750	0.000000
Forecast	2008	0.099060	0.034290	2.354300	1.633350	0.175000
Forecast	2009	0.290680	0.100620	2.575400	1.891300	0.000000

# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

	<u>Fiscal</u>	<u>Water Storage</u> <u>Millions</u>	<u>Oil &amp; Gas</u> <u>Receipts</u> <u>Millions</u>	<u>FWP</u> <u>Receipts</u> <u>Millions</u>	<u>Groundwater</u> <u>Receipts</u> <u>Millions</u>
Actual	2000	0.500000	0.050000	0.000000	0.300000
Actual	2001	0.000000	0.000000	0.000000	0.300000
Actual	2002	0.500000	0.050000	0.000000	0.300000
Actual	2003	0.000000	0.000000	0.350000	0.300000
Actual	2004	0.500000	0.050000	0.350000	0.300000
Actual	2005	0.000000	0.000000	0.350000	0.300000
Actual	2006	0.500000	0.050000	0.500000	0.300000
Forecast	2007	0.000000	0.000000	0.500000	0.300000
Forecast	2008	0.500000	0.050000	0.500000	0.300000
Forecast	2009	0.000000	0.000000	0.500000	0.300000

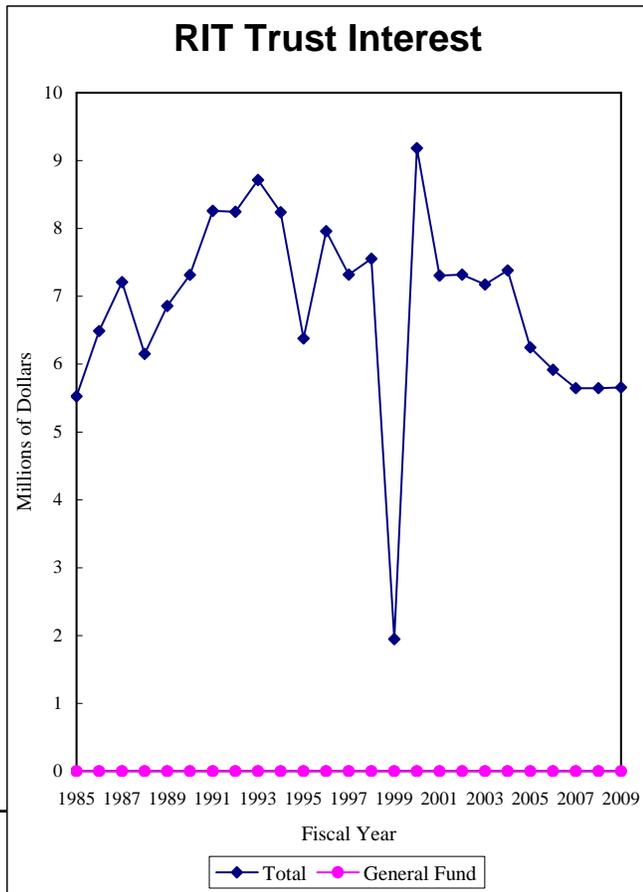
Total Rev. = Invested Balance \* Average Return

#### Revenue Projection:

<u>Fiscal</u> <u>Year</u>	<u>Total</u> <u>Collections</u> <u>Millions</u>	<u>General Fund</u> <u>Collections</u> <u>Millions</u>	<u>GF</u> <u>Percent</u> <u>Change</u>
A 1985	5.526373	0.000000	Not App.
A 1986	6.487967	0.000000	Not App.
A 1987	7.208545	0.000000	Not App.
A 1988	6.149783	0.000000	Not App.
A 1989	6.858164	0.000000	Not App.
A 1990	7.316096	0.000000	Not App.
A 1991	8.260874	0.000000	Not App.
A 1992	8.245914	0.000000	Not App.
A 1993	8.715126	0.000000	Not App.
A 1994	8.239056	0.000000	Not App.
A 1995	6.380294	0.000000	Not App.
A 1996	7.959843	0.000000	Not App.
A 1997	7.318083	0.000000	Not App.
A 1998	7.555620	0.000000	Not App.
A 1999	1.948278	0.000000	Not App.
A 2000	9.184060	0.000000	Not App.
A 2001	7.305993	0.000000	Not App.
A 2002	7.320563	0.000000	Not App.
A 2003	7.174342	0.000000	Not App.
A 2004	7.380242	0.000000	Not App.
A 2005	6.247097	0.000000	Not App.
A 2006	5.915563	0.000000	Not App.
F 2007	5.645000	0.000000	Not App.
F 2008	5.646000	0.000000	Not App.
F 2009	5.658000	0.000000	Not App.

\* Includes -\$5,583,174 in unrealized losses as booked on the state accounting system



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Trust Interest

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**Revenue Description:** Due to passage of Montana Constitutional Amendment 35 by the electorate in November 2000, the legislature is required to dedicate not less than 40 percent of tobacco settlement money to a permanent trust fund. Since the legislature has not yet determined the exact percentage to be deposited to the trust fund, the revenue estimate assumes 40 percent. Due to passage of Initiative 146 by the electorate in November 2002, 32 percent of the tobacco settlement money is to fund tobacco prevention and 17 percent is to fund the Children's Health Insurance Program. As amended in SB 485 by the 2003 legislature, money from these allocations can also be used to fund human services programs and to match federal Medicaid funds through fiscal 2005. The remaining 11 percent of the money is deposited to the general fund. Interest earnings from the trust can only be used for tobacco disease prevention programs and programs providing benefits, services, or coverage that are related to the health care needs of Montanans. The earnings cannot be used to replace state or federal money used to fund tobacco disease prevention programs and state programs that existed on December 31, 1999, providing benefits, services, or coverage of the health care needs of Montanans.

#### Statutory Reference:

Tax Rate – NA

Distribution (MCA) – Montana Constitution Article XII, Section 4; 17-6-601; 17-6-603

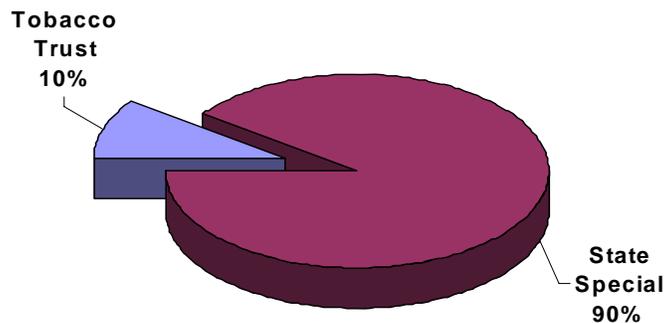
Date Due – Interest deposits are mostly made monthly, but none in July and two in June

**Applicable Tax Rate(s):** NA

**Distribution:** Interest earnings from the trust fund are distributed:

1. 90 percent to a state special revenue account for appropriation by the legislature for disease prevention programs and state programs providing benefits, services, or coverage that are related to the health care needs of the people of Montana; and
2. 10 percent to the tobacco settlement trust fund.

Distribution Chart:



**Summary of Legislative Action:** The 60<sup>th</sup> Legislature did not enact legislation that impacted this revenue source.

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

##### Data

The data used to estimate interest earnings from the tobacco settlement trust are obtained from the Board of Investments (BOI), Global Insight, 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 Global Insight and historic interest collections are obtained from SABHRS.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Trust Interest

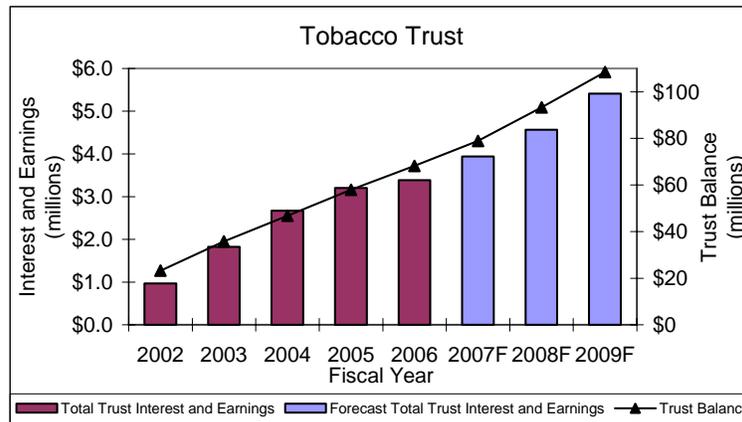
#### Analysis

The tobacco settlement trust, formed in 2000, was created from distributions of the tobacco settlement funds. In 2000, as required by constitutional amendment, the state began depositing 40 percent of the tobacco settlement funds into a trust. As required in statute, ten percent of the trust earnings must be deposited in the trust. The principal or corpus of the tobacco trust now stands at \$68.2 million, as shown by the line in the figure below. New deposits are expected to be \$10.6 million in fiscal 2007, \$14.4 million in fiscal 2008, and \$15.0 million in fiscal 2009.

To forecast the tobacco settlement trust interest earnings, each of four interest/income components are estimated independently and combined. The estimated interest/income components include:

- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits
- Other 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 (fiscal 2006) 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 Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal 2007 years through 2009, respectively. Tobacco settlement trust earnings from TFBP interest are expected to be \$3.78 million in fiscal 2007, \$4.36 million in fiscal 2008, and \$5.20 million in fiscal 2009.



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 Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$44,813; \$44,132; and \$43,738 for fiscal years 2007 through 2009.

The 40 percent distribution of tobacco settlement funds and 10 percent of retained interest earnings are considered new deposits in the tobacco settlement trust. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the tobacco settlement funds, they 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. For the tobacco settlement trust, new deposits are expected to earn interest of \$114,089; \$158,759; and \$168,705 for fiscal years 2007 through 2009, respectively.

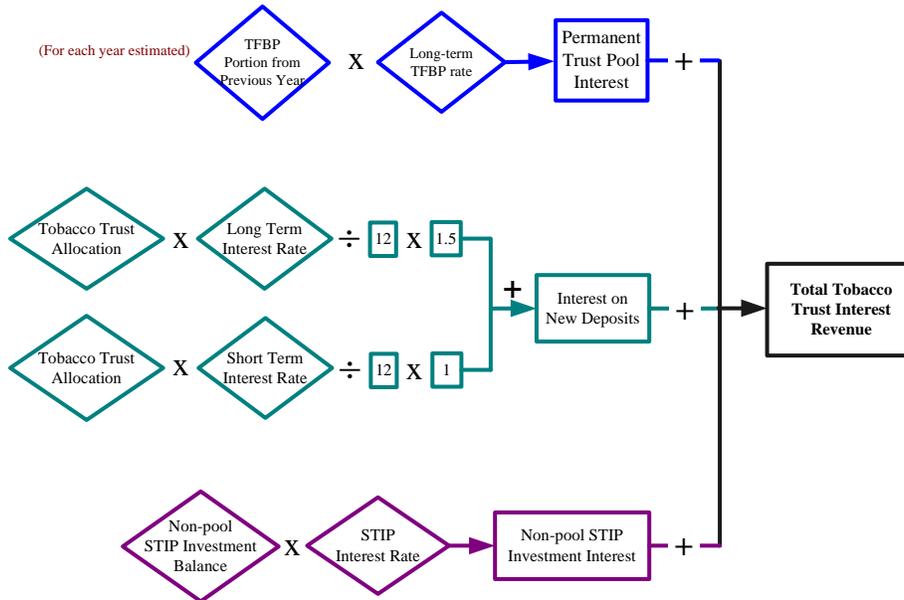
When the estimates are combined, the interest earnings of the tobacco trust are expected to be \$3.94 million in fiscal 2007, \$4.57 million in fiscal 2008, and \$5.42 million in fiscal 2009.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Trust Interest

#### Forecast Methodology:



#### 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 2007 legislature that may affect future estimates of this revenue source.

t	Total Rev.	GF Rev.	TFBP	STIP	90 Percent	10 Percent
Fiscal	Millions	Millions	Interest	Interest	Interest	Interest
			Millions	Millions	Millions	Millions
Actual 2000	0.000000	0.000000				
Actual 2001	0.239625	0.000000				
Actual 2002	0.967687	0.000000	0.955252	0.012435		
Actual 2003	1.830214	0.000000	1.816256	0.013958	1.647000	0.183000
Actual 2004	2.669829	0.000000	2.661875	0.007953	2.403000	0.267000
Actual 2005	3.202336	0.000000	3.165725	0.036611	2.882000	0.320000
Actual 2006	3.387527	0.000000	3.320678	0.066848	3.049000	0.339000
Forecast 2007	3.939000	0.000000	3.852815	0.086060	3.545000	0.394000
Forecast 2008	4.567000	0.000000	4.467383	0.099362	4.110000	0.457000
Forecast 2009	5.413000	0.000000	5.311949	0.100647	4.872000	0.541000

t	Tobacco	New Deposit	Non Pool	Non Pool	Invested	Average
Fiscal	New Deposit	Long Term	STIP	STIP Bal	Balance	Return
	Millions	Rate	Rate	Millions	Millions	Rate
Actual 2000	0.000000	6.3380%	5.4290%	0.000000		
Actual 2001	10.650750	6.8850%	4.7390%	0.249457		
Actual 2002	12.432000	6.3380%	2.5650%	0.584877		
Actual 2003	12.563000	5.7290%	1.3600%	0.251155		
Actual 2004	10.852000	5.3650%	1.2650%	0.132682	46.756485	0.057101
Actual 2005	11.095000	5.1950%	2.3890%	2.853978	57.902493	0.055306
Actual 2006	10.261000	5.2480%	4.0720%	0.916926	68.175043	0.049689
Forecast 2007	10.601000	5.4970%	4.6690%	0.916926	78.776043	0.050001
Forecast 2008	14.414000	5.7460%	4.5980%	0.916926	93.190043	0.049005
Forecast 2009	14.986000	5.9680%	4.5570%	0.916926	108.176043	0.050035

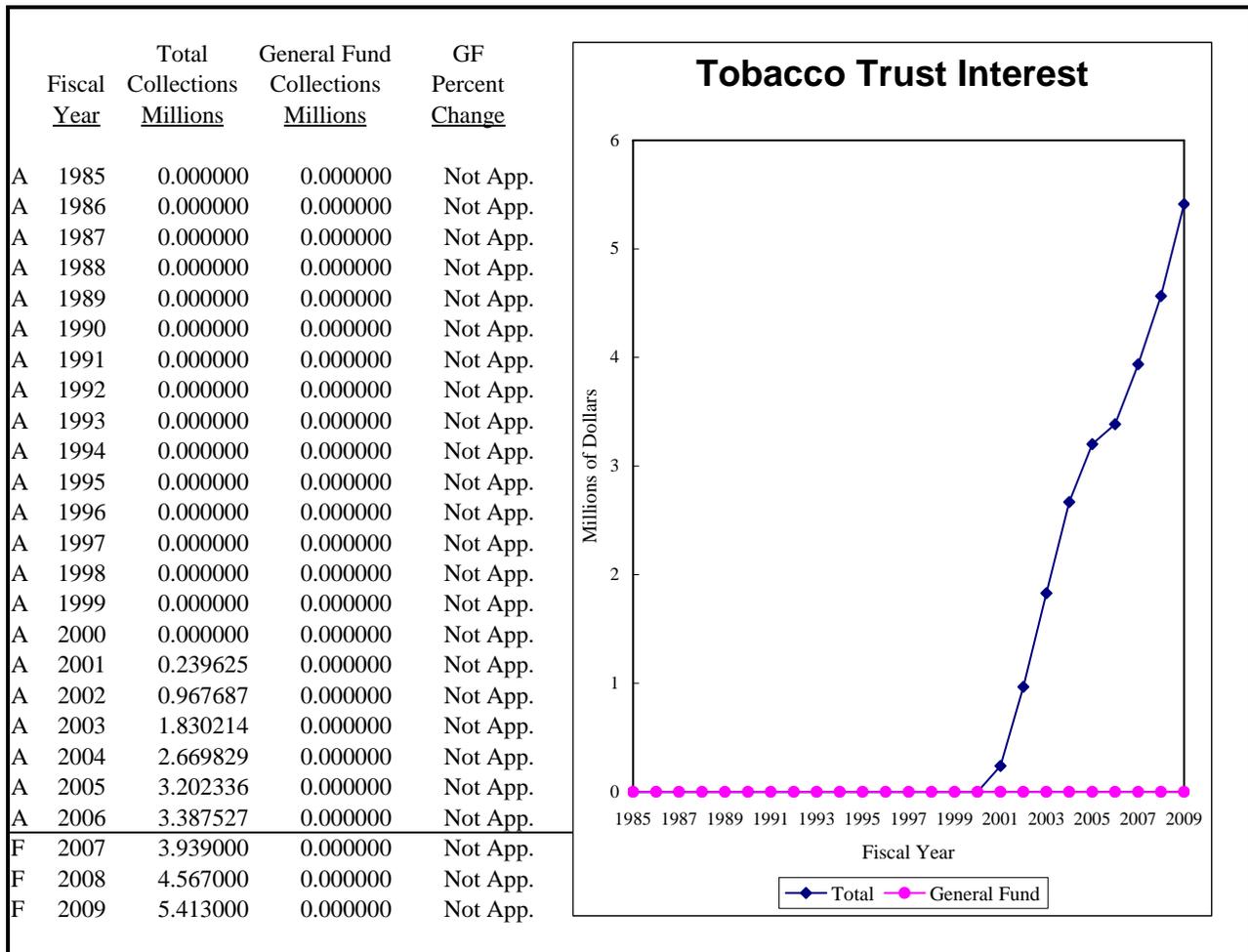
Total Rev. = Invested Balance \* Average Return

# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Trust Interest

#### Revenue Projection:



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

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**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 \$10.0 million grant from the permanent trust principal in fiscal 1994 and received 37.5 percent of total coal severance tax collections from July 1999 through June 2003. Beginning fiscal 2004, the trust receives 25 percent 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 fiscal 2016.

#### 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:



**Summary of Legislative Action:** The 60th Legislature did not enact legislation that impacted this revenue source.

**% 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), Global Insight, 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 Global Insight 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 percent of the coal severance tax collections be distributed to the coal trust, and 50 percent of that distribution (after the water bond debt service obligation is met) or 25 percent of total coal severance tax revenues is distributed to the TSE trust. The principal or corpus of the TSE trust now stands at \$148.0 million. The estimates of future deposits to the TSE trust are developed in the coal severance tax projection and are expected to be \$9.1 million in fiscal 2007, \$9.5 million in fiscal 2008, and \$8.6 million in fiscal 2009.

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

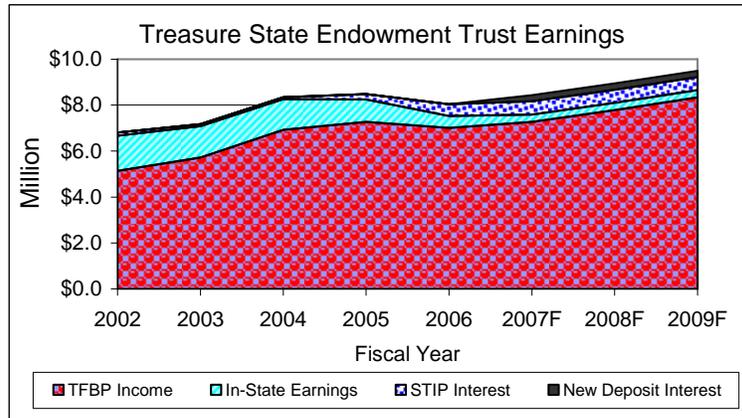
- Trust funds bond pool (TFBP)
- In-state investments
- Short-term investment pool (STIP)
- New trust deposits

# 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 (fiscal 2006) 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 Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal years 2007 through 2009, respectively. TSE trust earnings from TFBP interest are expected to be \$7.27 million in fiscal 2007, \$7.77 million in fiscal 2008, and \$8.34 million in fiscal 2009.



As seen in the figure above, earnings from in-state investments are the second largest source of income to the TSE trust. The BOI is required by statute to invest twenty-five percent 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. The in-state balance of \$6.04 million and rate of return of 5.4 percent are held constant throughout the biennium because no new flow of revenue is expected. This yields an in-state earnings estimate of \$323,242 for each fiscal year estimated.

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 Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$572,223; \$563,523; and \$558,501 for fiscal years 2007 through 2009.

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. For the TSE trust, new deposits are expected to earn interest of \$265,841; \$286,109; and \$269,299 for fiscal years 2007 through fiscal 2009, respectively.

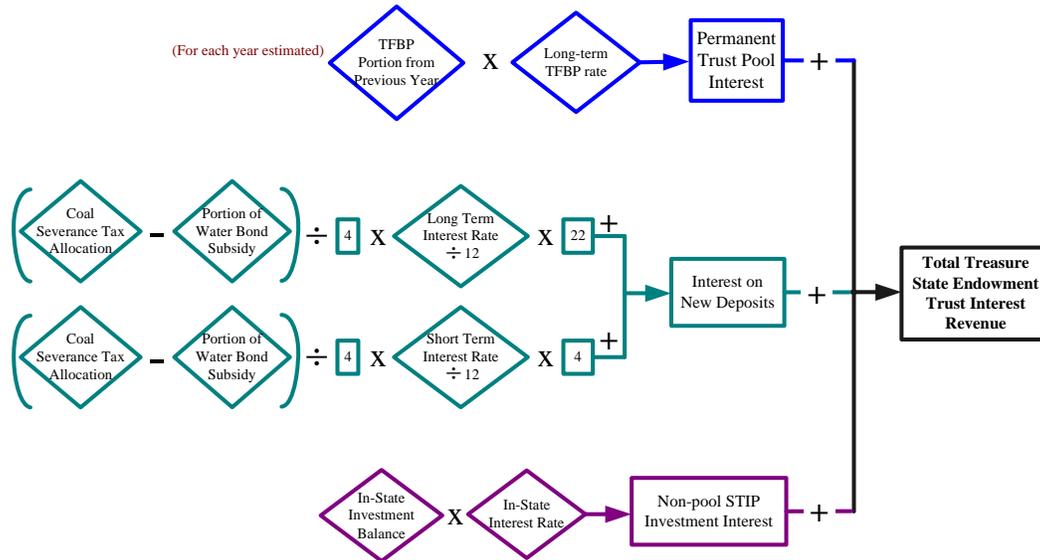
When the estimates are combined, the interest earnings of the TSE trust are expected to be \$8.43 million in fiscal 2007, \$8.95 million in fiscal 2008, and \$9.49 million in fiscal 2009.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

#### Forecast Methodology:



#### 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 2007 legislature that may affect future estimates of this revenue source.

t	Total Rev.	GF Rev.	TFBP	STIP	Loan	Invested	Average
Fiscal	Millions	Millions	Interest	Interest	Interest	Balance	Return
			Millions	Millions	Millions	Millions	Rate
Actual	2000	5.123374	0.000000				
Actual	2001	5.801525	0.000000				
Actual	2002	6.804839	0.000000	5.139577	0.134725	1.530537	
Actual	2003	7.175069	0.000000	5.718544	0.091977	1.364547	
Actual	2004	8.349481	0.000000	6.929583	0.085931	1.333115	127.175885
Actual	2005	8.481564	0.000000	7.272317	0.236790	0.970369	137.335617
Actual	2006	8.038515	0.000000	7.001103	0.514071	0.523204	147.150621
Forecast	2007	8.434000	0.000000	7.272581	0.838064	0.323242	156.290621
Forecast	2008	8.950000	0.000000	7.777207	0.849632	0.323242	165.774621
Forecast	2009	9.489000	0.000000	8.337687	0.827800	0.323242	174.419621

t	Net Coal Tax	New Deposit	Non Pool	Non Pool	Non Pool	Non Pool	
Fiscal	New Deposit	Long Term	STIP	Loan	STIP Bal	Loan Bal	
	Millions	Rate	Rate	Rate	Millions	Millions	
Actual	2000	13.301172	7.0160%	5.4290%	0.0000%	12.385400	0.000000
Actual	2001	12.126440	6.8850%	4.7390%	0.0000%	4.384216	19.223452
Actual	2002	11.855268	6.3380%	2.5650%	8.2549%	7.426826	17.858672
Actual	2003	11.033830	5.7290%	1.3600%	7.4418%	11.674509	18.813738
Actual	2004	7.886171	5.3650%	1.2650%	8.2678%	10.526991	13.434570
Actual	2005	9.408628	5.1950%	2.3890%	8.7756%	12.141430	8.680571
Actual	2006	8.955381	5.2480%	4.0720%	7.1089%	11.708362	6.039199
Forecast	2007	9.140000	5.4970%	4.6690%	5.3524%	11.708362	6.039199
Forecast	2008	9.484000	5.7460%	4.5980%	5.3524%	11.708362	6.039199
Forecast	2009	8.645000	5.9680%	4.5570%	5.3524%	11.708362	6.039199

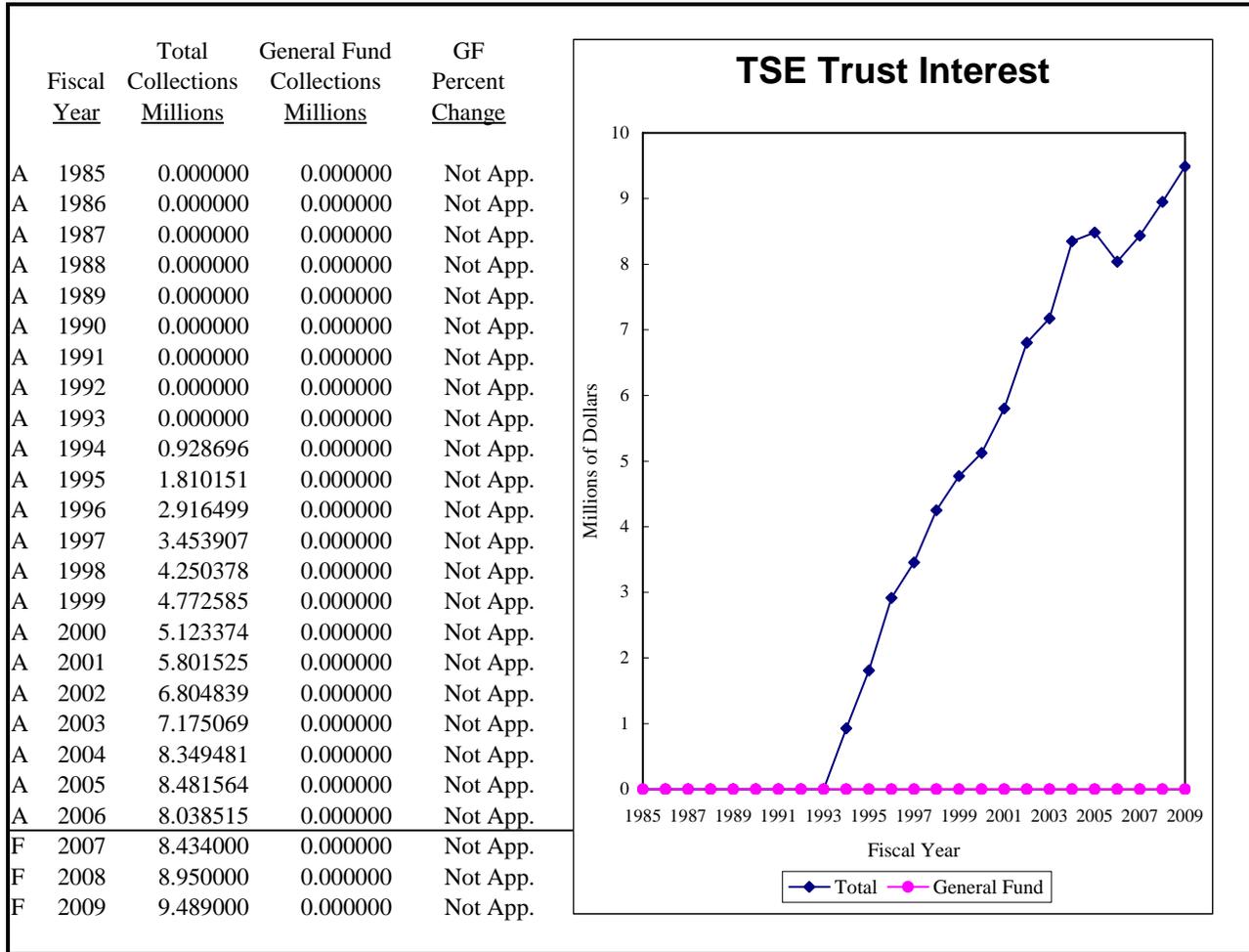
Total Rev. = Invested Balance \* Average Return

# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

**Revenue Projection:**



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasury Cash Account Interest

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**Revenue Description:** The Department of Administration, 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. 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 invested balance. No TRANS issues are anticipated in the 2007 or 2009 biennia.

**Statutory Reference:**

Tax Rate – NA

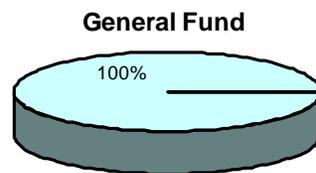
Distribution (MCA) – 17-6-202(2)

Date Due – interest deposits are mostly made monthly, but two in June and none in July

**Applicable Tax Rate(s):** N/A

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

Distribution Chart:



**Summary of Legislative Action:** The 60<sup>th</sup> Legislature did not enact legislation that impacted this general fund revenue source.

**% of Total General Fund Revenue:**

FY 2004 – 0.46%

FY 2005 – 0.66%

FY 2006 – 1.09%

**Revenue Estimate Methodology:**

Excess cash in the state treasury is deposited to the treasury cash account (TCA) and invested in short and medium-term investments. Earnings are dependent on the investable cash balance and interest rates. Investment earnings are deposited to the general fund.

Data

The Board of Investments provides monthly reports on the treasury cash account balance. The state accounting system (SABHRS) provides information on monthly investment earnings.

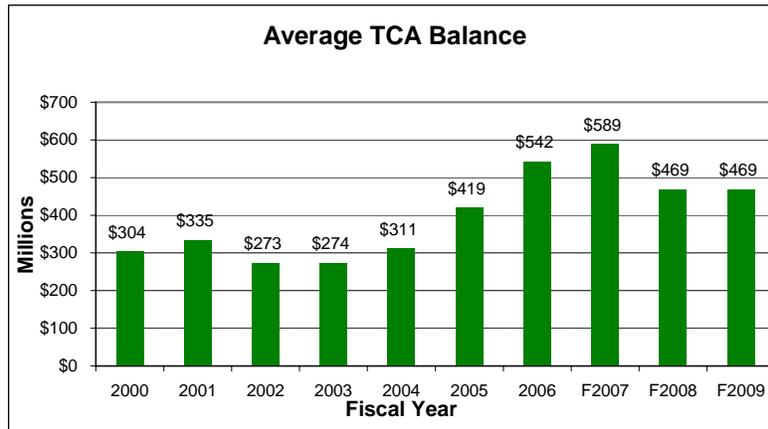
Analysis

- The average balance of the TCA is estimated by increasing the previous year's balance by the average of the previous fiscal year's general fund balance and the estimated balance for the current year. When cash flow is insufficient, tax revenue anticipation notes (TRANS) are issued to meet short-term cash flow needs. The term of the loan and amount borrowed are used to determine the amount to be added to the average balance calculations. No TRANS are anticipated for FY 2007 -2009.

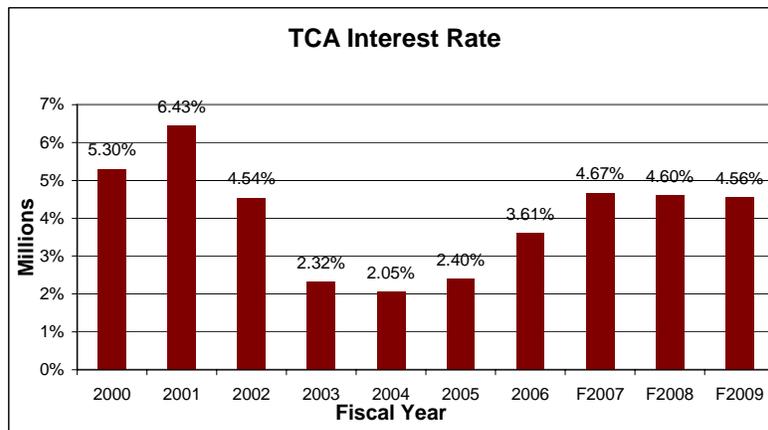
# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasury Cash Account Interest



- Interest rates are estimated by first deriving a composite rate of Global Insight forecasts for the 3-month commercial paper, 3-month treasury bill, and 6-month treasury bill rates. The average of these rates is used as the proxy for a short-term rate.



#### Adjustments and Distribution

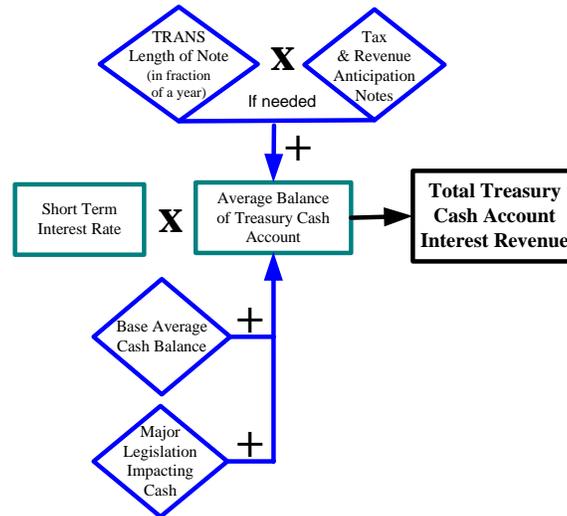
Once total revenue for each fiscal year is determined, the applicable distribution percentage, 100 percent to the general fund, is applied.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasury Cash Account Interest

#### Forecast Methodology:



#### 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 2007 legislature that may affect future estimates of this revenue source.

	t	Total Rev.	GF Rev.	Avg. Bal.	Interest	Issue	TRANS
	Fiscal	Millions	Millions	Millions	Rate	Rate	Cost
Actual	2000	16.088271	16.088271	303.627590	0.052987	0.000000	0.000000
Actual	2001	21.531903	21.531903	334.705188	0.064331	0.000000	0.000000
Actual	2002	12.414382	12.414382	273.343304	0.045417	0.000000	0.000000
Actual	2003	6.366439	6.366439	273.928913	0.023241	0.026498	1.639327
Actual	2004	6.392992	6.392992	311.477974	0.020525	0.002027	0.099188
Actual	2005	10.046531	10.046531	419.348957	0.023957	0.000000	0.000000
Actual	2006	18.631288	18.631288	542.420040	0.036108	0.000000	0.000000
Forecast	2007	27.482000	27.482000	588.605160	0.046690	0.030145	0.000000
Forecast	2008	21.546000	21.546000	468.605160	0.045980	0.029687	0.000000
Forecast	2009	21.354000	21.354000	468.605160	0.045570	0.029422	0.000000

	t	Base Bal.	TRANS	TRANS
	Fiscal	Millions	Millions	Length
Actual	2000	303.628000	0.000000	0.000000
Actual	2001	334.705000	0.000000	0.000000
Actual	2002	273.343000	0.000000	0.000000
Actual	2003	212.062000	92.800000	0.666667
Actual	2004	262.545000	73.400000	0.666667
Actual	2005	419.349000	0.000000	0.000000
Actual	2006	542.420000	0.000000	0.000000
Forecast	2007	588.605000	0.000000	0.000000
Forecast	2008	468.605000	0.000000	0.000000
Forecast	2009	468.605000	0.000000	0.000000

Total Rev. = Average Balance \* Interest Rate  
 GF Rev = Total Rev.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasury Cash Account Interest

#### Revenue Projection:

