MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Legislative Fiscal Analyst
CLAYTON SCHENCK

DATE: June 7, 2006

TO: Legislative Finance Committee

FROM: Roger Lloyd, Senior Fiscal Analyst

RE: Subcommittee on SB 495 Revisited

The subcommittee on SB 495, Senator Ryan and Representative Ripley, met May 26th. The subcommittee heard a recap of the SB 495 report presented at the March 10th LFC meeting. Three possible options in which the legislature could influence the pay off of the SB 495 loan were discussed and various pros and cons of each were debated.

The subcommittee decided to bring all three options before the full committee so all members could decide which option would be best. The subcommittee also directed staff to illustrate graphically the relationships between general fund and guarantee account appropriations, between general fund revenue and interest payments from the guarantee account, and the effects of each option on the general fund balance.

Attached are:

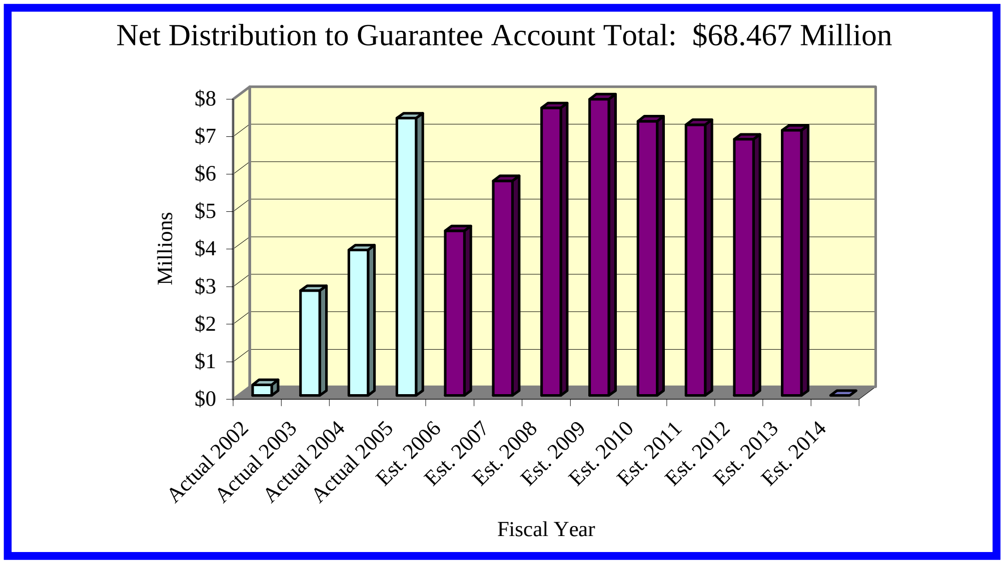
- "Senate Bill 495 Loan Repayment Options", graphically illustrated, that were discussed by the subcommittee; and
- "Senate Bill 495 – Comparisons", graphically illustrated, that shows appropriation and loan interest relationships, and the effects of the three options on the general fund balance.

I:\DOCMGMT\CL1005-Roger\SB 495 Revisited - LFC options.doc

SENATE BILL 495 LOAN REPAYMENT OPTIONS

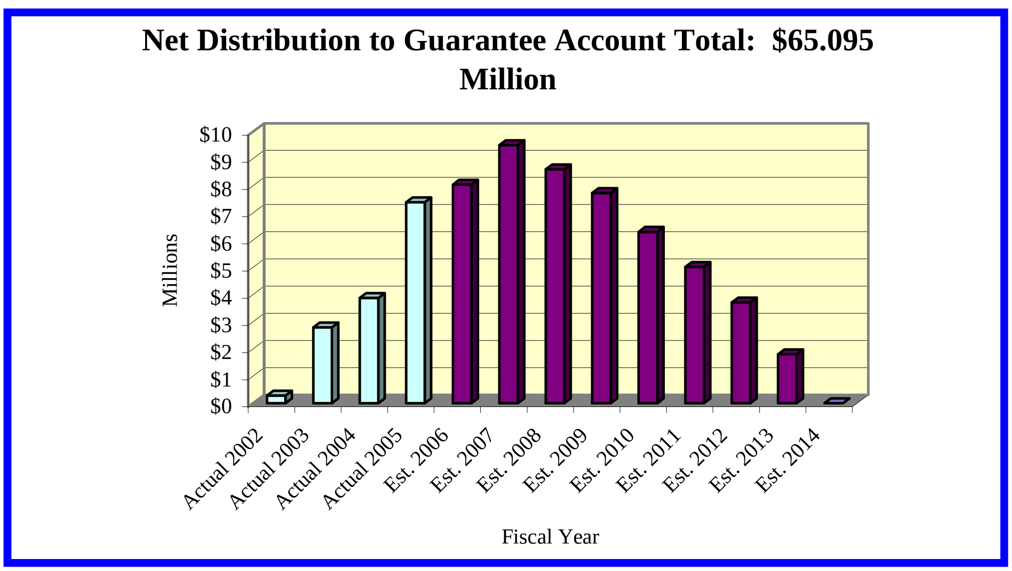
Option 1 – Allow DNRC to set the amount of loan repayments. Loan repayments will be structured so the loan will be completely paid at about the same time as the SB 495 plan ends.

Figure 1



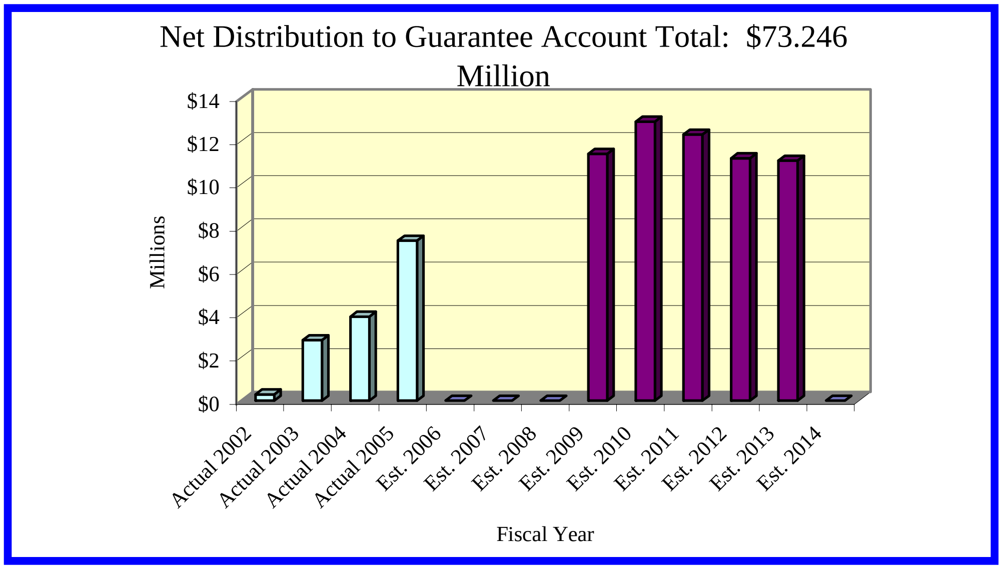
Option 2 – Request DNRC to develop a phased reduction in net distributions to the guarantee account by varying the loan repayment so that the final payment is less than $2.0 million, thus lessening the general fund budgetary impact in fiscal 2014.

Figure 2



Option 3 - Request DNRC to pay off the loan as soon as possible, thus increasing the amount of net distributions for public schools from the guarantee account and decreasing the amount of general fund.

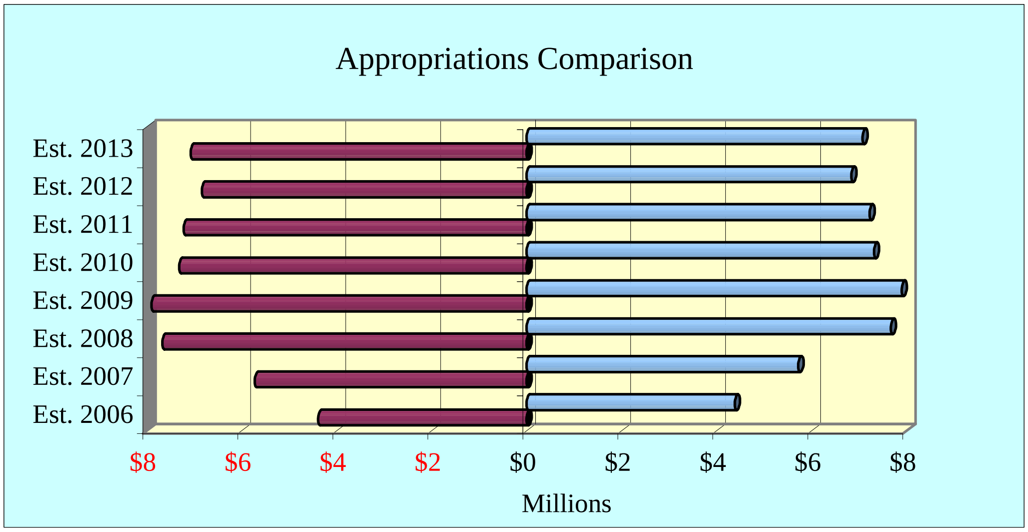
Figure 3



SENATE BILL 495 - COMPARISONS

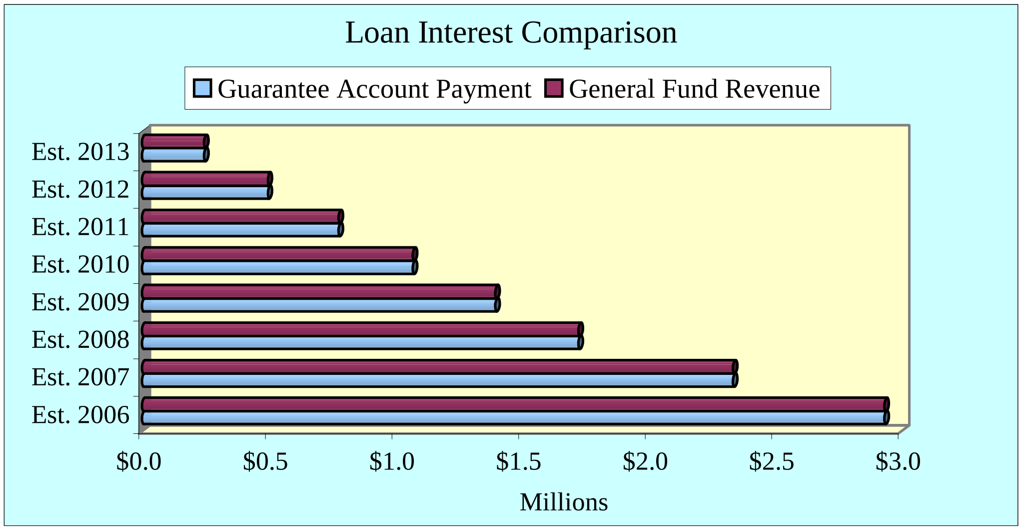
Total funding for public schools is set by the legislature. General fund is used to fund public schools once funds available in the guarantee account have been exhausted. These two funds offset each other – if more money is available in the guarantee account, general fund appropriations can be reduced. If less money is available from the guarantee account, general fund makes up the difference. Chart 1 below shows that appropriation amounts from the two funds move in opposite directions, but in the same amounts.

Chart 1



The guarantee account pays interest on the outstanding balance of the $46.4 million loan from the coal trust. These payments are deposited to the general fund as coal trust interest earnings. As the principal of the loan declines and interest payments are reduced, the guarantee account has more revenue to fund public schools thus reducing general fund appropriations. But conversely, general fund revenue is also reduced by the same amount. Chart 2 below shows that as interest payments are reduced, general fund revenue is also reduced by the same amounts.

Chart 2



Under any option the committee may choose to influence the timing of the loan repayment, there will be no change to the overall general fund balance through the life of SB 495. What will change is the amount of the general fund appropriations needed to replace the amount appropriated from the guarantee account once SB 495 ends. Chart 3 below shows that the effect on the general fund balance is identical under all three options. But observe the top slices in the cylinders (FY 2013) for all three options. These are the amounts that will have to be replaced by general fund when SB 495 ends (FY 2014). The amount is greatest under option 3 ($11.1 million) and least under option 2 ($2.4 million).

Chart 3