

# Interest Earnings

**Coal Trust Interest**  
**Common School Interest and Income**  
**Treasury Cash Account Interest**



***Legislative Fiscal Division***



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# COAL TRUST INTEREST

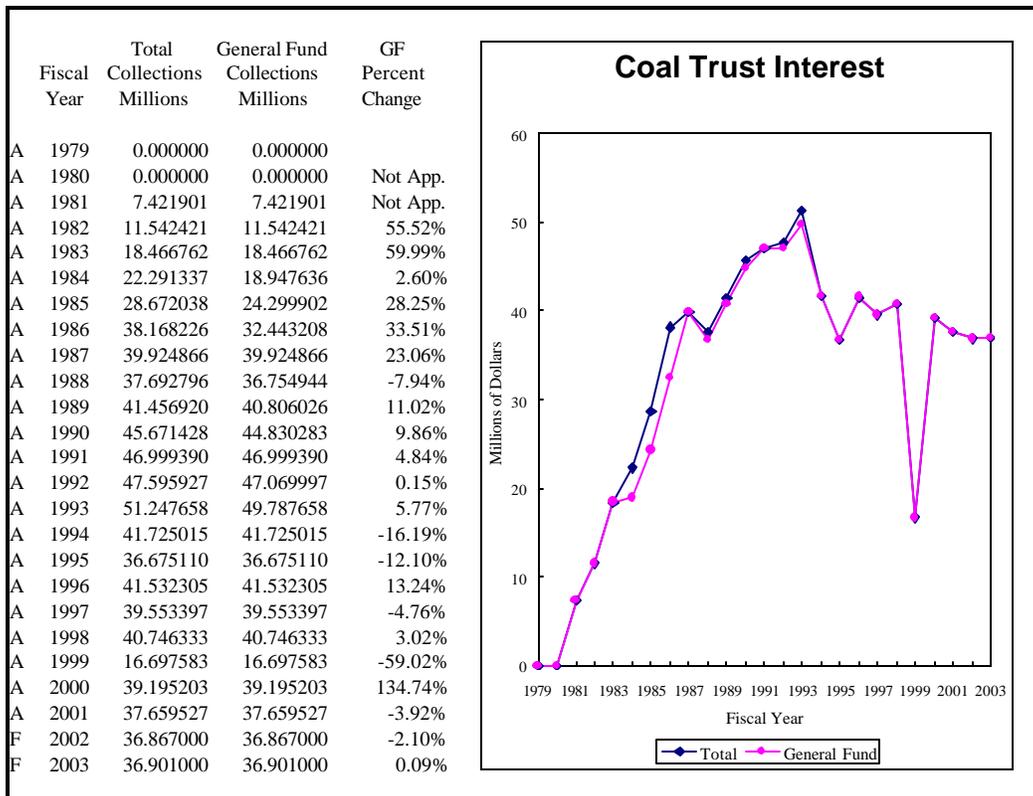
**Revenue Description:** Article IX, Section 5 of the Montana Constitution requires that 50.0 percent of all coal severance tax revenue be deposited in a permanent coal trust fund and that the principal of the trust "shall forever remain inviolate unless appropriated by a three-fourths vote of each house". Coal severance tax funds flowing into the trust fund are first used to secure state bonds issued to finance water resource and renewable resource development projects and activities. Through fiscal 2003, the funds are then split 75 percent to the treasure state endowment trust fund and 25 percent to the treasure state endowment regional water system trust fund. With the enactment of House Bill 610 by the 2001 legislature, beginning fiscal 2004 the funds are then split 50 percent to the treasure state endowment trust fund, 25 percent to the treasure state endowment regional water system trust fund, and 25 percent to the permanent trust fund. By statute, interest earned on the permanent trust that is not earmarked to other programs is deposited to the general fund. When calculating interest earnings, the impact of loans made from the trust, such as for the Montana Science and Technology Alliance, are taken into account.

As of October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to a newly-created trust fund bond pool (TFBP). The majority of permanent coal tax trust funds are invested as part of the TFBP. Some funds, however, are invested on a short-term basis in the state's short term investment pool (STIP). In addition, state law provides that trust funds may be used for in-state commercial loans to stimulate economic development. The state Constitution prohibits the investment of the permanent trust in common stock. However, this prohibition is removed if the constitutional amendment put on the ballot by Senate Bill 493 (enacted by the 2001 legislature) is approved by the electorate.

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

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

## Revenue Projection:



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LED	HJR	Exec	LED
Estimates	\$36.401	\$36.897	\$36.867	\$36.276	\$37.146	\$36.901
Difference	-	0.496	0.466	-	0.870	0.625

## COMMON SCHOOL INTEREST AND INCOME

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

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

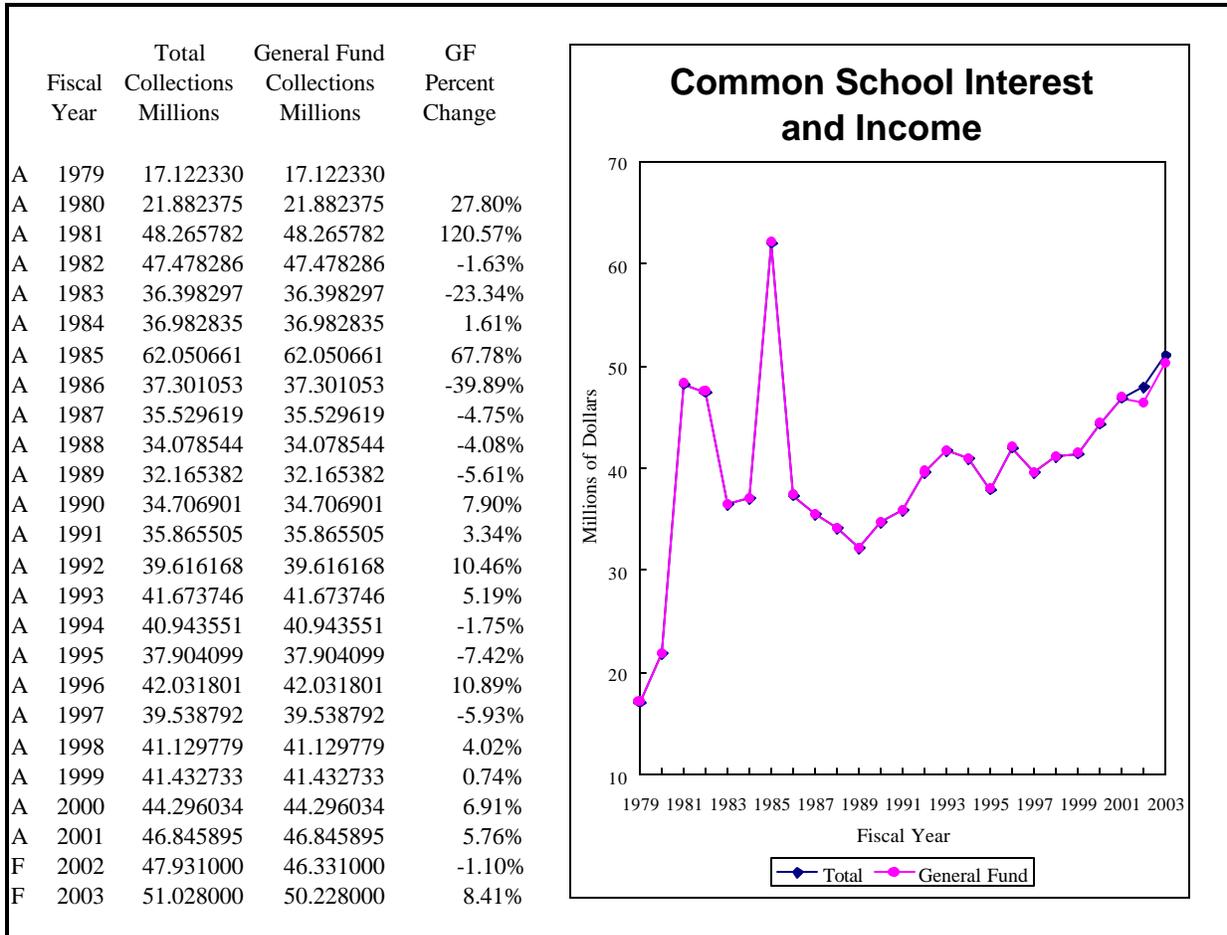
As of October 1, 1995, all fixed-income investments held by the state's major trust funds (which includes the trust and legacy fund of which the common school trust is a part), were transferred to a newly-created Trust Fund Bond Pool (TFBP). The majority of common school trust funds are invested as part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

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

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

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

**Revenue Projection:**



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LED	HJR	Exec	LED
Estimates	\$48.703	\$47.578	\$46.331	\$51.233	\$48.801	\$50.228
Difference	-	(1.125)	(2.372)	-	(2.432)	(1.005)

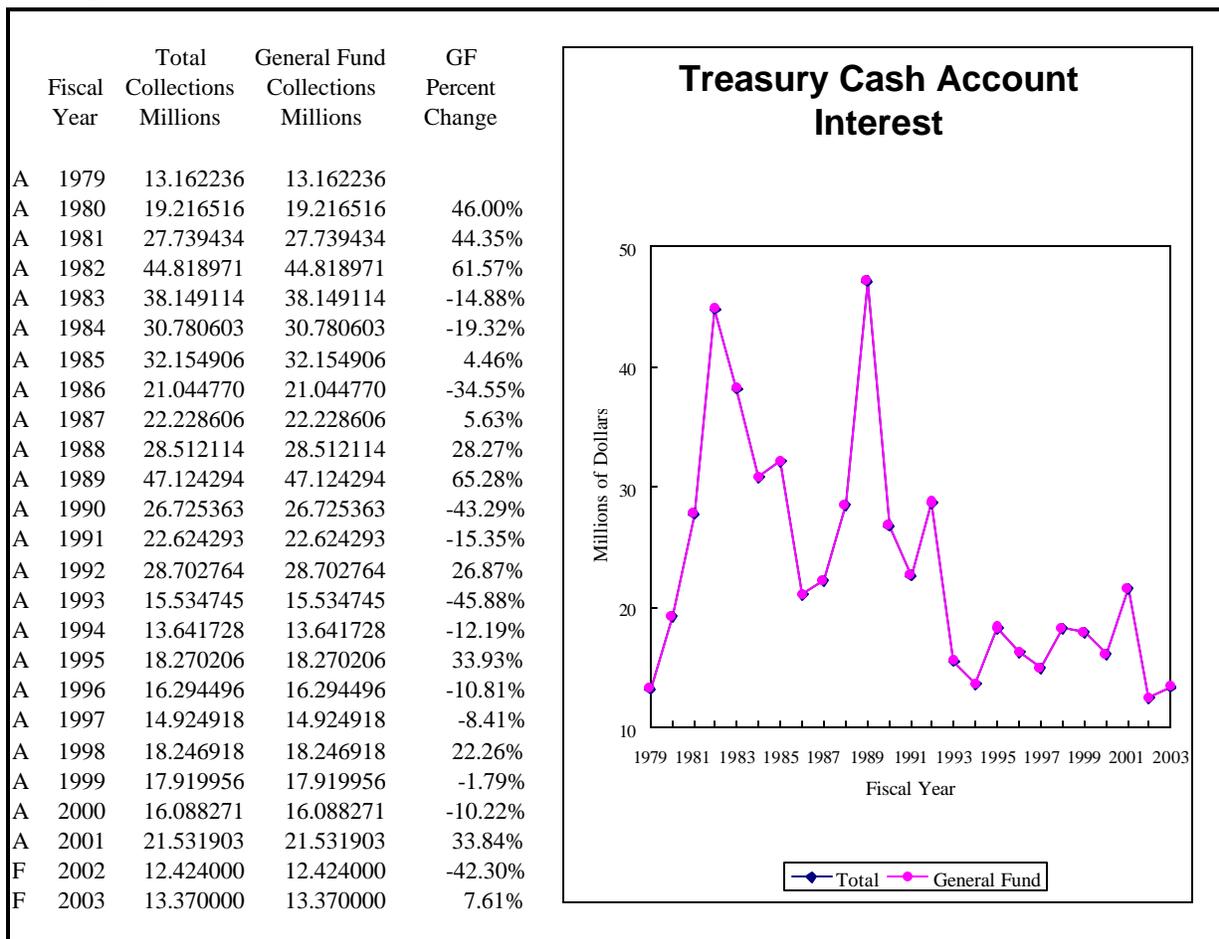
# TREASURY CASH ACCOUNT INTEREST

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

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

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

## Revenue Projection:



(in millions)	Fiscal 2002			Fiscal 2003		
	HJR	Exec	LFD	HJR	Exec	LFD
Estimates	\$14.671	\$13.064	\$12.424	\$14.102	\$13.449	\$13.370
Difference	-	(1.607)	(2.247)	-	(0.653)	(0.732)