



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

HB0321 - Generally revise laws related to the coal trust (Reksten, Linda )

**Status:** As Amended in House Committee

- |  |  |  |
|--|--|--|
| <input type="checkbox"/> Significant Local Gov Impact                | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns              |
| <input checked="" type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<b>Expenditures:</b>				
General Fund	\$71,632,000	\$0	\$0	\$0
State Special Revenue	\$2,420,000	\$2,680,000	\$2,940,000	\$3,390,000
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	(\$600,000)
State Special Revenue	\$2,420,000	\$2,680,000	\$2,940,000	\$3,390,000
Trust Fund	\$71,631,000	\$0	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<u>(\$71,632,000)</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$600,000)</u>

**Description of fiscal impact:** HB 321, as twice amended, establishes a conservation district fund and coal board fund within the coal tax trust fund. The new conservation district fund will receive 65% of the coal severance tax revenue deposited into the coal tax trust fund beginning in FY 2024. The distribution is maintained until the balance of the fund reaches \$100 million and will earn interest for the benefit of the conservation district account within the state special revenue fund. When the balance of the conservation district fund reaches \$100 million, the 65% of coal severance tax revenue will be diverted to the new coal board fund until the balance of that fund reaches \$150 million. When that has happened, the 65% of coal severance tax revenue will be distributed to the existing Montana coal endowment fund within the coal tax trust fund. By August 15, 2023, there is transferred from the general fund to the school facilities fund in the coal tax trust fund the amount necessary to bring the balance of the school facilities fund to \$200 million. Higher balances in the school facilities fund increase the amount of interest earnings transferred to the state special revenue fund. The coal severance tax distribution to the school facilities fund declines from 75% to 10% (allowing the 65% to be distributed to the other funds in the bill) in FY 2024 and remains in place until the school fund's balance reaches \$300 million. The coal tax permanent fund was set to resume receipt of coal severance taxes in FY 2027 which would've generated increased earnings for the benefit of the general fund; however, the provisions of HB 321 move this distribution instead to the conservation district, the coal board fund, the coal endowment fund, and the school facilities funds, resulting in a

loss of general fund revenue in FY 2027. The first amendment added a \$1,000 appropriation from the general fund to the Coal Board for additional grant funding for the 2025 biennium.

## FISCAL ANALYSIS

### Assumptions:

1. There is a new conservation district fund within the coal tax trust fund. Starting in FY 2024 the fund receives 65% of the coal severance tax revenue deposited into the coal trust fund net of the amount necessary to be retained in the coal bond fund. This 65% allocation continues until the balance of the fund reaches \$100 million.
2. There is a new coal board fund within the coal tax trust fund. When the balance of the conservation district fund reaches \$100 million, the 65% allocation to the conservation district fund will be diverted to the coal board fund until the coal board fund reaches \$150 million.
3. Once the coal board fund reaches \$150 million, the 65% will be allocated to the existing coal endowment trust fund. The changes in distribution to the various coal sub trusts have no fiscal impact because they all fit under state special revenue, and the changes are not expected to happen over the coming two biennia.
4. To allow for the 65% distribution to the above funds, the current 75% distribution to the school facilities fund is reduced to 10% beginning in FY 2024. It remains at that level until the fund reaches its new, increased cap of \$300 million provided for in section 1(4) of the bill.
5. The conservation district fund will earn interest for the benefit of the conservation district account in the state special revenue fund, provided for in 76-15-106, MCA.
6. The coal board fund will earn interest for the benefit of the coal natural resource account in the state special revenue fund, provided for in 90-6-1001(2), MCA.
7. Reallocation of coal tax trust fund revenue between the school facilities fund and the conservation district fund (and coal board and coal endowment funds) does not have a fiscal impact on coal tax trust fund interest earnings transferred to the state special revenue fund because the investment strategy for conservation district fund (and other) balances is assumed to be consistent with the strategy already employed for balances held in the school facilities fund.
8. No later than August 15, 2023, there is a transfer from the general fund to the school facilities fund the amount necessary to bring the balance of the school facilities fund to \$200 million. This amount is estimated to be \$71.6 million.
9. The HB 321 general fund transfer to the school facilities fund raises the balance of the fund relative to current law, providing a positive impact to state special revenue through increased interest earnings transferred to the school major maintenance account.
10. The current law cap on the school facilities fund is \$200 million, which, per HJ 2, is projected to be achieved by the end of FY 2026, after which its distribution of coal severance tax revenue ceases and the revenue stream is diverted to the coal tax permanent fund. However, because HB 321 splits the school facilities fund distribution between itself and the new conservation district fund, and places caps on each fund that aren't expected to be reached until after FY 2027, the coal tax permanent fund loses out on the renewed receipt of coal severance tax revenue that takes place in the current law scenario.
11. The effect of HB 321's diversion of coal severance tax revenue away from the coal tax permanent fund in FY 2027 is forgone interest earnings that would have resulted from the permanent fund's increased investment balances in that year. Coal tax permanent fund interest earnings are transferred to the general fund. Accordingly, the fiscal impact of HB 321 on general fund revenue is negative to the tune of approximately \$600,000 in FY 2027.

12. Projected rates of return for coal trust fund balances participating in the Montana Board of Investment’s trust fund investment pool (TFIP) and short-term investment pool (STIP) are from the HJ 2 forecast. Over the period FY 2024 – FY 2027, the average TFIP rate is 3.9% and the average STIP rate is 3.2%.
13. The following tables summarizes the fiscal impact of HB 321 on coal tax trust fund balances and interest earnings and the flow-through effects on general fund and state special fund revenues.
14. HB 321 is amended to include a \$1,000 appropriation from the general fund to the Coal Board for additional grant funding for the 2025 biennium.

<b>Fiscal Impact of HB 321</b>				
<b>Current Law</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
School Facilities Trust Fund Distribution	\$28.15	\$23.35	\$22.78	\$0.00
School Facilities Trust Fund Balance	\$156.52	\$179.87	\$202.65	\$202.65
School Facilities Trust Fund Earnings	\$4.82	\$6.28	\$7.84	\$8.30
Permanent Trust Fund Distribution	\$0.00	\$0.00	\$7.59	\$29.42
Permanent Trust Fund Balance	\$545.44	\$545.44	\$553.03	\$582.45
Permanent Trust Fund Earnings	\$18.86	\$19.66	\$21.00	\$21.92
<b>Proposed Law</b>				
School Facilities Trust Fund Distribution	\$75.38	\$3.11	\$3.04	\$2.94
School Facilities Trust Fund Balance	\$203.75	\$206.87	\$209.90	\$212.85
School Facilities Trust Fund Earnings	\$6.82	\$7.67	\$8.54	\$8.66
Conservation District Trust Fund Distribution	\$24.39	\$20.24	\$19.74	\$19.12
Conservation District Trust Fund Balance	\$24.39	\$44.63	\$64.37	\$83.50
Conservation District Trust Fund Earnings	\$0.41	\$1.29	\$2.23	\$3.03
Permanent Trust Fund Distribution	\$0.00	\$0.00	\$7.59	\$7.36
Permanent Trust Fund Balance	\$545.44	\$545.44	\$553.03	\$560.38
Permanent Trust Fund Earnings	\$18.86	\$19.66	\$21.00	\$21.32
<b>Fiscal Impact</b>				
State Special Revenue	\$2.42	\$2.68	\$2.94	\$3.39
General Fund Revenue	\$0.00	\$0.00	\$0.00	(\$0.60)

**Department of Natural Resources and Conservation**

15. The bill creates a new sub-trust of the coal severance tax trust called the conservation district fund. The conservation district fund will receive transfers from the coal severance tax bond fund up to \$100 million and will be capped at \$100 million.
16. Sixty-five percent of the coal severance tax bond fund transfer that went to the school facility trust fund will be redirected to the conservation district fund.
17. Interest earnings on the conservation district fund will be transferred monthly to the conservation district state special revenue account established in 76-15-106, MCA.
18. The monthly transfer of earnings from the conservation district fund to the conservation district state special revenue account is an amount required to meet the obligations for conservation district grants.
19. The maximum amount that the conservation districts would be able to spend is the interest earnings generated each fiscal year.

**Office of Public Instruction**

20. Currently, the Executive Budget proposes in HB 2 the School Facilities Trust Fund Earnings will be \$5.151 million in FY 2024 and \$6.529 million in FY 2025.
21. Revenue projections related to HB 321 increase the earnings by \$1.669 million in FY 2024 and by \$1.141 million in FY 2025. The difference between the earnings in the assumption and the fiscal analysis below includes the difference between the Executive Budget revenue projections and HJ 2 revenue projections.
22. The revenue from the School Facilities Trust Fund Earnings is appropriated in HB 2 as directed in 20-9-635, MCA, and distributed to K-12 public school districts per the school major maintenance aid formula in 20-9-525, MCA. HB 2 contains coordination language to HB 818 for this funding.
23. HB 818 combines the School Facilities Trust Fund Earning account with the School Facilities and Technology account and statutorily appropriates the funding for state major maintenance aid and debt service assistance to schools.

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b><u>Expenditures:</u></b>				
Local Assistance				
(Major Maintenance Aid)	\$2,010,000	\$1,390,000	\$710,000	\$360,000
Grants (Conservation Dist)	\$410,000	\$1,290,000	\$2,230,000	\$3,030,000
Grants (Coal Board)	\$1,000			
Transfers	\$71,631,000	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<u>\$74,052,000</u>	<u>\$2,680,000</u>	<u>\$2,940,000</u>	<u>\$3,390,000</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$71,632,000	\$0	\$0	\$0
State Special Revenue (02)	\$2,420,000	\$2,680,000	\$2,940,000	\$3,390,000
Trust Fund (09)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<u>\$74,052,000</u>	<u>\$2,680,000</u>	<u>\$2,940,000</u>	<u>\$3,390,000</u>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	\$0	\$0	(\$600,000)
State Special Revenue (02)	\$2,420,000	\$2,680,000	\$2,940,000	\$3,390,000
Trust Fund (09)	\$71,631,000	\$0	\$0	\$0
<b>TOTAL Revenues</b>	<u>\$74,051,000</u>	<u>\$2,680,000</u>	<u>\$2,940,000</u>	<u>\$2,790,000</u>

**Net Impact to Fund Balance (Revenue minus Funding of Expenditures):**

General Fund (01)	(\$71,632,000)	\$0	\$0	(\$600,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
Trust Fund (09)	\$71,631,000	\$0	\$0	\$0

  
Sponsor's Initials

  
Date

  
Budget Director's Initials

  
Date