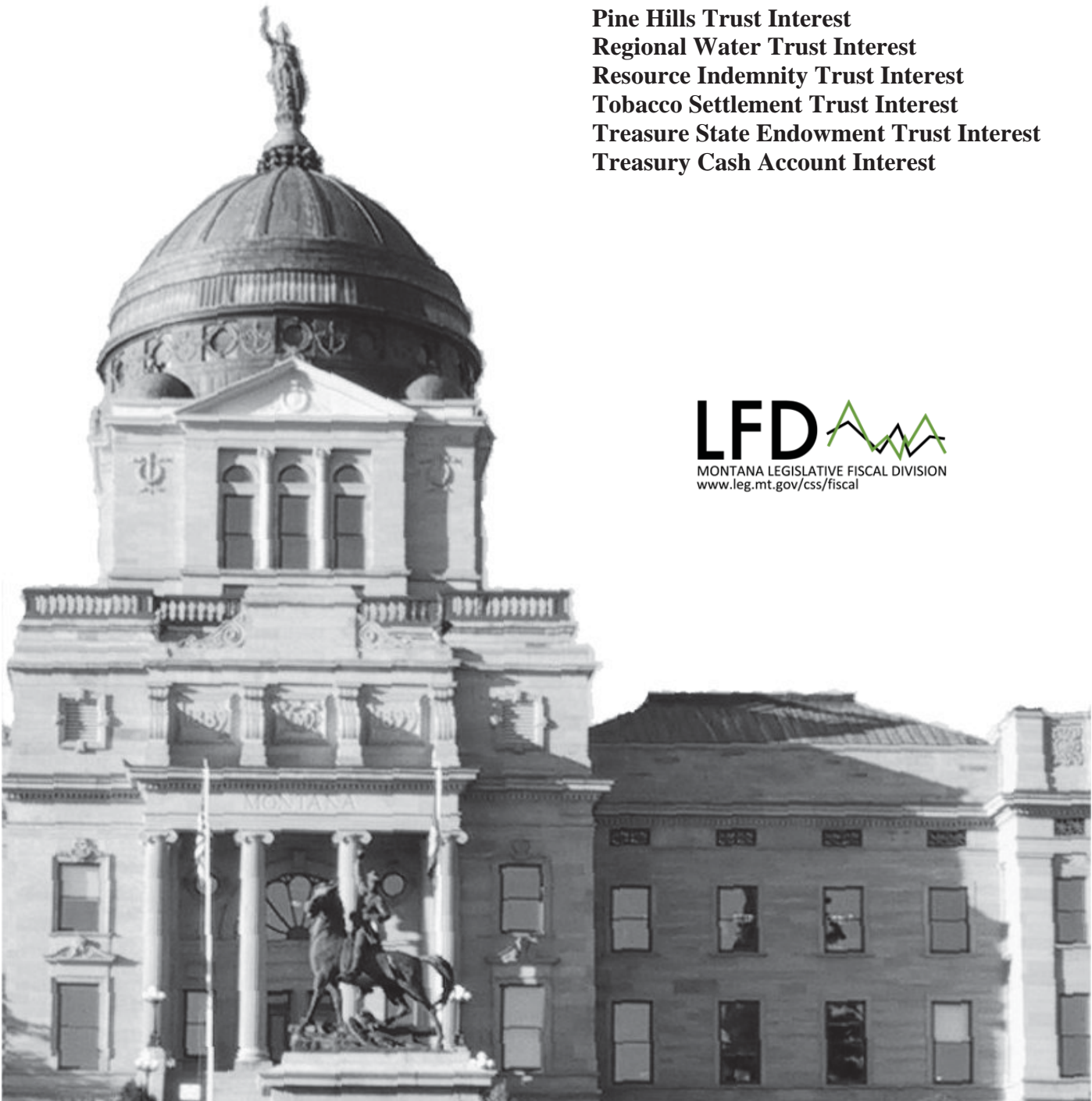


# Interest Earnings

**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**



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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. Senate Bill 65, enacted by the 2009 Legislature, allows an amount up to 25% of distributable revenue to be diverted to the trust land administration account to fund DNRC administrative costs. Permanent sources of revenue generated from capital land grant lands include timber sales and oil and natural gas royalties. All sources of revenue are subject for diversion to DNRC for administration.

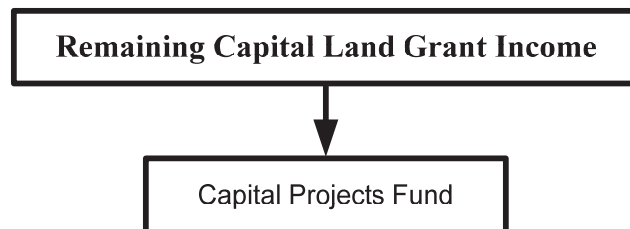
#### Statutory Reference:

Tax Rate – NA  
Tax Distribution (MCA) – 18-2-107  
Enabling Act, Sections 10, 12 & 17  
Other (MCA) – DNRC trust land administration diversion (77-1-108 & 109)  
DNRC land bank administration diversion (77-2-362)

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

**Distribution:** After diversions 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:



**Collection Frequency:** Monthly

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

#### Revenue Estimate Methodology:

The estimate for interest and income from the capital land grant trust determines the net 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 diversion for DNRC administration costs that reduce the amount of revenue deposited to the capital program fund 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.

#### 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.

# Legislative Fiscal Division

## Revenue Estimate Profile

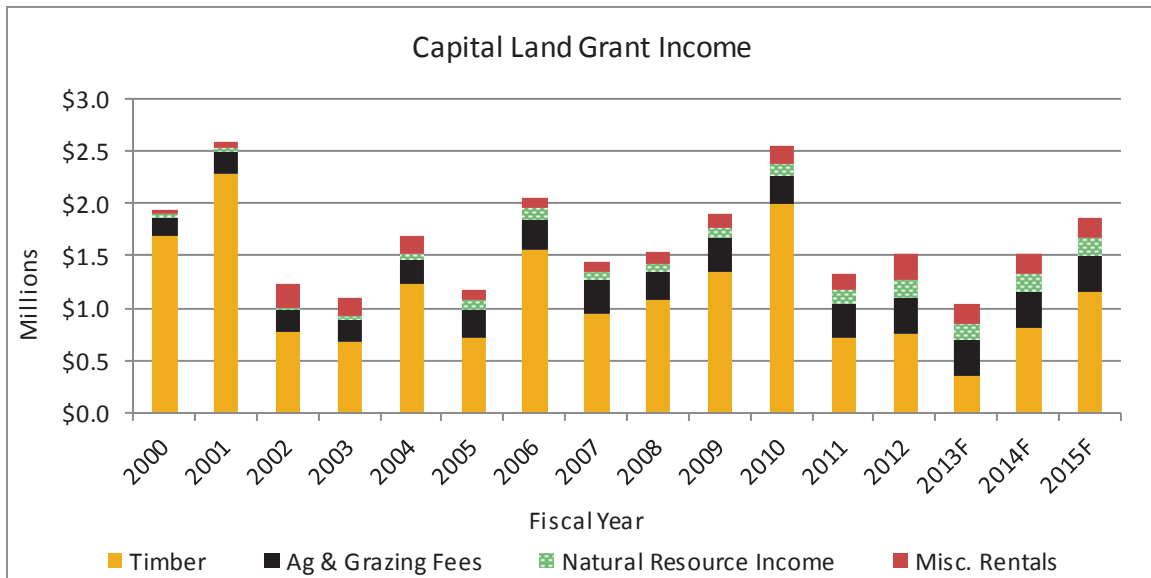
### Capital Land Grant Interest and Income

#### Analysis

The estimate is derived by first estimating the revenue components and then estimating the diversion amount.

#### Revenue Components

1. Timber – Estimates of timber harvest from capital land grant trust lands are taken directly from DNRC estimates.
2. Grazing Fees – Rates are tied to the price of cattle. Cattle prices are expected to be close to those experienced in FY 2010, perhaps slightly less. It is anticipated the grazing fee revenue will be similar to FY 2010.



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. Commodity prices are expected to be about the same as FY 2010 resulting in similar returns.
5. Oil & Gas Bonuses - Estimates continue the amount received in FY 2010.
6. Oil & Gas Leases – For each fiscal year estimated, the estimate is the average of the previous nine years with the highest and lowest years discarded.
7. Mineral Royalties – Mineral royalties are received from oil and natural gas. Royalties are estimated by increasing the previous fiscal year’s production by the growth rate obtained from average annual growth from for the previous 15 years with the highest and lowest years discarded.
8. Oil & Gas Penalties – For each fiscal year estimated, the estimate is the average of the previous two years.

#### Diversion

The diversion amount 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 current year revenue estimates by the ratio of FY 2010 costs that this trust paid to the total administration costs. In FY 2010, the capital land grant trust funded 8.4% of total expenditures.

#### Adjustments and Distribution

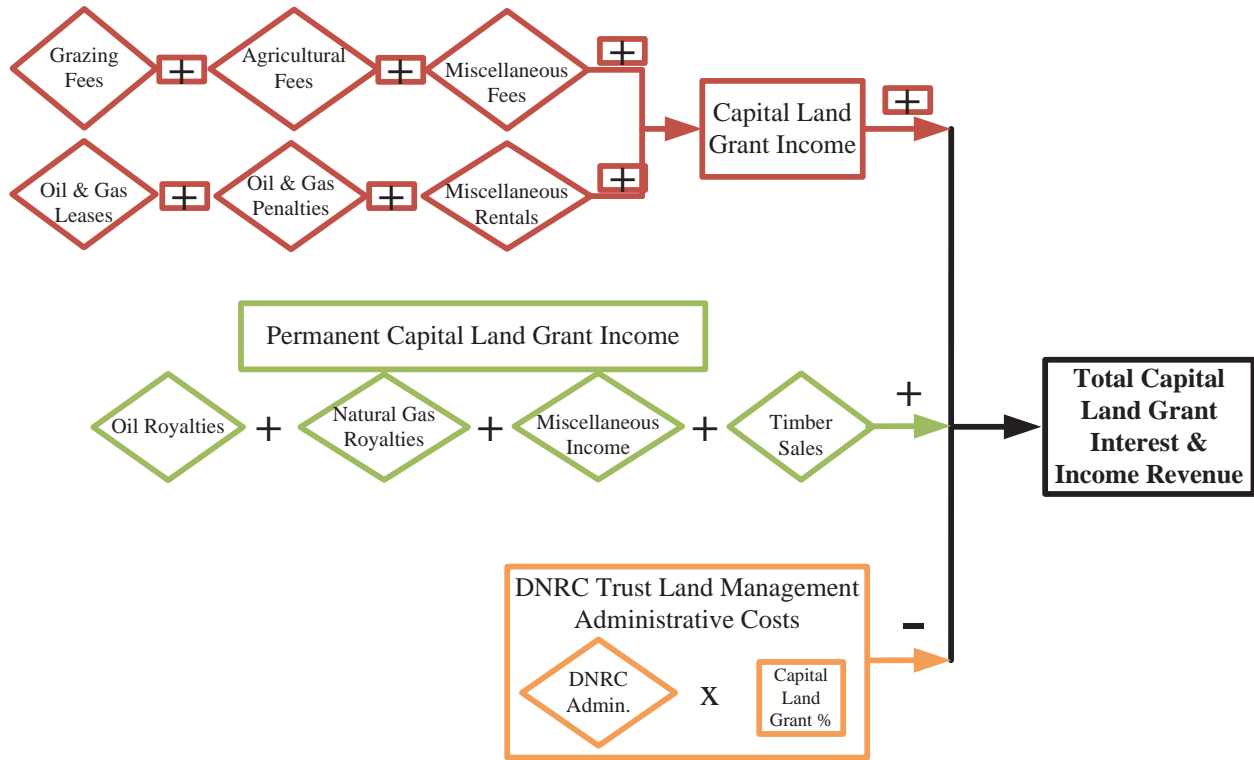
Once total revenue and total diversions have been estimated, the net amounts are distributed to the capital project fund.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

**Forecast Methodology:**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

#### Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	STIP	Capital
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Interest</u>	<u>Interest</u>	<u>Land Share</u>
				<u>Millions</u>	<u>Millions</u>	<u>T&amp;L</u>
Actual	2000	1.921	0.000			0.000
Actual	2001	2.527	0.000			0.000
Actual	2002	1.065	0.000	29.627	0.103	0.000
Actual	2003	0.809	0.000	29.147	0.068	0.000
Actual	2004	1.977	0.000	30.087	0.054	0.000
Actual	2005	0.853	0.000	28.106	0.270	0.000
Actual	2006	1.590	0.000	24.428	0.408	0.000
Actual	2007	0.871	0.000	26.207	0.268	0.000
Actual	2008	0.983	0.000	25.160	0.129	0.000
Actual	2009	1.078	0.000	22.711	0.066	0.000
Actual	2010	1.635	0.000	22.916	0.018	0.000
Actual	2011	0.581	0.000	23.194	0.033	0.000
Actual	2012	0.610	0.000	24.175	0.028	0.000
Forecast	2013	0.232	0.000	23.209	0.411	0.000
Forecast	2014	0.664	0.000	24.111	0.512	0.000
Forecast	2015	1.022	0.000	25.245	0.641	0.000

	t	Trust Income	Trust Land	New Deposit	Non Pool	Non Pool
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Admin.</u>	<u>Long Term</u>	<u>STIP</u>	<u>STIP Bal</u>
		<u>Millions</u>	<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>
Actual	2000	10.969		6.8%	5.4%	11.676
Actual	2001	12.668	-0.048	6.7%	4.7%	6.985
Actual	2002	2.348	-0.151	6.2%	2.6%	7.334
Actual	2003	2.363	-0.305	5.7%	1.4%	6.242
Actual	2004	2.972	-0.099	5.4%	1.3%	7.050
Actual	2005	1.458	-0.173	5.2%	2.4%	12.107
Actual	2006	1.425	-0.063	5.2%	4.1%	3.863
Actual	2007	7.174	-0.115	5.4%	4.7%	14.954
Actual	2008	3.102	-0.085	5.3%	3.1%	2.461
Actual	2009	4.126	-0.104	5.1%	1.0%	4.161
Actual	2010	10.710	0.000	4.8%	0.2%	11.340
Actual	2011	22.233	0.000	4.4%	0.1%	15.565
Actual	2012	31.517	0.000	3.8%	0.1%	11.492
Forecast	2013	25.974	0.000	3.5%	0.1%	11.492
Forecast	2014	29.101	0.000	3.9%	0.2%	11.492
Forecast	2015	27.623	0.000	4.5%	0.5%	11.492

**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	0.133	0.044	0.000	0.019	0.009	0.002	0.048
Actual	2001	0.160	0.043	0.000	0.014	0.003	0.003	0.057
Actual	2002	0.174	0.031	0.000	0.018	0.002	0.004	0.215
Actual	2003	0.170	0.043	0.000	0.018	0.001	0.004	0.174
Actual	2004	0.132	0.088	0.000	0.018	0.000	0.005	0.183
Actual	2005	0.197	0.074	0.000	0.019	0.019	0.009	0.110
Actual	2006	0.210	0.063	0.000	0.019	0.051	0.010	0.092
Actual	2007	0.239	0.093	0.000	0.024	0.004	0.016	0.101
Actual	2008	0.206	0.067	0.000	0.021	0.000	0.018	0.115
Actual	2009	0.208	0.115	0.000	0.023	0.021	0.014	0.152
Actual	2010	0.185	0.087	0.000	0.027	0.032	0.014	0.157
Actual	2011	0.190	0.143	0.000	0.028	0.076	0.013	0.165
Actual	2012	0.240	0.103	0.000	0.032	0.109	0.011	0.258
Forecast	2013	0.240	0.103	0.000	0.023	0.109	0.012	0.183
Forecast	2014	0.240	0.103	0.000	0.024	0.109	0.011	0.191
Forecast	2015	0.240	0.103	0.000	0.024	0.109	0.012	0.199

	<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>TLMD Adm.</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	0.000	0.000	0.000	-0.008	0.248		
Actual	2001	0.000	0.000	0.000	-0.008	0.272		
Actual	2002	0.000	0.000	0.000	-0.009	0.436		
Actual	2003	0.000	0.000	0.000	-0.009	0.401	0.000	
Actual	2004	0.000	0.000	0.000	-0.013	0.414	-0.448	
Actual	2005	0.000	0.000	0.000	-0.009	0.419	-0.169	
Actual	2006	0.000	0.000	0.000	-0.013	0.432	-0.412	
Actual	2007	0.000	0.000	0.000	-0.014	0.464	-0.445	
Actual	2008	0.000	0.000	0.000	-0.013	0.415	-0.457	
Actual	2009	0.000	0.000	0.000	-0.015	0.518	-0.709	
Actual	2010	0.000	0.000	0.000	0.000	0.502	0.000	-0.915
Actual	2011	0.000	0.000	0.000	0.000	0.615	0.000	-0.769
Actual	2012	0.000	0.000	0.000	0.000	0.752	0.000	-0.905
Forecast	2013	0.000	0.000	0.000	0.000	0.669	0.000	-0.815
Forecast	2014	0.000	0.000	0.000	0.000	0.677	0.000	-0.854
Forecast	2015	0.000	0.000	0.000	0.000	0.686	0.000	-0.845

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Capital Land Grant Interest and Income**

	<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	0.004	0.004	1.676	0.028	1.713
Actual	2001	0.006	0.008	2.278	0.011	2.303
Actual	2002	0.003	0.002	0.769	0.006	0.781
Actual	2003	0.004	0.013	0.672	0.023	0.713
Actual	2004	0.003	0.028	1.231	0.847	1.661
Actual	2005	0.005	0.028	0.712	0.030	0.607
Actual	2006	0.005	0.033	1.558	0.036	1.220
Actual	2007	0.007	0.018	0.934	0.008	0.522
Actual	2008	0.008	0.023	1.072	0.006	0.652
Actual	2009	0.007	0.030	1.333	0.007	0.667
Actual	2010	0.017	0.024	1.990	0.017	2.048
Actual	2011	0.006	0.006	0.701	0.009	0.722
Actual	2012	0.016	0.005	0.742	0.016	0.778
Forecast	2013	0.007	0.017	0.342	0.012	0.378
Forecast	2014	0.007	0.018	0.803	0.013	0.841
Forecast	2015	0.007	0.019	1.143	0.013	1.181

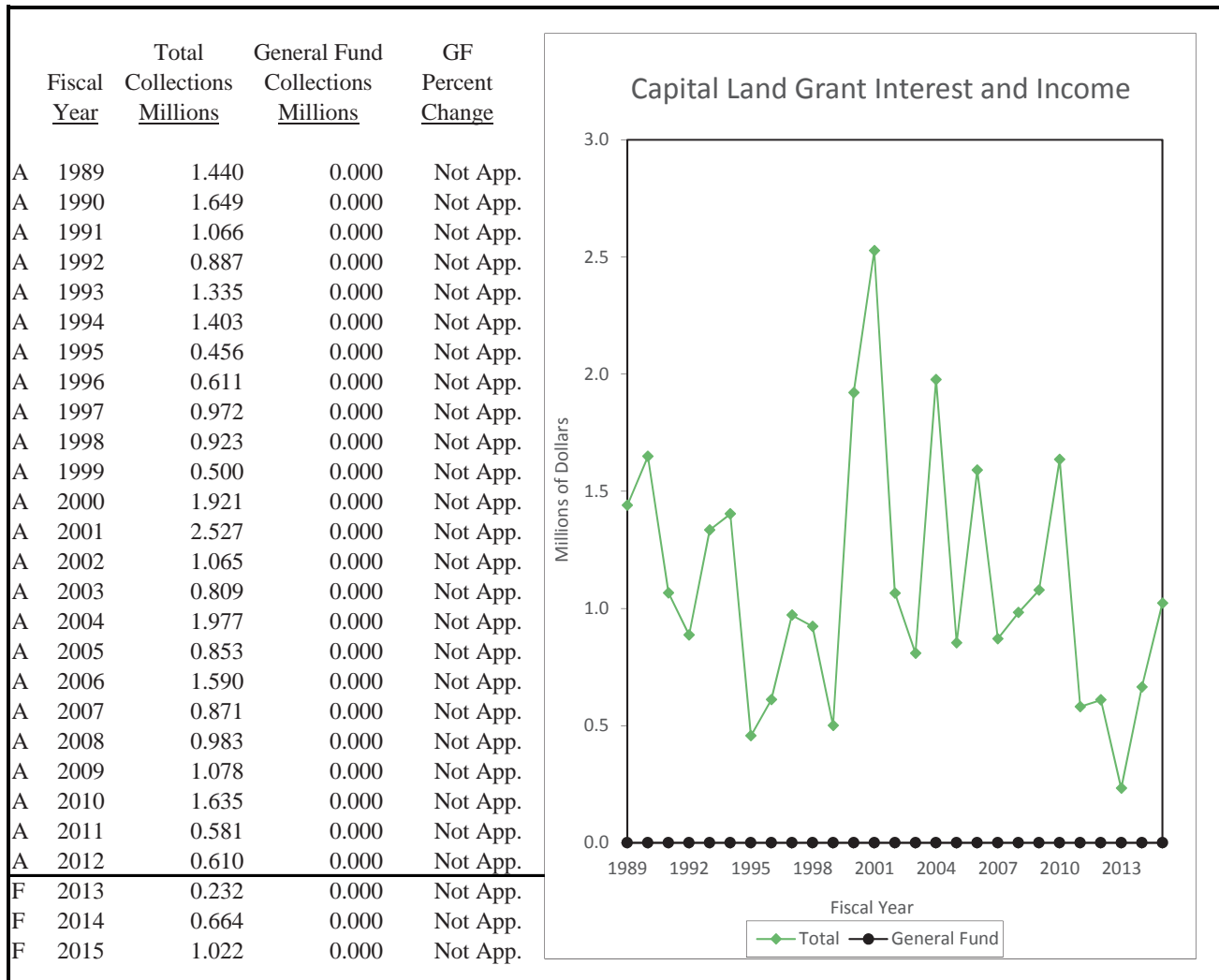
Total Rev. = Grazing + Agriculture + O&G Lease + O&G Bonus + O&G Penalty + Misc. +  
 Int. Land + Int. Stip + Int. Trust + Timber + Res. Dev. + Oil Roy. + Gas Roy. + Timber + Misc. +  
 Timber Cost + Trust Land Admin. + TLMD Adm.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

#### Revenue Projection:



**Data Source(s):** SABHRS, *Wall Street Journal*, Department of Natural Resources and Conservation

**Contacts:** Department of Administration, Department of Natural Resources and Conservation



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

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**Revenue Description:** Article IX, Section 5 of the Montana Constitution requires that 50% 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 FY 2006 the remaining funds are then split 50% (25% of total revenue) to the treasure state endowment trust fund, 25% (12.5% of total revenue) to the treasure state endowment regional water system trust fund, and 25% (12.5% 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, is 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.

#### 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:

#### FY 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

#### FY 2011 - 2013

\$1,275,000 – to the research and commercialization state special revenue account

\$625,000 – 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

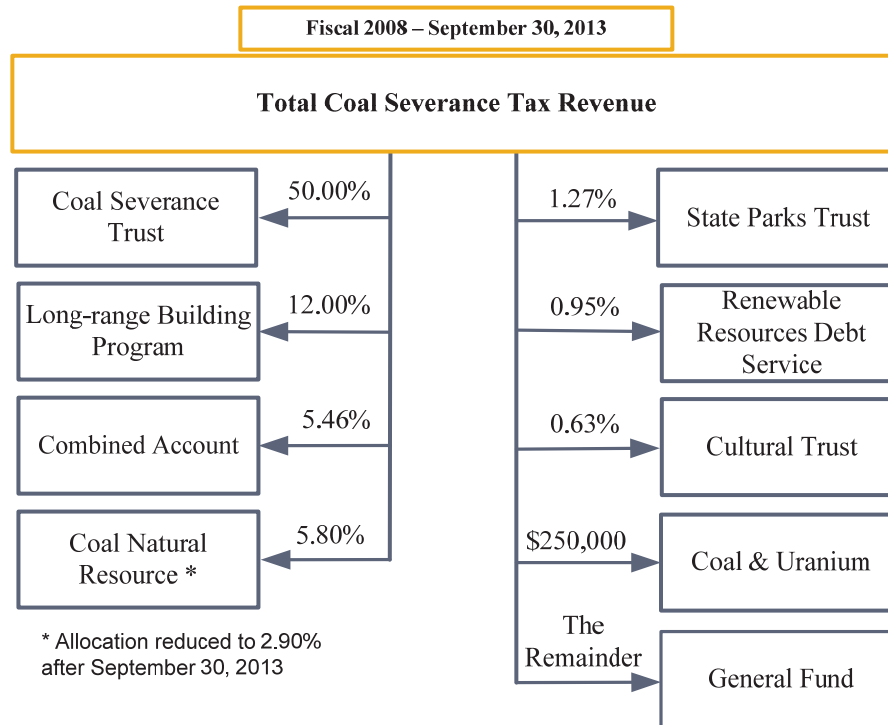
\$3,065,000

# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

#### Distribution Chart:



**Collection Frequency:** Monthly

#### % of Total General Fund Revenue:

FY 2004 – 2.53%	FY 2007 – 1.76%	FY 2010 – 1.65%
FY 2005 – 2.40%	FY 2008 – 1.47%	FY 2011 – 1.5%
FY 2006 – 1.82%	FY 2009 – 1.49%	FY 2012 – 1.38%

#### Revenue Estimate Methodology:

##### Data

The data used to estimate interest earnings from the coal trust are obtained from the Board of Investments (BOI), IHS, 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 IHS 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% 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 \$531.7 million.

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

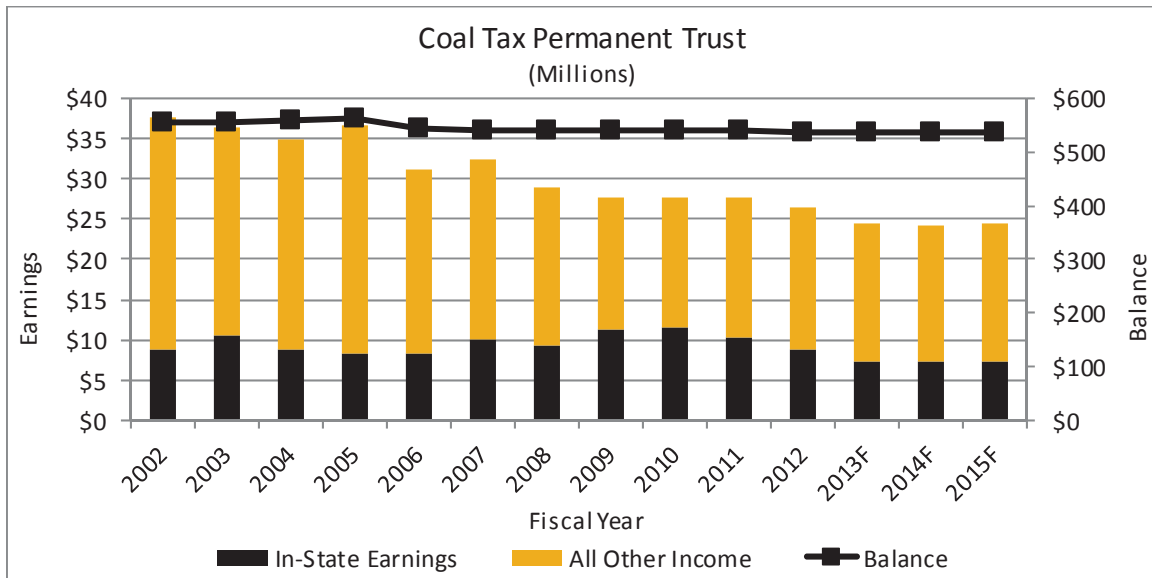
- Trust funds bond pool (TFBP)
- In-state investments
- Short-term investment pool (STIP)
- Payback interest

# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal 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 (FY 2010) 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 IHS. The fiscal year long-term rate is expected to be 4.2% in FY 2011, 4.2% in FY 2012, and 5.0% for FY 2013.



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 25% 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 is held constant throughout the biennium because no new flow of revenue is expected.

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 IHS 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 0.3% in FY 2011, 0.9% in FY 2012, and 2.5% in FY 2013.

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.

After the estimates are calculated, the projected earnings from the four sources are combined to reach total coal trust interest revenue, and the revenues are distributed as described above.

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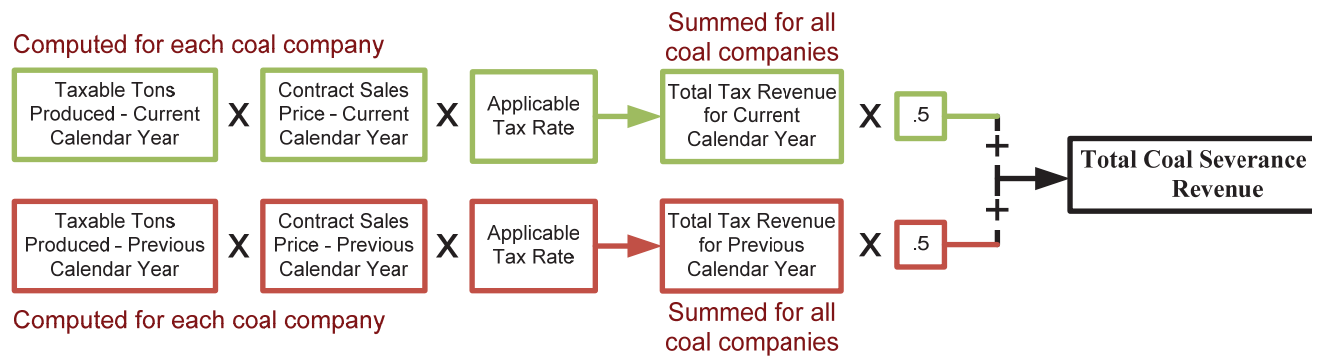
# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

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#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

#### Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	In_State	Other	STIP	Payback
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Interest</u>	<u>Interest</u>	<u>Interest</u>	<u>Interest</u>	<u>Interest</u>
				<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	39.195	39.195					
Actual	2001	37.660	37.660					
Actual	2002	37.605	37.605	23.318	8.765	0.402	1.097	3.370
Actual	2003	36.298	36.298	21.079	10.501	0.028	0.388	3.307
Actual	2004	34.907	34.907	22.274	8.722	0.055	0.451	3.405
Actual	2005	36.752	36.752	21.419	8.231	2.310	0.691	3.006
Actual	2006	31.106	31.106	16.718	8.338	0.346	2.117	2.256
Actual	2007	32.335	32.335	17.616	10.085	1.220	1.378	1.505
Actual	2008	28.855	28.855	17.570	9.346	0.154	1.501	0.283
Actual	2009	26.958	26.958	16.071	11.264	0.572	0.229	0.000
Actual	2010	26.914	26.914	16.102	11.454	0.119	0.060	0.000
Actual	2011	26.783	26.783	16.687	10.416	0.585	0.053	0.000
Actual	2012	25.840	25.840	17.618	8.701	0.128	0.041	0.000
Forecast	2013	24.455	24.455	17.219	7.213	-0.131	0.039	0.000
Forecast	2014	24.431	24.431	17.219	7.213	-0.159	0.043	0.000
Forecast	2015	24.498	24.498	17.219	7.213	-0.189	0.140	0.000

	t	Net Coal Tax	Bond	New Deposit	Non Pool	Non Pool	Non Pool	Gains
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Subsidy</u>	<u>Long Term</u>	<u>STIP</u>	<u>In State</u>	<u>Loan</u>	<u>Millions</u>
		<u>Millions</u>	<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>	
Actual	2000	0.000	0.194	6.8%	5.4%	0.0%	0.0%	
Actual	2001	0.000	0.481	6.7%	4.7%	0.0%	0.0%	
Actual	2002	0.000	0.265	6.2%	2.6%	5.6%	7.3%	0.654
Actual	2003	0.000	0.780	5.7%	1.4%	6.2%	7.0%	0.994
Actual	2004	3.943	1.474	5.4%	1.3%	5.4%	7.3%	0.000
Actual	2005	4.704	1.294	5.2%	2.4%	5.4%	7.3%	0.857
Actual	2006	0.000	0.417	5.2%	4.1%	5.4%	7.3%	1.332
Actual	2007	0.000	0.000	5.4%	4.7%	5.6%	6.2%	0.531
Actual	2008	0.000	0.000	5.3%	3.1%	4.9%	5.7%	0.000
Actual	2009	0.000	0.803	5.1%	1.0%	5.9%	5.1%	(0.381)
Actual	2010	0.000	0.085	4.8%	0.2%	5.8%	5.1%	0.000
Actual	2011	0.000	2.704	4.4%	0.1%	5.7%	5.0%	0.000
Actual	2012	0.000	1.043	3.8%	0.1%	5.6%	4.9%	0.000
Forecast	2013	0.000	0.000	3.5%	0.1%	5.2%	4.9%	0.000
Forecast	2014	0.000	0.000	3.9%	0.2%	5.2%	4.9%	0.000
Forecast	2015	0.000	0.000	4.5%	0.5%	5.2%	4.9%	0.000

# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

	t	Non Pool STIP Bal	Non Pool In-State Bal	Non Pool Loan Bal	SB495 Loan Payment	Invested Balance	Average Return Rate	SB69 Impacts
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>		<u>Millions</u>
Actual	2000	15.335	127.567	0.000				
Actual	2001	22.785	145.402	0.000				
Actual	2002	26.722	168.249	46.367				
Actual	2003	37.107	169.738	46.367				
Actual	2004	41.478	156.146	46.367				
Actual	2005	48.814	150.708	44.546	1.821	552.184	6.6%	
Actual	2006	50.510	160.850	41.896	2.650	541.170	5.7%	
Actual	2007	33.159	199.324	31.047	10.849	548.455	5.9%	
Actual	2008	15.911	182.302	11.574	19.473	538.681	5.4%	
Actual	2009	20.176	201.284	0.000	11.574	528.974	5.2%	(0.292)
Actual	2010	17.745	194.937	0.000	0.000	537.040	5.2%	(0.584)
Actual	2011	16.065	168.605	0.000	0.000	527.685	5.3%	(0.301)
Actual	2012	13.821	139.779	0.000	0.000	523.115	5.1%	0.115
Forecast	2013	13.821	139.779	0.000	0.000	523.115	4.7%	0.115
Forecast	2014	13.821	139.779	0.000	0.000	523.115	4.7%	0.115
Forecast	2015	13.821	139.779	0.000	0.000	523.115	4.7%	0.115

Total Rev. = Invested Balance × Average Return

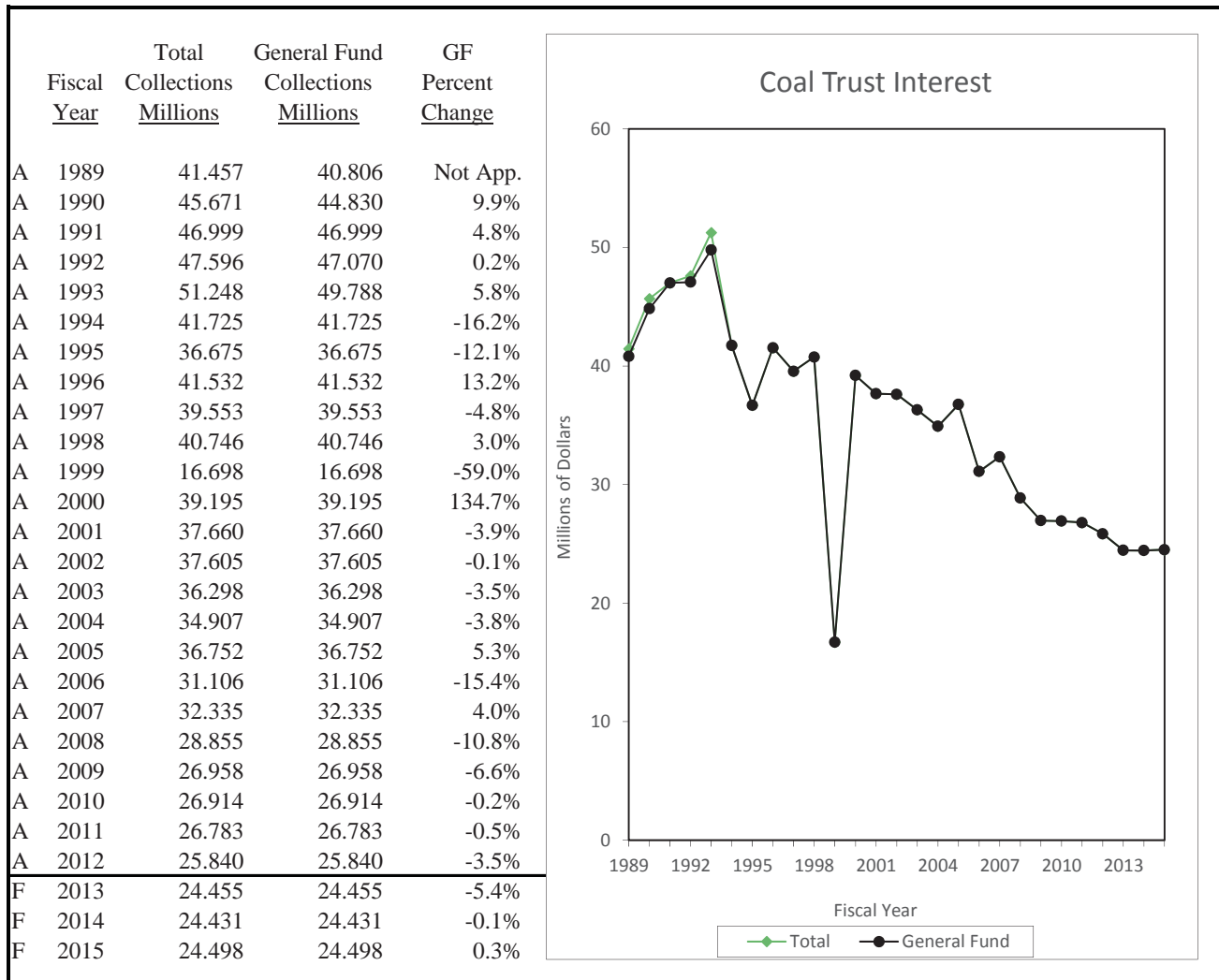
GF Rev. = Total Rev.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

#### Revenue Projection:



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, IHS

**Contacts:** Board of Investments

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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 FY 1996, interest and income from the common school trust was deposited in the state equalization account. Beginning in FY 1996, this interest and income was deposited in the general fund, as mandated by SB 83, passed by the 1995 Legislature. Beginning FY 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 for DNRC administration costs and those deposited directly to the school facility and technology account. With the enactment of Senate Bill 65 by the 2009 Legislature, diverted revenue can be derived from: 1) distributable revenue; 2) sale of easements; 3) timber, except from public school and Montana university system lands; 4) mineral royalties; and 5) fees from sales of state lands except lands granted by the Morrill Act. The amount of the permanent revenue (mineral royalties and easements) diverted from the common school trust reduces the growth of the trust fund balance and, hence, reduces the amount of future distributable interest earnings.

With the enactment of HB 152 by the 2009 Legislature, revenue from the value of timber over 18 million board feet and revenue from power site rents are no longer deposited to the guarantee account, but are deposited to the school facility and technology account. Mineral royalty revenue required to pay interest and principal on the SB 495 loan is not included since the loan was repaid in FY 2008. All net (excluding amounts for administration) mineral royalty revenue is deposited to the guarantee account for transfer to the school facility and technology account. 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 revenue diverted for DNRC administration (Senate Bill 65 enacted by the 2009 Legislature) and to the school facility and technology account (House Bill 152 enacted by the 2009 Legislature), 95% of certain distributable revenue is available to fund public schools. Timber revenue is allocated: 1) 5% to the permanent school trust; 2) revenue received from production over 18 million board feet is deposited to the school facility and technology account; and 3) any remainder to the guarantee account for the support of public schools.

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. Interest income is distributed 95% to the guarantee account and 5% 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. The net mineral royalties are first used to pay the principal and interest of the \$46.4 million loan with the remainder deposited to the guarantee account to fund base aid. Since the loan was paid off in FY 2008, SB 2 (May 2007 special session) directs that all net mineral royalties (until the total amount of \$138.9 million that was purchased is received) are to be deposited to the guarantee account and then transferred to the school facility improvement account (changed to the facility and technology account in HB 152 enacted by the 2009 Legislature). The amount of \$138.9 million in net mineral royalties was achieved at the end of FY 2010. After FY 2010, all mineral royalties (except those diverted for administration costs under SB 65 enacted by the 2009 Legislature) will be deposited to the permanent school trust fund. 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".



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

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#### Statutory Reference:

Tax Rate – NA

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

Enabling Act, Section 10

Other (MCA) – DNRC trust land administration diversion (77-1-108 & 77-1-109)

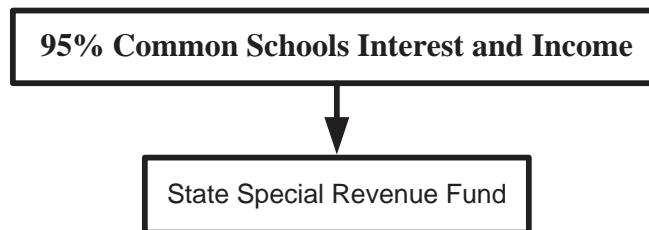
DNRC land bank administration diversion (77-2-362)

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

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

**Distribution:** As described above, 95% of interest and income from common school permanent trust fund (excluding a portion of timber sale revenue and after amounts diverted for DNRC administration) is distributed to the state special revenue guarantee account and is statutorily appropriated for schools. The remaining 5% is deposited to the permanent trust fund. The amount of timber sale revenue over 18 million board feet is deposited to the school facility and technology account. Up until the total of \$138.9 million of purchased royalties was reached, the portion of mineral royalties not used for DNRC administration was deposited to the guarantee account and, with the enactment of SB 2 (May 2007 special session), transferred to the school facility and technology account (renamed in HB 152 enacted by the 2009 Legislature). Since the \$138.9 million was reached late in FY 2010, mineral royalties will again be deposited to the common school permanent trust fund and will generate additional distributable income. The amounts deposited to the guarantee account are shown in this revenue source.

#### Distribution Chart:



**Collection Frequency:** Revenue is received monthly. However, distribution to the state special revenue fund takes place three times per year.

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

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

The estimate for interest and income from the common school trust determines 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 diversions for DNRC administration costs 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. IHS provides future estimates of West Texas Intermediate oil and national well head natural gas prices.

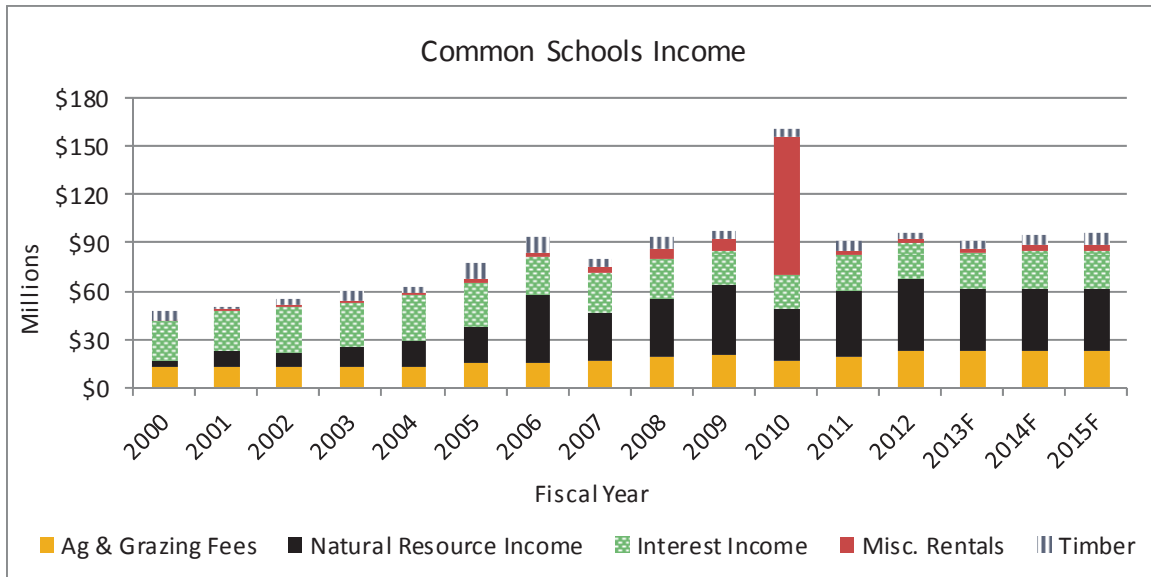
# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

#### 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. Estimates received from DNRC were used in all forecast years.
2. Timber – Estimates of timber harvest revenue from common school trust lands are taken directly from DNRC estimates provided in November 2010.
3. Oil & Gas Bonuses – With record highs in energy prices in the past and increased competition to obtain mineral leases bonus payments have varied substantially. All years contain the amount of \$2.1 million, an average of FY 2007 and FY 2008.
4. Grazing Fees – Rates are tied to the price of cattle. Cattle prices are expected to be close to those experienced in FY 2010, perhaps slightly less. The amount of fees received in FY 2010 is used in all forecast years.
5. Oil & Gas Leases – For each fiscal year estimated, an average annual growth rate over the previous eight year period was applied beginning with FY 2010 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 – Because of the anomalies experienced in fiscal years 2008-2010 due to the Avista river bed lease and the agreement of Arch Coal to pay for the mineral rights to Otter Creek Coal (\$81.5 million of which was deposited to the guarantee account), an average of fiscal years 2004-2009 collections were used, excluding the Avista payments.
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 IHS forecasts for the 3-month commercial paper, 3-month treasury bill, and 6-month treasury bill rates and is estimated to be 0.25% in FY 2011, 0.915% in FY 2012, and 2.543% in FY 2013.
9. Mineral Royalties – Mineral royalties are received from the mining of oil, natural gas, coal, sand and gravel, and other smaller sources. Since the effects of SB 495 (enacted by the 2001 Legislature effective FY 2002) ended late in FY 2010, 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. 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 with minor amounts from another company. Calendar year information on projected

# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

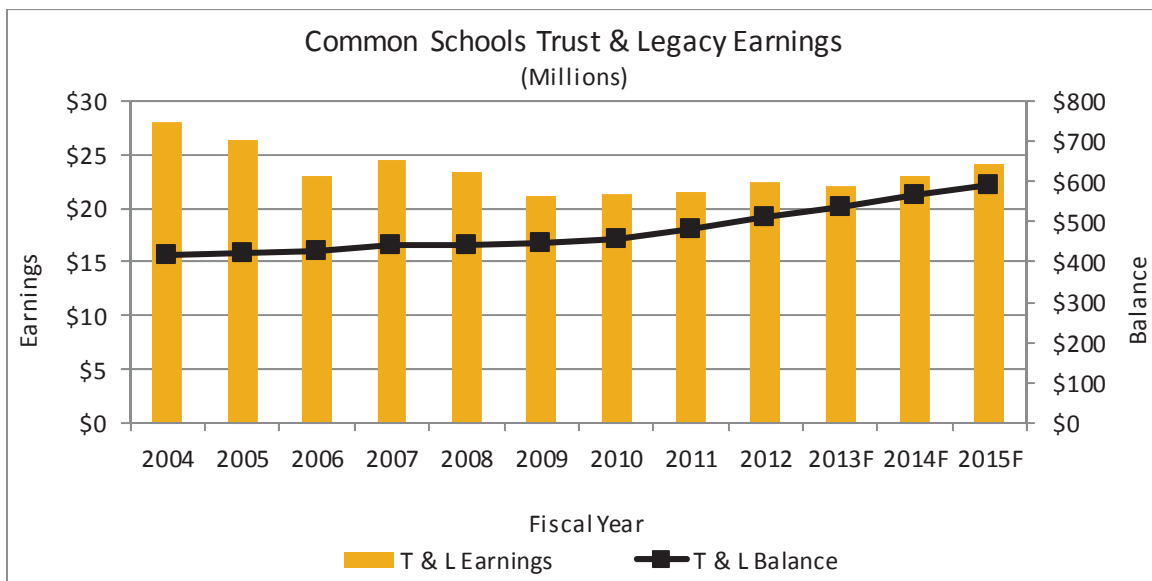
production and percentage of production on state lands was obtained by surveying coal companies, including the companies producing on state lands, from which the amount of production on state lands is derived. Fiscal year production is obtained by averaging production for the current and previous calendar years. All other mineral production was held constant at the amount of gravel royalty collection in FY 2010.

- Price – Oil prices are calculated by increasing the previous year’s Montana price by the growth between the average West Texas Intermediate price estimates obtained from IHS for the four quarters of the same fiscal years. The same methodology is used for natural gas with the driving factor being the IHS estimated national well head 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 Montana 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 shares each trust owns, a share of the earnings is deposited in each trust. For the common school trust, the actual FY 2010 share of 92.64% is used. The pool balance grows when permanent revenue is deposited from the various land trust, including the common school trust. DNRC personnel state that no substantial sales of right-of-ways (a source of permanent revenue) are anticipated in the three forecast years. However, due to the ending of SB 495 in FY 2010, mineral royalties (permanent revenue) will once again add to the balance. 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 \$22.0 million in FY 2011, \$20.5 million in FY 2012 and \$22.1 million in FY 2013. This additional money initially earns interest at the short-term rate (0.25% in FY 2011, 0.915% in FY 2012, and 2.543% in FY 2013) before it is invested in a longer term investment (4.214% in FY 2011, 4.159% in FY 2012, and 5.034% in FY 2013). Also included in these calculations are short-term earnings from the estimated \$4.1 million average balance in the common school Land Bank Trust Fund.
- Earnings from existing balance – The pool balance in FY 2010 was \$444.7 million. The majority of these funds have been invested in bonds purchased over the past several year and average a return rate of 5.2%.
- Non-portfolio earnings – Money not invested in the trust funds bond pool earns interest at the short-term rate on a balance of \$11.3 million, the actual balance from FY 2010.

Once the total amount of the pool earnings has been estimated by summing the above three items, the common school share of 92.64% is applied.



#### Diversions

Diversions fund operational costs in DNRC, but reduce the amount of permanent revenue that would have been deposited to the common school trust and revenue distributed to the trust beneficiaries (see the figure below). To determine future diversion amounts, DNRC’s present law budget amounts are used.

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

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- Trust Land Administration Account – Of the total expenditures requested to be made from this account, a portion is funded by the trust’s distributable revenue. That portion is determined by multiplying current year revenue estimates by the ratio of FY 2010 costs that this trust paid to the total administration costs. In FY 2010, the common school trust funded 3.6% of total expenditures. A portion of mineral royalties (\$4.0 million in each of the forecast years) and other permanent income can be diverted to this account to fund department’s activities in managing the common school trust lands. The portion of permanent revenue was determined by discussions with DNRC staff.

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#### Adjustments and Distribution

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

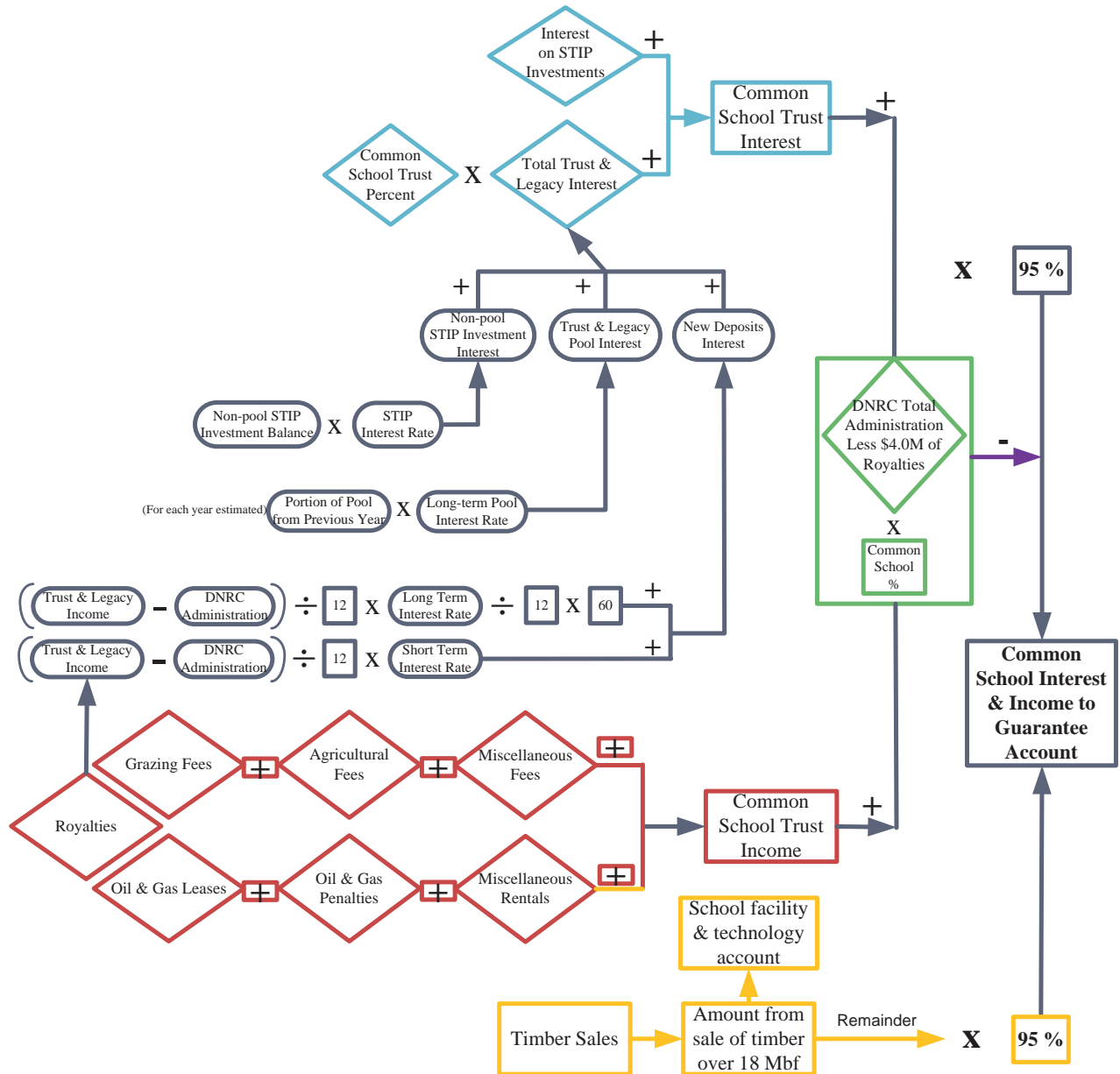
- 95% of the distributable interest and income (excluding a portion of timber revenue) net of diversions is deposited to the guarantee account and the remaining 5% is returned to the permanent trust fund. The money deposited to the guarantee account is used to fund public schools.
- The value received from timber sales over 18 million board feet is distributed to the school facility and technology account. The amount of money distributed to the account in one year is spent in the next year.
- Mineral royalties are used to fund a portion of administrative costs with the remainder distributed to the school permanent trust fund.

# 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:

	t	Total Rev.	GF Rev.	TFBP	STIP	Common	SB495	Trust Land
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Interest</u>	<u>Interest</u>	<u>School Share</u>	<u>Loan Pay.</u>	<u>Expense</u>
				<u>Millions</u>	<u>Millions</u>	<u>T&amp;L</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	50.875	48.938	29.627	0.103	0.933		
Actual	2003	48.977	0.000	29.147	0.068	0.931	0.000	-3.551
Actual	2004	55.663	0.000	30.087	0.054	0.929	-1.821	-3.312
Actual	2005	68.036	0.000	28.106	0.270	0.927	-2.650	-3.680
Actual	2006	82.606	0.000	24.428	0.408	0.928	-10.849	-3.905
Actual	2007	70.429	0.000	26.207	0.268	0.927	-19.473	-3.130
Actual	2008	83.026	0.000	25.160	0.129	0.926	-11.574	-3.809
Actual	2009	61.821	0.000	22.711	0.066	0.926	0.000	-9.943
Actual	2010	133.315	0.000	22.916	0.018	0.932	0.000	-8.674
Actual	2011	60.144	0.000	23.194	0.033	0.929	0.000	-8.837
Actual	2012	102.391	0.000	24.175	0.028	0.930	0.000	-8.717
Forecast	2013	67.668	0.000	23.209	0.032	0.930	0.000	-9.107
Forecast	2014	65.272	0.000	24.111	0.036	0.930	0.000	-9.085
Forecast	2015	61.693	0.000	25.245	0.116	0.930	0.000	-9.073

	t	Trust Income	New Deposit	Non Pool	Non Pool	SB495	Oil&Gas
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Long Term</u>	<u>STIP</u>	<u>STIP Bal</u>	<u>Interest</u>	<u>From Schools</u>
		<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	2.348	6.2%	2.6%	7.334		
Actual	2003	2.363	5.7%	1.4%	6.242		
Actual	2004	2.972	5.4%	1.3%	7.050		
Actual	2005	1.458	5.2%	2.4%	12.107	-3.006	
Actual	2006	1.425	5.2%	4.1%	3.863	-2.256	
Actual	2007	7.174	5.4%	4.7%	14.954	-1.505	
Actual	2008	3.102	5.3%	3.1%	2.461	-0.283	
Actual	2009	4.126	5.1%	1.0%	4.161	0.000	
Actual	2010	10.710	4.8%	0.2%	11.340	0.000	
Actual	2011	22.233	4.4%	0.1%	15.565	0.000	
Actual	2012	31.517	3.8%	0.1%	11.492	0.000	12.336
Forecast	2013	25.974	3.5%	0.1%	11.492	0.000	8.917
Forecast	2014	29.101	3.9%	0.2%	11.492	0.000	8.203
Forecast	2015	27.623	4.5%	0.5%	11.492	0.000	7.306

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Common School 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	2002	5.467	6.999	0.000	1.540	0.478	0.335	1.244
Actual	2003	5.243	7.975	0.000	1.575	0.301	0.399	1.349
Actual	2004	4.971	8.051	0.000	1.649	0.871	0.534	2.156
Actual	2005	5.918	8.816	0.000	1.893	3.827	0.641	2.057
Actual	2006	6.277	9.453	0.000	2.331	13.005	0.864	2.193
Actual	2007	7.057	9.408	0.000	2.506	2.102	1.067	2.510
Actual	2008	6.408	12.282	0.000	2.701	2.154	0.812	6.418
Actual	2009	6.470	14.081	0.000	2.760	11.828	0.541	6.795
Actual	2010	5.861	10.985	0.000	2.873	7.243	0.615	85.247
Actual	2011	5.984	13.464	0.000	2.937	13.234	1.008	2.840
Actual	2012	7.471	15.009	0.000	3.672	15.104	1.411	3.162
Forecast	2013	7.471	15.009	0.000	4.037	11.205	1.551	3.162
Forecast	2014	7.471	15.009	0.000	4.366	7.627	1.677	3.162
Forecast	2015	7.471	15.009	0.000	4.726	7.627	1.816	3.162

	<u>t</u>	<u>Int. Land</u>	<u>Int. STIP</u>	<u>Int. Trust</u>	<u>Timber</u>	<u>Res. Dev.</u>	<u>Commercial</u>	<u>Avista</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Lease</u>	<u>Millions</u>
							<u>Millions</u>	
Actual	2002	0.000	0.305	27.775	3.625	-0.504		
Actual	2003	0.020	0.189	27.202	3.606	-0.499		
Actual	2004	0.003	0.200	27.991	0.667	-0.518		
Actual	2005	0.026	0.408	26.306	3.652	-0.686	-0.067	
Actual	2006	0.000	0.642	23.048	2.879	-1.003	-0.068	
Actual	2007	0.000	0.733	24.541	1.929	-0.722	-0.057	
Actual	2008	0.000	0.606	23.428	2.251	-0.786	-0.057	
Actual	2009	0.000	0.293	21.094	1.855	-1.129	-0.096	
Actual	2010	0.000	0.063	21.370	2.990	0.000	0.000	
Actual	2011	0.000	0.042	21.570	2.713	0.000	0.000	
Actual	2012	0.000	0.053	22.515	1.886	0.000	0.000	
Forecast	2013	0.000	0.035	21.973	2.438	0.000	0.000	4.321
Forecast	2014	0.000	0.036	22.906	2.753	0.000	0.000	4.398
Forecast	2015	0.000	0.115	24.081	2.793	0.000	0.000	0.000

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Common School Interest and Income**

	<u>Fiscal</u>	<u>Total Timber Millions</u>	<u>Timber Sales Pgm. Millions</u>	<u>School Technology Millions</u>	<u>Oil Royalties Millions</u>	<u>Gas Royalties Millions</u>	<u>Coal Royalties Millions</u>	<u>Other Royalties Millions</u>
Actual	2002	3.625	0.000	1.822	2.390	1.523	2.837	0.144
Actual	2003	5.508	-1.829	0.000	3.682	1.995	3.877	0.148
Actual	2004	2.968	-1.941	3.179	4.852	2.718	4.677	0.170
Actual	2005	10.602	-2.536	4.414	7.966	4.330	4.240	0.194
Actual	2006	10.227	-2.707	4.641	14.759	6.317	4.180	0.356
Actual	2007	5.398	-2.573	0.896	15.133	5.083	3.729	0.148
Actual	2008	7.317	-3.117	1.949	19.367	5.660	5.865	0.156
Actual	2009	5.457	-2.901	0.701	14.809	4.738	7.841	0.485
Actual	2010	5.381	0.000	2.391	12.478	2.841	4.984	0.488
Actual	2011	6.412	0.000	3.699	12.621	2.329	8.497	0.285
Actual	2012	3.583	0.000	1.697	14.371	1.468	7.400	0.894
Forecast	2013	4.568	0.000	2.130	13.937	1.449	10.239	0.137
Forecast	2014	6.790	0.000	4.037	14.374	1.852	13.081	0.137
Forecast	2015	7.699	0.000	4.906	13.814	1.976	12.292	0.137

	<u>Fiscal</u>	<u>Oil Barrels Millions</u>	<u>Gas MCF's Millions</u>	<u>Coal Tons Millions</u>	<u>Oil Price \$/Barrel</u>	<u>Gas Price \$/MCF</u>	<u>Coal Price \$/Ton</u>	<u>Excess Royalties To Trust</u>
Actual	2002	0.911	5.892	2.758	20.32	1.91	11.80	
Actual	2003	1.017	5.381	3.689	28.14	3.20	9.59	
Actual	2004	1.123	5.720	4.183	31.02	3.95	8.60	
Actual	2005	1.400	7.240	3.914	44.69	5.09	9.12	
Actual	2006	2.024	7.878	4.213	57.24	6.64	8.63	
Actual	2007	2.012	7.708	3.006	55.85	5.13	9.55	
Actual	2008	1.809	7.752	4.720	88.87	6.12	10.87	
Actual	2009	1.662	6.710	5.604	60.16	4.66	11.97	-5.542
Actual	2010	1.571	5.306	2.680	60.74	3.36	12.09	-1.398
Actual	2011	1.242	4.527	4.813	80.30	3.25	13.13	19.733
Actual	2012	1.292	3.989	4.175	84.38	2.57	13.94	20.134
Forecast	2013	1.337	3.774	5.553	79.08	2.68	14.50	17.763
Forecast	2014	1.372	3.404	6.820	79.47	3.80	15.09	21.444
Forecast	2015	1.403	3.055	6.170	74.72	4.51	15.67	20.219

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

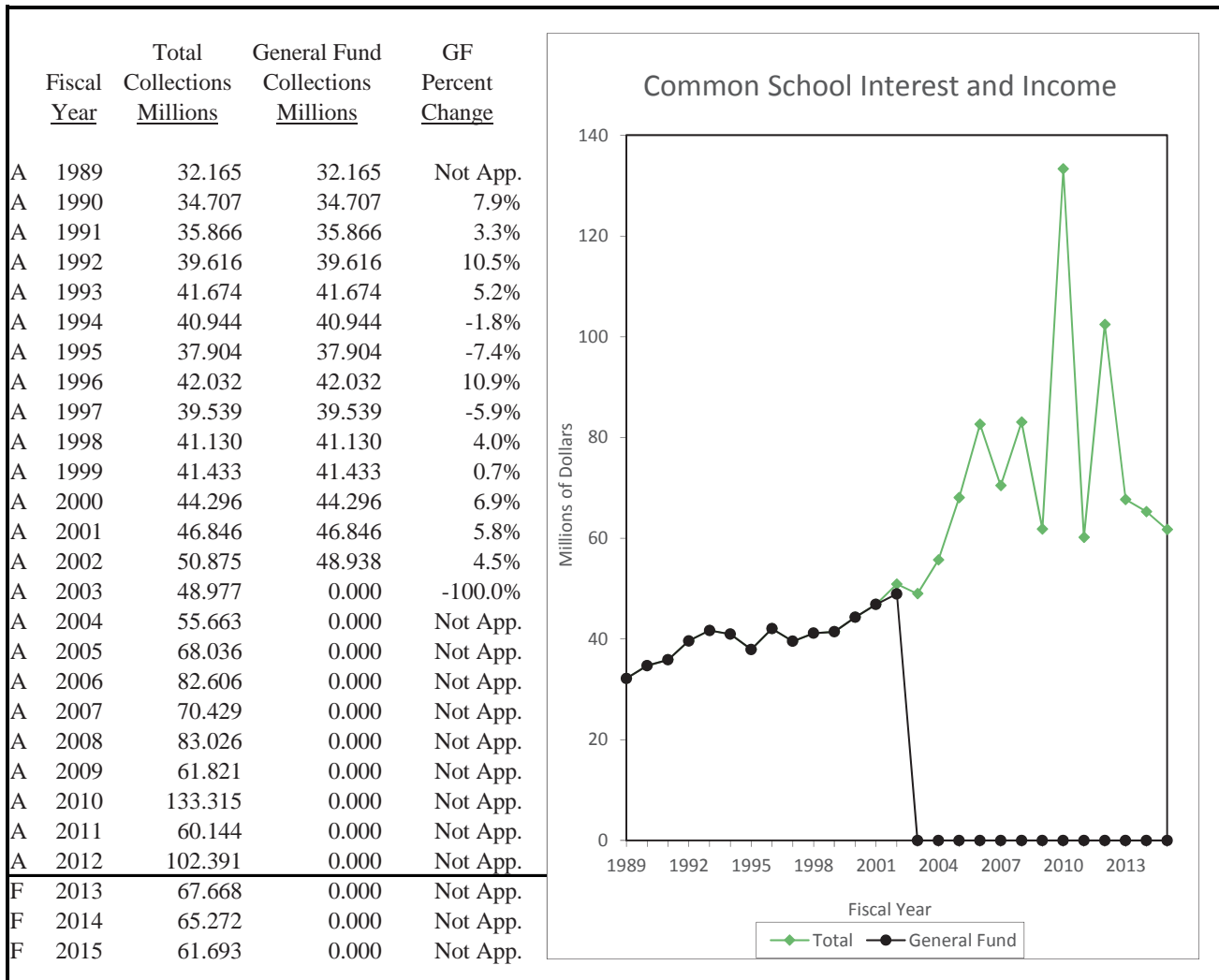


# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

#### Revenue Projection:



**Data Source(s):** Board of Investments, DNRC - Centralized Services, SABHRS, *Wall Street Journal*, IHS

**Contacts:** Department of Natural Resources and Conservation

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Cultural Trust Interest

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**Revenue Description:** Beginning in FY 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% 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% distribution of coal severance tax to the cultural trust was eliminated. Except for FY 2003, beginning July 1, 1999, the amount of 0.63% 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 FY 2003 only. In HB 9, the 2005 Legislature transferred \$3,412,500 from the general fund to the trust and the 2007 Legislature transferred \$1,500,000 from the general fund to the trust. Both these actions increase the earnings from the trust.

#### Statutory Reference:

Tax Rate - NA

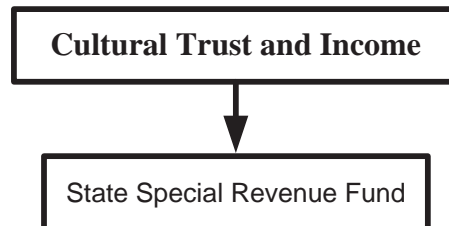
Distribution (MCA) - 15-35-108(6), 22-2-305

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:



**Collection Frequency:** Monthly

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

#### Revenue Estimate Methodology:

##### Data

The data used to estimate the interest and earnings of the cultural trust are collected from the Board of Investments (BOI), IHS, 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 IHS, 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

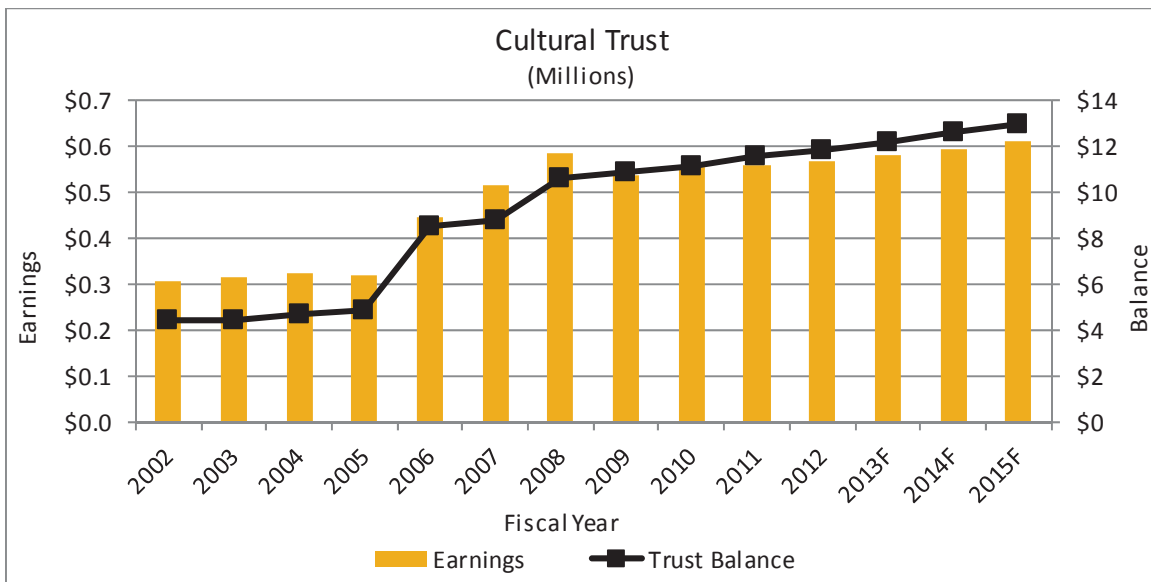
Analysis

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% 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 FY 1997 and the funds were used for the purchase of Virginia and Nevada Cities. In FY 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 \$11.2 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 \$294,000 in FY 2011, \$297,000 in FY 2012, and \$302,000 in FY 2013.

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 IHS: 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 fiscal year average long-term interest rate is expected to be 4.2% in FY 2011, 4.2% in FY 2012, and 5.0% in FY 2013.



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 IHS projections of the interest rates on three and six-month corporate loans and three and six-month treasury bills. The average fiscal year short-term interest rate is expected to be 0.3% in FY 2011, 0.9% in FY 2012, and 2.5% in FY 2013.

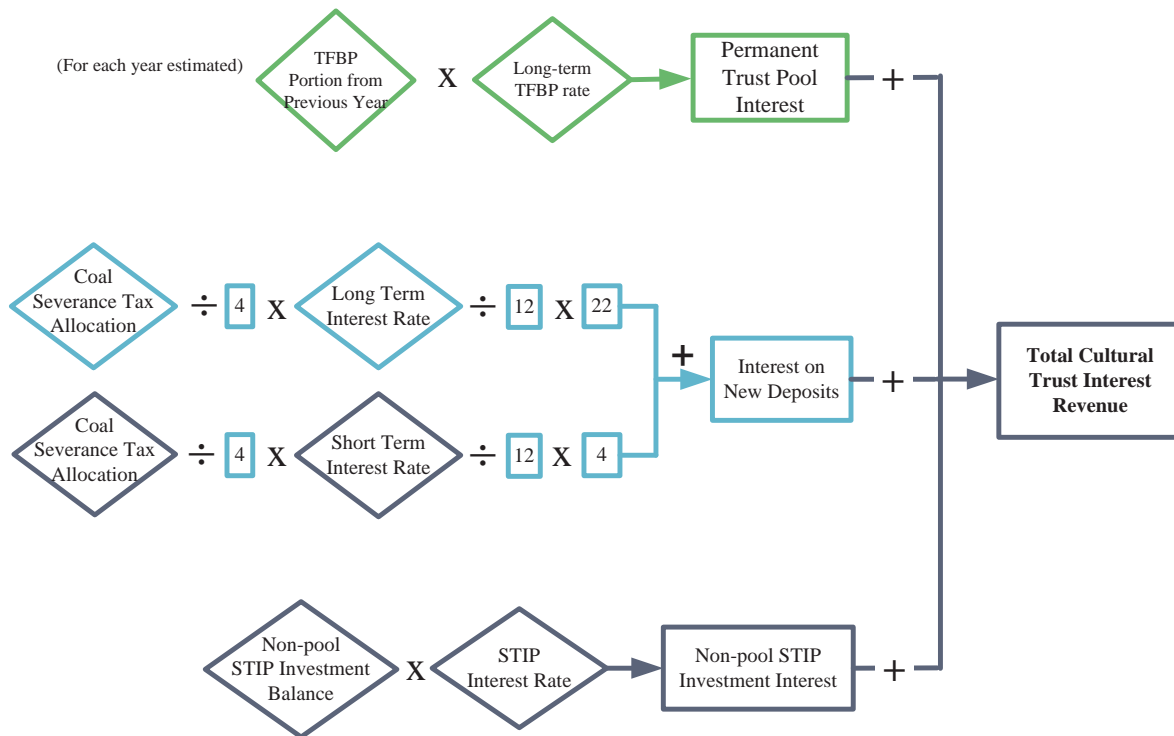
The 0.63% coal severance tax distribution to the cultural trust is considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before 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.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Cultural Trust Interest

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Cultural Trust Interest

#### Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	STIP	Invested	Average
	<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	2002	0.305	0.000	0.304	0.001		
Actual	2003	0.314	0.000	0.310	0.001	4.518	7.0%
Actual	2004	0.326	0.000	0.325	0.001	4.693	6.9%
Actual	2005	0.318	0.000	0.316	0.002	4.932	6.5%
Actual	2006	0.447	0.000	0.421	0.026	8.478	5.3%
Actual	2007	0.516	0.000	0.513	0.003	8.785	5.9%
Actual	2008	0.584	0.000	0.573	0.011	10.595	5.5%
Actual	2009	0.535	0.000	0.534	0.001	10.862	4.9%
Actual	2010	0.553	0.000	0.553	0.000	11.096	5.0%
Actual	2011	0.561	0.000	0.559	0.000	11.436	4.9%
Actual	2012	0.568	0.000	0.567	0.001	11.786	4.8%
Forecast	2013	0.580	0.000	0.574	0.006	12.132	4.8%
Forecast	2014	0.593	0.000	0.586	0.007	12.497	4.7%
Forecast	2015	0.609	0.000	0.601	0.009	12.877	4.7%

	t	Net Coal Tax	New Deposit	Non Pool	Non Pool
	<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	2002	0.199	6.2%	2.6%	0.102
Actual	2003	0.000	5.7%	1.4%	0.063
Actual	2004	0.199	5.4%	1.3%	0.088
Actual	2005	0.237	5.2%	2.4%	0.092
Actual	2006	0.226	5.2%	4.1%	0.063
Actual	2007	0.257	5.4%	4.7%	0.060
Actual	2008	0.286	5.3%	3.1%	0.191
Actual	2009	0.312	5.1%	1.0%	0.137
Actual	2010	0.278	4.8%	0.2%	0.071
Actual	2011	0.346	4.4%	0.1%	0.006
Actual	2012	0.332	3.8%	0.1%	0.076
Forecast	2013	0.346	3.5%	0.1%	0.076
Forecast	2014	0.365	3.9%	0.2%	0.076
Forecast	2015	0.380	4.5%	0.5%	0.076

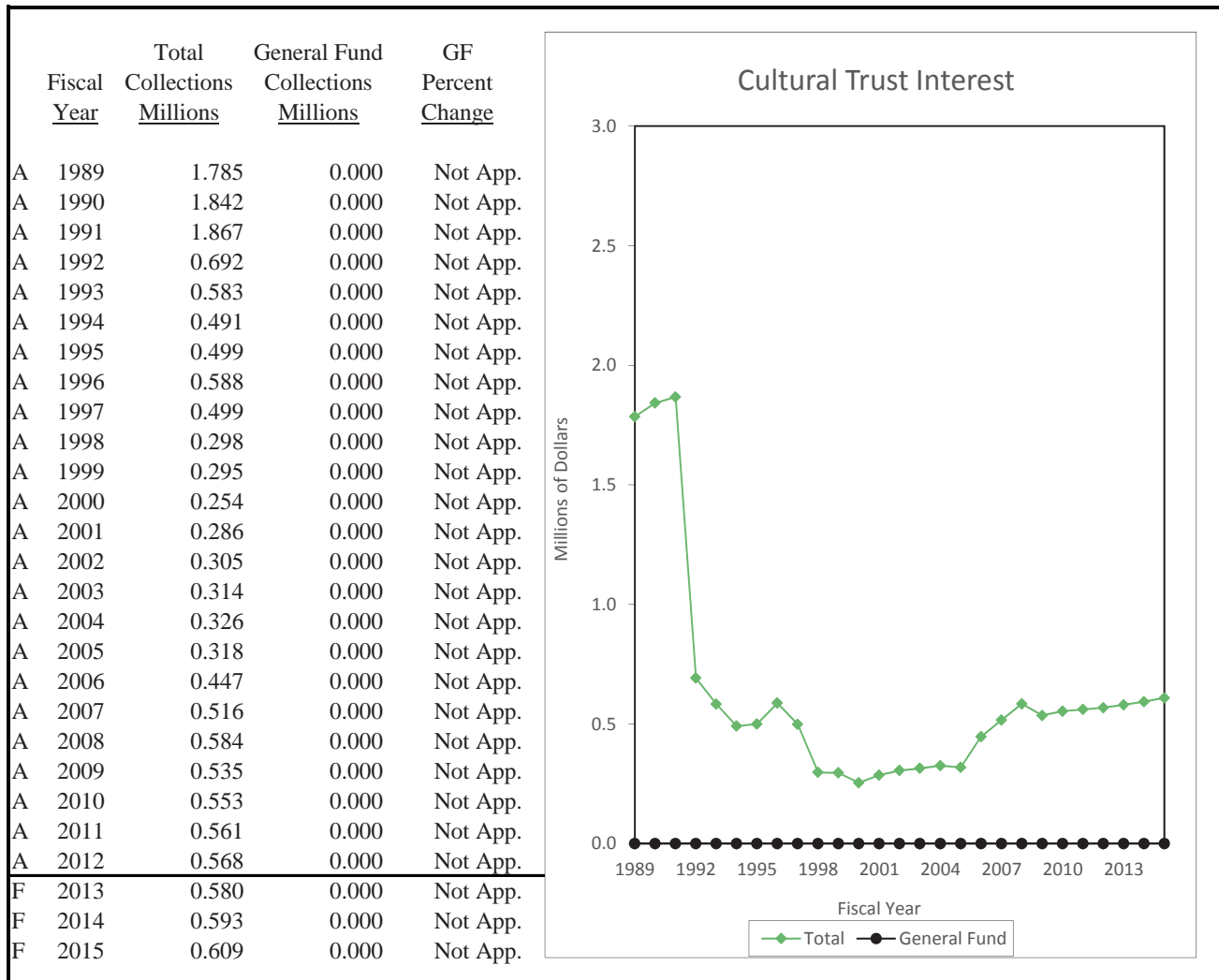
Total Rev. = Invested Balance × Average Return

# Legislative Fiscal Division

## Revenue Estimate Profile

### Cultural Trust Interest

#### Revenue Projection:



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, IHS

**Contacts:**

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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.

With the enactment of SB 65 by the 2009 Legislature, up to 25% of Deaf and Blind trust revenue can be diverted to the trust land administration account to fund Department of Natural Resources and Conservation (DNRC) administration costs. This revenue can include distributable revenue, mineral royalties, and timber revenue. Diversions reduce the amount of revenue distribute to the trust beneficiaries. Revenue diverted from the Deaf and Blind permanent trust fund reduces the growth of the trust balance and, hence, reduces the amount of distributable interest earnings. The legislation is effective July 1, 2009.

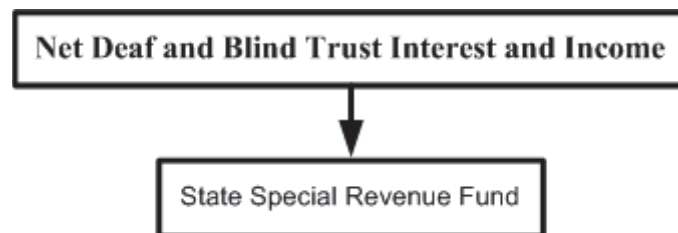
#### Statutory Reference:

- Tax Rate – NA
- Distribution (MCA) – 20-8-110
- Enabling Act, Sections 11 & 17
- Other (MCA) – DNRC trust land administration diversion (77-1-108 & 109)  
DNRC land bank administration diversion (77-2-362)

**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:



**Collection Frequency:** Monthly

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

#### Revenue Estimate Methodology:

The estimate for interest and income from the Deaf and Blind trust determines 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 diversions that reduce the amount of distributable or permanent 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 mineral royalties), is estimated as part of the entire Trust and Legacy account (T & L) and earnings are apportioned to this trust according to the number of shares owned.

# Legislative Fiscal Division

## Revenue Estimate Profile

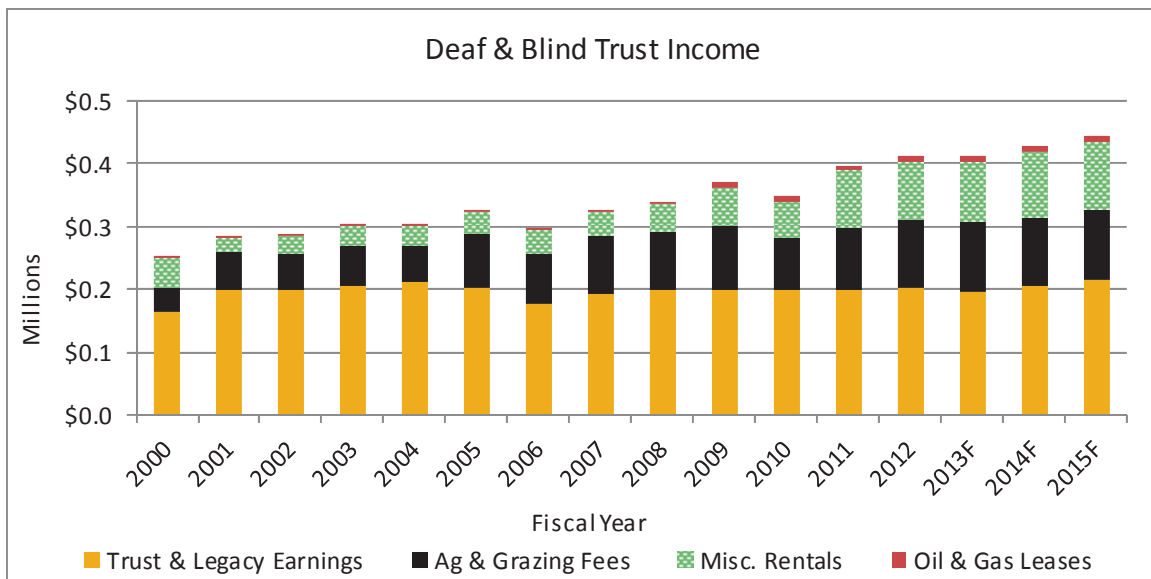
### Deaf and Blind Trust Interest and Income

#### 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 2010 share percentage of 0.86 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 in \$22.0 million in FY 2011, \$20.5 million in FY 2012 and \$22.1 million in FY 2013. This additional money initially earns interest at the short-term rate (0.3% in FY 2011, 0.9% in FY 2012, and 2.5% in FY 2013) before it is invested in a longer term investment (4.2% in FY 2011, 4.2% in FY 2012, and 5.0% in FY 2013).
- Earnings from existing balance – The pool balance in FY 2010 was \$444.7 million. The majority of these funds have been invested in bonds purchased over the past several year and average a return rate of 5.2%.
- Non-portfolio earnings – Money not invested in the trust funds bond pool earns interest at the short-term rate on a balance of \$11.3 million, the actual balance from FY 2010.

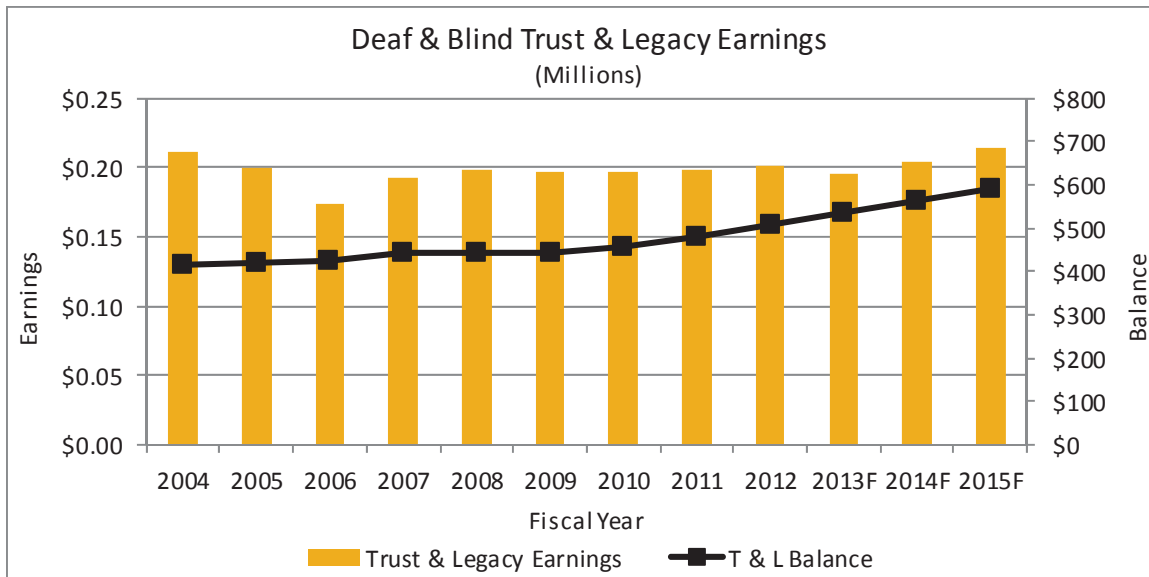
Once the total amount of the pool earnings has been estimated by summing the above three items, the Deaf and Blind trust share of 0.86% is applied.



# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income



2. Grazing Fees – Rates are tied to the price of cattle. Cattle prices are expected to be close to those experienced in FY 2010. It is anticipated the grazing fee revenue will be similar to FY 2010.
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 between FY 2002 and FY 2008.
4. Agricultural Fees – Fees are based on a crop share basis. Commodity prices are expected to be about the same as FY 2010 resulting in similar returns.
5. Oil & Gas Leases – For each fiscal year estimated, the estimate is the average of the previous two years.

#### Diversions

Diversions fund administration costs in DNRC, but reduce the amount of revenue distributed to the trust beneficiaries or permanent revenue deposited to the trust fund (see the figure below). To determine future diversion amounts, DNRC’s present law budget amounts are used. Of the total expenditures requested to be made from this account, a portion is funded by the trust’s distributable revenue. That portion is determined by multiplying current year revenue estimates by the ratio of FY 2010 costs that this trust paid to the total administration costs. In FY 2010, the deaf and blind trust funded 0.78% of total expenditures.

#### Adjustments and Distribution

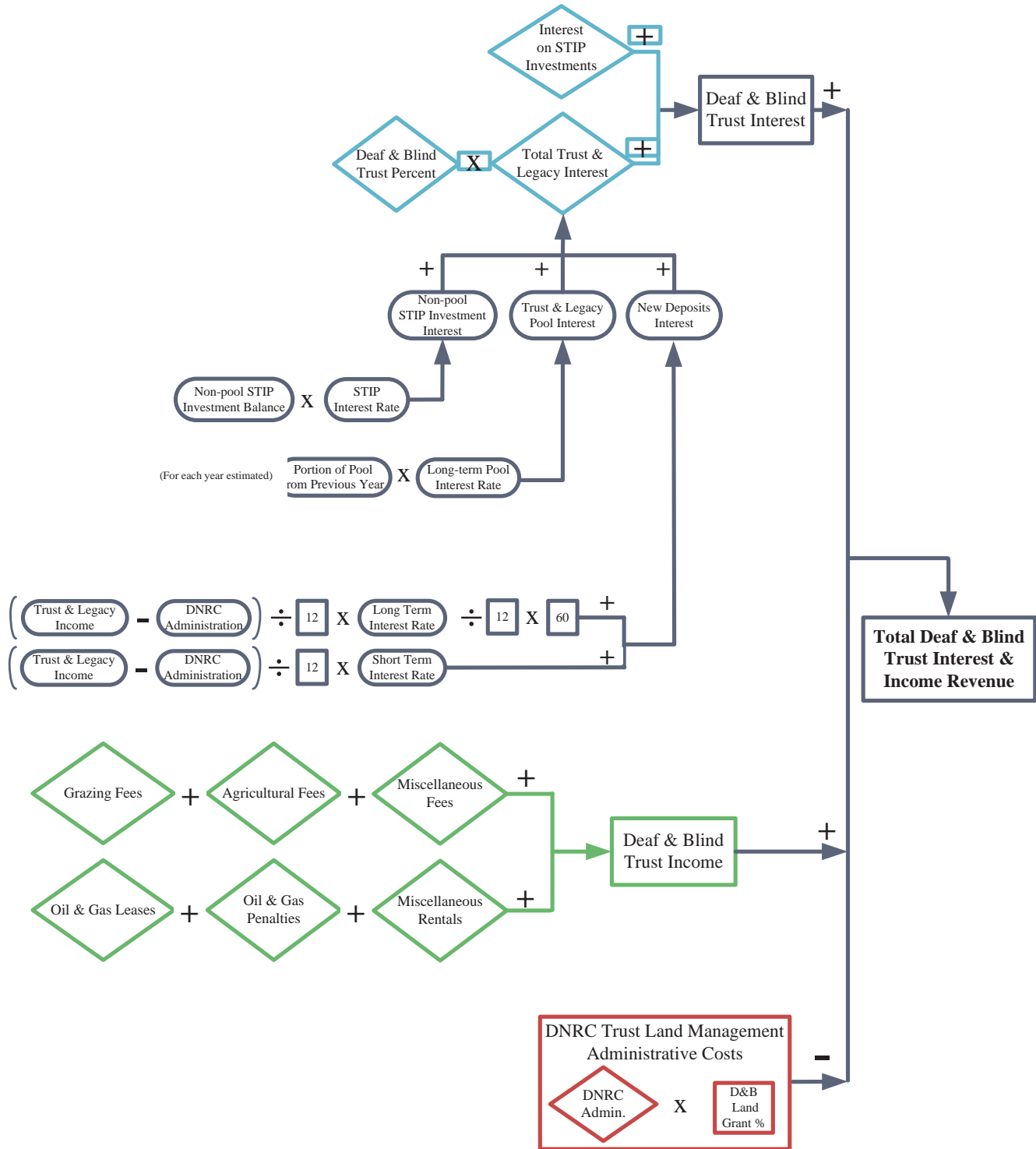
Once total revenue and total diversions have been estimated, the net amounts are distributed to the state special revenue fund.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

**Forecast Methodology:**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

#### Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	STIP	Deaf &
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Interest</u>	<u>Interest</u>	<u>Blind Share</u>
				<u>Millions</u>	<u>Millions</u>	<u>T&amp;L</u>
Actual	2002	0.284	0.000	29.627	0.103	0.007
Actual	2003	0.300	0.000	29.147	0.068	0.007
Actual	2004	0.299	0.000	30.087	0.054	0.007
Actual	2005	0.319	0.000	28.106	0.270	0.007
Actual	2006	0.291	0.000	24.428	0.408	0.007
Actual	2007	0.323	0.000	26.207	0.268	0.007
Actual	2008	0.334	0.000	25.160	0.129	0.008
Actual	2009	0.373	0.000	22.711	0.066	0.009
Actual	2010	0.265	0.000	22.916	0.018	0.009
Actual	2011	0.327	0.000	23.194	0.033	0.009
Actual	2012	0.242	0.000	24.175	0.028	0.008
Forecast	2013	0.288	0.000	23.209	0.411	0.008
Forecast	2014	0.246	0.000	24.111	0.512	0.008
Forecast	2015	0.265	0.000	25.245	0.641	0.008

	t	Trust Income	Trust Land	New Deposit	Non Pool	Non Pool
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Admin.</u>	<u>Long Term</u>	<u>STIP</u>	<u>STIP Bal</u>
		<u>Millions</u>	<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>
Actual	2002	2.348	0.000	6.2%	2.6%	7.334
Actual	2003	2.363	0.000	5.7%	1.4%	6.242
Actual	2004	2.972	0.000	5.4%	1.3%	7.050
Actual	2005	1.458	0.000	5.2%	2.4%	12.107
Actual	2006	1.425	0.000	5.2%	4.1%	3.863
Actual	2007	7.174	0.000	5.4%	4.7%	14.954
Actual	2008	3.102	0.000	5.3%	3.1%	2.461
Actual	2009	4.126	0.000	5.1%	1.0%	4.161
Actual	2010	10.710	0.000	4.8%	0.2%	11.340
Actual	2011	22.233	0.000	4.4%	0.1%	15.565
Actual	2012	31.517	0.000	3.8%	0.1%	11.492
Forecast	2013	25.974	0.000	3.5%	0.1%	11.492
Forecast	2014	29.101	0.000	3.9%	0.2%	11.492
Forecast	2015	27.623	0.000	4.5%	0.5%	11.492

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Deaf and Blind Trust Interest and Income**

	<u>t</u> <u>Fiscal</u>	<u>Grazing</u> <u>Millions</u>	<u>Agriculture</u> <u>Millions</u>	<u>Misc.</u> <u>Millions</u>	<u>O&amp;G Lease</u> <u>Millions</u>	<u>O&amp;G Bonus</u> <u>Millions</u>	<u>O&amp;G Penalty</u> <u>Millions</u>	<u>Misc.</u> <u>Millions</u>
Actual	2002	0.041	0.015	0.000	0.002	0.000	0.000	0.030
Actual	2003	0.043	0.023	0.000	0.002	0.000	0.000	0.032
Actual	2004	0.039	0.016	0.000	0.002	0.000	0.000	0.033
Actual	2005	0.048	0.039	0.000	0.002	0.000	0.000	0.033
Actual	2006	0.051	0.030	0.000	0.002	0.000	0.000	0.037
Actual	2007	0.061	0.029	0.000	0.002	0.000	0.003	0.040
Actual	2008	0.056	0.036	0.000	0.002	0.000	0.003	0.043
Actual	2009	0.062	0.042	0.000	0.009	0.008	0.003	0.060
Actual	2010	0.056	0.027	0.000	0.009	0.000	0.003	0.057
Actual	2011	0.057	0.042	0.000	0.008	0.000	0.001	0.091
Actual	2012	0.066	0.043	0.000	0.010	0.042	0.000	0.092
Forecast	2013	0.066	0.043	0.000	0.009	0.000	0.000	0.098
Forecast	2014	0.066	0.043	0.000	0.009	0.000	0.000	0.104
Forecast	2015	0.066	0.043	0.000	0.009	0.000	0.000	0.110

	<u>t</u> <u>Fiscal</u>	<u>Int. Land</u> <u>Millions</u>	<u>Int. STIP</u> <u>Millions</u>	<u>Int. Trust</u> <u>Millions</u>	<u>Timber</u> <u>Millions</u>	<u>Res. Dev.</u> <u>Millions</u>	<u>TLMD Adm.</u> <u>Millions</u>
Actual	2002	0.000	0.000	0.199	0.000	-0.003	
Actual	2003	0.000	0.000	0.203	0.000	-0.003	
Actual	2004	0.000	0.000	0.212	0.000	-0.003	
Actual	2005	0.000	0.000	0.201	0.000	-0.004	
Actual	2006	0.000	0.000	0.175	0.000	-0.003	
Actual	2007	0.000	0.000	0.193	0.000	-0.004	
Actual	2008	0.000	0.000	0.199	0.000	-0.004	
Actual	2009	0.000	0.000	0.197	0.000	-0.005	
Actual	2010	0.000	0.000	0.198	0.000	0.000	-0.085
Actual	2011	0.000	0.000	0.198	0.000	0.000	-0.207
Actual	2012	0.000	0.000	0.201	0.000	0.000	-0.142
Forecast	2013	0.000	0.000	0.196	0.000	0.000	-0.124
Forecast	2014	0.000	0.000	0.205	0.000	0.000	-0.179
Forecast	2015	0.000	0.000	0.215	0.000	0.000	-0.178

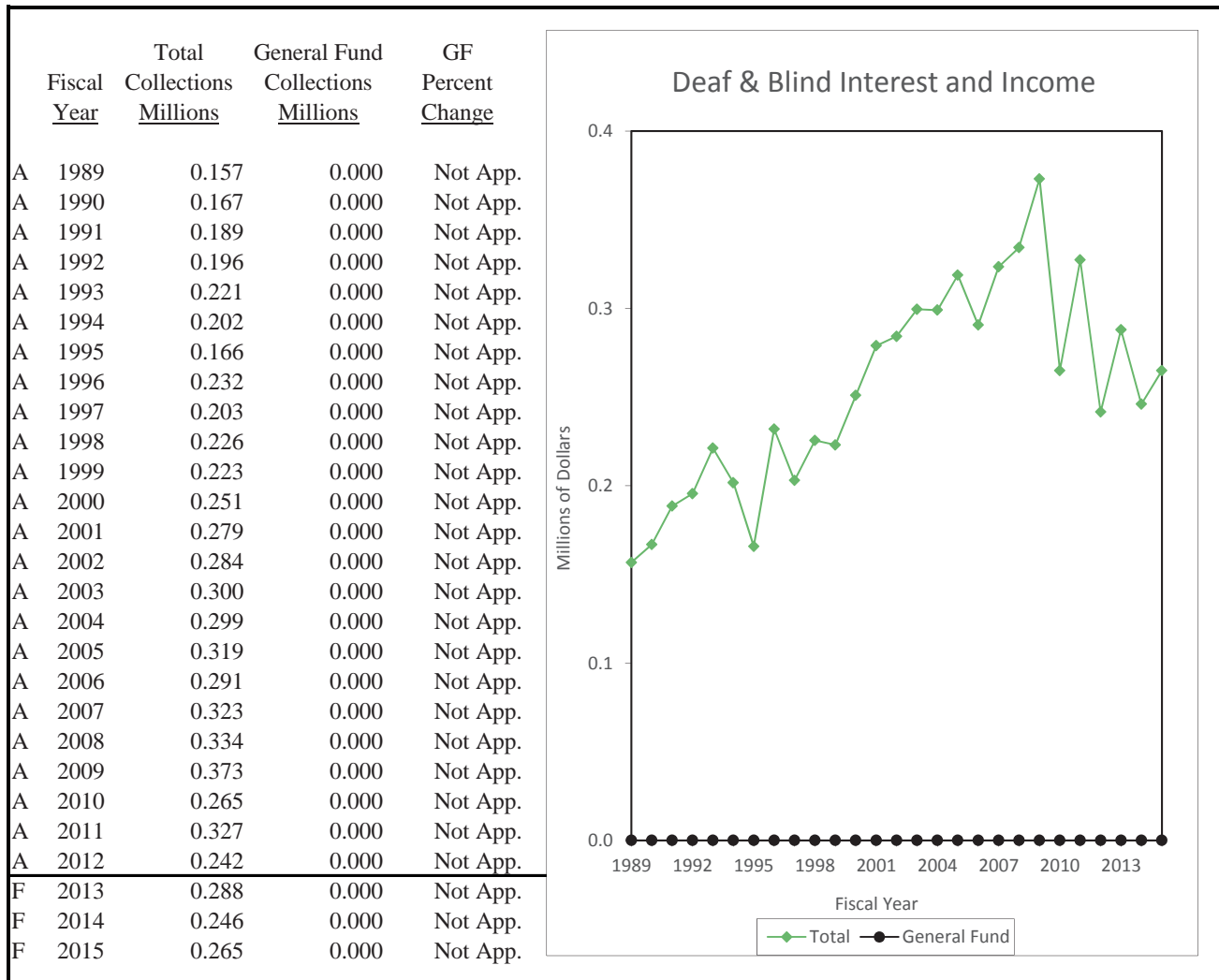
Total Rev. = Grazing + Agriculture + O&G Lease + O&G Bonus + O&G Penalty + Misc. +  
 Int. Land + Int. Stip + Int. Trust + Timber + Res. Dev. + TLMD Adm.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

#### Revenue Projection:



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, IHS, Department of Natural Resources and Conservation

**Contacts:** Department of Natural Resources and Conservation

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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% 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 FY 2006 the remaining funds are then split 50% (25% of total revenue) to the treasure state endowment trust fund, 25% (12.5% of total revenue) to the treasure state endowment regional water system trust fund, and 25% (12.5% 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.

#### Statutory Reference:

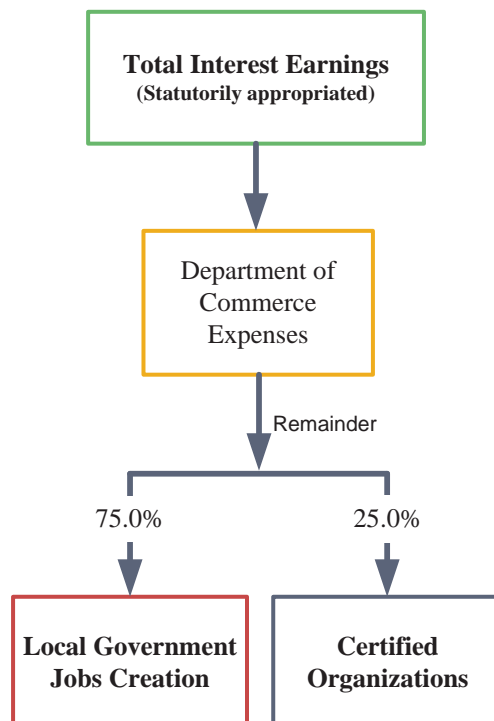
Tax Rate – NA  
Distribution (MCA) – 17-5-703 (5b); use of earnings (90-1-205)  
Date Due (MCA) – monthly (17-5-703(5b))

**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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**Collection Frequency:** Monthly

**% 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), IHS, 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 IHS 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 FY 2006 as a sub-trust to the permanent coal trust. The Constitution requires that 50% of the coal severance tax collections be distributed to the coal trust, and 25% of that distribution (after the water bond debt service obligation is met) or 12.5% 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 \$49.9 million. Estimates of future deposits to the trust are developed in the coal severance tax projection and are expected to be \$5.8 million in FY 2011, \$5.8 million in FY 2012, and \$5.9 million in FY 2012.

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

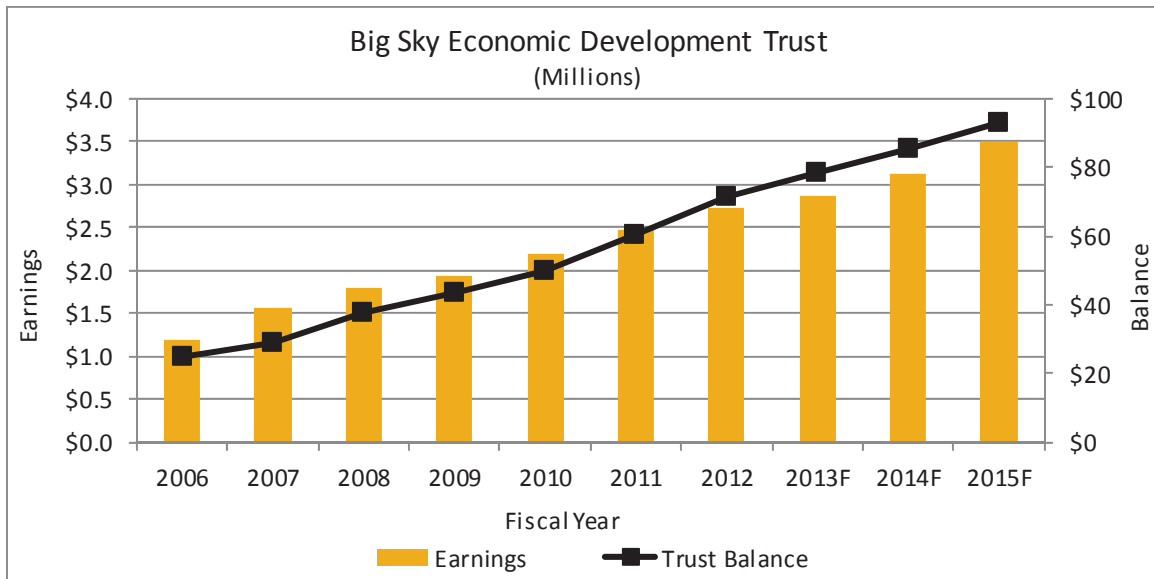
- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

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 (FY 2010) 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 IHS. The fiscal year average long-term interest rate is expected to be 4.2% in FY 2011, 4.2% in FY 2012, and 5.0% in FY 2013.

# Legislative Fiscal Division

## Revenue Estimate Profile

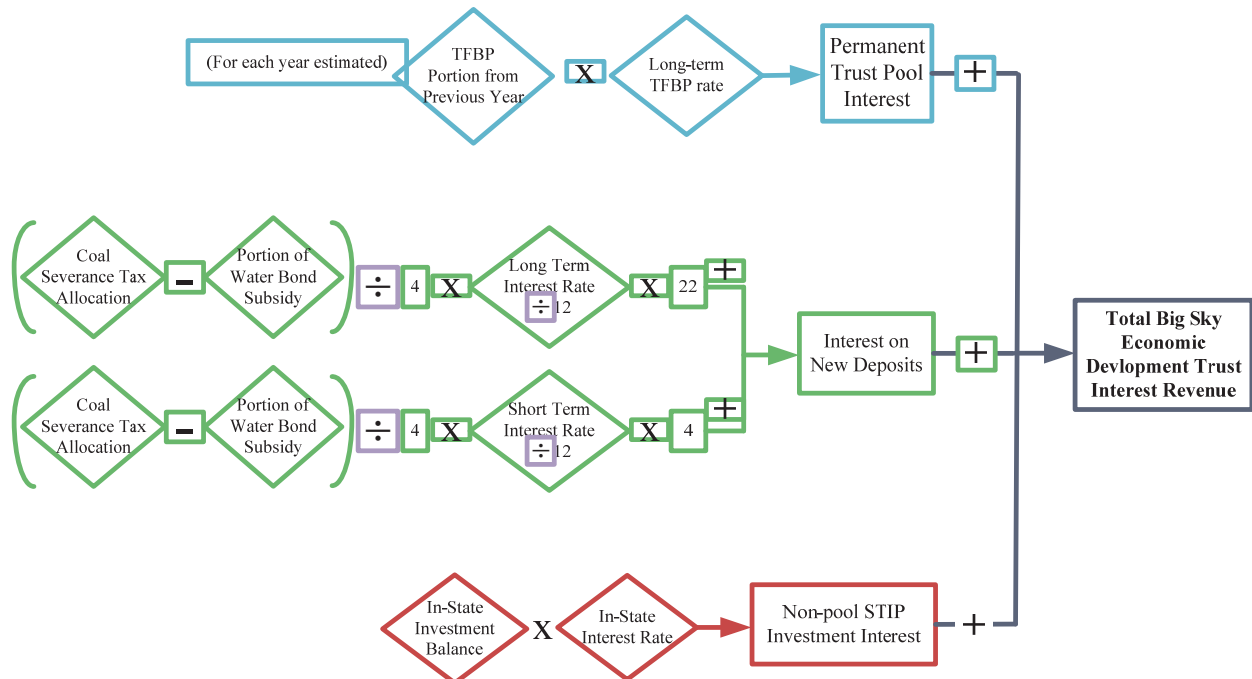
### Economic Development Trust Interest



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 IHS projections of three short-term investments. The average fiscal year short-term interest rate is expected to be 0.3% in FY 2011, 0.9% in FY 2012, and 2.5% in FY 2013.

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.

#### Forecast Methodology:





**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Economic Development Trust Interest**

**Revenue Estimate Assumptions:**

	t	Total Rev.	GF Rev.	TFBP	STIP	Loan	Invested	Average
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Balance</u>	<u>Return</u>
				Interest	Interest	Interest	Millions	Rate
				<u>Millions</u>	<u>Millions</u>	<u>Millions</u>		
Actual	2002	0.000	0.000	0.000	0.000	0.000	0.000	0.0%
Actual	2003	0.000	0.000	0.000	0.000	0.000	0.000	0.0%
Actual	2004	0.000	0.000	0.000	0.000	0.000	0.000	0.0%
Actual	2005	0.000	0.000	0.000	0.000	0.000	0.000	0.0%
Actual	2006	1.194	0.000	1.174	0.019	0.000	23.608	5.1%
Actual	2007	1.559	0.000	1.526	0.033	0.000	29.122	5.4%
Actual	2008	1.801	0.000	1.738	0.063	0.000	37.684	4.8%
Actual	2009	1.925	0.000	1.867	0.059	0.000	43.191	4.5%
Actual	2010	2.196	0.000	2.185	0.011	0.000	49.755	4.4%
Actual	2011	2.472	0.000	2.459	0.013	0.000	57.961	4.3%
Actual	2012	2.731	0.000	2.711	0.020	0.000	66.950	4.1%
Forecast	2013	2.862	0.000	2.728	0.134	0.000	73.806	3.9%
Forecast	2014	3.123	0.000	2.966	0.156	0.000	81.043	3.9%
Forecast	2015	3.491	0.000	3.248	0.242	0.000	88.580	3.9%

	t	Net Coal Tax	New Deposit	Non Pool	Non Pool
	<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	2002	0.000	6.2%	2.6%	0.000
Actual	2003	0.000	5.7%	1.4%	0.000
Actual	2004	0.000	5.4%	1.3%	0.000
Actual	2005	0.000	5.2%	2.4%	0.000
Actual	2006	4.478	5.2%	4.1%	0.609
Actual	2007	5.095	5.4%	4.7%	0.273
Actual	2008	5.666	5.3%	3.1%	3.215
Actual	2009	6.196	5.1%	1.0%	2.172
Actual	2010	5.522	4.8%	0.2%	2.976
Actual	2011	6.871	4.4%	0.1%	4.462
Actual	2012	6.593	3.8%	0.1%	8.401
Forecast	2013	6.856	3.5%	0.1%	8.401
Forecast	2014	7.237	3.9%	0.2%	8.401
Forecast	2015	7.537	4.5%	0.5%	8.401

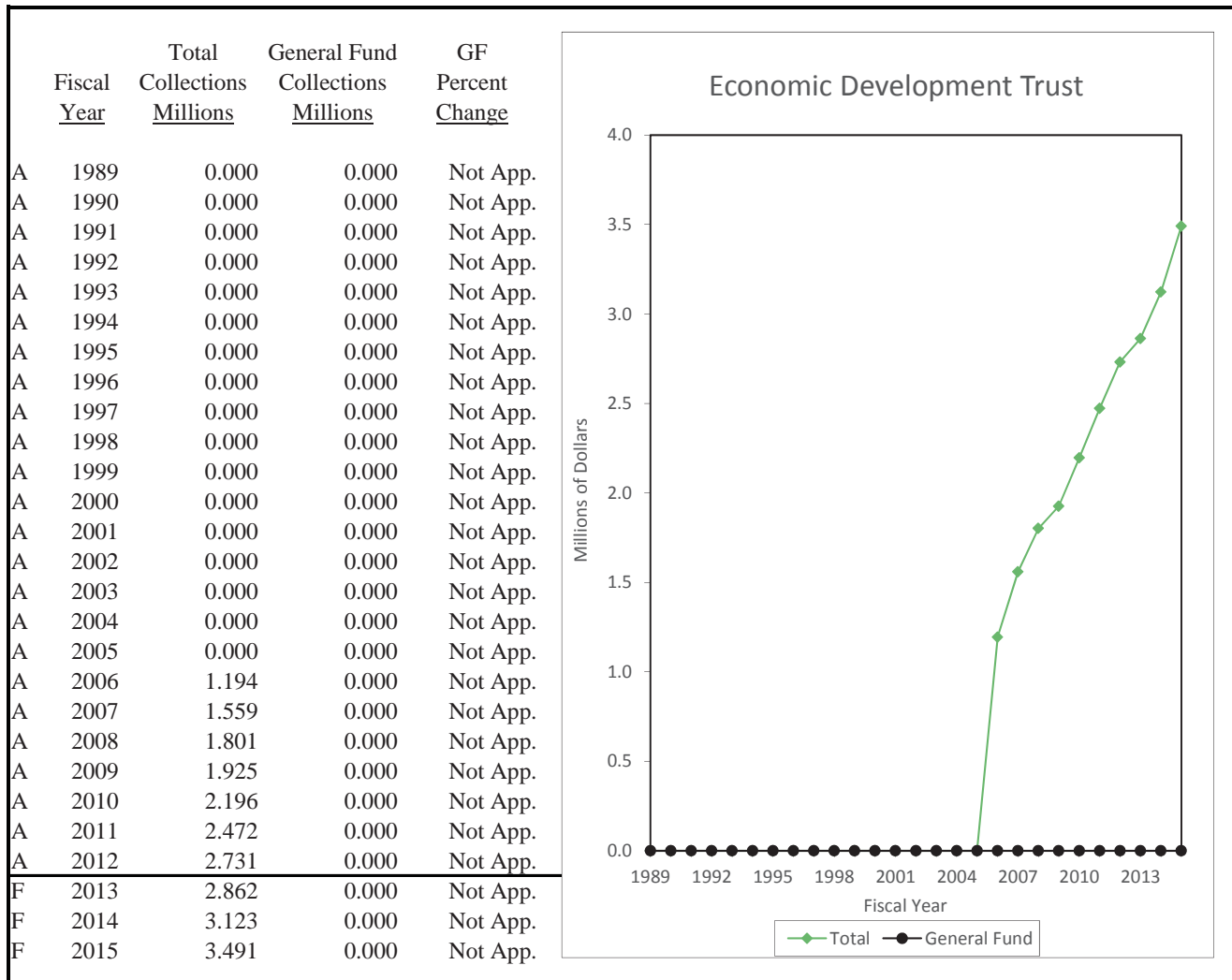
Total Rev. = Invested Balance × Average Return

# Legislative Fiscal Division

## Revenue Estimate Profile

### Economic Development Trust Interest

#### Revenue Projection:



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, IHS, Department of Natural Resources and Conservation

**Contacts:** Department of Natural Resources and Conservation

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Parks Trust Interest

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**Revenue Description:** Beginning in FY 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 FY 2003, the amount of 1.27% 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 FY 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.

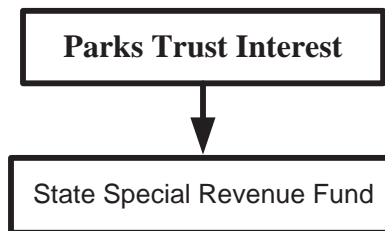
**Statutory Reference:**

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:



**Collection Frequency:** Monthly

**% 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), IHS, 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 IHS 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% 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 \$20.2 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 \$593,000 in FY 2011, \$598,000 in FY 2012, and \$608,000 in FY 2013.

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

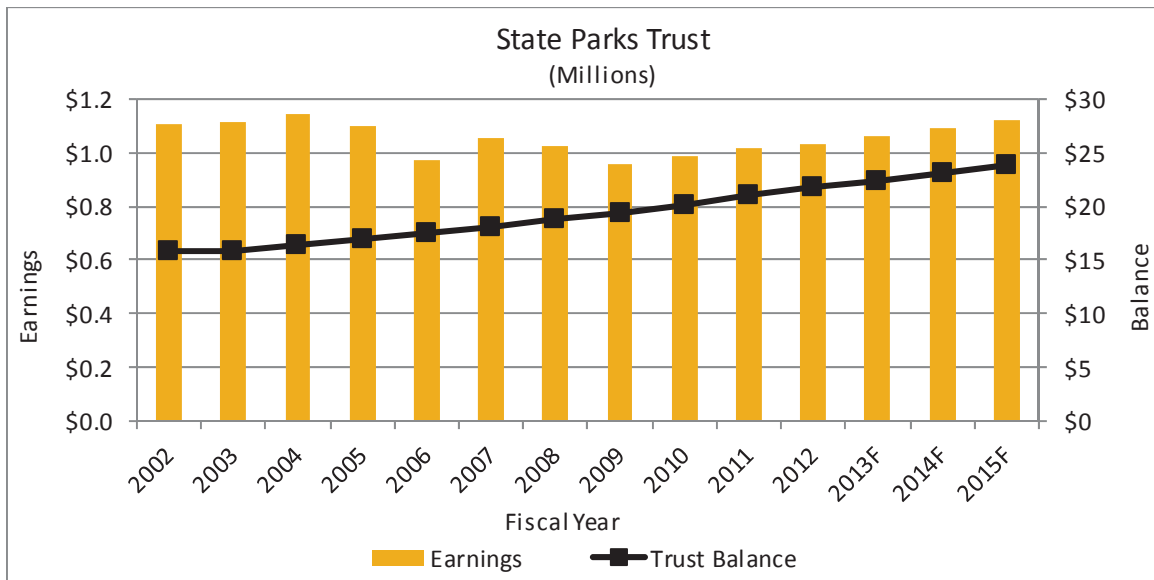
- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

# Legislative Fiscal Division

## Revenue Estimate Profile

### Parks 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 (FY 2008) rate of return generated by the pool, as reported by the BOI, is adjusted during the forecast period for maturing securities. The applicable long-term rate for these securities is based on an average of four long-term rates projected by IHS. The fiscal year average long-term interest rate is expected to be 4.2% in FY 2011, 4.2% in FY 2012, and 5.0% in FY 2013.



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 IHS projections of three short-term investments. The average fiscal year short-term interest rate is expected to be 0.3% in FY 2011, 0.9% in FY 2012, and 2.5% in FY 2013.

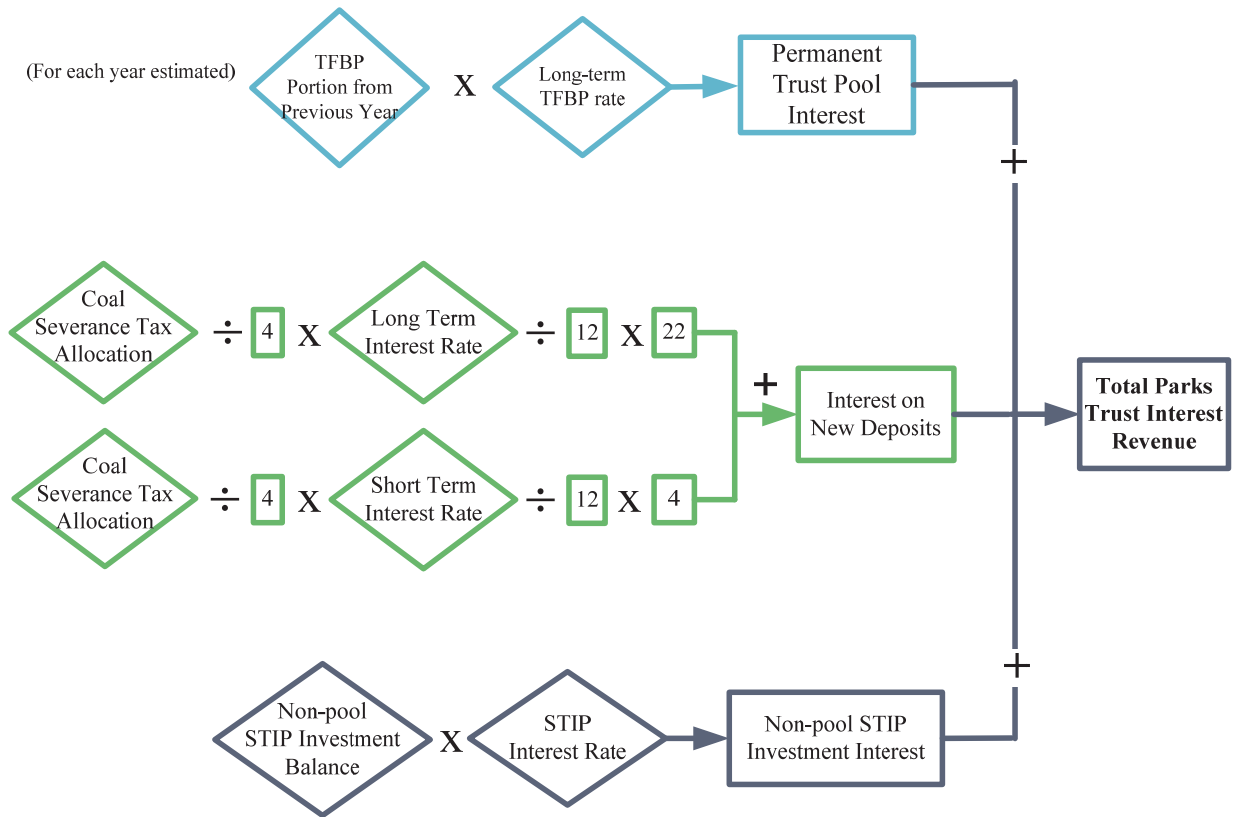
The 1.27% coal severance tax distribution to the parks trust is considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being 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.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Parks Trust Interest

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Parks Trust Interest

#### Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	STIP	Invested	Average
	<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	2002	1.106	0.000	1.100	0.006		
Actual	2003	1.115	0.000	1.101	0.003		
Actual	2004	1.140	0.000	1.138	0.002	16.189	7.0%
Actual	2005	1.100	0.000	1.095	0.005	16.772	6.6%
Actual	2006	0.972	0.000	0.957	0.015	17.305	5.6%
Actual	2007	1.055	0.000	1.034	0.021	17.950	5.9%
Actual	2008	1.025	0.000	1.008	0.017	18.569	5.5%
Actual	2009	0.954	0.000	0.951	0.003	19.284	4.9%
Actual	2010	0.989	0.000	0.989	0.001	19.953	5.0%
Actual	2011	1.014	0.000	1.013	0.001	20.803	4.9%
Actual	2012	1.034	0.000	1.033	0.001	21.590	4.8%
Forecast	2013	1.063	0.000	1.051	0.012	22.287	4.8%
Forecast	2014	1.089	0.000	1.076	0.014	23.022	4.7%
Forecast	2015	1.122	0.000	1.104	0.019	23.788	4.7%

	t	Net Coal Tax	New Deposit	Non Pool	Non Pool
	<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	2002	0.401	6.2%	2.6%	0.309
Actual	2003	0.000	5.7%	1.4%	0.140
Actual	2004	0.401	5.4%	1.3%	0.328
Actual	2005	0.478	5.2%	2.4%	0.236
Actual	2006	0.455	5.2%	4.1%	0.469
Actual	2007	0.518	5.4%	4.7%	0.514
Actual	2008	0.576	5.3%	3.1%	0.133
Actual	2009	0.629	5.1%	1.0%	0.138
Actual	2010	0.561	4.8%	0.2%	0.242
Actual	2011	0.698	4.4%	0.1%	0.252
Actual	2012	0.670	3.8%	0.1%	0.289
Forecast	2013	0.697	3.5%	0.1%	0.289
Forecast	2014	0.735	3.9%	0.2%	0.289
Forecast	2015	0.766	4.5%	0.5%	0.289

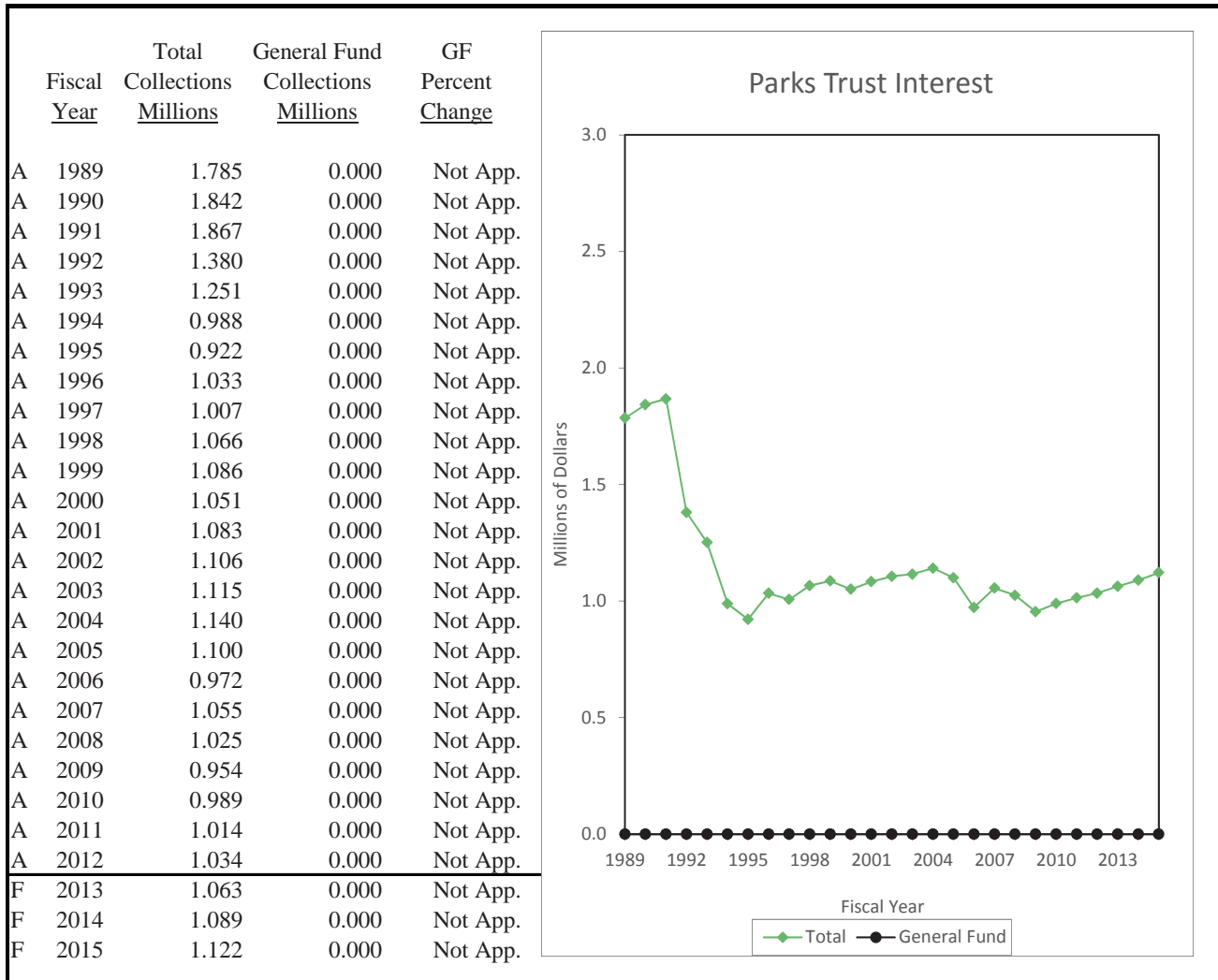
Total Rev. = Invested Balance × Average Return

# Legislative Fiscal Division

## Revenue Estimate Profile

### Parks Trust Interest

**Revenue Projection:**



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, IHS

**Contacts:**

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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.

With the enactment of SB 65 by the 2009 Legislature, up to 25% of Pine Hills revenue can be diverted to the trust land administration account to fund Department of Natural Resources and Conservation (DNRC) administration costs. This revenue can include distributable revenue, mineral royalties, and timber revenue. Diversions reduce the amount of revenue distribute to the trust beneficiaries. Revenue diverted from the Pine Hills permanent trust fund reduces the growth of the trust balance and, hence, reduces the amount of distributable interest earnings. The legislation was effective July 1, 2009.

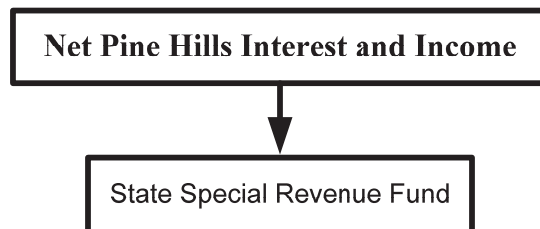
**Statute:**

- Tax Rate – NA
- Distribution (MCA) – 17-3-1003
- Enabling Act, Sections 11 & 17
- Other (MCA) – DNRC trust land administration diversion (77-1-108 & 109)  
DNRC land bank administration diversion (77-2-362)

**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:



**Collection Frequency:** Monthly

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

**Revenue Estimate Methodology:**

The estimate for interest and income from the Pine Hills trust determines 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 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

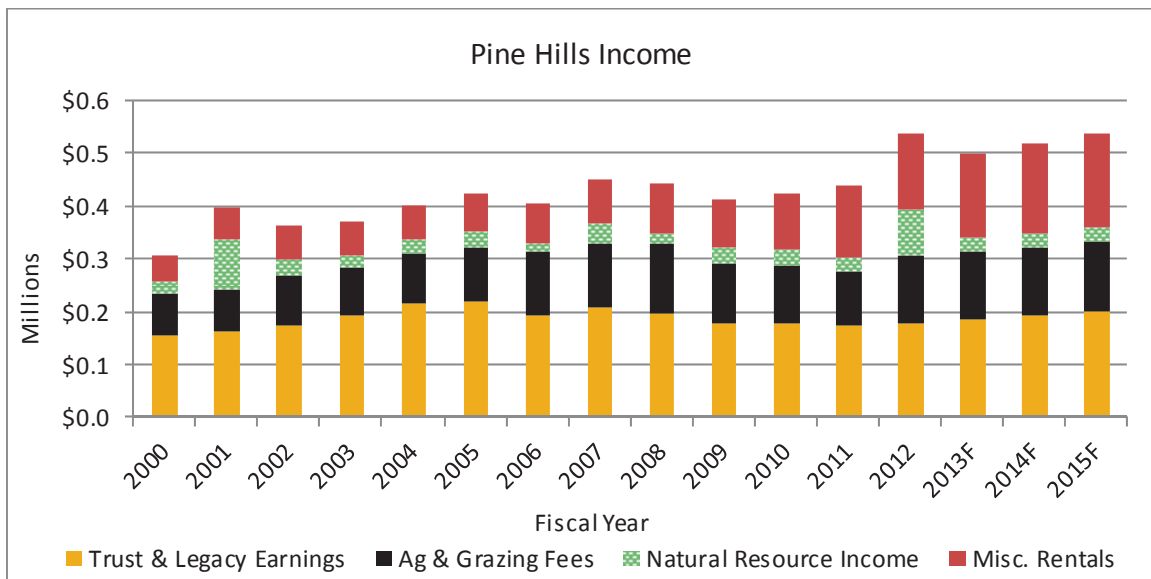
### Pine Hills Interest and Income

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

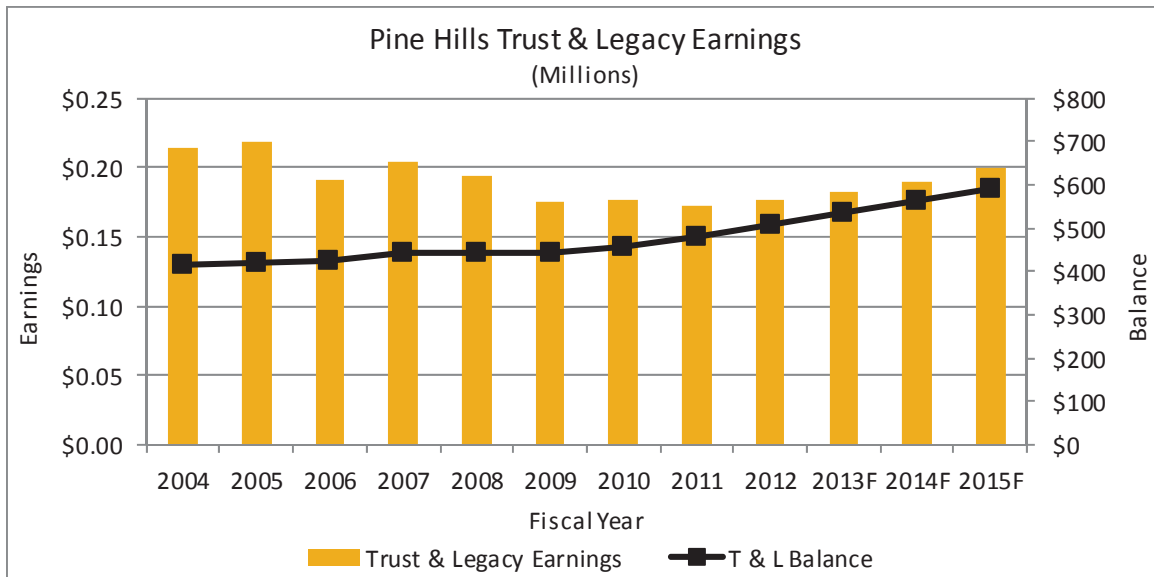
- Trust and Legacy Earnings (see the figure below) – The monetary assets of the trust are pooled with monetary assets of other land trusts in the T & L and invested by the Board of Investment in the trust funds bond pool. Based on the number of share each trust owns, a share of the earnings is deposited in each trust. For the Pine Hills trust, the actual FY 2010 share percentage of 0.77 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 in \$22.0 million in FY 2011, \$20.5 million in FY 2012 and \$22.1 million in FY 2013. This additional money initially earns interest at the short-term rate (0.3% in FY 2011, 0.9% in FY 2012, and 2.5% in FY 2013) before it is invested in a longer term investment (4.2% in FY 2011, 4.2% in FY 2012, and 5.0% in FY 2013).
  - Earnings from existing balance – The pool balance in FY 2010 was \$444.7 million. The majority of these funds have been invested in bonds purchased over the past several year and average a return rate of 5.2%.
  - Non-portfolio earnings – Money not invested in the trust funds bond pool earns interest at the short-term rate of 0.3% in FY 2009, 0.9% in FY 2010, and 2.5% in FY 2011 on a balance of \$11.3 million, the actual balance from FY 2010.

Once the total amount of the pool earnings has been estimated by summing the above three items, the Pine Hills trust share of 0.77% is applied.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income



2. Grazing Fees – Rates are tied to the price of cattle. Cattle prices are expected to be close to those experienced in FY 2010. DNRC personnel anticipate the grazing fee revenue will be similar to FY 2010.
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 growth rate between FY 2002 and FY 2008.
4. Agricultural Fees – Fees are based on a crop share basis. Commodity prices are expected to be about the same as FY 2010 resulting in similar returns.
5. Oil & Gas Leases – For each fiscal year estimated, the estimate is the average of the previous two years.
6. Oil & Gas Bonuses & Penalties – No bonus revenue and a small amount of penalty revenue was received in FY 2010. These revenues are continued into the future.

#### 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. Of the total expenditures requested to be made from this account, a portion is funded by the trust’s distributable revenue. That portion is determined by multiplying current year revenue estimates by the ratio of FY 2010 costs that this trust paid to the total administration costs. In FY 2010, the Pine Hills trust funded 1.5% of total expenditures.

#### Adjustments and Distribution

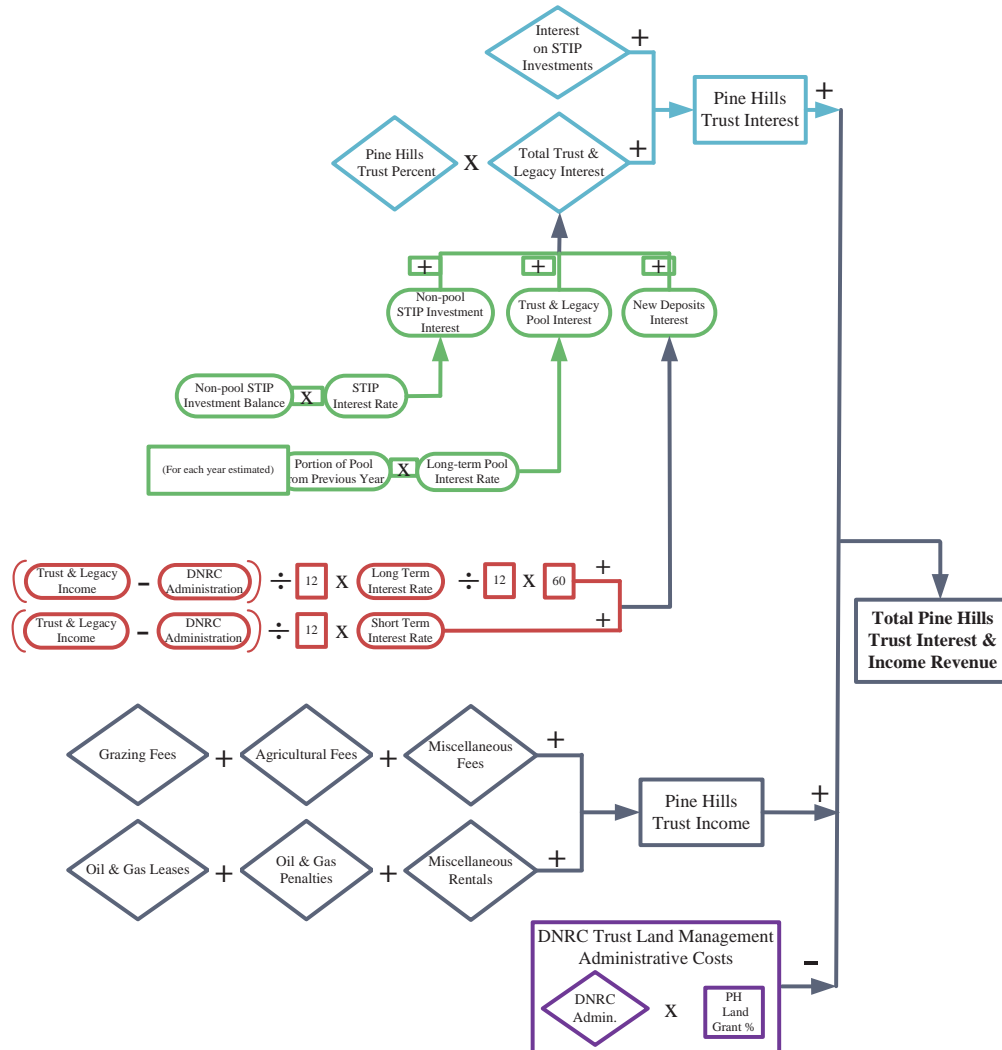
Once total revenue and total diversions have been estimated, the net amounts are distributed to the state special revenue fund.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

**Forecast Methodology:**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

#### Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	STIP	Pine
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Interest</u>	<u>Interest</u>	<u>Hills Share</u>
				<u>Millions</u>	<u>Millions</u>	<u>T&amp;L</u>
Actual	2002	0.355	0.000	29.627	0.103	0.006
Actual	2003	0.364	0.000	29.147	0.068	0.007
Actual	2004	0.394	0.000	30.087	0.054	0.007
Actual	2005	0.415	0.000	28.106	0.270	0.008
Actual	2006	0.397	0.000	24.428	0.408	0.008
Actual	2007	0.443	0.000	26.207	0.268	0.008
Actual	2008	0.435	0.000	25.160	0.129	0.008
Actual	2009	0.437	0.000	22.711	0.066	0.008
Actual	2010	0.263	0.000	22.916	0.018	0.008
Actual	2011	0.326	0.000	23.194	0.033	0.008
Actual	2012	0.393	0.000	24.175	0.028	0.008
Forecast	2013	0.302	0.000	23.209	0.411	0.008
Forecast	2014	0.370	0.000	24.111	0.512	0.008
Forecast	2015	0.392	0.000	25.245	0.641	0.008

	t	Trust Income	Trust Land	New Deposit	Non Pool	Non Pool
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Admin.</u>	<u>Long Term</u>	<u>STIP</u>	<u>STIP Bal</u>
		<u>Millions</u>	<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>
Actual	2002	2.348	0.000	6.2%	2.6%	7.334
Actual	2003	2.363	0.000	5.7%	1.4%	6.242
Actual	2004	2.972	0.000	5.4%	1.3%	7.050
Actual	2005	1.458	0.000	5.2%	2.4%	12.107
Actual	2006	1.425	0.000	5.2%	4.1%	3.863
Actual	2007	7.174	0.000	5.4%	4.7%	14.954
Actual	2008	3.102	0.000	5.3%	3.1%	2.461
Actual	2009	4.126	0.000	5.1%	1.0%	4.161
Actual	2010	10.710	0.000	4.8%	0.2%	11.340
Actual	2011	22.233	0.000	4.4%	0.1%	15.565
Actual	2012	31.517	0.000	3.8%	0.1%	11.492
Forecast	2013	25.974	0.000	3.5%	0.1%	11.492
Forecast	2014	29.101	0.000	3.9%	0.2%	11.492
Forecast	2015	27.623	0.000	4.5%	0.5%	11.492

# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills 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	2002	0.078	0.017	0.064	0.022	0.000	0.007	0.000
Actual	2003	0.071	0.019	0.065	0.021	0.000	0.002	0.000
Actual	2004	0.072	0.022	0.065	0.024	0.000	0.002	0.000
Actual	2005	0.085	0.015	0.071	0.023	0.001	0.009	0.000
Actual	2006	0.093	0.027	0.077	0.007	0.003	0.004	0.000
Actual	2007	0.105	0.017	0.086	0.013	0.017	0.007	0.000
Actual	2008	0.093	0.039	0.097	0.012	0.000	0.008	0.000
Actual	2009	0.093	0.021	0.092	0.022	0.000	0.010	0.000
Actual	2010	0.084	0.024	0.106	0.025	0.000	0.005	0.000
Actual	2011	0.080	0.023	0.135	0.024	0.000	0.002	0.000
Actual	2012	0.100	0.030	0.147	0.033	0.047	0.005	0.000
Forecast	2013	0.100	0.030	0.157	0.023	0.000	0.005	0.000
Forecast	2014	0.100	0.030	0.167	0.023	0.000	0.005	0.000
Forecast	2015	0.100	0.030	0.178	0.023	0.000	0.005	0.000

	<u>t</u>	<u>Int. Land</u>	<u>Int. STIP</u>	<u>Int. Trust</u>	<u>Timber</u>	<u>Res. Dev.</u>	<u>TLMD Adm.</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	0.000	0.000	0.174	0.000	-0.005	
Actual	2003	0.000	0.000	0.192	0.000	-0.005	
Actual	2004	0.000	0.000	0.214	0.000	-0.006	
Actual	2005	0.000	0.000	0.218	0.000	-0.006	
Actual	2006	0.000	0.000	0.192	0.000	-0.006	
Actual	2007	0.000	0.000	0.205	0.000	-0.007	
Actual	2008	0.000	0.000	0.194	0.000	-0.007	
Actual	2009	0.000	0.000	0.175	0.000	-0.008	
Actual	2010	0.000	0.000	0.177	0.000	0.000	-0.158
Actual	2011	0.000	0.000	0.173	0.000	0.000	-0.112
Actual	2012	0.000	0.000	0.176	0.000	0.000	-0.115
Forecast	2013	0.000	0.000	0.182	0.000	0.000	-0.195
Forecast	2014	0.000	0.000	0.190	0.000	0.000	-0.145
Forecast	2015	0.000	0.000	0.200	0.000	0.000	-0.144

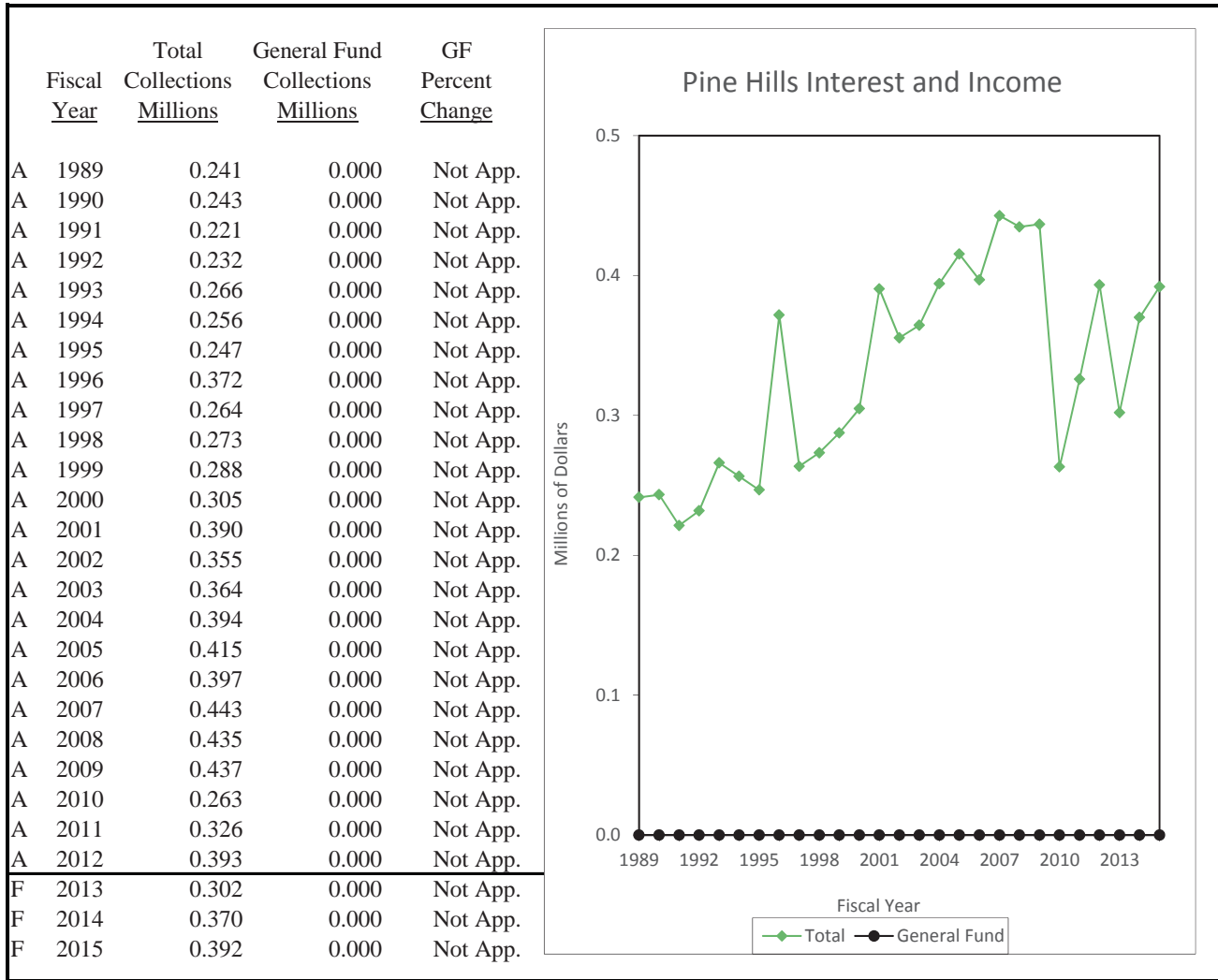
Total Rev. = Grazing + Agriculture + O&G Lease + O&G Bonus + O&G Penalty + Misc. +  
Int. Land + Int. Stip + Int. Trust + Timber + Res. Dev. + TLMD Adm.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

#### Revenue Projection:



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, IHS, Department of Natural Resources and Conservation

**Contacts:** Department of Natural Resources and Conservation

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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% 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 deposit of coal severance tax revenue to this fund terminates the end of FY 2016.

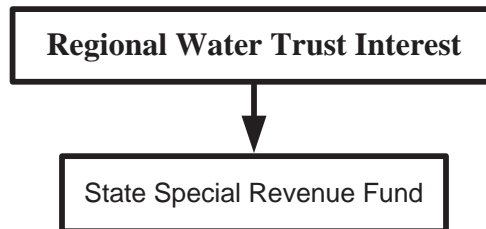
**Statutory Reference:**

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:



**Collection Frequency:** Monthly

**% 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), IHS, 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 IHS 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% of the coal severance tax collections be distributed to the coal trust, and 25% of that distribution (after the water bond debt service obligation is met) or 12.5% 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 \$56.3 million. Estimates of future deposits to the trust are developed in the coal severance tax projection and are expected to be \$5.8 million in FY 2009, \$5.8 million in FY 2010, and \$5.9 million in FY 2011.

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:

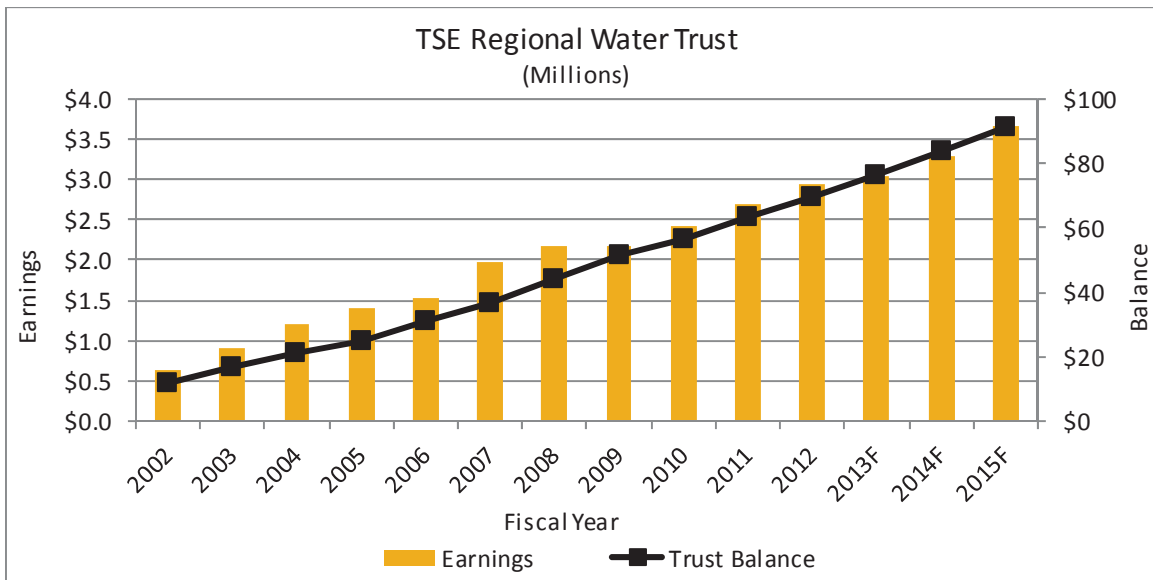
- Trust fund bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

# 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 (FY 2010) rate of return generated by the pool, as reported by the BOI, is adjusted during the forecast period for maturing securities. The applicable long-term rate for these securities is based on an average of four long-term rates projected by IHS. The fiscal year average long-term interest rate is expected to be 4.2% in FY 2011, 4.2% in FY 2012, and 5.0% in FY 2013.



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 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 IHS projections of three short-term investments. The average fiscal year short-term interest rate is expected to be 0.3% in FY 2011, 0.9% in FY 2012, and 2.5% in FY 2013.

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.

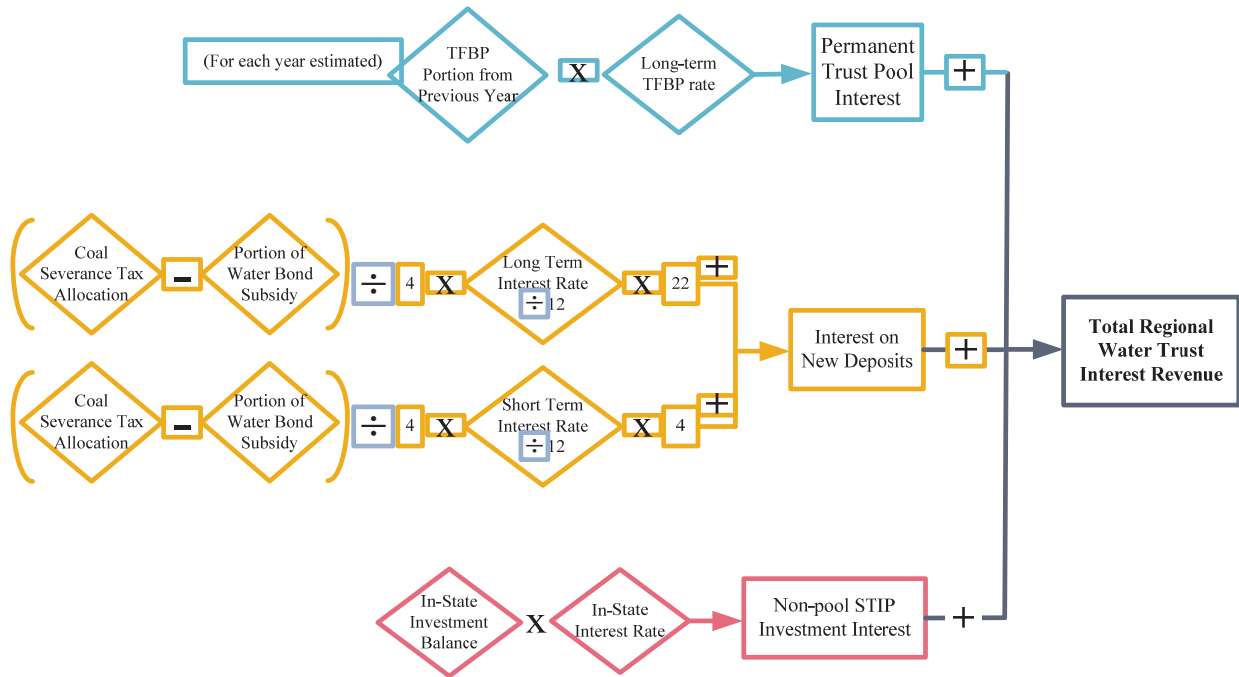


# Legislative Fiscal Division

## Revenue Estimate Profile

### Regional Water Trust Interest

**Forecast Methodology:**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Regional Water Trust Interest

#### Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	STIP	Loan	Invested	Average
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Interest</u>	<u>Interest</u>	<u>Interest</u>	<u>Balance</u>	<u>Return</u>
				<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Rate</u>
Actual	2002	0.643	0.000	0.611	0.033	0.000		
Actual	2003	0.894	0.000	0.865	0.030	0.000		
Actual	2004	1.201	0.000	1.174	0.027	0.000	20.942	5.7%
Actual	2005	1.396	0.000	1.340	0.056	0.000	24.913	5.6%
Actual	2006	1.527	0.000	1.391	0.137	0.000	30.573	5.0%
Actual	2007	1.979	0.000	1.772	0.206	0.000	36.505	5.4%
Actual	2008	2.175	0.000	1.970	0.205	0.000	43.858	5.0%
Actual	2009	2.179	0.000	2.073	0.105	0.000	51.593	4.2%
Actual	2010	2.419	0.000	2.393	0.025	0.000	56.060	4.3%
Actual	2011	2.685	0.000	2.664	0.021	0.000	64.480	4.2%
Actual	2012	2.937	0.000	2.913	0.019	0.000	69.540	4.2%
Forecast	2013	3.035	0.000	2.905	0.130	0.000	76.396	4.0%
Forecast	2014	3.295	0.000	3.143	0.153	0.000	83.633	3.9%
Forecast	2015	3.654	0.000	3.425	0.230	0.000	91.170	4.0%

	t	Net Coal Tax	New Deposit	Non Pool	Non Pool
	<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	2002	3.952	6.2%	2.6%	1.579
Actual	2003	3.678	5.7%	1.4%	1.894
Actual	2004	3.943	5.4%	1.3%	2.694
Actual	2005	4.704	5.2%	2.4%	2.765
Actual	2006	4.478	5.2%	4.1%	3.826
Actual	2007	5.095	5.4%	4.7%	3.908
Actual	2008	5.666	5.3%	3.1%	5.611
Actual	2009	6.196	5.1%	1.0%	6.786
Actual	2010	5.522	4.8%	0.2%	5.488
Actual	2011	6.871	4.4%	0.1%	7.188
Actual	2012	6.593	3.8%	0.1%	7.198
Forecast	2013	6.856	3.5%	0.1%	7.198
Forecast	2014	7.237	3.9%	0.2%	7.198
Forecast	2015	7.537	4.5%	0.5%	7.198

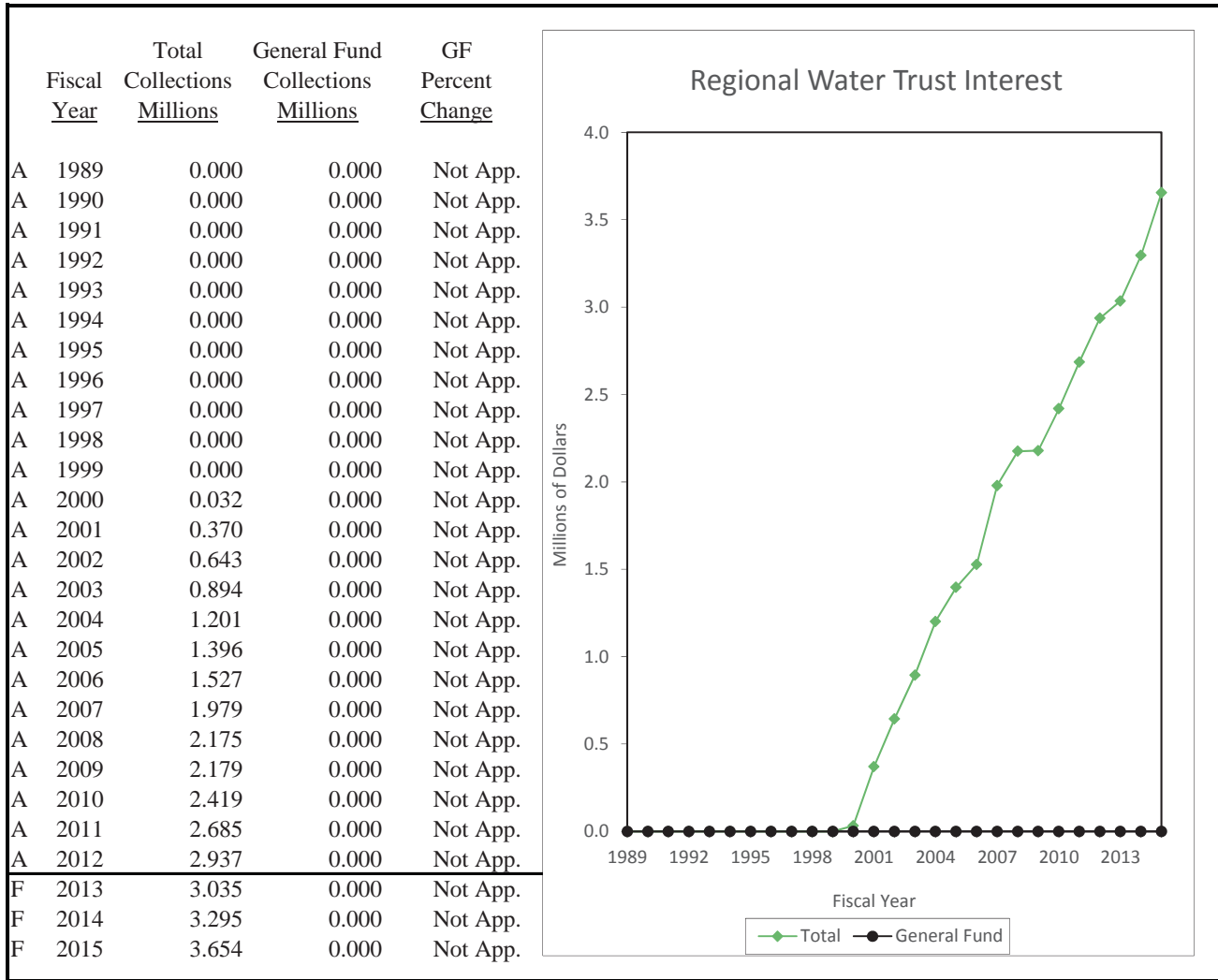
Total Rev. = Invested Balance × Average Return

# Legislative Fiscal Division

## Revenue Estimate Profile

### Regional Water Trust Interest

**Revenue Projection:**



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, IHS

**Contacts:**

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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 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.

On July 1, 2002 the Governor by executive order certified to the Secretary of State that the RIT balance had reached \$100 million. In prior years, 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) at the beginning of the biennium, \$175,000 to the environmental contingency fund which is statutorily appropriated upon authorization of the Governor for unanticipated public needs arising from certain disasters and emergencies;
- 4) \$3.5 million annually to the natural resources projects state special revenue account for distribution as grants;
- 5) \$300,000 annually to the ground water assessment account to improve ground water management and protection;
- 6) \$500,000 annually to the future fisheries program for bull trout and cutthroat trout recovery; and
- 7) of the remaining RIT interest earnings: a) 65% to the natural resources operations state special revenue account for program and administrative costs; b) 26% to the hazardous waste/CERCLA state special revenue account for superfund activities; and c) 9% to the environmental quality protection state special revenue fund for additional clean-up activities.

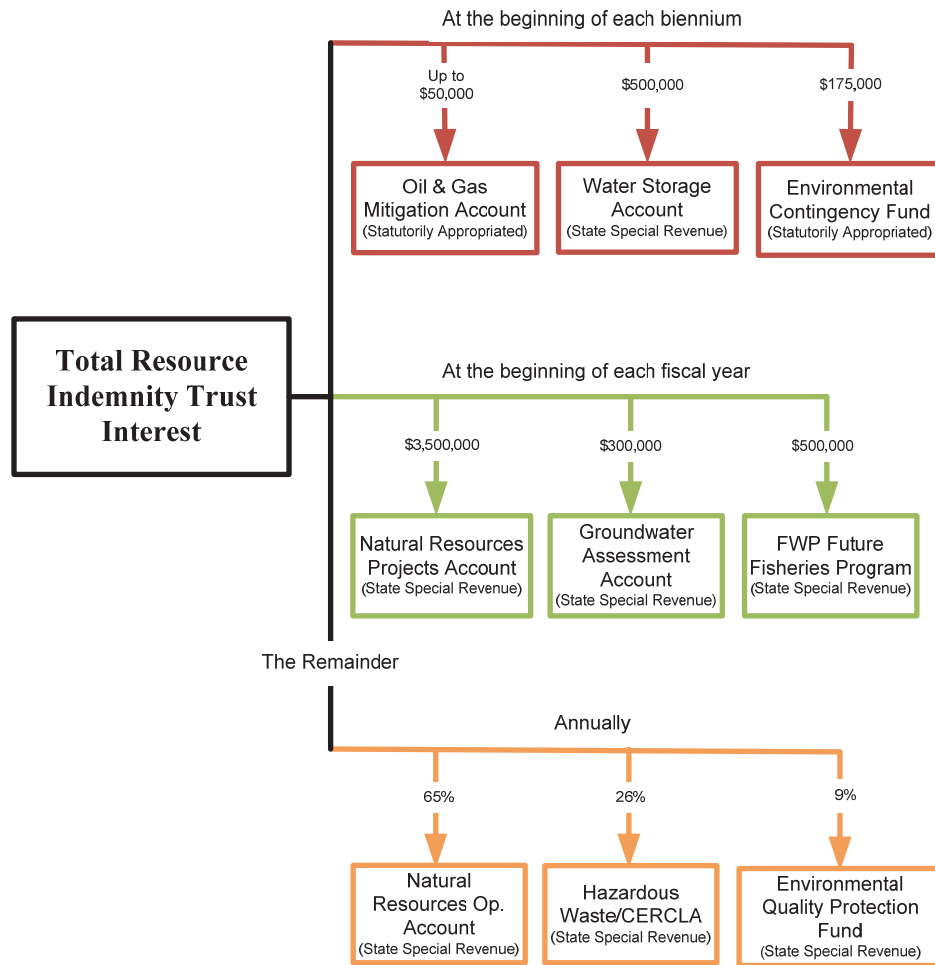
The Department of Natural Resources and Conservation administers two of the RIT interest accounts which are used for grants, loans, and administrative costs: the renewable resource grant and loan program account and the reclamation and development grant account. These accounts also receive funding from 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:



**Collection Frequency:** Monthly

**% 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), IHS, 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 IHS and historic interest collections are obtained from SABHRS.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

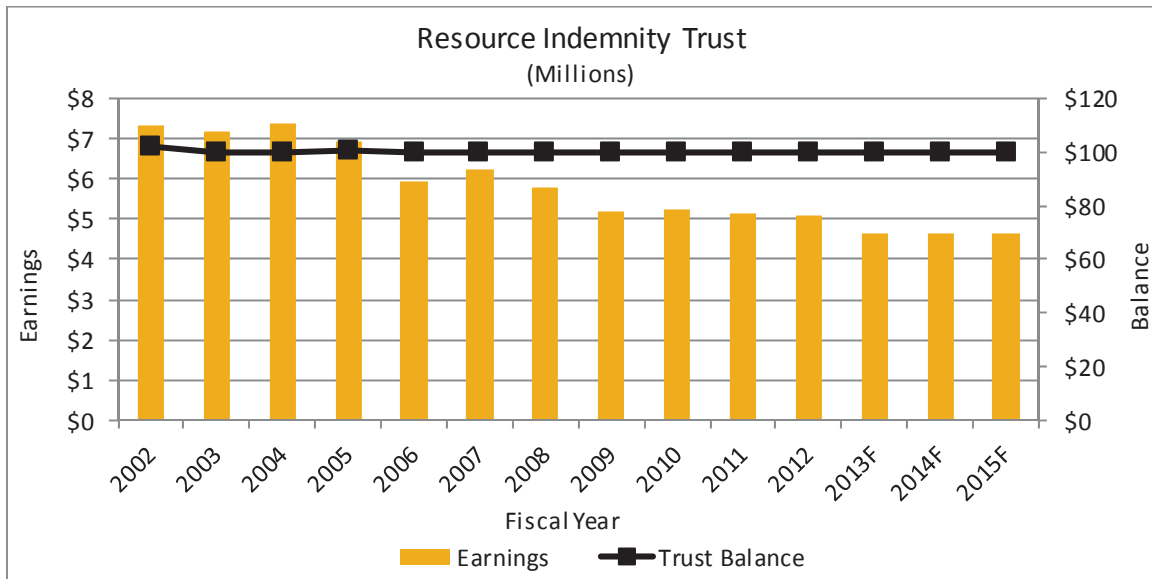
Analysis

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 FY 2002. As a result, the trust no longer receives new income from tax distributions. The principal or corpus of the resource indemnity trust now stands at \$100 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 the following three interest/income components are estimated independently and combined:

- 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 (FY 2010) rate of return generated by the pool, as reported by the BOI, is adjusted during the forecast period for maturing securities. The applicable long-term rate for these securities is based on a two-year average of four long-term rates projected by IHS. The fiscal year long-term rate is estimated to be 4.2%, 4.2%, and 5.0% for FY 2011 through 2013, respectively. The applicable rates are multiplied by the trust balance to determine earnings.



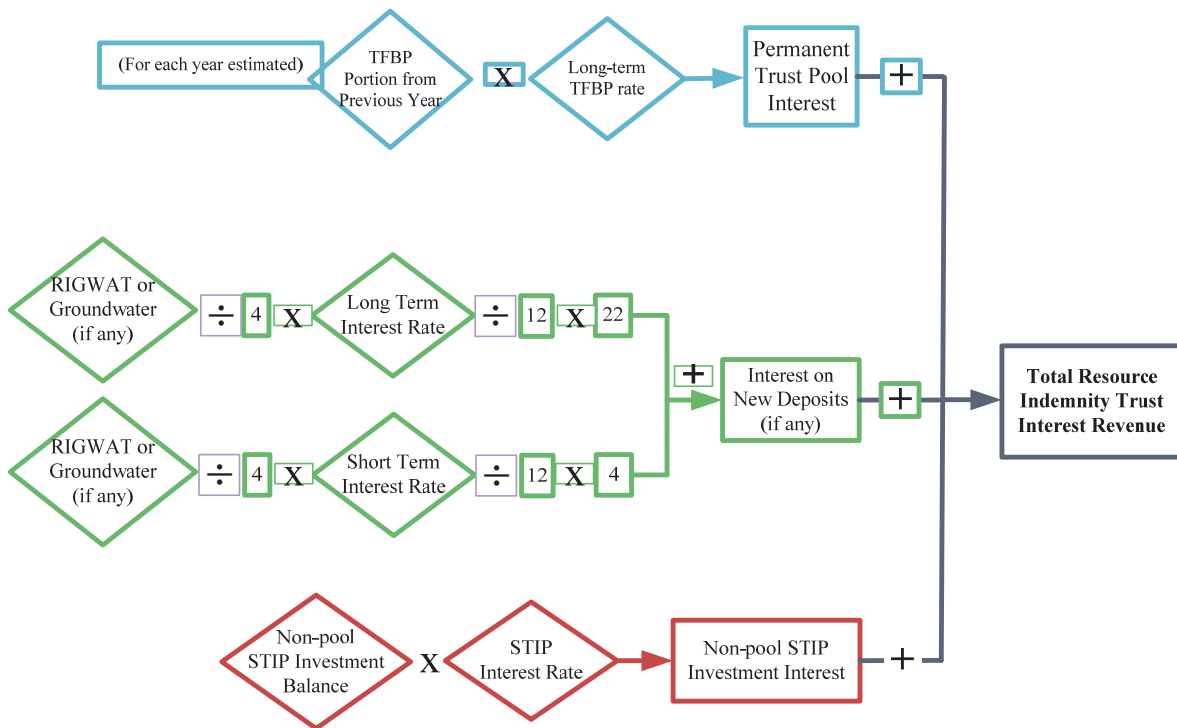
STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed, based on IHS projections of three short-term investments. Because no new deposits are anticipated for the trust, STIP earnings are projected for only non-pool balances estimated at the FY 2010 amount.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

**Forecast Methodology:**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

#### Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	STIP	Invested	Average
	<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	2002	7.321	0.000	7.286	0.034		
Actual	2003	7.174	0.000	7.161	0.013		
Actual	2004	7.380	0.000	7.375	0.005	100.644	7.3%
Actual	2005	6.247	0.000	6.890	0.012	100.910	6.8%
Actual	2006	5.916	0.000	5.897	0.019	100.506	5.9%
Actual	2007	6.220	0.000	6.198	0.023	100.723	6.2%
Actual	2008	5.801	0.000	5.786	0.015	100.504	5.8%
Actual	2009	5.197	0.000	5.191	0.006	100.484	5.2%
Actual	2010	5.213	0.000	5.212	0.001	100.434	5.2%
Actual	2011	5.135	0.000	5.133	0.001	100.442	5.1%
Actual	2012	5.064	0.000	5.062	0.001	100.420	5.0%
Forecast	2013	4.661	0.000	4.660	0.001	100.420	4.6%
Forecast	2014	4.661	0.000	4.660	0.001	100.420	4.6%
Forecast	2015	4.664	0.000	4.660	0.004	100.420	4.6%

	t	Net Tax	New Deposit	Non Pool	Non Pool
	<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	2002	1.589	6.2%	2.6%	2.176
Actual	2003	0.000	5.7%	1.4%	0.741
Actual	2004	0.000	5.4%	1.3%	0.644
Actual	2005	0.252	5.2%	2.4%	0.910
Actual	2006	0.000	5.2%	4.1%	0.506
Actual	2007	0.000	5.4%	4.7%	0.723
Actual	2008	0.000	5.3%	3.1%	0.504
Actual	2009	0.000	5.1%	1.0%	0.484
Actual	2010	0.000	4.8%	0.2%	0.434
Actual	2011	0.000	4.4%	0.1%	0.442
Actual	2012	0.000	3.8%	0.1%	0.420
Forecast	2013	0.000	3.5%	0.1%	0.420
Forecast	2014	0.000	3.9%	0.2%	0.420
Forecast	2015	0.000	4.5%	0.5%	0.420



**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Resource Indemnity Trust Interest**

	t	Hazardous Waste	Environmental Quality	Renewable Resource	Reclamation Development	Environmental Contingency
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	0.534	0.185	3.357	2.219	0.175
Actual	2003	0.679	0.231	3.027	2.588	0.000
Actual	2004	0.564	0.192	2.894	2.354	0.175
Actual	2005	0.475	0.162	2.790	2.171	0.000
Actual	2006	0.169	0.059	2.435	1.728	0.175
Actual	2007	0.437	0.151	2.744	2.088	0.000
Actual	2008	0.202	0.070	0.000	0.000	0.175
Actual	2009	0.188	0.065	0.000	0.000	0.175
Actual	2010	0.049	0.017	0.000	0.000	0.175
Actual	2011	0.217	0.075	0.000	0.000	0.000
Actual	2012	0.048	0.017	0.000	0.000	0.028
Forecast	2013	0.094	0.032	0.000	0.000	0.000
Forecast	2014	0.000	0.000	0.000	0.000	0.000
Forecast	2015	0.095	0.033	0.000	0.000	0.000

	t	Water Storage	Oil & Gas Receipts	FWP Receipts	Groundwater Receipts	NR Operation Receipts	NR Projects Receipts
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	0.5000	0.0500	0.0000	0.3000	0.0000	0.0000
Actual	2003	0.0000	0.0000	0.3500	0.3000	0.0000	0.0000
Actual	2004	0.5000	0.0500	0.3500	0.3000	0.0000	0.0000
Actual	2005	0.0000	0.0000	0.3500	0.3000	0.0000	0.0000
Actual	2006	0.5000	0.0500	0.5000	0.3000	0.0000	0.0000
Actual	2007	0.0000	0.0000	0.5000	0.3000	0.0000	0.0000
Actual	2008	0.5000	0.0500	0.5000	0.3000	0.5043	3.5000
Actual	2009	0.0000	0.0000	0.5000	0.3000	0.4693	3.5000
Actual	2010	0.5000	0.0500	0.5000	0.3000	0.1222	3.5000
Actual	2011	0.0000	0.0000	0.5000	0.3000	0.5425	3.5000
Actual	2012	0.5000	0.0500	0.5000	0.3000	0.1205	3.5000
Forecast	2013	0.0000	0.0000	0.5000	0.3000	0.2347	3.5000
Forecast	2014	0.4855	0.0000	0.4855	0.2913	0.0000	3.3986
Forecast	2015	0.0000	0.0000	0.5000	0.3000	0.2366	3.5000

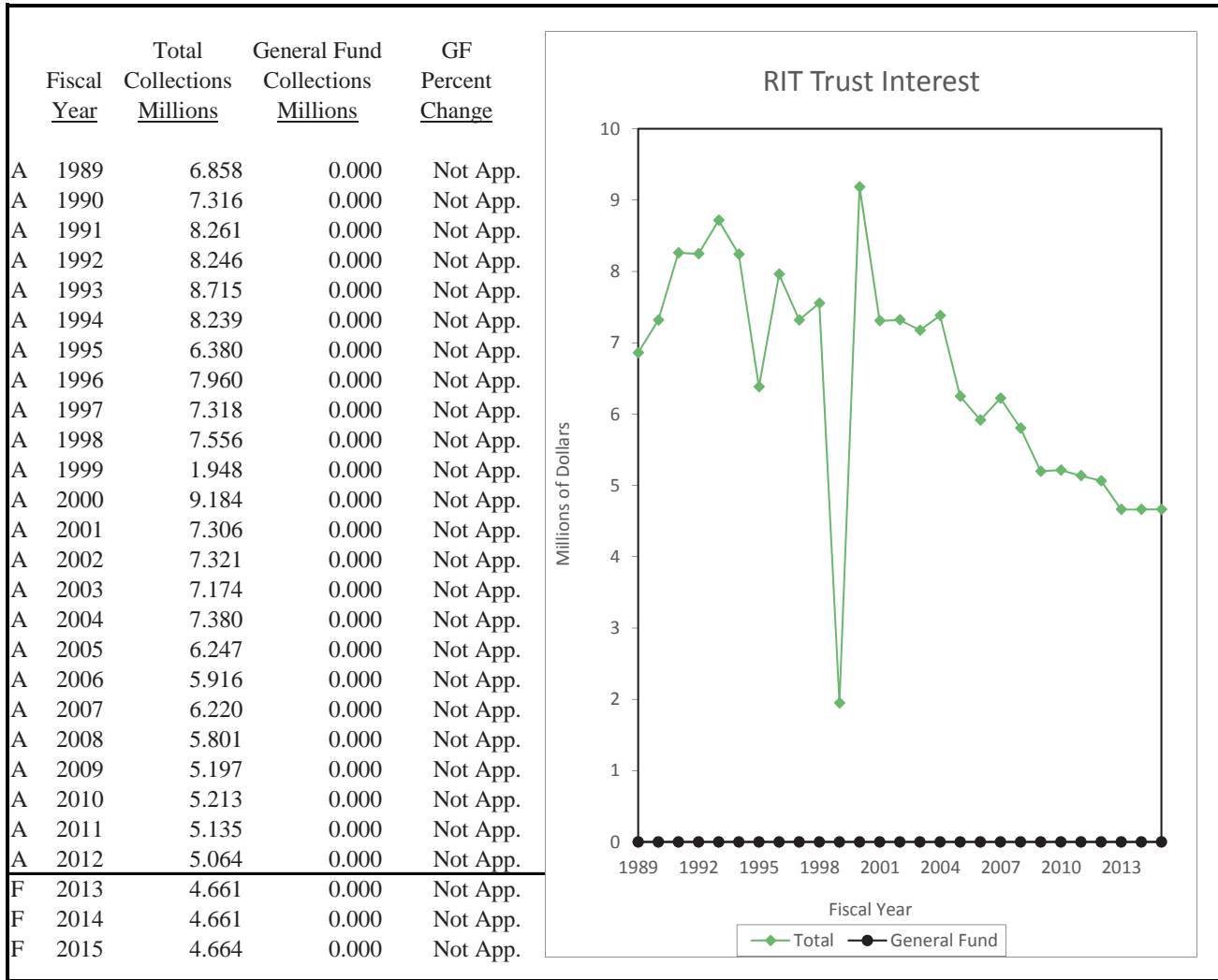
Total Rev. = Invested Balance × Average Return

# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

**Revenue Projection:**



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, IHS

**Contacts:**

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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% of tobacco settlement money to a permanent trust fund. Initially, the legislature did not determine the exact percentage to be deposited to the trust fund; the revenue estimate assumes 40%. Since the passage of Initiative 146 by the electorate in November 2002, 32% of the tobacco settlement money is to fund tobacco prevention and 17% 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 FY 2005. The remaining 11% 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. HB 743 enacted by the 2007 Legislature added chronic disease programs to the definition of tobacco disease prevention programs. 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

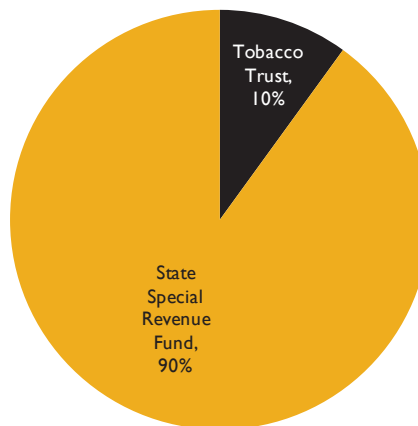
Date Due – Interest deposits are mostly made monthly, but none in July and two in June

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

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

1. 90% to a state special revenue account for appropriation by the legislature for disease prevention programs (include chronic disease 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% to the tobacco settlement trust fund.

#### Distribution Chart:



**Collection Frequency:** Trust interest earnings are deposited monthly to the state special revenue account and the trust.

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

# Legislative Fiscal Division

## Revenue Estimate Profile Tobacco Trust Interest

### Revenue Estimate Methodology:

#### Data

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

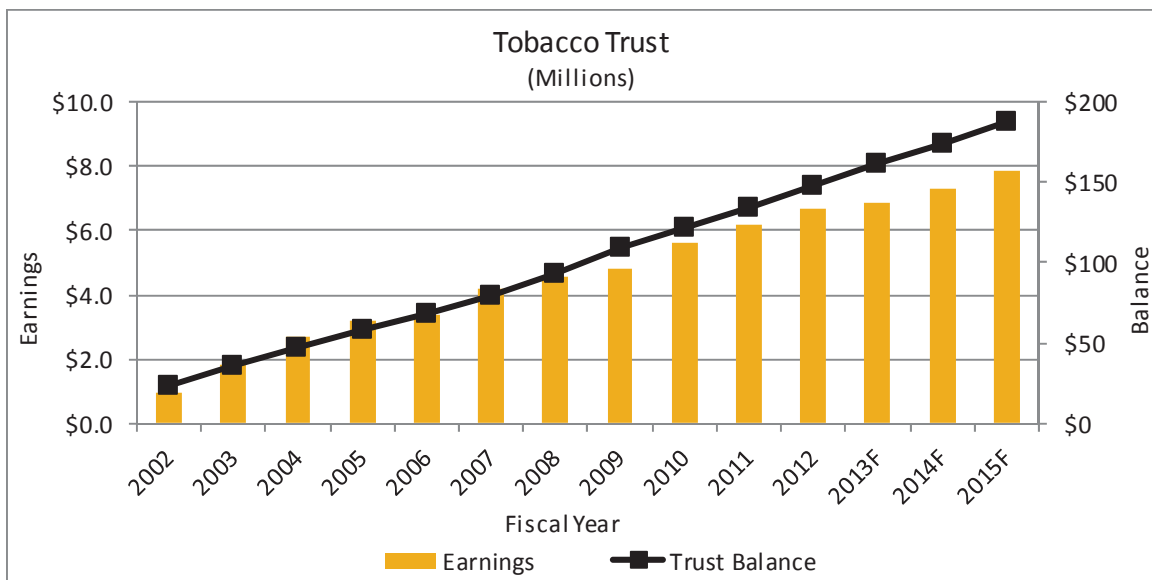
#### Analysis

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% of the tobacco settlement funds into a trust. As required in statute, 10% of the trust earnings must be deposited in the trust. The principal or corpus of the tobacco trust now stands at \$122.0 million, as shown by the line in the figure below. New deposits are expected to be \$13.5 million in FY 2011, \$13.5 million in FY 2012, and \$13.6 million in FY 2013.

To forecast the tobacco settlement trust interest earnings, each of the following three interest/income components are estimated independently and combined:

- 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 (FY 2010) 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 IHS. The fiscal year average long-term interest rate is expected to be 4.2% in FY 2011, 4.2% in FY 2012, and 5.0% in FY 2013.



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 IHS projections of three short-term investments. The average fiscal year short-term interest rate is expected to be 0.3% in FY 2011, 0.9% in FY 2012, and 2.5% in FY 2013.

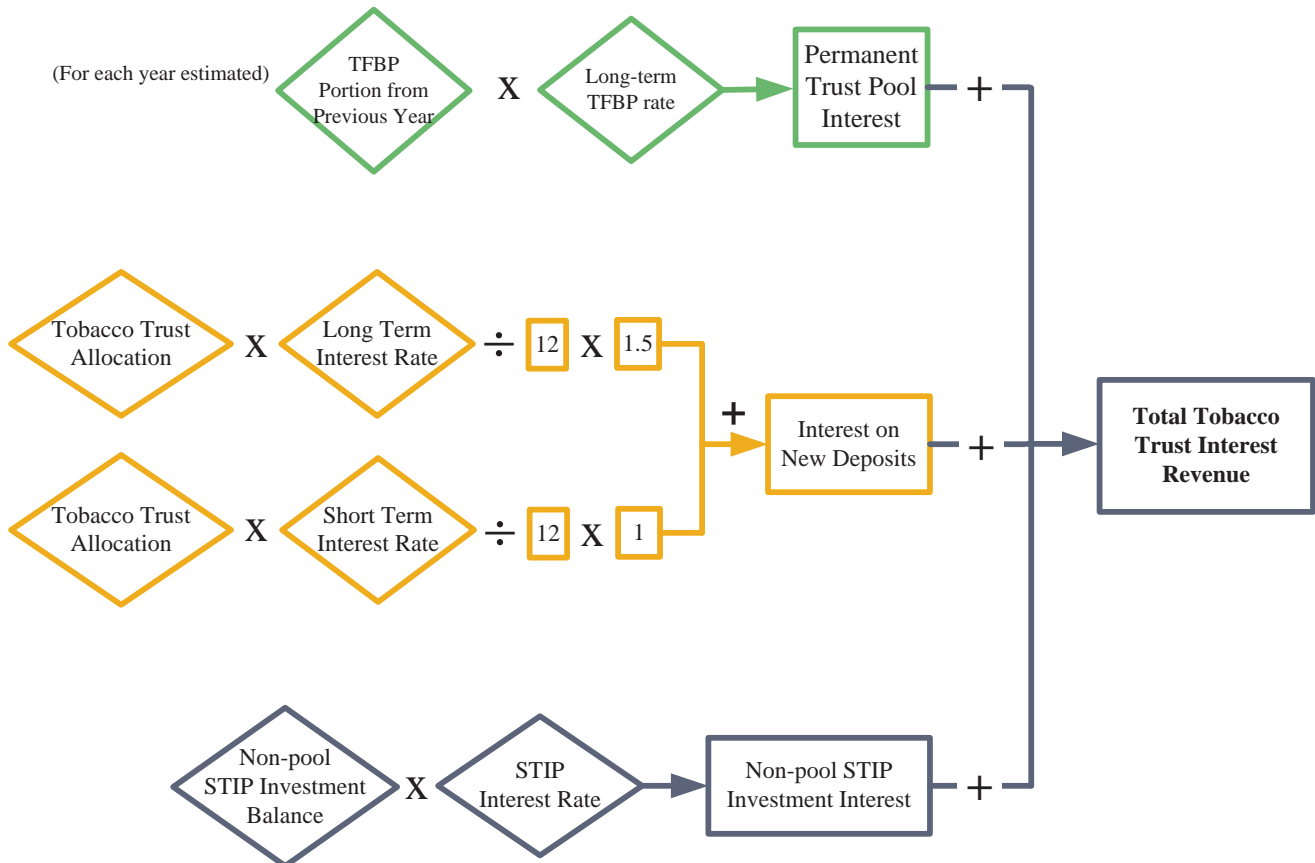
# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Trust Interest

The 40% distribution of tobacco settlement funds and 10% 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.

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Trust Interest

#### Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	STIP	90 Percent	10 Percent
	Fiscal	Millions	Millions	Interest	Interest	Interest	Interest
				Millions	Millions	Millions	Millions
Actual	2002	0.968	0.000	0.955	0.012		
Actual	2003	1.830	0.000	1.816	0.014	1.647	0.183
Actual	2004	2.670	0.000	2.662	0.008	2.403	0.267
Actual	2005	3.202	0.000	3.166	0.037	2.882	0.320
Actual	2006	3.388	0.000	3.321	0.067	3.049	0.339
Actual	2007	4.208	0.000	4.156	0.052	3.787	0.421
Actual	2008	4.546	0.000	4.525	0.021	4.091	0.455
Actual	2009	4.825	0.000	4.817	0.008	4.343	0.483
Actual	2010	5.599	0.000	5.597	0.002	5.039	0.560
Actual	2011	6.173	0.000	6.148	0.001	5.556	0.617
Actual	2012	6.701	0.000	6.615	0.003	6.031	0.670
Forecast	2013	6.826	0.000	6.819	0.008	6.143	0.683
Forecast	2014	7.305	0.000	7.297	0.008	6.575	0.731
Forecast	2015	7.858	0.000	7.832	0.027	7.072	0.786

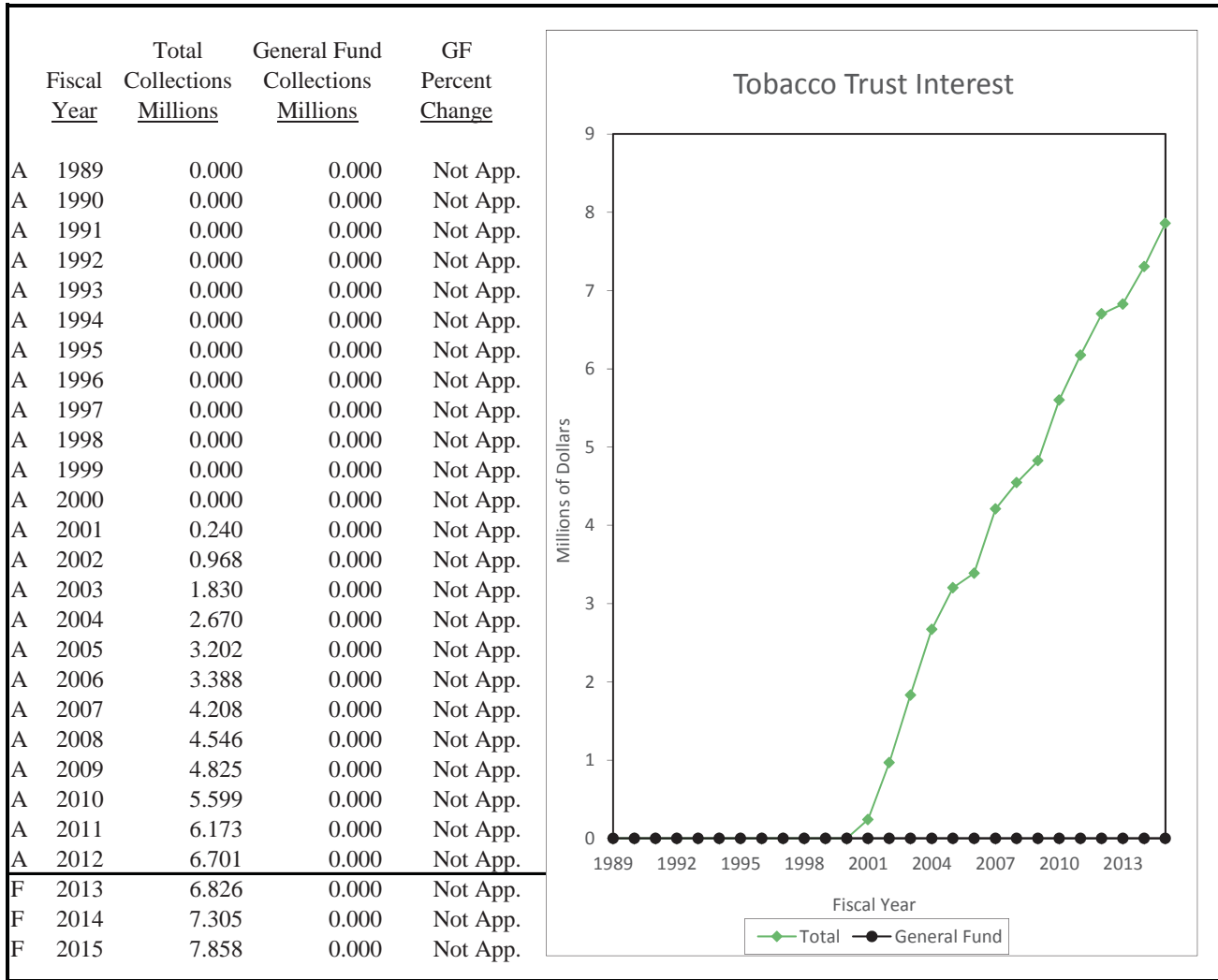
	t	Tobacco	New Deposit	Non Pool	Non Pool	Invested	Average
	Fiscal	New Deposit	Long Term	STIP	STIP Bal	Balance	Return
		Millions	Rate	Rate	Millions	Millions	Rate
Actual	2002	12.432	6.2%	2.6%	0.585		
Actual	2003	12.466	5.7%	1.4%	0.251		
Actual	2004	10.669	5.4%	1.3%	0.133	46.756	5.7%
Actual	2005	10.828	5.2%	2.4%	2.854	57.902	5.5%
Actual	2006	9.940	5.2%	4.1%	0.917	68.175	5.0%
Actual	2007	10.324	5.4%	4.7%	0.493	79.001	5.3%
Actual	2008	13.846	5.3%	3.1%	0.537	93.294	4.9%
Actual	2009	15.009	5.1%	1.0%	0.098	108.776	4.4%
Actual	2010	12.613	4.8%	0.2%	0.064	121.957	4.6%
Actual	2011	12.410	4.4%	0.1%	0.105	134.421	4.6%
Actual	2012	12.698	3.8%	0.1%	2.109	147.168	4.6%
Forecast	2013	13.586	3.5%	0.1%	2.109	160.754	4.2%
Forecast	2014	13.480	3.9%	0.2%	2.109	174.234	4.2%
Forecast	2015	13.406	4.5%	0.5%	2.109	187.640	4.2%

Total Rev. = Invested Balance × Average Return

# Legislative Fiscal Division

## Revenue Estimate Profile Tobacco Trust Interest

### Revenue Projection:



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, IHS

**Contacts:** Department of Justice

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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 million grant from the permanent trust principal in FY 1994 and received 37.5% of total coal severance tax collections from July 1999 through June 2003. Beginning FY 2004, the trust receives 25% 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).

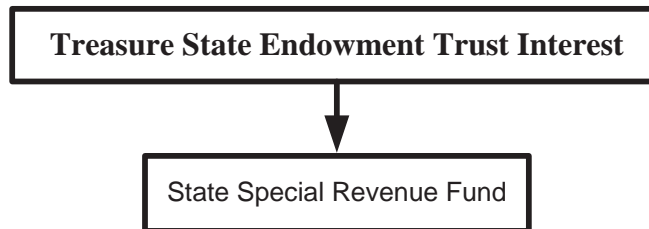
**Statutory Reference:**

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:



**Collection Frequency:** Monthly

**% 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), IHS, 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 IHS 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% of the coal severance tax collections be distributed to the coal trust, and 50% of that distribution (after the water bond debt service obligation is met) or 25% of total coal severance tax revenues is distributed to the TSE trust. The principal or corpus of the TSE trust now stands at \$189.6 million. The estimates of future deposits to the TSE trust are developed in the coal severance tax projection and are expected to be \$11.5 million in FY 2010, \$11.6 million in FY 2012, and \$11.8 million in FY 2013.

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

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



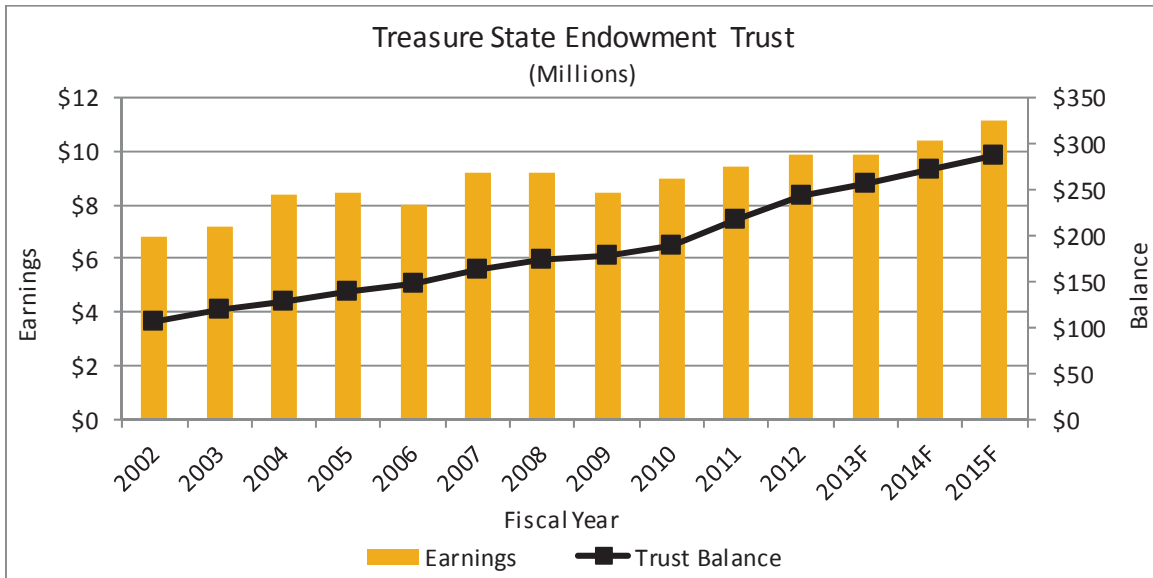
# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

- 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 (FY 2010) 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 IHS. The fiscal year average long-term interest rate is expected to be 4.2% in FY 2010, 4.2% in FY 2012, and 5.0% in FY 2013.



As seen in the figure above, earnings from in-state investments have historically been the second largest source of income to the TSE trust. The BOI is required by statute to invest 25% 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. In the 2013 biennium, the average loan rate is forecast to be 4.5%.

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 IHS 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 interest rate is expected to be 0.3% in FY 2011, 0.9% in FY 2012, and 2.5% in FY 2013.

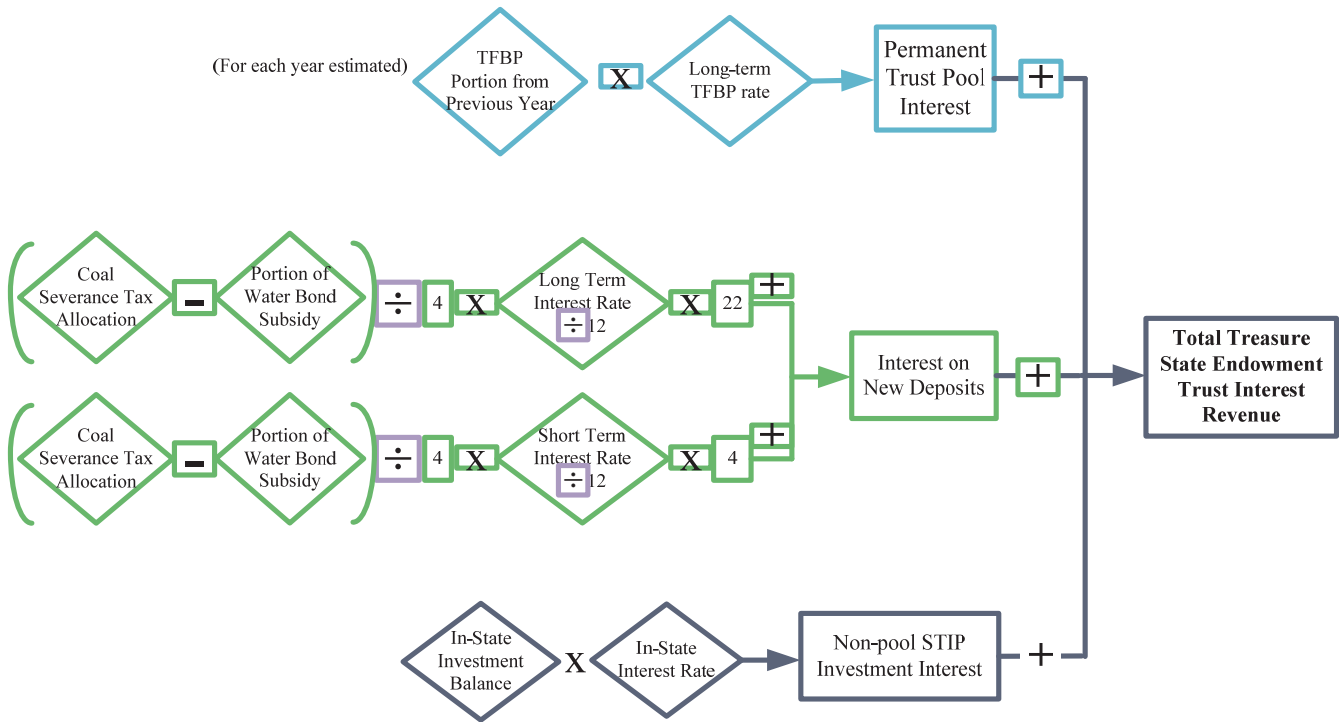
Coal severance tax distributions to the TSE trust are considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested 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.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

**Forecast Methodology:**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

#### Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	STIP	Loan	Invested	Average
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Return</u>
				<u>Interest</u>	<u>Interest</u>	<u>Interest</u>	<u>Balance</u>	<u>Rate</u>
Actual	2002	6.805	0.000	5.140	0.135	1.531		
Actual	2003	7.175	0.000	5.719	0.092	1.365		
Actual	2004	8.349	0.000	6.930	0.086	1.333	127.176	6.6%
Actual	2005	8.482	0.000	7.272	0.237	0.970	137.336	6.2%
Actual	2006	8.039	0.000	7.001	0.514	0.523	147.151	5.5%
Actual	2007	9.225	0.000	8.102	0.719	0.404	161.366	5.7%
Actual	2008	9.194	0.000	8.296	0.639	0.259	172.310	5.3%
Actual	2009	8.450	0.000	8.131	0.182	0.141	177.724	4.8%
Actual	2010	8.940	0.000	8.799	0.026	0.118	188.798	4.7%
Actual	2011	9.416	0.000	9.287	0.029	0.104	207.687	4.5%
Actual	2012	9.866	0.000	9.742	0.049	0.079	225.263	4.4%
Forecast	2013	9.881	0.000	9.559	0.274	0.051	238.974	4.1%
Forecast	2014	10.403	0.000	10.035	0.320	0.051	253.449	4.1%
Forecast	2015	11.155	0.000	10.599	0.508	0.051	268.523	4.2%

	t	Net Coal Tax	New Deposit	Non Pool	Non Pool	Non Pool	Non Pool
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Long Term</u>	<u>STIP</u>	<u>Loan</u>	<u>STIP Bal</u>	<u>Loan Bal</u>
		<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	11.855	6.2%	2.6%	8.3%	7.427	17.859
Actual	2003	11.034	5.7%	1.4%	7.4%	11.675	18.814
Actual	2004	7.886	5.4%	1.3%	8.3%	10.527	13.435
Actual	2005	9.409	5.2%	2.4%	8.8%	12.141	8.681
Actual	2006	8.955	5.2%	4.1%	7.1%	11.708	6.039
Actual	2007	10.190	5.4%	4.7%	7.5%	14.764	4.750
Actual	2008	11.333	5.3%	3.1%	7.5%	14.042	2.115
Actual	2009	12.391	5.1%	1.0%	7.3%	6.445	1.727
Actual	2010	11.044	4.8%	0.2%	7.1%	5.990	1.561
Actual	2011	13.743	4.4%	0.1%	6.9%	11.411	1.427
Actual	2012	13.186	3.8%	0.1%	6.6%	19.140	0.990
Forecast	2013	13.711	3.5%	0.1%	5.2%	19.140	0.990
Forecast	2014	14.475	3.9%	0.2%	5.2%	19.140	0.990
Forecast	2015	15.074	4.5%	0.5%	5.2%	19.140	0.990

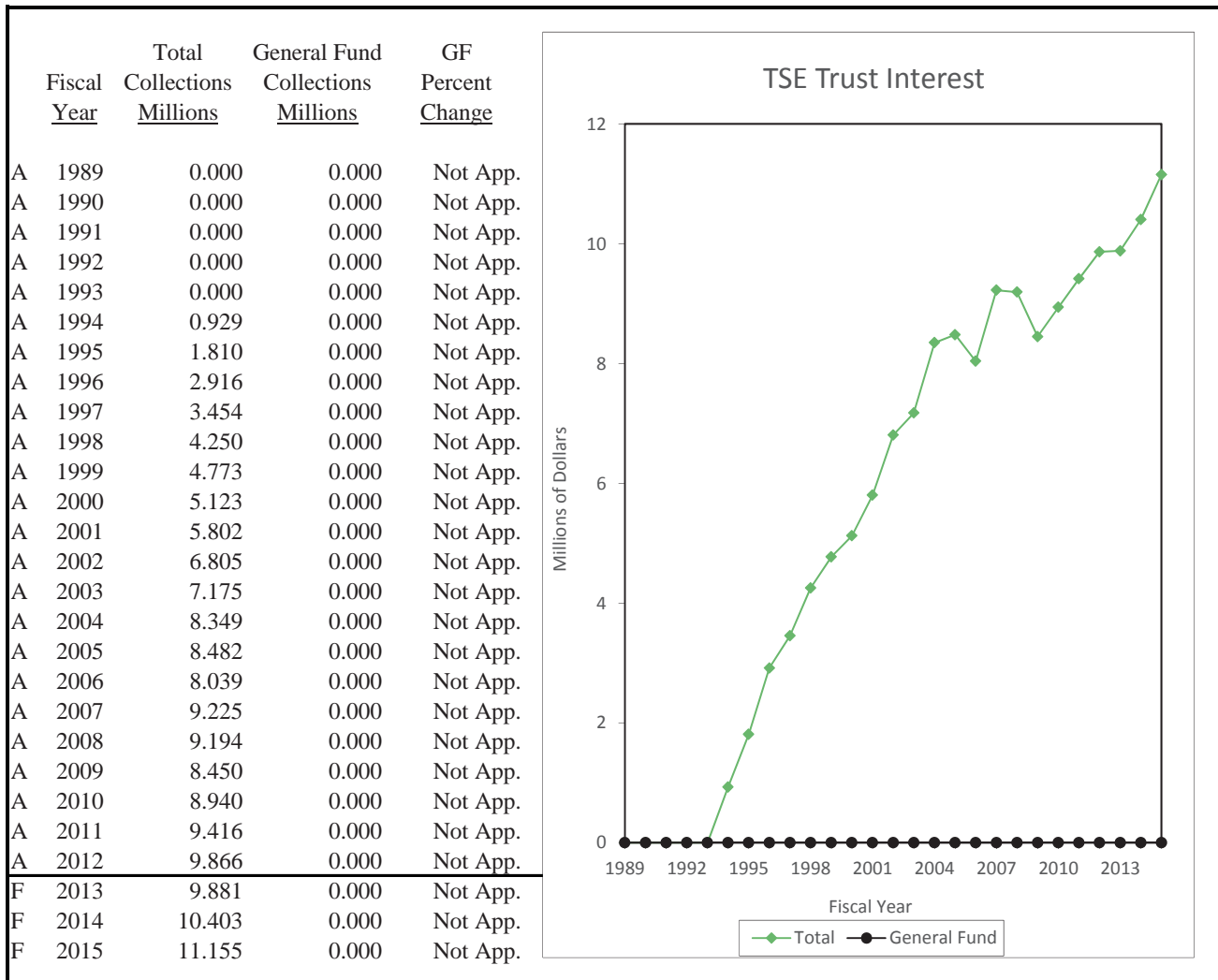
Total Rev. = Invested Balance × Average Return

# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

**Revenue Projection:**



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, IHS

**Contacts:** Department of Commerce and Department of Natural Resources and Conservation

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasury Cash Account Interest

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**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. 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 2011 or 2013 biennia.

**Statutory Reference:**

Tax Rate – NA

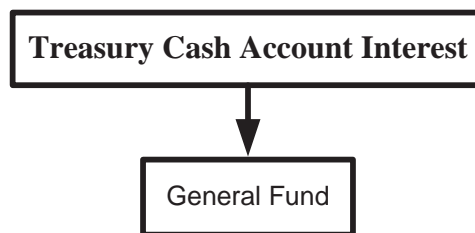
Distribution (MCA) – 17-6-202(2)

Date Due – interest deposits are mostly made monthly, with 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:



**Collection Frequency:** On-going

**% of Total General Fund Revenue:**

FY 2004 – 0.46%	FY 2007 – 1.85%	FY 2010 – 0.17%
FY 2005 – 0.66%	FY 2008 – 1.57%	FY 2011 – 0.14%
FY 2006 – 1.09%	FY 2009 – 0.86%	FY 2012 – 0.14%

**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

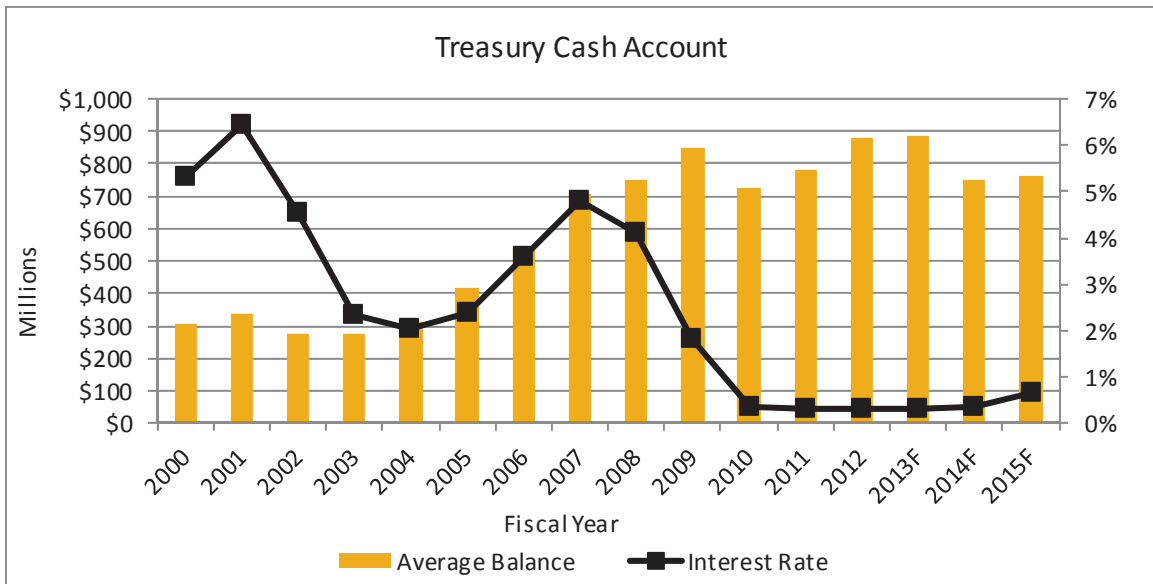
The Board of Investments provides monthly reports on the treasury cash account balance. The state accounting system (SABHRS) provides information on monthly investment earnings.

Analysis

- The average balance of the TCA is estimated by increasing the previous year's balance by half the difference between the anticipated general fund balances for the past and current years. 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 2011 -2013.

# Legislative Fiscal Division

## Revenue Estimate Profile Treasury Cash Account Interest

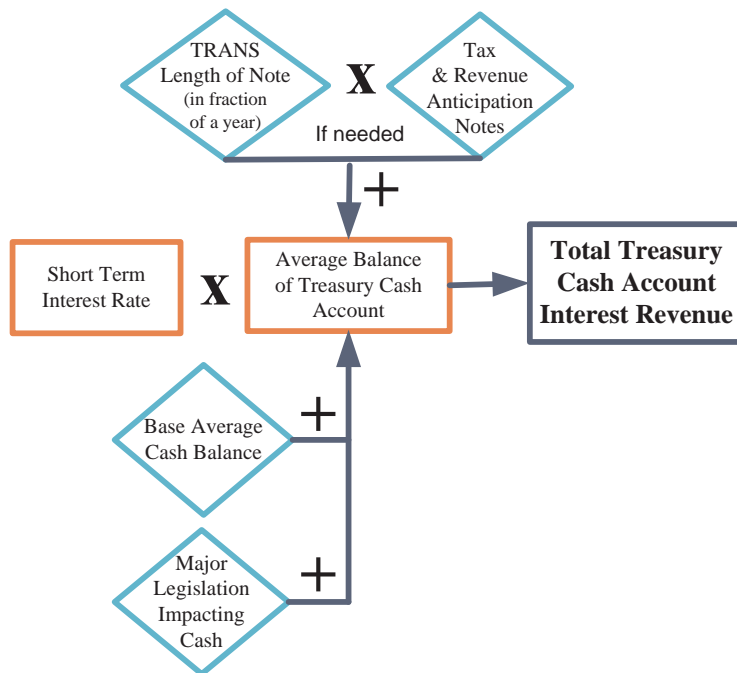


- Short-term interest rates are estimated by deriving a composite rate of IHS forecasts for the 3-month commercial paper, 3-month treasury bill, and 6-month treasury bill rates.
- The average TCA balance multiplied by the composite interest rate produces total fiscal year revenue.

### Adjustments and Distribution

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

### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasury Cash Account Interest

#### Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	<u>Total Rev.</u> <u>Millions</u>	<u>GF Rev.</u> <u>Millions</u>	<u>Avg. Bal.</u> <u>Millions</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Rate</u>	<u>TRANS</u> <u>Cost</u>
Actual	2002	12.414	12.414	273.343	4.5%	0.0%	0.000
Actual	2003	6.366	6.366	273.929	2.3%	2.6%	1.639
Actual	2004	6.393	6.393	311.478	2.1%	0.2%	0.099
Actual	2005	10.047	10.047	419.349	2.4%	0.0%	0.000
Actual	2006	18.631	18.631	542.420	3.6%	0.0%	0.000
Actual	2007	33.951	33.951	710.102	4.8%	0.0%	0.000
Actual	2008	30.783	30.783	750.831	4.1%	0.0%	0.000
Actual	2009	15.507	15.507	849.208	1.8%	0.0%	0.000
Actual	2010	2.692	2.692	725.341	0.4%	0.0%	0.000
Actual	2011	2.519	2.519	781.879	0.3%	0.0%	0.000
Actual	2012	2.654	2.654	880.340	0.3%	0.0%	0.000
Forecast	2013	2.894	2.894	886.495	0.3%	0.2%	0.000
Forecast	2014	2.533	2.533	752.826	0.3%	0.2%	0.000
Forecast	2015	5.090	5.090	762.482	0.7%	0.4%	0.000

	<u>t</u> <u>Fiscal</u>	<u>Base Bal.</u> <u>Millions</u>	<u>TRANS</u> <u>Millions</u>	<u>TRANS</u> <u>Length</u>
Actual	2002	273.343	0.000	0.000
Actual	2003	212.062	92.800	0.667
Actual	2004	262.545	73.400	0.667
Actual	2005	419.349	0.000	0.000
Actual	2006	542.420	0.000	0.000
Actual	2007	710.102	0.000	0.000
Actual	2008	750.831	0.000	0.000
Actual	2009	849.208	0.000	0.000
Actual	2010	725.341	0.000	0.000
Actual	2011	781.879	0.000	0.000
Actual	2012	880.340	0.000	0.000
Forecast	2013	886.495	0.000	0.000
Forecast	2014	752.826	0.000	0.000
Forecast	2015	762.482	0.000	0.000

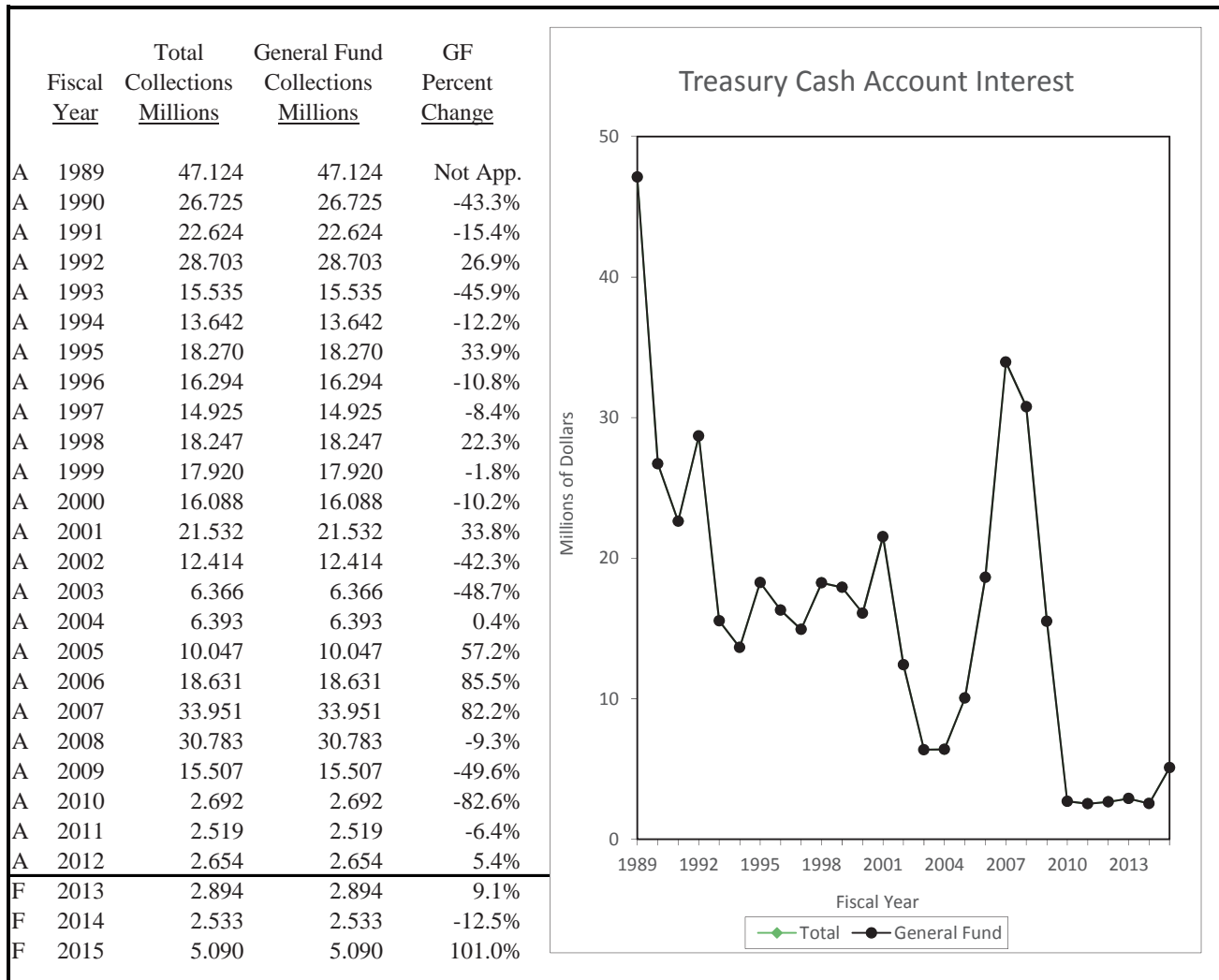
Total Rev. = Average Balance × Interest Rate  
 GF Rev = Total Rev.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasury Cash Account Interest

#### Revenue Projection:



**Data Source(s):** SABHRS, Department of Administration, *Wall Street Journal*, IHS

**Contacts:** Department of Administration