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# Legislative Fiscal Division

## Revenue Estimate Profile

### Economic Development Trust Interest

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**Revenue Description:** This revenue source represents the interest gained on the Economic Development Trust. The Economic Development Trust is one of several trusts set up with money from the Coal Severance Tax. The interest money from this fund is used primarily for economic development by local governments and certified regional and economic development organizations.

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. The deposits of coal severance tax revenue to this fund terminate at the end of FY 2025.

#### 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:



**Summary of Legislative Action:** The 63<sup>rd</sup> Legislature did not enact legislation that impacted this source.

**Collection Frequency:** Monthly

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

#### 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.

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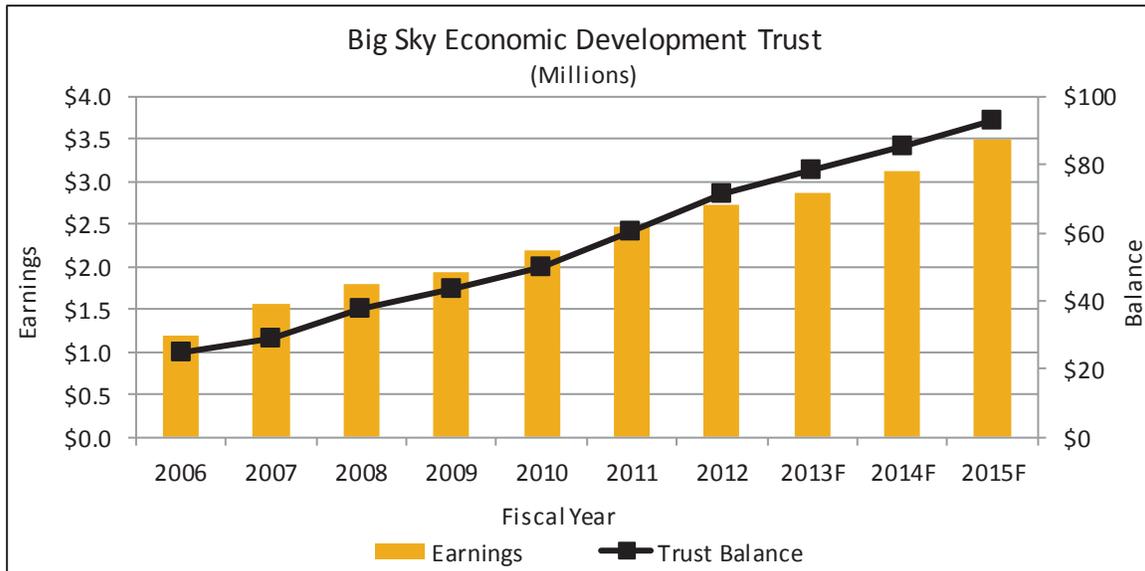
#### Analysis

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.

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 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.



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.

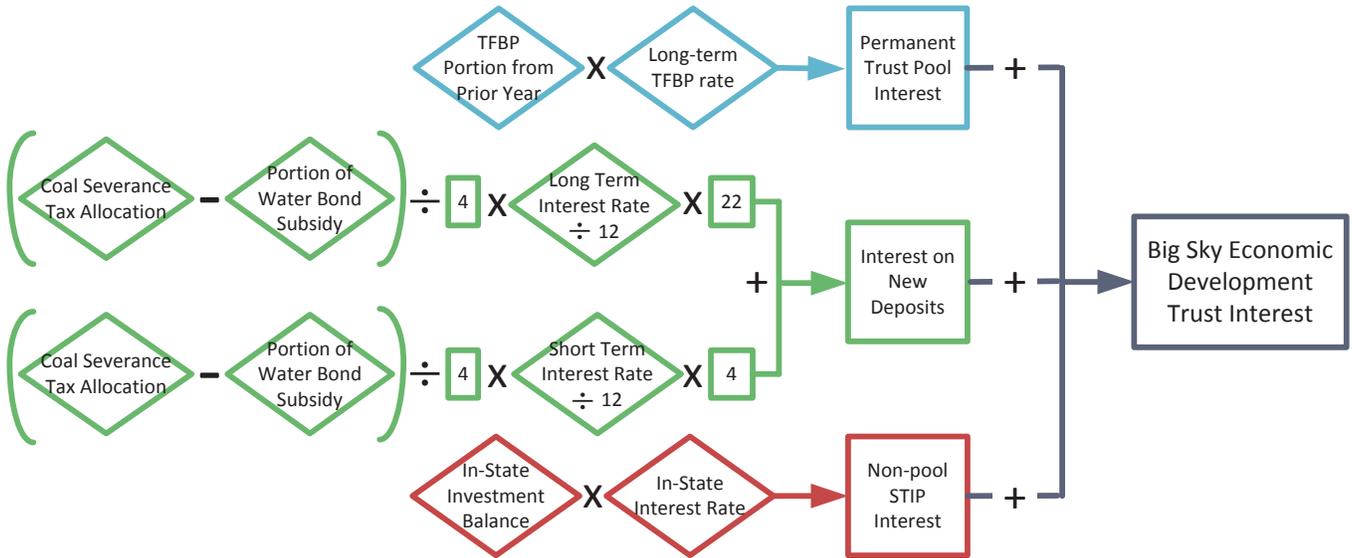
Coal severance tax distributions to the trust are considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested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

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**Forecast Methodology:**



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#### Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in Senate Joint Resolution 2. It does not reflect changes, if any, enacted by the 2013 Legislature that may affect future estimates of this revenue source.

	<u>t</u>	<u>Total Rev.</u>	<u>GF Rev.</u>	<u>TFBP</u>	<u>STIP</u>	<u>Loan</u>	<u>Invested</u>	<u>Average</u>
	<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	0.000	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	2.858	0.000	2.728	0.130	0.000	73.811	3.9%
Forecast	2014	3.113	0.000	2.964	0.149	0.000	81.057	3.8%
Forecast	2015	3.419	0.000	3.240	0.179	0.000	88.596	3.9%

	<u>t</u>	<u>Net Coal Tax</u>	<u>New Deposit</u>	<u>Non Pool</u>	<u>Non Pool</u>
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Long Term</u>	<u>STIP</u>	<u>STIP Bal</u>
		<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>
Actual	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	6.861	3.4%	0.1%	8.401
Forecast	2014	7.246	3.8%	0.1%	8.401
Forecast	2015	7.539	4.2%	0.2%	8.401

$$\text{Total Rev.} = \text{Invested Balance} \times \text{Average Return}$$

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#### Revenue Projection:

