
Legislative Fiscal Division

Revenue Estimate Profile

Regional Water Trust Interest

Revenue Description: This revenue source represents the interest gained on the Regional Water Trust. The Regional Water Trust is one of several trusts set up with money from the Coal Severance Tax. The interest money from this fund is used primarily to provide matching funds to plan and construct regional drinking water systems.

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 2020.

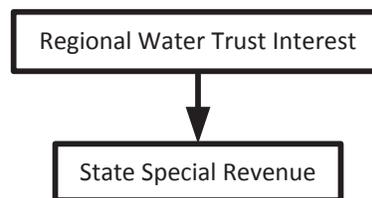
Statutory Reference:

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:



Summary of Legislative Action: The 63rd 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 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.

Legislative Fiscal Division

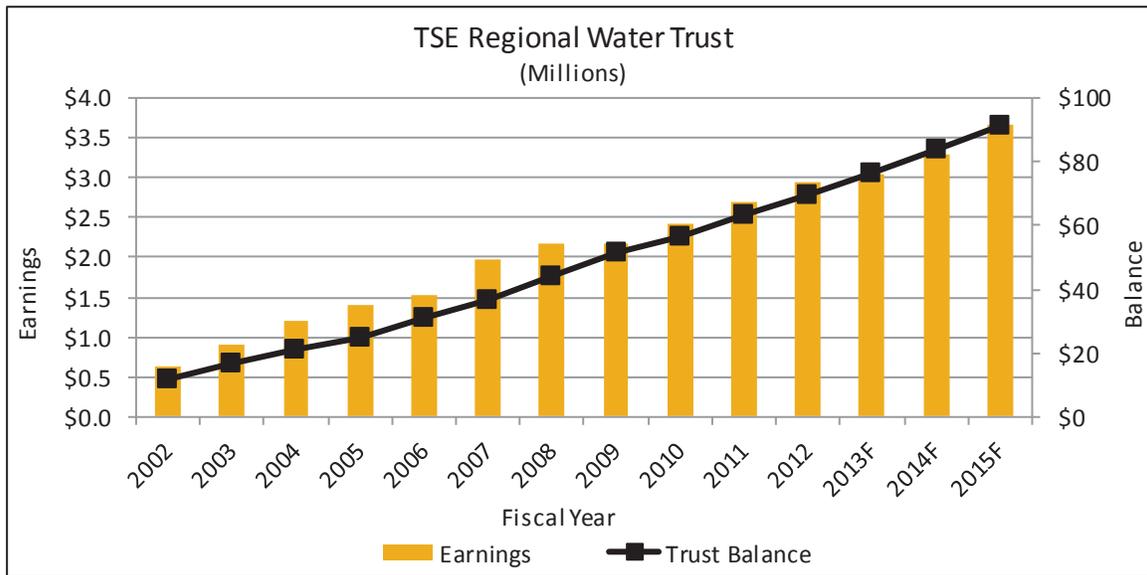
Revenue Estimate Profile

Regional Water Trust Interest

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

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 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 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.

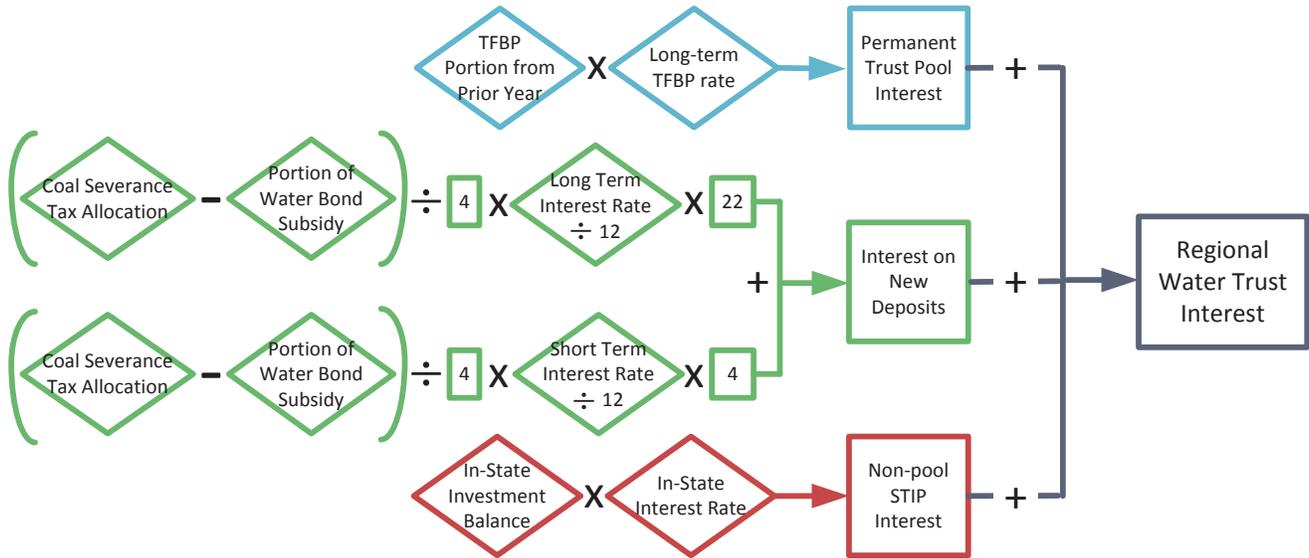
Coal severance tax distributions to the regional water trust are considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before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

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 | 0.643 | 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 | 3.032 | 0.000 | 2.905 | 0.127 | 0.000 | 76.401 | 4.0% |
| Forecast | 2014 | 3.287 | 0.000 | 3.141 | 0.146 | 0.000 | 83.647 | 3.9% |
| Forecast | 2015 | 3.591 | 0.000 | 3.417 | 0.175 | 0.000 | 91.186 | 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 | 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 | 6.861 | 3.4% | 0.1% | 7.198 |
| Forecast | 2014 | 7.246 | 3.8% | 0.1% | 7.198 |
| Forecast | 2015 | 7.539 | 4.2% | 0.2% | 7.198 |

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

Legislative Fiscal Division

Revenue Estimate Profile

Regional Water Trust Interest

Revenue Projection:

