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# NON-GENERAL FUND REVENUE ESTIMATES SECTION 10

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GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

# Non-General Fund Revenue Estimates

2011 Biennium

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Non-general fund estimates that have individual write-ups are as follows:

- State Land Trusts Interest and Income (School Interest and Income)
- Tobacco Settlement Trust Interest
- Introduction to Coal Trusts
- Treasure State Endowment Fund Interest
- Treasure State Endowment Regional Water System Fund Interest
- Big Sky Economic Development Trust Interest
- Resource Indemnity Tax
- Resource Indemnity Trust Interest

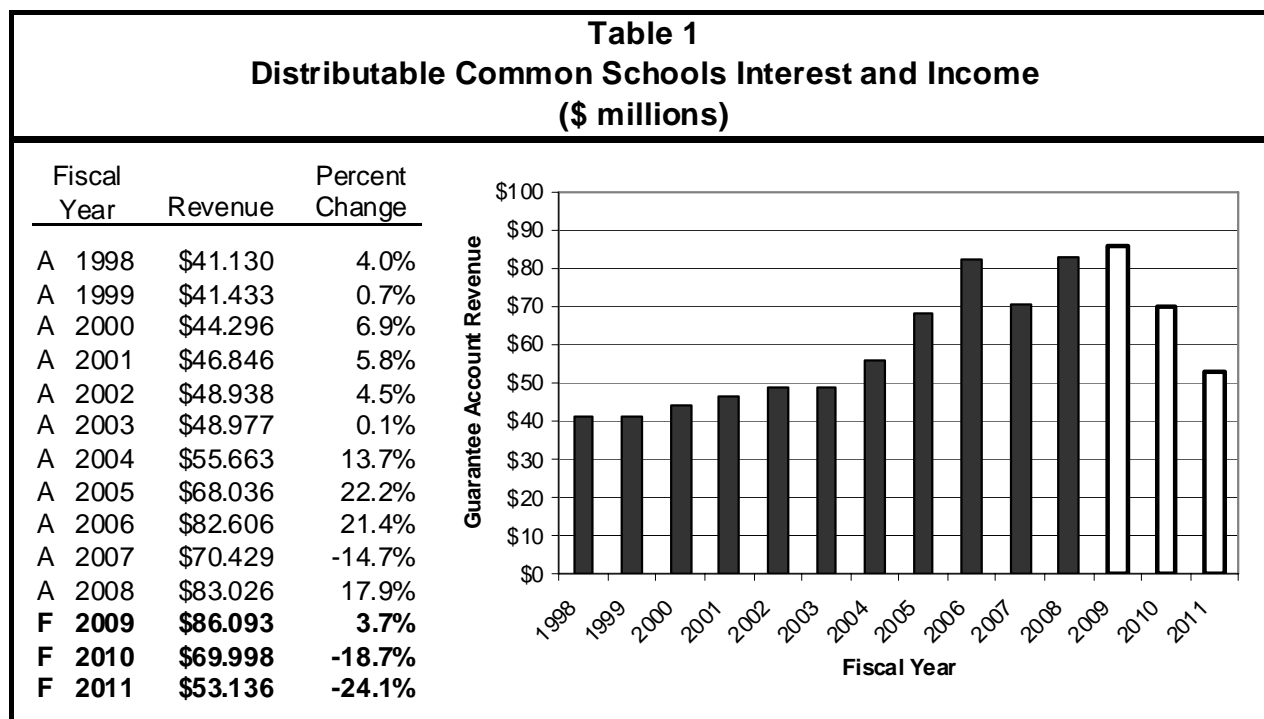
## Revenue Description

The United States Congress granted public lands to the state of Montana by the Enabling Act in 1889 to provide income to support public schools. The Enabling Act also granted smaller amounts of land to other state institutions. The land grants have been supplemented over time through gifts to the state, reversions of unclaimed property, and subsequent acts.

Proceeds from property sales of the granted land are deposited into an inviolate trust fund; thus, the proceeds are non-distributable. The trust fund is invested in bonds. Of the interest income, 5% percent is retained by the trust fund corpus, and 95% of the interest earned by the trust fund, along with other income from the trust lands, is considered distributable. The distributable income from the common school trust land is deposited in the guarantee account for spending on public schools. The distributable income from the other trust lands goes to state special revenue accounts. Costs of administering state lands are deducted from allocations of the income produced from mineral royalties, property sales and leases.

Table 1 shows actual distributable income from the Common School trust for FY 1998 through FY 2008 and forecasted revenue for FY 2009 through FY 2011.

The decrease in revenue in FY 2010 is primarily due to the changing distribution of mineral royalties to the trust fund corpus rather than common schools. This change is scheduled to occur in FY 2010.



School interest and income was deposited in the general fund through FY 2001. Because of SB 495 (2001 Session) and HB 7 (2002 Special Session) a new special revenue account, the guarantee account, was created. Beginning in FY 2002, school trust interest and income is deposited in the guarantee account rather than the general fund.

Revenue increased in FY 2002, because SB 495 resulted in a loan of \$46 million from the coal trust to the school trust fund. The higher school trust fund balance increased interest earnings. SB 495 also allowed \$138.9 million in net mineral royalties to be distributed to common schools rather than the trust fund corpus. It is forecast that by FY 2010, common schools will have received \$138.9 million from mineral royalties. At this point, mineral royalty will no longer be distributed to common schools, but rather to the trust fund corpus to generate interest revenue.

## Significant Factors

In FY 2008 the state of Montana reached an agreement in settlement of litigation under Montana's Hydroelectric Resources Act. The annual fees represent the state's share of net benefits to the trust land riverbed contributes to the hydroelectric project as a whole. Two lease agreements were executed, and one agreement is being contested. The company scheduled to pay this lease has appealed the District Court decision to the Supreme Court. If the protest is successful, then both companies will pay less, and revenue to common schools will be less. Only the revenue from the signed agreement is being considered in this revenue estimate.

## Forecast Methodology

**Step 1:** Total interest earnings from the trust and Legacy fund are based on interest rate forecasts described in the *Interest Rate Introduction* section.

**Step 2:** The Common School portion of the total Trust fund is then estimated and applied to yield interest income.

**Step 3:** Agricultural and grazing rentals are determined based on the estimated value of wheat in Montana, the estimated price of cattle, and trends in revenue collections for these types of rentals.

**Step 4:** School trust non-royalty mineral income is based on projections provided by the Department of Natural Resource Conservation (DNRC).

**Step 5:** Timber revenue is based on projections by DNRC, long term trends, and executive budget recommendations. The price of timber, along with decisions about the amount of land to be harvested, could have an effect on trust land revenues.

**Step 6:** Mineral royalties are calculated based on projections for DNRC and price estimates based on Global Insight forecasts.

**Step 7:** All other revenue to the Common School trust is forecast based on communications with DNRC and long term trends.

**Step 8:** All the pieces are added together and distributed appropriately.

Total projected revenue by income source for FY 2009 through FY 2011 is shown in Table 2.

<b>Table 2</b>			
<b>Projected Common School Trust Income</b>			
<b>(\$ millions)</b>			
<b>Source</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Trust and Legacy Interest Income	\$23.262	\$23.815	\$25.040
Agriculture and Grazing Revenue	\$18.606	\$16.615	\$16.078
Non-Royalty Mineral Revenue	\$17.052	\$6.510	\$6.470
Timber Revenue	\$7.082	\$7.882	\$5.575
Mineral Royalties Revenue	\$24.705	\$20.888	\$24.056
Other Revenue	\$6.731	\$6.970	\$7.790
<b>Total Revenue</b>	<b>\$97.439</b>	<b>\$82.680</b>	<b>\$85.008</b>

Table 3 shows gross revenue, estimated administrative expenses, allocation and net revenue to schools for FY 2009 through FY 2011. Future administrative expenses are based on executive budget recommendations for FY 2009 through FY 2011.

**Table 3**  
**School Trust Income Allocation to the Guarantee Fund**  
**and Distribution to Sub Accounts**  
**(\$ millions)**

Fiscal Year	Actual		Projected		
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Income</b>					
Investment Income	\$24.541	\$23.428	\$23.262	\$23.815	\$25.040
Agriculture and Grazing Rents	\$16.465	\$18.690	\$18.606	\$16.615	\$16.078
Non-Royalty Mineral Income	\$6.006	\$5.934	\$17.052	\$6.510	\$6.470
Timber Revenue < 18 mmbf	\$4.502	\$5.368	\$5.034	\$5.160	\$4.775
Licenses and Other Income	\$3.032	\$7.312	\$6.731	\$6.970	\$7.790
<b>Subtotal</b>	<b>\$54.547</b>	<b>\$60.732</b>	<b>\$70.686</b>	<b>\$59.070</b>	<b>\$60.153</b>
<b>Expenses</b>					
Resource Development Account	\$0.722	\$0.800	\$0.870	\$0.870	\$0.870
Timber Sales Account	\$2.573	\$3.117	\$3.400	\$3.795	\$3.795
TAC Expense	\$0.000	\$0.000	\$0.000	\$0.245	\$0.245
Recreational Use Account	\$0.091	\$0.086	\$0.090	\$0.090	\$0.090
SB 137 Commercial Leasing Account	\$0.057	\$0.057	\$0.063	\$0.063	\$0.063
<b>Total Expenses</b>	<b>\$3.444</b>	<b>\$4.060</b>	<b>\$4.422</b>	<b>\$5.062</b>	<b>\$5.062</b>
<b>Income Less Expenses</b>	<b>\$51.103</b>	<b>\$56.671</b>	<b>\$66.264</b>	<b>\$54.008</b>	<b>\$55.091</b>
Distributable Income (95% of Income Less Expenses)	\$48.548	\$53.838	\$62.951	\$51.308	\$52.336
Plus 100% Timber Revenue > 18 mmbf	\$0.896	\$1.949	\$2.048	\$2.722	\$0.800
<b>Net Income (Excluding Mineral Royalties)</b>	<b>\$49.444</b>	<b>\$55.786</b>	<b>\$64.999</b>	<b>\$54.030</b>	<b>\$53.136</b>
<b>Mineral Royalties</b>					
Mineral Royalties	\$24.093	\$31.048	\$24.705	\$20.888	\$24.056
TAC Expense	\$3.108	\$3.809	\$3.610	\$3.610	\$3.610
Less Trust and Legacy Mineral Revenue	\$0.000	\$0.000	\$0.000	\$1.310	\$20.445
<b>Net Mineral Royalties</b>	<b>\$20.985</b>	<b>\$27.239</b>	<b>\$21.095</b>	<b>\$15.968</b>	<b>\$0.000</b>
<b>Total Guarantee Fund Income</b>	<b>\$70.429</b>	<b>\$83.026</b>	<b>\$86.093</b>	<b>\$69.998</b>	<b>\$53.136</b>
<b>Distribution of Guarantee Fund Income</b>					
SB 495 Coal Trust Loan Principal	\$19.473	\$11.574	\$0.000	\$0.000	\$0.000
SB 495 Coal Trust Loan Interest	\$1.505	\$0.283	\$0.000	\$0.000	\$0.000
Technology Acquisition Account	\$0.896	\$1.949	\$2.048	\$2.722	\$0.800
School Facility Improvement Account	\$0.000	\$15.383	\$21.095	\$15.968	\$0.000
School Equalization - Base Aid (River Leases95%)	\$0.000	\$3.800	\$3.962	\$4.078	\$4.627
School Equalization - Base Aid	\$48.554	\$50.037	\$58.989	\$47.229	\$47.709
<b>Total Guarantee Fund Distribution</b>	<b>\$70.429</b>	<b>\$83.026</b>	<b>\$86.093</b>	<b>\$69.998</b>	<b>\$53.136</b>

## Data Sources

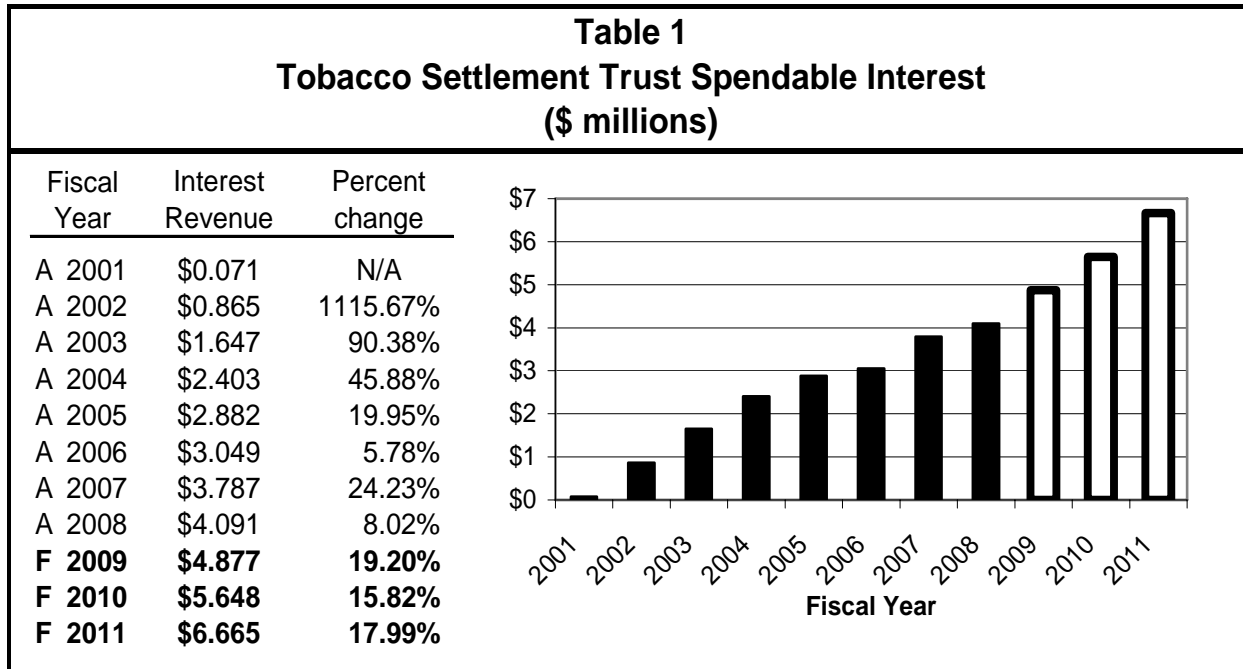
Historical Interest income information was provided by the State Street Bank and BOI monthly reports. Historical wheat and cattle data is from the USDA's website, [http://www.nass.usda.gov/Statistics\\_by\\_State/Montana/](http://www.nass.usda.gov/Statistics_by_State/Montana/). Forecasts for wheat and cattle prices were obtained from the United States Department of Agriculture's February 2008 Long Term Projections available at <http://usda.mannlib.cornell.edu/MannUsda/viewStaticPage.do?url=http://usda.mannlib.cornell.edu/usda/ers/94005/>.

# Tobacco Settlement Trust Interest

2011 Biennium

## Revenue Description

Montana receives payments from a multi-state settlement with tobacco companies. Forty percent of the receipts from this settlement are deposited in the tobacco settlement trust. Ten percent of interest earnings from this trust fund are retained in the trust and 90% are deposited in a special revenue account and may be appropriated by the Legislature for tobacco prevention and health care programs (17-6-603, MCA).



The tobacco settlement trust was established in January 2001 following passage of Constitutional Amendment 35 in the November 2000 election. Spendable interest is the portion of tobacco trust interest that is not retained by the trust. Tobacco trust interest revenue is growing rapidly, because the trust fund balance is growing with the settlement payments made each year.

## Forecast Methodology

There are four steps to forecasting interest revenue from the tobacco trust fund:

- Step 1:** The annual average balance of the fund is projected. The fund balance increases yearly as 40% of the tobacco settlement payments and 10% of the interest earned on the fund balance are deposited into the trust fund.
- Step 2:** The annual average balance by investment type is projected. The fund balance is invested in the short term investment pool (STIP) and the trust fund bond pool (TFBP). STIP and TFBP are managed by the Board of Investments and forecasts of annual rates of return for STIP and TFBP are explained in the *Interest Rate Introduction*.
- Step 3:** Interest earnings are forecast by multiplying the balance by the interest rate.
- Step 4:** The STIP and TFBP interest rates are expected to change throughout the 2011 biennium. However, total tobacco trust fund income will continue to increase each year, because the increasing trust fund balance offsets lower interest rates to the extent that lower interest rates are realized.

## Distributions

Table 2 summarizes actual and projected trust fund balances, interest rates, interest earnings, and allocation of interest earnings from FY 2008 through FY 2011. Ten percent of tobacco trust earnings are retained by the trust and 90% are allocated to a state special revenue account.

<b>Table 2</b> <b>Tobacco Trust Fund</b> <b>Fund Balance, Rate, Interest Earnings, and Allocation</b> <b>(\$ millions)</b>							
Fiscal Year	Fund Balance, Rate, and Earnings				Allocation		
	Tobacco Trust Fund Balance	x	Tobacco Trust Rate of Return	=	Tobacco Trust Interest Earnings	Tobacco Trust Retained Earnings	State Special Revenue Account
A 2008	\$82.701	x	5.50%	=	\$4.546	\$0.455	\$4.091
<b>F 2009</b>	<b>\$96.857</b>	<b>x</b>	<b>5.59%</b>	<b>=</b>	<b>\$5.419</b>	<b>\$0.542</b>	<b>\$4.877</b>
<b>F 2010</b>	<b>\$111.233</b>	<b>x</b>	<b>5.64%</b>	<b>=</b>	<b>\$6.276</b>	<b>\$0.628</b>	<b>\$5.648</b>
<b>F 2011</b>	<b>\$125.815</b>	<b>x</b>	<b>5.89%</b>	<b>=</b>	<b>\$7.405</b>	<b>\$0.741</b>	<b>\$6.665</b>

## Data Sources

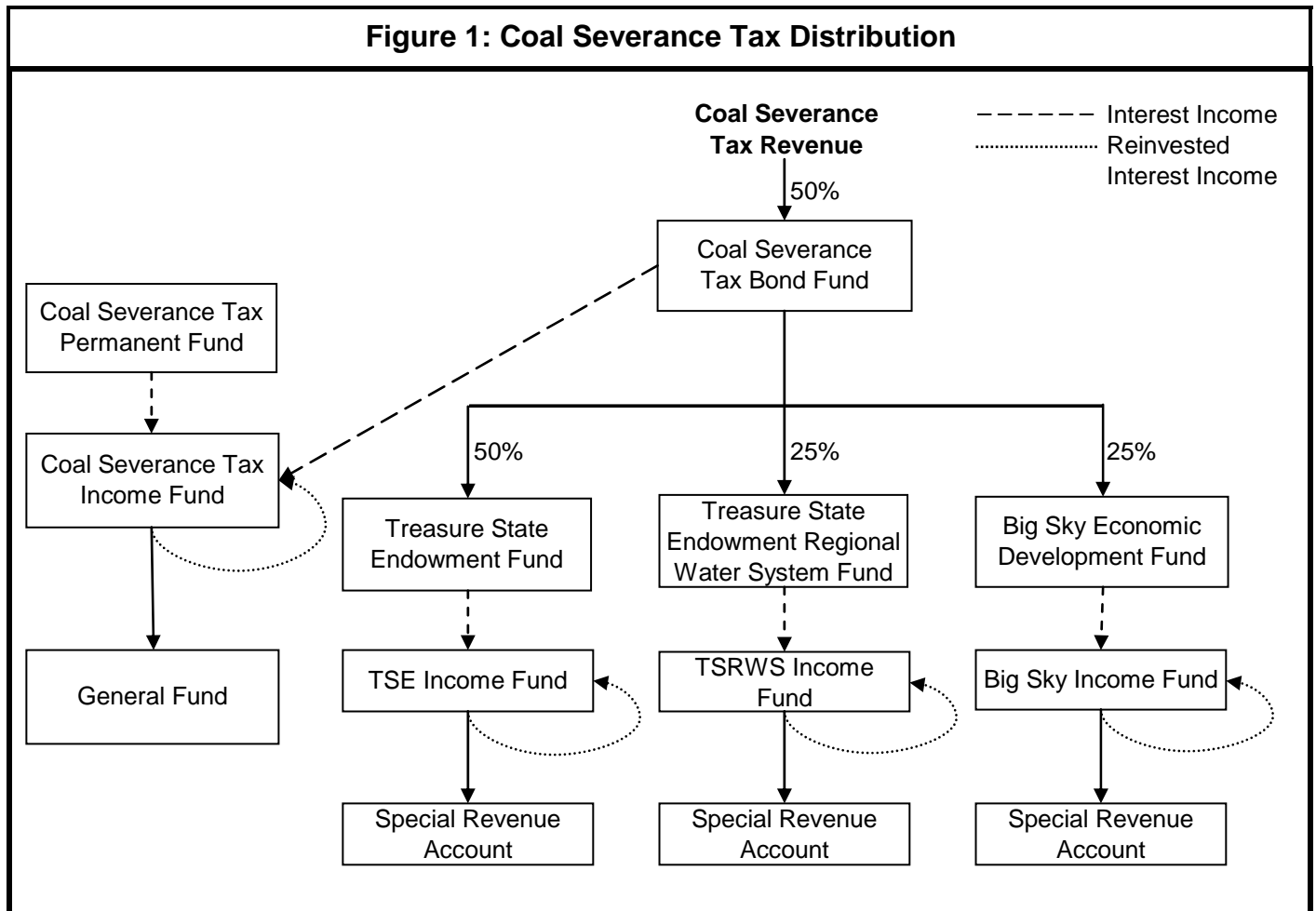
Tobacco trust balances and earnings are from the Board of Investments and SABHRS. Projections of tobacco settlement deposits are from the *Tobacco Master Settlement Agreement Revenue* estimation. Projections of the STIP and TFBP interest rates are from *Interest Rate Introduction*.

## Revenue Description

Article IX, Section 5 of the Montana Constitution established a permanent trust fund into which at least half of coal severance tax revenue must be deposited as principal. Interest income from this principal may be appropriated, but the principal itself is inviolate unless approved by  $\frac{3}{4}$  of the members of each house in the legislature. Under current law, 50% of coal severance tax revenue is deposited in the trust fund, which is divided into the following permanent funds. (17-5-703, MCA)

- coal severance tax bond fund
- coal severance tax permanent fund
- treasure state endowment fund
- treasure state endowment regional water system fund
- big sky economic development fund

The coal severance tax revenue allocated to the trust is initially deposited in the coal severance tax bond fund. The revenue is then distributed to the various accounts as shown in Figure 1.



## Coal Severance Tax Bond Fund

The coal severance tax revenue deposited into the coal severance tax bond fund (bond fund) secures state issued bonds, called coal severance tax bonds. The tax bonds are issued to finance loans through the Department of Natural



Resources and Conservation (DNRC). The Department of Revenue (DOR) administers the bond fund, and at the beginning of a fiscal year, DNRC informs DOR of the amount necessary to meet all principal and interest payments on coal severance tax bonds in the next twelve months. This amount is maintained as a reserve balance in the bond fund.

A portion of the reserve balance in the bond fund is invested in the short term investment pool (STIP). This investment averages about \$6 million per year, and the interest earnings are deposited in the coal severance tax income fund. The coal severance tax income fund balance is transferred monthly to the general fund, but the balance is invested in STIP during the interim with the reinvested interest income returning to the fund.

The coal severance tax revenue that is not reserved in the bond fund is allocated 50% to the Treasure State Endowment fund, 25% to the Treasure State Endowment Regional Water System fund, and 25% to the Big Sky Economic Development fund.

### **Risks**

- The Federal Open Market Committee (FOMC) may decide to lower interest rates even further as a way to encourage economic growth.
- It is possible the FOMC will begin to increase the federal funds rate more rapidly than anticipated if they feel inflation threatens the health of the national economy.
- If the national economy were to enter a deep recession, there will be an increased likelihood some of the investments could default, significantly reducing the rates of return on the total investment.
- The amount of coal severance tax revenue deposited into the balance of the fund will have an affect on the interest earnings.

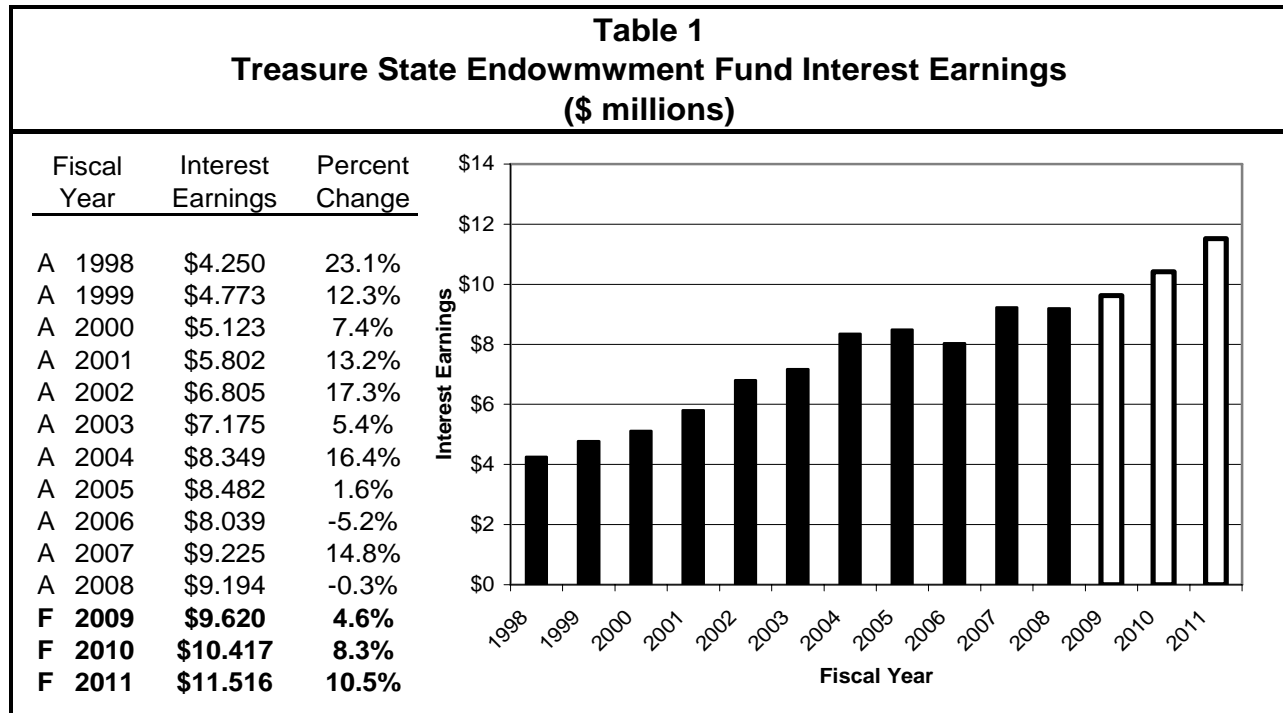
### **Coal Severance Tax Permanent Fund**

The coal severance tax permanent fund (permanent fund) is the original coal tax trust fund. The permanent fund does not currently receive any coal severance tax revenue, but it earns interest income. The permanent fund balance in FY 2008 was \$532 million and 36% was invested in loans, 2% was invested in STIP, and the remaining 62% was invested in TFBP. The interest earnings from the permanent fund are deposited into the coal severance tax income fund. Currently, coal severance tax permanent fund receives no revenue from severance tax. General fund interest earning is discussed in the Coal Trust Interest Earning section.

**Treasure State Endowment Fund**

The Treasure State Endowment (TSE) fund is used for local government projects improving drinking water systems, wastewater treatment facilities, sewer systems, solid waste disposal systems, and bridges.

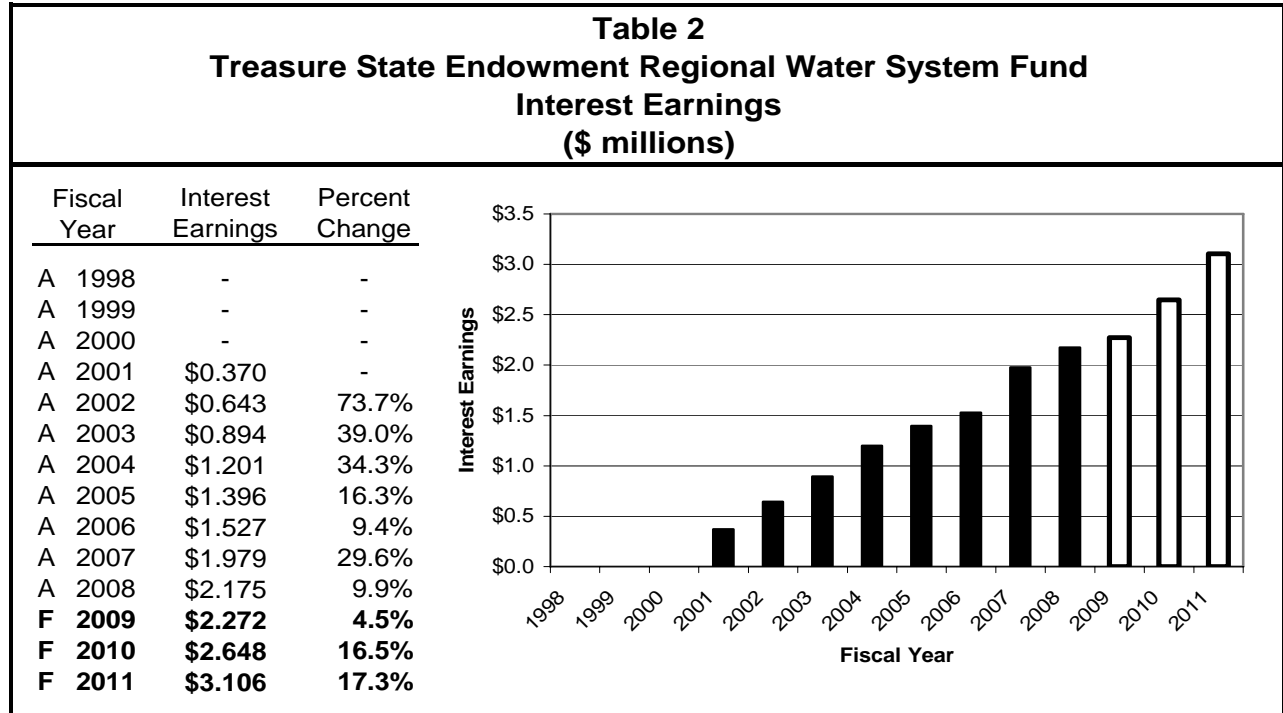
The coal tax contributions to the TSE have varied across years. From FY 2001 to FY 2003, the trust fund received 37.5% of net coal tax collections. Deposits to the trust fund fell in FY 2004, because the TSE fund allocation dropped to 25% of net coal tax collections (SB 10, 2003 Session).



The TSE fund receives 50% of the coal severance tax transfers from the bond fund, or 25% of coal severance tax revenue. The fund balance at the end of FY 2008 was \$159 million with 98% of the balance invested in TFBP, 1% invested in loans, and less than 1% invested in STIP. The interest income from the TSE fund is deposited in the TSE income fund, which earns reinvested interest income from STIP investments. The money needed for local government projects is transferred from the income fund to a special revenue account for distribution.

**Treasure State Endowment Regional Water System Fund**

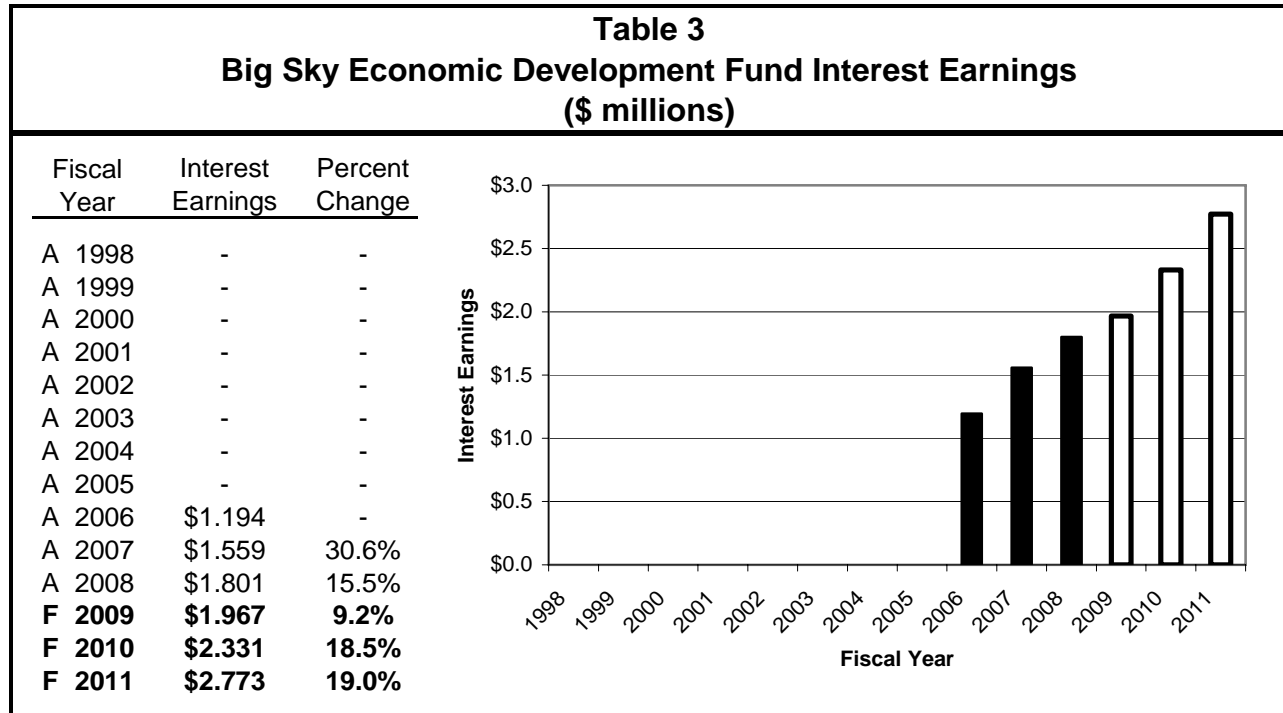
The treasure state endowment regional water system fund (TSRWS) provides funding for regional water projects. Funds may be used to match funds for construction of water systems, pay debt service on water system bond issues, pay administrative expenses of state and local entities, and provide interim funding to state or local entities pending receipt of grants or loans.



TSRWS receives 25% of the coal severance tax transfers from the bond fund, or about 12.5% of coal severance tax receipts. The fund balance at the end of FY 2008 was \$39 million, which was invested 99% in TFBP and 1% in STIP. The interest income from TSRWS is deposited in the TSRWS income fund, which is invested in STIP. Funds needed for projects are transferred to a special revenue account for distribution.

## Big Sky Economic Development Fund

On July 8, 2005, \$20 million was taken from the permanent fund to create the Big Sky Economic Development (Big Sky) Fund. The interest income from the Big Sky Fund provides financial assistance for economic development to local governments and certified regional development corporations.



The Big Sky Fund will receive 25% of the coal severance tax transfers from the bond fund. The year end fund balance in FY 2008 was \$35 million. This balance was invested 99% in TFBP and 1% in STIP. Income from this investment is transferred to a state special revenue account to fund program expenditures. Income not needed for program expenditures remains in the Big Sky Fund and earns interest.

### **Data Sources**

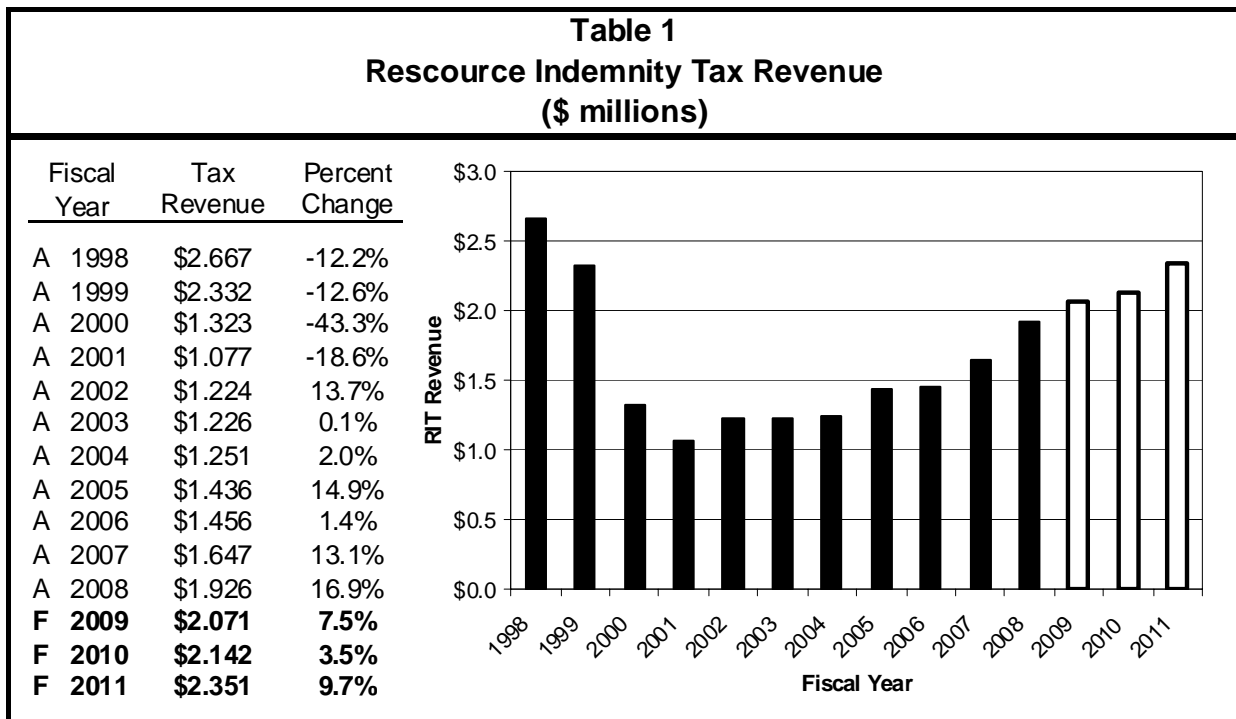
Trust fund balances and earnings were obtained from the Board of Investments and the state accounting system. Establishment and legal description of the coal trusts is discussed in 17-5-701 through 17-5-731, MCA. The Department of Natural Resources and Conservation Annual Report (2005) provided information on the Coal Severance Tax Bond Fund and debt service account.

## Revenue Description

Title 15, Chapter 38, MCA, created a resource indemnity and groundwater assessment tax. The tax (also called the Resource Indemnity Tax or RIT) funds the Resource Indemnity Trust. The tax also provides revenues for groundwater assessment and resource development programs to benefit the state and its citizens. The purpose of the trust and other programs is to indemnify the citizens of Montana for depletion of the state's natural resources and for environmental damage caused by mineral development.

Until the Resource Indemnity Trust Fund balance reached \$100 million, 50% of the Resource Indemnity Tax was deposited in the trust fund. The fund balance reached \$100 million in December 2001, and this allocation ceased. Under current law, the tax is deposited into several state special revenue accounts.

Table 1 shows actual Resource Indemnity Tax revenues for FY 1998 through FY 2008 and forecasted revenue for FY 2009 through FY 2010.



The tax rates for RIT vary depending on the type of mineral being extracted.

- Talc's tax rate is \$25 plus an additional 4% of the gross value of the talc produced in excess of \$625 in the prior calendar year.
- Coal's tax rate is \$25 plus an additional 0.4% of the gross value of the coal produced in excess of \$6,250 in the prior calendar year.
- Vermiculite's tax rate is \$25 plus an additional 2% of the gross value of the vermiculite produced in excess of \$1,250 in the prior calendar year.
- Limestone's tax rate is \$25 plus an additional 10% of the gross value of the limestone produced in excess of \$250 in the prior calendar year.
- Garnet and its associated byproducts tax rate is \$25 plus an additional 1% of the gross value of the limestone produced in excess of \$2,500 in the prior calendar year.
- All other mineral's tax rate (excluding metals, oil, and natural gas) is \$25 and an additional 0.5% of the gross value of the product in excess of \$5,000 in the prior calendar year.

## Forecast Methodology

There are 2 steps in forecasting RIT revenues:

**Step 1:** Estimate the amount of revenue from coal production. Coal production is increased proportionally by the same amount as the forecasted coal production in the *Coal Severance Tax Revenue* estimate.

**Step 2:** All other minerals that pay the Coal Severance Tax are projected to increase at the same rate as the Global Insights forecast for minerals and mineral product's producer price index.

Table 2 shows the actual and forecasted and RIT revenues from coal production, all other mineral production.

Fiscal Year	Coal	+	Other Minerals	=	Total
A 2001	\$0.952	+	\$0.125	=	\$1.077
A 2002	\$0.999	+	\$0.225	=	\$1.224
A 2003	\$0.963	+	\$0.262	=	\$1.226
A 2004	\$0.966	+	\$0.285	=	\$1.251
A 2005	\$1.109	+	\$0.328	=	\$1.436
A 2006	\$1.087	+	\$0.370	=	\$1.456
A 2007	\$1.212	+	\$0.435	=	\$1.647
A 2008	\$1.366	+	\$0.560	=	\$1.926
<b>F 2009</b>	<b>\$1.480</b>	<b>+</b>	<b>\$0.591</b>	<b>=</b>	<b>\$2.071</b>
<b>F 2010</b>	<b>\$1.593</b>	<b>+</b>	<b>\$0.550</b>	<b>=</b>	<b>\$2.142</b>
<b>F 2011</b>	<b>\$1.796</b>	<b>+</b>	<b>\$0.555</b>	<b>=</b>	<b>\$2.351</b>

## Distribution

Table 3 shows the actual and forecasted distribution of the RIT revenue for FY 2001 through FY 2011.

Fiscal Year	Resource Indemnity Trust	CERCLA match debt service fund	Groundwater Assessment	Water Storage	Environmental Quality Protection	Hazardous Waste / CERCLA	Natural Resources Projects	Reclamation and Development Grants	Natural Resource Workers' Scholarship	Orphan Share	Total
A 2001	\$0.538	\$0.000	\$0.300	\$0.000	\$0.000	\$0.000	\$0.000	\$0.119	\$0.000	\$0.119	\$1.077
A 2002	\$0.612	\$0.000	\$0.300	\$0.000	\$0.000	\$0.000	\$0.000	\$0.156	\$0.000	\$0.156	\$1.224
A 2003	\$0.000	\$0.000	\$0.366	\$0.000	\$0.000	\$0.000	\$0.000	\$0.430	\$0.150	\$0.280	\$1.226
A 2004	\$0.000	\$0.000	\$0.366	\$0.000	\$0.000	\$0.000	\$0.000	\$0.442	\$0.000	\$0.442	\$1.251
A 2005	\$0.252	\$0.000	\$0.114	\$0.000	\$0.000	\$0.000	\$0.000	\$0.535	\$0.094	\$0.442	\$1.436
A 2006	\$0.000	\$0.188	\$0.366	\$0.000	\$0.000	\$0.000	\$0.000	\$0.451	\$0.000	\$0.451	\$1.456
A 2007	\$0.000	\$0.264	\$0.366	\$0.000	\$0.000	\$0.000	\$0.000	\$0.509	\$0.000	\$0.509	\$1.647
A 2008	\$0.000	\$0.273	\$0.366	\$0.150	\$0.284	\$0.284	\$0.568	\$0.000	\$0.000	\$0.000	\$1.925
<b>F 2009</b>	<b>\$0.000</b>	<b>\$0.272</b>	<b>\$0.366</b>	<b>\$0.150</b>	<b>\$0.321</b>	<b>\$0.321</b>	<b>\$0.641</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$2.071</b>
<b>F 2010</b>	<b>\$0.000</b>	<b>\$0.270</b>	<b>\$0.366</b>	<b>\$0.150</b>	<b>\$0.339</b>	<b>\$0.339</b>	<b>\$0.678</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$2.142</b>
<b>F 2011</b>	<b>\$0.000</b>	<b>\$0.270</b>	<b>\$0.366</b>	<b>\$0.150</b>	<b>\$0.391</b>	<b>\$0.391</b>	<b>\$0.782</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$2.351</b>

The Resource Indemnity Tax revenue is allocated to several state special revenue accounts. These include the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) match debt service fund (75-10-622, MCA), the ground water assessment account (85-2-905, MCA), the Hazardous Waste/CERCLA state special

revenue account (75-10-621, MCA), the Environmental Quality Protection Fund (75-10-704, MCA), and the Natural Resource Projects state special revenue account (15-38-302, MCA). The allocations are made in the specific order described below.

First, the CERCLA match debt service fund must allocated the required amount to pay the principal, redemption premiums, and interest on CERCLA bonds, after transfers from the CERCLA cost recovery account (75-10-631, MCA).

Second, \$0.366 million is distributed to the groundwater assessment account. In FY 2003 the groundwater assessment account allocation increased from \$0.300 million to \$0.366 million (SB 322, 2001 Session). In FY 2005 the groundwater assessment account received only \$0.114 million due to a correction from a previous error in distribution.

Third, 25% of the remaining revenue is distributed to the Hazardous Waste /CERCLA state special revenue account, 25% is distributed to the Environmental Quality Protection Fund, and 50% to the Natural Resource Projects state special revenue account.

### **Data Sources**

Historical allocations were obtained from SABHR MTGL0109 report, historical RIT production was obtained from a Department of Revenue GENTAX data extract, price forecast were from Global Insight's National Economic Forecast.

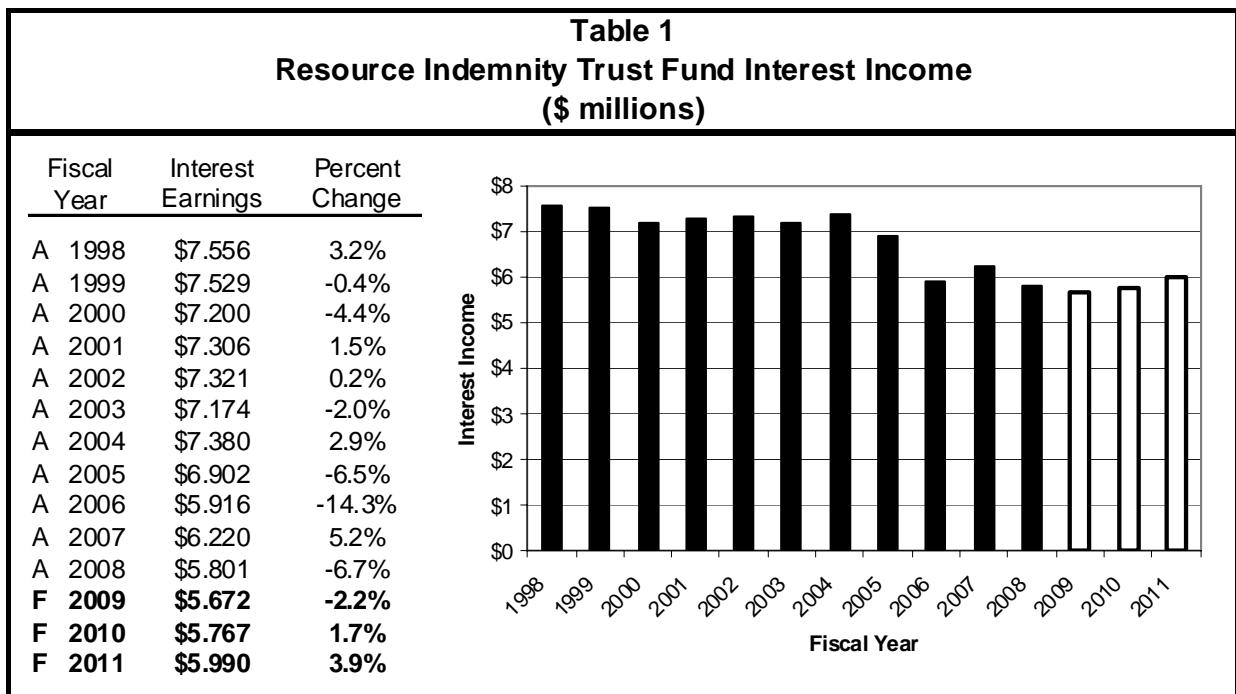
# Resource Indemnity Trust Interest

2011 Biennium

## Revenue Description

Title 15, Chapter 38, MCA, created a Resource Indemnity Trust (RIT) Fund to indemnify the citizens of Montana for depletion of the state's natural resources and for the environmental damage from mineral development. The trust was to be funded with proceeds from the Resource Indemnity Tax until the trust balance reached \$100 million, which occurred in December 2001. Deposits from the Resource Indemnity Tax ceased at that point, and the balance has remained at \$100 million. Income from the trust fund is used to fund environmental and natural resource programs.

Table 1 shows actual interest income from the RIT fund from FY 1998 to FY 2008 and forecasted income for FY 2009 through FY 2011.



## Forecast Methodology

The interest income is forecast in two steps:

**Step 1:** Estimate the balance of the RIT fund.

**Step 2:** Apply the appropriate interest rates forecast in the *Interest Rates Introduction* section.

Table 2 shows the actual and forecasted average balance, interest rates, and fund balance for FY 2000 through FY 2011.

## Distribution

The revenue distribution of the RIT interest revenue is defined in section 15-35-202, MCA. Some of the accounts receive a fixed allocation per biennium, some accounts receive a fixed allocation per fiscal year, some accounts receive a percentage each fiscal year of remaining revenue after the fixed allocations have been made, and some accounts receive both a fixed and a percentage allocation.



In the first year of each biennium the following accounts receive these fixed allocations:

- \$175,000 is allocated to the environmental contingency account until the account balance reaches \$750,000 (75-1-1101, MCA);
- \$50,000 is allocated to the oil and gas production damage mitigation account until the account balance reaches \$200,000 (82-11-161, MCA); and
- \$500,000 is allocated to the water storage account (85-1-631, MCA).

Each fiscal year the following accounts receive these fixed allocations:

- \$240,000 is statutorily appropriated to the environmental science and water quality program at MSU-Northern (15-38-202, MCA);
- \$300,000 is allocated to the groundwater assessment account (85-2-905, MCA). If the account balance reaches \$660,000, this allocation is retained by the resource indemnity trust.
- \$500,000 is allocated to the Department of Fish, Wildlife and Parks for the trout habitat enhancement program (87-1-283, MCA). HB 9 (2002 Special Session) reduced the FY 2005 allocation to \$350,000.

Each fiscal year any funds remaining after all fixed allocations have been made are distributed to the following accounts in these proportions:

- 26% of remaining funds are allocated to the hazardous waste/CERCLA account (75-10-621, MCA); and
- 9% of remaining funds are allocated to the environmental quality protection fund (75-10-704, MCA).

Each fiscal year the following accounts receive fixed allocations and a proportion of the remaining funds.

- \$2 million and 30% of remaining funds are allocated for grants in the renewable resource grant and loan account (85-1-604, MCA);
- \$1.5 million and 35% of remaining funds are allocated for grants to the reclamation and development grant account (90-2-1104, MCA);

Table 2 shows the distribution of RIT interest for FY 2008 and the forecast distribution for FY 2009 through FY 2010.

### Data Sources

Investment balances and interest earnings data was obtained from the Board of Investments and SABHRS.

Entity	Actual	Forecast		
	FY 2008	FY 2009	FY 2010	FY 2011
<b>Total Revenue</b>	<b>\$5.801</b>	<b>\$5.672</b>	<b>\$5.767</b>	<b>\$5.990</b>
<b>Biennial Fixed Allocations</b>				
Oil & Gas Damage Mitigation	\$0.050	\$0.000	\$0.050	\$0.000
Water Storage	\$0.500	\$0.000	\$0.500	\$0.000
<b>Annual Fixed Allocation</b>				
Natural Resources Projects	\$3.500	\$3.500	\$3.500	\$3.500
Ground Water Assessment	\$0.300	\$0.300	\$0.300	\$0.300
Future Fisheries	\$0.500	\$0.500	\$0.500	\$0.500
Environmental Contingency	\$0.175	\$0.175	\$0.175	\$0.175
<b>Remainder</b>	<b>\$0.776</b>	<b>\$1.197</b>	<b>\$0.742</b>	<b>\$1.515</b>
<b>Annual Percentage Allocations</b>				
Natural Resource Operations (65%)	\$0.504	\$0.778	\$0.483	\$0.985
Hazardous Waste/CERCLA (26%)	\$0.202	\$0.311	\$0.193	\$0.394
Environmental Quality Protection (9%)	\$0.070	\$0.108	\$0.067	\$0.136