

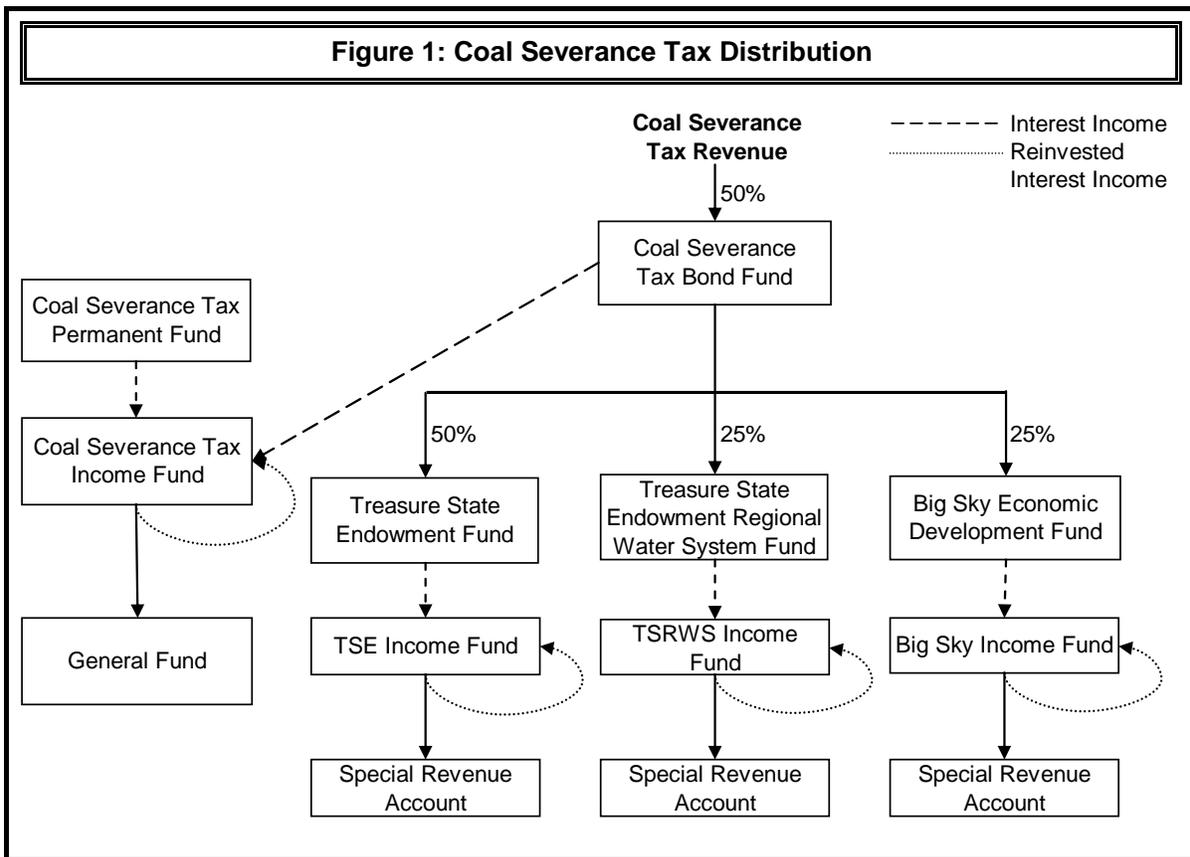
# INTRODUCTION TO THE COAL TRUSTS

## 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 and 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. The reserve balance in the bond fund averaged \$9.613 million from FY 2003 through FY 2005. The reserve balance in FY 2006 is \$11.493 million.

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.

## 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 2006 was \$532 million and 31% was invested in loans, 8% was invested in STIP, and the remaining 61% was invested in TFBP. The interest earnings from the permanent fund are deposited into the coal severance tax income fund.

## 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 TSE fund receives 50% of the coal severance tax transfers from the bond fund, or about 25% of coal severance tax revenue. The fund balance at the end of FY 2006 was \$136 million, with 93% of the balance invested in TFBP, 5% invested in loans, and 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 2006 was \$27 million, which was invested 97% in TFBP and 3% 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 2006 was \$24 million. This balance was invested 98% in TFBP and 2% 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.