STATE TRUST LAND INTEREST AND INCOME

Revenue Description

The United States Congress granted public lands to the state of Montana by the Enabling Act in 1822 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.

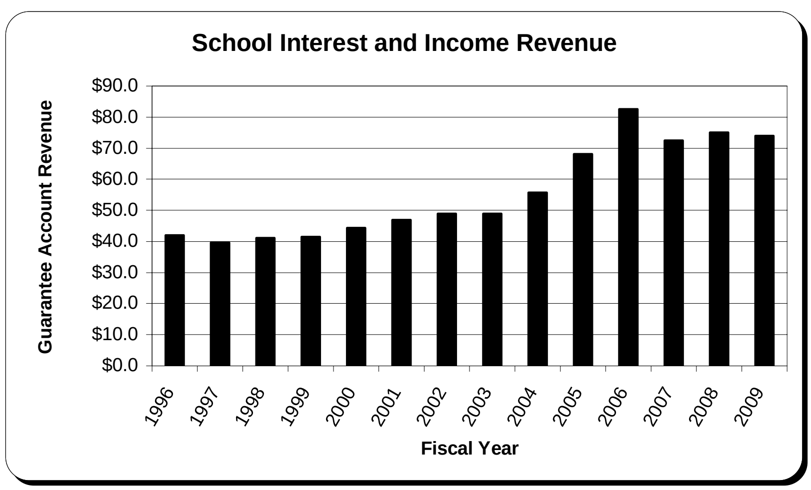
Proceeds from property sales of the granted land are deposited into an inviolate trust fund; thus the proceeds are non-distributable. The trust fund is invested in bonds and 5% of the interest income is retained by the fund, while 95% of the interest earned by the trust fund, along with other income 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.

Historical and Projected Revenue

Table 1 shows actual guarantee account revenue from the common school trust for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Common School Interest and Income
($ millions)

Fiscal Year	Guarantee Account	Percent Change
A 1996	$42.032	10.89%
A 1997	$39.539	-5.93%
A 1998	$41.130	4.02%
A 1999	$41.433	0.74%
A 2000	$44.296	6.91%
A 2001	$46.846	5.76%
A 2002	$48.938	4.46%
A 2003	$48.977	0.08%
A 2004	$55.663	13.65%
A 2005	$68.036	22.23%
A 2006	$82.606	21.41%
F 2007	**$72.462**	**-12.28%**
F 2008	**$75.106**	**3.65%**
F 2009	**$73.979**	**-1.50%**



Through FY 2001, school interest and income was deposited in the general fund. SB 495 (2001 Session) and HB 7 (2002 Special Session) created a new special revenue account, the guarantee account. 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. Revenue increased in FY 2004 through FY 2006 primarily because of increases in timber and mineral revenues. Common school land revenue is forecast to decrease 12% in FY 2007 as timber revenue and mineral revenue decrease. Revenue in FY 2008 and FY 2009 is projected to remain close to FY 2007 levels.

Forecast Methodology and Projection Calculation

There are three parts to forecasting state land trust interest and income.

1. Estimate common school trust fund investment income
2. Estimate income from state trust lands
3. Determine the distribution of the interest and income among the guarantee account, the trust and legacy fund, and the accounts for administering state lands.

Trust Fund Interest Earnings

The corpus of the common school trust is combined with the nine other state land trusts in the trust and legacy fund. This fund is invested in the short-term investment pool (STIP) and the trust-fund bond pool (TFBP).

The balance in the trust and legacy fund grows through deposits of interest and income from the nine participating trusts. The participating trusts are:

- The common school trust,
- The second grant Montana State University trust,
- The Morrill grant Montana State University trust,
- The Deaf and Blind School trust,
- The Pine Hills Reform School trust,
- The Normal College trust,
- The Montana Technology trust,
- The veteran's home trust, and
- The University of Montana trust.

Forecasts of the interest rates for STIP and TFBP balances are found in the *Interest Rate Introduction*. Table 2 provides a summary of actual and projected trust and legacy income from the STIP and TFBP investment in FY 2003 through FY 2009.

Table 2
Trust and Legacy Fund Investment Income
($ millions)

	STIP Investment							TFBP Investment					
Fiscal Year	Average Balance		STIP Rate		STIP Income		Average Balance		TFBP Rate		TFBP Income		
A 2003	$ 4.526	x	1.51%	=	$ 0.068		$409.621	x	7.12%	=	$29.147		
A 2004	$ 4.597	x	1.16%	=	$ 0.054		$410.654	x	7.33%	=	$30.087		
A 2005	$10.497	x	2.57%	=	$ 0.270		$410.654	x	6.84%	=	$28.106		
A 2006	$10.336	x	3.95%	=	$ 0.408		$417.112	x	5.86%	=	$24.428		
F 2007	**$ 6.780**	**x**	**5.18%**	**=**	**$ 0.351**		**$423.140**	**x**	**6.06%**	**=**	**$25.650**		
F 2008	**$ 7.622**	**x**	**4.74%**	**=**	**$ 0.361**		**$427.948**	**x**	**5.90%**	**=**	**$25.263**		
F 2009	**$ 7.711**	**x**	**4.72%**	**=**	**$ 0.364**		**$432.942**	**x**	**5.68%**	**=**	**$24.584**		

The average trust and legacy fund balance in STIP is forecast to decrease to $6.780 million in FY 2007 due to a shift in investment from STIP into TFBP. The STIP investment balance is projected to increase through FY 2009 to $7.711 million. Though the STIP interest rate increases in FY 2007, STIP income is projected to decrease with the smaller fund balance. STIP income is then projected to increase through FY 2009 as the balance increases.

The average trust and legacy fund TFBP balance did not increase in FY 2005 because the Department of Natural Resources and Conservation (DNRC) increased investment in STIP for liquidity purposes. The average balance in TFBP increased in FY 2006 to $417.112 million and is projected to continue increasing up to $432.942 million in FY 2009. TFBP income is projected to increase in FY 2007 as the balance and rate increase. Income is then projected to fall slightly through FY 2009 as the interest rate declines.

The combined STIP and TFBP average fund balance is projected to increase, as shown in Table 3, and the total investment income is expected to be higher than in FY 2006. Income is projected to increase to $26 million in FY 2007, and then decrease slightly to $25.6 million in FY 2008 and to $24.9 million in FY 2009. The small decline in investment income is primarily due to the decreases in the TFBP rate.

Table 3
Trust and Legacy Fund
Total Investment Income
($ millions)

Fiscal Year	Average Fund Balance		Average Fund Yield		Total Investment Income	Percent Change
A 2003	$414.147	x	7.05%	=	$ 29.215	(2%)
A 2004	$415.251	x	7.26%	=	$ 30.141	3%
A 2005	$421.151	x	6.74%	=	$ 28.376	(6%)
A 2006	$427.448	x	5.81%	=	$ 24.836	(12%)
F 2007	**$429.921**	**x**	**6.05%**	**=**	**$ 26.001**	5%
F 2008	**$435.570**	**x**	**5.88%**	**=**	**$ 25.624**	(1%)
F 2009	**$440.653**	**x**	**5.66%**	**=**	**$ 24.948**	(3%)

Total investment income earned on the trust and legacy fund balance is distributed to the nine permanent funds that have balances in the account. Table 4 shows the allocation of actual interest income for FY 2003 through FY 2006 and forecast income for FY 2007 through FY 2009.

Table 4
Trust and Legacy Fund Income Allocations to the Permanent Trusts
($ millions)

Participating Trusts	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Projected	FY 2008 Projected	FY 2009 Projected
Common School Trust	$27.202	$27.991	$26.306	$23.061	**$24.104**	**$23.755**	**$23.128**
MSU Second Grant Trust	$0.559	$0.614	$0.576	$0.496	**$0.528**	**$0.520**	**$0.507**
Morrill Grant Trust	$0.213	$0.232	$0.240	$0.212	**$0.220**	**$0.217**	**$0.211**
Deaf & Blind Trust	$0.203	$0.212	$0.201	$0.175	**$0.184**	**$0.181**	**$0.176**
Pine Hills Trust	$0.192	$0.214	$0.218	$0.192	**$0.200**	**$0.197**	**$0.192**
Normal College Trust	$0.417	$0.434	$0.419	$0.355	**$0.384**	**$0.378**	**$0.368**
Montana Tech Trust	$0.317	$0.333	$0.313	$0.271	**$0.286**	**$0.282**	**$0.275**
Veterans Home Trust	$0.001	$0.001	$0.001	$0.001	**$0.001**	**$0.001**	**$0.001**
UM Trust	$0.107	$0.110	$0.102	$0.088	**$0.093**	**$0.092**	**$0.090**
Total Allocation	$29.210	$30.141	$28.376	$24.850	**$26.001**	**$25.624**	**$24.948**

The common school trust allocation of the trust and legacy fund interest income is projected to be $24.104 million in FY 2007, $23.755 million in FY 2008 and $23.128 million in FY 2009.

Income from Common School Trust Lands

For the purposes of this forecast, the income generating activities on school trust lands are divided into five categories:

1. Agricultural and Grazing Revenue;
2. Non-Royalty Mineral Revenue;
3. Timber Revenue;
4. Mineral Royalties Revenue;
5. Other Revenue.

Income from the first three categories has traditionally been distributable, meaning the income is primarily distributed to the guarantee account. Non-distributable income is inviolable and must be placed into the trust and legacy fund. Less than 5% of income from the first three categories is non-distributable.

Income from mineral royalties was non-distributable until SB 495 (2001 Session) diverted all net mineral royalties from common school trust land (after administration costs and loan payments to the coal trust permanent fund) into the guarantee account.

Other revenue includes income from leases and licenses on common school land and income from land sales and easements. The income from licenses and leases is distributable, but income from easements and land sales is non-distributable.

1. *Agricultural and Grazing Revenue*

Agricultural rents are received from crops grown on school lands. Agricultural rents are due by December of each year, so receipts in a fiscal year are for production in the previous calendar year. Rents are typically 25% of the gross value of the crop, so rental income varies with the value of crops. Included in agricultural rental income are crop payments from the USDA Farm Service Agency. The crop payments include direct payment contracts, Conservation Reserve Program (CRP) payments, and loan deficiency payments.

The primary agricultural crop in Montana is wheat. Because the rental amount is determined by value of crops grown on trust land, agricultural rents tend to follow the value of the wheat crop. The value of the wheat crop is calculated by multiplying acres of wheat harvested in Montana by the average Montana wheat price. Wheat crop values and agricultural rents from common school land are shown in Table 5.

Table 5
Common School Trust Lands Agricultural and Grazing Rents
($ millions)

	Agricultural Rents				Grazing Rents				Total	
Fiscal Year	Value of MT Wheat Crop	Percent Change	Agricultural Rents	Percent Change	Average Beef Cattle Price	Percent Change	Grazing Rents	Percent Change	Agricultural and Grazing Rents	Percent Change
A 2003	$0.447	47.53%	$7.975	13.95%	$76.125	-6.21%	$5.243	-4.10%	$13.218	6.03%
A 2004	$0.531	18.67%	$8.051	0.96%	$72.145	-5.23%	$4.971	-5.19%	$13.022	-1.48%
A 2005	$0.625	17.75%	$8.816	9.50%	$87.247	20.93%	$5.918	19.06%	$14.735	13.15%
A 2006	$0.693	10.85%	$9.453	7.22%	$92.670	6.21%	$6.277	6.06%	$15.730	6.76%
F 2007	**$0.530**	**-23.56%**	**$8.561**	**-9.44%**	**$100.702**	**8.67%**	**$6.884**	**9.68%**	**$15.445**	**-1.81%**
F 2008	**$0.516**	**-2.50%**	**$8.497**	**-0.75%**	**$86.372**	**-14.23%**	**$5.864**	**-14.83%**	**$14.360**	**-7.03%**
F 2009	**$0.513**	**-0.71%**	**$8.479**	**-0.21%**	**$84.134**	**-2.59%**	**$5.704**	**-2.72%**	**$14.183**	**-1.23%**

The forecast wheat crop values for FY 2007 through FY 2009 were calculated using projected changes in national wheat production and price from the USDA. The projected crop values were then used in a statistical model using linear regression to forecast the revenue from agricultural rentals in FY 2007 through FY 2009. As shown in Table 5, the agricultural rents on school lands are projected to decrease yearly to $8.561 million in 2007, $8.497 million in FY 2008, and $8.479 million in FY 2009.

Grazing leases are based on a fixed fee per animal unit month (AUM). Two standard rates are used to set fees by AUM for about 93% of the leases. Competitive bidding is used to set fees in the other leases. The standard rates are recalculated every year, and are based on average cattle prices in the previous year. This creates a strong relationship between grazing revenue from trust lands and average Montana beef cattle prices. As shown in Table 5, the beef cattle prices and grazing rents change at similar rates. This relationship is used to project school lands grazing revenue from the actual and the USDA projected beef cattle price in the previous year. Grazing rents are forecast to increase in FY 2007 to $6.884 million and then decrease in FY 2008 to $5.864 million, and to $5.704 million in FY 2009.

Actual and projected revenue for FY 2003 to FY 2009 from total grazing and agriculture production is shown in Table 5. In FY 2007 agriculture and grazing revenue is projected to decrease slightly to $15.445 million, because of expected declines in the price of wheat. Rental income is expected to continue falling in FY 2008 and FY 2009. The $1.085 million drop in FY 2008 revenue is also caused by a small expected decrease in the wheat price and a large decrease in predicted beef price.

2. *Non-Royalty Mineral Revenue*

Non-royalty mineral revenue includes:

- Mineral leases – payments that leaseholders pay each year to retain the rights to a mineral lease regardless of the level of production.
- Bonuses – up-front payments for new leases.
- Non-drilling penalties – annual penalties charged to leaseholders for failure to drill on an oil or gas lease within five years of lease commencement.
- In lieu of exploration – penalty for not exploring on lease.
- Seismic exploration – payment for right to seismic activity.
- Mineral land use licenses (luls) – licenses for other activity on state land.
- Gravel permits – leases on gravel sites.

Mineral leases include payments on oil and gas leases and other mineral leases. As shown in Table 6, payments on oil and gas leases on school lands totaled $2.331 million in FY 2006 and were projected for FY 2007 through FY 2009 using a time trend. Oil and gas leases are projected to be $2.236 million in FY 2007, $2.365 million in FY 2008, and $2.494 million in FY 2009. Payments on all other mineral leases on school lands totaled $54,000 in FY 2006, and are forecast to remain at this level through FY 2009.

Table 6 School Trust Non-Royalty Mineral Income ($ millions)							
Fiscal Year	Oil & Gas Leases	Other Mineral Leases	Oil & Gas Non-Drilling Penalties	Oil & Gas Bonuses	Coal Bonuses	Other Non-Royalty Mineral Income	Total
A 2003	$1.575	$0.058	$0.399	$0.301	-	$0.012	$2.346
A 2004	$1.649	$0.054	$0.534	$0.871	-	$0.012	$3.119
A 2005	$1.893	$0.057	$0.641	$3.827	-	$0.013	$6.430
A 2006	$2.331	$0.054	$0.864	$13.005	-	$0.023	$16.277
F 2007	**$2.236**	**$0.054**	**$0.815**	**$5.922**	**-**	**$0.023**	**$9.051**
F 2008	**$2.365**	**$0.054**	**$0.896**	**$5.922**	**-**	**$0.023**	**$9.261**
F 2009	**$2.494**	**$0.054**	**$0.977**	**$5.922**	**-**	**$0.023**	**$9.470**

Non-drilling penalties on school lands totaled $0.864 million in FY 2006 and were also modeled using a time trend. Penalties are projected to decrease in FY 2007 to $0.815 million and then increase to 0.896 million in FY 2008 and to $0.977 million in FY 2009.

FY 2006 oil and gas bonus revenue from school lands increased dramatically to $13.005 million. This increase in bonus revenue is primarily due to large increases oil and gas prices. The oil and gas bonus forecast is based on DNRC expectations of bonus revenue. Oil and gas bonuses are projected to decrease to $5.922 million in FY 2007 and remain at this level through FY 2009.

Bonus payments for coal leases were zero from FY 2003 through FY 2006. Coal bonus payments are projected to be zero in FY 2007 through FY 2009.

Other non-royalty mineral income is the total income from in lieu of exploration, seismic exploration, mineral luls, and gravel permits. Revenue from these four smaller sources is forecast to remain at the FY 2006 level of $.023 million for FY 2007 through FY 2009.

Total income from non-royalty mineral income is projected to decrease in FY 2007 to $9.051 million with the projected decrease in oil and gas bonuses. Income is projected to increase slightly in FY 2008 to $9.261 million and in FY 2009 to $9.470 million as mineral lease revenue increases.

3. *Timber Revenue*

DNRC has an annual timber sales goal based on the estimated maximum sustained yield on state forestlands. The successful bidders on state timber sales have several years to harvest the timber. Timber harvests vary from year to year because timber companies harvest as quickly as they can when prices are high, and postpone harvest when prices are low.

Administrative costs are taken out of gross timber revenue and allocated to the timber sales account. For the common school trust, 95% of the remaining revenue from the first 18 million board feet (mmbf) of timber sales is deposited into the guarantee account for general school funding while the extra 5% is deposited in the trust and legacy account. Net revenue from all sales after the first 18 mmbf is also deposited in the guarantee account, but is statutorily appropriated for use in technology acquisition. This is shown in Table 7.

Table 7 also shows actual gross timber revenue by trust from FY 2003 to FY 2006 and forecast revenue for FY 2007 through FY 2009. Revenue increased to $10.602 million in FY 2005 from $6.174 in FY 2004. This was caused by a much larger timber harvest on trust lands in FY 2005. The level harvest continued through FY 2006, with a slight decline in revenue to $10.227 million.

Table 7
Common School Trust Lands Timber Revenue
($ millions)

Fiscal Year	Gross Timber Revenue		Admin Costs		Net Timber Revenue		95% Allocation of Pre-18 MMBF (BASE Aid)		5% T&L Allocation of Pre-18 MMBF		Post-18 MMBF --School Technology Acquisition--
A 2003	$3.661	-	$1.958	=	$1.703	=	$1.618	+	$0.085	+	$0.000
A 2004	$6.147	-	$2.302	=	$3.846	=	$0.633	+	$0.033	+	$3.179
A 2005	$10.602	-	$2.536	=	$8.066	=	$3.469	+	$0.183	+	$4.414
A 2006	$10.227	-	$2.707	=	$7.520	=	$2.735	+	$0.144	+	$4.641
F 2007	**$8.660**	**-**	**$3.240**	**=**	**$5.420**	**=**	**$1.539**	**+**	**$0.081**	**+**	**$3.800**
F 2008	**$9.899**	**-**	**$3.201**	**=**	**$6.698**	**=**	**$2.183**	**+**	**$0.115**	**+**	**$4.400**
F 2009	**$9.582**	**-**	**$3.264**	**=**	**$6.318**	**=**	**$2.582**	**+**	**$0.136**	**+**	**$3.600**

Gross timber revenue from common school lands is projected by DNRC to be $8.660 million in FY 2007, $9.899 million in FY 2008, and $9.582 million in FY 2009. The decrease in revenue in FY 2007 reflects decreases in the timber price and planned timber sales. Timber revenue is projected to increase slightly in FY 2008 and FY 2009 due to planned future sales by DNRC.

4. *Mineral Royalties*

The common school land includes mineral rights and, as minerals are mined on school land, royalties are generated for the common school trust. Tax revenue from royalties on school land was previously deposited into the trust and legacy fund, but pursuant to SB 495 (2001 Session) the revenue is allocated to the guarantee account. As shown in Table 8, royalties are primarily from the sale of coal, oil, and natural gas on trust lands.

Table 8 **Common School Trust Lands Mineral Royalties** **($ millions)**						
Fiscal Year	Coal Royalties	Oil Royalties	Natural Gas Royalties	Sand & Gravel Royalties	Other Mineral Royalties	Total
A 2003	$3.877	$3.682	$1.995	$0.145	$0.003	$9.703
A 2004	$4.677	$4.852	$2.718	$0.167	$0.003	$12.416
A 2005	$4.240	$7.966	$4.330	$0.191	$0.003	$16.730
A 2006	$4.180	$14.759	$6.317	$0.350	$0.006	$25.612
F 2007	**$3.613**	**$14.229**	**$5.438**	**$0.350**	**$0.005**	**$23.635**
F 2008	**$3.813**	**$14.745**	**$7.307**	**$0.350**	**$0.005**	**$26.221**
F 2009	**$3.940**	**$14.780**	**$7.092**	**$0.350**	**$0.005**	**$26.167**

Coal is currently mined on the common school trust land. Estimates of future production on state lands were obtained from coal companies. Estimates of changes in coal prices were derived from Global Insight's coal producer price index. The changes in price and production were used to estimate the percent change in taxable value. Assuming royalty rates to remain constant, the projected percent changes in coal taxable value in FY 2007 through FY 2009 were applied to actual coal royalties in FY 2006 to forecast coal royalties. As shown in Table 8, coal royalties are projected to be $3.613 million in FY 2007, $3.813 million in FY 2008, and $3.940 million in FY 2009.

Production and price of oil and gas on common school land tend to follow statewide production and prices. The projected production and price from the OBPP oil and gas revenue estimate are used to forecast production and price of oil and natural gas on state lands in FY 2007 through FY 2009.

Oil and natural gas royalties are projected by multiplying projected price by production to get taxable value. This value is multiplied by the most recent royalty rate to get projected royalties. Oil and natural gas royalty projections are shown in Table 8. Oil royalties are projected to decrease to $14.229 million in FY 2007. The oil royalties are projected to increase to $14.745 in FY 2008 and to $14.780 million in FY 2009 due to increases in projected production. Natural gas royalties are expected to decrease to $5.438 million in FY 2007 and then increase to $7.307 million in FY 2008, and to decrease slightly in FY 2009 to $7.092 million. The changes in natural gas royalties are primarily cased by projected price fluctuations.

Revenue from other minerals is relatively insignificant, and is forecast to decrease slightly from FY 2006 levels. As shown in Table 8, this revenue includes sand and gravel royalties and other mineral royalties made up of metal and non-metal mineral royalties and salt water disposal from oil and gas wells. Total mineral royalty revenue is projected to decrease to $23.635 million in FY 2007. In FY 2008 and FY 2009 mineral royalty revenue is projected to increase to about $26.2 million.

School trust mineral royalties are allocated as shown in Table 9. SB 495 (2001 Session) established a loan from the permanent coal trust to the guarantee account with repayment from the mineral royalties. After the trust administration account allocation, the royalty revenue is used to pay off the SB 495 loan. DNRC plans to allocate all available royalty revenue to the loan; thus, the loan is projected to be paid off in FY 2008.

Table 9
School Trust Mineral Royalties Allocation
($ millions)

					Guarantee Account						Proposed Bill	
Fiscal Year	School Trust Mineral Royalties		Trust Admin Account Allocation		Coal Trust Loan Principal Payment		Coal Trust Loan Interest Payment		School Base Aid Allocation		School Base Aid Allocation	School Facility Account Allocation
A 2003	$9.703	=	$3.602	+	$0.000	+	$3.307	+	$2.794		$2.794	-
A 2004	$12.416	=	$3.312	+	$1.821	+	$3.405	+	$3.878		$3.878	-
A 2005	$16.730	=	$3.680	+	$2.650	+	$3.006	+	$7.394		$7.394	-
A 2006	$25.612	=	$3.905	+	$10.849	+	$2.256	+	$8.602		$8.602	-
F 2007	**$23.635**	**=**	**$3.900**	**+**	**$18.255**	**+**	**$1.480**	**+**	**$0.000**		**$0.000**	**$0.000**
F 2008	**$26.221**	**=**	**$3.900**	**+**	**$12.307**	**+**	**$0.487**	**+**	**$9.527**		**$0.000**	**$9.527**
F 2009	**$26.167**	**=**	**$4.000**	**+**	**$0.000**	**+**	**$0.000**	**+**	**$22.167**		**$0.000**	**$22.167**

Under current law, the royalties after the loan repayment will be allocated to the guarantee account for school base aid until a total of $138.895 million in net mineral royalties has been collected. The remaining royalties after the loan is paid are estimated to be around $50 million. The executive budget recommends setting aside all the remaining mineral royalty revenue for the purpose of funding school facility deferred maintenance beginning in the 2011 biennium. The school facility allocation is shown in Table 9 under the proposed bill section.

5. *Other Revenue*

Other revenue is made up of leases, licenses, interest income, easements, and land sales. As shown in Table 10, the leases and licenses include cabin and home site leases, commercial leases, public facilities leases, recreational licenses, and special use permits. Projections of the lease revenue are obtained from DNRC.

Interest is earned on school lands income between the time DNRC receives it and the time it is distributed. The interest income projection is based on previous revenue and STIP rates. Total distributable revenue from licenses and other income is projected to increase in FY 2007 to $2.359 million, decrease in FY 2008 to $2.335 million, and then increase slightly to $2.354 million in FY 2009.

Table 10 Other School Trust Income ($ millions)										
	Distributable						Non-Distributable		
Fiscal Year	Cabin & Home Site Leases	Commercial Leases	Other Leases	Special Use Permits & Recreational Licenses	Interest Income	Total	Easements	Land Sales	Total
A 2003	$0.324	$0.050	$0.210	$0.492	$0.189	$1.265	$0.185	$0.020	$1.470
A 2004	$0.273	$0.092	$0.305	$0.333	$0.200	$1.203	$1.077	$0.003	$2.283
A 2005	$0.319	$0.224	$0.538	$0.906	$0.408	$2.396	$0.995	$0.026	$3.416
A 2006	$0.331	$0.236	$0.534	$0.516	$0.642	$2.259	$0.475	-	$2.733
F 2007	**$0.360**	**$0.265**	**$0.539**	**$0.499**	**$0.696**	$2.359	**$0.475**	**-**	**$2.833**
F 2008	**$0.389**	**$0.265**	**$0.540**	**$0.499**	**$0.642**	$2.335	**$0.475**	**-**	**$2.809**
F 2009	**$0.419**	**$0.265**	**$0.541**	**$0.499**	**$0.630**	$2.354	**$0.475**	**-**	**$2.828**

Revenue from easements and land sales is deposited in the trust and legacy fund because it is non-distributable. Easement income comes primarily through the sale of rights-of-way. Easement income is projected to remain at the FY 2006 level of $0.475 million. In FY 2006 there was no income from the sale of school land. The projected income from land sales from FY 2007 through FY 2009 is zero because income from new land sales is going to be used to purchase more school land through a new land banking program. Total income to the trust is projected to be $2.833 million in FY 2007, $2.809 million in FY 2008, and $2.828 million in FY 2009 as shown below in Table 11 under other revenue.

Summary of Common School Trust Income

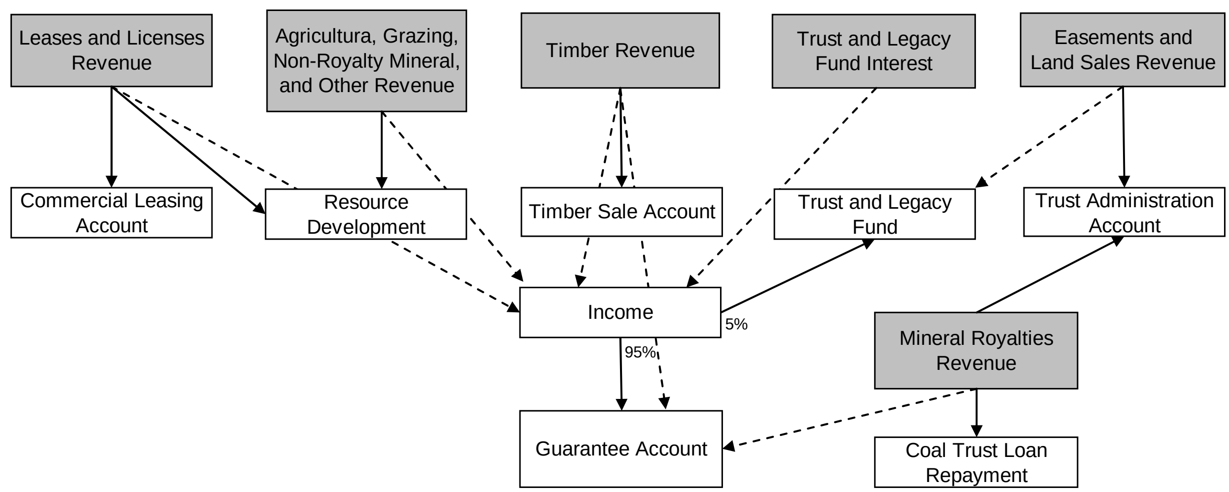
Total actual and projected revenue by income source for FY 2006 through FY 2009 is shown in Table 11. Income is projected to decrease significantly in FY 2007 due to a large decrease in mineral revenue, a decrease in timber revenue, and a small decrease in agricultural revenue. Revenue is then projected to increase in FY 2008 and decrease slightly in FY 2009.

Table 11 Projected Common School Trust Income ($ millions)				
	FY 2006	**FY 2007**	**FY 2008**	**FY 2009**
Trust and Legacy Interest Income	$23.061	**$24.104**	**$23.755**	**$23.128**
Agriculture and Grazing Revenue	$15.730	**$15.445**	**$14.360**	**$14.183**
Non-Royalty Mineral Revenue	$16.277	**$9.051**	**$9.261**	**$9.470**
Timber Revenue	$10.227	**$8.660**	**$9.899**	**$9.582**
Mineral Royalties Revenue	$25.612	**$23.635**	**$26.221**	**$26.167**
Other Revenue	$2.733	**$2.833**	**$2.809**	**$2.828**
Total	$93.641	**$83.729**	**$86.305**	**$85.358**

Allocation of Revenue

Common school trust income is distributed among accounts that fund the administration of the trust lands, the trust and legacy fund, and the guarantee account. Figure 1 shows the allocation of income from the common school trust lands.

Figure 1: Allocation of Revenue from Common School Trust Lands



In Figure 1 the shaded boxes are the common school trust sources of revenue and the solid arrows show the administrative allocation of the revenue source. The dotted lines show where revenue is allocated after the administration costs are paid. Most of this revenue is distributable income distributed to the guarantee account, except the 5% that is deposited in the trust and legacy fund. Income from timber sales greater than 18 mmbf goes directly to the guarantee fund for technology acquisition without the 5% transfer to the trust and legacy fund. Income from easements and land sales is deposited directly into the trust and legacy fund. Revenue from mineral royalties repays the coal trust loan (SB 495, 2001 Session), funds the trust administration account, and the remaining income is deposited in the guarantee account.

Administration cost projections were obtained from DNRC. Table 10 shows the actual and projected allocation of common school trust income to the administration accounts, the trust and legacy fund, and the guarantee account for FY 2003 through FY 2009.

Table 12
Common School Trust Lands Revenue Allocation
($ millions)

	Administrative Costs						
Fiscal Year	Resource Development Account	Timber Sale Account	Trust Administration Account	Commercial Leasing Account	Trust and Legacy Fund	Guarantee Account	Total
A 2003	$0.499	$1.958	$3.602	-	$0.559	$48.977	$55.595
A 2004	$0.518	$2.302	$3.312	-	-$0.035	$55.663	$61.760
A 2005	$0.699	$2.536	$3.680	$0.067	$11.795	$68.036	$86.813
A 2006	$1.011	$2.707	$3.905	$0.068	$3.710	$82.606	$94.007
F 2007	**$1.010**	**$3.240**	**$3.900**	**$0.067**	**$3.050**	**$72.462**	**$83.729**
F 2008	**$1.010**	**$3.201**	**$3.900**	**$0.067**	**$3.021**	**$75.106**	**$86.305**
F 2009	**$1.036**	**$3.264**	**$4.000**	**$0.067**	**$3.012**	**$73.979**	**$85.358**

Revenue from agriculture and grazing leases, mineral leases, other licenses, non-commercial leases and other revenue is allocated to the resource development account for improving and developing state lands. The amount allocated to the account is based on what improvements are necessary, but the amount cannot exceed 3% of income from each trust.

Revenue from timber harvest on state trust lands is allocated to the timber sale account. Money in this account is appropriated by the Legislature to maximize the return on the trust land.

Income is allocated from mineral royalties, land sales, and easements to the trust administration account which covers the costs of administering the trust land.

The commercial leasing account is allocated 10% of the revenue from commercial leases on state land. Money in the account is used for the administration of commercial leases on state lands.

The trust and legacy fund receives income from land sales and easements and 5% of the income from common school land.

After the allocations to these accounts are made, the guarantee fund receives the remainder of the income. Projected guarantee account deposits are $72.462 million in FY 2007, $75.106 million in FY 2008, and $73.979 million in FY 2009.

Summary of Common School Trust

Table 13 shows the actual and forecast common school trust income, expenses and allocation from FY 2006 to FY 2009.

Table 13
School Trust Income Allocations to the Guarantee Fund
and Distributions to Sub-Accounts

	FY 2006 Actual	**FY 2007 Projected**	**FY 2008 Projected**	**FY 2009 Projected**
Income				
Investment Income	$ 23.048	$ 24.104	$ 23.755	$ 23.128
Agriculture and Grazing Rents	15.730	15.445	14.360	14.183
Non-Royalty Mineral Income	16.420	9.051	9.261	9.470
Timber Revenue < 18 mmbf	5.586	4.860	5.499	5.982
Licenses and Other Income	2.259	2.359	2.335	2.354
Total Income	$ 63.043	$ 55.819	$ 55.209	$ 55.117
Expenses				
Resource Development Account	(1.011)	(1.010)	(1.010)	(1.036)
Timber Sales Account	(2.707)	(3.240)	(3.201)	(3.264)
SB 137 Commercial Leasing Account	(0.068)	(0.067)	(0.067)	(0.067)
Total Expenses	$ (3.787)	$ (4.317)	$ (4.278)	$ (4.367)
Income Less Expenses	$ 59.256	$ 51.502	$ 50.931	$ 50.750
Distributable Income (95% of Income Less Expenses)	$ 56.294	$ 48.927	$ 48.385	$ 48.212
Plus 100% Timber Revenue > 18 mmbf	4.641	3.800	4.400	3.600
Total Net Income	$ 60.935	$ 52.727	$ 52.785	$ 51.812
Mineral Royalties				
Mineral Royalties	$ 25.612	$ 23.635	$ 26.221	$ 26.167
Mineral Royalties TAC Expense	(3.905)	(3.900)	(3.900)	(4.000)
Net Mineral Royalties	$ 21.707	$ 19.735	$ 22.321	$ 22.167
Total Guarantee Fund Income	$ 82.642	**$ 72.462**	**$ 75.106**	**$ 73.979**
Distribution of Guarantee Fund Income				
SB 495 Coal Trust Loan Principal	$ 10.849	$ 18.255	$ 12.307	$ -
SB 495 Coal Trust Loan Interest	2.256	1.480	0.487	-
Technology Acquisition Account	4.641	3.800	4.400	3.600
School Equalization - Base Aid	64.896	48.927	57.912	70.379
Total Guarantee Fund Distribution	$ 82.642	**$ 72.462**	**$ 75.106**	**$ 73.979**
Proposed Distribution of Guarantee Fund Income				
SB 495 Coal Trust Loan Principal	$ 10.849	$ 18.255	$ 12.307	$ -
SB 495 Coal Trust Loan Interest	2.256	1.480	0.487	-
Technology Acquisition Account	4.641	3.800	4.400	3.600
School Equalization - Base Aid	64.896	48.927	48.385	48.212
School Facility Improvement Account	-	-	9.527	22.167
Total Guarantee Fund Distribution	$ 82.642	**$ 72.462**	**$ 75.106**	**$ 73.979**

Income to the common school trust is shown at the top of Table 13. This income includes trust and legacy fund interest, agriculture and grazing income, non-royalty mineral income, income timber sales less than 18 mmbf, and license and lease income. The allocation to administration accounts are subtracted from the total revenue. Ninety-five percent of the income less expenses is distributable and 5% is deposited into the trust and legacy fund. Timber revenue over 18 mmbf is added to the distributable income to get total net income. Total common school trust net income is projected to be $52.727 million in FY 2007, $52.785 million in FY 2008, and $51.812 million in FY 2009.

Mineral royalties less the trust administration account expense are also added to net income for the total guarantee fund deposit. The mineral royalties are used to pay back the SB 495 (2001 Session) loan, but they are still deposited into the guarantee fund. Total guarantee fund income is projected to be $72.462 million in FY 2007, $75.106 million in FY 2008, and $73.979 million in FY 2009.

The distribution of the guarantee fund income is at the bottom of Table 13. The SB 495 loan payment is projected to equal the mineral royalty revenue in FY 2007 of $19.735 million. In FY 2008, $12.794 million will pay off the loan and the remaining revenue will be allocated to the guarantee fund.

The technology acquisition account is allocated the income from the timber revenue over 18 mmbf. The remaining income is distributed to BASE Aid, the K - 12 education funding.

BASE aid is projected to be allocated $48.927 million in FY 2007, $57.912 million in FY 2008, and $70.379 million in FY 2009. Table 13 shows the guarantee fund distribution that occurs under the proposed executive budget to create the school facility improvement account. The executive budget proposal is for BASE aid to be $48.927 million in FY 2007, $48.385 million in FY 2008, and $48.212 million in FY 2009 and the school facility improvement account to be allocated $9.527 million in FY 2008 and $22.167 million in FY 2009.

Revenue Estimate for State Land Trust Funds

DNRC manages all state trust land. Revenue for the smaller land trusts is estimated as part of the process of estimating revenue from the school trust. Table 14 summarizes the projected revenue by income source for each state land trust.

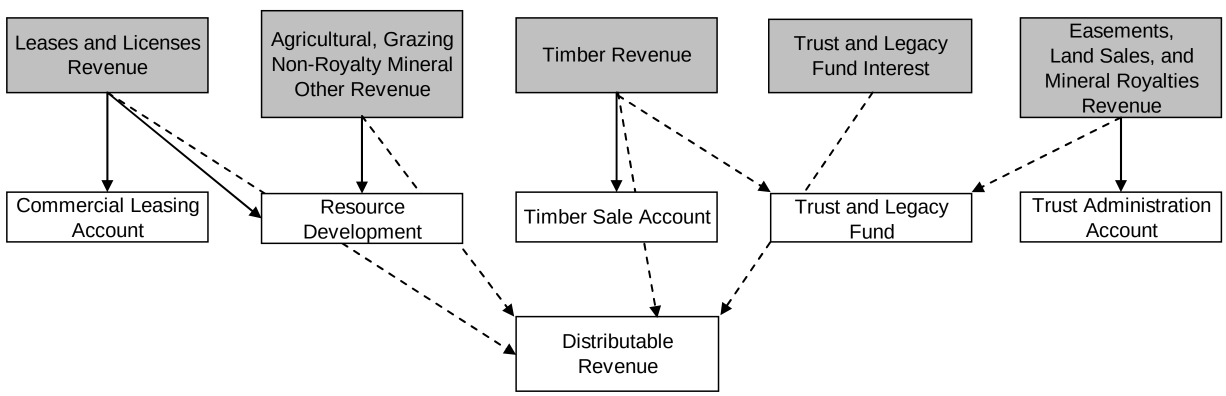
Table 14
State Lands Trust Funds
Interest and Income Revenue
($ millions)

	Trust Fund	Trust and Legacy Interest Income	Agriculture and Grazing Revenue	Non-Royalty Mineral Revenue	Licenses and Other Revenue	Timber Revenue	Mineral Royalties Revenue	Easements and Land Sales Revenue	Total
FY 2007									
	Common Schools	$ 24.104	$ 15.445	$ 9.051	$ 2.359	$ 8.660	$ 23.635	$ 0.475	$ 83.729
	Capitol Building	-	0.288	0.051	0.069	1.192	0.070	0.010	1.680
	MSU Second	0.528	0.022	0.000	0.435	0.575	0.003	-	1.563
	Morrill	0.220	0.138	0.082	0.029	0.147	0.052	0.000	0.668
	Deaf & Blind	0.184	0.083	0.003	0.036	0.157	0.000	0.001	0.464
	Pine Hills	0.200	0.127	0.011	0.079	0.133	-	-	0.550
	Normal School	0.384	0.146	0.011	0.045	0.363	0.008	0.057	1.013
	Montana Tech	0.286	0.216	0.023	0.359	0.271	0.024	0.526	1.706
	Veterans Home	0.001	0.010	-	0.004	-	-	-	0.016
	UM	0.093	0.080	0.004	0.045	0.001	0.001	-	0.224
	Total FY 2007	**$ 26.001**	**$ 16.555**	**$ 9.237**	**$ 3.459**	**$ 11.500**	**$ 23.793**	**$ 1.068**	**$ 91.613**
FY 2008									
	Common Schools	$ 23.755	$ 14.360	$ 9.261	$ 2.335	$ 9.899	$ 26.221	$ 0.475	$ 86.305
	Capitol Building		0.253	0.053	0.072	1.460	0.080	0.010	1.929
	MSU Second	0.520	0.019	0.000	0.468	0.678	0.003	-	1.689
	Morrill	0.217	0.121	0.084	0.029	0.175	0.069	0.000	0.695
	Deaf & Blind	0.181	0.074	0.003	0.037	0.297	0.000	0.001	0.594
	Pine Hills	0.197	0.112	0.012	0.083	0.433	-	-	0.837
	Normal School	0.378	0.131	0.012	0.047	0.433	0.011	0.057	1.068
	Montana Tech	0.282	0.204	0.025	0.384	0.324	0.024	0.526	1.770
	Veterans Home	0.001	0.009	-	0.005	-	-	-	0.015
	UM	0.092	0.075	0.004	0.046	0.001	0.001	-	0.219
	Total FY 2008	**$ 25.624**	**$ 15.358**	**$ 9.454**	**$ 3.506**	**$ 13.702**	**$ 26.409**	**$ 1.068**	**$ 95.122**
FY 2009									
	Common Schools	$ 23.128	$ 14.183	$ 9.470	$ 2.354	$ 9.582	$ 26.167	$ 0.475	$ 85.358
	Capitol Building		0.248	0.055	0.075	1.503	0.078	0.010	1.970
	MSU Second	0.507	0.019	0.000	0.502	0.640	0.003	-	1.670
	Morrill	0.211	0.118	0.086	0.030	0.171	0.067	0.000	0.683
	Deaf & Blind	0.176	0.073	0.003	0.039	0.391	0.000	0.001	0.683
	Pine Hills	0.192	0.109	0.013	0.088	0.423	-	-	0.825
	Normal School	0.368	0.128	0.012	0.049	0.423	0.011	0.057	1.047
	Montana Tech	0.275	0.202	0.026	0.410	0.363	0.024	0.526	1.826
	Veterans Home	0.001	0.009	-	0.005	-	-	-	0.015
	UM	0.090	0.074	0.005	0.046	0.001	0.001	-	0.216
	Total FY 2009	**$ 24.948**	**$ 15.163**	**$ 9.671**	**$ 3.596**	**$ 13.497**	**$ 26.351**	**$ 1.068**	**$ 94.294**

Total income from all state land trusts, including the common school trust, is projected to be $91.613 million in FY 2007, $95.122 million in FY 2008, and $94.294 million in FY 2009.

Revenue from the state land trusts is used to fund administration costs. Figure 2 shows revenue allocation for the state land trusts other than the common school trust. The shaded boxes indicate the sources of revenue for the state land trusts, and the solid arrows show the administration allocation of the revenue source. The dotted arrows indicate the revenue flow for the funds that remain after administration costs are allocated.

Figure 2: Allocation of Revenue from State Trust Lands



Income is allocated to state special revenue accounts for distribution or it is deposited in the trust and legacy fund. Income from timber harvests on capital building trust land and the university trust lands are distributable, but income from timber harvests on the remaining trust land is allocated to the inviolate trust and legacy fund. Table 15 shows the projected allocation of state land trust revenue by trust.

Table 15
State Lands Trust Funds
Interest and Income Allocation
($ millions)

	Trust Fund	Trust Lands Administration	Resource Development Account	Timber Sales Account	Commercial Leasing Account	Guarantee Account	Distributable Revenue	Trust and Legacy Fund	Total
FY 2007									
	Common Schools	$ 3.900	$ 1.010	$ 3.240	$ 0.067	$ 72.462	$ -	$ 3.050	$ 83.729
	Capitol Building	0.063	0.013	0.446	0.001		1.157	-	1.680
	MSU Second	0.000	0.012	0.215	0.002		1.331	0.002	1.563
	Morrill	-	-	-	-		0.616	0.052	0.668
	Deaf & Blind	0.013	0.003	0.059	0.001		0.301	0.086	0.464
	Pine Hills	0.015	0.006	0.050	0.002		0.409	0.069	0.550
	Normal School	0.010	0.006	0.135	0.002		0.806	0.055	1.013
	Montana Tech	0.051	0.016	0.102	0.004		1.034	0.499	1.706
	Veterans Home	-	0.000	-	0.000		0.015	-	0.016
	UM	0.000	0.003	0.000	0.000		0.220	0.001	0.224
	Total FY 2007	**$ 4.052**	**$ 1.070**	**$ 4.247**	**$ 0.078**	**$ 72.462**	**$ 5.890**	**$ 3.814**	**$ 91.613**
FY 2008									
	Common Schools	$ 3.900	$ 1.010	$ 3.201	$ 0.067	$ 75.106	$ -	$ 3.021	$ 86.305
	Capitol Building	0.063	0.013	0.472	0.001		1.381	-	1.929
	MSU Second	0.000	0.012	0.220	0.002		1.452	0.002	1.689
	Morrill	-	-	-	-		0.626	0.069	0.695
	Deaf & Blind	0.013	0.003	0.096	0.001		0.292	0.189	0.594
	Pine Hills	0.015	0.006	0.140	0.002		0.396	0.279	0.837
	Normal School	0.010	0.006	0.140	0.002		0.853	0.058	1.068
	Montana Tech	0.051	0.016	0.105	0.004		1.094	0.499	1.770
	Veterans Home	-	0.000	-	0.000		0.014	-	0.015
	UM	0.000	0.003	0.000	0.000		0.215	0.001	0.219
	Total FY 2008	**$ 4.052**	**$ 1.070**	**$ 4.374**	**$ 0.078**	**$ 75.106**	**$ 6.324**	**$ 4.118**	**$ 95.122**
FY 2009									
	Common Schools	$ 4.000	$ 1.036	$ 3.264	$ 0.067	$ 73.979	$ -	$ 3.012	$ 85.358
	Capitol Building	0.064	0.013	0.512	0.001		1.380	-	1.970
	MSU Second	0.000	0.013	0.218	0.002		1.435	0.002	1.670
	Morrill	-	-	-	-		0.616	0.067	0.683
	Deaf & Blind	0.014	0.003	0.199	0.001		0.287	0.179	0.683
	Pine Hills	0.015	0.006	0.144	0.002		0.394	0.264	0.825
	Normal School	0.010	0.006	0.144	0.002		0.829	0.057	1.047
	Montana Tech	0.052	0.017	0.124	0.004		1.131	0.498	1.826
	Veterans Home	-	0.000	-	0.000		0.014	-	0.015
	UM	0.000	0.003	0.000	0.000		0.212	0.001	0.216
	Total FY 2009	**$ 4.155**	**$ 1.097**	**$ 4.605**	**$ 0.078**	**$ 73.979**	**$ 6.298**	**$ 4.081**	**$ 94.294**

Data Sources

Information on trust lands income through FY 2006 is derived from SABHRS and DNRC annual reports. Information on projected timber revenues, land lease income, and other income sources came from the DNRC Trust Lands Management Division Staff. Trust fund balances and interest rates through FY 2006 are from SABHRS and from monthly data supplied by the Board of Investments. Coal price increases are from Global Insight's October 2006 forecast. Montana oil and natural gas prices and production are from the November 2006 OBPP oil and gas production tax forecast.