

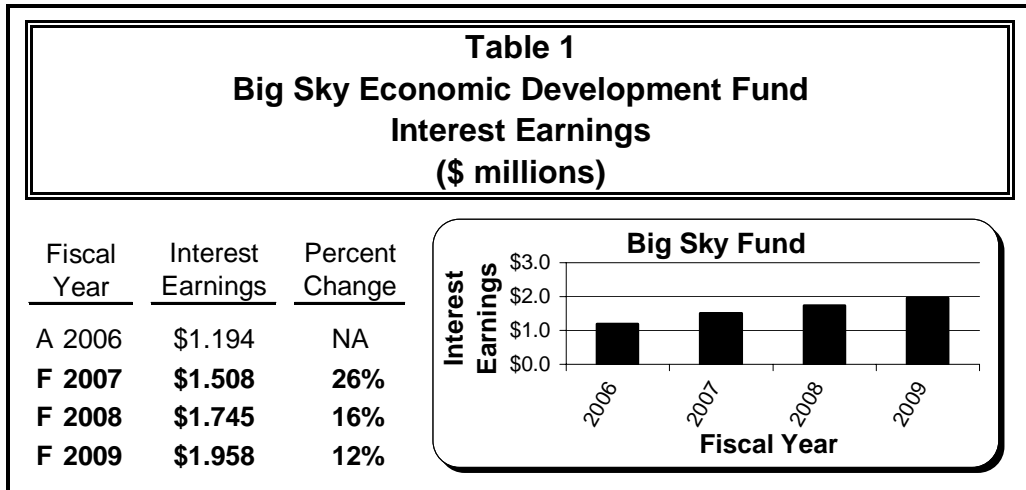
BIG SKY ECONOMIC DEVELOPMENT FUND INTEREST

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. The trust fund is divided into several funds with different purposes, including the big sky economic development (big sky) fund. The big sky fund was established in July 2005 with a \$20 million transfer from the coal tax permanent fund (HB 249, 2005 Session). Income from the big sky fund is used to promote economic development.

Projected Revenue

Table 1 shows actual interest earnings for the big sky fund in FY 2006 and forecast interest earnings for FY 2007 through FY 2009.



The big sky fund earned \$1.194 million in interest income during FY 2006. Projected increases in the fund balance will result in increased earnings each year from FY 2007 through FY 2009.

Forecast Methodology and Projection Calculation

Forecast interest earnings for the big sky fund are calculated as follows. First, the annual average balance of the fund is projected. Second, the annual average rate of return of the fund is projected. Third, interest earnings are forecast by multiplying average balance by the average rate of return.

Average Fund Balance

The fund balance currently grows through the deposit of 12.5% of coal severance tax revenue. The coal tax revenue is net the amount required by the coal tax bond fund to pay principal and interest on coal tax bonds.

In FY 2006, \$3.605 million in coal severance tax revenue was deposited into the big sky fund. This is shown in Table 2, along with projected big sky fund balances and deposits from FY 2007 through FY 2009. The big sky fund year end balance is forecast to be \$28.337 million in FY 2007, \$33.244 million in FY 2008, and \$38.224 million in FY 2009.

Table 2 Big Sky Fund Balance (\$ millions)		
Fiscal Year	Fund Balance	Fund Deposits
A 2006	\$23.605	\$3.605
F 2007	\$28.337	\$4.732
F 2008	\$33.244	\$4.906
F 2009	\$38.224	\$4.980

The average fund balance for the year is used to project earnings. Table 3 shows the average fund balance by investment type. In FY 2006, 2% of the fund balance is invested in the short term investment pool (STIP) and 98% is invested in the trust fund bond pool (TFBP). The fund balance is expected to be invested this way through FY 2009. The total average fund balance is projected to be \$26.109 million in FY 2007, \$30.934 in FY 2008 and \$35.936 in FY 2009.

Table 3 Big Sky Economic Development Fund Average Balance by Investment Type (\$ millions)					
Fiscal Year	STIP		TFBP		Average Balance
	Balance	% Total	Balance	% Total	
A 2006	\$0.438	2%	\$21.053	98%	\$21.491
F 2007	\$0.614	2%	\$25.495	98%	\$26.109
F 2008	\$0.634	2%	\$30.300	98%	\$30.934
F 2009	\$0.646	2%	\$35.290	98%	\$35.936

Big Sky Fund Rate of Return

The forecasts for annual interest rate for the STIP and the TFBP are explained in the *Interest Rate Introduction*. The actual and forecasted rates of return for FY 2006 through FY 2009 are shown in Table 4.

Big Sky Fund Income

Big sky fund investment income is projected by multiplying the projected average balance by the projected interest rate for each type of investment. Table 4 shows actual and projected income by investment type for FY 2006 through FY 2009.

The STIP interest rate is projected to increase in FY 2007 and then decrease in FY 2008 and FY 2009. Investment income from STIP is projected to increase to \$0.030 million in FY 2007 and FY 2008, to increase slightly in FY 2009 to \$0.031 million.

Table 4 Big Sky Economic Development Fund Investment Income and Yield (\$ millions)						
Fiscal Year	STIP		TFBP		Total	
	Income	Yield	Income	Yield	Income	Yield
A 2006	\$0.019	4.36%	\$1.174	5.58%	\$1.194	5.55%
F 2007	\$0.030	4.83%	\$1.478	5.80%	\$1.508	5.77%
F 2008	\$0.030	4.73%	\$1.715	5.66%	\$1.745	5.64%
F 2009	\$0.031	4.72%	\$1.927	5.46%	\$1.958	5.45%

Though the TFPB rate is falling slightly, increases in the fund balance from coal tax contributions offset the rate decline. TFPB income is projected to continue increasing through FY 2009. Total income is projected to increase to \$1.508 million in FY 2007, \$1.745 million in FY 2008, and \$1.958 million in FY 2009.

HJR 2 Variables

Table 5 shows actual and projected fund balances, rates of return, and interest earnings for FY 2006 through FY 2009.

The deposits into the big sky trust fund in FY 2007 through FY 2009 offset the projected interest rate decreases, thus interest earnings are expected to increase each year. Projected interest earnings are \$1.508 million in FY 2007, \$1.745 million in FY 2008, and \$1.958 million in FY 2009.

Table 5 Big Sky Fund Balance and Yield (\$ millions)					
Fiscal Year	Average Balance		Rate of Return	=	Interest Earnings
A 2006	\$21.491	X	5.55%	=	\$1.194
F 2007	\$26.109	X	5.77%	=	\$1.508
F 2008	\$30.934	X	5.64%	=	\$1.745
F 2009	\$35.936	X	5.45%	=	\$1.958

Data Sources

Fund balances and investment earnings were obtained from the Board of Investments and SABHRS.