

RESOURCE INDEMNITY TRUST INTEREST

Revenue Description

Title 15, Chapter 38, MCA, created a resource indemnity trust 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.

Historical and Projected Revenue

Table 1 shows actual interest earnings from the resource indemnity trust for FY 1996 through FY 2006 and forecast interest earnings for FY 2007 through FY 2009.

Table 1 Resource Indemnity Trust Fund Interest Earnings (\$ millions)		
Fiscal Year	Interest Earnings	Percent Change
A 1996	\$7.960	
A 1997	\$7.318	(8.06%)
A 1998	\$7.527	2.85%
A 1999	\$7.505	(0.67%)
A 2000	\$7.200	(4.36%)
A 2001	\$7.306	1.47%
A 2002	\$7.321	0.20%
A 2003	\$7.174	(2.00%)
A 2004	\$7.380	2.87%
A 2005	\$6.902	(6.48%)
A 2006	\$5.916	(14.29%)
F 2007	\$6.126	3.57%
F 2008	\$5.967	(2.61%)
F 2009	\$5.741	(3.79%)

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2006	5.916
2007	6.126
2008	5.967
2009	5.741

Interest earnings varied little between FY 1996 through FY 2004. Through this period declining interest rates were offset by fund balance increases. Since January 2002 the fund balance has remained constant at \$100 million, but the fund yield has declined. In FY 2004 and FY 2005 large capital gains payouts from the trust fund bond pool (TFBP) offset some of this decline. However, in FY 2006 interest earnings declined 14%. Interest earnings are projected to increase to \$6.126 million in FY 2007 due to a slight

increase in the TFBP interest rate. The TFBP rate is projected to decrease in FY 2008 and FY 2009 causing RIT interest earnings to decrease to \$5.967 million in FY 2008 and to \$5.741 million in FY 2009.

Forecast Methodology and Projection Calculation

There are three steps to forecasting interest earnings from the resource indemnity trust fund.

1. The average balance of the trust fund is projected.
2. The interest earned on the balance is projected.
3. The interest earnings are allocated to various state special revenue accounts.

Resource Indemnity Trust Fund Balances

Trust fund balances are invested in the short term investment pool (STIP) and the trust fund bond pool (TFBP). The Board of Investments (BOI) manages both pools, which are discussed in greater detail in the Interest Earnings Introduction.

Table 2 shows actual and projected average trust fund balances by investment type for FY 2001 through FY 2009.

Table 2 Resource Indemnity Trust Fund Average Balance by Investment Type (\$ millions)					
Fiscal Year	STIP Balance	% Total	TFBP Balance	% Total	Average Balance
A 2001	\$0.938	1%	\$97.630	99%	\$98.568
A 2002	\$0.827	1%	\$99.837	99%	\$100.663
A 2003	\$0.258	0%	\$100.000	100%	\$100.258
A 2004	\$0.001	0%	\$100.000	100%	\$100.001
A 2005	\$0.065	0%	\$100.000	100%	\$100.065
A 2006	\$0.062	0%	\$100.000	100%	\$100.062
F 2007	\$0.055	0%	\$100.000	100%	\$100.055
F 2008	\$0.062	0%	\$100.000	100%	\$100.062
F 2009	\$0.062	0%	\$100.000	100%	\$100.062

Almost the entire trust balance is projected to be invested in the trust fund bond pool from FY 2007 through FY 2009, which remains at \$100 million. The STIP balance is expected to decrease slightly in FY 2007 to \$0.055 million. The FY 2008 and FY 2009 balance is projected to remain the same as FY 2006 balance of \$0.062 million.

Resource Indemnity Trust Investment Income

Trust fund investment income is projected by multiplying the fund balance by the projected interest rate for each type of investment. The forecasts of the annual yields of STIP and TFBP are explained in the *Interest Rate Introduction*. Table 3 shows actual and projected income and yield for each investment type in FY 2001 through FY 2009.

Table 3
Resource Indemnity Trust Fund
Investment Income and Rate of Return
(\$ millions)

Fiscal Year	STIP Income	Rate of Return	TFBP Income	Rate of Return	Reinvested Income Fund Earnings	Total Income	Rate of Return
A 2001	\$0.076	8.10%	\$7.206	7.38%	\$0.024	\$7.306	7.41%
A 2002	\$0.021	2.56%	\$7.286	7.30%	\$0.013	\$7.321	7.27%
A 2003	\$0.006	2.48%	\$7.161	7.16%	\$0.007	\$7.174	7.16%
A 2004	\$0.000	1.11%	\$7.375	7.38%	\$0.005	\$7.380	7.38%
A 2005	\$0.002	2.37%	\$6.890	6.89%	\$0.011	\$6.902	6.90%
A 2006	\$0.003	4.49%	\$5.897	5.90%	\$0.016	\$5.916	5.91%
F 2007	\$0.003	5.25%	\$6.107	6.11%	\$0.017	\$6.126	6.12%
F 2008	\$0.003	4.74%	\$5.948	5.95%	\$0.016	\$5.967	5.96%
F 2009	\$0.003	4.72%	\$5.722	5.72%	\$0.016	\$5.741	5.74%

STIP income is projected to be negligible through FY 2009 due to the very small STIP balance. TFBP income decreased almost \$1 million in FY 2006 due to a decrease in the TFBP rate. The TFBP rate is forecast to increase in FY 2007, thus increasing TFBP income to \$6.107 million in FY 2007. TFBP income is projected to decrease to \$5.948 million in FY 2008 and \$5.722 million in FY 2009 due to a decrease in the TFBP rate.

Investment income from the resource indemnity trust (RIT) fund balance is deposited into the RIT income fund. Cash earnings are distributed from the RIT income fund into specific state special revenue funds monthly. Any fund balance remaining in the RIT income fund is reinvested in STIP to earn interest income. Income from reinvestment of RIT income fund balances is projected to be \$0.017 million in FY 2007 and \$0.016 in FY 2008 and FY 2009.

Table 4 summarizes the actual and projected RIT trust fund balance, average rate of return, and interest earnings for FY 2001 through FY 2009. Interest earnings are projected to decrease to \$6.126 million in FY 2007, \$5.967 million in FY 2008, and \$5.741 million in FY 2009.

Table 4
RIT Fund Balance, Rate of Return
and Interest Earnings
(\$ millions)

Fiscal Year	Average Balance		Rate of Return	=	Interest Earnings
A 2001	\$98.568	x	7.41%	=	\$7.306
A 2002	\$100.663	x	7.27%	=	\$7.321
A 2003	\$100.258	x	7.16%	=	\$7.174
A 2004	\$100.001	x	7.38%	=	\$7.380
A 2005	\$100.065	x	6.90%	=	\$6.902
A 2006	\$100.062	x	5.91%	=	\$5.916
F 2007	\$100.055	x	6.12%	=	\$6.126
F 2008	\$100.062	x	5.96%	=	\$5.967
F 2009	\$100.062	x	5.74%	=	\$5.741

Allocation of Resource Indemnity Trust Fund Income

Table 5 shows actual and projected allocations of interest income from the resource indemnity trust fund for FY 2006 through FY 2009.

Table 5				
Resource Indemnity Trust Interest Allocation				
(\$ millions)				
	Actual	-----Forecast-----		
	FY2006	FY2007	FY2008	FY2009
Biennial Fixed Allocations				
Environmental Contingency	\$0.175	\$0.000	\$0.175	\$0.000
Oil & Gas Damage Mitigation	\$0.050	\$0.000	\$0.050	\$0.000
Water Storage	\$0.500	\$0.000	\$0.500	\$0.000
Annual Fixed Allocations				
MSU-Northern	\$0.240	\$0.240	\$0.240	\$0.240
Groundwater Assessment	\$0.300	\$0.300	\$0.300	\$0.300
Trout Habitat Enhancement	\$0.500	\$0.500	\$0.500	\$0.500
Annual Percentage Allocations				
Hazardous Waste/CERCLA	\$0.169	\$0.412	\$0.182	\$0.312
Environmental Quality Protection	\$0.059	\$0.143	\$0.063	\$0.108
Annual Fixed & Percentage Allocations				
Renewable Resource Grants & Loans	\$2.195	\$2.476	\$2.211	\$2.360
Reclamation & Development Grants	\$1.728	\$2.055	\$1.746	\$1.920
Total RIT Interest Earnings	\$5.916	\$6.126	\$5.967	\$5.741

Interest earnings are distributed monthly to the various state special revenue accounts. 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);

Data Sources

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