GOVERNOR
BRIAN SCHWEITZER

STATE OF MONTANA

NON-GENERAL FUND REVENUE
SECTION 10

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

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.

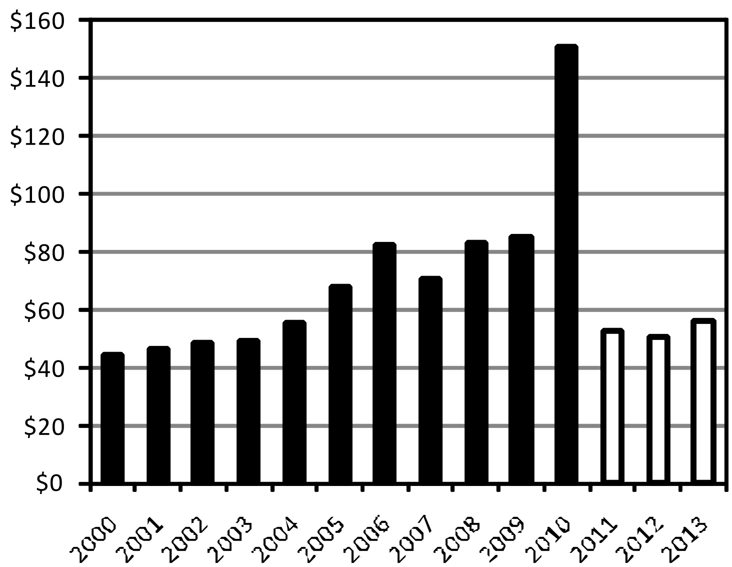
Proceeds from property sales of the granted land are deposited into an inviolate trust fund; thus, the proceeds are non-distributable. The trust fund is invested, almost exclusively, in the Trust Fund Bond Pool (TFBP). Of the interest income, 5% percent is retained by the trust fund corpus, and 95% of 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. An amount is also deducted and put into a reserve fund in the event revenues do not meet the required expenses in a given fiscal year, but will be greater than the costs given a longer time period.

Table 1 shows actual distributable income from the Common School Trust for FY 2000 through FY 2010 and forecast revenue for FY 2011 through FY 2013.

The large increase in revenue in FY 2010 is due to the bonus bid of the Otter Creek coal tracks. The lower level in FY 2011 is due to the changing distribution of mineral royalties to the trust fund corpus rather than common schools. This change became effective toward the end of FY 2010.

Table 1
School Trust Land Interest and Income
($ millions)

	Fiscal Year	Revenue	Percent Change
A	2000	$44.296	6.91%
A	2001	$46.846	5.76%
A	2002	$48.938	4.47%
A	2003	$48.977	0.08%
A	2004	$55.663	13.65%
A	2005	$68.036	22.23%
A	2006	$82.606	21.42%
A	2007	$70.429	-14.74%
A	2008	$83.026	17.89%
A	2009	$85.385	2.84%
A	2010	$151.034	76.88%
F	**2011**	**$53.001**	**-64.91%**
F	**2012**	**$50.916**	**-3.93%**
F	**2013**	**$56.448**	**10.86%**



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 to the trust fund corpus. That limit was reached in FY 2010, and mineral royalty revenue will be deposited into the trust fund corpus to generate interest revenue.

After HB 152 (2009 Session) was passed, all of the revenue generated from timber harvested in the state over 18 million board feet, as well as 95% of the revenue from river bed leases, will be deposited in the school facility and technology improvement account. However, the change in distribution of the revenue from riverbed rents does not take effect until FY 2012.

SB 65 (2009 Session) consolidated four accounts that were used to pay for the administration of the trust fund into a single account. It also allowed for the diversion of up to 25% of the prior year's distributable revenue to be deposited into the trust administration account (TAC) for the Department of Natural Resources' (DNRC) administrative costs. In the event costs were less than what was distributed to the TAC, then up to 1/3 of the excess would be deposited into a newly created reserve account. Money in the reserve account would then be used to cover administrative costs in the event there were inadequate funds in the TAC to cover all of the costs. The remaining revenue would be deposited in the trust fund corpus to generate interest. The balance in the earnings reserve fund may not exceed 200% of the appropriation to the TAC from the prior fiscal year.

Risks and 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 the trust land riverbeds contributes to the hydroelectric project as a whole. Two lease agreements were executed. One agreement is currently being contested and is appealing its case to the U.S. 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 at this time.
- In FY 2010 the state negotiated the leasing right for the Otter Creek coal tracks. This forecast assumes a coal mine at Otter Creek will not be fully developed during the forecast period. If the coal mine is fully developed then the common school trust fund would receive additional royalty revenue that would be deposited into the trust's corpus and generate more interest revenue.
- Trust revenue is net of administration costs of DNRC. If DNRC's costs vary from expectations, then common school revenue could also be greater or less than anticipated.
- A large source of revenue is derived from timber revenue. New construction in today's economy is below prior years' levels. If the economy recovers more quickly than anticipated, this could lead to an increase in new construction which would increase the demand for timber.

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 DNRC and historical projection patterns.

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 communication 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 2008 through FY 2010 and forecast values for FY 2011 through FY 2013 are shown in Table 2.

Table 2
Total Revenue
($ millions)

Fiscal Year	Trust and Legacy Interest Income	Agriculture and Grazing Revenue	Non-Royalty Mineral Revenue	Timber Revenue	Mineral Royalties Revenue	Other Revenue	Total Revenue
A 2008	$23.428	$18.690	$5.934	$7.317	$31.048	$14.171	$100.586
A 2009	$21.094	$20.551	$15.379	$5.457	$27.663	$13.008	$103.151
A 2010	$21.370	$16.846	$104.024	$5.381	$20.604	$17.255	$185.479
F 2011	**$19.640**	**$17.342**	**$6.424**	**$5.575**	**$21.004**	**$14.396**	**$84.380**
F 2012	**$20.842**	**$13.743**	**$6.385**	**$5.707**	**$22.093**	**$14.634**	**$83.405**
F 2013	**$23.132**	**$17.228**	**$6.349**	**$5.683**	**$23.009**	**$14.878**	**$90.279**

Table 3 shows forecast gross revenue, estimated administrative expenses, allocation and net revenue to schools for FY 2011 through FY 2013. Future administrative expenses are based on executive budget recommendations for FY 2011 through FY 2013.

Table 3
School Trust Income Allocation and Distribution
($ millions)

Fiscal Year	FY 2011	FY 2012	FY 2013
Distributable Income			
Investment Income	$19.640	$20.842	$23.132
Agriculture and Grazing Rents	$17.342	$13.743	$17.228
Non-Royalty Mineral Income	$6.424	$6.385	$6.349
Timber Revenue < 18 mmbf	$4.775	$4.889	$4.868
River Lease Revenue	$4.300	$4.386	$4.473
Licenses and Other Income	$2.966	$3.000	$3.034
Subtotal	**$55.446**	**$53.245**	**$59.084**
Non Mineral Expenses	**$0.498**	**$0.510**	**$0.523**
Income Less Expenses	**$54.949**	**$52.735**	**$58.561**
Distributable Income			
(95% of Income Less Expenses)	$52.201	$50.098	$55.633
Plus 100% Timber Revenue > 18 mmbf	$0.800	$0.819	$0.815
Net Income (Excluding Mineral Royalties)	**$53.001**	**$50.916**	**$56.448**
Mineral Royalties			
Mineral Royalties	$21.004	$22.093	$23.009
TAC Expense	$4.100	$4.203	$4.308
Less Trust and Legacy Mineral Revenue	$16.904	$17.891	$18.701
Total Income	**$53.001**	**$50.916**	**$56.448**
Distribution			
Facility and Technology Account	$4.884	$4.985	$5.065
Guarantee Fund BASE Aid – School Equalization	$48.117	$45.931	$51.383
Total Distribution	**$53.001**	**$50.916**	**$56.448**

Data Sources

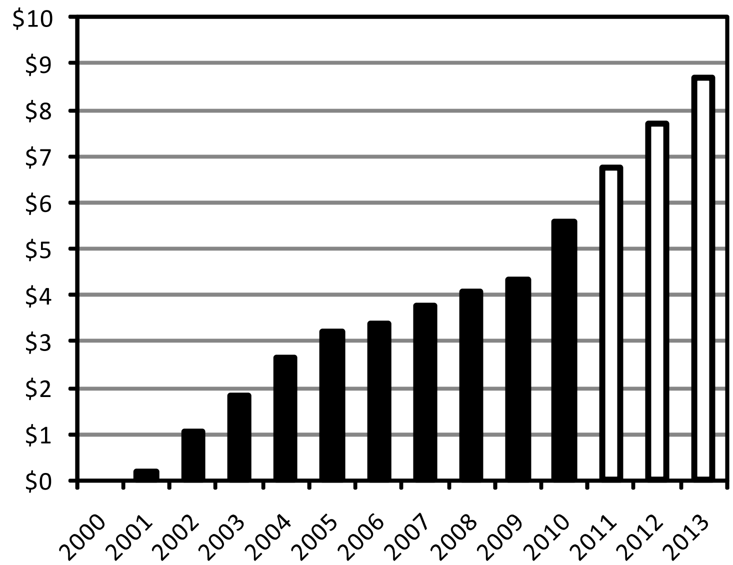
Historical interest income information was provided by the State Street Bank and BOI monthly reports. Historical wheat and cattle data is from the USDA's website, http://www.nass.usda.gov/Statistics_by_State/Montana/. Forecasts for wheat and cattle prices were obtained from the USDA's February 2008 Long Term Projections available at http://usda.mannlib.cornell.edu/MannUsda/viewStaticPage.do?url=http://usda.mannlib.cornell.edu/usda/ers/94005.

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).

Table 1
Tobacco Settlement Trust Interest
($ millions)

	Fiscal Year	Revenue	Percent Change
A	2000	-	-
A	2001	$0.170	-
A	2002	$1.038	511.5%
A	2003	$1.808	74.2%
A	2004	$2.670	47.7%
A	2005	$3.202	19.9%
A	2006	$3.388	5.8%
A	2007	$3.787	11.8%
A	2008	$4.091	8.0%
A	2009	$4.343	6.1%
A	2010	$5.599	28.9%
F	**2011**	**$6.750**	**20.6%**
F	**2012**	**$7.693**	**14.0%**
F	**2013**	**$8.704**	**13.2%**



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 and Significant Factors

There are three 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 forecast 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. The STIP and TFBP interest rates are expected to change throughout the 2013 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.

Distribution

Table 2 summarizes actual and projected interest earnings and the allocation of interest earnings from FY 2005 through FY 2013. Ten percent of tobacco trust earnings are retained by the trust and 90% are allocated to a state special revenue account.

Table 2
Tobacco Trust Interest Revenue Distribution
($ millions)

Fiscal Year	Reinvested Revenue (10%)		Remaining Revenue (90%)		Total Interest Revenue
A 2005	$0.320	+	$2.882103	=	$3.202
A 2006	$0.339	+	$3.048774	=	$3.388
A 2007	$0.421	+	$3.787441	=	$4.208
A 2008	$0.455	+	$4.091095	=	$4.546
A 2009	$0.483	+	$4.342652	=	$4.825
A 2010	$0.560	+	$5.038781	=	$5.599
F 2011	**$0.675**	**+**	**$6.075356**	**=**	**$6.750**
F 2012	**$0.769**	**+**	**$6.923475**	**=**	**$7.693**
F 2013	**$0.870**	**+**	**$7.833917**	**=**	**$8.704**

Data Sources

Tobacco trust balances and earnings are obtained from the Board of Investments (BOI) 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.*

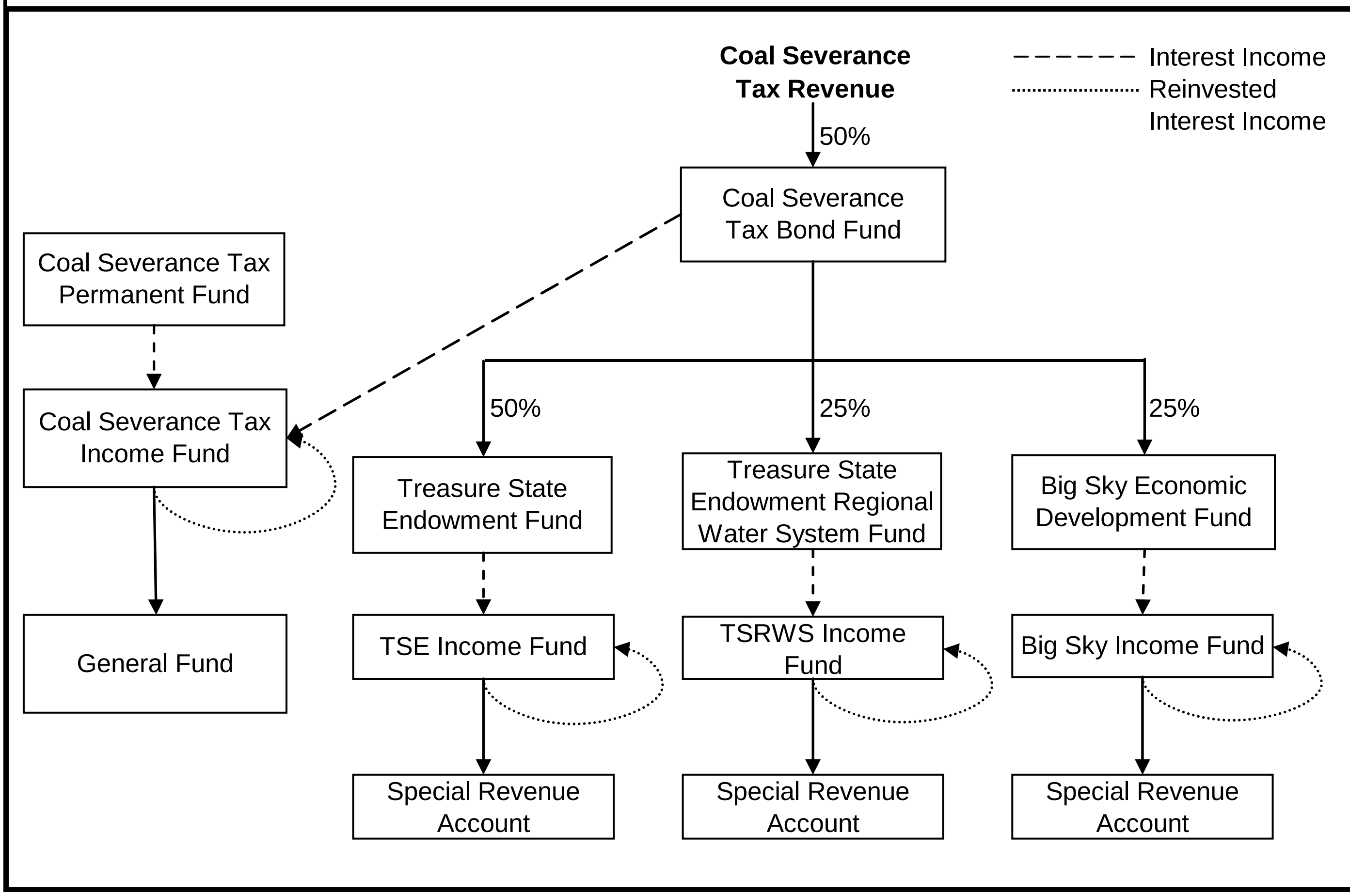
Revenue Description

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 ¾ 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 (TSE)
- treasure state endowment regional water system fund (TSRWS)
- big sky economic development fund (Big Sky)

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.

Figure 1: Coal Severance Tax Distribution



<u>Coal Severance Tax Bond Fund</u>

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 and Significant Factors

- The Federal Open Market Committee (FOMC) may decide to keep interest low 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 another 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 effect on the interest earnings.

Forecast Methodology

Revenue for the three trust funds is forecast in two main steps.

Step 1. Estimate the composition of the trusts investments

Step 2. Apply the appropriate interest rate to the different investments. The different rates of return are forecast in the *Interest Rate Introduction* section.

The following sections discuss the revenue for each individual trust.

<u>Coal Severance Tax Permanent Fund</u>

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 2010 was $531 million and 39% was invested in loans, 2% was invested in STIP, and the remaining 59% was invested in the Trust Fund Bond Pool (TFBP). The interest earnings from the permanent fund are deposited into the coal severance tax income fund. General fund interest earning is discussed in the *Coal Trust Interest Earning* section.

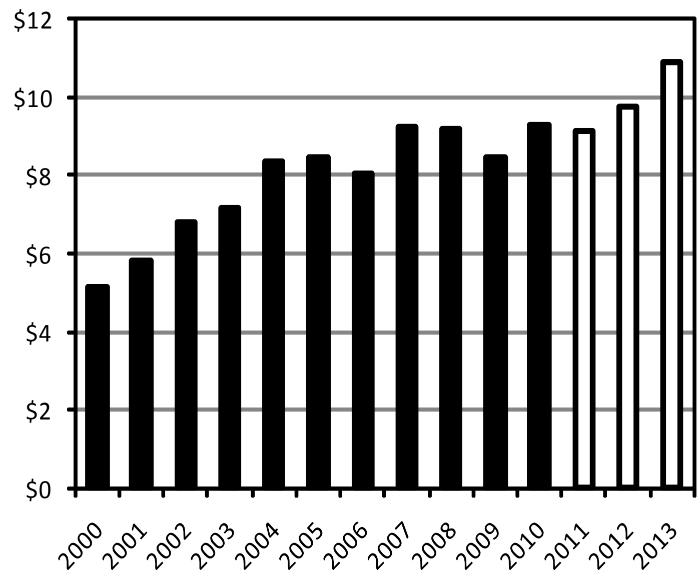
Treasure State Endowment Fund

The 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).

Table 1
Treasure State Endowment Fund Interest
($ millions)

	Fiscal Year	Revenue	Percent Change
A	2000	$5.123	7.4%
A	2001	$5.802	13.2%
A	2002	$6.805	17.3%
A	2003	$7.175	5.4%
A	2004	$8.349	16.4%
A	2005	$8.482	1.6%
A	2006	$8.039	-5.2%
A	2007	$9.225	14.8%
A	2008	$9.194	-0.3%
A	2009	$8.450	-8.1%
A	2010	$9.277	**9.8%**
F	**2011**	**$9.132**	**-1.6%**
F	**2012**	**$9.761**	**6.9%**
F	**2013**	**$10.891**	**11.6%**



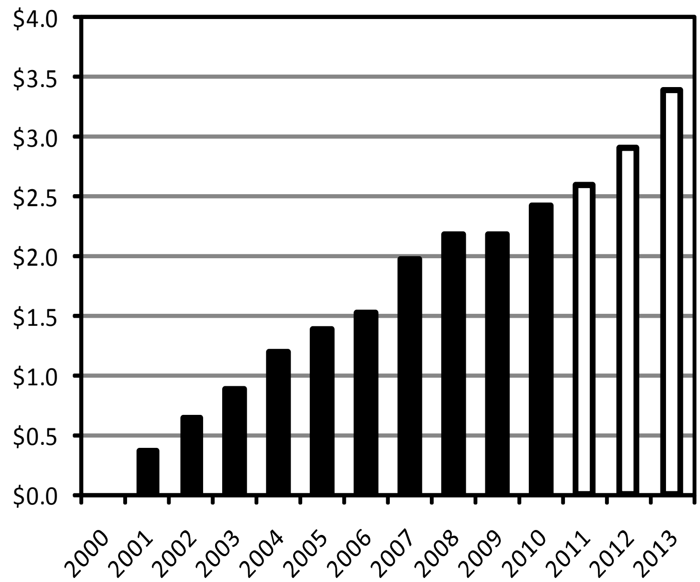
The TSE fund receives 50% of the coal severance tax transfers from the bond fund, or 25% of coal severance tax revenue. The fund balance at the end of FY 2010 was $183 million with 99% of the balance invested in TFBP, approximately 1% invested in loans, and less than 1% invested in STIP. The interest 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 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.

Table 2
Treasure State Endowment Regional Water System Fund Interest
($ millions)

	Fiscal Year	Revenue	Percent Change
A	2000	-	-
A	2001	$0.370	-
A	2002	$0.643	73.7%
A	2003	$0.894	39.0%
A	2004	$1.201	34.3%
A	2005	$1.396	16.3%
A	2006	$1.527	9.4%
A	2007	$1.979	29.6%
A	2008	$2.175	9.9%
A	2009	$2.179	0.2%
A	2010	$2.419	11.0%
F	**2011**	**$2.595**	**7.3%**
F	**2012**	**$2.915**	**12.3%**
F	**2013**	**$3.389**	**16.3%**



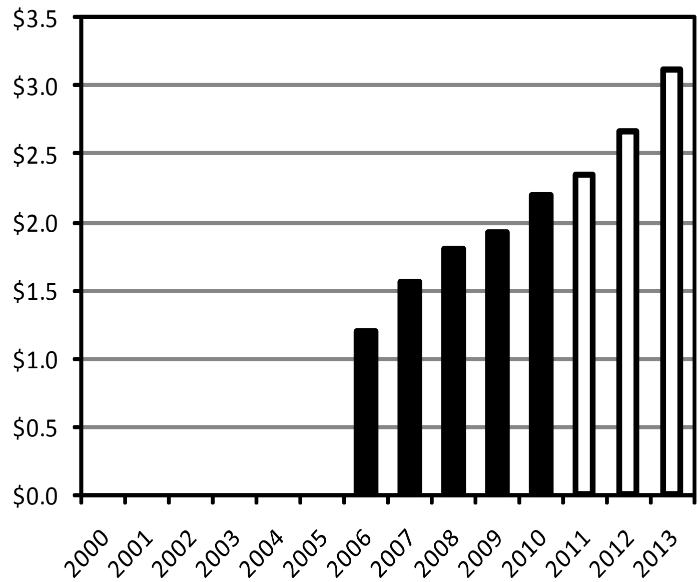
TSRWS receives 25% of the coal severance tax transfers from the bond fund, or about 12.5% of coal severance tax receipts. The fund balance at the end of FY 2010 was $51 million, which was invested 99% in TFBP and less than 1% in STIP. The interest income from TSRWS is deposited in the TSRWS income fund, 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 Fund. The interest income from the Big Sky Fund provides financial assistance for economic development to local governments and certified regional development corporations.

Table 3
Big Sky Economic Development Fund Interest
($ millions)

	Fiscal Year	Revenue	Percent Change
A	2000	-	-
A	2001	-	-
A	2002	-	-
A	2003	-	-
A	2004	-	-
A	2005	-	-
A	2006	$1.194	-
A	2007	$1.559	30.6%
A	2008	$1.801	15.5%
A	2009	$1.925	6.9%
A	2010	$2.196	14.1%
F	**2011**	**$2.354**	**7.2%**
F	**2012**	**$2.663**	**13.2%**
F	**2013**	**$3.116**	**17.0%**



The Big Sky Fund will receive 25% of the coal severance tax transfers from the bond fund. The year end fund balance in FY 2010 was $47 million. This balance was invested 99% in TFBP and less than 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 SABHRS. 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

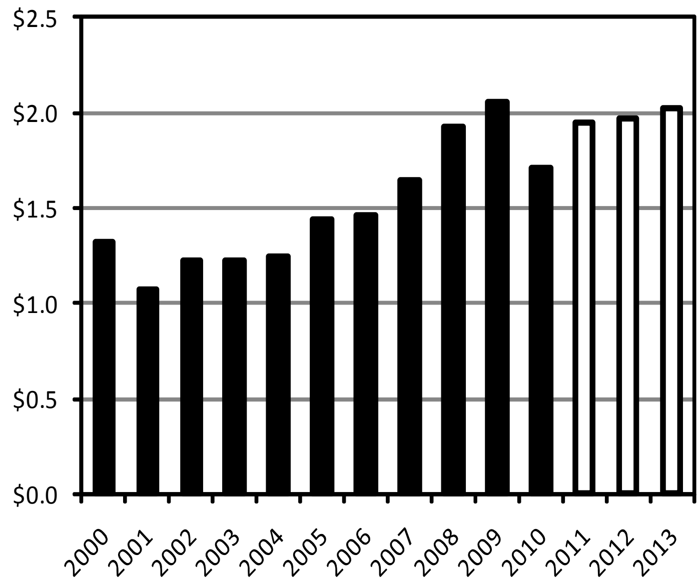
Title 15, Chapter 38, MCA, created a resource indemnity and groundwater assessment tax. The tax (also called the Resource Indemnity Tax or RIT) funds the Resource Indemnity Trust. The tax also provides revenues for groundwater assessment and resource development programs to benefit the state and its 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 2000 through FY 2010 and forecast revenue for FY 2011 though FY 2013.

Table 1
Resource Indemnity Tax
($ millions)

	Fiscal Year	Revenue	Percent Change
A	2000	$1.323	-43.3%
A	2001	$1.077	-18.6%
A	2002	$1.224	13.7%
A	2003	$1.226	0.1%
A	2004	$1.251	2.0%
A	2005	$1.436	14.9%
A	2006	$1.456	1.4%
A	2007	$1.647	13.1%
A	2008	$1.926	16.9%
A	2009	$2.054	6.6%
A	2010	$1.712	**-16.7%**
F	**2011**	**$1.943**	**13.5%**
F	**2012**	**$1.973**	**1.6%**
F	**2013**	**$2.027**	**2.7%**



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.
- Industrial garnets and its associated byproducts tax rate is $25 plus an additional 1% of the gross value of product 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 forecast 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 Insight forecast for minerals and mineral product's producer price index.

Table 2 shows the actual and forecast RIT revenues from coal production and other mineral production.

Table 2
Resource Indemnity Tax
($ millions)

Fiscal Year	Coal Tax Revenue		Other Minerals Tax Revenue		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	$1.215	+	$0.711	=	$1.926
A 2009	$1.262	+	$0.792	=	$2.054
A 2010	$1.362	+	$0.350	=	$1.712
F 2011	**$1.599**	**+**	**$0.344**	**=**	**$1.943**
F 2012	**$1.618**	**+**	**$0.355**	**=**	**$1.973**
F 2013	**$1.653**	**+**	**$0.375**	**=**	**$2.027**

Distribution

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 water storage account (85-1-631, 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 allocate 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, at the beginning of the biennium (even numbered years), $0.150 million is allocated to the water storage state special revenue account.

Fourth, 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.

Table 3 shows the actual and forecast distribution of the RIT revenue for FY 2008 through FY 2013.

Table 3
Resource Indemnity Tax Revenue Allocatation
($ millions)

Fiscal Year	CERCLA match debt service fund	Groundwater Assessment	Water Storage	Environmental Quality Protection	Hazardous Waste / CERCLA	Natural Resources Projects	Total
A 2008	$0.273	$0.366	$0.150	$0.284	$0.284	$0.568	$1.926
A 2009	$0.272	$0.366	$0.000	$0.354	$0.354	$0.708	$2.054
A 2010	$0.272	$0.366	$0.150	$0.231	$0.231	$0.462	$1.712
F 2011	**$0.272**	**$0.366**	**$0.000**	**$0.326**	**$0.326**	**$0.652**	**$1.943**
F 2012	**$0.272**	**$0.366**	**$0.150**	**$0.296**	**$0.296**	**$0.593**	**$1.973**
F 2013	**$0.272**	**$0.366**	**$0.000**	**$0.347**	**$0.347**	**$0.694**	**$2.027**

Data Sources

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

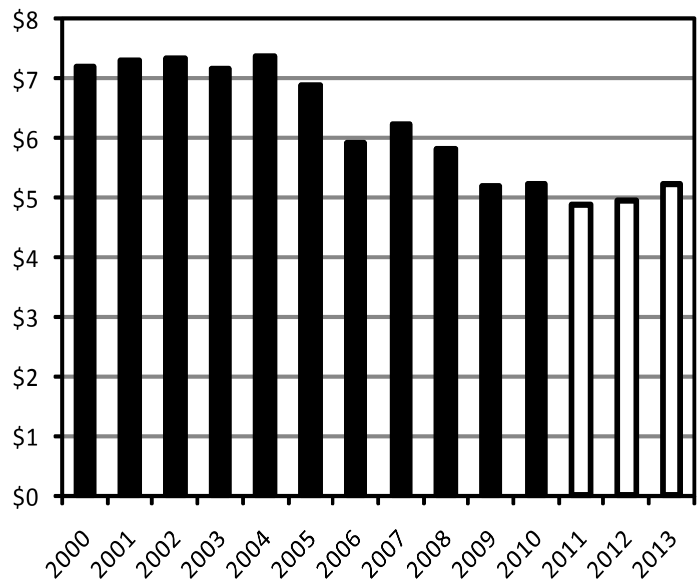
Revenue Description

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 2000 to FY 2010 and forecast income for FY 2011 through FY 2013.

Table 1
Resource Indemnity Trust Interest
($ millions)

	Fiscal Year	Revenue	Percent Change
A	2000	$7.200	-4.4%
A	2001	$7.306	1.5%
A	2002	$7.321	0.2%
A	2003	$7.174	-2.0%
A	2004	$7.380	2.9%
A	2005	$6.902	-6.5%
A	2006	$5.916	-14.3%
A	2007	$6.220	5.2%
A	2008	$5.801	-6.7%
A	2009	$5.197	-10.4%
A	2010	$5.213	0.3%
F	**2011**	**$4.876**	**-6.5%**
F	**2012**	**$4.943**	**1.4%**
F	**2013**	**$5.223**	**5.7%**



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.

Distribution

The revenue distribution of the RIT interest revenue is defined in section 15-38-202, 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:

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

Each fiscal year the following accounts receive these fixed allocations:

- $3.5 million is allocated to the natural resource projects account for grants (15-38-302, MCA);
- $300,000 is allocated to the groundwater assessment account (85-2-905, MCA; and
- $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:

- 65% is allocated to the natural resource operation account;
- 26% is allocated to the hazardous waste/CERCLA account (75-10-621, MCA); and
- 9% is allocated to the environmental quality protection fund (75-10-704, MCA).

Table 2 shows the distribution of RIT interest for FY 2010 and the forecast distribution for FY 2011 through FY 2013.

Table 2
Resource Indemnity Trust Interest Allocation
($ millions)

	Actual	Forecast		
Entity	FY 2010	**FY 2011**	**FY 2012**	**FY 2013**
Total Revenue	**$5.213**	**$4.876**	**$4.943**	**$5.223**
Biennial Fixed Allocations				
Oil & Gas Damage Mitigation	$0.050	$0.000	$0.050	$0.000
Environmental Contingency	$0.175	$0.000	$0.093	$0.000
Water Storage	$0.500	$0.000	$0.500	$0.000
Annual Fixed Allocation				
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
Remainder	**$0.188**	**$0.576**	**$0.000**	**$0.923**
Annual Percentage Allocations				
Natural Resource Operations (65%)	$0.122	$0.374	$0.000	$0.600
Hazardous Wast/CERCLA (26%)	$0.049	$0.150	$0.000	$0.240
Environmental Quality Protection (9%)	$0.017	$0.052	$0.000	$0.083

Data Sources

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