

MINUTES

MONTANA SENATE 54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By VICE CHAIRMAN MIKE FOSTER, on February 7,
1995, at 8:00 a.m.

ROLL CALL

Members Present:

Sen. Gerry Devlin, Chairman (R)
Sen. Mike Foster, Vice Chairman (R)
Sen. Mack Cole (R)
Sen. Delwyn Gage (R)
Sen. Lorents Grosfield (R)
Sen. John G. Harp (R)
Sen. Dorothy Eck (D)
Sen. Barry "Spook" Stang (D)
Sen. Fred R. Van Valkenburg (D)

Members Excused: CHAIRMAN GERRY DEVLIN

Members Absent: None

Staff Present: Jeff Martin, Legislative Council
Renée Podell, Committee Secretary

Please Note: These are summary minutes. Testimony and
discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: SB 235, SB 273, HB 96
Executive Action: HB 96, SB 235

HEARING ON SB 235

Opening Statement by Sponsor:

SEN. KEN MILLER, SD 11, Laurel, explained he was asked by the Montana Manufactured Housing and R.V. Association to sponsor SB 235. He stated this simple bill was brought forward to clarify language in the statutes regarding the treatment of mobile home stock as business inventory. SEN. MILLER commented the current law is somewhat confusing, and this bill seeks to remedy this problem. He acknowledged in reality this bill reflects current DOR practice, making this bill revenue neutral.

Proponents' Testimony:

Stuart Doggett, Montana Manufactured Housing and R.V. Association, stated he worked with **Jeff Martin** on this bill. He said SB 235 reflects current practice taking place by the DOR, and urged support.

Mick Robinson, Director, Department of Revenue, commented SB 235 is considered technical clean-up. He said it does not have any impact on the DOR.

Opponents' Testimony:

None

Informational Testimony:

None

Questions From Committee Members and Responses:

SEN. MIKE FOSTER asked **Jeff Martin** to give a brief history of mobile home taxing. **Mr. Martin** stated mobile homes were taxed in a separate class prior to 1991, and under that classification business inventory and mobile homes were exempt. He said it appears the legislature didn't want to provide a double exemption.

SEN. BARRY "SPOOK" STANG asked **Mr. Robinson** if the law states mobile homes held by a dealer are not business inventories why were they being taxed as business inventories. **Mr. Robinson** said he wasn't sure why the language "business inventories aren't included" was added, and he isn't sure the division has a clear explanation why the language was included. He said the intention of exempting business inventories was very clear, but how the extension of mobile homes is included he can't explain why it's there.

SEN. DOROTHY ECK questioned **Mr. Robinson** in regard to what happens to a mobile home that is still owned by the dealer on a contract for sale. **Mr. Robinson** stated a dealer wouldn't sell an inventory item under a contract for deed. **SEN. ECK** asked **Mr. Doggett** if he could respond to the question. **Mr. Doggett** said many times when a dealer sells a mobile home the finance company will retain the title if it's going into a mobile home park or manufactured housing park. He said the mobile home will be financed as personal property, and the consumer will pay personal property tax on it.

Closing by Sponsor:

SEN. MILLER commented it is a simple bill and urged a do pass vote.

{Tape: 1; Side: A; Approx. Counter: 11.8.}

EXECUTIVE ACTION ON SB 235

Motion: SEN. JOHN HARP MOVED SB 235 DO PASS.

Discussion: None

Vote: THE MOTION CARRIED UNANIMOUSLY.

HEARING ON HB 96

Opening Statement by Sponsor:

REP. DON LARSON, HD 58, Seeley Lake, stated HB 96 exempts vehicles owned by special districts like rural fire districts from vehicle registration fees, weed control fees, and the new car sales tax. He explained this bill makes a uniform action throughout all 56 counties.

Proponents' Testimony:

James D. Lofftus, President, Montana Fire District Association, urged support for HB 96.

Roger Stevens, Flathead County Fire Fighters Association, encouraged support for standardizing the process.

Bob Gilbert, Montana Volunteer State Fire Fighters Association, commented the intent was not to tax these special districts; however, it wasn't stated clearly in the law. He said this is a good bill and urged support.

Bud Schoen, Motor Vehicle Division, stated this bill helps clarify which local agencies qualify for exempt plates.

Opponents' Testimony:

None

Informational Testimony:

None

Questions From Committee Members and Responses:

SEN. MACK COLE questioned REP. LARSON in regard to Page 4, the wording "irrigation districts" being crossed out and the language "special districts" being inserted. He asked REP. LARSON if the wording "special districts" covers irrigation districts. REP. LARSON answered, "Yes."

SEN. DOROTHY ECK asked REP. LARSON if school districts are considered special districts. REP. LARSON commented he wasn't certain. SEN. GROSFIELD read the meaning of special districts from the Montana Code Annotated. He stated school districts are considered special districts.

Closing by Sponsor:

REP. LARSON said this is a good bill to help keep volunteer districts viable. He requested SEN. BARRY "SPOOK" STANG carry the bill.

EXECUTIVE ACTION ON HB 96

Motion: SEN. GROSFIELD MOVED HB 96 BE CONCURRED IN.

Discussion: None

Vote: THE MOTION CARRIED UNANIMOUSLY.

HEARING ON SB 273

Opening Statement by Sponsor:

SEN. LOREN JENKINS, SD 45, Big Sandy, voiced concern in regard to why the coal tax wasn't put into a trust fund. He questioned if it was time to cap the fund. He acknowledged it is not his intent to touch the Treasure State Endowment program with this bill, only the money going into the permanent trust. SEN. JENKINS asked the committee to look at the bonding requirement of the Treasure State Endowment Fund. He attested he wants the bill to go to the vote of the people of Montana so they can decide whether it is time to cap this trust.

Informational Testimony:

Ray Beck, Administrator, Department of Natural Resources, said SEN. JENKINS asked him to clarify a point. He attested he doesn't rise as a proponent or an opponent. He stated the department administers the severance tax loan program and this bill does not actually cap the trust. He explained it takes away the Constitutional protection of the trust, which would allow the legislature to cap the trust. Mr. Beck stated because the legislature does give some breaks on loans there is always less payment that comes into debt service account than funds available to pay off the loan. He asked that language be put into the bill recognizing the obligation of the bond holders and future borrowers.

Proponents' Testimony:

None

Opponents' Testimony:

Verner Bertelsen, Montana Senior Citizens Association, presented written testimony. **EXHIBIT 1.**

Ted Lange, Northern Plains Research Council, commented the coal trust fund is a permanent, reliable source of income for the State of Montana. He stated coal resources are a part of the state's endowment.

Chris Imhoff, Montana League of Women Voters, presented written testimony. **EXHIBIT 2.**

Gloria Hermanson, Montana Cultural Advocacy, urged a do not pass on this bill.

Don Judge, Executive Secretary, Montana State AFL-CIO, sent written testimony. **EXHIBIT 3.**

Questions From Committee Members and Responses:

SEN. FOSTER asked **Mr. Robinson** if he could give the committee a status report on the court case with the Crow Tribe. **Mr. Robinson** responded the state was victorious at the Federal Court level in Billings. He said the case has been appealed to the Ninth Circuit Court last week and it is possible the case could go to the U.S. Supreme Court.

SEN. COLE asked **Mr. Robinson** what figure is on the lawsuit. **Mr. Robinson** said it is in excess of \$500 million.

SEN. HARP asked **Terry Johnson** if this bill would take effect for the 1997 biennium. **Mr. Johnson** answered January 1, 1997. **SEN. HARP** asked **Terry Johnson** if he knew what the estimate was for this biennium. **Mr. Johnson** answered approximately \$40 million per year. He said the portion that would be going into the permanent trust would be approximately \$20 million, and the portion going into the Treasure State Endowment Fund would be about \$10 million. **Mr. Johnson** acknowledged there would only be \$10 million available on an annual basis if the Treasure State Endowment is held harmless. **SEN. HARP** asked **Mr. Johnson** if there is \$10 million in the fund right now. **Mr. Johnson** said by the end of FY'95 they are projecting there will be \$31 million in the fund.

SEN. ECK asked **Mr. Johnson** how much money goes into the bonds and school construction fund. **Mr. Johnson** said in terms of the coal tax bond fund it serves as a temporary account which is used to make sure there is sufficient funds available to cover the costs of the bonds. He stated the annual cost is about \$500,000 per year. He explained anything above that is distributed to the permanent trust in the Treasure State Endowment Trust, 50% to each one. **Mr. Johnson** related in terms of the school contingency account there is no additional funds going into that particular account. He said there is about \$2.5 million sitting in that account for the purpose. **Mr. Johnson** presented a letter from

Mae Nan Ellingson, Dorsey & Whitney. EXHIBIT 4.

SEN. DELWYN GAGE questioned Anna Miller, Department of Natural Resources, in regard to bonds. Ms. Miller responded the state has issued to date \$65 million worth of bonds. She presented a booklet titled "Budget Analysis 1997 Biennium." EXHIBIT 5.

Closing by Sponsor:

SEN. JENKINS commented there is enough coal for 4,000 years in this state. He stated the interest leaves the trust intact. {Tape: 1; Side: A; Approx. Counter: 39.0; Comments: Speaker difficult to hear.} He affirmed he isn't sure how much bonding should be done.

Discussion regarding a possible committee bill:

SEN. GAGE discussed trucking deregulation licensing. He suggested this issue may fit into SEN. CHARLES SWYSGOOD'S bill.

ADJOURNMENT

Adjournment: 9:07 a.m.


MIKE FOSTER, VICE CHAIRMAN


RENEE J. PODELL, Secretary

MF/rp

**MONTANA SENATE
1995 LEGISLATURE
TAXATION COMMITTEE**

ROLL CALL

DATE *February 7, 1995*

[illegible]

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CS-09

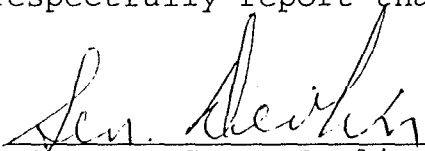
SENATE STANDING COMMITTEE REPORT


Page 1 of 1
February 7, 1995


MR. PRESIDENT:

We, your committee on Taxation having had under consideration
HB 96 (third reading copy -- blue), respectfully report that HB
96 be concurred in.

Signed:


Senator Gerry Devlin, Chair

 Amd. Coord.

 Sec. of Senate

SEN. STANG

Senator Carrying Bill

321311SC.SPV

SENATE STANDING COMMITTEE REPORT

Page 1 of 1
February 7, 1995

MR. PRESIDENT:

We, your committee on Taxation having had under consideration SB 235 (first reading copy -- white), respectfully report that SB 235 do pass.

Signed: 
Senator Gerry Devlin, Chair



Amd. Coord.
Sec. of Senate

321236SC.SPV

DATE February 7, 1995

EXHIBIT NO. 1

BILL NO. SB# 273

*Senate Taxation
Today 3 representants of M, S.C. &*

Mr. Chairman - members of the Committee - I am Turner Bertelsen. I served in the Montana House of Representatives for five terms starting in 1975. I took part in the establishment of the Constitutional Coal Trust Fund and I rise in strong opposition to any attempt to cap it.

Because coal is a depletable natural resource Montana citizens voted in 1976 to place 50% of the coal severance tax in a permanent trust fund. These funds were to remain inviolate unless appropriated by a $\frac{3}{4}$ vote of each house of the legislature. And this trust has not been violated although every session many attempts have been made to raid the trust fund for every conceivable purpose. The legislators have displayed good judgement and protected Montana's Constitutional Coal Tax Trust fund.

Has this been good business? It certainly has, during the fiscal period from fiscal year 1981 through fiscal year 1993 - 11 years. \$296.3 million in interest from the fund was deposited in the General fund. In the fiscal year 1994 alone the permanent trust fund interest provided \$47 million in interest to the general fund. Interest not earmarked for other funds is distributed 85% to the general fund and 15% to the school equalization aid account.

The legislative fiscal analyst has forecast a balance of \$516 million in the trust fund for fiscal year 1995. Approximately \$89 million is anticipated in interest earnings from the Constitutional Coal tax trust fund in the 94-95 biennium.

I'm sure you don't want me to take time to enumerate all the different programs which have benefited from the trust fund interest - Such as the Board of Investments, Clean Coal Technology, Highway Construction funds - Montana Arts Council, ^{and the} Reserve State Endowment Program. I was interested to note that even Froid, Montana, where I was born, is benefitting from this program.

Somehow it seems that some people feel that \$500 million is a tremendous amount of money - However, in today's world we know it isn't - It wouldn't run state government for 6 months. It wouldn't pay for one major environmental cleanup. In fact it wouldn't even pay the Crow Tribes claim against Montana if they should win their suit. New Mexico had over 1.3 Billion in their trust in 1988 - I don't know how big it is now. And their trust is absolutely inviolate, no invasion is allowed under their state constitution. They are not concerned that it is becoming too large -

In the original argument for establishing

it was felt that whenever a depletable natural resource was removed a certain portion should be set aside as an endowment for future generations. That was a good argument then and it is now. It would be a serious mistake to copy the ~~cost~~ ^{Permanent} Constitutional Coal Tax Trust fund. As was stated, many programs which now exist through the funding and protection of the coal trust ~~fund~~ ^{fund} would suffer. The coal tax trust fund would gradually die because inflation would destroy its viability. No fund which loses a continuing source of revenue can long stay viable.

One of the more damaging factors would be the devastating effect it would have on many of our bonding programs. According to Dorsey & Whitney the amount of coal severance bonds that can be issued is tied to the annual deposits to the coal severance tax bond fund. Certainly ^{we} would not continue to enjoy the high bond rating we have and it is hard to estimate what this would cost our state. But we can be sure plenty.

In a 1988 report to the legislature I found this statement - "With continued nourishment and protection against incursions to satisfy temporary expenditure demands, the permanent trust can be expected to become Montana's premier financial resource."

67
208
report

I believe it has. The Constitutional Coal
Tax Trust Fund has been and will continue
to be of almost incalculable value to the
people of Montana. I would strongly urge
you to protect this precious asset not
only for the good it is doing now but for the
good of generations to come. To say the
Constitutional Trust Fund will destroy it so please
vote no on this legislation.

League of Women Voters of Montana



SENATE TAXATION

DATE February 7, 1995

EXHIBIT NO. 2

BILL NO. SB 273

WRITTEN TESTIMONY PRESENTED BY THE LEAGUE OF WOMEN VOTERS OF MONTANA

Senate Taxation

8:00 a.m., Tuesday, February 7, 1995

Senate Bill 273 by Jenkins

Montanans clearly approved the goals of the Coal Tax Trust and continuing dedicated deposits to the Trust when they approved the Montana Constitution in 1972. The Constitution called for a dedicated 25% deposit for seven years and then increased deposits of 50% from then on. The intent of the article was to increase contributions to the fund and provide a healthy, inviolate endowment for future generations of Montanans. The goal was to compensate future generations for the loss of a nonrenewable resource.

This proposed amendment would undermine the Trust's intent and would also undermine the financial strength of the existing trust fund.

The League of Women Voters of Montana studied the coal severance tax and trust in 1979. The League re-examined it in 1989 and reaffirmed its Position. Protection of the Trust provides for the unknown consequences of resource development, and benefits the state as a whole. Capping the Trust fund would reduce the benefits for future generations. The fund was created for the future.

Income from the fund is a method of preserving revenue from a temporary tax base. While the tax base, coal, is nonrenewable, the revenue from the tax trust can help future generations long after the mineral resource has been exhausted. In order for future generations to benefit, the trust must remain healthy and strong. In order to create and maintain a strong trust, we must continue to allocate tax revenue to it as long as those coal severance taxes continue to flow into our state treasury.

Future generations face long-term unknown consequences of resource development. The current generation of Montanans may feel that the coal tax trust is big enough to grapple with any consequences of resource development, but the writers of this constitutional article knew that all of the consequences could not be predicted, and that their costs could not be calculated. The Trust fund was created to continually grow in order to protect future generations from the unpredictable. We only need to look at our current superfund sites to understand the long-term unpredictable consequences of resource development. Could Montanans in 1895 ever have predicted a superfund site? We do not know what environmental, cultural, and economic consequence the Montanans of 2095 will encounter as a result of coal extraction. The trust may help them address these problems, but it will not serve them if it is frozen at 1997 financial levels.

The League of Women Voters of Montana opposes SB 273 and urges a do not pass recommendation by the committee on this measure. Thankyou.

Chris Imhoff, Legislative Chair LWVMT



Montana State AFL-CIO

Donald R. Judge
Executive Secretary

110 West 13th Street, P.O. Box 1176, Helena, Montana 59624

SENATE TAXATION

DATE February 7, 1995 406-442-1708

EXHIBIT NO. 3

BILL NO. SB 273
February 7, 1995

Sen. Gerry Devlin, Chairman
Committee on Taxation
Montana State Senate
Capitol Station
Helena, Montana 59620

Dear Sen. Devlin:

I was unable to attend the committee's hearing this morning on SB 273, to cap to the Permanent Coal Severance Tax Trust Fund. I would appreciate it if you would enter this letter into the committee's hearing record on SB 273.

The Montana State AFL-CIO has long been a supporter of Montana's coal tax and the constitutionally mandated trust fund. We believe that placing half of the coal tax proceeds into a trust fund recognizes that our mineral resources are non-renewable, and that future generations deserve some part of the bounty we reap from the mining of those non-renewable resources.

We have strongly supported protecting the inviolability of the principal in the Permanent Coal Severance Tax Trust Fund, and in continuing to build that principal by dedicating half the proceeds to the trust fund. We have strongly supported the use of the interest and investment proceeds from the trust fund for education, the arts, local communities impacted by mining, natural resource protection and other good uses.

The delegates to the Montana State AFL-CIO's annual convention considered capping the Permanent Coal Severance Tax Trust Fund a few years ago, and voted to support maintaining the 50 percent dedication to the trust fund. That position has not been changed.

As a result, we do not support SB 273, which would cap the trust fund at whatever balance is on record on Jan. 1, 1997. We believe the state should continue to save half the proceeds of the coal tax for future generations, who eventually won't have any coal left to mine or from which to derive revenue.

Based on current position statements adopted by the Montana State AFL-CIO's convention delegates, we would have to oppose a ballot measure that asks the voters to cap the Permanent Coal Severance Tax Trust Fund.

If you or the committee members have any questions about our position on SB 273, please don't hesitate to contact me.

Thank you.

Don Judge,
Executive Secretary

cc: Senate Taxation Committee members

DATE February 7, 1995

DORSEY & WHITNEY

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

EXHIBIT NO. 40- NO. SB 273 NEW YORK

MINNEAPOLIS
ROCHESTER, MN
BILLINGS
GREAT FALLS
DES MOINES
DENVER

127 EAST FRONT STREET
SUITE 310
MISSOULA, MONTANA 59802
(406) 721-6025
FAX (406) 543-0863

MAE NAN ELLINGSON

WASHINGTON, D. C.
ORANGE COUNTY, CA
FARGO
LONDON
BRUSSELS

February 6, 1995

Mark Simonich, Director
Department of Natural Resources and Conservation
P. O. Box 202301
Helena, MT 59620

RE: SB 273

Dear Mr. Simonich:

Your staff has requested that we review and provide comments on SB 273, which would, as currently drafted, amend the Montana constitution to remove the constitutional requirement that at least fifty percent (50%) of the coal severance tax revenues be dedicated to the coal severance tax trust fund.

As you know, the State has issued several series of bonds that are secured by a pledge of the coal severance tax and this proposed amendment raises the question of a potential impairment of the States's contract with the holders of outstanding coal severance tax bonds.

At the outset, it should be noted that we do not believe that the bondholders have any contractual right to the continued growth of the coal severance tax trust fund. As a matter of substance, the bondholders merely have a first claim on the coal tax revenues as received and a contractual right to have the coal severance tax to be continued until the bonds are paid.

SB 273, as currently drafted, does not in and of itself provide for an alternative disposition of the 50% of the coal severance tax that is currently deposited into the coal severance tax trust fund after the proposed effective date, assuming that SB 273 is approved by the voters. Thus, it seems to us that until the legislature enacts other legislation, the provisions of Montana Code Annotated Section 15-35-108 would still govern the allocation of the coal severance tax receipts and under that provision,

DORSEY & WHITNEY

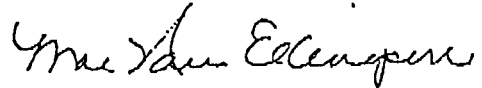
Mark Simonich, Director
Department of Natural Resources and Conservation
February 6, 1995
Page 2

50% of the collections would still be deposited into the trust fund. If SB 273 does obtain the approval of the electors, the Legislature would be free, as a matter of constitutional law, as of January 1, 1997, to amend Section 15-35-108 and it would be at that point that the real concern about impairment of contract would arise. Care would need to be given that not less than one half of the coal severance tax collections were initially deposited into the bond fund for the coal severance tax bonds and also passed through the school loan guaranty fund.

It may be that there will be companion legislation introduced this session to implement SB 273 effective January 1, 1997, in the event that SB 273 is approved by the voters. If that is to be the case, we should watch for that legislation to make sure that it meets with the foregoing requirement and does not impair the state's contract with its bondholders.

Please do not hesitate to call me if there are any questions.

Very truly yours,



Mae Nan Ellingson
Dorsey & Whitney P.L.L.P.

MNE:ma

Dorsey & Whitney P.L.L.P. is a
Professional Limited Liability Partnership

SENATE TAXATION

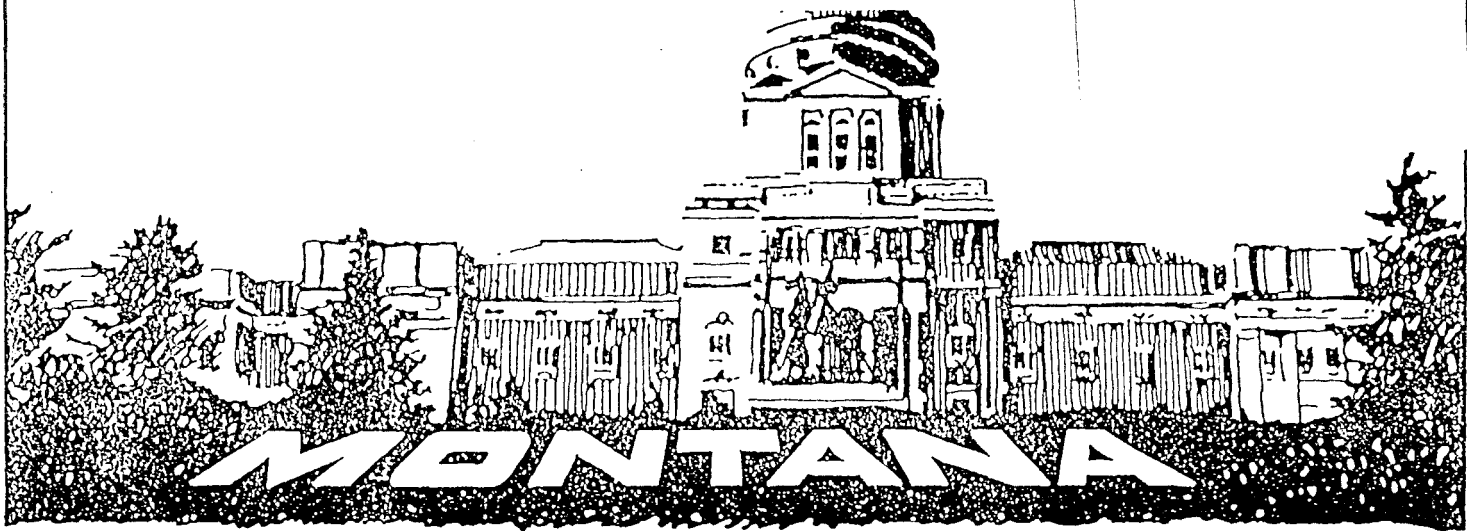
DATE February 7, 1995

EXHIBIT NO. 5

BILL NO. SB 273

BUDGET ANALYSIS 1997 BIENNIUM

VOL. I



OFFICE OF THE
LEGISLATIVE
FISCAL ANALYST

HELENA, MONTANA • JANUARY 1995

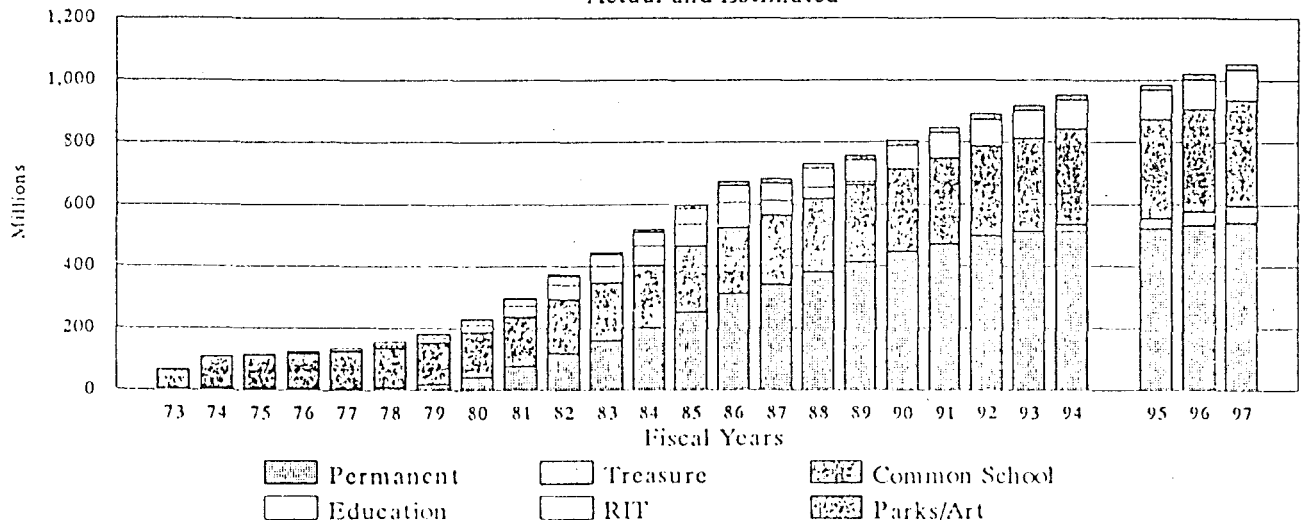


TRUST FUNDS -- BALANCES AND INTEREST EARNINGS

Table 1
Selected Trust Fund Balances
Including Projected Investment Earnings

Fiscal Year	Permanent Coal Tax Trust Fund	Treasure St Endowment Trust Fund	Common School Trust Fund	Education Trust Fund	Resource Indemnity Trust Fund	Parks Acquisition Trust Fund	Arts Protection Trust Fund	Noxious Weed Trust Fund	Total Trust Fund
A 73	\$0	\$0	\$64,223,773	\$0	\$0	\$0	\$0	\$0	\$64,223,773
A 74	0	0	108,998,870	0	1,141,385	0	0	0	110,140,255
A 75	0	0	113,064,188	0	3,287,456	0	0	0	116,351,644
A 76	0	0	117,849,628	2,227,793	5,552,291	278,725	0	0	125,908,437
A 77	0	0	123,281,528	6,039,530	8,232,247	758,308	0	0	138,311,613
A 78	6,268,262	0	129,949,247	8,983,763	10,646,851	1,174,356	0	0	157,022,479
A 79	16,940,538	0	137,716,735	12,339,549	12,574,209	1,475,732	0	0	181,046,763
A 80	39,964,765	0	147,527,943	23,905,146	16,204,531	3,565,371	0	0	231,167,756
A 81	75,187,459	0	163,163,556	33,624,170	21,165,464	5,325,746	0	0	298,466,395
A 82	118,336,314	0	176,467,865	44,338,477	28,328,946	7,480,418	0	0	374,952,020
A 83	158,358,806	0	189,390,417	52,665,410	36,181,889	9,481,542	0	0	446,078,064
A 84	202,936,358	0	201,319,109	60,925,268	42,986,128	11,565,460	0	0	519,732,323
A 85	252,420,524	0	214,764,544	70,500,922	47,396,179	13,859,181	0	0	598,941,350
A 86	309,384,250	0	217,677,906	79,761,708	53,039,675	16,222,131	0	443,184	676,528,854
A 87	339,883,180	0	227,687,073	44,091,429	56,861,627	16,613,608	0	824,550	685,961,467
A 88	381,180,287	0	239,553,633	33,671,110	61,750,961	16,581,042	0	1,070,972	733,808,005
A 89	411,838,993	0	254,128,428	8,651,477	66,665,000	16,608,706	0	1,320,720	759,213,324
A 90	446,511,416	0	268,496,362	0	72,811,618	17,936,701	0	1,688,370	807,444,467
A 91	470,322,655	0	280,326,496	0	77,324,921	18,882,548	0	2,121,973	848,978,593
A 92	496,465,569	0	291,753,603	0	82,489,898	12,588,366	7,051,506	2,584,254	892,933,196
A 93	511,474,640	0	300,782,863	0	86,890,369	12,538,119	6,863,579	2,534,844	921,084,414
A 94	511,754,471	20,520,830	310,735,129	0	89,316,268	12,538,119	7,025,290	2,518,875	954,408,982
Forecasted Fund Balance									
F 95	522,193,813	31,701,156	320,776,949	0	91,779,375	12,538,119	7,308,599	2,500,000	988,798,011
F 96	532,669,644	42,915,167	330,873,476	0	94,047,996	13,106,221	7,592,762	2,500,000	1,023,705,266
F 97	542,547,783	53,504,215	340,942,649	0	96,261,888	13,642,662	7,861,088	2,500,000	1,057,260,285
Forecasted Investment Earnings									
F 95	41,806,569	1,720,541	23,879,598	0	7,764,110	887,866	506,328	240,000	76,805,012
F 96	41,802,757	2,626,972	23,690,516	0	7,760,370	919,492	512,082	240,000	77,552,189
F 97	42,213,236	3,510,824	23,982,113	0	7,881,869	966,020	525,983	240,000	79,320,045

History of Selected Trust Fund Balances
Actual and Estimated



COAL TAX

Flow of Funds for the Coal Tax FY 96-97

Source: Department of Natural Resources and Conservation
Phone #444-6668

Ray Beck, Administrator
Anna Miller, Financial Advisor
John Tubbs, Bureau Chief

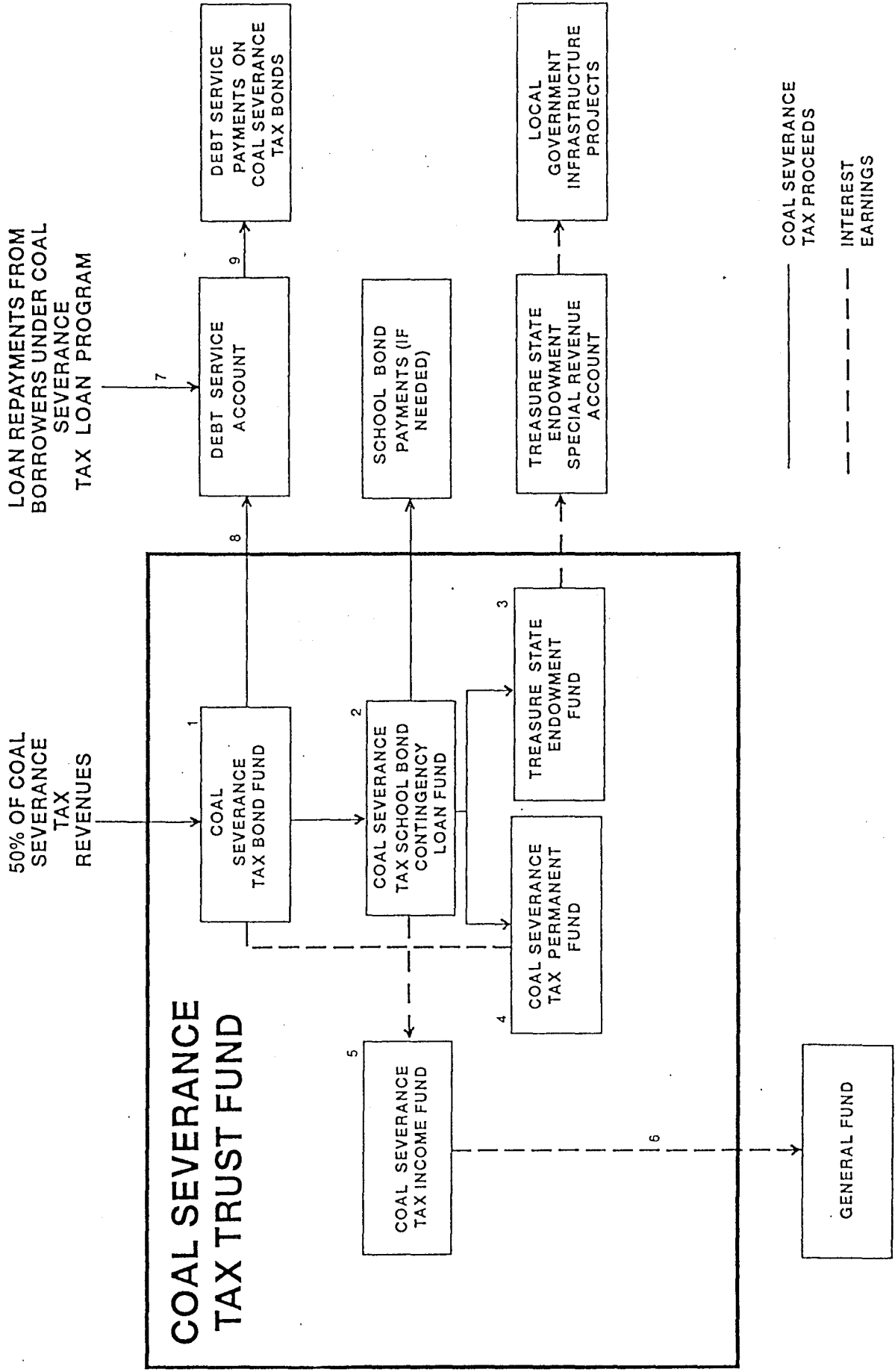
COAL SEVERANCE TAX

(\$86.1 MILLION / FY 96-97 ESTIMATE)

EXHIBIT 5
DATE 2-7-95
SB 273

38%	% of Total	12%	50%
Local Impact.....	6.650%		
Public Schools Equalization.....	11.400%		
County Land Planning.....	0.380%	Highway	
Renewable Resource Bond Fund.....	0.475%	Reconstruction	
Parks Acq. & Management.....	0.000%	Trust	Coal Severance Tax Trust Fund
State Library Commission.....	0.380%	Fund	- Bond Fund
Conservation Districts.....	0.190%	Account	- School Bond Contingency Fund
Renewable Resource			- Treasure State Endowment Fund
Debt Service Fund.....	0.475%		- Permanent Fund
Growth in Agriculture.....	0.760%		
Capitol Art Works/Cultural			
& Aesthetic Projects.....	0.635%		
Historic/Cultural Sites			
within /State Park System.....	1.270%		
GENERAL FUND.....	15.393%	15-35-108 FY88-FY03	Article IX, Sec. 5, Montana Constitution

COAL SEVERANCE TAX TRUST FUND FLOW OF FUNDS SUMMARY



- (1) Within 30 days of the end of each calendar quarter, coal severance taxes are paid to the state, 50 percent of which are deposited in the Coal Severance Tax Trust Funds (the Trust) by the Department of Revenue. Five accounts are established within the Trust: 1) the Coal Severance Tax Bond Fund, 2) the School Bond Contingency Loan Fund, 3) the Treasure State Endowment Fund, 4) the Coal Severance Tax Permanent Fund, and 5) the Coal Severance Tax Income Fund.

Coal tax revenues which flow into the Trust are initially deposited in the Bond Fund and made available for payment of debt service on the Coal Severance Tax Bonds (see footnotes 7, 8, and 9). The Department of Natural Resources and Conservation (DNRC) will inform the Department of Revenue during the first quarter of each state fiscal year, the amount necessary to meet all principal and interest payments on bonds payable from the Coal Severance Tax Bond Fund on the next two ensuing semiannual payment dates. The Department of Revenue will retain that amount in the Coal Severance Tax Bond Fund.

- (2) The January 1992 Special Legislative Session passed an Act creating the Coal Severance Tax School Bond Contingency Loan Fund. A total of \$25 million of School Bonds were authorized to be issued and secured by this fund. For as long as there are any outstanding school district bonds secured by the Contingency Loan Fund, an amount equal to the

next 12 months of principal and interest payments due on any school bonds will be retained in the Contingency Loan Fund. DNRC will give written notice to the Department of Revenue in January of each year of exact amount needed to secure School District Bonds. During the first month of each quarter of the state fiscal year, 50 percent of the amount in the Bond Fund excess of the amount required to be retained therein and the amount needed to be transferred to the Contingency Loan Funds secure outstanding School Bonds, shall be transferred to the Treasure State Endowment Fund by the Department of Revenue. The 1991 Legislature passed an Act creating the Clean Coal Technology Demonstration Fund. However, in the November 1993 Special Session this fund was eliminated by HB 60. Proceeds of the Clean Coal Fund were moved into the Trust.

- (3) The Treasure State Endowment Fund was established when voters approved the measure on the June 2, 1992 ballot. During the first quarter of each state fiscal year, 50 percent of the amount in excess of what is retained in the Bond Fund and transferred to the Contingency Loan Fund, will be deposited in the Endowment Fund. Monthly, interest earnings on amounts on deposit in the Endowment Fund, in an amount necessary to meet the obligations of the state under this program, are transferred to the Treasure State Endowment Special Revenue Account by the Department of Revenue. Interest earnings not transferred to the Revenue

Account are to be retained in the Endowment Fund.

- (4) During the first month of each quarter of the state fiscal year, 50 percent of the amount in excess of what is retained in the Bond Fund and transferred to the Contingency Loan Fund will be transferred to the Coal Severance Tax Permanent Fund. Twenty-five percent of the Coal Severance Tax Permanent Fund is used for the purpose of making investments in Montana. Investments are managed by the Board of Investments.
- (5) Investment income on the monies in the Bond Fund, the Contingency Loan Fund and the Permanent Fund are periodically transferred to the Income Fund. The only exception to this is the Endowment Fund, any interest earnings are either transferred to the Revenue Account or retained in the Endowment Fund.
- (6) In fiscal year 1994 eighty-five percent of the balance in the Income Fund is transferred to the state's General Fund; the remaining 15 percent is transferred to the state's School Foundation Program on a monthly basis. In fiscal year 1995 the entire balance in the Income Fund will be transferred out on a monthly basis to the General Fund.
- (7) Under the Coal Severance Tax Loan Program, the state sells coal severance tax bonds and loans the proceeds to local

government entities for various water projects. The borrowers make semiannual loan payments, which upon receipt are credited to a Debt Service Account. The terms of the loans vary, but generally involve an interest rate subsidy for the first five years of the loan followed by a direct pass-through of interest rate on the Bonds for the remaining life of the loan. The loan program and debt service accounts are administered by the DNRC.

The Act creating the Endowment Fund also expanded the loan authority from strictly water projects and now includes all local government infrastructure projects approved under this Act.

- (8) Debt service payments on the Bonds are due each June 1 and December 1. To the extent funds on hand in the Debt Service Account from loan repayments are insufficient to pay principal and interest on the Bonds when due, funds are transferred to the Debt Service Account from the Bond Fund. On January 1 of each year funds are transferred to the Debt Service Account from the Bond Fund to the extent necessary to cause the balance in the Debt Service Account to equal one-twelfth of the next two ensuing semiannual debt service payment. DNRC provides written notice to the Department of Revenue if funds are needed to pay debt service or to make the required transfer on January 1. On January 1 of each year DNRC also sweeps the Debt Service Account of funds in

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excess of one-twelfth of the next two ensuing semiannual debt service payments. The excess is returned to the Bond Fund in repayment of borrowed money if necessary, or deposited in the Renewable Resources Grant/Loan Special Revenue Account.

- (9) On each June 1 and December 1, the state pays debt service on the Bonds from amounts on hand in the Debt Service Account. Payments are made by DNRC.

DATE February 7, 1995

SENATE COMMITTEE ON Taxation

BILLS BEING HEARD TODAY: SB 235 Senator Miller
SB 273 Senator Jenkins, HB 96

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Check One

Name	Representing	Bill No.	Support	Oppose
Werner Bostelsen	Self	273		✓
Roger STEVENS	Flathead County Firemen	HB 96	✓	
JAMES D. LOFTOS	MT. FIRE DIST ASSN	HB 96	✓	
Bud Schoen	Motor Vehicle Division	HB 96	✓	
Chris Imhoff	League of Women Voters of MT	273		✓
Ted Lange	NPRC	273		✓
Bob Gilbert	MT. Volunteer Fire Fighters Assn.	96	✓	
Gloria Hermannson	MT Cultural Assoc.	273		✓
Mick Robinson	DOR	235	✓	
Jim Jensen	MEIC	273		X

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY