



Impact of Restoring Coal Severance Tax Flow to Treasure State  
Endowment Trust

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## Introduction

The Treasure State Endowment Program (TSEP) supports grants of up to \$750,000 for local infrastructure projects for improvements in water, waste water, solid waste systems, and bridges. Coal severance tax (CST) revenues were deposited to the TSEP trust from July 1, 1992 to June 30, 2016 when the deposits were terminated (17-05-1702, MCA). Without additional revenue flowing into the TSEP trust, the amount of funding available for local infrastructure grants will be dependent on interest earnings, which will fluctuate depending on changes in interest rates. If the trust received additional funds, each \$1 million in new deposits would provide about \$13,000 annually in additional grant funds if short-term interest rates remain constant. If \$1.0 million were deposited to the trust each year for the next 10 years, about

\$1.7 million would be available for grants at the end of ten years (cumulative amount).

Figure 1

Treasure State Endowment Trust Tax Flow, Interest Earnings, & Balance			
State Fiscal Year	TSEP Tax Receipts	TSEP Interest Earnings	TSEP Trust Balance *
2000	\$12,189,836	\$5,123,375	\$81,347,120
2001	10,733,368	5,801,525	92,182,012
2002	11,646,533	6,804,839	105,383,384
2003	10,597,412	7,175,069	120,337,392
2004	6,672,343	8,073,637	128,083,372
2005	8,803,360	8,282,519	138,169,251
2006	9,393,267	7,941,183	148,003,700
2007	11,033,698	9,162,338	162,199,736
2008	11,302,963	9,147,557	173,150,257
2009	12,554,451	8,434,685	178,639,393
2010	11,481,642	8,929,106	189,550,141
2011	13,505,053	9,407,172	208,462,366
2012	13,756,877	9,859,245	226,078,488
2013	14,845,768	9,443,419	240,797,674
2014	14,318,248	9,352,741	254,371,024
2015	15,450,313	9,653,694	264,697,479
2016	13,840,146	9,765,655	287,962,002

Source: Statewide Accounting, Budgeting, and Human Resource System  
\* Excludes Annual Appreciation/Depreciation Amounts

## Treasure State Endowment Program – Impact of Capping the TSEP Trust

Figure 1 shows CST receipts, interest earnings, and fund balance for the TSEP<sup>1</sup> trust fund since state fiscal year (SFY) 2000.<sup>2</sup> The tax flow to the fund has fluctuated over time due to coal sector economic conditions and changes in the allocation of the tax to the trust. Investment earnings have also fluctuated as both short-term and long-term interest rates have varied due to national and world economic cycles.

The fund balance in the TSEP trust was \$288.0 million as of June 30, 2016. As noted earlier, CST flow to the trust was terminated on June 30, 2016. Without annual increases, the corpus of the trust will remain at \$288.0 million into the future barring any investment losses.

Figure 2 shows the annual and cumulative investment earnings from the TSEP trust if \$1.0 million per year of funds were to be deposited to

the TSEP trust for the next ten years. If this allocation were to continue into the future, the amount of interest earnings would be higher over time when measured from SFY 2016. This is because the trust corpus would continue to increase by an amount dependent on coal production and prices. It also assumed that the additional earnings would be distributed as TSEP grants each year and would not be redeposited to the trust.

Figure 2



Figure 2 is a hypothetical example designed to easily calculate the impact on TSEP interest earnings based on various increases to the TSEP corpus. For example, if the flow of tax to the trust were \$14.0 million a year, then each number in Figure 2 could be multiplied by 14 to determine the financial impact on the investment earnings from the TSEP trust. Over a 10 year period, TSEP trust earnings would be \$23.1 million higher if the \$14.0 million flow from the CST were to continue versus the sunset provision under current law. This model is based on interest rates remaining at SFY 2016 levels (3.8%) and the additional CST collections remaining constant for each of the next 10 years.

## Summary

The 2013 Legislature discontinued CST allocations to the TSEP trust fund at the end of SFY 2016. The amount of revenue available to fund future local government infrastructure grants from TSEP will be dependent on changes in interest earnings on a current trust corpus of \$288.0 million. Previous to this change, the TSEP trust received between \$9.4 million to \$15.5 million per year in CST revenues over the last 20 state fiscal years. If deposits to TSEP were to be reinstated, each \$1.0 million in additional revenue into the trust would produce \$13,000 in interest annually that could be used for TSEP grants assuming short-term interest rates remain unchanged. If \$1.0 million in deposits to the trust were to continue for each of the next ten years, the trust would produce a cumulative amount of \$1.7 million in new interest earnings that could be used for infrastructure grants.

The sunset provision of the coal tax flow to the TSEP trust had the effect of redirecting those revenues to the permanent fund. Investment earnings from the permanent fund are deposited to the general fund. If the flow to the permanent fund was reduced, there would be a direct impact to general fund revenue receipts.

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<sup>1</sup> As part of a background document on critical local government infrastructure needs, there is a complete section in the document on the TSEP. Please see “Overview of Critical Local Government Infrastructure Needs”, 11/9/2016 pages 5-8.

<sup>2</sup> The TSEP program has been in existence since 1995 but financial information is not available prior to SFY 2000.