



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: SB0152: Constitutional amendment to revise investment restrictions of coal trust fund

Primary Sponsor: Dave Fern Status: As Introduced

Included in the Executive Budget Needs to be included in HB 2 Significant Local Gov Impact

Significant Long-Term Impacts Technical Concerns Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
Expenditures				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
Revenues				
General Fund (01)	\$0	(\$2,209,000)	(\$4,427,000)	(\$4,218,000)
State Special Revenue (02)	\$0	(\$3,604,000)	(\$7,223,000)	(\$6,883,000)
Net Impact	<u>\$0</u>	<u>(\$2,209,000)</u>	<u>(\$4,427,000)</u>	<u>(\$4,218,000)</u>
General Fund Balance				

Description of fiscal impact

SB 152 would submit, on the November 2026 general election ballot, to the qualified electors of the State of Montana a constitutional amendment to authorize the Coal Severance Tax Trust Fund to invest up to 25% in "private corporate capital stock". The implementation of this investment strategy by the Montana Board of Investments will negatively impact the amount of income generated by the Coal Severance Tax Trust Fund.

FISCAL ANALYSIS

Assumptions

Department of Commerce

- The Board of Investments is constitutionally required to invest the funds under the prudent expert rule pursuant to Article VIII, Section 13 of the state constitution.
- The Coal Severance Tax Trust Fund (trust) balance on 12/31/2024 was \$1,316,230,681.
- The trust is invested in three primary areas: the Trust Fund Investment Pool (TFIP), separate loans, and the Short-Term Investment Pool (STIP).
- The current yield on the TFIP is 4.95%, the separate loans current yield is 2.92%, and the STIP current yield is 4.54%. The aggregate current yield on the trust is 4.23% as of 12/31/2024.
- The TFIP consists of investment grade fixed income, non-core fixed income, real estate, and real assets.
- The separate loans consist of legislatively mandated loan programs, most of which have statutory yields below TFIP market rates. The outstanding balance is \$235,612,285. The loan programs are:
 - BOI Loans Programs
 - Montana Facility Finance Authority (yield of 3.36%)
 - Board of Housing Loan Programs

7. The STIP consists of short-term investment grade fixed income.
8. The trust receives 50% of the revenue generated by Montana’s coal severance tax.
9. There are many sub-trusts within the trust that generate income for the benefit of various state special revenue accounts: the Montana Coal Endowment Fund, the Coal Endowment Regional Water Fund, the Big Sky Economic Development Fund, the School Facilities Fund, and the Conservation District Fund.
10. The Coal Severance Tax Permanent Fund sub-trust earns income for the general fund.
11. Approximately 38% of trust income is distributed to the general fund while the remainder is distributed to state special revenue accounts.
12. SB 152 will be submitted to the electorate for consideration on the November 2026 ballot. If the qualified electors of Montana approve SB 152, the Montana Board of Investments (BOI) will begin implementing the provisions of the bill in January 2027, or the third quarter of FY 2027.
13. The balance of the trust on 12/31/2026 is projected to be \$1,375.99 million.
14. Beginning in the third quarter of FY 2027 and thereafter 25% of the trust will be invested in private corporate capital stock and 75% will be invested as normal (TFIP, loans, STIP).
15. Half of the revenue from coal severance tax flows into the trust. HJ 2 projections are used for this amount during the forecast period.
16. The total balance of the trust will grow by the amount of coal severance tax received and the assumed growth in the value of the equity investment. BOI assumes an 8% compounded annual rate of return for the equity holdings.
17. Income will be generated by the yield on fixed income investments and dividend distributions from the equity investments.
18. The current S&P 500 dividend distribution is 1.29%. This rate is used for the entire forecast period. The annual fixed income yields are 4.73% in FY 2027, 4.93% in FY 2028, and 5.05% in FY 2029.
19. Income generated by the trust under SB 152 is lower during the forecast period than current law projections because the reallocation of assets results in a lower overall yield for the trust. The total trust balance is higher under SB 152 with the new growth provided by the assumed rise in equity valuations over the forecast period. This growth in total balance, however, is not enough to overcome the overall lower yield.
20. Total income is projected to decline by \$5.81 million in FY 2027, \$11.65 million in FY 2028, and \$11.10 million in FY 2029.
21. General fund losses (38% of total) will be \$2.21 million in FY 2027, \$4.43 million in FY 2028, and \$4.22 million in FY 2029.
22. State special revenue fund losses (62% of total) will be \$3.60 million in FY 2027, \$7.22 million in FY 2028, and \$6.88 million in FY 2029.

Fiscal Impact of SB 152									
Fiscal Year	Current Law			Proposed Law			Fiscal Impact		
	Average Trust Balance	Overall Yield	Trust Income	Average Trust Balance	Overall Yield	Trust Income	Total Trust Income	General Fund	State Special Revenue
2027	\$1,382.92	4.73%	\$32.71	\$1,389.85	3.87%	\$26.89	-\$5.81	-\$2.21	-\$3.60
2028	\$1,403.19	4.93%	\$69.18	\$1,431.32	4.02%	\$57.53	-\$11.65	-\$4.43	-\$7.22
2029	\$1,428.70	5.05%	\$72.15	\$1,485.98	4.11%	\$61.05	-\$11.10	-\$4.22	-\$6.88

Fiscal Analysis Table

	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>	<u>FY 2028</u> <u>Difference</u>	<u>FY 2029</u> <u>Difference</u>
<u>Fiscal Impact</u>				
<u>Expenditures</u>				
<u>Funding of Expenditures</u>				
<u>Revenues</u>				
General Fund (01)	\$0	(\$2,209,000)	(\$4,427,000)	(\$4,218,000)
State Special Revenue (02)	\$0	(\$3,604,000)	(\$7,223,000)	(\$6,883,000)
TOTAL Revenues	\$0	(\$5,813,000)	(\$11,650,000)	(\$11,101,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	\$0	(\$2,209,000)	(\$4,427,000)	(\$4,218,000)
State Special Revenue (02)	\$0	(\$3,604,000)	(\$7,223,000)	(\$6,883,000)

Significant Long-Term Impacts

1. The income funds associated with the various sub-trusts within the Coal Severance Tax Trust Fund will receive fewer distributions while TFIP shares of the trust are sold and used to purchase "private corporate capital stock." Given a S&P 500 dividend yield of 1.29%, assumed growth rates in coal severance tax collections, and an 8% compounding return on the S&P 500, the trust would yield a projected -\$77.36 million through FY 2038 versus current law projections. Total trust income under SB 152 outperforms current law income projections for the first time in FY 2039.
2. A regular 8% compounding return on investments is used for the equity investments in this analysis. If in any year the losses of any new "private corporate capital stock" exceeded the distributions from the remaining TFIP, STIP, and separate loans investments, no distributions would be made to any of the sub-trust income funds.
3. Further, if in any year the gains of any new "private corporate capital stock" asset value were higher than the 8% assumed compounding return, no additional distributions would be made unless they were given by the individual companies within the S&P 500 through dividends.

Technical Concerns

1. The inclusion of "private corporate capital stock" creates an asset/liability mismatch for the trust. The state special revenue income funds rely on steady, low volatility income streams to fulfill their purposes of grants or appropriations to the beneficiaries of the funds. "Private corporate capital stock" is a highly volatile investment which has significant fluctuations in asset value and distributions.
2. To the extent "private corporate capital stock" is used to grow asset value, it does not necessarily improve distributions. To the contrary, distributions will shrink as the current TFIP portfolio is unwound to fund "private corporate capital stock" purchases instead.
3. The current portfolio uses TFIP and STIP to meet capital requirements of the separate loan portfolio, real estate and real assets capital calls, and to maximize distributions. A new equity portfolio could be sold, depending on market conditions, to minimize losses while meeting these other obligations.
4. The fiscal note does not contemplate market volatility or transactional costs to purchase public equities versus the current internally managed fixed income portfolio. All could have significant implications on the overall performance of a newly created public equity portfolio.

NO SPONSOR SIGNATURE

Sponsor's Initials

Date

1/24/25

Budget Director's Initials



1/23/2025

Date