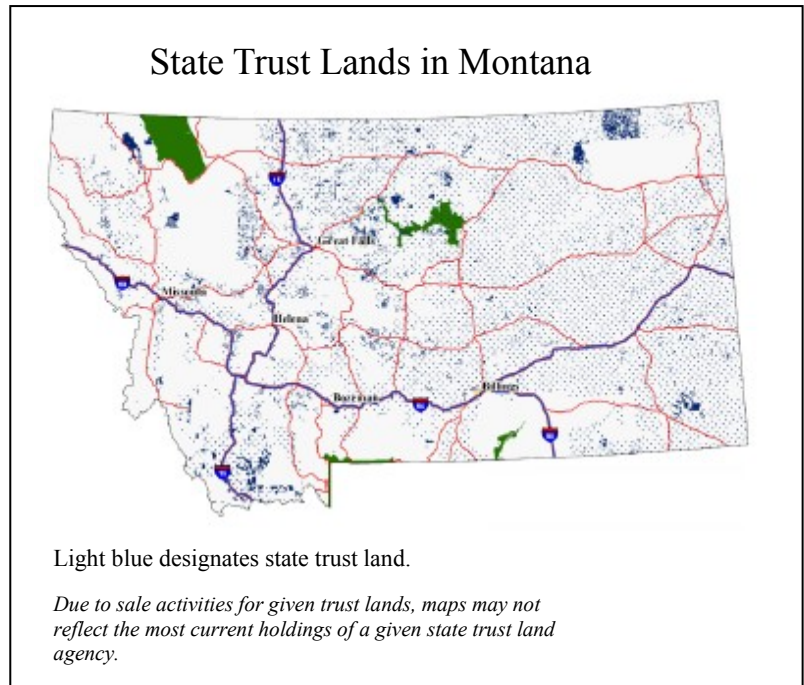


Montana Trust Lands & Education Funding

As new states entered the union, Congress made land grants to those states to provide support for a variety of public institutions, principally public schools. These lands were accepted through ratification of state constitutions that contained provisions guiding the state's management of these lands. Unlike public lands, state trust lands are held in trust by the state for designated beneficiaries. As trustees, state land managers have a fiduciary duty to manage the lands for the benefit of the beneficiaries of the trust grant. They lease and sell these lands for a diverse range of uses to meet that responsibility – generating revenue for the designated beneficiaries, today and for future generations.

There are approximately 5 million surface acres and 6.2 million mineral acres of trust land in Montana.¹ Surface acres include land that is managed for agriculture, grazing, timber and commercial uses. The mineral acres include underground areas that contain deposits of oil, gas, coal and other minerals.² Most of the trust lands in Montana are scattered throughout the state in a checkerboard pattern, with only a few consolidated parcels.



Map: Sonoran Institute



Photo: Montana Department of Natural Resources and Conservation

How are trust lands in Montana managed?

Trust lands in Montana are managed by the Montana Trust Land Management Division (TLMD) of the Department of Natural Resources and Conservation (DNRC). The TLMD operates with direction from the State Legislature and a Board of Land Commissioners composed of Montana's top five elected officials: the Governor, the Secretary of State, the Attorney General, the State Auditor and the Superintendent of Public Instruction.³ The Montana Code requires that the Board of Land Commissioners manage the land in order to "secure the largest measure of legitimate and reasonable advantage to the state" and "provide for the long-term financial support of education."⁴ The Board sets policy and must approve permanent disposal of land and transactions over \$50,000.⁵ The Director of the DNRC is chosen by and serves at the pleasure of the

Governor.⁶ The Administrator of the TLMD is hired by the Director and is the executive of the TLMD.⁷

The TLMD is responsible for the management, lease and sale of state trust lands. Their mission is to "manage the State of Montana's trust land resources to produce revenue for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land."⁸

Who are the beneficiaries of trust lands in Montana?

Revenues generated from Montana's trust lands are deposited into 10 separate trust funds that support nine beneficiary groups. A specific acreage of trust lands belongs to each beneficiary, and the revenue generated from those lands is deposited into the corresponding fund.

Public schools are the designee of almost 90% of the trust land in Montana and receive the majority of the revenue generated by state trust land in the state.

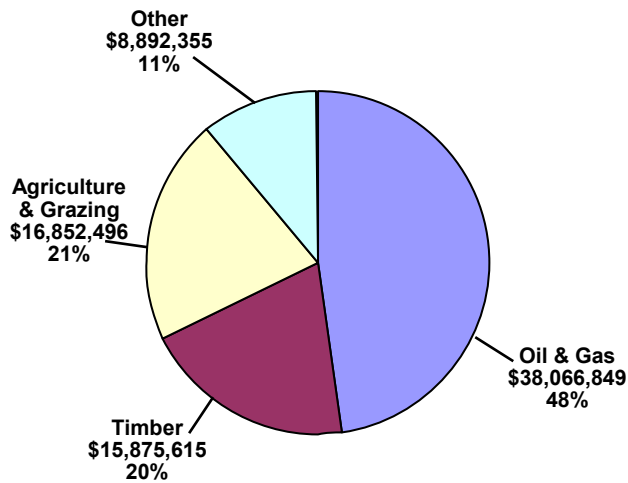
Montana Trust Land Beneficiary Funds and Acreage Dedicated to Each⁹

Fund	Beneficiary	Surface Acres in Fund	% Acres
Common School	Public Schools (K-12)	4,622,195	89.8%
University of Montana	University of Montana	17,973	0.4%
Montana State University - Morrill	Montana State University	63,456	1.2%
Montana State University – 2nd Grant	Montana State University	31,424	0.6%
Montana Tech of the University of Montana	Montana Tech	59,440	1.2%
State Normal School	MSU - Billings and Western MT college	63,455	1.2%
School for the Deaf and Blind	School for the Deaf and Blind	36,461	0.7%
State Reform School	Pine Hills Youth Correctional Center	67,855	1.3%
Veterans Home	Veterans Home	1,276	0.0%
Public Buildings	Public Buildings	186,991	3.6%
	TOTAL	5,150,526	100%



Photo: Montana Department of Natural Resources

How are revenues generated from trust lands?



Revenue Streams from Montana Trust Lands
for All Beneficiaries Combined, FY2006¹⁰

Montana trust land managers generate revenue from these lands in a number of ways, including oil, gas and mineral extraction, timber sales, grazing leases and agricultural uses.

For FY 2006, the three largest sources of gross revenue for the trust funds managed by Montana TLMD were oil and gas royalties, rentals and bonus payments; timber sales; and agricultural and grazing leases.¹¹ However, over the prior ten years agricultural and grazing leases have generated the majority of the income.

How does the revenue get to the beneficiaries?

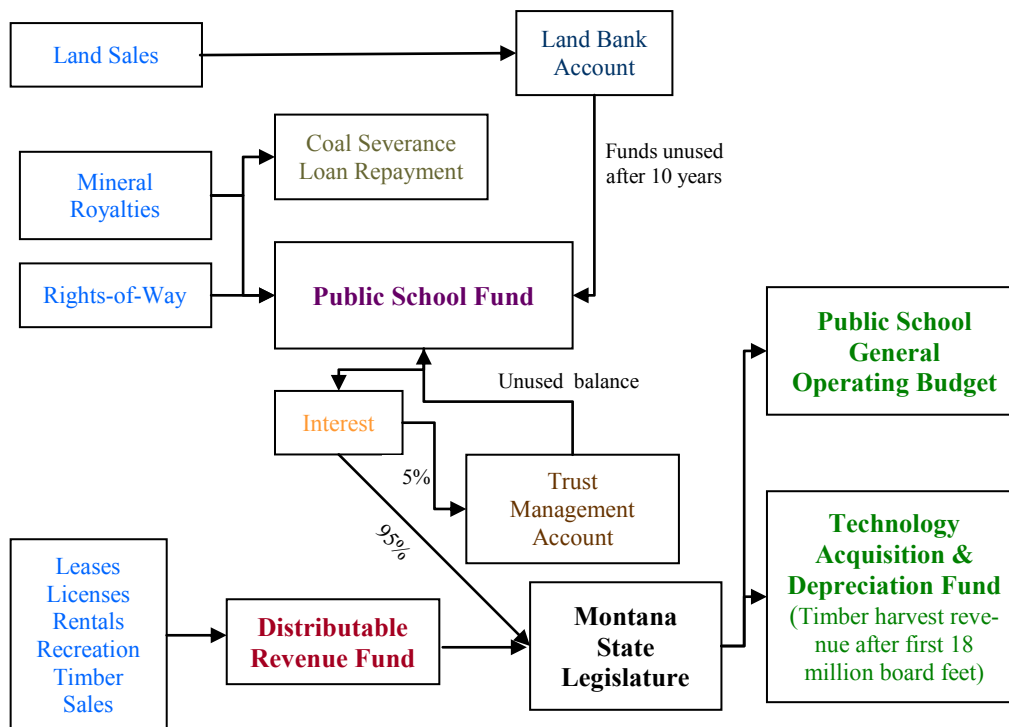
Each year, revenues generated from trust land uses are deposited into the given beneficiary's Permanent Fund or are distributed on an annual basis to the trust beneficiaries. Permanent Funds receive revenues from permanent asset dispositions, such as land sales, rights-of-way and mineral royalties. Revenues from timber sales (for public school beneficiaries only), leases and licenses, rentals, and recreational use are considered distributable revenue for the beneficiaries. Proceeds from trust land sales are deposited into a Land Bank Account where they can be used to purchase replacement land. If Land Bank Account funds are not used within ten years, they are transferred to the Permanent Fund for the given beneficiary. In FY 2006, Montana trust lands generated approximately \$80 million in net revenues including interest for the combined trust beneficiaries. The Common School Trust received \$65 million in net revenues, with \$4.6 million for the Technology Acquisition & Depreciation Fund and \$3.4 million deposited to the Public School Fund (Permanent Fund).¹² The estimated asset value of the lands in the Common Schools Trust in FY 2006 is \$3.9 billion.

Permanent Funds are managed and invested by the Montana Board of Investments, whose members are appointed by the Governor.¹³ The Board invests all the permanent funds as a single pool and then divides the interest income according to the trusts' initial contribution to the investment. The Montana Public School Fund was \$397 million in FY 2006.¹⁴ The Montana Constitution directs ninety-five percent of the interest from the Public School Fund to be distributed to the schools each year, in addition to 95% of the distributable revenues generated during the year. These funds are appropriated by the Montana State Legislature for the public schools' general operating budget. The remaining 5%, minus TLMD operating expenses, is credited to the Public School Fund.¹⁵ Funds for all other beneficiaries are made available for appropriation and distribution.

As a note, in FY 2002 the State Legislature borrowed \$46.4 million from the coal severance tax trust and deposited it into the Public School Fund in lieu of \$138.9 million in future mineral royalties. Since FY 2002, a portion of the mineral royalties generated from the Common School Trust have gone to repay this loan.¹⁶

Although the trust revenues appropriated to the public schools are directed to the schools' general operating budgets, revenue from timber harvests from common school trust lands, excluding the value of the first eighteen million board-feet, is directed to the Technology Acquisition and Depreciation Fund.¹⁷ This Fund is used for the purchase, rental or repair of technological equipment for public schools.¹⁸

Public School Funding Chart¹⁹



Public schools in Montana receive funding from a combination of federal, state and local funds. In FY2003, state funding provided nearly half, or 45.6%, of total education funding, and of the state's portion, trust land revenues made up approximately 7.8% of that amount.

FY 2003 Public School Funding Source Diagram²⁰

Local and Intermediate Funds

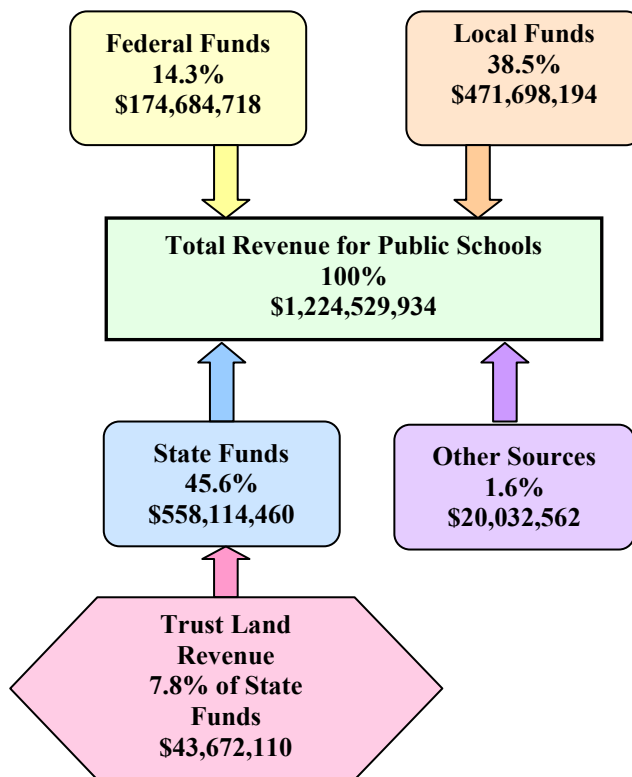




Photo: Montana Department of Natural Resources and Conservation

In FY 2006, over \$73 million was distributed to the public schools from the management of the Common School Trust.²¹ The contribution to public school funding, by percentage has also increased to 10.8% of state funding for public schools. Trust land revenues play a significant role in the funding of public schools in Montana. Though much of this distribution is combined with and may supplant general fund revenue, the portion of revenue that is distributed directly to the Technology Acquisition and Depreciation Fund allows schools to address pressing technology needs as the Office of Public Instruction deems necessary.

Sources:

- ¹ Montana Trust Land Management Division webpage <http://www.dnrc.state.mt.us/trust/tlmdhome.htm>.
- ² Tom Schultz, Administrator, Montana Trust Land Management Division, Personal Communication, 2005.
- ³ Constitution of the State of Montana Article X § 4.
- ⁴ Montana Code Annotated § 77-1-202.
- ⁵ Tom Schultz, Administrator, Montana Trust Land Management Division, Personal Communication, 2005.
- ⁶ Montana Code Annotated § 2-15-3301.
- ⁷ Montana Code Annotated § 2-15-111.
- ⁸ Montana Trust Land Management Division webpage <http://www.dnrc.state.mt.us/trust/tlmdhome.htm>.
- ⁹ Montana Trust Land Management Division webpage, Land Banking, available at http://www.dnrc.state.mt.us/trust/Land_Banking/default.htm.
- ¹⁰ Montana DNRC FY2006 Annual Report.
- ¹¹ Ibid.
- ¹² Ibid.
- ¹³ Montana Code Annotated §§ 52-7-105 and 77-1-202.
- ¹⁴ Montana DNRC FY2006 Annual Report.
- ¹⁵ Montana Code Annotated § 20-9-341.
- ¹⁶ Montana Trust Land Management Division, Annual Report for FY 2005, page 17.
- ¹⁷ Montana Code Annotated § 20-9-343.
- ¹⁸ Montana Code Annotated § 20-9-533.
- ¹⁹ Generated from information contained in Montana DNRC FY2006 Annual Report, Constitution and Statutes.
- ²⁰ FY 2003 data from National Center for Education Statistics (NCES) with the exception of the Trust Land Revenue data which comes from the Montana DNRC Annual Report Fiscal Year 2003. The "State Funds" category includes state general funds and other state sources. The "Other Sources" category is defined as "Revenue from bond principal and premiums, sale of school property, or compensation from loss of fixed assets. NCES Database, Glossary, <http://nces.ed.gov/ccd/bat/Glossary.Asp?letter=O>.
- ²¹ Montana DNRC FY2006 Annual Report.

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