

State of Montana

Department of Natural Resources and Conservation

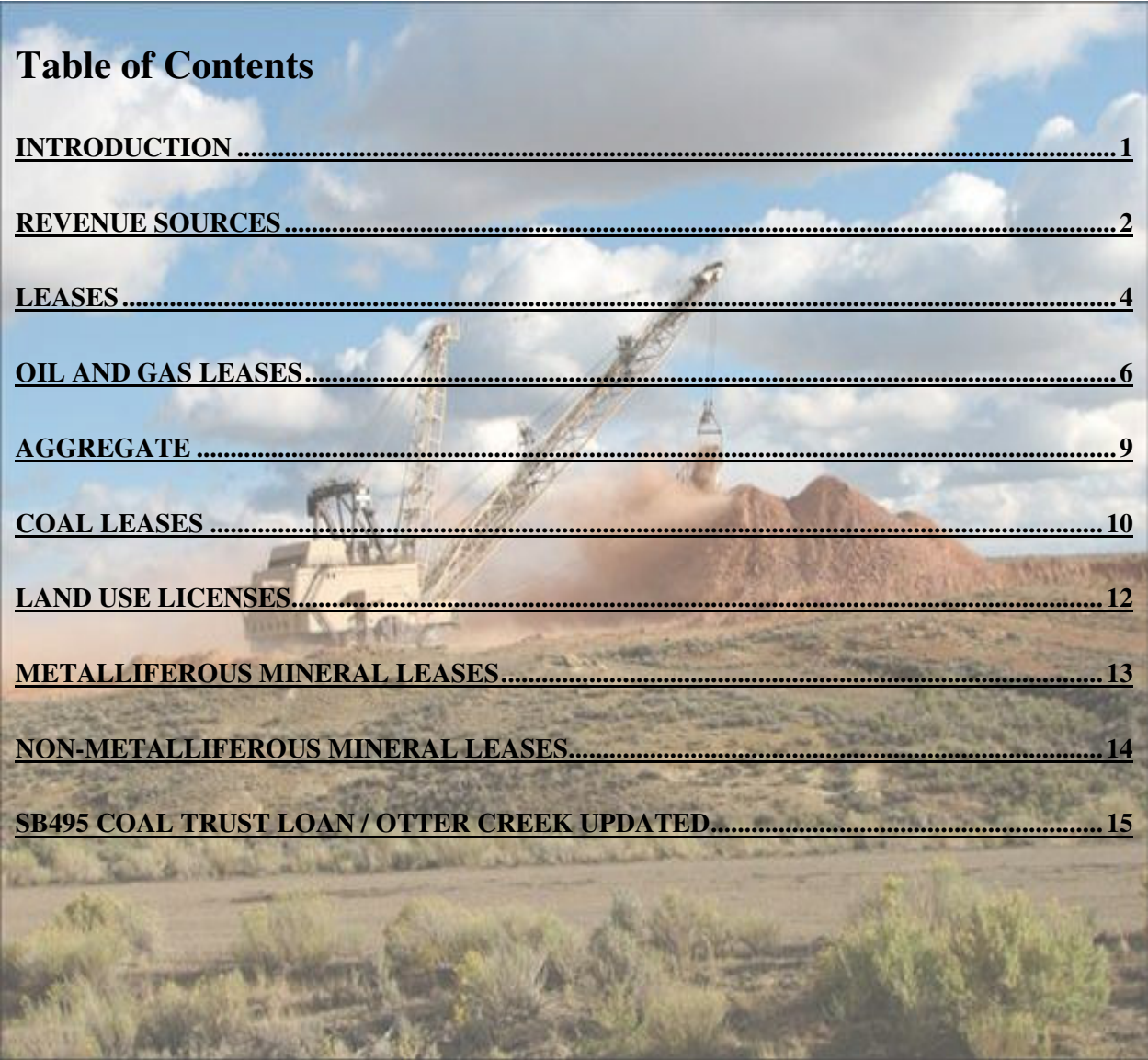
Trust Land Management Division

MINERALS MANAGEMENT BUREAU



Fiscal Year 2009 Annual Report

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INTRODUCTION

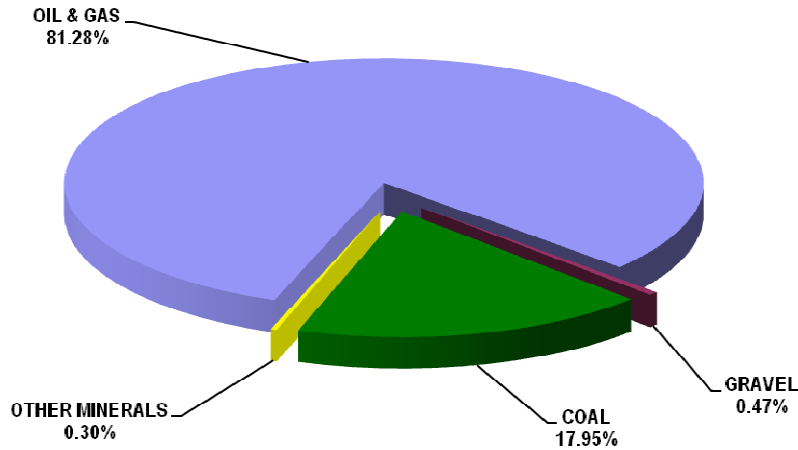
This report was prepared by the Minerals Management Bureau (MMB) within the Trust Land Management Division and contains information gathered by the Bureau regarding State of Montana mineral leases. The report provides production and revenue information for each lease type managed by the Bureau. Within each lease type, there are reports providing income by county, area office, and grant. Revenue and pricing information was compiled using the cash basis method of accounting. Oil & gas production information

was compiled using information reported on DNRC Form 5's for each royalty month. Royalty payments received during the fiscal year include some payments for prior year production.

The report was prepared by Stefanie Noble. For questions or additional information contained in this report, contact Julie David by telephone at (406) 444-4576 or e-mail at j david@mt.gov.

REVENUE SOURCES

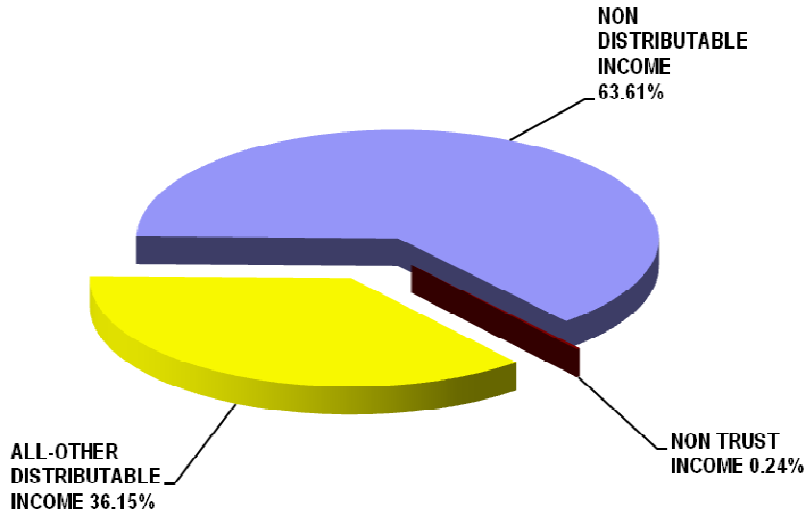
TOTAL REVENUE BY MINERAL TYPE Fiscal Year 2009



<i>Mineral Type & Revenue Source</i>		<i>FY2008</i>	<i>FY2009</i>	<i>% Change from FY08</i>
OIL & GAS-	Rentals/Bonuses/Penalties	\$5,895,042	\$15,596,644	164.57%
	Royalties **	\$25,240,047	\$19,949,394	-20.96%
	Surface Damages	\$141,960	\$152,313	7.29%
	Seismic	\$9,976	\$8,216	-17.64%
	Total	\$31,287,025	\$35,706,567	14.13%
GRAVEL -	Rentals	\$100	\$100	0.00%
	Royalties	\$174,196	\$206,962	18.81%
	Total	\$174,296	\$207,062	18.80%
COAL -	Rentals/Bonuses	\$41,524	\$41,524	0.00%
	Royalties	\$5,865,071	\$7,840,866	33.69%
	Total	\$5,906,595	\$7,882,390	33.45%
OTHER MINERALS -				
LAND USE LICENSE				
	Rentals/Penalties	\$45,573	\$28,490	-37.48%
	Royalties	\$2,168	\$3,547	63.61%
	Total	\$47,741	\$32,037	-32.89%
METALLIFEROUS MINERALS				
	Rentals/Bonuses/Penalties	\$12,443	\$10,205	-17.99%
	Royalties	\$1,512	\$780	-48.41%
	Total	\$13,955	\$10,985	-21.28%
NON-METALLIFEROUS MINERALS				
	Rentals/Penalties	\$23,199	\$12,476	-46.22%
	Royalties	\$1,000	\$77,537	7653.70%
	Total	\$24,199	\$90,013	271.97%
GRAND TOTAL		\$37,453,811	\$43,929,054	17.29%

** Includes interest and shut-in payments

TOTAL REVENUE BY SOURCE
Fiscal Year 2009



GROSS REVENUE FOR SCHOOL TRUST BENEFICIARIES

\$43,821,465

<i>GROSS NON-DISTRIBUTABLE INCOME</i>		<i>GROSS DISTRIBUTABLE INCOME</i>	
* \$27,941,082	63.76%	\$15,880,383	36.24%
TRUST LAND REVENUE (by Trust)			
Common Schools	\$43,251,196	State Normal School	\$34,011
University of Montana	14,662	School for Deaf and Blind	20,257
M.S.U. Morrill	253,103	State Industrial School	49,752
M.S.U. 2nd Grant	17,287	Public Buildings	104,366
School of Mines	75,931	Veterans Home	900
		Total Trust Grants:	\$43,821,465
NON-TRUST LAND REVENUE **			
Agricultural Experiment Station			\$40,623
Department of Fish, Wildlife & Parks			\$633
Department of Transportation			\$7,732
Department of Public Health and Human Services			124
DNRC – Water Resources Division			58,477
		Total Non-Trust Grants:	\$107,589
TOTAL REVENUE			\$43,929,054

* \$27,941,082 GROSS NON-DISTRIBUTABLE INCOME
 (\$23,471,425) PORTION OF COMMON SCHOOLS MINERAL ROYALTIES DEPOSITED INTO SCHOOL FACILITIES AND TECHNOLOGY FUND
 (\$4,401,029) PORTION OF COMMON SCHOOLS MINERAL ROYALTIES DEPOSITED INTO TRUST ADMINISTRATION ACCOUNT
 \$68,628 NET NON-DISTRIBUTABLE INCOME DEPOSITED INTO PERMANENT TRUST FUND

** Non-Trust Land income consists of revenue the Department of Natural Resources and Conservation collects as an administrator for various entities. These funds are distributed to the entity upon collection.

LEASES

Oil & Gas Leasing: In FY09, overall leasing increased by 4% from FY08, with oil and gas leases accounting for the majority of that gain. Oil prices increased to historic highs during the last half of FY08 and continued through the first quarter of FY09, contributing to higher bidding and overall interest on tracts at the September 9, 2008 quarterly lease sale.

Oil and gas leasing alone accounts for over 2.0 million acres, or 96.6% of all acreage leased for minerals.

Hard Rock - Industrial Leasing: The total number of metalliferous and non-metalliferous leases decreased from 23 in FY08 to 19 in FY09. However, the number of producing leases increased from one to two, with both a metalliferous and a non-metalliferous lease producing.

Gravel Permits: Overall permit counts increased for the first time since FY06, going from 48 to 50. Total acreage assigned to those leases also increased by nearly 8%. However, the number of producing permits decreased from 27 in FY08 to 26 in FY09.

Coal Leasing: The total number of leases as well as the total acreage leased has remained constant since FY06. Producing leases decreased from four in FY08 to three in FY09, but due to an increase in

price and production, total coal revenue increased by nearly 34%.

Summary:

Lease acreage for minerals use exceeded 2 million acres on state trust lands for a second consecutive year. Of the over 2 million acres leased, producing leases hold 11.1% of that acreage.

Land Use Licenses have more than doubled since FY04, however the acreage assigned to those leases has fallen by 43% during that same timeframe.

Small Volume Permits and Permits to Test for Aggregate are not included in the table below. During FY09, DNRC field offices issued 18 small volume permits and 2 test permits.

MMB Activities: Activities related to existing leases include collecting royalty and rental payments, auditing, review of all proposed leases, reviewing and approving assignments and tracking working interest ownership, reviewing and preparing for approval of communitization agreements and unit operating agreements, and coordinating with field offices the environmental review and approval of all proposed physical operations on state leases.

Type of Lease	No. of Leases	% Change from FY08	Acreage Leased	% Change from FY08	Producing Leases	% Change from FY08	Producing Acreage	% Change from FY08
Coal Leases	29	0.0%	13,841	0.0%	3	-25.0%	830	-51.5%
Gravel Permits	50	4.2%	2,174	7.7%	26	-3.7%	846	-52.7%
Land Use Licenses	32	23.1%	9,923	60.7%	2	0.0%	960	0.0%
Metalliferous Leases	10	-28.6%	3,214	-14.4%	1	0.0%	92	0.0%
Non-Metalliferous Leases	9	0.0%	3,943	0.0%	1	n/a	878	n/a
Seismic Permits	14	-22.2%	29,346	-21.3%	0	0.0%	0	0.0%
Gas Storage Agreements	5	0.0%	8,617	0.0%	0	0.0%	0	0.0%
Oil and Gas Leases	4,841	4.0%	2,022,403	4.4%	617	1.8%	228,497	1.7%
Total Leases	4,990	3.92%			650	1.56%		
Total Acres			2,093,461	3.97%			232,103	1.21%

Lease Types:

Gravel Permits - Includes permits that produced during the fiscal year. Does not include advance royalties paid. Does not include small volume or test permits.

Coal Leases - Includes leases that produced during the fiscal year. Does not include advance royalties.

Land Use Licenses - Includes activities such as salt water disposal, access roads and pipelines constructed on state land.

Metalliferous Leases - Includes leases that produced during the fiscal year. Does not include advance royalties.

Non-Metalliferous Leases - Includes leases that produced during the fiscal year. Does not include advance royalties.

Oil and Gas Leases - Includes any lease with a well that is capable of production.

Mineral Activity Conducted by Field Office

DNRC Area and Unit office field staff conduct on-site reviews and prepare environmental assessments when mineral exploration or development is proposed on state land. These reviews address resource concerns and provide site specific stipulations to mitigate impacts to project development. Stipulations may include such items as restricting work to dry or frozen conditions, noxious weed control, timing restrictions to address wildlife concerns, and reclamation requirements. Field staff also conduct periodic reviews of mineral development to verify that lessees are complying with lease requirements. The following table breaks down the number of reviews by mineral type for the fiscal year 2009.

Mineral Activity Conducted by Field Office

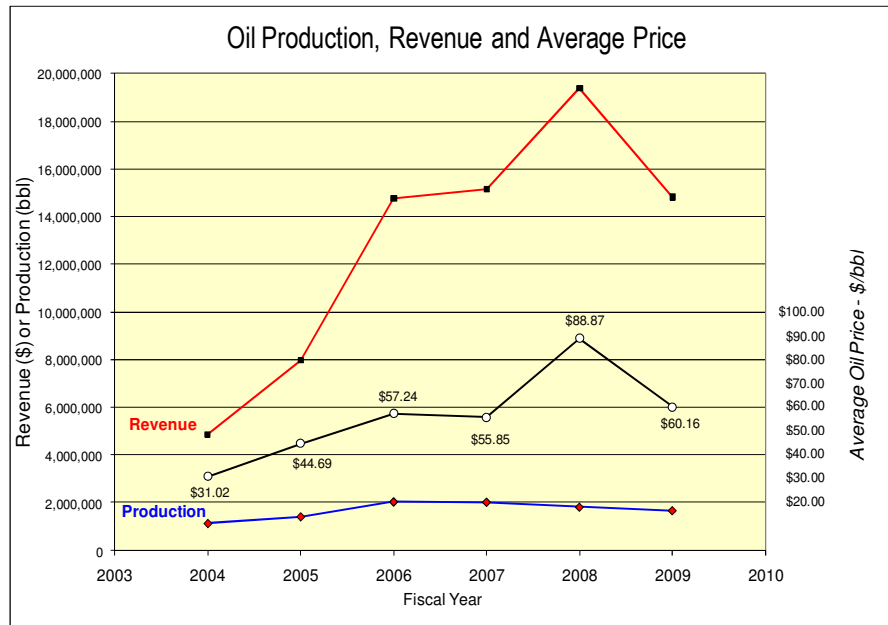
Fiscal Year 2009

Area Office / Unit Office	Oil & Gas Leases	O&G Wells & Pipelines	Seismic	Coal	M & NM Leases	LULs	Gravel Permits	Gravel Renewals	Small Volume	Test Permits	TOTAL
Bozeman	23							5			28
Conrad	30	3					2		3	1	39
Dillon	248		1						2		251
Helena	5					1		1	2		9
CLO Total	306	3	1	0	0	1	2	6	7	1	327
Miles City	140	7	1			1	1	2			152
ELO Total	140	7	1	0	0	1	1	2	0	0	152
Glasgow	106	6	4			1		1		1	119
Havre	45	10	3								58
Lewistown	94	2	4								100
NELO Total	245	18	11	0	0	1	0	1	0	1	277
Kalispell											0
Libby					1						1
Plains							2		5		7
Stillwater									3		3
Swan River									1		1
NWLO Total	0	0	0	0	1	0	2	0	9	0	12
Billings	149		2			3	1	2	1		158
SLO Total	149	0	2	0	0	3	1	2	1	0	158
Anaconda											0
Clearwater						1		4	1		6
Hamilton											0
Missoula											0
SWLO Total	0	0	0	0	0	1	0	4	1	0	6
GRAND TOTAL	840	28	15	0	1	7	6	15	18	2	932

This table represents total field activity by Area and Unit office. It does not include non-mineral management bureau activities.

OIL AND GAS LEASES

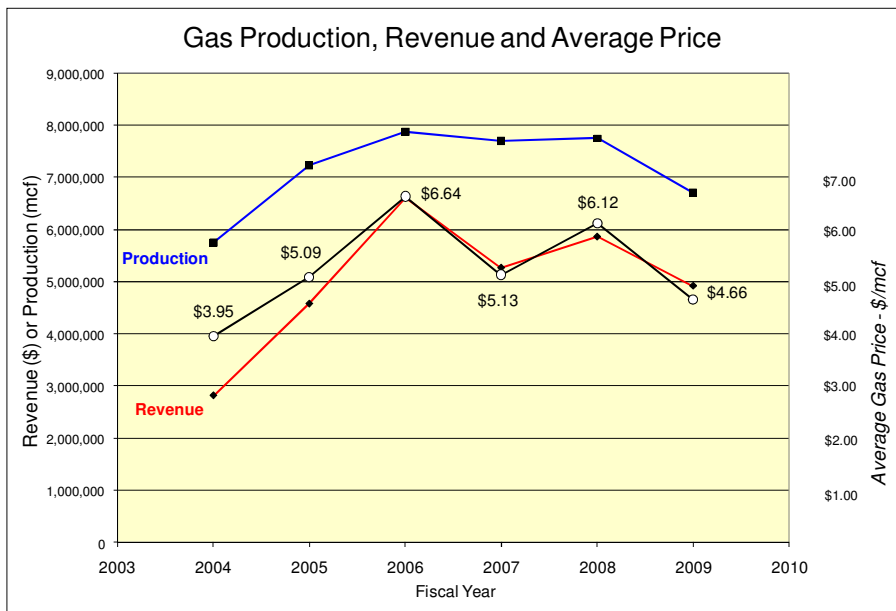
OIL: The average price for a barrel of oil produced from trust land leases decreased to \$60.16 per barrel from \$88.87, which is a 32.3% decrease over the average price in FY08. Production from state lands oil wells decreased from 1,808,692 in FY08 to 1,661,685 barrels this year. The decline in production was 8.13% and mirrors the decline rate seen on fee and federal well production across Montana. Due in part to the declining prices of oil after the first quarter of FY09, revenue decreased by 23.5% from FY08 to \$14,821,154. Royalty payments received in a fiscal year include some payments for prior year production.



GAS: The price for a mcf (thousand cubic feet) of gas produced from state lands dropped to \$4.66 per mcf from \$6.12 per mcf in FY08. This represents a 23.9% decrease in price over last year. The production of gas also decreased by 13.4% from FY08. Production totaled 6,710,328 mcf for the year compared to 7,751,961 for FY08. A lower demand and transportation costs

are believed to be primary factors in the sharp drop in gas prices. Normal decline rates have begun to affect gas production in FY09. This trend is expected to continue going forward. Overall state lands gas revenue for FY09 decreased 12.1% from \$5,596,119 in FY08 to \$4,918,281 this fiscal year. The gas chart on the lower left does not include condensate revenues of \$209,959.

CBNG: Included in the gas totals chart is the production and revenue from coal bed natural gas. Overall production from CBNG wells decreased in FY09 by 26.7% to 863,656 mcf compared to 1,178,559 mcf in FY08. Production has now dropped 55.7% from its peak in FY05. Revenues from CBNG activity totaled \$655,264 for the fiscal year which represents a 20.0% decrease from FY08. Average price for a mcf of CBNG decreased from \$5.85/mcf in FY08 to \$4.54 in FY09. All production from CBNG comes from Big Horn County.



Royalty Income & Production by County (Oil, Gas, Condensate)

County	Oil		Gas		Condensate		Total Royalties
	Royalties*	Production (bbl)	Royalties*	Production (mcf)	Royalties*	Production (gal)	
Big Horn			\$661,217.49	863,656			\$661,217.49
Blaine	\$173,898.26	26,137	\$461,549.13	696,074	\$898.90	3,056	\$636,346.29
Carbon	\$27,544.53	2,482					\$27,544.53
Chouteau			\$135,023.82	175,778	\$2,581.75	10,243	\$137,605.57
Daniels	\$363.80	74					\$363.80
Dawson	\$344,271.97	35,424					\$344,271.97
Fallon	\$3,008,047.00	350,287	\$856,681.05	1,204,023	\$29,537.98	163,704	\$3,894,266.03
Garfield	\$28,727.94	3,180					\$28,727.94
Glacier	\$43,615.33	5,083	\$78,527.19	100,778	\$7,297.00	42,081	\$129,439.52
Golden Valley			\$31,662.09	52,765			\$31,662.09
Hill			\$741,936.67	1,016,083			\$741,936.67
Liberty	\$200,763.07	26,243	\$97,450.92	169,156			\$298,213.99
Musselshell	\$21,161.48	1,987					\$21,161.48
Petroleum	\$9,809.27	777					\$9,809.27
Phillips			\$794,478.55	1,129,104			\$794,478.55
Pondera	\$138,051.61	14,637	\$24,000.01	33,037			\$162,051.62
Powder River	\$42,667.14	5,813					\$42,667.14
Richland	\$7,747,801.88	844,935	\$587,413.94	669,285	\$164,199.85	1,076,963	\$8,499,415.67
Roosevelt	\$720,963.51	81,268	\$30,474.37	29,626			\$751,437.88
Rosebud	\$291,166.03	31,090					\$291,166.03
Sheridan	\$1,485,266.03	166,576	\$65,598.62	56,198			\$1,550,864.65
Stillwater			\$3,834.02	4,843			\$3,834.02
Sweet Grass			\$3,938.60	2,893			\$3,938.60
Teton	\$14,255.15	1,931					\$14,255.15
Toole	\$317,478.05	38,794	\$298,020.95	423,130	\$194.45	804	\$615,693.45
Valley			\$35,953.95	68,595			\$35,953.95
Wibaux	\$205,302.24	24,967	\$10,519.32	15,304	\$5,248.92	29,548	\$221,070.48
Grand Total	\$14,821,154.29	1,661,685	\$4,918,280.69	6,710,328	\$209,958.85	1,326,399	\$19,949,393.83

* Totals include interest and shut-in royalty payments

Note: Production totals represent amounts attributable to state trust land only.

OIL: In FY09, the top three counties generated 82% of all oil production on state trust lands. Richland County accounted for 51% of all production on state trust lands while accounting for 52% of oil royalties.

Top Revenue Producing Counties – Oil:(\$\$)

#1 Richland	\$7.7 Million
#2 Fallon	\$3.0 Million
#3 Sheridan	\$1.5 Million

Gas: The top gas producing county for FY09 was again Fallon County, which accounted for 17.9% of total state land production and \$856,681 in royalties. The second ranked producer in FY09 was Phillips County with 16.8% of gas production. Hill county had the third highest production with 15% of total gas production and \$741,937 in royalties.

Top Revenue Producing Counties – Gas:(\$\$)

#1 Fallon	\$857K
#2 Phillips	\$794K
#3 Hill	\$742K

Royalty Income by Area and Unit Office (Oil, Gas, Condensate)

Pay Type	CLO	ELO	NELO			SLO	Pay Type Totals
	Conrad	Miles City	Glasgow	Havre	Lewistown	Billings	
Oil Royalty	\$709,163.21	\$11,696,487.70	\$2,183,770.01	\$173,898.26	\$9,809.27	\$43,025.84	\$14,816,154.29
Oil Interest	\$5,000.00						\$5,000.00
Oil Royalty Audit							\$0.00
Gas Royalty	\$470,079.27	\$1,454,614.31	\$926,505.49	\$1,203,485.80	\$166,685.91	\$663,708.05	\$4,885,078.83
Gas Interest	\$1,926.01						\$1,926.01
Gas Royalty Audit	\$26,700.47					\$2,488.28	\$29,188.75
Shut in Gas	-\$706.68					\$2,793.78	\$2,087.10
Condensate Royalty	\$7,491.45	\$198,986.75		\$898.90	\$2,581.75		\$209,958.85
AO Totals	\$1,219,653.73	\$13,350,088.76	\$3,110,275.50	\$1,378,282.96	\$179,076.93	\$712,015.95	\$19,949,393.83

Royalty and Rental Income by Grant (Oil, Gas, Condensate)

Grant	Bonus Income	Surface Damages	Penalty Income	Rental Income	Seismic Permits	Oil Royalty	Gas Royalty	Condensate Royalty	Total Revenue by Grant
Common Schools	\$11,828,142.66	\$150,337.81	\$540,591.54	\$2,760,132.68	\$8,485.97	\$14,808,524.69	\$4,737,684.78	\$209,483.21	\$35,043,383.34
Public Buildings	\$20,553.18	\$1,366.55	\$14,142.40	\$23,393.28	\$83.58	\$6,706.70	\$30,089.33	\$406.16	\$96,741.18
School for Deaf & Blind	\$8,120.00		\$2,900.00	\$9,060.00					\$20,080.00
State Industrial School*	\$18,860.00	\$145.54	\$9,574.45	\$21,542.53	* (406.63)				\$49,715.89
State Normal School	\$560.00	\$19.95	\$4,697.24	\$21,945.70	\$3.33		\$6,768.36	\$16.34	\$34,010.92
University of Montana				\$13,411.00					\$13,411.00
MSU Morrill	\$163,520.00		\$16,588.15	\$17,917.27		\$4,716.24	\$50,361.07		\$253,102.73
MSU 2nd Grant				\$15,037.55					\$15,037.55
School of Mines	\$40,448.65	\$164.20	\$6,893.34	\$25,062.13	\$27.37				\$72,595.69
Veterans Home				\$900.00					\$900.00
Total Trust Income	\$12,080,204.49	\$152,034.05	\$595,387.12	\$2,908,402.14	\$8,193.62	\$14,819,947.63	\$4,824,903.54	\$209,905.71	\$35,598,978.30
Agricultural Experiment Station				\$4,847.44			\$35,775.12		\$40,622.56
Dept of Transportation	\$1,347.00	\$279.28	\$48.39	\$4,911.26	\$21.98	\$751.29	\$373.09		\$7,732.29
Galen State Hospital						\$123.75			\$123.75
Dept Of Fish Wildlife & Parks				\$240.00		\$331.62	\$8.41	\$53.14	\$633.17
Water Resources Division				\$1,256.44			\$57,220.53		\$58,476.97
Total Non-Trust Income	\$1,347.00	\$279.28	\$48.39	\$11,255.14	\$21.98	\$1,206.66	\$93,377.15	\$53.14	\$107,588.74
Grand Total	\$12,081,551.49	\$152,313.33	\$595,435.51	\$2,919,657.28	\$8,215.60	\$14,821,154.29	\$4,918,280.69	\$209,958.85	\$35,706,567.04

* Includes \$423.53 debit for a revised seismic shoot, paid in FY08 but completed in FY09

AGGREGATE

Royalty and Production by County – Aggregate (Sand, Gravel, Rock)

County	CubicYards (Sand & Gravel)		Tons (Rock)		Total Royalty
	Royalty \$	Production	Royalty \$	Production	
Beaverhead	\$2,587.50	3,615			\$2,587.50
Blaine	\$17,558.00	14,018			\$17,558.00
Cascade	\$29,000.00	70,706			\$29,000.00
Custer	\$2,000.00	0			\$2,000.00
Flathead	\$3,340.00	1,650	\$30.00	2	\$3,370.00
Gallatin	\$2,058.06	3,742	\$100.00	0	\$2,158.06
Garfield	\$20,000.00	40,000			\$20,000.00
Golden Valley			\$3,000.00	115	\$3,000.00
Jefferson			\$1,500.00	60	\$1,500.00
Lake	\$1,368.00	190			\$1,368.00
Lewis and Clark	\$1,709.65	1,206	\$100.00	4	\$1,809.65
Lincoln			-\$1,000.00	0	-\$1,000.00
Madison	\$43,487.20	56,094			\$43,487.20
Missoula	\$0.00	146	\$75.00	10	\$75.00
Phillips	\$0.00	100			\$0.00
Pondera	\$1,300.00	1,300			\$1,300.00
Powell	\$200.00	0			\$200.00
Rosebud	\$11,725.20	10,692			\$11,725.20
Sanders	\$805.00	460	\$52,731.93	2014	\$53,536.93
Teton	\$3,597.39	6,015			\$3,597.39
Toole	\$300.00	744			\$300.00
Wheatland			\$9,188.75	301	\$9,188.75
Yellowstone	\$200.00	100			\$200.00
Grand Total	\$141,236.00	210,778	\$65,725.68	2,506	\$206,961.68

Royalty & Rental by Area Office

Unit Office/Area Office	Rental Income	Royalty Income
Bozeman		\$45,645.26
Conrad		\$5,197.39
Dillon		\$2,587.50
Helena		\$30,600.00
CLO Area Office Totals	\$0.00	\$84,030.15
Miles City		\$33,725.20
ELO Area Office Totals	\$0.00	\$33,725.20
Havre		\$17,558.00
Lewistown		\$12,188.75
NELO Area Office Totals	\$0.00	\$29,746.75
Kalispell		\$1,000.00
Libby		-\$1,000.00
Plains	\$100.00	\$53,536.93
Swan River		\$1,368.00
Stillwater		\$2,370.00
NWLO Area Office Totals	\$100.00	\$57,274.93
Billings		\$200.00
SLO Area Office Totals	\$0.00	\$200.00
Anaconda		\$200.00
Clearwater		\$1,784.65
SWLO Area Office Totals	\$0.00	\$1,984.65
Grand Total	\$100.00	\$206,961.68

Royalty & Rental by Grant

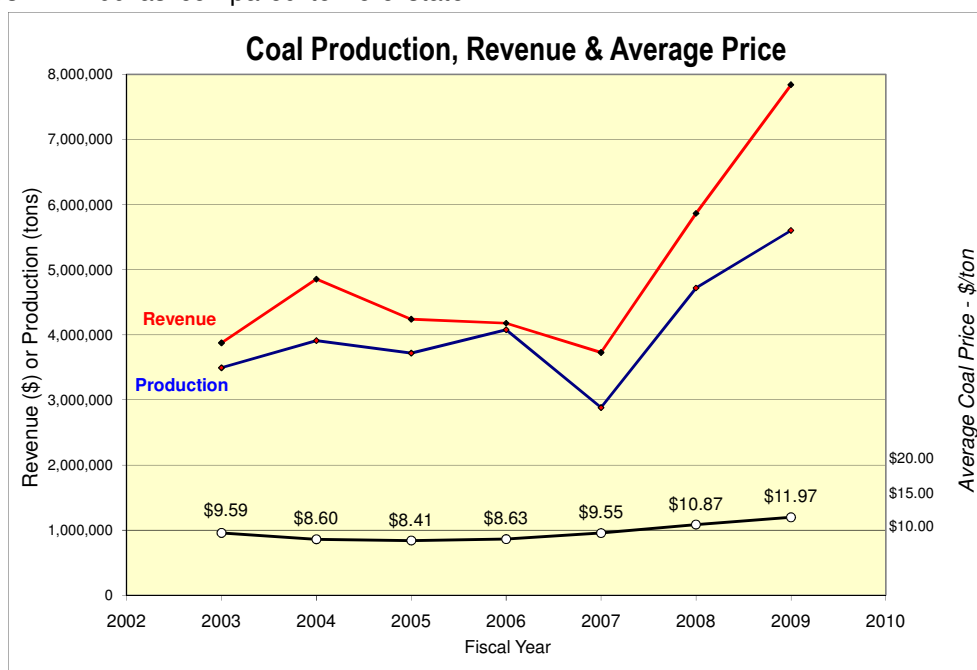
Grant	Rental Income	Royalty Income
Common Schools	\$100.00	\$194,031.20
MSU 2nd Grant		\$2,250.00
Public Buildings		\$6,164.39
School for Deaf and Blind		\$176.65
School of Mines		\$3,088.06
University of Montana		\$1,251.38
Grand Total	\$100.00	\$206,961.68

COAL LEASES

Production: Coal production on state trust lands increased 18.7% in FY09 to 5,603,917 tons mined compared to 4,720,487 tons mined in FY08. The production totals were the highest recorded on state trust lands over the past decade. All coal reported was produced from three state leases in Big Horn County. In FY09, Spring Creek Coal Company produced 5,584,101 tons, while the remainder of 19,816 tons was produced by Decker Coal Company. Spring Creek's production totals increased by 21.9% compared to last fiscal year. Western Energy Company moved operations off state lands and recorded no production in FY09. However, Decker Coal Company moved onto state lands in FY09 as compared to zero state

land production in FY08. The volume of coal mined can change significantly from year to year, as mining activity moves onto or off of state land within the normal sequence of operations.

Revenues: All coal revenues received on current state trust lands leases benefit the common schools grant. In FY09, coal royalty revenues totaled \$7,840,866 which was an increase of 33.7% over FY08 and the highest figure in more than a decade. A majority of that increase was due to large production increases. Coal prices increased for the fourth straight year to \$11.97/ton which was an increase of 10.1% over FY08 average prices of \$10.87/ton.



Coal Facts:

- Of the 15 major coal producing states, Montana ranks first in coal reserves with just over 119 billion tons, and fifth in annual production with nearly 45 million tons produced in 2008.*
- Montana's Spring Creek mine is the 11th largest in the US, producing 17.9 million tons in 2008.

*Source: Montana Coal Council

Royalty and Production by County - Coal

<i>County</i>	<i>Royalties (\$)</i>	<i>Production (ton)</i>
Big Horn	\$7,840,866.23	5,603,917
Total	\$7,840,866.23	5,603,917

Royalty and Rental by Area Office - Coal

<i>Area Office</i>	<i>Royalty Income</i>	<i>Rental Income</i>	<i>Total</i>
ELO		\$28,938.30	\$28,938.30
SLO	\$7,840,866.23	\$12,585.93	\$7,853,452.16
Grand Total	\$7,840,866.23	\$41,524.23	\$7,882,390.46

Royalty and Rental Income by Grant - Coal

<i>Grant</i>	<i>Royalty Income</i>	<i>Rental Income</i>	<i>Total</i>
Common Schools	\$7,840,866.23	\$41,524.23	\$7,882,390.46
Total	\$7,840,866.23	\$41,524.23	\$7,882,390.46

LAND USE LICENSES

Land Use Licenses:

- Can apply to any type of mineral and are issued for mineral activities that are not included in other types of leases or permits.
- The length of license is determined by each individual activity.
- Examples of licensed activities include salt water disposal, access roads and pipelines, non-mechanized prospecting for minerals, groundwater monitoring wells, gravity surveys, and infrastructure for coal bed natural gas fields.
- Under a Land Use License for gold or silver prospecting, the user may explore but cannot remove or sell minerals.
- Annual in lieu of exploration penalties may be included in a Land Use License (LUL) to encourage exploration work.

Royalty and Rental Income by County - LUL

County	* Royalty Income	Rental Income	Grand Total
Big Horn		\$24,670.00	\$24,670.00
Dawson	\$2,547.00		\$2,547.00
Jefferson		\$100.00	\$100.00
Lewis and Clark		\$500.00	\$500.00
Musselshell		\$150.00	\$150.00
Powder River		\$300.00	\$300.00
Roosevelt	\$1,000.00	\$2,270.00	\$3,270.00
Rosebud		\$500.00	\$500.00
Grand Total	\$3,547.00	\$28,490.00	\$32,037.00

** There is no production associated with Salt Water Disposal*

Royalty and Rental Income by Area Office - LUL

Area Office - Unit Office	Royalty Income	Rental Income	Grand Total
CLO Helena	\$0.00	\$100.00	\$100.00
ELO Miles City	\$2,547.00	\$800.00	\$3,347.00
NELO Glasgow	\$1,000.00	\$2,270.00	\$3,270.00
SLO Billings	\$0.00	\$24,820.00	\$24,820.00
SWLO Clearwater	\$0.00	\$500.00	\$500.00
Grand Total	\$3,547.00	\$28,490.00	\$32,037.00

Royalty and Rental Income by Grant - LUL

Grant	Royalty Income	Rental Income	Total
Common Schools	\$3,547.00	\$28,206.38	\$31,753.38
School of Mines	\$0.00	\$247.56	\$247.56
State Industrial School	\$0.00	\$36.06	\$36.06
Total Trust Income	\$3,547.00	\$28,490.00	\$32,037.00

METALLIFEROUS MINERAL LEASES

Metalliferous Leases may cover a variety of commercially marketed metallic minerals such as gold, silver, copper, and gemstones including rubies, garnets and sapphires.

Royalty and Rental Income by County - Metalliferous Minerals

County	Royalty Income	*Rental Income	Total
Deer Lodge (Gold & Gemstones)	\$250.00	\$300.00	\$550.00
Fergus (Gold & Assoc. Minerals)	\$29.68	\$230.90	\$260.58
Flathead		\$500.00	\$500.00
Lincoln		\$2,534.33	\$2,534.33
Madison (Garnets)	\$500.00	\$1,600.00	\$2,100.00
Missoula		\$5,040.00	\$5,040.00
Grand Total	\$779.68	\$10,205.23	\$10,984.91

** Rental figures may include bonus & in lieu of exploration payments*

Royalty and Rental Income by Area Office - Metalliferous Minerals

Area Office - Unit Office	Royalty Income	*Rental Income	Total
CLO Dillon	\$500.00	\$1,600.00	\$2,100.00
NELO Lewistown	\$29.68	\$230.90	\$260.58
NWLO Kalispell	\$0.00	\$500.00	\$500.00
Libby	\$0.00	\$2,534.33	\$2,534.33
Area Office Total	\$0.00	\$3,034.33	\$3,034.33
SWLO Missoula		\$5,040.00	\$5,040.00
Anaconda	\$250.00	\$300.00	\$550.00
Area Office Total	\$250.00	\$5,340.00	\$5,590.00
Grand Total	\$779.68	\$10,205.23	\$10,984.91

Royalty and Rental Income by Grant - Metalliferous Minerals

Grant	Royalty Income	*Rental Income	Total
Common Schools	\$779.68	\$9,105.23	\$9,884.91
Public Buildings		\$1,100.00	\$1,100.00
Total Trust Income	\$779.68	\$10,205.23	\$10,984.91

NON-METALLIFEROUS MINERAL LEASES

Non-Metalliferous Leases may cover a variety of commercially marketed non-metallic minerals such as limestone, bentonite, barite, and peat moss.

Royalty and Rental Income by County - Non-Metalliferous Minerals

<i>County</i>	<i>Royalty Income</i>	<i>*Rental Income</i>	<i>Total</i>
Beaverhead		\$360.00	\$360.00
Carter	\$76,536.86	\$5,126.00	\$81,662.86
Jefferson		\$5,070.00	\$5,070.00
Missoula	\$1,000.00	\$1,920.00	\$2,920.00
Grand Total	\$77,536.86	\$12,476.00	\$90,012.86

** Rental figures may include bonus & in lieu of exploration payments*

Royalty and Rental Income by Area Office - Non-Metalliferous Minerals

<i>Area Office - Unit Office</i>	<i>Royalty Income</i>	<i>*Rental Income</i>	<i>Total</i>
CLO Helena		\$5,070.00	\$5,070.00
Dillon		\$360.00	\$360.00
Area Office Total	\$0.00	\$5,430.00	\$5,430.00
ELO Miles City	\$76,536.86	\$5,126.00	\$81,662.86
SWLO Clearwater	\$1,000.00	\$1,920.00	\$2,920.00
Grand Total	\$77,536.86	\$12,476.00	\$90,012.86

Royalty and Rental Income by Grant - Non-Metalliferous Minerals

<i>Grant</i>	<i>Royalty Income</i>	<i>*Rental Income</i>	<i>Total</i>
Common Schools	\$77,536.86	\$12,116.00	\$89,652.86
Public Buildings		\$360.00	\$360.00
Total Trust Income	\$77,536.86	\$12,476.00	\$90,012.86

SB495 COAL TRUST LOAN / OTTER CREEK UPDATED

SB495 (Coal Tax Trust Loan) Implementation

The 2001 Legislature passed SB495, authorizing the department to borrow from the coal tax trust and place the loan proceeds in the public school permanent trust fund (trust fund). The Federal Enabling Act requires mineral royalties to be deposited into the trust fund. Therefore, the loan was intended to keep the trust fund whole while redirecting a specified amount of future mineral royalty revenues. The redirected royalties cover debt service on the loan, with any remaining amount originally distributed to school equalization. The State Land Board reviewed the legislation and directed the Department to implement the provisions of SB495 beginning in fiscal 2002. The SB495 fiscal note estimated royalty revenue for the next 30 years. Board staff selected a discount rate of 9.85%, which produced a calculated present value (i.e. loan) amount. Effective July 1, 2001, the Department borrowed \$46,366,904 from the coal tax trust and placed it in the public school permanent trust fund, in lieu of \$138,894,596 in future net mineral royalties that would not go into the permanent fund. The loan increased the permanent trust fund balance by \$46,366,904 but also created a loan payable obligation for the same amount.

A Special Session of the 2007 Legislature included a provision in SB2 that created the school facility improvement account. Beginning in FY2008, any remaining SB495 royalties were to be deposited into that account instead of school equalization. The 2009 Legislature passed HB152, which renamed the account to the school facility and technology account.

The department paid off the coal trust loan in FY2008. Life-of-loan principal and interest payments totaled \$63,498,207. Net royalties available for FY2009 totaled \$23,471,425, which was deposited into the school facility improvement account. The table below summarizes the amounts needed for debt service and the remainder available for school accounts.

Cash Flow with Debt Service (SB495, SB2 & HB152)						
FY	Net Royalty Redirected	FYE Loan Balance	Loan Payment	Interest Payment	Net Roy to Sch Eq	Net Roy to Fac Acct
2002	3,654,268	46,366,904	-	3,369,613	284,655	
2003	6,100,912	46,366,904	-	3,306,650	2,794,262	
2004	9,104,439	44,546,088	1,820,816	3,405,415	3,878,208	
2005	13,035,473	41,896,025	2,650,063	3,005,668	7,379,741	
2006	21,707,041	31,047,064	10,848,961	2,255,822	8,602,259	
2007	20,978,671	11,573,605	19,473,459	1,505,158	54	
2008	27,326,695	(0)	11,573,605	282,977		15,470,113
2009	23,471,425		(0)	(0)		23,471,425
Total	125,378,924	(0)	46,366,904	17,131,303	22,939,179	38,941,538

At FYE2009, \$125,378,924 of the total \$138,896,594 in purchased royalties had been generated and redirected pursuant to SB495. The department estimates the remaining \$13,515,672 will be generated and distributed to the school facility and technology account in FY2010, which will complete the requirements of SB495.

Otter Creek Tracts

The department entered into a professional services agreement with Norwest Corporation in FY2008 for the preparation of a leasing appraisal covering the State's coal ownership in the Otter Creek project area. The appraisal was completed January 30, 2009. The Land Board will evaluate the appraisal and consider offering the state tracts for lease in FY2010.