FISCAL NOTE

Bill #: SB 134

Title: Reduce coal severance tax for sales to new in-state generation plants

Primary Sponsor: Ken Miller

Status: As Introduced

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Sponsor signature Date

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Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Net Impact on General Fund Balance:	**$0**	**$0**

Yes	No		Yes	No	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. This bill would reduce the coal severance tax rate by two-thirds on coal used by an in-state electricity generating facility that is constructed after December 31, 2001.
2. The minimum time required to site and construct a new coal-fired electricity generating facility is five years. There are no pending Major Facility Siting Act applications for new coal-fired electricity generating facilities. Thus, this bill will have no fiscal impacts in the 2003 biennium.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

8.36% of coal severance tax receipts are allocated to a state special revenue account to pay for local impact mitigation and other local government costs (MCA, 15-35-108 (3)). Any future revenue reductions will reduce state funds available to pay these local costs.

LONG-RANGE IMPACTS:

The impact of this bill in future fiscal years depends on when new coal-fired power plants are built in the state and how much new coal-fired generation capacity is built. The earliest that a new coal-fired electricity generating plant could begin production would be the 2005 biennium.

The revenue reduction from applying the reduced rates in this bill can be calculated for a representative power plant. A 500-megawatt plant would use 2.3 million tons of coal per year. (The Energy Information Administration of the US Department of Energy reports that Montana's five existing coal-fired power plants used 4,626 tons of coal for each megawatt of capacity in 1998.) At a contract sales price of $6.75 per ton, the taxable value of 2.3 million tons of coal would be $15.6 million per year.

If the coal had heat content greater than 7,000 Btu per pound and came from a surface mine, under current law it would be taxed at a rate of 15% and the severance tax would be $2.34 million. This bill would reduce the rate to 5% and the severance tax would be $0.78 million. The reduction in revenue would be $1.56 million. The revenue reduction would be proportionally larger or smaller for a larger or smaller amount of new coal-fired generating capacity.

TECHNICAL NOTES:

1. Section 1 states that the difference in severance tax rates proposed in this bill is allowed by the economic, transportation, and environmental advantages of producing electricity using modern generating plants near the coal mine. Section 2 provides a lower tax rate for coal used in a new electricity generation facility anywhere in the state, not just near the coal mine.
2. Section 2 states that the rate for qualifying coal production "is one-third the applicable rate set forth in subsection (1)(a). The rate table in MCA 15-35-103 includes four rates, 15%, 10%, 4%, and 3%. Two of the rates, 15% and 3%, are evenly divisible by three. The other two rates, 10% and 4%, are not. In practice, taxes will be calculated using rates that are decimal fractions. The bill should specify the number of decimal places for the rate calculation.