

Coal Severance Tax

Revenue Description

For large producers, the coal severance tax is imposed on all coal production, except that on reservations, in excess of 20,000 tons per company per calendar year. Producers of 50,000 tons or less in any calendar year are exempt from the tax.

Statutory Reference

Tax Rate – [15-35-103, MCA](#)

Tax Distribution – [Montana Constitution, Article IX, Section 5](#); [15-35-108, MCA](#); [17-5-703, MCA](#)

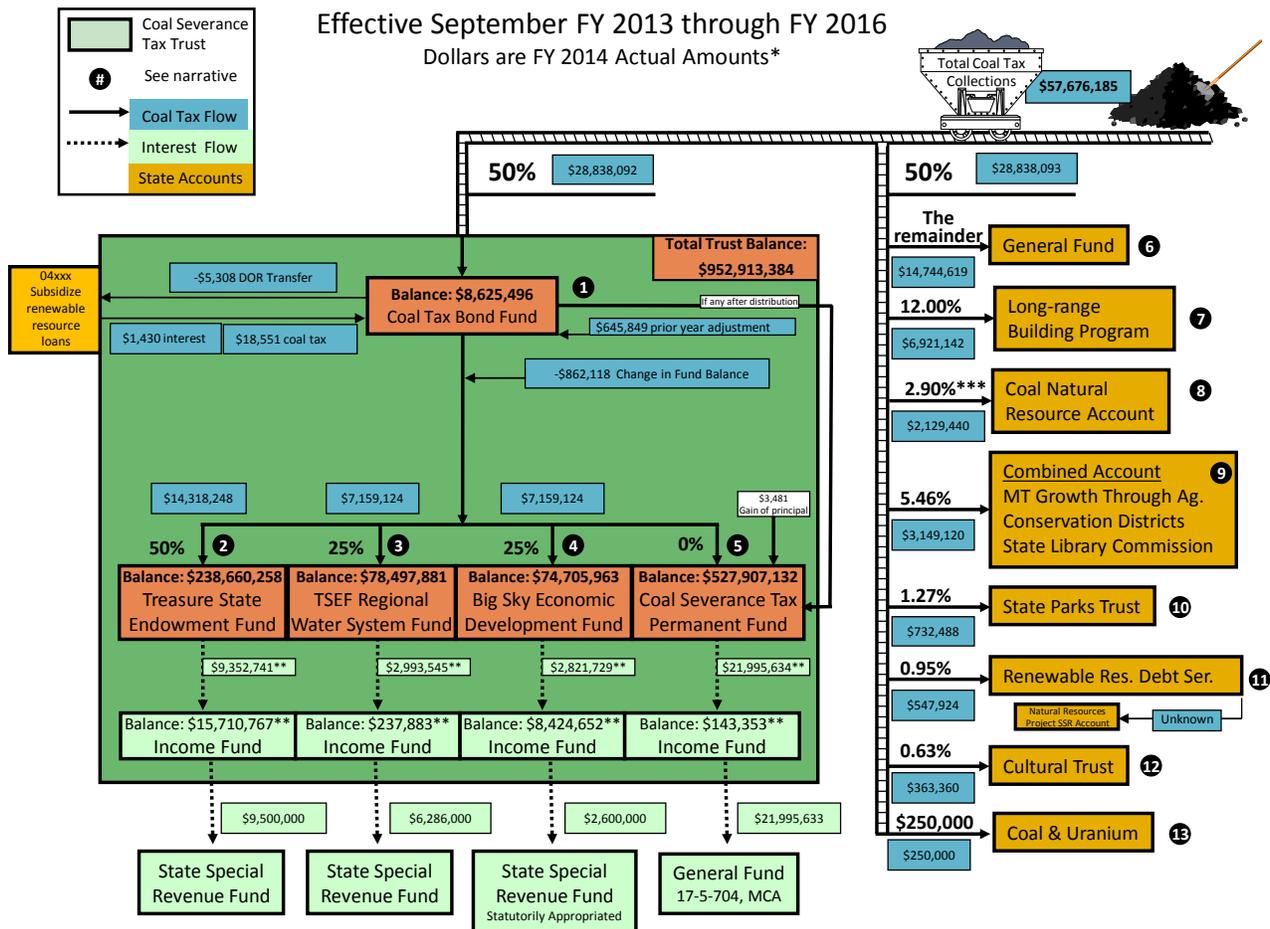
Date Due – Thirty days following the close of the quarter ([15-35-104, MCA](#))

Applicable Tax Rates

- 10% on the value of surfaced mined coal with a heating quality < 7,000 BTU
- 15% on the value surfaced mined coal with a heating quality ≥ 7,000 BTU
- 3% on the value underground mined coal with a heating quality < 7,000 BTU
- 4% on the value underground mined coal with a heating quality ≥ 7,000 BTU
- 3.75% on the value of auger mined coal with a heating quality < 7,000 BTU
- 5% on the value of auger mined coal with a heating quality ≥ 7,000 BTU

Collection Frequency: Quarterly

Distribution



* Current year
** Excludes unrealized investment gains and losses
*** Reduced from 5.8% after September 30, 2013

Natural Resource Taxes

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As directed by [Article IX, Section 5](#) of the Montana Constitution, the coal severance tax trust fund receives 50% of total coal severance tax collections. The money flows through five sub-trust funds within the trust. In order, these five are:

❶ Coal Tax Bond Fund ([Title 17, Chapter 5, Part 7](#)) – The legislature authorizes the sale of coal severance tax bonds to finance renewable resource projects ([Title 85, Chapter 1, Part 6](#)) and local government infrastructure projects ([Title 90, Chapter 6, Part 7](#)). A maximum of \$250 million in bonds is authorized as loans for renewable resource projects ([17-5-719, MCA](#)) to provide:

- a healthy economy;
- alleviation of social and economic impacts created by coal development; and
- a clean and healthful environment

The total amount of outstanding principal of renewable resource bonds at any time cannot exceed \$30 million ([85-1-624, MCA](#)). An amount equal to the following year's principal and interest payments is maintained in the fund. Money in the fund is pledged to pay the debt service on the bonds if interest and principal payments by the loan recipients are insufficient to fully pay the debt service. Bonds are authorized, projects approved, loan rates established, and bond proceeds are appropriated by the legislature to the Department of Natural Resources and Conservation (DNRC) in HB 8.

❷ Treasure State Endowment Fund ([Title 90, Chapter 6, Part 7](#)) – In June 1992, the voters approved a legislative referendum establishing the treasure state endowment program. Initially funded with \$10 million from the permanent fund, the treasure state endowment fund currently receives 50% of the remaining coal severance tax revenue after deposits in the coal tax bond fund (25% of the total coal tax revenue). Projects are approved and interest earnings from the fund are appropriated to the Department of Commerce by the legislature in HB 11 as grants for local government infrastructure projects. The deposit of coal severance tax revenue to this fund terminates the end of FY 2016.

❸ Treasure State Endowment Regional Water System Fund – The treasure state endowment program was established in [SB 220 \(1999 Session\)](#) to fund regional water system projects. The fund receives 25% (12.5% of the total) of the remaining coal severance tax revenue after deposits in the coal tax bond fund. Projects are restricted to drinking water systems that provide water for domestic, industrial, and stock water use for communities and rural residences that lie in specific north central and northeastern geographic areas. Projects are approved and interest earnings from the fund are appropriated to the Department of Commerce by the legislature in HB 11 as grants for local government infrastructure projects. The deposit of coal severance tax revenue to this fund terminates the end of FY 2016.

❹ Big Sky Economic Development Fund – The big sky economic development program was established by [HB 249 \(2005 Session\)](#) to fund qualified economic development projects. The fund receives 25% (12.5% of the total) of the remaining coal severance tax revenue after deposits in the coal tax bond fund. The deposit of coal severance tax revenue to this fund terminates the end of FY 2025. Interest earnings are deposited to a state special revenue fund and are statutorily appropriated to the Department of Commerce to pay administrative expenses with the remainder for:

- 75% to local governments to be used for job creation; and
- 25% to certified regional development corporations and economic development organizations

❺ Permanent Fund – Prior to the establishment of the previous four funds, all the coal severance tax revenue distributed to the trust fund was deposited to the permanent fund. Beginning FY 2006, no coal severance tax revenue has been deposited to the fund. Interest earnings from the fund, audit revenue, and interest and penalties are deposited to the general fund ([17-5-704, MCA](#)). Interest income from the permanent fund deposited into the general fund is statutorily appropriated as follows:

- \$65,000 to the cooperative development center;
- \$625,000 for the growth through agriculture program provided for in [Title 90, chapter 9](#);

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- \$1.275 million to the research and commercialization account created in [90-3-1002](#);
- to the Department of Commerce for specific projects:
 - \$125,000 for a small business development center;
 - \$50,000 for a small business innovative research program;
 - \$425,000 for certified regional development corporations;
 - \$200,000 for the Montana manufacturing extension center at MSU-Bozeman; and
 - \$300,000 for export trade enhancement
- After the above payments, up to \$21 million is appropriated to the public employees' retirement system defined benefit plan trust fund

From FY 2000 through FY 2014, the permanent fund has lost \$4,425,137 due to loan write-offs.

Coal Severance Tax Related Funds:

The other 50% of the coal severance tax revenue is distributed to the following eight funds outside of the coal severance tax trust fund ([15-35-108, MCA](#)):

⑥ General Fund (the remainder after all other allocations) – The largest four expenditures (FY 2014) of general fund by function were: public schools – 33%; human services – 20%; Department of Administration (includes pension transfers) – 11%; and higher education – 10%. The largest four types of general fund expenditures by account were: local assistance – 42%; personal services – 15%; benefits & claims – 14%; and operating – 10%.

⑦ Long-range Building Program Account (12.00%) – Coal severance tax revenue in this account can be used for long-range building projects or for general obligation bond debt service. The legislature appropriates the money in HB 5 to finance building projects at universities, vocational education institutions, state buildings and state institutions. Debt service payments are statutorily appropriated and are currently servicing debt for capitol restoration, the UofM pharmacy/psychology and chemistry buildings, MSU central heating plant and underground utilities, Montana state prison expansion, and regional correctional facilities.

⑧ Coal Natural Resource Account (2.90%) – Created in [HB 758 \(2005 Session\)](#) and amended by [SB 23 \(2009 Session\)](#), the account receives a portion of the coal severance tax revenue. Money in the account is appropriated to the coal board in HB 2 for local impact grants and administrative costs. Due to [SB 100 \(2009 Session\)](#), the coal tax allocation was doubled to 5.80% beginning FY 2010. After September 2013, the allocation decreased to 2.9%.

⑨ Combined Account (5.46%) – The distribution of coal severance taxes to this account is appropriated to certain state agencies by the legislature in HB 2 and can be spent for the following three purposes:

- Montana growth through agriculture – Money is granted or loaned by the Agriculture Development Council to businesses for agricultural development projects that stimulate agriculture
- Conservation districts – The money is distributed to the conservation districts on the basis of need
- State Library Commission – The money is distributed by the commission to public library federations

⑩ State Parks Trust (1.27%) – The distribution to this trust is for the purpose of parks acquisition or management. Interest earnings from the trust is appropriated to the Department of Fish, Wildlife, and Parks (FWP) by the legislature in HB 2 and HB 5 for the acquisition, development, operation, and maintenance of state parks, recreational areas, public camping grounds, historic sites, and monuments.

⑪ Renewable Resource Debt Service Fund (0.95%) – Money in this fund is used to service debt

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on coal severance tax bonds used to finance renewable resource projects. This is in addition to any coal tax paid from the Coal Tax Bond Fund (number 1 above). Bonds are authorized, projects approved, loan rates established, and bond proceeds are appropriated by the legislature to DNRC in HB 8.

⑫ Cultural Trust (0.63%) – The distribution to this trust is for the purpose of protecting works of art in the capitol and for other cultural and aesthetic projects. Interest earnings from the trust are appropriated to the Montana Arts Council by the legislature in HB 9 for these purposes.

⑬ Coal and Uranium Mine Permitting and Reclamation Program (\$250,000) – Enacted by [HB 688 \(2007 Session\)](#), coal severance tax revenue is deposited to the state special revenue account and appropriated in HB 2 to the Department of Environmental Quality (DEQ) to administer and enforce coal and uranium mine reclamation ([82-4-244, MCA](#)).

Comparison of Legislative and Executive Forecasts

The difference between the legislative and executive forecasts is primarily due to differences in price assumptions and how ranges in production survey data was incorporated into the models.

Coal Severance Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$15.610	\$15.830	\$15.600	\$47.040
Legislative Forecast	15.427	16.118	16.612	48.157
Difference	\$0.183	(\$0.288)	(\$1.012)	(\$1.117)
% Difference	1.2%	-1.8%	-6.1%	-2.3%

Forecast Risks

- Energy prices
- Production and shipping costs
- Type of coal (BTU)
- Length of company contracts
- Federal Environmental regulation changes

Revenue Estimate Methodology

Data

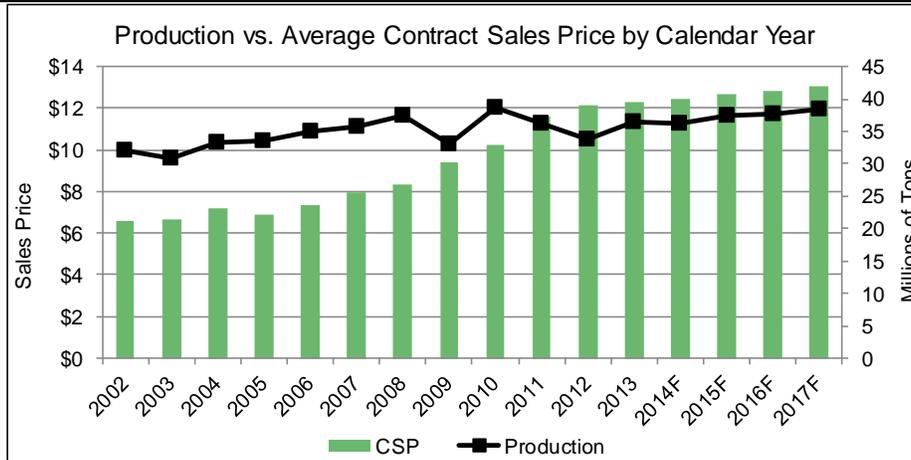
The estimate of this revenue source is based on collection data from SABHRS, historical price and production data from DOR, and anticipated production from surveys of major coal companies.

Analysis

The taxable value of coal is determined in a three-step process:

1. The future coal production for each company, as reported on the survey, is reduced by the exempt amount of 20,000 tons to get taxable tons.
2. To determine the future price for each company's coal, the company's average contract sales price for the last year is increased by an average price. The average contract sales price for all companies is shown in the figure below.
3. The estimated production and price for each company are multiplied together and the product for all companies summed to obtain the total taxable value.

The calendar year taxable value is multiplied by the applicable tax rate to determine total coal severance tax revenue and converted to fiscal year basis.



Revenue Estimate Assumptions

FY	Total Tax \$ Millions	GF Tax \$ Millions	Tons (CY) Millions	CSP (CY) \$/Ton
A 2002	\$31.614	\$8.469	31.981	\$6.58
A 2003	29.424	9.722	30.802	6.68
A 2004	31.545	8.643	33.365	7.23
A 2005	37.635	10.312	33.632	6.89
A 2006	35.822	9.597	34.904	7.34
A 2007	40.759	10.919	35.638	7.95
A 2008	45.332	11.894	37.373	8.33
A 2009	49.564	13.028	33.153	9.44
A 2010	44.177	10.322	38.690	10.22
A 2011	54.971	12.883	36.321	11.64
A 2012	52.743	12.350	33.870	12.15
A 2013	56.574	13.265	36.535	12.30
A 2014	57.676	14.745	36.313	12.46
F 2015	57.092	15.427	37.359	12.66
F 2016	59.672	16.118	37.810	12.80
F 2017	61.515	16.612	38.465	13.04

Revenue Projection

