



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2021 Biennium

Bill # HB0403

Title: Generally revise coal tax laws

Primary Sponsor: Usher, Barry

Status: As Introduced

- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2020</u> <u>Difference</u>	<u>FY 2021</u> <u>Difference</u>	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	(\$762,726)
State Special Revenue	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$762,726)</u>

Description of fiscal impact: HB 403 removes the 10-year sunset date on the reduced tax rate of 2.5% on coal gross proceeds from a new underground coal mine. It also extends by 10 years the reduced tax rate of 2.5% on proceeds from existing underground coal mines. The 2.5% rate is effective until December 31, 2030. The lag between coal gross proceeds reporting and realized tax collections causes FY 2023 to be the first fiscal year affected by the HB 403 changes. General fund revenue declines by \$762,726 and local collections fall by \$2,577,000 in FY 2023.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Coal mined from existing underground mines is taxed at 2.5% of gross value minus deductions through December 31, 2020. After this point, coal production from underground mines is taxed at 5%. The 2.5% tax rate on coal production from underground mines is extended through December 31, 2030.
- Coal gross proceeds must be reported by March 31, detailing the production of the previous calendar year.
- The county treasurer includes these values on property tax rolls, to be paid in November and the following May.

4. A mining company that extracts coal in 2018 reports the gross value by March 31, 2019. Coal gross proceeds taxes are paid in November 2019 and May 2020, which are in FY 2020.
5. Fiscal year gross proceeds collections are lagged two years from the calendar year in which the coal production occurred. This lagged effect causes FY 2023 to be the first year impacted by the extension of the 2.5% tax rate. Tax collections in FY 2023 are paid on CY 2021 production.
6. Production in CY 2021 is the first to be impacted by the HB 403 extended 2.5% gross proceeds tax rate.
7. Calendar year 2021 coal production is estimated using assumptions from the HJ 2 revenue estimate.
8. Between FY 2015 and FY 2019 coal mined underground accounted for an average of 14.75% of coal gross proceeds tax revenue. If this coal had been taxed at 5%, it would have represented an average of 25.68% of coal gross proceeds revenue.
9. Total coal gross proceeds from all mines is estimated to be \$520.125 million in CY 2021.
10. Coal gross proceeds tax revenue from all mines is estimated to be \$26.006 million in CY 2021 (the 5% tax rate is effective for existing underground mines beginning in CY 2021 under current law).
11. Assuming 25.68% of this tax revenue is from underground mines, \$6.680 million of coal gross proceeds tax revenue comes from underground mining in CY 2021.
12. With the extended 2.5% rate proposed by HB 403, CY 2021 gross proceeds revenue from underground mines is reduced to \$3.340 million. This revenue is realized in FY 2023.
13. Coal gross proceeds revenue is shared between the state and counties in the same proportion as FY 1990. The average state share of coal gross proceeds revenue in counties with an underground coal mine is 22.84%.
14. The cost to the general fund in FY 2023 is \$762,726.
15. The cost to counties with underground coal production in FY 2023 is \$2.577 million.
16. Costs associated with form changes are minimal and will be absorbed by the department.

	<u>FY 2020 Difference</u>	<u>FY 2021 Difference</u>	<u>FY 2022 Difference</u>	<u>FY 2023 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
TOTAL Expenditures	\$0	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	(\$762,726)
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Revenues	\$0	\$0	\$0	(\$762,726)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$0	\$0	(\$762,726)
State Special Revenue (02)	\$0	\$0	\$0	\$0

Effect on County or Other Local Revenues or Expenditures:

1. Counties with underground coal mines will forego an estimated \$2.577 million in FY 2023 from the reduced gross proceeds tax rate.

Long-Term Impacts:

1. If a new underground coal mine is developed, that mine will receive a gross proceeds tax rate of 2.5% in perpetuity instead of being assessed a 5% rate after 10 years of operation.

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<i>Sponsor's Initials</i>	<i>Date</i>	<i>Budget Director's Initials</i>	<i>Date</i>

TL

2/11/19