



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 Amended in Senate Committee

- 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 | (\$672,993) |
| State Special Revenue | \$0 | \$0 | \$0 | (\$89,732) |
| Net Impact-General Fund Balance: | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>(\$672,993)</u> |

Description of fiscal impact: HB 403 removes the sunset date on the reduced tax rate of 2.5% on coal gross proceeds from a new underground coal mine. It also extends the reduced tax rate of 2.5% on existing underground coal mines until December 31, 2030. FY 2023 is the first fiscal year affected by HB 403, and will represent a general fund decrease of \$672,993, a loss of \$89,732 in university revenue, and county revenue decrease of \$2.577 million.

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%.
- HB 403 would extend the 2.5% tax rate on production through December 31, 2030.
- Coal gross proceeds must be reported by March 31 each year, 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.

5. This means that a mining company that extracts coal in 2018 would report those extractions in 2019. Coal gross proceeds taxes are paid in November 2019 and May 2020, which are in fiscal year 2020.
6. Calendar year production is two years prior to fiscal year collections. This means that only FY 2023 onward is affected by HB 403.
7. Between FY 2015 and FY 2019 coal mined underground accounted for an average of 14.75% of coal gross proceeds revenue.
8. If this coal had been taxed at 5%, it would have represented an average of 25.68% of coal gross proceeds revenue.
9. Calendar year 2021 coal production is estimated from the production estimates on coal severance tax from Legislative Fiscal Divisions revenue estimate.
10. Coal proceeds are estimated at \$520.125 million.
11. The tax revenue at a 5% rate would be \$26.006 million.
12. Assuming 25.68% of this tax revenue is from underground mines, \$6.680 million of coal gross proceeds comes from underground coal mining.
13. If this coal was taxed at 2.5% as proposed by HB 403, that would represent \$3.340 million less revenue.
14. Coal gross proceeds are shared between the state and counties in the same proportion as FY 1990. The average state share of coal gross proceeds in counties with an underground coal mine is 22.84%.
15. Of the mills assessed in 1990, 45 were for state school equalization and 6 were for the university system.
16. The cost to the general fund in FY 2023 is \$672,993.
17. The cost to the special revenue fund to the credit of the university system is \$89,732.
18. The cost to counties with underground coal production in FY 2023 is \$2.577 million.
19. Costs associated with form changes are minimal and will be absorbed by the department.


| | <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> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <u>Fiscal Impact:</u> | | | | |
| <u>Expenditures:</u> | | | | |
| Operating Expenses | \$0 | \$0 | \$0 | \$0 |
| TOTAL Expenditures | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| <u>Funding of Expenditures:</u> | | | | |
| General Fund (01) | \$0 | \$0 | \$0 | \$0 |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| TOTAL Funding of Exp. | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| <u>Revenues:</u> | | | | |
| General Fund (01) | \$0 | \$0 | \$0 | (\$672,993) |
| State Special Revenue (02) | \$0 | \$0 | \$0 | (\$89,732) |
| TOTAL Revenues | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>(\$762,725)</u> |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u> | | | | |
| General Fund (01) | \$0 | \$0 | \$0 | (\$672,993) |
| State Special Revenue (02) | \$0 | \$0 | \$0 | (\$89,732) |

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 because of HB 403.

Long-Term Impacts:

1. If a new underground coal mine was developed, that mine would receive a tax rate of 2.5% in perpetuity. Whereas before the lower tax rate would have only applied for 10 years.

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|  | 4.13.19 | TL | 4/12/19 |
| <hr/> Sponsor's Initials | <hr/> Date | <hr/> Budget Director's Initials | <hr/> Date |