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Memorandum

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From: Dylan Cole, Tax Policy and Research *DC*
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Subject: Tax Revenue Analysis of Colstrip Units 1 & 2 Closure

Background

Colstrip power plant is a four-unit coal-fired electrical plant located in Colstrip, MT. Units 1 and 2 were operational in 1975 and 1976 respectively, while units 3 and 4 were completed in 1984 and 1986. These plants produce electricity from coal using steam, with the water supply coming from the manmade Castle Rock Lake. The units have changed hands several times; currently six companies have a share of ownership in at least one of the units. Units 1 and 2 each have a nameplate capacity of 307 MW, while units 3 and 4 each have a capacity of 740 MW for a total nameplate capacity of 2094 MW. In June of 2019, Talen Energy announced they would be closing units 1 and 2 at the end of calendar year 2019. This analysis estimates direct tax revenue lost because of this closure.

Methodology

Given that units 1 and 2 represent 29 percent of nameplate capacity of Colstrip, it is generally assumed that direct tax revenues from Colstrip will be reduced by 29 percent based on a FY 2019 baseline, although property tax is different due to the centrally assessed nature of the electric companies. The affected tax types will be listed section by section. It is assumed that 29 percent of the mining activity in the Rosebud mine will be lost, as nearly all coal mined there is used at the Colstrip power plant.

Coal Severance

Coal severance money is allocated between several different funds. The overall reduction is estimated at \$6.27 million or roughly ten percent of total coal severance revenues. The specific account losses are summarized in the table below.

Coal Severance Trust Fund (50%)	\$3,134,000
Long Range Building Program (12%)	\$752,000
Library Services (0.93%)	\$58,000
Conservation Districts (3.71%)	\$233,000
Growth Through Agriculture (0.82%)	\$51,000
Parks Acquisition Trust (1.27%)	\$80,000
Renewable Resources Debt Service (0.95%)	\$60,000
Cultural Trust (0.63%)	\$39,000
Coal Natural Resources Account (5.8%)	\$364,000
General Fund (Remainder)	\$1,497,000
Sum	\$6,268,000

Coal Gross Proceeds

There is a five percent tax on coal gross proceeds in lieu of property tax on coal gross proceeds. Revenues are shared between state and local governments in the same proportion as the mill levies in FY 1990 (when the transition from property tax to the current system occurred). An estimated \$2.1 million will be lost in total. Of that money, local governments will lose \$881,000, the general fund loses \$1.070 million, and the university system loses \$143,000.

Mineral Royalties

Royalty payments to the federal government for mining on federal land is shared with the state at a rate of 49 percent. The expected decrease in royalty payments is \$1.72 million. The state shares 25 percent of these remittances with the impacted county, meaning \$430,000 is lost to local government and \$1.29 million is foregone in general fund revenue.

Resource Indemnity and Ground Water Assessment Tax

The state imposes a tax on coal mining to provide for a trust fund for land remediation and ground water testing. This trust fund is expected to lose \$168,000 annually because of Colstrip units 1 and 2 closure.

Electrical Energy Generation and Transmission Taxes

Montana levies a tax on both generation and transmission of electricity in the state. The generation tax is \$0.0002 per kilowatt hour, while the transmission tax is \$0.00015 per kilowatt hour. The estimated reduction in tax revenue is \$668,000 for generation and \$560,000 for transmission, both to the detriment of the general fund.

Property

There is considerable uncertainty associated with estimating property tax changes based on units 1 and 2 closure because the property is centrally assessed. The department has devalued units 1 and 2 in recent years due to its expected closure in 2022. Using comparable ownership percentages, estimation of property value in units 1 and 2 was around 12 percent of total Colstrip electric generation property value in FY 2019. In addition, pollution control equipment (class 5) and transmission lines (class 9) are reduced by this percentage as well. Finally, the transmission lines owned by Colstrip

companies (besides Northwest Energy) outside Rosebud County are also reduced by this percentage to represent the diminished energy flowing through them. The reduction in state, local, and university tax revenues is shown in the table below.

	<u>University</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
Rosebud County	\$54,000	\$857,000	\$1,968,000	\$2,879,000
Other Counties	\$19,000	\$293,000	\$1,319,000	\$1,631,000
Total	\$73,000	\$1,150,000	\$3,287,000	\$4,510,000

Individual Income

Using annual salary information from the Quarterly Census of Employment and Wages through the US Bureau of Labor Statistics and assuming job loss of 29 percent at both the mine supplying coal to Colstrip and the Colstrip plant itself, approximately \$1.09 million of income tax revenue is expected to be lost. All income tax is deposited in the general fund.

Summary

	<u>General</u>	<u>Local</u>	<u>University</u>	<u>State Special</u>	<u>Total</u>
Coal Severance	\$1,497,000	-	-	\$4,771,000	\$6,268,000
Coal Gross Proceeds	\$1,070,000	\$882,000	\$143,000	-	\$2,095,000
Mineral Royalties	\$1,291,000	\$430,000	-	-	\$1,721,000
RIGWAT	-	-	-	\$168,000	\$168,000
Electric Energy Generation	\$668,000	-	-	-	\$668,000
Wholesale Energy Transmission	\$560,000	-	-	-	\$560,000
Property	\$1,150,000	\$3,287,000	\$73,000	-	\$4,510,000
Income	\$1,089,000	-	-	-	\$1,089,000
Total	\$7,325,000	\$4,599,000	\$216,000	\$4,939,000	\$17,079,000