Montana’s Natural Resources Fiscal Policies

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What Is Natural Resource Revenue?

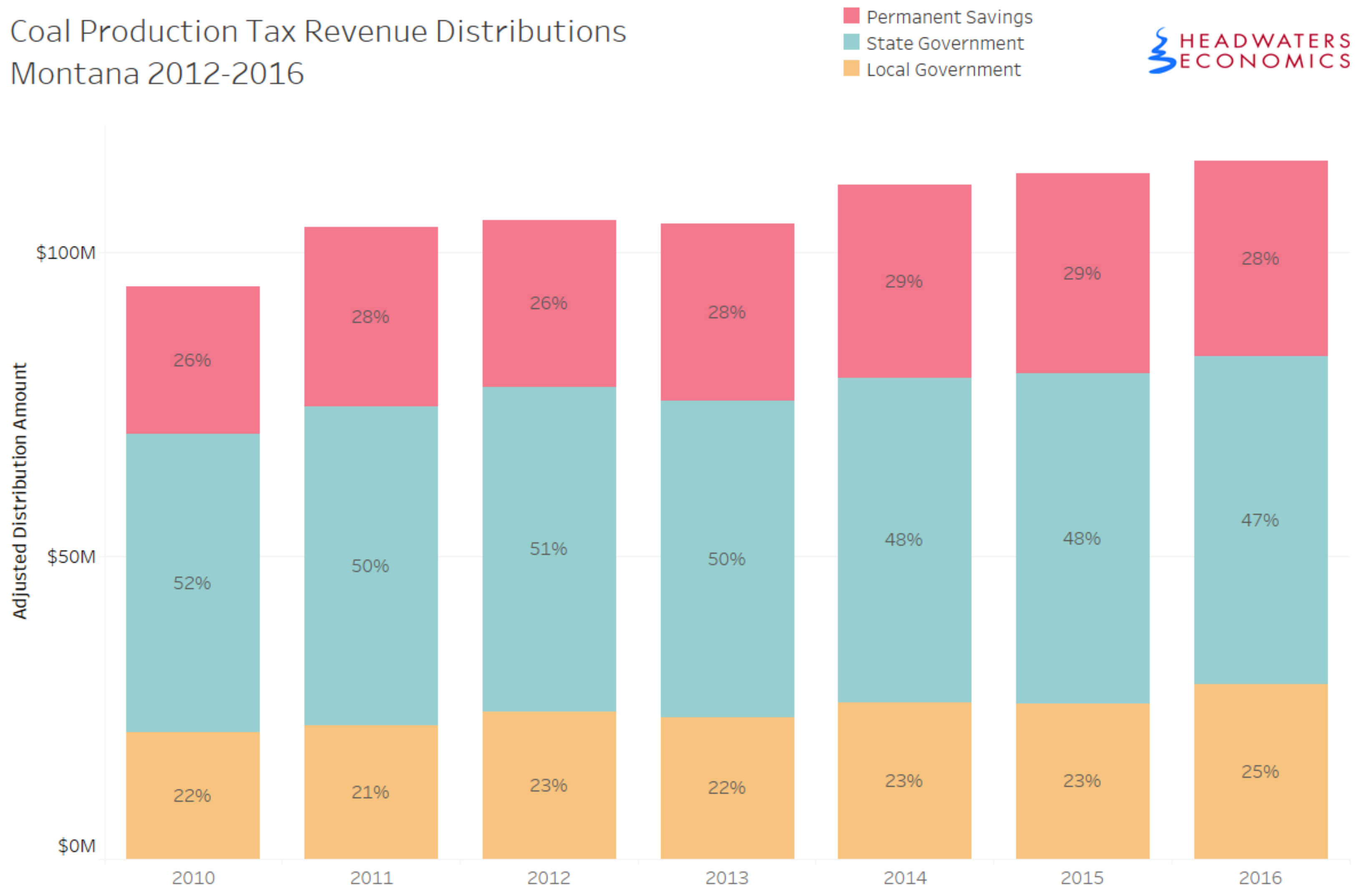
Department of Revenue: Direct revenue from extraction, generation, and processing of natural resources.

Property taxes levied directly on extraction, generation and processing facilities (e.g. power plants, pipelines).

Payments from federal public lands (e.g. Forest Service, BLM, U.S. Fish and Wildlife Service, and PILT).

Comparing Coal Fiscal Policies for Western States. 2017. https://headwaterseconomics.org/energy/coal/coal-fiscal-policies/

How is Natural Resource Revenue Distributed?



Allocation among:
- Permanent savings
- State government
- local government.

Spending priorities:
- Annual operations
- Community impacts
- Transition

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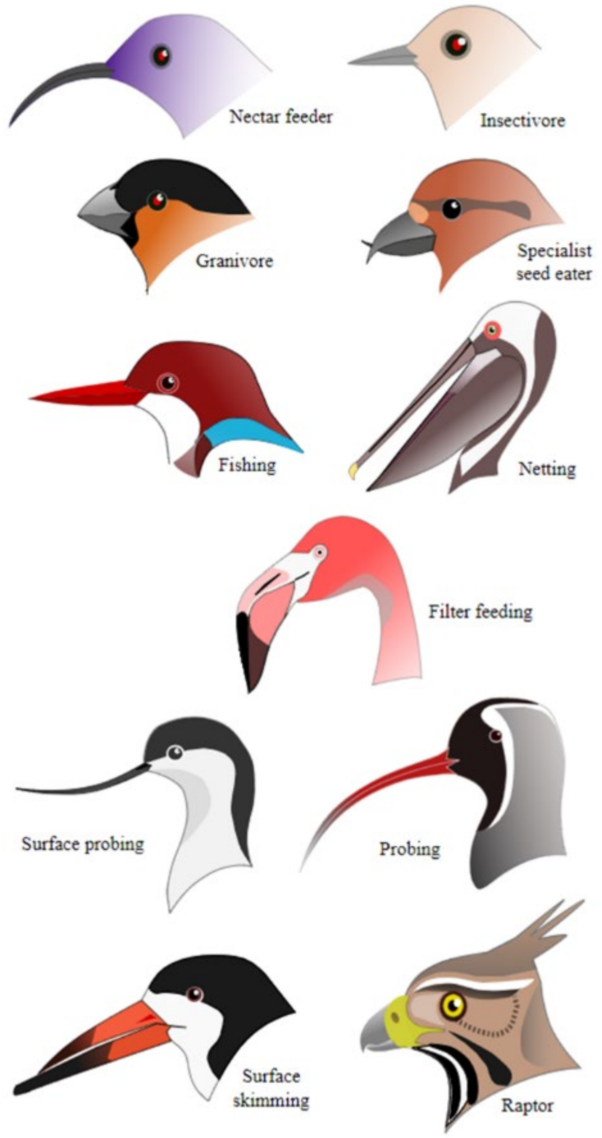
Comparing Coal Fiscal Policies for Western States. 2017. https://headwaterseconomics.org/energy/coal/coal-fiscal-policies/

Montana’s Tax Structure is Specialized



States become specialized because:

- Resource taxes are easily exported
- Resource revenue substitutes for other taxes
- State policy limits local government autonomy to invest

https://headwaterseconomics.org

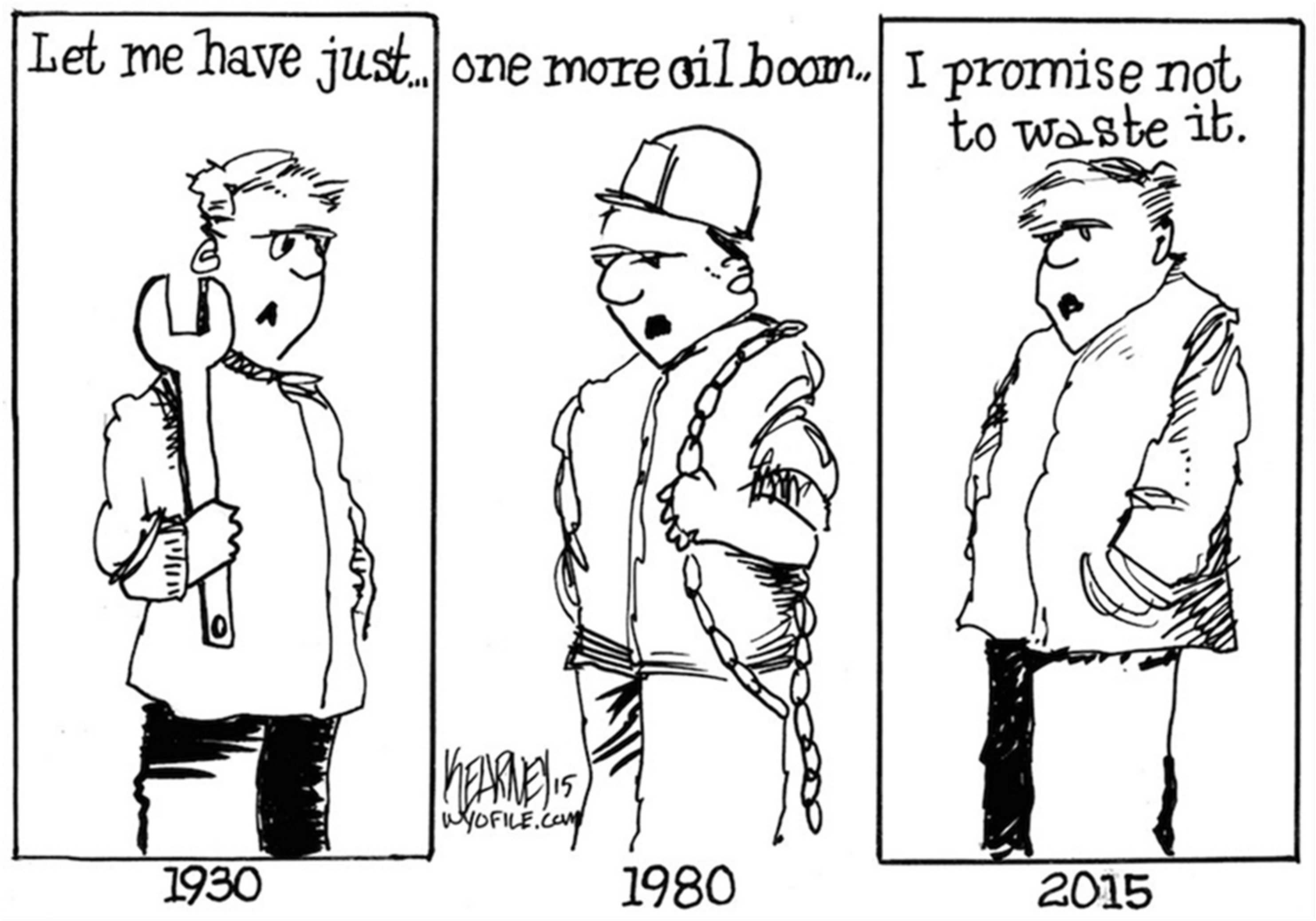
https://en.wikipedia.org/wiki/Beak

A Specialized Tax Structure is Vulnerable to Change

Specialization is risky because:

- Montana is exposed to market and policy forces outside our direct control
- Resource markets are inherently volatile
- Communities have limited capacity to deal with shocks

The Resource Curse

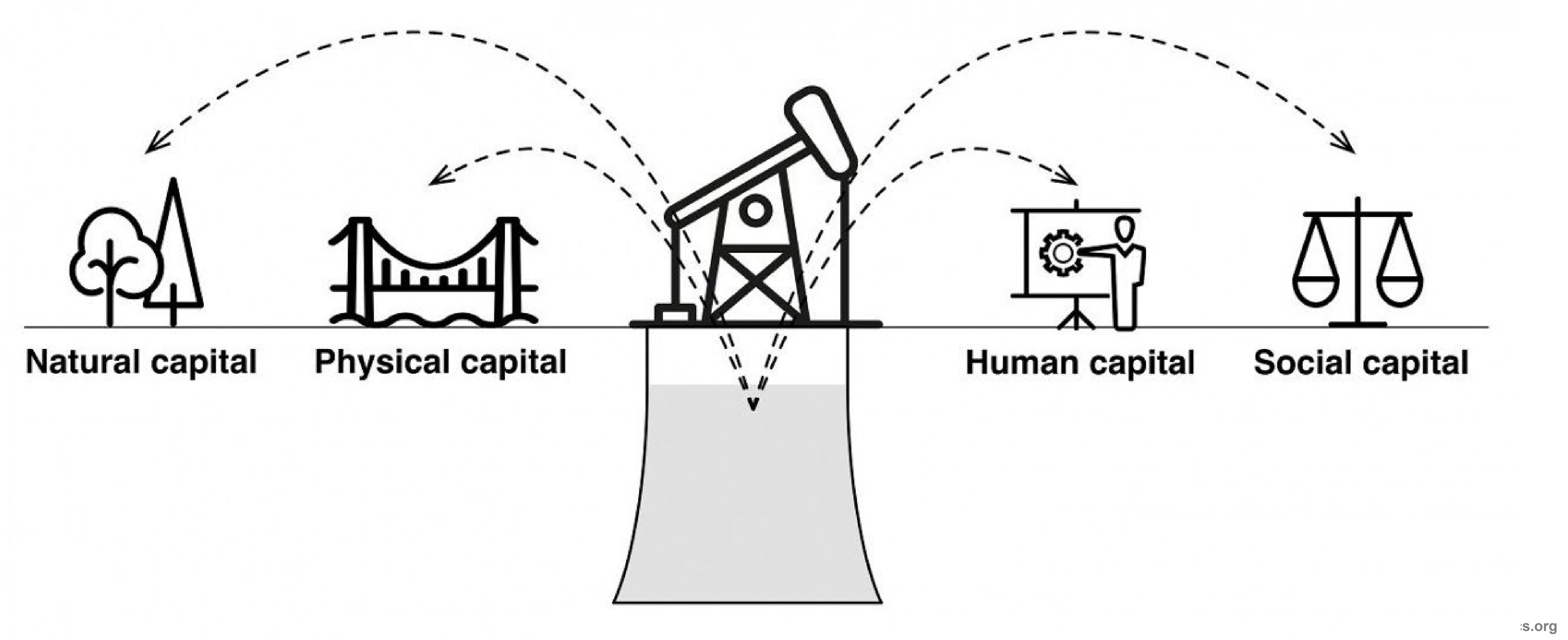


Greg Kearney, Wyofile, 2016

Resource dependent regions and states can experience slower growth and recurring fiscal crisis

The Resource Opportunity

Invest resource wealth in durable public assets to avoid the resource curse



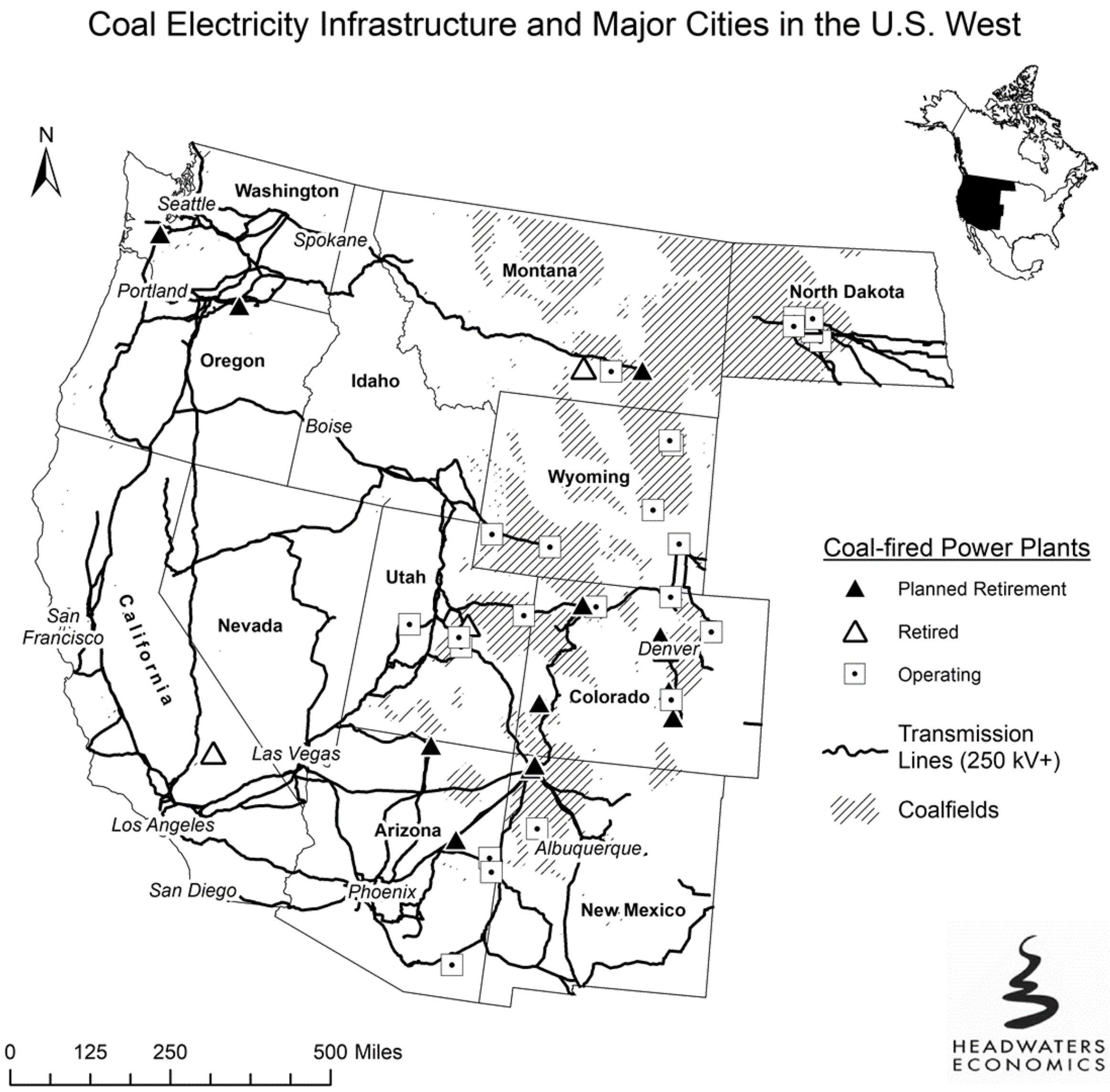
RESOURCE IMPACT DASHBOARD. http://www.resource-impact.org/Research-Strategy/

MT Hard Rock Mining Fiscal Policy is Exemplary

Hard-Rock Mining Impact Act (HRMIA) and Property Tax Base Sharing Act:

- Impact Plan facilitates development without burdening local taxpayers
- Trust Accounts save 25% of mineral revenue for economic transition.

MT Coal Fiscal Policy Addresses Impacts



MT coal fiscal policy formulated to support national energy policy on terms that would benefit the state.

Includes high severance tax rate, and permanent savings. Focus on development related impacts, not on long-term transition.

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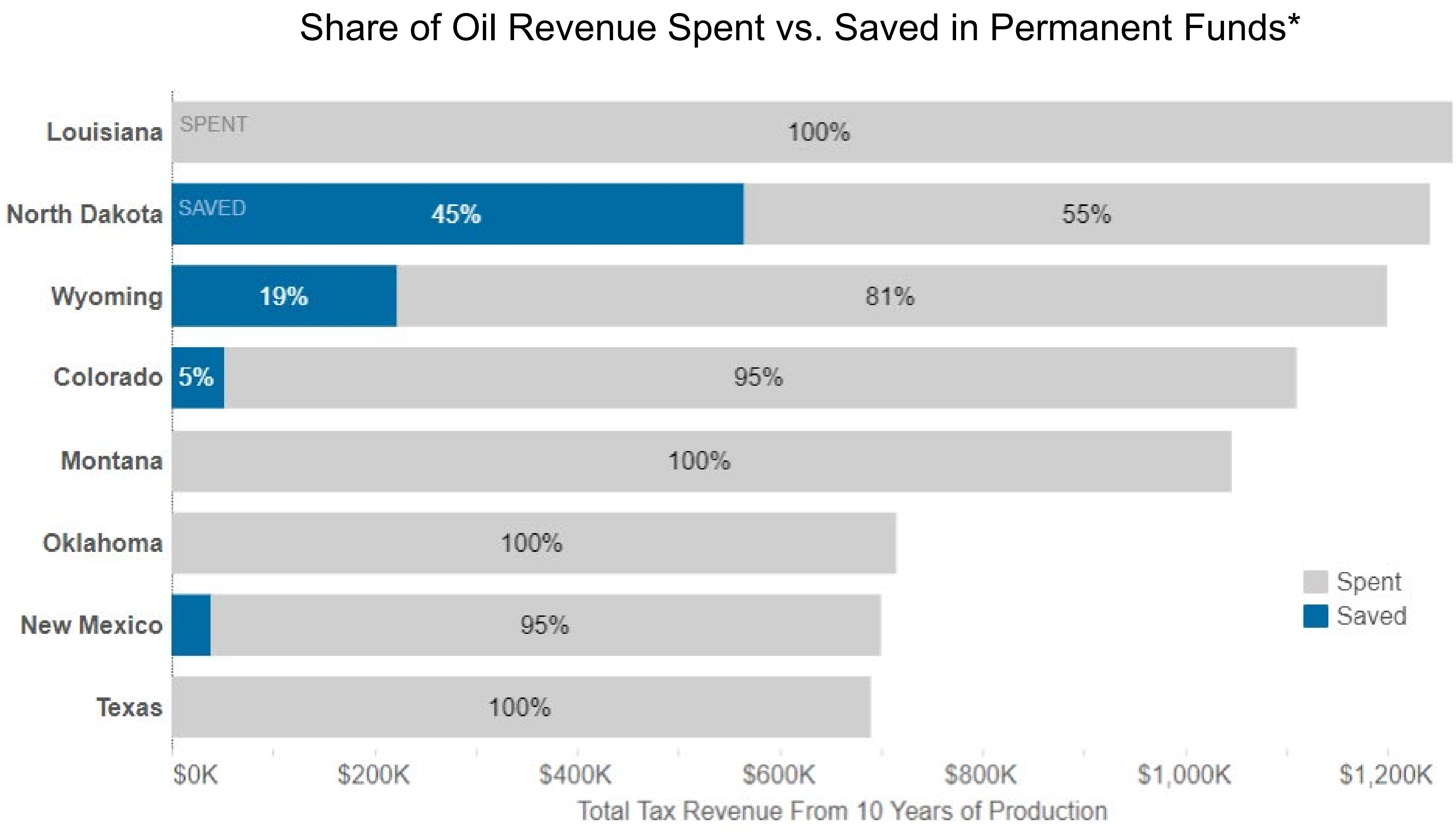
MT Oil Fiscal Policy Fails to Save or Invest



Montana's oil fiscal policy emphasizes tax breaks to induce drilling activity and employment.

Trading revenue for jobs limits resources available for savings, investment and transition.

*excludes state trust land royalties

Why Do State Fiscal Policies Differ?

The more important natural resource are as a share of GDP, the higher the tax rates and the more uniform the taxes.

In states where resources are produced only in a limited number of locations, local control of taxation is more likely.

Variations in the types of taxes reflect the timing of policy formation and the state's philosophy on taxation.

Kent, Calvin A. "Ad Valorem Taxation of Coal Property in West Virginia and Other States-Part 2." Journal of Property Tax Assessment & Administration 8, no. 1 (2011): 59.
www.marshall.edu/cber/docs/2010_XX_XX_Kent-AdValoremTaxation-p2-2010.pdf

Dos and Don’ts of Natural Resource Fiscal Policy

Don’ts

- Don’t use natural resource revenue to fund ongoing annual operations
- Don’t use natural resource revenue to substitute for other taxes

Dos

Dos and Don’ts of Natural Resource Fiscal Policy

Don’ts

- Don’t use natural resource revenue to fund ongoing annual operations
- Don’t use natural resource revenue to cut other taxes

Dos

- Do stabilize revenue over time using permanent funds and long-term savings
- Do maintain an equitable, stable and diversified general tax structure

Dos and Don’ts of Natural Resource Fiscal Policy

Don’ts

- Don’t restrict fiscal autonomy to collect and manage volatile natural resource revenue

Dos

Dos and Don’ts of Natural Resource Fiscal Policy

Don’ts

- Don’t restrict local government fiscal autonomy to collect and manage volatile natural resource revenue

Dos

- Do allow local governments to save natural resource revenue in unobligated funds
- Do allow local governments to budget natural resource revenue over multiple years

Dos and Don’ts of Natural Resource Fiscal Policy

Don’ts

- Don’t provide ineffective production tax breaks

Dos

Dos and Don’ts of Natural Resource Fiscal Policy

Don’ts

- Don’t provide ineffective production tax breaks

Dos

- Do move incentives to more powerful technology innovation research and commercialization and exploration.
- Do use creative public finance to lower private costs and increase public returns

Dos and Don’ts of Natural Resource Fiscal Policy

Don’ts

- Don’t separate revenue strategies from planning and economic development strategies

Dos

Dos and Don’ts of Natural Resource Fiscal Policy

Don’ts

- Don’t separate revenue strategies from planning and economic development strategies

Dos

- Do identify fiscal policies that link revenue with strategies that bolster community economic resilience and the capacity of local institutions

State Action on the Dos

- Colorado Just Transition Office;
- New Mexico Energy Transition Act;
- Utah Coal County Strike Team
- Alaska ACES progressive oil tax regime;
- WY progressive oil severance tax rates
- U.S. Senate natural resource trust proposal
- Utah sales tax reform

Thank You

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