MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: January 21, 2022

TO: Revenue Interim Committee

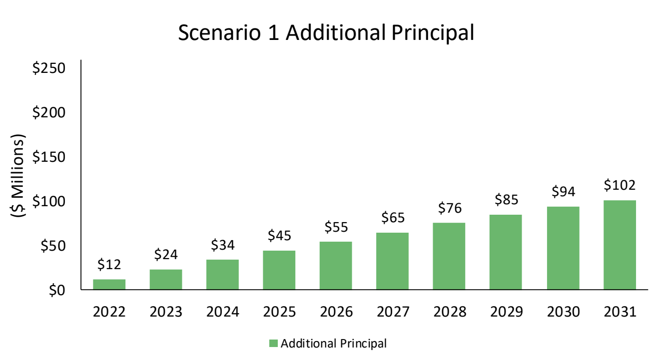
FROM: Sam Schaefer

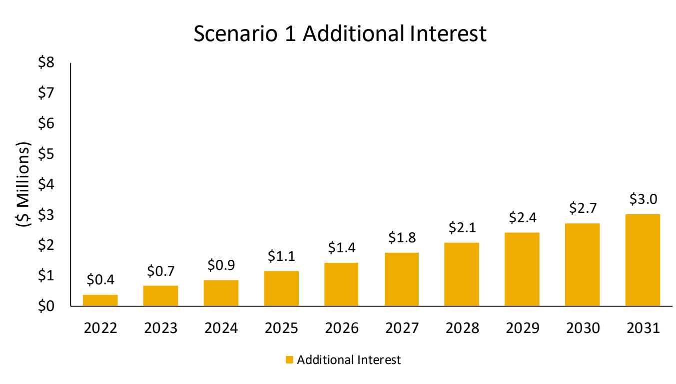
RE: Impacts of adding additional severance taxes to the Coal Trust

The Montana Constitution states that at least 50% of coal severance taxes shall be dedicated to the coal trust fund, and this percentage has been in effect since January 1, 1980. At the end of FY 2021 the coal trust, composed of multiple sub-trusts, had a balance of over $1.1 billion and generated $33.7 million in interest in FY 2021.

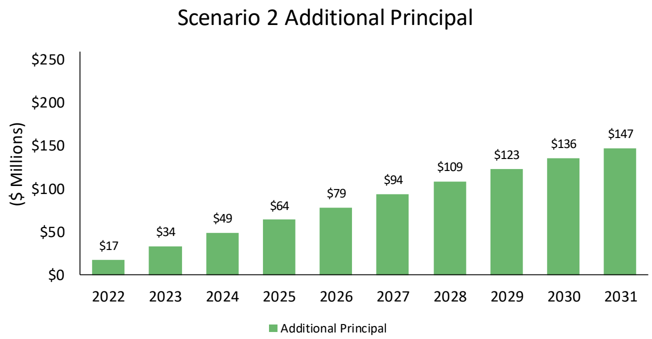
This memo analyzes the effects of adding additional severance taxes to the coal trust, and specifically the coal severance tax permanent fund, which is the largest sub-trust within the coal trust. Using estimated annual returns from the Montana Board of Investments (BOI) for the coal severance tax permanent fund, additional interest revenues are forecasted for the next decade under varying levels of additional severance tax deposits into the trust. Over the course of the next decade, annual returns for the coal permanent fund are expected to range from 2.5% to 3.1%.

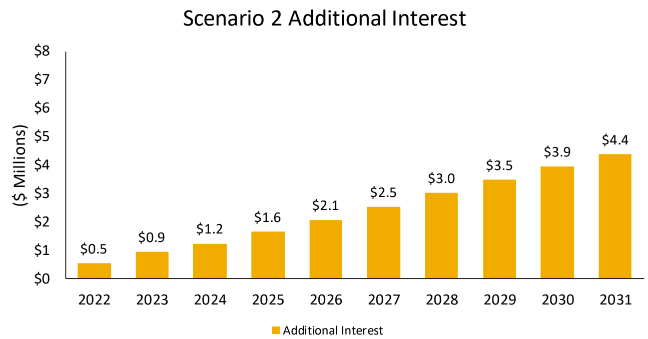
Scenario 1:
In the first scenario, 10% of unallocated general fund revenue from both coal severance taxes and metal mines taxes are deposited into the permanent fund, while 20% of unallocated general fund oil and natural gas taxes are also deposited. This would result in an average additional deposit of $10.1 million per year, and an additional $101.6 million in trust principal after ten years. The additional principal would create an additional $3.0 million in annual interest revenue by FY 2031.





Scenario 2:
In the second scenario, 25% of unallocated general fund revenue from coal severance taxes, metal mines taxes, and oil and natural gas severance taxes are deposited into the permanent fund. This would result in an average additional deposit of $14.7 million per year, and an additional $147.3 million in trust principal after ten years. The additional principal would create an additional $4.4 million in annual interest revenue by FY 2031.





Scenario 3:
In the third scenario, 25% of unallocated general fund revenue from both coal severance taxes and metal mines taxes are deposited into the permanent fund, while 50% of unallocated general fund oil and natural gas taxes are also deposited. This would result in an average additional deposit of $25.4 million per year, and an additional $254.1 million in trust principal after ten years. The additional principal would create an additional $7.5 million in annual interest revenue by FY 2031.