

COAL SEVERANCE TAX

Revenue Description

Coal mines in Montana pay a severance tax based on the value of coal produced (15-35-103, MCA). The tax rate on coal varies with the heat content of the coal and the type of mine (open pit or underground). Each producer is exempt from tax on 20,000 tons per year, and mines producing less than 50,000 tons per year are exempt from the tax.

Coal severance taxes are distributed to several funds. In FY 2000 through FY 2002, the general fund received 26.79% of coal severance tax (coal tax) revenue. In FY 2003 the general fund allocation was 33.04% (HB 10, 2002 Special Session). In FY 2004 and FY 2005 the general fund allocation was 27.4% (HB 18, 2002 Special Session). In FY 2006 the general fund received 26.79% of coal tax revenue (HB 482 and HB 758, 2005 Session). This allocation is not scheduled to change under current law.

Historical and Projected Revenue

Table 1 shows actual coal severance tax general fund collections from FY 1996 through FY 2006 and forecast general fund revenue for FY 2007 through FY 2009.

Table 1 Coal Severance Tax - General Fund Revenue (\$ millions)		
Fiscal Year	General Fund	Percent Change
A 1996	\$ 9.714	56.17%
A 1997	\$10.111	4.09%
A 1998	\$ 8.849	-12.48%
A 1999	\$ 8.393	-5.16%
A 2000	\$ 9.502	13.22%
A 2001	\$ 8.663	-8.83%
A 2002	\$ 8.469	-2.24%
A 2003	\$ 9.722	14.78%
A 2004	\$ 8.643	-11.09%
A 2005	\$10.312	19.31%
A 2006	\$ 9.597	-6.94%
F 2007	\$10.259	6.90%
F 2008	\$10.634	3.66%
F 2009	\$10.466	-1.58%

Severance Coal Tax

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Coal tax general fund revenue is projected to increase to \$10.259 million in FY 2007 and to \$10.634 million in FY 2008. These increases are due to projected increases in coal

production. Coal tax general fund revenue is projected to decrease slightly to \$10.466 million in FY 2009, due to decreased production.

Forecast Methodology and Projection Calculation

There are five steps to forecasting general fund revenue from the coal severance tax:

1. Forecast production
2. Forecast the average contract sales price
3. Forecast taxable value by multiplying production by price
4. Forecast tax revenue by multiplying taxable value by the projected tax rate
5. Allocate projected tax revenue to the different funds

Coal Production

In the fall of 2006, the budget office surveyed coal producers in Montana about expectations of production through calendar year 2009. Results of this survey were used to forecast production. Taxable production is total production less the 20,000 tons each producer can deduct per calendar year. Prior to January 1, 2006, producers were allowed to deduct up to two million tons of coal produced as feedstock for coal enhancement facilities.

Table 2 shows actual and projected coal production, exemptions, and taxable production from FY 2001 through FY 2009.

Taxable production is projected to increase to 36.277 million tons in FY 2007 and 37.717 million tons in FY 2008.

In FY 2009 taxable production is projected to decrease to 36.907 million tons.

Table 2 Calculation of Taxable Coal Production (tons millions)				
Fiscal Year	Total Production	20,000 Ton Exemption	Feedstock Exemption	Taxable Production
A 2001	32.733	- 0.073	- 0.341	= 32.318
A 2002	33.259	- 0.110	- 0.000	= 33.149
A 2003	30.346	- 0.100	- 0.000	= 30.246
A 2004	31.927	- 0.093	- 0.000	= 31.834
A 2005	34.361	- 0.090	- 0.000	= 34.271
A 2006	34.240	- 0.100	- 0.000	= 34.140
F 2007	36.377	- 0.100	- 0.000	= 36.277
F 2008	37.817	- 0.100	- 0.000	= 37.717
F 2009	37.007	- 0.100	- 0.000	= 36.907

Coal Price and Taxable Value

The contract sales price is the actual mine mouth price less state and federal taxes, and state, federal, and tribal royalties of more than 15 cents per ton. Contract sales prices for each company were estimated by applying Global Insight's quarterly forecast of the coal producer price index to each company's most recent actual contract sales price. The projected average contract sales price increases in FY 2007 and FY 2008, and decreases slightly in FY 2009. These changes are due to changes in the coal producer price index forecast.

Taxable value is the product of taxable production and contract sales price. Table 3 shows actual and projected taxable production, average contract sales price, and the taxable value of coal production from FY 2001 through FY 2009.

Projected taxable value increases to \$259.6 million in FY 2007 and to \$271.1 million in FY 2008 due to production and price increases. Forecast taxable value decreases to \$268.9 million in FY 2009 due to decreases in production.

Table 3					
Taxable Value of Coal Production					
Fiscal Year	Taxable Production (MM tons)		Average Contract Sales Price (\$/ton)	Taxable Value (\$ millions)	Percent Change
A 2001	32.318	X	\$6.231	= \$201.362	(11.05%)
A 2002	33.149	X	\$6.380	= \$211.487	5.03%
A 2003	30.246	X	\$6.596	= \$199.490	(5.67%)
A 2004	31.834	X	\$7.218	= \$229.792	15.19%
A 2005	34.271	X	\$7.001	= \$239.946	4.42%
A 2006	34.140	X	\$7.009	= \$239.270	(0.28%)
F 2007	36.277	X	\$7.155	= \$259.556	8.48%
F 2008	37.717	X	\$7.188	= \$271.116	4.45%
F 2009	36.907	X	\$7.285	= \$268.875	(0.83%)

Calculating Tax Revenue

The coal severance tax is forecast by multiplying taxable value by the average tax rate, as shown in Table 4. Most coal production is taxed at 15%, but about 1% is low energy-content coal, which is taxed at 10%. A small share of production is underground production, which is taxed at 4%. The survey of coal mines were used to project the coal tax rate based on mine type. The average tax rate based on the survey is projected to be 14.75% in FY 2007, 14.64% in FY 2008, and 14.53% in FY 2009.

Table 4					
Total Coal Severance Tax Revenue (\$ millions)					
Fiscal Year	Taxable Value		Average Tax Rate	Tax Revenue	Percent Change
A 2001	\$201.362	X	14.95%	= \$30.100	(11.00%)
A 2002	\$211.487	X	14.94%	= \$31.594	4.96%
A 2003	\$199.490	X	14.92%	= \$29.766	(5.79%)
A 2004	\$229.792	X	14.90%	= \$34.230	15.00%
A 2005	\$239.946	X	14.89%	= \$35.725	4.37%
A 2006	\$239.270	X	14.81%	= \$35.447	(0.78%)
F 2007	\$259.556	X	14.75%	= \$38.293	8.03%
F 2008	\$271.116	X	14.64%	= \$39.695	3.66%
F 2009	\$268.875	X	14.53%	= \$39.068	(1.58%)

Total coal tax revenue is forecast to increase 8.03% in FY 2007 and 3.66% in FY 2008 due to production and price increases. Total coal tax revenue is forecast to decrease 1.58% in FY 2009 due to a production decrease.

Coal Severance Tax Allocation

Table 5 shows the actual and projected allocation of coal tax revenue for FY 2006 through FY 2009. The general fund receives a residual allocation after revenue has been allocated to all the other funds, which is 26.79% of total coal severance tax collections.

Table 5					
Coal Severance Tax Revenue Allocation by Fund					
(\$ millions)					
<u>Account</u>	<u>Percent Allocation</u>	<u>FY 2006 Actual</u>	<u>FY 2007 Projected</u>	<u>FY 2008 Projected</u>	<u>FY 2009 Projected</u>
Coal Tax Trust Fund	50.00%	\$17.724	\$19.146	\$19.847	\$19.534
Long Range Building Program Account	12.00%	\$4.254	\$4.595	\$4.763	\$4.688
Local Impacts (Shared Account)	5.46%	\$1.935	\$2.091	\$2.167	\$2.133
Oil, Gas, and Coal Natural Resource Account	2.90%	\$1.028	\$1.110	\$1.151	\$1.133
Parks Trust Fund	1.27%	\$0.450	\$0.486	\$0.504	\$0.496
Renewable Resource Loan Debt Service Fund	0.95%	\$0.337	\$0.364	\$0.377	\$0.371
Capitol Art Protection Trust Fund	0.63%	\$0.223	\$0.241	\$0.250	\$0.246
General Fund	26.79%	\$9.496	\$10.259	\$10.634	\$10.466
Total Coal Severance Tax	100.00%	\$35.447	\$38.293	\$39.695	\$39.068

Data Sources

Actual coal production, contract sales prices, exemptions, and tax payments were taken from coal severance tax returns. Estimates of future production came from a survey of the coal companies. Forecasts of national coal prices are derived from Global Insight's October 2006 forecast.