

HOUSE BILL 34

Introduced by Davis

12/27	Introduced
12/27	Referred to Taxation
12/28	Fiscal Note Requested
1/07	First Reading
1/09	Fiscal Note Received
1/11	Fiscal Note Printed
1/15	Revised Fiscal Note Printed
1/17	Hearing
3/27	Tabled in Committee

HOUSE BILL NO. 34
INTRODUCED BY DAVIS

A BILL FOR AN ACT ENTITLED: "AN ACT ESTABLISHING THE SEVERANCE TAX RATE AT 40 PERCENT FOR SURFACE-MINED COAL; AMENDING SECTIONS 15-35-103 AND 15-35-202, MCA; AND PROVIDING AN EFFECTIVE DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-35-103, MCA, is amended to read:

"15-35-103. Severance tax -- rates imposed. (1) Subject to the provisions of 15-35-202 allowing a new coal production incentive tax credit, a severance tax is imposed on each ton of coal produced in the state in accordance with the following schedule of:

(a) -- After June 30, 1987, and before July 1, 1990:

Heating quality (Btu per pound ---of-coal):	Surface-- Mining--	Underground Mining---
Under-7,000	17% of value	3% of value
7,000 and over	25% of value	4% of value

(b) -- After June 30, 1990, and before July 1, 1991:

Heating quality (Btu per pound ---of-coal):	Surface-- Mining--	Underground Mining---
Under-7,000	13% of value	3% of value
7,000 and over	20% of value	4% of value

(c) -- After June 30, 1991:

Heating quality (Btu per pound of coal):	Surface Mining	Underground Mining
Under 7,000	10% of value	3% of value
7,000 and over	15% <u>40%</u> of value	4% of value

(2) "Value" means the contract sales price.

(3) The formula which yields the greater amount of tax in a particular case shall be used at each point on these schedules.

(4) A person is not liable for any severance tax upon 50,000 tons of the coal he produces in a calendar year, except that if he produces more than 50,000 tons of coal in a calendar year, he will be liable for severance tax upon all coal produced in excess of the first 20,000 tons.

(5) A new coal production incentive tax credit may be claimed on certain coal as provided in 15-35-202."

Section 2. Section 15-35-202, MCA, is amended to read:

"15-35-202. New coal production incentive tax credit allowed -- application limited. (1) A coal mine operator is entitled to a new coal production incentive tax credit against the tax imposed under 15-35-103 of:

(a) -- 40% -- for incremental production sold after June 30,



1 1988, and before July 1, 1990, and
2 (b) -- 25% 62.5% for incremental production sold after
3 June 30, 1990, and before July 1, 1991.

4 (2) A coal mine operator is entitled to a new coal
5 production incentive tax credit against the tax imposed
6 under 15-35-103 on incremental production for the entire
7 term of an agreement, except as provided in subsection (3),
8 and is entitled to adjustment of the base consumption level
9 and the base production level, as defined in 15-35-102, if
10 the incremental production resulted from coal purchases
11 under:

12 (a) an existing agreement which was extended after
13 December 31, 1984, and before July 1, 1991, for at least a
14 5-year period; or

15 (b) a new agreement that was executed after December
16 31, 1984, and before July 1, 1991.

17 (3) No credit may be claimed for coal produced prior to
18 January 1, 1985."

19 NEW SECTION. **Section 3.** Effective date. [This act] is
20 effective July 1, 1991.

-End-

STATE OF MONTANA - FISCAL NOTE
Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB0034, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act establishing the severance tax rate at 40 percent for surface-mined coal; and providing an effective date.

ASSUMPTIONS:


1. Coal production will be 34,750,000 tons in FY92 and 34,482,000 tons in FY93 under current law (OBPP).
2. The average contract sales price will be \$7.32 in FY92 and \$7.33 in FY93 under current law (OBPP).
3. Production subject to the incentive tax credit remains constant through the biennium.
4. The severance tax rate is currently 20%, but is scheduled to decline to 15% after June 30, 1991.
5. The quantity of taxable coal production will be affected by the proposed coal severance tax rate (increased from 15% to 40%). Since there is considerable disagreement about the amount of this production effect, two different production assumptions are presented. Scenerio 1 assumes a 15% decline in taxable production based on historical production changes in response to the lowering of the tax rate from 30% to 15%. Scenerio 2 assumes a more dramatic decline of 50%, which assumes some producers will buy-out existing contracts and/or take minimum contract tonnages.
6. Deposits into the coal trust fund in each fiscal year will be invested in short term instruments for one month and long term securities for two months. The previous year collections will remain invested long term securities.
7. Short term interest rates will be 8.10% and 8.36% in FY92 and FY93, respectively. Long term rates will average 9.35% in FY 92 and 9.46% in FY93. (OBPP)

FISCAL IMPACT:

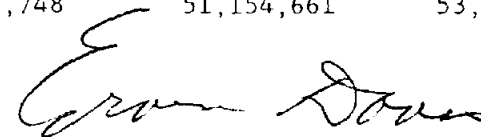
Scenerio #1 - 15% Production Decline

Revenues:

	FY '92			FY '93		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Coal Severance Tax	38,595,480	72,469,759	33,874,279	37,108,961	80,813,265	43,704,304
Coal Trust Fund Interest Earnings	49,233,605	49,607,353	373,748	51,154,661	53,451,109	2,296,448



 ROD SUNDSTED, BUDGET DIRECTOR DATE
 Office of Budget and Program Planning 1-9-91



 ERVIN DAVIS, PRIMARY SPONSOR DATE
 1/10/91

Fiscal Note for HB0034, as introduced

HB 34

Scenerio #1 - 15% Production Decline (cont.)

Fund Information:

	FY 92			FY 93		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Coal Severance Tax:						
General Fund	5,939,844	11,153,096	5,213,252	5,711,069	12,437,161	6,726,092
Conservation Districts	73,331	137,693	64,362	70,507	153,545	83,038
County Land Planning	146,663	275,385	128,722	141,014	307,090	166,076
Local Impact	2,566,599	4,819,239	2,252,640	2,467,746	5,374,082	2,906,336
Agricultural Growth	293,326	550,770	257,444	282,028	614,181	332,153
Public Schools	4,399,885	8,261,553	3,861,668	4,230,422	9,212,712	4,982,290
State Library	146,663	275,385	128,722	141,014	307,090	166,076
Renewable Resource	183,329	344,231	160,902	176,268	383,863	207,595
Parks Trust	733,314	1,376,925	643,611	705,070	1,535,452	830,382
Permanent Trust	19,297,740	36,234,880	16,937,140	18,554,481	40,406,633	21,852,152
Water Development	183,329	344,231	160,902	176,268	383,863	207,595
Highway Trust	4,631,457	8,696,371	4,064,914	4,453,074	9,697,593	5,244,519
Total	38,595,480	72,469,759	33,874,279	37,108,961	80,813,265	43,704,304
Coal Trust Fund Interest Earnings:						
General Fund (01)	41,848,564	42,166,250	317,686	43,481,462	45,433,443	1,951,981
Foundation Program (02)	7,385,041	7,441,103	56,062	7,673,199	8,017,666	344,467
Total	49,233,605	49,607,353	373,748	51,154,661	53,451,109	2,296,448

HB 34

Scenerio #2 - 50% Production Decline

Revenues:

	FY '92			FY '93		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Coal Severance Tax	38,595,480	41,336,941	2,741,461	37,108,961	45,673,986	8,565,025
Coal Trust Fund Interest Earnings	49,233,605	48,906,930	(326,675)	51,154,661	51,179,903	25,242

Fund Information:

	FY 92			FY 93		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Coal Severance Tax:						
General Fund	5,939,844	6,361,755	421,911	5,711,069	7,029,226	1,318,157
Conservation Districts	73,331	78,540	5,209	70,507	86,781	16,274
County Land Planning	146,663	157,080	10,417	141,014	173,561	32,547
Local Impact	2,566,599	2,748,907	182,308	2,467,746	3,037,320	569,574
Agricultural Growth	293,326	314,161	20,835	282,028	347,122	65,094
Public Schools	4,399,885	4,712,411	312,526	4,230,422	5,206,834	976,412
State Library	146,663	157,080	10,417	141,014	173,561	32,547
Renewable Resource	183,329	196,350	13,021	176,268	216,951	40,683
Parks Trust	733,314	785,402	52,088	705,070	867,806	162,736
Permanent Trust	19,297,740	20,668,471	1,370,731	18,554,481	22,836,993	4,282,512
Water Development	183,329	196,350	13,021	176,268	216,951	40,683
Highway Trust	4,631,457	4,960,434	328,977	4,453,074	5,480,880	1,027,806
Total	38,595,480	41,336,941	2,741,461	37,108,961	45,673,986	8,565,025
Coal Trust Fund Interest Earnings:						
General Fund (01)	41,848,564	41,570,891	(277,673)	43,481,462	43,502,918	21,456
Foundation Program (02)	7,385,041	7,336,039	(49,002)	7,673,199	7,676,985	3,786
Total	49,233,605	48,906,930	(326,675)	51,154,661	51,179,903	25,242

HB 34

STATE OF MONTANA - FISCAL NOTE
Form BD-15

In compliance with a written request, there is hereby submitted a Revised Fiscal Note for HB0034, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act establishing the severance tax rate at 40 percent for surface-mined coal; and providing an effective date.

ASSUMPTIONS:

1. Coal production will be 34,750,000 tons in FY92 and 34,482,000 tons in FY93 under current law (OBPP).
2. The average contract sales price will be \$7.32 in FY92 and \$7.33 in FY93 under current law (OBPP).
3. Production subject to the incentive tax credit remains constant through the biennium.
4. The severance tax rate is currently 20%, but is scheduled to decline to 15% after June 30, 1991.
5. The quantity of taxable coal production will be affected by the proposed coal severance tax rate (increased from 15% to 40%). Since there is considerable disagreement about the amount of this production effect, two different production assumptions are presented. Scenerio 1 assumes a 15% decline in taxable production based on historical production changes in response to the lowering of the tax rate from 30% to 15%. Scenerio 2 assumes a more dramatic decline of 50%, which assumes some producers will buy-out existing contracts and/or take minimum contract tonnages.
6. Deposits into the coal trust fund in each fiscal year will be invested in short term instruments for one month and long term securities for two months. The previous year collections will remain invested long term securities.
7. Short term interest rates will be 8.10% and 8.36% in FY92 and FY93, respectively. Long term rates will average 9.35% in FY 92 and 9.46% in FY93. (OBPP)

FISCAL IMPACT:

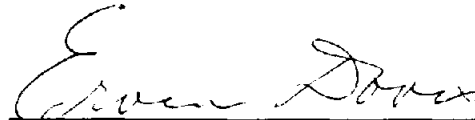
see next 4 pages



ROD SUNDSTED, BUDGET DIRECTOR
Office of Budget and Program Planning

1-12-91

DATE



ERVIN DAVIS, PRIMARY SPONSOR

1/15/91

DATE

Revised Fiscal Note for HB0034, as introduced

HB 24 Rev.

FISCAL IMPACT:

Scenerio #1 - 15% Production Decline

Revenues:

	<u>FY 92</u>			<u>FY 93</u>		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Coal Severance Tax	38,595,480	72,469,759	33,874,279	37,108,961	80,813,265	43,704,304
Coal Trust Fund						
Interest Earnings	49,233,605	49,607,353	373,748	51,154,661	53,451,109	2,296,448
U.S. Mineral Royalties	24,499,818	22,494,742	(2,005,076)	24,057,560	22,180,347	(1,877,213)
Resource Indemnity						
Trust Tax	5,377,173	5,196,360	(180,813)	4,893,590	4,713,917	(179,673)
Resource Indemnity Trust						
Interest Earnings	7,952,931	7,934,278	(18,653)	8,604,746	8,569,020	(35,726)
Local Government Severance						
Tax (Coal)	13,012,259	13,012,259	0	12,734,660	10,837,910	(1,896,750)
Parks Acquisition Trust						
Interest Earnings	1,953,871	2,016,926	63,055	2,025,776	2,169,130	143,354
Total	140,625,137	172,731,677	32,106,540	140,579,954	182,734,698	42,154,744

Fund Information:

	<u>FY 92</u>			<u>FY 93</u>		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Coal Severance Tax:						
General Fund	5,939,844	11,153,096	5,213,252	5,711,069	12,437,161	6,726,092
Conservation Districts	73,331	137,693	64,362	70,507	153,545	83,038
County Land Planning	146,663	275,385	128,722	141,014	307,090	166,076
Local Impact	2,566,599	4,819,239	2,252,640	2,467,746	5,374,082	2,906,336
Agricultural Growth	293,326	550,770	257,444	282,028	614,181	332,153
Public Schools	4,399,885	8,261,553	3,861,668	4,230,422	9,212,712	4,982,290
State Library	146,663	275,385	128,722	141,014	307,090	166,076
Renewable Resource	183,329	344,231	160,902	176,268	383,863	207,595
Parks Trust	733,314	1,376,925	643,611	705,070	1,535,452	830,382
Permanent Trust	19,297,740	36,234,880	16,937,140	18,554,481	40,406,633	21,852,152
Water Development	183,329	344,231	160,902	176,268	383,863	207,595
Highway Trust	4,631,457	8,696,371	4,064,914	4,453,074	9,697,593	5,244,519
Total	38,595,480	72,469,759	33,874,279	37,108,961	80,813,265	43,704,304

HB 24 REV

Fiscal Note Request, HB0034, as introduced, revised

Form BD-15

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	FY 92			FY 93		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Coal Trust Fund Interest Earnings:						
General Fund (01)	41,848,564	42,166,250	317,686	43,481,462	45,433,443	1,951,981
Foundation Program (02)	7,385,041	7,441,103	56,062	7,673,199	8,017,666	344,467
Total	49,233,605	49,607,353	373,748	51,154,661	53,451,109	2,296,448
U.S Mineral Royalties:						
(Foundation Program) (02)	24,499,818	22,494,742	(2,005,076)	24,057,560	22,180,347	(1,877,213)
RITT:						
(RIT Fund) (09)	5,377,173	5,196,360	(180,813)	4,893,590	4,713,917	(179,673)
Rit Interest Earnings:						
Water Development (02)	2,385,879	2,380,283	(5,596)	2,581,424	2,570,706	(10,718)
Dept. of Health (02)	1,272,469	1,269,484	(2,985)	1,376,759	1,371,043	(5,716)
Renewable Resources (02)	636,234	634,742	(1,492)	688,380	685,522	(2,858)
Reclamation and Development (02)	3,658,348	3,649,768	(8,580)	3,958,183	3,941,749	(16,434)
Total	7,952,930	7,934,277	(18,653)	8,604,746	8,569,020	(35,726)
Local Government Severance Tax:						
Foundation Program (02)	5,323,197	5,323,197	0	5,832,670	4,433,690	(1,398,980)
University Levy (02)	709,760	709,760	0	694,618	591,159	(103,459)
Local Governments	6,979,302	6,979,302	0	6,207,372	5,813,061	(394,311)
Total	13,012,259	13,012,259	0	12,734,660	10,837,910	(1,896,750)
Parks Acquisition Trust Interest Earnings:						
Fish, Wildlife and Parks (02)	1,302,581	1,344,618	42,037	1,350,518	1,446,087	95,569
Arts Council (02)	651,290	672,308	21,018	675,258	723,043	47,785
Total	1,953,871	2,016,926	63,055	2,025,776	2,169,130	143,354

HB 34 Rev.

Scenerio #2 - 50% Production Decline

Revenues:

	<u>FY '92</u>			<u>FY '93</u>		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Coal Severance Tax	38,595,480	41,336,941	2,741,461	37,108,961	45,673,986	8,565,025
Coal Trust Fund						
Interest Earnings	49,233,605	48,906,930	(326,675)	51,154,661	51,179,903	25,242
U.S. Mineral Royalties	24,499,818	17,816,232	(6,683,586)	24,057,560	17,800,182	(6,257,378)
Resource Indemnity						
Trust Tax (RITT)	5,377,173	4,774,463	(602,710)	4,893,590	4,294,680	(598,910)
Resource Indemnity Trust						
Interest Earnings	7,952,931	7,890,752	(62,179)	8,604,746	8,485,658	(119,088)
Local government Severance						
Tax (Coal)	13,012,259	13,012,259	0	12,734,660	6,412,158	(6,322,502)
Parks Acquisition Trust						
Interest Earnings	1,953,871	1,948,820	(5,051)	2,025,776	2,037,170	11,394
Total	140,625,137	135,686,397	(4,938,740)	140,579,954	135,883,737	(4,696,217)

Fund Information:

	<u>FY 92</u>			<u>FY 93</u>		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Coal Severance Tax:						
General Fund	5,939,844	6,361,755	421,911	5,711,069	7,029,226	1,318,157
Conservation Districts	73,331	78,540	5,209	70,507	86,781	16,274
County Land Planning	146,663	157,080	10,417	141,014	173,561	32,547
Local Impact	2,566,599	2,748,907	182,308	2,467,746	3,037,320	569,574
Agricultural Growth	293,326	314,161	20,835	282,028	347,122	65,094
Public Schools	4,399,885	4,712,411	312,526	4,230,422	5,206,834	976,412
State Library	146,663	157,080	10,417	141,014	173,561	32,547
Renewable Resource	183,329	196,350	13,021	176,268	216,951	40,683
Parks Trust	733,314	785,402	52,088	705,070	867,806	162,736
Permanent Trust	19,297,740	20,668,471	1,370,731	18,554,481	22,836,993	4,282,512
Water Development	183,329	196,350	13,021	176,268	216,951	40,683
Highway Trust	4,631,457	4,960,434	328,977	4,453,074	5,480,880	1,027,806
Total	38,595,480	41,336,941	2,741,461	37,108,961	45,673,986	8,565,025

HB 34 Rev.

Fiscal Note Request, HB0034, as introduced, revised

Form BD-15

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	FY 92			FY 93		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
Coal Trust Fund Interest Earnings:						
General Fund (01)	41,848,564	41,570,891	(277,673)	43,481,462	43,502,918	21,456
Foundation Program (02)	7,385,041	7,336,039	(49,002)	7,673,199	7,676,985	3,786
Total	49,233,605	48,906,930	(326,675)	51,154,661	51,179,903	25,242
U.S Mineral Royalties:						
(Foundation Program) (02)	24,499,818	17,816,232	(6,683,586)	24,057,560	17,800,182	(6,257,378)
RITT:						
(RIT Fund) (09)	5,377,173	4,774,463	(602,710)	4,893,590	4,294,680	(598,910)
Rit Interest Earnings:						
Water Development (02)	2,385,879	2,367,226	(18,653)	2,581,424	2,545,697	(35,727)
Dept. of Health (02)	1,272,469	1,262,520	(9,949)	1,376,759	1,357,705	(19,054)
Renewable Resources (02)	636,234	631,260	(4,974)	688,380	678,853	(9,527)
Reclamation and Development (02)	3,658,348	3,629,746	(28,602)	3,958,183	3,903,403	(54,780)
Total	7,952,930	7,890,752	(62,178)	8,604,746	8,485,658	(119,088)
Local Government Severance Tax:						
Foundation Program (02)	5,323,197	5,323,197	0	5,832,670	2,623,155	(3,209,515)
University Levy (02)	709,760	709,760	0	694,618	349,754	(344,864)
Local Governments	6,979,302	6,979,302	0	6,207,372	3,439,249	(2,768,123)
Total	13,012,259	13,012,259	0	12,734,660	6,412,158	(6,322,502)
Parks Acquisition Trust Interest Earnings:						
Fish, Wildlife and Parks (02)	1,302,581	1,299,214	(3,367)	1,350,518	1,358,114	7,596
Arts Council (02)	651,290	649,606	(1,684)	675,258	679,056	3,798
Total	1,953,871	1,948,820	(5,051)	2,025,776	2,037,170	11,394

HB 34 Rev.