

Coal Severance Tax

Revenue Description

For large producers, the coal severance tax is imposed on all coal production, except that on reservations, in excess of 20,000 tons per company per calendar year. Producers of 50,000 tons or less in any calendar year are exempt from the tax.

Statutory Reference

Tax Rate – [15-35-103, MCA](#)

Tax Distribution – [Montana Constitution, Article IX, Section 5](#); [15-35-108, MCA](#); [17-5-703, MCA](#)

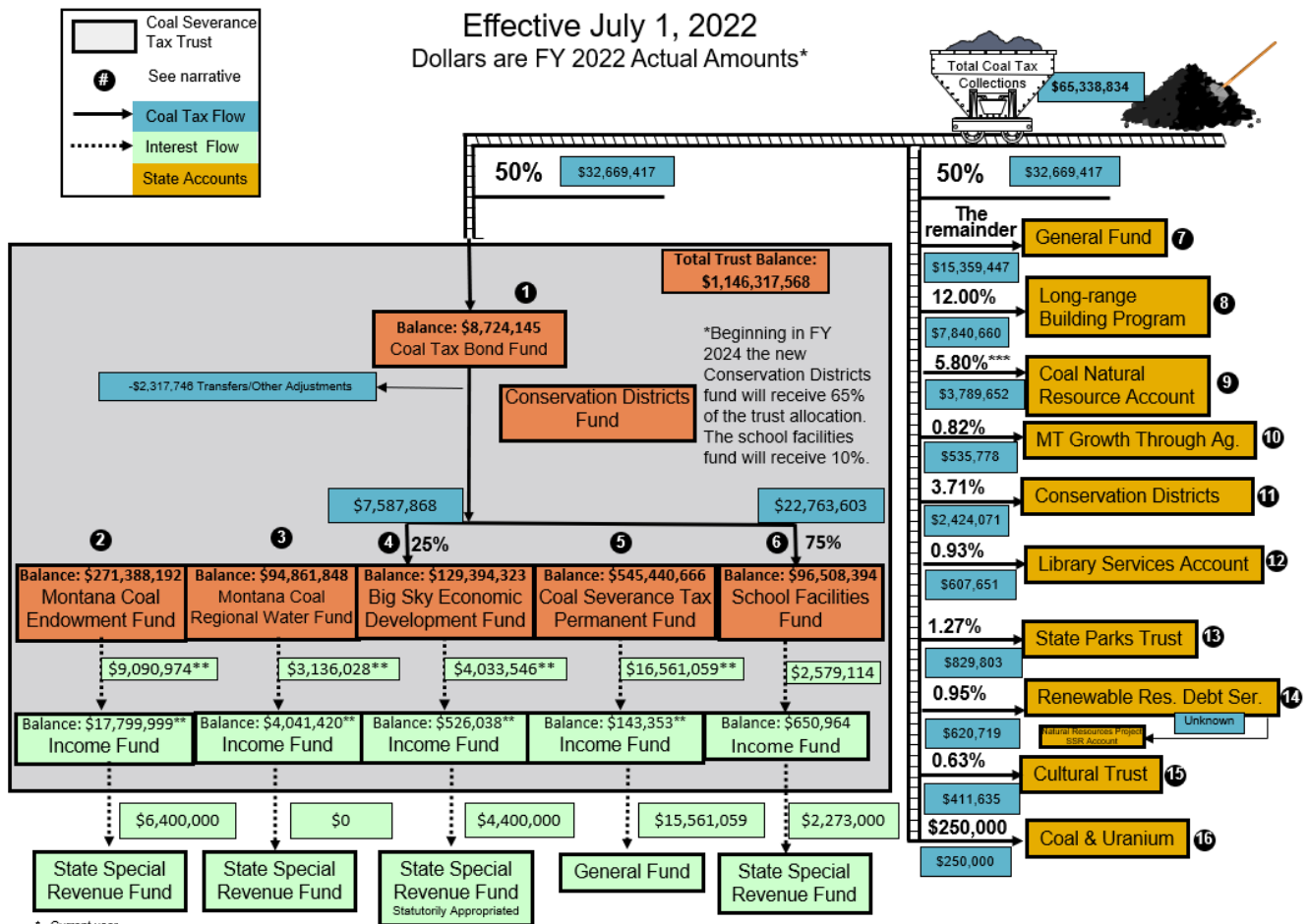
Date Due – Thirty days following the close of the quarter ([15-35-104, MCA](#))

Applicable Tax Rates

- 10.0% on the value of surfaced mined coal with a heating quality < 7,000 BTU
- 15.0% on the value surfaced mined coal with a heating quality ≥ 7,000 BTU
- 3.0% on the value underground mined coal with a heating quality < 7,000 BTU
- 4.0% on the value underground mined coal with a heating quality ≥ 7,000 BTU
- 3.75% on the value of auger mined coal with a heating quality < 7,000 BTU
- 5.0% on the value of auger mined coal with a heating quality ≥ 7,000 BTU

Collection Frequency: Quarterly

Distribution



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As directed by [Article IX, Section 5](#) of the Montana Constitution, the coal severance tax trust fund receives 50.0% of total coal severance tax collections. The money flows through sub-trust funds within the trust. These sub-trusts are:

❶ Coal Tax Bond Fund ([Title 17, Chapter 5, Part 7](#)) – The legislature authorizes the sale of coal severance tax bonds to finance renewable resource projects ([Title 85, Chapter 1, Part 6](#)) and local government infrastructure projects ([Title 90, Chapter 6, Part 7](#)). A maximum of \$250 million in bonds is authorized as loans for renewable resource projects ([17-5-719, MCA](#)) to provide:

- a healthy economy
- alleviation of social and economic impacts created by coal development
- a clean and healthful environment

The total amount of outstanding principal of renewable resource bonds at any time cannot exceed \$30 million ([85-1-624, MCA](#)). An amount equal to the following year's principal and interest payments is maintained in the fund. Money in the fund is pledged to pay the debt service on the bonds if interest and principal payments by the loan recipients are insufficient to fully pay the debt service. Bonds are authorized, projects approved, loan rates established, and bond proceeds are appropriated by the legislature to the Department of Natural Resources and Conservation (DNRC) in HB 8.

❷ Montana Coal Endowment Fund ([Title 90, Chapter 6, Part 7](#)) – In June 1992, the voters approved a legislative referendum establishing the treasure state endowment program. Initially funded with \$10 million from the permanent fund, the fund received 75.0% (37.5% of the total) of the remaining coal severance tax revenue after deposits (if any) to the coal tax bond fund and the school bond contingency loan fund (HB 44 in the 2007 Session eliminated this fund) through the 2003 biennium. From then through FY 2016, the fund received 50.0% (25.0% of the total). Projects are approved and interest earnings from the fund are appropriated to the Department of Commerce by the legislature in House Bill 11 as grants for local government infrastructure projects. The deposit of coal severance tax revenue into this fund terminated at the end of FY 2016. In the 2021 Legislative Session, [SB 258](#) changed the name of this fund to the Montana Coal Endowment Fund.

❸ Montana Coal Endowment Regional Water System Fund – The treasure state endowment program was established in [SB 220 \(1999 Session\)](#) to fund regional water system projects. Projects are restricted to drinking water systems that provide water for domestic, industrial, and stock water use for communities and rural residences that lie in specific north central and northeastern geographic areas. Projects are approved and interest earnings from the fund are appropriated to the Department of Commerce by the legislature in HB 11 as grants for local government infrastructure projects. Until the end of FY 2016, the fund received 25.0% (12.5% of the total) of the remaining coal severance tax revenue after deposits in the coal tax bond fund. The deposit of coal severance tax revenue into this fund terminated at the end of FY 2016, and the fund terminates at the end of FY 2031. In the 2021 Legislative Session, [SB 258](#) changed the name of this fund to the Montana Coal Endowment Regional Water Fund.

❹ Big Sky Economic Development Fund – The big sky economic development program was established by [HB 249 \(2005 Session\)](#) to fund qualified economic development projects. The fund receives 25.0% (12.5% of the total) of the remaining coal severance tax revenue after deposits in the coal tax bond fund. With the passage of [HB 881](#) in the 2023 Legislative Session, the deposits of coal severance tax revenue to this fund now terminate at the end of FY 2035. Grants and loans are available to local governments for economic development projects and to certified regional development corporations for the purposes of:

- 1) creating good-paying jobs for Montana residents;
- 2) promoting long-term, stable economic growth;
- 3) encouraging local economic development organizations; and
- 4) retaining or expanding existing businesses

Interest earnings are deposited to a state special revenue fund and are statutorily appropriated to the Department of Commerce to pay administrative expenses with the remainder for:

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- 75.0% to local governments to be used for job creation; and
- 25.0% to certified regional development corporations and economic development organizations

⑤ Permanent Fund – Prior to the establishment of the previous four funds, all the coal severance tax revenue distributed to the trust fund was deposited to the permanent fund. From FY 2006 to FY 2016 no coal severance tax revenue was deposited to the fund. In FY 2017, the permanent fund received 75.0% of the remaining coal severance tax revenue after deposits in the coal tax bond fund. Interest earnings from the fund, audit revenue, and interest and penalties are deposited to the general fund. After a \$1.275 million general fund transfer to the research and commercialization account created in [90-3-1002](#), the remaining interest income from the permanent fund deposited into the general fund is statutorily appropriated as follows:

- \$65,000 to the cooperative development center
- \$625,000 for the growth through agriculture program provided for in [Title 90, chapter 9](#)
- to the Department of Commerce for specific projects
 - \$125,000 for a small business development center
 - \$50,000 for a small business innovative research program
 - \$425,000 for certified regional development corporations
 - \$200,000 for the Montana manufacturing extension center at MSU-Bozeman
 - \$300,000 for export trade enhancement
- After the above payments, the remainder is deposited into the state general fund

⑥ School Facilities Fund –The school facilities fund was created with the passage of [SB 260 \(2017 Session\)](#). Interest from the fund may be used only for school facility projects authorized by the legislature. With the passage of [HB 321](#) in the 2023 Legislative Session, the school facilities fund was filled to its \$100 million cap, and now receives 10.0% (was originally 75.0%) of the remaining coal severance tax revenue after deposits in the coal tax bond fund.

Coal Severance Tax Related Funds:

The other 50.0% of the coal severance tax revenue is distributed to the following eight funds outside of the coal severance tax trust fund ([15-35-108, MCA](#)):

⑦ General Fund (the remainder after all other allocations) –After allocations are made to the coal trust and state special funds, the remaining coal severance tax collections are distributed to the state general fund.

⑧ Long-range Building Program Account (12.0%) – Coal severance tax revenue in this account can be used for long-range building projects or for general obligation bond debt service. The legislature appropriates the money in HB 5 to finance building projects at universities, vocational education institutions, state buildings and state institutions. Debt service payments are statutorily appropriated and are currently servicing debt for capitol restoration, the UM pharmacy and psychology, and chemistry buildings, MSU central heating plant and underground utilities, Montana state prison expansion, and regional correctional facilities.

⑨ Coal Natural Resource Account (2.90% increased to 5.8% in FY 2016 and FY 2017) – Created in [HB 758 \(2005 Session\)](#) and amended by [SB 23 \(2009 Session\)](#), the account receives a portion of the coal severance tax revenue. Money in the account is appropriated to the coal board in HB 2 for local impact grants and administrative costs. Due to [SB 100 \(2009 Session\)](#), the coal tax allocation was doubled to 5.8% beginning FY 2010. After September 2013, the allocation decreased to 2.9%. The allocation was increased to 5.8% for FY 2016 and FY 2017, and again for FY 2018 and FY 2019 with the passage of [HB 209 \(2017 Session\)](#).

⑩ Conservation Districts Fund (3.71%) – The money is distributed to the conservation districts program within the Department of Natural Resources and Conservation on the basis of need.

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- ① Basic Library Services Fund (0.93%) – The money is distributed by the commission to public library federations.
- ⑫ Growth through Agriculture Fund (0.82%) – Money is granted or loaned by the Agriculture Development Council to businesses for agricultural development projects that stimulate agriculture.
- ⑬ State Parks Trust (1.27%) – The distribution to this trust is for the purpose of parks acquisition or management. Interest earnings from the trust is appropriated to the Department of Fish, Wildlife, and Parks (FWP) by the legislature in HB 2 and HB 5 for the acquisition, development, operation, and maintenance of state parks, recreational areas, public camping grounds, historic sites, and monuments.
- ⑭ Renewable Resource Debt Service Fund (0.95%) – Money in this fund is used to service debt on coal severance tax bonds used to finance renewable resource projects. This is in addition to any coal tax paid from the Coal Tax Bond Fund (① above). Bonds are authorized, projects approved, loan rates established, and bond proceeds are appropriated by the legislature to DNRC in HB 8.
- ⑮ Cultural Trust (0.63%) – The distribution to this trust is for the purpose of protecting works of art in the capitol and for other cultural and aesthetic projects. Interest earnings from the trust are appropriated to the Montana Arts Council by the legislature in HB 9 for these purposes.
- ⑯ Coal and Uranium Mine Permitting and Reclamation Program (\$250,000) – Enacted by [HB 688 \(2007 Session\)](#), coal severance tax revenue is deposited to the state special revenue account and appropriated in HB 2 to the Department of Environmental Quality (DEQ) to administer and enforce coal and uranium mine reclamation ([82-4-244, MCA](#)).

Summary of Legislative Action:

[HB 188](#) extended the 5.8% allocation of coal severance tax to the Coal Board indefinitely. Originally, this allocation was set to be reduced to 2.9% on July 1, 2023.

[HB 321](#) established a conservation district fund and coal board fund within the coal tax trust fund. The new conservation district fund will receive 65.0% of the coal severance tax revenue deposited into the coal tax trust fund beginning in FY 2024.

Coal Severance Tax – Legislation Passed by 68th Legislature			
General Fund Impact (\$ Millions)			
Bill Number and Short Title	FY 2023	FY 2024	FY 2025
HB0188 Extend funding to Coal Board	\$0.000	(\$2.224)	(\$1.835)
Total General Fund Impact	\$0.000	(\$2.224)	(\$1.835)

Forecast Risks

- Energy prices
- Production and shipping costs
- Type of coal (BTU)
- Length of company contracts
- Decreased demand domestically

Revenue Estimate Methodology

Data

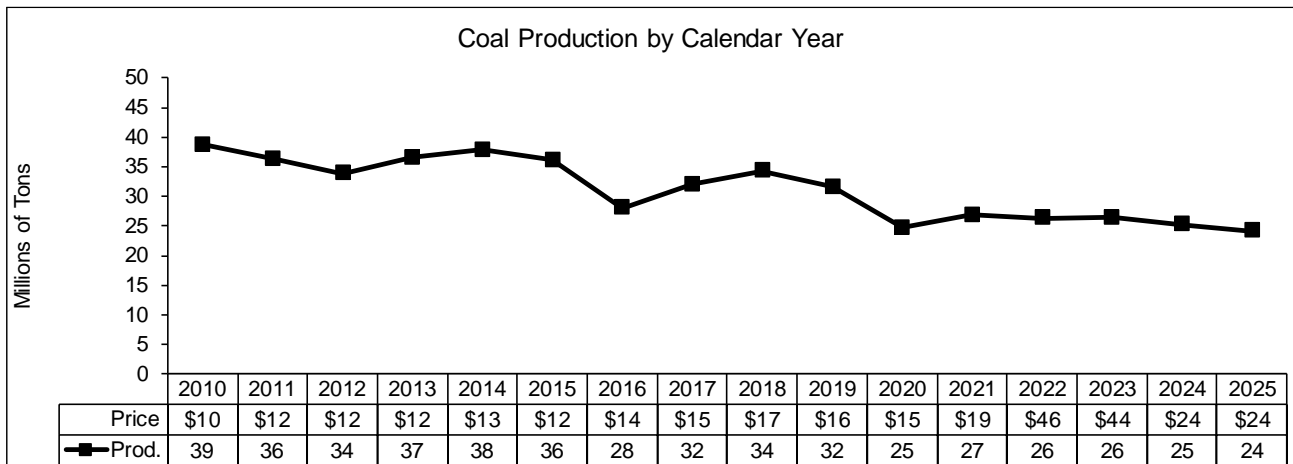
The estimate for this revenue source is based on collection data from SABHRS, historical price and production data from DOR, and anticipated production from surveys of major coal companies.

Analysis

The taxable value of coal is determined in a three-step process:

1. The future coal production for each company, based upon most recent years' trends.
2. To determine the future price for each company's coal, the company's average contract sales price for the last year is increased by an average price. The average contract sales price for all companies is shown in the figure below.
3. The estimated production and price for each company are multiplied together and the product for all companies summed to obtain the total taxable value.

The calendar year taxable value is multiplied by the applicable tax rate to determine total coal severance tax revenue and converted to fiscal year basis.

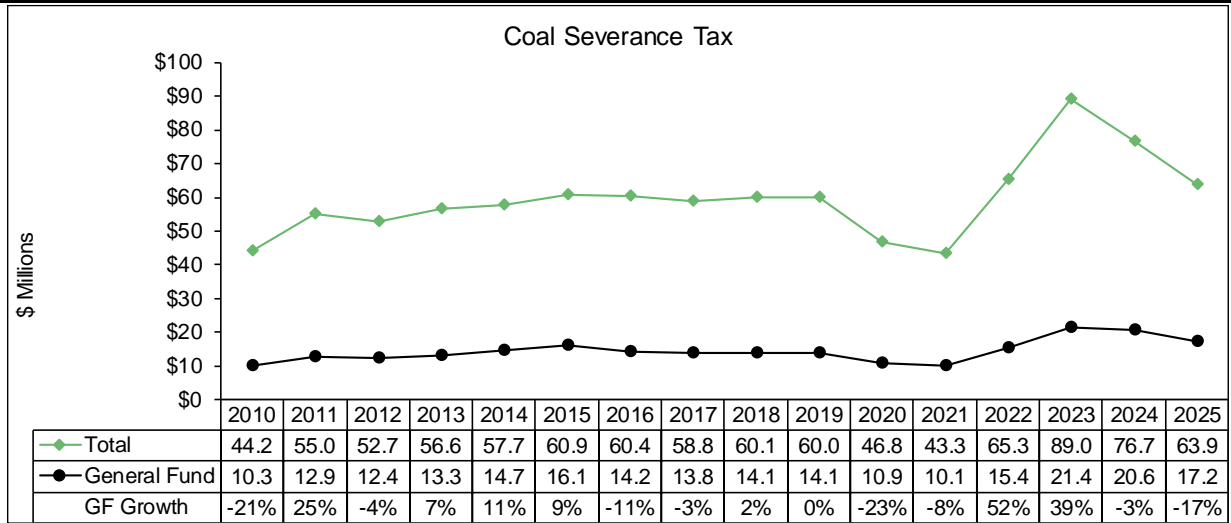


Revenue Estimate Assumptions

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2023 Legislature.

FY	Total Tax \$ Millions	GF Tax \$ Millions	Tons (CY) Millions	CSP (CY) \$/Ton
A 2012	\$52.743	\$12.350	33.870	\$12.150
A 2013	56.574	13.265	36.540	12.30
A 2014	57.676	14.745	37.810	12.56
A 2015	60.891	16.063	36.075	12.38
A 2016	60.359	14.236	28.089	14.02
A 2017	58.808	13.799	31.987	14.82
A 2018	60.097	14.107	34.311	16.51
A 2019	60.028	14.091	31.543	16.29
A 2020	46.754	10.920	24.728	15.39
A 2021	43.256	10.084	26.875	18.96
A 2022	65.339	15.359	26.301	46.49
F 2023	88.961	21.374	26.405	43.89
F 2024	76.664	20.644	25.241	24.00
F 2025	63.876	17.218	24.166	24.28
F 2026	61.829	16.670	23.160	24.56
F 2027	59.846	16.138	22.169	24.85

Revenue Projection



Revenue History

