



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: **HB0858.01: Revise coal severance tax coal washing credit**

Primary Sponsor: **Larry Brewster**

Status: **As Introduced**

- ☐ Included in the Executive Budget      ☐ Needs to be included in HB 2      ☒ Significant Local Gov Impact
- ☐ Significant Long-Term Impacts      ☐ Technical Concerns      ☐ Dedicated Revenue Form Attached

### FISCAL SUMMARY

	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>	<u>FY 2028</u> <u>Difference</u>	<u>FY 2029</u> <u>Difference</u>
<b>Expenditures</b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
<b>Revenues</b>				
General Fund (01)	(\$211,295)	(\$348,761)	\$0	\$0
State Special Revenue (02)	(\$163,181)	(\$210,440)	\$0	\$0
Other	\$0	\$0	\$0	\$0
Capital Projects (05)	(\$106,134)	(\$98,826)	\$0	\$0
Debt Service (04)	(\$8,402)	(\$7,824)	\$0	\$0
Permanent Trust (09)	(\$459,030)	(\$427,423)	\$0	\$0
<b>Net Impact</b>	<u>(\$211,295)</u>	<u>(\$348,761)</u>	<u>\$0</u>	<u>\$0</u>
<b>General Fund Balance</b>				

### Description of fiscal impact

HB 858 extends the sunset date of Laws of 2009 Chapter 433 Section 7 (SB 509) and Laws of 2015 Chapter 352 Section 1 (HB 421), which provide for the definition of coal washing and the exemption of coal washing costs from the calculation of the contract sales price. The sunset date is pushed out two years to July 1, 2027. The continued allowance of the coal washing deduction reduces coal severance tax revenue relative to current law in FY 2026 and FY 2027, which lowers the distribution amounts to all recipients of coal severance tax revenue.

### FISCAL ANALYSIS

#### Assumptions

#### Department of Revenue

1. Coal severance tax is imposed on the value of coal as measured by the contract sales price defined in 15-35-102, MCA.
2. Until July 1, 2025, the contract sales price excludes costs associated with coal washing, which is any treatment employed to remove impurities from underground mined coal.
3. HB 858 allows the contract sales price deduction for coal washing to remain in place until July 1, 2027, by

amending section 7, chapter 433, Laws of 2009 and section 1, chapter 352, Laws of 2015. The bill is effective upon passage and approval.

4. Based on historical information available to the department, the cost of coal washing is estimated to be \$3.85 per ton.
5. The HJ 2 estimate for the contract sales price assumes that coal washing takes place in FY 2026 and FY 2027.
6. To project the amount of the continued coal washing deduction, the cost of \$3.85 per ton is multiplied by the HJ 2 estimate of underground tons sold for the period FY 2026 – FY 2027. Current law contract sales price projections will be reduced by this amount, which is estimated to be \$22.1 million in FY 2026 and \$20.6 million in FY 2027.
7. The reduction in the value of the contract sales price under HB 858 will impact collections of coal severance taxes, coal gross proceeds, and resource indemnity taxes, all of which are assessed on the contract sales price.
8. For underground coal, the severance tax rate is 4% of the contract sales price.
9. HB 858 reduces coal severance tax collections relative to current law by \$884,000 in FY 2026 and \$824,000 in FY 2027.
10. Coal severance tax is distributed to many accounts across multiple fund types. The fiscal impact to these distributions from lower coal severance tax revenue is shown in the table below.

<b>HB 858 Fiscal Impact to Distribution of Coal Severance Tax Revenue</b>			
		<b>FY 2026</b>	<b>FY 2027</b>
<b>Change in Coal Severance Tax Revenue</b>		<b>-\$884,451</b>	<b>-\$823,551</b>
<b>Allocation</b>	<b>Recipient</b>		
50.00%	Coal Tax Trust Fund	-\$442,226	-\$411,776
12.00%	Long-Range Building Account	-\$106,134	-\$98,826
0.93%	Library Services	-\$8,225	-\$7,659
3.71%	Conservation Districts	-\$32,813	-\$30,554
0.82%	Growth through Agriculture	-\$7,252	-\$6,753
5.80%	Coal Board	-\$51,298	-\$47,766
1.27%	Parks Trust Fund	-\$11,233	-\$10,459
0.95%	Renewable Resource Debt Service	-\$8,402	-\$7,824
0.63%	Cultural and Aesthetic Trust Fund	-\$5,572	-\$5,188
	General Fund	-\$211,295	-\$196,746

11. There will be a minimal reduction in interest earnings generated from the coal tax trust fund resulting from the loss of revenue deposited into the trust. Lost interest earnings are projected to be about \$19,000 in FY 2026 and \$18,500 in FY 2027. The fiscal impact will be a reduction in revenue to the state special revenue fund.
12. The tax rate on coal gross proceeds from an underground mine is 2.5% of the contract sales price.
13. Revenue from the coal gross proceeds tax is allocated to the state, county, and school districts in the same relative proportions as they were distributed in FY 1990 (15-23-703(3)(a), MCA). This results in estimated allocations of 55% to the state, 40% to local governments, and 5% to the university system for the period FY 2026 – FY 2027.
14. Coal gross proceeds are reported on a calendar year basis and taxes are assessed in the second half of the ensuing calendar year, e.g., CY 2023 coal gross proceeds translate to FY 2025 tax revenue.
15. HB 858 affects the calculation of the contract sales price starting in the second half of CY 2025. For coal

gross proceeds revenue projected for FY 2027, the revenue impact is halved as a result. The fiscal impact to the distribution of coal gross proceeds revenue is outlined in the table below.

<b>HB 858 Fiscal Impact to Distribution of Coal Gross Proceeds Tax Revenue</b>		
	<b>FY 2026</b>	<b>FY 2027</b>
<b>Change in Coal Gross Proceeds Revenue</b>	<b>\$0</b>	<b>-\$276,391</b>
<b>Allocation Recipient</b>		
55% State General Fund		-\$152,015
40% Local Governments		-\$110,556
5% University System		-\$13,820

16. There is a resource indemnity tax on mineral production in the state (15-38-104, MCA). The resource indemnity tax rate for coal is 0.4% of the gross value, which 15-38-125, MCA, defines as the contract sales value.
17. Resource indemnity taxes are collected on a calendar year basis and distributed in the first half of the ensuing calendar year (second half of the fiscal year). So, the bill's effect on FY 2026 collections will be halved because only the second half of CY 2025 is impacted.
18. Resource indemnity tax revenue is distributed per 15-38-106, MCA. After taking any amount needed for CERCLA debt service, and the amounts to fund the fixed allocations to the water storage account and ground water assessment account, the remaining revenue is allocated 50% to the natural resource projects account, 25% to the environmental quality account, and 25% to the hazardous waste/CERCLA account, all within the state special revenue fund. Since the debt service and fixed allocation amounts do not change, the fiscal impact of HB 858 will result in less revenue to the natural resource projects, environmental quality protection, and hazardous waste/CERCLA accounts. The breakdown of this impact is presented in the table below.

<b>HB 858 Fiscal Impact to Distribution of Resource Indemnity Tax Revenue</b>		
	<b>FY 2026</b>	<b>FY 2027</b>
<b>Change in Available Resource Indemnity Tax Revenue after Fixed Allocations</b>	<b>-\$44,223</b>	<b>-\$85,400</b>
<b>Allocation Recipient</b>		
50% Natural Resource Projects Account	-\$22,111	-\$42,700
25% Environmental Quality Protection	-\$11,056	-\$21,350
25% Hazardous Waste/CERCLA	-\$11,056	-\$21,350

19. The following table summarizes the revenue impact of HB 858 by fund type.

<b>Fiscal Impact of HB 858 by Fund Type</b>		
<b>Fund Type</b>	<b>FY 2026</b>	<b>FY 2027</b>
General Fund	-\$211,295	-\$348,761
State Special	-\$163,181	-\$210,440
Capital Projects	-\$106,134	-\$98,826
Debt Service	-\$8,402	-\$7,824
Permanent Trust	-\$459,030	-\$427,423
Local Governments	\$0	-\$110,556

## Fiscal Analysis Table

	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>	<u>FY 2028</u> <u>Difference</u>	<u>FY 2029</u> <u>Difference</u>
<b><u>Fiscal Impact</u></b>				
<b><u>Expenditures</u></b>				
<b><u>Funding of Expenditures</u></b>				
<b><u>Revenues</u></b>				
General Fund (01)	(\$211,295)	(\$348,761)	\$0	\$0
State Special Revenue (02)	(\$163,181)	(\$210,440)	\$0	\$0
Other	\$0	\$0	\$0	\$0
Debt Service (04)	(\$8,402)	(\$7,824)	\$0	\$0
Capital Projects (05)	(\$106,134)	(\$98,826)	\$0	\$0
Permanent Trust (09)	(\$459,030)	(\$427,423)	\$0	\$0
<b>TOTAL Revenues</b>	<b>(\$948,042)</b>	<b>(\$1,093,274)</b>	<b>\$0</b>	<b>\$0</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u></b>				
General Fund (01)	(\$211,295)	(\$348,761)	\$0	\$0
State Special Revenue (02)	(\$163,181)	(\$210,440)	\$0	\$0
Other	\$0	\$0	\$0	\$0
Debt Service (04)	(\$8,402)	(\$7,824)	\$0	\$0
Capital Projects (05)	(\$106,134)	(\$98,826)	\$0	\$0
Permanent Trust (09)	(\$459,030)	(\$427,423)	\$0	\$0

**Effect on County or Other Local Revenues or Expenditures**

- HB 858 will reduce local government (county and school district) revenue from coal gross proceeds taxes by \$110,500 in FY 2027.



Sponsor's Initials



Date



Budget Director's Initials

3/26/2025

Date

