



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: SB0333.01: Repeal sunset on coal washing credit

Primary Sponsor: Barry Usher 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>
Expenditures				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
Revenues				
General Fund (01)	(\$211,295)	(\$348,761)	(\$477,304)	(\$446,324)
State Special Revenue (02)	(\$163,181)	(\$210,440)	(\$210,651)	(\$197,746)
Other	\$0	\$0	\$0	\$0
Capital Projects (05)	(\$106,134)	(\$98,826)	(\$92,293)	(\$86,690)
Debt Service (04)	(\$8,402)	(\$7,824)	(\$7,307)	(\$6,863)
Permanent Trust (09)	(\$459,030)	(\$427,423)	(\$399,169)	(\$374,934)
Net Impact	<u>(\$211,295)</u>	<u>(\$348,761)</u>	<u>(\$477,304)</u>	<u>(\$446,324)</u>
General Fund Balance				

Description of fiscal impact

SB 333 repeals the sunset date from Laws of 2009 Chapter 433 Section 7 (SB 509) and Laws of 2015 Chapter 352 Section 1 (HB 421). It makes permanent the definition of coal washing and the exemption of coal washing costs from the calculation of the contract sales price. The continued allowance of the coal washing deduction reduces coal severance tax revenue relative to current law, 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. SB 333 makes the contract sales price deduction for coal washing permanent by repealing 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. 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 2029. Current law contract sales price projections will be reduced by this amount, which is estimated to be \$22.1 million in FY 2026, \$20.6 million in FY 2027, \$19.2 million in FY 2028, and \$18.1 million in FY 2029.
6. The reduction in the value of the contract sales price under SB 333 will impact collections of coal severance taxes, coal gross proceeds, and resource indemnity taxes, all of which are assessed on the contract sales price.
7. For underground coal, the severance tax rate is 4% of the contract sales price.
8. SB 333 reduces coal severance tax collections relative to current law by \$884,000 in FY 2026, \$824,000 in FY 2027, \$769,000 in FY 2028, and \$722,000 in FY 2029.
9. 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.

SB 333 Fiscal Impact to Distribution of Coal Severance Tax Revenue				
	FY 2026	FY 2027	FY 2028	FY 2029
Change in Coal Severance Tax Revenue	-\$884,451	-\$823,551	-\$769,112	-\$722,415
Allocation Recipient				
50.00% Coal Tax Trust Fund	-\$442,226	-\$411,776	-\$384,556	-\$361,208
12.00% Long-Range Building Account	-\$106,134	-\$98,826	-\$92,293	-\$86,690
0.93% Library Services	-\$8,225	-\$7,659	-\$7,153	-\$6,718
3.71% Conservation Districts	-\$32,813	-\$30,554	-\$28,534	-\$26,802
0.82% Growth through Agriculture	-\$7,252	-\$6,753	-\$6,307	-\$5,924
5.80% Coal Board	-\$51,298	-\$47,766	-\$44,609	-\$41,900
1.27% Parks Trust Fund	-\$11,233	-\$10,459	-\$9,768	-\$9,175
0.95% Renewable Resource Debt Service	-\$8,402	-\$7,824	-\$7,307	-\$6,863
0.63% Cultural and Aesthetic Trust Fund	-\$5,572	-\$5,188	-\$4,845	-\$4,551
General Fund	-\$211,295	-\$196,746	-\$183,741	-\$172,585

10. 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, \$18,500 in FY 2027, \$18,000 in FY 2028, and \$17,000 in FY 2029. The fiscal impact will be a reduction in state special fund revenue.
11. The tax rate on coal gross proceeds from an underground mine is 2.5% of the contract sales price.
12. 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 2029.
13. 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.
14. SB 333 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 full impact of the reduction in the contract sales price in CY 2026 and CY 2027 will be manifest in FY 2028 and FY 2029, respectively. The fiscal impact to the distribution of coal gross proceeds revenue is outlined in the table below.

SB 333 Fiscal Impact to Distribution of Coal Gross Proceeds Tax Revenue				
	FY 2026	FY 2027	FY 2028	FY 2029
Change in Coal Gross Proceeds Revenue	\$0	-\$276,391	-\$533,751	-\$497,707
Allocation Recipient				
55% State General Fund		-\$152,015	-\$293,563	-\$273,739
40% Local Governments		-\$110,556	-\$213,500	-\$199,083
5% University System		-\$13,820	-\$26,688	-\$24,885

15. 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.
16. 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.
17. 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 SB 333 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.

SB 333 Fiscal Impact to Distribution of Resource Indemnity Tax Revenue				
	FY 2026	FY 2027	FY 2028	FY 2029
Change in Available Resource Indemnity Tax Revenue after Fixed Allocations	-\$44,223	-\$85,400	-\$79,633	-\$74,576
Allocation Recipient				
50% Natural Resource Projects Account	-\$22,111	-\$42,700	-\$39,817	-\$37,288
25% Environmental Quality Protection	-\$11,056	-\$21,350	-\$19,908	-\$18,644
25% Hazardous Waste/CERCLA	-\$11,056	-\$21,350	-\$19,908	-\$18,644

18. The following table summarizes the revenue impact of SB 333 by fund type.

Fiscal Impact of SB 333 by Fund Type				
Fund Type	FY 2026	FY 2027	FY 2028	FY 2029
General Fund	-\$211,295	-\$348,761	-\$477,304	-\$446,324
State Special	-\$163,181	-\$210,440	-\$210,651	-\$197,746
Capital Projects	-\$106,134	-\$98,826	-\$92,293	-\$86,690
Debt Service	-\$8,402	-\$7,824	-\$7,307	-\$6,863
Permanent Trust	-\$459,030	-\$427,423	-\$399,169	-\$374,934
Local Governments	\$0	-\$110,556	-\$213,500	-\$199,083

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>
<u>Fiscal Impact</u>				
<u>Expenditures</u>				
<u>Funding of Expenditures</u>				
<u>Revenues</u>				
General Fund (01)	(\$211,295)	(\$348,761)	(\$477,304)	(\$446,324)
State Special Revenue (02)	(\$163,181)	(\$210,440)	(\$210,651)	(\$197,746)
Other	\$0	\$0	\$0	\$0
Debt Service (04)	(\$8,402)	(\$7,824)	(\$7,307)	(\$6,863)
Capital Projects (05)	(\$106,134)	(\$98,826)	(\$92,293)	(\$86,690)
Permanent Trust (09)	(\$459,030)	(\$427,423)	(\$399,169)	(\$374,934)
TOTAL Revenues	(\$948,042)	(\$1,093,274)	(\$1,186,724)	(\$1,112,557)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	(\$211,295)	(\$348,761)	(\$477,304)	(\$446,324)
State Special Revenue (02)	(\$163,181)	(\$210,440)	(\$210,651)	(\$197,746)
Other	\$0	\$0	\$0	\$0
Debt Service (04)	(\$8,402)	(\$7,824)	(\$7,307)	(\$6,863)
Capital Projects (05)	(\$106,134)	(\$98,826)	(\$92,293)	(\$86,690)
Permanent Trust (09)	(\$459,030)	(\$427,423)	(\$399,169)	(\$374,934)

Effect on County or Other Local Revenues or Expenditures

1. SB 333 will reduce local government (county and school district) revenue from coal gross proceeds taxes by \$110,500 in FY 2027, \$213,500 in FY 2028, and \$200,000 in FY 2029.

Significant Long-Term Impacts

1. The coal washing deduction is made permanent by SB 333, so the fiscal impacts will extend beyond FY 2029.

NO SPONSOR SIGNATURE

Sponsor's Initials

Date

3/18/25

Budget Director's Initials

3/17/2025

Date

