

Coal Industry Trends and Risks

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JANUARY 15, 2020



INTRODUCTION

As the demand for coal powered electricity continues to decline domestically, Montana's state and local revenues will likely be impacted. Currently, Montana levies a tax on coal production. These revenues help fund the general fund state budget, multiple state special funds, as well as the coal tax trust. Furthermore, coal powered electrical generating units pay property taxes to the state general fund as well as to the local governments they reside in. Impacted revenues are not just limited to severance and property taxes. The following is a list of those state and local sources that will be directly impacted.

- **Coal Severance Taxes:** These taxes are levied by the state on the production of coal. If demand decreases, then revenues from this source will certainly decline. In addition to impacting the growth of Montana's coal trust, declines will impact both the state's general fund as well as a variety of state special programs. These programs, as well as the entirety of programs funded by coal severance taxes can be seen in this [brochure](#) created by the LFD.
- **Property Taxes:** Property taxes levied against the electrical generating facilities will decline as the units cease to operate. This will have a small impact on the state general fund property tax collections. However, the impact at the local level will be material as these plants fund a significant portion of these local governments' budgets.
- **Coal Gross Proceeds:** State and local governments do not levy or assess mills against the reported gross proceeds of coal. Instead, a flat tax is levied against the reported gross proceeds of coal mines. As coal production slows, coal gross proceeds collections will decrease. Like the property tax, the state's general fund will not be significantly impacted, but those local governments where these mines are located will see significant revenue reductions.
- **Electrical Generation & Transmission Taxes:** Montana levies a tax on both the generation and transmission of electricity. These two sources are relatively small general fund sources. If coal powered units are not replaced by some other form of electrical generation both of these sources will see revenue declines.
- **US Mineral Royalties:** US Mineral Royalty revenues come from royalties, sales, bonuses, and rentals received from federal lands that reside in Montana. Currently, 48% of these revenues are paid to the state. These revenues are then distributed into the state general fund as well as the local governments. Royalty revenues will decline if coal production on federal land within the state declines.
- **Resource Indemnity and Groundwater Assessment (RIGWA):** The RIGWA tax is imposed on the gross value of coal and most minerals, excluding gravel, metals, oils, and natural gas. Collections generally total about \$2.5 million per year and are used to fund numerous natural resource and environmental quality state special funds.
- **Individual Income Taxes:** Salaries associated with mining and electrical generation are high compared to the statewide median. If these jobs are removed, or even replaced, it is highly likely that income taxes paid by those individuals will decrease.

IMPACTS

The impacts and magnitude of the impacts are difficult to estimate at this time, as there is still plenty of uncertainty regarding when these plants will cease to operate. Units 1 and 2 were scheduled to shut down by the end of 2019. Back in 2016, the LFD completed an [analysis](#) to estimate the direct impacts of these two units closing. A more recent [study](#) has been completed by DOR. While some numbers differ due to changes in coal

production from FY 2016 and FY 2019, as well as changes in property values, the final findings are very similar. The summarized assumptions and findings are as follows:

- This analysis does not account for lost revenues due to decreased activity in ancillary services; assumes that the coal used at units 1 and 2 would not find a new buyer; and assumes that no new electrical generation will replace that lost by units 1 and 2
- State general fund revenues would decline by \$7.2 million on an annual basis, DOR report estimates \$7.3 million
- Total revenues, including all state and local funds would decline by \$17.1 million per year (DOR report also shows \$17.1 million in total funds)

These findings illustrate the impacts of the closure of Colstrip units 1 and 2. The impacts of all four plants closing would be much larger, as units 1 and 2 represent only 29% of the plant’s total generating capacity.

There are still too many unknowns to estimate the future statewide financial impacts of a declining coal industry. Some of these unknowns are as follows:

- What will be the financial impact of the jobs that come from the decommissioning of coal plants as well as the associated clean-up?
- If coal electrical energy generation continues to decline domestically, will Montana’s coal mines find new buyers in foreign markets?
- At maximum capacity the Colstrip plants generate 2,094 MW. If these plants close will other electrical generating sources emerge?
- If other electrical generating sources emerge, what sort of jobs will be required to run them, where will they be located, and how will they contribute to the state/local governments’ revenue picture?
- Will research into clean coal technologies result in economically viable and fully compliant solutions that can sustain coal demand.

While state coffers will certainly be impacted, changes in the electrical grid, as well as, certain local governments will be severely impacted, as these revenues make up a much larger percent of their total revenues. For instance, according to the Montana Department of Revenue’s (DOR) most recent [Biennial Report](#), electrical generation property was responsible for \$20.0 million of the \$29.0 million in property taxes levied in Rosebud county in tax year 2018. Those areas that receive coal gross proceeds and US Mineral Royalties from local area coal mines will also see significant local revenue reductions. The most recently available data for coal gross proceeds and US Mineral Royalty payments from coal by county are shown below. In addition, these revenues as a percent of the counties’ total 2017 revenues are provided.

County	Coal Gross Proceeds (\$ Millions)				FY 2018
	FY 2015	FY 2016	FY 2017	% of '17 Revenues	
Big Horn	\$5.3	\$5.3	\$5.1	12%	\$3.6
Musselshell	1.4	1.3	0.6	7%	1.8
Richland	0.2	0.2	0.2	0%	0.2
Rosebud	3.1	3.3	3.3	7%	3.4
Yellowstone	0.7	1.1	1.4	0%	0.1
Total	\$10.8	\$11.3	\$10.6		\$9.1

Coal US Mineral Royalties (Federal Fiscal Year \$ Millions)					
County	FFY 2015	FFY 2016	FFY 2017	% of '17 Revenues	FFY 2018
Big Horn	\$3.2	\$1.9	\$2.3	5%	\$2.3
Musselshell	0.0	0.0	0.0	0%	0.1
Richland	0.0	0.0	0.0	0%	0.0
Rosebud	1.8	1.8	1.7	3%	1.3
Treasure	0.1	0.1	0.0	1%	0.0
Total	\$5.2	\$3.8	\$4.0		\$3.7

It is no surprise that Big Horn county collects the most revenues from US Mineral Royalties and coal gross proceeds, as it is home to the Spring Creek Mine, the largest producing mine in Montana. CY 2018 production amounts from the US Energy Information Administration (EIA) are as follows.

Production (Thousands of Tons)	
County	CY 2018
Big Horn	22,356
Musselshell	7,566
Richland	295
Rosebud	8,393
Total	38,610

ADDITIONAL ANALYSES

In addition to the LFD study, multiple state agencies have published analyses attempting to estimate the tax, economic, and environmental impacts. The Montana Department of Labor (DOL) provided a [study](#) with a more in depth look at the specific public services funded by the coal industry. This study and others can be found on the Colstrip Community Impact Advisory Group (CCIAG) [website](#). The website also includes a history of meeting minutes and materials. Finally, the study titled [The Changing Coal Industry: Regional Economic Impacts-Workforce Analysis-Transition Strategies](#), funded in part by the Montana Department of Commerce (DOC), provides an extensive look at impacts of the changing coal industry. The analysis studies the impacts of four very different scenarios.