



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Director
AMY CARLSON

DATE: September 7, 2016
TO: Revenue and Transportation Interim Committee
FROM: Sam Schaefer, Fiscal Analyst
RE: Energy Impacts on State Revenue

This analysis provides a brief update on the overall energy effects on state revenues. It primarily focuses on the effects of oil prices on both oil severance tax collections and corporation income tax collections. In addition, an analysis on the direct statewide impacts of closing Colstrip units 1 and 2 that was produced as a previous legislative request is attached.

OIL SEVERANCE TAX COLLECTIONS

Oil is taxed based on its value. As a result, the price of oil directly impacts oil tax revenues. As prices increase or decline, swings in total production usually follow. Currently, Montana does not have any oil rigs drilling new wells in the state. In the upcoming biennium, an increase in oil prices will unlikely generate additional revenue based on increased production. This is due to the eighteen-month tax holiday for newly completed wells coupled with capacity that will likely come online elsewhere before Montana. Therefore, swings in revenue collections will likely be governed by swings in price as opposed to production.

Updated oil tax estimates are shown below under current IHS West Texas Intermediate (WTI) price assumptions. In addition, the effects on revenue if the price were to increase by \$5/barrel and \$10/barrel are displayed.

General Fund Oil Severance Tax Revenue (\$ Millions)				
FY	WTI Forecast (\$/Barrel)	Current Estimate	\$5/Barrel Increase	\$10/Barrel Increase
2017	\$51.5	\$45.1	\$49.3	\$53.5
2018	\$58.8	\$48.6	\$52.4	\$56.3
2019	\$64.6	\$49.2	\$52.8	\$56.4

Increasing the price by \$5/barrel increases oil tax general fund revenue by \$11.7 million over the three years. A \$10/barrel increase results in \$23.3 million of additional oil tax general fund revenue.

CORPORATION INCOME TAX COLLECTIONS

The price of oil also plays a role in revenues collected from corporation income taxes. Both the manufacturing and transportation sectors are modeled using WTI prices. In the ten most recent years for which detailed calendar year corporation tax data is available, these two sectors combined average 36% of total corporation income tax liability. As a result, the overall corporation tax estimate is responsive to changes in WTI prices.

Updated corporation income tax estimates are shown below under current IHS WTI price forecasts. Similarly to the oil tax analysis, the effects on corporation tax revenue are analyzed when the price is increased by both \$5/barrel and \$10/barrel.

Corporation Income Tax Revenue (\$ Millions)				
FY	WTI Forecast (\$/Barrel)	Current Estimate	\$5/Barrel Increase	\$10/Barrel Increase
2017	\$51.5	\$141.4	\$144.6	\$147.8
2018	\$58.8	\$161.8	\$164.9	\$168.1
2019	\$64.6	\$167.8	\$171.2	\$174.5

Increasing WTI prices by \$5/barrel and \$10/barrel increases the model's estimates by \$9.7 million and \$19.4 million respectively over the three year period.

Earlier this year, the Legislative Fiscal Division (LFD) analyzed the direct impacts of the closing of Colstrip units 1 and 2 in the form of a legislative request. It analyzed the effects across numerous state revenue sources, including but not limited to coal severance tax, individual income tax, and property tax. The analysis found that the closure of these two units would decrease general fund revenue by \$7.2 million per year and combined local and statewide revenue by \$17.1 million per year. The final report is attached as an appendix.



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Director
AMY CARLSON

DATE: June 17, 2016
TO: Senator Duane Ankney
FROM: Nick VanBrown and Sam Schaefer, LFD
RE: Direct tax impacts of closing Colstrip units 1 and 2

This analysis provides information on the direct tax impacts of closing Colstrip units 1 & 2. It does not analyze the indirect effects of these units closure such as other electrical generation coming online or the loss of service jobs in the Colstrip area. This paper is divided into impacted tax types that the Legislative Fiscal Division tracks at a statewide level, along with the corresponding local impacts. However, due to confidentiality for the owners of units 1 & 2, the corporation tax effect was not estimated in this analysis. The analysis results found that combined state and local tax reductions from the closure amount to \$17.1 million when compared to the FY 2015 baseline. In addition, general fund tax reductions amount to \$7.2 million when compared to the FY 2015 baseline.

The Colstrip power plant has a generation capacity of 2094 MW. Colstrip units 1 and 2 each have a capacity of 307 MW, totaling 614 MW or 29% of the plants total generating capacity. For the purposes of this analysis, it was assumed that 29% of the total electrical generation, transmission, and coal mined at the Rosebud mine would be lost. It was also assumed that 29% of the workforce at the Colstrip facility and the Rosebud mine would be lost.

Coal Severance Tax

Current estimates show that if units 1 and 2 closed, coal severance tax collections would decrease by \$3.9 million. Of this amount, \$1.0 million would have went to the state's general fund while the remainder would have been deposited into a variety of state special revenue funds and trust funds. The total coal severance tax impact is shown in the table below.

Coal Severance Tax Impacts	Amount
General Fund	\$1,045,480
Coal Trust Principle	\$1,981,620
Long-range Building Program	\$475,589
Coal Natural Resource Account	\$114,934
Shared Account (Agriculture, Conservation Districts, Library)	\$216,393
State Parks Trust Principle	\$50,333
Renewable Resource Debt Service	\$37,658
Cultural Trust Principle	\$24,968
<u>Coal Severance Tax Total Impact</u>	<u>\$3,946,975</u>

U.S. Mineral Royalties

Decreased mining activity will also impact revenues that the state receives from U.S. mineral royalties. Less activity at the Rosebud mine would cause an estimated decrease in U.S. mineral royalty collections of \$1.1 million. Of this \$1.1 million, the general fund may lose \$0.8 million while the mineral impact fund which would be distributed to counties may see a loss of the remaining \$0.3 million.

Electrical Generation & Transmission

The state of Montana has a tax on both electrical generation and transmission. These taxes are currently deposited into the state's general fund. Closures of plants 1 and 2 are estimated to decrease electrical generation taxes by \$0.8 million and wholesale transmission taxes by \$0.6 million.

Individual Income Tax

Under the assumption that 29% of the workforce would be lost, individual income taxes to the general fund would decrease. Using the Quarterly Census of Employment and Wages (QCEW) data, an average salary of \$75,000 was used for workers that would lose employment. Using these data and assumptions, the effect on the general fund may be a decrease of \$0.8 million.

Coal Gross Proceeds

State and local governments do not levy or assess any mills against the reported gross proceeds of coal. Instead, a flat tax is levied against the reported gross proceeds of coal mines. This tax contributes to the state's general fund, local governments, and the 6-mill levy. Closure of units 1 and 2 could decrease the general fund portion by \$1.1 million, the local government portion by \$1.0 million, and the 6-mill revenue by \$0.2 million.

RIGWA

The state imposes a resource indemnity and ground water assessment (RIGWA) tax on the gross value of coal. This tax contributes to multiple natural resource and environmental quality state special revenue accounts and may decrease by approximately \$0.1 million if units 1 and 2 closed.

Property Tax

The following numbers represent the loss in tax dollars to various entities based on TY 2015 taxable values and mill rates. These numbers split the known taxable value and mill rates of the power plant property into units using company ownership percentages. A comparatively small amount of additional taxable value in non-telecom and non-pipeline property in class 9 electrical utilities, class 5 pollution control equipment, and class 13 telecom and electrical generation is proportioned out based on unit production capacity and simply split between county mills for Rosebud County.

Additionally, the combined taxable value for class 9, electrical transmission property, for Portland General Electric, Puget Sound Energy, PacifiCorp, and Avista Corporation, the majority owners of the transmission line from the Colstrip plant, was reduced proportional to the megawatt hour reduction from units 1 & 2. These transmission lines are what cause the property tax reduction outside Rosebud County. There is a level of uncertainty, especially with other counties, as the transmission lines are centrally assessed.

	Rosebud Total	All Other Counties	Total
State	\$1,484,058	\$631,006	\$2,115,064
City	\$826,567	\$852	\$827,419
Countywide	\$565,852	\$904,353	\$1,470,205
Countywide Education	\$329,872	\$262,380	\$592,252
Local Elementary	\$296,518	\$397,212	\$693,730
Local High School	\$285,497	\$734,740	\$1,020,237
Roads	\$54,562	\$179,980	\$234,542
All Other	\$512,220	\$46,130	\$558,350
	\$4,355,146	\$3,156,653	\$7,511,799

Appendix Table

Source	Effect
Coal Severance Tax	
General Fund	\$1,045,480
Coal Trust Principle	\$1,981,620
Long-range Building Program	\$475,589
Coal Natural Resource fund	\$114,934
Shared Account (Ag, Conservation, Library)	\$216,393
State Parks Trust Principle	\$50,333
Renewable Resource Debt Service	\$37,658
Cultural Trust Principle	<u>\$24,968</u>
Coal Severance Tax Total	\$3,946,975
Individual Income Tax	
General Fund	\$752,000
Electrical Energy Tax	
General Fund	\$763,087
Wholesale Energy Tax	
General Fund	\$572,315
U.S. Mineral Royalties	
General Fund	\$842,638
SSR Mineral Impact fund	<u>\$280,879</u>
U.S. Mineral Royalties Total	\$1,123,517
Coal Gross Proceeds	
General Fund	\$1,132,830
Local Government	\$1,006,990
6-mill	<u>\$151,044</u>
Coal Gross Proceeds Total	\$2,290,864
Resource Indemnity Tax	
State Special Revenue	\$120,000
Property Tax	
General Fund	\$2,115,064
Local Governments & School Districts	<u>\$5,396,736</u>
Property Tax Total	\$7,511,800
<u>General Fund Total</u>	<u>\$7,223,414</u>
<u>Statewide Total</u>	<u>\$17,080,558</u>