A Research Paper by

HEADWATERS ECONOMICS

Coal Extraction Revenue and Spending: A Comparison Among Western States

November 2017

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Published online
https://headwaterseconomics.org/energy/coal/coal-fiscal-policies

ABOUT HEADWATERS ECONOMICS

Headwaters Economics is an independent, nonprofit research group whose mission is to improve community development and land management decisions in the West.

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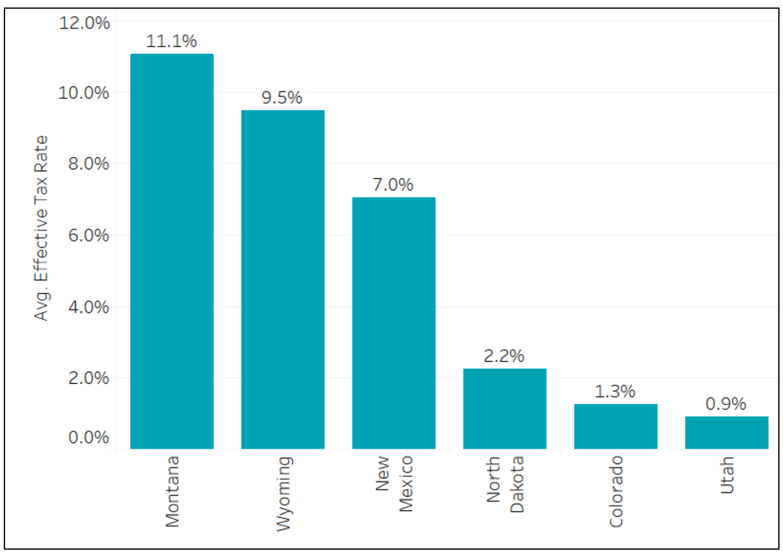
I. INTRODUCTION

In this report, we compare fiscal policy related to coal mining in six major coal-producing states: Colorado, Montana, New Mexico, North Dakota, Utah, and Wyoming. We review how revenue is generated from coal extraction and how the revenues are spent by state and local governments, and how much each state sets aside in permanent savings.

Summary Findings

- How states collect and spend coal revenue varies widely. We identify 15 sources of coal production revenue in the six states, including value-based and volume-based taxes and royalties paid to by federal, state, and local governments.
- The combined effective tax and royalty rate on coal production varies considerably, from a low of less than one percent in Utah to a high of more than 11 percent in Montana.

Figure 1: Effective Coal Production Tax Rate, FY 2013 – 2015



Source: State revenue sources detailed in Appendix B; EIA

- State and federal government royalties from coal generate more revenue than state and local production taxes combined.
- More than half of all coal production revenue accrues to local governments through taxes levied directly by local governments or through state distributions and grant programs funded by state production revenue.
- All states save some portion of revenue earned from leasing coal on state-owned land in a permanent trust fund that benefits public schools. Colorado, Montana, New Mexico, and Wyoming also save a portion of severance tax revenue in a permanent fund.

States and communities that have natural resources have a competitive advantage. However, what state and local governments do with this advantage varies considerably, and some states benefit more than others. Two general approaches are possible: severance taxes and royalty payments that are reinvested into communities through long-term savings, infrastructure, and economic development activities can leverage resource wealth into a diversified economy, initiating a virtuous cycle of growth. Alternatively, if resource wealth is instead extracted and removed from mining regions or used primarily to offset other

sources of tax revenue, local and regional economies can become too dependent on extractive activities and are exposed to risks associated with volatility and long-term decline—a resource curse.
Between 2009 and 2025, the U.S. will retire roughly one-fifth of its coal power plant fleet. These retirements will reduce deliveries from western coal mines by about 15 percent from 2016 levels. This review of coal fiscal policies among western states and local governments can contribute to an assessment of the exposure of western states and communities to fiscal and economic risks as the energy transition continues. Recent budget shortfalls in Wyoming, Montana, and New Mexico at least partially due to declining coal mining and power generation are cause for concern. It is our intention that this report assists policy makers and academics seeking to discover best practices related to coal fiscal policy and explore the role of fiscal policy in economic development, energy markets, and conservation.

The next section offers a review of previous state comparisons and research on state coal taxation. Section III provides a primer on coal fiscal policy and describes the revenue collected by the coal production taxes and royalties included in this report. Section IV estimates and compares the combined effective tax and royalty rate among states. Section V compares how states distribute coal production revenue between state and local government spending priorities and to permanent savings.

II. Background and Literature Review

To date, there is no comprehensive comparison of coal fiscal policies among states covering all state and local government production taxes and royalties paid to state and federal governments, and including a review of how the proceeds from these revenue sources are saved and spent. We are also not aware of a comprehensive accounting of the combined effective coal production tax rate among western states.

Descriptive comparisons of state coal severance taxes are readily available. Several states, including Montana, New Mexico, and North Dakota, compare statutory coal tax rates to neighboring states in annual revenue reports and other documents.[1] Coal severance tax comparisons are also available from the National Conference of State Legislators[2] and the Council of State Governments.[3]

These coal severance tax comparisons are typically limited in one of several ways. First, they often include only state-imposed severance taxes, excluding local government taxes on coal extraction. This is an important oversight. In most states, local governments tax coal extraction directly, typically by levying property taxes on the value of coal production. Several states, including Montana and North Dakota, levy state taxes in lieu of local property taxation and distribute revenue directly to local governments where the coal is extracted. Comparing only state imposed taxes does not provide a complete or fair comparison among states that have different fiscal policies related to local government taxation.

A second limitation of these comparisons is that they often only compare statutory rates. States offer a complex array of exemptions, deductions, and incentives that can lower the effective tax rate significantly below the statutory rate. Listing only the statutory rate does not provide a complete or fair comparison among states.

Relatively few studies explore the history and purpose of coal fiscal policy among states. One review conducted at the University of West Virginia attempted to draw out several lessons about why state fiscal policies differ, including:[4]

- "The more important coal is as an industry in determining the state's gross domestic product (GDP), the higher the [tax] rates and the more uniform the taxes.
- In states where coal is produced only in a limited number of locations, local control of taxation is more likely.
- Variations in the types of taxes reflect the state's philosophy of taxation as some states place more emphasis on certain taxes than on others."

Academic and political interest in coal revenue tends to follow periods of rapid change in energy markets and energy policy. The first period of activity began in the 1970s coinciding with a rapid increase in coal production that was driven by policy responses to the national energy crisis. During this period, several western states, including Montana, North Dakota, and Wyoming, increased their severance taxes substantially, justified by a need for adequate revenue to mitigate the negative environmental and social impacts related to coal mining and to build an endowment that would retain resource wealth in the state as the resource itself is depleted and exported.[5] Research at the time tended to support the argument of coal-producing states that severance tax had a relatively minor impact on coal production volumes (e.g., coal markets) and provided significant revenue benefits to the states.[6]

An energy bust in the early1980s caused fiscal stress among states that had become dependent on oil and coal revenues in the previous decade. These states reversed the aggressive taxation and savings policies of the previous period, turning toward tax cuts and new incentives with the goal of increasing energy production, including coal (urged on by significant industry pressure to lower tax rates). [7] Some states also made efforts to tap permanent savings and reduce contributions, although these efforts were often unsuccessful.

More recently, the oil and gas fracking boom kindled new interest in severance taxes, but the goals of energy-producing states are mixed.[8] Some states, like their coal-producing peers of the 1970s and 80s, sought to impose new severance taxes and establish permanent savings funds to ensure lasting benefits from an energy boom. (Higher tax revenue was also used to reduce state income and local property tax rates). Other states remain focused on perceived state competition and are pursuing additional tax cuts to attract the attention of oil and gas companies.[9]

The current energy transition away from coal to natural gas and renewables, facilitated by low energy prices, stagnant energy demand, and new mercury regulations,[10] may also kindle new interest in production tax policy related to coal. Declining coal production revenue[11] has forced Montana, New Mexico, and Wyoming to cut spending and has initiated conversations about replacing coal revenue and diversifying economies that are over-reliant on natural resources.[12]

The experience of Appalachia suggests that coal fiscal policies exacerbated the economic and social risks associated with coal mining.[13] One assessment of the economic outcomes of the coal boom and bust in Appalachia found that during the boom, each new coal job created one additional job. During the bust, each coal job lost led to the loss of two additional jobs. One possible explanation for why the bust hit so hard is that severance taxes on coal mined in Appalachia were exported from the region and too little of the wealth generated from mining was pumped back into local institutions and economic diversification in mining communities.[14]

This review is an important step in assessing the exposure of western states and communities to similar risks and identifying best practices to ensure better economic outcomes.[15]

III. REVENUE FROM COAL PRODUCTION

States take different approaches to collecting revenue from coal extraction. Differences include which types of taxes are levied, how the tax base is defined and valued, what tax rates are applied, and which level of government levies the tax. States also have different approaches to leasing and requiring royalty payments on coal resources held in public trust. State leasing policy tends to follow federal leasing and royalty rates on a state-by-state basis, but differences among states are substantial.

Sources of Coal Production Revenue

This report focuses on coal production revenue, including production taxes levied by state and local governments and royalties paid to federal and state governments for coal extracted from public leases.

Production taxes and royalties can be value-based, volume-based, or property-based levies. (See the Coal Production Revenue Primer on the next page). These types of production taxes include state severance taxes, local property taxes, and royalties paid to the owner of the coal resource, including federal and state governments.

State and local governments also levy a variety of taxes as part of the state's general tax structure, including sales and use taxes, personal and corporate income taxes, property taxes on land and equipment, and a variety of fees and charges on activities associated with coal mining. The general tax structure can be important to local governments, but the role these taxes play varies from state to state.

We focus on production revenue for several reasons. First, production taxes and federal and state royalties are the largest source of revenue from coal extraction and mining activities for the six states. For example, production taxes and royalties made up 95 percent of all revenue generated from coal production in Wyoming in 2012.[16] Sales and use taxes and property taxes on personal property made up three percent of total revenue.

Second, coal is a depletable resource. In this sense, production revenue from coal extraction is special and separate from the general tax structure. Production taxes and royalties are imposed to compensate the state for the depletion of non-renewable resources and to mitigate the growth-related and environmental impacts associated with coal mining.

Appendix A provides additional detail on the coal production taxes and royalties included in this report, including the tax rate, tax base, and deductions and incentives offered.

Coal Production Revenue Primer

In general, production revenue is any tax levied against or royalty paid for the value or volume of coal extracted or "severed" from the earth. State and local governments also raise revenue from the value of property, income, and sales associated with coal mining. This primer reviews the different ways in which coal revenue is generated.

Value- and Volume-Based Revenue

Value-based coal taxes and royalties are the most commonly used methods of generating revenue from coal extraction. Value-based taxes are levied on and royalties are paid for the gross value of coal when it is first prepared for sale at the mine mouth. The way coal is valued for taxation and the types of deductions and exemptions granted vary by state. Several states levy taxes on the volume of coal extracted, imposing a fixed per-ton amount. Volume-based taxes are typically adjusted quarterly or annually to reflect average market prices and/or inflation. State severance taxes, gross receipts taxes, local government property taxes, and federal and state royalties are examples of value- and volume-based sources of revenue.

Property-Based Revenue

Among states that levy property taxes on coal, several levy the tax on the coal reserves rather than on the value of coal when it is extracted. These property-based taxes typically use a discounted cash flow approach to value the coal resource in the ground. The discounted cash (or income) approach typically begins by estimating the volume of coal in the ground and the approximate time of extraction and then discounting the value of the estimated future production to arrive at current value of the coal resource. Some states also levy property taxes on the value of land and equipment used in coal mining.

Bonus Payments

Companies pay bonuses (a premium paid to the federal or state government to win a leasing contract to mine in a specific area) through the competitive leasing process. Bonuses are one-time payments generally calculated on a price-per-ton basis.

Income-Based Taxes

Income-based taxes, including corporate and personal income taxes, are paid on the net profit and wages of coal mining companies and their employees. Income tax rates vary widely at the state level, ranging from zero (in Wyoming) up to about ten percent for the highest tax brackets in several states. Income taxes are levied on a smaller tax base (net profit compared to gross production value) and coal mining companies are often organized as pass-through limited liability corporations to limit tax liability.

Sales-Based Taxes

Sales and use taxes are levied on the value of goods and services purchased by the mining industry, and on spending by mining companies and their employees.

Charges for Services

Many states levy small fees and charges that fund regulatory agencies and reclamation activities associated with abandoned coal mines. These state-level fees are additional to federal coal reclamation fees imposed through the Surface Mining Control and Reclamation Act (SMCRA). Local governments levy a variety of charges for services.

Coal Production Revenue Statistics

In this report we identify 15 coal production taxes and royalties paid on the value or volume of coal extracted. Production taxes are levied by state and local governments, and royalties are paid on coal leased by federal and state governments.

Table 1 lists each of the production taxes and royalties paid on coal extracted from the states included in this report, and the value of collections in FY 2016.

Table 1: State and Local Government Coal Production Revenue, FY 2016

State	Tax/Royalty Name	Level of Government	Valuation Method	Revenue
Colorado	Severance Tax	State	Volume-Based	$3,588,684
	Property Tax	Local	Value-Based	$2,825,869
	State Mineral Leasing	State	Value-Based	$2,278,793
	Federal Mineral Leasing	Federal	Bonus	$722,346
			Value-Based	$17,523,525
	Total			**$26,939,217**
Montana	Severance Tax	State	Value-Based	$60,358,548
	Gross Proceeds Tax	State	Value-Based	$20,756,877
	Resource Indemnity Tax	State	Value-Based	$1,632,000
	State Mineral Leasing	State	Value-Based	$9,174,314
	Federal Mineral Leasing	Federal	Value-Based	$23,653,990
	Total			**$115,575,729**
New Mexico	Severance Tax and Surtax	State	Volume-Based	$6,798,336
	Conservation Tax	State	Value-Based	$708,944
	Resource Excise Tax	State	Value-Based	$3,015,871
	Gross Receipts Tax	State	Value-Based	$11,647,905
	Property Tax	Local	Value-Based	$6,132,060
	State Mineral Leasing	State	Value-Based	$6,074,686
	Federal Mineral Leasing	Federal	Bonus	$110,446
			Value-Based	$3,328,276
	Total			**$37,816,524**
North Dakota	Severance Tax	State	Volume-Based	$10,948,613
	State Mineral Leasing	State	Value-Based	$1,200,018
	Federal Mineral Leasing	Federal	Value-Based	$1,848,459
	Total			**$13,997,091**
Utah	Property Tax	Local	Value-Based	$4,878,235
	State Mineral Leasing	State	Value-Based	$2,308,354
	Federal Mineral Leasing	Federal	Bonus	$1,672,271
			Value-Based	$17,317,754
	Total			**$26,176,614**
Wyoming	Severance Tax	State	Value-Based	$217,752,042
	Property Tax	Local	Value-Based	$225,020,753
	State Mineral Leasing	State	Value-Based	$65,443,064
	Federal Mineral Leasing	Federal	Bonus	$219,581,963
			Value-Based	$220,233,940
	Total			**$948,031,762**
Grand Total				**$1,168,536,937**

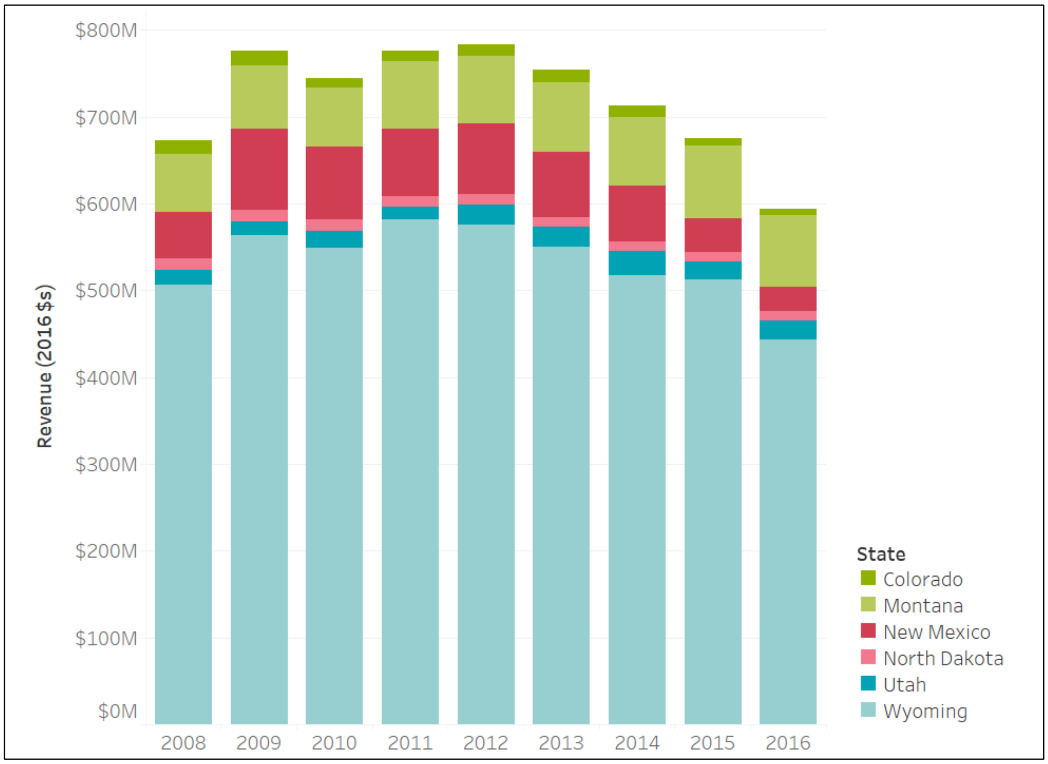
Source: State sources detailed in Appendix B.

In FY 2016, states collected $1.17 billion in production revenue at the state and local government level from coal production taxes and royalties (including federal royalties and bonus payments distributed to states). Wyoming collected the lion's share of these coal production revenues ($948 million).

Federal and state mineral leasing generated more revenue than all production taxes combined ($592 million in FY 2016). Federal coal royalties and bonus payments made up the largest share of revenue, $506 million, compared to state mineral leasing revenue of $86 million in FY 2016.[17]

Figure 2 shows that FY 2016 collections are down from a high of $1,514 million in FY 2009 primarily due to falling coal prices and coal production during the same period.

Figure 2: State and Local Government Coal Production Tax Revenue by State, FY 2008 - 2016



Source: State sources detailed in Appendix B.

Deductions, Exemptions, and Incentives

States offer a variety of cost deductions, exempt certain types of coal production from taxation, and offer incentives—typically in the form of lower tax and royalty rates—to encourage additional coal extraction. We assign the variety of deductions, exemptions, and incentives into three categories to better understand the approaches of each state and to provide some context for why the effective tax rate (defined and calculated in the next section) can fall below the tax rate set by statute or administrative rule.

Standard Deductions and Exemptions

In general, royalties and production taxes are levied and paid on the gross value or volume of coal extracted. Gross value is most commonly measured at the mine when coal is first loaded and prepared for shipment and sale—the federal standard for example is that coal must be placed in "marketable condition" by the mining company, and coal mining costs, coal preparation costs, and marketing costs are not deductible from the price received during the first sale of coal.

Standard deductions and exemptions include:

- *Transportation costs and processing costs* when the coal must be moved to a point remote from the mine before it can be sold, and when a contract requires that coal must be washed or processed beyond what normally is required for sale. These deductions are for costs the mining company must incur that are considered to exceed what would otherwise be considered "marketable condition" at the mine-mouth.
- *Royalties paid to governmental owners*, including federal, state, local, or tribal governments. A royalty is effectively the owner's share of the value of the coal produced. States typically don't require coal mining companies to pay taxes on the owner's value, but these costs are not always deductible.
- *Standard cost deductions and production exemptions* are a fixed amount of revenue or production that is not subject to taxation. States may offer a standard deduction to provide an equitable and efficient way to account for certain costs that would otherwise be deductible and difficult to quantify, report, and audit. Some standard deductions may be offered to lower the effective tax rate.

Resource Quality & Cost Incentives

The most common type of incentive offered by states includes lower tax rates or tax exemptions for certain types of coal that are more expensive to extract or are relatively poor in quality (e.g., lower heat content). States offer these incentives to induce the maximum volume of production of these lower-value or higher-cost coal resources.

- *Underground coal,* or coal extracted from underground mines as opposed to surface strip-mines, typically pays lower tax and royalty rates.
- *Higher-cost and lower-quality coal* receives additional incentives in several states. For example, Montana lowers severance tax rates for coal with lower heat content.

Production Incentives

States have, from time to time, lowered tax rates or offered other forms of incentive with the goal of increasing coal extraction. For example:

- Beginning in 1985 with the "New Coal Production Incentive Act of 1985" Montana cut severance taxes by more than half by 1989 to encourage additional coal production.[18] Montana later reduced the gross proceeds tax rate for new underground coal mines in the 2011 session specifically to encourage the development of the Bull Mountain coal mine in Montana (SB 266, 2011 Montana Legislature).
- New Mexico exempted new coal production from the severance surtax beginning in 1991. Since 2011, an increasing share of coal mined in New Mexico is extracted from new or renegotiated leases and is exempt from the severance surtax. In FY 2016, no coal production paid the surtax.

Quantifying the value of these deductions, exemptions, and incentives is beyond the scope of this report. A more efficient method is to compare the combined effective tax rate that captures all the complexities of each state's fiscal policies in a simple, comparable metric. We calculate the effective tax rate in the next section.

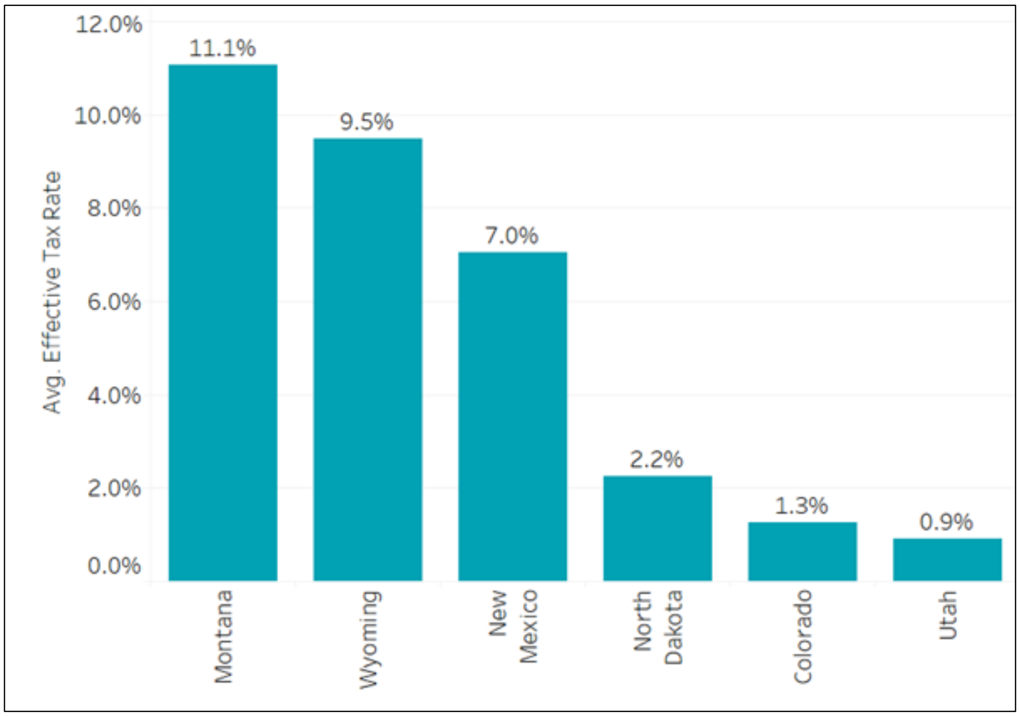
IV. EFFECTIVE TAX RATES

The effective rate is the best metric to use when comparing states' fiscal policies related to coal. The effective tax rate accounts for the different types of taxes and a complex array of incentives, exemptions, credits, and deductions among states.

The effective rate is calculated by dividing total coal extraction tax revenue by the total value of coal production.[19]

Figure 3 shows the average effective tax rate for each state during a three-year period, FY 2013 to FY 2015.

Figure 3: Average Effective Coal Production Tax Rate FY 2013 - 2015



Source: U.S. Mine Safety and Health Administration, U.S. Energy Information Administration, and state sources detailed in Appendix B.

Table 2 shows the relevant data used to calculate the average effective tax rate. A three-year average is used to smooth annual volatility in effective tax rates. FY 2015 is the latest year for which production volume and average coal price data are available to calculate the total value of coal production in each state.[20]

Table 2: Average Effective Coal Production Tax Rate FY 2013 - 2015

State	Tax Name	Tons	Avg. Price/Ton	Total Production Value	Total Revenue	Effective Rate
Colorado	Property Tax	71,011,278	$38.80	$2,760,696,616	$12,475,996	0.4%
	Severance Tax	71,011,278	$38.80	$2,760,696,616	$22,712,960	0.8%
	Total	**142,022,556**	**$38.80**	**$5,521,393,232**	**$35,188,957**	**1.3%**
Montana	Gross Proceeds	126,768,438	$17.36	$2,201,089,164	$59,094,866	2.7%
	RIT	126,768,438	$17.36	$2,201,089,164	$5,564,476	0.3%
	Severance Tax	126,768,438	$17.36	$2,201,089,164	$178,058,254	8.1%
	Total	**380,305,314**	**$17.36**	**$6,603,267,491**	**$242,717,597**	**11.1%**
New Mexico	Coal Conservation Tax	65,287,778	$38.48	$2,507,416,442	$3,217,698	0.1%
	Coal Gross Receipts	65,287,778	$38.48	$2,507,416,442	$112,156,637	4.4%
	Coal Severance Tax and Surtax	65,287,778	$38.48	$2,507,416,442	$34,364,197	1.4%
	Property Tax	65,287,778	$38.48	$2,507,416,442	$15,987,730	0.6%
	Resource Excise Tax	65,287,778	$38.48	$2,507,416,442	$12,796,997	0.5%
	Total	**326,438,890**	**$38.48**	**$12,537,082,210**	**$178,523,258**	**7.0%**
North Dakota	Severance Tax	85,137,995	$17.83	$1,518,614,691	$34,077,744	2.2%
	Total	**85,137,995**	**$17.83**	**$1,518,614,691**	**$34,077,744**	**2.2%**
Utah	Property Tax	49,636,059	$35.72	$1,773,292,740	$16,128,938	0.9%
	Total	**49,636,059**	**$35.72**	**$1,773,292,740**	**$16,128,938**	**0.9%**
Wyoming	Property Tax	1,175,981,873	$14.17	$16,662,062,655	$739,185,607	4.4%
	Severance Tax	1,175,981,873	$14.17	$16,662,062,655	$839,767,851	5.0%
	Total	**2,351,963,746**	**$14.17**	**$33,324,125,310**	**$1,578,953,458**	**9.5%**

Source: U.S. Mine Safety and Health Administration, U.S. Energy Information Administration, and state sources detailed in Appendix B.

Table 2 shows that the average effective tax rates of all production taxes levied in each state vary considerably, from a low of less than one percent of gross production value of coal in Utah to a high of 11.1 percent in Montana. Wyoming also maintains a relatively high effective tax rate at 9.5 percent, followed by New Mexico at seven percent. Utah, Colorado, and North Dakota each maintain relatively low effective tax rates at about two percent or less of the gross value of coal production.

V. DISTRIBUTION OF COAL TAX REVENUE

In this section, we track how coal production revenue is distributed among state and local governments, and permanent savings.

Table 3 and Figure 4 show the general distribution among state government, local government, and permanent savings. They also show each state's allocation of coal revenue between state government, local government, and to permanent savings. Two Energy Revenue Distribution Primers on the following pages provide an overview of how local government and state government spend these dollars in more detail.

Figure 4 shows that local governments retained the largest share of production tax and royalty revenue (48%) in FY 2016. States retain the next largest share of production tax revenue (36%) and the smallest proportion is set aside in permanent funds (16%).

Table 3 shows that states make a variety of choices about how to distribute revenue, for example:

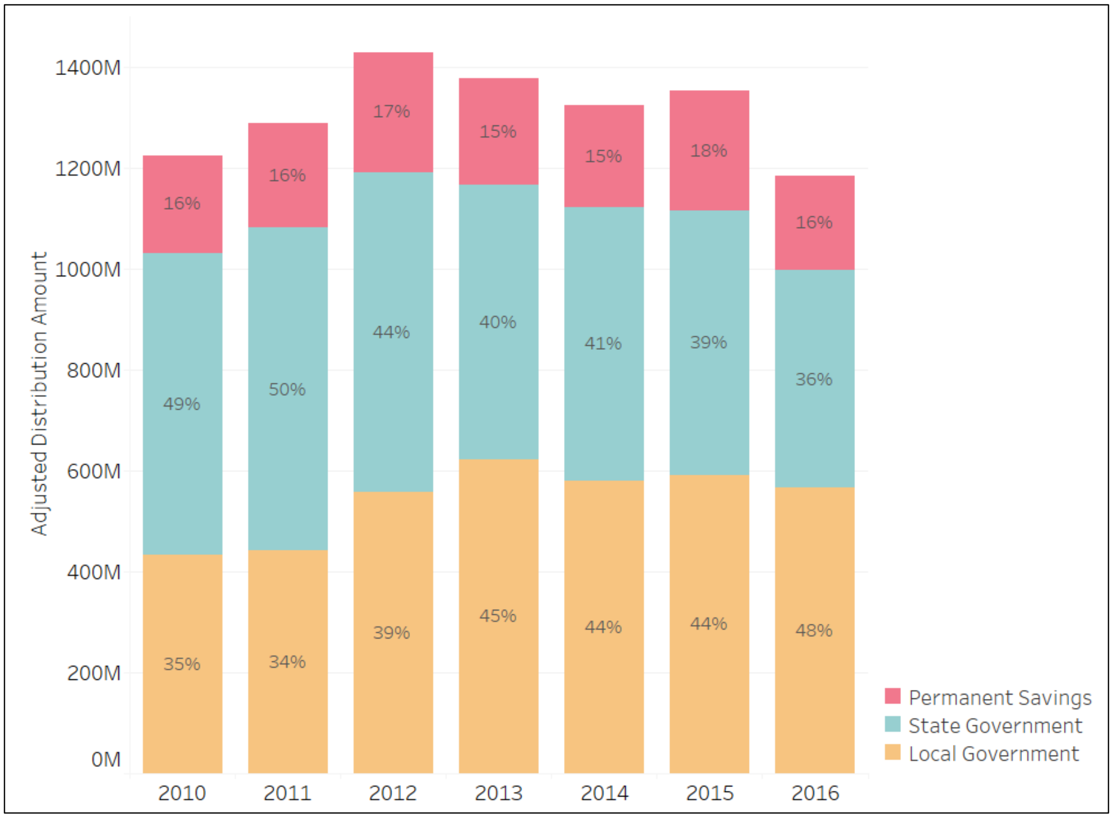
- Utah does not have a state severance tax and the majority (87%) of revenue is distributed among local governments.
- Montana and North Dakota save the largest portion of coal revenue in permanent funds at 28 percent and 26 percent, respectively.
- New Mexico is the only state where most revenue (57%) is retained and spent by the state on an annual basis.

Table 3: Coal Revenue Distributions to State Government, Local Government, and Permanent Savings

State	Distribution Type	Distribution Amount	% of State Total Distribution
Colorado	Local Government	$17,149,898	56%
	Permanent Savings	$3,720,556	12%
	State Government	$9,727,297	32%
Montana	Local Government	$28,919,130	25%
	Permanent Savings	$32,298,056	28%
	State Government	$54,034,124	47%
New Mexico	Local Government	$9,918,367	24%
	Permanent Savings	$7,860,607	19%
	State Government	$23,240,103	57%
North Dakota	Local Government	$16,400,413	69%
	Permanent Savings	$6,236,552	26%
	State Government	$1,108,720	5%
Utah	Local Government	$22,586,434	87%
	Permanent Savings	$2,022,411	8%
	State Government	$1,485,119	6%
Wyoming	Local Government	$470,956,165	50%
	Permanent Savings	$134,367,778	14%
	State Government	$342,707,819	36%

Source: State sources detailed in Appendix B.

Figure 4: Coal Production Tax Revenue Distributions to State Government, Local Government, and Permanent Savings



Source: State sources detailed in Appendix B.

The following sections provide additional detail on distributions to local governments, state government, and permanent savings.

Local Government Distribution

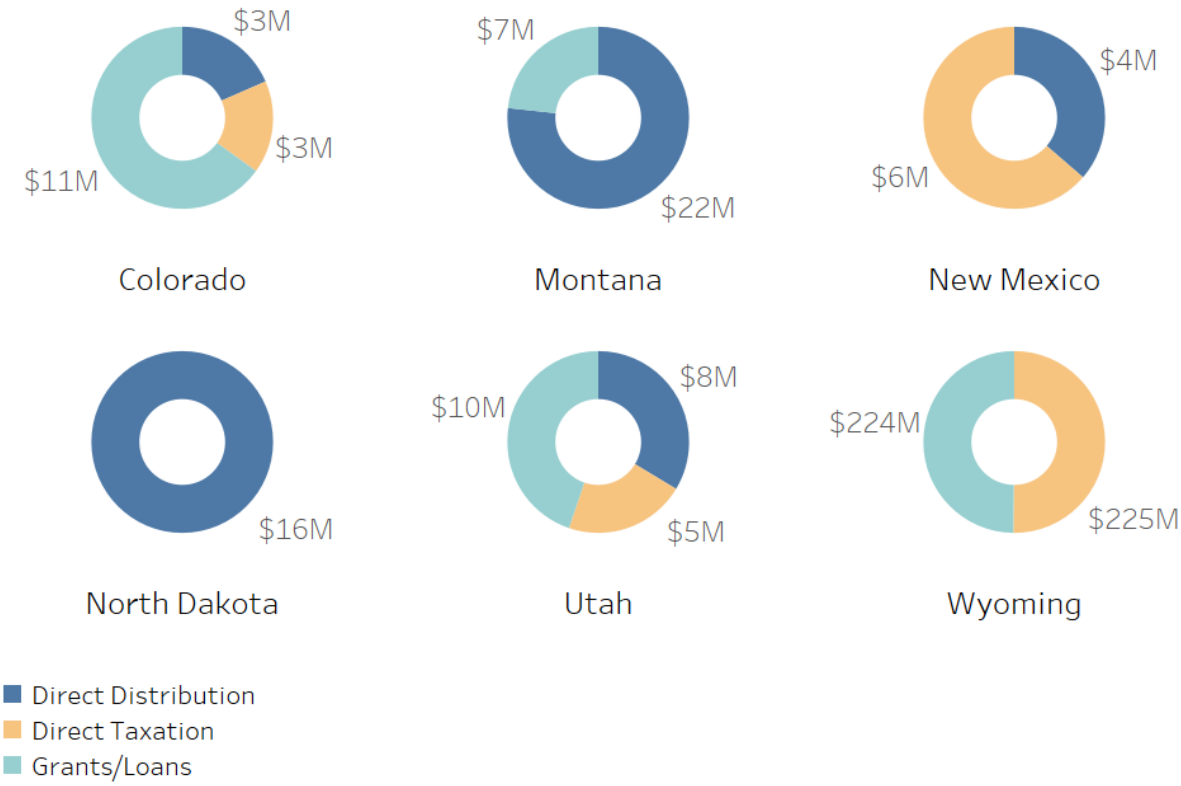
Local governments receive revenue from coal in several ways: local governments tax coal production directly; local governments receive direct distributions from state taxes levied in lieu of local property taxes on coal; and states earmark a portion of coal revenue for dedicated grant and loan programs that benefit local governments.

In total, direct taxation is responsible for 42 percent of all local government revenue from coal production, direct distributions from state severance taxes and royalties are responsible for 44 percent, and grant and loan programs are responsible for 13 percent of all local government revenue from coal production.

Montana and North Dakota levy production taxes in lieu of local taxation of coal production and make direct distributions from a portion of state severance taxes. Colorado, New Mexico, Utah, and Wyoming all allow local governments to tax coal production directly. In New Mexico, property taxes and local option gross receipts taxes account for two-thirds of all coal revenue retained by local governments. In Wyoming, about half of local government revenue is raised by local property taxes. (See Figure 5 on the next page.)

State infrastructure, economic development, and impact-related grant and loan programs include Colorado's impact grants distributed by the Department of Local Affairs, and Utah and Wyoming's distribution of federal royalty and bonus revenue to local governments through grants for transportation infrastructure and school capital construction. In most states, including Montana and Utah for example, grants and loan programs are not earmarked for coal-dependent communities, but are available to all local governments across the state.

Figure 5: Coal Production Revenue Distributions to Local Governments, FY 2016



Local governments are often limited in important ways from raising and retaining revenue from resource extraction. Constitutional and statutory taxation and expenditure limitations (TELs) on local governments, most notably Colorado's Taxpayer Bill of Rights (TABOR), can prevent local governments from raising revenue during resource booms. Other policies specifically require that coal revenue be used to lower other sources of tax revenue. For example, Montana and North Dakota require local school districts to use coal production revenue first to offset local property taxes and state aid to schools, respectively. Local governments also are typically restricted from saving coal revenue in permanent funds. These policies potentially expose mining communities to greater risks associated with revenue volatility over time.

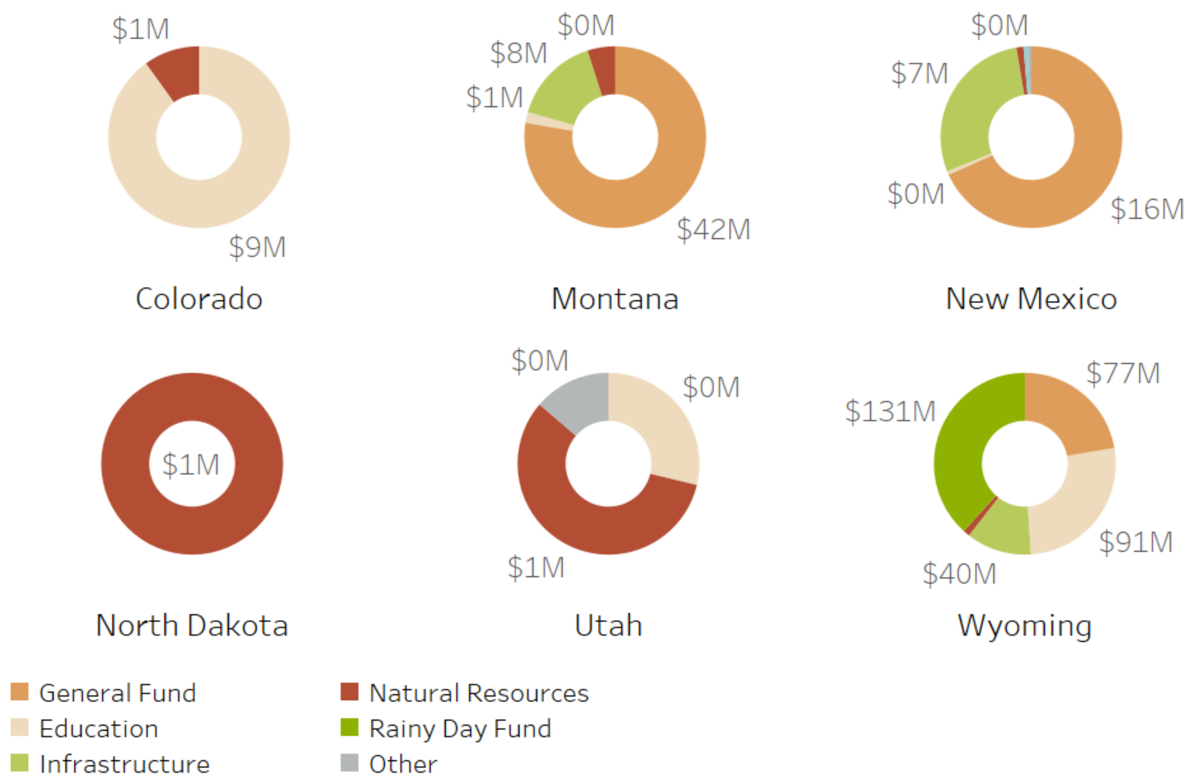
State Government Distribution

State governments spend more than a third of total coal production revenue annually to support general governmental operations or earmark these funds for specific purposes including education, infrastructure, and natural resource management and regulation.

As Figure 6 shows, the largest share of state revenue (34% in FY 2016) goes to the state General Fund, a catch-all fund that can be used for any governmental purpose. Coal production revenue, in this sense, is effectively used as another source of general tax revenue, making it easier for states to increase total spending or to lower other sources of taxation. For example, Wyoming distributed 60 percent of the state's share of coal production revenue to its General Fund and a Rainy Day Fund, a budget stabilization fund that can be appropriated to fill revenue shortfalls during downturns.

Of revenue earmarked to specific purposes, education receives the largest share (23%) followed by infrastructure spending (13%) and natural resource management and regulation (2%). State education spending includes distributions and/or grants to universities, community colleges, or public school infrastructure and capital funds. Infrastructure spending includes coal production revenue distributed annually to infrastructure projects or coal production revenue used to finance infrastructure bonds. For example, New Mexico uses severance taxes to finance highway and public infrastructure bonds. Natural resources spending includes funding for regulatory agencies, including departments of natural resources. For example, Colorado's State Land Board is funded entirely from revenue earned by managing trust lands. In some states, coal revenue is used for parks, environmental cleanup, or water development projects.

Figure 6: Distributions of Coal Revenue to State Governments, FY 2016



Permanent Savings Distribution

Coal is a depletable resource. States reliant on coal production revenue (and other natural resources revenue) each set aside a portion of annual revenue in permanent savings to moderate annual volatility and to ensure that the one-time extraction of resource wealth benefits future generations. Permanent savings are defined as a government fund where the principal balance is held in perpetuity and invested to generate income. To be considered a permanent fund, some constitutional or statutory restrictions against appropriations (or withdrawals) from the principal must be in place. This definition excludes rainy day funds and budget stabilization funds that set aside surplus money in good years that may be appropriated later to cover budget shortfalls.

The most common form of permanent savings are state land permanent trusts that primarily benefit public schools. Beginning in 1803 with Ohio's statehood, the federal government transferred to new states a portion of the public domain not yet claimed by homesteaders or granted to railroads. The lands were meant to be used to generate revenue for local schools and other purposes. Initially, states often sold lands to generate revenue and spent the proceeds of sales as they came in. The unsustainability of this practice soon led states to retain state lands in trust and to establish permanent trust funds that would receive the proceeds of land management activities on the trust lands and hold these revenues in perpetuity. Coal leasing and extraction can be an important part of the income earned from state trust lands. The principal balance of the trust is held in perpetuity and income earned by investing the principal balance is distributed to local school districts and other beneficiaries. Every state covered in this report has a trust land permanent fund, and 42 percent of all revenue distributed to permanent savings are deposited in these types of funds. (See Figure 7 on next page.)

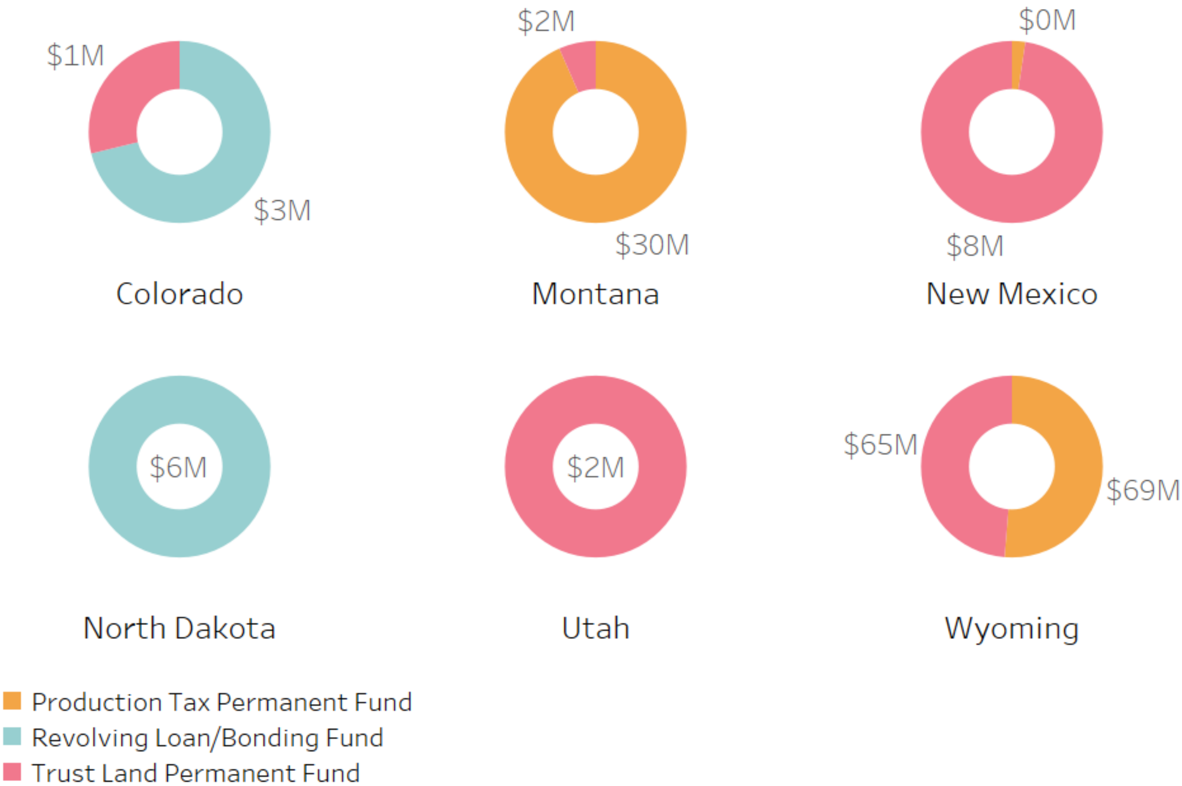
Colorado, Montana, New Mexico, and Wyoming also save a portion of severance tax revenue in a permanent fund, including permanent revolving loan/bonding funds. In general, interest earned from severance tax permanent funds are deposited in the state's General Fund and help stabilize annual governmental budgets. Some states, notably Montana, earmarked a portion of investment income for economic development, infrastructure, or other specific purposes.

Colorado and North Dakota have established additional permanent funds that use the principal balance to finance infrastructure projects within the states. These revolving loan/bonding funds provide dedicated and permanent funding to make loans to local governments and state agencies or to finance bonds sold to raise revenue for infrastructure projects.

Wyoming saves the largest amount of revenue in absolute terms, setting aside $134 million in state severance tax revenue and state trust land royalty revenue in FY 2016. Montana and North Dakota save the largest share of all coal revenue (28% and 26%, respectively).

The largest share of permanent savings revenue was invested in severance tax permanent funds (53% of coal revenue saved) followed by investments in state trust land public school funds (42%) and revenue allocated to revolving loan/bonding permanent funds (5%).

Figure 7: Distribution of Coal Revenue to Permanent Savings, FY 2016



VI. Conclusion

States and communities with coal resources have a competitive advantage, but how states deal with this advantage varies considerably. Given the economic challenges associated with coal mining, including volatility, community and environmental impacts, and policy uncertainty, smart state fiscal policy has these elements:

- Tax coal resources directly and avoid incentives and deductions that reduce the effective tax rate.
- Minimize spending of coal revenue on annual operating budgets and using coal revenue to lower other sources of tax revenue that increase dependence on continued annual production.
- Invest coal revenue in long-term infrastructure, economic development, and environmental reclamation priorities and in permanent savings funds that stabilize revenue and contribute to economic diversification.
- Remove limits on local government taxation, spending, and saving authority specifically related to coal production revenue to allow local governments to avoid over-reliance on annual coal revenue.

Smart fiscal policy will increase in importance as the energy transition continues to reduce demand for coal from western states. Fiscal policies should be designed to stabilize and diversify budgets and economies in coal producing states and communities to help insure long-term prosperity.

Endnotes

[1] For example, see Montana Department of Revenue, *Annual Report, "Coal, Oil, and Natural Gas State Tax Comparison*, page 98. Helena, MT: Montana Department of Revenue, 2016. http://revenue.mt.gov/home/publications/biennial_reports.
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[17] Federal and state mineral leasing revenue includes royalties, rental payments and bonus payments. The

federal government distributes 49 percent of total coal mineral leasing revenue to the state from which the coal was extracted.

[18] Montana Department of Revenue. *Biennial Reports, Natural Resource Taxes*. Helena, MT: Montana Department of Revenue, 2016. https://revenue.mt.gov/home/publications/biennial_reports.

[19] Royalties are excluded from the effective tax rate calculation because they are levied only on the specific volume of coal extracted from state and federal mineral leases while production taxes are levied on all coal extracted in each state across all mineral ownerships.

[20] Coal production data is from the U.S. Department of Labor, Mine Safety and Health Administration. *Employment/Production Data Set (Quarterly)*. Washington, D.C.: Mine Safety and Health Administration, 2016. http://arlweb.msha.gov/OpenGovernmentData/OGIMSHA.asp; coal price statistics are from the U.S. Energy Information Administration, *Annual Coal Report, Table 31. Average Sales Price of Coal by State and Coal Rank,* Washington D.C.: U.S. Energy Information Administration, 2015. http://www.eia.gov/coal/annual/.

APPENDIX A: PRODUCTION REVENUE DETAIL BY STATE

This appendix accompanies the report “Coal Extraction Revenue and Spending: A Comparison Among Western States.” In the report, we compare fiscal policy related to coal mining in six major coal-producing states: Colorado, Montana, New Mexico, North Dakota, Utah, and Wyoming. We review how revenue is generated from coal extraction and how the revenues are spent by state and local governments, and how much is set aside in permanent savings.

Appendix A provides additional detail on the coal production taxes and royalties included in this report, including the tax rate, tax base, and deductions and incentives offered.

Table A-1 details the production taxes levied by and royalties paid to federal, state and local governments in six western states covered in this report.

- The “Tax/Royalty Name” column includes all production taxes and royalties paid in each state covered by this report.
- The “Level of Government” column indicates which level of government (federal, state, or local) levies the tax or to whom the royalty is paid.
- The “Valuation Method” column indicates the way the resource is valued for taxation, including value-based, volume-based, and property-based taxes and royalties, and bonus payments (see the Coal Tax Primer on page six).
- The “Tax/Royalty Rate” column reports the tax rate established by statute or administrative rules.
- The “Deductions and Exemptions” column details deductions and exemptions from each tax or royalty, including certain cost deductions, production exemptions, or differential rates for surface and underground coal. Most states allow tax deductions for royalties paid to government or tribal owners and for certain costs including transportation and processing costs (but not always).
- The “Resource Quality & Cost Incentives” column details any incentives offered—typically lower tax and royalty rates—to encourage the adoption of certain technologies that increase recovery of coal, or to encourage extraction of low-quality coal or coal that is otherwise relatively costly to extract.
- The “Production Incentives” column details any incentive—typically lower rates and production exemptions—that is intended to increase production of coal.

Table A-2 details the revenue collected from each tax levied and royalty paid on coal extraction in the states covered in this report.

Colorado

Table A-1: Colorado Production Taxes and Royalty Payments, 2016

Tax/Royalty Name	Level of Government	Valuation Method	Tax/Royalty Rate	Deductions & Exemptions	Resource Quality & Cost Incentives	Production Incentives
Severance Tax	State	Volume-Based	$0.60 per-ton levy adjusted quarterly based on Producer Price Index. Preliminary rate for June 2017 is $0.814 per ton.	First 300,000 tons of coal produced annually are exempt.	Levy is half ($0.30 per ton) for underground coal and lignite.	
Property Tax	Local	Value-Based	Assessed value is 29% of the mine's gross valuation determined using an income formula. Local property tax levies are applied to the assessed value.			
State Mineral Leasing Royalty	State	Value-Based	Royalty is levied on the gross value of coal produced. The royalty rate is negotiated and varies by lease.			

Notes

- Current inflation-adjusted coal severance tax rates are published by the Colorado Department of Revenue.
- The taxable value of producing coal mines for property tax purposes is based on an income formula that includes the volume of coal extracted, the price of coal extracted, and other factors including the royalty rate based on the mining method. Prices are index prices published in the Colorado Real Property Valuation Manual.

Table A-2: Colorado Sources of Production Revenue, FY 2008 - 2016

Fiscal Year	Severance Tax	Property Tax	State Mineral Leasing	Federal Mineral Leasing
2008	$9,624,780	$5,912,446	$16,331,518	$33,085,011
2009	$11,832,146	$5,172,963	$25,564,093	$26,818,816
2010	$6,953,589	$4,405,759	$7,726,788	$32,099,397
2011	$7,501,871	$3,679,383	$8,456,144	$33,638,571
2012	$9,944,397	$3,455,057	$3,591,339	$30,390,655
2013	$9,129,930	$4,949,208	$1,044,021	$15,227,618
2014	$8,165,813	$4,293,971	$255,048	$19,520,100
2015	$5,417,217	$3,232,817	$5,033,782	$22,687,966
2016	$3,588,684	$2,825,869	$2,278,793	$18,245,871

Notes

- The Department of Revenue stopped reporting coal severance tax revenue statistics in 2009 based on confidentiality requirements. Coal severance tax revenue for more recent years is estimated from the coal portion of direct distributions reported by the Colorado Department of Local Affairs.
- The severance tax is due annually, but companies make withholding payments or estimated payments monthly. At the end of the year, actual liability is reconciled with withholding or estimate payments, and companies either pay more (cash) or get a refund.
- Federal mineral leasing (FML) revenue statistics are reported by commodity and revenue type (bonus, royalty, rental, and other revenue) by the U.S. Extractive Industries Transparency Initiative for the federal fiscal year (October 1 to September 31). The state distribution amount is estimated by multiplying the total FML coal revenue value by 49 percent.

Data Sources

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Montana

Table A-1: Montana Production Taxes and Royalty Payments, 2016

Tax/Royalty Name	Level of Government	Valuation Method	Tax/Royalty Rate	Deductions & Exemptions	Resource Quality & Cost Incentives	Production Incentives
Severance Tax	State	Value-Based	15% for surface coal greater than 7,000 BTU/pound, levied on the first arm's length contract prices.	First 20,000 tons is exempt. Royalty interest is deductible along with other taxes (Black Lung, severance, abandoned mine lands, and others).	The tax rate is lowered from 15% to 15% if less than 7,000 BTU/pound; 4% for underground coal greater than 7,000 BTU/pound and 3% of less than 7,000 BTU/pound. Mines producing less than 50,000 tons annually are exempt.	Tax rate is lowered to 5% for coal mined using auger technology if greater than 7,000 BTU/pound and 3.75% percent if less than 7,000 BTU/pound.
Gross Proceeds Tax	State	Value-Based	5% of gross proceeds.			New or expanding underground coal mines can be granted a local abatement by the county of up to one-half of the allowed rate, or 2.5% of the gross proceeds. The abatement, however, does not apply to the state share, and can be granted for up to 10 years of production.
Resource Indemnity Tax	State	Value-Based	0.4% of gross value.	First $6,250 of tax liability is exempt. Governmental royalties are deductible.		
State Mineral Leasing Royalty	State	Value-Based	12.5% of gross value.			

Notes

- Taxable value for the coal severance and gross proceeds taxes is the price received by the lessee at the mine through an arm's length sale to the final purchaser (e.g., a power plant). "Purchaser" means a person who purchases or contracts to purchase Montana coal directly from a coal mine operator or indirectly from a broker and who utilizes that coal in any industrial, commercial, or energy conversion process. A coal broker or any other third party intermediary is not a purchaser (Montana Code Annotated. Title 15, Chapter 35 Severance Taxation. 15(8) http://leg.mt.gov/bills/mca/15/35/15-35-102.htm).

Table A-2: Montana Sources of Production Revenue, FY 2008 - 2016

Fiscal Year	Severance Tax	Gross Proceeds Tax	Resource Indemnity Tax	State Mineral Leasing	Federal Mineral Leasing
2008	$51,022,064	$14,473,225	$1,367,510	$6,648,009	$15,362,399
2009	$55,017,458	$16,049,703	$1,400,853	$8,749,657	$29,442,102
2010	$48,568,083	$17,164,318	$1,497,365	$99,929,400	$27,161,985
2011	$59,244,435	$16,923,999	$1,722,237	$9,229,850	$26,305,791
2012	$55,225,094	$20,759,261	$1,809,333	$7,823,248	$27,583,590
2013	$58,266,818	$20,026,216	$1,797,220	$10,754,506	$24,695,048
2014	$58,488,616	$19,077,003	$1,807,101	$8,301,804	$23,935,729
2015	$61,302,821	$19,991,647	$1,960,155	$7,969,789	$22,064,422
2016	$60,358,548	$20,756,877	$1,632,000	$9,174,314	$23,653,990

Notes

- The reduced gross proceeds rate for new underground coal mines was introduced by the Montana Legislature in the 2011 session specifically to encourage new coal mining in Montana (SB 266, 2011 Montana Legislature).
- On or before March 31 of every year, each person or firm engaged in mining coal must file a statement of gross yield for every mine operated in the preceding year. The producer must pay 50 percent of the gross receipts taxes due on or before November 30; the remaining 50 percent is due on or before May 31 of the following year.
- The Resource Indemnity Tax was created to indemnify the citizens of Montana for the loss of long-term value resulting from the depletion of natural resource bases, and for environmental damage caused by mineral development.
- Federal mineral leasing (FML) revenue statistics are reported by commodity and revenue type (bonus, royalty, rental, and other revenue) by the U.S. Extractive Industries Transparency Initiative for the federal fiscal year (October 1 to September 31). The state distribution amount is estimated by multiplying the total FML coal revenue value by 49 percent.

Data Sources

Montana Department of Revenue. *Biennial Reports, Natural Resource Taxes*. Helena, MT: Montana Department of Revenue, 2016. https://revenue.mt.gov/home/publications/biennial_reports.

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New Mexico

Table A-1: New Mexico Production Taxes and Royalty Payments, 2016

Tax/Royalty Name	Level of Government	Valuation Method	Tax/Royalty Rate	Deductions & Exemptions	Resource Quality & Cost Incentives	Production Incentives
Severance Tax and Surtax	State	Volume-Based	Per-ton levy, adjusted annually based on Producer Price Index. The rate effective July 1, 2016 is $1.28 for surface coal. Surtax is $0.57/ ton on surface coal.	"Intergovernmental Tax Credit" (ITC) for coal extracted from tribal lands.	Lower rate for underground coal, $1.23 effective July 1, 2016. Surtax is $0.55/ton on underground coal.	Exempt from the surtax is coal extracted associated with new contracts after 1990, renegotiated contracts after 1992, or increased production under contracts existing prior to 1990.
Conservation Tax	State	Value-Based	1.9% of gross value. The rate is increased/decreased 0.1% when the balance of the oil and gas reclamation fund is less than/greater than $0.5 million.	Coal sales to certain government, tribal, and NGO entities; service tax; and government and tribal royalty interests.		
Resource Excise Tax	State	Value-Based	0.75% of gross value for producers tax and processors tax, combined rate of 1.5%	Coal extracted from tribal lands is exempt.		
Gross Receipts	State & Local	Value-Based	Varies throughout the state from 5.125% to 8.9375%. The total rate is a combination of the rates imposed by the state, counties, and municipalities.	Coal extracted from tribal lands is exempt. Resource excise taxes are deductible.		

Table A-1 Cont.: New Mexico Production Taxes and Royalty Payments, 2016

Tax/Royalty Name	Level of Government	Valuation Method	Tax/Royalty Rate	Deductions & Exemptions	Resource Quality & Cost Incentives	Production Incentives
Property Tax	Local	Value-Based	Assessed value is 300% of the value of coal sales and the value of improvements, equipment and other personal property used in connection with mineral property. Local tax levies are applied to assessed value.	Governmental royalties are deductible. Transportation and processing costs and the depreciated cost of property used in extraction, processing, and transportation are deductible from gross value.		
State Mineral Leasing Royalty	State	Value-Based	Royalty rate negotiated by lease. Paid on the gross value of coal extracted.			

Notes

- Current inflation-adjusted coal severance tax rates are published by the New Mexico Taxation and Revenue Department.
- The state gross receipts tax rate is 5.125 percent. Counties and, if applicable, municipalities where the businesses are located may add an additional levy of up to 3.5 percent. The two coal-producing counties, McKinley and San Juan, levy combined rates of 6.75 percent and 6.56 percent, respectively.

Table A-2: New Mexico Sources of Production Revenue, FY 2008 - 2016

Fiscal Year	Severance Tax and Surtax	Conservation Tax	Resource Excise Tax	Gross Receipts Tax	Property Tax	State Mineral Leasing	Federal Mineral Leasing
2008	$24,473	$1,455,964	$5,606,225	$39,809,069	$6,833,161	$5,213,010	$4,192,956
2009	$26,690,008	$1,491,870	$5,826,408	$52,848,969	$6,474,948	$15,092,591	$572,326
2010	$25,649,555	$1,358,747	$5,146,284	$44,255,864	$8,025,469	$8,412,730	$1,826,740
2011	$16,886,550	$1,442,423	$5,736,292	$46,980,845	$6,599,221	$7,906,208	$2,166,475
2012	$14,268,342	$1,471,409	$5,837,114	$53,293,446	$6,568,186	$7,397,329	$3,188,159
2013	$14,335,623	$1,300,125	$5,237,280	$48,339,653	$6,385,727	$5,661,492	$3,953,843
2014	$11,645,237	$1,005,456	$3,962,980	$43,012,155	$4,472,695	$6,826,868	$4,099,911
2015	$8,383,337	$912,116	$3,596,736	$20,804,829	$5,129,309	$4,855,619	$5,134,759
2016	$6,798,336	$708,944	$3,015,871	$11,647,905	$6,132,060	$6,074,686	$3,438,722

Notes

- Since 2011, an increasing share of coal mined in New Mexico is extracted from new or renegotiated leases and is exempt from the severance surtax. In FY 2016, no coal production paid the surtax.

Data Sources

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North Dakota

Table A-1: North Dakota Production Taxes and Royalty Payments, 2016

Tax/Royalty Name	Level of Government	Valuation Method	Tax/Royalty Rate	Deductions & Exemptions	Resource Quality & Cost Incentives	Production Incentives
Severance Tax	State	Volume-Based	$0.375 per ton. An additional 2-cent per ton tax is levied for the Lignite Research Fund.		Exemptions for coal used for heating buildings in the state, coal used by the state or any political subdivision of the state, and coal used in agricultural commodity processing facilities or to produce steam used in agricultural processing facilities in North Dakota or adjacent states. 50% tax reduction for coal burned in cogeneration plants if renewables make up at least 10% of generating capacity.	Counties may grant a partial or complete exemption from the counties' 70% portion of the 37½-cent tax for coal that is shipped out of state.
State Mineral Leasing Royalty	State	Value-Based	Royalty negotiated by lease, paid on the gross value of coal.			

Notes

- Counties have a local-option to lower the local government share of the severance tax for coal exported from the state, but no counties currently utilize this incentive.

Table A-2: North Dakota Sources of Production Revenue, FY 2008 - 2016

Fiscal Year	Severance Tax	State Mineral Leasing	Federal Mineral Leasing
2008	$13,040,106	$701,809	$679,336
2009	$13,427,797	$1,566,134	$283,188
2010	$12,650,039	$2,770,348	$132,478
2011	$12,129,238	$2,426,136	$408,668
2012	$11,519,751	$4,077,691	$754,160
2013	$11,315,686	$4,092,177	$976,532
2014	$11,391,946	$4,236,092	$1,083,142
2015	$11,370,112	$3,033,120	$1,783,246
2016	$10,948,613	$1,200,018	$1,848,459

Data Sources

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Utah

Table A-1: Utah Production Taxes and Royalty Payments, 2016

Tax/Royalty Name	Level of Government	Valuation Method	Tax/Royalty Rate	Deductions & Exemptions	Resource Quality & Cost Incentives	Production Incentives
Property Tax	Local	Value-Based	Assessed value is based on discounted cash flow approach. Local mill levies are applied to the assessed value.	Royalties and other costs and expenses are deductible from taxable income.		
State Mineral Leasing Royalty	State	Value-Based	Royalty rate negotiated by lease, typically 12.5%. Paid on the gross value of coal extracted.			

Notes

- Property tax valuation is based on a discounted cash flow approach. Expenses are deducted from the income, including salaries, severance taxes, sales/use taxes, and state and federal royalty payments. Utah State Tax Commission. *2015 Annual Property Tax Return for Mining Properties. Instructions for Coal Properties*. Salt Lake City, UT: Utah State Tax Commission, 2015. http://propertytax.utah.gov/library/pdf/ca_pdfs/nat_res_pdfs/coalinstructions.pdf.

Table A-2: Utah Sources of Production Revenue, FY 2008 – 2016

Fiscal Year	Property Tax	State Mineral Leasing	Federal Mineral Leasing
2008	$4,730,398	$11,870,338	$13,184,119
2009	$4,800,219	$18,621,707	$11,772,734
2010	$4,079,190	$17,601,512	$15,620,492
2011	$4,642,360	$14,674,012	$10,385,073
2012	$4,435,763	$11,299,234	$18,893,250
2013	$4,829,529	$2,223,317	$18,196,254
2014	$6,028,943	$3,635,141	$22,138,060
2015	$5,270,466	$3,001,020	$17,035,176
2016	$4,878,235	$2,308,354	$18,990,025

Data Sources

State of Utah Property Tax Division. *Annual Statistical Reports. Table 2: Property Taxes Charged Against Each Class of Property*. Salt Lake City, UT: State of Utah Property Tax Division, 2016. http://propertytax.utah.gov/general/annual-report.

Utah Trust Lands Administration. *Annual Report*. Salt Lake City, UT: State of Utah School and Institutional Trust Lands Administration, 2016. https://trustlands.utah.gov/resources/public-document-search/.

Wyoming

Table A-1: Wyoming Production Taxes and Royalty Payments, 2016

Tax/Royalty Name	Level of Government	Valuation Method	Tax/Royalty Rate	Deductions & Exemptions	Resource Quality & Cost Incentives	Production Incentives
Severance Tax	State	Value-Based	7% for surface coal. Maximum tax is $0.60/ton.	Governmental royalties. Transportation and processing costs.	3.75% for underground coal. Maximum tax is $0.30/ton.	
Property Tax	Local	Value-Based	Assessed value is the gross value of coal used for severance tax valuation. Local mill levies are applied to the assessed value.	Governmental royalties. Transportation and processing costs.		
State Mineral Leasing	State	Value-Based	12.5% of gross value.			

Table A-2: Wyoming Sources of Production Revenue, FY 2008 – 2016

Fiscal Year	Severance Tax	Property Tax	State Mineral Leasing	Federal Mineral Leasing
2008	$268,547,917	$237,355,657	$10,941,118	$478,171,722
2009	$303,349,626	$259,932,589	$6,396,608	$604,922,286
2010	$295,824,455	$253,492,752	$12,657,258	$361,485,593
2011	$317,157,747	$265,127,590	$16,712,921	$391,701,312
2012	$306,906,095	$268,890,751	$68,385,731	$489,005,604
2013	$290,522,874	$259,143,767	$45,684,039	$518,998,820
2014	$277,902,634	$239,058,629	$46,023,524	$491,667,883
2015	$271,342,342	$240,983,211	$74,232,746	$505,126,444
2016	$217,752,042	$225,020,753	$65,443,064	$439,815,903

Data Sources

State of Wyoming Department of Administration and Information, Economic Analysis Division, Consensus Revenue Estimating Group (CREG). *January 2016 CREG Forecast for FY2016-FY2020. Table 6. Mineral Severance Taxes to All Accounts*. Cheyenne, WY: State of Wyoming Department of Administration and Information, 2016. http://eadiv.state.wy.us/creg/.

Wyoming Department of Revenue, Property Tax Division. *Annual Reports*. Cheyenne, WY: Wyoming Department of Revenue, 2016. https://sites.google.com/a/wyo.gov/wy-dor/dor-annual-reports.

Wyoming State Board of Land Commissioners. *Summary of State Trust Land Revenue.* Cheyenne, WY: Wyoming Office of State Lands and Investments, 2016. http://slf-web.state.wy.us/osli/boardmatters/2017/0817/B-4.pdf.

State of Wyoming Department of Administration and Information, Economic Analysis Division, Consensus Revenue Estimating Group (CREG). *January 2016 CREG Forecast for FY2016-FY2020. Table 7(a) Federal Mineral Royalties (without Coal Lease Bonuses)*. Cheyenne, WY: Wyoming Department of Administration and Information, 2016. http://eadiv.state.wy.us/creg/.

APPENDIX B: DISTRIBUTION OF COAL PRODUCTION REVENUE

This appendix accompanies the report “Coal Extraction Revenue and Spending: A Comparison Among Western States.” In the report, we compare fiscal policy related to coal mining in six major coal-producing states: Colorado, Montana, New Mexico, North Dakota, Utah, and Wyoming. We review how revenue is generated from coal extraction and how the revenues are spent by state and local governments, and how much is set aside in permanent savings.

Table B-1 describes how coal production tax revenue is distributed to state governments, local governments, and permanent savings in six western states covered in this report.

- The “Tax Name” column in Table 1 includes all production taxes levied in each state covered by this report, including state-levied severance taxes, local property taxes levied on the coal resource, and miscellaneous fees and levies on the coal resource that often support a regulatory agency or a specific remediation program.
- The “Distribution Type” column identifies the recipient of the distribution.
    - “State Government” describes the share of total revenue received and retained at the state level. All coal production tax revenue that is allocated to annual spending on state priorities is included. It excludes revenue generated by state production taxes that is deposited into permanent savings or is distributed to local governments through direct revenue sharing, grants, and loans.
    - “Local Government” describes all coal production tax revenue received by local governments through direct local taxation, direct distributions from state-levied coal production taxes, or from grant and loan programs funded specifically from coal production tax revenue. It excludes distributions from coal tax permanent funds earmarked for local government.
    - “Permanent Savings” describes the share of all state coal production taxes collected annually that is deposited into a permanent savings fund. It excludes revenue set aside in rainy day funds that are not constitutional or statutory permanent funds that carry restrictions on spending the principal balance of the fund.
- The “Distribution” Column provides additional detail, including the specific fund or spending priority to which coal production revenue is allocated.

Colorado

Table B-1: Colorado Distribution of Coal Production Revenue, FY 2010-2016

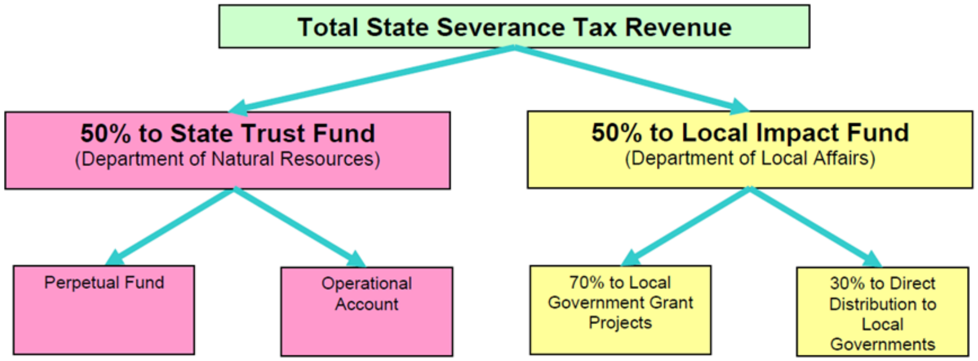
			Distribution Amount						
Tax Name	Distribution Type	Distribution	2010	2011	2012	2013	2014	2015	2016
Severance Tax	State Government	Department of Natural Resources Operational Account	$1,581,243	$1,740,177	$2,374,345	$2,216,163	$2,013,097	$1,345,216	$897,171
	Local Government	Department of Local Affairs Direct Distributions	$948,746	$1,044,106	$1,424,607	$1,329,698	$1,207,858	$807,129	$538,303
		Department of Local Affairs Impact Grants	$2,213,740	$2,436,248	$3,324,082	$3,102,628	$2,818,335	$1,883,302	$1,256,039
	Permanent Savings	Department of Natural Resources Perpetual Account	$1,581,243	$1,740,177	$2,374,345	$2,216,163	$2,013,097	$1,345,216	$897,171
Property Tax	Local Government	Taxing Jurisdictions	$4,007,470	$3,413,963	$3,299,746		$4,805,404	$7,445,448	$2,825,869
State Royalty	State Government	Agency operations	$210,848	$235,384	$102,897	$30,411	$7,545	$150,000	$68,364
	Local Government	School capital construction (BEST program)	$3,514,136	$3,923,072	$1,714,951	$506,843	$125,753	$2,500,000	$1,139,397
	Permanent Savings	Public School Permanent Fund	$3,303,288	$3,687,687	$1,612,054	$476,432	$118,208	$2,350,000	$1,071,033
FML Royalty	State Government	Higher Education Reserve Fund	$13,702,976	$14,700,394	$14,248,610	$6,783,188	$9,134,643	$10,843,272	$8,761,762
	Local Government	Department of Local Affairs Direct Distributions	$4,110,893	$4,410,118	$4,274,583	$2,034,957	$2,740,393	$3,252,982	$2,628,529
		Department of Local Affairs Impact Grants	$13,702,976	$14,700,394	$14,248,610	$6,783,188	$9,134,643	$10,843,272	$8,761,762
	Permanent Savings	Department of Natural Resources Perpetual Account	$2,740,595	$2,940,079	$2,849,722	$1,356,638	$1,826,929	$2,168,654	$1,752,352

Severance Tax

State Government Distribution

Half of severance taxes are distributed to the Department of Natural Resources (DNR) Severance Tax Trust Fund. Half of DNR funds (25% of total severance taxes) go to operational spending for programs related to mineral extraction, clean energy development, low-income energy assistance, and species conservation.

Figure B-1: Colorado Severance Tax Distribution Flow Chart[i]



Local Government Distribution

Half of the severance tax is distributed to the local government severance tax trust fund. The fund is not a true trust fund, but the balance is distributed annually via the Department of Local Affairs (DOLA) to local governments. DOLA's distribution programs are notable both for the share of revenue Colorado distributes to local governments (local governments in Colorado retain the highest share of production revenues among peer oil- and natural gas-producing states) and for the way distributions attempt to address impacts on rural counties from industrial activity and related population growth in nearby cities. Thirty percent of the DOLA share (15% of total) is distributed directly to local governments based on a formula that includes county of origin (where extraction occurs) and where oil and natural gas employees live. Seventy percent of the DOLA share is distributed to local governments via impact grants.

Permanent Savings Distribution

Half of severance taxes are distributed to the Department of Natural Resources Severance Tax Trust Fund. Half of DNR funds (25% of total severance taxes) are invested into a Perpetual Base Fund used to finance loans for state water projects administered by the Colorado Water Conservation Board that construct or improve flood control, water supply, hydroelectric energy, and recreational facilities, excluding domestic water treatment and distribution systems.[ii]

Property Tax

Local Government Distribution

Local governments levy property taxes directly on the assessed value of the coal resource within the taxing jurisdiction.

State Mineral Leasing

State Government Distribution

Three percent of the annual revenue earned from the management of state trust lands, including coal leasing and extraction revenue, helps pay for the State Land Board's annual operating expenses. The Board is entirely funded from revenue generated through the management of state trust lands.

Local Government Distribution

Since 2008, 50 percent of revenue earned from the management of state trust lands (including coal revenue) goes to school capital construction—the Building Excellent Schools Today (BEST) program. It is appropriated annually.

Permanent Savings Distribution

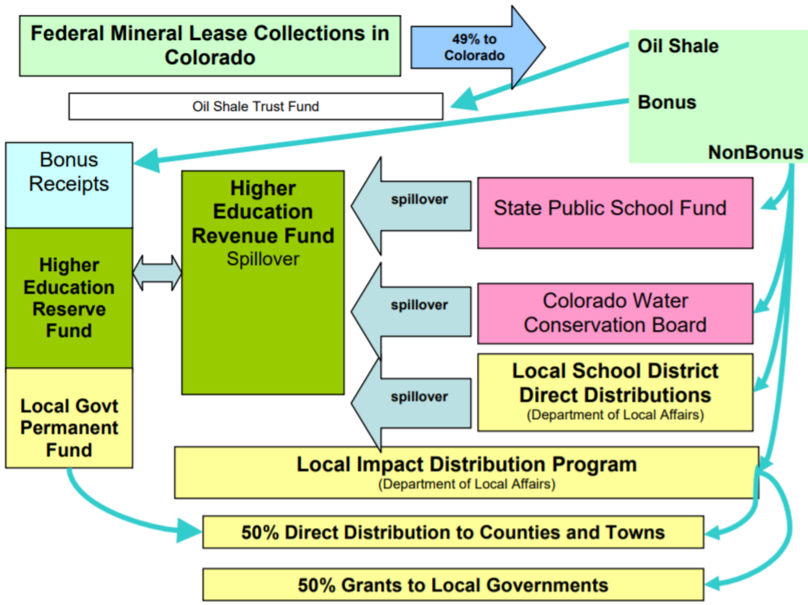
The remainder of the annual revenue earned from the management of state trust lands (47%) is deposited into the Public School Permanent Fund.

Federal Mineral Leasing Royalty

Local Government Distribution

The federal government shares roughly half (49%) of bonus payments, royalties, rental fees, and other revenues paid to the federal government for coal extracted in Colorado on federal leases. The state has broad discretion about how to spend, save, and share these revenues.

Figure B-2: Colorado Distribution of Federal Mineral Lease Revenue, FY 2015



Half of the state's share of federal mineral revenue is allocated to local schools: 1.7 percent is distributed directly to local school districts and 48 percent is directed to the State Public School Fund, capped at \$4.1 million and \$76 million, respectively.[iii] Any spillover amounts are distributed to the Higher Education Revenue Fund.

Forty percent of federal mineral revenue is deposited into the Energy and Mineral Impact Assistance Fund to be distributed by the Colorado Department of Local Affairs (DOLA) to counties, cities, and school districts using both direct distributions and impact grants to affected communities. Direct distributions are made using a variety of impact metrics, including employment in mining and measures of mineral activity.[iv]

The purpose of the Energy and Mineral Impact Assistance program is to assist political subdivisions that are socially and/or economically impacted by the development, processing, or energy conversion of minerals and mineral fuels. The department is assisted by a 12-member Energy and Mineral Impact Assistance Advisory Committee that meets several times each year to consider applications for grants and low-interest loans. Entities eligible to receive grants and loans include municipalities, counties, school districts, special districts, and other political subdivisions and state agencies. The kinds of projects that are funded include (but are not limited to) water and sewer improvements, road improvements, construction/improvements to recreation centers, senior centers and other public facilities, fire protection, buildings and equipment, and local government planning.[v]

Permanent Savings Distribution

Ten percent of federal mineral revenue is allocated to the Colorado State Water Conservation Board which deposits the funds in a perpetual base account used for loans for state water projects (10 percent of the total capped at $17.7 million in FY 2015).[vi] Any spillover amounts are allocated to a permanent fund for higher education.

Revenue from federal mineral bonus payments from coal lease sales are shared between two permanent funds for local governments and higher education.[vii] These local government and higher education permanent funds have been raided in recent years. In 2009, for example, two bills transferred a total of $50.7 million to the state's General Fund.[viii]

Montana

Table B-1: Montana Distribution of Coal Production Revenue, FY 2010-2016

			Distribution Amount						
Tax Name	Distribution Type	Distribution	2010	2011	2012	2013	2014	2015	2016
Severance Tax	State Government	Capitol Art Protection Trust Fund -	$278,318	$346,316	$332,279	$356,415	$363,360	$383,616	$380,259
		Coal & Uranium Program (DEQ Mine Permitting and Res..	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000
		General Fund	$10,321,853	$12,882,504	$12,350,214	$13,265,485	$14,744,619	$16,062,810	$14,235,548
		Long Range Building Program Account	$5,301,292	$6,596,486	$6,329,115	$6,788,858	$6,921,142	$7,306,970	$7,243,026
		Parks Trust Fund	$561,053	$698,128	$669,831	$718,487	$732,488	$773,321	$766,554
		Renewable Resource Loan Debt Service Fund	$419,686	$522,222	$501,055	$537,451	$547,924	$578,468	$573,406
	Local Government	Local Impacts (Shared Account)	$2,412,088	$3,001,401	$2,879,748	$3,088,930	$3,149,120	$3,324,671	$3,295,577
		Oil, Gas, and Coal Natural Resource Account (Coal Board)	$2,544,427	$3,188,302	$3,059,072	$3,281,281	$2,129,440	$1,765,851	$3,434,905
	Permanent Savings	Coal Tax Trust Fund (50%)	$22,088,717	$27,485,358	$26,371,314	$28,286,909	$28,838,092	$30,445,707	$30,179,274
Gross Proceeds Tax	State Government	State Share	$7,711,376	$7,564,424	$9,087,054	$9,075,101	$8,768,283	$9,288,352	$9,979,145
	Local Government	Local Share	$7,901,254	$8,138,728	$10,739,041	$10,369,234	$10,043,732	$10,569,130	$10,777,732
Resource Indemnity Tax	State Government	CERCLA Debt Service	$216,423	$204,192	$196,970	$222,945	$212,768	$158,137	$188,996
		Environmental Quality Protection (25%)	$183,736	$280,348	$287,645	$304,925	$291,439	$393,281	$270,595
		Groundwater Assessment	$291,175	$272,417	$269,853	$302,354	$286,187	$215,741	$255,791
		Hazardous Waste/CERCLA (25%)	$183,736	$280,348	$287,645	$304,925	$291,439	$393,281	$270,595
		Natural Resources Projects (50%)	$367,472	$560,696	$575,291	$609,851	$582,878	$786,561	$541,190
		Water Storage	$119,334		$110,595		$117,290		$104,833
State Royalty	State Government	Lands Acquired - Public School					$1,180	$1,591	$3,094
		Montana Tech					$110,462	$114,097	$118,841
		MSU - Morrill Grant					$60,768	$103,321	$57,105
		MSU - Second Grant					$210,817	$157,198	$145,184
		MT Developmental Center					$235	$588	$861
		MT State Hospital					$235	$588	$861
		Public Buildings					$111,088	$127,596	$251,876
		Public Land Trust - Navigable Rivers					$372,714	$344,071	$450,677
		School for the Deaf and Blind					$30,407	$34,833	$47,736
		State Normal School					$110,097	$129,713	$66,199
		State Reform School					$37,573	$40,812	$58,666
		The University of Montana					$20,971	$22,240	$30,944
		Veterans Home					$1,165	$1,183	$1,648
	Local Government	Common Schools					$4,204,841	$4,402,579	$5,497,419
	Permanent Savings	Common Schools - Permanent					$2,264,720	$1,947,966	$2,003,761
		Lands Acquired - Public School						$37	$1,506
		Montana Tech					$26,299	$57,346	$7,406
		MSU - Morrill Grant					$21,765	$37,725	$1,308
		MSU - Second Grant					$50,421	$109,438	$8,454
		Public Land Trust - Navigable Rivers					$196,200	$89,957	$78,042
		School for the Deaf and Blind					$10,245	$33,674	$5,821
		State Normal School					$4,299	$9,152	$94
		State Reform School					$10,737	$52,726	$12,285
		The University of Montana					$1,036	$7	$106
		Veterans Home						$783	
FML Royalty	State Government	General Fund	$18,529,867	$18,306,127	$19,757,744	$17,983,132	$17,702,439	$16,437,260	$17,740,493
	Local Government	County Allocation	$6,176,622	$6,102,042	$6,585,915	$5,994,377	$5,900,813	$5,479,087	$5,913,498

Severance Tax

State Government Distribution

Half of the severance tax is allocated by the state to a wide variety of purposes. Most (about 45% of total severance tax revenue) goes to state programs including long-range building, parks, libraries, coal research and promotion, and the state General Fund.[ix]

Local Government Distribution

A small portion of the severance tax (about five percent) is allocated to the Local Impacts Account and the Natural Resources Account to make grants to local governments for economic development and to mitigate impacts related to mining activities, respectively.

Permanent Savings Distribution

Half of Montana's coal severance tax is deposited into the Coal Tax Trust Fund, a permanent fund intended to provide long-term fiscal benefits from the depletion of the state's coal resources. Currently five sub-trusts make up the coal trust fund: Coal Tax Bond Fund, Treasure State Endowment Fund, Treasure State Endowment Regional Water Fund, Big Sky Economic Development Fund, and the Coal Severance Tax Permanent Fund. An amount sufficient to meet interest payments on outstanding Severance Tax Bonds is retained in the Coal Tax Bond Fund. The remainder is allocated to the Treasure State Endowment Trust Fund (50%), Treasure State Endowment Regional Water Trust Fund (25%) and Big Sky Economic Development Trust Fund (25%). Any remaining trust fund severance tax revenue is distributed to the Coal Severance Tax Permanent Fund.

Gross Proceeds Tax

State Government Distribution

About half of the Gross Proceeds Tax revenue is retained by the state and deposited into the General Fund.

Local Government Distribution

The coal Gross Proceeds Tax is levied in lieu of local property taxes. About half of total revenue is distributed directly to counties where extraction takes place. Revenue is further distributed to the appropriate taxing jurisdictions within the counties based on the proportional number of mills levied in fiscal year 1990.[x]

Tax Expenditure

The Montana Department of Revenue reports the reduced gross proceeds rate for new underground coal mines as a tax expenditure in its annual report.[xi] The state reports revenue losses from a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability as a tax expenditure. The reduced gross proceeds rate for new underground coal mines was introduced by the Montana Legislature in the 2011 session specifically to encourage new coal mining in Montana.[xii]

Resource Indemnity Tax (RIT)

State Government Distribution

Revenue (which includes revenue from coal leasing and extraction)[xiii] is distributed to several state funds and accounts: $366,000 to the Department of Environmental Quality (DEQ) groundwater assessment account and $150,000 to the DEQ water storage state special revenue account each biennium. Of the remaining revenue, 25% is distributed to the hazardous waste/CERCLA special revenue account and another 25% is directed to the environmental quality protection fund; remaining revenue is distributed to the natural resources projects fund.

Permanent Savings Distribution

The RIT was initially directed to the Resource Indemnity Trust, a constitutionally created permanent fund. The Trust was limited to $100 million. In 2002, the Trust reached the $100 million threshold, and the RIT tax was redirected to other annual spending purposes.[xiv]

State Mineral Leasing

State Government Distribution

Montana distributes a large share of revenue from state trust lands (which includes revenue from coal leasing and extraction) on an annual basis. In general, revenue earned from the management of state trust lands is spent annually. More than three-quarters of trust land management revenue was distributed to a variety of state institutions in FY 2016, including universities and other schools, public buildings, and the state hospital.

Local Government Distribution

The largest beneficiaries of state trust lands are the state's primary public schools. The schools receive distributions annually from land management revenue.

Permanent Savings Distribution

In general, revenue earned from the sale and permanent disposition of state trust lands and resources is deposited into the constitutionally created Permanent Fund. Bonus payments from the sale of the Otter Creek coal leases in 2010 were also deposited into the Permanent Fund.

Federal Mineral Leasing Royalty

State Government Distribution

Three-quarters of federal mineral leasing revenues are deposited in the state General Fund.[xv]

Local Government Distribution

Montana began making direct distributions equal to 25 percent of the state's share of Federal Mineral Leasing royalties to the county of origin (where the coal is mined) in 2005.

New Mexico

Table B-1: New Mexico Distribution of Coal Production Revenue, FY 2010-2016

			Distribution Amount						
Tax Name	Distribution Type	Distribution	2010	2011	2012	2013	2014	2015	2016
Severance Tax and Surtax	State Government	Severance Tax Bond Debt Service	$19,526,228	$12,291,664	$10,706,711	$7,932,783	$7,745,926	$8,244,057	$6,612,596
	Permanent Savings	Severance Tax Permanent Fund	$1,546,953	$109,325	$172,677	$2,575,097	$2,326,180	$83,019	$185,740
Conservation Tax	State Government	General Fund	$1,143,674	$1,152,875	$1,231,994	$1,133,654	$1,067,405	$797,184	$696,940
		Reclamation Fund	$134,601	$135,684	$144,999	$133,422	$125,628	$87,341	$172,073
Resource Excise Tax	State Government	General Fund	$4,681,050	$5,322,493	$5,574,725	$5,085,106	$3,907,932	$3,572,598	$3,015,871
Gross Receipts	State Government	General Fund	$30,191,286	$32,693,840	$38,173,358	$35,201,323	$31,811,024	$15,498,905	$8,735,929
	Local Government	Local Government	$10,063,762	$10,897,947	$12,724,453	$11,733,774	$10,603,675	$5,166,302	$2,911,976
Property Tax	Local Government	Taxing Jurisdictions	$7,299,951	$6,123,173	$6,272,934	$6,200,183	$4,410,567	$5,094,886	$6,132,060
Federal Mineral Leasing Bonus	State Government	General Fund					$110,446	$110,446	$110,446
Federal Mineral Leasing Royalty	State Government	General Fund	$1,661,599	$2,010,192	$3,044,846	$3,838,960	$3,932,515	$4,989,853	$3,328,276
State Mineral Leasing	State Government	Appropriation		$11,509	$154,379	$132,531			$39,867
		Behavioral Health Institute Las Vegas	$4,077	$5,618	$21,049	$38,970	$51,194	$8,734	$11,390
		Carrie Tingley Children's Hospital	$135	$239	$93	$56	$220	$135	$482
		Charitable, Penal & Reform	$3,691	$4,715	$2,311	$1,533	$7,425	$10,615	$1,935
		Children, Youth and Families Dept.		$670	$247	$224			
		Eastern NM University	$1,488	$3,942	$2,823	$2,795	$1,808	$1,346	$2,506
		NM Boys School (CYFD)	$120				$239	$254	$209
		NM Highlands University	$875	$743	$1,195	$802	$781	$1,470	$1,046
		NM Institute of Mining & Technology	$2,098	$4,430	$10,656	$1,853	$5,774	$34,943	$2,967
		NM Military Institute	$14,825	$33,343	$54,900	$3,522	$10,448	$4,053	$3,358
		NM Miners' Colfax Medical Center	$2,856	$11,406	$46,912	$11,363	$23,472	$7,273	$2,905
		NM School for the Blind & Visually Impaired	$8,897	$8,931	$2,573	$10,693	$3,461	$10,241	$35,917
		NM School for the Deaf	$6,004	$5,921	$2,434	$7,759	$3,814	$7,487	$16,160
		NM State Penitentiary	$7,531	$3,176	$1,950	$34,317	$10,465	$5,366	$13,531
		NM State University	$5,554	$5,147	$1,981	$4,697	$4,155	$11,807	$6,870
		Northern NM Community College	$775	$401	$1,260	$287	$269	$955	$732
		Public Buildings	$4,732	$4,492	$3,406	$6,893	$3,699	$16,833	$19,400
		Rio Grande Improvements (OSE)	$20,238	$2,249	$883	$503	$0	$730	$865
		State Land Office Admin. Costs	$204,959	$102,219	$322,802	$320,261	$214,384	$114,708	$127,556
		University of NM	$20,370	$7,672	$11,555	$24,088	$9,761	$10,551	$4,708
		University Saline Lands	$199	$0	$29	$113	$9	$0	$30
		Water Reservoirs (OSE)	$28,585	$5,343	$8,651	$22,474	$5,303	$4,384	$8,139
		Western NM University	$1,306	$438	$1,042	$589	$573	$1,082	$769
	Local Government	Common Schools	$1,237,898	$808,502	$791,942	$816,078	$453,915	$348,163	$589,160
	Permanent Savings	Royalty Revenue	$3,595,708	$6,072,290	$4,528,994	$9,242,660	$18,857,944	$8,247,216	$2,743,286

Severance Tax and Surtax

State Government Distribution

Revenue from the severance tax and surtax is first used to pay principal and interest on bonds sold by the state under the Severance Tax Bonding Act. About 97 percent of total severance tax revenue was used for this purpose in FY 2016. Bonds are sold to pay for state infrastructure.

Permanent Savings Distribution

After principal and interest are paid on severance tax bonds, remaining revenue is deposited in the Severance Tax Permanent Fund. The Permanent Fund was created in 1973. In the 1990s, half of severance taxes were deposited into the Permanent Fund. In 1999, the state began diverting severance taxes to pay for school funding associated with school equalization needs. In FY 2016 less than 3 percent of total severance tax revenue was deposited in the Permanent Fund.

Conservation Tax

State Government Distribution

The Conservation Tax is placed in a trust fund managed by the state Board of Investments. A portion of the revenue goes to the Reclamation Fund and the remainder is deposited in the state General Fund.[xvi]

Resource Excise Tax

State Government Distribution

All Resource Excise Tax revenue is deposited in the state General Fund.[xvii]

Gross Receipts Tax

State Government Distribution

The Gross Receipts Tax combines rates imposed by the state, counties, and, if applicable, municipalities where the coal businesses are located. The business pays the total Gross Receipts Tax to the state, which then distributes the counties' and municipalities' portions to them after retaining the state share.[xviii]

Local Government Distribution

The gross receipts tax in Cibola, San Juan, and McKinley counties where coal mining is active is about 6.5 percent outside of incorporated cities.[xix]

Property Tax

Local Government Distribution

Local governments levy property taxes directly on the assessed value of the coal resource within the taxing jurisdiction.

State Mineral Leasing

State Government Distribution

Revenue from renewable resources, such as agricultural and commercial leases, rights-of-way, interest and oil, gas and mineral bonuses, is deposited into the Land Maintenance Fund. The Land Maintenance Fund pays for State Land Office operating expenses (approved by the Legislature) and the remaining balance is distributed proportionately to the beneficiaries, including public primary schools, state universities and colleges, and other public institutions.

Local Government Distribution

A share of the Land Maintenance Fund distributions is made directly to local school districts.

Permanent Savings Distribution

New Mexico's Land Grant Permanent Fund was created in 1912 at statehood. The Land Grant Permanent Fund receives royalty payments from non-renewable resources (oil, gas and mineral extraction, and land sale proceeds).

Federal Mineral Leasing

State Government Distribution

An annual appropriation is made to the Instructional Material Fund and to the Bureau of Geology and Mineral Resources.

Permanent Savings Distribution

The bulk of federal mineral royalties are directed to the Public School Fund.[xx]

North Dakota

Table B-1: North Dakota Distribution of Coal Production Revenue, FY 2010-2016

			Distribution Amount						
Tax Name	Distribution Type	Distribution	2010	2011	2012	2013	2014	2015	2016
Severance Tax	State Government	Lignite Research	$1,175,664	$1,122,956	$1,114,118	$1,112,596	$1,137,590	$1,152,410	$1,108,720
	Local Government	Counties	$15,286,066	$14,969,910	$14,625,230	$14,602,840	$14,930,876	$15,004,642	$14,551,954
	Permanent Savings	Coal Development Trust Fund	$6,551,172	$6,415,676	$6,264,488	$6,258,360	$6,398,948	$6,430,560	$6,236,552
Federal Mineral Leasing Bonus	Local Government	Counties	$37,505	$1,568			$7,840		
		School Districts	$37,505	$1,568			$7,840		
Federal Mineral Leasing Royalty	Local Government	Counties	$22,746	$188,026	$360,129	$474,079	$526,208	$885,639	$924,230
		School Districts	$22,746	$188,026	$360,129	$474,079	$526,208	$885,639	$924,230
State Mineral Leasing	Permanent Savings	Common School Trust	$2,379,494	$2,162,619	$3,884,587	$3,973,035	$4,177,011	$3,012,524	$1,199,778
		School for the Blind			$8,240	$240	$240	$240	$240
		State Hospital	$140,409	$88,502	$1,565				

Severance Tax

State Government Distribution

Twenty-one percent of the severance tax and revenue from the additional $0.02-per-ton tax funds lignite research and promotion.[xxi] The Lignite Research Fund provides grants for marketing studies, regulatory compliance, and technology, including clean coal demonstration projects.

Local Government Distribution

The severance tax is in lieu of both the sales and use taxes on coal and the property tax on minerals in the earth. Seventy percent of the severance tax revenue is shared with counties where the coal is extracted. Counties further appropriate 40 percent of this income to their county general fund, 30 percent to cities within the county, and 30 percent to school districts. Non-producing counties within 15 miles of an active coal mine and a city or school district in those non-productive counties receive a share of the coal-producing county's severance revenue from that mine, limited to the tax revenue on 3.4 million tons annually.

Permanent Savings Distribution

Nine percent of the severance tax is deposited into a permanent Coal Development Trust Fund.[xxii] The fund receives 30 percent of the coal severance tax. This fund is held in trust and is administered by the Board for Loans to coal-impacted counties, cities, and school districts. Any balance not loaned is invested to earn income, and the income is transferred to the State General Fund each year.

State Mineral Leasing

Permanent Savings Distribution

All revenues generated from the prudent management of trust lands (which includes revenues from coal leasing and extraction) are deposited into several permanent trust funds and are invested in a diversified portfolio of financial assets. The permanent trusts benefit a variety of local and state institutions, and primary public schools (the Common Schools Trust).[xxiii]

Federal Mineral Leasing

Local Government Distribution

Fifty percent of FML revenue is distributed "among the counties in which the minerals were produced based on the proportion each county's mineral royalty revenue bears to the total mineral royalty revenue received by the state."[xxiv] The revenue can be used "only for the planning, construction, and maintenance of public facilities and the provision of public services."

Any remaining funds (50%) are distributed to school districts. However, FML revenues "are deemed the first moneys withdrawn or expended from the general fund for the purpose of state aid to school districts."[xxv] In other words, the amount of state aid to schools is not changed. FML revenue is substituted for other sources of revenue, effectively lowering other taxes (e.g., states often use resource revenue to increase spending, increase savings, or lower other taxes, most often state income taxes).[xxvi]

Utah

Table B-1: Utah Distribution of Coal Production Revenue, FY 2010-2016

			Distribution Amount						
Tax Name	Distribution Type	Distribution	2010	2011	2012	2013	2014	2015	2016
Property Tax	Local Government	Taxing Jurisdictions	$3,710,423	$4,307,474	$4,236,368	$4,689,202	$5,945,198	$5,235,096	$4,878,235
Federal Mineral Leasing Royalty	State Government	Board of Education (Research)	$319,688	$216,808	$405,989	$397,520	$491,187	$380,719	$427,276
		USU Water Research Lab	$319,688	$216,808	$405,989	$397,520	$491,187	$380,719	$427,276
		Utah Geological Survey	$319,688	$216,808	$405,989	$397,520	$491,187	$380,719	$427,276
	Local Government	DCED Special Districts	$710,418	$481,796	$902,198	$883,377	$1,091,528	$846,043	$949,501
		Permanent Community Impact Fund	$4,617,720	$3,131,675	$5,864,288	$5,741,952	$7,094,930	$5,499,277	$6,171,758
		Remainder community impact fund	$2,237,818	$1,517,658	$2,841,924	$2,782,638	$3,438,312	$2,665,034	$2,990,929
		UDOT Special Districts (distributiion to counties)	$5,683,348	$3,854,370	$7,217,586	$7,067,017	$8,732,221	$6,768,341	$7,596,010
State Mineral Leasing	State Government	Other Beneficiaries	($136,144)	$532,804	$515,318	$156,223	$250,312	$292,119	$203,293
	Permanent Fund	Public Schools (K-12)	$10,851,972	$13,082,674	$10,301	$1,797,577	$3,037,286	$2,440,695	$2,022,411

Property Tax

Local Government Distribution

Local governments levy property taxes directly on the assessed value of the coal resource within the taxing jurisdiction.

State Mineral Leasing

State Government Distribution

State trust lands are managed on behalf of public schools and a variety of other beneficiaries. Revenue generated on state trust lands (including revenue from coal leasing and extraction) is distributed directly to beneficiaries on an annual basis.

Permanent Savings Distribution

All revenue generated on behalf of public schools is deposited into the Public School Permanent Fund.

Federal Mineral Leasing

State Government Distribution

Utah distributes a portion of federal mineral leasing revenue to the Utah Geological Survey, Utah State University Water Research Lab, and the State Board of Education. Distributions are estimated by applying statutory distributions of Utah's share of federal mineral leasing revenue to the distributions amounts reported by U.S. EITI.[xxvii] Royalty and bonus revenue are distributed in the same manner.

Local Government Distribution

Utah makes distributions from the state's share of federal mineral royalties to local governments through grants and loans from the Permanent Community Impact Fund and through direct distributions made by the Utah Department of Transportation.[xxviii] The Permanent Community Impact Fund provides loans and grants to counties, cities, and towns that are impacted by mineral resource development on federal lands. The goal of the fund is to maximize the long-term benefit of funds derived from lease revenues and bonus payments.[xxix]

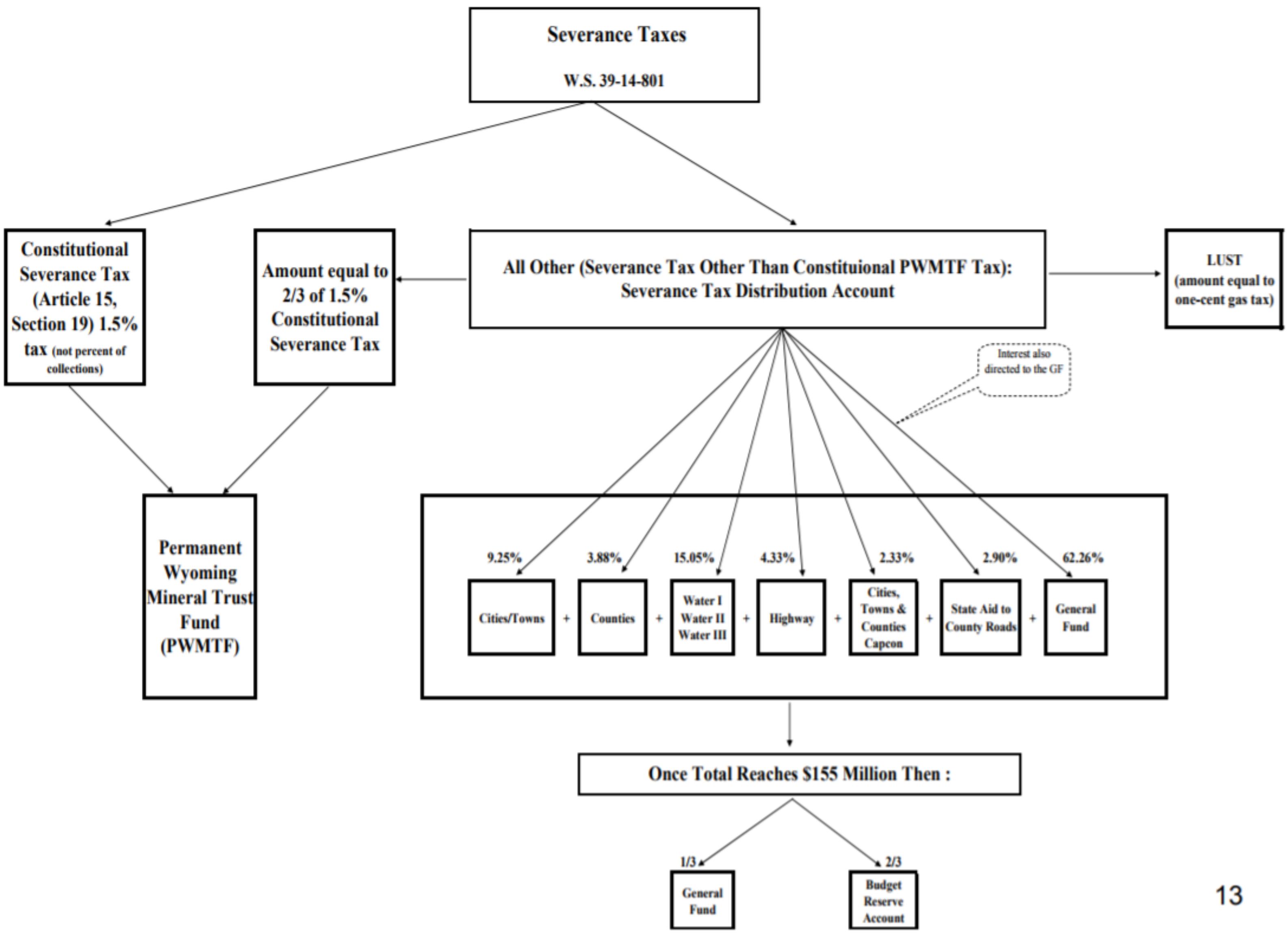
Wyoming

Table B-1: Wyoming Distribution of Coal Production Revenue, FY 2010-2016

			Distribution Amount						
Tax Name	Distribution Type	Distribution	2010	2011	2012	2013	2014	2015	2016
Severance Tax	State Government	Budget Reserve Act	$75,677,333	$83,725,798	$81,762,889	$76,430,733	$78,846,581	$71,396,983	$45,244,386
		General Fund	$65,821,815	$71,698,409	$72,531,810	$70,628,600	$66,981,125	$68,749,964	$75,686,469
		Highway Fund	$1,946,000	$2,024,475	$2,201,331	$2,254,246	$1,916,567	$2,298,633	$2,738,728
		Other (DEQ Leaking Underground Storage Tanks)	$2,947,025	$3,383,376	$3,494,586	$3,575,176	$3,035,903	$3,702,110	$4,025,893
		Water I	$5,595,761	$6,003,882	$6,329,231	$6,481,607	$5,510,683	$6,609,234	$7,874,635
		Water II	$943,842	$997,714	$1,067,567	$1,093,283	$929,513	$1,114,811	$1,328,252
		Water III	$224,782	$241,313	$254,214	$260,305	$221,313	$265,431	$316,250
	Local Government	Cities and Towns	$4,157,249	$4,393,086	$4,702,287	$4,815,652	$4,094,282	$4,910,475	$5,850,632
		Cities, Towns, Counties and Special Dist. Capital Constru..	$1,047,264	$1,124,316	$1,184,485	$1,213,024	$1,031,317	$1,236,909	$1,473,727
		Counties	$1,743,890	$1,848,838	$1,972,468	$2,019,971	$1,717,385	$2,059,745	$2,454,103
		State Aid to County Roads	$1,303,448	$1,399,354	$1,474,244	$1,509,772	$1,283,613	$1,539,500	$1,834,252
	Permanent Savings	PWYMTF	$107,672,939	$117,438,368	$116,135,006	$111,799,080	$108,474,168	$105,637,552	$68,924,714
Property Tax	Local Government	Taxing Jurisdictions	$230,576,515	$246,002,072	$256,803,632	$251,614,091	$235,738,003	$239,365,957	$225,020,753
Federal Mineral Leasing Bonus	State Government	Community Colleges	$1,600,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000
	Local Government	Cities, Towns, Counties and Spec. Districts Capital Const..	$5,625,000	$5,625,000	$5,625,000	$5,625,000	$5,625,000	$5,625,000	$5,625,000
		Highway Fund	$1,875,000	$1,875,000	$1,875,000	$1,875,000	$1,875,000	$1,875,000	$1,875,000
		School District Capital Construction	$38,122,169	$38,122,006	$136,229,795	$229,625,046	$203,802,871	$215,609,844	$210,481,963
Federal Mineral Leasing Royalty	State Government	Budget Reservce Account	$142,559,133	$163,700,623	$161,454,986	$127,873,964	$135,557,373	$131,083,179	$85,935,130
		General Fund Administrative	$677,293	$706,530	$794,916	$733,685	$685,835	$803,822	$913,184
		Highway Fund	$20,367,042	$21,246,232	$23,904,132	$22,062,824	$20,623,917	$24,171,942	$27,460,571
		School Foundation	$101,335,299	$113,205,545	$116,003,636	$96,491,689	$98,212,815	$101,212,381	$83,481,973
		University of Wyoming	$4,526,009	$4,721,385	$5,312,029	$4,902,850	$4,583,093	$5,371,543	$6,102,349
	Local Government	Cities and Towns	$6,286,124	$6,557,479	$7,377,819	$6,809,514	$6,365,406	$7,460,476	$8,475,485
		Highway Fund, County Roads	$1,508,670	$1,573,795	$1,770,676	$1,634,283	$1,527,698	$1,790,514	$2,034,116
		Local Government Capital Construction	$2,514,450	$2,622,992	$2,951,127	$2,723,805	$2,546,163	$2,984,190	$3,390,194
		School Districts Captical Construction	$1,810,404	$1,888,554	$2,124,812	$1,961,140	$1,833,237	$2,148,617	$2,440,940
State Mineral Lea..	Permanent Savings	Common Schools Fund	$11,513,018	$15,507,300	$65,311,670	$44,356,644	$45,384,238	$73,734,565	$65,443,064

Severance Tax

Figure B-2: Wyoming Distribution of Severance Taxes, FY 2015[xxx]



State Government Distribution

After distributions to the Permanent Wyoming Mineral Trust Fund (PWMTF), the state allocates severance tax revenues to a Severance Tax Distribution Account (STDA). The STDA makes an additional 1 percent distribution to the PWMTF, and an amount equal to a one-cent fuel tax is distributed to Leaking Underground Storage Tank (LUST) accounts.

Up to $155 million each fiscal year is distributed from the STDA to nine different accounts/entities, including highway and water infrastructure funds and a Department of Environmental Quality fund to clean up leaking underground storage tanks. One-third of remaining funds are distributed to the state General Fund and two-thirds to the state Budget Reserve Account. In sum, the Budget Reserve Account and the General Fund received 53 percent of distributions in FY 2016.

Local Government Distribution

The state distributes a portion of severance tax revenue to several local government infrastructure grant funds, including State Aid to County Roads, Capital Construction, and distributions to counties, cities, and towns (about 3 percent of total revenue in FY 2016).

Permanent Savings Distribution

About 40 percent of severance tax revenue (the amount raised by a 2.5 percent levy on gross production value—a portion of the state's 7 percent levy) is deposited into the Wyoming Permanent Mineral Trust Fund.

Property Tax

Local Government Distribution

Local governments levy property taxes directly on the assessed value of the coal resource within the taxing jurisdiction.

State Mineral Leasing

State Government Distribution

Revenue earned from recurring commercial activities on state trust lands (including rental and lease revenue as opposed to the permanent sale of lands or extraction of depletable resources) are deposited into several Permanent Trust Land Income funds. Income funds may be expended for the establishment, maintenance, and support of institutions to which they are tied, including state universities and other institutions.

Local Government Distribution

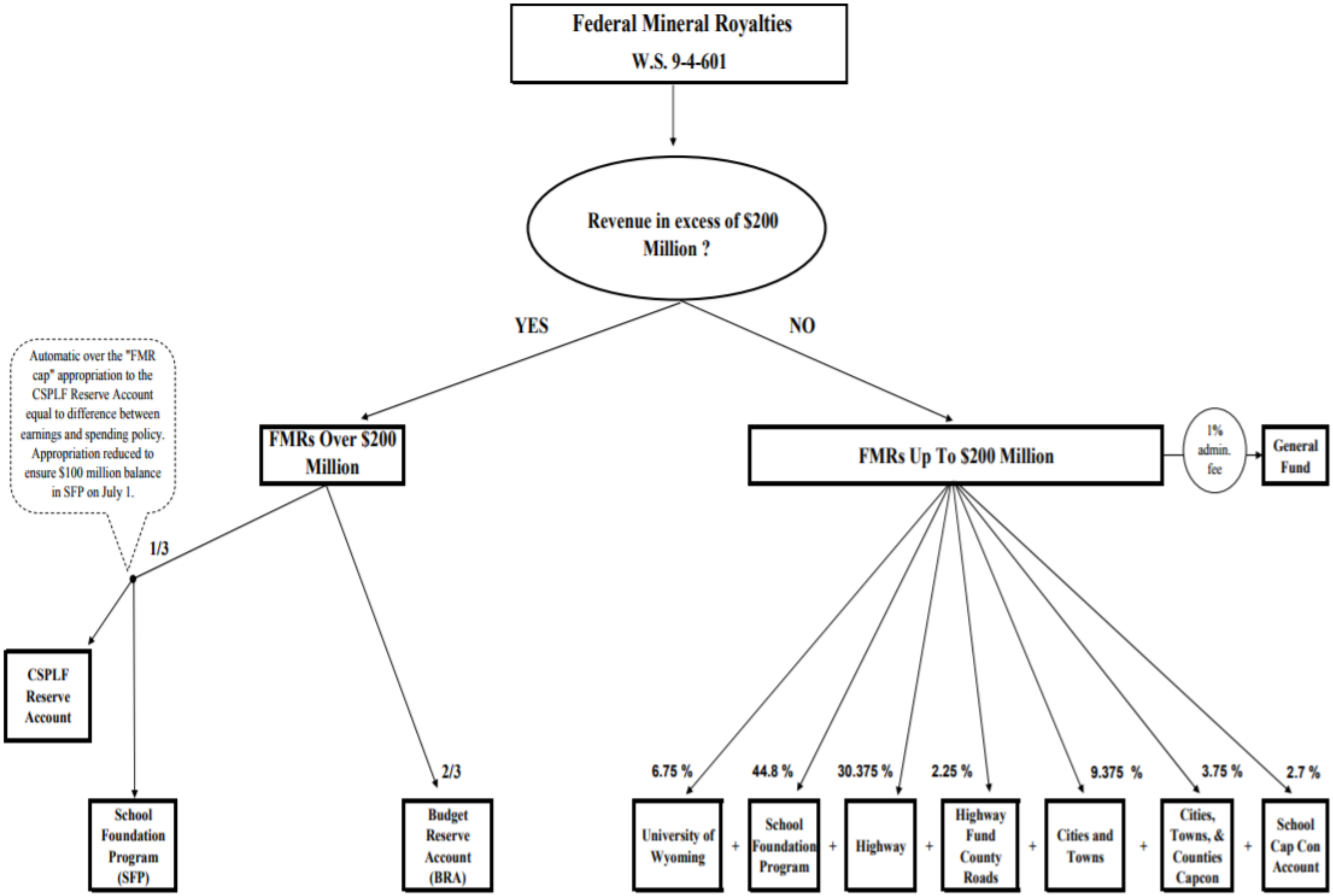
Revenue earned from recurring commercial activities on state trust lands are distributed to school districts on an annual basis by a statutory formula.

Permanent Savings Distribution

Permanent Land Funds receive income from sale of public lands, the extraction of depletable mineral resources, and any money designated by the Wyoming Constitution or statute (any depletable land resource). Permanent funds are held in perpetuity. Income earned by investing the corpus of the permanent land funds is distributed to the permanent land income funds for distribution to beneficiaries including local primary schools, state universities, and other institutions.

Federal Mineral Leasing Royalty

Figure B-3: Distribution of Wyoming Portion of Federal Mineral Royalties[xxxi]



State Government Distribution

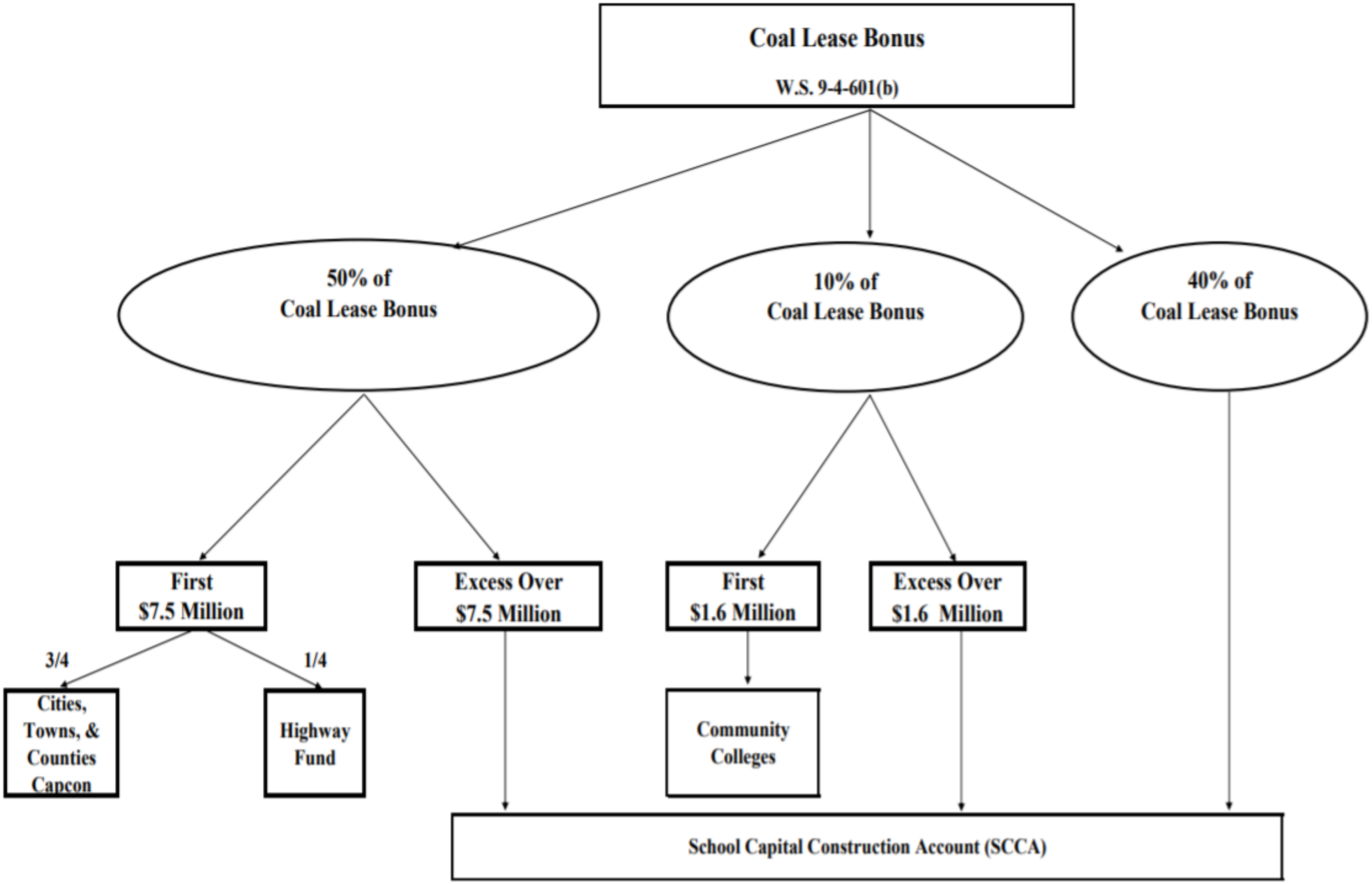
The first $200 million in federal mineral royalties paid to Wyoming is distributed to seven different accounts/entities, including statewide education and infrastructure funds. One percent ($2 million) is deposited to the state General Fund for administration. Distributions to Wyoming more than $200 million are allocated to statewide education funds (one-third) and the state's budget reserve account (two-thirds).

Local Government Distribution

The first $200 million in federal mineral royalties paid to Wyoming is distributed to seven different accounts/entities, including several direct allocations to cities and towns, and grants and loans for capital construction and infrastructure.

Federal Mineral Leasing Bonus Payments

Figure B-4: Distribution of Wyoming Portion of Federal Coal Bonuses[xxxii]



State Government Distribution

Federal coal lease bonuses distributed to Wyoming are allocated to three statewide accounts: Community Colleges, the Highway Fund, and Wyoming's School Capital Construction Account.

Local Government Distribution

A portion of federal coal lease bonuses paid to Wyoming are distributed to cities, towns, and counties for capital construction.

Endnotes

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