

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 2602 – HB 3680

February 25, 2010

SUMMARY OF BILL: Defines gross value of coal to mean the sale price less freight expenses; changes the coal severance tax, beginning on July 1, 2011, from \$0.75 per severed ton to five percent of the gross value of coal; changes the coal severance tax, beginning on July 1, 2013, from \$1.00 per severed ton to five percent of the gross value of coal; changes the allocation of coal severance tax revenue, beginning on July 1, 2011, from a method where local governments receive use and benefit of all revenue (except for deductions made for cost of collection and administration), to a method where one-third shall be deposited to the General Fund, one-third shall be deposited to the Tennessee Surface Mine Reclamation Fund (TSMRF), and one-third shall be allocated to the county from which the coal products were severed.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue –

\$19,500/FY11-12 and FY12-13/Department of Revenue

\$25,900/FY13-14 and Subsequent Years/Department of Revenue

Increase State Revenue –

\$1,779,000/FY11-12 and Subsequent Years/General Fund

\$1,779,000/FY11-12 and Subsequent Years/TSMRF

Increase Local Revenue –

\$70,500//FY11-12 and FY12-13

Decrease Local Revenue –

\$499,100/FY13-14 and Subsequent Years

Assumptions:

- During the 2009 legislative session, legislation was enacted (Public Acts 2009, Public Chapter 138) that increased the coal severance tax from 20 cents per ton to 50 cents per ton for FY09-10 and FY10-11; from 50 cents per ton to 75 cents per ton for FY11-12 and FY12-13; and from 75 cents per ton to \$1.00 per ton beginning with FY13-14.
- Actual coal severance tax collections in FY08-09 were \$460,758. These collections were derived from the previous 20-cent per ton tax rate. Therefore, the number of severed tons is estimated to be 2,303,800 ($\$460,758 / \$0.20 = 2,303,790$).
- The number of severed tons remains constant in subsequent years.

- Based on coal severance tax collections from FY08-09, the number of severed tons remaining constant, and the use of tax rates enacted with passage of Public Chapter 138, coal severance tax collections are projected to be as follows: \$1,727,800 for FY11-12 and FY12-13; and \$2,303,800 for FY13-14 and subsequent years.
- According to the U.S. Energy Information Administration, coal prices in the Central Appalachia were \$57.95 per ton (as of January 15, 2010).
- Based on information obtained from the U.S. Energy Information Administration (EIA), the average cost for transporting coal (from 1979 through 2001) was \$9.53 per ton. An average cost was used because changes to transportation costs (according to EIA) fluctuated little between 1981 and 2001.
- Two percent annual inflation on the cost of transporting coal since 2001.
- The cost of transporting coal (adjusted for 10 years of growth) is estimated to be \$11.62 per ton.
- The gross value of coal (as defined) is estimated to be \$106,735,100 per year [2,303,800 severed tons x (\$57.95 - \$11.62) = \$106,735,054].
- The amount of coal severance tax revenue for FY11-12 and in subsequent years is estimated to be \$5,336,800 per year ($\$106,735,100 \times 5.0\% = \$5,336,755$).
- The increase of coal severance tax revenue for FY11-12 and FY12-13 is estimated to be \$3,609,000 per year ($\$5,336,800 - \$1,727,800 = \$3,609,000$). Given the proposed apportionment method, there would be a decrease of state revenue apportioned to the Department of Revenue equal to \$19,500 in FY11-12 and FY12-13; an increase to local government revenue equal to \$70,500 in FY11-12 and FY12-13; an increase to state revenue apportioned to the General Fund equal to \$1,779,000 in FY11-12 and FY12-13; and an increase to state revenue apportioned to the TSMRF equal to \$1,779,000 in FY11-12 and FY12-13.
- The increase of coal severance tax revenue for FY13-14 and subsequent years is estimated to be \$3,033,000 per year ($\$5,336,800 - \$2,303,800 = \$3,033,000$). Given the proposed apportionment method, there would be a decrease of state revenue apportioned to the Department of Revenue equal to \$25,900 in FY13-14 and in subsequent years; a decrease to local government revenue equal to \$499,100 in FY13-14 and in subsequent years; an increase to state revenue apportioned to the General Fund equal to \$1,779,000 in FY13-14 and in subsequent years; and an increase to state revenue apportioned to the TSMRF equal to \$1,779,000 in FY13-14 and in subsequent years.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc