

## RESOURCE INDEMNITY TAX

### Revenue Description

Title 15, Chapter 38, MCA, created a resource indemnity and groundwater assessment tax. The tax (also called the resource indemnity tax or RIT) funds the resource indemnity trust. The tax also provides revenues for groundwater assessment and resource development programs to benefit the state and its citizens. The purpose of the trust and other programs is to indemnify the citizens of Montana for depletion of the state's natural resources and for environmental damage caused by mineral development.

Until the resource indemnity trust fund balance reached \$100 million, 50% of the resource indemnity tax was deposited in the trust fund. The fund balance reached \$100 million in December 2001 and this allocation ceased. Under current law the tax is deposited into several state special revenue accounts.

### Historical and Projected Revenue

Table 1 shows actual tax revenue from the resource indemnity tax from FY 1997 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

<b>Table 1</b>		
<b>Resource Indemnity Tax Revenue</b>		
<b>(\$ millions)</b>		
Fiscal Year	Tax Revenue	Percent Change
A 1997	\$1.294	
A 1998	\$1.348	4.17%
A 1999	\$1.272	(5.66%)
A 2000	\$1.323	4.04%
A 2001	\$1.077	(18.60%)
A 2002	\$1.224	13.67%
A 2003	\$1.226	0.11%
A 2004	\$1.251	2.03%
A 2005	\$1.436	14.86%
A 2006	\$1.456	1.39%
<b>F 2007</b>	<b>\$1.548</b>	<b>6.28%</b>
<b>F 2008</b>	<b>\$1.612</b>	<b>4.15%</b>
<b>F 2009</b>	<b>\$1.678</b>	<b>4.06%</b>

  

**Resource Indemnity Tax**

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The revenue varies due to fluctuations in mineral prices and production. FY 2006 revenue increased to \$1.456 million, a \$0.020 million increase from FY 2005. Revenues are expected to increase more through FY 2009 as coal production in

Montana is expected to increase. Forecast revenue is expected to be \$1.548 million in FY 2007, \$1.612 million in FY 2008, and \$1.678 million in FY 2009.

### Forecast Methodology and Projection Calculation

The resource indemnity tax is levied on the value of mineral production each calendar year. Producers of the minerals pay the tax once in the following year. About 80% of tax receipts are from coal production. Producers of metals, talc, limestone, sand and gravel, vermiculite, gems, and other non-metalliferous minerals pay most of the remainder. Metal producers pay the resource indemnity tax only if they do not pay the metalliferous mines tax because of small production.

Tax revenues from coal production were estimated using production and price estimates from the coal severance tax revenue forecast. The annual tax is \$25 per producer, plus 0.4% of the gross value of production in excess of \$6,250.

As shown in Table 2, tax collections from coal decreased slightly in FY 2006 to \$1.087 million due to decreased coal production. Production of coal is projected to increase through FY 2009 so the expected coal tax collections are \$1.178 million in FY 2007, \$1.242 million in FY 2008, and \$1.308 million in FY 2009.

Tax revenues from metal production and other mineral production are forecast to equal FY 2006 revenues from metals and other minerals.

<b>Table 2</b> <b>Resource Indemnity Tax</b> <b>(\$ millions)</b>			
Fiscal Year	Coal	Other Minerals	Total
A 2001	\$0.952	\$0.125	\$1.077
A 2002	\$0.999	\$0.225	\$1.224
A 2003	\$0.963	\$0.262	\$1.226
A 2004	\$0.966	\$0.285	\$1.251
A 2005	\$1.109	\$0.328	\$1.436
A 2006	\$1.087	\$0.370	\$1.456
<b>F 2007</b>	<b>\$1.178</b>	<b>\$0.370</b>	<b>\$1.548</b>
<b>F 2008</b>	<b>\$1.242</b>	<b>\$0.370</b>	<b>\$1.612</b>
<b>F 2009</b>	<b>\$1.308</b>	<b>\$0.370</b>	<b>\$1.678</b>

### Allocation of Resource Indemnity Tax Revenue

The resource indemnity tax revenue is allocated to several state special revenue accounts. These include the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) match debt service fund (75-10-622, MCA), the ground water assessment account (85-2-905, MCA), the reclamation and development grants account (90-2-1104, MCA), the natural resource workers' tuition scholarship account (39-10-106, MCA), and the orphan share account (75-10-743, MCA). The allocations are made in the specific order described below.

First, the CERCLA match debt service fund is allocated the amount required to pay the principal, redemption premiums, and interest on CERCLA bonds, after transfers from the CERCLA cost recovery account (75-10-631, MCA). In FY 2006, both the FY 2006

and FY 2007 requirements, totaling \$0.188 million, were allocated to the CLERCA fund. For FY 2007 through FY 2009 the amount allocated to CLERCA is the amount necessary for payments in the following fiscal year. According to the Department of Environmental Quality, \$0.264 million will be allocated in FY 2007, \$0.273 million in FY 2008, and \$0.272 million in FY 2009. The projected increase is due to an additional CLERCA bond made during FY 2006.

Second, revenue required to increase the groundwater assessment account balance to \$666,000 is deposited into that account, up to a maximum of \$366,000. In FY 2003 the groundwater assessment account allocation increased from \$0.300 million to \$0.366 million (SB 322, 2001 Session). In FY 2005 the groundwater assessment account received only \$0.114 million due to the correction of a previous error in distribution. The FY 2006 allocation returned to \$0.366 million and is expected to stay at \$0.366 million through FY 2009.

Third, 50% of any remaining revenue is deposited into the reclamation and development grants account for the purpose of making grants to fund mineral development reclamation projects. This amount has been increasing with the increase of RIT collections. The expected allocation amount for FY 2007 is \$0.459 million, for FY 2008 it is \$0.486 million, and for FY 2009 it is \$0.520 million.

Fourth, the revenue required to increase the natural resource workers' tuition scholarship account balance to \$150,000 is deposited into that account. Currently the natural resource workers' tuition scholarship account balance is at \$150,000 and is projected to remain at this level. By statute, the natural resource workers' tuition scholarship account terminates June 30, 2007.

Fifth, all remaining proceeds are deposited into the orphan share account. Because the tuition scholarship account will not receive revenue, the orphan share account is allocated the same amount of revenue as the resource and development grants account, or 50% of remaining tax revenue after CLERCA and groundwater assessment. Table 3 shows the allocation of actual and projected resource indemnity tax revenue for FY 2001 through FY 2009.

<b>Table 3</b> <b>Resource Indemnity Tax Allocation</b> <b>(\$ millions)</b>							
Fiscal Year	Resource Indemnity Trust	CERCLA match debt service fund	Groundwater Assessment Account	Reclamation and Development Grants Account	Natural Resource Workers' Scholarship Account	Orphan Share Account	Total
A 2001	\$0.538	\$0.000	\$0.300	\$0.119	\$0.000	\$0.119	\$1.077
A 2002	\$0.612	\$0.000	\$0.300	\$0.156	\$0.000	\$0.156	\$1.224
A 2003	\$0.000	\$0.000	\$0.366	\$0.430	\$0.150	\$0.280	\$1.226
A 2004	\$0.000	\$0.000	\$0.366	\$0.442	\$0.000	\$0.442	\$1.251
A 2005	\$0.252	\$0.000	\$0.114	\$0.535	\$0.094	\$0.442	\$1.436
A 2006	\$0.000	\$0.188	\$0.366	\$0.451	\$0.000	\$0.451	\$1.456
<b>F 2007</b>	<b>\$0.000</b>	<b>\$0.264</b>	<b>\$0.366</b>	<b>\$0.459</b>	<b>\$0.000</b>	<b>\$0.459</b>	<b>\$1.548</b>
<b>F 2008</b>	<b>\$0.000</b>	<b>\$0.273</b>	<b>\$0.366</b>	<b>\$0.486</b>	<b>NA</b>	<b>\$0.486</b>	<b>\$1.612</b>
<b>F 2009</b>	<b>\$0.000</b>	<b>\$0.272</b>	<b>\$0.366</b>	<b>\$0.520</b>	<b>NA</b>	<b>\$0.520</b>	<b>\$1.678</b>

## **Data Sources**

Forecasts of CERCLA match debt service fund requirements were obtained from the Department of Environmental Quality. Resource indemnity trust balances were obtained from the Board of Investments. Forecasts of resource indemnity tax receipts were based on Department of Revenue reports, coal producer tax returns, coal production estimates obtained from the coal producers, and coal price forecasts from Global Insight.