NOTE: As provided in LFC policy, this report is intended for use by the standing finance committees of the legislature. The Legislative Finance Committee does not assume responsibility for the accuracy of the information in this report when used in any other situation.

FISCAL IMPACT REPORT

SPONSOR Rodella DATE TYPED 2/3/97 HB 33

SHORT TITLE Extending the Exemption from Coal Surtax on Certain Sales Contracts ANALYST Groepler

REVENUE*

Estimated Revenue FY97	Estimated Revenue FY98	Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
$.	$ (200.0)	$ (200.0)	Recurring**	Severance Tax Bonding Fund
$.	$ Unknown	$ Unknown	Recurring**	General Fund
$.	$ Unknown	$ Unknown	Recurring**	Local Govrnment
$.	$ Unknown	$ Unknown	Recurring**	Gnrl. Obligatn. Bond Fund

* These figures are supplied by TRD
** Depends on whether the exemption is again extended

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)
Energy, Mineral, and Natural Resources Department (ENMRD)
State Land Office (SLO)
LFC files

SUMMARY

Synopsis of Bill

This bill is sponsored by Representative Rodella for the Revenue Stabilization and Tax Policy Committee.

This bill proposes to extend the coal severance surtax exemption to June 30, 1999. Under Section 7-16-6.2 NMSA 1978 (Coal Surtax Exemption -- Qualification Requirements) this exemption is to expire on June 30, 1997.

Significant Issues

Fiscal Year 1997 New Mexico coal severance taxes, which flow to the Severance Tax Bonding Fund (STBF), are estimated to be $26 million. The revenue decrease of $200.0 projected by TRD (see attached bill analysis) assumes that minor amounts of new coal will be brought to the market during the next two fiscal years, regardless of whether the surtax is in place.

The severance tax on surface coal is 57 cents per short ton (2,000 pounds). The surtax amounts to 61 cents per short ton. $200.0/61 cents = 299 thousand short tons, which is the amount of newly contracted coal which TRD appears to be projecting. However, this coal is still subject to the base severance tax, 299 thousand short tons X 57 cents = $170.0. If this is correct, then the net effect on the STBF is only $30.0 if the exemption stimulates new sales, which wouldn't occur if the surtax were in place.

According to ENMRD, the proposed Fence Lake mine may produce coal for an expected 40 year life, possibly producing 3 million tons per year. LFC calculates that this would produce $1.7 million in coal severance tax per year. The surtax would generate $1.8 million per year. If this mine would produce only if the surtax exemption is extended, then the net gain to the STBF would be $1.7 million per year, with approximately one half of this eventually flowing to the Severance Tax Permanent Fund. If the surtax exemption is not necessary, then it results in a $1.8 million loss to the STBF.

FISCAL IMPLICATIONS

The fiscal implications are uncertain due the unpredictability of the Fence Lake mine opening. The permit process for this mine is experiencing delays according to TRD. According to ENMRD, New Mexico coal markets are currently depressed. Extending the surtax exemption may increase production and add to severance tax revenues.

ADMINISTRATIVE IMPLICATIONS

Insignificant according to TRD.

POSSIBLE QUESTIONS

1. What are the production figures and other assumptions that the TRD fiscal impact is based on?

2. How do New Mexico total coal costs (mining, transportation and total tax costs) compare to other states?

3. Is the apparent loophole in the coal surtax a significant threat to New Mexico severance taxes on coal?

4. What is the status of the Fence Lake mine permit process? When is this mine expected to open? How much coal will it produce per year? What is its expected life? Would this mine produce the same amount of coal if the surtax were left in place?

5. Are there any other coal mines which could be opened in the next 2 years?

6. What are the indeterminate impacts on the general fund, local governments, and the general obligation bonds stated by TRD?

RFG/jl
Attachment

BILL ANALYSIS AND FISCAL IMPACT REPORT

DATE: January 30, 1997

Submitted by: TAXATION AND REVENUE DEPARTMENT
JOHN J. CHAVEZ, SECRETARY

BILL NUMBER: House Bill 33

SPONSOR: Representative Rodella

BILL SHORT TITLE: Extending the Exemption from Coal Surtax on Certain Sales Contracts

DESCRIPTION:
The current exemption from the coal surtax granted by Section 7-26-6.2 applies to coal sold and delivered pursuant to contracts entered into on or after July 1, 1990 under which deliveries start after July 1, 1990 and before June 30, 1997. HB-13 extends the exemption to contracts entered into on or after July 1, 1990 under which deliveries start before June 30, 1999, i.e., it would extend the exemption for two years.

EFFECTIVE DATE:

FISCAL IMPACT (Thousands of dollars):

Estimated Impacts on Revenues FY 98 (1997-98	Recurring or Non Recurring Impact	Funds Affected
(200)	Recurring*	Severance Tax Bonding Fund
Indeterminate	Recurring*	State General Fund
Indeterminate	Recurring*	Local Governments
Indeterminate	Recurring*	General Obligation Bond Fund

*depends on whether the exemption is again extended.

New Mexico coal severance tax revenues currently total about $26 million annually. Hence the $200 thousand estimate shown above would represent less than a one percent reduction in revenues. Severance tax revenues from new sales will decrease under the proposal, since these will become eligible for the surtax exemption. The revenue decrease will be offset to the extent that the exemption results in increased sales that would not have occurred without the exemption. Revenues to other funds may increase under the latter scenario.

Plans for new coal mines are under active consideration at present, although the timing for production is uncertain. Revenue effects attributable to possible new facilities are uncertain for several reasons. Sales from new facilities would be eligible for the surtax exemption, but these sales might result in reduced sales under existing contracts. The net effect could be reduced severance tax revenues.

ADMINISTRATIVE IMPACT: virtually none. Systems and forms have already been developed to administer the exemption.

TECHNICAL ISSUES: none

OTHER IMPACTS AND ISSUES: none