Description

The bill would exempt the sale of coal from the state and municipal Transaction Privilege Tax (TPT).

Estimated Impact

Relative to current law, the bill would result in an estimated General Fund revenue loss of $(9.1) million in FY 2019. The ongoing revenue impact after FY 2019 depends on whether the coal mine and the Navajo Generating Station (NGS), which purchases its coal, continue their operations after December 31, 2019.

There are at least 3 possible scenarios:

1. NGS and the coal mine remain open without the TPT exemption. In that circumstance, there is an estimated ongoing General Fund revenue loss of $(12.2) million from the bill.
2. NGS and the coal mine close in December 2019. There is still an estimated ongoing General Fund revenue loss of $(12.2) million due to closure, but that impact is not associated with the bill.
3. NGS and the coal mine remain open only with the TPT exemption. The state still loses $(12.2) million in revenue, but that would have happened in any event because without the bill’s TPT exemption, the state would have otherwise collected no TPT revenue.

We have insufficient information to determine whether the TPT exemption would keep NGS and the coal mine open. If the TPT exemption would keep the 2 entities operating (scenario #3 above), the state would forego the potential loss of individual income taxes from the entities’ employees as well as any corporate income taxes paid by the businesses if the operations were to close.

Analysis

According to publicly available data released by the U.S. Energy Information Administration (EIA), there is 1 coal mine (Kayenta) in Arizona that ships coal to an electric generating station in the state, the Navajo Generating Station (NGS). Both companies are located in Navajo County. EIA lists the quantity of coal shipped as well as the shipment price by year through 2016. Based on the average quantity of coal shipped and the shipment price in the 5 most recent years, the JLBC Staff estimates that the coal mine currently pays an estimated $20.1 million annually in total state and local TPT. This amount is comprised of $16.5 million for state TPT (rate = 5%), $2.0 million for the education tax under Proposition 301 (rate = 0.6%), and the remaining $1.6 million for the Navajo County excise tax (rate = 0.5%). The General Fund portion of state TPT is $12.2 million and the remaining $4.3 million of state TPT is shared with counties and cities.

The bill, which has a general effective date, is assumed to reduce collections in 9 of the last 12 months of FY 2019. Under this assumption, the bill’s exemption is expected to result in a General Fund revenue loss of $(9.1) million [= $(12.2) million x (9/12)] in FY 2019.

The bill’s ongoing revenue impact depends on the status of NGS. Based on information by the owner of NGS (as reported in media outlets), the power plant is scheduled to operate through December 31, 2019 after which date it will close.

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The coal mine, which sells all its coal to the power plant, will reportedly cease operations after this date unless the power plant finds a new owner. Depending on whether NGS and the coal mine close, we have prepared our estimates for 3 different scenarios, as described below.

Scenario 1: NGS and Coal Mine Remain Open Without the TPT Exemption
Under this scenario, NGS is acquired by a new owner and the coal mine continues to operate in calendar year 2020 and beyond. This occurs irrespective of the bill’s TPT exemption. Under this scenario, there is an estimated ongoing General Fund revenue loss of $(12.2) million annually.

Scenario 2: NGS and Coal Mine Close in December 2019
Under this scenario there is still an ongoing General Fund revenue loss of $(12.2) million due to closure. However, this impact is not associated with the bill.

Scenario 3: NGS and Coal Mine Remain Open Only With the TPT Exemption
Under this scenario, the state still loses $(12.2) million in revenue, but that would have happened in any event. Without the TPT exemption, the state would have otherwise collected no TPT revenue.

Other Issues Related to the Potential Closure of the Coal Mine
While this analysis addresses the direct revenue impact associated with the potential closure of the coal mine and NGS, there would also be secondary or indirect impacts owing to the "ripple effect" such closures would have on the local economy. This analysis does not include such indirect impacts.

Local Government Impact

In FY 2019, the bill would reduce distributions of state TPT to counties and cities by $(2.0) million and $(1.2) million, respectively. The Navajo County excise tax would be reduced by $(1.2) million.

The ongoing local government revenue impact after FY 2019 depends on whether NGS and the coal mine close. For this reason, we have prepared our local government impact estimates under the 3 scenarios described above.

Scenario 1: NGS and Coal Mine Remain Open Without the TPT Exemption
Ongoing state TPT distributions to counties and cities are reduced annually by $(2.7) million and $(1.6) million, respectively. The Navajo County excise tax is reduced by $(1.6) million annually on an ongoing basis.

Scenario 2: NGS and Coal Mine Close in December 2019
The ongoing local government impact is the same as under Scenario 1. However, since the revenue loss is due to closure, this impact is not associated with the bill.

Scenario 3: NGS and Coal Mine Remain Open Only With the TPT Exemption
Counties and cities are still losing the same amount of revenues as under Scenario 1. However, these losses would have happened in any event. Without the TPT exemption, counties and cities would have otherwise received no state TPT distributions from the sale of coal (and Navajo County would have received no county excise taxes).

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