3G: REFORM MONTANA FISCAL POLICY TO ADDRESS ECONOMIC TRANSITIONS

Key Strategies:

Montana's economy is transitioning away from natural resource sectors and toward services. The economic transition will have fiscal implications because of the state's existing tax structure that taxes natural resource sectors more highly than other economic activities (such as health care, the fastest growing employment sector in the state).[i] The state also faces rising costs, including more extreme flood and wildfire events and health-related impacts on an aging population, particularly in rural areas.

Recommendations to accelerate decarbonization of Montana's electric power sector and the state's economy will have fiscal implications. The exact revenue impact is unknown, but the climate council discussed and took seriously the economic, workforce, and fiscal implications of proposed recommendations. For example, a transition from fossil fuel energy to renewable energy results in different types and amounts of revenue: fossil fuels require large industrial power plants, transmission and transportation infrastructure, and a fuel source (the coal, oil and natural gas). Montana extracts fossil fuel resources and exports raw commodities and electricity. Production taxes, gross receipts taxes, and property taxes on these fuels and industrial facilities are largely exported to consumers outside Montana and the state relies on these revenues to fund state and local government.

By comparison, renewable energy generation and transmission facilities pay lower taxes (for example, the different assessment rate on pipeline vs. renewable energy transmission lines result in very different levels of revenue for local governments for a similar level of private investment) and there is no fuel to tax. Renewable energy is more amenable to distributed and community scale generation. Gas taxes levied on fuel that finance state transportation budgets also will decline with a switch to electric vehicles.

Currently, two legislative interim committees in the Montana legislature are studying and making recommendations for possible reforms to the state's tax structure. These reforms should include revenue and budget policies that ensure local governments have fiscal tools and revenue to continue to provide services and infrastructure as the economy transitions. For example, greater autonomy for local governments to manage volatile revenue and save for transition and adaptation needs, dedicated state and local resources to bolster and sustain adaptation and transition planning over time, and new revenue policies that broaden the tax base, address inequities among communities and economic sectors, and generate more sustainable and predictable revenue as the economy continues to restructure and grow.

The climate council makes no specific fiscal policy recommendations. The council recognizes the need to address revenue impacts and spending needs associated with decarbonization. Better alignment between council recommendations and the interim committees could help the state understand the types of revenue impacts that may occur and to develop evidence-based solutions using actual revenue and budget data.

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[i] https://leg.mt.gov/content/Committees/Interim/2017-2018/Revenue-and-Transportation/Taxes-Changing-Economy/Meetings/Mar-2018/Exhibits/MontanaEconomyandTaxRevenue.pdf