FISCAL NOTE

Bill #: SB 240

Title: Remove termination for alternative oil recovery rates

Primary Sponsor: Walter McNutt

Status: As Introduced

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Sponsor signature Date

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Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Revenue:		
General Fund	$0	$(672)
State Special Revenue	$0	$(108)
Net Impact on General Fund Balance:	$0	$(672)

Yes	No		Yes	No	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget		X	Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. This bill removes the sunset date on lower tax rates for incremental oil production from secondary and tertiary recovery projects.
2. Under current law, payments received by working interest owners of secondary recovery production are taxed at 8.5% for projects developed before January 1, 2002 and at 9% for projects developed after that date.
3. Under current law, payments received by working interest owners of tertiary recovery production are taxed at 5.8% for projects developed before January 1, 2002 and at 9% for projects developed after that date.
4. Incremental production from secondary recovery projects increased by 100,000 barrels per year from 1997 to 1999, while incremental production from tertiary recovery projects decreased. Incremental production from new and expanded secondary recovery projects will be 100,000 barrels per year.

There will be no incremental production from new or expanded tertiary recovery projects. (Department of Revenue)

5. The average Montana oil price for fiscal 2003 will be $18.91.
6. Working interest owners will receive 86% of the revenue from incremental production. (Department of Revenue)
7. Half of the enhanced recovery projects developed in fiscal 2002 will be developed after January 1, 2002. In fiscal 2002, projects developed after January 1, 2002 will, on average, be in production for three months while projects developed before January 1, 2002 will, on average, be in production for 9 months. Thus, projects developed after January 1, 2002 will produce one-fourth of new incremental production in fiscal 2002.
8. Under current law, tax on working interest income from new incremental production from projects developed after January 1, 2002 will be $36,590 (25,000 barrels x $18.91/barrel x 86% x 9%). Under this bill, the tax would be $34,588 (25,000 barrels x $18.91/barrel x 86% x 8.5%). The reduction in revenue is $2,002.
9. The tax on working interest income from incremental production is distributed 33.88053% to the general fund, 5.41947% to state special revenue accounts and 60.7% to local governments. For fiscal 2002, the reductions in revenue would be $672 for the general fund, $108 for state special revenue funds, and $1,215 for local governments.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
Revenues:		
General Fund (01)	$0	$(672)
State Special Revenue (02)	$0	$(108)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	$0	$(672)
State Special Revenue (02)	$0	$(108)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

This bill would reduce revenue to local governments by $1,215 in fiscal 2003 and by approximately four times that amount in succeeding years.

LONG-RANGE IMPACTS:

All new incremental production in fiscal 2004 and succeeding fiscal years would be from projects developed after January 1, 2002. At current rates of development, the reduction in revenue would be $8,008 per year. If new incremental production increases or decreases, the reduction in revenue would increase or decrease proportionally.

TECHNICAL NOTES:

This bill deletes the words “drilled after December 31, 1998” from the two places they appear in MCA 15-36-303 (19). This section deals with primary production, not enhanced production, and the date distinguishes pre-1999 wells from post-1999 wells. Deleting the date from this section could change the classification of some primary production.