FISCAL NOTE

Bill #:	HB0748	**Title:**	Simplification of oil and natural gas tax distribution
Primary Sponsor:	Devlin, R	**Status:**	Third Reading

Sponsor signature Date   Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2003 Difference	FY 2004 Difference	FY 2005 Difference
Expenditures:			
General Fund	$0	$97,139	$0
Revenue:			
General Fund	$3,273,000	$0	$0
Net Impact on General Fund Balance:	$3,273,000	($97,139)	$0

☒ Significant Local Gov. Impact

☒ Included in the Executive Budget

☐ Dedicated Revenue Form Attached

☐ Technical Concerns

☒ Significant Long-Term Impacts

☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

1. Under current law, oil and gas production tax is divided between state funds and counties using a series of complex formulas. The revenue that is distributed to the counties is allocated among entities that levy property tax mills, partly in proportion to last year's mill levies and partly in proportion 1990 mill levies. Part of the revenue that is distributed to the counties is returned to the state because the state levies 95 mills for statewide school funding and 6 mills for the university system. This bill allocates a fixed percentage of collections in each county to that county. Each county is to distribute funds in fixed proportions to school districts, the countywide elementary retirement fund, the countywide high school retirement fund, the countywide transportation fund and the county. The county's share of funds would be unrestricted. No funds would be returned to the state.
2. This bill allocates the same revenue to the Board of Oil and Gas Conservation, the coal bed methane protection account, the reclamation and development grants account, and the orphan share account as under current law.
3. Under HB 748, the state general fund would receive the amounts that are directly deposited in the state general fund, returned to the general fund because of the 95 mill school levies, and allocated to the university system because of the 6 mill levy.

4. Under this bill, the university system 6 mill levy state special revenue account would receive a share of the oil and gas production tax equivalent to current revenues.
5. Oil and gas production tax is due 60 days after the end of each quarter, and funds are distributed 60 days later. Under current law, counties return funds to the state the next month. Under this bill, the funds that counties now return to the state would be deposited directly in the state general fund. Tax collected for the first calendar quarter is distributed to counties in July as part of the fiscal year end closeout. Under current law, the state's share is returned in August and recorded as revenue in the next fiscal year. Under this bill, all of the state's share of tax from production in the first calendar quarter would be recorded as revenue in the current fiscal year. This accelerated distribution will result in a one-time increase in revenue in FY 2003 of $3,273,000 to the general fund.
6. Department of Revenue would have to modify its existing data processing system for oil and gas tax to implement this bill. In FY 2004, the Department would incur costs of $97,139 for contract programming.

Office of Public Instruction

7. HB 748 sets the percentage allocations of oil and natural gas production taxes to schools in each county at a level that reflects actual distributions in that county for production years 2000 and 2001.
8. If a particular district had a different allocation than other districts within the county there could be a change in the amount of non-levy revenue received by that district. As a result, there could be an impact on the cost of state guaranteed tax base aid. The amount of change is unknown, but is expected to be small.

Montana University System

9. The current HB 748 has no change in funding for the University.

FISCAL IMPACT:	FY 2003 Difference	FY 2004 Difference	FY 2005 Difference
Expenditures:			
Operating Expenses	$0	$97,139	$0
Funding of Expenditures:			
General Fund (01)	$0	$97,139	$0
Revenues:			
General Fund (01)	$3,273,000	$0	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):			
General Fund (01)	$3,273,000	($97,139)	$0

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Under current law, 5% of the revenue from pre-1999 wells is allocated between counties based on production in 1997. This bill allocates taxes on production in 2003 between counties in the same proportions as taxes were allocated under current law for production in 2001 and 2002. It allocates taxes on production in 2006 in the proportions that taxes on production in 2001 and 2002 would have been allocated without the redistribution based on 1997 production. The change is phased in over the intervening years. This will result in less revenue going to counties that are net recipients of the redistribution in current law and more revenue going to the other counties.

LONG-RANGE IMPACTS:

Under current law, the orphan share account sunsets at the end of fiscal 2005. HB584 would make the orphan share account permanent. This bill contains coordinating language to continue the allocation of oil and gas tax revenue to the orphan share account if HB584 if both HB584 and this bill are passed and approved.