Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	HB0823	**Title:**	Distribute oil and gas funds to counties
Primary Sponsor:	Small-Eastman, Veronica	**Status:**	Select status

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2007 Difference	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:					
General Fund	$0	$0	$0	$0	$0
Revenue:					
General Fund	($477,948)	($2,243,937)	($2,245,356)	($2,021,025)	($1,970,614)
State Special Revenue	$477,948	$2,243,937	$2,245,356	$2,021,025	$1,970,614
Net Impact-General Fund Balanc	($477,948)	($2,243,937)	($2,245,356)	($2,021,025)	($1,970,614)

Description of fiscal impact:

Proposed law redirects two percent of oil and natural gas production taxes from the general fund to the oil, gas, and coal natural resource state special revenue account. These funds are to be used to maintain roads and bridges in the counties that receive the funds. Proposed law also specifies that coal severance tax revenue distributed into the account must be used to offset impacts created as a direct consequence of a change in coal development, or coal consumption by a coal consuming energy complex. Proposed law will not affect Department of Revenue expenditures, but will redirect general fund revenue to the state special revenue fund.

FISCAL ANALYSIS

Assumptions:

1. Proposed law will be effective October 1, 2007.
2. Proposed law is applicable to oil and natural gas production taxes collected on oil and natural gas produced after March 31, 2007.
3. Under current law, oil and natural gas production taxes are distributed first to the Board of Oil and Gas Conservation and the oil, gas, and coal natural resource state special revenue account established in 90-6-1001, MCA; and then to the oil and gas producing counties (initial allocations). Remaining "state share"

revenue is distributed in fixed percentages to a series of state special revenue accounts. Any revenue remaining after these distributions is distributed into the general fund.

4. Under proposed law, the oil, gas, and coal natural resource account will receive a 2% allocation of the state share revenue remaining after the initial allocations. This revenue is in addition to the revenue this account receives in the initial allocations. The general fund allocation of oil and natural gas production tax revenue is reduced by 2% of the state share.
5. Under current and proposed law, oil and natural gas production tax revenue from oil and gas production in the last quarter of the fiscal year (April through June) is accrued revenue in that fiscal year, although receipts from taxes on this production are not distributed until November 1 of the following fiscal year.
6. From HJR 2, the state share of oil and natural gas production tax revenue is projected to be $95,589,670 in FY 2007. Fiscal note assumes that 25% of this revenue will come from production in the last quarter.
7. Under proposed law, projected revenue to the oil, gas, and coal natural resource account from the state share of the oil and natural gas production tax is $477,948 in FY 2007{$95,589,670 X 2% X 25%}. This revenue is redirected from the general fund.
8. By HJR 2 and OBPP estimates, the state share of oil and natural gas production tax revenue is projected to be $112,196,852 in FY 2008, $112,267,790 in FY 2009, $101,051,263 in FY 2010, and $98,530,723 in FY 2011.
9. Under proposed law, projected revenue to the oil, gas, and coal natural resource account from the state share of the oil and natural gas production tax is $2,243,937 in FY 2008 {$112,196,852 X 2%}, $2,245,356 in FY 2009 {$112,267,790 X 2%}, $2,021,025 in FY 2010 {$101,051,263 X 2%}, and $1,970,614 in FY 2011 {98,530,723 X 2%}. The general fund distribution from this tax will be reduced from current law by these amounts in each year.

Fiscal Impact:	**FY 2007 Difference**	**FY 2008 Difference**	**FY 2009 Difference**	**FY 2010 Difference**	**FY 2011 Difference**
Revenues:					
General Fund (01)	($477,948)	($2,243,937)	($2,245,356)	($2,021,025)	($1,970,614)
State Special Revenue (02)	$477,948	$2,243,937	$2,245,356	$2,021,025	$1,970,614
TOTAL Revenues	$0	$0	$0	$0	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):					
General Fund (01)	($477,948)	($2,243,937)	($2,245,356)	($2,021,025)	($1,970,614)
State Special Revenue (02)	$477,948	$2,243,937	$2,245,356	$2,021,025	$1,970,614

Effect on County or Other Local Revenues or Expenditures:

1. The increased revenue to the oil, gas, and coal natural resource state special revenue account shown in the fiscal summary table above is distributed to oil and gas producing counties to maintain roads and bridges.

Long-Range Impacts:

1. The 2% redirection of the state share of oil and natural gas production tax revenue from the general fund to the oil, gas, and coal natural resource account is ongoing.

Technical Notes:

1. The bill does not have an effective date, so the effective date for proposed law is the default date of October 1, 2007. However, proposed law is *applicable* retroactive to production occurring after March

31, 2007. This will create accounting and distribution problems, because tax revenues are distributed according to the law that is in effect during the period in which the revenue is recorded for accounting purposes. Under current and proposed law, oil and gas production tax revenue from taxes on production in the fourth quarter of FY 2007 will be accrued at fiscal year end into the fourth quarter of FY 2007, and thus will be distributed as directed by current law, since current law will be effective at fiscal year end. In order to resolve this conflict, the bill should have an immediate effective date.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*