Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	SB0493	**Title:**	Oil and gas revenue to fund 4 lanes for highway 2
Primary Sponsor:	Kitzenberg, Sam	**Status:**	As Introduced

- ☐ 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 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$0	$0	$200,000	$0
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	$0	($90,168,000)	($87,894,000)
State Special Revenue	$0	$0	$90,168,000	$87,894,000
Net Impact-General Fund Balance:	$0	$0	($90,368,000)	($87,894,000)

Description of fiscal impact:

Contingent upon price levels of crude oil and natural gas, proposed law redistributes the general fund portion of the oil and natural gas production tax into a new US Highway 2 state special revenue account established through amendment to 60-2-133, MCA. This contingent redistribution begins in FY 2010 and is ongoing.

FISCAL ANALYSIS

Assumptions:

1. Under proposed law, beginning July 1, 2009; if the average price of oil at the wellhead exceeds $50 per barrel, the general fund portion of the severance tax on oil production is redistributed into a new US Highway 2 state special revenue account.

2. Under proposed law, beginning July 1, 2009; if the average price of natural gas at the wellhead exceeds $6 per thousand cubic feet (mcf) the general fund portion of the severance tax on natural gas production is redistributed into the new US Highway 2 state special revenue account.
3. Under proposed law, the average prices in Assumptions 1 and 2 are calculated pursuant to 15-36-305, MCA. This section of code directs the operator to calculate gross value of production of each product for each month in the quarter. For each product, the gross value of production is the total volume of production less production used for extraction of initial transport, multiplied by the average value at wellhead in the month the product is produced and sold. For the purposes of the fiscal note, it is assumed that the average price is calculated *at a fixed point in time* each quarter, and that the average price by product is defined to be the aggregate gross value of all filing operators, divided by the aggregate production of all filing operators.
4. From HJR 2, the oil price is forecast to be $55.05 per barrel in FY 2008, and $54.10 per barrel in FY 2009. It is assumes that the oil price contingencies in proposed law will be satisfied in FY 2010 and FY 2011.
5. From HJR 2, the natural gas price is forecast to be $6.655 per mcf in FY 2008, and $6.451 per mcf in FY 2009. Fiscal note assumes the natural gas price contingencies in proposed law will be satisfied in FY 2010 and FY 2011.
6. From HJR 2, the general fund portion of the oil and natural gas production tax is projected to be $101.224 million in FY 2008 and $101.288 million in FY 2009.
7. From OBPP estimates, the general fund portion of the oil and natural gas production tax is projected to be $90.168 million in FY 2010, and $87.894 million in FY 2011.
8. The Department of Revenue (DOR) does not currently split payments into oil revenue and gas revenue prior to distribution. In order to amend GENTAX to enable payment splitting, revenue accounting, and to change the distribution model in conformance with the price contingencies; DOR will require estimated $200,000 additional administrative expense in FY 2010. The additional expense would not be required if the price contingencies were removed and the new state special revenue distribution were added to the queue of current law state share distributions of the oil and gas production tax.

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
Expenditures:				
Operating Expenses	$0	$0	$200,000	$0
TOTAL Expenditures	$0	$0	$200,000	$0
Funding of Expenditures:				
General Fund (01)	$0	$0	$200,000	$0
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$0	$0	$200,000	$0
Revenues:				
General Fund (01)	$0	$0	($90,168,000)	($87,894,000)
State Special Revenue (02)	$0	$0	$90,168,000	$87,894,000
TOTAL Revenues	$0	$0	$0	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	$0	($90,368,000)	($87,894,000)
State Special Revenue (02)	$0	$0	$90,168,000	$87,894,000

Long-Range Impacts:

1. Under proposed law, price contingent redistributions of the general fund portion of the oil and gas production tax will continue through FY 2026.

Technical Notes:

1. Under proposed law, the contingent price of natural gas is $6 per million cubic feet. Fiscal note assumes the sponsor intends the contingent price to be $6 per thousand cubic feet.
2. Under proposed law, if the price contingencies are satisfied, the *state portion* of the oil and natural gas production tax is redistributed into the new state special revenue account. Fiscal note assumes the sponsor intends that only the *general fund* portion of the state portion of the oil and natural gas production tax is redistributed into the new state special revenue account.
3. Under current law, price contingencies are used to establish lower tax rates to provide incentive for production from stripper wells when prices are low. The benefit of price contingencies introduced in proposed law is not clear.
4. Proposed law does not specify administrative responsibility for the new state special revenue fund.

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