Fiscal Note 2015 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0218	**Title:**	Require Board of Oil and Gas to administer grant program for oil and gas impacts
Primary Sponsor:	Ankney, Duane	**Status:**	Second Reading, Second House

- ☑ 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 2013 Difference	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:					
General Fund	$0	$0	$0	$0	$0
State Special Revenue	$0	$15,000,000	$10,317,750	$10,000,000	$10,000,000
Revenue:					
General Fund	($15,000,000)	($10,317,750)	($10,000,000)	($10,000,000)	($10,000,000)
State Special Revenue	$15,000,000	$10,317,750	$10,000,000	$10,000,000	$10,000,000
Net Impact-General Fund Balanc	($15,000,000)	($10,317,750)	($10,000,000)	($10,000,000)	($10,000,000)

Description of fiscal impact: HB 218, as amended, provides for a diversion of US Mineral Royalty revenues to a new state special revenue oil and gas impact fund from the general fund through December 31, 2020. The bill creates a new program to be administered by the Department of Commerce to provide grants to local governments for oil and gas impact projects as defined in and in accordance with the priorities and criteria set forth in the bill.

FISCAL ANALYSIS

Assumptions:

Department of Commerce (DOC)

1. Sections 1-5 of the bill create a new oil and gas impact program to be administered by the Department of Commerce. The department will annually receive applications from local governments for matching grants for oil and gas impact projects; prioritize the project applications in accordance with the statutory priorities; and award grants to local governments as defined in the bill.
2. Section 6 of the bill creates a new oil and gas impact account, from which certain federal mineral leasing revenues money are statutorily appropriated for oil and gas impact grants.

3. Section 7 of the bill modifies 17-3-240(3), MCA, to provide that 25% or $10 million, whichever is greater, of total U.S. mineral royalty revenue will be statutorily appropriated for deposit in new special revenue fund – the oil and gas impact account. The purpose of the new impact account is to provide grants to local governments who have been impacted by oil and gas development and that need to expand local government infrastructure such as wastewater treatment, drinking water systems, sanitary or storm water sewer systems, solid waste disposal, roads and bridges, fire and emergency services, law enforcement, and other services. Any interest earnings are retained in the new oil and gas impact account and are also available for grants and administrative costs.
4. Each fiscal year's revenues are not available until August 15, of the following fiscal year.
5. Section 8 of the bill provides a one- time-only general appropriation of $15 million from the oil and gas impact account to the department for purposes of providing grants to local governments in FY 2014 as provided in sections 1-5 of the bill. The bill has an immediate effective date and contains a $15 million fund transfer from the general fund into the oil and gas impact account by June 30, 2013 (FY 2013). For the purposes of this fiscal note, it is assumed the FY 2013 transfer would be expended as grants in FY 2014.
6. The grant program will be administered by the Community Development Division (CDD) in the Department of Commerce. CDD currently administers the Treasure State Endowment Program (TSEP), the Coal Board, the Quality Schools Facility Grant Program (QSF), the Community Development Block Grant Program (CDBG), and the Community Technical Assistance Program (CTAP), among others. CDD will use existing engineering, planning, and program administration staff to administer the new oil and gas impact grant program; prioritize applications from local governments, and award grants.
7. Section 17-1-508, MCA, requires analysis of the statutory appropriation relative to the guidance in 17-1-508(2), MCA, to be published in the fiscal note. In reviewing and establishing statutory appropriations, the legislature shall consider the following guidelines.

	YES	**NO**
a. The fund or use requires an appropriation.	X	
b. The money is not from a continuing, reliable, and estimable source.		X
c. The use of the appropriation or the expenditure occurrence is not predictable and reliable.		X
d. The authority does not exist elsewhere.	X	
e. An alternative appropriation method is not available, practical, or effective.		X
f. Other than for emergency purposes, it does not appropriate money from the state general fund.		X
g. The money is dedicated for a specific use.	X	
h. The legislature wishes the activity to be funded on a continual basis.	X	
i. When feasible, an expenditure cap and sunset date are included.	X	

Department of Revenue

8. Under federal law, U.S. Code, section 191, a portion of mineral royalties paid to the federal government by entities leasing mineral rights on federal land are distributed back to the state where the federal land is located. In FY 2011 and FY 2012, Montana received U.S. mineral royalties of $42.6 million and $41.4 million respectively. Under current law (17-3-240, MCA), 75% of this revenue is deposited in the state general fund and 25% is deposited in a mineral impact special revenue fund which is then distributed back each year to the counties with mining of federal land. The distribution to each county is based upon the

proportion that the total amount of revenue generated by mineral extraction in an eligible county bears to the total amount of money received by the state.

9. As passed, SJ 2 estimates total U.S. mineral royalty revenues in FY 2014 and FY 2015 to be $41.271 million and $38.679 million, respectively. Under HB 218, as amended, in FY 2014, 25%, or $10,317,750, of general fund revenue will be statutorily deposited in the new oil and gas impact account. In FY 2015, 25%, or $9,669,750 of general fund revenue will be statutorily deposited in the new impact account. For FY 2016 and FY 2017, the OBPP growth rate has been applied to the FY 2015 SJ 2 estimate; therefore, estimated revenue in FY 2016 is $9,563,383 and in FY 2017 is $9,133,030.
10. Based upon the provisions of the bill as amended and the SJ 2 estimates detailed above, the reduction to general fund revenue, and the increase in special fund revenue to the new oil and gas impact fund, is $10,317,750 in FY 2014. Since the estimated 25% of U.S. royalty revenues in FY 2015 through FY 2017 are less than $10 million, additional revenues will be deposited in the new oil and gas impact fund to make the total deposits equal to $10 million each year.
11. Any interest earnings are retained in the account and are also available for grants and grant administration costs.
12. HB 218 as amended is effective upon passage and approval. The statutory appropriation is in effect for FY 2014, and continues through FY 2020 (ending on June 30, 2020). Any unobligated funds remaining in the special revenue account after December 31, 2020 must be transferred back to the general fund.

	FY 2013 Difference	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Fiscal Impact:					
Expenditures:					
Grants	$0	$15,000,000	$10,317,750	$10,000,000	$10,000,000
TOTAL Expenditures	$0	$15,000,000	$10,317,750	$10,000,000	$10,000,000
Funding of Expenditures:					
General Fund (01)	$0	$0	$0	$0	$0
State Special Revenue (02)	$0	$15,000,000	$10,317,750	$10,000,000	$10,000,000
TOTAL Funding of Exp.	$0	$15,000,000	$10,317,750	$10,000,000	$10,000,000
Revenues:					
General Fund (01)	($15,000,000)	($10,317,750)	($10,000,000)	($10,000,000)	($10,000,000)
State Special Revenue (02)	$15,000,000	$10,317,750	$10,000,000	$10,000,000	$10,000,000
TOTAL Revenues	$0	$0	$0	$0	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):					
General Fund (01)	($15,000,000)	($10,317,750)	($10,000,000)	($10,000,000)	($10,000,000)
State Special Revenue (02)	$15,000,000	($4,682,250)	($317,750)	$0	$0

Effect on County or Other Local Revenues or Expenditures:

1. HB 218 would create additional fiscal capacity for local governments impacted from oil and gas development to address infrastructure, facilities, and other services.

Long-Term Impacts:

1. As noted above, the statutory allocation of revenue terminates at the end of FY 2020.

Technical Notes:

1. This fiscal note uses the estimated revenue in SJ 2 for U.S. mineral royalties. However due to the federal budget sequestration, there was a recent announcement that Montana's share of these royalties may be reduced by about $2.5 million in this federal fiscal year.

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

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Dedication of Revenue 2015 Biennium

17-1-507-509, MCA.

a) Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)
Yes. This dedicated revenue is to be directed to local governments which have been impacted by increased oil and gas development. The Department of Commerce will administer a grant program, reviewing applications by local governments and awarding based prioritized need.

b) What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?
A state special revenue account should be established for the program proposed in HB 218 because all expenditures and revenues related to the programs activities would be contained in a single fund. The purpose of the account is to assist local government units that have been required to maintain and expand local government infrastructure as a consequence of oil and gas development.

c) Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)
Yes, to the extent allowed in the bill.

d) Does the need for this state special revenue provision still exist? ___Yes ___No (Explain)
Yes. A state special revenue account should be established for the program proposed in HB 218 because all expenditures and revenues related to the programs activities would be contained in a single fund.

e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)
No. While statutorily appropriated, the funds in question are audited by the Office of the Legislative Auditor with any findings being presented to the Legislative Audit Committee.

f) Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)
Yes. A state special revenue account should be established for the program proposed in HB 218 because all expenditures and revenues related to the programs activities would be contained in a single fund.

g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)
A state special revenue account should be established for the program proposed in HB 218 because all expenditures and revenues related to the programs activities would be contained in a single fund. The purpose of the account is to assist local government units that have been required to maintain and expand local government infrastructure as a consequence of oil and gas development.