



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	HB0589
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Title:	Establish an oil and gas trust fund
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Primary Sponsor:	Jacobson, Tom
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Status:	As Amended
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|------------------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------------|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$475,000	\$0
State Special Revenue	\$0	\$0	(\$801,000)	(\$692,000)
Revenue:				
General Fund	\$0	\$0	(\$4,853,000)	(\$10,331,000)
State Special Revenue (Diversion)	\$0	\$0	(\$5,096,960)	(\$11,858,870)
State Special Rev (Spendable Int)	\$0	\$0	\$0	\$519,000
Trust Revenue	\$0	\$0	\$10,667,000	\$22,705,000
Net Impact-General Fund Balance:	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>(\$5,328,000)</u></u>	<u><u>(\$10,331,000)</u></u>

Description of fiscal impact: HB 589 places a proposed amendment to the Montana Constitution on the November 2014 ballot. If the amendment to the Montana Constitution were to pass, initially 5% of total oil and gas production taxes received would be placed into a trust fund that will remain inviolate unless appropriated by a three-fourths majority of each house of the legislature. This percentage would increase in 5% increments through 2021 where it would remain at 30%. Interest and income from the trust may be appropriated by the legislature.

FISCAL ANALYSIS

Assumptions:

Secretary of State (SOS)

- The fiscal impact of HB 589 would be to the counties for the proportional costs for legislative referendum. The average statewide cost to place this legislation referendum on the ballot is \$37,729 and is reflected in the effect on county or other local revenues or expenditures section of this fiscal note.

Department of Revenue (DOR)

2. This fiscal note assumes that the electorate would approve this amendment to the constitution in the 2014 election. It is further assumed the 2015 Legislature would pass legislation to implement the bill, and this bill would be effective beginning in FY 2016.
3. This fiscal note assumes that the interest and income from the trust fund will be distributed into a state special revenue fund that is subject to appropriation by the legislature similar to the Treasure State Endowment Program. However, the 2015 Legislature could choose to distribute the interest and income revenue to the general fund.
4. SJ 2 estimates of oil and gas production tax revenue were used for FY 2013 through FY 2015. For FY 2016 and FY 2017, OBPP’s growth rates were applied to SJ 2 FY 2015 revenue.
5. For FY 2016 and FY 2017, the trust is assumed to earn the same interest rate as the interest rate for the coal severance tax trust fund, with the adjustment of OBPP’s growth rates for this trust fund’s expected rate of return. However, due to the delay of oil and gas payments received by DOR relative to the date in which the obligations are acquired, interest is expected to be earned during the following fiscal year and at that fiscal year’s rate of return. As such, interest revenue in FY 2016 is assumed to be \$0.
6. The following table shows the total oil and gas production tax revenue and the forecasted interest revenue that would be generated from the new trust for FY 2016 and FY 2017.

<u>Fiscal Year</u>	<u>Total Revenue</u>	<u>Trust Fund</u>	<u>Interest</u>
FY 2016	\$213.330	\$10.667	NA
FY 2017	\$227.045	\$22.705	\$0.519

7. This fiscal note assumes the 2015 Legislature would keep the current oil and production tax revenue distribution in place. The following table shows the change in revenue to the current distribution as a result of oil and gas production tax revenue being diverted to the trust fund.

	<u>FY 2016</u>	<u>FY 2017</u>
Trust Revenue	\$10.667	\$22.705
BOGC	(\$0.101)	(\$0.214)
Natural Resource Account	(\$0.190)	(\$0.405)
Remainder	(\$10.376)	(\$22.086)
"County" Revenue	(\$4.996)	(\$10.635)
Counties and Schools	(\$4.317)	(\$10.635)
Guarantee Fund	(\$0.475)	\$0.000
County Impact Fund	(\$0.170)	\$0.000
State School Impact Fund	(\$0.034)	\$0.000
"State" Revenue	(\$5.379)	(\$11.450)
Natural Resources Projects	(\$0.116)	(\$0.247)
Natural Resources Operations	(\$0.109)	(\$0.231)
Orphan Share Fund	(\$0.159)	(\$0.338)
University Millage	(\$0.143)	(\$0.303)
General Fund	(\$4.853)	(\$10.331)

8. Under current law, the cap on the amount of oil and gas production taxes a school may retain is set to expire at the end of FY 2016, and the excess is distributed to the guarantee fund, county impact fund, or the State School Impact Fund. Thus, it is assumed there will not be any change to these funds in FY 2017.

9. Because the state special revenue guarantee account is the first source of funding for K-12 BASE aid, a reduction in the guarantee account would be offset by an increase in state general fund expenditures for K-12 BASE aid in the amount of \$475,000 in FY 2016.
10. The cost of a bill passed by the 2015 Legislature to implement this constitutional amendment would be dependent on the specific provisions of the bill and would need to be reassessed during the 2015 Legislature.

Department of Natural Resources and Conservation (DNRC)

11. This fiscal note is calculated using reductions to impacted program revenue streams of 5% in FY 2016 and 10% in FY 2017 of the oil and gas production tax. If that amount was redirected to an oil and gas trust fund, the following programs would be affected:
 - a. Conservation and Resource Development Division (CARDD) funding for grant projects would be reduced by \$116,000 in FY 2016 and \$247,000 in FY 2017. Renewable resource projects would be unfunded starting in the 2017 biennium.
 - b. CARDD funding for operating costs would be reduced by approximately \$24,150 in FY 2016 and \$47,150 in FY 2017. These operating costs administer the renewable resource and reclamation and development grant programs and conservation districts program.
 - c. The Board of Oil and Gas (BOGC) reduction in funding would result in reduced presence in oil and gas fields, longer wait for response to situations, fewer inspections, and reduced services to the public and regulated community.

Other Agency Operating Expenditure Impact

12. The reduction to the Natural Resource Operations Account will result in reductions in expenditures of (\$83,960) in FY 2016 and (\$177,870) in FY 2017, to other agencies including the Department of Environmental Quality (DEQ), Commissioner of Higher Education – Bureau of Mines, and the Judiciary – Water Court.

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Operating Expenses (DNRC)	\$0	\$0	(\$126,070)	(\$267,130)
Operating Expenses (other agencies)	\$0	\$0	(\$83,930)	(\$177,870)
Natural Resource Projects (Grants)	\$0	\$0	(\$116,000)	(\$247,000)
K-12 Base Aid (General Fund)	\$0	\$0	\$475,000	\$0
K-12 Base Aid (Guarantee Acct - SA)	\$0	\$0	(\$475,000)	\$0
Transfer to Counties	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$0	\$0	(\$326,000)	(\$692,000)

<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$475,000	\$0
State Special Revenue (02)	\$0	\$0	(\$326,000)	(\$692,000)
State Special Rev (02) Guar Acct SA	\$0	\$0	(\$475,000)	\$0
State Special Interest Rev. (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	(\$326,000)	(\$692,000)

<u>Revenues:</u>				
General Fund (01)	\$0	\$0	(\$4,853,000)	(\$10,331,000)
State Special Revenue (02)	\$0	\$0	(\$5,339,000)	(\$12,373,000)
State Special Rev (02) Guar Acct SA	\$0	\$0	(\$475,000)	\$0
State Special Interest Rev. (02)	\$0	\$0	\$0	\$519,000
Trust (09)	\$0	\$0	\$10,667,000	\$22,705,000
TOTAL Revenues	\$0	\$0	(\$10,667,000)	(\$22,185,000)

<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$0	(\$5,328,000)	(\$10,331,000)
State Special Revenue (02)	\$0	\$0	(\$5,013,000)	(\$11,681,000)
State Special Rev (02) Guar Acct SA	\$0	\$0	\$0	\$0
State Special Interest Rev. (02)	\$0	\$0	\$0	\$519,000
Trust (09)	\$0	\$0	\$10,667,000	\$22,705,000

Effect on County or Other Local Revenues or Expenditures:

1. The total cost for ballots, printing, programming and other associated costs is estimated to be \$830,046 which is divided by the average number of contests per ballot of 22 contests which equals \$37,729.
2. As amended, the bill will reduce county and school district revenue by \$4.3 million in FY 2016 and \$10.6 million in FY 2017.

Technical Notes:

1. BOGC is currently not assessing the maximum amount allowed for the privilege and license tax. If BOGC were to double the amount assessed, they could maintain their current operations, which would eliminate the reductions noted in Assumption 11(c). However, if the privilege and license tax were doubled, the impact would be additional reductions of revenue of approximately \$2 million each year to cities and counties.

2. It is not clear if the trust allocation precedes all existing current law allocations from oil and gas production tax. This fiscal note presumes it does. If the bill is intended to allocate to the trust only from the state share of oil and gas production tax, it is recommended the bill be amended to clarify.

Sponsor's Initials

Date

Budget Director's Initials

Date