Fiscal Note 2015 Biennium

Bill #	SB0100	**Title:**	25% new resource development revenue to fund education
Primary Sponsor:	Brown, Dee	**Status:**	As Introduced-Revised

☐ 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 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$515,070	$6,370	$6,466	$6,563
State Special Revenue	$195,000	$4,665,000	$6,710,000	$14,572,000
Other (Trust)	$0	$0	$0	$0
Revenue:				
General Fund	$840,000	($4,632,000)	($6,874,000)	($13,031,000)
State Special Revenue	($279,000)	$5,213,000	$7,435,000	$13,565,000
Other (Trust)	($590,000)	($639,000)	($661,000)	($684,000)
Net Impact-General Fund Balance:	$324,930	($4,638,370)	($6,880,466)	($13,037,563)

Description of fiscal impact: SB 100 changes the distribution of coal severance tax revenue collected from all mines, and it imposes a different distribution of coal severance tax revenue from mines that are permitted after June 30, 2013. SB 100 distributes 25% of coal revenue from these new mines to the school flexibility account (see technical note). The redistribution of coal severance tax revenue increases revenue to the general fund and decreases funding to several state special revenue funds that fund state programs.

Additionally, SB 100 changes the distribution of the state portion of oil and gas severance tax collected from oil and gas wells drilled after December 31, 2013. Under SB 100, 25% of the state's portion of oil and gas revenue from oil and gas wells drilled after December 31, 2013 will be distributed to the school flexibility account and the general fund and other state special revenue accounts will have a reduction in revenue of a like amount.

FISCAL ANALYSIS

Assumptions:

Coal Severance Tax Revenue

1. Under the assumptions used to generate the SJ 2 revenue estimates, no additional revenue will be collected from newly permitted coal mines during the forecast period (see technical note) and as a result, no coal severance tax revenue will be distributed to the school flexibility account under SB 100.
2. Under current law, funds are distributed based on the percentage of the total coal severance tax revenue in statute. Under SB 100, these percentages would be changed to the percentage of the remaining revenue after distributions are made to the coal severance tax trust fund and the coal natural resource account. The table below shows the percentage in statute and the percentage of the total revenue distributed to each fund under both current law and the provisions in SB 100.

Coal Severance Tax Revenue Distribution

	Current Law		SB 100	
Fund (Distribution)	**% in Statute**	**% of Total**	**% in Statute****	**% of Total**
Coal Trust Funds	50.00%	50.00%	50.00%	50.00%
Coal Natural Resource Account*	5.80%	5.80%	5.80%	5.80%
Long Range Building Program	12.00%	12.00%	12.00%	5.30%
Shared Account	5.46%	5.46%	5.46%	2.41%
Park Acquisition Trust Fund	1.27%	1.27%	1.27%	0.56%
Renewable Resource Debt Service	0.95%	0.95%	0.95%	0.42%
Cultural and Aesthetic Projects	0.63%	0.63%	0.63%	0.28%
Remainder ($250K to Coal and Uranium Account and reminder to the General Fund)	23.89%	23.89%	79.69%***	35.22%

*Distribution reverts back to 2.9% starting October 1, 2013.

**The first two distributions comprise 55.8%* of the total tax collections. The remaining 44.2% of the total tax collections are distributed according to the corresponding percentages.

***The statute simply defines this portion as the remainder, but is effectively this percentage.

3. As the table shows, the distributions to the state special revenues will decrease, and because the remainder of the revenue flows to the general fund, the general fund's portion of total revenue will increase.
4. SJ 2 assumptions for FY 2014 and FY 2015 were used to estimate total coal severance tax revenue. Estimates for total Severance tax will grow at 4.14% in FY 2015, 3.43% in FY 2016, and 3.49% in FY 2017.
5. The following table shows the total estimated coal severance tax revenue based on assumption four, the distribution under current law, the distribution under SB 100, and the overall change in distributed revenue by fund.

Coal Severance Tax Revenue Distribution

Current Law				
Fund	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Coal Trust Funds	$28.950	$30.149	$31.184	$32.273
Coal Natural Resource Account*	$2.099	$1.749	$1.809	$1.872
Long Range Building Program	$6.948	$7.236	$7.484	$7.745
Shared Account	$3.161	$3.292	$3.405	$3.524
Park Acquisition Trust Fund	$0.735	$0.766	$0.792	$0.820
Renewable Resource Debt Service	$0.550	$0.573	$0.592	$0.613
Cultural and Aesthetic Projects	$0.365	$0.380	$0.393	$0.407
Coal and Uranium Program	$0.250	$0.250	$0.250	$0.250
General Fund	$14.841	$15.904	$16.458	$17.042
Total Revenue	**$57.899**	**$60.297**	**$62.367**	**$64.545**

SB 100				
Fund	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Coal Trust Funds	$28.950	$30.149	$31.184	$32.273
Coal Natural Resource Account*	$2.099	$1.749	$1.809	$1.872
Long Range Building Program	$3.222	$3.198	$3.308	$3.423
Shared Account	$1.466	$1.455	$1.505	$1.558
Park Acquisition Trust Fund	$0.341	$0.338	$0.350	$0.362
Renewable Resource Debt Service	$0.255	$0.253	$0.262	$0.271
Cultural and Aesthetic Projects	$0.169	$0.168	$0.174	$0.180
Coal and Uranium Program	$0.250	$0.250	$0.250	$0.250
General Fund	$21.147	$22.737	$23.526	$24.357
Total Revenue	**$57.899**	**$60.297**	**$62.367**	**$64.545**

Change				
Fund	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Coal Trust Funds	$0.000	$0.000	$0.000	$0.000
Coal Natural Resource Account*	$0.000	$0.000	$0.000	$0.000
Long Range Building Program	($3.726)	($4.037)	($4.176)	($4.322)
Shared Account	($1.695)	($1.837)	($1.900)	($1.966)
Park Acquisition Trust Fund	($0.394)	($0.427)	($0.442)	($0.457)
Renewable Resource Debt Service	($0.295)	($0.320)	($0.331)	($0.342)
Cultural and Aesthetic Projects	($0.196)	($0.212)	($0.219)	($0.227)
Coal and Uranium Program	$0.000	$0.000	$0.000	$0.000
General Fund	$6.306	$6.833	$7.068	$7.315
Total Revenue	**$0.000**	**$0.000**	**$0.000**	**$0.000**

6. No assumption is made in the fiscal note of increased general fund expenditures as a result of the increased revenue to the general fund. Programs that are funded from the five funds shown on the previous table that have a revenue reduction will need to reduce expenditures to account for the loss of revenue.
    a. The Long-Range Building Program fund provides funding for the administration of the Architecture and Engineering Division at the Department of Administration, for debt service payments for state debt, and fund projects included in HB 5 for capital construction and/or major maintenance. Appropriations included in HB 5 presented this session would need to be reduced by $7.763 million. Funds available for HB 5 in the 2015 legislative session would be reduced by $8.498 million.
    b. The Coal Severance Tax Shared Account is used to provide funding to the Montana State Library, to conservation districts through the Department of Natural Resources and Conservation, and the Montana Growth Through Agriculture program through the Department of Agriculture. This fund would have reduced funding of $3.532 million in the 2015 biennium and $3.866 million in the 2017 biennium. Reductions would be made to these programs to accommodate the revenue reduction.
    c. The Department of Fish, Wildlife & Parks would receive $821,000 less revenue in the 2015 biennium and $899,000 less revenue in the 2017 biennium into the Park Acquisition Trust Fund. Interest from the trust fund is used for acquisition, development, operation, and maintenance of parks and acquisitions. The decrease in interest income due to the decrease in trust revenue would be $58,000 for the 2015 biennium and $167,000 for the 2017 biennium. Appropriations in HB 2 or HB 5 would need to be reduced to account for the reduction in revenue.
    d. The Renewable Resource Debt Service fund would be decreased by $615,000 in the 2015 biennium and $673,000 in the 2017 biennium. Expenditures from the fund would be decreased accordingly.
    e. Revenue into the Cultural and Aesthetics Trust would be reduced by $408,000 in the 2015 biennium and $446,000 in the 2017 biennium. Interest income from the trust funds the Cultural and Aesthetics Grant Program (HB 9) operated by the Montana Arts Council. The decrease in interest income due to the decrease in trust revenue would be $28,000 for the 2015 biennium and $83,000 for the 2017 biennium. Appropriations in HB 9 would need to be reduced to account for the reduction in revenue.

Oil and Natural Gas Severance Tax Revenue

7. Under current law, oil and gas severance tax is distributed to the Board of Oil and Gas Conservation (BOGC), the oil and gas natural resource account, the county where the production occurred, several state special revenue accounts, and the general fund. The combined distributions to the BOGC and the oil and gas natural resource account total 0.26% of the gross value of taxable production. The remainder is divided between the state and the county where the production occurred, and the specific percentage varies according to 15-36-331, MCA, and the county where the production occurred.
8. Once the distributions to the BOGC, the oil and gas natural resource account, and the counties are made, the remainder is left to the state.
9. SJ 2 oil and gas assumptions for production and price data were used in FY 2014 and FY 2015. For FY 2016 and FY 2017, growth rates obtained from OBPP's revenue estimates were applied, and Montana prices were estimated using IHS Global Insight's October 2012 forecast.
10. Based on data from FY 2012 tax returns and data from wells subject to the tax holiday, it is assumed that 4.55% of natural gas production and 19.02% of oil production is from new production. Over time, the amount of production that is subject to the provisions of SB 100 will grow, and in FY 2017, 21.7% of natural gas production and 96.3% of oil production is subject to the distributions in SB 100.
11. In FY 2012, 82.4% of the total gross value was taxable working interest, and 16.1% was taxable non-working interest. These percentages are assumed to stay constant for FY 2014 through FY 2017.
12. A weighted average tax rate is applied to the working interest production based on the amount of new production, and the statutory 14.8% is applied to the estimated royalty interest value.

13. In FY 2012, it is estimated that 47.17% of the revenue after the BOGC and the oil and gas conservation account distributions was distributed to counties and 52.83% was distributed to the state.
14. SB 100 directs 25% of the oil and gas severance tax that remains (once the BOGC, the oil and gas natural resource account, and the counties have received their distributions from wells drilled after FY 2013) to the School Flexibility Account. The following table shows the change in revenue by fund as a result of SB 100.

Oil and Gas Severance Tax Distribution

Current Law				
	FY 2014	FY 2015	FY 2016	FY 2017
Total Oil and Gas Tax Revenue from New Wells	**$47.258**	**$98.908**	**$120.963**	**$176.446**
BOGC	$0.482	$0.933	$1.372	$1.977
Oil and Gas Natural Resource Account	$0.911	$1.763	$2.591	$3.735
County Revenue	$21.633	$45.380	$55.186	$80.529
Remainder	**$24.232**	**$50.832**	**$61.815**	**$90.204**
School Flexibility Account	$0.000	$0.000	$0.000	$0.000
State Share	$24.232	$50.832	$61.815	$90.204

SB 100				
	FY 2014	FY 2015	FY 2016	FY 2017
Total Oil and Gas Tax Revenue from New Wells	**$47.258**	**$98.908**	**$120.963**	**$176.446**
BOGC	$0.482	$0.933	$1.372	$1.977
Oil and Gas Natural Resource Account	$0.911	$1.763	$2.591	$3.735
County Revenue	$21.633	$45.380	$55.186	$80.529
Remainder	**$24.232**	**$50.832**	**$61.815**	**$90.204**
School Flexibility Account (25% of Remainder)	$6.058	$12.708	$15.454	$22.551
State Share	$18.174	$38.124	$46.362	$67.653

Change				
	FY 2014	FY 2015	FY 2016	FY 2017
Total Oil and Gas Tax Revenue from New Wells	**$0.000**	**$0.000**	**$0.000**	**$0.000**
BOGC	$0.000	$0.000	$0.000	$0.000
Oil and Gas Natural Resource Account	$0.000	$0.000	$0.000	$0.000
County Revenue	$0.000	$0.000	$0.000	$0.000
Remainder	**$0.000**	**$0.000**	**$0.000**	**$0.000**
School Flexibility Account (25% of the Total)	$6.058	$12.708	$15.454	$22.551
State Share	($6.058)	($12.708)	($15.454)	($22.551)

15. The following table shows how the change in the state portion of oil and gas revenue would be distributed to the various state special revenue accounts and the general fund.

Distribution of Oil and Gas Tax

		Change as a result of SB 100		
Fund	FY 2014	FY 2015	FY 2016	FY 2017
Natural Resources Projects (2.16%)	($0.131)	($0.274)	($0.334)	($0.487)
Natural Resources Operations (2.02%)	($0.122)	($0.257)	($0.312)	($0.456)
Orphan Share Fund (2.95%)	($0.179)	($0.375)	($0.456)	($0.665)
University Millage (2.65%)	($0.161)	($0.337)	($0.410)	($0.598)
General Fund (90.22%)	($5.466)	($11.465)	($13.942)	($20.346)
Total Change in "State" Revenue	**($6.058)**	**($12.708)**	**($15.454)**	**($22.551)**

16. The school flexibility account will receive revenue of $18.766 million in the 2015 biennium and $38.005 million in the 2017 biennium. The Office of Public Instruction will need appropriation authority in HB 2, to distribute these funds to schools.
17. No assumption is made in the fiscal note of decreased general fund expenditures as a result of the decreased revenue to the general fund. Programs that are funded from the other four funds shown on the previous table that have a revenue reduction will need to reduce expenditures to account for the loss of revenue.
    a. The Natural Resources Projects fund will have reduced revenue of $405,000 in the 2015 biennium and $821,000 in the FY 2017 biennium. The funding is used for projects in HB 6 for the Renewable Resource Grant and Loan Program operated by the Department of Natural Resources and Conservation. Appropriations in HB 6 would need to be reduced.
    b. The Natural Resource Operations fund is used to fund some programs primarily in the Department of Natural Resources and Conservation and the Department of Environmental Quality. Programs and services funded in HB 2 would need to be reduced by $379,000 in the 2015 biennium and $768,000 in the 2017 biennium.
    c. The Orphan Share fund is used for reimbursement of remedial action costs for orphan lands. Funds available for reimbursement for this clean up will be reduced by $554,000 in the 2015 biennium and $1.121 million in the 2017 biennium.
    d. There would be a reduction of $498,000 in the 2015 biennium and $1.008 million in the 2017 biennium to the Montana University System.

Department of Revenue Administrative Costs

18. It is estimated that changes as a result of SB 100 will cost the department of revenue $515,070 in one-time contracted services expenses and an additional $6,370 in annual contracted services costs that are inflated by 1.5% in subsequent years.

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Fiscal Impact:				
Expenditures:				
DOR Operating Expenses	$515,070	$6,370	$6,466	$6,563
LRBP Projects (HB 5)	($3,726,000)	($4,037,000)	($4,176,000)	($4,322,000)
CST Shared Account	($1,695,000)	($1,837,000)	($1,900,000)	($1,966,000)
Park Acquisition & Maint	($19,000)	($39,000)	($67,000)	($100,000)
Cultural & Aesthetics (HB 9)	($9,000)	($19,000)	($33,000)	($50,000)
Natural Res Projects (HB 6)	($131,000)	($274,000)	($334,000)	($487,000)
Natural Res Operations	($122,000)	($257,000)	($312,000)	($456,000)
University Millage	($161,000)	($337,000)	($410,000)	($598,000)
Distribution to School Flex	$6,058,000	$11,465,000	$13,942,000	$22,551,000
TOTAL Expenditures	$710,070	$4,671,370	$6,716,466	$14,578,563
Funding of Expenditures:				
General Fund (01)	$515,070	$6,370	$6,466	$6,563
State Special Revenue (02)	$195,000	$4,665,000	$6,710,000	$14,572,000
TOTAL Funding of Exp.	$710,070	$4,671,370	$6,716,466	$14,578,563
Revenues:				
General Fund (01)	$840,000	($4,632,000)	($6,874,000)	($13,031,000)
State Special Revenue (02)	($279,000)	$5,213,000	$7,435,000	$13,565,000
Trust Fund (09)	($590,000)	($639,000)	($661,000)	($684,000)
TOTAL Revenues	($29,000)	($58,000)	($100,000)	($150,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$324,930	($4,638,370)	($6,880,466)	($13,037,563)
State Special Revenue (02)	($474,000)	$548,000	$725,000	($1,007,000)

Long-Term Impacts:

1. Although no new coal production is forecast in this fiscal note, new coal mines will likely be developed in the future, and a portion of the coal severance tax revenue will flow to the School Flexibility Account providing for less revenue for the current recipients of the coal severance tax (with the exception of the coal trust funds and the coal natural resource account).
2. Over time, all oil and gas production tax will be from wells drilled after December 31, 2013, and thus 25% of the total state share of oil and gas severance tax revenue will be distributed to School Flexibility Account and in turn less revenue distributed to the Natural Resource Operations fund, the Natural Resource Projects fund, the Orphan Share fund, the University Millage transfer, and the general fund.

Technical Notes:

1. This bill is unclear as to which coal mines' tax collections would be subject to the provisions requiring the 25% distribution to the school flexibility account. It is assumed that only newly permitted coal mines that are not currently producing would be affected.
2. There are currently seven coal mines producing coal in Montana. This bill may violate confidentiality issues surrounding the protection of confidential tax information as it could make obvious how much an individual company paid in taxes in a particular year. This could be done by gathering permitting information and calculating it against the publicly available distribution of coal severance tax revenues.

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