GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	SB0295	**Title:**	Eliminate oil & gas "tax holiday" and provide money for impacts and renewables
Primary Sponsor:	Kaufmann, Christine	**Status:**	As Introduced

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

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$210,000	$0	$0	$0
State Special Revenue	$8,356,000	$16,390,000	$16,075,000	$15,766,000
Trust Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	$0	$0	$0
State Special Revenue	$8,356,000	$16,390,000	$16,075,000	$15,766,000
Trust Revenue	$8,356,000	$17,553,000	$18,048,000	$18,573,000
Net Impact-General Fund Balance:	($210,000)	$0	$0	$0

Description of fiscal impact: SB 295 modifies the oil and natural gas production tax so that wells drilled after December 31, 2013 will no longer receive the tax holiday, currently set at 0.76% of the gross value for working interest production. Additionally, SB 295 eliminates the reduced rate for incremental production from horizontally recompleted wells for 18 months after the recompletion and increases the tax rate from 5.76% to the regular oil production tax rate of 9.26%. Further, SB 295 redirects revenues generated from the change in tax holiday to a new community oil and natural gas impact relief account and to a new renewable resources trust fund. The bill creates a new program to be administered by the Department of Commerce for the purpose of assisting local governments that have been required to maintain and expand local government infrastructure as a consequence of oil and gas development. The program would provide grants to local governments for oil and gas impact projects in accordance with the statutory priorities set forth in the bill.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. For the last four quarters of oil and natural gas distributions, working interest owners who had production from the first 12 months of vertical well production and the first 18 months of horizontal production reported $375.107 million in gross oil and natural gas value.
2. Had SB 295 applied to this production, an additional $32.825 million in production tax would have been collected during FY 2012 ($375.107 x 9.26% - $375.107 x 0.76%).
3. This additional revenue is assumed to grow at the same rate as the total oil and natural gas production tax is projected to grow in SJR2 for FY 2013 through FY 2015. The growth rate for FY 2015 is assumed to continue in FY 2016 and FY 2017. The following table shows the projected amount of additional revenue from oil and natural gas production tax if the tax holiday was eliminated.

Fiscal Year	Additional Revenue	SJR 2 Forecasted Growth
FY 2012	$32.825	NA
FY 2013	$33.225	1.22%
FY 2014	$33.422	0.59%
FY 2015	$32.780	-1.92%
FY 2016	$32.150	-1.92%
FY 2017	$31.532	-1.92%

4. Under the provisions of SB 295, qualifying production is production from wells that were drilled before December 31, 2013, and therefore the estimated change in FY 2014 is assumed to be one half of what is contained in assumption 3.
5. Under the provisions of SB 295, 50% of the additional revenue from SB 295 is to be distributed to the Oil and Natural Gas Impact Relief Account and 50% to the Renewable Trust Fund, both of which are created by SB 295.
6. It is assumed that the interest rate the trust will receive will be equal to the rate of return used to generate the coal trust fund interest revenue contained in SJ2, or 4.7%. It is also assumed that in FY 2017 the trust fund balance will reach $50 million, at which point interest from the fund may be appropriated by the 2017 legislature for use in FY 2018 and beyond. However, this will not be estimated as it occurs beyond the forecast period of this fiscal note.
7. The following table shows the annual distribution to the Oil and Natural Gas Impact Relief Account, the Renewable Trust Fund, the corpus of the trust, and the interest generated by the trust.

Fiscal Year	Oil and Natural Gas Impact Relief Account	Renewable Trust Fund Deposits	Renewable Trust Fund Corpus	Renewable Trust Fund Interest
FY 2014	$8.356	$8.356	$8.356	$0.000
FY 2015	$16.390	$16.390	$24.746	$1.163
FY 2016	$16.075	$16.075	$41.984	$1.973
FY 2017	$15.766	$15.766	$59.723	$2.807

8. Computer software costs would be necessary because under this bill, the distribution would become more complicated as revenue from new wells would have to be segregated from total revenue before distributions

are allocated to awaiting funds. The estimated costs associated with these changes to DOR computer software total $186,000.

9. The department would also require $24,000 for system testing.

Department of Fish, Wildlife, and Parks

10. When the Renewable Resources Trust Fund reaches $50 million, FWP may begin spending the interest earnings of the trust on programs outlined in SB 295.
11. Because the trust fund balance will not reach $50 million until FY 2017, FWP will not begin using the trust fund interest to augment existing programs until FY 2018.

Department of Commerce

12. Sections 1-2 of the bill provide that the department will receive grant applications from local governments for oil and gas impact projects; assist local governments in preparing cost estimates for projects; prioritize the project applications in accordance with the statutory priorities; prepare and submit to the governor a list of recommendations as to projects to be awarded grants and the amount of such grants; and report to each legislature the status of all uncompleted school facility projects to which awards were granted. The bill provides that the Governor shall review the department's recommendations and submit to the legislature a list of recommended project grant awards to be approved by the legislature.
13. Section 3 of the bill provides that authority for the department to administer the funds in the community oil and natural gas impact relief account for the purposes of funding the oil and gas impact project program.
14. Section 4 of the bill provides the department with the authority to adopt rules to implement the program.
15. Based on similar competitive grant programs currently administered by the department, it is assumed the department would immediately require 4.00 FTE to address the duties and responsibilities mandated in the bill. Positions would include: 1.00 FTE to serve as the manager of the program; 2.00 FTE to serve as program specialists; and 1.00 FTE engineer. For the 4.00 FTE, the estimated costs for FY 2014 are $138,053 and $275,688 for FY 2015. FY 2016 and FY 2017 costs are inflated 1.5% annually.
16. For the purposes of this fiscal note it is assumed the department's operating expenses would also increase. Staff would be expected to rank project applications, monitor grant awards and contracts, and periodically visit project sites. Operating expenses are estimated to be $63,194 in FY 2014 and $96,288 in FY 2015. FY 2016 and FY 2017 costs are inflated 1.5% annually.
17. Personal services and operating costs would be funded from the revenue dedicated to community oil and natural gas impact relief account. The remainder of funds would be allocated to grants described in assumption 12.

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Fiscal Impact:				
FTE	2.00	4.00	4.00	4.00
Expenditures:				
Personal Services	$138,053	$275,688	$279,823	$284,021
Operating Expenses	$273,194	$96,288	$97,732	$99,198
Grants	$8,154,753	$16,018,024	$15,697,444	$15,382,781
TOTAL Expenditures	$8,566,000	$16,390,000	$16,075,000	$15,766,000
Funding of Expenditures:				
General Fund (01)	$210,000	$0	$0	$0
State Special Revenue (02)	$8,356,000	$16,390,000	$16,075,000	$15,766,000
TOTAL Funding of Exp.	$8,566,000	$16,390,000	$16,075,000	$15,766,000
Revenues:				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$8,356,000	$16,390,000	$16,075,000	$15,766,000
Trust Revenue (09)	$8,356,000	$17,553,000	$18,048,000	$18,573,000
TOTAL Revenues	$16,712,000	$33,943,000	$34,123,000	$34,339,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($210,000)	$0	$0	$0
State Special Revenue (02)	$0	$0	$0	$0
Trust Revenue (09)	$8,356,000	$17,553,000	$18,048,000	$18,573,000

Effect on County or Other Local Revenues or Expenditures:

1. SB 295 would create additional fiscal capacity for local governments to maintain and expand infrastructure impacted from oil and gas development.

Sponsor's Initials	Date	Budget Director's Initials	Date

Dedication of Revenue 2015 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

17-1-507-509, MCA.
Department of Fish, Wildlife, and Parks: Renewable Resources Trust Fund

a) Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)
Yes. Revenue comes for oil and gas production. Beginning in FY 2018, hunters and anglers would benefit from the interest generated on revenue deposited into a Renewable Resources Trust Fund.

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?
The funds must be deposited in a Renewable Resources Trust Fund. Establishing a new trust fund ensures FWP complies with the law.

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)
The revenue generated will determine the level of funding for securing, developing, and maintaining wildlife habitat to enhance hunting and fishing access.

d) Does the need for this state special revenue provision still exist? _X__Yes ___No (Explain)
In order to provide appropriate accountability, a separate trust fund is needed.

e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)
No. These funds will still require legislative appropriations.

f) Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)
If SB 295 passes, the legislature has recognized a need for a Renewable Resources Trust Fund. This fund allows FWP to appropriately account for the funds.

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?)
The dedicated revenue provision ensures FWP utilizes the dedicated revenue as the legislature intended with the passage of the bill.

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BUDGET AND PROGRAM PLANNING

Dedication of Revenue 2015 Biennium

17-1-507-509, MCA.

Department of Commerce: Community Oil and Natural Gas Impact Relief Account

a) Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)
Yes, the proposed program addresses the impacts of oil and gas development in Eastern Montana by removing the 18 month "tax holiday" on oil and gas developers. Taxes will be used to help address infrastructure issues in communities directly impacted by oil and gas development.

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 allows all expenditures and revenues related to the programs activities to be contained in a single accounting entity.

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.

d) Does the need for this state special revenue provision still exist? _x_Yes ___No (Explain)
Yes. A state special revenue account allows all expenditures and revenues related to the programs activities to be contained in a single account.

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 legislatively appropriated in HB 2, 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 SB 295 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity.

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 accounts makes it more simple to track the revenues and expenditures of the program. The program could be accounted for in the general fund.