GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	SB0389		**Title:**	Revise allocation of oil and gas revenue for oil and natural gas impact projects
Primary Sponsor:	Hamlett, Bradley		**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	$0	$0	$0	$0
State Special Revenue	$0	$3,296,409	$0	$1,924,629
Revenue:				
General Fund	$0	($3,296,409)	$0	($1,924,629)
State Special Revenue	$0	$3,296,409	$0	$1,924,629
Net Impact-General Fund Balance:	$0	($3,296,409)	$0	($1,924,629)

Description of fiscal impact:

SB 389 changes the distribution of the oil and natural gas production tax and distributes a variable portion of the revenue to a newly created Oil and Natural Gas Impact Relief Account. The percentage that gets deposited into this account is a function of the prior five years' worth of total tax revenue collection data. This new program is 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. For the purposes of this fiscal note, and based on the formula contained in section 5 of the bill, it is assumed the reallocation of revenue from oil and natural gas production taxes to the oil and gas impact relief account are redirected from the general fund allocation of said taxes.

FISCAL ANALYSIS

<u>Assumptions:</u>

Department of Revenue (DOR):

1. SB 389 creates an Oil and Natural Gas Impact Relief Account and states that the Department of Commerce will grant this revenue to local governments for oil and gas impact projects.
2. The portion of the state revenue that is distributed to the Oil and Natural Gas Impact Relief Account is equal to 70% of the percent change in the average of the prior four fiscal years relative to five years ago and is distributed prior to any portion distributed to the state general fund.
3. It is assumed that mathematically, the percentage of the state share of oil and gas revenue that is distributed to the Oil and Natural Gas Impact Relief Account is equal to the following equation, where year is equal to the total oil and gas revenue of a given year, with 1 being the most recent year preceding the current year:
4. If the above percentage is less than zero, then the percentage distributed to the Oil and Natural Gas Impact Relief Account is equal to zero.
5. SJR 2 estimates total oil and gas revenue for FY 2013 through FY 2015. OBPP estimated growth rates were used to calculate total revenue for FY 2016 and FY 2017. Additionally, the portion of the total revenue that is state revenue is estimated to be the same as forecast in SJR2.
6. The following table shows the estimated oil and natural gas total revenue, the percentage of the state share that would be distributed to the Oil and Natural Gas Impact Relief Account, and the total amount distributed to the Oil and Natural Gas Impact Relief Account.

Fiscal Year	Total Revenue	State Share	Percentage	Diverted Revenue
FY 2009	$218,425,215	$111,372,017	NA	NA
FY 2010	$206,286,268	$105,830,447	NA	NA
FY 2011	$215,129,820	$110,566,011	NA	NA
FY 2012	$210,644,361	$108,136,027	NA	NA
FY 2013	**$217,032,967**	**$109,454,666**	**NA**	**NA**
FY 2014	**$218,320,879**	**$110,104,190**	**0.0%**	**$0**
FY 2015	**$214,125,275**	**$107,988,251**	**3.1%**	**$3,296,409**
FY 2016	**$213,330,291**	**$107,587,322**	**0.0%**	**$0**
FY 2017	**$227,045,069**	**$114,503,997**	**1.7%**	**$1,924,629**

Department of Commerce (DOC):

7. Sections 1-2 of the bill provides 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.

8. Section 3 of the bill provides that authority for the department to administer the funds in the oil and natural gas impact relief account for the purposes of funding the oil and gas impact project program.
9. Section 4 of the bill provides the department with the authority to adopt rules to implement the program.
10. Section 8 of the bill modifies 15-36-331, MCA to redistribute any oil and gas well production tax revenues remaining after distribution to counties to the new oil and natural gas impact relief account.
11. Based on similar competitive grant programs currently administered by the department, it is assumed the department would immediately require 2.00 FTE to address the duties and responsibilities mandated in the bill. However, under this bill, incoming revenue for the program could vary drastically from year to year. For example, no revenue is expected to be received in the oil and natural gas impact relief account in either FY 2014 or FY 2016. Under such a scenario, the department would need 1.00 pay band 7 FTE to serve as the manager of the program; and 1.00 pay band 6 FTE would be required to serve as program specialist. For the 2.00 new FTE, the estimated costs for FY 2015 are $128,248. FY 2017 costs are inflated 1.5 % annually. It is assumed during years where no revenue is received for the program, the department will have to undergo a reduction in force process for program staff.
12. 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 $54,757 in FY 2015. FY 2017 costs are inflated 1.5 %.

	FY 2014 Difference	**FY 2015 Difference**	**FY 2016 Difference**	**FY 2017 Difference**
Fiscal Impact:				
FTE	0.00	2.00	0.00	2.00
Expenditures:				
Personal Services	$0	$128,248	$0	$132,126
Operating Expenses	$0	$54,757	$0	$55,579
Benefits	$0	$3,113,404	$0	$1,736,924
TOTAL Expenditures	$0	$3,296,409	$0	$1,924,629
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$0	$3,296,409	$0	$1,924,629
TOTAL Funding of Exp.	$0	$3,296,409	$0	$1,924,629
Revenues:				
General Fund (01)	$0	($3,296,409)	$0	($1,924,629)
State Special Revenue (02)	$0	$3,296,409	$0	$1,924,629
TOTAL Revenues	$0	$0	$0	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	($3,296,409)	$0	($1,924,629)
State Special Revenue (02)	$0	$0	$0	$0

Effect on County or Other Local Revenues or Expenditures:

1. SB 389 would create additional fiscal capacity for local governments to maintain and expand infrastructure impacted from oil and gas development beginning with $3,296,409 in the 2015 biennium, decreasing to an estimated $1,924,629 in the 2017 biennium.

Technical Notes:

1. SB 389 distributes revenue based on the growth in total collections. It could be possible that the percentage calculated in SB 389 to be distributed to the Oil and Natural Gas Impact Relief Account could be greater than 100%, as would have been the case if the bill would have been in place in FY 2007.

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 bill revises the allocation of revenue from oil and natural gas production taxes and uses the proceeds for oil and natural gas impact projects through a new program in the Department of Commerce. Taxes will be used to help address serious 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 should be established for the program proposed in SB 389 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity.

New section 3 of SB 389 states:

"There is an oil and natural gas impact relief account in the state special revenue fund provided for in 17-2-102. There must be deposited in the account oil and natural gas production taxes, if any, pursuant to 15-36-331(4)(e). The funds must be administered by the department."

The purpose of the account is to assist local governments 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)

A state special revenue account should be established for the program proposed in SB 389 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity.

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 389 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?)

Yes. A state special revenue account should be established for the program proposed in SB 389 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity.

New section 3 of SB 389 states:

“There is an oil and natural gas impact relief account in the state special revenue fund provided for in 17-2-102. There must be deposited in the account oil and natural gas production taxes, if any, pursuant to 15-36-331(4)(e). The funds must be administered by the department.”

The funds deposited in the state special revenue account may be used only for implementing the provisions proposed in the bill.