Fiscal Note 2015 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	SB0396		**Title:**	Create oil and local impact account funding
Primary Sponsor:	Brenden, John		**Status:**	As Introduced

- ☐ 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	$0	$0	$0	$0
State Special Revenue	$54,445	$11,380,301	$11,273,934	$10,843,580
Revenue:				
General Fund	($10,317,750)	($9,669,750)	($9,563,383)	($9,133,030)
State Special Revenue	$10,317,750	$9,669,750	$9,563,383	$9,133,030
Net Impact-General Fund Balance:	($10,317,750)	($9,669,750)	($9,563,383)	($9,133,030)

Description of fiscal impact: The bill provides for a diversion of US Mineral Royalty revenues which is estimated to reduce general fund revenues by just over $10 million in FY 2014, by $9.6 million in FY 2015 and FY 2016 and by $9.1 million in FY 2017, and increases state special revenue by an equal amount in each year. The Board of Oil and Gas is directed to use the oil and gas impact account revenue to provide grants to local governments for projects that are needed as a direct consequence of increased oil and gas development activity; however, the bill does not include an appropriation for these funds.

FISCAL ANALYSIS

Assumptions:

1. 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 in a state, are distributed back to the state. 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 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.

2. This bill proposes that 25% of total U.S. mineral royalty revenue will be deposited 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.
3. The grant program will be administered by the Board of Oil and Gas Conservation (BOGC), attached administratively to the Department of Natural Resources and Conservation. The board will consider applications from local governments and award grants. The board may retain the assistance of professional consultants and advisors to implement the program.
4. During FY 2014, the program will be established and rule making will occur.
5. 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 this bill, 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.
6. For FY 2016 and FY 2017, the OBPP growth rate has been applied to the FY 2015 SJ 2 estimate.
7. Along with existing FTE, BOGC will need an additional 1.00 FTE Grants/Contracts Coordinator position to develop and implement the grants program; and draft and adopt administrative rules for the program.
   a. Grant program administration and hire of 1.00 FTE begins in FY 2014. Revenue starts accumulating in oil and gas impact account in FY 2014, so BOGC would need to delay hiring until the funds to support it are in the account (approximately three months).
   b. Estimated costs for the position would be $41,770 in FY 2014 (because position would be delayed 3 months per assumption 7a), $55,693 in FY 2015, $56,579 in FY 2016, and $57,111 in FY 2017.
8. Operating costs would include:
   a. $12,675 in start-up costs for the first year (new employee office package, computer, travel, rule publication and updating, one additional not previously scheduled BOGC hearing to approve the adoption of the final rules);
   b. each subsequent year of the program would result in $10,000 per year of operating expenses; and
   c. $105,000 per year for a contracted engineering firm to evaluate grant applications; enter into contracts with contractor and grantees; and monitor program/contractor/grantee performance; and
   d. a temporary consultant to assist with grant application processing at $15,000 per year.
9. The remaining funds each year will be awarded in grants. Because revenue will accumulate in the first year that will not be spent on grants due to the rule making process, it assumed that the accumulated balance will spent equally among the remaining 6 years (through FY 2020) of the grant program at approximately $1.7 million per year.
10. An inflation factor of 1.5% is applied in the 2017 biennium.

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Fiscal Impact:				
FTE	0.75	1.00	1.00	1.00
Expenditures:				
Personal Services	$41,770	$55,693	$56,528	$57,376
Operating Expenses	$12,675	$130,000	$131,950	$133,929
Grants	$0	$11,194,608	$11,085,456	$10,652,275
TOTAL Expenditures	$54,445	$11,380,301	$11,273,934	$10,843,580
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$54,445	$11,380,301	$11,273,934	$10,843,580
TOTAL Funding of Exp.	$54,445	$11,380,301	$11,273,934	$10,843,580
Revenues:				
General Fund (01)	($10,317,750)	($9,669,750)	($9,563,383)	($9,133,030)
State Special Revenue (02)	$10,317,750	$9,669,750	$9,563,383	$9,133,030
TOTAL Revenues	$0	$0	$0	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($10,317,750)	($9,669,750)	($9,563,383)	($9,133,030)
State Special Revenue (02)	$10,263,305	($1,710,551)	($1,710,551)	($1,710,550)

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?**
This dedicated revenue is to be directed to local governments which have been impacted by increased oil and gas development. The Board of Oil and Gas 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?**
This revenue would provide financial resources to local governments for needs specifically caused by 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.

d) **Does the need for this state special revenue provision still exist? __X_Yes ___No**
Yes

e) **Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)**
No, the statute provides for mandated outcome measures to ensure that the funding is used in the manner intended.

f) **Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)**
Yes

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 function could be appropriately accounted for in the state special revenue fund or the general fund.