Fiscal Note 2015 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	SB0399		**Title:**	Revise oil and gas "tax holiday" and provide funding to local governments
Primary Sponsor:	Van Dyk, Kendall		**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
- [ ] Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$222,000	$0	$0	$0
State Special Revenue	$21,024,403	$21,606,860	$20,061,112	$21,418,967
Revenue:				
General Fund	$0	$0	$0	$0
State Special Revenue	$21,024,403	$21,606,860	$20,061,112	$21,418,967
Net Impact-General Fund Balance:	($222,000)	$0	$0	$0

Description of fiscal impact: SB 399 eliminates the oil and natural gas production tax “holiday” rate of 0.76% for the first 18 months of production from horizontally drilled wells and the first 12 months of production from vertically drilled wells if specific price triggers are met. The price trigger for natural gas production is set at $5 per million British thermal units (BTU) for Henry Hub natural gas as reported by the Wall Street Journal. The price trigger for oil production is set at $50.07 per barrel of West Texas Intermediate (WTI) crude oil as reported by the Wall Street Journal. Additional revenue as a result of the holiday elimination is distributed to the Community Oil and Natural Gas Impact Relief Account. This bill further 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:

1. SB 399 sets a quarterly natural gas price trigger for Henry Hub of $5 per million BTU and a quarterly oil price trigger for WTI of $50.07 per barrel. The following table shows the actual and forecasted quarterly prices of these two commodities as reported by IHS Global Insight in January (January data were used because SJ2 is based off of them). Numbers shaded in grey indicate the price is forecasted to be above the threshold for that quarter.

Forecasted Commodity Prices

FY	Q	Henry Hub	WTI
2013	1	$2.87	**$92.27**
2013	2	$3.38	**$88.00**
2013	3	$3.38	**$88.84**
2013	4	$3.83	**$91.83**
2014	1	$4.33	**$88.90**
2014	2	$4.52	**$89.01**
2014	3	$4.62	**$88.77**
2014	4	$4.78	**$86.90**
2015	1	$4.98	**$85.16**
2015	2	**$5.18**	**$84.21**
2015	3	**$5.47**	**$84.41**
2015	4	**$5.04**	**$80.66**
2016	1	$4.38	**$79.16**
2016	2	$4.07	**$82.16**
2016	3	$4.21	**$83.22**
2016	4	$4.07	**$85.47**
2017	1	$4.10	**$87.72**
2017	2	$4.06	**$89.97**
2017	3	$4.11	**$89.41**
2017	4	$4.08	**$90.40**

2. SJ2 forecasts Montana oil and natural gas production for the state of Montana by calendar year, as well as the average price received by producers. Multiplying these two together will yield the gross value for both oil and natural gas.
3. Growth rates forecast by OBPP were applied to SJ2's CY 2015 forecast gross value for the second half of FY 2016 and all of FY 2017.
4. A historical average of natural gas and oil production that occurred during the holiday period was applied, and for fiscal note purposes, these percentages are expected to continue through FY 2017.
5. Historically, taxable working interest values represented 82.7% of the gross value of production for both oil and natural gas. For fiscal note purposes, these percentages are expected to continue through FY 2017.

6. The tables below shows the total estimated gross value, qualifying production value, taxable working interest value, the average tax rate, and the additional revenue for FY 2014 through FY 2017.

Assumptions for SB 399

Natural Gas

Fiscal Year	Gross Value	Qualifying Value	Working Interest Value	Tax	Average Tax Rate	Additional Tax Revenue
2014	$250.115	$21.857	$18.076	$0.137	0.76%	$0.000
2015	$244.189	$21.339	$17.648	$1.233	6.98%	$1.099
2016	$226.514	$19.795	$16.370	$0.124	0.76%	$0.000
2017	$233.360	$20.393	$16.865	$0.128	0.76%	$0.000

Oil

Fiscal Year	Gross Value	Qualifying Value	Working Interest Value	Tax	Average Tax Rate	Additional Tax Revenue
2014	$2,134.578	$299.041	$247.346	$22.904	9.26%	$21.024
2015	$2,082.180	$291.700	$241.274	$22.342	9.26%	$20.508
2016	$2,036.776	$285.339	$236.013	$21.855	9.26%	$20.061
2017	$2,174.637	$304.653	$251.988	$23.334	9.26%	$21.419

7. Computer software costs would be necessary because under this bill, the distribution would become more complicated as increased revenue from impacted wells would have to be segregated from total revenue in order to compute the distributions. The estimated costs associated with these changes to DOR's computer software total $198,000. The department would also require $24,000 for system testing. The Department of Revenue is funded from the general fund.

Department of Commerce (DOC)

8. Sections 1-2 of the bill provides that the DOC 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 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.
9. 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.
10. Section 4 of the bill provides the department with the authority to adopt rules to implement the program.
11. Section 6 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 community oil and natural gas impact relief account.
12. Based on similar competitive grant programs currently administered by the department, it is assumed the department would immediately require 5.00 FTE to address the duties and responsibilities mandated in the bill. FTE would include 1.00 FTE program manager; 2.00 FTE program specialists; 1.00 FTE program engineer; and 1.00 FTE administrative support. For the 5.00 FTE, the estimated costs for FY 2014 are $322,384 and $321,902 for FY 2015. FY 2016 and FY 2017 costs are inflated 1.5 % annually.

13. 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 $139,121 in FY 2014 and $120,900 in FY 2015. FY 2016 and FY 2017 costs are inflated 1.5 % annually.

	FY 2014 Difference	**FY 2015 Difference**	**FY 2016 Difference**	**FY 2017 Difference**
Fiscal Impact:				
FTE	5.00	5.00	5.00	5.00
Expenditures:				
Personal Services	$322,384	$321,902	$326,731	$331,631
Operating Expenses	$361,121	$120,900	$122,713	$124,554
Grants	$20,562,898	$21,164,058	$19,611,667	$20,962,782
TOTAL Expenditures	$21,246,403	$21,606,860	$20,061,111	$21,418,967
Funding of Expenditures:				
General Fund (01)	$222,000	$0	$0	$0
State Special Revenue (02)	$21,024,403	$21,606,860	$20,061,111	$21,418,967
TOTAL Funding of Exp.	$21,246,403	$21,606,860	$20,061,111	$21,418,967
Revenues:				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$21,024,403	$21,606,860	$20,061,111	$21,418,967
TOTAL Revenues	$21,024,403	$21,606,860	$20,061,111	$21,418,967
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($222,000)	$0	$0	$0
State Special Revenue (02)	$0	$0	$0	$0

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.

a) **Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)**
Yes, this bill increases the rate of tax for qualifying oil and natural gas production 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 399 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity. 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 399 because all expenditures and revenues related to the programs activities would be contained in a single fund.

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 399 because all expenditures and revenues related to the programs activities would be contained in a single fund.

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 399 because all expenditures and revenues related to the programs activities would be contained in a single accounting entity. The funds deposited in the state special revenue account may be used only for implementing the provisions proposed in the bill.