Fiscal Note 2017 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0402	**Title:**	Generally revise laws related to oil and gas development
Primary Sponsor:	Knudsen, Austin	**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 2015 Difference	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:					
General Fund	$55,000,000	$0	$0	$0	$0
State Special Revenue	$0	$55,461,809	$36,410,169	$19,287,764	$20,207,747
Revenue:					
General Fund	($461,809)	($26,483,164)	($26,354,255)	($28,038,063)	($29,378,061)
State Special Revenue	$55,461,809	$26,483,164	$26,354,255	$28,038,063	$29,378,061
Net Impact-General Fund Balance	($55,461,809)	($26,483,164)	($26,354,255)	($28,038,063)	($29,378,061)

Description of fiscal impact: HB 402 creates an oil and gas impact account that would be administered by the Department of Commerce for the purpose of awarding grants to local governments affected by oil and gas development. It would change the distribution of the state portion of the oil and gas production tax and federal mineral royalties to fund this account. In FY 2015, it directs a transfer of $55,000,000 from the general fund to the oil and gas impact account. The allocation of federal mineral leasing funds to the mineral impact account is also increased under this bill.

FISCAL ANALYSIS

Assumptions:

Secretary of State's Office

1. This bill will have minimal cost for postage and administrative duties. The office does not receive general fund monies for office operations, but has agreed to assume the fiscal responsibility for this bill.

Department of Revenue

2. This bill would change the allocation of the state portion of the oil and natural gas production taxes, by allocating 1.75% to the oil and gas impact account. This would be in effect beginning the last quarter of FY 2015 (see technical note).

3. Oil and natural gas production tax revenue from HJ 2 and extrapolated using OBPP's growth rates were used for FY 2015 through FY 2019.
4. The following tables show the change in distribution of oil and gas production tax for FY 2015 through FY 2019.
5. FY 2015 changes to oil and gas production tax distribution are shown in the following table:

Fiscal Year	2015 Current Law	2015 Proposed Law
Total Tax Revenue	$203,162,000	$203,162,000
State Tax Revenue	$105,556,418	$105,556,418
Natural Resources Projects	$2,280,019	$2,280,019
Natural Resources Operations	$2,132,240	$2,132,240
Orphan Share Account	$3,113,914	$3,113,914
Montana University System	$2,797,245	$2,797,245
Oil and Gas Impact Account	0	$461,809
General Fund	$95,233,000	$94,771,191
Change to Oil and Gas Impact Account		$461,809
Change to General Fund		-$461,809

6. FY 2016 changes to oil and gas production tax distribution are shown in the following table:

Fiscal Year	2016 Current Law	2016 Proposed Law
Total Tax Revenue	$186,054,000	$186,054,000
State Tax Revenue	$100,452,228	$100,452,228
Natural Resources Projects	$2,169,768	$2,169,768
Natural Resources Operations	$2,029,135	$2,029,135
Orphan Share Account	$2,963,341	$2,963,341
Montana University System	$2,661,984	$2,661,984
Oil and Gas Impact Account	$0	$1,757,914
General Fund	$90,628,000	$88,870,086
Change to Oil and Gas Impact Account		$1,757,914
Change to General Fund		-$1,757,914

7. FY 2017 changes to oil and gas production tax distribution are shown in the following table:

Fiscal Year	2017 Current Law	2017 Proposed Law
Total Tax Revenue	$192,832,000	$192,832,000
State Tax Revenue	$102,728,885	$102,728,885
Natural Resources Projects	$2,218,944	$2,218,944
Natural Resources Operations	$2,075,123	$2,075,123
Orphan Share Account	$3,030,502	$3,030,502
Montana University System	$2,722,315	$2,722,315
Oil and Gas Impact Account	$0	$1,797,755
General Fund	$92,682,000	$90,884,245
Change to Oil and Gas Impact Account		$1,797,755
Change to General Fund		-$1,797,755

8. FY 2018 changes to oil and gas production tax distribution are shown in the following table:

Fiscal Year	2018 Current Law	2018 Proposed Law
Total Tax Revenue	$191,675,008	$191,675,008
State Tax Revenue	$102,123,698	$102,123,698
Natural Resources Projects	$2,205,872	$2,205,872
Natural Resources Operations	$2,062,899	$2,062,899
Orphan Share Account	$3,012,649	$3,012,649
Montana University System	$2,706,278	$2,706,278
Oil and Gas Impact Account	$0	$1,787,165
General Fund	$92,136,000	$90,348,835
Change to Oil and Gas Impact Account		$1,787,165
Change to General Fund		-$1,787,165

9. FY 2019 changes to oil and gas production distribution are shown in the following table:

Fiscal Year	2019 Current Law	2019 Proposed Law
Total Tax Revenue	$200,300,383	$200,300,383
State Tax Revenue	$106,692,529	$106,692,529
Natural Resources Projects	$2,304,559	$2,304,559
Natural Resources Operations	$2,155,189	$2,155,189
Orphan Share Account	$3,147,430	$3,147,430
Montana University System	$2,827,352	$2,827,352
Oil and Gas Impact Account	$0	$1,867,119
General Fund	$96,258,000	$94,390,881
Change to Oil and Gas Impact Account		$1,867,119
Change to General Fund		-$1,867,119

10. This bill directs the state treasurer to transfer $55 million from the general fund to the oil and gas impact account by June 30, 2015.
11. This bill would change the allocation of federal mineral leasing funds, increasing the allocation to the mineral impact account to 50% of the revenue from 25% allocated under current law. Money in the mineral leasing account is distributed to counties from which the minerals were produced.
12. Starting in FY 2016, this bill would allocate 50% of federal mineral leasing funds to the oil and gas impact account.
13. Federal mineral leasing fund revenue from HJ 2 and extrapolated using OBPP's growth rates were used for FY 2015 through FY 2019.
14. The following tables show changes to the federal mineral leasing funds distribution for FY 2016, the first year of the distribution (see technical note 2), through FY 2019.
15. FY 2016 changes to federal mineral leasing funds distribution are shown in the following table:

Fiscal Year	2016 Current Law	2016 Proposed Law
Total Revenue	$32,967,000	$32,967,000
Mineral Impact Account	$8,241,750	$16,483,500
Oil and Gas Impact Account	$0	$16,483,500
General Fund	$24,725,250	$0
Change to Mineral Impact Account		$8,241,750
Change to Oil and Gas Impact Account		$16,483,500
Change to General Fund		-$24,725,250

16. FY 2017 changes to federal mineral leasing funds distribution are shown in the following table:

Fiscal Year	2017 Current Law	2017 Proposed Law
Total Revenue	$32,742,000	$32,742,000
Mineral Impact Account	$8,185,500	$16,371,000
Oil and Gas Impact Account	$0	$16,371,000
General Fund	$24,556,500	$0
Change to Mineral Impact		$8,185,500
Change to Oil and Gas Impact	Account	$16,371,000
Change to General Fund		-$24,556,500

17. FY 2018 changes to federal mineral leasing funds distribution are shown in the following table:

Fiscal Year	2018 Current Law	2018 Proposed Law
Total Revenue	$35,001,198	$35,001,198
Mineral Impact Account	$8,750,300	$17,500,599
Oil and Gas Impact Account	$0	$17,500,599
General Fund	$26,250,899	$0
Change to Mineral Impact		$8,750,300
Change to Oil and Gas Impact	Account	$17,500,599
Change to General Fund		-$26,250,899

18. FY 2019 changes to federal mineral leasing funds distribution are shown in the following table:

Fiscal Year	2019 Current Law	2019 Proposed Law
Total Revenue	$36,681,256	$36,681,256
Mineral Impact Account	$9,170,314	$18,340,628
Oil and Gas Impact Account	$0	$18,340,628
General Fund	$27,510,942	$0
Change to Mineral Impact		$9,170,314
Change to Oil and Gas Impact	Account	$18,340,628
Change to General Fund		-$27,510,942

19. This bill terminates June 30, 2022.

Department of Commerce

20. Sections 1-5 of the bill create a new oil and gas impact program to be administered by the Department of Commerce. The department will receive applications from local governments for grants for oil and gas impact projects, prioritize the project applications in accordance with the statutory priorities and attributes, and award grants to eligible entities as defined in the bill. The purpose of the program is to provide grants to local governments who have been impacted by oil and gas development and need to maintain or expand local government drinking water systems, wastewater treatment, sanitary or storm water sewer systems, solid waste disposal, roads and bridges, facilities for government administration, fire protection, emergency services, schools, and law enforcement, or projects related to public health and welfare issues arising from or related to sex trafficking and criminal solicitation.
21. Based on similar competitive grant programs currently administered by the department, it is assumed the department would immediately require 3.00 FTE to address the duties and responsibilities mandated in the bill. 2.00 FTE would be required to serve as program specialists; 1.00 FTE would be required to serve as an administrative assistant. For the 3.00 FTE, the estimated costs are $203,227 for FY 2016 and $202,979 for FY 2017. FY 2018 and FY 2019 costs are inflated 1.5% annually.
22. 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 $143,602 in FY 2016 and $130,998 in FY 2017. FY 2018 and FY 2019 costs are inflated 1.5% annually.
23. Grant expenditures are estimated to be approximately $55 million in FY 2016, $36 million in FY 2017, and approximately $19 million per year in the 2019 biennium.
24. 17-1-508, MCA, requires analysis of the statutory appropriation relative to the guidance in 17-1-508(3), MCA, to be published in the fiscal note. In reviewing and establishing statutory appropriations, the legislature shall consider the following guidelines.

		YES	NO
a.	The money is from a continuing, reliable, and estimable source.	X	
b.	The use of the appropriation or the expenditure occurrence is predictable and reliable.	X	
c.	The authority exists elsewhere.		X
d.	An alternative appropriation method is available, practical, or effective.	X	
e.	It appropriates state general fund money for purposes other than paying for emergency services.	X	
f.	The money is used for general purposes.		X
g.	The legislature wishes to review expenditure and appropriation levels each biennium.	X	
h.	An expenditure cap and sunset date are excluded.		X

	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Fiscal Impact:					
FTE	0.00	3.00	3.00	3.00	3.00
Expenditures:					
Personal Services	$0	$203,227	$202,979	$206,024	$209,114
Operating Expenses	$0	$143,602	$130,998	$132,963	$134,957
Grants	$0	$55,114,980	$36,076,192	$18,948,777	$19,863,676
Transfers	$55,000,000	$0	$0	$0	$0
TOTAL Expenditures	$55,000,000	$55,461,809	$36,410,169	$19,287,764	$20,207,747
Funding of Expenditures:					
General Fund (01)	$55,000,000	$0	$0	$0	$0
State Special Revenue (02)					
Oil and Gas Impact Acct	$0	$55,461,809	$36,410,169	$19,287,764	$20,207,747
Mineral Leasing Account	$0	$0	$0	$0	$0
TOTAL Funding of Exp.	$55,000,000	$55,461,809	$36,410,169	$19,287,764	$20,207,747
Revenues:					
General Fund (01)	($461,809)	($26,483,164)	($26,354,255)	($28,038,063)	($29,378,061)
State Special Revenue (02)					
Oil and Gas Impact Acct	$55,461,809	$18,241,414	$18,168,755	$19,287,764	$20,207,747
Mineral Leasing Account	$0	$8,241,750	$8,185,500	$8,750,300	$9,170,314
TOTAL Revenues	$55,000,000	$0	$0	$0	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):					
General Fund (01)	($55,461,809)	($26,483,164)	($26,354,255)	($28,038,063)	($29,378,061)
State Special Revenue (02)					
Oil and Gas Impact Acct	$55,461,809	($37,220,395)	($18,241,414)	($0)	$0
Mineral Leasing Account	$0	$8,241,750	$8,185,500	$8,750,300	$9,170,314

Effect on County or Other Local Revenues or Expenditures:
Department of Revenue

1. This bill increases the proportion of federal mineral leasing funds going to the counties in which the minerals were produced. The increase is from 25% under current law to 50% under proposed law.
2. This bill creates an impact fund for local governments experiencing oil and gas production which have infrastructure needs. Local governments can apply for grants from this fund through the Department of Commerce.

Technical Notes:

Department of Revenue

1. This fiscal note assumes that the department would begin the distribution outlined in section 7 of the bill for oil and gas production occurring in the fourth quarter of FY 2015.
2. This fiscal note assumes that the department would begin the distribution outlined in section 8 of the bill as of July 1, 2015 due to the timing of federal mineral leasing funds distributions.

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