Fiscal Note 2017 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0591	**Title:**	Revise oil and gas tax laws
Primary Sponsor:	Pope, Christopher	**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 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	$115,700	$0	$0	$0
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$1,910,828	$10,415,647	$9,471,457	$5,639,741
State Special Revenue	$207,137	$1,129,074	$1,026,722	$611,357
Net Impact-General Fund Balance:	$1,795,128	$10,415,647	$9,471,457	$5,639,741

Description of fiscal impact: HB 591 changes the time period in which the working interest portion of new oil and natural gas wells are eligible for the reduced tax rate of 0.5%. For wells drilled after December 31, 2015, the working interest portion of horizontal wells would be eligible for this tax rate in their 19th to 36th months of production. The working interest portion of vertical wells drilled after December 31, 2015, would be eligible for this tax rate from the 13th to 24th month of production.

FISCAL ANALYSIS

Assumptions:

1. Under current law, the working interest portion of new horizontal oil and natural gas wells is eligible for a reduced tax rate of 0.5% for the first 18 months of production. The working interest portion of new vertical wells is currently eligible for a reduced tax rate of 0.5% for their first 12 months of production.
2. Under current law, the working interest portion of horizontally recompleted wells is eligible for a reduced tax rate of 5.5% for the first 18 months of production.
3. The working interest portion of all oil and natural gas wells is taxed at 9% when not eligible for the reduced tax rate (unless the well qualifies for other provisions that are associated with lower tax rates).

4. This bill changes the time period in which these wells are eligible for the reduced tax rate of 0.5% on their working interest production. For new horizontal wells and horizontally recompleted wells, the new time frame of eligibility would be the 19th to 36th month of production. For vertical wells, the new time frame of eligibility would be the 13th to 24th month of production.
5. The provisions of HB 591 apply to wells drilled after December 31, 2015.
6. The working interest portion of the value of production for both oil and natural gas is assumed to be 83% of total production, which is the actual percentage of the working interest portion of production for FY 2014.
7. Holiday oil and natural gas production and prices from HJ 2 were used for FY 2016 and FY 2017 and OBPP's extrapolations of these numbers were used for FY 2018 and FY 2019.
8. This fiscal note assumes that there would be no horizontal recompleted wells in the time period covered, as there have been no horizontally recompleted wells since FY 2012.
9. Holiday production from wells drilled before January 1, 2016 will spill over into FY 2016 and FY 2017.
10. Starting in FY 2018, all holiday production will be sourced from wells drilled after December 31, 2015.
11. Production decline curves for oil and natural gas are calculated using data from the Montana Board of Oil and Gas Conservation (BOGC). These decline curves, along with assumptions about the number of wells drilled, are used to estimate holiday production.
12. In the distribution of additional oil and natural gas production tax revenue, this fiscal note assumes that counties and schools receive 46.12% of the revenue, as was true for FY 2014.
13. The following four tables show the tax revenue calculations for proposed law, current law, and the difference between the two for FY 2016 through FY 2019.

FY 2016			
	Current Law	**Proposed Law**	**Difference**
Holiday Oil Production	4,262,000	3,592,251	(669,749)
Non-Holiday Oil Production	22,804,000	23,473,749	669,749
Montana Oil Price	$70.60	$70.60	$0.00
Holiday Oil Value	$300,897,200	$253,612,921	($47,284,279)
Non-Holiday Oil Value	$1,609,962,400	$1,657,246,679	$47,284,279
Working Interest Holiday Oil Value	$249,744,676	$210,498,724	($39,245,952)
Working Interest Non-Holiday Oil Value	$1,336,268,792	$1,375,514,744	$39,245,952
Tax Revenue from Working Interest of Holiday Oil	$1,248,723	$1,052,494	($196,230)
Tax Revenue from Working Interest of Non-Holiday Oil	$120,264,191	$123,796,327	$3,532,136

FY 2017			
	Current Law	**Proposed Law**	**Difference**
Holiday Oil Production	4,251,000	547,783	(3,703,217)
Non-Holiday Oil Production	22,215,000	25,918,217	3,703,217
Montana Oil Price	$78.13	$78.13	$0.00
Holiday Oil Value	$332,130,630	$42,798,286	($289,332,344)
Non-Holiday Oil Value	$1,735,657,950	$2,024,990,294	$289,332,344
Working Interest Holiday Oil Value	$275,668,423	$35,522,577	($240,145,846)
Working Interest Non-Holiday Oil Value	$1,440,596,099	$1,680,741,944	$240,145,846
Tax Revenue from Working Interest of Holiday Oil	$1,378,342	$177,613	($1,200,729)
Tax Revenue from Working Interest of Non-Holiday Oil	$129,653,649	$151,266,775	$21,613,126

FY 2018	Current Law	Proposed Law	Difference
Holiday Oil Production	4,225,494	1,192,420	(3,033,074)
Non-Holiday Oil Production	22,049,506	25,082,580	3,033,074
Montana Oil Price	$86.78	$86.78	$0.00
Holiday Oil Value	$366,688,369	$103,478,208	($263,210,162)
Non-Holiday Oil Value	$1,913,456,131	$2,176,666,292	$263,210,162
Working Interest Holiday Oil Value	$304,351,347	$85,886,912	($218,464,434)
Working Interest Non-Holiday Oil Value	$1,588,168,588	$1,806,633,023	$218,464,434
Tax Revenue from Working Interest of Holiday Oil	$1,521,757	$429,435	($1,092,322)
Tax Revenue from Working Interest of Non-Holiday Oil	$142,935,173	$162,596,972	$19,661,799

FY 2019	Current Law	Proposed Law	Difference
Holiday Oil Production	4,185,302	2,567,668	(1,617,634)
Non-Holiday Oil Production	21,868,698	23,486,332	1,617,634
Montana Oil Price	$95.47	$95.47	$0.00
Holiday Oil Value	$399,570,782	$245,135,264	($154,435,518)
Non-Holiday Oil Value	$2,087,804,598	$2,242,240,116	$154,435,518
Working Interest Holiday Oil Value	$331,643,749	$203,462,269	($128,181,480)
Working Interest Non-Holiday Oil Value	$1,732,877,816	$1,861,059,296	$128,181,480
Tax Revenue from Working Interest of Holiday Oil	$1,658,219	$1,017,311	($640,907)
Tax Revenue from Working Interest of Non-Holiday Oil	$155,959,003	$167,495,337	$11,536,333

14. The proposed tax rate changes in HB 591 will result in increased working interest tax revenue amounting to $3,532,136 in FY 2016, $21,613,126 in FY 2017, $19,661,799 in FY 2018, and $11,536,333 in FY 2019.
15. Additional collections of working interest tax revenue will flow through to increases in revenue for counties and schools, state special revenue accounts, and the state general fund.
16. The following table shows the distribution of the additional tax revenue resulting from HB 591 for FY 2016 through FY 2019.

HB 591 Change in Distribution of Oil and Natural Gas Tax Revenue	FY 2016	FY 2017	FY 2018	FY 2019
Counties and Schools (Local Share)	$5,445,734	$12,315,886	$11,407,449	$7,305,754
State Share	$2,117,965	$11,544,721	$10,498,179	$6,251,099
Natural Resource Projects Acct. (2.16%)	$45,748	$249,366	$226,761	$135,024
Natural Resource Operations Acct. (2.02%)	$42,783	$233,203	$212,063	$126,272
Orphan Share Acct. (2.95%)	$62,480	$340,569	$309,696	$184,407
University System (2.65%)	$56,126	$305,935	$278,202	$165,654
General Fund	$1,910,828	$10,415,647	$9,471,457	$5,639,741

17. The bill would result in $110,700 in Department of Revenue costs for computer system and oil and gas reporting form changes in FY 2016.

18. The bill would result in $5,000 in costs for the department in FY 2016 for the creation of two new forms.

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Fiscal Impact:				
Expenditures:				
Operating Expenses	$115,700	$0	$0	$0
TOTAL Expenditures	$115,700	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$115,700	$0	$0	$0
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$115,700	$0	$0	$0
Revenues:				
General Fund (01)	$1,910,828	$10,415,647	$9,471,457	$5,639,741
Total State Special Rev (02)	$207,137	$1,129,073	$1,026,722	$611,357
Nat Res Projects	$45,748	$249,366	$226,761	$135,024
Nat Res Operations	$42,783	$233,203	$212,063	$126,272
Orphan Share	$62,480	$340,569	$309,696	$184,407
MUS	$56,126	$305,935	$278,202	$165,654
TOTAL Revenues	$2,117,965	$11,544,720	$10,498,179	$6,251,098
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$1,795,128	$10,415,647	$9,471,457	$5,639,741
State Special Revenue (02)	$207,137	$1,129,073	$1,026,722	$611,357

Effect on County or Other Local Revenues or Expenditures:

1. Under this bill, counties and schools would receive additional funds estimated to be $5.4 million in FY 2016, $12.3 million in FY 2017, $11.4 million in FY 2018, and $7.3 million in FY 2019.

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