



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	SB0260
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Title:	Revise education funding laws related to oil and gas production taxes
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Primary Sponsor:	Moore, Frederick (Eric)
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Status:	As Introduced
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|--|---|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$5,581,291	\$5,548,417	\$5,796,585
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>\$0</u>	<u>(\$5,581,291)</u>	<u>(\$5,548,417)</u>	<u>(\$5,796,585)</u>

Description of fiscal impact: SB 260 extends the provisions for distributing oil and natural gas production taxes through the “concentric circles” mechanism until June 30, 2024. Monies that would have been distributed to the state special revenue guarantee account and other state special revenue accounts will instead go to the “concentric circle” schools and to a new grant program, which will be developed by the Office of Public Instruction in collaboration with school districts. The offset of decreased revenue to the state special revenue guarantee account must be paid by the state general fund beginning in FY 2017 at a cost of approximately \$5.6 million per year.

FISCAL ANALYSIS

Assumptions:

1. SB 260 would extend the provision for distributing school district excess oil and natural gas production tax revenue (ONGPTR).

2. Current law, 20-9-310, MCA, is to sunset June 30, 2016, that allows school districts to retain 130% of the school district's maximum budget amount of ONGPTR. There are some exceptions allowing districts with maximum general fund budgets of less than \$1.5 million to retain ONGPTR up to 150% of the district maximum general fund budget FY 2016.
3. Current law allows that excess ONGPTR is deposited to the State School Oil and Natural Gas Distribution Account to be distributed by the Office of Public Instruction (OPI) according to 20-9-310(4), if the legislature appropriates funds to OPI for this purpose. This distribution is referred to as the "concentric circle" distribution. The purposes are:
 - a. To schools that are in the same unified school system as the district that would have initially received the Oil and Natural Gas Production Taxes revenue, up to 130% of the receiving school district's maximum general fund budget.
 - b. To school districts that are immediately contiguous to the district that would have initially received the production tax revenue, up to 130% of the receiving school district's maximum general fund budget.
 - c. To school districts that are in the same county as the district that would have initially received the production tax revenue, up to 130% of the receiving school district's maximum general fund budget.
 - d. To school districts located in counties contiguous to the district that would have initially received the production tax revenue and have had a horizontally completed well drilled in the prior three years according to the Department of Natural Resources and Conservation, up to 130% of the receiving school district's maximum general fund budget.
 - e. Any remaining funds are to be deposited 70% to the Guarantee Account, 5% to the State School Oil and Natural Gas Impact Account, and 25% to the County School Oil and Natural Gas Impact Fund.
4. According to current law, beginning July 1, 2016, 20-9-310, MCA, would direct any excess ONGPTR retained by the Department of Revenue on behalf of school districts to be distributed 70% to the state special revenue (SSR) Guarantee Account, 5% to the SSR State School Oil and Natural Gas Impact Account, and 25% to the SSR County School Oil and Natural Gas Impact Fund.
5. SB 260 proposes to extend the sunset date for 20-9-310, MCA, to continue the distribution of ONGPTR as described in assumption #3 until June 30, 2024, with the following exceptions:
 - a. Only, up to 50% of the excess ONGPTR would be distributed as described in assumption #3.
 - b. Assumption 3e is amended to direct all remaining funds to school districts that are directly impacted by oil and natural gas development, but that receive insufficient oil and natural gas revenues to address the oil and natural gas development impacts. The OPI is to collaborate with all public school districts to develop administrative rules to establish a process, criteria and a mechanism for distribution under this subsection using the negotiated rulemaking process set forth in the Montana Negotiated Rulemaking Act, Title 2, chapter 5, part 1.
6. As proposed in SB 260, up to 50% of the funds available for distribution will be allocated through the concentric circles. The remaining funds (50% or more) will be distributed to school districts through a process developed by OPI in collaboration with all public school districts. This distribution would not begin until the latter half of FY 2017.
7. Under current law, effective July 1, 2016, the Office of Public Instruction must distribute any amount of ONGPTR exceeding the limitation in 20-9-310(1) as follows: 70% to the guarantee account, 5% to the state school oil and natural gas impact account, and 25% to the county school oil and natural gas impact account. SB 260 eliminates any future allocations of oil and natural gas production taxes to these three accounts.
8. SSR guarantee account revenues are designated as the first source of funding for K-12 BASE aid. A reduction to guarantee account revenue must be offset by an increase to state general fund expenditures to cover the costs of K-12 BASE aid.
9. In February 2014, the OPI awarded nine grants of up to \$75,000 to school districts from the \$450,000 available in the state school oil and natural gas impact account. SB 260 eliminates the distribution of revenue to this account. With passage of SB 260, there would be no future funding for this grant program.

10. To date, the legislature has not appropriated any monies for distribution from the county school oil and natural gas impact account. There is an account balance in that fund, but with passage of SB 260, there would be no future deposits to this account.

11. The following table shows the estimated decreases in funding to the SSR guarantee account; SSR state school oil and gas impact account; and the SSR county school oil and gas impact fund proposed by SB 260:

Fund	FY 2017	FY 2018	FY 2019
State School O&G Impact (5%)	(\$ 398,665)	(\$ 396,317)	(\$ 414,043)
County School O&G Impact (25%)	(\$1,993,318)	(\$1,981,577)	(\$2,070,209)
Guarantee Account (70%)	(\$5,581,291)	(5,548,417)	(\$5,796,585)
TOTAL	(\$7,973,274)	(\$7,926,311)	(\$8,280,837)

12. The following table shows the estimate of redirected funds for distribution to the SSR state school oil and gas distribution account to be distributed for the “concentric circles” and the amount of funding that the OPI would distribute though the new rules set forth for discretionary distribution proposed by SB 260:

Funding	FY 2017	FY 2018	FY 2019
State School O&G Distribution Acct (50%)	\$3,986,637	\$3,963,156	\$4,140,419
OPI discretionary distribution (50%)	\$3,986,637	\$3,963,156	\$4,140,419
TOTAL	\$7,973,274	\$7,926,311	\$8,280,837

13. The ONGPTR are projected to fluctuate over the next two biennia. The following table shows the growth factors for FY 2016 through FY 2019.

FY 2016	FY 2017	FY 2018	FY 2019
-4.8%	2.3%	-0.6%	4.5%

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Operating Expenses	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$0	\$0	\$0	\$0

<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$5,581,291	\$5,548,417	\$5,796,585
Guarantee Account (02)	\$0	\$0	\$0	\$0
State Schl O&G Impact (02)	\$0	\$0	\$0	\$0
County School O&G Impact (02)	\$0	\$0	\$0	\$0
State Schl O&G Distrib Acct (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$5,581,291	\$5,548,417	\$5,796,585

<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Guarantee Account (02)	\$0	(\$5,581,291)	(\$5,548,417)	(\$5,796,585)
State Schl O&G Impact (02)	\$0	(\$398,665)	(\$396,317)	(\$414,043)
County School O&G Impact (02)	\$0	(\$1,993,318)	(\$1,981,577)	(\$2,070,209)
State Schl O&G Distrib Acct (02)	\$0	\$7,973,274	\$7,926,311	\$8,280,837
TOTAL Revenues	\$0	\$0	\$0	\$0

<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$5,581,291)	(\$5,548,417)	(\$5,796,585)
Guarantee Account (02)	\$0	(\$5,581,291)	(\$5,548,417)	(\$5,796,585)
State Schl O&G Impact (02)	\$0	(\$398,665)	(\$396,317)	(\$414,043)
County School O&G Impact (02)	\$0	(\$1,993,318)	(\$1,981,577)	(\$2,070,209)
State Schl O&G Distrib Acct (02)	\$0	\$7,973,274	\$7,926,311	\$8,280,837

Effect on County or Other Local Revenues or Expenditures:

1. School districts and counties will no longer have an opportunity to apply for grants through the state and county school oil and natural gas impact accounts.

Technical Notes:

1. Effective July 1, 2016, the revenue source to the SSR state school oil and natural gas impact account is eliminated. With no revenue source, the fund has no purpose and 20-9-517, MCA, could be repealed, effective July 1, 2016.
2. SB 260 amends 20-9-518, MCA, to direct only counties have previously received an allocation from the SSR county school oil and natural gas impact fund shall maintain a county school oil and natural gas impact fund. The county oil and natural gas impact fund has never been appropriated. Therefore, no county has previously received an allocation pursuant to 20-9-518, MCA, thus this section of statute could be repealed.

3. No appropriation has been identified for the SSR state school oil and natural gas distribution account as defined in 20-9-520, MCA.
4. Section 3 of SB 260, in 20-9-310 (effective July 1, 2016), subsection (4)(a) says the OPI shall distribute “up to 50%” of any amount of ONGPTR. This leaves to the discretion of OPI the amount distributed through the various mechanisms described in 20-9-310, MCA, rather than definitive direction. SB 260 provides broad authority to the OPI to distribute monies to school districts under 20-9-310(4)(b) effective July 1, 2016.

Sponsor’s Initials

Date

Budget Director’s Initials

Date