GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

# Fiscal Note 2021 Biennium

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| **Bill #** | HB0656 | **Title:** | Generally revise oil and gas tax and distribution laws |
| **Primary Sponsor:** | Krautter, Joel G | **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 2020 Difference | FY 2021 Difference | FY 2022 Difference | FY 2023 Difference |
|---|---|---|---|---|
| **Expenditures:** | | | | |
| General Fund | $0 | $0 | $0 | $0 |
| **Revenue:** | | | | |
| General Fund | $0 | $0 | $0 | $0 |
| **Net Impact-General Fund Balance:** | $0 | $0 | $0 | $0 |

**Description of fiscal impact:** HB 656 has no fiscal impact to the state. The bill sets the total of the Board of Oil and Gas Conservation (BOGC) privilege and license tax and the tax for the oil and gas natural resource account at 0.3% of the gross value of oil and gas production in Montana. Currently, the privilege and license tax is at its maximum rate of 0.3%. If the BOGC chooses to lower this rate at some point in the future, there would be impacts to the BOGC and the oil and gas natural resource account.

## FISCAL ANALYSIS

**Assumptions:**

**Department of Revenue**

1. HB 656 changes oil and gas tax code so that there is always a 0.3% additional tax on the gross value of Montana oil and gas production.
2. Revenue from the 0.3% tax is primarily used to fund BOGC expenses via the BOGC's privilege and license tax. The oil and gas natural resource account can receive up to 0.08% of the total tax revenue if the BOGC chooses to set a rate for the privilege and license tax below 0.3%.
3. Any excess funds remaining if the total of the privilege and license tax and the tax for the oil and gas natural resource account is less than 0.3% are reserves for the BOGC and are subject to legislative transfer.
4. Currently there is a formula to determine funds available for the oil and gas natural resource account based on the revenue that the BOGC requires to fund its operations. The cap of this formula is a combined 0.3%.

5. The BOGC already uses the maximum allowable 0.3% for its privilege and license tax, leaving no distribution for the oil and gas natural resource account.
6. The BOGC will need to lower the current rate of its privilege and license tax before any funding will be available to the oil and gas natural resource account.
7. Based on current projections of production and price for oil and gas, the BOGC estimates that it will be able to lower its privilege and license tax rate below 0.3% sometime in the future.
8. Costs associated with changes in distributions are minimal and will be absorbed by the department.

**Effect on County or Other Local Revenues or Expenditures:**

**Montana League of Cities and Towns**

1. In 2016, the BOGC amended the privilege and license tax rate to the maximum 0.3% (per 82-11-131, MCA), reducing the flow to the oil and gas natural resource account to zero. Since that time, cities and towns in Montana have received no funds from the oil and gas natural resource account.
2. This bill provides the BOGC with the authority to set a rate of the privilege and license tax at or below 0.3%, whatever is necessary to fund the Board's expenses associated with the administration and enforcement of Montana's oil and gas conservation laws. After the allocation of that amount to the Board, the next 0.08% of the tax collected must be deposited in the oil and gas natural resource account. Any funds remaining after the distribution to the account must remain as reserves for the BOGC or for legislative transfer for purposes related to the impacts of oil and gas production. The funds in the oil and gas natural resource account will continue to be distributed to counties based on oil and gas production, but incorporated cities and towns will receive the entire distribution of funds from the account, instead of the historical 2/3 share.
3. It is unknown what rate the BOGC will set to fund its expenses and restore its reserves. The revenue generated from the 0.3% tax fluctuates based on oil prices and the amount of production. This bill is estimated to eventually restore the total annual distribution of $1-5 million to cities and towns in counties with oil and gas production.

**Technical Notes:**

1. This bill should apply to oil and gas **production** occurring on or after July 1, 2019. The current language will create an inconsistency with production recording and distributions based on accruals.

| JGK | 3/19/19 | TL | 3/19/19 |
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| *Sponsor's Initials* | *Date* | *Budget Director's Initials* | *Date* |