GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill #	HB0661	**Title:**	Revise taxation of stripper oil and gas wells
Primary Sponsor:	Kassmier, Joshua	**Status:**	As Amended in House Committee

☒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 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	($822,617)	($843,225)	($807,495)	($778,531)
State Special Revenue	($89,173)	($91,407)	($87,534)	($84,394)
Net Impact-General Fund Balance:	($822,617)	($843,225)	($807,495)	($778,531)

Description of fiscal impact: HB 661, as once amended, changes definitions relating to stripper oil and lowers stripper oil tax rates. The amendment eliminates tax schedule changes for natural gas stripper well production that were present in the first version of the bill. Provisions of the amended bill include lower tax rates on stripper oil production, a change of the index for the trigger price on secondary recovery oil production from West Texas Intermediate (WTI) to average price received, and an increase in the trigger price on stripper oil incentive production from $54 to $59 per barrel.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. There are currently two different classes of stripper well oil production: stripper well oil production which applies to an average of 15 barrels per day or less in the prior year and stripper well exemption production which applies to an average of three barrels per day or less in the prior year. This second class will be referred to as super stripper wells for this fiscal note.
2. Currently, stripper well oil production only receives a preferential tax rate if the average quarterly WTI price per barrel of oil is less than $30. When this occurs, the tax rate is 5.5% on the first 10 barrels produced per

day. Barrels 11-15 are taxed at the regular 9% rate. Super stripper oil production always receives a preferential rate of 6%. If the average price received per barrel is less than $54, the tax rate is 0.5%.

3. The trigger price that determines whether stripper well oil production is taxed at regular stripper well rates or super stripper well rates is raised from $54 to $59 per barrel.
4. When the oil price received by a producer is greater than or equal to $59 per barrel, stripper well production of 1-10 barrels per day is assessed a 5% rate (a 0.5% reduction compared to current law) and stripper well production of 11-15 barrels per day is assessed an 8% rate (a 1% reduction compared to current law).
5. If the oil price falls below $59 per barrel, super stripper well tax rates are applied to qualifying production. Wells producing 3 barrels per day or less are taxed at 0.5% while wells producing more than 3 barrels per day are subject to a 5% tax rate.
6. Oil price assumptions associated with HJ 2 oil and gas production tax revenue show Montana prices below $59 for all years.
7. Current law stripper tax rate incentives took effect in the second quarter of calendar year (CY) 2020 when the price of WTI averaged less than $30 per barrel for the quarter. Stripper well estimates are based on this quarter.
8. Stripper wells accounted for 4.54% of total oil production for this quarter. This percentage is applied to HJ 2 forecasted oil production to estimate stripper oil production.
9. There are different base tax rates for pre-1999 oil wells and post-1999 oil wells, but these wells are treated the same when qualifying as stripper oil wells.
10. Pre-1999 oil wells were 55.47% of stripper oil production in this quarter and post-1999 wells were 44.53% of production.
11. Production and taxes (in millions) associated with stripper wells are detailed in the table below. Oil price projections in HJ 2 show that WTI is not expected to drop below $30 per barrel over the forecast period. Therefore, under current law there will not be any qualifying stripper oil production and associated reduced tax rates. Output from wells producing 3-15 barrels per day will be taxed at 9% for post-1999 wells and 12.5% for pre-1999 wells under current law. The proposed law tax rate for this same production is 5% (the 8% tax rate for production of 11-15 barrels per day does not apply because oil prices are projected to remain under $59 per barrel in the HJ 2 revenue forecast).

Calendar Year	Stripper Barrels	Gross Stripper Revenue	HB 661 Stripper Tax	Current Stripper Tax	Change in Tax
2021	0.717	$29.040	$1.452	$3.177	$(1.725)
2022	0.664	$31.816	$1.591	$3.481	$(1.890)
2023	0.619	$30.565	$1.528	$3.344	$(1.816)
2024	0.578	$29.173	$1.459	$3.192	$(1.733)
2025	0.540	$28.422	$1.421	$3.110	$(1.689)

12. Since the bill only changes tax rates affecting super stripper oil wells if average quarterly price is above $59 per barrel and the price assumptions of HJ 2 are below $59 per barrel, there is no fiscal impact to the change in the super stripper tax rate.
13. HB 661 also replaces references to WTI price trigger determinations for secondary oil production with references to average price received by the producer. There is no current or forecasted secondary oil production, so this change has no fiscal effect.
14. Calendar years are converted to fiscal years by taking half the calendar year matching the fiscal year and adding half the calendar year preceding the fiscal year.
15. Total state and local oil production tax revenue declines by $1.753 million in FY 2022, $1.797 million in FY 2023, $1.721 million in FY 2024, and $1.659 million in FY 2025.
16. Oil and gas revenue is appropriated to counties based on the relative mill split when oil and gas production tax moved from a property tax to a flat value tax.

17. Local governments received 48.0% of oil and gas revenues in FY 2020. This is the basis for the split used in this fiscal note.
18. Revenue changes by account type and fiscal year are listed in the table below.

Fund	2022	2023	2024	2025
Local Governments	$ (841,555)	$ (862,638)	$ (826,085)	$ (796,454)
Natural Resource Projects	$ (19,695)	$ (20,188)	$ (19,333)	$ (18,639)
Natural Resource Operations	$ (18,418)	$ (18,880)	$ (18,080)	$ (17,431)
Orphan Share Fund	$ (26,898)	$ (27,572)	$ (26,403)	$ (25,456)
University System	$ (24,162)	$ (24,768)	$ (23,718)	$ (22,868)
General Fund	$ (822,617)	$ (843,225)	$ (807,495)	$ (778,531)
Total	$ (1,753,345)	$ (1,797,270)	$ (1,721,113)	$ (1,659,379)

19. Costs associated with implementation are minimal and will be absorbed by the department.

	FY 2022 Difference	**FY 2023 Difference**	**FY 2024 Difference**	**FY 2025 Difference**
Fiscal Impact:				
FTE	0.00	0.00	0.00	0.00
Expenditures:				
Personal Services	$0	$0	$0	$0
Operating Expenses	$0	$0	$0	$0
TOTAL Expenditures	$0	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$0	$0	$0	$0
Revenues:				
General Fund (01)	($822,617)	($843,225)	($807,495)	($778,531)
State Special Revenue (02)	($89,173)	($91,407)	($87,534)	($84,394)
TOTAL Revenues	($911,790)	($934,632)	($895,029)	($862,925)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($822,617)	($843,225)	($807,495)	($778,531)
State Special Revenue (02)	($89,173)	($91,407)	($87,534)	($84,394)

Effect on County or Other Local Revenues or Expenditures:

1. The department shares approximately half of oil and gas revenues with counties. The local government impact is shown in the table in the body of the fiscal note and is approximately $800,000 less per year.

SK	4-6-21	KA	4-5-21
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*