



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

HB0485 - Revise tax rates for stripper oil production (Kassmier, Joshua )

**Status:** As Introduced

- |  |  |  |
|--|--|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2  | <input type="checkbox"/> Technical Concerns              |
| <input type="checkbox"/> Included in the Executive Budget        | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$374,000)	(\$736,000)	(\$744,000)	(\$853,000)
State Special Revenue	(\$67,000)	(\$131,000)	(\$132,000)	(\$152,000)
<b>Net Impact-General Fund Balance:</b>	(\$374,000)	(\$736,000)	(\$744,000)	(\$853,000)

**Description of fiscal impact:** HB 485 eliminates the \$30 per barrel price trigger that allows wells with output between 3 and 15 barrels per day and drilled on or after January 1, 1999, to qualify as stripper wells. All post-1999 wells that produce less than 15 barrels per day will be taxed at the stripper well rate of 5.8% on the first ten barrels of oil, regardless of the oil price. The bill also lowers tax rates on two other types of stripper wells – from 9.5% to 9.3% for pre-1999 stripper wells and from 6.3% to 5.3% for post-1999 stripper well bonus production. These reduced tax rates will decrease oil tax revenue distributed to local governments, state special revenue accounts, and the general fund.

### FISCAL ANALYSIS

**Assumptions:**

**Department of Revenue**

1. HB 485 does three things: it qualifies all post-1999 wells that produce less than 15 barrels per day as stripper wells, lowers the tax rate for post-1999 stripper well bonus production (also referred to as production from super-stripper wells), and lowers the tax rate for pre-1999 stripper wells.
2. All tax rates referenced in this analysis include the Montana Board of Oil and Gas (BOGC) privilege and license tax of 0.3%.

3. The sections of the bill containing the tax reduction provisions are effective January 1, 2024; therefore, the estimated fiscal impact in FY 2024 is only for half of the fiscal year.
4. Currently, post-1999 wells that produce less than 15 barrels per day only qualify as stripper wells if the average price received by the producer is less than \$30 per barrel. This bill eliminates that price trigger. Because prices rarely drop below that threshold, these wells are most often taxed at the normal post-1999 well rate of 9.3%. Removing the price trigger would drop the tax rate for all these wells to the post-1999 stripper well rate of 5.8% on the first 10 barrels per day of production.
5. Because post-1999 wells that produce less than 15 barrels per day are frequently taxed and coded as regular post-1999 wells, it is difficult to determine the taxable value of their production from recent tax filings. The only time prices have been below \$30 per barrel recently was the second quarter of calendar year 2020. Tax filings from this quarter, which separate stripper wells from other types, show that about 4% of total taxable working interest value of post-1999 oil production came from stripper wells. Applying this ratio to post-1999 total taxable working interest oil value for FY 2022 produces an estimate of post-1999 stripper well working interest value equal to \$43,002,341. Assuming a relatively stable oil price, HJ 2 growth rates of overall oil production for FY 2023 – FY 2027 were applied to the post-1999 stripper well working interest value for FY 2022 to project the fiscal impact of removing the \$30 per barrel price trigger for post-1999 stripper wells through FY 2027. Table 1 summarizes the estimated fiscal impact.

Table 1.

FY	HJ 2 Oil Production Growth Rate	Post-1999 Stripper Well Working Interest Value	Post-1999 Stripper Well Tax Revenue Present Law (9.3%)	Post-1999 Stripper Well Tax Revenue HB 485 (5.8%)	Fiscal Impact
2022		\$43,002,341			
2023	10.8%	\$47,657,489			
2024	-9.9%	\$42,952,979	\$3,994,627	\$3,242,950	(\$751,677)
2025	-1.7%	\$42,239,537	\$3,928,277	\$2,449,893	(\$1,478,384)
2026	1.0%	\$42,681,718	\$3,969,400	\$2,475,540	(\$1,493,860)
2027	14.7%	\$48,970,330	\$4,554,241	\$2,840,279	(\$1,713,962)

6. HB 485 also lowers the tax rate for post-1999 super-stripper wells (wells that produce less than three barrels per day) from 6.3% to 5.3% when the oil price received by the producer is greater than \$54 per barrel. In FY 2022, the working interest value of oil from these wells was \$10,573,727. Assuming a relatively stable oil price, HJ 2 growth rates of overall oil production for FY 2023 – FY 2027 were applied to the post-1999 super-stripper well working interest value for FY 2022 to project the working interest value through FY 2027. Table 2 summarizes the estimated fiscal impact of lowering the post-1999 super-stripper oil tax rate.

Table 2.

FY	HJ 2 Oil Production Growth Rate	Post-1999 Super-stripper Working Interest Value	Post-1999 Super-stripper Well Tax Revenue, Present Law (6.3%)	Post-1999 Super-stripper Well Tax Revenue, HB 485 (5.3%)	Fiscal Impact
2022		\$10,573,727			
2023	10.8%	\$11,718,368			
2024	-9.9%	\$10,561,590	\$665,380	\$612,572	(\$52,808)
2025	-1.7%	\$10,386,163	\$654,328	\$550,467	(\$103,862)
2026	1.0%	\$10,494,890	\$661,178	\$556,229	(\$104,949)
2027	14.7%	\$12,041,179	\$758,594	\$638,183	(\$120,412)

- Finally, HB 485 lowers the tax rate on pre-1999 stripper wells from 9.5% to 9.3%. In FY 2022, the working interest value of these wells was \$19,125,608. Assuming a relatively stable oil price, HJ 2 growth rates of overall oil production for FY 2023 – FY 2027 were applied to the pre-1999 stripper well working interest value for FY 2022 to project the working interest value through FY 2027. Table 3 summarized the estimated revenue impact of the lower tax rate assessed on the working interest value of oil production from pre-1999 stripper wells.

Table 3.

FY	HJ 2 Oil Production Growth Rate	Pre-1999 Stripper Well Working Interest Value	Pre-1999 Stripper Well Tax Revenue Present Law (9.5%)	Pre-1999 Stripper Well Tax Revenue HB 485 (9.3%)	Fiscal Impact
2022		\$19,125,608			
2023	10.8%	\$21,196,019			
2024	-9.9%	\$19,103,654	\$1,814,847	\$1,795,743	(\$19,104)
2025	-1.7%	\$18,786,346	\$1,784,703	\$1,747,130	(\$37,573)
2026	1.0%	\$18,983,008	\$1,803,386	\$1,765,420	(\$37,966)
2027	14.7%	\$21,779,915	\$2,069,092	\$2,025,532	(\$43,560)

- Table 4 contains the total estimated fiscal impact of HB 485 for the period FY 2024 – FY 2027, showing the estimated revenue under present law and HB 485, and the difference for all oil wells affected by this bill.

Table 4.

FY	HJ 2 Oil Production Growth Rate	Total Working Interest Value of Affected Wells	Total Tax Revenue of Affected Wells, Present Law	Total Tax Revenue of Affected Wells, HB 485	Total Fiscal Impact
2022		\$72,701,676			
2023	10.8%	\$80,571,876			
2024	-9.9%	\$72,618,223	\$6,474,854	\$5,651,266	(\$823,589)
2025	-1.7%	\$71,412,046	\$6,367,308	\$4,747,490	(\$1,619,818)
2026	1.0%	\$72,159,616	\$6,433,964	\$4,797,189	(\$1,636,775)
2027	14.7%	\$82,791,424	\$7,381,927	\$5,503,994	(\$1,877,933)

- Oil and gas revenue is distributed between local governments, state special revenue accounts, and the general fund. In FY 2022, about 3.15% of total oil and gas tax revenue was distributed to the Board of Oil and Gas Conservation and the Oil and Natural Gas Distribution Account. The remainder is split between state and local governments at the relative millage rates when the legislature changed oil and gas taxes from an ad valorem property tax to a flat tax rate. In FY 2022, this equated to a 48% distribution to local governments and 52% to the state. Table 5 contains the distribution impacts for FY 2024 – FY 2027 from the reduction in oil tax revenue resulting from the provisions of HB 485.
- Changes to forms and processes are expected to be minimal and will be absorbed by the Department of Revenue.

Table 5.

<b>Fund</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Total Revenue Impact of HB 485</b>	<b>(\$823,589)</b>	<b>(\$1,619,818)</b>	<b>(\$1,636,775)</b>	<b>(\$1,877,933)</b>
BOGC/Oil and Gas Natural Resource Account (3.15%)	(\$25,943)	(\$51,024)	(\$51,558)	(\$59,155)
<b>Remainder</b>	<b>(\$797,645)</b>	<b>(\$1,568,793)</b>	<b>(\$1,585,217)</b>	<b>(\$1,818,778)</b>
<b>Local Governments (48%)</b>	<b>(\$382,870)</b>	<b>(\$753,021)</b>	<b>(\$760,904)</b>	<b>(\$873,013)</b>
<b>State Revenue (52%)</b>	<b>(\$414,776)</b>	<b>(\$815,773)</b>	<b>(\$824,313)</b>	<b>(\$945,765)</b>
<i>Natural Resources Projects (2.16%)</i>	(\$8,959)	(\$17,621)	(\$17,805)	(\$20,429)
<i>Natural Resources Operations (2.02%)</i>	(\$8,378)	(\$16,479)	(\$16,651)	(\$19,104)
<i>Orphan Share Fund (2.95%)</i>	(\$12,236)	(\$24,065)	(\$24,317)	(\$27,900)
<i>Montana University System (2.65%)</i>	(\$10,992)	(\$21,618)	(\$21,844)	(\$25,063)
<i>General Fund (remainder)</i>	(\$374,211)	(\$735,990)	(\$743,695)	(\$853,269)

	<b><u>FY 2024</u></b>	<b><u>FY 2025</u></b>	<b><u>FY 2026</u></b>	<b><u>FY 2027</u></b>
<b><u>Fiscal Impact:</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>
<b><u>Expenditures:</u></b>				
Personal Services	\$0	\$0	\$0	\$0
Operating Expenses	\$0	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>



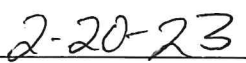
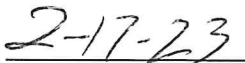
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b><u>Revenues:</u></b>				
General Fund (01)	(\$374,000)	(\$736,000)	(\$744,000)	(\$853,000)
State Special Revenue (02)	(\$67,000)	(\$131,000)	(\$132,000)	(\$152,000)
<b>TOTAL Revenues</b>	<b>(\$441,000)</b>	<b>(\$867,000)</b>	<b>(\$876,000)</b>	<b>(\$1,005,000)</b>

<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$374,000)	(\$736,000)	(\$744,000)	(\$853,000)
State Special Revenue (02)	(\$67,000)	(\$131,000)	(\$132,000)	(\$152,000)

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

1. About 48% of oil and gas tax revenue is distributed to counties, mostly in proportion to production location.
2. The decrease in revenue distributed to counties is estimated to be \$383,000 in FY 2024, \$753,000 in FY 2025, \$761,000 in FY 2026, and \$873,000 in FY 2027.

	
Sponsor's Initials	Budget Director's Initials
	
Date	Date