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 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 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	($33,000)	($64,000)	($65,000)	($75,000)
State Special Revenue	($6,000)	($11,000)	($12,000)	($13,000)
Net Impact-General Fund Balance:	($33,000)	($64,000)	($65,000)	($75,000)

Description of fiscal impact: HB 485, as amended, lowers tax rates on three types of stripper wells – from 5.8% to 5.3% for the first ten barrels per day of post-1999 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. The amendment reinstates a $30 per barrel price trigger for post-1999 wells with output between 3 and 15 barrels per day to qualify as stripper wells. 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 reduces tax rates on post-1999 stripper wells, pre-1999 stripper wells, and post-1999 stripper well bonus production.
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 between 3 and 15 barrels per day only qualify as stripper wells if the average price received by the producer is less than $30 per barrel. The introduced version of HB 485 eliminated the $30 price trigger, but that change has been revoked in the amended bill. 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 have dropped the tax rate for all these wells to the new post-1999 stripper well rate of 5.3% on the first 10 barrels per day of production. Prices are not projected to drop below $30 per barrel over the next two biennia, so lowering the post-1999 stripper well tax rate has no fiscal impact.
5. HB 485 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 1 summarizes the estimated fiscal impact of lowering the post-1999 super-stripper oil tax rate.

Table 1.

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)

6. 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 2 summarizes the estimated revenue impact of the lower tax rate assessed on the working interest value of oil production from pre-1999 stripper wells.

Table 2.

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)

7. Table 3 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 3.

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 Difference
2022		$29,699,335			
2023	10.8%	$32,914,388			
2024	-9.9%	$29,665,244	$2,480,227	$2,408,316	($71,912)
2025	-1.7%	$29,172,509	$2,439,031	$2,297,597	($141,434)
2026	1.0%	$29,477,898	$2,464,564	$2,321,649	($142,915)
2027	14.7%	$33,821,095	$2,827,686	$2,663,715	($163,972)

8. 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 4 contains the distribution impacts for FY 2024 – FY 2027 from the reduction in oil tax revenue resulting from the provisions of HB 485.
9. Changes to forms and processes are expected to be minimal and will be absorbed by the Department of Revenue.

Table 4.

Fund	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
Total Revenue Impact	($71,912)	($141,434)	($142,915)	($163,972)
BOGC/Oil and Gas Natural Resource Account (3.15%)	($2,265)	($4,455)	($4,502)	($5,165)
Remainder	($69,646)	($136,979)	($138,413)	($158,807)
Local Governments (48%)	($33,430)	($65,750)	($66,438)	($76,227)
State Revenue (52%)	($36,216)	($71,229)	($71,975)	($82,579)
Natural Resources Projects (2.16%)	($782)	($1,539)	($1,555)	($1,784)
Natural Resources Operations (2.02%)	($732)	($1,439)	($1,454)	($1,668)
Orphan Share Fund (2.95%)	($1,068)	($2,101)	($2,123)	($2,436)
Montana University System (2.65%)	($960)	($1,888)	($1,907)	($2,188)
General Fund (remainder)	($32,674)	($64,263)	($64,936)	($74,503)

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Fiscal Impact:				
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)	($33,000)	($64,000)	($65,000)	($75,000)
State Special Revenue (02)	($6,000)	($11,000)	($12,000)	($13,000)
TOTAL Revenues	($39,000)	($75,000)	($77,000)	($88,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($33,000)	($64,000)	($65,000)	($75,000)
State Special Revenue (02)	($6,000)	($11,000)	($12,000)	($13,000)

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 $33,000 in FY 2024, $66,000 in FY 2025, $66,000 in FY 2026, and $76,000 in FY 2027.

Technical Notes:

1. The amendment changes the wording of the post-1999 stripper well tax rate in 15-36-304, MCA from "first 1 through 10 barrels a day production" to "3 through 10 barrels a day production". The intent seems to be to differentiate between stripper wells, which produce between 3 and 15 barrels of oil per day and are taxed on the first 10, and super-stripper wells, which produce 3 barrels per day or less. However, these wells are already defined and differentiated in the code preceding the listing of tax rates, and the new wording may be misinterpreted as only taxing barrels 3 through 10 when, actually, barrels 1 through 10 are taxed at the listed stripper well rate.

AUTHORIZED BY MEMBER

		[signature]	3-23-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*