



Fiscal Note 2027 Biennium

Bill#/Title: SB0339.01: Revise oil and gas production damage mitigation account

Primary Sponsor: Daniel Zolnikov Status: As Introduced

- Included in the Executive Budget Needs to be included in HB 2 Significant Local Gov Impact
- Significant Long-Term Impacts Technical Concerns Dedicated Revenue Form Attached

FISCAL SUMMARY

| | <u>FY 2026 Difference</u> | <u>FY 2027 Difference</u> | <u>FY 2028 Difference</u> | <u>FY 2029 Difference</u> |
|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Expenditures | | | | |
| General Fund (01) | \$0 | \$0 | \$0 | \$0 |
| Revenues | | | | |
| General Fund (01) | \$0 | \$0 | \$0 | \$0 |
| Net Impact | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| General Fund Balance | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

Description of fiscal impact

SB 339 revises the distribution of oil and natural gas production taxes to allow excess Board of Oil and Gas Conservation (BOGC) privilege and license tax revenues to be deposited into the oil and gas production damage mitigation account instead of the earmarked operations account. Under current law, there is not expected to be any excess privilege and license tax revenue to the BOGC; therefore, there is no fiscal impact to the state.

FISCAL ANALYSIS

Assumptions

Department of Natural Resources and Conservation

1. The tax distribution change in SB 339 has no direct fiscal impact for the oil and gas industry, as producers will continue to pay a 0.30% privilege and license tax set in statute. SB 339 only modifies how excess funds are allocated if the Board lowers the tax rate below 0.22%. The funds generated by this tax, paid by the industry, could then be used to plug and abandon orphan oil and gas wells.
2. The bill's impact is contingent on the Board of Oil and Gas Conservation's ability to lower its privilege and license tax rate below 0.22% through its normal rulemaking process. The timing and extent of any such rate reduction are at the Board's discretion.
3. The department is unable to determine a revenue estimate because:
 - a. the Board's ability to reduce the tax rate is influenced by fluctuating factors such as oil prices and production levels. Higher oil prices and production typically lead to increased tax revenue, potentially creating a surplus that could be redirected. Conversely, lower prices and production could limit the Board's ability to lower the tax rate.
 - b. There is an inherent delay between oil and gas production, tax collection, and the availability of funds for appropriation. If the Board decided it could adjust the tax rate lower following the bill's effective

date, any increase in funding for the damage mitigation account likely would not materialize until FY 2027 at the earliest.


- 4. The funds in the oil and gas production damage mitigation account are statutorily appropriated upon Board authorization to plug and abandon orphan and pre-regulatory wells and restore well sites.
- 5. Any rulemaking costs associated with the implementation of this bill will be minimal.

Department of Revenue

- 6. Under current law, any funds remaining after the allocations of the privilege and license tax for Board expenses and distribution to the oil and gas natural resource account (15-36-331 2(a)-(b), MCA) must remain in the Board's expense account (82-11-135, MCA) as reserves or for legislative transfer for purposes related to the impacts of oil and gas production.
- 7. Under SB 339, those remaining funds are to be deposited into the oil and gas damage mitigation account unless the unobligated cash balance in the oil and gas production damage mitigation account equals or exceeds \$10 million.
- 8. The Board is currently utilizing the full 0.3% for operations (0.22% to the expense account and 0.08% to the oil and gas natural resource distribution account), so SB 339 is not projected to have a fiscal impact to the state.
- 9. Currently, there is a \$1 million cap that dictates the amount of incoming funds to the oil and gas production damage mitigation account from resource indemnity trust fund interest earnings. If the account balance is \$1 million or more at the beginning of a biennium, then it does not receive a distribution from the interest income generated by the resource indemnity trust fund.
- 10. Forecasts contained in the HJ 2 revenue estimate anticipate the oil and gas production damage mitigation account will not be at its cap and will receive distributions in FY 2026 and FY 2028.
- 11. The provisions of SB 339 have the potential to affect how resource indemnity trust interest earnings are distributed among the various recipients. If the Board is able lower its privilege and license tax to allow excess revenue to flow to the oil and gas production damage mitigation account, then the account balance will very likely move above \$1 million, thus cutting off its allocation of resource indemnity trust interest revenue. The amount of interest earnings that are not distributed to the oil and gas production damage mitigation account will instead be spread across the other recipients in a pro-rated fashion. The beneficiaries would be the environmental contingency account, the water storage account, the natural resource projects account, the groundwater assessment account, and the future fisheries account – all within the state special revenue fund.
- 12. As the Board's situation stands (full use of the 0.3%), SB 339 will have no effect on interest earnings deposited into the oil and gas production damage mitigation account.



 Sponsor's Initials



 Date



 Budget Director's Initials



 Date

