

FISCAL NOTE
Requested by Legislative Council
02/14/2013

Amendment to: SB 2336

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$4,200,000	\$35,200,000		
Expenditures						
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2336 makes several changes to the oil extraction tax and authorizes income tax withholding on oil royalty payments to nonresidents.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 2 of engrossed SB 2336 authorizes income tax withholding on oil royalty payments of nonresidents. Section 3 expands the stripper designation to more Bakken and Three Forks wells by allowing the stripper exemption for wells producing 40 barrels of oil per day (BOPD), up from the existing 30 BOPD. Section 5 lowers the oil extraction tax rate by 2% effective on new production after January 1, 2017 or when average daily production reaches 1 million BOPD. Section 6 closes a loophole for higher producing wells drilled in stripper properties in the Bakken and Three Forks formations by requiring that each well meet the stripper production requirements before it receives the stripper exemption. It also requires annual recertification of stripper wells drilled from FY 2012 onward. Section 7 creates an incentive for new wells drilled outside the Bakken and Three Forks formations.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, engrossed SB 2336 is expected to increase state general fund revenues by an estimated \$4.2 million in the 2013-15 biennium, due to a speed-up of income tax collections from the withholding on royalty payment provisions. The provisions expanding the stripper exemption for Bakken and Three Forks wells to 40 BOPD is expected to reduce oil extraction tax revenues by an estimated \$13.6 million in the 2013-15 biennium. The closing of the stripper property loophole for new wells in the Bakken and Three Forks formations is expected to increase oil extraction tax revenues by an estimated \$84.2 million in the 2013-15 biennium. The incentive for new wells drilled outside the Bakken and Three Forks formations is expected to reduce oil extraction tax revenues by an estimated \$35.4 million in the 2013-15 biennium. The net impact of these changes is an expected increase in oil extraction tax revenues totaling +\$35.2 million in the 2013-15 biennium. This will result in expected increased revenues in the legacy, resources trust, foundation aid stabilization, common schools trust, and strategic investment and

improvements funds. Two other provisions of engrossed SB 2336 take place in the 2015-17 biennium: a removal of the low-price triggered incentives and a permanent lowering the the oil extraction tax rate from 6.5% to 4.5% on production from wells drilled on and after January 1, 2017, or when average daily production reaches 1 million barrels per day. This is not forecasted to occur until the 2015-17 biennium.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*
- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

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