19.0560.02000

FISCAL NOTE
Requested by Legislative Council
12/21/2018

Revised
Bill/Resolution No.: HB 1066

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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			$100,000,000	$(83,500,000)		
Expenditures			$35,000			
Appropriations			$35,000			

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties		$(9,300,000)	
Cities		$1,300,000	
School Districts		$2,400,000	
Townships		$(10,900,000)	

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).*

House Bill 1066 amends multiple sections of the oil and gas gross production tax distribution formula, including how several political subdivision amounts are calculated. It also creates a few new state funds and modifies the order in which state funds will be filled.

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 1 of HB 1066 creates an airport infrastructure fund that is to receive $50M in allocations as spelled out in Section 5 of this bill. It is to be used to provide grants to airports for infrastructure projects.

Section 2 amends the definition of hub cities to require that it be located in an oil and gas producing county. Based on current statistics, this would not change the cities currently being defined as hub cities.

Section 3 amends NDCC 57-51-15 in a number of ways:
• Removes all political subdivision funding currently under the 1/5th side of the formula (hub cities, hub city schools, additional schools in oil-producing counties) and adds them to the 4/5th side of the formula which currently contains the remainder of the political subdivision funding.
• Removes the allocation of $5 million per biennium to the oil and gas impact grant fund.
• Removes the allocation of $4 million per biennium to the energy impact grant fund.
• Adds separate funding allocations to the 4/5th side of the formula for pools to be set up for allocating set dollar amounts to hub cities, hub city schools, and additional school districts in oil-producing counties. These pools are to be funded by taking 30% of the required amounts from the allocations to the “over $5 million counties” and the remaining 70% from the state share.
• Creates a new formula for determining the split of hub city and hub city school allocation among the qualifying hub cities and hub city schools.
• Adjusts certain allocation of funds within the “over $5 million counties”. Specifically, reduces the percentage going to townships from a total of 6% down to 4%. Also adds a separate allocation for hub city schools totaling 2%.
The net effect of these changes is a ($9.3M) reduction to county allocations, a $1.3M increase to city allocations, a $2.4M increase to school allocations, a ($10.9M) reduction in township allocations, and a ($9M) reduction in special fund allocations.

Section 4 makes technical changes to NDCC 57-51.1-07.3 to clarify the allocation of state oil and gas tax revenues.

Section 5 modifies how the state share of oil and gas taxes are allocated by amending NDCC 57-51.1-07.5. This section makes the following changes:
• Increases the second general fund bucket from $100 million to $200 million.
• Eliminates the bucket that was previously split between the lignite research fund and the strategic investment and improvements fund (SIIF) and replaces it with a $10 million bucket that goes solely into the lignite research fund.
• Adds two new infrastructure funds that are to fill concurrently totaling $230 million. The municipal infrastructure fund and the county and township infrastructure fund are both set up to receive $115 million.
• Adds a $50 million bucket for a new airport infrastructure fund.
The net effect of these changes is a $100 million increase in general funds and a ($74,500,000) reduction in special funds (lignite research: $7M; municipal infrastructure: $115M; county and township infrastructure: $115M; airport infrastructure: $50M; SIIF: ($361.5M))

Section 6 creates the municipal infrastructure fund that is to receive $115M in allocations as specified in Section 5. This fund is to receive these funds and then distribute them out as grants to cities in non-oil-producing counties for essential infrastructure projects.

Section 7 creates the county and township infrastructure fund that is to receive $115M in allocations as specified in Section 5. This fund is to receive these funds and then distribute them out as grants to non-oil-producing counties and townships for road and bridge infrastructure projects.

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.*

The impacts included in this fiscal note are based on a number of assumptions. The amounts were calculated based on the Legislature's January 2019 forecast for oil and gas tax revenues for the 2019-2021 biennium. These total revenue amounts were then assumed to have been sourced to the various counties in the same allocation percentage as we have seen during the current biennium. The resulting amounts were then used to produce allocation estimates comparing current law with the amended law as shown in HB 1066.

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.*

In order to implement a number of these changes, the Office of State Treasurer will incur one-time costs for computer programming, website updating, and report rewriting.

We have consulted with ITD regarding the programming rewrites we would need to make to our Tax Distribution Outstanding Checks (TDOC) system in order to distribute the funds appropriately and they have estimated $15,550 for the project.

This ITD estimate only covers the programming changes for the oil and gas distribution changes, it does not include anything for the report changes or the new distributions called for in Sections 6 & 7 of the bill. Our current estimate is that incorporating these new distributions and making the appropriate online reporting changes would result in additional one-time costs of approximately $20,000.

The total additional one-time costs to the Office of State Treasurer will then be approximately $35,000.

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 or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

The Office of State Treasurer will incur additional one-time costs of approximately $35,000 for computer programming, website updating, and report changes for changing the current oil and gas formula and adding two new distributions along with online reporting requirements. These additional costs were not included in OST's appropriation request for the 2019-2021 biennium.

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