FISCAL NOTE

This bill contains an appropriation of $368,000 from the GENERAL FUND to the Department of Revenue (DOR). This appropriation is effective immediately.

DETAIL OF APPROPRIATION
Agency #: 011 Agency Name: Department of Revenue
Unit: new (Mineral royalties-proportionate severance tax refunds)

EXPENDITURE BY SERIES AND YEAR	**FY 2024**	**FY 2025**	**FY 2026**
0900 Contractual Services Costs	$0	$368,000	$0
Total Expenditure Per Year:	$0	$368,000	$0
Grand Total Expenditure:	$368,000		
Total Appropriated to Agency:	$368,000		
Total Appropriated by Fund:			
GENERAL FUND	$368,000		

Description of appropriation:

The appropriation will be expended on information technology development, programming, and implementation to process the proposed refunds. This will be a one-time expenditure. Future maintenance is covered in a separate contract.

	FY 2025	**FY 2026**	**FY 2027**
NON-ADMINISTRATIVE IMPACT			
Anticipated Revenue increase/(decrease)			
BUDGET RESERVE ACCOUNT (FMRs)	($127,000)	($329,000)	($606,000)
SCHOOL FOUNDATION FUND (FMRs)	($64,000)	($165,000)	($303,000)
BUDGET RESERVE ACCOUNT (severance dist.)	$16,000	$41,000	$75,000
GENERAL FUND (severance dist.)	$8,000	$21,000	$38,000
SCHOOL FOUNDATION FUND (12 mills)	$5,000	$12,000	$22,000
SCHOOL FOUNDATION FUND (31 mills)	$12,000	$31,000	$57,000
AD VALOREM TAX (local taxing entities)	$8,000	$20,000	$37,000
NET REVENUE DECREASE REFUNDED TO PRODUCERS	($142,000)	($369,000)	($680,000)

Source of revenue increase(decrease):

This bill establishes severance tax refunds for specified oil, natural gas and coal severance taxes based on increased federal mineral royalty (FMR) rates. This bill also provides for severance tax and ad valorem tax distributions from FMRs.

The School Foundation Program (SFP) will experience both an entitlement expenditure decrease and recapture revenue increase from the increase in K-12 school district local revenues attributable to the 31 mills. The estimated impact from the revenue increase attributable to the 31 mills is shown as a revenue increase to the SFP.

Beginning in calendar year (CY) 2025, the State Treasurer's Office (STO) would transfer FMR revenues to the Severance Tax distribution Account (STDA) equal to the funds necessary to provide the severance tax refunds authorized, resulting in a revenue decrease to over-the-cap FMR revenues distributed to the SFP and to the Budget Reserve Account (BRA). The FMRs transferred under the proposed W.S. 9-4-601(o)(i), (ii), (iii) and (iv) are described below:

- Paragraph (i) requires a transfer of the funds necessary to provide the severance tax refunds authorized in the proposed W.S. 39-14-109(c)(iv) and 39-14-209(c)(iv), equal to any cumulative increase in the FMR rate percentage in place as of July 1, 2021 imposed under federal law multiplied by the state of Wyoming's gross percentage share (50%) after deducting the mandatory administrative costs imposed. That amount would be multiplied by 75 percent to approximate the reduced assessed mineral values resulting from the increase in the FMR rate percentage. The refund would not exceed the total annual specified severance tax liability.
- Paragraph (ii) requires a transfer of the amount described in paragraph(i) multiplied by 16.67 percent, separately distributed in accordance with the current severance tax distribution described in W.S. 39-14-801(b) through (e). This paragraph approximates the decrease in severance taxes resulting from the increased FMR rate.
- Paragraph (iii) requires the transfer of the amount equal to the reduced ad valorem taxable value resulting from any increase in the FMR rate percentage and the proposed severance tax refunds multiplied by the established mill levies, distributed to county treasurers. This paragraph offsets the decrease in ad valorem taxes resulting from the increased FMR rate.
- Paragraph (iv) requires the DOR to certify to the STO the funds necessary to provide for the severance tax refunds and the distributions described above.

Assumptions:

The increased FMR rate is assumed to be 16.67 percent and would apply to new federal oil and leases.

The estimated revenue changes provided in the table above are based on projected oil and natural gas prices, estimated oil and natural gas production from new federal leases subject to the higher royalty rate of 16.67 percent, and FMR and mineral tax assessment rates projected in the January 2024 Consensus Revenue Estimating Group (CREG) forecast. A severance tax rate of 6 percent and an average mill levy of 63 mills on oil and gas production are assumed. No new federal coal lease sales or increased federal royalty rates on coal are included.

The estimated revenue changes in the table include the total FMR revenue decrease to the BRA and SFP resulting from the transfers of FMRs to the STDA ($191,000 in FY25, $494,000 in FY26 and $909,000 in FY27), the severance tax distribution increase proposed in W.S. 9-4-601(o)(ii) to the BRA and General Fund (GF) ($24,000 in FY25, $62,000 in FY26 and $113,000 in FY27) and the ad valorem tax distribution increase proposed in W.S. 9-4-601(o)(iii) impacting the SFP (12 state mills and 31 K-12 school district mills) and local taxing entities ($25,000 in FY25, $63,000 in FY26 and $116,000 in FY27). The estimated net revenue decrease that will be issued to oil and gas producers in the form of severance tax refunds is $142,000 in FY25, $369,000 in FY26 and 680,000 in FY27.

The estimated revenue changes in the table correspond to the production years subject to the increased FMR rate of 16.67 percent. These amounts would be transferred to the STDA for further distribution in later fiscal years.

It is assumed that the estimated revenue changes presented in the table above would continue to increase in subsequent fiscal years, as new federal oil and natural gas leases are issued at the increased FMR rate of 16.67 percent. It is also assumed that new federal leases for oil and natural gas will continue to be issued at the increased FMR rate of 16.67 percent until all oil and natural gas produced from federal leases are subject to the increased royalty rate. The time frame for replacing all current federal oil and natural gas leases with new federal leases at the increased FMR rate of 16.67 percent is unknown. However, assuming future oil and natural gas production and prices remain at the levels currently forecasted in calendar year 2028 and current oil and natural gas leases are replaced by future leases at the higher royalty rate, total estimated decreases in future FMR revenues to the BRA and SFP could eventually reach approximately $118 million per year, total estimated increases in future severance tax and ad valorem tax distributions could eventually reach $15 million per year, respectively, and the net estimated revenue decrease refunded to oil and gas producers could eventually reach $88 million per year.

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