



LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **HB 420** HLS 08RS 550
 Bill Text Version: **ENROLLED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: June 25, 2008 10:54 AM **Author:** GALLOT
Dept./Agy.: Treasury / Natural Resources **Analyst:** Greg Albrecht
Subject: Increase Parish Severance Tax Allocation

TAX/SEVERANCE TAX EN -\$56,300,000 GF RV See Note Page 1 of 1
 (Constitution Amendment) Increases the general severance tax allocation to parishes

Current law allocates 20% of severance taxes on natural resources other than sulphur, lignite, or timber (primarily oil & natural gas) to the parishes in which production occurs, up to a maximum of \$850,000 per year. This maximum is to be increased each July, beginning in 2008, by an amount equal to the average annual increase in the Consumer Price Index for all urban consumers (as published by the U.S. Department of Labor) for the previous calendar year.

Proposed law increases the maximum allocation to \$1,850,000 effective July 1, 2009, and to \$2,850,000 effective July 1, 2010. In addition, proposed law requires at least 50% of the severance tax remitted to a parish in excess of the amount remitted for the fiscal year prior to July 1, 2009 to be used for the same purposes and manner as money received from the Parish Transportation Fund.

Proposed law also allocates 50% (up to \$10 million per year) of the severance taxes on state lands in the Atchafalaya Basin to the Atchafalaya Basin Conservation Fund. The Disposition of these monies is also provided. Election of November 4, 2008.

EXPENDITURES	2008-09	2009-10	2010-11	2011-12	2012-13	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2008-09	2009-10	2010-11	2011-12	2012-13	5 -YEAR TOTAL
State Gen. Fd.	\$0	(\$36,900,000)	(\$56,300,000)	(\$56,300,000)	(\$56,300,000)	(\$205,800,000)
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$36,900,000	\$56,300,000	\$56,300,000	\$56,300,000	\$205,800,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

The bill provides that at least 50% of the increase in the general severance tax allocation provided be used in the parish transportation program. This amounts to approximately \$13 million of the FY10 allocation increase and \$23 million of the increase in FY11 and subsequent years. In addition, the bill specifies the disposition of the allocation to the Atchafalaya Basin Conservation Fund, including up to 5% for operational costs of the Basin program in the Department of Natural Resources. This would amount to up to \$500,000 per year.

REVENUE EXPLANATION

General Allocation Increase: The estimated additional dedication away from the state general fund and to the general parish severance tax allocation is the result of a simulation of the allocation made during FY07 under the maximum per parish projected to prevail in FY10 and FY11, when this portion of the bill is phased in, and the proposed maximum of \$1,850,000 per parish (FY10) and \$2,850,000 per parish (FY11). Beginning July 1, 2008 (for the FY09 allocations), the stated maximum of \$850,000 per parish will be increased by the 2.86% change in the CPI during 2007, an additional 3.63% in 2008 for the FY10 allocations, and an additional 2.09% in 2009 for the FY11 allocations. Thus, the estimated effective maximum each parish can receive under current law in FY10 is \$906,000 and in FY11 is \$925,000. This bill will increase that maximum base to \$1,850,000 for FY10 and \$2,850,000 for FY11. Under the current projected maximum the parishes will receive an allocation of \$33.7 million in FY10 and \$34.3 million in FY11. Under the proposed phased in maximums of this bill the parishes receive an allocation of \$59.6 million in FY10 and, \$80.6 million in FY11. Aggregate increases in the general allocation are \$25.9 million in FY10 and \$46.3 million in FY11. These increased allocations accrue to 30 of the 64 parishes. The other parishes do not have sufficient production to receive additional monies under these greater maximum base allocations.

Atchafalaya Basin additional allocation: The bill also allocates 50% (up to \$10 million per year) of the severance taxes on state lands in the Atchafalaya Basin to the Atchafalaya Basin Conservation Fund. The Department of Natural Resources itemized the mineral income from state leases within the Atchafalaya Basin for the five years of FY03-FY07. The amount of severance taxes received by the state from those leases ranged from \$5.780 million in FY04 to \$38.4 million in FY07. In 4 of those 5 years, the 50% allocation would have generate some \$2.9 million to \$5.4 million. Only in FY07 would the maximum allocation of \$10 million have occurred. Since current oil & gas price forecasts substantially exceed those associated with the severance taxes generated in the Basin during FY07, the fiscal note assumes that the \$10 million per year maximum allocation provided by this portion of the bill is likely to occur. This amount is added to the estimated general severance tax allocation increase provided by the bill, and the totals are displayed in the table above

Actual allocations will depend on the key factors of production in each parish, the prices of oil & natural gas, and CPI-inflation each year.

Senate Dual Referral Rules

13.5.1 >= \$500,000 Annual Fiscal Cost

13.5.2 >= \$500,000 Annual Tax or Fee Change

House

6.8(F) >= \$500,000 Annual Fiscal Cost

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease

H. Gordon Monk

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Legislative Fiscal Officer