**FISCAL NOTE**

This bill contains an appropriation of $10,000,000 from the LEGISLATIVE STABILIZATION RESERVE ACCOUNT to the State Treasurer's Office.

| | FY 2021 | FY 2022 | FY 2023 |
|---|---|---|---|
| **NON-ADMINISTRATIVE IMPACT** | | | |
| Anticipated Revenue (decrease) | | | |
| GENERAL FUND | ($10,000,000) | ($17,000,000) | ($17,000,000) |

Source of revenue (decrease):

This bill would require all mineral producers in the state to report and remit ad valorem taxes on mineral production on a monthly basis to the Department of Revenue on behalf of counties as an attempt to reduce uncollectable ad valorem taxes. Ad valorem tax reports and estimated payments would be due on or before the twenty-fifth day of the second month following the month of production, commencing calendar year 2021. Mineral producers currently make their first ad valorem tax payment on mineral production from 11 to 23 months after the month of production.

For purposes of remitting the estimated ad valorem taxes, the Department of Revenue would set a county’s tax rate for each year of mineral production equal to the lowest total ad valorem mills assessed in the county in the immediately preceding year. The Department of Revenue distributes the collected monthly and annual ad valorem taxes to the State Treasurer and the State Treasurer would remit the collected taxes, including interest, to each county treasurer upon notification on or after June 1 the year following production. Not later than September 20 of each year, the county treasurer would reconcile the estimated payments received to the actual ad valorem tax amounts owed. Mineral producers would be required to pay any additional ad valorem tax owed to the State Treasurer not later than December 20 of each year and the county treasurer would refund a mineral producer any ad valorem taxes that were overpaid, unless the mineral producer elects to apply the over payment towards other ad valorem taxes due.

The State Treasurer’s Office will incur additional costs to receive and track the monthly payments from each mineral producer for each county and then accrue investment earnings on a monthly basis. Much of this cost will depend on the information provided by the Department of Revenue, but will be absorbed by the State Treasurer’s Office. To not risk the value of these county ad valorem taxes, the State Treasurer plans to invest these funds in the State Agency Pool which is projected to yield 1.85 percent from fiscal years 2021 through 2023.

There would be a transition in calendar years 2021 and 2022 in which mineral producers would owe, and be required to pay, the remaining ad valorem tax on mineral production from calendar years 2019 and 2020, in addition to the monthly payment of ad valorem tax on mineral production beginning in calendar year 2021. This bill provides for a tax credit equal to 7 percent of the ad valorem taxes on mineral production from calendar year 2019 if a mineral producer remits the entire amount owed by December 31, 2020, and a tax credit equal to 5 percent of the ad valorem taxes on mineral production from calendar year 2020 if a mineral producer remits the entire amount owed by December 31, 2021. The tax credit may be applied against any tax liability the mineral producer has for either severance taxes or for the state's share of sales and use tax (2.76 percent). The mineral producer may use the tax credit within three calendar years following the date the mineral producer qualifies for the credit. If all mineral producers were to elect to receive the tax credit, the maximum amounts that would be credited against either severance taxes or sales and use taxes for calendar years 2019 and 2020, are approximately $45 million and $31 million, respectively. These estimates are based on the average total mill levy applied to 2018 mineral production of 62.683 mills, as reported in the Department of Revenue's 2019 Annual Report.

For purposes of forecasting the fiscal impact of this bill, in the absence of better information, the Legislative Service Office estimates two-thirds of these revenue decreases spread over three years and assumes a mineral producer will choose a sales and use tax credit, not a severance tax credit. The impact of the sales and use tax credits comes in a form of a revenue decrease to the General Fund, approximately $10 million in FY 2021, $17 million in FY 2022 and $17 million in FY 2023.

In lieu of taking a tax credit and remitting the ad valorem taxes as required by law, a county may establish an agreement and payment schedule that would provide for a mineral producer to remit the ad valorem tax on mineral production from calendar years 2019 and 2020 in equal payments for a period not to exceed 72 months at an interest rate of 8 percent per year. A county that utilizes this agreement may seek a loan from the State Treasurer as provided in the bill. The State Treasurer's Office states the potential expenditure of the $10 million appropriation for payments to counties for a loan is indeterminable. The State Treasurer's Office indicates the number of counties that will grant separate payment agreements is unknown. Any performing loans from the State Treasurer to counties would include interest to be paid back to the Legislative Stabilization Reserve Account.

**NOTICE-AGENCY ESTIMATE OF ADMINISTRATIVE IMPACT REQUESTED**

This bill has administrative impact that appears to increase duties or responsibilities of one or more state agencies and may impact agency spending or staffing requirements. As introduced, the bill does not modify any state agency budget or current personnel authorizations.
The following state agencies will be asked to provide their estimate of the administrative fiscal impact prior to the first committee meeting held to consider the bill:

Department of Revenue

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