FISCAL NOTE

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

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

EXPENDITURE BY SERIES AND YEAR	**FY 2023**	**FY 2024**	**FY 2025**
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 vendor development, programming and implementation costs in order to process the proposed refunds in the Department of Revenue’s (DOR’s) computer system.

	FY 2024	**FY 2025**	**FY 2026**
NON-ADMINISTRATIVE IMPACT			
Anticipated Revenue increase/(decrease)			
SCHOOL FOUNDATION FUND	($80,000)	($430,000)	($1,030,000)
BUDGET RESERVE ACCOUNT	($120,000)	($870,000)	($2,070,000)

Source of revenue (decrease):

This bill establishes severance tax refunds for specified oil, natural gas and coal severance taxes based on increased federal mineral royalty (FMR) rates.

Beginning in calendar year (CY) 2024, the State Treasurer (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 School Foundation Program (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 then be multiplied by 75% to approximate and account for 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%, separately distributed in accordance with the current severance tax distribution described in W.S. 39-14-801(b) through (e). This paragraph attempts to offset 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 attempts to offset 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 leases.

The revenue decreases provided in the table above are based on an estimation model provided by the DOR, utilizing projected oil and natural gas prices, and the estimated oil and natural gas production from new federal leases subject to the higher royalty rate of 16.67 percent, projected in the October 2022 Consensus Revenue Estimating Group (CREG) forecast. The October 2022 CREG forecast estimates no coal production from new federal leases in the forecast period, therefore no revenue decrease from increased FMRs on coal production is included in the above estimate. It is unknown at this time if current federal coal leases will be replaced with new federal coal leases issued at the increased rate.

The revenue decreases 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 and for further distribution in later fiscal years.

It is assumed that the revenue decreases to the SFP and BRA 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, based on the DOR’s estimation model, LSO projects total annual decreases in future revenues could eventually reach approximately $120 million, assuming future oil and natural 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.

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