

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SCR 142** SLS 14RS 4436
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action: **w/ HSE COMM AMD**
 Proposed Amd.:
 Sub. Bill For.:

Date: June 2, 2014 1:39 PM	Author: GALLOT
Dept./Agy.: Revenue/Natural Resources/Legislative Auditor	Analyst: Greg Albrecht
Subject: Urges & Requests Improved Mineral Revenue Collections	

TAX/TAXATION OR1 SEE FISC NOTE GF RV Page 1 of 1
 Requests the Department of Revenue and the Department of Natural Resources, in consultation with the Legislative Auditor, to take all action necessary to collect oil and gas severance tax and mineral royalties and to establish procedures to verify

Proposed resolution urges and requests the Departments of Revenue (LDR) and Natural Resources (DNR) to review and evaluate, in consultation with the Legislative Auditor, their procedures to collect severance and royalty revenue owed to the state, and determine improvements necessary to insure complete, accurate, and timely payments. The LLA is directed to aid in these efforts, and file a report with the Legislative Audit Advisory Council and the Chairs of the Senate Revenue and Fiscal Affairs and House Ways and Means Committees which includes advice given along with status and operational evaluations of LDR and DNR.

EXPENDITURES	2014-15	2015-16	2016-17	2017-18	2018-19	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total						

REVENUES	2014-15	2015-16	2016-17	2017-18	2018-19	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

Essentially, the resolution urges & requests the Departments of Revenue and of Natural Resources to review and evaluate their procedures for the collection of severance taxes and royalty payments, in order to implement changes to improve compliance and collections. Both departments are to consult with the Legislative Auditor in these reviews. The Auditor is to file a report detailing its consultations and evaluations of the respective department's procedures and improvements. These review, evaluation, and consultation activities are largely within existing operational missions of these agencies. costs directly associated with the resolution will be reflected in staff time devoted to these reviews and evaluations, at the expense of other activities. The resolution does not mandate a time frame or deadline for completion of the requisite reviews and evaluations and this flexibility can work to ameliorate opportunity costs.

However, the departments did submit preliminary estimates of resources necessary to accomplish audits of 100% of payments annually, providing somewhat of an upper bound to costs should comprehensive auditing be recommended as a result of the review and evaluation requested by this resolution. It should be noted that various other improvements to compliance and collection may result from review and evaluation of department procedures that are more productive than 100% audit coverage, and these submitted audit costs are not the cost associated with this resolution.

The Department of Revenue estimates that 500 companies are currently paying severance tax, and would require about 20 field auditors (25 field audits each per year) at a cost of roughly \$70,000 per auditor or \$1,400,000, including equipment. However, LDR added 25 auditor positions in late FY 14 (currently hiring), so it is not clear whether this request for additional auditors includes duplications and whether this estimate includes those currently audited or only those not audited. In addition, while possibly a questionable assertion, the department has occasionally indicated that additional auditors generate sufficient collections to more than pay for their expense.

The Department of Natural Resources reports 1,802 royalty leases associated with 256 payors. DNR conducts 17-18 field audits annually covering 20% of royalty revenue (100% of payments have desk audits). Royalty field audits encompass multiple leases with contract stipulations that can vary and must be conducted from audit to audit without prescription. In order to audit 100% of royalty revenue, DNR estimates expenses of \$5.5M per year with annual increases for inflation and merit for 56 additional auditors and 3 administrative assistants.

The Legislative Auditor reports that it would bill these departments some \$200,000 for their consultations. However, these consultations could be substituted for performance audits routinely performed each year for selected programs across state agencies. In fact, performance audits were carried on severance and royalty collections in 2013. These two departments may have billing costs but statewide costs could be unaffected as two other performance audits are not carried out.

REVENUE EXPLANATION

The resolution urges and requests review and evaluation of procedures to improve severance tax and royalty collections. Any such improvements themselves would be responsible for additional collections in some future periods. Since much of what is requested by the resolution appears to be within the scope of existing agency missions, and some of these efforts are already underway (for example, additional auditors in LDR), it would be difficult to determine whether any increase in mineral revenue is related to this resolution.

Senate	<u>Dual Referral Rules</u>	House	<input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}	 John D. Carpenter Legislative Fiscal Officer
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}		<input type="checkbox"/> 6.8(F)(2) >= \$500,000 State Rev. Reduc. {H & S}		
<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}		