LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **SB 49** SLS 22RS 178
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:
REVISED

Date: April 4, 2022 11:09 AM
Author: WARD
Dept./Agy.: Treasury
Subject: Increase cap and timing of payments for parish severance
Analyst: Deborah Vivien

TAX/TAXATION OR -$15,700,000 GF RV See Note

Constitutional amendment to reallocate severance tax to parishes for Parish Transportation Funds. (2/3 - CA13s1(A))

Current Constitution allocates 1/5 or 20% of severance tax collections other than lignite, sulphur and timber to the governing authority of the parish in which the severance or production occurs up to a constitutional cap. The current cap is $850,000 per parish, growing annually by the change in calendar year CPI-U from the previous year as adopted by the REC. Current Constitution contains a trigger increasing the cap to $1.85 M in the first year state severance collections exceed the levels of FY 09, increasing to $2.85 M in the second year and beyond. Under the trigger, 50% of the increase over FY 12 parish remittances must be spent on transportation projects for the same purpose as the Parish Transportation Fund.

Proposed amendment removes the trigger language from the constitution and increases the parish cap to $2.85 M in FY 24, growing by the annual change in CPI thereafter. Excess severance tax is changed to any amount over FY 21 parish remittances and 100% of excess must be spent on transportation projects for the same purpose as the Parish Transportation Fund.
Effective July 1, 2023 upon voter approval on November 8, 2022.

EXPENDITURES	2022-23	2023-24	2024-25	2025-26	2026-27	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	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**					**$0**

REVENUES	2022-23	2023-24	2024-25	2025-26	2026-27	5 -YEAR TOTAL
State Gen. Fd.	$0	($15,700,000)	($15,700,000)	($15,700,000)	($15,700,000)	**($62,800,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$15,700,000	$15,700,000	$15,700,000	$15,700,000	**$62,800,000**
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

There is no anticipated direct material effect on state governmental expenditures as a result of this measure. Treasury indicates that the workload will remain the same but occur at a different time of year so will be absorbed in the current budget. The parishes must spend any severance tax revenue in excess of the FY 21 remittances on transportation projects in the same manner as the Parish Transportation Fund.

REVENUE EXPLANATION

As the local cap is increased, the bill will reduce state general fund revenue as those parishes currently capped will begin to receive larger allocations.

Based on FY 21 final numbers, there were 11 parishes that reached the constitutional cap of $1,003,896. Assuming that production in each parish grows annually by the same percentage as the REC estimates for severance tax and the 2022 cap of $1,095,236 grows by Moody's CPI-U forecast, which is a measure of inflation, the estimated cap for FY 24 is $1,241,125. This provides a baseline for current law.

This bill increases the cap to $2.85 M in FY 24, growing by the CPI-U thereafter. Under these assumptions, only those 11 parishes currently hitting the maximum baseline would receive additional funds. If these severance and CPI assumptions materialize and upon voter approval, parishes will receive an estimated $15.7 M in additional funds annually beginning in FY 24 (designated as Other revenues in this fiscal note), with an equivalent reduction in state general fund. Actual impacts will depend on the production activity in each parish and the market environment in the future. Five parishes are estimated to continue to be constrained by the new cap.

Severance tax remittances are received monthly at the Department of Revenue, which reports them by parish. Those collections are sent to Treasury which administers the parish allocation by paying 20% back to the parishes on a quarterly basis up to the constitutional cap. The annual cap is calculated in July but the parish allocations reset each January, thus the parishes that reach the cap are accustomed to additional payments in the first and second quarter of the calendar year.

The bill coordinates the parish allocations with the annual cap calculation with both occurring in July. Allocations will continue to be sent to the parishes quarterly, but larger producing parishes will receive proceeds earlier in the fiscal year, beginning in July (first payment in October) instead waiting for the January reset. Because the payments will still fall within the same fiscal year, the impact to the state fisc from changing the payment timing should be minimal.

Senate — Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [x] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Alan M. Boxberger

Alan M. Boxberger
Interim Legislative Fiscal Officer