LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 278** HLS 23RS 601
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 1, 2023 7:29 PM
Author: MCFARLAND
Dept./Agy.: Treasury/Revenue
Subject: Increases parish severance cap and excess
Analyst: Deborah Vivien

TAX/SEVERANCE TAX RE -$21,200,000 GF RV See Note

(Constitutional Amendment) Increases amounts of severance tax revenues remitted to parishes and requires that portions of these amounts be spent on parish transportation projects

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 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 repeals the trigger language and increases the parish cap to $2.85 M in FY 25, growing by the annual change in CPI thereafter. Excess severance tax is redefined to any amount over FY 23 parish remittances, and 100% of excess must be spent on transportation projects for the same purpose as the Parish Transportation Fund.

Effective upon voter approval on October 14, 2023.

EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2027-28	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	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	$0	($21,200,000)	($21,200,000)	($21,200,000)	($21,200,000)	**($84,800,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$21,200,000	$21,200,000	$21,200,000	$21,200,000	**$84,800,000**
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. Departments indicate that the workload will remain the same but occur at a different time of year due to the coordination of the allocations to a fiscal year basis. Any costs will be absorbed in the current budget. The parishes must spend all severance tax revenue in excess of the FY 23 remittances on transportation projects in the same manner as the Parish Transportation Fund, where current law limits 50% of collections in excess of FY 12 collections to be spent in that manner.

REVENUE EXPLANATION

As the local cap is increased to $2.85M in FY 25, the bill will reduce state general fund revenue as those parishes currently capped will begin to receive larger allocations. If the current constitutional trigger is effective at the last REC of FY 23, the FY 24 cap will increase to $1.85 M. The cap for FY 25 and beyond will increase to $2.85 M and, at that point, the bill will be redundant.

Based on FY 22 final numbers, there were 20 parishes that reached the constitutional cap of $1,095,236. Assuming that production in each parish grows annually by the same percentage as the REC estimates for severance tax and the 2023 cap of $1,146,603 grows by Moody's CPI-U forecast, the estimated cap for FY 25 is $1,147,188. Using this method through FY 28 provides a baseline for current law.

The bill increases the parish severance cap to $2.85 M in FY 25, growing by the CPI-U thereafter. Under these assumptions, only those 20 parishes currently hitting the maximum baseline would receive additional funds (listed on page 2). If these severance and CPI assumptions materialize and upon voter approval, parishes will receive an estimated $21.2 M in additional funds annually beginning in FY 25 (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. Of the 20 impacted parishes, 10 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}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

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

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CONTINUED EXPLANATION from page one:

Below is the list of parishes that are estimated to have a higher allocation in FY 25 due to the bill. **Parishes estimated to receive an increased FY 25 allocation but continue to be constrained under the new cap are in bold.**

These estimates contain heroic assumptions concerning future production and prices in the future. Actual activity could alter these estimates substantially.

DESOTO
PLAQUEMINES
CADDO
RED RIVER
TERREBONNE
LAFOURCHE
BOSSIER
VERMILION
ST. MARTIN
ST. MARY

LINCOLN
SABINE
CAMERON
BIENVILLE
BEAUREGARD
NATCHITOCHES
CLAIBORNE
CALCASIEU
IBERIA
LASALLE

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

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