

BILL SUMMARY
1st Session of the 56th Legislature

Bill No.:	HB 1401
Version:	CS
Request Number:	7245
Author:	Rep. Montgomery
Date:	3/20/2017
Impact:	Gross Production Apportionment Change

No Impact Until FY-20

**Apportionment Change (20%)
FY-20 and Beyond**

**Establishment of Endowment Structure
Re-Invested Earnings
Distribution to Subfunds**

**Costs to State Auditor for
Biennial Audit**

Research Analysis

The committee substitute for HB1401 has a stricken title. The measure creates the Oklahoma Legacy Act and establishes the Oklahoma Legacy Fund which allows for investment of funds from the following sources:

- 20 percent of the collection from severance tax on oil;
- 20 percent of the collection from severance tax on gas;
- any funds appropriated by the Legislature; and
- any amount accruing in the Higher Education Legacy Fund or the Common Schools Legacy Fund, which are newly created subfunds of the Oklahoma Legacy Fund.
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At least 90 percent of the investment earnings from the Oklahoma Legacy Fund are to be retained and reinvested until the ten-year moving average of the total investment earnings for the previous fiscal year equals the ten-year moving average of the collections from gross production taxes. The measure also establishes apportionment structures for the Oklahoma Higher Education Legacy Fund and Common Schools Legacy Fund, which will benefit higher education and common education respectively, when the earning triggers outlined in the bill are met. Lastly, the measure directs the state auditor to conduct an audit of the Legacy Fund and its subfunds every two years.

Pursuant to section 8 of the measure, the provisions of the act will not take effect until there is enough revenue growth as determined by the Office of Management and Enterprise Services.

Prepared By: Quyen Do

Fiscal Analysis

The measure includes several provisions related to the apportionment of gross production revenue, investment of the revenue, distribution of investment earnings.

Apportionment of Gross Production Revenue

Beginning July 1, 2019 twenty percent (20%) of total gross production actual revenue is to be deposited in the newly created Oklahoma Legacy Fund. While no reliable estimates of gross product revenue are available for FY-19 and subsequent years, the modified apportionment would reduce revenue otherwise accruing to several funds in varying amounts, including:

General Revenue Fund
Circuit Engineering Districts Revolving Fund
Common Education Technology Revolving Fund
Higher Education Capital Revolving Fund
Higher Education Student Aid Revolving Fund
Counties for Bridge and Road Improvement Fund (CBRI)
Community Water Infrastructure Development Revolving Fund
Conservation Commission Infrastructure Revolving Fund
Tourism and Recreation Capital Expenditure Revolving Fund
Counties for Roads
School Districts

Utilization of the Oklahoma Legacy Fund

Gross production revenue deposited in the Oklahoma Legacy Fund is to be invested to develop and build an endowment that, over time, will be allocated to the State Aid Formula, the Higher Education Research and Development Fund and for tuition assistance grants within the institutions of higher education. The Provision is made for the allocation of two percent of investment earnings to the State Treasurer for asset management.

Within the Legacy Fund two subfunds are established for the accumulation and allocation of funds for common education and higher education, the Common Schools Legacy Fund and the Higher Education Legacy Fund. Funds previously accruing to the Common Education Technology Fund, the Higher Education Capital Revolving Fund and the Higher Education Student Aid Revolving Fund from the gross production tax on oil will be redirected to the subfunds.

Portions of the earnings will be directed to the State Treasurer for management of the fund portfolios and other administration.

Prepared By: Mark Tygret

Other Considerations

The objective of the measure is to utilize certain gross production revenue to contribute to the building of significant endowment structures the earnings from which will provide sustained funding for the education-related funding areas previously described. The number of years of deposits and investment necessary to accomplish endowment size will depend on the amounts of gross production revenue available each fiscal year and the performance of the invested funds.

