LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 26, 2005

TO: Honorable George "Buddy" West, Chair, House Committee on Energy Resources

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **HB1202** by West, George "Buddy" (Relating to severance tax credits for continued production from marginal gas and oil wells.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1202, As Introduced: a negative impact of ($40,095,000) through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	($5,912,000)
2007	($34,183,000)
2008	($54,204,000)
2009	($67,072,000)
2010	($65,879,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from *GENERAL REVENUE FUND* 1	Probable Revenue Gain/(Loss) from *FOUNDATION SCHOOL FUND* 193	Probable Revenue Gain/(Loss) from *ECONOMIC STABILIZATION FUND* 599
2006	($4,434,000)	($1,478,000)	$0
2007	($25,637,000)	($8,546,000)	$0
2008	($40,653,000)	($13,551,000)	($7,447,000)
2009	($50,304,000)	($16,768,000)	($8,991,000)
2010	($49,409,000)	($16,470,000)	($5,308,000)

Fiscal Analysis

The bill would amend Chapters 201 and 202 of the Tax Code to provide three levels of tax credits for oil and gas production from qualified marginal oil and gas wells for any given month, depending on Comptroller's average taxable oil and gas prices, adjusted to 2005 dollars, of the previous three months.

An operator of a marginal gas well would be entitled to a 25 percent tax credit if the average taxable gas price were more than $3.25 per mcf but not more than $4. The tax credit would increase to 50 percent if the price were more than $2.75 per mcf but not more than $3.25, and 100 percent if the price were $2.75 or less.

An operator of a marginal oil well would be entitled to a 25 percent tax credit if the average taxable oil price were above $30 per barrel but not more than $35. The tax credit would increase to 50 percent if the price were above $25 per barrel but not more than $30, and to 100 percent if the price were $25 or less.

The bill would define a marginal gas well as a gas well that averaged over a 90-day period less than 90 mcf per day or 15 percent recoverable gas per barrel of produced water. The bill would define a marginal oil well as an oil well that averaged over a 90-day period less than 15 barrels per day or 5 percent recoverable oil per barrel of produced water.

The bill would limit tax credits only to wells currently paying full tax rates. (As such, it would exclude those wells operating under existing tax incentive programs.) The bill would not extend tax credits to casinghead gas and condensate production.

The bill would require the Railroad Commission (RRC) and the Comptroller's Office to develop rules and procedures for well certification and implementation of the tax credits. RRC would provide a certified list of qualified wells to the Comptroller's Office. The Comptroller's Office would certify and publish in the Texas Register, each month, the average taxable prices of oil and gas, adjusted to 2005 dollars, during the previous three months.

Taxpayers would have to apply to the Comptroller's Office for tax credits within the statutory time limit under Section 111.104.

This bill would take effect September 1, 2005 and would apply to crude oil and gas well produced on or after that date.

Methodology

This fiscal note is based upon an analysis made by and provided by the Comptroller's Office.

Comptroller staff estimated the fiscal impact using Railroad Commission oil and gas production data.

Casinghead gas and condensate volumes were excluded. For the purposes of this estimate, average taxable prices are presumed to be actual statewide averages.

Average taxable oil prices are expected to drop (and would thereby trigger the 25 percent tax credit category) from the end of fiscal 2006 to the middle of fiscal 2008. Thereafter, prices are expected to be such as to trigger the 50 percent tax credit. However, gas prices are not expected to fall low enough to trigger the 25 percent tax credit until fiscal 2008 through fiscal 2010. Oil and gas prices are not expected to be low enough at any point over the projection period to trigger the 100 percent tax credit category.

Since the Comptroller would have to certify and publish average taxable prices of oil and gas of the previous three months, and taxpayers would have to apply for tax credits, there would be time lags of five months for oil and six months for gas from production months before the first fiscal impact of the tax credits could occur.

Technology

Because the information technology systems for the crude oil and natural gas taxes were designed in the early 1980s, their rigid structure and inflexibility would require a rewrite of both tax systems to accommodate the complexities proposed in this bill.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 455 Railroad Commission

LBB Staff: JOB, WK, WP, CT