LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 10, 2007

TO: Honorable Jim Keffer, Chair, House Committee on Ways & Means

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

IN RE: **HB2240** by Farabee (Relating to severance tax credits for qualifying low-producing wells.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2240, As Introduced: a negative impact of ($17,003,500) through the biennium ending August 31, 2009.

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
2008	($6,466,500)
2009	($10,537,000)
2010	($20,564,000)
2011	($27,291,000)
2012	($26,215,000)

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
2008	($4,816,000)	($1,650,500)	($19,265,000)
2009	($7,903,000)	($2,634,000)	($31,610,000)
2010	($15,423,000)	($5,141,000)	($61,692,000)
2011	($20,468,000)	($6,823,000)	($81,870,000)
2012	($19,661,000)	($6,554,000)	($78,642,000)

Fiscal Analysis

The bill would amend Chapters 201 and 202 of the Tax Code to increase existing price triggers on three levels of tax credits for oil and gas production from qualified marginal oil and gas wells.

The bill would modify the definition of a low-producing oil lease. The bill would repeal the September 1, 2007 expiration date for the program, thereby making it a permanent exemption. The repeal of the expiration date would take effect August 27, 2007.

Under the bill, a marginal gas well operator would be entitled to a 25 percent tax credit if the average taxable gas price of the previous three months, adjusted to 2005 dollars, were more than $4.50 per Mcf but not more than $5. The tax credit would increase to 50 percent if the price were more than $4.00 per Mcf but not more than $4.50, and 100 percent if the price were $4.00 or less.

A marginal oil well operator would be entitled to a 25 percent tax credit if the average taxable oil price of the previous three months, adjusted to 2005 dollars, were above $44 per barrel but not more than $48. The tax credit would increase to 50 percent if the price were above $38 per barrel but not more than $44, and to 100 percent if the price were $38 or less.

The bill would broaden the definition of a marginal oil well to allow wells part of a lease wherein production averaged over a 90-day period less than 15 barrels per day or 10 percent (currently 5 percent) recoverable oil per barrel of produced water.

The bill would take effect September 1, 2007.

Methodology

This fiscal note is based upon analyses provided by the Comptroller's Office.

The estimated fiscal impact was based on data derived from the Comptroller's oil and gas tax information and Texas Railroad Commission oil and gas historical production records. The average taxable prices from the 2008-09 Biennial Revenue Estimate, adjusted to 2005 dollars, were used in the fiscal analysis. Production from existing tax incentives, casinghead gas, and condensate volumes were excluded.

Average taxable oil prices are expected to drop and would, thereby, trigger the 25 percent tax credit category from second half of fiscal 2008 to the middle of fiscal 2010. Thereafter, prices are expected to drop further, to the point where they would trigger the 50 percent tax credit. Oil prices, however, are not expected to fall low enough at any point over the projection period to trigger a 100 percent tax credit under the bill.

Gas prices are not expected to fall low enough to the point where they would trigger any tax credit under this bill.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, SD, CT