By: Farabee, Davis of Harris, Hardcastle, Gonzalez Toureilles, Rios Ybarra

H.C.R. No. 183

HOUSE CONCURRENT RESOLUTION

WHEREAS, The oil and natural gas exploration industry has been a significant part of the state's economy since the early 20th century; today, Texas is the leading producing state for oil and natural gas in the country, accounting for 21.3 percent and 27.8 percent of total U.S. production, respectively; and

WHEREAS, Texas producers provide more than 200,000 jobs for Texas citizens, with an average pay that is almost three times higher than the average paid by all other industries; during fiscal year 2008, Texas producers paid over $5 billion in taxes and fees to the state's general revenue fund; and

WHEREAS, Natural gas is a highly valued, clean fuel that has become a mainstay of electricity production and other industrial operations in Texas, while oil continues to constitute the backbone of the state's industrial sector and fuels virtually all of the state's transportation system; and

WHEREAS, Renewable energy sources offer great promise for Texas' long-term energy needs, but the technology that would make these sources abundant is in its infancy, and until that technology is adequately developed, renewable energy sources will remain dispersed and unable to deliver base load capacity; and

WHEREAS, Conservation can help satisfy the state's energy needs, and action to reduce customer demand is the quickest way to meet energy needs in the short term, but a growing economy and population will require more energy than can be saved through more efficient energy use; and

WHEREAS, To keep pace with increased demand, independent producers completed more than 11,000 wells in Texas in 2008, and in the two-year period 2007-2008, they increased the production of natural gas in Texas by more than 12 percent; and

WHEREAS, In addition to generating high-quality jobs, independent producers help to reduce America's dependence on Middle East oil by exploring for domestic resources and providing stable supplies of cost-effective energy to consumers; and

WHEREAS, Independent producers rely on longstanding tax provisions to plan their activities and to explore for new wells to offset declining production from older ones; without the development of new wells, energy supplies would decline and the costs to consumers would rise; and

WHEREAS, President Barack Obama's initial budget includes provisions deleting the intangible drilling costs deduction, percentage depletion allowance, geologic and geophysical costs deduction, and domestic production activities deduction, and the elimination of these provisions would cripple this state's energy jobs, reduce small businesses' access to capital, and harm royalty owners; and

WHEREAS, Intangible drilling costs (IDCs) typically include expenditures for physical items with no salvage value, as well as other costs associated with preparing and completing a well for the production of oil, gas, or geothermal steam or water; producers have long been able to deduct IDCs as current business expenses, rather than depreciate or amortize them over the life of the well;

IDCs are actually similar to research and development costs, for which most manufacturing businesses are able to take a tax credit, rather than a deduction; and

WHEREAS, The percentage depletion allowance, also known as the small producers exemption, was created in the 1920s to encourage oil and natural gas exploration, which is an inherently high-risk venture; the exemption is available only to the smallest producers and allows them to deduct 15 percent of their gross income from oil and gas properties; and

WHEREAS, Geologic and geophysical (G&G) costs relate to the surveys that producers conduct or commission in order to locate and develop oil and natural gas reserves and to minimize unnecessary drilling; G&G costs may be amortized over the first 24 months of the life of a well; and

WHEREAS, The domestic production activities provision allows businesses a tax deduction for qualified production activities that are based in the United States; the deduction helps to preserve American jobs and American small businesses; and

WHEREAS, Major integrated companies are not eligible for the IDC deduction, percentage depletion allowance, or domestic production activities deduction, and they are subject to a seven-year amortization schedule for G&G work; consequently, "big oil" is not impacted by the proposed budget changes; and

WHEREAS, President Obama has stated his intention to support the development of jobs, promote the use of clean-burning energy, and reduce America's dependence on foreign oil, yet his budget proposals would lessen the ability of independent producers to help meet those three goals; now, therefore, be it

RESOLVED, That the 81st Legislature of the State of Texas hereby respectfully urge the United States Congress to reject the provisions of President Barack Obama's budget that would eliminate the intangible drilling costs deduction, percentage depletion allowance, geologic and geophysical costs deduction, and domestic production activities deduction and to encourage instead the development of Texas oil and natural gas; and, be it further

RESOLVED, That the Texas secretary of state forward official copies of this resolution to the president of the United States, to the speaker of the house of representatives and the president of the senate of the United States Congress, and to all the members of the Texas delegation to Congress with the request that this resolution be officially entered in the Congressional Record as a memorial to the Congress of the United States of America.