BILL ANALYSIS

Senate Research Center

S.B. 1505
By: Uresti et al.
Finance
7/20/2011
Enrolled

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

The Texas Constitution requires that oil and gas properties be taxed at their current market value, which requires an estimation of the price of oil and gas in the coming tax year to be calculated. To aid in the appraisal of these properties, current law directs the comptroller of public accounts (comptroller) to forecast the future oil and gas price and to calculate a market condition factor for the tax year and escalation rates for future years.

Because of the volatility of the price of oil and gas, these estimates are nearly impossible to complete with consistent accuracy. The market condition factor and escalation rates are typically found to be inaccurate each year by both the taxing and taxed entities involved in the appraisal process.

S.B. 1505 amends current law relating to the appraisal for ad valorem tax purposes of a real property interest in oil or gas in place.

RULEMAKING AUTHORITY

Rulemaking authority previously granted to the comptroller of public accounts is modified in SECTION 1 (Section 23.175, Tax Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 23.175, Tax Code, as follows:

> Sec. 23.175. OIL OR GAS INTEREST. (a) Requires that the method, if a real property interest in oil or gas in place is appraised by a method that takes into account the future income from the sale or oil or gas to be produced from the interest, use the average price of the oil or gas from the interest for the preceding calendar year multiplied by a price adjustment, rather than by a market condition, factor as the price at which the oil or gas produced from the interest is projected to be sold in the current year of the appraisal. Requires the chief appraiser to calculate the price adjustment factor by dividing the price of imported low-sulfur light crude oil in nominal dollars or the spot price of natural gas at the Henry Hub in nominal dollars, as applicable, as projected for the current calendar year by the United States Energy Information Administration in the most recently published Early Release Overview of the Annual Energy Outlook by the price of imported low-sulfur light crude oil in nominal dollars or the spot price of natural gas at the Henry Hub in nominal dollars, as applicable, for the preceding calendar year as stated in the same report. Prohibits the price for the interest used in the second through the sixth calendar year of the appraisal from reflecting an annual escalation or de-escalation rate that exceeds the average annual percentage change from 1982 to the most recent year for which the information is available in the producer price index for domestically produced petroleum or for natural gas, as applicable, as published by the Bureau of Labor Statistics of the United States Department of Labor. Requires that the price for the interest used in the sixth calendar year of the appraisal be used in each subsequent year of the appraisal.
>
> Deletes existing text relating to requiring the comptroller of public accounts (comptroller) to calculate the market condition factor by dividing the comptroller's current calendar year statewide average price for oil or gas, as applicable, forecasted for revenue

estimating purposes by the preceding calendar year actual statewide average price for oil or gas, as applicable; defining existing text defining "price"; requiring the comptroller to calculate the preceding calendar year actual statewide average prices for oil and gas and the market condition factors for oil and gas and publish that information to be used for ad valorem tax appraisal purposes concurrently with the current calendar year statewide average prices for oil and gas forecasted for revenue estimating purposes; requiring that the price for the interest used in the second or subsequent calendar year of the appraisal reflect the same percentage rate increase or decrease in the price for oil or gas, as applicable, as projected for that calendar year by the comptroller for revenue estimating purposes.

(b) Requires the comptroller by rule to develop and distribute to each appraisal office appraisal manuals that specify the formula to be used in computing the limit on the price for an interest used in the second through sixth year of an appraisal and the methods and procedures to discount future income from the sale of oil or gas from the interest to present value.

(c) Requires each appraisal office to use the formula, methods, and procedures specified by the appraisal manuals develop under Subsection (b). Makes nonsubstantive changes.

SECTION 2. Makes application of this Act prospective.

SECTION 3. Effective date: January 1, 2012.