BILL ANALYSIS

S.B. 1505
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Ways & Means
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Real property interest in oil and gas in place is currently required to be taxed at current market value, which requires the calculation of an estimate of the prices of oil and gas in the coming tax year. To aid in the appraisal of property interest, the comptroller of public accounts is required to forecast future oil and gas prices using certain methods and calculate a market condition factor for the tax year. Interested parties contend that the frequent volatility of the prices of oil and gas render these estimates nearly impossible to complete with consistent accuracy. S.B. 1505 seeks to remedy this problem by changing the method for appraising a real property interest in oil or gas in place that takes into account the future income from the sale of oil or gas.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the comptroller of public accounts in SECTION 1 of this bill.

ANALYSIS

S.B. 1505 amends the Tax Code, in a provision requiring the method for appraising a real property interest in oil or gas in place that takes into account the future income from the sale of oil or gas to be produced from the interest to use the average price of the oil or gas from the interest for the preceding calendar year multiplied 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, to change the multiplier from the market condition factor to a price adjustment factor.

S.B. 1505 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.

S.B. 1505 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. The bill requires the price for the interest used in the sixth calendar year of the appraisal to be used in each subsequent year of the appraisal and makes a conforming change.

S.B. 1505 removes provisions relating to the calculation of the market condition factor by comptroller of public accounts, the definition of "price" for purposes of calculating the market condition factor, the comptroller's calculation of the preceding year's actual statewide average prices for oil and gas and the market condition factors for oil and gas, and the publishing of that information for tax appraisal purposes concurrently with the current calendar year statewide average prices for oil and gas forecasted for revenue estimating purposes.

S.B. 1505 requires the comptroller by rule to develop and distribute to each appraisal office manuals that specify the formula to be used in computing the limit on the price for an interest used in the second through the sixth year of an appraisal, in addition to specifying the methods and procedures to discount future income from the sale of oil and gas from the interest to present value. The bill makes a conforming change.

EFFECTIVE DATE

January 1, 2012.