

BILL ANALYSIS

Senate Research Center
82R3055 SMH-F

S.B. 1505
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Finance
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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 replaces the prediction by the comptroller of the price of oil and gas with a formula using certain market data and publically available information. The comptroller would calculate and publish the actual statewide average price at which oil and gas was sold in the preceding two calendar years for use in calculating the ad valorem tax appraisal of a property.

As proposed, 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

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

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

- (a) Requires a method, if a real property interest in oil or gas in place is appraised by the method 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 two calendar years, rather than 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 each calendar year, rather than the current year, of the appraisal. Provides that the average price for the preceding two calendar years is calculated by dividing the sum of the monthly average prices for which oil and gas from the interest was selling during each month of the preceding two calendar years by 24, rather than by 12. Provides that, if there was no production of oil or gas from the interest during any month of the preceding two calendar years, the average price for which similar oil and gas from comparable interests was selling during that month is to be used. Deletes existing text 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. Defines, for purposes of this section, rather than of calculating the market condition factor, "price." Requires the comptroller to calculate the preceding two calendar years actual statewide average prices for oil and gas and publish that

information to be used for ad valorem tax appraisal purposes. Deletes existing text 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. Deletes existing text requiring that the price for the interest used in the second or a 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. Makes conforming changes.

SECTION 2. Makes application of this Act prospective.

SECTION 3. Effective date: January 1, 2012.