

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 11, 2013

TO: Honorable Tommy Williams, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB1685** by Zaffirini (Relating to exemptions from property taxation and sales and use taxation for certain offshore spill response and well containment property used to control pollution.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1685, As Introduced: a negative impact of (\$7,917,000) through the biennium ending August 31, 2015.

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
2014	(\$3,130,000)
2015	(\$4,787,000)
2016	(\$7,059,000)
2017	(\$7,631,000)
2018	(\$8,208,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from <i>General Revenue Fund</i> 1	Probable (Cost) from <i>Foundation School</i> <i>Fund</i> 193	Probable Revenue Gain/(Loss) from <i>School Districts</i>	Probable Revenue (Loss) from <i>Cities</i>
2014	(\$3,130,000)	\$0	\$0	(\$580,000)
2015	(\$3,130,000)	(\$1,657,000)	(\$2,632,000)	(\$2,029,000)
2016	(\$3,130,000)	(\$3,929,000)	(\$1,048,000)	(\$2,258,000)
2017	(\$3,130,000)	(\$4,501,000)	(\$1,171,000)	(\$2,489,000)
2018	(\$3,130,000)	(\$5,078,000)	(\$1,297,000)	(\$2,722,000)

Fiscal Year	Probable Revenue (Loss) from Transit Authorities	Probable Revenue (Loss) from Counties and Special Districts
2014	(\$200,000)	(\$100,000)
2015	(\$200,000)	(\$2,364,000)
2016	(\$200,000)	(\$2,716,000)
2017	(\$200,000)	(\$3,070,000)
2018	(\$200,000)	(\$3,425,000)

Fiscal Analysis

The bill would amend Section 11.31 of the Tax Code related to pollution control property tax exemptions to specify that certain property that is used, constructed, acquired, stored, or installed primarily as part of an offshore spill response containment system is entitled to a partial or total exemption from property taxation.

The bill also would amend Section 151.356 of the Tax Code to exempt a person owning such property from paying sales and use taxes for the purchase, sale, lease, rental, storage, use or consumption of the property.

The bill would define an offshore spill response containment system as:

- 1) a containment system for a response plan to meet or exceed rules or regulations adopted by any environmental protection agency ... for the control, reduction, or monitoring of air, water, or land pollution in the event of a blowout or loss of control of an offshore well drilled or used for the exploration for or production of oil, gas, sulphur, or other minerals; and having a design capability to respond to a blowout or loss of control of such an offshore well drilled in more than 5,000 feet of water; and
- 2) real and personal property used for the development, improvement, storage, deployment, repair, maintenance, or testing of such containment system.

The bill would define other terms and make conforming changes.

This bill would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2013.

Methodology

The bill's proposed property tax exemption of offshore spill response containment systems, particularly property used for the development, improvement, storage, deployment, repair, maintenance, or testing of such containment system would create a cost to certain units of local government and to the state through the school finance formula. Current law would not permit the exemption solely on the basis that the property is used to produce a pollution control product or provide a pollution control service. Only the actual property used in pollution control would currently be exempt.

Ten oil companies are members in the Marine Well Containment Company - organized to provide rapid containment response expertise, training, and capabilities including subsea equipment such

as risers, dispersant and hydraulic manifolds, and a capping stack in the event of a blowout or other loss of well control resulting in an underwater oil spill in the Gulf of Mexico. The response system also features subsea dispersant injection equipment, manifolds and capture vessels to provide surface processing and storage. This equipment, as well as any property used to develop, improve, store, deploy, repair, maintain, or test the equipment, including leased property, would be exempt under the bill. This could include all or part of office buildings, warehouses, maintenance buildings, and similar property used to support the company's operations. The Marine Well Containment Company headquarters is in Houston, and as of January 2012 its containment system equipment was reportedly housed at the ASCO shipyard in Houston.

The estimated costs of the property tax exemption were based on appraisal district tax roll data and company reports. Because of the operation of the hold harmless provisions of the Education Code, about 60 percent of the school district cost related to the compressed rate would be transferred to the state in the first year of a taxable property value loss and 100 percent in later years. Because lagged year property values are used in the enrichment formula, school districts lose enrichment funding (state savings) in the first year of a taxable property value reduction. In the second and successive years the enrichment cost and a portion of the school district debt (facilities) cost are transferred to the state through the relevant funding formulas. All costs were estimated over the five year projection period.

Additionally, the bill exempts from state and local sales and use tax personal property that is used, constructed, acquired, stored, or installed primarily as part of an offshore spill response containment system as well personal property used for development, improvement, deployment, repair, maintenance, or testing of such a system, as well as any services performed on real or personal property used for such purposes. The Marine Well Containment Company investment in the containment system reportedly represents a pooling of \$1 billion of assets of its member companies; additional equipment purchases or storage and annual ongoing related sales taxable expenses have been estimated in the table above at 5 percent of that amount.

Local Government Impact

Costs to local taxing jurisdictions displayed in the above table represent the aggregate effect of both the property tax and sales tax exemptions.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS