BILL ANALYSIS

C.S.H.B. 1946
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Ways & Means
Committee Report (Substituted)

BACKGROUND AND PURPOSE

The U.S. Energy Information Administration publishes oil and gas price forecasts which are used to determine price adjustment factors that are an integral part of oil and gas mineral valuations subject to property taxes. There are concerns regarding references in current state law to a federal report that is inconsistently published and that no longer lists the imported low-sulfur light crude oil cited in state law. Interested parties note that publication of the report has recently been delayed to a point that is too late to begin the valuations and that this must be prevented from reoccurring every year. Certain parties have agreed on technical corrections to address these issues. C.S.H.B. 1946 seeks to make those corrections.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 1946 amends the Tax Code to replace the projected price of imported low-sulfur light crude oil with the projected spot price of West Texas Intermediate crude oil as the benchmark used by a chief appraiser when calculating the price adjustment factor for oil for the purposes of a requirement that a method of appraising a real property interest in oil and gas in place take into account the future income from the sale of oil or gas at which the oil or gas produced from the interest is projected to be sold in the current calendar year. The bill specifies that the projected spot price of West Texas Intermediate crude oil and the projected spot price of natural gas at the Henry Hub price adjustment factor benchmarks be expressed in nominal dollars per barrel or per million British thermal units, as applicable. The bill replaces the most recently published Early Release Overview of the Annual Energy Outlook with the most recently published edition of the Annual Energy Outlook as the source for such spot price projections for the current calendar year.

C.S.H.B. 1946 requires the chief appraiser, if as of March 1 of the current calendar year the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, to use in the price adjustment factor calculations the projected current and preceding calendar year spot price of West Texas Intermediate crude oil in nominal dollars per barrel or the spot price of natural gas at the Henry Hub in nominal dollars per million British thermal units, as applicable, as stated in the Short-Term Energy Outlook report published in January of the current calendar year by the United States Energy Information Administration.

EFFECTIVE DATE

January 1, 2016.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 1946 may differ from the original in minor or nonsubstantive ways, the following comparison is organized and formatted in a manner that indicates the substantial differences between the introduced and committee substitute versions of the bill.

INTRODUCED	HOUSE COMMITTEE SUBSTITUTE
SECTION 1. Section 23.175(a), Tax Code, is amended to read as follows: (a) 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 of oil or gas to be produced from the interest, the method must use the average price of the oil or gas from the interest for the preceding calendar year multiplied by a price adjustment 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. The average price for the preceding calendar year 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 calendar year by 12. If there was no production of oil or gas from the interest during any month of the preceding calendar year, the average price for which similar oil and gas from comparable interests was selling during that month is to be used. Except as otherwise provided by this subsection, the [~~The~~] chief appraiser shall calculate the price adjustment factor by dividing the spot price of West Texas Intermediate [~~imported low-sulfur light~~] crude oil in nominal dollars per barrel or the spot price of natural gas at the Henry Hub in nominal dollars per million British thermal units, as applicable, as projected for the current calendar year by the United States Energy Information Administration in the most recently published edition [~~Early Release Overview~~] of the Annual Energy Outlook by the spot price of West Texas Intermediate [~~imported low-sulfur light~~] crude oil in nominal dollars per barrel or the spot price of natural gas at the Henry Hub in nominal dollars per million British thermal units, as applicable, for the preceding calendar year as stated in the same report. If	SECTION 1. Section 23.175(a), Tax Code, is amended to read as follows: (a) 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 of oil or gas to be produced from the interest, the method must use the average price of the oil or gas from the interest for the preceding calendar year multiplied by a price adjustment 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. The average price for the preceding calendar year 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 calendar year by 12. If there was no production of oil or gas from the interest during any month of the preceding calendar year, the average price for which similar oil and gas from comparable interests was selling during that month is to be used. Except as otherwise provided by this subsection, the [~~The~~] chief appraiser shall calculate the price adjustment factor by dividing the spot price of West Texas Intermediate [~~imported low-sulfur light~~] crude oil in nominal dollars per barrel or the spot price of natural gas at the Henry Hub in nominal dollars per million British thermal units, as applicable, as projected for the current calendar year by the United States Energy Information Administration in the most recently published edition [~~Early Release Overview~~] of the Annual Energy Outlook by the spot price of West Texas Intermediate [~~imported low-sulfur light~~] crude oil in nominal dollars per barrel or the spot price of natural gas at the Henry Hub in nominal dollars per million British thermal units, as applicable, for the preceding calendar year as stated in the same report. If

as of February 1 of the current calendar year the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the chief appraiser shall use the projected and preceding calendar year spot price of West Texas Intermediate crude oil in nominal dollars per barrel or the spot price of natural gas at the Henry Hub in nominal dollars per million British thermal units, as applicable, as stated in the Short-Term Energy Outlook report published in January of the current calendar year by the United States Energy Information Administration in the price adjustment factor calculations. The price for the interest used in the second through the sixth calendar year of the appraisal may not reflect 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 price for the interest used in the sixth calendar year of the appraisal must be used in each subsequent year of the appraisal.	as of March 1 of the current calendar year the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the chief appraiser shall use the projected current and preceding calendar year spot price of West Texas Intermediate crude oil in nominal dollars per barrel or the spot price of natural gas at the Henry Hub in nominal dollars per million British thermal units, as applicable, as stated in the Short-Term Energy Outlook report published in January of the current calendar year by the United States Energy Information Administration in the price adjustment factor calculations. The price for the interest used in the second through the sixth calendar year of the appraisal may not reflect 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 price for the interest used in the sixth calendar year of the appraisal must be used in each subsequent year of the appraisal.
SECTION 2. This Act applies only to the appraisal for ad valorem tax purposes of a real property interest in oil or gas in place for a tax year beginning on or after the effective date of this Act.	SECTION 2. Same as introduced version.
SECTION 3. This Act takes effect January 1, 2016.	SECTION 3. Same as introduced version.