LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 9, 2015

TO: Honorable Drew Darby, Chair, House Committee on Energy Resources

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB3554** by Dale (relating to an oil and gas severance tax credit for the use of incremental production increase techniques.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3554, Committee Report 1st House, Substituted: a negative impact of ($1,215,250) through the biennium ending August 31, 2017.

Additionally, the estimated two-year net impact to General Revenue Related funds is a negative impact of ($21,215,250) through the biennium ending August 31, 2019.

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
2016	($607,625)
2017	($607,625)
2018	($10,607,625)
2019	($10,607,625)
2020	($10,607,625)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *General Revenue Fund* 1	Probable Revenue (Loss) from *State Highway Fund* 6	Probable Revenue (Loss) from *Foundation School Fund* 193	Probable Revenue (Loss) from *Economic Stabilization Fund* 599
2016	$0	$0	$0	$0
2017	$0	$0	$0	$0
2018	($7,500,000)	$0	($2,500,000)	$0
2019	($7,500,000)	($3,750,000)	($2,500,000)	($3,750,000)
2020	($7,500,000)	($3,750,000)	($2,500,000)	($3,750,000)

Fiscal Year	Probable (Cost) from *General Revenue Fund* 1	Probable (Cost) from *Oil & Gas Regulation* 5155	Change in Number of State Employees from FY 2015
2016	($607,625)	($177,284)	10.0
2017	($607,625)	($175,998)	10.0
2018	($607,625)	($175,998)	10.0
2019	($607,625)	($175,998)	10.0
2020	($607,625)	($175,998)	10.0

Fiscal Analysis

The bill would amend the Tax Code regarding a tax credit for oil and gas produced using incremental production increase techniques.

The bill would provide a severance tax credit to an oil and gas producer who performs a production enhancement technique, as defined, at an oil or gas well that increases production by at least 25 percent each month for a period of at least four months. The tax credit would be an amount equal to the lesser of (1) 50 percent of the taxes paid on the incremental production volume; (2) the cost of the enhancement technique; or (3) $100,000.

A qualified producer would apply to the Railroad Commission (RRC) for a certificate of the production enhancement after the first anniversary date of the last month of the production enhancement period. The RRC would verify the cost and the incremental production volume of at least 25 percent over the baseline volume, as defined, before issuing a certificate no earlier than the 18th month after the last month of the production enhancement period

A qualified producer would apply to the Comptroller for the tax credit within one year of the date RRC issues the certificate. The tax credit program would be capped at $10 million per fiscal year and available on a first-come, first-served basis based on RRC certification dates. The Comptroller would prescribe procedures to implement the provisions of the bill. The RRC and the Comptroller would adopt rules necessary to administer provisions of the bill by December 2015.

The bill would take immediate effect if the bill receives the two-thirds the vote in both houses; otherwise, the bill would take effect September 1, 2015. Other provisions of the bill would take effect January 1, 2016.

Methodology

Based on information provided by the Comptroller, although a large number of wells might be qualified for the tax credit, the program's tax credit cap of $10 million per fiscal year would limit the number of qualified wells. Considering the earliest timeline window available for filing the tax credit, the fiscal implications would begin in fiscal 2018.The table above reflects that transfers to the Economic Stabilization Fund and the State Highway Fund occur within the first 90 days of the subsequent fiscal year.

The RRC indicates it would need 5.0 FTEs to implement provisions of the bill, including administering a certification program, administering a program to encourage enhanced oil and gas production, together with conducting an anticipated 50 administrative hearings per year. These 5.0 FTEs would include 2.0 Engineering Specialists, 1.0 Engineer, 1.0 Program Specialist and 1.0 Attorney. This analysis includes a total cost of $421,990 in All Funds from the General Revenue and the General Revenue-Dedicated Oil and Gas Regulation and Cleanup Account No. 5155 per fiscal year for salary and benefits. Other costs each fiscal year would include phone, operating expenses, equipment, and payroll contributions costs ($32,633). There would be one-time equipment costs of $3,215 in fiscal year 2016.

The Comptroller indicates it would be necessary to hire 5 accounts examiners to review exemption applications and process refund requests at a cost of $329,000 each fiscal year from General Revenue. It is estimated that 10,000 wells will immediately be eligible for an exemption and refund. Because the total number of tax credits that can be issued in a fiscal year is limited and the amount that may be remitted per well is capped, the number of refunds that may be processed per year would also be capped. The agency estimates that each application and refund would require 2.5 hours to process or 22,500 employee hours. The Comptroller estimates the state has approximately an additional 250,000 active oil and gas wells that could potentially be eligible in subsequent years.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 455 Railroad Commission

LBB Staff: UP, TB, SZ, MW, LCO