# LEGISLATIVE BUDGET BOARD
## Austin, Texas

## FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

## April 20, 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 incentives for enhanced recovery of oil and gas.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3554, As Introduced: a negative impact of ($802,156,504) through the biennium ending August 31, 2017.

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 | ($401,079,216) |
| 2017 | ($401,077,288) |
| 2018 | ($401,077,288) |
| 2019 | ($401,077,288) |
| 2020 | ($401,077,288) |

### 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 | ($300,000,000) | $0 | ($100,000,000) | $0 |
| 2017 | ($300,000,000) | ($150,000,000) | ($100,000,000) | ($150,000,000) |
| 2018 | ($300,000,000) | ($150,000,000) | ($100,000,000) | ($150,000,000) |
| 2019 | ($300,000,000) | ($150,000,000) | ($100,000,000) | ($150,000,000) |
| 2020 | ($300,000,000) | ($150,000,000) | ($100,000,000) | ($150,000,000) |

| 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 | ($1,079,216) | ($177,284) | 17.0 |
| 2017 | ($1,077,288) | ($175,998) | 17.0 |
| 2018 | ($1,077,288) | ($175,998) | 17.0 |
| 2019 | ($1,077,288) | ($175,998) | 17.0 |
| 2020 | ($1,077,288) | ($175,998) | 17.0 |

## Fiscal Analysis

The bill would amend the Natural Resources Code to provide a severance tax credit to an oil and natural gas producer who performs enhanced recovery at a well that increases production by more than 5 percent. The tax credit would be capped at $200,000 per well and may be applied to oil or natural gas severance taxes paid on production from other producing wells.

The Railroad Commission (RRC) would issue a certificate of enhanced recovery to a qualified applicant. The qualified applicant must apply to the Comptroller for the tax credit while the subject well is producing oil or natural gas. The RRC would adopt rules and orders to administer the bill's provisions, provide training and technical assistance to operators, and establish incentives by rule to assist operators in developing enhanced oil and natural gas production. The Comptroller would establish procedures to administer applications for the tax credit.

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.

## Methodology

Based on information provided by the Comptroller, it is assumed that the full tax credit of $200,000 per well would likely be claimed immediately, regardless of the amount of taxes paid on the production a qualified well meeting the 5 percent production threshold would produce. This is reflected in the table above. More than 10,000 oil wells already qualified for the enhanced recovery reduced tax rate of 2.3 percent would be eligible for the tax credit. The state has approximately an additional 250,000 active oil and gas wells that could potentially be eligible in subsequent years. 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 5.0 FTEs to implement provisions of the bill, including processing 1,500 applications per year and 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 ($29,418). There would be one-time equipment costs of $3,215 in fiscal year 2016.

The Comptroller indicates it would be necessary to hire 11 accounts examiners and 1 supervisor to review exemption applications and process refund requests at a cost of $798,663 each fiscal year from General Revenue. It is estimated that 10,000 wells will immediately be eligible for an exemption and refund. 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, SZ, MW, TB, LCO