

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION**

**May 5, 2015**

**TO:** Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

**FROM:** Ursula Parks, Director, Legislative Budget Board

**IN RE:** **HB4021** by Herrero (Relating to creating a tax severance credit for oil and gas operators for use of alternative fluids in place of fresh water solely in the process of hydraulic fracturing (fracking).), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB4021, As Introduced: a negative impact of (\$10,133,000) through the biennium ending August 31, 2017.

**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2016	(\$5,333,000)
2017	(\$4,800,000)
2018	(\$3,520,000)
2019	(\$5,566,000)
2020	(\$9,867,000)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Savings from <i>General Revenue Fund</i> 1	Probable Revenue (Loss) from <i>General Revenue Fund</i> 1	Probable Revenue (Loss) from <i>Foundation School</i> <i>Fund</i> 193	Probable (Cost) from <i>State Highway Fund</i> 6
2016	\$0	(\$4,000,000)	(\$1,333,000)	\$0
2017	\$4,000,000	(\$6,600,000)	(\$2,200,000)	(\$2,000,000)
2018	\$6,600,000	(\$7,590,000)	(\$2,530,000)	(\$3,300,000)
2019	\$7,590,000	(\$9,867,000)	(\$3,289,000)	(\$3,795,000)
2020	\$9,867,000	(\$14,800,000)	(\$4,934,000)	(\$4,934,000)

<b>Fiscal Year</b>	<b>Probable (Cost) from Economic Stabilization Fund 599</b>
2016	\$0
2017	(\$2,000,000)
2018	(\$3,300,000)
2019	(\$3,795,000)
2020	(\$4,934,000)

## **Fiscal Analysis**

The bill would amend Chapters 201 and 202 of the Tax Code to provide a severance tax credit for using alternative fluids other than freshwater in hydraulic fracturing of an oil or natural gas well in its initial completion process. The bill would define alternative fluids as brackish groundwater, desalinated, recycled, municipal treated water or any other technologies that may be developed. The tax credit of \$50,000 per oil or natural gas well against severance taxes paid on the production from the well would begin on January 1, 2016.

The operator of the well would apply to the Comptroller for the tax credit. The Railroad Commission (RRC) would provide a list of qualified wells to the Comptroller on a quarterly basis. The RRC would certify a well for the tax credit. The RRC may conduct random inspections and collect and maintain the requisite tax credit data including the volume and location of the source of alternative fluids, and for groundwater the quality expressed in parts per million of total dissolved solids, and the GPS location of the source well.

The bill would authorize the RRC to impose a penalty for claiming this credit based on false information.

The bill would require the RRC to report by December 31, 2019, on the program's progress for further discussion of the extension of the program.

The bill would take effect 90 days after the 84th Legislature's Regular Session.

## **Methodology**

Since the end of 2013, a small number of leading producers fracturing wells in the Permian Basin and the Eagle Ford shale play have, in some cases, used alternative fluids other than fresh water to fracture-stimulate wells. As such, the fiscal implications were based on information publicly available concerning the use of alternative fluids and the assumption that the use would continue to grow.

## **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, KK, SD