**BILL ANALYSIS**

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| Senate Research Center | H.B. 3198 |
| 85R13136 LHC-F | By: Darby (Estes) |
|  | Finance |
|  | 5/11/2017 |
|  | Engrossed |

**AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

In order to reduce urban sprawl and help preserve family farms and ranches, the Texas Constitution and current law provide for an exemption from generally applicable ad valorem appraisal procedures. Qualifying open-spaced land is appraised according to an income capitalization formula, which bases the ad valorem taxes on the income from the land under ordinary, prudent management practices, instead of on its market value. If the land use changes so that the land no longer qualifies for the open-space land valuation, the county appraisal district imposes an additional, retroactive tax equal to the difference between the ad valorem taxes assessed under the open-space appraisal method and taxes that would have been assessed based on the land's market value for the five years preceding the change, plus interest at a rate of seven percent.

Under the Texas Constitution, land must be "devoted to farm, ranch, or wildlife management purposes" or timber production to be eligible for appraisal as open-space land. For 35 years, county appraisal districts treated surface acreage used for oil and gas exploration and production just like the surrounding farm and ranch land. However, in the last few years, a handful of counties have begun taking the position that land used for oil and gas production (drilling pads, roads, tank batteries, etc.) loses its eligibility for appraisal as open-space land. In these counties, landowners have lost eligibility to have land appraised under the open-space land exemption and owed five years of taxes with interest. Because the mineral estate is the dominant estate, a landowner ordinarily has little, if any, say in whether such facilities are built or where they are located. The adverse effects of losing open-space land exemptions due to oilfield activity are particularly harmful where the surface and minerals are severed, because in such situations the surface owner loses the open-space land exemption without any corresponding gain in the form of royalties.

H.B. 3198 seeks to soften the blow to landowners that has resulted from county appraisal districts changing their interpretation of the law after 35 years of consistency by providing that the five years of back taxes and interest that are normally due when open-space land use changes are not due from a surface owner whose land use change is the result of oil and gas exploration and production activities.

H.B. 3198 amends current law relating to liability for the additional tax imposed on land appraised for ad valorem tax purposes as qualified open-space land in the event of a change of use of the land as a result of oil and gas operations.

**RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

**SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Section 23.55, Tax Code, by adding Subsection (s), as follows:

(s) Provides that the sanctions provided by Subsection (a) (relating to the imposition of a certain additional tax on land, if the use of the land that has been appraised changes) do not apply to a change in the use of land that occurs as a result of a lessee conducting oil and gas operations under a lease over which the Railroad Commission of Texas has jurisdiction under Section 81.051 (Jurisdiction of Commission), Natural Resources Code.

SECTION 2. Makes application of this Act prospective.

SECTION 3. Effective date: September 1, 2017.