

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

**FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION**

**May 22, 2017**

**TO:** Honorable Joe Straus, Speaker of the House, House of Representatives

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

**IN RE: HB3198** by Darby (Relating to the eligibility of land to continue to be appraised for ad valorem tax purposes as qualified open-space land if the land begins to be used for oil and gas operations.), **As Passed 2nd House**

**The bill's provision that would continue special open-space appraisal on land on which oil and gas operations have commenced would create a cost to the state through the school finance formulas because land under an oil or gas operation that would otherwise be taxable at its market value would continue to receive a significantly lower special appraised value and would avoid the five year rollback provision that would require the payment of additional taxes.**

The bill would amend Chapter 23 of the Tax Code, regarding property tax appraisal methods and procedures, to provide that the eligibility of land for special open-space appraisal does not end because a lessee under an oil and gas lease begins conducting oil and gas operations over which the Railroad Commission of Texas (RRC) has jurisdiction on the land if the portion of the land on which oil and gas operations are not being conducted otherwise continues to qualify for such appraisal.

The bill would not affect an additional tax imposed as a result of a change of use of land that occurred before the effective date.

This bill's provision that would continue special open-space appraisal on land on which oil and gas operations have commenced would create a cost to local taxing units, and to the state through the school finance formulas because land under an oil or gas operation that would otherwise be taxable at its market value would continue to receive a significantly lower special appraised value and would avoid the five year rollback provision that would require the payment of additional taxes and interest. Although the bill specifies that the five year rollback is not retroactive, the bill could be interpreted to be retroactive in regard to the lower tax provided by the bill on open-space land on which oil and gas operations have commenced.

The amount of open space land underneath oil and gas operations that is appraised at market value under current law but would be appraised at the lower special appraisal value under the bill is unknown; consequently, the bill's cost cannot be estimated.

The bill would take effect September 1, 2017.

## **Local Government Impact**

The bill's provision that would continue special open-space appraisal on land on which oil and gas operations have commenced would create a cost to local taxing units because land under an oil or gas operation that would otherwise be taxable at its market value would continue to receive a significantly lower special appraised value and would avoid the five year rollback provision that would require the payment of additional taxes and interest.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** UP, KK, SD, SJS