LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

April 18, 2021

TO: Honorable Morgan Meyer, Chair, House Committee on Ways & Means

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB2292** by Landgraf (Relating to the appraisal for ad valorem tax purposes of a real property interest in oil or gas in place.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2292, As Introduced : a negative impact of ($151,073,214) through the biennium ending August 31, 2023.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	**Probable Net Positive/(Negative) Impact to *General Revenue Related Funds***
2022	$0
2023	($151,073,214)
2024	($156,224,363)
2025	($158,693,808)
2026	($163,807,358)

All Funds, Five-Year Impact:

Fiscal Year	**Probable Savings/(Cost) from *Foundation School Fund* 193**	**Probable Revenue Gain/(Loss) from *School Districts***	**Probable Revenue Gain/(Loss) from *Cities***	**Probable Revenue Gain/(Loss) from *Counties***
2022	$0	$0	$0	$0
2023	($151,073,214)	($343,082,000)	($4,390,000)	($103,609,000)
2024	($156,224,363)	($365,529,000)	($4,690,000)	($111,029,000)
2025	($158,693,808)	($389,477,000)	($5,011,000)	($118,981,000)
2026	($163,807,358)	($415,032,000)	($5,354,000)	($127,502,000)

Fiscal Year	**Probable Revenue Gain/(Loss) from *Other Special Districts***
2022	$0
2023	($3,647,000)
2024	($3,950,000)
2025	($4,278,000)
2026	($4,633,000)

Fiscal Analysis

The bill would amend Chapter 23 of the Tax Code, regarding property tax appraisal methods and procedures, to provide the starting price of oil or gas from a lease to be the average of the most recent two years. The bill would repeal the Energy Information Administration factor that adjusts the price to reflect the forecast for the upcoming year. The bill would fix the price anticipated for future years that are used in an appraisal to be the same as the starting price.

The bill would take effect January 1, 2022.

Methodology

Property tax appraisers use an income method to appraise oil and natural gas leases in the majority of cases. Income appraisals are forward-looking, and appraisers must predict several future variables to estimate market value. An important variable in the appraisal is the oil or natural gas price used over the projected future life of the lease. The appraiser estimates the market oil or natural gas price for the first year and escalates or de-escalates the price to account for future price changes. In many years oil and natural gas prices are projected to increase, in which case the price is escalated. The bill's requirement that appraisers use a fixed two-year average product price in each year of the appraisal would prevent appraisers from escalating or de-escalating prices and would disconnect the oil and natural gas prices used in the appraisal from then-current oil and natural gas market prices, thereby removing oil and natural gas appraisal from the normal market value standard. In many years the bill's prohibition of price escalation would result in reduced appraised values.

Further, in some years the bill's price averaging requirement would result in a lower than current market price for oil and natural gas and, in turn, an appraised value that is less than market value. In other years, depending on the amount and direction of price movement, the price and appraised values could be higher than market value. Article VIII, Section 20, of the Texas Constitution prohibits assessments in excess of market value; as such, oil and natural gas lease values resulting from the bill's pricing mechanism would be overruled if they exceeded market value. Values below market value are not constitutionally prohibited; thus, the pricing mechanism would result in oil and natural gas lease values significantly below market value in some years but would never result in final values significantly above market value.

The reduced oil and natural gas lease appraised values resulting from the bill's proposed pricing mechanism would create a cost to the state and to local taxing units. A sample of oil and natural gas leases was appraised using a standard price escalation scenario and compared to appraisals of the same leases with no price escalation. A reduced-price factor was added to estimate a percentage value loss. The estimated percentage value loss was applied to projected statewide oil and natural gas taxable values to estimate the value loss.

Projected tax rates were applied to the taxable value losses through the five-year projection period to estimate tax revenue losses to school districts, special districts, cities and counties. For informational purposes the initial loss to school districts is shown; however, under provisions of the Education Code, the school district tax revenue loss is partially transferred to the state.

The estimated cost to the Foundation School Program is an increase in state aid of $151,073,214 in fiscal year 2023, $156,224,363 in fiscal year 2024, $158,693,808 in fiscal year 2025, and $163,807,358 in fiscal year 2026.

Local Government Impact

The fiscal impact to units of local government is shown in the table above.

Source Agencies: 304 Comptroller of Public Accounts

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