LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 364** HLS 17RS 759
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 15, 2017 5:28 PM
Author: IVEY
Dept./Agy.: Revenue
Subject: Severance Tax
Analyst: Greg Albrecht

TAX/SEVERANCE TAX EG -$89,000,000 GF RV See Note

Provides with respect to the rate and base for the state tax on certain natural resources severed from the soil or water

Proposed law reduces the full-rate oil severance tax rate form 12.5% of value to 8%. The horizontal drilling exemption provisions that base the exemption amount on various oil and natural gas price thresholds is repealed. The term of horizontal drilling exemption is lengthened from 24 months to 60 months, and the exemption amount is set at 50% of the applicable severance tax rate, except for wells certified as stripper or incapable wells.

Contingent upon adoption of a constitutional amendment proposed in House Bill 356 of this session, and enactment of House Bills 357, 358, 359, 360, 361, 362, and 363 of this session.

EXPENDITURES	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**5 -YEAR TOTAL**
State Gen. Fd.	($89,000,000)	($92,000,000)	($96,000,000)	($98,000,000)	($101,000,000)	**($476,000,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	($9,000,000)	($9,000,000)	($9,000,000)	($9,000,000)	($9,000,000)	**($45,000,000)**
Annual Total	**($98,000,000)**	**($101,000,000)**	**($105,000,000)**	**($107,000,000)**	**($110,000,000)**	**($521,000,000)**

EXPENDITURE EXPLANATION

The Dept. of Revenue will incur costs associated with designing, modifying, and testing the tax processing system. These costs are typically estimated in the tens of thousands of dollars of staff time. An assessment of the cumulative need resulting from all legislation is made at the end of session which informs the budget request of the Dept.

REVENUE EXPLANATION

The reduces the full-rate oil severance tax rate by 36%. With oil severance tax making up approximately 65% of total severance tax collections, and about 90% of oil severance tax at full-rate, the resulting revenue loss is estimated at $98M in FY18, $101M in FY19, $105M in FY20, $107M in FY21, and $110M in FY22 (based on the current official forecasts of severance tax collections). Local governments with oil production would also lose revenue since they receive an allocation of state severance tax receipts. A rough estimate of that loss is $9M per year, depicted as a local revenue loss above since this allocation is constitutionally required without appropriation.

The lengthening of the horizontal exemption time period to 60 months from the current 24 months, even under a 50% exemption, works to reduce severance tax collections for three additional years of well production that would otherwise be subject to 100% severance taxation. For the first two years of a well's production the 50% exemption works to increase severance tax receipts relative to the current law 100% exemption. Presumably, these new provisions apply to wells applying for horizontal certification after the effective date of this bill. Thus, the potential gain in severance tax receipts for the 2-year window of reduced exemption will not likely to begin being realized until FY19 and even FY20 as operators file for refunds after drilling and production from affected wells has occurred. In addition, it is possible that a surge of well applications will occur prior to the effective date, delaying the realization of receipt gains further into the future.

The Dept. of Revenue assumed that the term and exemption rate changes to the horizontal drilling exemption would be effective with existing wells and production in the program. Under that scenario, the Dept. estimates that the drop in the exemption to 50% from 100% generates revenue of some $42M per year, partially offsetting the revenue loss from the full-rate tax reduction, such that net revenue losses are $56M in FY18 and $59M in FY19, shared by the state and local governments.

The repeal of the horizontal drilling tax exemption percentages based on various oil & gas price thresholds has no effect since these declining exemption amounts are unlikely to occur under the current price outlook.

Senate — Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

House

- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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