



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 631** HLS 15RS 1051
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 19, 2015 2:30 PM	Author: HARRIS
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Ties Horizontal Production to Oil Prices	

TAX/SEVERANCE-EXEMPTION OR SEE FISC NOTE GF RV Page 1 of 1
 Changes the amount and duration of the severance tax exemption for certain horizontally drilled wells

Current law fully exempts oil and gas production from horizontal wells from severance tax for the first 24-months of production or until well costs are paid.
Proposed law allows a 48-month suspension period but limits the amount of severance tax suspension based on the price of oil and gas during the suspension period. At prices lower than \$80 per barrel and \$4.50 per mcf no tax is due; between \$80-\$90 per barrel and \$4.50-\$5.50 per mcf tax rates are reduced by 80%; between \$90-\$100 and \$5.50-\$6.00 60%; between \$100-\$110 and \$6.00-\$6.50 40%; between \$110-\$120 and \$6.50-\$7.00 20%; and, higher than \$120 per barrel and \$7.00 per mcf no tax suspension is provided.

Effective July 1, 2015 for production that commences after December 31, 2015.

EXPENDITURES	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

REVENUES	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

EXPENDITURE EXPLANATION

Typically, the Department of Revenue (LDR) will incur costs for computer system modification and testing, tax form redesign, and tax payer inquiries that are small for individual tax law changes (likely to be several thousands of dollars) and are absorbed within existing resources until cumulative changes necessitate additional resources be provided. However, this bill establishes a more complicated severance tax requirement, along with oil and gas price determinations, that will likely will make implementation costs more substantial.

REVENUE EXPLANATION

By limiting the degree of suspension of tax at higher oil and gas prices, the state stands to gain revenue in the future to the extent horizontal production and higher oil & gas prices occur. However, current official forecasts of oil & gas prices are \$59.64 per barrel and \$4.00 per mcf for FY16, and rise to only \$72.48 per barrel and \$4.35 per mcf by FY20. Thus, the bill has no revenue effect through the fiscal note horizon, as prices are currently projected to fall below the minimum prices that result in no tax due.

Oil & gas prices are extremely uncertain and could exceed the bill's minimums in any fiscal year, triggering taxes due from horizontal production. The bill does not address a number issues necessary to enforcement intent of the bill such as which oil & gas prices are to be considered, who is to make the price determinations, are the determinations to establish severance tax rates for an annual period or less. Other implementation issues may also have to be considered.

To the extent severance taxes are eventually paid as a result of this bill, parishes would receive approximately 10% of total state receipts based upon the location of affected production.

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| Senate | <u>Dual Referral Rules</u> | House | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S} | |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} | |

John D. Carpenter
Legislative Fiscal Officer