

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 516** HLS 17RS 1065

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 13, 2017 5:45 PM	Author: BROADWATER
Dept./Agy.: Revenue / Natural Resources	Analyst: Greg Albrecht
Subject: Incapable and Stripper Wells	

TAX/SEVERANCE-EXEMPTION OR -\$28,500 GF RV See Note Page 1 of 1
Provides relative to the reductions to the rate of and exemptions from the severance tax

Proposed law creates a new lower severance tax for natural gas wells incapable of producing an average of 5,000 cubic feet of gas per day. The new rate (65/100 of a cent per mcf) reduced by one-half from the existing rate (1 3/10 of a cent per mcf) for these wells.

Proposed law also shifts the determination of incapable and stripper well classification (low volume wells classifications) for purposes of severance taxation from the Dept. of Revenue and to the Dept. of Natural Resources. To be eligible for the reduced rates of taxation available to such wells, the severer is to submit monthly production report to DNR.

Effective January 1, 2018.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	\$343,000	\$245,000	\$245,000	\$245,000	\$245,000	\$1,323,000
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	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$343,000	\$245,000	\$245,000	\$245,000	\$245,000	\$1,323,000

REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	(\$28,500)	(\$28,500)	(\$28,500)	(\$28,500)	(\$28,500)	(\$142,500)
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	(\$28,500)	(\$28,500)	(\$28,500)	(\$28,500)	(\$28,500)	(\$142,500)

EXPENDITURE EXPLANATION

According to the Dept. of Natural Resources, it does not currently track production on a per well basis, as required by the new reporting requirement of the bill. A new reporting system will have to be developed, either stand-alone or integrated into the existing DNR system. Development and implementation costs could be \$60,000 initially. DNR estimates that some 35,000 wells may fall into the reporting requirement as incapable and stripper wells, requiring a significant increase in personnel to manage the monthly determinations of classification for taxation purposes. DNR indicates as many as seven additional positions would be required. On-going compensation costs could start at \$234,000 plus one-time equipment costs of \$49,000. First year costs could be \$343,000, then \$245,000 per year after that.

Taxpayers would still have to submit monthly tax returns and tax payments to the Dept. of Revenue. Presumably, the two depts. would have to coordinate the information being provided to each in order to insure the appropriate tax rate is applied to to each taxpayer's production.

REVENUE EXPLANATION

The bill reduces the severance tax rate (by one-half) on wells producing less than 5,000 cubic feet of gas per day. This results in a loss of state severance tax revenue, as well as the constitutional allocation to local governments. However, DNR reports that it has no way to distinguish the new marginal incapable well category from the current incapable well category. Thus, the number of wells and production volumes that will face a lower severance tax rate under the bill can not be estimated, as well as the associated severance tax revenue reduction.

According to the Dept. of Revenue, in January of 2017 there were 19,462 wells that would have qualified for the reduced tax rate in this bill (up dramatically from 9,001 wells in January 2016 data). Based on data in FY17 to-date, the wells affected by this reduced rate are expected to generate only \$57,000 of severance tax collections this year. Thus, the rate cut in this bill results in a \$28,500 per year revenue loss.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
 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}

John D. Carpenter
Legislative Fiscal Officer