LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 461** HLS 17RS 921
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

Date: May 31, 2017 1:17 PM
Author: BISHOP, S.
Dept./Agy.: Revenue / Natural Resources
Subject: Inactive and Orphan Well Severance Tax Exemption
Analyst: Greg Albrecht

TAX/SEVERANCE-EXEMPTION RE DECREASE GF RV See Note
Provides for severance tax exemptions for certain inactive and orphan wells

Proposed law reestablishes the severance tax preference granted to oil & gas wells that have been inactive for two or more years, with a 50% tax rate reduction for a ten-year period (formerly 100% exempt for five-years). In addition, a new reduction is added for wells designated as orphan wells for more than 60-months. These wells would be granted a 75% tax rate reduction for a ten-year period. To qualify for these tax reductions, application for certification must be made between July 1, 2018 and June 30, 2023.

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.	$0	$0	DECREASE	DECREASE	DECREASE	**$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**

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 ($51,000 in this case). 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. The Dept. of Natural Resources did not indicate any additional administrative costs on their part.

REVENUE EXPLANATION

The current version of the program has essentially played out as virtually all participating wells and production having received the current law five-year tax exemption. The bill would reestablish the program with a ten-year 50% tax reduction for participating inactive wells/production, and a ten-year 75% tax reduction for participating orphan wells/production.

To the extent that inactive wells and orphaned wells are brought back into production in the absence of this bill, the bill can only work to reduce state severance tax receipts from what they would otherwise be. However, discussions with DNR indicate that few such wells have been brought into production in recent years, and the oil & gas price outlook suggests that this minimal baseline of activity is likely to be the norm for the foreseeable future. Thus, this new tax reduction program may have only a minor negative effect on state tax receipts.

The bill only applies to wells that apply for certification as eligible during the period July 1, 2018 through June 30, 2023. The earliest revenue losses might occur is late FY19, but most likely in FY20 and beyond.

DNR indicates that there are over 3,500 orphan wells in the state and possibly 10,000 or more inactive wells. The state risk exposure to a tax reduction program available to a large number of potential wells involves the possibility of significant price increases, the advent of new technologies that significantly reduce production costs of these types of wells, and the shifting of industry resources toward these types of wells and away from other full taxable production wells.

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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