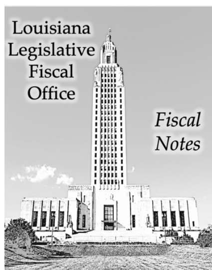

LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 658** HLS 21RS 845
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 2, 2021 2:10 PM
Author: COUSSAN
Dept./Agy.: Natural Resources / Revenue
Subject: Severance Tax Exemption For Enhanced Oil Wells
Analyst: Greg Albrecht

TAX/SEVERANCE-EXEMPTION OR -$1,053,000 GF RV See Note

Exempts oil production of newly completed wells that are undergoing or have undergone certain well enhancements

Present law imposes a severance tax rate on most oil produced in the state at 12.5% of value. Wells producing less than 25 barrels per day and at least 50% salt water per day pay one-half that full-rate (incapable wells, 6.25%). Wells producing less than 10 barrels per day pay one-quarter the full-rate (stripper wells, 3.125%).

Proposed law provides a severance tax exemption for oil production from any newly completed well that is undergoing or has undergone permitted enhancements. The exemption shall be for the first 5,000 barrels produced following completion of enhancement. Available to wells that commence production on or after January 1, 2022 and on or before December 31, 2024. Only one exemption is allowed per wellhead.

Effective upon governor's signature.

EXPENDITURES	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**5 -YEAR TOTAL**
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	$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**

REVENUES	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**5 -YEAR TOTAL**
State Gen. Fd.	($1,053,000)	($3,968,000)	($4,126,000)	($2,942,000)	$0	**($12,089,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	($79,000)	($299,000)	($311,000)	($221,000)	$0	**($910,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($1,132,000)**	**($4,267,000)**	**($4,437,000)**	**($3,163,000)**	**$0**	**($12,999,000)**

EXPENDITURE EXPLANATION

The Dept. of Natural Resources indicates no additional administrative expenses. The Dept. of Revenue has indicated $77,000 of staff time to modify tax processing systems to incorporate similar exemptions provided in other bills, as well as 2 additional positions (Compliance Division and Field Audit Division) at roughly $160,000 per year; one-half of one position in FY22 plus setup costs, and 2 positions annually through the life of the program. This bill involves fewer participating wells but the exemption is based on a barrels produced count rather than a fixed time period, varying the exempt period per well.

REVENUE EXPLANATION

The LSU Center for Energy Studies (CES) analyzed the bill in consultation with a number of other analysts. That analysis was based on an existing baseline of 160 enhanced wells per year in the state, modeled well types (full-rate, incapable, and stripper), accounted for production decline rates, the number of exempt barrels provided by the bill, the differing severance tax rates based on well production volumes, and the current official REC forecasts of oil prices. The resulting baseline severance tax losses were estimated at $1.1M in FY22, $4.3M FY23, $4.4M FY24, $3.2M FY25, and no losses in FY26; totaling $13M over five years. These estimates assumed no longer than 6 months of exemption. However, the bill does not contain that limitation. If only a 5,000 barrel limitation is provided, baseline revenue losses would be significantly greater than the estimates above, as numerous wells may take much longer than 6 months to achieve 5,000 barrel of post-enhancement production. About 7% of these losses will accrue to the parish severance tax allocation. DNR/LFO estimated $7.6M of losses. CES also estimated the bill's possible effects on inducing additional oil drilling, and the associated economy-wide impacts. This analysis was based on the effect on the internal rate of return of wells from the oil price change equivalent of the severance tax exemption, and earlier CES estimates of the long-run responsiveness of oil production to oil price changes. The results appear to be 16 additional enhancements producing over a five year period. Production from these wells could offset losses by 14% over five years, with state royalty gains providing another 3% of offset (if all were on state land/waters). General economy-wide tax receipts attributable to the spending associated with these induced wells provides another 9.1% offset. Total positive offsets to the baseline severance tax losses were 26%. To complete the analysis, the state's balanced budget constraint was recognized, requiring governmental spending reductions or compensating tax increases matching the severance tax losses. The analysis reduced state government spending through various sectors of the economy, proportional to the state budget, negating 17% of the positive offsets (generously reducing spending after positive offsets and not accounting for federal match consequences of health care spending cuts). Complete results reduced the baseline severance tax loss by 21.7%. This offset is as large as it is because the bill affects an industry with a long presence and well-developed supplier linkages in the state economy. Other incentive programs may not provide similar effects. While this type of analysis can provide interesting results, and the CES analysis is quite thorough and involved considerable hours of work, various aspects of analysis such as this in general are subject to increased levels of uncertainty, and are less reliable for budgeting purposes.

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Christopher A. Keaton
Legislative Fiscal Officer