LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 25** HLS 243ES 10
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: November 17, 2024 5:52 PM
Author: RISER
Dept./Agy.: Revenue
Subject: Severance Tax Rates, Dedications, Exemptions
Analyst: Benjamin Vincent

TAX/SEVERANCE TAX RE DECREASE RV See Note
Provides relative to severance tax on oil and gas and for dedication of certain severance tax revenues (Item #9)

Proposed law generally reduces crude oil severance tax rates while effectively increasing the natural gas rates. Proposed law alters the methodologies for the estimation of severance tax liability and certain exemptions for natural gas, and effectively expands a major deduction for natural gas liability. Proposed law repeals or sunsets certain exemptions and incentives. Proposed law repeals dedications of certain mineral revenues to certain funds, and increases the maximum allocation of mineral revenues to parishes.

Effective upon adoption of the constitutional amendment proposed in HB 7 of the 3rd Extraordinary Session of 2024 ("HB 7") at a statewide election, and applicable to taxable periods beginning on or after July 1, 2025.

EXPENDITURES	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	**$200,000**	$0	$0	$0	$0	**$200,000**
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	**$200,000**	**$0**	**$0**	**$0**	**$0**	**$200,000**

REVENUES	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	**DECREASE**	**DECREASE**	**DECREASE**	**DECREASE**	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**					**$0**

EXPENDITURE EXPLANATION
LDR reports an anticipated one-time expenditure increase amounting to approximately $200,000 for system design, development, specification, and testing to accommodate tax return changes. Any such increase would come out of SGR collections, as reflected in the table above. Any such expenditure increases will serve to mechanically reduce net receipts (SGF) by a like amount. LFO assumes these expenditures would impact FY 25.

REVENUE EXPLANATION
The **overall estimated fiscal impact of this proposal is based on recent-year mineral revenue collections, and is indeterminable for any particular year. The impact on tax receipts in any given year could be positive or negative**, with an estimated range of approximately -$400 million to +$250 million. **In most years the overall revenue impact is likely to be negative relative to current law, and combining all aspects of this bill, is likely to amount to a typical net negative revenue impact of approximately $50 million - $125 million.**

The anticipated impact of proposed crude oil rate changes in isolation is a revenue loss in all years, while the impact of proposed natural gas changes (in isolation) suggests that in any given year the overall revenue impact could be either materially positive or materially negative (and typically negative).

Crude Oil Rate Reduction:
For certain new production, and for existing production that is reclassified as new production, fully-taxable oil severance tax rates will decline from 12.5% to approximately 6%, and the applicable rate will be applied directly to the value of oil produced, less certain expenses. Other severance rates will be reduced by similar proportions. The impact of the oil rate reductions in isolation would serve to reduce oil severance revenues. Overall the effect of the crude oil severance tax rates change is anticipated to reduce revenues roughly in proportion to the rate reduction, which is approximately 52%. This effect will be phased-in, as the new rate applies mainly to production from wells completed after July 1, 2025. Production data by well age, combined with oil severance data from FY23 implies a potential revenue reduction of approximately $22 million in FY26, increasing to approximately $178 million by FY35 due to the crude oil severance rate provisions. Reclassification of certain existing production as eligible for the new rate will typically result in an additional $20 million loss.

Natural Gas Effective Rate Change:
Taxing natural gas severance at 4% or 6% of the determined severance price (depending on well completion date) is designed to partially offset the revenue reduction implied by the reduced oil severance tax rate. However, expanding eligibility for the new reduced rate to wells that worked over will result in an additional revenue reduction of approximately $55 million. **(continued on Page 2)**

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

House
- [x] 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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CONTINUED EXPLANATION from page one:

Natural Gas Effective Rate Change, continued:
LFO believes that if not for the allowance of the deduction on certain production costs including transportation costs, on average the natural gas rates in proposed law would eventually approximately offset the reductions in oil severance collections.

The revenue impact of increased natural gas severance rates is unlikely to offset the oil severance loss precisely in any given year, and may be either greater or less than the reduced oil severance amount, resulting in a net revenue impact that could be positive or negative. Additionally, the deduction allowed for transportation costs implies that the net revenue impact of the bill will be net negative relative to current law more often than not.

For an illustrative exercise, LFO roughly estimated oil and gas severance impacts that would have resulted had this proposal been enacted in recent years, and compared the resulting impacts to actual collections. For this exercise, LFO assumed that approximately 50% of gas production is from wells under two years old, and that approximately 13% of oil production is from wells under two years old.

Using FY21, FY22, FY23, and FY24 as sample years, LFO simulated the impact of the proposed tax structures in a scenario where FY26 matched the price and production characteristics of those years. For natural gas severance, the impacts swung materially depending on the year, resulting in impacts ranging between a revenue loss of $400 million and a revenue gain of $300 million after taking natural gas deductions into account. Massive intra-year natural gas price swings during the years examined appear to drive most of the volatility in the differences by year.

Repealed Dedications & Allocations of Mineral Revenues:
The proposal additionally eliminates several dedications of mineral revenue, while removing the maximum allocation of severance tax collections to parishes. These changes generally mirror those contained in the proposed constitutional amendment in HB 7. Should both the amendment in HB 7 and this bill become effective, the allocation of tax collections between the general fund and dedicated funds will change materially.

The removal of the maximum parish allocation will transfer additional funds from SGF to the (dedicated) parish allocation, while the removal of other dedications of mineral revenue will result in more funds remaining in SGF than would otherwise occur. Several of these repealed dedications are described in more detail in the fiscal note accompanying HB 7 (and that of its statutory companion, HB 12). Repealed dedications of mineral revenue contained in this proposal include the Conservation Fund, the Oil and Gas Regulatory Dedicated Fund Account, the Transportation Trust Fund, the LASERS & TRSL Unfunded Accrued Liability, and the Revenue Stabilization Trust Fund. Should this bill be passed into law by the legislature, its provisions would be of no effect unless and until the amendment in HB 7 became effective as well, following adoption at a statewide vote in March 2025.

Other Exemptions:
The proposal specifies that the horizontal and deep well exemptions are still allowed through December 31, 2035, however the well must be in a "regulatory unit" that was certified on or before July 1, 2025. Due to the definition of regulatory unit that would still allow participation in the horizontal exemption, LFO does not anticipate a material impact due to this restriction.

The proposal additionally repeals the produced water injection incentive and reclaimed oil incentive. No material impact is anticipated due to these changes.