F I S C A L   I M P A C T   R E P O R T

SPONSOR Whitaker **DATE TYPED** 02/02/05 **HB** 434

SHORT TITLE Subject Helium To Various Severance Taxes **SB**

ANALYST Padilla-Jackson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	See Narrative	Increasing	Recurring	Severance Tax Bonding Fund
	See Narrative	Increasing	Recurring	General Fund
	See Narrative	Increasing	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 434 amends current severance tax laws to include helium and hydrocarbon gasses in the definition of products that are severed and sold and for which various taxes are imposed. The applicable taxes include the oil and gas severance tax (3.75%), the oil and gas conservation tax (0.19%), the oil and gas school emergency tax (3.15%), the oil and gas ad valorem production tax, and the oil and gas production equipment ad valorem tax. Taxable value is defined in current law as the actual price received for products at the production unit, including deductions for royalties paid to state and federal governments and/or Indian tribes and transportation to the first place of market.

House Bill 434 also amends the current statute to specify the tax remittance due date for coal and uranium as "on or before the twenty-fifth day of the month following the month in which the taxable event occurs. According to TRD, this amendment makes the due date consistent with other provisions on coal and uranium.

The effective date of the provisions of this bill is July 1, 2005.

Significant Issues

Helium is a common byproduct of natural gasses. According to a recent report by the New Mexico Bureau of Geology and Mineral Resources (BGMR), helium gas has been produced in New Mexico since 1943, with production coming from eight oil and gas fields located in northwestern New Mexico. Unfortunately, as TRD notes below, statistics on state helium production and sales are not available. According to the report, gases with helium contents of more than 0.3 percent are considered to be of commercial interest as helium sources and only 17.6 percent of all natural gases in the U.S. contain more than 0.3 mole percent helium. Furthermore, six natural gas reservoirs are reported to contain an estimated 97 percent of all identified helium reserves in the United States, all of which are located outside of New Mexico. That said, the report notes that gases with helium contents ranging from 0.3 to almost 1.0 percent do occur in reservoirs along the northwest flank of the Permian Basin and other basins and areas in New Mexico are characterized by helium-rich gases and are of significant exploratory interest.

The report showed that total helium sales in the United States increased 13 percent from 1998 to 2002, while domestic production has fallen by 22 percent, which they believe indicates a need to identify and develop new sources of helium.

FISCAL IMPLICATIONS

The analysis provided by TRD suggests the fiscal impact will be minimal in the near term. According to TRD, the best information available is that little, if any, helium is currently being produced on a commercial basis in New Mexico. TRD expects this to change in the future since the demand for helium, and the price, has been growing rapidly according to the US Geological Survey. BGMR reported that the private industry price for Grade A helium was estimated to be \$60 to \$65 per thousand ft^3 in 2003, up from \$42 to \$50 per thousand ft^3 in 2000. Of course, this bill would increase the cost of producing helium, which raises the breakeven threshold for profitability.

ADMINISTRATIVE IMPLICATIONS

TRD expects that the bill's provisions will have a only a minimal impact on the department to reprogram systems and processes for the new minerals.

TRD also notes that the change in due dates for coal conservation tax would mean that taxpayers would receive a refund of their advance payment balances estimated at about $100,000 in total. System changes would be needed to recognize new return and payment due date.

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