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

SPONSOR Foley **DATE TYPED** 02/18/05 **HB** 644

SHORT TITLE Decrease Natural Gas Severance Tax Rate **SB**

ANALYST Padilla-Jackson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY06	FY07			
($50,500.0)	($48,400.0)	Similar	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Similar to Senate Bill 764.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue (TRD)

SUMMARY

Synopsis of Bill

House Bill 644 proposes to decrease the tax rate on the severance of natural gas to the same rate currently imposed on the severance of crude oil. Specifically, the bill would decrease the Emergency School Tax rate on natural gas from 4 percent of taxable value to 3.15 percent. The bill would also reduce the stripper well incentive rates to be in the same proportion to 3.15 percent as the old rates were to 4 percent.

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

Significant Issues

The tax increase would equalize the rate paid by both natural gas and crude oil producers, placing them on equal footing. That said, current tax rate differentials between natural gas and crude oil producers could likely represent differences in profitability.

FISCAL IMPLICATIONS

The total negative fiscal impact of this bill is $50.5 million for FY06 to the general fund. The fiscal impact is calculated by comparing the product of the gas taxable value estimate by the proposed new rate of 3.15 percent versus the product of the gas taxable value estimate by the existing rate of 4 percent. The assumed taxable value is based on the most up to date consensus oil and gas revenue estimates for FY06 and FY07. The fiscal impact could change based on changes in natural gas prices, which have tended to be fairly volatile in recent years. Since the current consensus forecast assumes natural gas prices will remain above $4.00 per thousand cubic (Mcf) feet through FY09, it is unlikely that the reduced rates for the stripper wells would have a fiscal impact in the foreseeable future. The table below presents the natural gas estimates by the consensus group forecast.

Consensus Group Forecast Oil and Gas Estimates

	FY05	FY06	FY07	FY08	FY09
Gas Price	$5.20	$4.80	$4.65	$4.50	$4.35
Gas volume	1,525	1,510	1,495	1,480	1,465
Gas Deductions	18.00%	18.00%	18.00%	18.00%	18.00%
Gas Taxable Value	$6,503	$5,942	$5,699	$5,460	$5,225

ADMINISTRATIVE IMPLICATIONS

Minimal impact to TRD.

OTHER SUBSTANTIVE ISSUES

TRD notes that the stripper well incentive prices of $1.15/Mcf and $1.35/Mcf seem low amid the dramatic shift in natural gas prices over the last several years. They note that it may be a very long time before prices are in this range and recommend a higher price for the incentive rates.

OPJ/lg