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(Lewis)

S.B. No. 1505

A BILL TO BE ENTITLED

AN ACT

relating to the appraisal for ad valorem tax purposes of a real property interest in oil or gas in place.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 23.175, Tax Code, is amended to read as follows:

Sec. 23.175. OIL OR GAS INTEREST. (a) If a real property interest in oil or gas in place is appraised by a method that takes into account the future income from the sale of oil or gas to be produced from the interest, the method must use the average price of the oil or gas from the interest for the preceding calendar year multiplied by a price adjustment [~~market condition~~] factor as the price at which the oil or gas produced from the interest is projected to be sold in the current year of the appraisal. The average price for the preceding calendar year is calculated by dividing the sum of the monthly average prices for which oil and gas from the interest was selling during each month of the preceding calendar year by 12. If there was no production of oil or gas from the interest during any month of the preceding calendar year, the average price for which similar oil and gas from comparable interests was selling during that month is to be used. The chief appraiser [~~comptroller~~] shall calculate the price adjustment [~~market condition~~] factor by dividing the price of imported low-sulfur light crude oil in nominal dollars or the spot price of

1 natural gas at the Henry Hub in nominal dollars, as applicable, as  
2 projected for the current calendar year by the United States Energy  
3 Information Administration in the most recently published Early  
4 Release Overview of the Annual Energy Outlook [~~comptroller's~~  
5 ~~current calendar year statewide average price for oil or gas, as~~  
6 ~~applicable, forecasted for revenue estimating purposes]~~ by the  
7 price of imported low-sulfur light crude oil in nominal dollars or  
8 the spot price of natural gas at the Henry Hub in nominal dollars,  
9 as applicable, for the preceding calendar year as stated in the same  
10 report [~~preceding calendar year actual statewide average price for~~  
11 ~~oil or gas, as applicable. For purposes of calculating the market~~  
12 ~~condition factor, "price" means the market value of oil or gas as~~  
13 ~~determined under Subchapter C, Chapter 201, or Section 202.053, as~~  
14 ~~applicable. The comptroller shall calculate the preceding calendar~~  
15 ~~year actual statewide average prices for oil and gas and the market~~  
16 ~~condition factors for oil and gas and publish that information to be~~  
17 ~~used for ad valorem tax appraisal purposes concurrently with the~~  
18 ~~current calendar year statewide average prices for oil and gas~~  
19 ~~forecasted for revenue estimating purposes]. The price for the~~

20 interest used in the second through the sixth [~~or a subsequent~~]  
21 calendar year of the appraisal may not reflect an annual escalation  
22 or de-escalation rate that exceeds the average annual percentage  
23 change from 1982 to the most recent year for which the information  
24 is available in the producer price index for domestically produced  
25 petroleum or for natural gas, as applicable, as published by the  
26 Bureau of Labor Statistics of the United States Department of  
27 Labor. The price for the interest used in the sixth calendar year

1 of the appraisal must be used in each subsequent year of the  
2 appraisal [~~shall reflect the same percentage rate increase or~~  
3 ~~decrease in the price for oil or gas, as applicable, as projected~~  
4 ~~for that calendar year by the comptroller for revenue estimating~~  
5 ~~purposes~~].

6 (b) The comptroller by rule shall develop and distribute to  
7 each appraisal office appraisal manuals that specify the formula to  
8 be used in computing the limit on the price for an interest used in  
9 the second through the sixth year of an appraisal and the methods  
10 and procedures to discount future income from the sale of oil or gas  
11 from the interest to present value.

12 (c) Each appraisal office shall use the formula, methods,  
13 and procedures specified by the appraisal manuals developed under  
14 Subsection (b) [~~of this section~~].

15 SECTION 2. This Act applies only to the appraisal for ad  
16 valorem tax purposes of a real property interest in oil or gas in  
17 place for a tax year beginning on or after the effective date of  
18 this Act.

19 SECTION 3. This Act takes effect January 1, 2012.