

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 27, 2011

TO: Honorable Harvey Hilderbran, Chair, House Committee on Ways & Means

FROM: John S O'Brien, Director, Legislative Budget Board

IN RE: HB889 by Lewis (relating to the appraisal for ad valorem tax purposes of a real property interest in oil or gas in place.), **Committee Report 1st House, Substituted**

The EIA price forecast proposed by the bill is expected to be higher than the price forecast that would be used under current law, producing a property tax revenue gain. The expected gain would be partially offset by the more conservative price escalation method proposed by the bill. Overall, the bill's fiscal impact may range from being revenue neutral to producing a gain in the low millions of dollars to the state through the operation of the school funding formula.

The bill would amend Section 23.175 of the Tax Code, relating to the property tax appraisal of oil and natural gas reserves. The bill would require the chief appraiser (rather than the Comptroller) to calculate a price adjustment factor to be multiplied by the previous year's average price of oil or natural gas from the oil or gas interest. The resulting price would be used in the first year of the appraisal. The price adjustment factor would be based on oil and natural gas prices projected by the U.S. Energy Information Administration (EIA) and would be calculated by dividing the forecasted current year price by the previous year's price published by the EIA.

The bill would limit the escalation or de-escalation of oil or natural gas prices in the appraisal to the second through the sixth year of the appraisal and would prohibit the escalation or de-escalation from exceeding the average annual percentage change from 1982 through the most recent year in the producer price index for domestically produced petroleum or for natural gas, as applicable, as published by the Bureau of Labor Statistics of the U.S. Department of Labor. The Comptroller would be required to distribute to each appraisal office appraisal manuals that specify the formula to be used in computing the escalation or de-escalation rate.

The EIA price forecast proposed by the bill is expected to be higher than the price forecast that would be used under current law, producing a property tax revenue gain. The expected gain would be partially offset by the more conservative price escalation method proposed by the bill. Overall, the bill's fiscal impact may range from being revenue neutral to producing a gain in the low millions of dollars to local taxing units and to the state through the operation of the school funding formula. Because of the uncertainty related to future oil and natural gas prices, however, a more exact fiscal impact cannot be estimated.

The bill would take effect on January 1, 2012.

Local Government Impact

The EIA price forecast proposed by the bill is expected to be higher than the price forecast that would be used under current law, producing a property tax revenue gain. The expected gain would be partially offset by the more conservative price escalation method proposed by the bill. Overall, the bill's fiscal impact may range from being revenue neutral to producing a gain in the low millions of dollars to local taxing units.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, KK, SD, SJS