FISCAL NOTE

Requested by Legislative Council
03/10/2009

REVISION

Amendment to: Engrossed
HB 1235

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				($49,800,000)		
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1235 Second Engrossment creates a new well incentive for oil production that occurs from a new horizontal well drilled and completed after April 30, 2009 during any periods when current law incentives are "triggered off".

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

HB 1235 Second Engrossment creates a new well incentive by imposing a reduced oil extraction tax rate of 2% for production from any new horizontal well drilled and completed after April 30, 2009. The incentive for each well is limited to the first $4.5 million in gross value, the first 75,000 barrels of oil produced, or the first 18 months after completion, whichever occurs first.

Generally, this incentive would not be in effect during any time when the current law incentives are "triggered on" as the current law incentives are more beneficial to the oil industry than those contained in this bill. Therefore, the negative fiscal impact is calculated to occur only during the final 15 months of the 2009-11 biennium, when the current law incentives are assumed to trigger back off due to rising oil prices. This is consistent with the February 2009 Legislative Council forecast.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

The fiscal impact of HB 1235 Second Engrossment is estimated to total -$49.8 million. This impact is expected to reduce permanent oil tax trust fund revenues by an estimated $29.9 million, and resources trust fund and education fund revenues by $9.9 million each.

This fiscal impact assumes 20 new qualifying wells are drilled each month with average production of 300 BOPD for the first year, declining 50% per year. The provisions of the bill limit the incentive to 75,000 barrels for each well, which is assumed to occur on the average during the third quarter of production for each new well.

This fiscal note was revised to tie in to the Legislative Forecast assumptions about oil prices and to provide more detail about the new well assumptions.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	**Agency:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	03/10/2009