FISCAL NOTE

Requested by Legislative Council
03/20/2009

Amendment to: Reengrossed
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						
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 Engr with Senate Amendments 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", and oil prices (West Texas Intermediate) are below $55.

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 with Senate Amendments creates a new well incentive by imposing a reduced oil extraction tax rate of 2% for production from a new horizontal well drilled and completed after April 30, 2009, beginning with a period when current law incentives are "triggered off" and the price of oil is below $55. 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.

This incentive would not be in effect during any time when the current law incentives are "triggered on". In effect, this bill creates a second price trigger, enabling new horizontal wells to recieve a reduced oil extraction tax rate of 2%. This new trigger would stay in effect until prices rise to $70 and above. At that point, this incentive would become ineffective, except for wells having already been drilled and completed during a "triggered on" period. These wells would retain their reduced rate incentive until they produce for 18 months, gross $4.5 million, or 75,000 barrels, or become classified as a stripper well.

The fiscal impact of HB 1235 Second Engrossment with Senate Amendments is zero relative to the official Legislative Council revised February forecast. This forecast assumes the current law incentives trigger off at a time when prices are above $55 and are assumed to continue to escalate through the rest of the biennium. If this occurs, the new trigger mechanism in this bill would not trigger on, and this incentive would not become effective. If oil prices and revenue fall below forecast, this incentive would become effective providing tax relief to new wells.

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.*

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.*

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