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

SPONSOR Whitaker **DATE TYPED** 2/08/04 **HB** 116/aHRTC

SHORT TITLE Helium Subject to Severance Taxes **SB**

ANALYST Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
		See Narrative	Recurring	Severance Tax Bonding Fund
			Recurring	General Fund
			Recurring	Local Governments
			Recurring	Reclamation Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Response Received From

Taxation and Revenue Department (TRD)
State Land Office (SLO)
New Mexico Energy, Minerals and Natural Resources (EMNRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment adds helium and non-hydrocarbon gases under the Oil and Gas Severance Tax Act (3.75%) and under the Oil and Gas Emergency School Tax Act (3.15%). Also the definition of taxable value under those two acts is amended to include references to helium.

<u>Synopsis of Original Bill</u>

House Bill 116 amends statute to include helium for taxation under the Oil and Gas Severance Tax Act (Severance Tax Bonding), Oil and Gas Conservation Act (General Fund & Reclamation Fund), Oil and Gas Emergency School Tax Act (General Fund), Oil and Gas Ad Valorem Production Tax Act (Property Tax) and the Oil and Gas Production Equipment Ad Valorem Tax Act (Property Tax).

FISCAL IMPLICATIONS

TRD indicates that specific information on the amount and value of helium produced in New Mexico is not available. TRD notes US Geological Survey figures of nation-wide sales of $285 million in 2003.

TECHNICAL ISSUES

TRD notes the following sections of law would need to be amended to included reference to helium:

- Section 7-29-4: Specifying tax rates under the oil and gas severance tax.
- Section 7-29-4.1: Taxable value definition under O&G severance tax
- Section 7-30-5: Taxable value for the O&G conservation tax
- Section 7-31-4: Specifying tax rates under the O&G emergency school tax

OTHER SUBSTANTIVE ISSUES

Continental supplies of critical natural resources seem to be receding as the following excerpt from CERA's Winter 2004 North American Natural Gas watch indicates.

> In contrast to the 1970s and 1980s, no ready policy or supply alternatives are available to return the market to the gas bubble era. The market is now aligned with the goals of market deregulation: producers and consumers see and respond to prices. Producers are responding to price signals, but the supply response will reflect not so much higher prices as the inability to grow productive capacity in mature North American basins. There are no new western Canadian or deepwater regions just around the corner—access to new areas is limited by regulation, and the lead time to bring Alaskan gas to market pushes that supply source out into the next decade. Demand, in the meantime, continues to bid prices to high levels and is set to grow over the next several years in the relatively price-inelastic sectors, primarily owing to increased utilization of the recent substantial additions of power plants that are almost exclusively gas fired.

The current Consenus Revenue Estimating Group's FY05 forecast is consistent, incorporating approximately 2 percent decline in production; this decline is included in subsequent years as well. Adding helium to the taxable base in New Mexico may help mitigate production declines in other critical natural resources.

SN/lg:yr