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FISCAL IMPACT REPORT

SPONSOR: Whitaker DATE TYPED: 2-11-99 HB 281

SHORT TITLE: Well Overwork Projects SB

ANALYST: Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY99	**FY2000**			
N.A.	$ (320.0)	$ (340.0)	Recurring	Severance Tax Bonding Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to HB-11, HB-280, HB-436

SOURCES OF INFORMATION

Taxation and Revenue (TRD)
Energy Mineral and Natural Resources Department, Oil Conservation Division (OCD)

SUMMARY

Synopsis of Bill

House Bill 281 proposes changes to oil and gas well workover incentives. The bill would qualify all production from workover oil and gas wells for the incentive rate, but increase the incentive severance tax rate for from 1.875 percent to 2.45 percent.

FISCAL IMPLICATIONS

TRD has estimated that the bill would cost $320 thousand in FY 2000 and $340 thousand on a full year basis. TRD's estimate is based on applying the new incentive rate–2.45 percent to an estimated, but unstated level of production. OCD reports that the revenue impacts are uncertain, but that the higher rate was designed to be revenue neutral.

ADMINISTRATIVE IMPLICATIONS

Neither TRD nor OCD reports an impact in the administering the incentive. TRD, however, says that it could result in the need for increased audits.

OTHER SUBSTANTIVE ISSUES

1. OCD reports that the tax rate in the bill was designed to be revenue neutral, but TRD reports some revenue loss to the Severance Tax Bonding Fund. Since, both TRD and OCD operate off the same data base system to get price and production information, arriving at a revenue neutral should not be technically difficult.

2. There are nearly always conflicts on what constitutes good tax policy. For the incentive program to work, it needs to be understandable, predictable and relatively easy to administer. This bill attempts to address those issues. In order to make the program more administratively efficient, some economic efficiency is sacrificed in the sense that the lower rate applies to all production instead of just added production, resulting in a weaker incentive structure.

3. TRD says that the revenue losses could be much higher, perhaps $53 million in FY2000. In order to arrive at a loss of this magnitude, one would have to assume that all production would be eligible for the lower rate. TRD suggests that this might be possible because the definition of a well workover is vague.

POSSIBLE QUESTIONS

1. Based on the production assumptions used as a basis for the revenue impact, can TRD calculate what a revenue neutral rate would be?

2. Can TRD suggest an alternative definition to workover projects that would both allay their concerns about its current vagueness and also be administratively reasonable?

BT/gm