FISCAL NOTE

(Return original and 10 copies)

Bill/Resolution No.: HB 1257 Amendment to: ______

Requested by Legislative Council Date of Request: 1-11-95

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, and cities.

   Narrative:

   If enacted, HB 1257 is expected to decrease revenues by -$1,314,000; distributed as shown below: (See attached explanation)

2. State fiscal effect in dollar amounts:

	1993-95 Biennium		1995-97 Biennium		1997-99 Biennium	
	General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
Revenues:			approx. -$1,254,000	approx. -$700,000		
Expenditures:						

3. What, if any, is the effect of this measure on the appropriation for your agency or department:

   a. For rest of 1993-95 biennium: ______

   b. For the 1995-97 biennium: ______

   c. For the 1997-99 biennium: ______

4. County and City fiscal effect in dollar amounts:

1993-95 Biennium		1995-97 Biennium		1997-99 Biennium	
Counties	Cities	Counties	Cities	Counties	Cities
		approx. +$640,000			

If additional space is needed, attach a supplemental sheet.

Date Prepared: 1-24-95

Signed Kathryn Strombeck

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AAB

FISCAL ANALYSIS OF HOUSE BILL 1257

January 24, 1995, 3:00 p.m.

In computing the fiscal effect of HB 1257, an attempt was made to acknowledge both the negative consequences of the various exemptions on the currently defined forecasted tax base and the potential positive consequences that may occur due to increased oil production as a direct result of the passage of HB 1257. The following summarizes the four tax exemptions provided in HB 1257:

1. Broadening of the stripper definition from 15 BOPD to 20 BOPD on wells between 6,000 and 10,000 feet deep, and from 20 BOPD to 30 BOPD on wells over 10,000 feet deep:

Positive Fiscal Effect: The stripper classification may keep marginal wells from being shut-in, but evidence indicates wells producing over 20 BOPD are not the wells currently being shut-in. Wells that would be included in the re-defined stripper category are currently remaining operational and are paying the oil extraction tax. Therefore, no immediate positive fiscal effect can be calculated.

Negative Fiscal Effect: Research indicates that wells producing between 15 and 20 BOPD at depths between 6,000 and 10,000 feet paid $560,000 in oil extraction tax in FY 94. Wells producing between 20 and 30 BOPD at depths in excess of 10,000 feet paid $485,000 in oil extraction tax in FY 94. Since forecasted production levels are similar, and forecasted prices are comparable to (or slightly higher than) FY 94 actuals, we estimate the biennial revenue loss due to this provision of HB 1257 to be -$2,090,000.

2. Ten-year exemption from the oil extraction tax for production from two-year inactive well:

Positive Fiscal Effect: Production from two-year inactive wells that are brought back on-line because of the enactment of HB 1257 will pay the state's 5% gross production tax. Assuming thirty two-year inactive wells are brought back on-line in the biennium producing an average of 35 BOPD each (just above the stripper classification level), the positive biennial fiscal effect would be $612,000.

Negative Fiscal Effect: None.

3. Nine-month exemption from the oil extraction tax for production from a horizontal reentry well:

Positive Fiscal Effect: Increased production from wells that become horizontal reentry wells due to the enactment of HB 1257 would be subjected to the 5% gross production tax continually, and to the oil extraction tax after the expiration of the exemption. Assuming that horizontal reentries produce at one-half the level of regular horizontal wells (57.5 BOPD in the first nine months) (research indicates these are not as successful as regular horizontal wells) and further assuming that these wells are subjected to gross production tax for an average of 15 months in the biennium (allowing for differing start-up times) and subjected to the oil extraction tax for an average of 6 months in the biennium, the result is a positive fiscal effect of +$26,500 per horizontal reentry well. We have assumed five such wells come on-line in the biennium, resulting in a positive fiscal impact of approximately +$132,000.

Negative Fiscal Effect: The state loses nine months of oil extraction tax revenue on the production from any wells that would have become horizontal reentry wells without the passage of HB 1257. Assuming average production of 57.5 BOPD, the nine-month exemption would cost the state -$9,900 per well. We have assumed five such wells will come on line in the biennium resulting in a negative fiscal impact of approximately -$50,000.

4. Increase the oil extraction tax exemption from fifteen months to twenty-four months for new horizontal wells:

Positive Fiscal Effect: Horizontal wells that will be drilled due to the enactment of HB 1257 will pay the 5% gross production tax. Additionally, wells that would have been drilled vertically without HB 1257 may be drilled horizontally causing an increase in production subjected to the gross production tax. Research shows that approximately 24 horizontal wells are successfully drilled each year. Assuming HB 1257 causes a 25% increase in the number of wells (an additional 6 horizontal wells per year, 12 for the biennium), and assuming they produce at the current average production level for a horizontal well (61,752 barrels in the first 24 months), the positive fiscal effect is +$49,400 per well, or +$593,000 per biennium.

Negative Fiscal Effect: The state will lose the oil extraction tax on nine months of production from new horizontal wells that would have been drilled without the passage of HB 1257. Research indicates that each horizontal well produces on the average 16,647 barrels of oil in the sixteenth through twenty-fourth month of production. For the 48 horizontal wells that would likely be drilled in the biennium without the passage of HB 1257, this results in a biennial revenue loss of -$511,000.

The total fiscal effect of HB 1257 is estimated to be a reduction in total revenues of $1.314 million during the 1995-97 biennium. The state general fund share of this reduction is approximately $1.254 million. Various special funds lose an estimated $700,000 in the biennium. Because of increases in gross production tax revenues, the counties gain an estimated $640,000 in the biennium. Additionally, the Tax Department would incur administrative costs of $3,700 for the biennium.