FISCAL NOTE

Requested by Legislative Council
03/17/2005

Bill/Resolution No.: HB 1530

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	**Other Funds**	**General Fund**	**Other Funds**	**General Fund**	**Other Funds**
Revenues		($112,000)		($9,853,000)		
Expenditures						
Appropriations						

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	**Cities**	**School Districts**	**Counties**	**Cities**	**School Districts**	**Counties**	**Cities**	**School Districts**

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

HB 1530 grants a 100,000 barrel exemption from the 6.5% oil extraction tax for new horizontal wells drilled after the effective date of the act. At the conclusion of the exemption, those wells that are not exempt due to stripper classification would be subject to an oil extraction tax rate of 6.5%.

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.*

HB 1530 will reduce permanent oil tax trust fund and resources trust fund revenues by an estimated $9.853 million in the 2005-07 biennium. Because of the emergency clause, there will be an estimated $112,000 reduction in the current biennium as well.

These negative impacts are consistent with production and price levels contained in the March 2005 forecast, and assume all new horizontal wells will opt for this exemption. The estimated revenue loss is only through FY 06, because the forecast assumes current-law holidays for all new wells trigger back in place in FY 07.

If enacting HB 1530 causes an increase in production beyond the forecasted level, and beyond any increase induced by high prices, there would be a partial positive offset to the negative fiscal impact from any additional 5% gross production tax collections. Also, some new wells opting for this tax exemption will pay a 6.5% oil extraction tax at the end of their 100,000 barrel exemption. This may result in positive revenues in the 2007-09 biennium.

The 100,000 barrel exemption for wildcat wells is assumed to have no negative fiscal impact relative to the existing forecast. Nearly all current oil production activity in the state is occurring in known fields and reservoirs. If successful wildcat activity were to take place, resulting in production in excess of forecast, it would be revenue positive to the state.

   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, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

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