

**FISCAL NOTE**  
**Requested by Legislative Council**  
02/16/2009

Amendment to: 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 |
| <b>Revenues</b>       |                    | \$5,840,000 |                    | (\$99,210,000) |                    |             |
| <b>Expenditures</b>   |                    |             |                    |                |                    |             |
| <b>Appropriations</b> |                    |             |                    |                |                    |             |

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).*

Engrossed HB 1235 makes substantial changes to the oil extraction tax. Primarily, the bill removes the oil price trigger, lowers the oil extraction tax rate, and provides an incentive for new horizontal and vertical wells.

**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.*

Sections 2 and 3 remove the oil price trigger. This is expected to increase total oil extraction tax revenues by \$8.705 million in the current, 2007-09 biennium, and +\$66.970 million in the 2009-11 biennium. This is consistent with the trigger assumptions in the new February 2009 forecast, which assumes current law incentives "trigger on" for 8 months beginning with June 2009 revenues.

Section 2 also lowers the oil extraction tax rate from 6.5% to 5%. This rate reduction reduces oil extraction tax revenues by an estimated \$2.7 million in the current, 2007-09 biennium, and \$106 million in the 2009-11 biennium. This estimate assumes approximately 120 million barrels in the biennium would receive a rate reduction of 1.5%, and is based on the forecasted oil price averaging \$59 per barrel.

Section 3 of the bill also grants two new well incentives with a rate reduction from 5% to 2% for the first 75,000 barrels produced from a new well or \$4.5 million in gross value, or 18 months (36 months for a horizontal well) whichever comes first. These new well provisions will reduce oil extraction tax revenues by an estimated \$165,000 during the 2007-09 biennium, and by \$60.180 million in the 2009-2011 biennium. This estimate assumes new well production will gradually occur throughout the biennium, and will total 34 million barrels. The impact was computed based on the existing forecasted price averaging \$59 per barrel, and calculated as a 3% rate reduction (from 5% to 2%).

The impact of Engrossed HB 1235 affects the permanent oil tax trust fund (60% of the impact), the resources trust fund (20% of the impact) and funds distributed according to Article X of Constitution (20% of the impact).

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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