FISCAL NOTE

Requested by Legislative Council
01/12/2009

Bill/Resolution No.: 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**
Revenues				($175,300,000)		
Expenditures						
Appropriations						

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).*

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 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.*

Section 2 removes the oil price trigger. This is assumed to have no fiscal impact in the 2009-11 biennium, because the current forecast (prepared in November 2008) does not assume oil prices fall low enough long enough for the incentives to re-trigger at any time during the next 30 months. If the new legislaive forecast - which is being prepared in Jan/Feb 2009 does assume the incentives re-trigger, the trigger removal provisions contained in this bill will have a significant positive impact on biennial revenues.

Section 2 also lowers the oil extraction tax rate from 6.5% to 5%. When the incentives are "triggered off", as they are currently, and as they are assumed to remain throughout the 2009-11 biennium, this rate reduction reduces oil extraction tax revenues by an estimated $112 million in the 2009-11 biennium. This estimate assumes approximately 120 million barrels in the biennium would recieve a rate reduction of 1.5%, and is based on the forecasted oil price averaging $62 per barrel.

The new subdivision 4 at the end of Section 3 of the bill grants a new well incentive with a rate reduction from 5% to 2% for the first 75,000 barrels produced from a new horizontal well. This will reduce oil extraction tax revenues by an estimated $63.3 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 exisiting forecasted price averaging $62 per barrel, and calculated as a 3% rate reduction (from 5% to 2%).

The impact of 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 Acticle 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.*

Name:	Kathryn L. Strombeck	**Agency:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	01/26/2009