

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HCR 65** HLS 20RS 1570
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 8, 2020	12:53 PM	Author: BISHOP, S.
Dept./Agy.: Revenue		Analyst: Greg Albrecht
Subject: Suspend Severance Tax on Oil and Gas Production		

TAX/SEVERANCE TAX OR DECREASE GF RV See Note Page 1 of 1
 Suspends the severance taxes levied on oil, natural gas, distillate, and condensate

Present law imposes a severance tax rate on oil and natural gas produced in the state. Most oil is taxed at a full rate of 12.5% of value, and most gas is taxed at a full rate based on prices in a prior annual period: currently set at 12.5¢/mcf for FY20 and 9.34¢/mcf for FY21. Wells producing less than the full-rate volumes are taxed at lower rates tied to the full-rate.

Proposed concurrent resolution suspends severance taxes levied on oil, natural gas, distillate, and condensate from the date of adoption of this resolution through the 60th day after final adjournment of the 2021 regular legislative session.

EXPENDITURES	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						
REVENUES	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	(\$513,800,000)	(\$127,700,000)	\$0	\$0	\$0	(\$641,500,000)
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	(\$41,480,000)	(\$10,870,000)	\$0	\$0	\$0	(\$52,350,000)
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	(\$555,280,000)	(\$138,570,000)	\$0	\$0	\$0	(\$693,850,000)

EXPENDITURE EXPLANATION

The Department will incur relatively minor costs in FY21 and FY22 (\$51,000/year) of IT staff time to modify the tax processing system to incorporate the suspension and then reinstatement of the tax. Such costs are typically absorbed by the Dept. initially, but become a component of budget funding as legislative changes accumulate.

REVENUE EXPLANATION

Based on the current official REC forecasts of mineral revenue (last adopted April 10, 2019), over \$500 million of severance taxes from oil and gas production were anticipated at that point for each of FY20 - FY22. A simplified approach to the effects of this resolution utilizes the monthly average severance tax receipts expected, at the time, in FY21 (\$46.8 million). Assuming the resolution suspends tax on production in the months of June 2020 through August 2021, there will be revenue losses of some \$561 million in FY21 (12 months of production June'20 - May'21 paid with a two month lag), and some \$140 million in FY22 (3 months of production June'21 - Aug'21 paid with a two month lag). These revenue loss would be shared with local parish governments through the constitutional parish severance tax allocation. Parish severance tax allocation losses are estimated at \$42 million in FY21, and \$11 million in FY22. The balance of the total severance tax revenue loss and the parish severance tax allocation loss is a state general fund severance tax loss of \$519 million in FY21, and \$129 million in FY22.

Since production on state lands and waterbottoms pays severance tax as well, and state royalty receipts are adjusted for their share of the severance tax, the bill's severance tax suspension results in a relatively small gain in state royalty receipts, shared with parish governments through the constitutional parish royalty allocation (10% of royalties attributable to production with each parish). State general fund royalty gains are estimated at some \$5.2 million in FY21, and \$1.3 in FY22. Parish royalty allocation gains are estimated at some \$520,000 in FY21, and \$130,000 in FY22. The net effect to the state general fund and the dedicated parish allocations is shown in the table above.

However, specific estimates of state general fund loss and dedicated parish allocation losses provided in the table above are not reliable at this time because the resolution's effect occurs during a period of unprecedented volatility of uncertain duration in the world oil market as a result of global demand weakness from the Covid-19 virus pandemic, and a global supply glut resulting from a market share competition between Saudi Arabia and Russia. Total state mineral revenue receipts and constitutional parish allocations will be substantially impacted by these events for the foreseeable future, and revenue forecasts have not yet been revised to incorporate this outlook. However, the bill can only result in a significant loss of state severance tax receipts and parish allocation amounts from what would otherwise be the case.

<p><u>Senate</u></p> <p><input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}</p> <p><input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}</p>	<p><u>House</u></p> <p><input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}</p> <p><input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}</p>
---	--

John D. Carpenter
 Legislative Fiscal Officer