GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill #	HB0661	**Title:**	Revise taxation of stripper oil and gas wells
Primary Sponsor:	Kassmier, Joshua	**Status:**	As Amended in Senate Committee

☒Significant Local Gov Impact ☐Needs to be included in HB 2 ☐Technical Concerns

☐Included in the Executive Budget ☐Significant Long-Term Impacts ☐Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	($379,519)	($349,038)	($332,810)	($320,872)
State Special Revenue	($41,140)	($37,836)	($36,077)	($34,783)
Net Impact-General Fund Balance:	($379,519)	($349,038)	($332,810)	($320,872)

Description of fiscal impact: HB 661, as amended three times, creates a distinction between stripper oil well definitions for pre-1999 and post-1999 wells. Pre-1999 stripper wells are defined as wells drilled prior to January 1, 1999 that produce more than 3 but less than 10 barrels of oil per day. These wells receive a preferential tax rate regardless of the oil price, while post-1999 stripper wells operate under current law definitions and tax rates. Pre-1999 stripper wells producing 3 barrels per day or less are taxed at different rates depending on the oil price received by the producer being above or below $54/barrel. The bill changes the index for the trigger price for post-1999 stripper well oil production and secondary recovery production from West Texas Intermediate (WTI) to average price received by the producer. The most recently amended version of HB 661 raises the tax rate for pre-1999 stripper wells producing between 3 and 10 barrels per day to 9.2%, up from 5% in the previous version.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. There are currently two different classes of stripper well oil production: stripper well oil production and stripper well exemption production. Post-1999 wells with output between 3 and 15 barrels per day and pre-1999 well with output between 3 and 10 barrels per day in the prior year are classified and taxed as stripper

well oil production. Wells with output of 3 barrels per day or less in the prior year are classified and taxed as stripper well exemption production. This second class will be referred to as super stripper wells.

2. Current law directs that stripper well oil production only receives a preferential tax rate if the average quarterly WTI price per barrel of oil is less than $30. When this occurs, the tax rate is 5.5% on the first 10 barrels produced per day. Barrels 11-15 are taxed at the regular 9% rate if they are post-1999 drilled wells, or 12.5% if they are pre-1999 drilled wells.
3. The bill creates a distinction between pre-1999 drilled wells and post-1999 drilled wells. The new definition for pre-1999 stripper wells is wells producing between 3 and 10 barrels per day that were drilled prior to January 1, 1999. These wells always receive a preferential rate of 9.2%, regardless of price.
4. Pre-1999 super stripper wells are assessed a tax rate of 5%, instead of the 6% under current law if the price of oil rises to $54 or above. This rate drops to 0.5% if the average quarterly price received by the producer is less than $54, which is the same as current law.
5. Post-1999 stripper and super stripper wells are treated the same under HB 661 as they are under current law.
6. Changes in tax collections from the change in super stripper well rates will only occur if price is above $54, and since the oil price projections in HJ 2 are below $54 for all fiscal years, there is no fiscal impact from the super stripper well provision of the bill.
7. The fiscal impact of HB 661 is from pre-1999 wells with average production between 3 and 10 barrels of oil per day.
8. Data from the Board of Oil and Gas Conservation shows that for calendar years 2016-2020 these wells accounted for 3.95% of total oil production.
9. Since non-working interest in oil always pays a tax rate of 14.8%, only the working interest portion sees a lower tax rate. Working interest accounted for an average of 83.4% of total oil revenue from 2016-2020.
10. Production and tax collections associated with these pre-1999 stripper wells are detailed in the table below. Oil production and price projections were updated to reflect the assumptions associated with the most recent version of HJ 2. Oil price projections in HJ 2 show that WTI is not expected to drop below $30 per barrel over the forecast period. Therefore, under current law these pre-1999 stripper wells would pay a tax rate of 12.5%.

Calendar Year	Pre-1999 Stripper barrels	Gross Non-Royalty Revenue	HB 661 Pre-1999 Stripper Well Tax Revenue	Current Law Pre-1999 Stripper Well Tax Revenue	Change in Tax
2021	0.596	$25.934	$2.386	$3.242	($0.856)
2022	0.554	$23.091	$2.124	$2.886	($0.762)
2023	0.516	$21.997	$2.024	$2.750	($0.726)
2024	0.482	$20.995	$1.932	$2.624	($0.693)
2025	0.450	$20.455	$1.882	$2.557	($0.675)

11. HB 661 also replaces references to WTI price trigger determinations for post-1999 stripper well production and secondary oil production with references to average price received by the producer. This change has no fiscal effect because oil prices are not projected to fall below $30 and there is no current or forecasted secondary oil production.
12. Calendar years are converted to fiscal years by taking half the calendar year matching the fiscal year and adding half the calendar year preceding the fiscal year.
13. Combined state and local fiscal year revenue losses are estimated to be $0.809 million in FY 2022, $0.744 million in FY 2023, $0.709 million in FY 2024, and $0.684 million in FY 2025.
14. Oil and gas revenue is appropriated to counties based on the relative mill split when oil and gas production tax moved from a property tax to a flat value tax. Local governments received 48.0% of oil and gas revenues in FY 2020. This is the basis for the split used in this fiscal note.
15. Costs associated with implementation are minimal and will be absorbed by the department.

Fund	FY 2022	FY 2023	FY 2024	FY 2025
Local Gov	($388,256)	($357,073)	($340,471)	($328,259)
Natural Resource Projects	($9,086)	($8,356)	($7,968)	($7,682)
Natural Resource Operations	($8,497)	($7,815)	($7,451)	($7,184)
Orphan Fund	($12,409)	($11,413)	($10,882)	($10,492)
University	($11,147)	($10,252)	($9,775)	($9,425)
General Fund	($379,519)	($349,038)	($332,810)	($320,872)
Total	($808,916)	($743,947)	($709,358)	($683,914)

	FY 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Fiscal Impact:				
Expenditures:				
Personal Services	$0	$0	$0	$0
Operating Expenses	$0	$0	$0	$0
TOTAL Expenditures	$0	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$0	$0	$0	$0
Revenues:				
General Fund (01)	($379,519)	($349,038)	($332,810)	($320,872)
State Special Revenue (02)	($41,140)	($37,836)	($36,077)	($34,783)
TOTAL Revenues	($420,659)	($386,874)	($368,887)	($355,655)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($379,519)	($349,038)	($332,810)	($320,872)
State Special Revenue (02)	($41,140)	($37,836)	($36,077)	($34,783)

Effect on County or Other Local Revenues or Expenditures:

1. The department shares approximately half of oil and gas revenues with counties. The local government impact is shown in the table in the body of the fiscal note. The estimated revenue reduction is between $300,000 - $400,000 per year.

Technical Notes:

Office of Budget and Program Planning

1. Currently, per Section 9901 of the American Recovery Plan Act (ARPA) which adds New Section 602 to 42 U.S.C. 801, it is unknown if reductions to state taxes resulting in a reduction to net state tax revenue may jeopardize receipt, or require repayment, of State Recovery Funds contained in the ARPA.

		KA	5/25/21
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*