

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 14-1047	Date: April 15, 2014
Prime Sponsor(s): Rep. Young	Bill Status: House Finance
Sen. Grantham	Fiscal Analyst: Marc Carey (303-866-4102)

SHORT TITLE: WELLHEAD POINT OF PROPERTY VALUATION & TAXATION

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
State Revenue		
Cash Funds	See State Revenue Section	
State Expenditures		
General Fund	See State Expenditure Section	
FTE Position Change		
Appropriation Required:		

** This summary shows changes from current law under the bill for each fiscal year.*

Summary of Legislation

Under current law, for property tax purposes, the production value from oil and gas leases that are located in more than one local governmental taxing district (county, municipality, special district or school district) must be allocated between the districts in proportion to the surface acreage of the lease within each district's boundaries. This bill specifies that, instead, the wellhead is the point of valuation and taxation for property tax purposes.

Background

The increased use of horizontal drilling techniques has added complexity to the allocation of production value for oil and gas leases that span the boundaries of multiple local government taxing districts. For example, in cases where oil and gas is produced from a lease area that includes a municipality using horizontal drilling techniques from a wellhead located outside the municipality, the municipality would receive a proportional share of the value for purposes of property tax calculation under current law. This bill specifies that only taxing districts containing the wellhead will be allocated production value for property tax purposes.

State Revenue

Operators may deduct property taxes paid from the previous year from their severance tax liability in the current year. To the extent that this bill reduces property tax paid by oil and gas operators because mill levies are lower at the wellhead, this bill will increase severance tax revenue to the state. Alternatively, to the extent property taxes are higher at the wellhead, severance tax revenue will be reduced. It is unknown whether this change will increase or decrease severance tax revenue in the aggregate.

State Expenditures

School Finance Impact. Currently for school finance, the state offsets any reduction in the local share with an increase in state aid. To the extent that changing the point of valuation and taxation to the wellhead reduces (increases) property tax revenue, the bill will increase (reduce) the need for state aid for school finance. It is unknown whether this change will increase or decrease state aid for school finance in the aggregate.

Local Government Impact

This bill will affect the assessed valuations of oil and gas operations for local government taxing districts whose boundaries contain oil and gas leases and/or wellheads by changing the location that operators report to county assessors. Taxing districts that currently receive a proportionate share of the production value from wellheads outside their boundaries will see reduced property tax revenue. Property tax revenue will be unchanged in taxing districts containing existing wellheads.

Effective Date

The bill takes effect August 6, 2014, if the General Assembly adjourns on May 7, 2014, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Division of Property Taxation
Counties

Assessors
Municipalities