LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **HB 714** HLS 06RS 276
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Sub. Bill For.:
Proposed Amd.:

Date:	June 5, 2006 2:55 PM	**Author:**	GALLOT
Dept./Agy.:	Revenue / Treasury		
Subject:	Increase Severance Tax Allocation	**Analyst:**	Greg Albrecht

TAX/SEVERANCE TAX EG -$3,000,000 GF RV See Note
(Constitutional Amendment) Increases the general severance tax allocation to parishes

Current law allocates 20% of severance taxes on natural resources other than sulphur, lignite, or timber (primarily oil & natural gas) to the parishes in which production occurs, up to a maximum of $750,000 per year.

Proposed law increases the maximum allocation to $850,000, effective July 1, 2007. This maximum is to be increased each July first, beginning in 2008, by an amount equal to the average annual increase in the Consumer Price Index for all urban consumers (as published by the U.S. Department of Labor) for the previous calendar year. This calculation is to be done and adopted by the Revenue Estimating Conference.

To be submitted at the statewide election on November 7, 2006.

EXPENDITURES	2006-07	2007-08	2008-09	2009-10	2010-11	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
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	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2006-07	2007-08	2008-09	2009-10	2010-11	5 -YEAR TOTAL
State Gen. Fd.	$0	($3,000,000)	($3,400,000)	($3,800,000)	($4,200,000)	**($14,400,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$3,000,000	$3,400,000	$3,800,000	$4,200,000	**$14,400,000**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The estimated additional dedication away from the state general fund and to the parish severance tax allocation displayed in the table above is the result of a simulation of the allocation made during FY05 under the current maximum of $750,000 per parish and the proposed initial maximum of $850,000 per parish. Under the current maximum the parishes receive an allocation of $28.6 million. Under the proposed initial maximum the parishes received an allocation of $31.6 million, resulting in an aggregate initial increase in the allocation of $3 million. This increased allocation would accrue to 31 of the 64 parishes. The other parishes do not have sufficient production to receive additional monies under a greater maximum allocation.

Each year, beginning July 1, 2008, the maximum allocation would be increased on the basis of the increase in the Consumer Price Index (CPI) for the previous calendar year. This will likely result in larger shares of severance tax collections being allocated to the parishes and foregone by the state general fund. For illustration purposes, a current forecast of the CPI over the 2007 - 2009 period indicates expected annual growth in the index of 1.5% - 1.6% over that 3-year period. This would result in new maximum allocations each year that increase the aggregate dedication amount each year relative to current law as displayed in the table above.

Actual changes in the allocation will depend on the key factors of production in each parish, the prices of oil & natural gas, and CPI-inflation each year. Production has been adversely affected by hurricanes Katrina and Rita, but should be back to as near normal as possible by the effective date of this bill (mid-year 2007). Oil & gas prices are the most volatile factors, but current price forecasts for 2007-2008 are similar to the actual prices experienced in FY05. Thus, the allocation in FY05 is likely a reasonable basis for the estimates associated with this bill in the near-term. In addition, changes in production and prices would affect both the underlying current law baseline and the simulated proposed law result equally. The difference between these two calculations at different maximum allocations is the fiscal effect of the bill and this difference is likely to be less affected by production and price volatility.

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $500,000 Annual Fiscal Cost		[ ] 6.8(F) >= $500,000 Annual Fiscal Cost
[ ] 13.5.2 >= $500,000 Annual Tax or Fee Change		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

H. Gordon Monk

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Legislative Fiscal Officer