



**LEGISLATIVE FISCAL OFFICE**

**Fiscal Note**

Fiscal Note On: **SB 306** SLS 09RS 414  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

**Date:** May 9, 2009 8:20 AM **Author:** ADLEY  
**Dept./Agy.:** Natural Resources / Revenue **Analyst:** Greg Albrecht  
**Subject:** Dedicate Haynesville Shale Mineral Revenue

FUNDS/FUNDING OR DECREASE GF RV See Note Page 1 of 1

Dedicates a portion of certain mineral revenues to be used to develop infrastructure needs for alternative water sources and other local needs. (7/1/09)

Beginning with FY10, the bill dedicates 50% of all mineral revenue attributable to the Haynesville Shale geological deposit to the Haynesville Shale Local Infrastructure Needs Fund, newly created by this bill. These monies are to be annually appropriated for use by political subdivisions for water resources infrastructure (50%) and for road & highway infrastructure (50%).

Effective July 1, 2009.

<b>EXPENDITURES</b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>	<b><u>2013-14</u></b>	<b><u>5 -YEAR TOTAL</u></b>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

  

<b>REVENUES</b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>	<b><u>2013-14</u></b>	<b><u>5 -YEAR TOTAL</u></b>
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**EXPENDITURE EXPLANATION**

The Departments of Natural Resources and Revenue will incur some costs to develop and maintain a process to readily identify affected royalty receipts (DNR) and communicate identifying information to Revenue in order for it to readily identify affected severance tax receipts.

**REVENUE EXPLANATION**

It is currently very early in the development of the Haynesville Shale formation, and only small amounts of mineral revenue have been reported. As of May 1, 2009 there were 356 wells in the formation at some stage of activity. 73 wells are producing so far, and only 60 have reported production (relatively small amounts averaging 800mcf per day per well). The Department of Natural Resources reports no royalties have been received to date, and the Department of Revenue reports only \$189,000 of severance taxes have been received to date from 8 wells.

While this slow start with regard to mineral revenue may not be indicative of what might occur in the future, there are reasons to believe that state mineral revenue receipts may be less than what might be expected on the basis of activity levels. Development of the formation is likely to be slower than was expected a year or so ago because natural gas prices are now much lower with the future price outlook uncertain. In addition, the formation is developed by horizontal drilling which receives a 100% severance tax exemption for the first 24 months of production or until payout of a well. The wells are costly due to their depth and the technology required, which adds to the time it takes to cover a well's cost. These wells may also deplete fairly rapidly. Even though the gas reserves of the formation are very large, all of these production factors suggest that overall severance tax receipts may be considerably less than might be expected from the development of such a large amount of reserves. Royalty receipts have no exemption and could be material, but are generated only from wells on state lands or waterbottoms.

As the formation is developed mineral revenue receipts history will develop, as well, and presumably a growing amount of revenue will be available to the Local Infrastructure Needs Fund. That same amount of revenue will be diverted from the state general fund. The annual amount of dedication is still highly uncertain and can not yet be determined.

Senate Dual Referral Rules

13.5.1 >= \$500,000 Annual Fiscal Cost

13.5.2 >= \$500,000 Annual Tax or Fee Change

House

6.8(F) >= \$500,000 Annual Fiscal Cost

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease

*H. Gordon Monk*

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**Legislative Fiscal Officer**