

# ***Proposed changes in the method of determining the appraisal value of minerals for ad valorem tax purposes***

**Issue Question:** Should there be changes in the method of determining the appraisal value of minerals for ad valorem tax purposes?

**Background:** In the 80<sup>th</sup> Legislative Session (2007), the Legislature changed the formula for the calculation of mineral appraisals for ad valorem tax purposes to include a comptroller's market condition factor derived by dividing the comptroller's current calendar year statewide average price for oil or gas, as applicable, forecasted for revenue estimating purposes, by the preceding calendar year actual statewide average price for oil or gas, as applicable.

HB 2982 was authored by then Chairman of the House Energy Resources Committee, Representative Rick Hardcastle (R, Vernon) and sponsored in the Senate by Kel Seliger (R, Amarillo).

The legislation was intended to smooth out the peaks and valleys of crude oil and natural gas prices in their effect on mineral valuations and ad valorem taxes. It also provided that the price of the product could not escalate upward in any out year by more than 150%, and that it could be adjusted downward as the comptroller's estimate might determine.

The unprecedented movement of prices in 2008 created some hardships, particularly for counties heavily dependent on minerals for their tax base. Such counties as Pecos and Andrews in West Texas have very little additional ad valorem tax base. Many of these counties had elevated their budgets, as they enjoyed the increases of mineral valuations in the price run-ups of the previous 5 years.

In the 81<sup>st</sup> Legislative Session (2009), using the Texas Association of Counties and County Judges, as the coordinating group, county judges convinced Senator Carlos Uresti (D, San Antonio) to file a bill to alleviate the situation. SB 2557 was filed late in the Session and was sponsored in the House by Representative Tryon Lewis (R, Odessa). The bill as filed would have repealed the section of the tax code which provided for the new mechanism of determining current and out year estimates of pricing.

All of the oil and gas associations immediately opposed the bill, which drew us into negotiations with the county judges. We did reach some compromises which may have been palatable. New language was drafted which provided an eleven member committee (five county judges and five o&g representatives with the Comptroller as chairman) to determine the market condition factor. Ultimately, changes in the negotiated bill through Senate amendments caused the Alliance, PBPA and PPROA to withdraw their support and work to 'kill' the legislation.

**Current Status:** Neither SB 2557 nor the compromise language that was amended onto another piece of legislation would pass. The Comptroller has asked the Speaker of the House to include a study of this mineral valuation method to be included in his interim charges to be studied. It is assumed he will do so, and that it will be studied during the interim by the House Ways and Means Committee, chaired by Representative Rene Oliviera (D, Brownsville). It is uncertain at this time whether this charge will be present in those issued by the Lt. Governor.

**Recommended Action:** The appointment of a five man committee to coordinate issue positions regarding the mineral valuation procedure, and to work with the Alliance staff in studying, analyzing, developing necessary testimony and communicating with the Alliance Board recommendations regarding future legislation.