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Rep. Jean-Paul Coussan
Chair
House Committee on Natural Resources and Environment
Louisiana House of Representatives

Rep. Coussan:

I am writing in response to your letter dated February 10, 2021, which requested the LSU Center for Energy Studies examine and provide a separate, independent analysis of the fiscal impact of House Bill 57 of the 2021 Regular Session. Per your request, the estimated fiscal impacts presented below also include a dynamic scoring analysis of the economic impact as a result of the proposed severance tax exemption.

This analysis includes taxes, licenses, and fees (TLF) collected by state government, but not local governments. Analysis is based on the prefiled version of HB57 filed on March 4, 2021. Any amendments might impact the estimated fiscal impacts. Further, fiscal impacts are based on oil and natural gas price forecasts as adopted by the Revenue Estimating Conference on January 19, 2021. Any change to this forecast will also require revisions to the estimates below.

Baseline Results

See Table 1. Results are summarized as follows:

- Over five years, without taking into account dynamic impacts (i.e. the "static" impact) House Bill 57 is estimated to reduce severance tax revenues by $57.4 million.
- Table 1 next shows the estimated dynamic impact of the bill. These fiscal impacts are provided in three categories. First, estimated severance tax collections from new wells drilled *because of* the exemption total $6.7 million over five years.[1] Next, royalty payments to state government are estimated to increase by an estimated $1.6 million. Third, economic activity stemming from this exemption is estimated to increase taxes,

[1] In other words, these are wells that are drilled because the exemption is available, and that would not have been drilled otherwise.

licenses, and fees (TLF) collected by $4.9 million. Adding up these three items, estimates suggest that the state will experience an addition $13.2 million in tax revenues over five years that will offset the initial static estimate of $57.4 million.

- Because Louisiana is required to balance its budget each fiscal year, the remaining $44.3 million would need to be accounted for either by increased revenues from another channel (e.g. a tax increase) or by reduced spending. This analysis considers a scenario where government spending is reduced by $44.3 million. This reduced government spending will further reduce TLF by $2.4 million over five years.
- **In culmination, HB57, if enacted, is estimated to reduce state revenues by $46.6 million over five years. The estimated dynamic fiscal impact is approximately 19 percent less than the estimated static fiscal impact.**

Table 1: Fiscal Note With Dynamic Scoring Included

9 Month Well Payout Scenario

Fiscal Year	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Static Severance Tax Revenue Impact	$ (3,724)	(18,384)	(19,516)	(15,401)	(409)	**$(57,434)**
Dynamic Impact of O&G Activity						
Severance Taxes	$ 3	279	1,403	2,425	2,618	**$ 6,727**
State Royalties	$ 52	328	468	490	246	**$ 1,583**
Other TLF	$ 122	818	1,381	1,524	1,028	**$ 4,873**
Total Dynamic Benefit	$ 177	1,426	3,252	4,439	3,891	**$ 13,184**
Percent of Static Note	4.8%	7.8%	16.7%	28.8%	951.0%	23.0%
Dynamic Impact of Reduced Government Spending Due to Balanced Budget Constraint						
Initial Reduction in Government Expenditures	$ (3,546)	(16,958)	(16,264)	(10,963)	3,482	**$(44,250)**
Additional TLF Reduction Due to Balanced Budget	$ (189)	(903)	(866)	(584)	185	**$ (2,357)**
Dynamic Fiscal Note	**$ (3,735)**	**(17,861)**	**(17,131)**	**(11,547)**	**3,667**	**$(46,607)**
Percent Difference with Static Note	0.3%	-2.8%	-12.2%	-25.0%	796.3%	-18.9%

Note: Dollar values in thousands of dollars. Royalties also include rentals, bonuses and mineral interest.

12 Month Payout Results

Estimated fiscal impacts presented in Table 1 are based on the modeling assumption that each newly drilled well reaches payout in nine months. But according to HB57, wells will receive an exemption for 12 months *or* until well payout, whichever occurs first. Thus, fiscal impacts are next re-estimated utilizing a 12-month payout (in lieu of the nine month payout). Results are shown in Table 2.

- The estimated static fiscal impact is $71.1 million over five years.
- Once dynamic effects are taken into account, the remaining fiscal impact is estimated

to be $61.3 million over five years, or 13.8 percent smaller than the static impact.

Table 2: Fiscal Note With Dynamic Scoring Included *12 Month Well Payout Scenario*						
Fiscal Year	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Static Severance Tax Revenue Impact	$ (3,724)	(21,313)	(24,075)	(20,030)	(1,945)	**$(71,087)**
Dynamic Impact of O&G Activity						
Severance Taxes	$ 3	176	1,122	2,145	2,539	**$ 5,984**
State Royalties	$ 52	364	524	547	266	**$ 1,753**
Other TLF	$ 140	909	1,488	1,597	1,045	**$ 5,178**
Total Dynamic Benefit	$ 195	1,448	3,134	4,289	3,849	**$ 12,915**
Percent of Static Note	5.2%	6.8%	13.0%	21.4%	197.9%	18.2%
Dynamic Impact of Reduced Government Spending Due to Balanced Budget Constraint						
Initial Reduction in Government Expenditures	$ (3,529)	(19,865)	(20,941)	(15,741)	1,904	**$(58,172)**
Additional TLF Reduction Due to Balanced Budget	$ (188)	(1,058)	(1,115)	(838)	101	**$ (3,098)**
Dynamic Fiscal Note	**$ (3,717)**	**(20,923)**	**(22,056)**	**(16,580)**	**2,005**	**$(61,271)**
Percent Difference with Static Note	-0.2%	-1.8%	-8.4%	-17.2%	3.1%	-13.8%
Note: Dollar values in thousands of dollars. Royalties also include rentals, bonuses and mineral interest.						

For budgeting purposes, I recommend using estimates in Table 1. Although estimates in Table 2 provide perspective on the importance of the time to payout on the size of the fiscal note. Inclusion of results of this scenario are motivated by a request by the Legislative Fiscal Office (LFO).

Well Enhancement Results

HB57 includes severance tax exemptions for both newly drilled wells and well enhancements. In response to your verbal request upon further discussions, I have also estimated fiscal impact if HB57 were amended to include only well enhancements. These results are presented in Table 3.

- The estimated static fiscal impact is $13 million over five years.
- Once dynamic effects are taken into account, the remaining fiscal impact is estimated to be $10.2 million over five years, or 21.7 percent smaller than the static impact.

Table 3: Fiscal Note With Dynamic Scoring Included *Well Enhancement Exemption*						
Fiscal Year	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Static Severance Tax Revenue Impact	$ (1,132)	(4,267)	(4,437)	(3,163)	0	**$(12,999)**
Dynamic Impact of O&G Activity						
Severance Taxes	$ 1	112	413	660	636	**$ 1,821**
State Royalties	$ 15	78	111	113	60	**$ 377**
Other TLF	$ 30	195	333	369	253	**$ 1,180**
Total Dynamic Benefit	$ 46	384	857	1,143	948	**$ 3,378**
Percent of Static Note	4.1%	9.0%	19.3%	36.1%		26.0%
Dynamic Impact of Reduced Government Spending Due to Balanced Budget Constraint						
Initial Reduction in Government Expenditures	$ (1,086)	(3,883)	(3,580)	(2,020)	948	**$ (9,621)**
Additional TLF Reduction Due to Balanced Budget	$ (58)	(207)	(191)	(108)		**$ (563)**
Dynamic Fiscal Note	**$ (1,143)**	**(4,090)**	**(3,770)**	**(2,128)**	**948**	**$(10,183)**
Percent Difference with Static Note	1.0%	-4.2%	-15.0%	-32.7%		-21.7%

Note: Dollar values in thousands of dollars. Royalties also include rentals, bonuses and mineral interest.

Other Considerations

Finally, I would like to highlight several factors that might also be relevant to considering fiscal impacts of this bill.

First, I have not estimated the cost of compliance with this program. For example, well payout calculations will need to be provided to the Louisiana Department of Revenue (LDR) and processed by LDR staff. Administrative costs are commonly estimated in fiscal notes done by LFO, but are outside the scope of this analysis.

Second, a very important modeling assumption was included in the analysis on well enhancements that I believe is appropriate to highlight explicitly. Unlike a newly drilled well, a well that receives an enhancement might or might not be producing commercial quantities of oil and/or natural gas before enhancement. As I have interpreted the bill, all oil production from an enhanced well will be exempt post enhancement, regardless of whether or not the enhancement was successful in increasing production. Results from my analysis implicitly assume that wells that receive enhancements are not producing before the enhancement occurs, and therefore only new production is exempt. It is unclear to me exactly how the well payout calculation would be performed in instances in which the well is producing before the enhancement.

Third, this analysis assumes that the tax credit is sunset for wells drilled after December 31, 2024. Thus, in the last fiscal year of analysis (2025-26) the static revenue impact decreases precipitously, and the dynamic estimate is actually positive. This is due to the fact that wells drilled because of the exemption are still producing, but the exemption is sunset. Thus, if the program were to be extended at that time, the percent difference in the static and dynamic fiscal note would be smaller.

Conclusions

Thank you for giving me the opportunity to provide analysis on this bill. I am happy to provide additional follow-up information on the details of the modeling process per request.

Sincerely,

Gregory B. Upton, Jr.

cc: Christopher Keaton, Legislative Fiscal Officer, LFO
Greg Albrecht, Chief Economist, LFO
Stuart Bishop, Chairman, House Committee on Ways & Means
Bret Allain, Chairman, Senate Committee on Revenue & Fiscal Affairs
Chris Vidrine, Interim Associate Vice President of Governmental Relations & Public Policy, LSU
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