Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1856

Brief Description: Concerning fossil fuel production.

Sponsors: Representatives Morris and Pollet.

Brief Summary of Bill

- Imposes a 12 percent excise tax on the severance of oil and gas.

Hearing Date: 2/19/13

Staff: Jeff Mitchell (786-7139).

Background:

Severances Taxes

Most oil and gas producing states have enacted statutes levying a tax on the extraction or severance of resources from the earth. These are not taxes upon property, but upon the business of removing the resource from the ground. Severance taxes usually apply to non-renewable resources like coal, stone, oil and natural gas, but can also include renewable resources like timber or fish. In some states these taxes are in lieu of property taxes, but in others they are additional taxes. In some states, the burden of the tax is borne proportionally by the well operator and other parties with an interest in the gas, but in others the tax is borne by the lessee or producer alone. States distribute revenues raised by severance taxes in a variety of ways: the revenue may be directed to general operating expenses, may be earmarked for specific purposes like conservation projects or education, or may be limited to costs associated with gas extraction. Some states, including Alaska, New Mexico and Wyoming, transfer part of the revenue to a permanent fund intended to provide an alternative revenue source upon exhaustion of energy resources.

At least 36 states impose some sort of severance tax, and 31 states specifically levy taxes on the extraction of oil and gas. In 2010, more than $11 billion was generated in the United States from severance taxes alone. Between 10.5 percent and 74.3 percent of total state tax revenue came

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from severance taxes in at least six states; Alaska, Montana, New Mexico, North Dakota, Oklahoma, and Wyoming.

Property Taxes

Under current law, mineral reserves are assessed for property tax purposes, and property taxes paid on the mineral reserve's value. In practice, some counties do assess minerals, but many do not. The methods used for assessing minerals vary widely from county to county. A major reason for this variation is the difficulty in assessing minerals: reserves are difficult to quantify, and future production and product prices are impossible to quantify with certainty.

Sustainable Energy Trust Program

The Housing Finance Commission (Commission) was established in 1983 to act as a financial conduit which, without using public funds or lending the credit of the state or local government, can issue revenue bonds and participate in federal, state, and local housing programs. In setting up the Commission, the Legislature sought to make available additional funds at affordable rates to help provide housing throughout the state. The Commission is authorized to: issue bonds; invest in, purchase, or make commitments to purchase or take assignments from mortgage lenders of mortgages or mortgage loans; make loans to or deposits with mortgage lenders for the purpose of making mortgage loans; and participate fully in federal and other governmental programs.

In 2011, legislation was enacted requiring the Commission, if economically feasible, to develop and implement a Sustainable Energy Trust Program to provide financing for energy efficiency improvement projects. In developing the Sustainable Energy Trust Program, the Commission must establish eligibility criteria for financing that will enable it to choose eligible applicants who are likely to repay loans made by the Commission and funded from the proceeds of Commission bonds.

Park Land Trust Revolving Fund

The Park Land Trust Revolving Fund is administered by the Department of Natural Resources and is nonappropriated but is subject to allotment. The fund is used for acquiring real property as replacement for the property transferred to the State Parks and Recreation Commission in order to maintain the land base of the affected trusts. Voluntary contributions may be deposited in the fund for the purpose of operating and maintaining public use and recreation facilities, including trails, managed by the department.

Summary of Bill:

A 12 percent excise tax would be imposed upon the severance of oil and gas within the state. The measure of the tax would be the the value of oil and gas at the point of production. The severance tax would be administered in a manner consistent with other excise taxes.

Eighty percent of taxes would be deposited in the park land trust revolving fund; however, a taxpayer may redirect up to half of this amount to a new sustainable energy trust account. Funds in the account would be administered by the Housing Finance Commission as part of the Sustainable Energy Trust Program. The remainder of tax revenues would be deposited in a new local government severance taxation account. Funds in this account would be distributed to local governments impacted by oil and gas production.

The property rights associated with oil and gas reserves are exempted from property taxes.

Appropriation: None.

Fiscal Note: Requested on February 15, 2013.

Effective Date: The bill takes effect on January 1, 2014.