

## **BILL ANALYSIS**

Senate Research Center

C.S.S.B. 1514  
By: Estes  
Finance  
5/1/2017  
Committee Report (Substituted)

### **AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

In order to promote the preservation of open-space land, the Texas Constitution and current law provide for an exemption from generally applicable ad valorem appraisal procedures. Qualifying open-space land is appraised according to an income capitalization formula, which bases the ad valorem taxes on the income from the land under ordinary, prudent management practices, instead of on its market value. If the land use changes so that the land no longer qualifies for the open-space land exemption, the county appraisal district imposes an additional, retroactive tax equal to the difference between the ad valorem taxes assessed under the open-space appraisal method and taxes that would have been assessed based on the land's market value for the five years preceding the change.

Under the Texas Constitution, land must be "devoted to farm, ranch, or wildlife management purposes" or timber production to be eligible for appraisal as open-space land. Oil and gas exploration and production do not qualify as open-space land uses. The result is that a landowner can lose eligibility to have land appraised under the open-space land exemption and owe five years of taxes based on the market value of land that is used for oilfield activity like drilling pads, production facilities, and tank batteries. Because the mineral estate is the dominant estate, a landowner ordinarily has little, if any, say in whether such facilities are built or where they are located. The adverse effects of losing open-space land exemptions due to oilfield activity are particularly harmful where the surface and minerals are severed, because in such situations, the surface owner loses the open-space land exemption without any corresponding gain in the form of royalties.

This joint resolution seeks to place a proposal on the next general election ballot to amend the Texas Constitution to allow the legislature to create exceptions to the existing requirement that land be devoted only to farm, ranch, wildlife management, or timber production in order to qualify for appraisal as open-space land. This amendment enables S.B. 1514 to become law, providing that oil and gas operations under the jurisdiction of the Railroad Commission of Texas conducted by the lessee of a mineral estate would not render land ineligible for appraisal as open-space land. (Original Author's / Sponsor's Statement of Intent)

C.S.S.B. 1514 amends current law relating to the eligibility of land to continue to be appraised for ad valorem tax purposes as qualified open-space land if the land begins to be used for oil and gas operations.

### **RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Subchapter D, Chapter 23, Tax Code, by adding Section 23.524, as follows:

Sec. 23.524. OIL AND GAS OPERATIONS ON LAND. Provides that the eligibility of land for appraisal under this subchapter does not end because a lessee under an oil and gas lease begins conducting oil and gas operations over which the Railroad Commission

of Texas has jurisdiction on the land, if the land otherwise continues to qualify for appraisal under this subchapter.

SECTION 2. Provides that the change in law made by this Act does not affect an additional tax imposed as a result of a change of use of land appraised under Subchapter D (Appraisal of Agricultural Land), Chapter 23 (Appraisal Methods and Procedures), Tax Code, that occurred before the effective date of this Act.

SECTION 3. Effective date: the date on which the constitutional amendment proposed by the 85th Legislature, Regular Session, 2017, authorizing the legislature to provide that the eligibility of open-space land for ad valorem taxation on the basis of its productive capacity does not end because an oil and gas lessee begins conducting oil and gas operations on the land if the land otherwise continues to be devoted to farm, ranch, or wildlife management purposes or timber production is approved by the voters. Provides that if the amendment is not approved by the votes, this Act has no effect.