F I S C A L   I M P A C T   R E P O R T

SPONSOR SCORC **ORIGINAL DATE** 3/14/17 **LAST UPDATED** **HB**

SHORT TITLE Used of Oil & Gas Reclamation Fund **SB** 413/SCORCS

ANALYST Armstrong

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		NFI	NFI			

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Response Received From
Department of Finance and Administration (DFA)

Response Not Received From
Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of Bill

The Senate Corporations Committee Substitute for Senate Bill 413 (SB413) amends the oil and gas reclamation fund statute to provide that the primary purpose of the fund is to pay for well plugging, remediation, and restoration work. The bill limits use of the fund for Oil Conservation Division (OCD) personnel costs to the following percentages of annual oil conservation tax revenue to: 45 percent in FY20, 35 percent in FY21, 25 percent in FY22, and 15 percent in FY23.

FISCAL IMPLICATIONS

SB413 would not have an immediate fiscal impact to EMNRD. However, the agency's current operating budget structure would be impacted beginning in fiscal year 2020. In fiscal year 2017, 46.3 percent of the $8.26 million appropriated from the fund is budgeted for contractual services. Another 46.2 percent of the fund's FY17 appropriation is budgeted for personal services and employee benefits, 3.2 percent for other costs, and 4.3 percent is transferred to EMNRD's Program Support Division. Almost all of the fund's contractual expenses are for plugging, remediation, and restoration activities, with a small amount set aside for court reporting.

SB413 would require OCD to either shift a large majority of its personnel costs to contractors or seek funding from another source, such as the general fund, to support its staff of 70 FTE to continue its current level of activities and services.

SIGNIFICANT ISSUES

The oil and gas reclamation fund is OCD's largest revenue source, supporting 75.4 percent of the division's fiscal year 2017 operating budget. The general fund supports 24.3 percent of OCD's budget and the remaining 0.3 is from federal sources. The fund is supported by the oil and gas conservation tax, which is levied on all oil and natural gas products severed and sold. General fund appropriations to the division have been declining in recent years, from $2.63 million in fiscal year 2016, to $2.32 million in fiscal year 2017, and $1.85 million in the current version of the 2017 General Appropriation Act.

According to DFA analysis:

> The bill's requirements would force EMNRD to spend most of the money in the oil and gas reclamation fund for well-plugging, remediation, and restoration. However, it would do so in a way that would limit the agency's flexibility and control over its own budget, perhaps forcing layoffs of its staff if no additional funding were available. Moreover, substituting private contractors for agency staff may prove to be more expensive due to salary levels in the private oil and natural gas sector, thereby reducing efficiency and delivery of services with the same amount of funding. OCD performs other activities such as well inspections and application approvals, and these could be hindered if a greater proportion of the agency's budget is required to be spent on plugging, remediation, and restoration.
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> Additionally, although OCD did not budget any fund balance from the oil and gas reclamation fund in fiscal year 2017, the division used approximately $2.1 million in fiscal year 2016 and has requested to utilize $3.8 million in fiscal year 2018. While the fund currently has a balance of approximately $10.1 million, increased demand on the fund due to a larger contractual budget could threaten the long-term structural stability of the fund.

PERFORMANCE IMPLICATIONS

The provisions of the bill would likely ensure OCD would continue to meet its performance target regarding the number of wells plugged. However, if a larger share of the division's budget is devoted to this purpose, performance on other measures regarding timely inspections and application approvals could suffer.

ALTERNATIVES

DFA analysis states:

> The bill could be amended either to remove the contractual services requirement or to reduce the percentage of the fund's appropriations that must be spent on such. However, doing so could result in requirements that closely emulate how the agency budgets anyway, rendering the bill unnecessary.

JA/al/sb