

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 428** SLS 16RS 637

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 16, 2016 2:58 PM	Author: ALLAIN
Dept./Agy.: Department of Natural Resources, Office of Conservation	Analyst: Mason Hess
Subject: Dedicates certain funds to oilfield site-specific trust account	

TAX/ENERGY

OR DECREASE GF RV See Note

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Dedicates certain funds to oilfield site-specific trust accounts in order to provide for oilfield site restoration. (gov sig)

Proposed law creates oilfield site specific trust accounts for orphaned and inactive well sites, and provides that 50% of the severance tax from production by participating inactive wells and 100% of the tax from orphaned wells be credited to the accounts. These funds are then available for site restoration when required in the future as per a plan approved by the Department of Natural Resources (DNR). Once a site account is fully funded, severance tax flows to the state general fund. Funds remaining in the accounts after site restoration are to be remitted to the well operator. For purposes of this program, inactive wells are defined as having no reported production for more than five years, and orphaned wells as not having any reported production for more than two years.

Effective upon governor's signature.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$65,000	\$65,000	\$65,000	\$65,000	\$65,000	\$325,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$65,000	\$65,000	\$65,000	\$65,000	\$65,000	\$325,000

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

EXPENDITURE EXPLANATION

Given the large number of eligible wells (8,500 inactive + 2,700 orphan) and the ongoing nature of site restoration, DNR projects an expenditure increase of \$65,000 beginning in FY 17 and in subsequent fiscal years for the salary of 1 engineer to handle applications, make site assessments, and monitor participating activity of the program. The salary for 1 engineer is estimated to be \$46,881 annually, with related benefits accounting for the remaining total. In addition, there may be expenditures associated with working with a third party contractor to perform necessary site assessments. Any remaining duties or work associated with implementing the program would be distributed among existing staff. Deposits to the site accounts resulting from this bill will presumably be able to fund the additional staff resources and any other costs within DNR associated with the program.

REVENUE EXPLANATION

DNR indicates that there are some 8,500 wells considered inactive (shut in future utility classification) and some 2,700 orphan wells (out of 3,000 total) that would likely be eligible for this bill's provisions. While unable to generate reliable figures, DNR indicates that currently few, if any, orphaned wells are brought back into production on an annual basis, but there are a small number of inactive wells typically brought back into production each year (likely in the low tens of counts). While DNR is unable to identify and report the associated production volumes, an existing baseline of severance tax collections would be dedicated to the site accounts provided by the bill and foregone to the state general fund. Constitutional allocations to local governments are unaffected by the bill.

Senate Dual Referral Rules House

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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