

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2217-01
Bill No.: SB 476
Subject: Attorney General, State; Boards, Commissions, Committees, Councils; Fees; Mining and Oil and Gas Production; Natural Resources Department
Type: Original
Date: March 30, 2015

Bill Summary: This proposal modifies provisions relating to the Department of Natural Resources.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| Oil and Gas Resources* | \$0 | \$0 | \$0 |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

*Revenues and Expenditures net to zero.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| Oil and Gas Resources | 3 FTE | 3 FTE | 3 FTE |
| Total Estimated Net Effect on FTE | 3 FTE | 3 FTE | 3 FTE |

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|----------------|----------------|----------------|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

§§ 259.010 - 259.190 - Oil and Gas Council:

Officials from the **Department of Natural Resources (DNR)** assume revenues collected as a result of this provision would come from fee structures that are to be established by DNR while involving stakeholders and the State Legislature.

DNR assumes this provision would result in an increase to state revenue through fee funds. Any possible oil and gas revenue generated by fees established through this proposal will be controlled by the rate of oil and gas production.

DNR assumes this provision creates the Oil and Gas Resources Fund to consist of all gifts, donations, transfers, moneys appropriated by the general assembly, permit fees, and bequests, to be administered by DNR.

DNR assumes this provision would give the State Oil and Gas Council the authority to regulate release and forfeiture of surety bonds to cover proper well closure.

DNR assumes this provision would establish the ability by DNR to propose a fee structure with stakeholder involvement to the State Oil and Gas Council. If approved by a 2/3 majority of the council, DNR would file for rulemaking containing the proposed fee structure. The General Assembly can act to disapprove the fee structure within the first 60 days of the following session.

DNR assume this provision would establish a late fee for failure to pay fees

ASSUMPTION (continued)

DNR assumes 3 additional Geologist III (each at \$55,416 annually) are needed to implement these provisions.

| | <u>FY2016</u> | <u>FY2017</u> | <u>FY2018</u> |
|-------------------------|----------------|----------------|----------------|
| <u>Salaries:</u> | \$138,540 | \$167,910 | \$169,590 |
| Geologist III (3.0 FTE) | | | |
| Fringe Benefits | \$72,048 | \$87,322 | \$88,195 |
| Expense and Equipment | | | |
| Standard - 3 FTE | \$40,601 | \$18,296 | \$18,751 |
| Contracting-Engineering | \$12,000 | \$12,000 | \$12,000 |
| <u>Council Expenses</u> | <u>\$1,400</u> | <u>\$1,400</u> | <u>\$1,400</u> |
| Total | \$264,589 | \$286,928 | \$289,936 |

DNR assumes engineering services to provide reservoir engineering consultation and expertise, especially as it relates to enhanced oil recovery and emerging production technologies.

Oversight assumes this provision would result in additional income through fees established by the Oil and Gas Commission for oil and gas drilling permits.

Oversight assumes the additional fee income would be used for salaries, fringe benefits, expenses, and equipment for the 3 FTE as well as contract engineering and council expenses paid from the Oil and Gas Resources Fund set to cover the costs of the program.

Officials from the **Office of Governor, Joint Committee on Administrative Rules**, and the **Office of State Courts Administrator** each assume the proposal would not fiscally impact their respective agencies.

FISCAL IMPACT - State Government FY 2016 FY 2017 FY 2018
(10 Mo.)

OIL AND GAS RESOURCES FUND

Income - DNR
§§ 259.010 - 259.190 - Oil and Gas \$264,589 \$286,928 \$289,939
Council

Costs - DNR
§§ 259.010 - 259.190 - Oil and Gas
Council

| | | | |
|--------------------------|--------------------|--------------------|--------------------|
| Contract Engineering | (\$12,000) | (\$12,000) | (\$12,000) |
| Council Expenses | (\$1,400) | (\$1,400) | (\$1,400) |
| Personal Service | (\$138,540) | (\$167,910) | (\$169,590) |
| Fringe Benefits | (\$72,048) | (\$87,322) | (\$88,195) |
| Expense & Equipment | (\$40,601) | (\$18,296) | (\$18,754) |
| <u>Total Costs - DNR</u> | <u>(\$264,589)</u> | <u>(\$286,928)</u> | <u>(\$289,939)</u> |
| FTE Change - DNR | 3FTE | 3 FTE | 3 FTE |

ESTIMATED NET EFFECT TO THE OIL AND GAS RESOURCES FUND **\$0** **\$0** **\$0**

Estimated Net FTE Change for the Oil and Gas Resources Fund 3 FTE 3 FTE 3 FTE

FISCAL IMPACT - Local Government FY 2016 FY 2017 FY 2018
(10 Mo.)
\$0 **\$0** **\$0**

FISCAL IMPACT - Small Business

§§ 259.010 - 259.190 - Oil and Gas Council:

This proposal includes a mechanism to establish fee structures for oil and gas production. Small businesses providing oil and gas could see an additional cost from this proposal.

FISCAL DESCRIPTION

§§ 259.010 - 259.190 - Oil and Gas Council:

Currently, the State Oil and Gas Council is composed of 8 members with 1 being from the Division of Geology and Land Survey. This proposal replaces this member with the State Geologist. This proposal also removes the requirement that one of the public members on the Council be a resident of a third or fourth class county. Additionally, this proposal removes the Division of Geology and Land Survey from the advisory committee to the Council and replaces it with the Department of Natural Resources.

Currently, the State Oil and Gas Council has certain authority, including entering property for inspecting oil and gas wells and initiating investigations by the Attorney General. This proposal also confers this authority to the Department of Natural Resources. Conversely, the State Oil and Gas Council is currently authorized to inspect or investigate property believed to be subject to regulation. This proposal transfers this authority from the Council to the Department of Natural Resources.

This proposal creates the Oil and Gas Resources Fund consisting of appropriated moneys as well as permit application fees, operating fees, closure fees, late fees, severance fees, and gifts. Such money shall be use to administer provisions of law relating to oil and gas.

Currently, the Oil and Gas Remedial Fund may be used to pay the expenses incurred by the State Oil and Gas Council. This proposal repeals this provision.

Currently, the State Oil and Gas Council allows a personal bond secured by a certificate of deposit or irrevocable letter of credit to be furnished to the Council in lieu of a surety bond to govern the production of oil and gas on lands in Missouri. This act removes this allowance.

Currently, applicants seeking a permit for noncommercial gas wells are required to file a bond or other instrument of credit. This proposal removes the allowance to file any other instrument of credit.

Currently, the State Oil and Gas Council does not charge a fee for obtaining a permit for drilling operations. Under this proposal, the State Oil and Gas Council may authorize the Department of Natural Resources to file an order of rulemaking amending the fee structure for permit application fees, operating fees, closure fees, late fees, and extraction or severance fees after certain procedures are followed as set forth in this act. Such authority to revise the fee structure in this manner shall expire in 2025. If any applicant fails to pay the appropriate fee, a penalty may be assessed and relief may be sought by the Department of Natural Resources in the

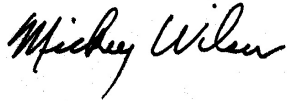
FISCAL DESCRIPTION (continued)

appropriate circuit court.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Natural Resources
Office of Governor
Office of State Courts Administrator
Joint Committee on Administrative Rules



Mickey Wilson, CPA
Director
March 30, 2015

Ross Strope
Assistant Director
March 30, 2015