

FISCAL NOTE
Requested by Legislative Council
01/21/2019

Bill/Resolution No.: HB 1438

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			\$365,264		\$365,264	
Appropriations			\$365,264		\$365,264	

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

This measure creates a new section to chapter 38-08 of the NDCC which requires a bond of a well site in an amount sufficient to ensure reclamation of the well site.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

This measure will increase the number of bonds by approximately 12,000. The total bonding funds required will increase by \$1,169,585,000. This will increase the Industrial Commission Oil & Gas Division's oversight in well site plugging/reclamation bonds ensuring reclamation of the well site, inspections, and controls.

The average number of cash bonds to surety bonds currently is 20%, therefore the Commission expects applications for approximately 2,400 cash bonds at the BND. The BND would staff accordingly but is unable to determine the staffing need at this time.

The increase in bond oversight and fieldwork of the additional 12,000 bonded well sites will require the Oil & Gas Division to hire two bonding/reclamation technicians at a cost of \$182,632/FTE (\$149,744 salaries & benefits, \$32,888 operating).

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Notes for 1A: The revenue impacts that will result from this bill cannot be fully determined at this time. However, partial information can be provided as follows:

1) Approximately \$2.3 million annually from the 1% administration fee collected would be deposited into the cash bond fund for plugging and reclaiming abandoned wells.

2) The cost of the additional bonding will make approximately \$1,169,585,000 unavailable for drilling and completion. This loss in funding is the equivalent of 167 wells. The potential loss in revenue over the life of 167 wells not being drilled is estimated at:

Gross production and extraction tax: (\$785,292,786)

Sales tax revenue: (\$31,912,962)

Total tax revenue lost: (\$817,205,748)

3) The BND would remain revenue neutral as the fees charged for the additional bonds would be offset by the costs.

There is also a potential loss in revenue over the life of 167 wells not being drilled for royalty owners at approximately (\$1,553,877,214).

Notes for 1B: The fiscal effect of this bill on political subdivisions cannot be fully determined, although it is estimated there will be a total loss in revenue of \$327 million in oil and sales tax in the 2019-21 biennium and \$163 million loss in the 2021-23 biennium.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

The increase in bond oversight and fieldwork of the additional 12,000 bonds will require the Oil & Gas Division to hire two bonding/reclamation technicians at a total cost of \$365,264.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

The Oil & Gas Division expenditures for the increased costs in FTE expenses mentioned in 3B total \$365,264. The FTE costs are general fund expenses and are not included in the executive recommended budget.

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Date Prepared: 01/23/2019