LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 19, 2003

TO: Honorable Kenneth Armbrister, Chair, Senate Committee on Natural Resources

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB2020** by Farabee (Relating to financial security requirements for certain persons performing operations within the jurisdiction of the Railroad Commission of Texas.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2020, As Engrossed: an impact of $0 through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	$0
2005	$0
2006	$0
2007	$0
2008	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from *OIL-FIELD CLEANUP ACCT* 145	Probable (Cost) from *OIL-FIELD CLEANUP ACCT* 145
2004	$2,277,000	($2,277,000)
2005	$4,552,000	($4,552,000)
2006	$4,976,000	($4,976,000)
2007	$5,400,000	($5,400,000)
2008	$5,400,000	($5,400,000)

Fiscal Analysis

The bill would extend the nonrefundable annual fee of $1,000 for persons with acceptable records of compliance with the Railroad Commission as an alternate form or financial security to all qualified operators. The bill also changes the calculation of a second nonrefundable annual fee option based on the percentage of a bond that would otherwise be required (currently 12.5 percent) to 5 percent.

Effective September 1, 2004, the nonrefundable annual fee of $1,000 for persons with acceptable records of compliance would change to a fee equal to the amount of the bond that would otherwise be required multiplied by 6 percent in 2005, 7 percent in 2006 and 8 percent in 2007 and thereafter.

The bill would exempt certain non-well operators from financial security requirements. The maximum financial security amount for other non-well operators would be set at $25,000.

The bill would be effective immediately upon passage by two-thirds vote of the Legislature. Otherwise, the bill would take effect on September 1, 2003.

Methodology

Estimate revenues resulting from passage of the bill are based on projections provided by the Comptroller of Public Accounts.

Upon passage of the bill, operators not in compliance with Railroad Commission standards or with no record of compliance would be able to pay a nonrefundable of 5 percent of the bond amount otherwise required. It is expected that operators currently denied a permit to operate would have an opportunity to obtain permit approval upon passage of the bill, thereby increasing revenues. Additionally, some bonded operators would switch from what is considered a more expensive option to the non-bonded, $1,000 annual nonrefundable fee option. Those operators who switched and those that become eligible for approval would be required to pay an annual $300 fee for each inactive well plugging extension after a well has been inactive for 36 months, resulting in increased revenues.

Effective September 1, 2004, the annual $1,000 fee would be replaced with a nonrefundable fee of 6 percent in 2005, 7 percent in 2006, and 8 percent in 2007 and thereafter of the amount of bonding otherwise required. Operators would continue to pay the annual $300 well plugging extension fee. This would provide for a revenue stream that would not exist under current law.

This estimate assumes all additional revenues to the Oil Field Cleanup Account. No. 145 would be spent by the Railroad Commission on cleanups and well pluggings, since demand for such activities currently exceeds funding availability. In addition, demand for Oil Field Cleanup Account No. 145 funds could actually increase as a result of the bill's passage. Since the bill removes the universal bonding requirement that otherwise would have gone into effect in January 2004, the number of sites eligible for state cleanup could increase, depending on the number of operators that would choose to operate without bonding and would abandon their operations during 2004-08.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 455 Railroad Commission

LBB Staff: JK, MS, TL, JO, CL