LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

April 14, 2009

TO: Honorable Jim Keffer, Chair, House Committee on Energy Resources

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: **HB4654** by Chisum (Relating to the authority of a county or municipality to regulate the drilling of oil and gas wells.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB4654, As Introduced: a negative impact of ($432,434) through the biennium ending August 31, 2011.

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
2010	($218,217)
2011	($214,217)
2012	($214,217)
2013	($214,217)
2014	($214,217)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1	Change in Number of State Employees from FY 2009
2010	($218,217)	2.0
2011	($214,217)	2.0
2012	($214,217)	2.0
2013	($214,217)	2.0
2014	($214,217)	2.0

Fiscal Analysis

The bill would require the Railroad Commission (RRC) to adopt a set of model rules for counties and a separate set of model rules for municipalities regulating the drilling of oil and gas wells. The model rules would be required to promote health, safety, morals, general welfare, and orderly development of the county or municipality. The bill would authorize a county, by order, and a municipality, by ordinance, to regulate oil and gas drilling consistent with RRC model rules. The bill would also authorize counties and municipalities to adopt regulations conflicting with RRC model rules if the RRC would determine, after a hearing, that different rules are required because of circumstances specific to that locale such that the public interest necessitates authorizing the conflicting provision.

Methodology

In addition to developing rules to establish a regulatory framework designed for counties and municipalities seeking to regulate the drilling of oil and gas wells within their own jurisdictions, the RRC would be required to conduct contested hearings to determine if municipal or county rules regarding oil and gas well drilling are consistent with the model rules adopted by the RRC. In cases where rules would be found to be inconsistent, the RRC would be required to conduct additional hearings to determine if the public interest necessitates the conflicting rules.

In addition to resources the RRC would need to establish the model rules, this estimate assumes that the RRC would handle an additional 20-40 contested hearings per fiscal year with an average duration of 2-3 days. It is estimated that 2.0 additional FTEs, including an attorney and an engineer, would be needed to handle this additional caseload. Overall costs to the RRC are estimated at $218,217 in fiscal year 2010 and $214,197 per fiscal year in each subsequent year. This estimate assumes the costs would be paid out of the General Revenue Fund.

Local Government Impact

Cities and counties electing to regulate oil and gas well drilling within their jurisdictions would incur costs in drafting orders and ordinances, enforcing orders and ordinances, and participating in contested case hearings at the RRC. The cost would depend on the number of wells regulated within a jurisdiction and whether an entity would seek to adopt rules in conflict with the RRC's model rules. The Texas Association of Counties reports that a county opting to implement the model rules could expect to incur costs of $60,000 in the first year, including salary for an inspector and a vehicle, and $40,000 in subsequent fiscal years.

Cities already regulating drilling within their jurisdictions could incur additional costs, depending on the requirements prescribed in the model rules the RRC would develop.

Source Agencies: 455 Railroad Commission

LBB Staff: JOB, SD, ZS, TL, JB, DB