

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION**

**April 25, 2021**

**TO:** Honorable Brian Birdwell, Chair, Senate Committee on Natural Resources & Economic Development

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: SB1258** by Birdwell (Relating to the duty of a lessee or other agent in control of certain state land to drill an offset well, pay compensatory royalty, or otherwise protect the land from drainage of oil or gas by a horizontal drainhole well located on certain land.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB1258, Committee Report 1st House, Substituted : an impact of \$0 through the biennium ending August 31, 2023.

However, there is estimated to be a loss of (\$3,720,000) to the Permanent University Fund and a loss of (\$900,000) to the Available University Fund in the 2022-23 biennium.

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:**

<i>Fiscal Year</i>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2022	\$0
2023	\$0
2024	\$0
2025	\$0
2026	\$0

**All Funds, Five-Year Impact:**

<i>Fiscal Year</i>	<b>Probable Revenue (Loss) from Permanent University Fund No. 0045</b>	<b>Probable Revenue (Loss) from Available University Fund, est 11</b>
2022	(\$1,860,000)	(\$450,000)
2023	(\$1,860,000)	(\$450,000)
2024	(\$1,860,000)	(\$450,000)
2025	(\$1,860,000)	(\$450,000)
2026	(\$1,860,000)	(\$450,000)

**Fiscal Analysis**

The bill would amend the Education Code and the Natural Resource Code to add definitions of a horizontal drain hole, take point, and unconventional fracture treated field.

The bill would restrict a lease relating to university land from requiring a lessee to drill an offset well, pay compensatory royalty, or protect the leased premises or acreage pooled from drainage by a horizontal drain hole well located in an unconventional fracture treated field if no take point is located closer to the leased premises than the greater of the applicable lease-line spacing distance currently required by the Railroad Commission or a perpendicular distance of 400 feet.

The bill would exempt a horizontal drain hole well producing oil and gas in commercial quantities located within 1,000 feet of certain state lands from being considered a draining well unless any take point is located closer to the state land than the greater of the applicable lease-line spacing distance currently required by the Railroad Commission or a perpendicular distance of 330 feet.

The bill would take effect on September 1, 2021.

### **Methodology**

Based on information provided by the Comptroller of Public Accounts, most offset drilling obligations occur on university lands and the compensatory royalty payments are deposited into the Permanent University Fund (PUF).

Based on information provided by University of Texas System Administration (UT System), there have been a total of 162,968 lateral feet drilled within 400 feet to the boundary between University Lands and fee acreages in the previous five fiscal years. According to UT System's annual reserves report, the average value per laterage foot for undeveloped and future opportunities was \$73 in fiscal year 2020.

According to UT System, under the provisions of the bill, revenue to PUF would decrease by approximately \$1,860,000 each fiscal year. This analysis uses a oil and gas industry standard PV10 methodology by taking the present value of estimated future oil and gas revenue, subtracting forecasted direct expenses, and discounting it at an annual rate of 10.0 percent.

According to UT System, the potential revenue losses to PUF would also impact allocations to the Available University Fund by approximately \$450,000 per fiscal year.

Based on information provided by the GLO and the Railroad Commission, it is assumed that duties and responsibilities associated with implementing the provisions of the bill could be accomplished utilizing existing resources.

### **Local Government Impact**

No significant fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts, 305 General Land Office, 455 Railroad Commission, 720 UT Sys Admin

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