OIL, GAS, AND MINING, STATE FUNDS REDUCTION CONCEPTS

NATURAL RESOURCES, AGRICULTURE, & ENVIRONMENTAL QUALITY APPROPRIATIONS SUBCOMMITTEE
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ISSUE BRIEF

We have been asked to provide a list of suggestions that could potentially reduce the appropriations from the General Fund to agencies overseen by the Natural Resources, Agriculture, and Environmental Quality Appropriations Subcommittee. This list was intended to be used as a starting point for committee's discussions and potential legislative actions.

We used the assumption that although the agencies overseen by this appropriations subcommittee are generally very efficient, there are additional ways to reduce the state appropriations, while allowing the public to receive the needed services. For example, in some instances a portion of the state funds can be replaced with other funding sources, such as user fees. Also, some of the functions currently performed exclusively by state entities can be done by private companies or other government entities if the statute would allow and if proper oversight be put in place.

We identified the following general categories where such potential state fund reductions could be made. For additional explanations and examples of these categories, please see Appendix A.

1. **User fees**: replace a portion of the General Fund appropriations with user fees.
2. **Increase self-checking and self-reporting**: require a greater portion of the inspections and testing currently done by state employees to be transferred to the regulated industry/public, who may be required to self-report or to hire a third-party for verifications.
3. **Allow competition:** allow private or other government organizations to compete against each other and the state for services currently provided solely by state agencies.
4. **Outsource services:** contract with private or other government entities to take over the services currently provided by state agency.
5. **Eliminate government intervention:** some services can be provided through delegated standards without a formal structure of state government directly involved. This puts the burden on the industry to provide the services while still allowing the state to set the standards.

The tables below list the programs of the Division of Oil, Gas, and Mining and show the funding mix, expenditure categories, and staff and vehicles count by program.

In the first table, which shows the FY 2019 amounts by funding source (as included in the Base Budget Bill, H.B. 5), we have assigned in the first column (titled "Possible Action") one or more of above categories to the programs where applicable.

FY 2019 Base Budget by Program and Funding Mix

Line	Possible Action		Programs by Line Item	State Funds	Federal Funds	Ded. Credits	Restricted
1			**Oil, Gas and Mining**				
2			Abandoned Mine	70,000	5,080,700	5,000	
3			Administration	140,900	850,000	18,900	1,221,700
4			Board	80,000			
5	**Outsource Services**	**More Self-Checking/Reporting**	Coal Program	534,000	1,600,000	500	
6	**Allow Competition**	**User fees**	Minerals Reclamation	854,300		202,000	
7	**Allow Competition**	**More Self-Checking/Reporting**	Oil and Gas Program	972,000	90,000	16,500	3,265,700

Most of the programs in the Division of Oil, Gas, and Mining are regulatory in nature. Some of them may be adjusted to allow a greater portion of the inspections currently done by state employees to be transferred to the regulated industry, who may be required to self-report and maybe hire a third-party for verifications. This could potentially reduce the workload of the division and the costs to the taxpayers.

The Legislature may also explore the possibilities of allowing qualified private or other government organizations to provide some of the permitting and/or inspections currently done by division staff. This could subsequently lead to a reduction in the appropriations of state funds.

In some instances, user fees could be used to offset a portion of the current appropriations from the General Fund to division programs, such as the Minerals Reclamation program or the Coal program.

Would the committee like to pursue any of these possibilities and direct staff to get more information?

The following pages contain details about the expenditures, FTE and Vehicles counts by program, as well as descriptions for each program, in order to provide a better understanding of what is currently budgeted to be "purchased" with the appropriations for FY 2019 in the Base Budget Bill.

Expenditures

Line	Programs in Line Item	Personnel Services	In-state Travel	Out-of-state Travel	Current Expense	DP Current Expense	Pass Thru
1	**Oil, Gas and Mining**						
2	Abandoned Mine	950,700	24,000	12,000	2,055,000	50,000	2,064,000
3	Administration	1,711,900	8,000	12,000	169,600	330,000	
4	Board	12,500	7,000	3,000	27,500	30,000	
5	Coal Program	1,610,000	20,000	10,000	300,000	194,500	
6	Minerals Reclamation	978,500	12,000	2,000	40,000	23,800	
7	OGM Misc. Nonlapsing	0			989,000	50,000	1,288,300
8	Oil and Gas Program	2,568,300	25,000	24,000	697,300	460,800	568,800

Staff and Vehicles

Line		FTE	Vehicles
1	**Oil, Gas and Mining**		
2	Abandoned Mine	11	
3	Administration	18	14
4	Coal Program	18	
5	Minerals Reclamation	10	
6	Oil and Gas Program	27	

Mission: to regulate the exploration and development of coal, oil and gas, and other minerals in a manner which: encourages responsible reclamation and development; protects correlative rights; prevents waste; and protects human health and safety, the environment, and the interests of the state and its citizens.

Programs Descriptions

Abandoned Mine

The purpose of the Abandoned Mine program is to mitigate adverse effects of past unregulated mining practices by identifying and prioritizing the health/safety aspects of abandoned mines and developing and executing closure and reclamation plans.

Administration

The division Administration program establishes policy, provides direction, and furnishes administrative support to the division's established work programs.

Board

The Board of Oil, Gas and Mining conducts administrative hearings in a quasi-judicial forum to provide direction on the development of energy and mineral resources in Utah. It assures appropriate resource conservation, waste minimization, and environmental mitigation. The board also provides policy advice and promulgates rules for the division.

Coal Program

The Coal program reviews applications for mining and reclamation plans for all coal mines and coal exploration activities in Utah. Upon approval of a permit application, a reclamation bond is posted to assure final reclamation is conducted under terms of the permit. When mining begins, operations are inspected for compliance with the permit. The reclamation process can take several years after the mining ends, depending on the size of the mine.

Minerals Reclamation

The Mineral Reclamation program requires that every exploration or mining operation for non-coal commodities have a valid notice of intent or an approved mining and reclamation plan before surface disturbing operations are commenced. The program ensures that non-coal mining operations will be reclaimed at the conclusion of the mining cycle, and affected lands returned to viable use.

OGM Misc. Nonlapsing

This program accounts for nonlapsing balances rolled forward from previous fiscal years.

Oil and Gas Program

The mission of the Oil and Gas Conservation program is to encourage development of Utah's crude oil and natural gas resources in a manner that obtains the greatest possible recovery while preventing waste and protecting the environment. This program includes the Underground Injection Control (UIC) Program, which is an EPA program that is assigned to the division. The intent of the UIC program is to prevent water pollution that could result from injecting produced oil field waters into underground reservoirs with water quality equivalent to or lower than that of the produced water. The program provides technical assurance that injected waters will not impact underground sources of drinking water.

Appendix A

1. **User fees**: replace a portion or all the General Fund appropriations with user fees. This will allow the state entity to continue the same level of services and staffing, while reducing the general tax dollars. It may or may not mean increasing fees to generate more revenue with which to replace the General Fund. An example of this is the Division of Parks and Recreation shifting the majority of its finding from the General Fund to parks visitors' fees.
2. **Increase self-checking and self-reporting**: require a greater portion of the inspections and testing currently done by state employees to be transferred to the regulated industry/public, who may be required to self-report or to hire a third-party for verifications. This would potentially reduce the workload of the state agency, which would result in reduction in state staff and travel expenses. This could be similar to reporting and paying income taxes. The individual or corporation self-reports, with the understanding that reports are enforced through audits. Another example of this is the elimination of the state-mandated vehicle safety inspections for vehicle registration.
3. **Allow competition:** allow private or other government organizations to compete against each other and the state for services currently provided solely by state agencies. Competition could breed innovation and increase the quality of services and/or reduce the costs to the industry/public paying for the services. An example of this is the Organic certification process.
4. **Outsource services:** contract with private or other government entities for the services currently provided by state agency. Initially, the costs may remain the same, but it could be reduced over time, as competition to provide the services increases. Many services in state government are provided through contracting, and perhaps more could be. Examples of this is UDOT and road construction and This Is The Place Foundation managing the heritage park.
5. **Eliminate government intervention:** some services can be provided through delegated standards without being a formal structure of state government. This puts the burden on the industry to provide the services while still allowing the state to set the standards. An example of this is industry certifications and industry standards, such as the Certified Public Accountant (CPA) and the Governmental Accounting Standards Board (GASB).