

DIVISION OF OIL, GAS, AND MINING, BUDGET ISSUES

NATURAL RESOURCES, AGRICULTURE, AND ENVIRONMENTAL QUALITY APPROPRIATIONS SUBCOMMITTEE
STAFF: IVAN DJAMBOV

ISSUE BRIEF

The purpose of this document is to address two issues related to the Division of Oil, Gas, and Mining: over-appropriation from the Oil and Gas Conservation Restricted Account and possible mis-direction of General Fund appropriations.

Reduced Restricted Fund Appropriations Due to Lack of Funding

The Oil and Gas Conservation Restricted Account is one of the three major funding sources for the Division of Oil, Gas, and Mining.

The revenues in the restricted account declined three years ago due to reduction in oil and gas production in Utah. Figure 1 displays the account activities over time: the revenues (green bars), expenditures (orange bars), and the account balances (yellow bars). The drop in revenues is show in FY 2016.

But in spite of the low revenues to the account, the appropriated amount from the account to the division kept increasing (see orange bars in Figure 2). But the division only spent one-half of the appropriated amounts in FY 2017 and FY 2018. There is no reason to continue appropriating the large amounts, when the revenue to the account is insufficient to provide the appropriated funds.

Since the revenue forecast does not indicate that the account revenues will increase dramatically in FY 2019 and FY 2020, the base budget bill (S.B. 5) includes adjustments of the appropriations from that source, reflected in Items 21 and 68. This is intended to reduce the over-appropriation by \$500,000 one-time in FY 2019 and \$1 million in FY 2020. This action still leaves the division with about \$1 million of over-appropriation per year if high revenues do come in before the next budget cycle.

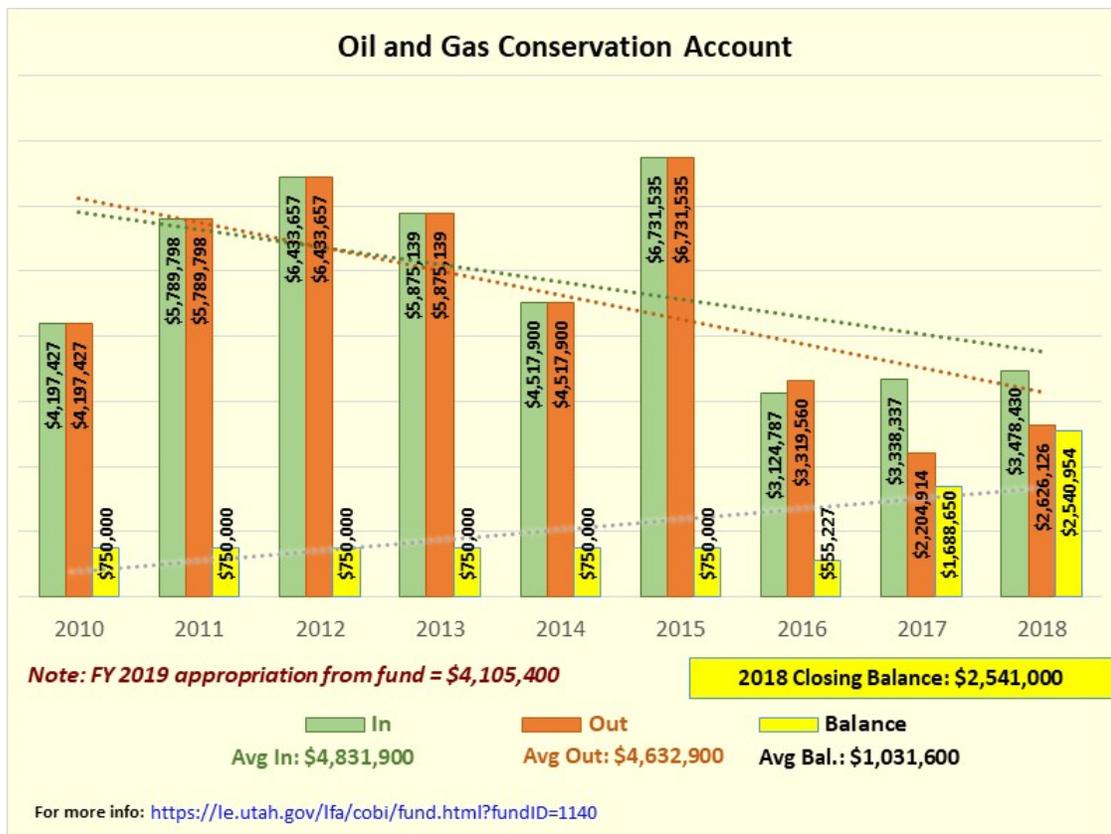


Figure 1.

Reimbursing the General Fund

During the 2016 General Session, the Legislature appropriated nearly \$1 million ongoing from the General Fund to help offset the restricted revenues shortfall (see the increases in the blue bars in Figure 2, starting in FY 2017). The intention was to keep the vital services provided by the division in place. However, services decreased at the same time as unspent funds and restricted fund balances increased.

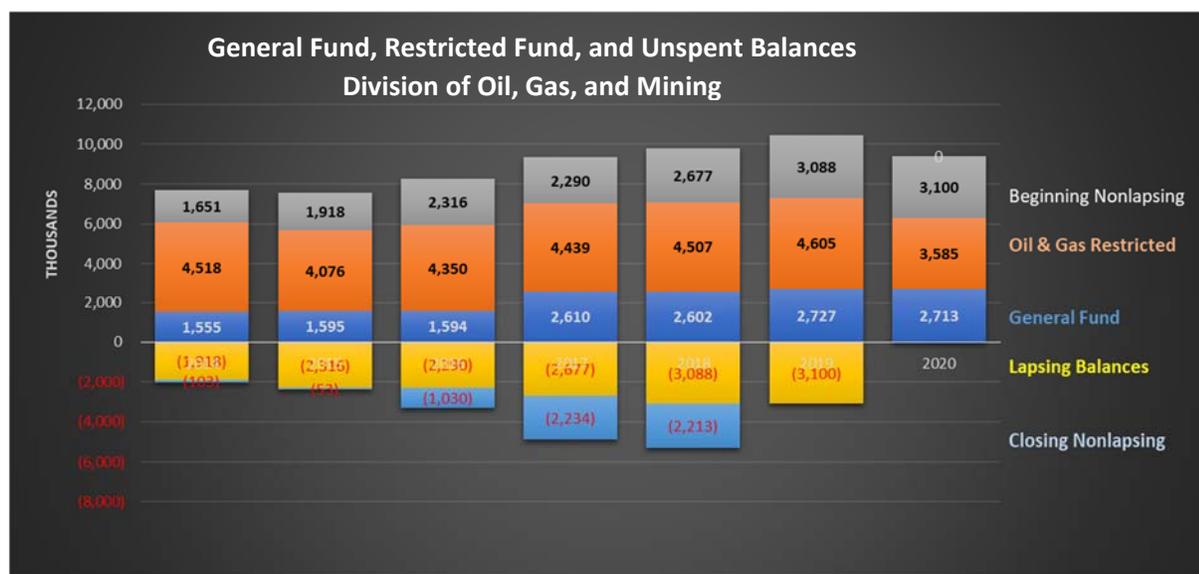


Figure 2.

The division reported that they stopped providing services, such as wildlife biologists evaluating every drill site and the division's educational outreach efforts. At the same time, the division left unspent (Lapsing and Nonlapsing Balances) of over \$4.8 million in FY 2017 and \$5.2 million in FY 2018 (see yellow and light blue bars in Figure 2). The unspent funding increased by about \$2 million (60%) between FY 2016 and FY 2018.

The balances in the Oil and Gas Restricted Account grew by \$2 million between FY 2016 and FY 2018: from \$555,200 to \$2,541,000 (see yellow bars Figure 1). This is an average growth of \$1 million per year, the same amount as the General Fund appropriation. It appears that the division was spending the General Fund and leaving large portion of its restricted funds to go back to grow its balances (see the Lapsing Balances, the yellow bars in Figure 2).

The Analyst recommends the Legislature reduce in FY 2019 the restricted account balance to the FY 2016 level, \$555,200, and return the difference of \$1,985,700 to the General Fund by:

1. Appropriating \$1,985,700 one-time from the restricted account to the division, and
2. Reducing the division's General Fund appropriation by \$1,985,700 one-time to be reallocated for other legislative priorities.

This one-time action will ensure the division's appropriation will not be reduced, only the balances in the restricted account.

However, the Legislature may also consider eliminating or reducing in FY 2020 the \$1 million ongoing appropriation from the General Fund that started in FY 2017, if the services for which the funding was provided will continue to be unavailable in the future, or the cost of the services to be restored is less than the \$1 million.