



OIL, GAS, AND MINING, ACCOUNTABLE BUDGET REVIEW

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

This brief is intended to assist the members of the Natural Resources, Agriculture, and Environmental Quality Appropriations Subcommittee during the Accountable Budget Process. JR3-2 requires the Legislature to create a budget for a line item or a program by starting from zero and determining whether or to what extent to recommend funding be included in a budget for FY 2021.

The following is a list of questions the subcommittee members could ask when evaluating the programs and making decisions about the Division of Oil, Gas, and Mining:

- 1. What are the statutory requirements?**
 - a. Should the statute/scope of the entity be adjusted?
 - b. Does each program have a mission, goals, and objectives that are meaningful and tied to the enabling statute?

- 2. How well has this “investment” performed in the past? What are the goals for the future?**
 - a. What value does this division/program add to society?
 - b. Are there meaningful performance measures?
 - i. How well do they tie to the organization’s mission, goals, and objectives?
 - ii. Are the targets reasonable?
 - iii. Are the results acceptable?

- 3. What programs should be funded for FY 2021? How much?**
 - a. Why is state government providing these services? Could this function be done by a local government or the private sector?
 - b. What will happen if the division/program is eliminated or downsized? Who will notice? Who will be affected the most?
 - c. Can the taxpayers' investment be reduced by implementing or increasing user fees?
 - d. Should the funding mix be adjusted?
 - e. Are some of the past building blocks no longer a high priority?
 - f. Can some of the expenditures be reduced or eliminated?

The following sections are intended to provide background information about the entities':

1. [Enabling Authority](#)
2. [Performance Measures](#)
3. [Programs and FTEs](#)
4. [Funding](#)
5. [Spending](#)

For additional interactive online resources, click on the links below:

- [Compendium of Budget Information \(COBI\)](#),
- [Historic Trends of Funding, Expenditures, and FTEs](#),
- [Appropriated vs. Actual Comparison](#), and
- [State of Utah Budget, Data Viz.](#)

Enabling Authority

The governing statute for the Division of Oil, Gas, and Mining is in [UCA 40](#).

The division's mission is to "regulate the exploration and development of coal, oil and gas, and other minerals in a manner which:

1. encourages responsible reclamation and development;
2. protects correlative rights;
3. prevents waste; and
4. protects human health and safety, the environment, and the interests of the state and its citizens."

Performance Measures

The 2019 Legislature included in [S.B 2, New and Current Fiscal year Supplemental Appropriations Act](#), the following pieces of intent language regarding performance measures for the division:

The Legislature intends that the Department of Natural Resources report on the following performance measures for the Oil, Gas, and Mining line item, whose mission is "The Division of Oil, Gas and Mining regulates and ensures industry compliance and site restoration while facilitating oil, gas and mining activities:" (1) Timing of Issuing Coal Permits (Target = 100%), (2) Customer Satisfaction from Survey (Target = 4.2), and (3) Well Drilling Inspections without Violations (Target = 100%) by October 31, 2020 to the Natural Resources, Agriculture, and Environmental Quality Appropriations Subcommittee.

Below are the measures' targets and results over time.

	FY 2018		FY 2019	FY 2020
	Target	Results	Target	Target
Timing of issuing coal permits	100%	98%	100%	100%
Customer satisfaction from survey	4.4	4.2	4.4	4.2
Well drilling inspections without violations	100%	100%	100%	100%

Programs and FTEs

The following table lists the programs in the division with the FY 2018 actual amounts spent and the FTE count by program. The table also includes an assessment by the division leadership on how critical each program is to the mission of the division. It also identifies if the program is providing administrative support or directly serves the public and lists the statute references. For the programs' descriptions, please see the section below the table.

Program Name	How critical to mission?	Type of Program	Mandate Status	Mandate Citation	State Funds	Federal Funds	Other Funds	Total Funds	FTE
ABANDONED MINE	2-Substantial	Serve Public	Federal	UCA 40-10-25	\$33,937	\$3,392,078	\$0	\$3,426,015	10
ADMINISTRATION	1-Fundamental	Admin.	Federal	UCA 40-6-15	\$230,831	\$835,615	\$647,102	\$1,713,548	13
BOARD	1-Fundamental	Admin.	Statute	UCA 40-6-4	\$80,378	\$0	\$0	\$80,378	0
COAL	1-Fundamental	Serve Public	Federal	UCA 40-10	\$104,844	\$1,525,462	\$0	\$1,630,306	13
MINERALS	1-Fundamental	Serve Public	Statute	UCA 40-8	\$719,413	\$0	\$147,506	\$866,919	9
NON-LAPSING	1-Fundamental	Serve Public	Statute	UCA 40-6-14.5	\$172,914	\$0	\$50,554	\$223,468	0
OIL AND GAS	1-Fundamental	Serve Public	Statute	UCA 40-6	\$927,700	\$35,076	\$1,517,456	\$2,480,232	19
					\$2,270,017	\$5,788,231	\$2,362,618	\$10,420,866	64

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

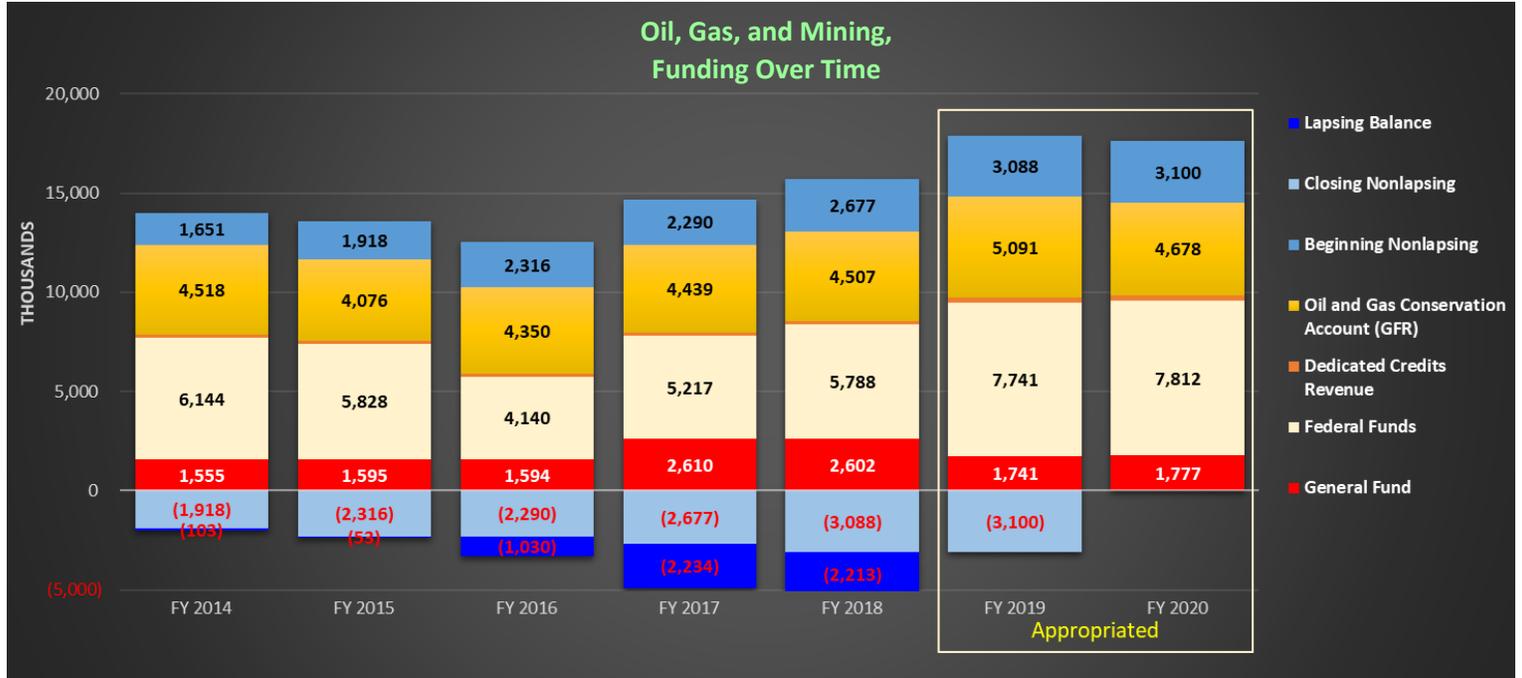
This program accounts for nonlapsing balances rolled forward from previous fiscal years.

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.

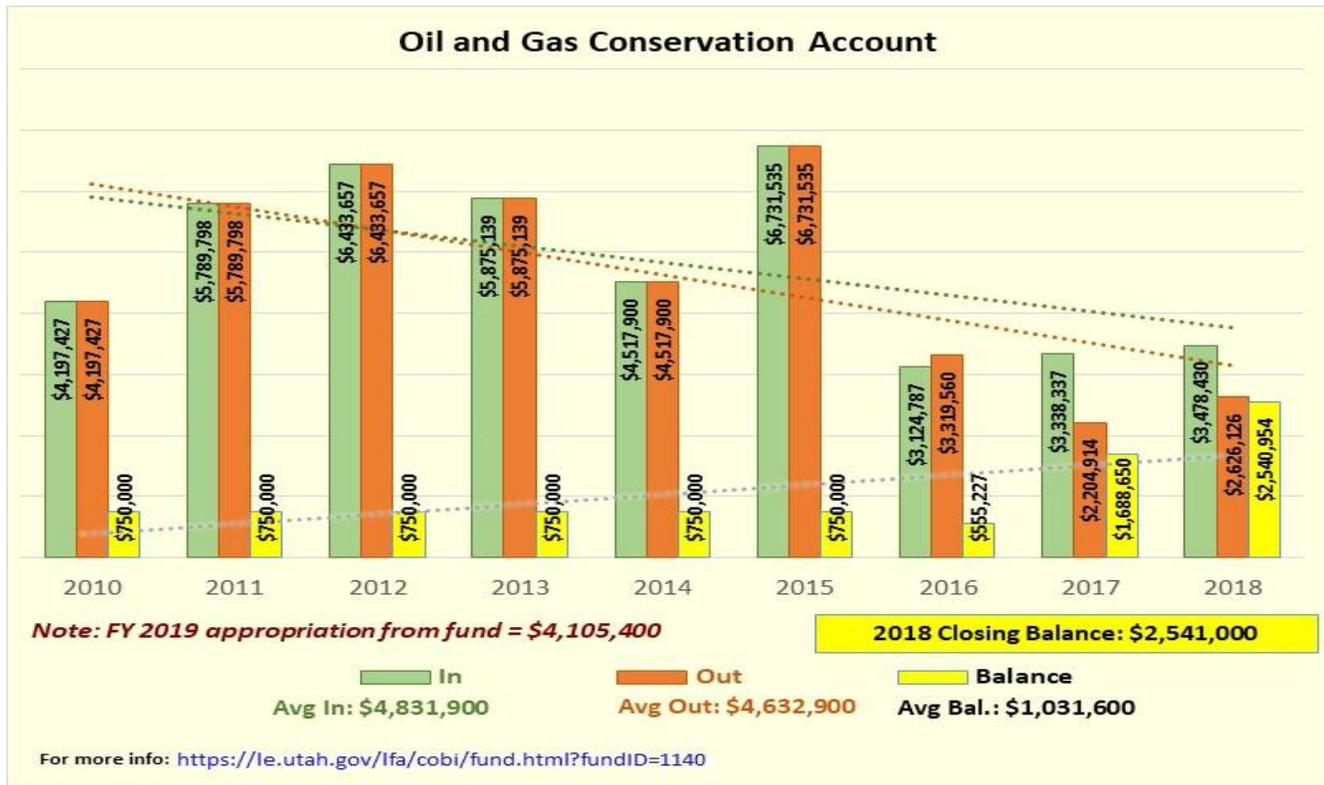
Funding



Federal Funds: The largest funding source for the division has been federal funds. The majority of the federal funding has been for the Abandoned Mine Program (about 2/3) and the Coal Program (almost 1/4). Utah has primacy from the U.S. Department of the Interior for regulation of coal mining operations and reclamation of abandoned mine sites. The Coal Reclamation program is a reimbursable grant program with the Department of the Interior. Utah also has primacy from the U.S. Environmental Protection Agency (EPA) for regulation of Class II injection wells used for oilfield waste disposal and enhanced oil recovery projects. The Oil and Gas program receives this grant money for its Underground Injection Control (UIC) responsibilities.

Restricted: The Oil and Gas Conservation Restricted Account is the restricted account used by the division ([UCA 40-6-14.5](#)). The revenue is generated from a fee levied on oil and gas (.002 of the value at the well of oil and gas), penalties, and interest. Historically, the account balance was capped at \$750,000, with the excess going to the General Fund. During the 2016 General Session, the Legislature passed [S.B. 134 "Oil and Gas Conservation Account Amendments"](#), which adjusted the cap to be "100% of the fiscal year appropriation" from the account.

The figure below shows the restricted account's activities over time: the appropriated amount for the current fiscal year, as well as the average revenues, expenditures, and balances.



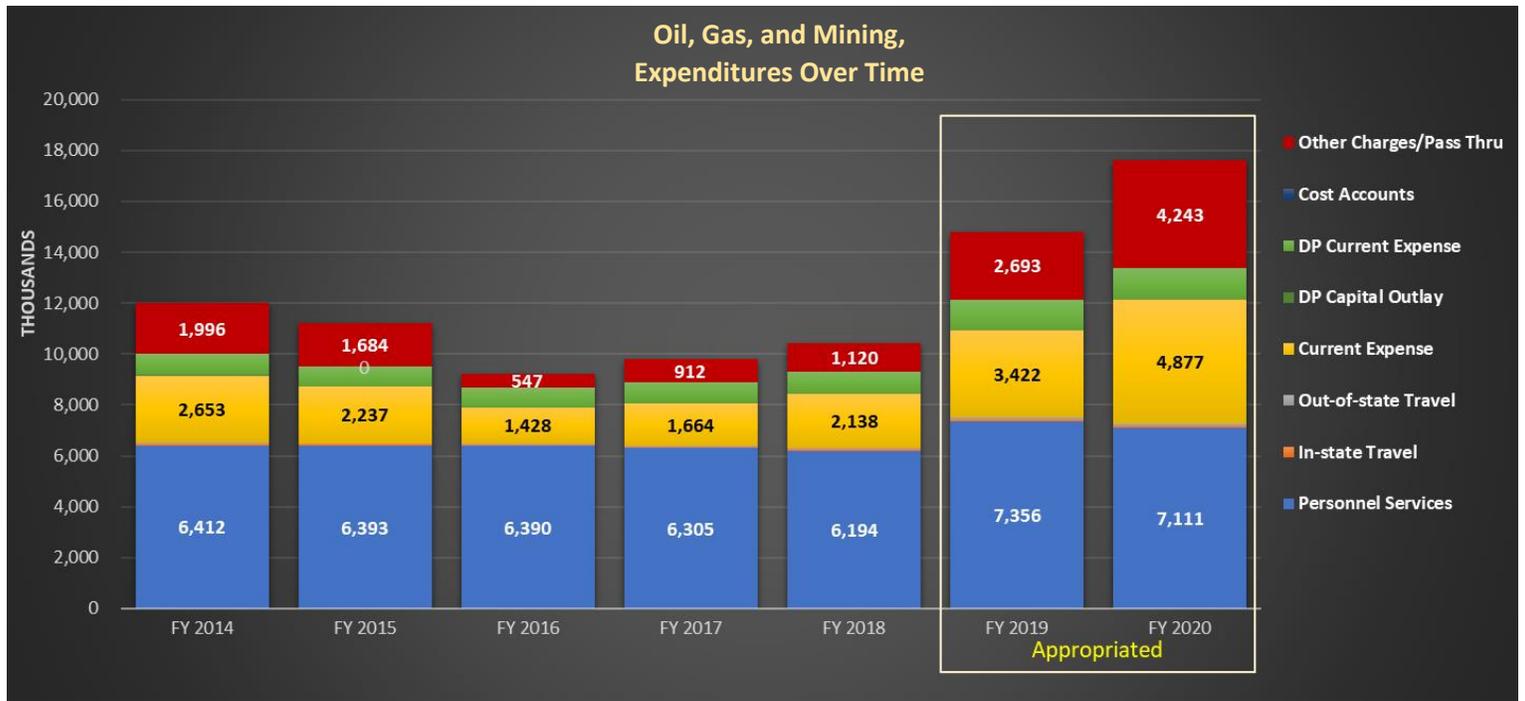
Major Funded Items Over Time

Item Name	Fund	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Mineral Resources New FTE	General Fund	90,000						
No Travel Increase, Oil, Gas, and Mining	General 1x					(63,500)		
Oil and Gas E-Permitting Database	Restricted	60,000						
Oil and Gas FTE	Restricted			168,500				
Oil, Gas, and Mining e-permit database	Restricted	50,000	75,000					
Oil, Gas, Mining Budget Shortfall	General Fund				972,000			
Reimbursing the General Fund	General 1x						(985,700)	(1,000,000)
Reimbursing the General Fund	Restricted 1x						985,700	1,000,000
Replacing General Fund with Restricted	General Fund			(48,900)				
Replacing General Fund with Restricted	Restricted			48,900				
Restr. Acct Reduct. Due to Not Sufficient Funds	Restricted 1x						(500,000)	
Restricted Account Reduction Due to Not Sufficient Funds	Restricted							(1,000,000)
Sage Grouse Control	Restricted 1x	500,000						
Grand Total		700,000	75,000	168,500	972,000	(63,500)	(500,000)	(1,000,000)

Recommendation: We recommend the division begin to use the FY 2017 ongoing appropriation of \$972,000 from the General Fund titled "Oil, Gas, and Mining Budget Shortfall" for the program needs of the division (as it was intended) and not continue to build a reserve in their restricted account, as addressed in the report, titled "Division of Oil, Gas, and Mining, Budget Issues" (<https://le.utah.gov/interim/2019/pdf/00000466.pdf>).

Additional information will be made available in a performance audit on the Oil and Gas Program that will be released by the Office of the Legislative Auditor General by the end of 2019. We recommend the Legislature postpone base budget appropriation for the division pending release of the legislative audit.

Spending



FTE Count Over Time

The following table shows the budgeted and actual FTEs (full-time equivalents) in the division over time:

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
	Actual	Actual	Actual	Actual	Actual	Appr.	Appr.
Actual FTE	73	73	70	65	64	n/a	n/a
Budgeted FTE	83	83	84	84	84	84	84

Top Vendors Used by the Division

The table below lists the top vendors used by the division in FY 2018:

Vendor Name	Amount	%
AECOM TECHNICAL SERVICES INC	672,100	22.00%
Spectrum Engineering and Environmental, LLC	618,489	20.25%
NELCO CONTRACTORS INC	594,613	19.46%
The Five Seventeen Company	383,386	12.55%
Wells Fargo Bank, N.A.	120,000	3.93%
THE XCAVATION COMPANY	103,844	3.40%
Loose In the Lab INC	91,649	3.00%
TV SPECIALISTS INC	38,325	1.25%
PcardIAT	36,218	1.19%
INTERSTATE OIL COMPACT COMMISS	35,000	1.15%