

**Program Budget Comparison**

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	21.00	21.00	20.00	20.00	21.00	20.00	(1.00)	(4.76)%
Personal Services	1,255,489	1,579,900	1,569,518	1,567,154	2,835,389	3,136,672	301,283	10.63 %
Operating Expenses	469,490	732,411	531,181	547,913	1,201,901	1,079,094	(122,807)	(10.22)%
Equipment & Intangible Assets	53,550	86,729	56,550	56,550	140,279	113,100	(27,179)	(19.37)%
<b>Total Costs</b>	<b>\$1,778,529</b>	<b>\$2,399,040</b>	<b>\$2,157,249</b>	<b>\$2,171,617</b>	<b>\$4,177,569</b>	<b>\$4,328,866</b>	<b>\$151,297</b>	<b>3.62 %</b>
State/Other Special Rev. Funds	1,671,446	2,291,951	2,050,166	2,064,534	3,963,397	4,114,700	151,303	3.82 %
Federal Spec. Rev. Funds	107,083	107,089	107,083	107,083	214,172	214,166	(6)	0.00 %
<b>Total Funds</b>	<b>\$1,778,529</b>	<b>\$2,399,040</b>	<b>\$2,157,249</b>	<b>\$2,171,617</b>	<b>\$4,177,569</b>	<b>\$4,328,866</b>	<b>\$151,297</b>	<b>3.62 %</b>

**Program Description**

The Oil and Gas Conservation Division administers the Montana oil and gas conservation laws to promote conservation and prevent waste in the recovery of these resources through regulation of exploration and production of oil and gas. The division’s responsibilities include the following:

Issue drilling permits

- Classify wells
- Establish well spacing units and pooling orders
- Inspect drilling, production, and seismic operations
- Investigate complaints
- Perform engineering studies
- Determine incremental production for enhanced recovery and horizontal wells to implement the tax incentive program for those projects
- Operate the underground injection control program
- Plug orphan wells
- Collect and maintain complete well data and production information

**Program Highlights**

<b>Oil and Gas Conservation Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>• The executive proposes to increase the budget from the previous biennium due almost entirely to:                             <ul style="list-style-type: none"> <li>◦ Annualization of the 2015 biennium pay plan and full funding of all positions</li> <li>◦ Underground Injection Control (UIC) program adjustments.</li> </ul> </li> </ul>

**Program Discussion -**

*Comparison of the 2015 Legislative Base and the 2015 Appropriation*

The following highlights the differences between the FY 2015 appropriations as shown in the main table to the FY 2015 legislative appropriations used for purposes of the budget base.

FY 2015 Appropriation Transactions - Department of Natural Resources & Conservation						
Program	Legislative Appropriation	Legislative Approps OTO	House Adjustment	Operating Plan	Program Transfer	Total Executive Implementation
22 OIL & GAS CONS	\$1,977,481	\$434,477		-	(\$12,918)	\$2,399,040
Personal Services	1,413,222	166,678		(16,918)		1,562,982
Operating Expenses	511,530	233,799		16,918	(12,918)	749,329

The difference between the executive request and the legislative appropriation is primarily due to an enhanced oil recovery study OTO appropriation as well as a compliance and field inspection OTO.

#### *Comparison of the 2014 Actual Expenditures to FY 2015 Legislative Appropriations*

Actual FY 2014 expenditures of \$1,778,529 are \$198,952 below the FY 2015 legislative appropriation of \$1,977,481, due primarily to experienced vacancy savings in FY 2014 and additional FY 2015 pay plan appropriations.

#### **Funding**

The following table shows proposed program funding by source from all sources of authority.

Natural Resources & Conservation, 22-Oil & Gas Conservation Div. Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund		0	0	0	0.00 %	
02010 Oil & Gas Damage Mitigation		0	200,000	200,000	4.64 %	
02432 Oil & Gas ERA	4,114,700	0	0	4,114,700	95.36 %	
<b>State Special Total</b>	<b>\$4,114,700</b>	<b>\$0</b>	<b>\$200,000</b>	<b>\$4,314,700</b>	<b>95.27 %</b>	
03356 Oil & Gas Federal	214,166	0	0	214,166	100.00 %	
<b>Federal Special Total</b>	<b>\$214,166</b>	<b>\$0</b>	<b>\$0</b>	<b>\$214,166</b>	<b>4.73 %</b>	
<b>Proprietary Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00 %</b>	
<b>Total All Funds</b>	<b>\$4,328,866</b>	<b>\$0</b>	<b>\$200,000</b>	<b>\$4,528,866</b>		

The division is funded through taxes levied on oil and gas wells and the class II operating fee. By statute (15-36-331, MCA), a percentage of oil production taxes and natural gas taxes are deposited to the account for the board's use. The Board of Oil and Gas Conservation is authorized by statute (82-11-131, MCA) to set privilege and license taxes up to 3/10 of 1% of the market value of each barrel of crude petroleum produced and of each 10,000 cubic feet of natural gas produced to comply with 15-36-331, MCA. The privilege and license tax is currently set at 30% of the maximum allowed by statute. Section 82-11-137, MCA provides for a maximum \$300 annual operating fee for each class II injection well. The board set the fee at \$200.

#### **Budget Summary by Category**

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	
2015 Budget	0	0	0	0.00 %	1,977,481	1,977,481	3,954,962	0.00 %	
PL Adjustments	0	0	0	0.00 %	179,768	194,136	373,904	0.00 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
<b>Total Budget</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>		<b>\$2,157,249</b>	<b>\$2,171,617</b>	<b>\$4,328,866</b>		

**Present Law Adjustments -**

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	0	140,287	2,046	142,333	0.00	0	138,230	1,739	139,969
DP 99 - LEG. Present Law	0.00	0	39,487	(2,052)	37,435	0.00	0	55,912	(1,745)	54,167
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$179,774</b>	<b>(\$6)</b>	<b>\$179,768</b>	<b>0.00</b>	<b>\$0</b>	<b>\$194,142</b>	<b>(\$6)</b>	<b>\$194,136</b>

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	20.00	\$0	\$9,720	\$0	\$9,720
Executive Implementation of 2015 Pay Increase		-	26,983	-	26,983
Fully Fund 2015 Legislatively Authorized FTE		-	26,301	4,381	30,682
Other		-	77,283	(2,335)	74,948
<b>Personal Services Present Law Adjustments</b>	<b>20.00</b>	<b>\$0</b>	<b>\$140,287</b>	<b>\$2,046</b>	<b>\$142,333</b>
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	20.00	\$0	\$9,720	\$0	\$9,720
Executive Implementation of 2015 Pay Increase		-	26,983	-	26,983
Fully Fund 2015 Legislatively Authorized FTE		-	26,301	4,381	30,682
Other		-	75,226	(2,642)	72,584
<b>Personal Services Present Law Adjustments</b>	<b>20.00</b>	<b>\$0</b>	<b>\$138,230</b>	<b>\$1,739</b>	<b>\$139,969</b>

The executive proposes to increase support to personal services by 11.1% in FY 2016 and 10.9% in FY 2017 in comparison to the FY 2015 legislatively appropriated budget of \$1,413,222. Approximately half of the personal service adjustments are due to the three main line items. The remaining adjustments are primarily due to the present law request for regulatory and UIC program adjustments as well as increases in exempt and strategic employee pay.

**LFD COMMENT** The Underground Injection Control (UIC) program is administered by the board through an agreement with the U.S. Environmental Protection Agency (EPA). The goal of the UIC program is to protect underground sources of drinking water from contamination due to improper disposal of liquid oil field wastes.

**LFD COMMENT** The 63<sup>rd</sup> Legislature appropriated \$120,000 state special revenue as a one-time restricted appropriation to fund a procedural manual and inspection system as suggested by a legislative audit. Montana Tech did a scoping study of the project in FY 2012 and was to perform the work through the 2015 biennium. Department staff state that the project has been completed as of September 2014 and deliverables have been received.

In the 62<sup>rd</sup> Legislature \$1,500,000 was appropriated as a one-time restricted biennial appropriation to fund educational and research activities of the board.

DP 99 - LEG. Present Law -

The LGPL adjustments are due to an increase in fixed costs and a present law request for Oil and Gas and UIC adjustments. These adjustments would be due to office rent increases in Helena and Shelby as well as moving expenses.