

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE

House Bill 1230 (Delegate Frush)  
Ways and Means

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Sales and Use Tax - Exemptions - Construction of Wells

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This bill exempts the sale of equipment, machinery, or other tangible personal property that is used to dig or construct a well from the State sales and use tax.

The bill takes effect July 1, 2006.

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Fiscal Summary

**State Effect:** General fund revenues could decrease by a significant amount beginning in FY 2007. The amount of the decrease depends on the amount and cost of equipment purchased annually. Under one set of assumptions, State revenues could decrease by \$375,000 to \$1 million annually. No effect on expenditures.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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Analysis

**Current Law:** The sale of equipment, machinery, or other tangible personal property that is used to dig or construct a well is not exempt from the State sales and use tax. The State sales and use tax rate is 5%.

**Background:** Well drillers in Maryland became regulated 30 years ago when the State Board of Well Drillers was created by Chapter 584 of 1968. Prior to passage of that legislation, only well construction had been regulated as a means of protecting the State's

water resources. Regulation of the practitioners of well drilling was instituted to further protect not only the State's water supplies but also the public health.

Well drillers in the State of Maryland are licensed and regulated by the board. The board determines the circumstances under which an individual may engage in the practice of well drilling which includes making, altering, repairing, or disconnecting well system equipment for profit. Properly licensed well drillers who have obtained the necessary permits may construct wells for any of the following purposes:

- to explore for groundwater;
- to obtain or monitor groundwater;
- to inject water into any underground formation from which groundwater may be produced; and
- to transfer heat from the ground or groundwater, if the hole extends more than 20 feet below the surface of the ground and is not a well for obtaining geothermal resources under § 5-601 of the Environment Article.

The State Board of Well Drillers currently licenses well drillers in three classes: master, journeyman, and apprentice. Within these classes of license are three categories: general, geotechnical, and water supply. There are also three types of restricted licenses (water conditioner installer, water pump installer, and well rig operator). These restricted license categories also have an apprentice class.

There are 243 licensed master drillers licensed in Maryland, and another 223 well drilling licensees who can operate a well drilling rig. **Exhibit 1** shows the number of well drilling permits issued for calendar 2002 through 2004.

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**Exhibit 1**  
**Well Construction Permits**  
**Calendar 2002 through 2004**

<b>County</b>	<b>CY 2002</b>	<b>CY 2003</b>	<b>CY 2004</b>
Allegany	85	81	78
Anne Arundel	1,250	1,040	1,063
Baltimore City	200	131	169
Baltimore	1,085	628	806
Calvert	745	646	526
Caroline	280	250	255
Carroll	974	721	487
Cecil	840	726	674

<b>County</b>	<b>CY 2002</b>	<b>CY 2003</b>	<b>CY 2004</b>
Charles	1,150	150	579
Dorchester	340	250	348
Frederick	620	550	479
Garrett	350	338	319
Harford	850	644	586
Howard	350	260	263
Kent	195	194	227
Montgomery	735	362	298
Prince George's	480	445	517
Queen Anne's	665	345	347
St. Mary's	875	752	797
Somerset	135	147	166
Talbot	340	263	284
Washington	550	432	483
Wicomico	850	725	676
Worcester	425	425	434
<b>Total</b>	<b>14,369</b>	<b>10,505</b>	<b>10,861</b>

Source: Maryland Department of the Environment, State Board of Well Drillers

**State Fiscal Effect:** General fund revenues could decrease by a significant amount beginning in fiscal 2007. Industry representatives and the Maryland Department of the Environment (MDE) were unable to provide Legislative Services with estimated well construction and equipment costs; as a result, the amount of the revenue decrease resulting from the sales and use tax exemption cannot be reliably estimated at this time. The decrease will depend on the types of equipment purchased, the amount of equipment purchased, and the cost of the equipment. The associated revenue decrease is expected to be significant due to the number of well construction permits issued each year and the broad nature of the exemption; the exemption could include items such as pumps, wrenches, welding equipment, hoses, mixers, cranes, backhoes, as well as other equipment.

Due to the different types of soil in Maryland, the average cost of drilling a well varies from region to region. As a result, the equipment used to drill a well varies accordingly. It is estimated that the average cost of a drilling rig in the eastern part of the State totals \$250,000, which includes the truck that the rig is mounted on. In the western part of the

State, rigs can cost in excess of \$500,000. These rigs can last from 5 to 20 years, so they would not be considered annual purchases.

If it is assumed that there are 400 drilling rigs in the State and each rig lasts 15 years, 25 rigs would be replaced on an annual basis. If the average cost of the rig is \$300,000, the general fund revenue decrease would be \$375,000 annually. Since equipment used for maintaining the rigs and replacement parts would likely be eligible for the exemption, the potential revenue decrease could total \$1 million annually.

**Small Business Effect:** Small businesses involved in well drilling would realize reduced production costs as a result of not having to pay the sales tax on production-related purchases.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland Department of the Environment, Department of Legislative Services

**Fiscal Note History:** First Reader - March 14, 2006  
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