

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 878 (Senator Hershey, *et al.*)
Education, Energy, and the Environment

Oil and Natural Gas - Hydraulic Fracturing - Authorization

This bill authorizes a person to engage in hydraulic fracturing of a well for the exploration or production of oil or natural gas in the State and requires the Maryland Department of the Environment (MDE) to adopt regulations to implement this authorization.

Fiscal Summary

State Effect: General fund expenditures increase, potentially significantly, beginning in FY 2026 for MDE to hire staff to develop, adopt, and implement the required regulations. To the extent MDE establishes related permit fees, special fund revenues increase (likely not before FY 2027) and the need for general funds in the out-years decreases. Potential increase in general/special fund revenues associated with general economic activity, likely not before FY 2027, to the extent that the bill results in the development of natural gas resources that is currently prohibited.

Local Effect: Local severance tax revenues and other revenues associated with general economic activity and local permitting may increase (primarily for Allegany and Garrett counties), likely not before FY 2027, to the extent that the bill results in the development of natural gas resources in the State that is currently prohibited. Local expenditures may also increase, as discussed below.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Hydraulic fracturing has been statutorily prohibited in the State since 2017. “Hydraulic fracturing” means a stimulation treatment performed on oil and natural gas

wells in low-permeability oil or natural gas reservoirs through which specially engineered fluids are pumped at high pressure and rate into the reservoir interval to be treated, causing fractures to open.

A person must obtain a permit from MDE before drilling a well for the exploration, production, or underground storage of gas or oil in Maryland. A permit is also required for the disposal of any product of a gas or oil well. MDE regulates gas exploration and production and has broad authority to impose conditions on permits to protect the State's natural resources and to provide for public safety. Further, MDE may deny a permit based on a substantial threat to public safety or a risk of significant adverse environmental impact.

MDE is required to establish and collect fees for the issuance and renewal of a permit to drill, as well as the production of oil and gas wells installed after October 1, 2010. Permit fees must be set at a level necessary to administer and implement programs to oversee the drilling, development, production, and storage of oil and gas wells, and other requirements related to the drilling of oil and gas wells. If in any year, the fee scheduled established by MDE generates revenue that exceeds necessary operating costs, as specified, MDE must reduce the fees in the following year. Permit fees are deposited into the Oil and Gas Fund.

State/Local Fiscal Effect:

Maryland Department of the Environment

General fund expenditures for MDE increase, potentially significantly, beginning in fiscal 2026 to hire staff to develop, adopt, and ultimately implement regulations to allow a person to engage in hydraulic fracturing of a well for the exploration or production of oil or natural gas in the State. At the time that hydraulic fracturing was banned in the State in 2017, MDE had been engaged in a years-long process to develop regulations for hydraulic fracturing in the State. It is assumed that the process this time around is also likely to be lengthy. MDE notes that developing the required regulations involves substantial research, collection of public input, and a comprehensive review process.

Once the regulations are adopted, the operational and fiscal effects on MDE to implement the regulations are potentially significant but cannot be reliably estimated at this time. The magnitude and timing of any such effects depend on the regulations adopted and the number of applications for hydraulic fracturing that are received and approved. To the extent that authorizations to engage in hydraulic fracturing are issued, there are likely substantial effects on MDE across multiple administrations within the department since hydraulic fracturing has a broad range of potential impacts on the environment and public health. The Department of Legislative Services notes, however, that at the time that hydraulic fracturing was banned, MDE did not have any pending permits related to hydraulic fracturing.

To the extent that MDE establishes a permit fee by regulation, and to the extent MDE receives applications and issues permits for hydraulic fracturing, special fund revenues increase (likely not before fiscal 2027) and the need for general funds in the out-years decreases. (MDE advises, however, that there are currently no permit fees associated with oil and gas exploration applications.)

Impact Related to Potential Increase in General Economic Activity

Authorizing the use of hydraulic fracturing may affect severance tax revenues in Allegany and Garrett counties; other sources of State and local revenue from general economic activity may also be indirectly impacted. The State does not currently impose a severance tax on gas production. The extent of any future hydraulic fracturing activity that does occur in Maryland depends on the requirements established under the regulations and on economic conditions. Thus, it is unknown when and if any gas well drilling will be authorized. Based on the likely time needed to develop and adopt regulations, and then process permit applications, any such impacts likely do not occur before fiscal 2027.

Other Local Impacts

MDE notes that affected local governments (in particular, Allegany and Garrett counties) may also realize additional revenue from permitting to the extent that hydraulic fracturing projects occur as authorized by the bill. On the other hand, local governments may need to develop or update regulations to oversee hydraulic fracturing activities and ensure compliance with environmental and safety standards, which could increase expenditures. Any such impacts likely do not occur before fiscal 2027.

Neither Allegany nor Garrett counties responded to a request for information regarding the potential fiscal effect of this legislation.

Small Business Effect: The bill may have a meaningful impact on small businesses that wish to provide services related to hydraulic fracturing and the development of natural gas resources to the extent such development takes place as a result of the bill.

On the other hand, the bill may have a meaningful negative impact on small businesses in Western Maryland reliant upon tourism to the extent that the development of natural gas resources impacts the levels of tourism in the area; however, any such impact is unclear.

Additional Comments: The Marcellus Shale formation is a geologic feature found throughout the northern Appalachian basin that has attracted significant attention from the energy industry for its rich natural gas and liquids resources contained within seven states. In Maryland, the primary anticipated areas of potential gas production from the Marcellus Shale formation are in Garrett and western Allegany counties. However,

according to the U.S. Geological Survey (USGS), there may be additional natural gas resources located in several other counties in the State, including in the Taylorsville basin, the Delmarva basins, the Culpeper basin, and the Gettysburg basin. A map of these basins is available in a June 2012 [fact sheet](#) published by USGS.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Maryland Association of Counties; Comptroller's Office; Maryland Department of the Environment; U.S. Geological Survey; Department of Legislative Services

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