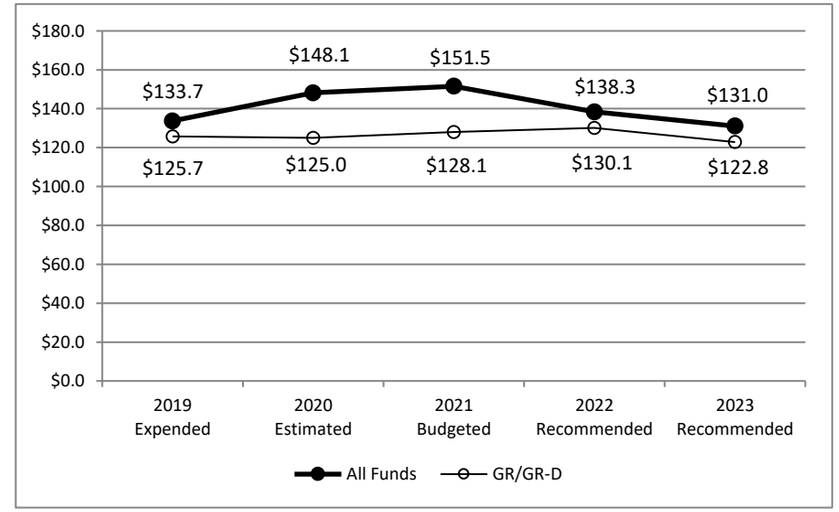
Railroad Commission
Summary of Recommendations - House

Page VI-52
Wei Wang, Executive Director
Darren Albrecht, LBB Analyst

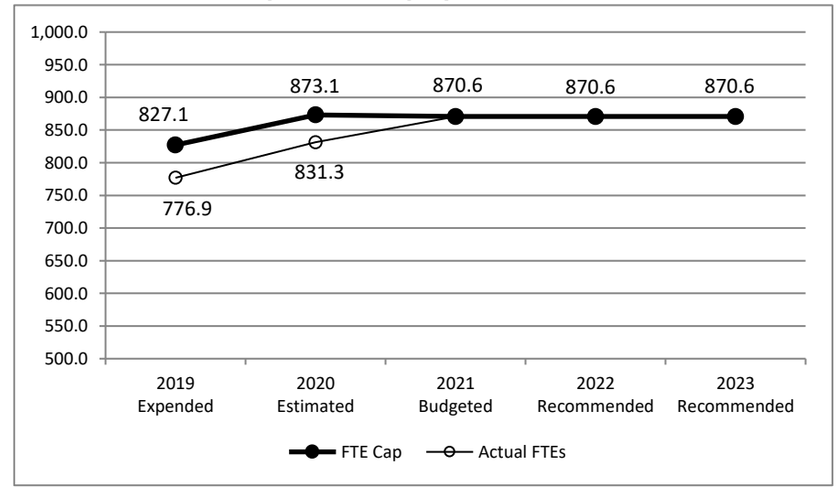
Method of Financing	2020-21 Base	2022-23 Recommended	Biennial Change ($)	Biennial Change (%)
General Revenue Funds	$107,752,646	$107,752,646	$0	0.0%
GR Dedicated Funds	$145,339,626	$145,188,780	($150,846)	(0.1%)
Total GR-Related Funds	*$253,092,272*	*$252,941,426*	*($150,846)*	*(0.1%)*
Federal Funds	$13,504,000	$13,720,000	$216,000	1.6%
Other	$33,055,488	$2,700,000	($30,355,488)	(91.8%)
All Funds	**$299,651,760**	**$269,361,426**	**($30,290,334)**	**(10.1%)**

	FY 2021 Budgeted	FY 2023 Recommended	Biennial Change	Percent Change
FTEs	870.6	870.6	0.0	0.0%

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



The bill pattern for this agency (2022-23 Recommended) represents an estimated 100.0% of the agency's estimated total available funds for the 2022-23 biennium.

Railroad Commission
Summary of Funding Changes and Recommendations - House

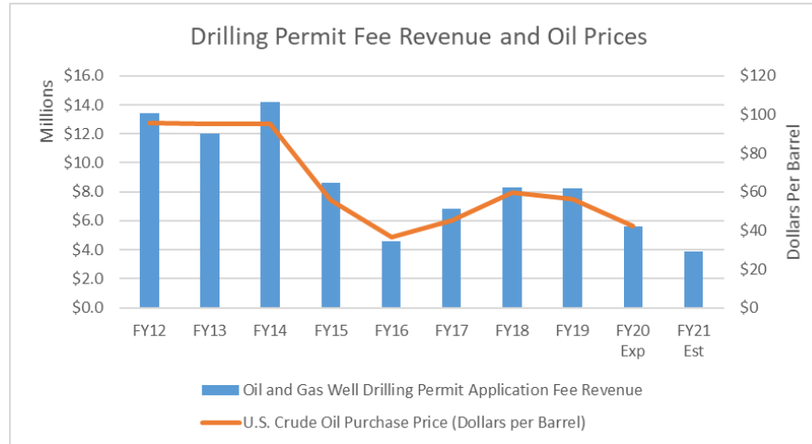
	Funding Changes and Recommendations for the 2022-23 Biennium compared to the 2020-21 Base Spending Level (in millions)	General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):							
A)	Decrease in one-time funding from Economic Stabilization Funds for orphaned oil & gas well plugging. The agency was appropriated $38.2 million in 2018 for this purpose and was allowed to carry forward $30.1 million from this appropriation into the 2020-21 biennium (see Item 3, Selected Fiscal and Policy Issues - House).	$0.0	$0.0	$0.0	($30.1)	($30.1)	C.2.1
B)	Decrease in General Revenue-Dedicated Oil & Gas Regulation and Cleanup Account No. 5155 related to the enactment of HB 2771 (86R). The transfer of funding and FTEs required by the Art. IX, §18.28 rider due to the enactment of the legislation was delayed for fiscal year 2020 because the EPA will not approve the transfer until fiscal year 2021 at the earliest (see Item 5, Selected Fiscal and Policy Issues - House)	$0.0	($0.2)	$0.0	$0.0	($0.2)	C.1.1
OTHER Funding Changes and Recommendations (these issues are not addressed in Section 3 but details are provided in Appendix A):							
C)	Increase in Federal Funds from various federal programs reflecting the agency's anticipated increase in grant award projections.	$0.0	$0.0	$0.2	$0.0	$0.2	A.1.1, B.1.1, B.1.2, C.1.2, C.2.1, & C.2.2
D)	Decrease in Appropriated Receipts due to anticipated collection reductions from the sale of vehicles, staff reviews of Interim Rate Adjustments and Gas Utility Docket appeals, and central records requests.	$0.0	$0.0	$0.0	($0.2)	($0.2)	A.1.1, B.2.1, C.1.1, C.3.1, & D.1.1
	TOTAL SIGNIFICANT & OTHER Funding Changes and Recommendations (in millions)	**$0.0**	**($0.2)**	**$0.2**	**($30.3)**	**($30.3)**	As Listed
	SIGNIFICANT & OTHER Funding Increases	$0.0	$0.0	$0.2	$0.0	$0.2	As Listed
	SIGNIFICANT & OTHER Funding Decreases	$0.0	($0.2)	$0.0	($30.3)	($30.5)	As Listed

NOTE: Totals may not sum due to rounding.

Railroad Commission
Selected Fiscal and Policy Issues - House

1. **General Revenue Dedicated Oil & Gas Regulation and Cleanup Account No. 5155.** Recommendations include $145.2 million, a decrease of $0.2 million from 2020-21 spending levels. These appropriations support the regulation of oil and gas development, including oil and gas monitoring, inspections, remediation and well plugging, public information, alternative fuel programs, and administrative costs and benefits for state personnel. The agency anticipates a decline in revenues primarily from oil and gas surcharge fees and well drill permit fees in the 2022-23 biennium.

   GR-D No. 5155 revenues are primarily generated from production taxes and permitting fees paid by the oil and gas industry. The account experiences revenue declines when there is a downturn in industry activity such as in 2020, which can result in revenue not being able to support appropriations. The market price for oil and gas is the primary driver of industry activity. According to the agency, at the end of fiscal year 2020, the monthly average of West Texas Intermediate crude was $42.34 per barrel, which was 26 percent lower than the price at the start of the fiscal year. The figure at the right shows the fiscal year revenue from oil and gas well drilling application fees deposited into GR-D No. 5155 as an indicator of industry activity and the annual crude oil purchase price from the U.S. Energy Information Administration.



   Not all balances in GR-D No. 5155 are available for the agency to spend. Approximately $10.9 million is required each fiscal year for employee benefits. Additionally, certain financial securities paid by oil and gas well operators required pursuant to Natural Resources Code, §91.104, and related to well-specific plugging insurance policies are held in escrow by the agency in GR-D No. 5155. These amounts are not subject to the fund balance threshold and are not available for appropriation. As of January 1, 2021, the escrow amounts totaled $65.5 million of the $137.5 million balance in GR-D No. 5155.

   Recommendations continue Rider 13, Operational Stability Contingency, which allows for the appropriation of up to $10.0 million each fiscal year in General Revenue Funds generated by the Gas Utility Pipeline Tax in the event that the sum available from unencumbered and unobligated balance in GR-D No. 5155 and the revenue deposited to the account during the biennium are insufficient to support the appropriations in the General Appropriations Act.

   Recommendations include a rider authorizing the direct transfer of sufficient General Revenue Funds, not to exceed $25.0 million per fiscal year, for cash flow needs in the event that GR-D No. 5155 revenue collections are less than 90.0 percent of amounts appropriated to the agency in the General Appropriations Act (see New Riders 14, Rider Highlights - House)

2. **Mainframe Transformation IT Project**. Recommendations include $21.5 million in capital budget authority ($5.1 million in General Revenue Funds and $16.4 million in GR-D No. 5155) for Phase II of the agency's Mainframe Transformation IT project. The Eighty-sixth Legislature, Regular Session, 2019, appropriated $26.9 million in General Revenue Funds and 24.0 FTEs to upgrade the agency's mainframe computer environment with improved data integration processes and cloud-based solutions. According to the agency, the project will take approximately six years to complete and cost $60.7 million (2020-21 biennium, $17.7 million; 2022-23 biennium, $21.5 million; 2024-25 biennium, $21.5 million).

According to the agency, the Mainframe Transformation IT project will replace the agency's aging mainframe environment which houses 35 distinct applications and establish a new IT architecture for data consolidation, improved operational functionality, and protection against cybersecurity threats.

Recommendations do not include a rider granting unexpended balance appropriation authority between biennia to carry forward unspent funds as of August 31, 2021 appropriated from Phase I of the Mainframe Transformation project for Phase II of the Mainframe Transformation project in the 2022-23 biennium (see Item 1, Items Not Included in Recommendations - House).

3. **Economic Stabilization Funds**. Recommendations do not continue $30.1 million in Other funds from the Economic Stabilization Fund (ESF) for oil and gas on-shore well plugging and remediation. The Eighty-fifth Legislature, Regular Session, 2017, provided $38.2 million in ESF as a one-time appropriation, of which, the agency expended $8.1 million on contractors throughout the state for orphaned oil and gas well plugging in the 2018-19 biennium. The Eighty-sixth Legislature, Regular Session, 2019, removed ESF from the agency's budget and considered the 2018-19 appropriation as one-time funding while providing unexpended balance authority to carry forward ESF remaining at the end of fiscal year 2019 (estimated to be $0) into fiscal year 2020. The agency carried forward $30.1 million in ESF into the 2020-21 biennium. According to the agency, these funds have been prioritized for on-shore well plugging and remediation projects. As such, the agency expects to spend the remaining ESF by the end of fiscal year 2021. Recommendations remove previous Rider 13, Appropriation: Unexpended Balances for Well Plugging and Site Remediation (see Deleted Riders 13, Rider Highlights - House).

   As of August 31, 2020, the agency reports having plugged 1,710 wells in fiscal year 2019 with state-managed funds and estimates plugging 1,477 wells in fiscal year 2020.

4. **Vehicle Replacement**. Recommendations provide $2.3 million in All Funds, $1.6 million in GR-D No. 5155 and $0.7 million in General Revenue Funds, an overall increase of $0.3 million from 2020-21 biennial expenditure levels, for vehicle replacement in the 2022-23 biennium. Recommendations are $0.6 million less than the authorized capital budget expenditure of $2.9 million in the 2020-21 biennium prior to the required 5 percent reduction. The Railroad Commission maintains a fleet of 272 vehicles and purchases primarily light duty trucks. Staff use the vehicles to perform pipeline, surface mining, alternative fuel, and oil and gas well and facility inspections. Additionally activities include oil and gas and surface mining site remediation.

   The agency uses a specialized replacement schedule, updated September 2020, to replace its vehicles that are nine years of age and mileage exceeding 150,000 or if a vehicle does not meet safety guidelines or the total regular operation and maintenance costs exceeds more than 50.0 percent of the original purchase price of the vehicle. The standard replacement schedule for LBB staff recommendations is to replace vehicles that are 10 years of age and mileage exceeding 150,000, but the agency's vehicles generally surpass 150,000 miles within nine years of purchase and are often traversing rugged terrain.

   Recommendations do not include the agency's exceptional item request for an additional $1.0 million in General Revenue Funds to restore funds reduced in 2020-21 in GR-D No. 5155 capital budget authority for vehicle replacement as part of the agency's 2020-21 5.0 percent base reduction (see Item 3, Items Not Included in Recommendations - House).

5. **House Bill 2771.** Recommendations do not continue $0.2 million in General Revenue-Dedicated Oil & Gas Regulation and Cleanup Account No. 5155 and 2.5 FTEs in the 2022-23 biennium that were retained by the agency in fiscal year 2020 related to the transfer of permitting for the discharge of produced water, hydrostatic test water, and gas plant affluent from certain oil and gas activities from the Railroad Commission to the Texas Commission on Environmental Quality (TCEQ) due to the approval of the Environmental Protection Agency (EPA) being anticipated to occur later than anticipated when the legislation was enacted. Art. IX, §18.28, Contingency for House Bill 2771, Eighty-sixth Legislature, 2019, made funding and FTE transfers contingent on the EPA's approval. The federal agency has indicated the approval will occur in fiscal year 2021 or fiscal year 2022. As a result, $150,846 in GR-D No. 5155 and 2.5 FTEs were retained in fiscal year 2020 at the Railroad Commission to maintain operational continuity (see Note B Appendix C, FTE Highlights).

Railroad Commission
Rider Highlights - House

Modification of Existing Riders

1. **Capital Budget.** Recommendations include various changes to capital budget items to align with funding decisions.

Deleted Riders

13. **Appropriation: Unexpended Balances for Well Plugging and Site Remediation.** Recommendations delete the rider to provide unexpended balance authority for Economic Stabilization Funds (ESF) appropriated to the agency in the 2018-19 biennium for oil and gas well plugging activity. The agency carried forward $30.1 million into the 2020-21 biennium and has budgeted all remaining funds for contracted well plugging services (see Item 3, Selected Fiscal and Policy Issues - House).

15. **Contingency for HB 2771.** Recommendations delete the rider after the enactment of House Bill 2771, Eighty-sixth Legislature, 2019, which transferred the program and related funding for permitting for the discharge of produced water, hydrostatic test water, and gas plant affluent from certain oil and gas activities from the Railroad Commission to the Texas Commission on Environmental Quality pursuant to the approval of the Environmental Protection Agency as required by statute (see Item 5, Selected Fiscal and Policy Issues - House).

New Riders

14. **Additional Funding Sources and Cash Flow Contingency**. Recommendations include a rider authorizing the direct transfer of sufficient General Revenue Funds, not to exceed $25.0 million per fiscal year, for cash flow needs in the event that General Revenue-Dedicated Oil and Gas Regulation and Cleanup Account No. 5155 revenue collections are less than 90.0 percent of amounts appropriated to the agency in the General Appropriations Act (see Item 1, Selected Fiscal and Policy Issues - House).

Railroad Commission
Items Not Included in Recommendations - House

		2022-23 Biennial Total					
		GR & GR-D	All Funds	FTEs	Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2024-25
Agency Exceptional Items Not Included (in agency priority order)							
1)	**Add a New Rider, Unexpended Balances Appropriation: Acquisition of Information Resource Technologies:** Request to add a rider granting the agency unexpended balance appropriation authority between biennia over unexpended General Revenue Funds appropriated to the agency's 2020-21 Acquisition of Information Resource Technologies capital budget item for the same purpose in the 2022-23 biennium. The capital budget item includes authority for Phase 1 of the Mainframe Transformation IT project (see Item 2, Selected Fiscal and Policy Issues - House).	$0	$0	0.0	Yes	Yes	$0
2)	**Restoration of 2020-21 Site Remediation Budget:** General Revenue Funds to restore a reduction in General Revenue-Dedicated Oil & Gas Regulation and Cleanup Account No. 5155 for site remediation and clean up as part of the agency's 2020-21 five percent base reduction.	$7,161,090	$7,161,090	0.0	No	Yes	$7,161,090
3)	**Restoration of 2020-21 Capital Budget for Vehicle Replacements:** General Revenue Funds to restore a reduction in General Revenue-Dedicated Oil & Gas Regulation and Cleanup Account No. 5155 for vehicle replacement as part of the agency's 2020-21 five percent base reduction. The item would fund the purchase of 28.0 fleet vehicles for field inspector travel to remote oil and gas facilities and pipeline locations (see Item 4, Selected Fiscal and Policy Issues - House).	$963,214	$963,214	0.0	No	Yes	$963,214
4)	**Rider Deletion:** Request to delete Rider 6, Appropriations Limited to Revenue Collections: Pipeline Safety and Regulatory Fees, which requires that fees and fines generated by the operation of the Pipeline Safety/Inspections Program and the Underground Damage Prevention Program cover all expenditures, including Other Direct and Indirect Costs, for the programs.	$0	$0	0.0	No	No	$0
TOTAL Items Not Included in Recommendations		**$8,124,304**	**$8,124,304**	**0.0**			**$8,124,304**

Railroad Commission
Appendices - House

Table of Contents		
Appendix	**Appendix Title**	**Page**
A	Funding Changes and Recommendations by Strategy	8
B	Summary of Federal Funds	*
C	FTE Highlights	11

* Appendix is not included - no significant information to report

Railroad Commission
Funding Changes and Recommendations by Strategy - House -- ALL FUNDS

Strategy/Goal	2020-21 Base	2022-23 Recommended	Biennial Change	% Change	Comments
ENERGY RESOURCE DEVELOPMENT 1.1.1	$38,727,374	$43,663,670	$4,936,296	12.7%	Recommendations include an All Funds increase reflecting the following: a) an increase in GR-D No. 5155 of $8.4 million partially offset by a decrease in General Revenue Funds of $3.6 million related to capital budget adjustments for various IT projects; b) an increase in Appropriated Receipts of $0.2 million reflecting the agency's projections for regulatory conference reimbursements in the 2022-23 biennium; and c) decreases in Federal Funds of $24,445 from the Statewide Underground Water Source Protection grant from the Environmental Protection Agency reflecting the agency's award projection and $70,056 from one-time Multipurpose Grants to State and Tribes.
Total, Goal 1, ENERGY RESOURCES	**$38,727,374**	**$43,663,670**	**$4,936,296**	**12.7%**	
PIPELINE SAFETY 2.1.1	$21,837,890	$20,531,337	($1,306,553)	(6.0%)	Recommendations include decreases in GR-D No. 5155 of $1.3 million and in General Revenue Funds of $2,664 related to capital budget adjustments primarily for Inspection/Enforcement Tracking and Reporting System Phase III.
PIPELINE DAMAGE PREVENTION 2.1.2	$1,665,477	$1,289,999	($375,478)	(22.5%)	Recommendations include an All Funds decrease reflecting the following: a) decreases in GR-D No. 5155 of $0.2 million and in General Revenue Funds of $0.1 million related to capital budget adjustments for various IT projects; and b) a decrease in Federal Funds of $0.1 million from the Pipeline Safety Program grant from the U.S. Department of Transportation.
REGULATE ALT FUEL RESOURCES 2.2.1	$6,370,887	$9,445,223	$3,074,336	48.3%	Recommendations include an All Funds increase reflecting the following: a) an increase in General Revenue Funds of $3.0 million for a capital budget adjustment for the Inspection/Enforcement Tracking and Reporting System Phase III and various IT projects; and b) an increase in Appropriated Receipts of $19,608 reflecting the agency's projection from training center reimbursements in the 2022-23 biennium.
Total, Goal 2, SAFETY PROGRAMS	**$29,874,254**	**$31,266,559**	**$1,392,305**	**4.7%**	

Railroad Commission
Funding Changes and Recommendations by Strategy - House -- ALL FUNDS

Strategy/Goal	2020-21 Base	2022-23 Recommended	Biennial Change	% Change	Comments
OIL/GAS MONITOR & INSPECTIONS 3.1.1	$62,372,517	$57,405,608	($4,966,909)	(8.0%)	Recommendations include an All Funds decrease reflecting the following: a) an increase in General Revenue Funds of $1.9 million for capital budget adjustments for various IT projects; b) a decrease in GR-D No. 5155 of $6.8 million for capital budget adjustments primarily for Inspection/Enforcement Tracking and Reporting System Phase III and Mainframe Transformation Phase II; and c) a decrease in Appropriated Receipts of $96,557 related to sale of trucks in the 2020-21 biennium.
SURFACE MINING MONITORING/INSPECT 3.1.2	$7,674,831	$7,242,576	($432,255)	(5.6%)	Recommendations include an All Funds decrease reflecting the following: a) a decrease in General Revenue Funds of $0.6 million for capital budget adjustments for various IT projects; and b) an increase in Federal Funds of $0.1 million from a Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining grant from the U.S. Department of the Interior reflecting the agency's award projection.
OIL&GAS WELL PLUGGING & REMEDIATION 3.2.1	$143,599,584	$114,251,047	($29,348,537)	(20.4%)	Recommendations include an All Funds decrease reflecting the following: a) a decrease in Economic Stabilization Funds (ESF) of $30.1 million related to one-time expenditures for plugging orphaned wells appropriated in the 2018-19 biennium and carried forward into the 2020-21 biennium; b) an increase in GR-D No. 5155 of $2.0 million partially offset by a decrease in General Revenue Funds of $1.1 million related to capital budget adjustments to various IT projects; and c) a decrease in Federal Funds of $39,555 from a State and Tribal Response Program grant from the Environmental Protection Agency reflecting the agency's award projection.

Railroad Commission
Funding Changes and Recommendations by Strategy - House -- ALL FUNDS

Strategy/Goal	2020-21 Base	2022-23 Recommended	Biennial Change	% Change	Comments
SURFACE MINING RECLAMATION 3.2.2	$3,718,641	$4,193,161	$474,520	12.8%	Recommendations include an All Funds increase reflecting the following: a) an increase in Federal Funds of $0.4 million from a Abandoned Mine Land Reclamation grant from the U.S. Department of the Interior reflecting the agency's award projection; and b) an increase in General Revenue Funds of $0.1 million redistributed to cover allocated expenditure.
GAS UTILITY COMMERCE 3.3.1	$5,921,223	$5,891,152	($30,071)	(0.5%)	Recommendations include an All Funds decrease reflecting the following: a) an increase in General Revenue Funds of $0.2 million for capital budget adjustments for various IT projects; and b) a decrease in Appropriated Receipts of $0.2 million related to reimbursements for staff reviews of Interim Rate Adjustments dockets and Gas Utility Docket appeals.
Total, Goal 3, ENVIRONMENTAL & CONSUMER PROTECTION	**$223,286,796**	**$188,983,544**	**($34,303,252)**	**(15.4%)**	
PUBLIC INFORMATION AND SERVICES 4.1.1	$7,763,336	$5,447,653	($2,315,683)	(29.8%)	Recommendations include an All Funds decrease reflecting the following: a) a decrease in GR-D No. 5155 of $2.3 million partially offset by an increase in General Revenue Funds of $47,687 for capital budget adjustments for various IT projects; and b) a decrease in Appropriated Receipts of $34,071 related to central records requests.
Total, Goal 4, PUBLIC ACCESS TO INFO AND SERVICES	**$7,763,336**	**$5,447,653**	**($2,315,683)**	**(29.8%)**	
Grand Total, All Strategies	**$299,651,760**	**$269,361,426**	**($30,290,334)**	**(10.1%)**	

Railroad Commission
FTE Highlights - House

Full-Time-Equivalent Positions	Expended 2019	Estimated 2020	Budgeted 2021	Recommended 2022	Recommended 2023
Cap	827.1	873.1	870.6	870.6	870.6
Actual/Budgeted	776.9	831.3	870.6	NA	NA

Schedule of Exempt Positions (Cap)					
Railroad Commissioner, Group 6 (3)	$140,938	$140,938	$140,938	$140,938	$140,938

Notes:
a) Fiscal year 2019 actual FTEs are below the FTE cap primarily due to staff vacancies and turnover.

b) 2020-21 GAA, Art. IX, §18.28, Contingency for House Bill 2771, makes funding and FTE transfers contingent on the Environmental Protection Agency's approval of the transfer of permitting for the discharge of produced water, hydrostatic test water, and gas plant affluent from certain oil and gas activities from the Railroad Commission to the Texas Commission on Environmental Quality (TCEQ). The federal agency has indicated the approval will occur in fiscal year 2021 or fiscal year 2022. As a result, $150,846 in GR-D No. 5155 and 2.5 FTEs were retained in fiscal year 2020 at the Railroad Commission to maintain operational continuity (see Item 5, Selected Fiscal and Policy Issues - House).

c) The State Auditor's Office, Executive Compensation at State Agencies (Report 20-706, August 2020), does not indicate market average salaries for elected officials. The salary of the Railroad Commissioners is a public policy decision that is not tied to the market average for similar positions.

d) State Auditor's Office is the source for the fiscal year 2019 and fiscal year 2020 annual (actual) FTE levels.