

Railroad Commission **Summary of Recommendations - Senate**

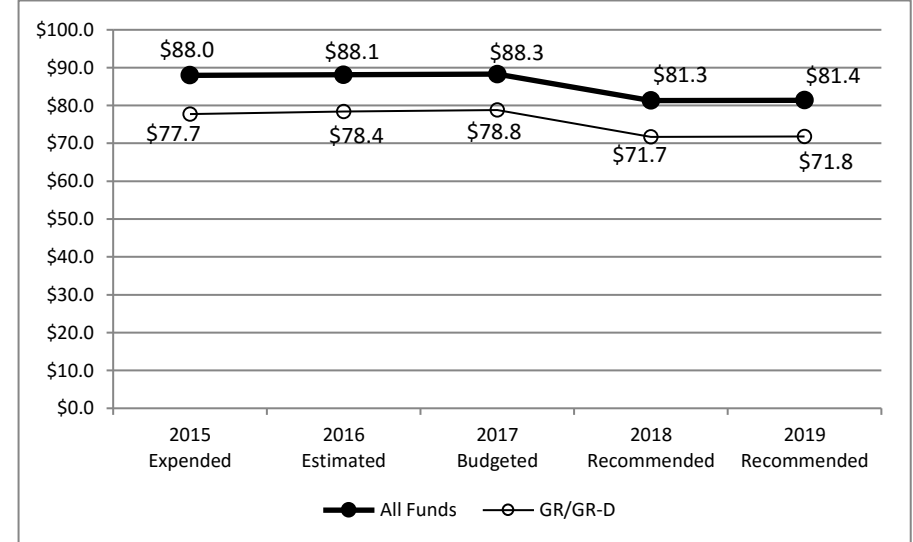
Section 1

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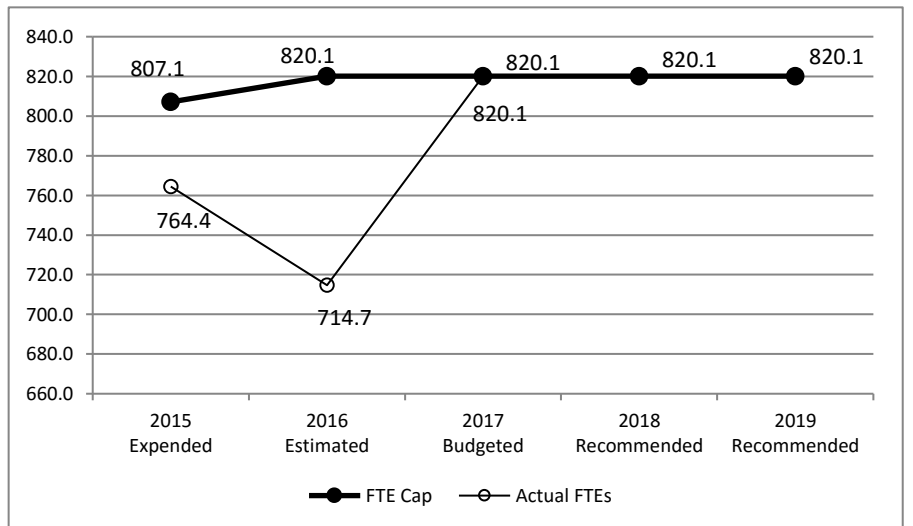
Method of Financing	2016-17 Base	2018-19 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$22,452,718	\$21,038,323	(\$1,414,395)	(6.3%)
GR Dedicated Funds	\$134,696,693	\$122,474,728	(\$12,221,965)	(9.1%)
<i>Total GR-Related Funds</i>	<i>\$157,149,411</i>	<i>\$143,513,051</i>	<i>(\$13,636,360)</i>	<i>(8.7%)</i>
Federal Funds	\$14,334,753	\$14,334,753	\$0	0.0%
Other	\$4,897,976	\$4,897,976	\$0	0.0%
All Funds	\$176,382,140	\$162,745,780	(\$13,636,360)	(7.7%)

	FY 2017 Budgeted	FY 2019 Recommended	Biennial Change	Percent Change
FTEs	820.1	820.1	0.0	0.0%

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



The bill pattern for this agency (2018-19 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2018-19 biennium.

Railroad Commission
Summary of Funding Changes and Recommendations - Senate

Section 2

Funding Changes and Recommendations for the 2018-19 Biennium compared to the 2016-17 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
<i>SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):</i>							
A)	Decrease in funding in General Revenue-Dedicated Oil and Gas Regulation and Cleanup Account No. 5155 (Fund 5155) for the agency's 4 percent reduction.	\$0.0	(\$6.3)	\$0.0	\$0.0	(\$6.3)	A.1.1, B.1.1, B.1.2, C.1.1, C.1.2, D.1.1
B)	Decrease in funding to continue existing Data Center Services (DCS) obligations.	(\$0.9)	(\$5.8)	\$0.0	\$0.0	(\$6.7)	A.1.1, B.1.1, B.2.1, C.1.1, C.1.2, C.2.1, C.2.2, D.1.1
C)	Decrease in one-time General Revenue funding of \$459,541 for vehicle replacements and \$56,772 for PC replacements.	(\$0.5)	\$0.0	\$0.0	\$0.0	(\$0.5)	B.1.1
<i>OTHER Funding Changes and Recommendations (these issues are not addressed in Section 3 but details are provided in Appendix A):</i>							
D)	Decrease in one-time funding of \$150,000 from Fund 5155 for Microfiche Reader-Printers.	\$0.0	(\$0.2)	\$0.0	\$0.0	(\$0.2)	D.1.1
TOTAL SIGNIFICANT & OTHER Funding Changes and Recommendations (in millions)		(\$1.4)	(\$12.3)	\$0.0	\$0.0	(\$13.7)	As Listed
<i>SIGNIFICANT & OTHER Funding Increases</i>		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	As Listed
<i>SIGNIFICANT & OTHER Funding Decreases</i>		(\$1.4)	(\$12.3)	\$0.0	\$0.0	(\$13.7)	As Listed

NOTE: Totals may not sum due to rounding.

**Railroad Commission
Selected Fiscal and Policy Issues - Senate**

1. **Oil and Gas Regulation and Cleanup Account No. 5155:** Recommendations include \$122.5 million in General Revenue-Dedicated Oil and Gas Regulation and Cleanup Account No. 5155 (Fund 5155), which is a decrease of \$12.2 million from 2016-17 funding levels. These appropriations support the regulation of oil and gas development, including oil and gas monitoring, inspections, remediation and well plugging, public information and services related to those activities, alternative fuel programs and administrative costs and state benefits for personnel involved in those activities. The Comptroller's Biennial Revenue Estimate (BRE) anticipates \$142.5 million in revenues being deposited in Fund 5155 in the 2018-19 biennium. Recommended decreases include:
 - a) **Data Center Services (DCS)** reductions of \$6.7 million in All Funds, which includes \$5.8 million in Fund 5155 and \$0.9 million in General Revenue, to continue funding for existing obligations identified by the Department of Information Resources (DIR). As a result of its revenue shortfall (discussed below), the agency greatly reduced its DCS services and recommendations reduce continuing obligations cost to the amount required by DIR;
 - b) **Recommendations take the 4 percent reduction** of \$6.3 million proportionally across all strategies with Fund 5155 funding resulting in a reduction in six of the agency's 10 strategies. Recommendations do not include any additional reductions in General Revenue. Absent agency input, the proportional approach used was based on reductions included in the agency's 10 percent reduction schedule in its submitted Legislative Appropriation Request (LAR). (The agency submitted across the board reductions in its 10 percent reduction schedule with no reductions to any Full-Time-Equivalent (FTE) positions;) and
 - c) **One-Time funding** reductions for the purchase of Microfiche Reader – Printers in the amount of \$150,000.

Revenues deposited to Fund 5155 are generated from various fees, permits, bond proceeds, and securities related to the regulation of the oil and gas industry. In addition, enactment of House Bill 7, Eighty-third Legislature, 2013, redirected certain fees collected under Utilities Code, Subchapter E, Chapter 121, and Water Code, Section 27.0321, that were previously deposited in the General Revenue Fund to Fund 5155. This resulted in a method of financing swap in the agency's appropriations from General Revenue to Fund 5155 in the amount of \$1.7 million each fiscal year in the 2016-17 biennium. Natural Resources Code, Chapter 81, requires the agency to collect an oil field cleanup fee until the fund balances reaches or exceeds \$30.0 million. Collections are suspended at that point until the agency spends the account down to \$25 million. Not all of the balances in Fund 5155 are available to the agency to spend. A portion of balances in Fund 5155 is held in escrow by the agency for certain financial securities associated with oil and gas regulation, including proceeds from bonds and other financial securities required under law as well as benefits under well-specific plugging insurance policies. These amounts are not subject to the fund balance threshold. As of December 31, 2016, these escrow amounts totaled \$65.1 million of the \$79.9 million balance. The BRE anticipates an ending fund balance of \$78.5 million at the end of fiscal year 2017.

Fiscal Year 2016 Shortfall: The Comptroller's 2016-17 BRE anticipated \$144.5 million in revenues being deposited in Fund 5155 for the current biennium with an ending balance of \$64.1 million at the end of fiscal year 2015. The agency testified in its joint budget hearing that a \$16.6 million shortfall in revenue occurred during fiscal year 2016 due to declining fee collections which resulted in the agency not spending as much as it needed to for DCS costs, other IT costs, and vehicles. Based on information provided by the Comptroller, the agency was not able to spend all of its appropriations in 2016 based on available unencumbered cash balances in Fund 5155. The agency carried forward the remaining fund balance of \$10 million in cash into fiscal year 2017 to cover necessary expenditures required at the start of the new fiscal year. The agency used its unexpended balance authority in Rider 15, Appropriation: Unexpended Balances Between Fiscal Years within the Biennium, to carry forward a remaining budget authority of \$17.1 million for fiscal year 2016 into 2017. The agency reported that it elected to do this instead of lapsing the authority in the hopes higher revenues in 2017.

The agency is also anticipating additional concerns with future revenue collections and fund balances for 2017 and is anticipating a similar circumstance as was realized in 2016. The agency has also indicated that it may request a supplemental bill appropriation to offset an unspecified revenue shortfall for fiscal year 2017. See also, Items Not Included in Recommendations - Senate #4.

2. **Sunset Review:** The Sunset Advisory Commission (SAC) recommends continuing the Railroad Commission for another 12 years and has made recommendations on six other issues. The SAC report indicates that the following three recommendations would have fiscal implications:
 - a) SAC recommends that the Railroad Commission make changes in oil and gas monitoring and enforcement so that the agency may better monitor and track compliance via electronic reporting. SAC estimates that adopting these recommendations could add approximately \$2.7 million annually to the General Revenue Fund, mainly due to increased fines. Additionally, the recommendations would generate an annual savings to Fund 5155 of \$46,835 as the Commission will no longer need a contractor to manually scan hard copies of reports. (Estimated five-year savings of \$0.2 million in Fund 5155 and revenue gain of \$13.5 million in General Revenue.)
 - b) Since 2004, the Legislature has required all oil and gas operators to obtain bonds to cover a portion of the cost to plug each well and remediate the site should the operator go out of business. The revenue from these bonds, however, covered only 15.9 percent of plugging and remediation costs in fiscal year 2015. This shortfall has created increased financial responsibility for the Commission and has led to a large backlog of abandoned wells. SAC concluded that the current statutory bond structure does not account for risk of well abandonment and places a disproportionate share of bond coverage per well on producers who operate fewer than 19 wells. SAC recommends changes to the bonding requirements that it estimates would increase revenue in Fund 5155 by \$1.3 million annually beginning in fiscal year 2020. (Estimated five-year revenue gain: \$6.1 million in General Revenue.)
 - c) The Railroad Commission has required pipeline operators to obtain a permit for more than 100 years, but the Commission has never had the statutory authority to assess a fee for such permits. SAC recommends creating statutory authority for the Commission to assess these fees and estimates that the fees could generate \$1.8 million in General Revenue annually. (Estimated five-year revenue gain: \$9.0 million in General Revenue.)
3. **PC and Laptop Replacements:** Recommendations include \$0.9 million in All Funds, which is an increase of \$0.4 million. The All Funds amount consists of \$0.1 million out of General Revenue and \$0.7 million out of Fund 5155 for the biennium to allow the agency to migrate from a Windows 7 operating system to a Windows 10 operating system. The agency's baseline request reallocated \$56,772 in Fund 5155 to replace General Revenue expended for this purpose in 2016-17. The recommendations remove this amount of General Revenue that was reallocated for another unspecified purpose.
4. **Vehicle Replacements:** Recommendations include \$2.0 million in All Funds, which is an increase of \$0.6 million in Fund 5155. The All Funds amount includes \$0.2 million in General Revenue and \$1.8 million from Fund 5155 to replace vehicles with mileage exceeding 150,000. In addition to replacing Federal Funds in the amount of \$97,478 with Fund 5155 funds to allow the Federal Funds to be used for other eligible purposes in its baseline request, the agency also reallocated \$459,514 in Fund 5155 funds to replace General Revenue expended for this purpose in 2016-17. The recommendations remove this amount of General Revenue that was reallocated for an unspecified purpose.
5. **Capital Budget Reporting Requirements:** Recommendations continue the reporting requirements for Federal Funds and Appropriated Receipts in Rider 7, Capital Budget Expenditures: Federal Funds and Appropriated Receipts. If such funds are received in excess of amounts identified in the agency's Capital Budget Rider, the agency must notify the Legislative Budget Board (LBB) and the Governor upon receipt of such funds and the items to be purchased with those funds. The agency requested to have this reporting requirement removed. See also, Items Not Included in Recommendations - Senate #5.

Railroad Commission Rider Highlights - Senate

Modification of Existing Riders

2. **Capital Budget.** Recommendations include various changes to Capital Budget items in alignment with funding decision. See also, Selected Fiscal and Policy Issues - Senate #3 and #4.
3. **Appropriations Limited to Revenue Collections and Contingent Revenue: LPG/CNG/LNG Fees.** Recommendations modify the rider to conform to a new standard format.
4. **Fee Appropriation: Liquid Propane (LP) Gas Training and Examination Renewal Fees.** Rider language is modified to reflect correct strategy in which funds for LP gas training and examination activities are conducted.
5. **Appropriation Limited to Revenue Collections: Surface Mining Permits and Contingency Appropriation for Fee Increase.** Recommendations modify the rider to conform to a new standard format.
6. **Appropriation Limited to Revenue Collections for Pipeline Safety Fees.** Recommendations modify the rider to conform to a new standard format.
8. **Appropriation: Uranium Mining Regulatory Program.** Recommendations modify the rider to conform to a new standard format.

Deleted Riders

12. **High-Cost Housing Salary Supplement.** Recommendations delete the rider which provides for the agency to pay a salary supplement, not to exceed \$1,200 per month, to staff whose duties are located in high-cost areas of the state. The agency reports that the rider was necessary in prior years because a significant lack of available housing in the Midland area during years of peak oil and gas-related activity in the Eagle Ford Shale. Now that activity has decreased, and housing prices have normalized, the rider is no longer necessary.
13. **Appropriations: Pipeline Safety Specialized Inspections.** Recommendations delete the rider which provided funding for specialized pipeline safety inspections because the funding and FTEs have been incorporated into the agency's 2018-19 baseline appropriations.

Railroad Commission
Items Not Included in Recommendations - Senate

Section 5

	2018-19 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2020-21
	GR & GR-D	All Funds	FTEs			

Agency Exceptional Items - In Agency Priority Order

1)	Salary Parity: General Revenue in the amount of \$582,201 and Fund 5155 funds in the amount of \$3,769,303 to retain staff by keeping agency salaries competitive with those offered in private industry.	\$4,351,504	\$4,351,504	0.0	No	No	\$4,569,080
2)	Additional Inspectors for Enhanced Oilfield Safety and Pipeline Integrity: Fund 5155 funds in the amount of \$6,237,899 and Federal Funds in the amount of \$2,522,834 for additional inspectors to focus on ensuring oilfield and pipeline safety and regulatory compliance and to support the agency's commitment to inspect all onshore wells at least every five years and offshore and bay wells every two years.	\$6,237,899	\$8,760,733	55.0	No	No	\$6,594,114
3)	Inspection/Enforcement Tracking and Reporting: General Revenue in the amount of \$400,000 and Fund 5155 funds in the amount of \$2,600,000 to continue modernizing the agency's aging IT systems and computer applications in order to improve turn-around time for permits, increase transparency to the public, and enhance online options for industry.	\$3,000,000	\$3,000,000	7.0	Yes	Yes	\$1,402,270
4)	Appropriation: Oil and Gas Regulation and Cleanup Account No. 5155 (Fund 5155) Fees: The agency is requesting a new rider to appropriate any fees collected and deposited to Fund 5155 above the Comptroller's Biennial Revenue Estimated amounts. (See also, Selected Fiscal and Policy Issues - Senate #1)	\$0	\$0	0.0	No	No	\$0
5)	Amend Rider 7, Capital Budget Expenditures and Appropriated Receipts: The agency is requesting to amend the rider to remove the notification requirement to both the LBB and Governor (detailing amounts received and items to be purchased) upon receiving additional Federal Funds and Appropriated Receipts.	\$0	\$0	0.0	No	No	\$0

TOTAL Items Not Included in Recommendations	\$13,589,403	\$16,112,237	62.0	\$12,565,464
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**Railroad Commission
Appendices - Senate**

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* Appendix is not included - no significant information to report

Railroad Commission					
Funding Changes and Recommendations - Senate, by Strategy -- ALL FUNDS					
Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
ENERGY RESOURCE DEVELOPMENT A.1.1	\$33,787,691	\$28,352,506	(\$5,435,185)	(16.1%)	Recommendations include a decrease of \$5.4 million resulting from: a) a decrease of \$3.8 million in Oil and Gas Regulation and Cleanup Account No. 5155 (GR-D) to continue DCS funding at existing obligation levels; b) a decrease of \$1.3 million in Fund 5155 for the agency's 4 percent reduction; c)a decrease in Fund 5155 of \$0.2 million for reallocation to Strategy C.2.1; and d) a decrease in Appropriated Receipts (Other Funds) of \$0.1 due to lower than expected collections.
Total, Goal A, ENERGY RESOURCES	\$33,787,691	\$28,352,506	(\$5,435,185)	(16.1%)	
PIPELINE SAFETY B.1.1	\$15,012,892	\$13,886,687	(\$1,126,205)	(7.5%)	Recommendations include a decrease of \$0.6 million resulting from: a) an increase of \$0.3 million in GR for performing additional inspections as required in order to obtain federal match funding through the U.S. Department of Transportation Pipeline and Hazardous Material Safety Administration (PHMSA) and for sending staff to attend required PHMSA training; b) a decrease of \$0.8 in Fund 5155 to continue DCS funding at existing obligation levels; c) a decrease of \$0.1 million in Fund 5155 for the agency's 4 percent reduction; d) a decrease of \$0.1 million in GR for PC expenses that were reallocated to Fund 5155; and e) a decrease of \$0.5 million in GR for vehicle replacement expenses that were reallocated to Fund 5155.
PIPELINE DAMAGE PREVENTION B.1.2	\$2,081,994	\$2,255,233	\$173,239	8.3%	Recommendations include an increase of \$0.2 million resulting from: a) a GR increase of \$0.2 million, about half of which was reallocated from Strategy C.3.1 and is attributable to anticipated increased damage prevention outreach and enforcement activities involving "movement of earth" near pipelines, and b) an increase of \$0.1 in Appropriated Receipts due to increased collections.

Railroad Commission
Funding Changes and Recommendations - Senate, by Strategy -- ALL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
REGULATE ALT FUEL RESOURCES B.2.1	\$5,230,085	\$4,729,362	(\$500,723)	(9.6%)	Recommendations include a decrease of \$0.5 million in GR, mostly attributable to continuing DCS funding at existing obligation levels.
Total, Goal B, SAFETY PROGRAMS	\$22,324,971	\$20,871,282	(\$1,453,689)	(6.5%)	
OIL/GAS MONITOR & INSPECTIONS C.1.1	\$43,219,212	\$40,487,155	(\$2,732,057)	(6.3%)	Recommendations include a decrease of \$2.7 million in Fund 5155 due to: a) a decrease of \$2.1 million for the agency's 4 percent reduction; b) a decrease of \$0.5 million to continue DCS funding at existing obligation levels; c) a decrease of \$0.2 million for reallocation to Strategy C.3.1.
SURFACE MINING MONITORING/INSPECT C.1.2	\$7,647,986	\$7,003,532	(\$644,454)	(8.4%)	Recommendations include a decrease of \$0.6 million in GR mostly attributable to continuing DCS funding at existing obligation levels.
OIL&GAS WELL PLUGGING & REMEDIATION C.2.1	\$52,877,810	\$50,138,464	(\$2,739,346)	(5.2%)	Recommendations include a decrease of \$2.7 million in Fund 5155 due to: a) a decrease of \$2.6 million for the agency's 4 percent reduction; b) a decrease of \$0.4 to continue DCS funding at existing levels; and c) an increase of \$0.2 million reallocated from Strategy A.1.1 and C.1.1.
SURFACE MINING RECLAMATION C.2.2	\$7,415,658	\$7,396,590	(\$19,068)	(0.3%)	Recommendations include a decrease of less than \$20,000 in GR to continue DCS funding at existing obligation levels.
GAS UTILITY COMMERCE C.3.1	\$4,561,593	\$4,340,548	(\$221,045)	(4.8%)	Recommendations include a GR decrease of \$0.2 million due to an anticipated decrease in IT programming support.
Total, Goal C, ENVIRONMENTAL & CONSUMER PROTECTION	\$115,722,259	\$109,366,289	(\$6,355,970)	(5.5%)	
PUBLIC INFORMATION AND SERVICES D.1.1	\$4,547,219	\$4,155,703	(\$391,516)	(8.6%)	Recommendations include a decrease of \$0.4 million in Fund 5155 due to: a) a decrease of \$0.2 million for the agency's 4 percent reduction; b) a decrease of \$0.1 million to continue DCS funding at existing obligation levels; and c) a decrease of \$0.2 million for removal of one-time expenses for the microfiche printer project.
Total, Goal D, PUBLIC ACCESS TO INFO AND SERVICES	\$4,547,219	\$4,155,703	(\$391,516)	(8.6%)	
Grand Total, All Strategies	\$176,382,140	\$162,745,780	(\$13,636,360)	(7.7%)	

**Railroad Commission
FTE Highlights - Senate**

Full-Time-Equivalent Positions	Expended 2015	Estimated 2016	Budgeted 2017	Recommended 2018	Recommended 2019
Cap	807.1	820.1	820.1	820.1	820.1
Actual/Budgeted	764.4	714.7	820.1	NA	NA

Schedule of Exempt Positions (Cap)					
Railroad Commissioner, Group 6 (3)	\$137,500	\$140,938	\$140,938	\$140,938	\$140,938

Notes
In fiscal year 2016, the agency reports 105.4 FTEs below its cap. The agency reports a higher than normal turnover rate in 2016 as a result of its inability to pay competitive wages. Additionally, the agency reports that it was unable to fill some vacancies because of the revenue shortfall in Fund 5155. See also, Selected Fiscal and Policy Issues - Senate #1.

Railroad Commission
Performance Measure Highlights - Senate

Appendix D

	Expended 2015	Estimated 2016	Budgeted 2017	Recommended 2018	Recommended 2019
<ul style="list-style-type: none"> Percent of Oil and Gas Wells that Are Active <p><i>The percent of wells that are active decreased between 2015 and 2016 because of the decline in prices which results in reduced industry activity. The actual percent of wells that will be active during 2017-2019 will depend on oil and gas prices during the period.</i></p>	78.5	73.0	77.0	77.0	77.0
<ul style="list-style-type: none"> Number of Wells Monitored <p><i>Although oil and gas exploration activities and production have decreased due to price declines, the number of wells that the agency monitors remains relatively constant because the agency must monitor both active and inactive wells.</i></p>	432,461	436,747	480,000	440,000	440,000
<ul style="list-style-type: none"> Number of Pipeline Safety Inspections Performed <p><i>The agency performs safety inspections on approximately 217,000 miles of intrastate natural gas distributions, gathering, and transmission pipelines, as well as hazardous liquids and carbon dioxide transmission and gathering lines.</i></p>	3,477	2,823	2,995	3,200	3,200

Railroad Commission
Summary of Ten Percent Biennial Base Reduction Options - Senate

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs			
1)	Across the Board Reduction	The Railroad Commission used the "Across the Board Reduction" methodology in the 10% Base Reduction Schedule.	\$15,087,712	\$15,087,712	0.0	\$0	4%	Partial
TOTAL, 10% Reduction Options			\$15,087,712	\$15,087,712	0.0	\$0		