

SUBJECT: Creating Grow Texas fund for community infrastructure in oil, gas area

COMMITTEE: Appropriations — committee substitute recommended

VOTE: 24 ayes — Bonnen, M. González, Ashby, C. Bell, Capriglione, Dominguez, Gates, Holland, Howard, A. Johnson, Jarvis Johnson, Julie Johnson, Minjarez, Morrison, Raney, Rose, Sherman, Stucky, E. Thompson, VanDeaver, Walle, Wilson, Wu, Zwiener

1 nay — Schaefer

2 absent — Dean, Toth

WITNESSES: For — James Beauchamp, Midland-Odessa Transportation Alliance; Ben Shepperd, Permian Basin Petroleum Association; Ed Longanecker, Texas Independent Producers and Royalty Owners Association; James LeBas, TXOGA; (*Registered, but did not testify*: Chris Hosek, BP; Julie Williams, Chevron; Royce Poinsett, Cimarex and Kinder Morgan; Betsy Madru, Diamondback Energy; William Stevens, Panhandle Producers and Royalty Owners Association; Jason Modglin, Texas Alliance of Energy Producers; Wroe Jackson, Texas Association of Manufacturers; Monty Wynn, Texas Municipal League; Tricia Davis, Texas Royalty Council; Steven Villela)

Against — (*Registered, but did not testify*: Luis Figueroa, Every Texan; Cyrus Reed, Lone Star Chapter Sierra Club)

BACKGROUND: Revenue for the Economic Stabilization Fund (ESF) comes almost entirely from oil and natural gas production taxes, also known as severance taxes. Before fiscal 2015, the ESF received 75 percent of severance tax revenue that exceeded the amount collected in fiscal 1987. A constitutional amendment adopted in 2014 requires the comptroller to send half of this amount to the State Highway Fund, with the rest continuing to go the ESF. The comptroller must reduce or withhold allocations to the State Highway Fund as needed to maintain a sufficient balance in the ESF.

DIGEST: CSHJR 82 would establish the Grow Texas fund and redirect certain transfers of general revenue that currently go to the Economic Stabilization Fund (ESF) to the new fund. The fund could be used only for infrastructure needs in areas affected by oil and gas production.

Transfers into the fund. Each fiscal year, 12 percent of the amount of general revenue from severance taxes that would have been transferred to the ESF would instead be transferred to the Grow Texas fund, up to \$250 million per biennium.

The Grow Texas fund would consist of such transfers, legislative appropriations, funds dedicated by statute, contributed gifts or grants, investment earnings and interest, and money received from the federal government that could be used for a purpose of the fund and that was transferred or deposited in the fund by the Legislature.

The amendment would revise the procedure the Legislature currently uses to adjust general revenue allocations sent to the ESF and the State Highway Fund to include the Grow Texas fund.

Appropriations from the fund. The Legislature could appropriate money from the Grow Texas fund only for use in areas of the state where oil and gas were produced and only for infrastructure needs, as provided by law, in areas the Legislature determined were significantly affected by oil and gas production. Statutes enacted under this provision could authorize appropriations from the fund for grants to state agencies and political subdivisions for these purposes.

On the last day of each fiscal biennium, the comptroller would have to transfer unobligated and unappropriated balances in the fund to the ESF.

Grow Texas fund commission. CSHJR 82 would create the Grow Texas commission to administer money appropriated from the fund and to advise the Legislature on making appropriations from the fund. The commission would have seven members serving four-year terms beginning September

1 of each odd-numbered year. The lieutenant governor would be required to appoint two senators to the commission, and House speaker would be required to appoint two members of the House. The governor would be required to appoint three public members and would designate the presiding officer.

Effective date. Provisions creating the new fund and directing certain allocations to it would take effect September 1, 2023.

The ballot proposal would be presented to voters at an election on November 2, 2021, and would read: "The constitutional amendment providing for the creation of the Grow Texas fund, dedicating the money in that fund to benefit areas of the state from which oil and gas are produced, and providing for the transfer of certain general revenues to that fund, the economic stabilization fund, and the state highway fund."

SUPPORTERS
SAY:

CSHJR 82 would help address a need for long-term funding for critical community infrastructure in areas of Texas that are vital to the state's economic success. Energy production is crucial to Texas' economy, and CSHJR 82 would allow the state to invest in the future of the communities and people that support oil and gas production. This investment would pay off with short- and long-term benefits for all Texans.

Certain areas of Texas have seen prolonged increases in economic activity in the oil and gas industries, which has led to a rapid influx of residents. In many cases, this has strained infrastructure such as schools and roads, and services such as public safety and health care. This can be seen in the inadequate roads, teacher and doctor shortages, health care needs, and other issues in these areas.

While these areas invest heavily in their own infrastructure, they have not been able to keep pace with the growth. If the state does not invest in the infrastructure that supports the people living and working in these regions that provide Texas with energy prosperity and security, potential economic growth could be lost, which in turn would harm the state as a whole. Supporting this type of infrastructure would help keep and create

jobs and set the stage for economic growth for the entire state.

CSHJR 82 would reinvest a portion of oil and gas taxes for in the communities that produced the tax revenue. The funds would be available to all areas statewide where oil and gas were produced as well as areas significantly affected by production and could support projects to maintain roads, expand learning opportunities for students, address health care needs and more. The Grow Texas fund would provide a reliable source of funding so these areas can plan, which is a better approach than trying to address these issues piecemeal every two years.

CSHJR 82 would protect the ESF for the future by supporting the revenue source — the oil and gas industry — that funds it. In the long run, this focused approach on critical areas would keep the ESF at the level necessary to allow the state to meet its needs and be prepared for emergencies.

CSHJR 82 would include transparency and accountability measures for how money in the fund was spent. The Legislature would have to appropriate money from the fund and a commission would administer money appropriated from the fund.

Approving CSHJR 82 would allow Texans to vote in November on the issue but would not itself expend any funds. If Texans support the proposal, the 88th Legislature in 2023 would be able to make specific decisions about appropriations from the fund.

If the state does not set the stage to invest in oil and gas producing areas by asking voters to approve the Grow Texas fund, the need would be even greater in the future and some economic opportunities could be lost.

CRITICS
SAY:

CSHJR 82 would reduce budgeting flexibility for future Legislatures by placing certain state revenues into a fund earmarked for a specific use.

The Legislature should be able to make spending decisions and determine priorities within the context of as many available resources as possible

and with consideration of all needs, rather than through a pool of separate funds. By placing tax revenue into a fund that would not be available for general spending, the amendment would reduce this flexibility. If the Legislature would like to appropriate money for infrastructure in areas significantly impacted by the oil and gas industry, it could do so without CSHJR 82 by appropriating funds from either general revenue or the ESF.

NOTES:

According to the Legislative Budget Board, the joint resolution would have a negative impact of \$178,333 to general revenue through fiscal 2023 to publish the resolution.