

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 30, 2003

TO: Honorable Robert Puente, Chair, House Committee on Natural Resources

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB3586 by Puente (Relating to powers and duties of the Edwards Aquifer Authority to manage and protect the Edwards Aquifer, the board of directors of the Edwards Aquifer Authority, and revenue bonding authority.), **Committee Report 1st House, Substituted**

No fiscal implication to the State is anticipated.

The bill would amend statutes related to the Edwards Aquifer Authority. The bill would take effect immediately if it receives a two-thirds vote in each house; otherwise, it would take effect September 1, 2003.

The Edwards Aquifer Authority (authority) identified sections of the bill that would have a fiscal impact on the authority.

Under current statute, for the period ending December 31, 2007, the amount of permitted withdrawals from the aquifer may not exceed 450,000 acre-feet of water for each calendar year. The bill would change the requirement from a period ending December 31, 2007, to beginning January 1, 2008, and would specify applicability to withdrawals from the aquifer under regular permits. According to the authority, the 450,000 acre-feet cap would require the purchase of 107,000 acre-feet by the authority. Assuming a market cost of \$2,000 per acre-foot, the purchase of 107,000 acre-feet would cost the authority approximately \$214 million (or about \$417.6 million over 30 years, assuming a 5 percent interest rate).

Under existing statute, with certain exceptions, for the period beginning January 1, 2008, the amount of permitted withdrawals from the aquifer may not exceed 400,000 acre-feet of water for each calendar year. Provisions of the bill would change the beginning date to January 1, 2010, and would clarify applicability of the withdrawals from the aquifer under regular permits. The authority states that the 400,000 acre-feet cap would result in the authority having to purchase 50,000 acre-feet at a total estimated cost of \$100 million; the cost would be divided equally with surface water rights holders downstream from the Comal and San Marcos springs. Over 30 years, each party would pay a cost of \$97.5 million, assuming a cost of \$2,000 per acre-foot and a 5 percent interest rate.

The authority estimates it would execute contracts for professional services to determine any adjustment to the amount of water eligible for permitting, at a cost of \$50,000 in fiscal year 2006. The authority would also incur additional costs of \$10,000 in the last quarter of calendar year 2003 and \$30,000 in calendar year 2004 to employ the services of legal counsel, impact assessment and hydrogeologic modeling teams.

The bill would require the authority to determine the extent to which permit holders may use programs to reduce or eliminate fees or certain taxes. The authority estimates the result would be an additional cost of \$20,000 in fiscal year 2004 only.

The authority would be required to ensure authorized withdrawals from non-exempt wells are reduced to 350,000 acre-feet annualized during critical periods. The authority states that to develop the current critical period/demand management rules in 2002 cost approximately \$200,000; it estimates revisions to meet the criteria of the bill would have a total cost of about 20 percent of that: \$10,000 in 2003 and

\$30,000 in 2004.

Local government entities (e.g., City of San Marcos, Hays County, City of San Antonio, Uvalde County, and Comal County) that withdraw water from the aquifer would also be impacted by the proposed changes provided in the bill. The entities listed were contacted regarding the fiscal impact of the bill. Because of the short notice, only the City of San Marcos was able to respond.

The City of San Marcos reports that the additional allowable withdrawal of 100,000 acre feet would eliminate the need to purchase and retire that quantity of permitted withdrawal rights. While the city estimated a savings based on \$1,700 per acre foot for a total savings of \$2.1 million for their 5,536 acre feet, the authority assumes the per acre foot rate would be \$2,000; therefore, the city's savings may be more than their estimated \$2.1 million. On the other hand, the city also notes a number of increased costs and potential revenue losses during dry or drought conditions that would likely occur. For example, the city estimates that during dry periods, the changes in the permitting of the Edwards Aquifer would result in the city having to obtain firm water supply to replace the aquifer source, at a cost of \$664,000 per year.

None of the municipalities nor counties that would be affected by implementation of the bill were able to provide information regarding the fiscal impact of the provisions of the bill.

Local Government Impact

The Edwards Aquifer Authority estimates it would experience a negative fiscal impact. The fiscal impact would vary by local government unit that draws water from the Edwards Aquifer.

Source Agencies:

LBB Staff: JK, CL, JB, DLBa