LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

April 16, 2023

TO: Honorable Greg Bonnen, Chair, House Committee on Appropriations

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HJR111** by Landgraf (Proposing a constitutional amendment providing for the creation of the Texas severance tax revenue and oil and natural gas (Texas STRONG) defense fund, dedicating the money in that fund to benefit areas of the state significantly affected by oil and gas production, and providing for the transfer of certain general revenues to that fund, the economic stabilization fund, the state highway fund, the oil and gas regulation and cleanup account, the Texas emissions reduction plan fund, and the property tax relief fund.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HJR111, As Introduced : a negative impact of ($436,467,406) through the biennium ending August 31, 2025.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to *General Revenue Related Funds*
2024	($204,406)
2025	($436,263,000)
2026	($1,135,380,000)
2027	($981,098,000)
2028	($1,223,842,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *General Revenue Fund* 1	Probable Revenue Gain from *Oil & Gas Regulation* 5155	Probable Revenue Gain from *TERP Trust Fund*	Probable Revenue Gain from *Texas STRONG Fund*
2024	$0	$0	$0	$0
2025	($436,263,000)	$0	$0	$0
2026	($1,135,380,000)	$75,855,000	$75,855,000	$500,000,000
2027	($981,098,000)	$79,532,000	$79,532,000	$500,000,000
2028	($1,223,842,000)	$81,758,000	$81,758,000	$500,000,000

Fiscal Year	Probable Revenue Gain from *Property Tax Relief Fund* 304	Probable Revenue Gain/(Loss) from *Economic Stabilization Fund* 599	Probable (Cost) from *General Revenue Fund* 1
2024	$0	$0	($204,406)
2025	$0	$0	$0
2026	$258,551,000	($330,293,000)	$0
2027	$295,317,000	$0	$0
2028	$317,581,000	$203,437,000	$0

Fiscal Analysis

The joint resolution would amend Section 49-g(c) (Economic Stabilization Fund (ESF)), Article III of the Texas Constitution, to decrease the share of certain oil and gas production taxes transferred to the ESF from 50 percent to 38 percent and allocate:

1) 10 percent of those production taxes to the newly created Texas severance tax revenue and oil and natural gas (Texas STRONG) defense fund, but no more than $500 million per year;
2) 1 percent to GRD Account 5155 - Oil and Gas Regulation and Cleanup (OGRC); and
3) 1 percent to Fund 1201 - Texas Emissions Reduction Plan Trust.

If the amount of severance taxes that would be transferred to the Texas Strong Fund exceeds $500 million in any year, then the amount in excess of $500 million would be transferred to the Property Tax Relief Fund 0304.

The Texas STRONG Fund would be established as a fund in the state treasury. The fund would consist of: (1) oil and gas severance tax collections; (2) appropriations; and (3) money that the Legislature, by statute, dedicates for deposit; (4) gifts and grants; (5) investment earnings and interest earned on amounts credited to the fund.

The Legislature could appropriate money from the Texas STRONG Fund only: (1) for use in areas of the state that are significantly affected by oil and gas production as determined by the Legislature and (2) for the purpose of funding grants to state agencies, political subdivisions of the state, public institutions of higher education, and nonprofit organizations to address public health and safety concerns and supplement educational opportunities and workforce preparedness needs.

On the last day of each state fiscal biennium, the Comptroller of Public Accounts would transfer any unobligated and unappropriated money that remains in the fund on that date to the general revenue fund.

This proposed constitutional amendment would be submitted to the voters at an election to be held November 7, 2023.

The changes to production tax transfers proposed in this joint resolution would take effect September 1, 2025.

Methodology

The fiscal impacts in the table above are based on the *2024-25 Biennial Revenue Estimate* and the fiscal implications of SB 30, as passed 2nd House. (Supplemental appropriations as provided by SB 30 will materially affect the ESF balance, related reserves and transfers of severance tax revenue, and interest and investment earnings.)

Under current law, an amount equal to 75 percent of oil and gas revenue – above 1987 collections – is equally allocated between the ESF and the State Highway Fund (SHF). The resolution would decrease the ESF's 50 percent allocation to 38 percent and would, at the same time, allocate an amount equal to the reduction in the ESF allocation to the Texas Strong Fund, GRD Account - OGRC and TERP Trust Fund; the share allocated to the SHF would remain unchanged at 50 percent of the total.

Based on the *2024-2025 Biennial Revenue Estimate* and subsequent adjustments in SB 30, the ESF balance in fiscal 2027-28 is projected to be above its allowable constitutional cap, therefore the actual transfer of severance taxes to the ESF is projected to be zero, and the transfers to the eligible funds would be from GR in those years.

General Revenue Fund implications in fiscal 2026 represent a loss of interest earnings that, under current law, would have been transferred to GR (as a result of the ESF reaching its constitutional cap) and, under the bill, would be reserved for transfer to the eligible funds in fiscal 2027.

Implications to the ESF represent the net difference between transfers from the ESF and consequent changes in ESF interest.

This analysis only addresses implications for the Texas STRONG Fund represented by transferred amounts into the fund; any interest earning on the fund balance are not considered.

Although this resolution would not make an appropriation, it would establish the basis for an appropriation. Agencies that are required to implement programs associated with the accounts receiving transfers under the joint resolution could incur administrative costs associated with the programs. Appropriation would be required to move money outside the state treasury for the deposit into the TERP Trust Fund.

This legislation would create or recreate a dedicated account in the General Revenue Fund, create or recreate a fund either in, with, or outside of the Treasury, or dedicate or rededicate a revenue source. The dedication included in this bill, unless created by a constitutional amendment, would be subject to funds consolidation review by the current Legislature.

The cost to the state for publication of the resolution is $204,406.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KK, SD