

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 9, 2025

TO: Honorable Cody Harris, Chair, House Committee on Natural Resources

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB7 by Perry (relating to the oversight and financing of certain water infrastructure matters under the jurisdiction of the Texas Water Development Board.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB7, Committee Report 2nd House, Substituted: a negative impact of (\$10,476,834) through the biennium ending August 31, 2027.

Also, there is an estimated two year net impact of (\$2,230,834) to General Revenue-Dedicated Water Resource Management Account No. 153 through the biennium ending August 31, 2027.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	<i>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</i>
2026	(\$5,681,217)
2027	(\$4,795,617)
2028	(\$18,048,583)
2029	(\$17,208,583)
2030	(\$17,220,583)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	<i>Probable Savings/(Cost) from General Revenue Fund 1</i>	<i>Probable Savings/(Cost) from Water Resource Management 153</i>	<i>Change in Number of State Employees from FY 2025</i>
2026	(\$5,681,217)	(\$1,153,667)	43.0
2027	(\$4,795,617)	(\$1,077,167)	43.0
2028	(\$18,048,583)	(\$1,077,167)	143.0
2029	(\$17,208,583)	(\$1,077,167)	143.0
2030	(\$17,220,583)	(\$1,077,167)	143.0

Fiscal Analysis

The bill would amend the Water Code related to water infrastructure development, legislative oversight, and performance and accountability at the Texas Water Development Board (TWDB).

The bill would create the Texas Water Fund Administrative Fund (TWFAF) as a fund outside the general revenue fund administered by TWDB. The bill would authorize the TWDB to transfer up two percent of all deposits to

the Texas Water Fund (TWF) in each fiscal year to the TWFAF without prior approval to pay for necessary and reasonable expenses of administering the TWF; however, the bill would not add the TWFAF to the list of accounts and funds that TWF is eligible to transfer money to under Water Code, Section 15.502(b). The bill would establish that the TWFAF would consist of money appropriated to TWDB for deposit to the credit of the fund, money transferred by TWDB from TWF to the fund, and depository interest allocable to the fund. Additionally, the bill would authorize TWDB to enter into an agreement with the Texas Commission on Environmental Quality (TCEQ) to pay no more than \$2,000,000 from the TWFAF of the administrative expenses incurred by TCEQ before August 31, 2027. The bill would require the agreement to cover TCEQ expenses related to the review of permit applications for water supply projects receiving financial assistance originating from the TWF during the 2026-27 biennium only.

Subject to legislative appropriation, the bill would establish the responsibility that TWDB facilitate joint planning and coordination between entities related to the development of infrastructure to transport water. The bill would require TWDB to also be responsible for developing guidance, standards, and recommendations to achieve these efforts as the lead entity conducting water supply conveyance coordination. The bill would authorize TWDB to procure professional and consulting services and form ad hoc committees with any entities deemed appropriate by TWDB to advise and assist with achieving these efforts.

The bill would amend eligible uses of the New Water Supply for Texas Fund (NWSTF). The bill would add: water and wastewater reuse projects; acquisition of water or right rights originating from outside of the state; reservoir projects meeting specific criteria; and infrastructure projects to transport or integrate into a water supply system, excluding groundwater produced from a state well for purposes other than new water supply, as projects eligible to receive financial assistance from the NWSTF. The bill would permit transfers from the NWSTF to the State Participation Account (SPA) of the Texas Water Development Fund II (DFund II) and for eligible water supply projects. The bill would allow the NWSTF to be used for the purchase of water rights by a water supply contract or a lease of the rights from its owner.

The bill would amend the eligible uses, sources, and requirements of the TWF. The bill would add the Flood Infrastructure Fund (FIF), the Economically Distressed Areas Program (EDAP) Account of DFund II, and the Agricultural Water Conservation Fund (AWCF) to the list of accounts and funds that TWF is eligible to transfer money to. The bill would add the dedication of revenues from the constitutional amendment proposed by House Joint Resolution 7 (HJR 7), 89th Legislature, Regular Session, 2025, as a source. The bill would authorize TWDB to transfer from the TWF to the State Water Implementation Fund for Texas (SWIFT) without prior project approval that is required of all other funds eligible to receive transfers from TWF. The bill would amend the list of purposes that TWDB must ensure a portion of the money transferred from the TWF is used for to include: (1) wastewater infrastructure projects in rural and small communities, which includes the repair or replacement of deteriorating infrastructure prioritized by risk or need; and (2) technical assistance for applicants seeking financial assistance from TWDB.

The bill would amend financial assistance issued from the EDAP. The bill would revise the cap for the annual amount of general obligation bonds TWDB may issue from EDAP for eligible projects to be \$100,000,000. The bill would allow for financial assistance provided by TWDB from EDAP, from state-issued bonds for which repayment is not required (grants), to consist of up to 90.0 percent of the total principal amount of issued and unissued bonds plus outstanding interest on those bonds.

The bill would amend eligible uses of the Water Bank to include purchasing, holding, and transferring of water rights that originate outside of the state for the purpose of providing water for the use or benefit of the state. The bill would exempt a transfer of water or water rights originating from outside the state from being subject to certain water supply contract requirements.

The bill would amend eligible uses for the SPA of DFund II to include NWSTF eligible projects. The bill repeals a requirement that at least 50.0 percent of money used from the SPA in a given fiscal year be used for interregional water projects. The bill would also repeal a previous restriction, which would allow the SPA to continue to be used for projects involving the development of desalination facilities and ASR facilities through the acquisition of a facility or ownership interest in a facility.

The bill would rename and restructure the previous SWIFT Advisory Committee to the Texas Water Fund Advisory Committee and redesignate its section within the Water Code. The bill would repeal statutes related to

other Advisory Committees and reviews of the TWF, FIF, and the Texas Infrastructure Resiliency Fund (TIRF) to consolidate this oversight within the new TWF Advisory Committee. The bill would amend the following aspects of the Advisory Committee including: the number of members from seven to eight and the composition of certain members; the composition of agency-designated support staff and require the designees to serve at the will of the appointees; replacing SWIFT-specific recommendation language by allowing the Committee to make semi-annual recommendations regarding the use of money in the SWIFT, TWF, FIF, and TIRF (and allowing the Committee to make recommendations regarding posting information online related to the use of these funds, as necessary); allowing the Committee to make any other recommendations to TWDB; exempting the Committee from Sunset review and abolishment; requiring the Executive Administrator of TWDB to provide an annual report to the Committee; allowing the Committee the ability to access all records related to the administration of the four funds that are maintained by any entity under contract with TWDB, as necessary; and outlines the confidentiality requirements of the Committee related to certain sensitive information.

The bill would require TWDB to develop and maintain a publicly available online tool that provides information regarding financial assistance administered by TWDB and the state's progress toward achieving specific water-related goals.

The bill would take effect September 1, 2025, except for the provision adding the dedication of revenues from a proposed constitutional amendment as a source to the TWF, which would take effect September 1, 2027, but only if the constitutional amendment proposed by HJR 7, 89th Legislature, Regular Session, 2025, providing for the dedication of certain sales and use tax revenue to the TWF is approved by the voters.

Note: This legislation would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

Methodology

This analysis and the tables above reflect the fiscal impact based on information provided by TWDB the Comptroller of Public Accounts (CPA), TCEQ, the Texas Division of Emergency Management (TDEM), the Texas A&M University System (TAMUS), the Texas Department of Transportation (TxDOT) and other impacted agencies. This analysis is also based on information provided by TWDB in its experience supporting the current level of funding (\$1.0 billion) provided through the TWF.

According to the CPA, the bill amends Water Code, Section 15.504, to authorize transfers from the TWF to the new TWFAF; however, the new TWFAF is not listed as an allowable fund to which money in the TWF can be transferred under Water Code, Section 15.502(b). Based on the analysis of the CPA, the TWFAF would need to be added to Section 15.502(b) in order for a transfer from the TWF to occur. In addition to transfers to the TWFAF from deposits to the TWF beginning in fiscal year 2028 under the provisions of HJR 7, as Engrossed, being prohibited, any transfers from existing TWF balances remaining from the initial deposit of \$1,000,000 in fiscal year 2024 would also be prohibited. Accordingly, this analysis assumes General Revenue Funds would be necessary to cover costs reflected in the table above associated with TWDB implementing the provisions of the bill due to insufficient balances being available in the TWFAF beginning in fiscal year 2026.

The bill defines eligible uses of the TWFAF as being for the purpose of administering the TWF. Based on the statutory requirement that TWDB may only use the TWF to pay expenses for managing the fund and transferring monies between funds and accounts under Water Code, Sections 15.501 - 15.507, this analysis assumes that additional staff and resource costs for TWDB's new responsibilities associated with water supply conveyance coordination required by the bill would not qualify as eligible TWFAF expenditures and would require General Revenue Fund appropriations instead. Accordingly, these costs are also included as General Revenue Fund amounts in the table above.

Based on information provided by TWDB, additional staff and resources would be required due to the bill increasing TWDB's water supply conveyance coordination responsibilities which include broadening NWSTF project eligibilities for developing infrastructure to transport or integrate into a water supply system to include permitted surface water. According to TWDB, 34.0 Full-Time Equivalent (FTE) positions and associated costs totaling \$5,681,217 in fiscal year 2026 and \$4,795,617 in fiscal year 2027 would be needed

to implement the provisions of the bill apart from revenue dedications to the TWF from HJR 7 (or similar legislation). According to TWDB, the additional water supply conveyance coordination responsibilities would require 30.0 FTEs to implement these provisions of the bill. The additional 4.0 FTEs would consist of 1.0 FTE to assist in production of reports required from revising the advisory council, and 3.0 FTEs to assist in providing technical assistance applicants seeking financial assistance from TWDB. FTEs would include: three Accountant III, two Administrative Assistant III, two Attorney III, one Budget Analyst III, two Contract Specialist IV, one Data Analyst II, one Director IV, one Engineer IV, four Engineer V, one Geographic Information Specialist IV, two Information Technology Business Analyst III, one Loan Specialist III, one Manager V, two Planner III, four Planner IV, four Program Specialist V, one Project Manager IV, and one Systems Analyst V.

Salary and wage costs for the 34.0 FTEs totals \$3,564,597 per fiscal year from 2026 to 2030. Benefit costs total \$1,013,059 per fiscal year from 2026 to 2030. Other administrative and staff costs totals \$1,103,561 in fiscal year 2026, \$217,961 from fiscal years 2027 to 2029, and \$229,961 in fiscal year 2030. This includes initial capital costs for licenses, furniture, equipment, and professional services for contracting related to water supply conveyance coordination responsibilities in fiscal year 2026.

Based on information provided by TWDB, it is assumed that 100.0 FTE positions and associated costs, including enhancements to existing technical systems would be needed to administer funding resulting from the new TWF revenue dedications beginning in fiscal year 2028. The revenue dedications to TWF from HJR 7 (or similar legislation), if enacted and approved by the voters, would not take effect until fiscal year 2028. Therefore, these FTEs and associated costs are reflected beginning in fiscal year 2028 through 2030. According to information provided by the TWDB, the FTEs would include: four Accountant III, two Accountant V, two Administrative Assistant V, two Attorney I, four Attorney III, two Budget Analyst III, two Information Technology Business Analyst III, six Contract Specialist III, four Data Analyst III, two Engineer III, four Engineer IV, two Executive Assistant II, four Financial Analyst I, four Financial Analyst III, two Human Resources Specialist II, four Human Resources Specialist III, four Hydrologist III, twelve Information Technology Support Specialist III, two Loan Specialist II, two Management Analyst III, two Manager V, two Program Specialist II, two Program Specialist III, four Program Specialist IV, six Program Specialist V, two Program Specialist VI, six Project Manager III, four Project Manager IV, and two Training and Development Specialist V.

Salary and wage costs for the 100.0 FTEs total \$9,181,932 each fiscal year from 2028 to 2030. Benefit costs total \$2,609,505 each fiscal year from 2028 to 2030. Other administrative and staff costs totals \$1,461,529 in fiscal year 2028 and \$621,529 in fiscal years 2029 and 2030. This includes initial capital costs for licenses, furniture, and equipment in fiscal year 2028.

Based on information provided by TCEQ, it is assumed that an additional 9.0 FTEs would be needed each fiscal year based on the volume of permit applications TCEQ anticipates being submitted through its Water Rights Permitting Program and resulting litigation beginning in fiscal year 2026. TCEQ also anticipates additional workloads associated with water rights applications and contract processing pursuant to instances where water may be imported from outside the state, project sponsors would require new water rights or water supply contracts to support new projects, and infrastructure projects requiring water for construction activities would require hydrotesting for pipelines. In addition, TCEQ also projects a 10.0 percent increase in reviews for new sources, new and innovative treatment, such as desalination and direct potable reuse, and improved facilities projects that would be submitted to its Water Supply Division for review beginning in 2026. TCEQ anticipates these submissions would include additional pilot studies and exception requests.

Although the bill would authorize the TWFAF to provide up to \$2,000,000 from September 1, 2025, through August 31, 2027, under an agreement with TWDB for TCEQ expenses related to the review of permit applications for water supply projects receiving financial assistance originating from the TWF, this analysis and amounts reflected in the table above assume costs for this purpose would be paid from General Revenue-Dedicated Water Resource Management Account No. 153 (Account No. 153) in fiscal years 2026 and 2027 as well as each subsequent fiscal year. The use of Account No. 153 in fiscal years 2026 and 2027 is based on the TWFAF not being listed as an allowable fund to which money in the TWF can be transferred under Water Code, Section 15.502(b) resulting in the anticipated balance of the fund being insufficient to fund the necessary costs.

Based on information provided by TCEQ, it is assumed that costs for the 9.0 FTEs each fiscal year from

Account No. 153 would total \$1,153,667 in fiscal year 2026 and \$1,077,167 in each subsequent fiscal year. The FTEs would include two Natural Resources Specialist V, two Hydrologist V, two Engineer III, two Engineering Specialist V, and one Attorney I. Salary and wage costs for the positions would total \$787,498 each fiscal year with benefit costs totaling \$223,807 each fiscal year. Operating costs, travel, training, bar dues, and agency payroll-related costs, would total \$68,862 each fiscal year. Additional one-time costs for computer software licenses, furniture and equipment would total \$76,500 in fiscal year 2026.

Based on information provided by TWDB, it is assumed that any costs associated with the bill related to financial assistance issued from EDAP could be absorbed using existing resources. In relation to an increase in the EDAP annual bond issuance cap, it is assumed that interest and repayment revenue from EDAP loans could increase, however, the increase that could be realized is not anticipated to be significant. In relation to an increase in the percentage of grants that could be issued from EDAP, it is assumed that interest and repayment revenue from EDAP loans could decrease, however, the reduction that could be realized is not anticipated to be significant.

The analysis assumes the TWF Advisory Committee would add the Executive Director or a designee of the TDEM as a board member. Based on information provided by TDEM and the TAMUS, it is assumed that any costs associated with the bill related to the new TWF Advisory Committee provisions could be absorbed using existing resources.

This analysis assumes the TxDOT would coordinate with TWDB as needed to assist in its water supply conveyance efforts, and likely select designees to serve on advisory committees. Based on information provided by TxDOT, it is assumed that any costs associated with the bill related to assisting TWDB in these efforts could be absorbed using existing resources.

Local Government Impact

The fiscal impact to local government entities cannot be determined at this time. Local entities may receive additional financial assistance through various TWDB funds as a result of revenue dedication to the TWF. However, the amount and timing of such financial assistance is unknown at this time.

Source Agencies: 304 Comptroller of Public Accounts, 575 Texas Division of Emergency Management, 580 Water Development Board, 582 Commission on Environmental Quality, 601 Department of Transportation, 710 Texas A&M University System Administrative and General Offices

LBB Staff: JMc, TUf, MW, AJL, NV, FV, CMA