RAILROAD COMMISSION OF TEXAS
2018 – 19 Biennium Appropriations Challenges

FUNDING CHALLENGES FACING THE RAILROAD COMMISSION

Since 2011, the Railroad Commission (RRC) has operated primarily as a fee-based agency. The oil and gas industry pays significantly more in total fees and taxes than is appropriated to the agency to fund RRC operations. The agency should be funded at the level necessary to carry out its mission.

In 2015, the market price of oil was lower than what the state had anticipated for the 2016-17 biennium appropriation, and this resulted in the Commission not generating anticipated revenue. In order to operate within our means in this lower price environment, the agency was forced to cut its FY 2016 annual budget funded out of the Oil and Gas Regulation and Cleanup Fund (OGRC) by $16 million (a deficit of 21%) or approximately $1.3 million / month on average. The RRC has been operating at that level since and has had to defer implementing several critical functions, including:

- Filling staff vacancies as needed
- Consolidating services and servers into State Data Center
- Timely replacing equipment – trucks and computers

The RRC does not anticipate the target revenue from fees will be reached in the near future based on the price of oil as estimated by the Comptroller's revenue projections. Until oil and gas activity in this state rebounds and fees and penalties generate consistent levels of traditional income, the RRC will continue to defer implementation of these necessary programs. This approach is not sustainable for the long-term welfare of the agency or the oil and gas industry and can lead to health and safety issues that the state must avoid. In addition to the functions that have been deferred to date, without supplemental appropriation and a long-term solution to revenue uncertainty, the agency will face the following consequences:

- Staff reductions - RRC is currently under a hiring deferral to reduce payroll: budgeted for 820 FTEs, current headcount of 686 FTEs as of October 2016
- A reduction in well plugging - Texas currently has approximately 6,900 orphan wells, including 22 offshore wells and 72 bay wells; Emergency offshore and bay well plugging contracts in FY 2016 amounted to $1.4 million per well; Typical costs for inland wells are $11,000 – $30,000 per well
- Inability to maximize and implement RRC inspection / enforcement program

RECOMMENDATIONS

- As a long-term funding solution, statutorily dedicate the Gas Utility Tax to OGRC (the agency's primary source of revenue). The RRC collects the tax (approximately $24 million in FY 2016), but does not receive any of the revenue from the tax through appropriations. This additional revenue will help fund baseline request for FY 2018-19.
- A two-year supplemental appropriation of $44.9 million of GR to fully fund the RRC. *

* Supplemental appropriation of $44.9 million to fund the below items and provide budget certainty through FY 2017

Description	Total
Pipeline Inspectors	$5,079,254
Oil and Gas Inspectors	$20,391,046
Other Key Positions	$4,946,656
IT – DCS	$7,150,553
IT – Operation	$2,708,953
Equipment (PC Replacement)	$482,307
Vehicles (Inspector Truck Replacement)	$4,207,568
GRAND TOTAL	**$44,966,337**

For questions, please call Kim Corley, Executive Director at (512) 463-7068.