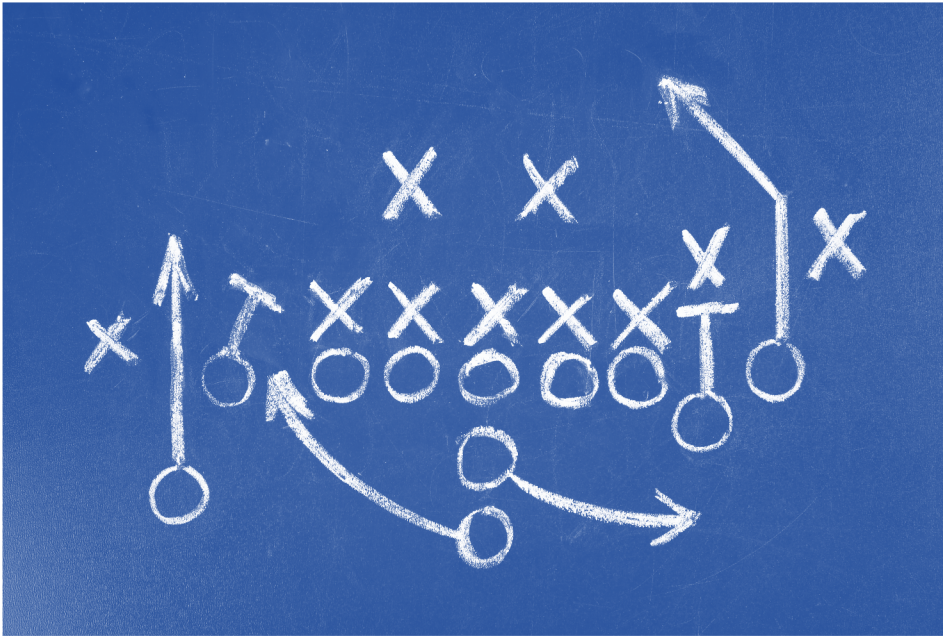


# TEXAS OPPORTUNITIES TO LEVERAGE FEDERAL STIMULUS FUNDS



A PLAYBOOK FOR  
THE FUTURE OF TEXAS

*September 15, 2021*

TEXAS<sup>20</sup><sub>36</sub>

## ARPA FISCAL RECOVERY FUNDS: A GENERATIONAL OPPORTUNITY TO INVEST IN THE FUTURE OF TEXAS

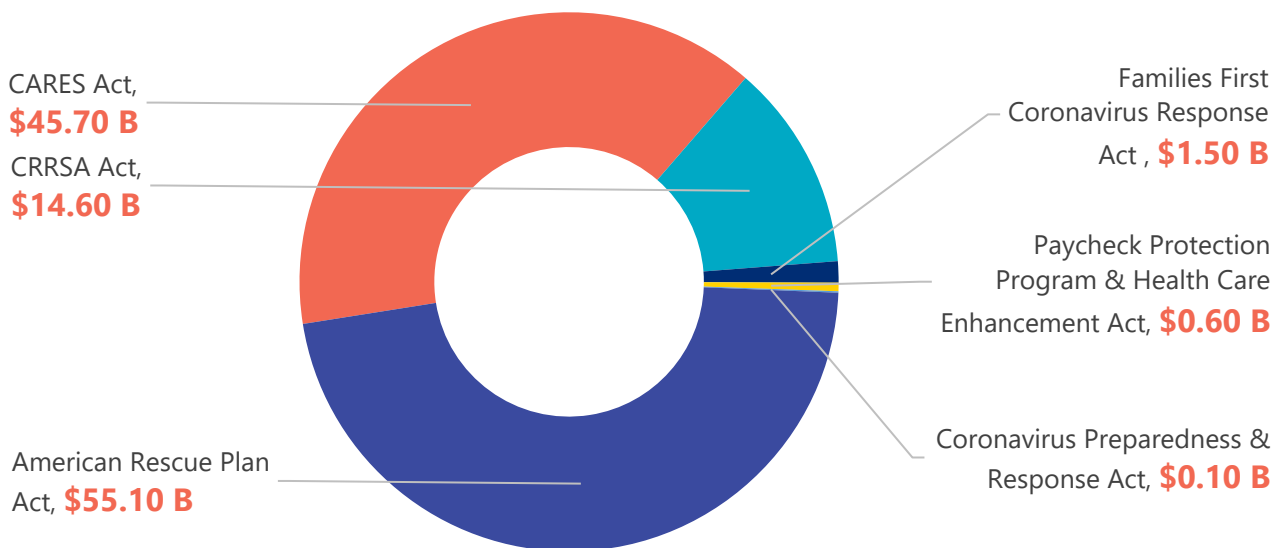
Texas state and local governments and educational institutions have received at least \$117.5 billion from federal stimulus legislation passed in response to the COVID-19 pandemic. Even adjusting for inflation, that’s more than what the U.S. invested in the Marshall Plan to rebuild Europe after World War II. Unlike Europe, however, Texas is coming off decades of vibrant economic growth, with a strong foundation from which to build.

The stimulus funds flowed through six Congressional Acts, with the lion’s share coming from:

- *The Coronavirus Aid, Relief and Economic Security (CARES) Act*
- *The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)*
- *The American Rescue Plan Act (ARPA)*

Additional funds may come to Texas through the infrastructure bill that Congress is considering.

### Texas Federal COVID-19 Related Funding: \$117.5 Billion



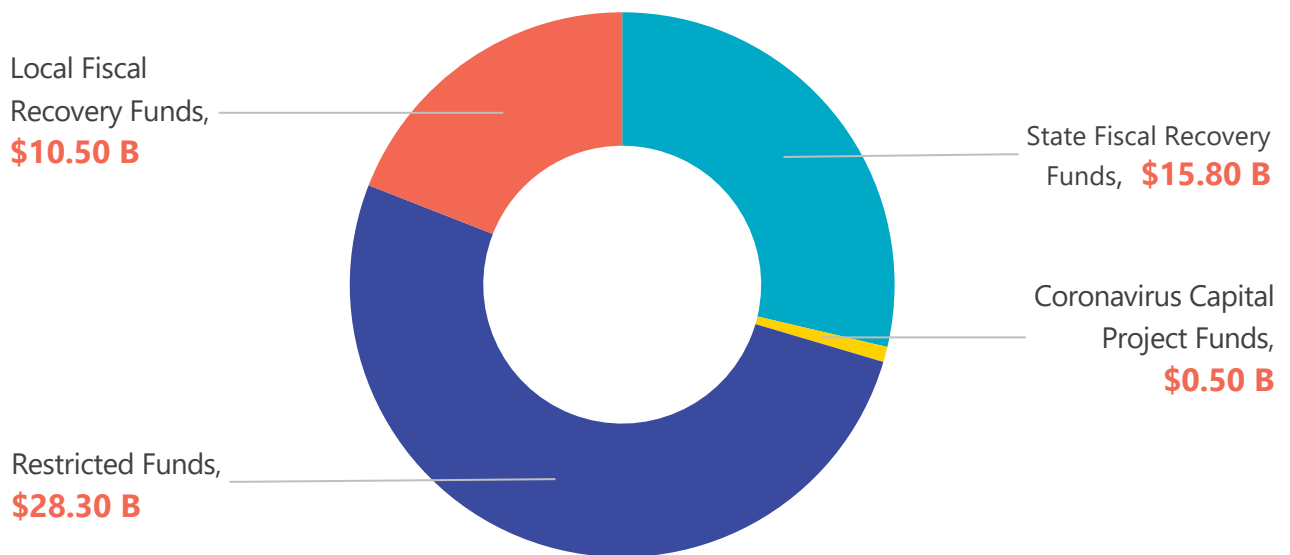
Source: Federal Funds Information for States, COVID State Allocation Spreadsheet, August 2021

Note: Amounts above only reflect funding received by the state government, local government, local education agencies and higher education institutions.

ARPA is especially significant because the legislation included \$350 billion for state and local governments from the State and Local Fiscal Recovery Fund. This comes with relatively few strings, providing state and local governments with great flexibility to address the pandemic’s effects and general government services.

Texas state and local governments will receive \$26.3 billion from the Recovery Fund – \$15.8 billion will flow to the state, and \$10.5 billion will come to local governments.

**American Rescue Plan Act Funding for Texas: \$55.1B**



Source: Federal Funds Information for States, COVID State Allocation Spreadsheet, August 2021  
 Note: Amounts above only reflect funding received by state government, local government, local education agencies and higher education institutions.

**ARPA STATE AND LOCAL FISCAL RECOVERY FUND DOLLARS CAN BE USED FOR:**

- Public health emergency and economic response
- Premium pay for essential workers
- General government services (covering government revenue that has been reduced through the pandemic)
- Water, sewer, and broadband infrastructure

These funds cannot be used for tax cuts or pension fund deposits.

Of those four categories, “general government services” offers the most flexibility.

Within this category, Recovery Fund money can go toward almost any service deemed appropriate by the government that receives it, though the amount expended can’t exceed the estimated revenue lost to the pandemic.

**Of the state’s \$15.8 billion Recovery Fund allocation, Texas 2036 estimates that up to \$12.2 billion can be used for general government services.** That includes IT needs, state parks and facilities, energy investments, and other priority areas that can help fuel Texas’ economic recovery. The remaining amounts are eligible for use under any of the other three allowable uses.

Texas will have until December 2024 to commit these funds up and until December 2026 to expend all Recovery Fund allocations.

## TEXAS 2036 FISCAL RECOVERY FUND PRINCIPLES

Texas rarely has the resources to solve major structural problems all at once. The \$15.8 billion in State Fiscal Recovery Funds changes that. This massive investment will not only help restore Texas’ economy — it will also provide a rare chance to prepare for the state’s future in a way that benefits the next generation of Texans.

It goes without saying that some of this money will need to help address health needs associated with the ongoing pandemic. In deciding how to deploy the remaining funds, Texas 2036 encourages the state to adopt these guiding principles:

- **Target Long-Term Solutions:** *Pursue prudent, data-driven investments that will positively impact our state for decades to come and reduce future costs.*
- **Seek Financial Sustainability:** *This money represents a temporary cash infusion, so the primary focus should be on one-time costs or expenses, including investments that will either generate future revenues or offset future costs.*
- **Coordinate Efforts to Maximize Impact:** *Governments, agencies, and private sector organizations can make the biggest difference by working together.*

**Lawmakers should use the special legislative session on federal funds to identify and solve one or more major structural problems, which, if left unaddressed, could impact the state’s future prosperity.** Structural issues at this scale may take multiple years to fully tackle, creating a heightened need to plan and allocate resources this fall to ensure the impact of ARPA funds can be maximized before federal statutory deadlines.

## RECOMMENDATIONS

The \$15.8 billion in State Fiscal Recovery Funds can be spent in the four broad categories, including up to \$12.2 billion in “general government services” to cover revenue that has been reduced through the pandemic. Texas 2036 recommends that the legislature consider the following potential uses, all of which are consistent with the guiding principles of seeking financially sustainable but impactful investments.

### STRENGTHEN OUR ENERGY INFRASTRUCTURE AND ENERGY FUTURE

Winter Storm Uri exposed weaknesses in our electricity delivery system, placing lives and economic growth at risk. While the Legislature passed major reforms and regulators are implementing them, more can be done to expedite the resiliency of this critical infrastructure. Market design changes to help incentivize the hardening of our current fleet and increase our dispatchable power capabilities will take time, and ARPA funds can help bridge the state’s immediate needs with the Legislature’s long-term reforms.

Estimates conducted in 2011 by FERC/NERC found that weatherizing each natural gas plant to meet federal standards would cost between \$50,000 and \$500,000. An updated analysis conducted by economists at the Federal Reserve Bank of Dallas found installing FERC’s/NERC’s recommended equipment on all 162 gas-powered plants in Texas could cost up to \$95 million today.

With natural gas being the dominant fuel source in Texas, it’s vital that we have a resilient natural gas delivery system. That same Dallas Fed report showed that winterizing equipment on new oil and gas wells would cost between \$20,000 and \$50,000 per well and estimated that taking these measures statewide would total \$85 million to \$200 million annually.

The report also looked at wind turbine blades with internal warming equipment, which can cost \$400,000 per unit when installed at the factory. Retrofitting all 13,000 existing wind turbines may be too costly. However, other lower-cost weatherization options exist, and updated estimates based on more recent standards would be useful in the long term. In the immediate future, federal funds can be used as seed money to weatherize our generation fleet and natural gas delivery system.

#### Energy Infrastructure



**83%** of Texans support using **\$3 billion** in federal funding to make upgrades to the state’s electrical grid and generation, including weatherization, new energy technologies and transmission improvements

Additional investments in transmission improvements, which have historically cost billions, would ease congestion costs and improve reliability. These necessary investments can be seeded with ARPA funds. Otherwise, the costs will likely pass through to customers in the ratemaking process where they may increase bills for homeowners and businesses.

The state should also consider using a portion of this federal funding for investments, including new energy technologies like hydrogen and battery storage, that ensure Texas has energy resilience against other potential market shocks. Seed funding with ARPA dollars can help ensure Texas remains the energy capital of the world, regardless of technological changes that may occur in future decades.

## INVEST IN THE STATE'S INFORMATION TECHNOLOGY

During the regular session, the 87th Legislature funded a portion of much needed IT repairs and created an IT modernization process. House Bill 4018 by Rep. Capriglione and Sen. Nelson created legislative oversight for long-term IT investments and required agencies to submit modernization plans this fall.

Although the Legislature invested \$431.8 million to modernize legacy IT systems and improve cybersecurity, there is still a backlog of \$496.4 million in unfunded projects. Funding these outstanding projects will address the most urgent of technology needs previously identified by state agencies in 2020.

In addition to addressing the outstanding need for \$496.4 million, the state should invest up to \$1 billion from State Fiscal Recovery Funds in the newly created Technology Improvement and Modernization Fund (TIMF) established by House Bill 4018 to begin transforming the state's IT systems for the future.

The legislative oversight committee can match these funds with identified agency IT modernization plan needs, ensuring that cybersecurity risks are addressed, government data is protected, and government agencies can provide 21<sup>st</sup> century customer service.

### Modernize State IT



**80%** of Texans support using **\$1 billion** in federal funding to improve the state's cybersecurity and technology systems, to improve customer service and protect data

## FUND STATE WATER & FLOOD PROJECTS

Water and sewer projects are explicit uses of the State Fiscal Recovery Funds under the Water, Sewer, and Broadband Infrastructure category. Specifically, project eligibility must align with authorized uses of the Clean Water State Revolving Fund or the Drinking Water State Revolving Fund.

The availability of ARPA funds offers the unique, limited-time opportunity to invest in Texas' water infrastructure needs. A significant demand exists among local water providers, including cities and water districts, for financial assistance in expanding existing water infrastructure or rehabilitating aging systems. ARPA funds may be used to protect communities from flood risks, deliver safe, clean water to Texas families, and curb pollution of the state's water supplies.

Texas' water needs will grow as the state's economy and population expand. Investing ARPA funds for water and flood control projects now represents a significant step towards meeting the state's long-term water needs.

### Water Infrastructure



**89%** of Texans support using **\$3B** of federal funds for state water projects that improve the cleanliness of drinking water and access of water during the drought conditions.

In addition, the State Fiscal Recovery Fund may be used to fund projects related to flood control and disaster recovery. Communities around the state are becoming more exposed to extreme flooding and the Legislature acted in this policy area during the last session by creating a plan and a fund.

The Legislature may continue building from this effort by investing State Fiscal Recovery Funds in this critical infrastructure to expedite projects in the state plan that will result in the protection of lives and economic damage caused by extreme flooding.

### Flood Infrastructure



**79%** of Texans, including **88% of Houstonians support** using **\$1B** in federal funding to improve flood prevention capabilities.

## IMPROVE BROADBAND & COMMUNICATIONS INFRASTRUCTURE

More than 1 million Texans and many businesses lack access to broadband because they do not have the necessary infrastructure to support the high-speed service. Texans in these communities are unable to leverage the benefits of connectivity such as e-commerce, telemedicine, and online education.

Connecting these communities has always been a financial challenge and the various federal funding programs have historically fallen short in closing the digital divide. For example, the recent commitment of \$362.7 million in federal Rural Digital Opportunity Funds to Texas does not promise connectivity until the end of the decade. Additionally, some households may not even receive last-mile connections because broadband providers are allowed to forgo these last-mile connections due to associated high costs.

ARPA provides a key opportunity for the state to help those communities that previous federal funding programs have left behind. In addition to the State Fiscal Recovery Fund, which is the focus of this analysis, ARPA established the Coronavirus Capital Project Fund (CCPF) to help states with broadband infrastructure. Texas is projected to receive \$500.5 million in CCPF funds. The \$500.5 million will provide a strong baseline for broadband funding and can be allocated by the State Broadband Development Office.

However, additional funding from the State Fiscal Recovery Funds must be considered to close the broadband infrastructure gap in Texas. Estimates for public financial support needed range from \$2 billion to \$8 billion, with the most concrete estimate from 2018 placing the cost at \$3.7 billion. Investments from both the CCPF and the State Fiscal Recovery Fund help provide connections to all households and communities across the state.

### Broadband and Emergency Communications



**81%** of Texans support using **\$2B** in federal funding to improve the state's broadband and emergency communications infrastructure, increasing access to the internet in rural and underserved areas, and enhancing disaster response

**Upgrading Emergency Communications Infrastructure:** While evaluating the state's broadband infrastructure, the state should consider related efforts to improve connectivity and modernize government technology. One essential government service that relies on a strong broadband infrastructure is emergency communications.

The current 9-1-1 system is not interoperable with other public safety communications systems, causing challenges for first responders during emergency calls in natural and manmade disasters. An estimated \$150 million is needed to upgrade the emergency communications in Texas to next generation 9-1-1 service.



## ADDRESS STATE FACILITY NEEDS & STATE HOSPITAL INFRASTRUCTURE

Using ARPA funds to improve state government facilities, including deferred maintenance needs, can free up future General Revenue in upcoming budget cycles.

State facilities run by the Texas Facilities Commission have approximately \$590 million in unmet deferred maintenance costs that will grow without an infusion of funds. In addition, deferred maintenance and facility replacements are needed for the ten state hospitals that provide essential mental health services.

The Department of State Health Services reported in 2015 that every state hospital needed repair and renovation, with half of the ten needing to be demolished and rebuilt completely. Replacing those five hospitals is estimated to cost at least \$1 billion. The Legislature has begun that process with the state hospitals in San Antonio and Austin, but Texas could save future General Revenue funds by using State Fiscal Recovery Funds to expedite the establishment of a Dallas state hospital. Improving state hospital infrastructure is one of multiple strategies the state can consider in tackling mental health issues that have been exacerbated by the pandemic.

Conversations around air conditioning in prisons have grown in recent years due to litigation and health impacts of summer heatwaves. The Legislature could begin to address this issue while also avoiding future litigation costs by spending up to \$1.1 billion for initial construction.

## EXPAND STATE PARK LANDS & ADDRESS TPWD DEFERRED MAINTENANCE

The pandemic has increased the use of state parks, highlighting the already growing strain that population growth has placed on our limited park capacity. Investments in state parks — especially one-time expansion and development costs — can produce century-long benefits; much of our current park infrastructure dates to the 1930s Civilian Conservation Corps.

To open a new state park, including land acquisition, bringing in utilities and building facilities, could cost \$20 to \$30 million. Available federal funds could help TPWD increase access and identify expansion opportunities for our parks and ensure that future generations have access to our state's natural resources.

### State Parks



**68%** of Texans, support using **\$1 billion** in federal funding to build new state parks and improve existing parks

The Legislature has made a concerted effort in recent sessions to address deferred maintenance backlogs at our state parks, hatcheries, and field locations, but the backlog continues to grow and has been exacerbated by recent weather events. TPWD is currently developing a list of projects that would help provide guidance on needs and opportunities for enhancement.

An infusion of federal funds could help clear the estimated \$700 million in unfunded deferred maintenance needs at the TPWD, which could free up state funding for long-term maintenance strategies and ensure that routine issues are addressed regularly and don't become deferred maintenance issues.

## OTHER AREAS OF CONSIDERATION

The items described above represent large-scale investments that the state should consider, based on months of stakeholder feedback. But they are by no means the only impactful options available to lawmakers. Other areas that have received dedicated federal funding streams – public education, higher education, and health care, for example – all have significant needs and may have room for additional investment that would be consistent with fiscal sustainability principles. As legislators consider investments, we encourage them to focus on sustainability and impacting the state's long-term needs.

### Unemployment Insurance



**58%** of Texans, support using **\$7 billion** in federal funding to replenish the state's unemployment trust fund

The Legislature also has the potential opportunity to help employers avoid future cost increases. The state's Unemployment Insurance Trust Fund was hit hard by job losses in 2020, creating an estimated \$7 billion gap that must eventually be repaid. Multiple options exist to close the financial gap over time – the state issued bonds to address a related issue after the 2008 recession – but the legislature may consider alternatives this time, including directly replenishing the unemployment fund using Fiscal Recovery Funds.

To view Texas 2036's ongoing analyses regarding Texas' use of federal funds, visit [www.texas2036.org/federal-funds](http://www.texas2036.org/federal-funds).

To learn more about the Texas Voter Poll, visit [www.texas2036.org/poll](http://www.texas2036.org/poll).