

The image shows the Texas State Capitol dome in Austin, Texas, rendered in a light blue, semi-transparent style. The dome is the central focus, with the Statue of Liberty on top. The background is a light blue sky with some white clouds. The dome is partially obscured by the text on the right side of the slide.

Show Me the Money (or Lack of It):

**A Review of Revenue Generated by
State and Local Taxes, and What to
Expect**

October 13, 2020

**TEXAS TAXPAYERS
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AND RESEARCH ASSOCIATION**

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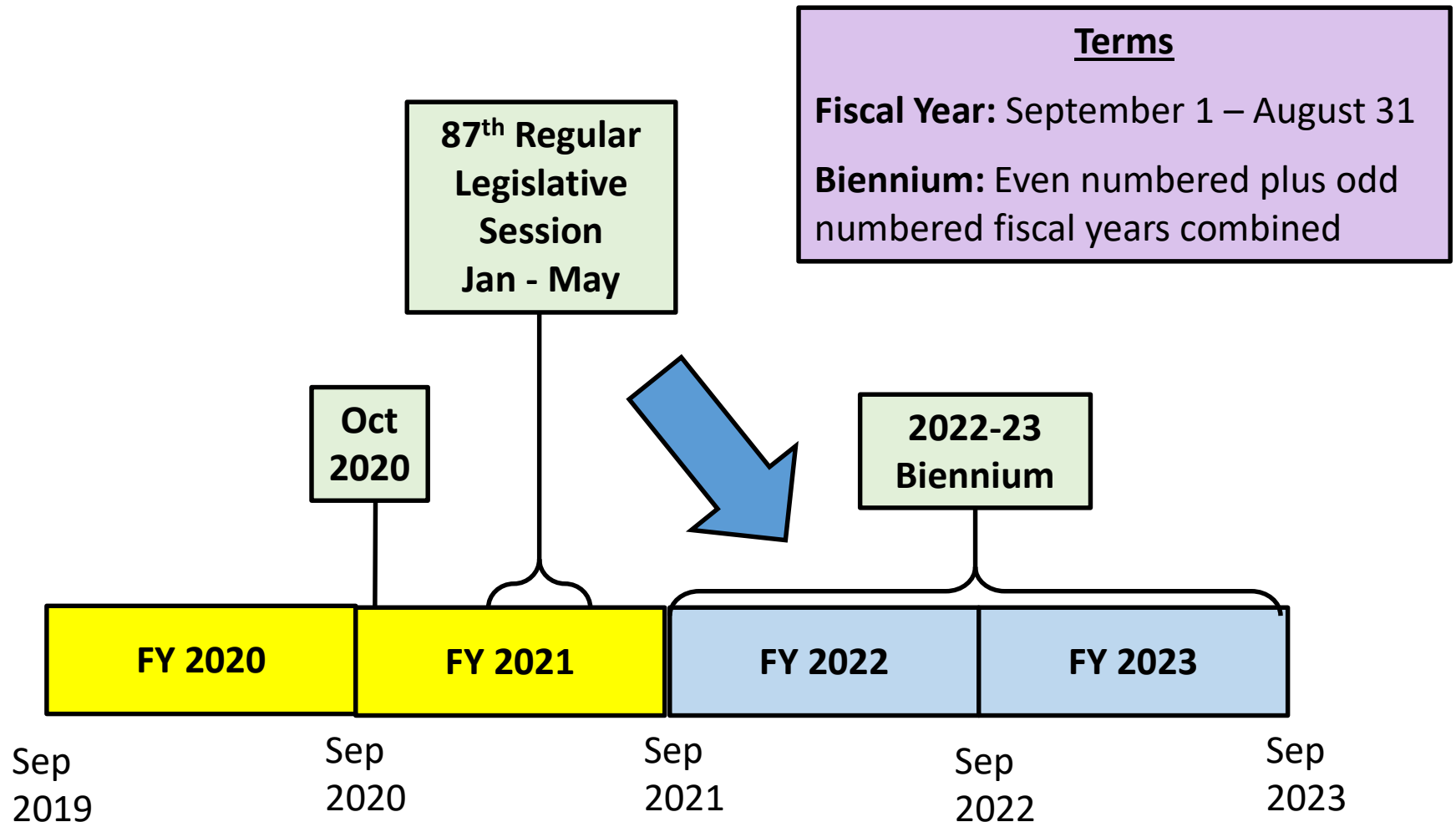
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We will enter the State Bar of Texas credit, but accountants and tax professionals need to submit their credit to those organizations.

Agenda

1. Budget/Revenue Basics
 - The Fiscal Calendar
 - The Role of the Comptroller
 - State Funds
2. The Economy
 - Current Conditions
 - The Outlook
3. Revenues & the Budget
 - Current Conditions
 - The Outlook

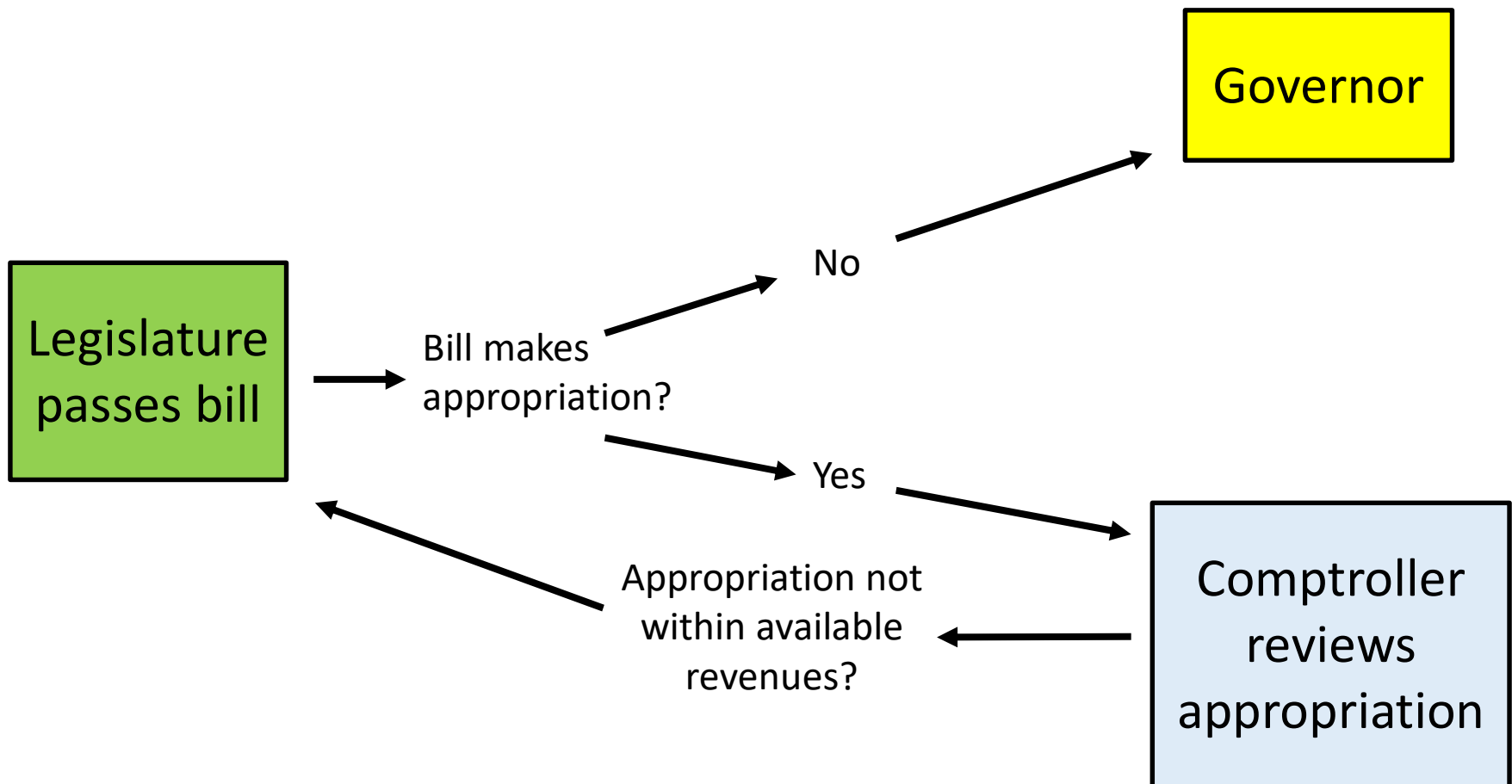
Fiscal Timeline



The Comptroller: Fiscal Referee

- Article 3, Sec. 49a (the “pay as you go,” or “balanced budget” amendment in the Texas Constitution) passed in 1942 after years of deficits.
- The provision requires the Comptroller to provide the legislature with an estimate of available revenues.
- Though the LBB prepares a “fiscal note,” identifying the revenue impact of each bill, the numbers they put on revenue bills are prepared by the Comptroller.
- The Comptroller must also certify that appropriations are within his estimate of available revenues, adjusted for bills passed, BEFORE it goes to the Governor for his veto consideration.

Comptroller Reviews Appropriations



Comptroller Certification

H.B. No. 2

I certify that the amounts appropriated in the herein H.B. No. 2, Regular Session of the 84th Legislature, are within amounts estimated to be available in the affected fund.

Certified

June 2, 2015



Comptroller of Public Accounts

Governor

I hereby certify that the appropriate
bill, H.B. 1, exceeds the
estimated revenue.

6/19/2003 Carole Keeton Strayhorn
Comptroller of Public Accounts

Certifying the Appropriations Bill

In determining whether the appropriations bill is within available revenues, the Comptroller takes into account:

1. The Biennial Revenue Estimate
2. Changes to the BRE due to external factors
3. Fiscal impact of legislation passed (based on estimates developed by the agency)

Certifying the Appropriations Bill, continued

- The Comptroller's certification is based on cash available, allowing the use of accounting shifts (deferred payments and transfers, revenue speed-ups, etc.)
- The state's General Revenue Fund is the only state fund that may incur a deficit. All other state funds are limited to cash on hand, regardless of what is appropriated.

General Revenue-Related Funds

A General Revenue-Related Fund is one in which any revenue to or appropriation from the fund results in an adjustment to the financial position of the general revenue fund.

Officially

Fund 1: General Revenue Fund

Fund 2: Available School Fund

Fund 3: State Technology Instructional Materials (formerly the State Textbook Fund)

Account 193: Foundation School Account

Account 5040: Tobacco Settlement Account

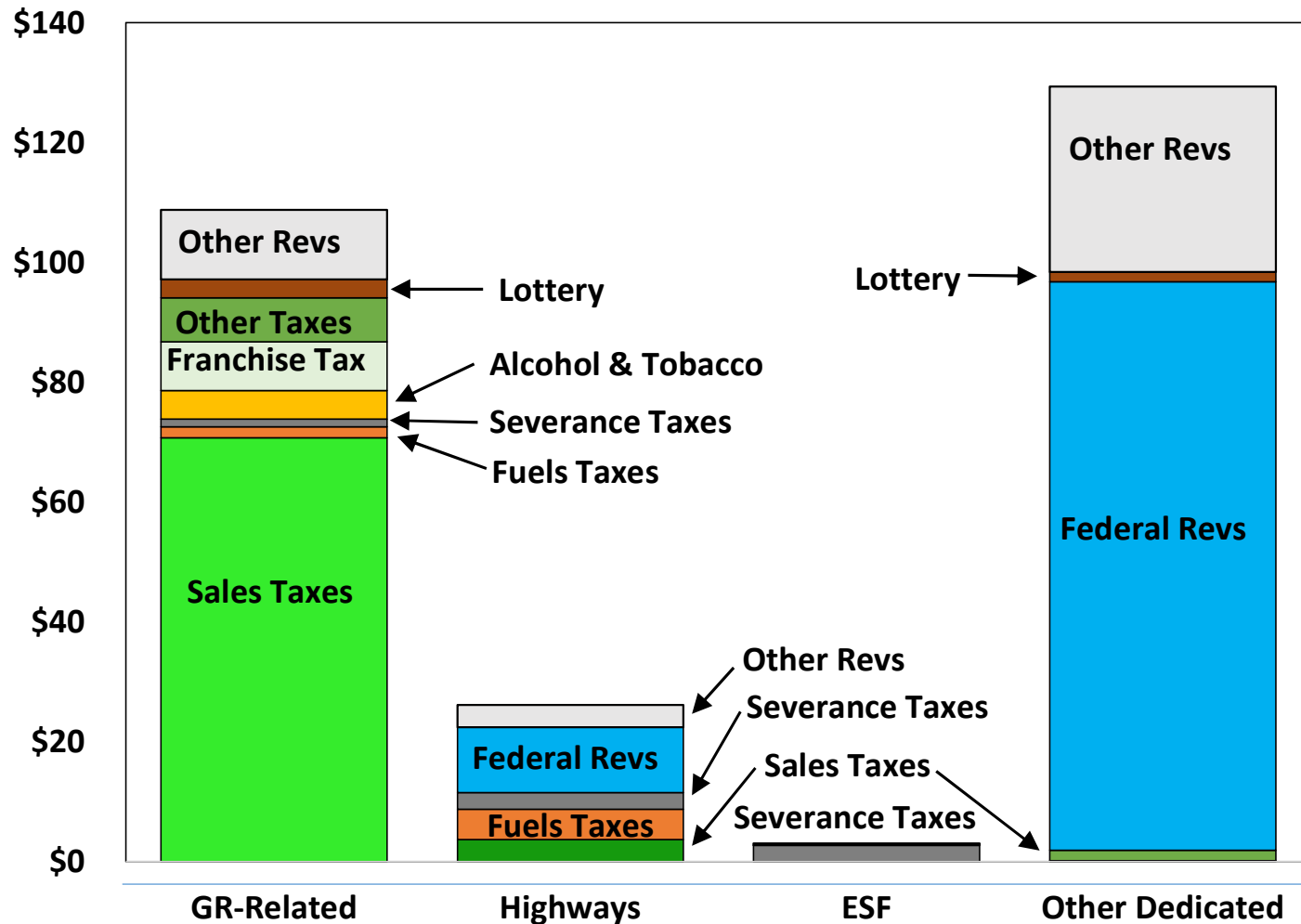
Other Funds Impacting General Revenue

Fund 304: Property Tax Relief Fund

Fund 305: Tax Reduction and Education Excellence Fund

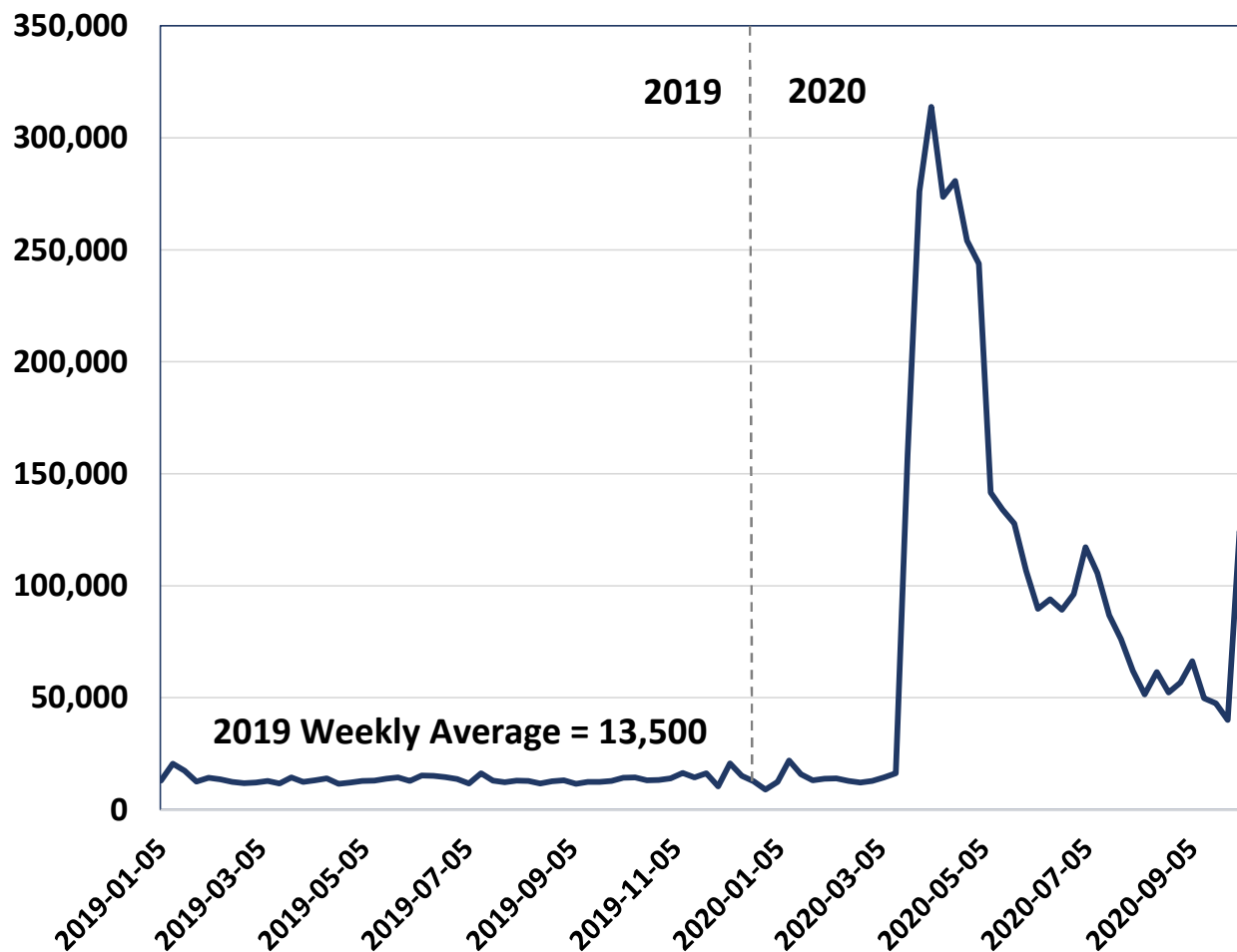
Texas Revenues, 2020-21 Biennium

Dollars are in Billions



The Economy

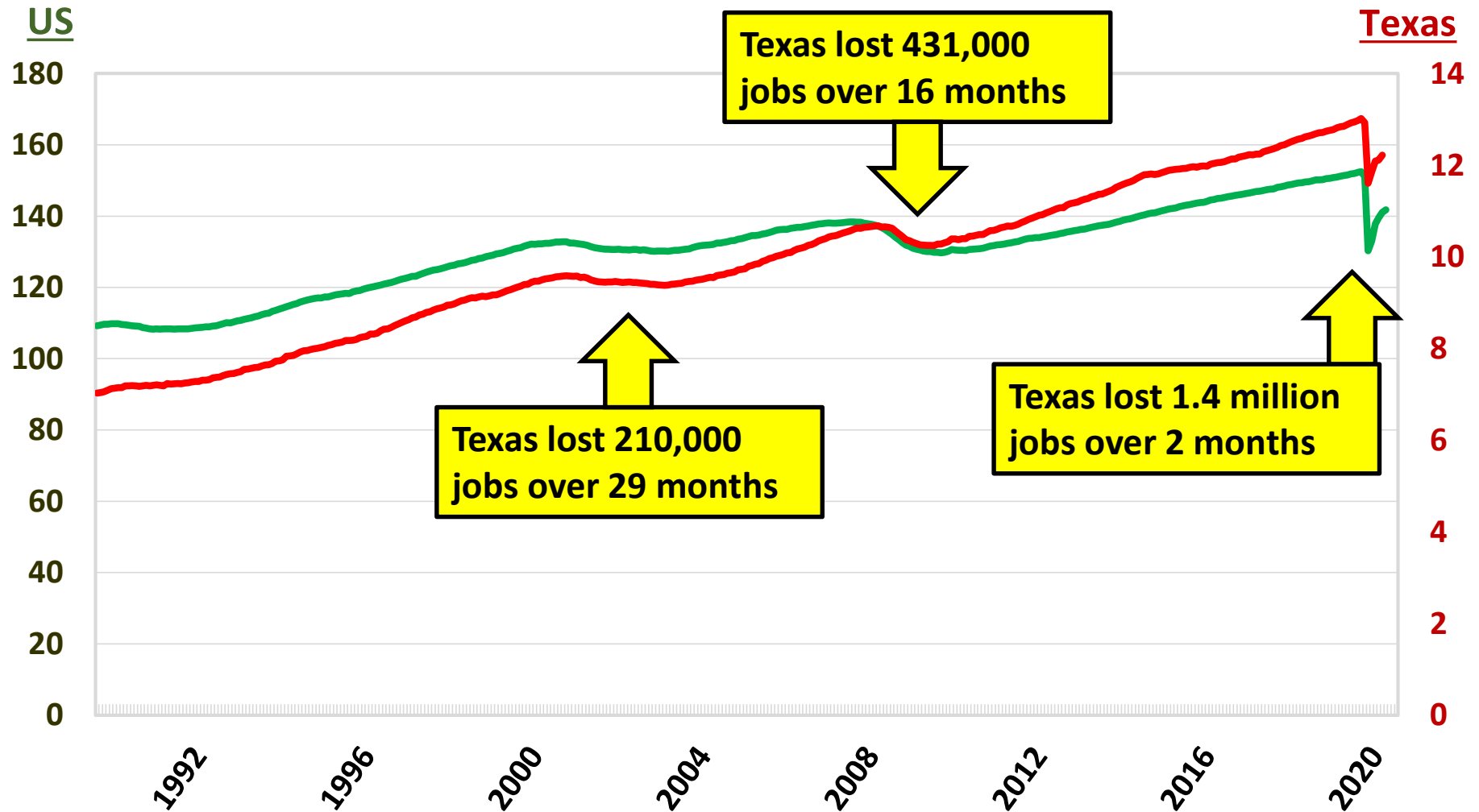
Texas Initial Weekly Unemployment Claims, 2019-20



- Prior to the pandemic, new claims for unemployment in Texas averaged about 13,500 per week.
- UI claims peaked during the week of April 4 at 314,000.
- Most recently, weekly UI claims have been over 100,000 after dipping to near 50,000.
- Currently, just under 1 million Texans are unemployed

Non-Farm Employment by Month

Texas vs the U.S., 1990 – Current, Millions of Jobs



Jobs Lost and Jobs Regained

From February 2020 Peak to Trough to August

| Industry | Peak to Trough (Feb – Apr) | Recovery (Apr – Aug) | Net Peak to Current (Feb – Aug) | % Change in Total Jobs (Feb – Aug) |
|---------------|-------------------------------|-------------------------|------------------------------------|---------------------------------------|
| Oil and Gas | (23.7) | (25.9) | (49.6) | -20.9% |
| Construction | (67.7) | 10.5 | (57.2) | -7.2% |
| Manufacturing | (47.8) | 5.4 | (42.4) | -4.7% |
| Whlsl/Retail | (167.7) | 73.2 | (94.5) | -4.8% |
| Hospitality | (516.5) | 287.6 | (228.9) | -17.9% |
| Health Care | (156.7) | 74.8 | (81.9) | -5.3% |
| Other Private | (394.1) | 188.9 | (205.2) | -3.5% |
| Government | <u>(37.9)</u> | <u>0.2</u> | <u>(37.7)</u> | -1.9% |
| Total | (1,412.1) | 614.7 | (797.4) | -6.1% |

Note: Numbers are in thousands (except for percent change).

Economic Forecasting in Uncertain Times

Question 1

What is the future of the pandemic?

- Slow decline in cases and their severity as treatments become more effective?
- Rapid increase as second wave during flu season creates capacity issues for health care systems?
- Vaccines: effective or not, widely taken or not?

Economic Forecasting in Uncertain Times

Question 2

How will consumers act?

- Broad re-engagement in the economy
- General re-engagement but caution against certain in-person activities
- Very slow re-engagement

Economic Forecasting in Uncertain Times

Question 3

How will businesses act?

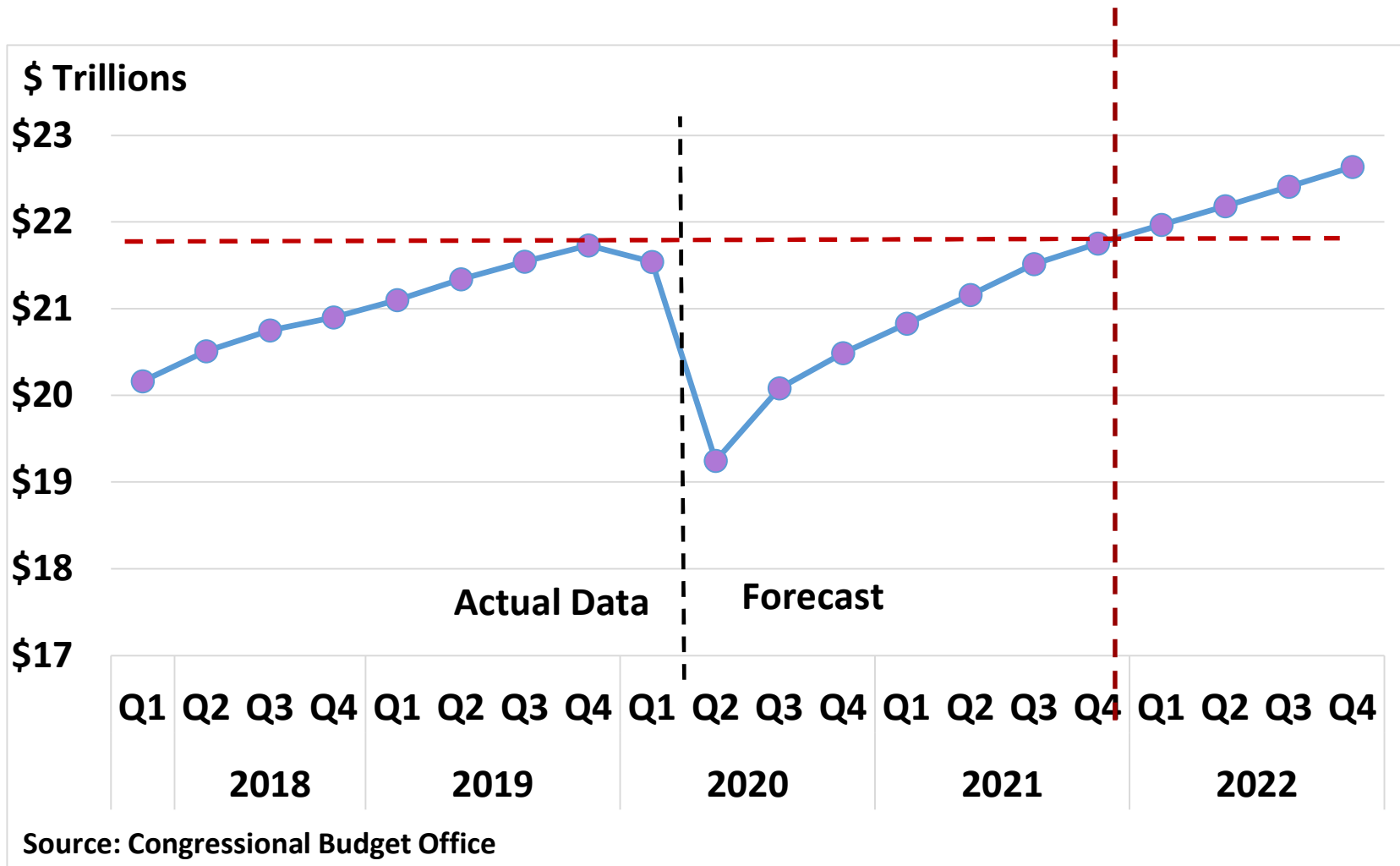
- Relatively quick return to normal as pandemic ebbs, substantial rehiring
- Cautious return to normal, with continued work-at-home, travel constraints, continuing cuts to payroll

General Assumptions

- Slow decline in the severity of the pandemic as treatments are more effective and a vaccine becomes generally available sometime in 2021
- Consumers generally re-engage, but cautiously, leading to decent recovery for some industries, but continued weakness for leisure/travel industries
- Businesses engage cautiously, following the recovery rather than leading it; work-at-home becomes more common, but not the new normal

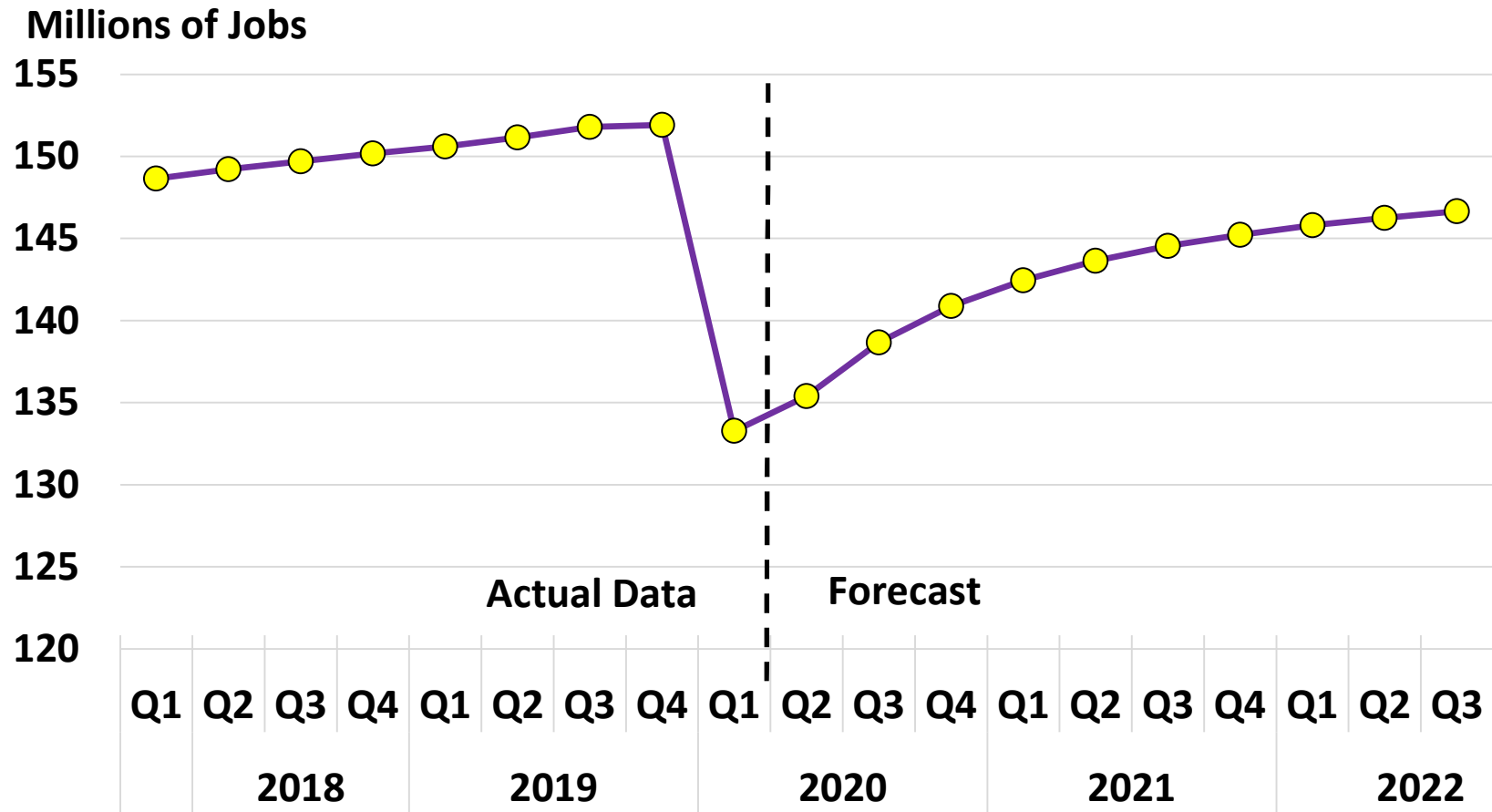
CBO July Economic Projection

U.S. Gross Domestic Product



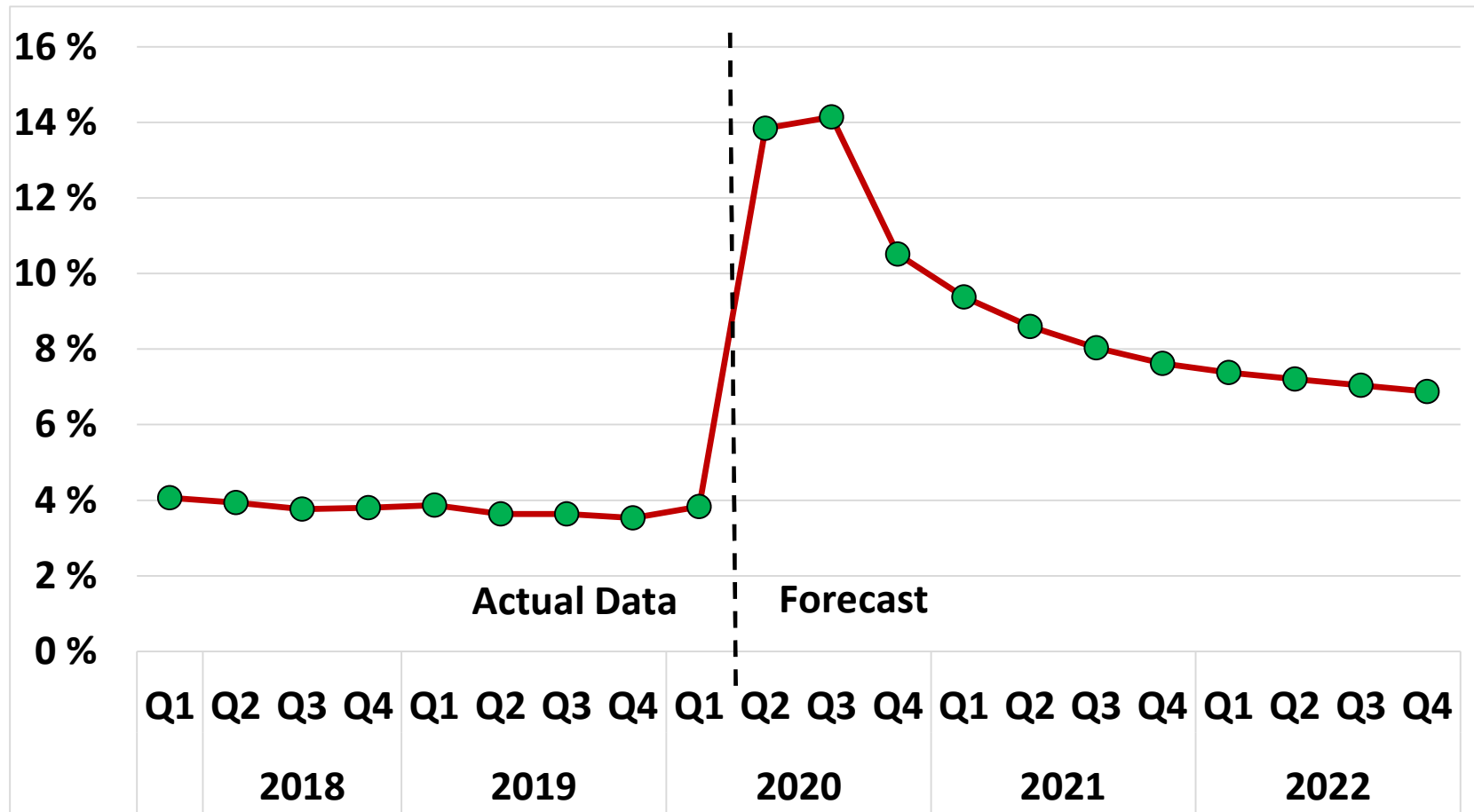
CBO July Economic Projection

U.S. Total Non-Farm Employment



Source: Congressional Budget Office

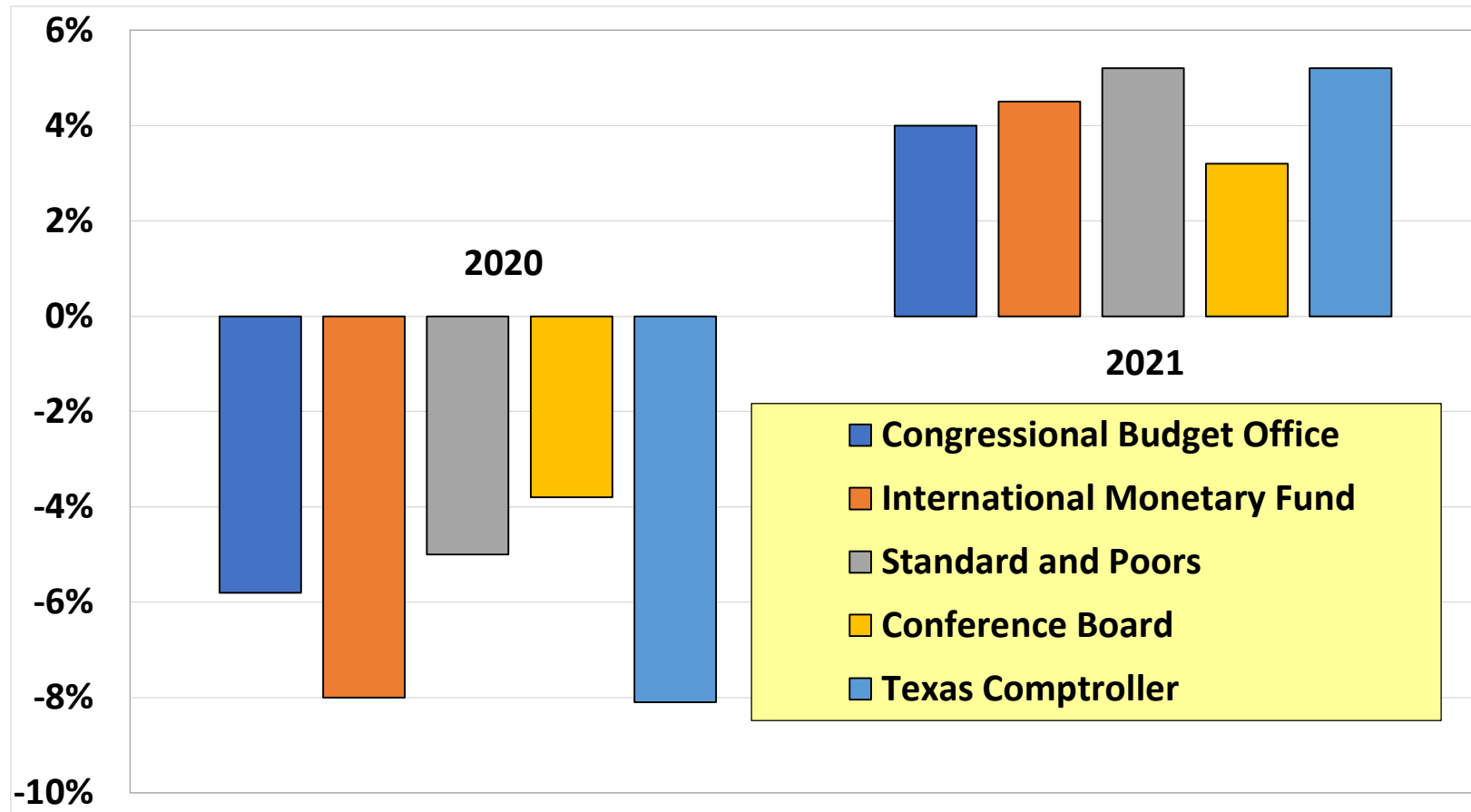
CBO July Economic Projection U.S. Unemployment Rate



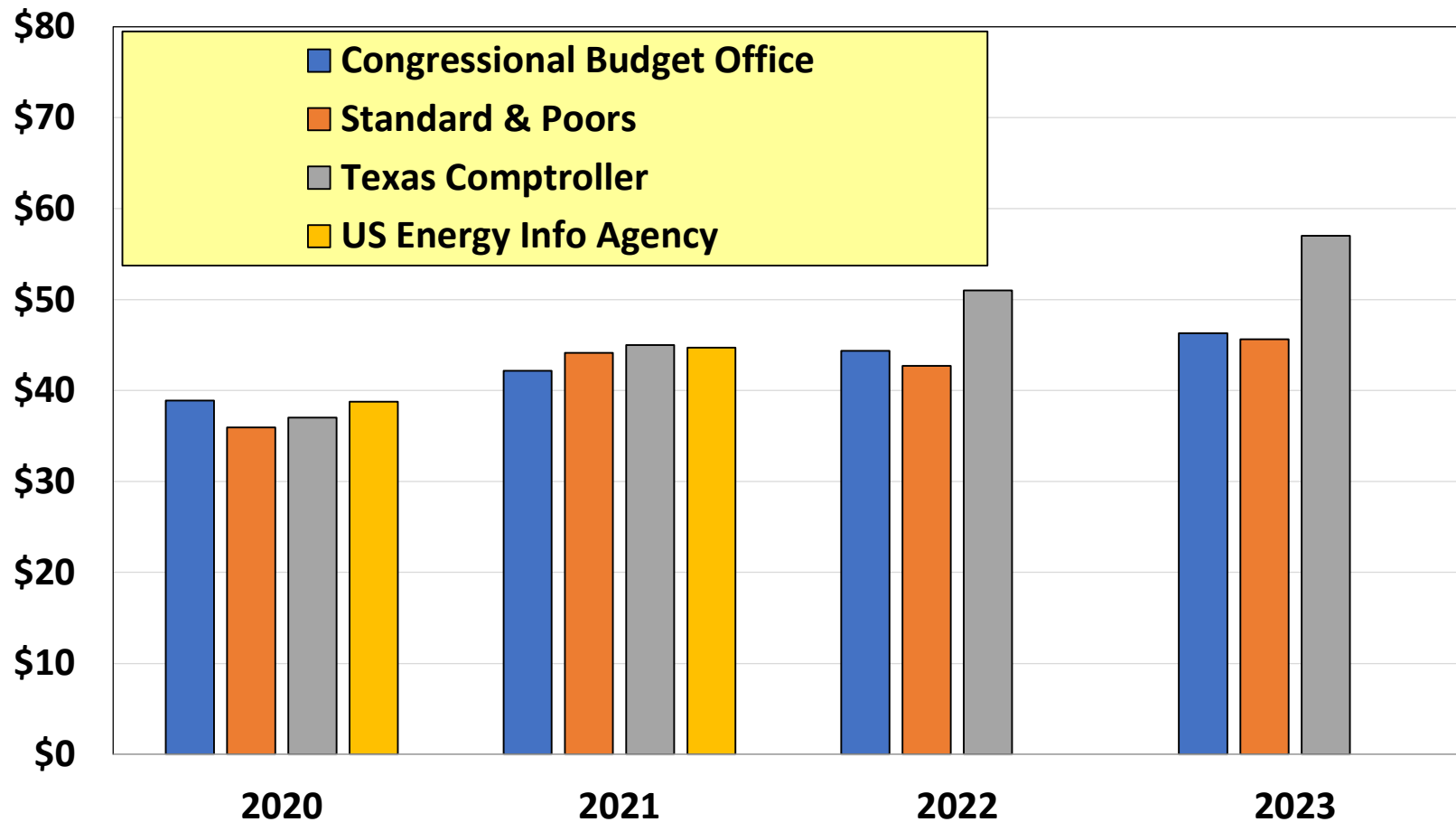
Source: Congressional Budget Office

Herd Mentality?

A Review of GDP Forecasts



The Outlook for Oil (WTI \$/bbl)



Revenues & the Budget

The Good Old Days: June 2019

Comptroller Certifies 2020-21 Budget as Balanced

- Economy is healthy, US in longest economic expansion in history
- Legislature passes landmark bills for:
 - School finance (including school property tax relief)
 - City/county/special district tax constraint
- Comptroller Hegar certifies 2020-21 budget as balanced (official estimates later put surplus at **\$2.9 billion**)
- Economic Stabilization Fund balance expected to be \$9.4 billion
- But, an additional \$1 billion or more for Medicaid may be needed to close out budget

That was Then, This is Now: July 2020

Comptroller Revises Revenue Estimate

- Comptroller Hegar revises revenue estimate:
 - General Revenue surplus turns to \$4.6 billion deficit—a net cut of \$7.5 billion
 - Economic Stabilization Fund balance estimated at \$8.8 billion—down \$0.6 billion
 - Higher-than-expected school property values, federal pandemic aid, and other revisions allow the Comptroller to cut his estimate of state spending by \$4.3 billion
- Increased federal match rate as part of federal pandemic mitigation may reduce or eliminate need for supplemental Medicaid appropriation.

Revisions & the New Bottom Line

| Item | Original CRE | July 2020 Revision | Difference |
|---------------------------------|------------------|--------------------|----------------|
| Beginning Balance | \$4.7 | \$4.7 | \$0.0 |
| Plus: Tax Revenues | \$108.1 | \$94.1 | (\$14.0) |
| Plus: Other Revenues | \$15.0 | \$14.7 | (\$0.3) |
| Less: ESF/Hwy Sev. Tax | (\$6.5) | (\$3.4) | \$3.0 |
| Plus: GRD Balance Changes | <u>\$0.4</u> | <u>0.1</u> | <u>(\$0.3)</u> |
| Equals: Total Revenue | \$121.8 | \$110.2 | (\$11.6) |
| Total Spending (mostly schools) | <u>(\$118.9)</u> | <u>(\$114.8)</u> | <u>\$4.1</u> |
| Net Balance | \$2.9 | (\$4.6) | (\$7.5) |

Note: Dollars are in billions. Numbers may not add due to rounding.

The Revisions: Taxes

| Item | Original CRE | July 2020 Revision | Difference |
|----------------------------|---------------|--------------------|-----------------|
| Sales Tax | \$66.7 | \$60.6 | (\$6.1) |
| Motor Vehicle Sales Tax | \$10.1 | \$8.6 | (\$1.5) |
| Oil Production Tax | \$7.8 | 5.0 | (\$2.8) |
| Natural Gas Production Tax | \$3.1 | \$1.8 | (\$1.3) |
| Franchise Tax | \$6.2 | \$5.7 | (\$0.5) |
| Alcohol Taxes | \$2.9 | \$2.1 | (\$0.8) |
| Hotel Taxes | \$1.4 | \$0.8 | (\$0.5) |
| Other Taxes | <u>\$10.0</u> | <u>\$9.4</u> | <u>(\$0.6)</u> |
| Total Taxes | 108.1 | \$94.1 | (\$14.0) |

Note: Dollars are in billions. Numbers may not add due to rounding.

The Revisions: Non-Tax Revenues

| Item | Original CRE | July 2020 Revision | Difference |
|-----------------------------------|---------------|--------------------|----------------|
| Licenses, Fees, Fines & Penalties | \$2.8 | \$2.6 | (\$0.3) |
| Net Lottery Proceeds | \$2.9 | \$3.1 | \$0.2 |
| Interest & Investment Income | \$3.5 | \$3.4 | (\$0.1) |
| Unclaimed Property | \$1.5 | \$1.4 | (\$0.1) |
| Other | <u>\$4.3</u> | <u>\$4.2</u> | <u>(\$0.1)</u> |
| Total | \$15.0 | \$14.7 | (\$0.3) |

Note: Dollars are in billions. Numbers may not add due to rounding.

The Revisions: Severance Tax Impact on General Revenue

| Item | Original CRE | July 2020 Revision | Difference |
|--------------------------------|-----------------|-----------------------|----------------|
| Oil Production Tax | \$7.8 | \$5.0 | (\$2.8) |
| Natural Gas Production Tax | <u>\$3.1</u> | <u>\$1.8</u> | <u>(\$1.3)</u> |
| Total Severance Taxes | \$10.9 | \$6.8 | (\$4.1) |
| Less Transfers: | | | |
| State Highway Fund | (\$3.2) | (\$1.7) | \$1.5 |
| Economic Stabilization Fund | (\$3.2) | (\$1.7) | \$1.5 |
| Equals: | | | |
| General Revenue | \$4.4 | \$3.4 | (\$1.0) |

Note: Dollars are in billions. Numbers may not add due to rounding.

The Revisions: Dedicated General Revenue Account Balances

Within the General Revenue Fund are a number of accounts with revenues dedicated for specific purposes. These dedicated revenues may not be directly used for general purpose spending, but any balances in the funds add to the general revenue balance, which can be used for general purpose spending.

The Comptroller revised the amount of these balances downward by **\$0.3** billion.

The Revisions: Foundation School Program & School Aid

| Item | Original CRE | July 2020 Revision | Difference |
|---|----------------|--------------------|--------------|
| State Aid | \$47.8 | \$44.3 | (\$3.5) |
| Federal ESSER* Funding | 0.0 | \$1.2 | \$1.2 |
| Local Property Taxes (includes recaptured taxes) | <u>\$52.6</u> | <u>\$54.9</u> | <u>\$2.3</u> |
| Total Foundation School Program | \$100.3 | \$100.3 | \$0.0 |

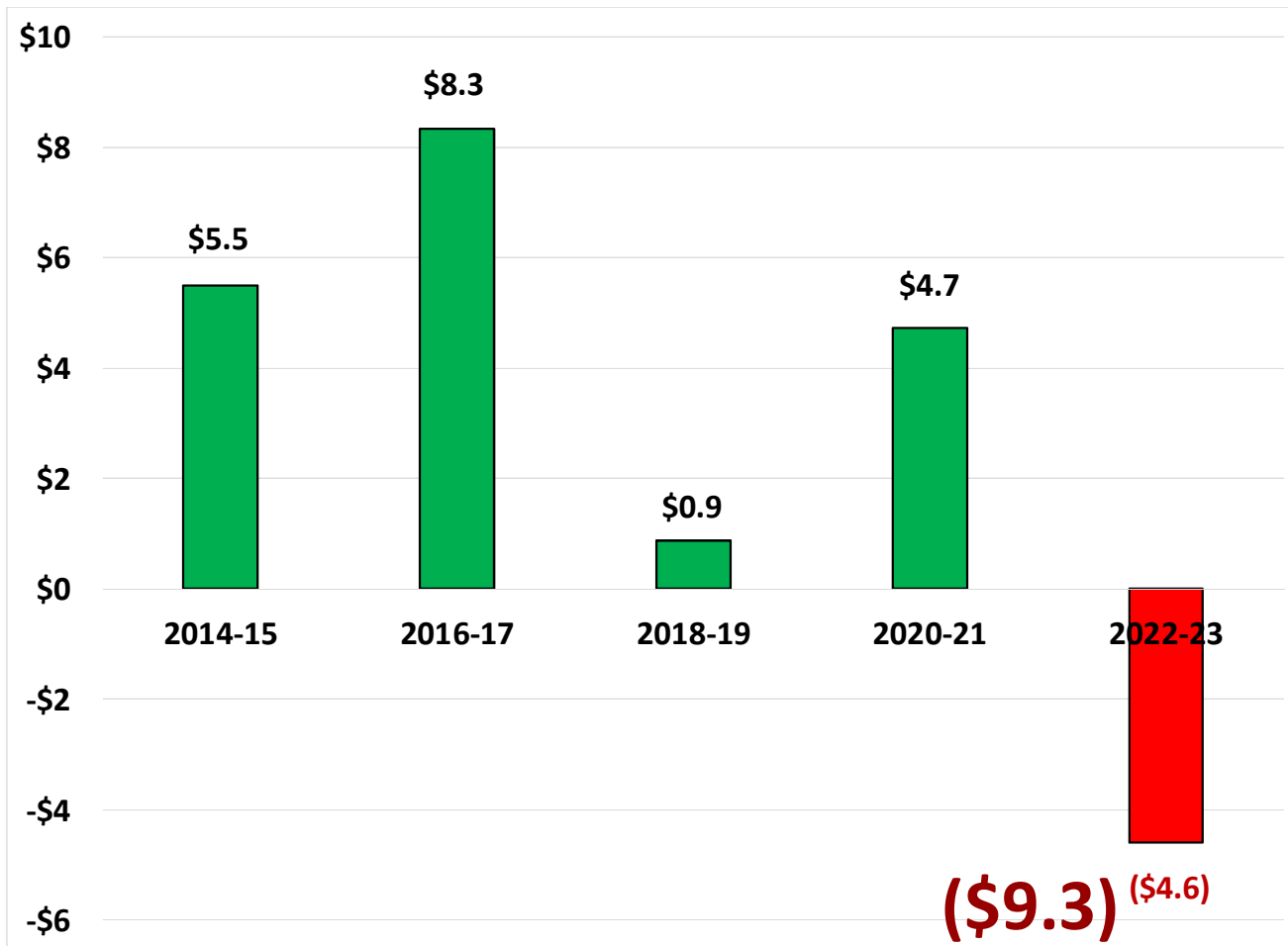
Note: Figures for the original CRE are estimated by TTARA for purposes of illustration and differ from the agency's original estimates. Some portion of the difference is attributable to revised ADA figures. Dollars are in billions. Numbers may not add due to rounding.

Closing the Books on 2020

| Revenue | Actual Revenue | Original CRE | Revised CRE | Actual vs Original | Actual vs Revised |
|-------------------------|----------------|--------------|--------------|--------------------|-------------------|
| Sales Tax | \$30.8 | \$32.8 | \$30.4 | (\$2.0) | \$0.4 |
| Motor Vehicle Sales Tax | \$4.8 | \$5.0 | \$4.5 | (\$0.2) | \$0.3 |
| Franchise Tax | \$4.4 | \$4.3 | \$4.4 | \$0.1 | \$0.1 |
| Oil & Gas Taxes | \$4.2 | \$5.4 | \$4.1 | (\$1.2) | \$0.1 |
| Alcohol & Tobacco | \$2.4 | \$2.6 | \$2.4 | (\$0.2) | \$0.0 |
| Other Taxes | \$4.7 | \$5.0 | \$4.7 | (\$0.3) | \$0.1 |
| Non Tax Revenue | <u>\$7.8</u> | <u>\$7.6</u> | <u>\$7.5</u> | <u>\$0.2</u> | <u>\$0.3</u> |
| Total Revenues | \$59.1 | \$62.8 | \$57.9 | (\$3.7) | \$1.2 |

Notes: Dollars are in billions and include general revenue-related funds and the Property Tax Relief Fund. Numbers may not add due to rounding.

The Revisions: Implications for the 2022-23 Budget



- Surpluses have been a substantial source of revenue for recent legislatures, adding to the amount of money available for appropriation.
- Compared to the current budget, which began with a \$4.7 billion surplus, the 2022-23 Budget will begin with a \$4.6 billion deficit—a swing to the downside of \$9.3 billion.

Revenue Available if No Revenue Growth in 2022-23

| Item | 2020-21 Revenues | 2022-23 Revenues | Difference |
|----------------------------|------------------|------------------|--------------|
| Beginning Balance | \$4.7 | (\$4.6) | (\$9.3) |
| Plus: Net Current Revenues | <u>\$105.5</u> | <u>\$105.5</u> | <u>\$0.0</u> |
| Equals: Total Revenue | \$110.2 | \$100.9 | (\$9.3) |

Note: The above example is to show the impact of going from a surplus to a deficit. It is NOT a projection of available revenue.

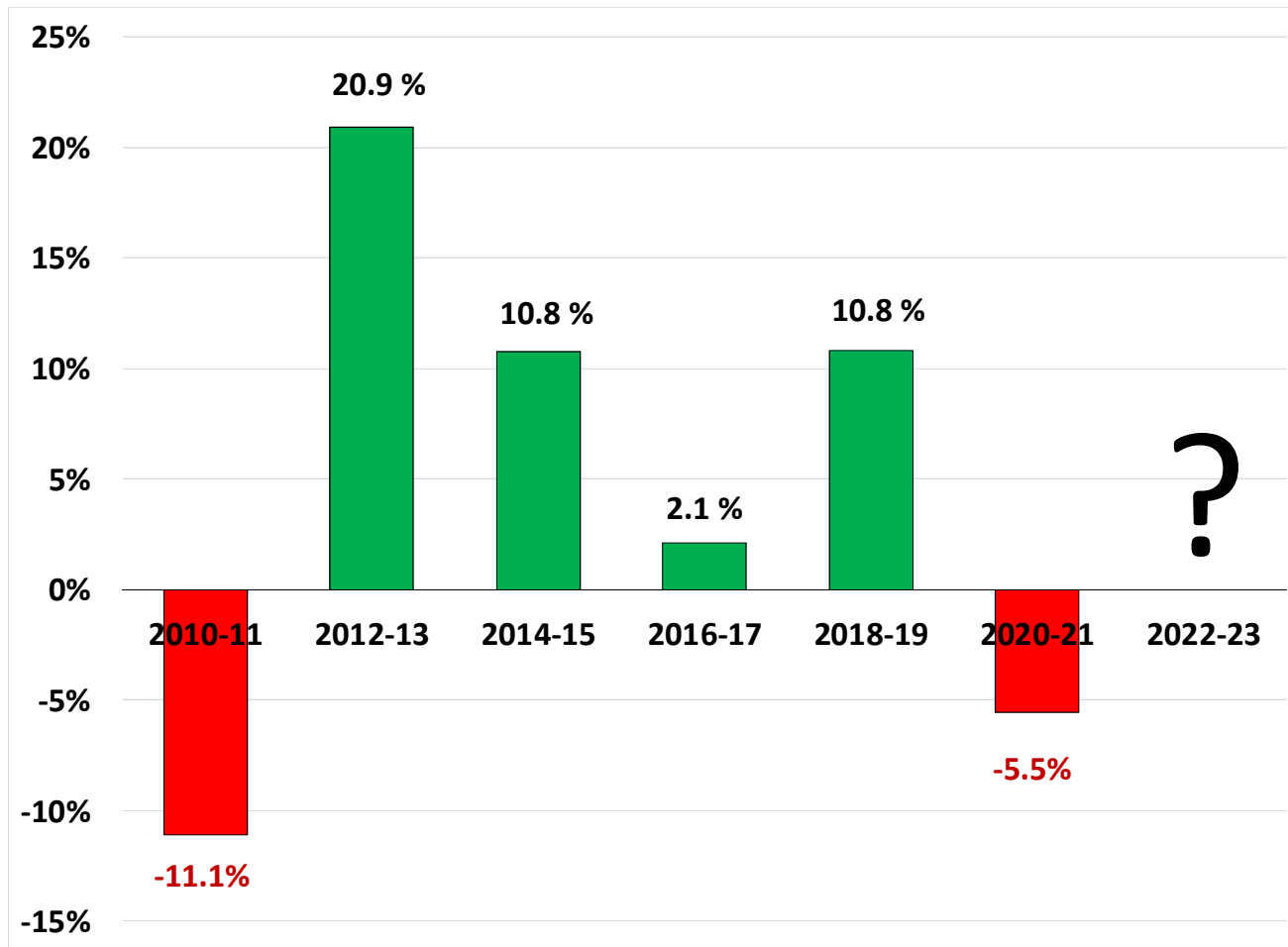
How Much Revenue Growth is Needed in 2022-23?

| Base Revenue Growth Rate Needed to Match | Amount Needed (\$ bl) | Growth Needed |
|---|-----------------------|---------------|
| 2020-21 General Revenues | \$ 9.3 | 8.8 % |
| 2020-21 GR Spending + Federal Pandemic Aid ¹ | \$ 16.1 | 15.2 % |
| 2022-23 “Current Services” Budget ² | \$ 21.1 | 20.0 % |

¹ Texas has received \$1.2 billion in federal aid to offset state general revenue spending for schools, and an additional \$250 million per quarter for Medicaid as long as the federal emergency remains in place.

² Current services budget maintains existing spending plus growth for public education, employee benefits, and Medicaid.

Recent Biennial Growth in Net Current Revenue



Over the past several biennia, average biennial revenue growth has been **4.7%**, including two severe recessions.

Average biennial revenue growth during times of recovery/prosperity has been **11.2%**.

The highest recent biennial growth was **20.9%** in 2010-11, recovering from the Great Recession.

Texas' Budget Outlook

- Absent a very strong economic recovery, lawmakers will face tight fiscal constraints in 2021
- At its most severe, with the pandemic worsening, the state's shortfall could rival the relative magnitude of 1987 or 2011
- Most likely, budget pressures will be challenging, but manageable under our current budget framework without either massive:
 - budget cuts or
 - tax hikes.

Texas' Fiscal Toolbox

| Economic Stabilization Fund Balance* | | \$8.8 |
|--|--------------|--------------|
| One Time Measures Used in Prior Sessions | | |
| Delay August Foundation School Fund Payment | \$2.0 | |
| Delay 3 months ERS Transfers | \$0.1 | |
| Delay 3 months TRS Transfers | \$0.5 | |
| Delay 3 months Fuels Tax Transfers to Hwy Fund | \$0.8 | |
| Delay August Medicaid & CHIP Payment** | <u>\$0.3</u> | |
| Total, One-Time Measures | | \$3.7 |
| Reduce Sales Tax for Highways (3 yrs; 2/3 vote required) | | <u>\$3.8</u> |
| Total | | \$16.3 |

* Balance as of August 31, 2021. Another \$1 to \$1.5 billion may be added to the fund during the 2022-23 Biennium and would be available for appropriation.

**Any Medicaid deferral may require provider contract changes

What is a Tax Increase?

Any measure that

1. Raises the rate of the tax
2. Expands the base of the tax by reducing or eliminating exemptions, exclusions, discounts, credits or refunds to the tax

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