



# The Outlook for the Texas Economy and State Finances

February 2022

TEXAS TAXPAYERS  
**TTARA**  
AND RESEARCH ASSOCIATION

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# Agenda



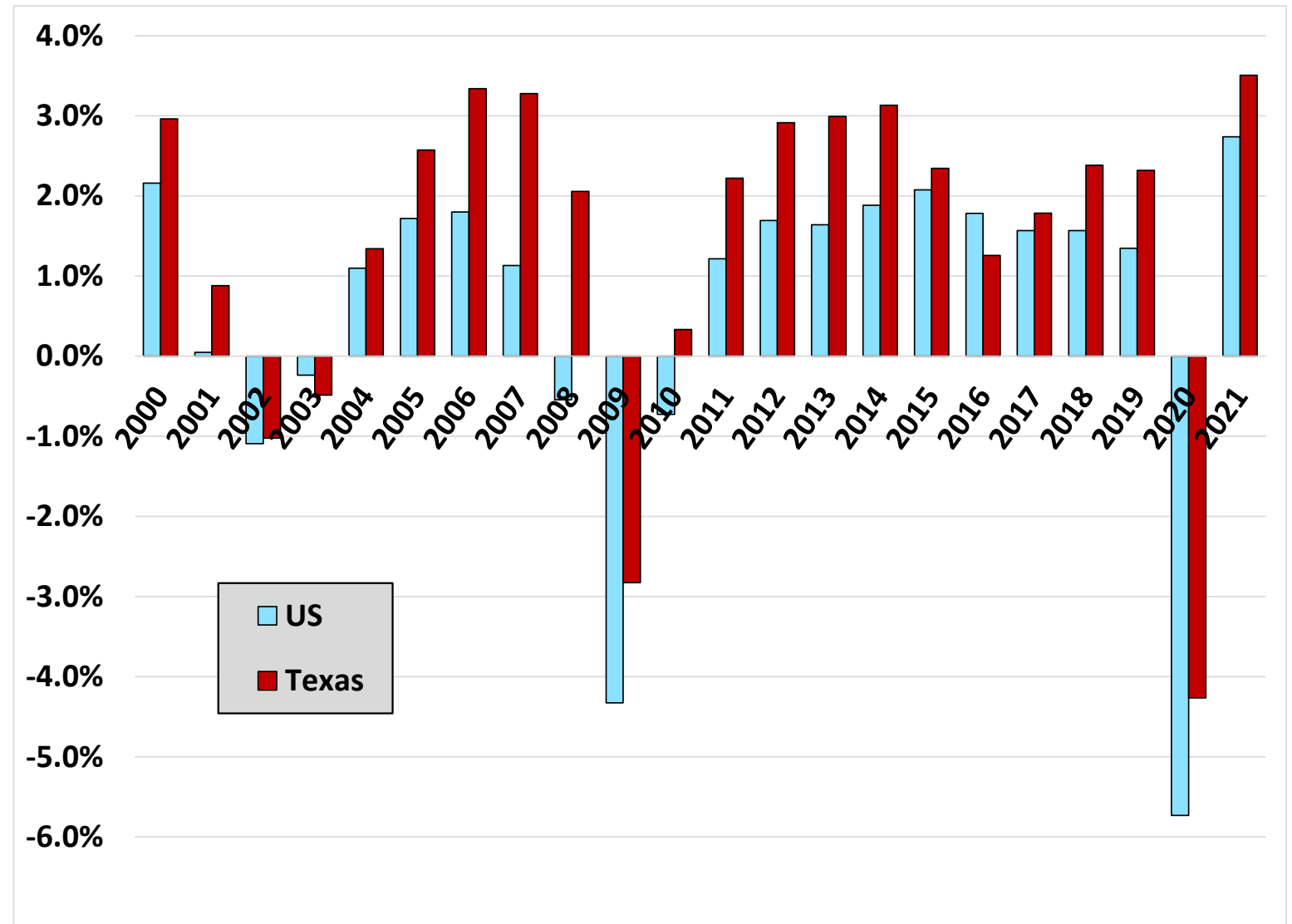
1. The Economy
2. A Closer Look at Oil and Gas
3. The State's Fiscal Health
4. Property Tax Trends and Issues

# The Economy

# Tx & US Job Growth

Percent Change from Same Month in the Prior Year

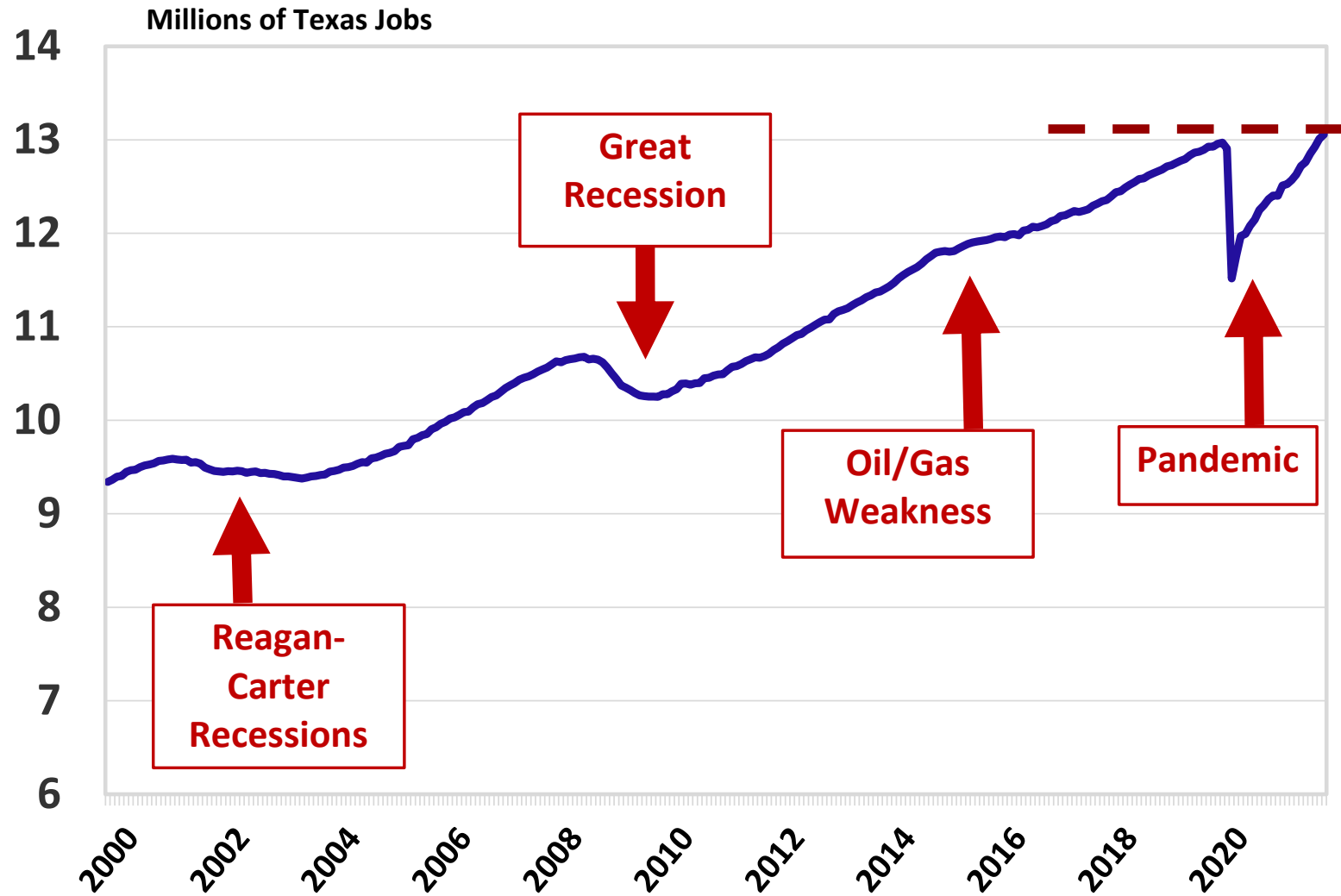
- *Texas job growth moves with the nation's, though it is typically more robust*
- *Since 2000, Texas' annual job growth has averaged roughly 1 percentage point higher than the US*
- *During the pandemic, Texas' jobs losses were not as severe as the rest of the nation, and our recovery has been a bit stronger.*



# Texas Job Growth

Total Non-Farm Jobs in Texas,  
2000- - Current

- *Prior to the pandemic, Texas' jobs peaked at 13 million in February 2020*
- *Pandemic job losses were much quicker & more severe than previous recessions*
- *As of December 2022, Texas has recovered all of the jobs lost from the pandemic – one of only 4 states to do so*



# Jobs Lost, Jobs Regained

February 2020 Peak to April Trough to Current

- *While Texas' overall job numbers have recovered, that recovery is not uniform across industries.*
- *Trade, Transportation, and Business & Financial Services have set new peaks, but all other industries are still lagging.*

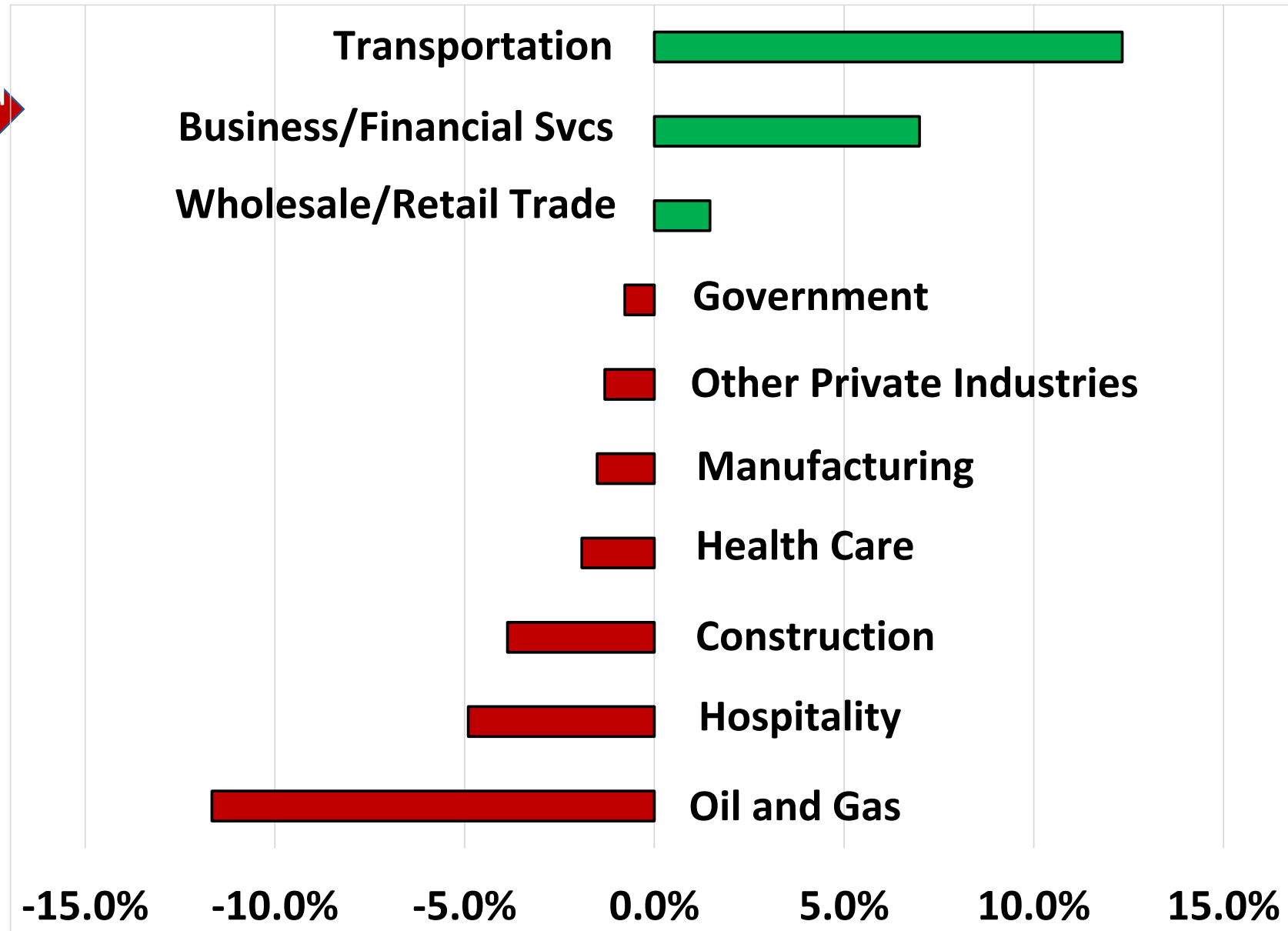
Industry	Peak to Trough (Feb – Apr)	Recovery (Apr – Dec)	Net Peak to Current (Feb – Dec)	Percent of Lost Jobs Recovered
Oil and Gas	(26.3)	(1.1)	(27.4)	-4.2%
Construction	(59.7)	29.5	(30.2)	49.4%
Manufacturing	(55.0)	41.3	(13.7)	75.1%
Wholesale/Retail	(193.1)	221.5	28.4	114.7%
Transportation	(14.0)	87.5	73.5	625.0%
Hospitality	(562.2)	492.7	(69.5)	87.6%
Health Care	(150.0)	120.3	(29.7)	80.2%
Bus/Finance Svcs	(155.9)	303.2	147.3	194.5%
Other Private	(160.9)	149.3	(11.6)	69.2%
Government	(50.7)	<u>35.1</u>	<u>(15.6)</u>	69.2%
<b>Total</b>	<b>(1,452.6)</b>	<b>1,542.2</b>	<b>89.6</b>	<b>106.2%</b>

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

# Job Recovery

December 2021 Jobs Compared  
February 2019 Peak  
Percent

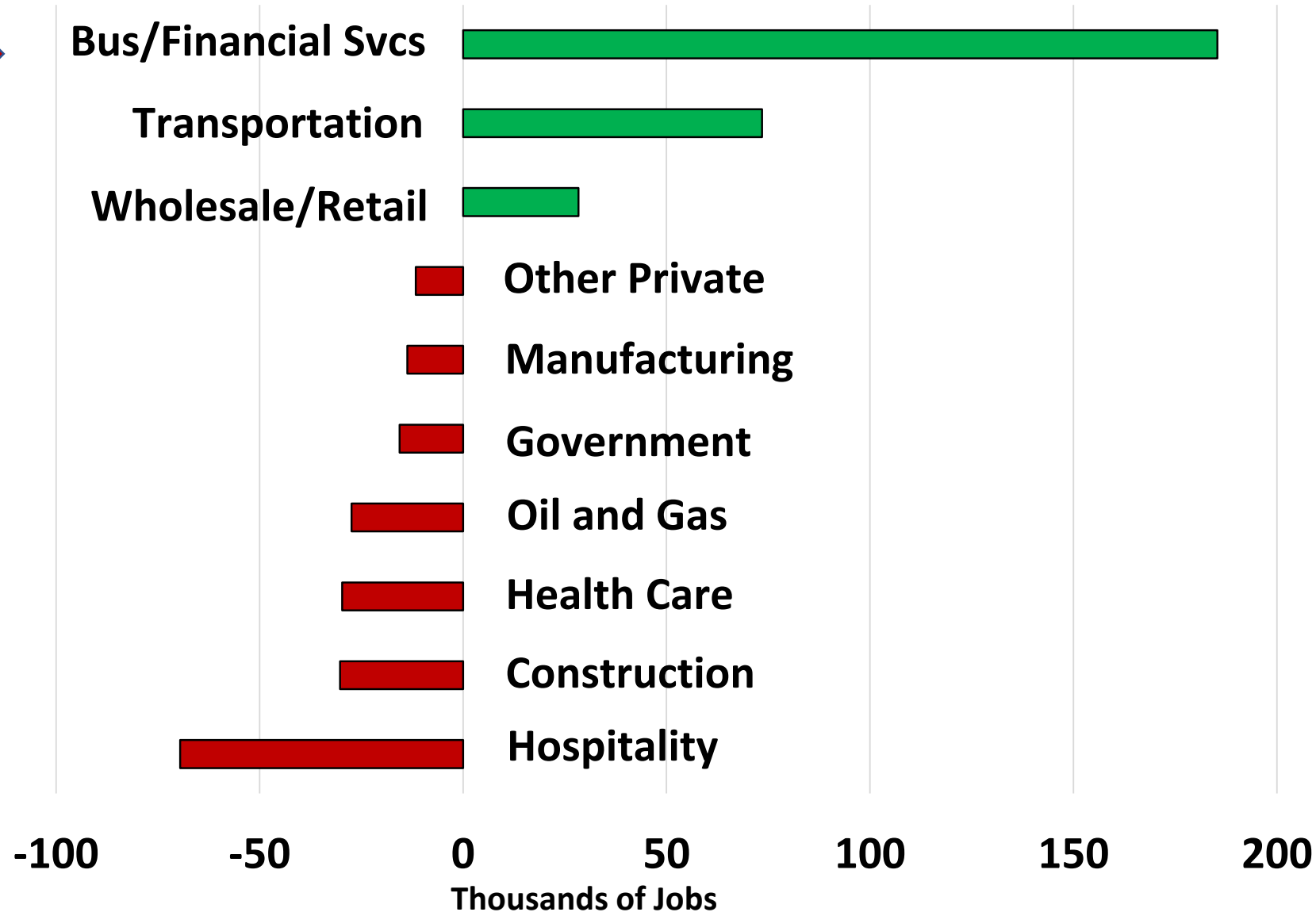
- *On a percentage basis, Transportation has experienced the strongest jobs rebound.*
- *Oil and gas employment is still weak, although drilling and well-servicing is becoming much more labor-efficient.*



# Job Recovery

December 2021 Jobs Compared  
February 2019 Peak,  
Thousand of Jobs

- *In terms of the actual number of jobs, Business and Financial Services has added the most compared to its prior peak.*
- *Hospitality remains well below its previous jobs peak.*

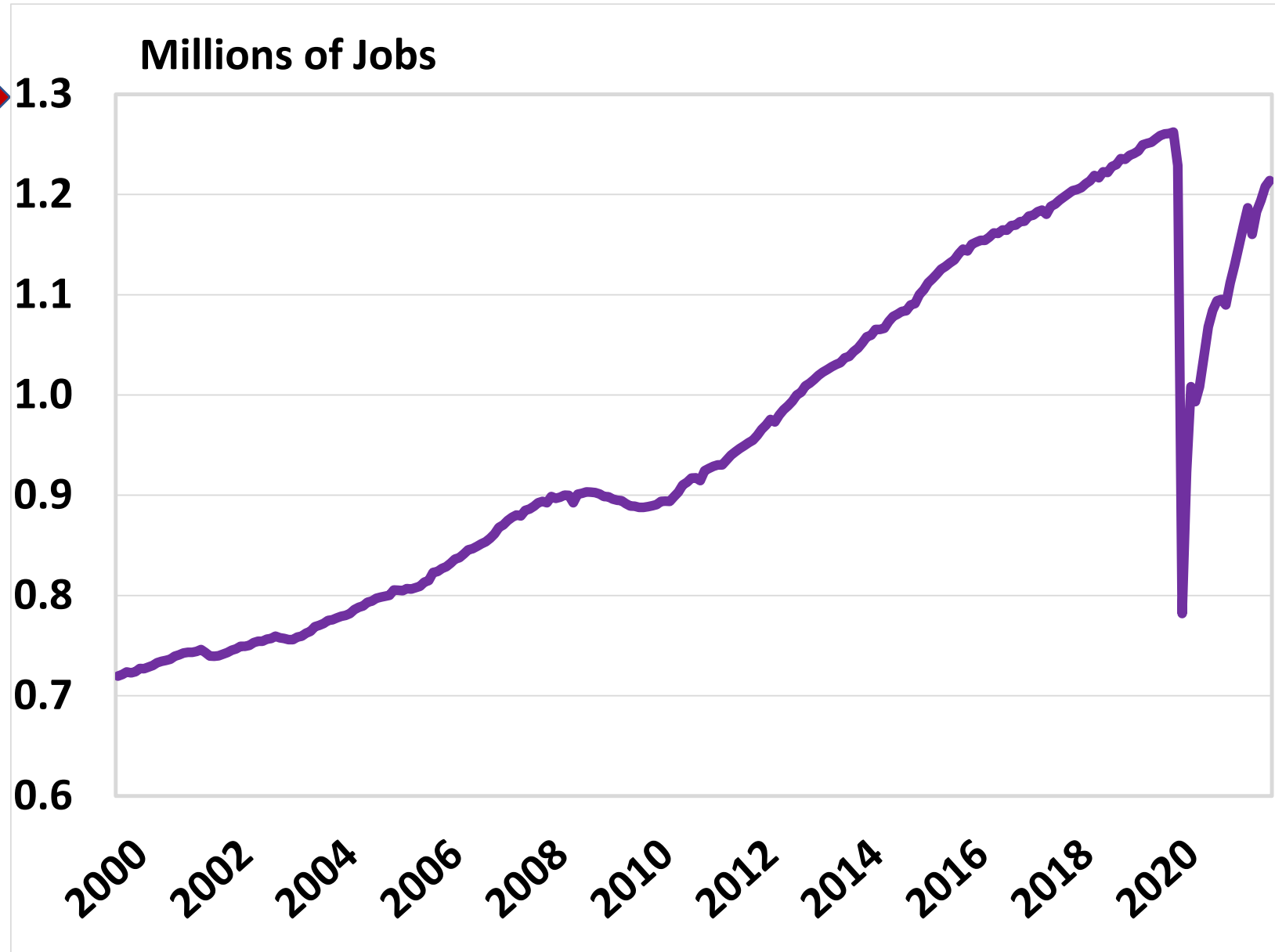




# Hospitality Jobs

2000 to Current

*Hospitality consists of  
restaurants, bars, hotels,  
and entertainment*



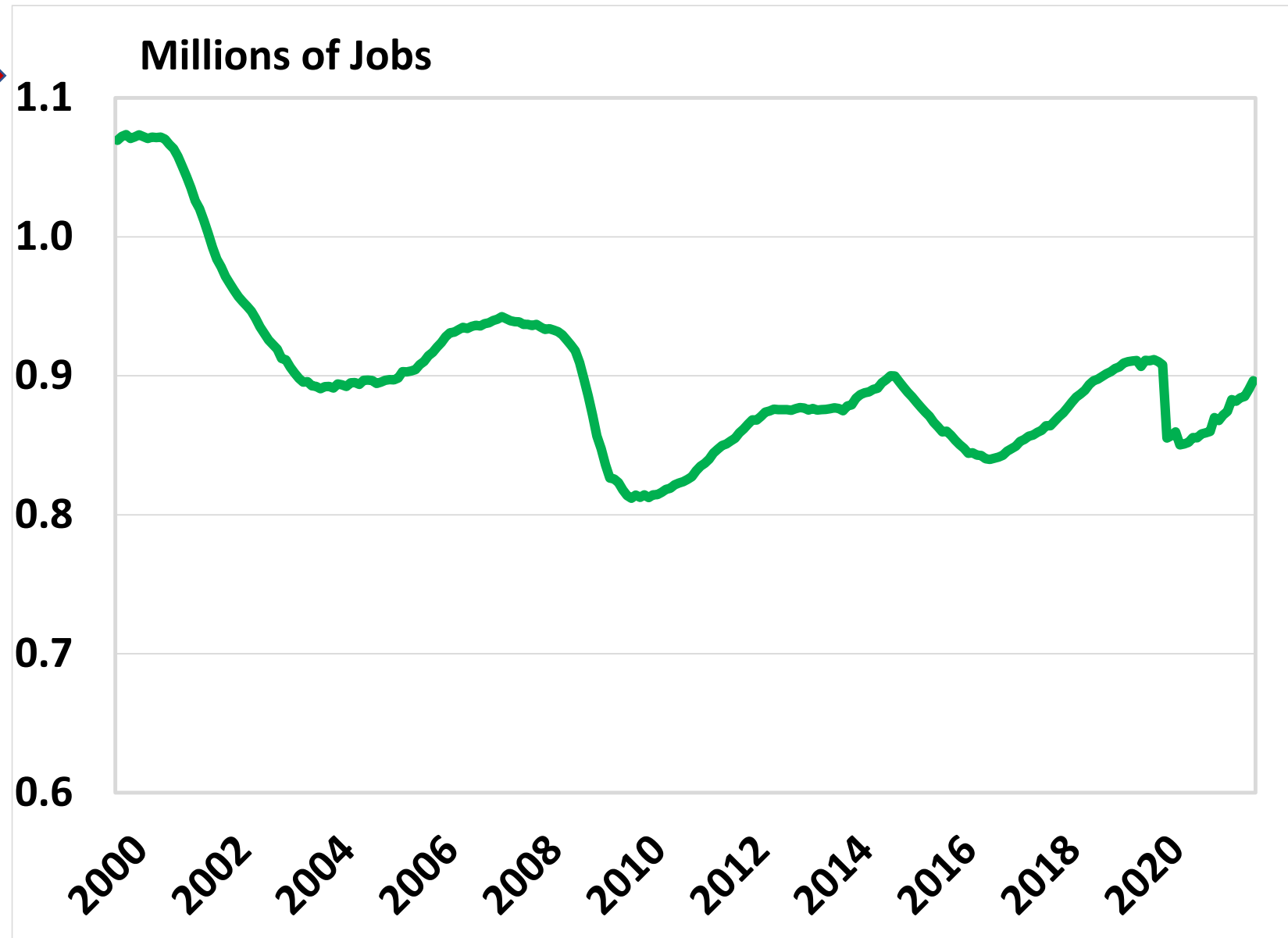
# Manufacturing Jobs

2000 to Current

*The near term outlook is good as the state has lured a number of future investments:*

<i>Texas Instruments</i>	<i>\$30 bl</i>
<i>Samsung</i>	<i>\$17 bl.</i>
<i>Tesla (5,000 jobs)</i>	<i>\$1 bl.</i>

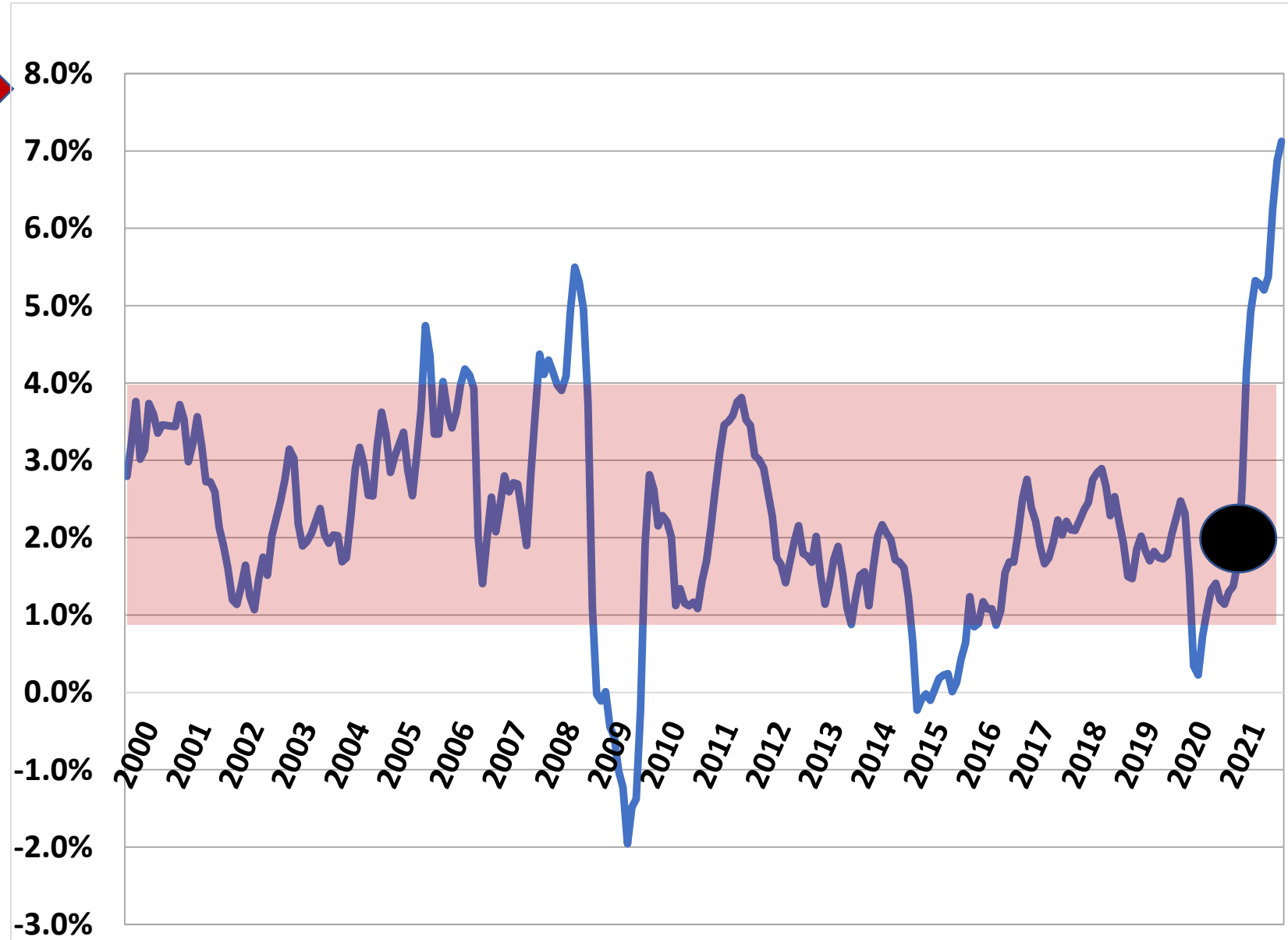
*The longer-term outlook is more challenging, as the incentive program used by the above projects is expiring.*



# Inflation

Percent Change from Same Month in Prior Year  
January 2000 – December 2021

- *Over the past 20 years, inflation has generally ranged between 1 and 4 %.*
- *2022 has brought an extraordinarily high level of inflation.*



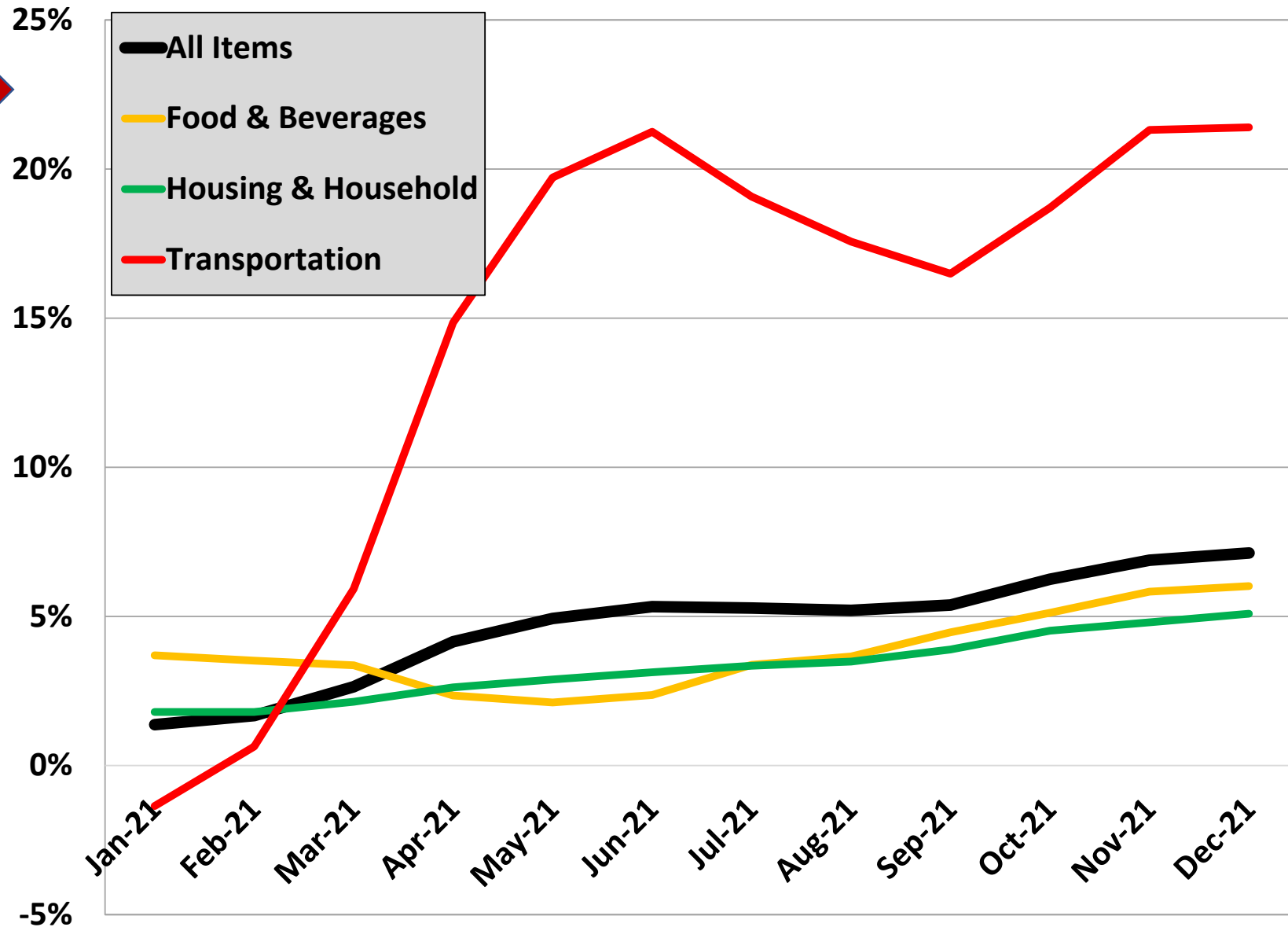
# Inflation

*The consumer price index is a weighted average of individual indices, 3/4 of which are:*

*Housing 42.1%*

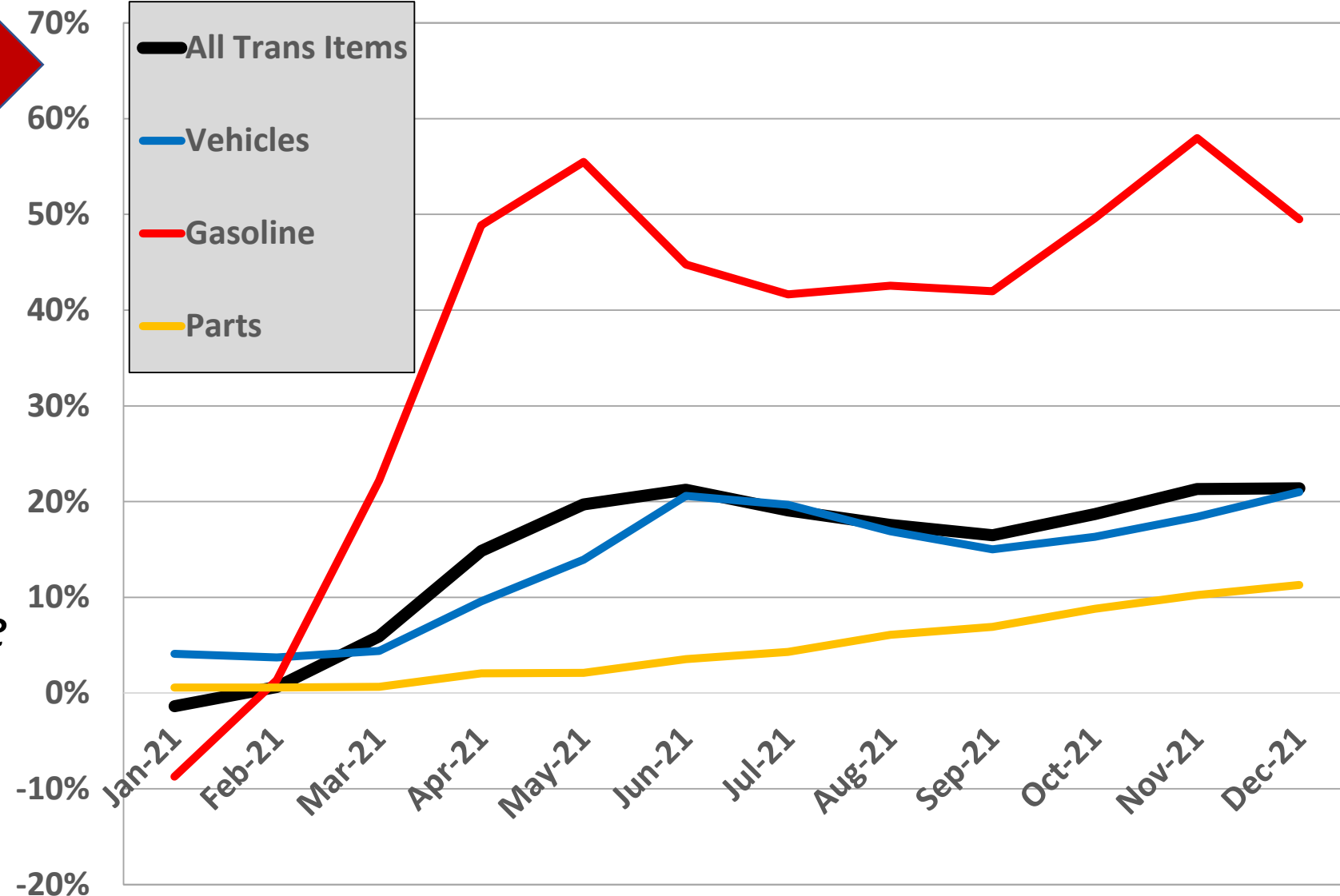
*Transportation 16.9%*

*Food/Beverages 15.4%*



# Inflation

*Inflation on items relating to transportation have been extraordinarily high. Though car prices are up substantially, not everyone is in the market; however, all have felt the pinch of higher gasoline prices.*



# What's Driving Inflation?

*Pandemic inflation is a worldwide problem. In 2021 inflation was:*

<i>Russia</i>	<i>8.4%</i>
<i>U.S.</i>	<i>7.0%</i>
<i>U.K.</i>	<i>5.4%</i>
<i>E.U.</i>	<i>5.0%</i>
<i>China</i>	<i>1.5%</i>

## 1. Rising Price of Oil

- Pandemic uncertainty over product demand
- Insufficient production of oil
- Geopolitical risks

## 2. Shortage of Goods as Consumption Shifts from Services

- World's capacity to produce goods was hampered by pandemic
- World's capacity to ship goods was hampered by pandemic

## 3. Labor Shortages, Particularly in Lower-wage Functions

- Distribution, Retail, Services
- The "Great Resignation"

## 4. Public Policy Stimulating Demand and Driving Deficits

\$1.9 tl	Tax Cuts and Jobs Act, 2017
\$0.2 tl	Families First Coronavirus Response Act (March 2020)
\$2.8 tl	Coronavirus Aid, Relief, and Economic Security (CARES) Act
\$0.5 tl.	Paycheck Protection Program Flexibility Act (June 2020)
\$0.9 tl	Consolidated Appropriations Act provisions (Dec 2020)
\$1.9 tl.	American Rescue Plan Act (Mar 2021)
\$0.4 tl.	Infrastructure Investment and Jobs Act (Nov 2021)

# Average Texas House Price ↑

% Change from Month in Prior Year  
2000 to 2021

*The average selling price  
of a Texas home:*

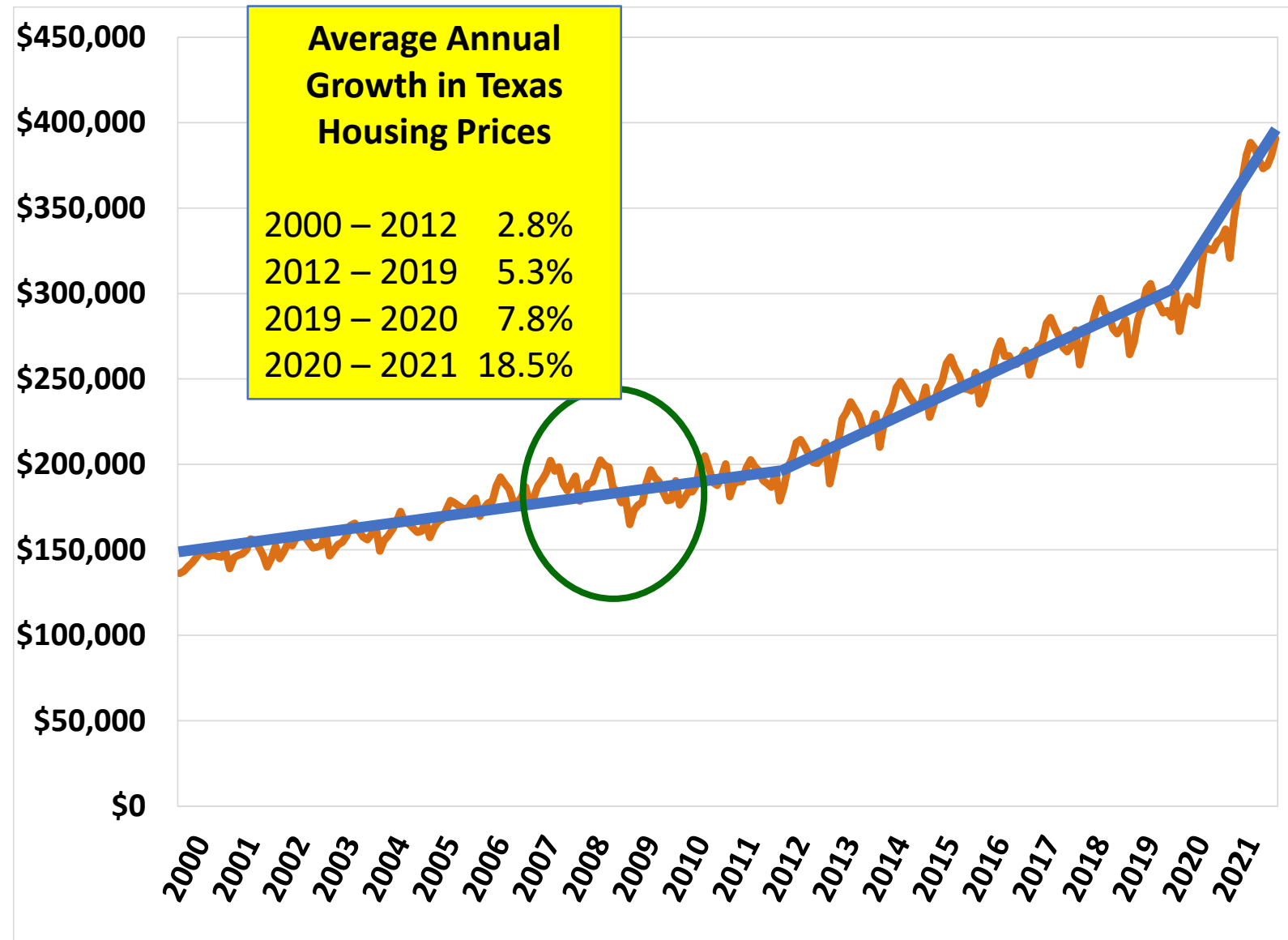
2000      \$144,500

2012      \$202,500

2019      \$289,803

2020      \$312,555

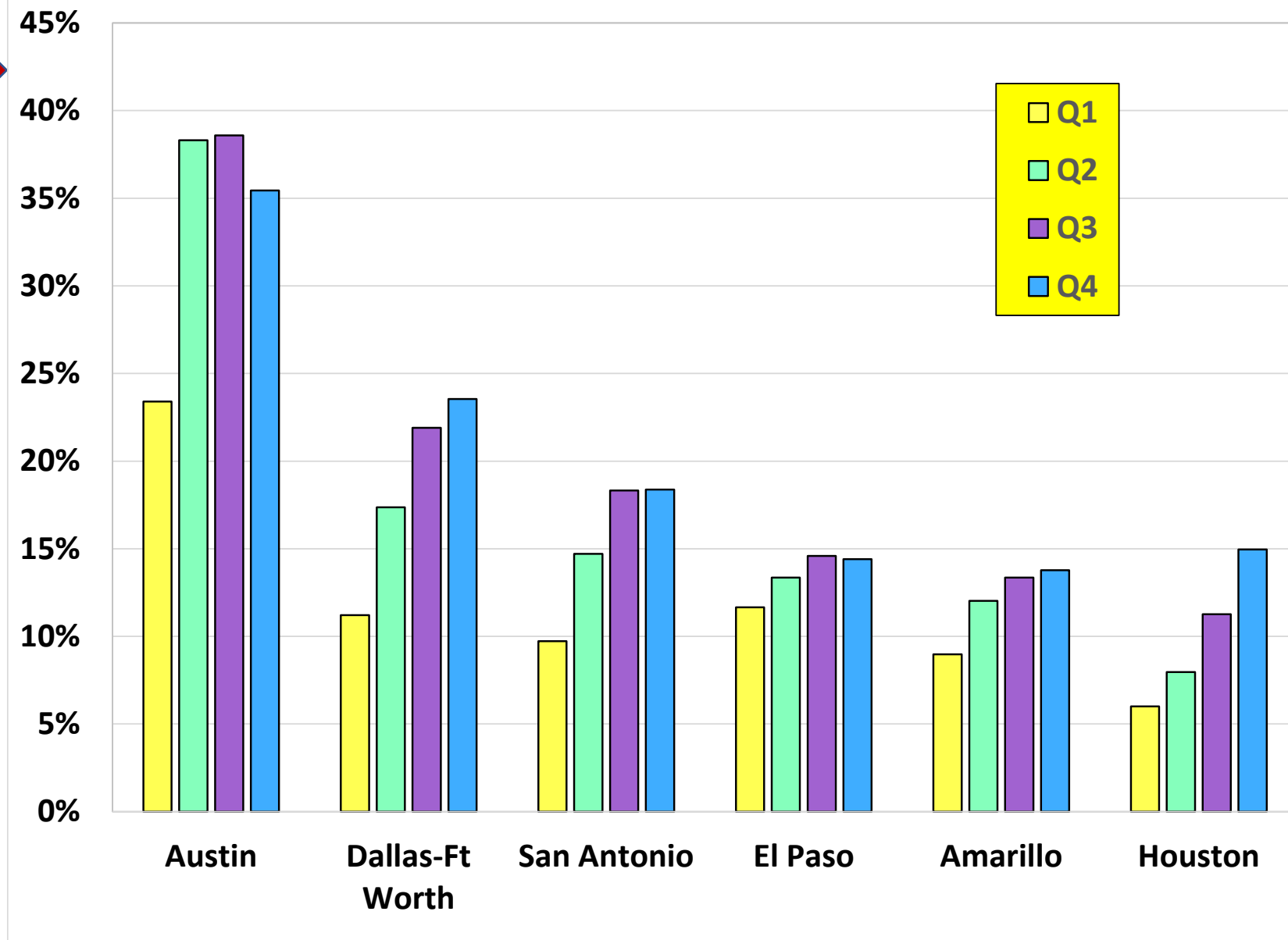
2021      \$370,200



# Local Housing Markets

Change in Housing Price Index by Quarter, 2021 vs 2020

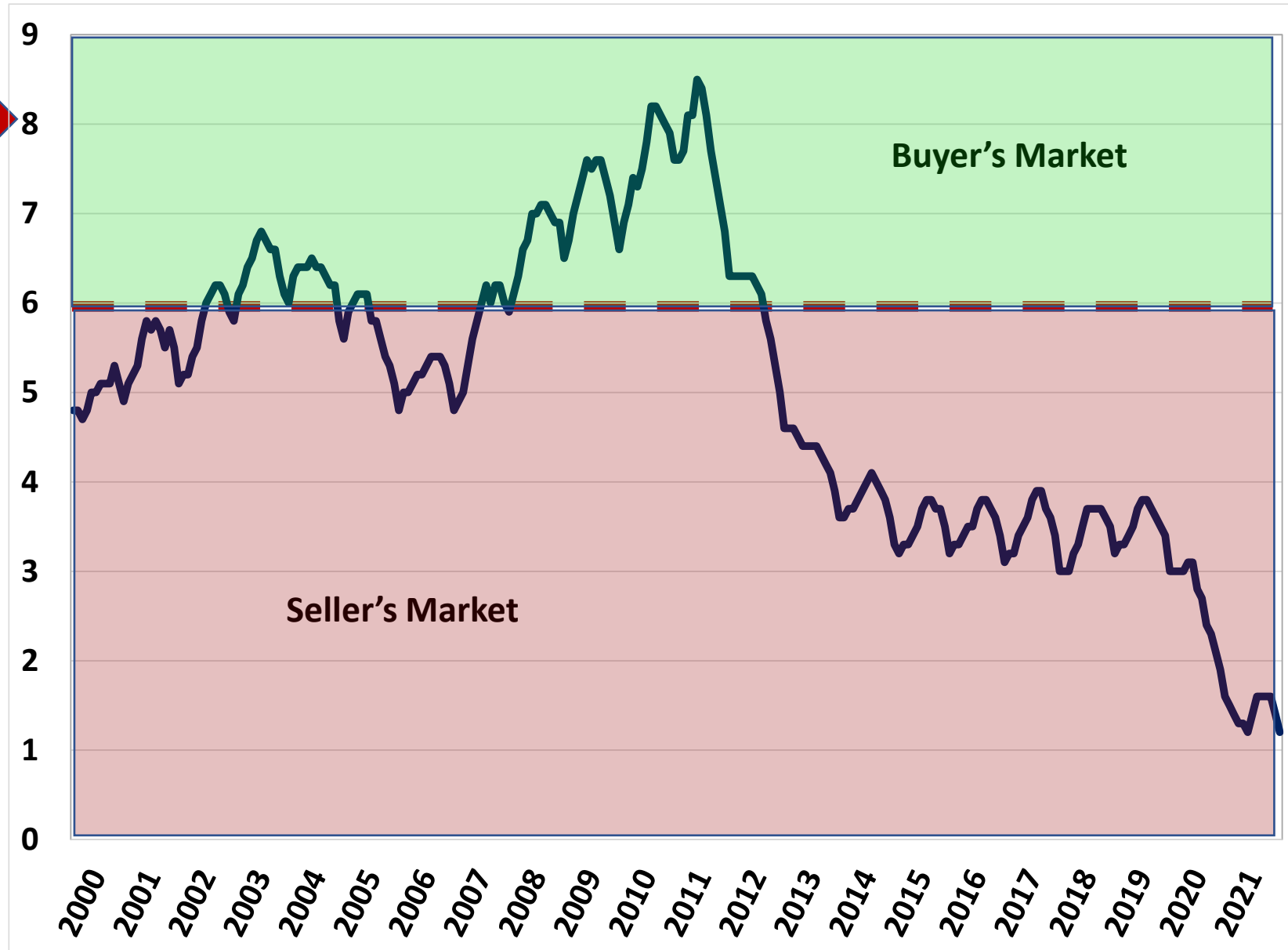
- *The hottest housing market in Texas today is the Austin area, with Dallas-Fort Worth a distant second.*
- *Other markets are strong, but not in the stratosphere*





# Months of Texas Housing Inventory

2000 to Current



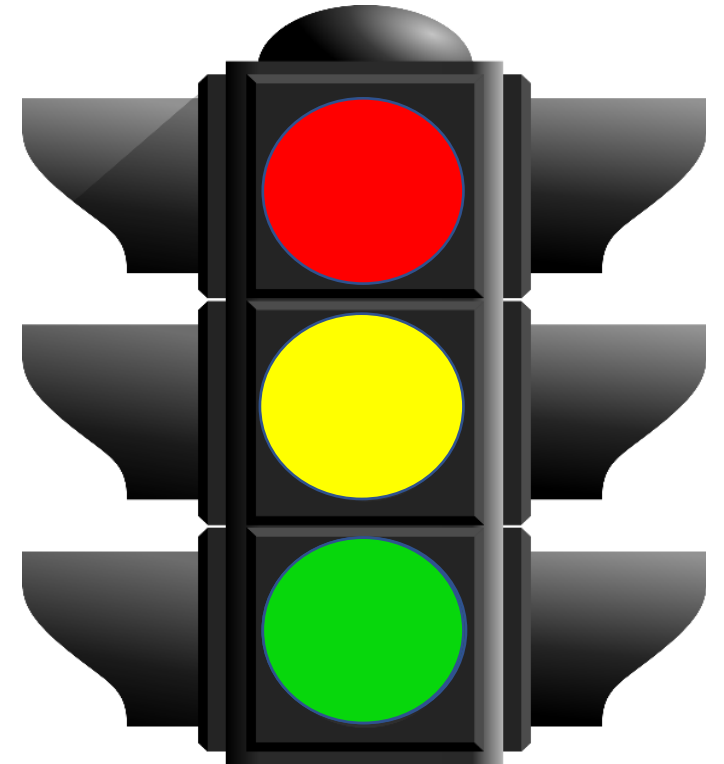
**Seller's Market < 6 months**

**Neutral Market = 6 months**

**Buyer's Market > 6 months**

# Economic Outlook, 2022

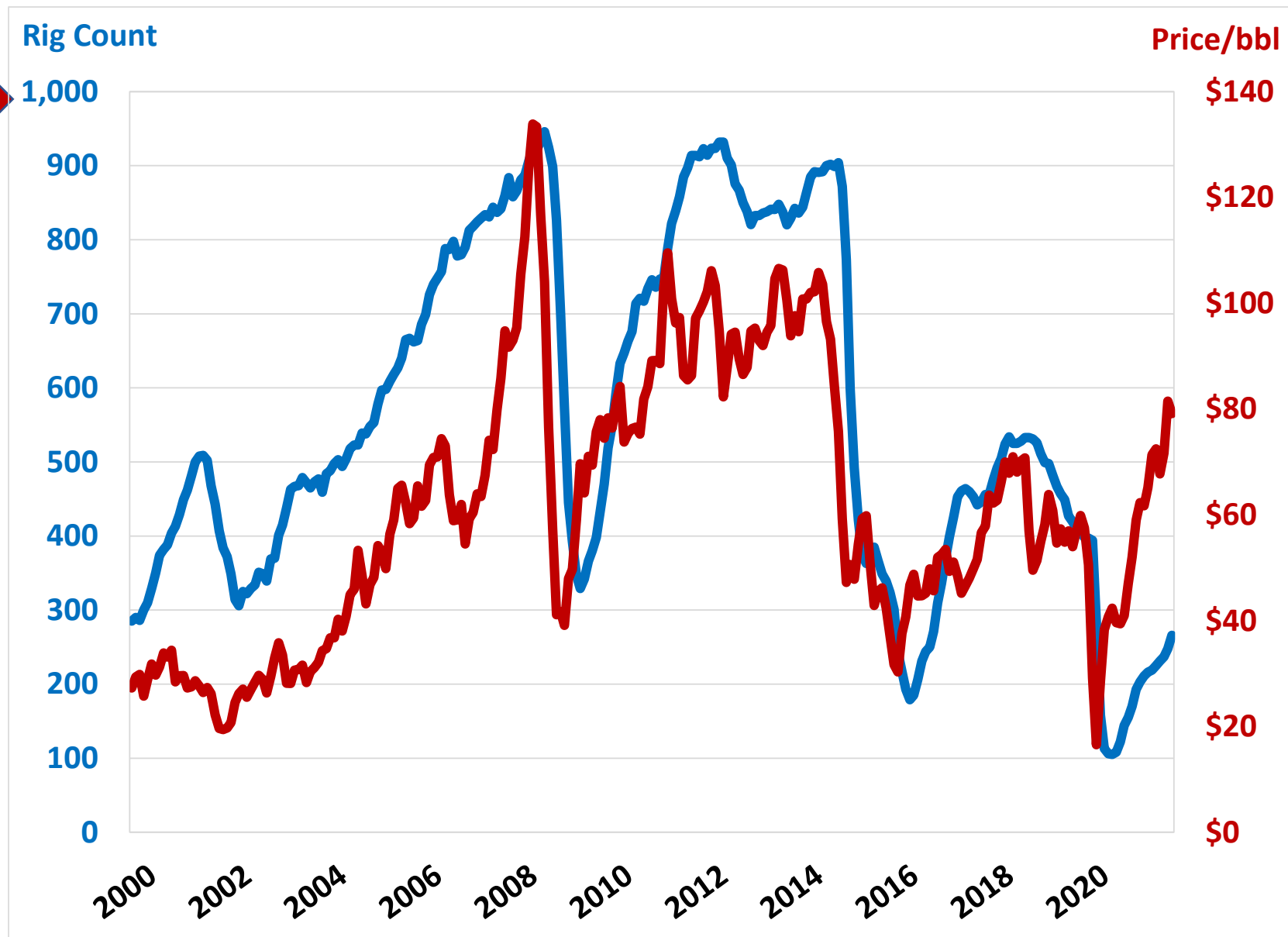
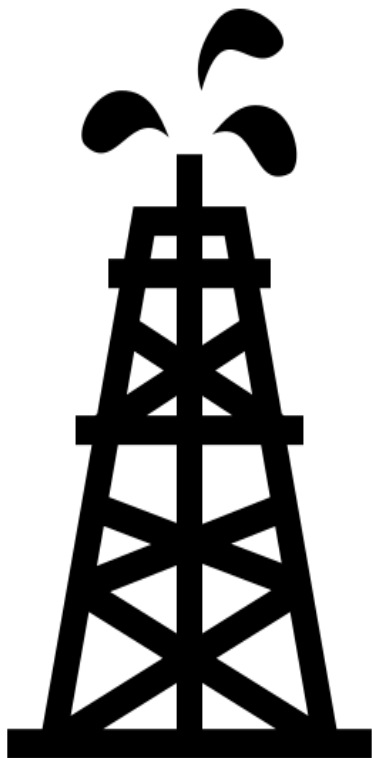
- *Pandemic is **NOT** over, there are mutant strains in circulation; but most of us are learning to live with it*
- *Geopolitical concerns are high*
- *Rising interest rates may slow the stock market, but probably not the economy*
- *Consumer demand will continue to drive the economy as incomes remain healthy*
- *Labor market will remain tight as growth may be suppressed by limited or reluctant supply*
- *Inflation will mostly, but not entirely, ebb as a new equilibrium is reached*
- *Growing federal deficits threaten future growth (especially at higher interest rates)*



# A Closer Look at Oil and Gas

# Rigs and the Price of Oil

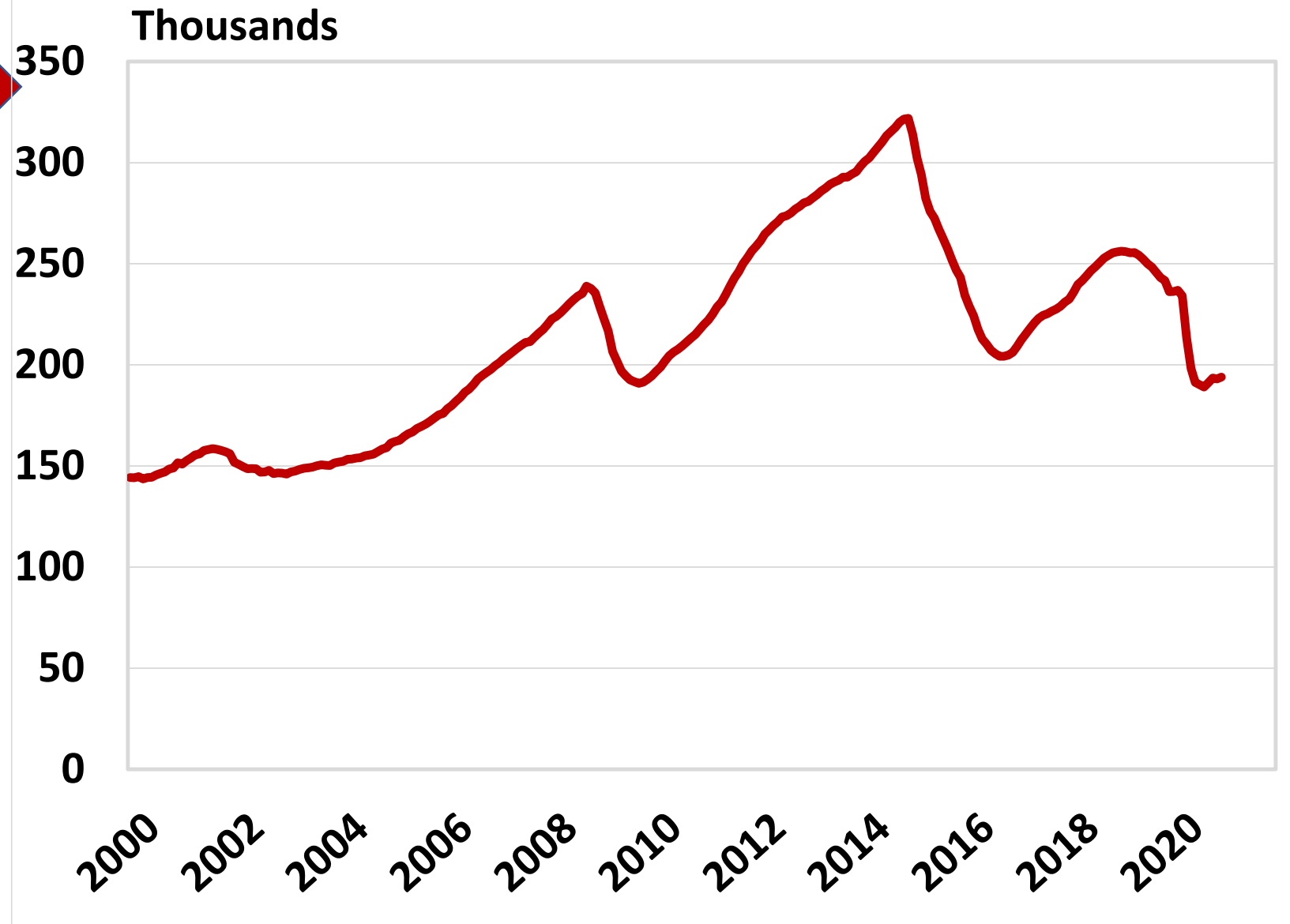
2000 to 2021



# Oil and Gas Jobs

2000 to Current

*Oil and gas jobs are those directly involved in the extraction of the product (i.e., upstream). It does **not** include pipelines and refineries.*



# Oil & Gas Price Forecasts, 2021 – 2022

## (from last year's presentation)

	<u>Oil</u>	<u>Natural Gas</u>
Texas Comptroller	\$44 - \$55	\$2.60 - \$2.75
US EIA	\$57 - \$55	\$3.27 - \$3.28
Actual 2021	\$68	\$4.06

# Current Oil & Gas Price Forecasts, 2022-23

	<u>Oil</u>	<u>Natural Gas</u>
Texas Comptroller	\$73 - \$68	\$2.60 - \$2.75
US EIA	\$76 - \$62	\$3.69 - \$3.09

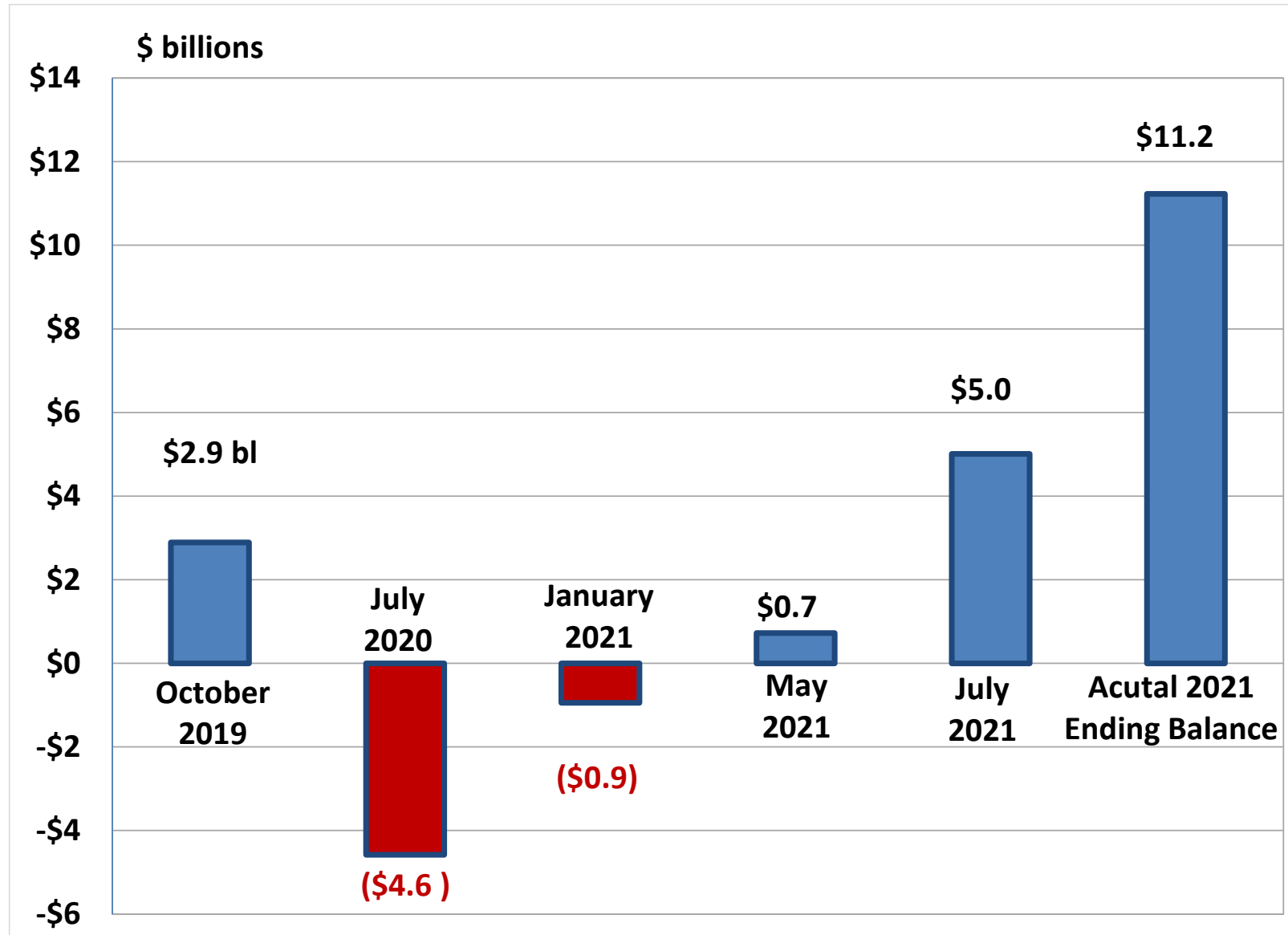
# The State's Fiscal Health



# A Volatile Revenue Outlook Stabilizes

- *Comptroller initially certified the 2020-21 Budget with \$2.9 billion to spare.*
- *Pandemic uncertainties led to a number of revisions, initially down, then up.*
- *Ultimately, aided by federal aid and a rebounding economy, Texas closed the books on 2021 with an \$11+ billion surplus.*

## Projections of the State's 2021 Ending Balance



# Balancing the Budget



## On the table:

- Billions of federal aid dollars

## On the table?

- Gaming
- Recreational Marijuana
- Payment Deferrals, Revenue Speed-ups
- Eliminating "loopholes"?

## Off the table

- General tax hike
- Tax Swaps

*Plus, a much stronger economy than anyone could have anticipated!!!*

# Texas State Budget

## General Revenue

- *The Texas House and Senate passed a balanced budget for 2022-23 aided by huge amounts of federal aid and rebounding general revenues.*
- *Comptroller has certified the state will enjoy a \$12 billion surplus at the end of 2023*
- *ESF, or Rainy Day Fund will have a \$12.6 billion balance at the end of 2023.*

ITEM (\$ billion GR)	2020-21	2022 - 23	INCR.
Public Education	\$44.6	\$46.6	\$2.0
Higher Education	\$15.8	\$16.2	\$0.4
Health & Human Services	\$33.6	\$34.3	\$0.7
Other	<u>\$16.3</u>	<u>\$19.3</u>	<u>\$3.0</u>
Total Appropriations	\$110.3	\$116.4	\$6.1

# Sneak Peek at 2024-25 Revenue Outlook

- *In January 2023, lawmakers will meet to write the budget for the 2024-25 Biennium*
- *The state fiscal year runs from September 1 through August 31*

Tax	Percent of Total Taxes	Projected 2022 Growth	YTD Growth through Dec
Sales Tax	59%	7%	23%
Motor Vehicle Sales Tax	9%	2%	21%
Severance Taxes	8%	29%	161%

# Property Tax Issues and Trends

# The Legislature's Greatest Hits

*As a result of  
2019 legislation,  
the legislature  
has ended the  
spiraling  
increases in  
property tax bills*

From the 2019 charts

## **SB2 by Bettencourt/Burrows**

- Reduced the amount of property tax revenue certain jurisdictions can raise without voter approval (generally now 3.5%, or 8% for smaller jurisdictions)
- Required tax officials to maintain a real-time database so that property owners could see proposed tax rates

## **HB 3 by Huberty/Taylor**

- Made substantial reforms in public education and school finance (too many to mention here)
- Essentially requires school districts to use property value growth in excess of 2.5% to compress their school tax rates for maintenance and operations

# Limits on Property Tax Rates

*As a result of  
2019 legislation,  
the legislature  
has ended the  
spiraling  
increases in  
property tax bills*

## What to Know About Texas' New Property Tax Constraints

- SB 2 and HB 3 apply to the **total amount of property tax** revenue a jurisdiction may raise.
- For example, if a jurisdiction's voter threshold is 3.5%, it can't adopt a tax rate that raises more than 3.5% new property tax revenue than last year without getting the approval of their voters.
- SB 2 and HB 3 limits apply to a jurisdiction's total property tax revenue, **NOT to individual tax bills**.
- Your jurisdiction tax bill may increase more or less than 3.5% depending on how your values increased relative to all other properties.
- Your value essentially determines your share of the jurisdiction's property tax revenue.

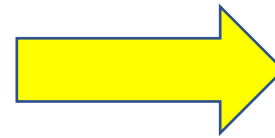
# What You Pay Attention to on Your Property Tax Bill



**Tax Bill =**

**Tax Rate**

**x Value**





What a Taxing  
Unit Pays  
Attention To



**Tax Revenue =**



**Values  
x Tax Rate**

# Determining Values

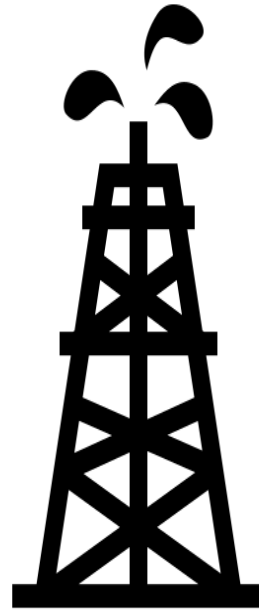
## Value Negotiation



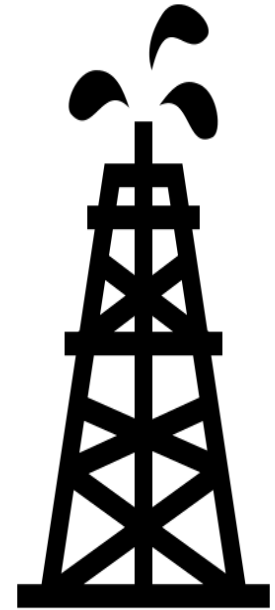
**Chief  
Appraiser**



**Company  
Tax Official**



**Oil & Gas Value  
\$2.0 billion**



**Oil & Gas Value  
\$1.5 billion**

# Tax Rates Negate Your Value Reduction Savings



Revenue Desired      \$10.0 ml.

O&G Value      \$ 2.0 bl

Other Value      \$ 0.5 bl

Total Value      \$ 2.5 bl.

Tax Rate/\$100      \$ 0.40

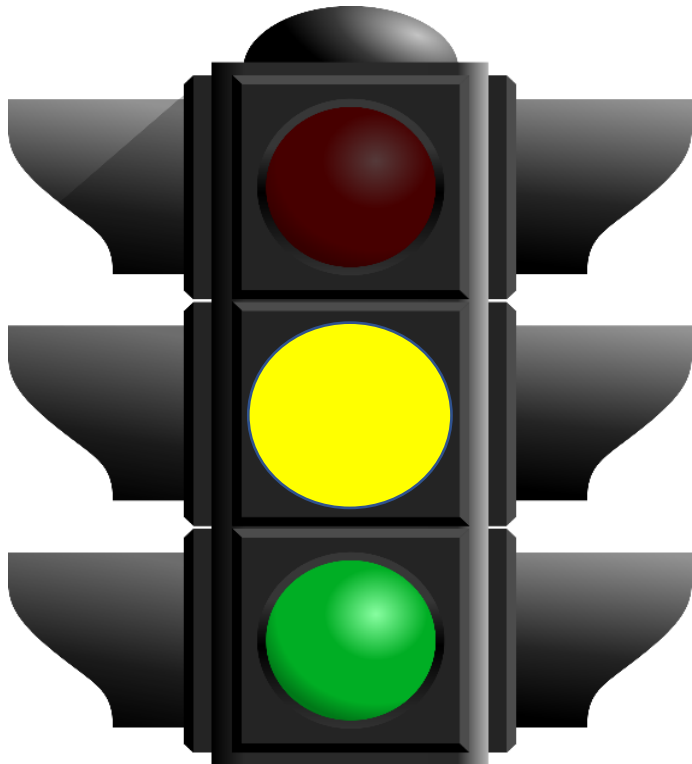
O&G Tax Bill      **\$ 800.0 th.**

# TTARA Overview of Property Tax Rate Setting Process

**<https://www.ttara.org/webcasts/local-government-budgeting-and-tax-rate-setting-process-overview/>**

Presented by Carl Walker

# Biggest Property Tax Concerns



1. Swapping property taxes for enhanced sales taxes
2. Politicizing valuations
  - Elected central appraisal district boards
  - Elected chief appraisers
  - Elected appraisal review boards
3. Homeowner-focused relief, rather than taxpayer relief
  - Property tax is a zero-sum game: one taxpayer's tax cut is another taxpayer's increase

# Thanks for the Invitation!

If you have any questions or comments, please feel free to contact TTARA staff.

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