State Budget Update

NEWS > PUBLIC HEALTH

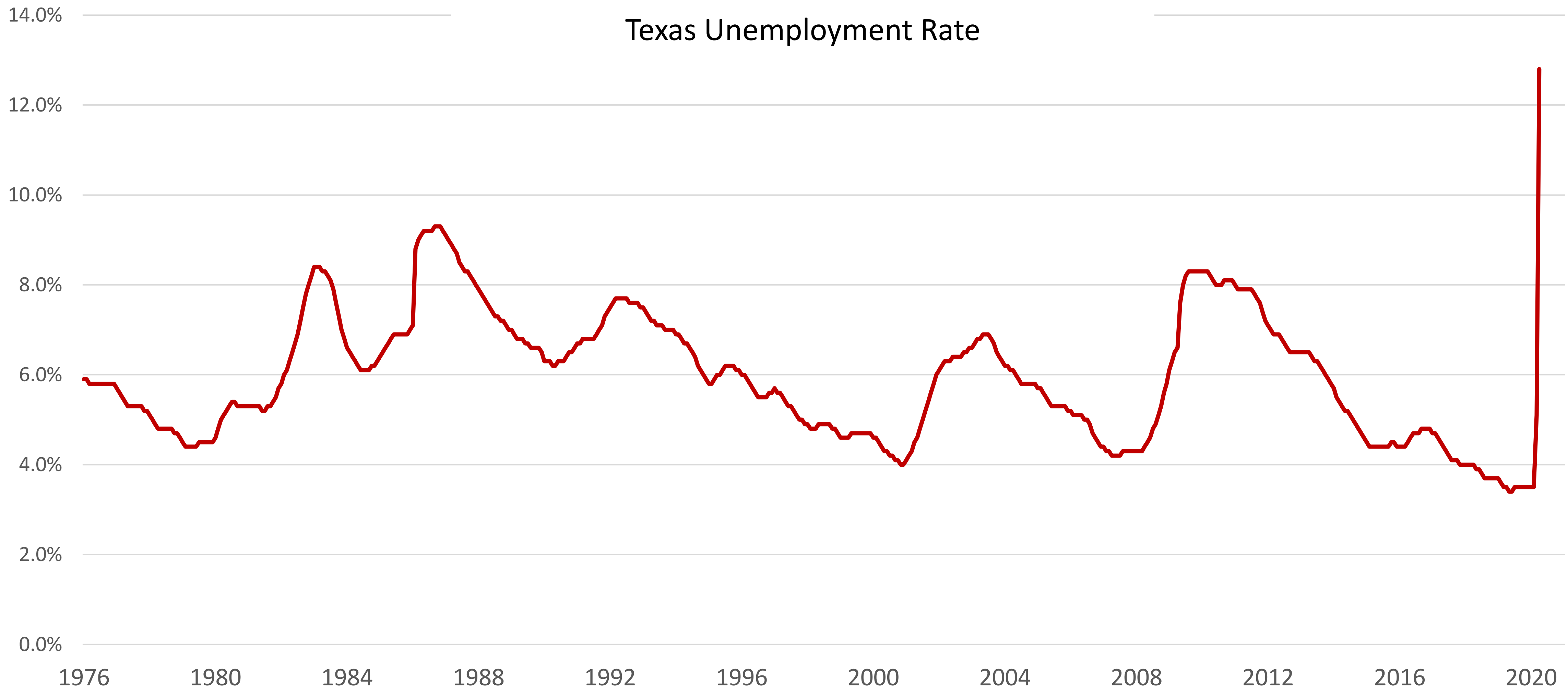
Texas reeling into recession from double blows of coronavirus and oil slump, Comptroller Glenn Hegar says

Using the ‘r’ word, Hegar sees no avoiding a recession and predicts the state’s recovery be slow.

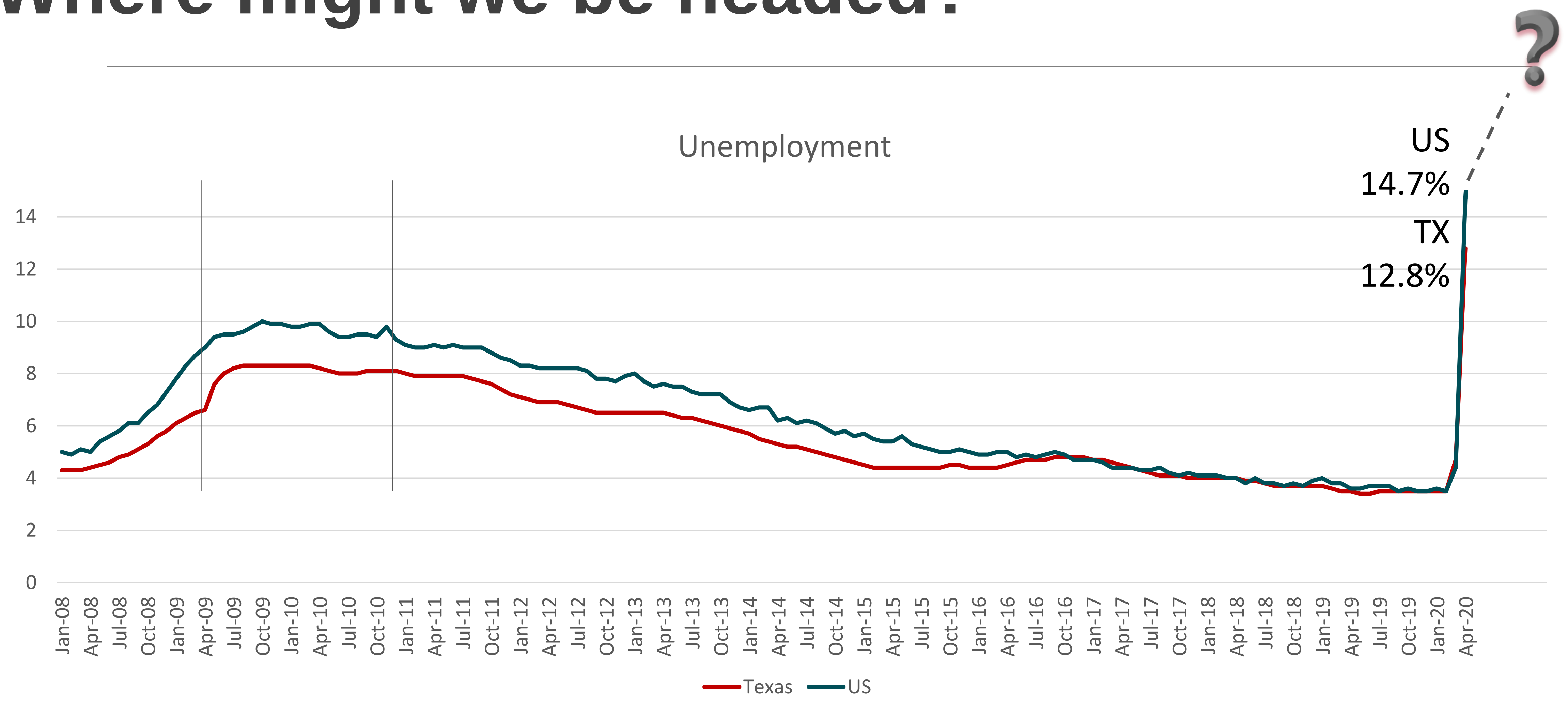
State Budget Picture: Worrisome Signs

- Revenue Pressure
  - Sales tax collections dropping significantly due to COVID-19 effects on economic activity in the state
  - Oil prices down sharply due to supply glut; lengthy slump anticipated in state revenue associated with oil and gas activity
- Cost Pressure
  - Economic downturn results in significantly higher demand for services
  - HB 3 costs were significant and projected to grow

We've haven't been here before



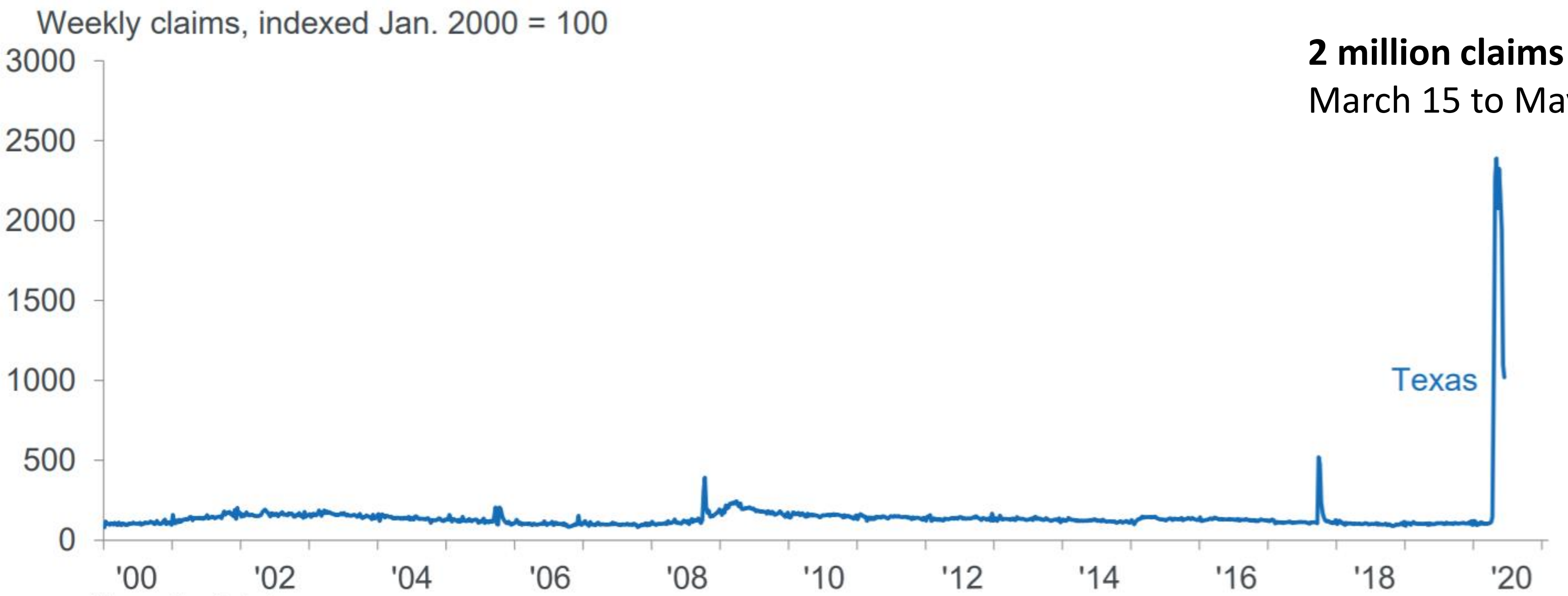
Where might we be headed?



Source: Texas Comptroller of Public Accounts and Bureau of Labor Statistics

Where might we be headed?

Texas' New Unemployment Claims Peaked in April but Remain Elevated at Historically High Levels in May



*Seasonally adjusted.
NOTE: Data through the week ending May 16, 2020.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.
DATA: https://www.dallasfed.org/research/econdata/tx-emp-ind.aspx

2 million claims
March 15 to May 16

Where might we be headed?

	Apr-20	Apr-19	Yearly Change
Civilian Labor Force	12,954,396	13,946,357	-991,961
Employed	11,297,758	13,461,899	-2,164,141
Unemployed	1,656,638	484,458	1,172,180
Unemployment Rate	12.8%	3.5%	9.3%

Source: Texas Workforce Commission

While the rate of job decline in April was steepest in high-contact industries such as hotels, restaurants, personal care and retail, it was broad-based across all sectors. —Dr. Keith Philips
Assistant Vice President & Senior Economist
Federal Reserve Bank, Dallas

Where might we be headed?

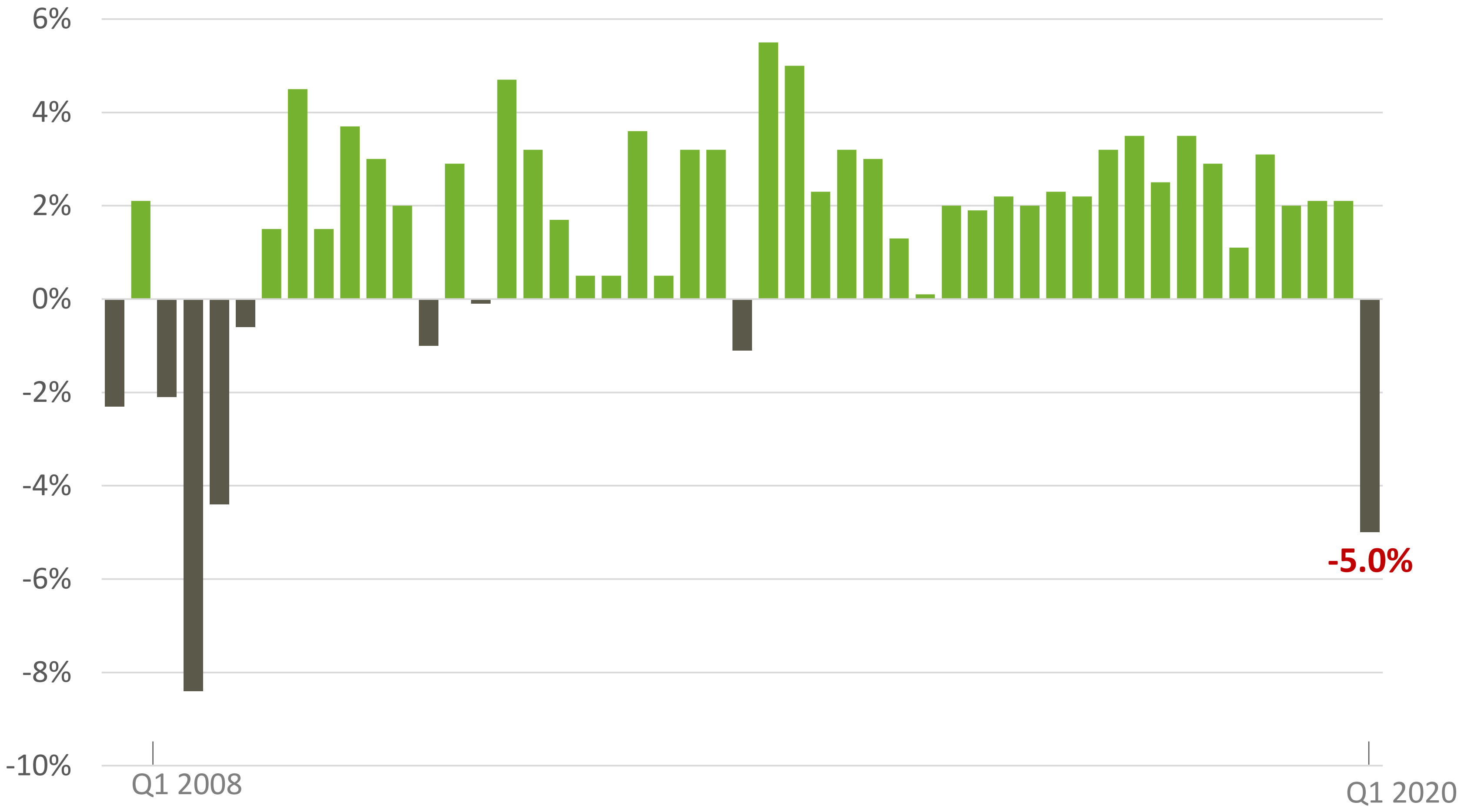
"As of mid-April, new unemployment claims have exceeded 1 million suggesting an unemployment rate in excess of 12 percent."
–Federal Reserve Bank, Dallas April 24, 2020

Texas Employment Rate for April 2020:   12.8%
US Bureau of Labor Statistics – Friday, May 22, 2020

The continuing high rate of claims for "unemployment insurance in Texas suggest a further increase in the unemployment rate in May to close to 20.6 percent…. we estimate that the unemployment rate in December will be close to 13.9 percent."
–Federal Reserve Bank, Dallas May 22, 2020

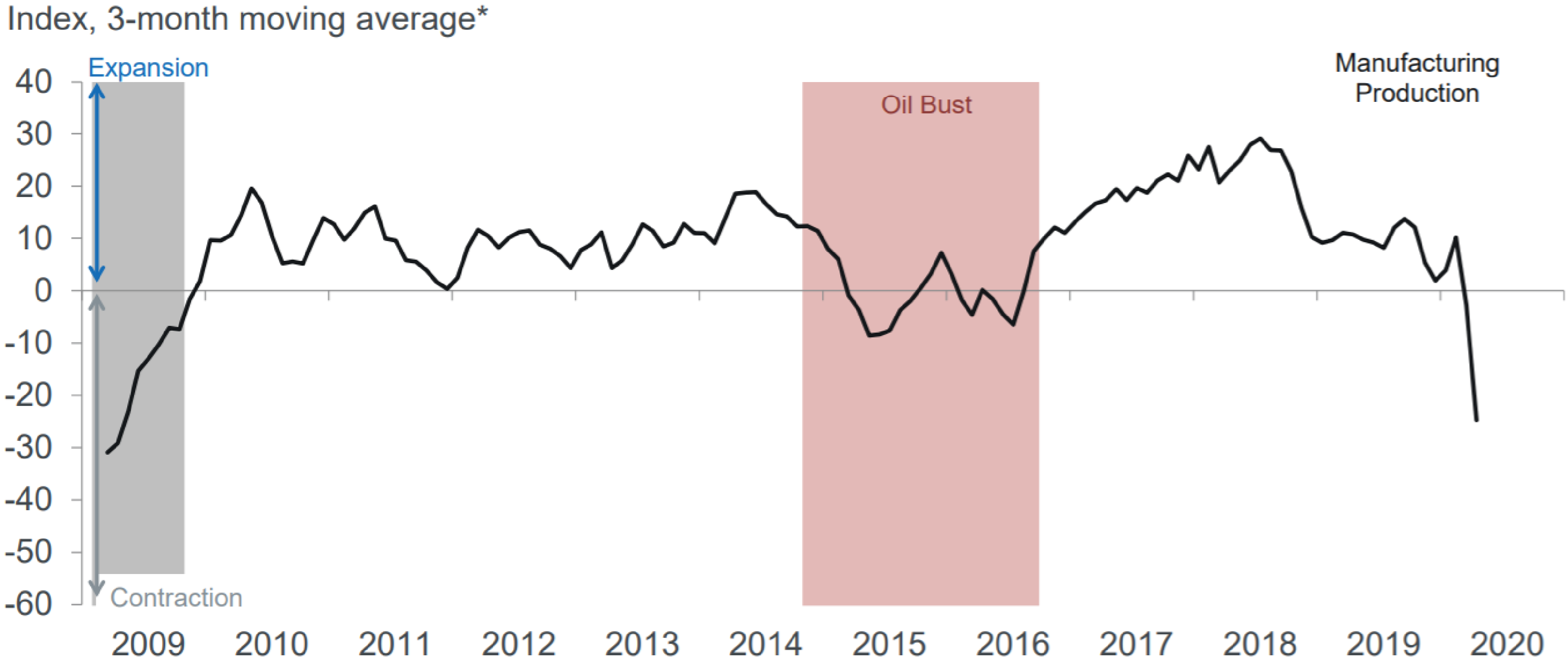
Texas Employment Rate for May 2020:   __?__%
US Bureau of Labor Statistics – Anticipated Release Friday, June 26, 2020

US Gross Domestic Product (GDP)



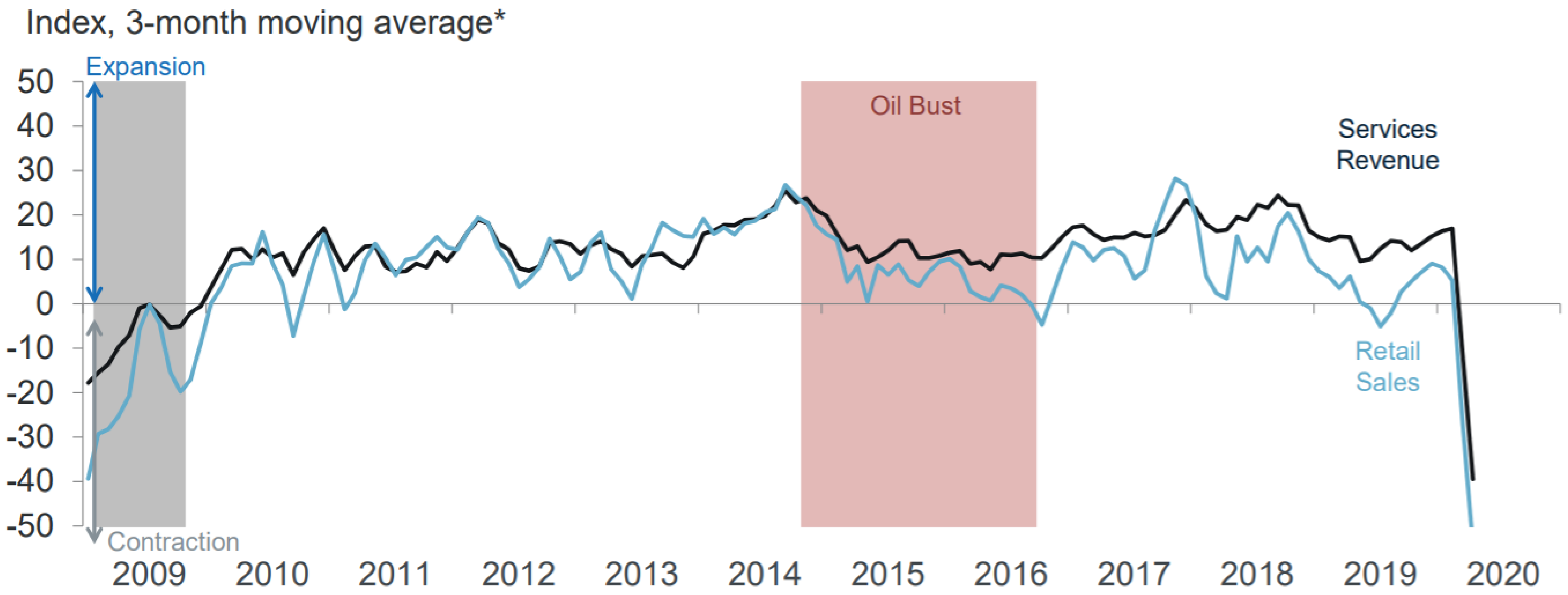
Source: Bureau of Economic Analysis, US Department of Commerce *(updated release dated 5/28/2020)*

Texas Manufacturing Production in Decline



*Seasonally adjusted.
NOTE: Data through April 2020. Grey bars represent Texas recession.
SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey (TMOS).
DATA: https://www.dallasfed.org/research/surveys/tmos

Texas Service Sector Revenue & Retail Sales Plummet in the Wake of COVID-19



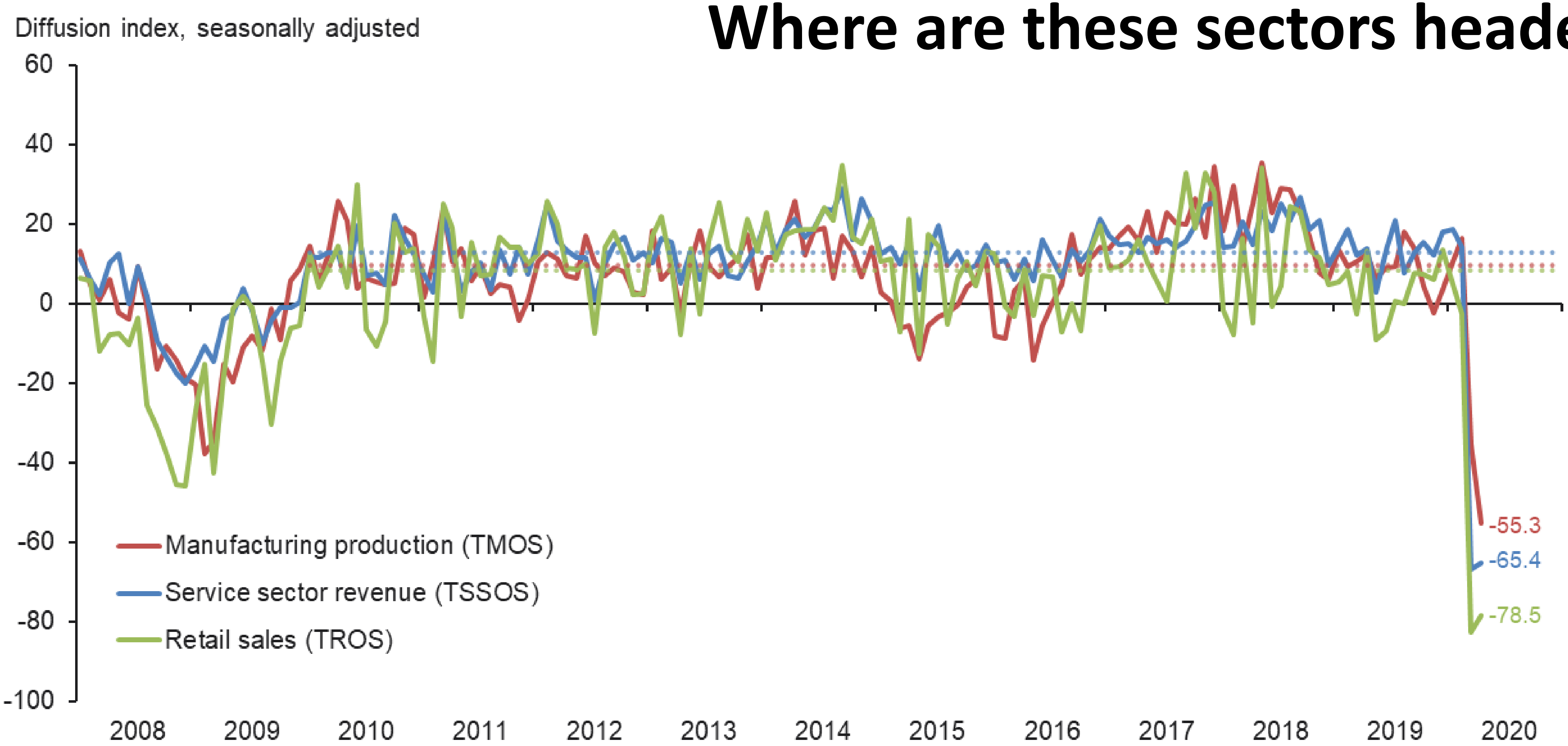
*Seasonally adjusted.

NOTES: Data through April 2020. The TROS is a component of TSSOS using information only from retail and wholesale trade sectors. Grey bars represent Texas recession.

SOURCES: Federal Reserve Bank of Dallas Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

DATA: https://www.dallasfed.org/research/surveys/tssos

Where are these sectors headed?



NOTES: Data are through April 2020. The diffusion index is calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase. Dotted lines are postrecession averages beginning in January 2010: TROS 8.5, TMOS 9.5, TSSOS 12.7.
SOURCE: Federal Reserve Bank of Dallas, Texas Business Outlook Surveys.

Federal Reserve Bank of Dallas

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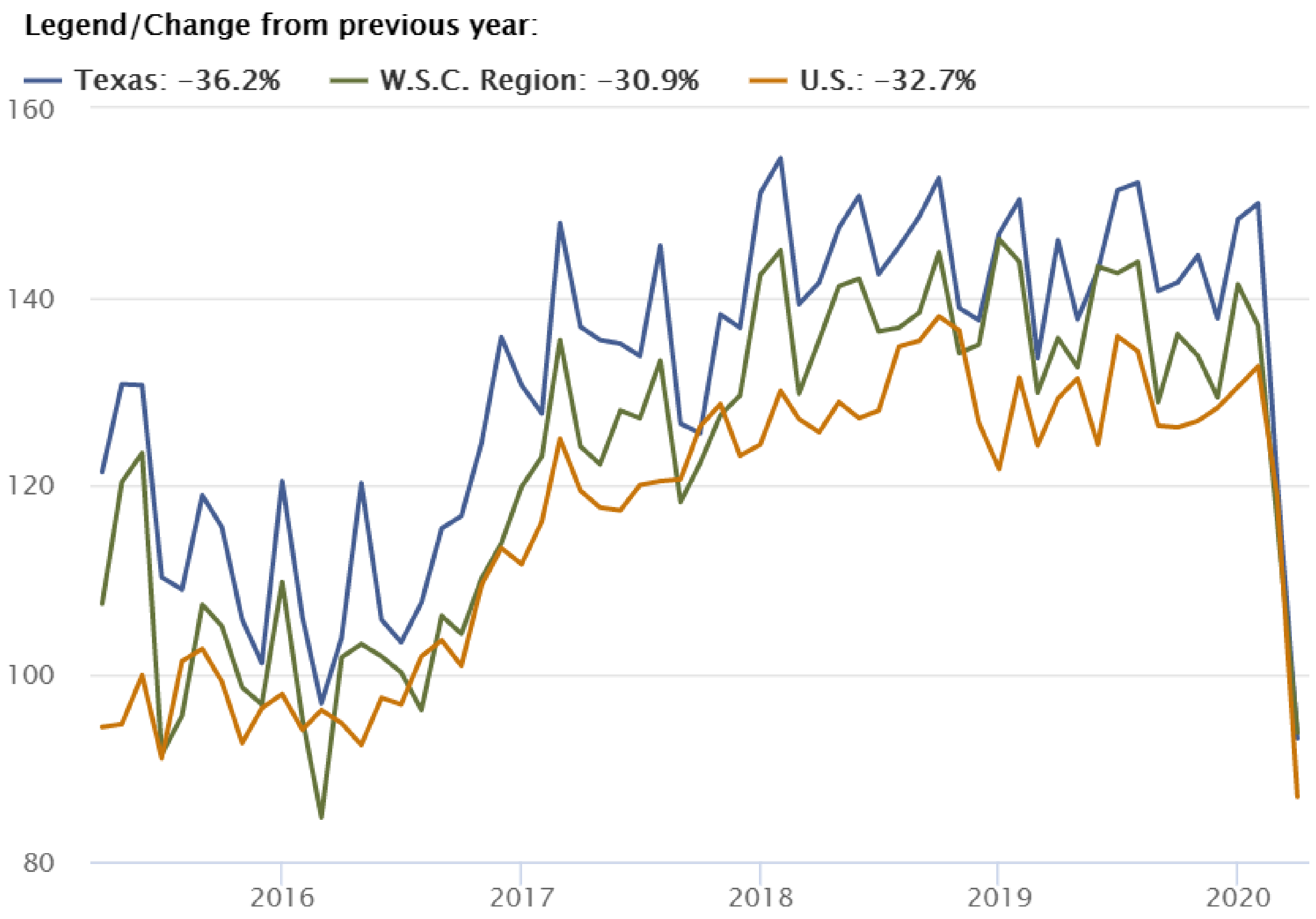
Consumer Confidence



Source: The Conference Board and Texas Comptroller of Public Accounts

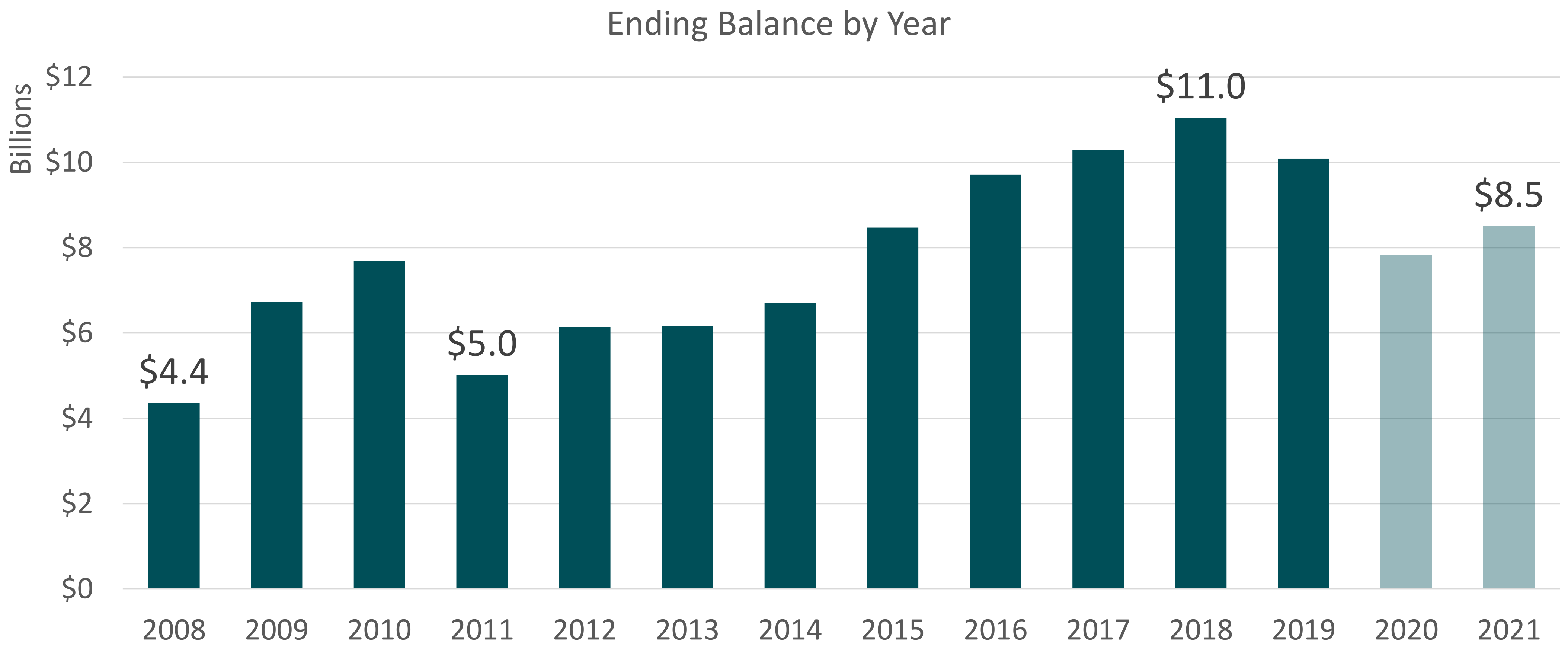
Outlook for the Remainder of 2020

- The rapid onset of COVID-19 and shelter-in-place measures across Texas in March and April caused a significant decline in output and employment. The damage has been swift, and no sector of the Texas economy has been spared.
- As of mid-May, new unemployment claims since March have exceeded 2 million, suggesting the state's unemployment rate will continue to climb.
- Even with businesses in all sectors reopening, leading indicators point to significant weakness in the state economy.
- Texas could struggle to bounce back economically due to the double whammy of COVID-19 combined with weakness in oil & gas.

How will Texas Respond?

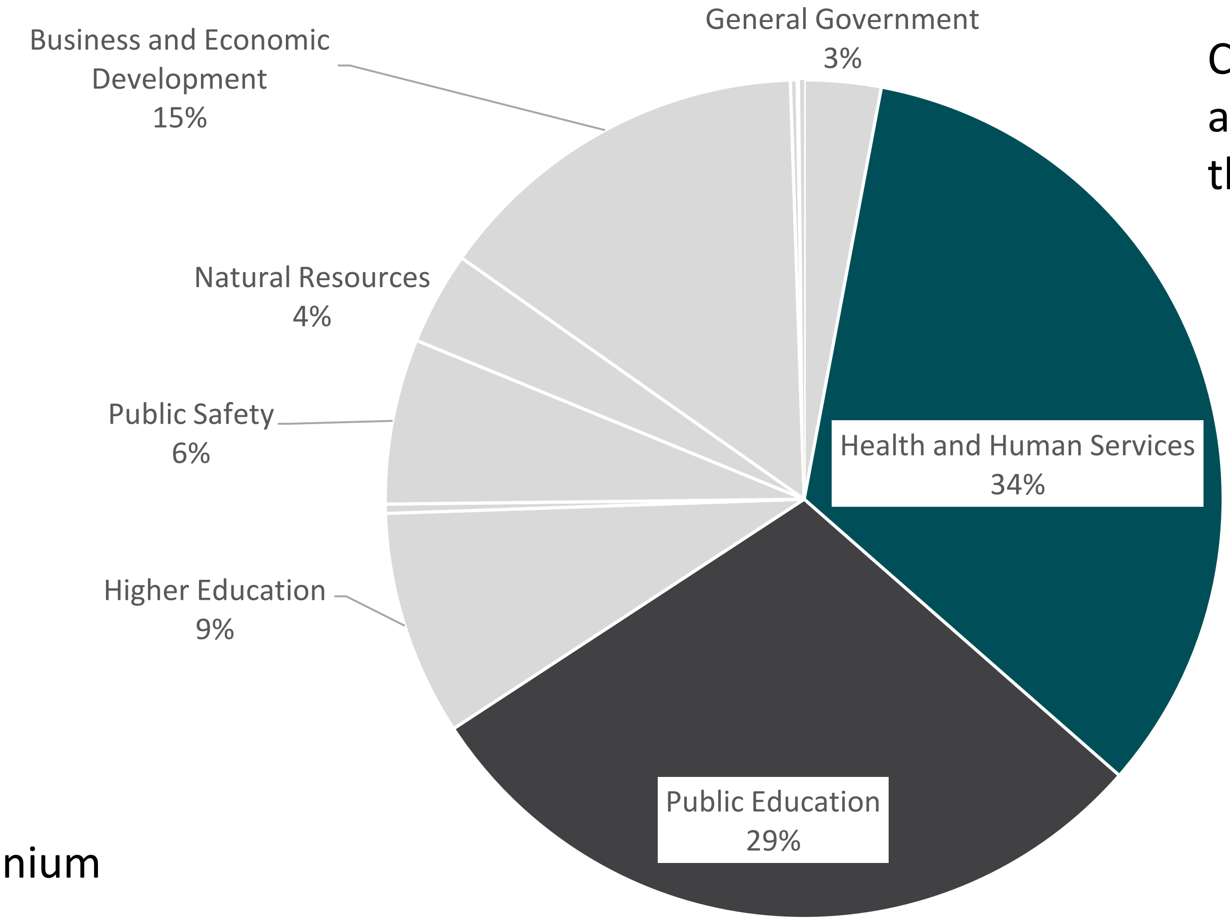
- The Comptroller anticipates adjusting the revenue estimate for the current biennium down by several billion later this summer.
- Comptroller Hegar is also signaling that the state’s Economic Stabilization Fund will have a lower ending balance —roughly $8.5 billion in FY 21
- State leadership has asked state agencies to cut their spending by 5% in the current biennium (FY20 & FY21)
- The state has accounting mechanisms available to forestall some revenue shortfalls (i.e. FSP August payment delay “saves” the state roughly $2 billion within a biennium)
- Budget cuts for the next biennium (FY22 & FY23) may be needed.

The Economic Stabilization Fund



Source: Texas Comptroller of Public Accounts

A $251 Billion Budget (All Funds)

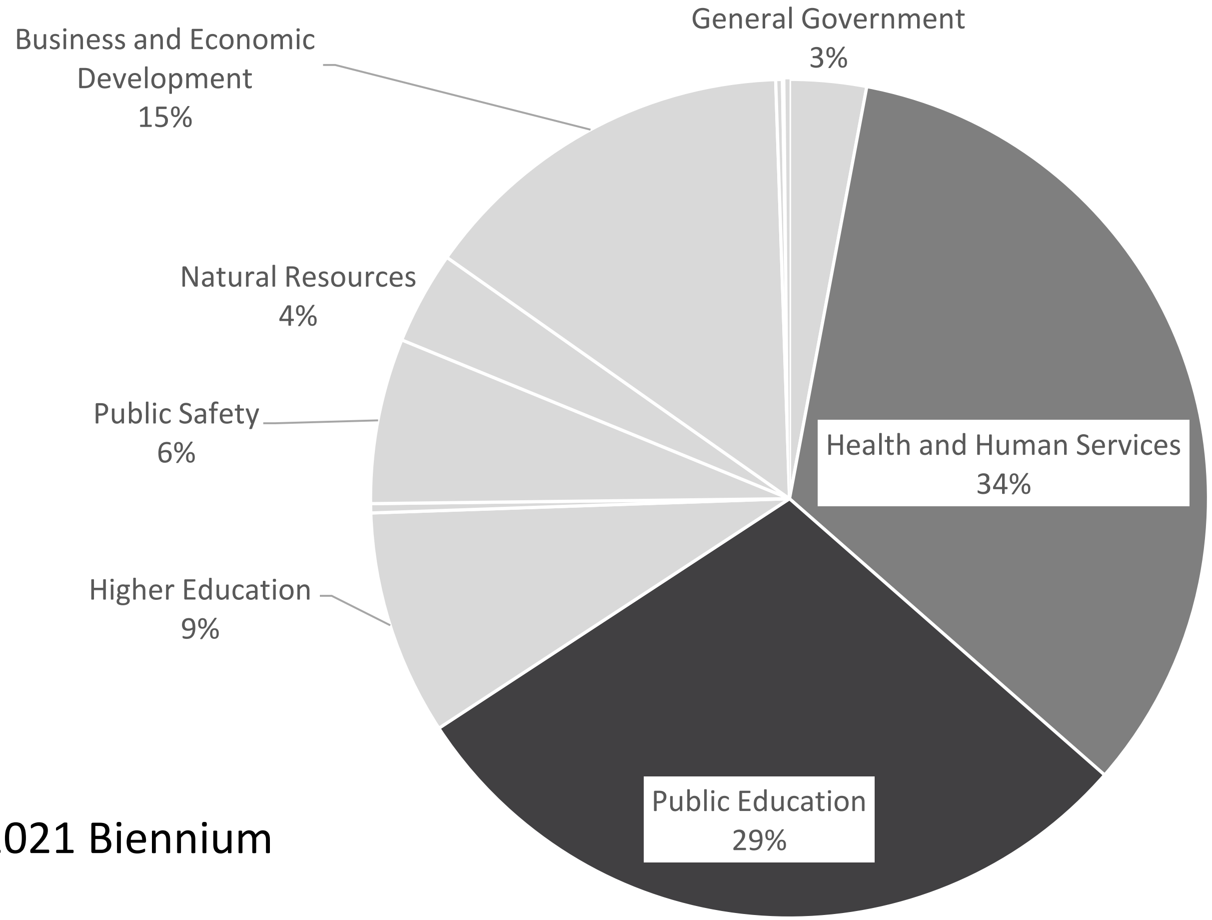


Combined, health and human services and public education make up 63% of the state budget, all funds.

2020–2021 Biennium

Source: Texas Comptroller of Public Accounts

A $251 Billion Budget (All Funds)



2020–2021 Biennium

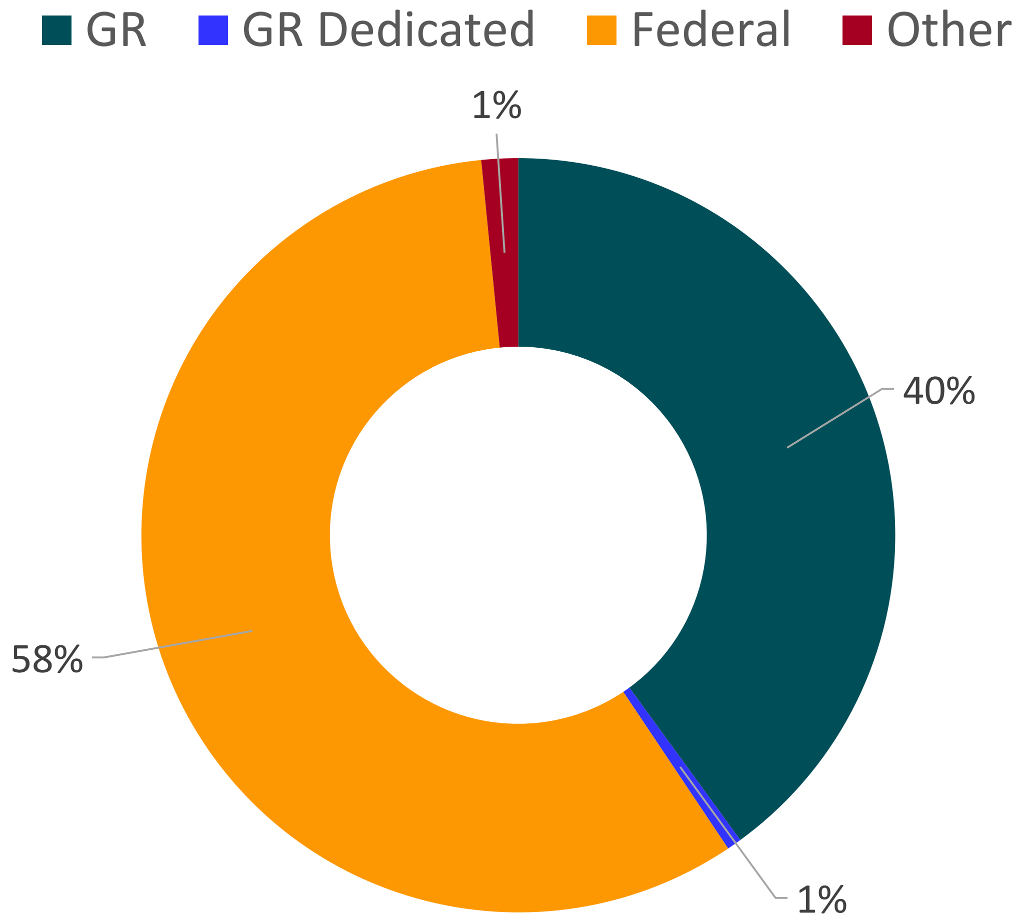
Combined, health and human services and public education make up 63% of the state budget, all funds.

Methods of Finance:

(in billions)	Biennial Totals
General Revenue	$118.9
Other	$39.2
General Rev-Dedicated	$6.2
Federal Funds	$86.4
All Funds	$250.7

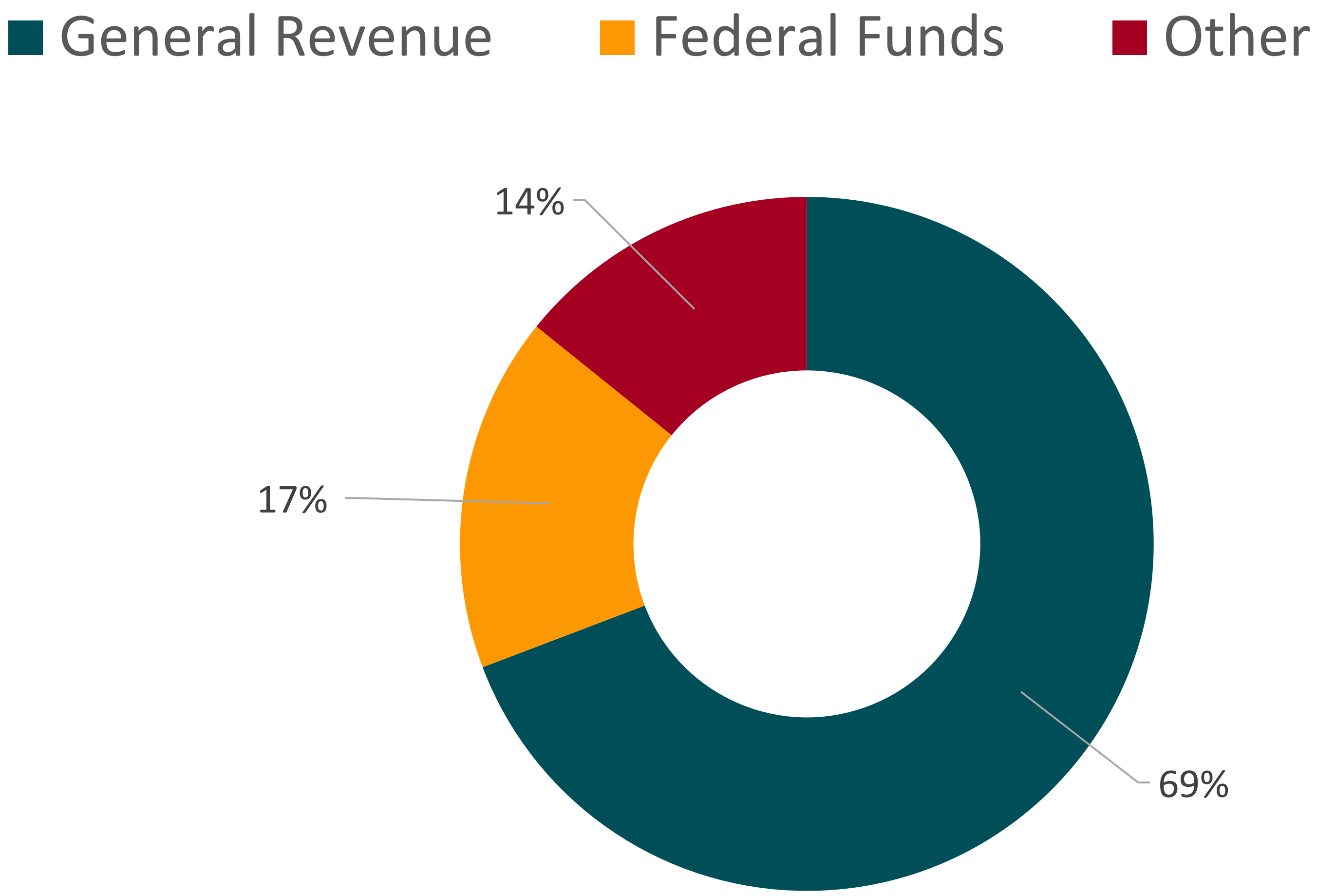
Source: Texas Comptroller of Public Accounts

Health and Human Services by Fund Source



Nearly 60% of the Health and Human Services budget is from federal funds

Appropriations to the Texas Education Agency



Nearly 70% of the Public Education budget is from state general revenue

An additional 14% is from Other general revenue-related funds, including state tax revenue deposited in the Property Tax Relief Fund and Appropriated Receipts (aka FSP Recapture)

2020–2021 Biennium

FSP Appropriations for the 2020-2021 Biennium

(in billions)	FY20	FY21	Biennial Totals
General Revenue	$21.2	$21.6	$42.8
Other	$4.4	$4.7	$9.1
All Funds	$25.6	$26.3	$51.9

State Budget: Appropriations for the 2020-2021 Biennium

(in billions)	Biennial Totals	
General Revenue	$118.9	36% is FSP
Other	$39.2	23% is FSP
General Rev-Dedicated	$6.2	0% is FSP
Federal Funds	$86.4	0% is FSP
All Funds	$250.7	21% is FSP

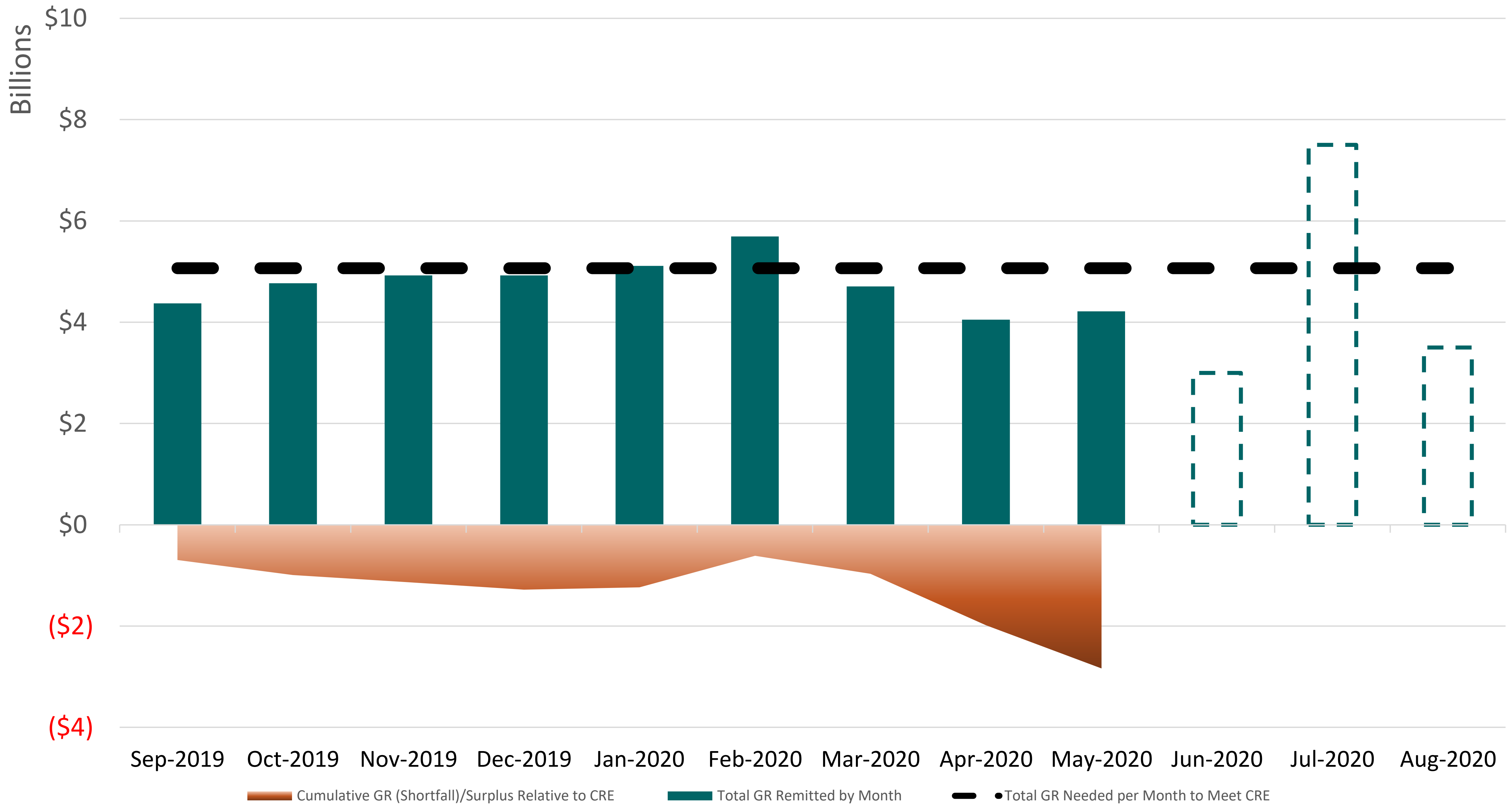
State Revenue – General Revenue Related Funds

Signals of economic contraction continue with the May release of state tax collection data primarily representing remittances of April tax collections. COVID-19 shutdowns were widespread for the entire month of April. News reports focus on the data point that all-funds sales tax figures are 13.2% lower than May 2019 and general revenue sales tax remittances are down 14.3% from May 2019. Beginning with the May release, total general revenue tax collections crossed into negative territory relative to last year posting a decline of 5.58% relative to collections for fiscal year 2019 from September through May, although this is partly due to to the extension of this year's franchise tax deadline from May 15th to July 15th.

Source	FY20 Collections (Sept – May 2020)	Certified Revenue Estimate for FY20	Percent of Estimate Attained
Tax Collections	$37.8	$53.2	71%
Other Revenues	5.0	7.6	66%
Total	**$42.8**	**$60.8**	**70%**

(amounts in billions)

WE AREN'T REALLY VERY FAR OFF TRACK YET… OR ARE WE?



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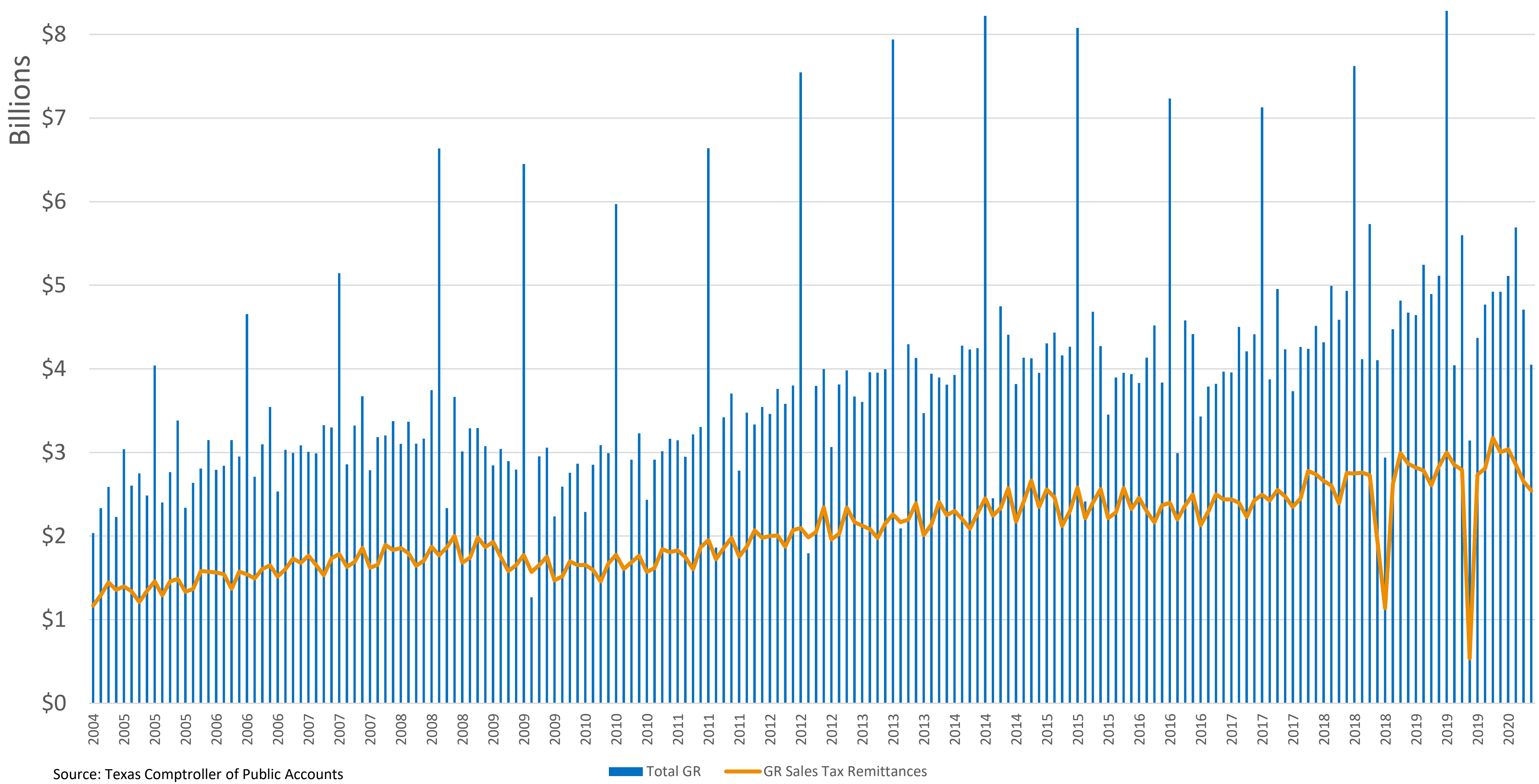
TEXAS' GENERAL REVENUE REMITTANCES BY MONTH



Source: Texas Comptroller of Public Accounts

STATE REVENUE

General Revenue

Tax Collections

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Source	FY20 Collections (Sept – April 2019 2020)	Change from Same Period Prior Year
Sales Taxes	**25,376,915**	**7.25%**
Motor Vehicle Sales & Rental	**3,457,920**	**-3.47%**
Motor Fuel Taxes	**650,562**	**-13.56%**
Franchise Tax	**652,806**	**-76.82%**
Oil Production Tax	**2,741,333**	**-4.00%**
Insurance Taxes	1,603,474	5.98%
Cigarette & Tobacco Taxes	467,763	-4.54%
Natural Gas Production Tax	**883,378**	**-33.58%**
Alcoholic Beverages Taxes	**881,159**	**-13.34%**
Hotel Occupancy Tax	**383,382**	**-16.69%**
Utility Taxes	**327,069**	**0.74%**
Other Taxes	126,770	-21.54%
Total Tax Collections	**37,800,669**	**-5.58%**

(collections amounts in thousands)

General Revenue

Sales Tax

(amounts in billons)

MONTH	AMOUNT	PERCENT CHG FROM PRIOR YR
September	$2.7	140.13%
October	$2.8	6.95%
November	$3.2	6.16%
December	$3.0	4.87%
January	$3.0	7.80%
February	$2.9	2.48%
March	$2.7	1.70%
April	$2.5	-10.21%
May	$2.6	-14.31%
Total	**$25.4**	**7.25%**

TASBO

General Revenue

Motor Vehicle Sales & Rental Taxes

(amounts in billons)

MONTH	AMOUNT	PERCENT CHG FROM PRIOR YR
September	$0.4	8.2%
October	$0.5	10.64%
November	$0.4	4.12%
December	$0.4	7.92%
January	$0.5	10.80%
February	$0.4	1.98%
March	$0.4	-2.65%
April	$0.2	-44.88%
May	$0.3	-38.14%
Total	**$3.2**	**1.22%**

General Revenue

Total Tax Collections

(amounts in billons)

MONTH	AMOUNT	PERCENT CHG FROM PRIOR YR
September	$4.0	60.73%
October	$4.1	6.93%
November	$4.4	4.23%
December	$4.1	6.10%
January	$4.4	9.50%
February	$5.2	8.52%
March	$4.3	-4.59%
April	$3.5	-22.24%
May	$3.7	-51.83%
Total	**$37.8**	**-5.58%**

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What can we learn from past experience?

State Budget Situation

2010-2011 & 2012-2013

COMMON THEMES

- Major Property Tax Compression
- National & State Economic Recession
- Federal Stimulus
- Potential State Budget Shortfall
- Request for 5% State Agency Budget Reductions

CULMINATING RESPONSE

- Additional 2.5% State Agency Budget Reductions
- Appropriations from Rainy Day Fund
- Revenue & Accounting Measures
- Significant Funding Cuts – Including K-12 Education

HB 1 – 79th Legislature, 3rd Called Session 2006

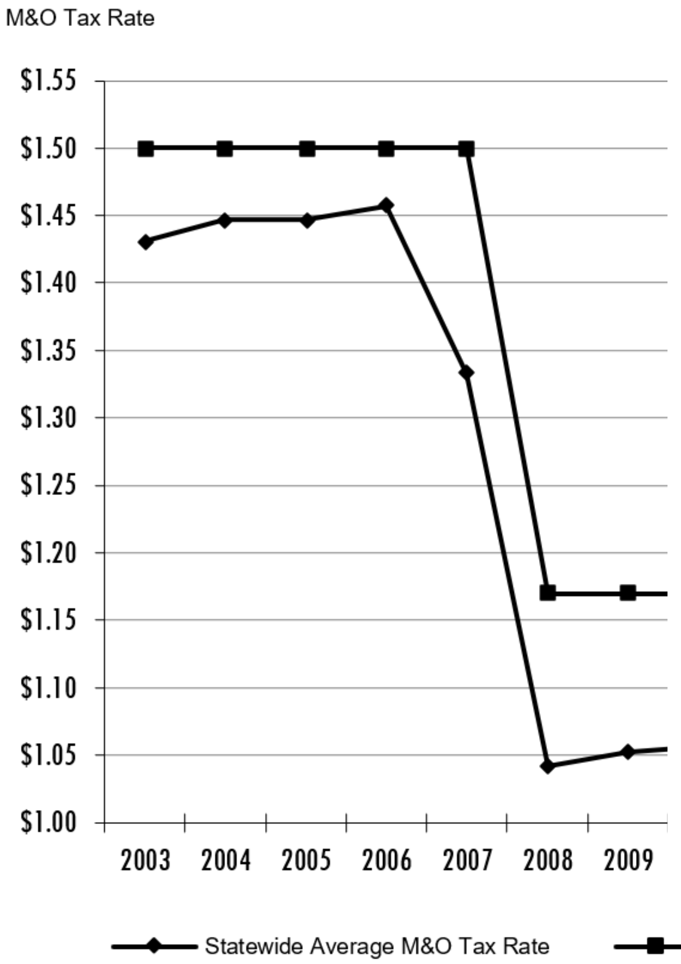

FIGURE 2
ESTIMATED AND ACTUAL RECEIPTS OF NEW REVENUE TO COVER PROPERTY TAX RELIEF, 2008–09 BIENNIUM

IN MILLIONS	FISCAL YEAR 2008	FISCAL YEAR 2009	2008–09 BIENNIUM	SHARE PERCENTAGE
Estimated Cost of School District Property Tax Relief	$7,095.6	$7,095.6	$14,191.2	
ESTIMATED SOURCES OF FUNDING				
Revised Business Tax (Margins Tax)	$3,382.9	$3,450.2	$6,833.1	
Increase in Cigarette Tax	$690.9	$731.3	$1,422.2	
Loophole Reform for Motor Vehicle Sales Tax	$42.3	$42.8	$85.1	
Subtotal, New Revenue Sources	**$4,116.1**	**$4,224.3**	**$8,340.4**	**58.8%**
Existing General Revenue & Interest	**$2,979.5**	**$2,871.3**	**$5,850.8**	**41.2%**
ACTUAL RECEIPTS				
Revised Business Tax (Margins Tax)	$1,576.8	$1,472.5	$3,049.3	
Increase in Cigarette Tax	$912.8	$977.0	$1,889.8	
Loophole Reform for Motor Vehicle Sales Tax	$12.0	$22.3	$34.3	
Subtotal, New Revenue Sources	**$2,501.6**	**$2,471.8**	**$4,973.4**	**35.0%**
Existing General Revenue Funds and Interest	**$4,594.0**	**$4,623.8**	**$9,217.8**	**65.0%**

SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

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Federal Stimulus

"Of the ARRA funding spent in the 2010–11 biennium, **$3.3 billion was used as a method of financing for the Foundation School Program and $361.6 million was used for instructional materials, expenditures that would have otherwise required additional outlay of General Revenue Funds in order to fund them at the same level.** The remaining $467.0 million in federal ARRA funding comprised supplemental grants delivered to school districts primarily through Title I of the federal No Child Left Behind Act, 2001, (funds directed for services to economically disadvantaged students) and the federal Individuals with Disabilities Education Act (funds directed for special education services)."

FIGURE 15
FEDERAL FUNDS – STATEWIDE SUMMARY
AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

IN MILLIONS FUNCTIONS	EXPENDED/ BUDGETED 2010–11	APPROPRIATED 2012–13
Article I – General Government	$571.4	$3.0
Article II – Health and Human Services	4,642.7	29.0
Article III – Education	4,409.7	10.8
Public Education	*4,080.1*	*10.8*
Higher Education	*329.6*	*0.0*
Article V – Public Safety and Criminal Justice	9.9	0.1
Article VI – Natural Resources	49.9	8.9
Article VII – Business and Economic Development	2,846.9	608.3
Article VIII – Regulatory	0.7	0.6
TOTAL, ALL FUNCTIONS	**$12,531.2**	**$660.7**

Source: Legislative Budget Board.

2011 Program Cuts included in TEA's 5% Reduction

Name of Program
High Schools That Work
Investment Capital Fund
Beginning Teacher Induction and Mentoring (Teacher Mentoring Program)
Intensive Summer Program
Math Instructional Coaches Pilot
Student Success Initiative Targeted Assistance Grants (New)
Middle School Physical Education & Fitness
Science Lab Grant Program
Life Skills Student Parents
Optional Extended Year

LEGISLATIVE RESPONSE TO FISCAL CHALLENGE: 2011 LEGISLATIVE SESSION

IN BILLIONS

Estimated Gap Between Available Revenue and Current Service Demands	**$27.0**

CLOSING THE 2011 SHORTFALL	
Reduce Spending During the 2010–11 Biennium	$1.2
Tap Economic Stabilization Fund	$3.2
Subtotal, Closing the 2011 Shortfall	**$4.4**

REVENUE SOLUTIONS	
Increase Recurring Revenues	$0.7
Create One-time Revenues	$1.4
Improved Revenue Estimate and Other Revenue	$1.9
Make Some Funding Contingent on Improved Revenue Collections	$1.0
Subtotal, Revenue Solutions	**$5.0**

SPENDING SOLUTIONS AND RESPONSES	
Reduce Entitlement Funding to Local School Districts	$4.0
Defer August 2013 Payment to School Districts until September 2013	$2.3
Contain Costs in Medicaid	$1.8
Underfund Medicaid in 2013	$4.3
Reduce Other Spending in the 2012–13 Biennium	$5.2
Subtotal, Spending Solutions and Responses	**$17.6**

NOTE: Totals may not sum due to rounding.
SOURCE: Legislative Budget Board.

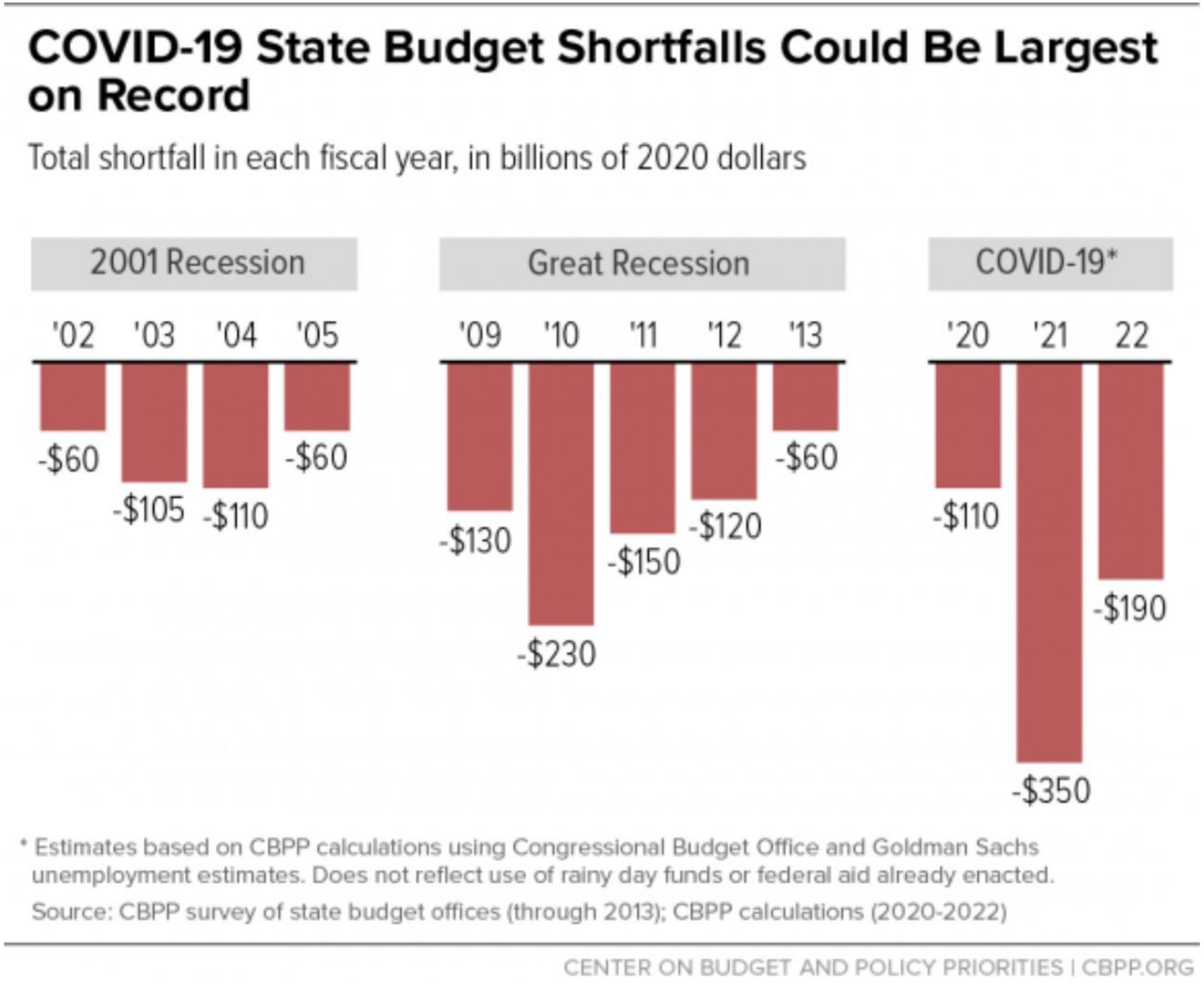
2012-2013 Biennium - $1.3B non-FSP Public Education Cuts

• PreK Grant & Readiness Programs	**$209.2 million**
• DATE (teacher incentive) program	**$332.5 million**
• Student Success Initiative	**$237.1 million**
• Technology Allotment	**$270.9 million**
• High School Completion Initiatives	**$59.2 million**
• Advanced Placement Initiative	**$11.9 million**
• Communities in Schools	**$12.1 million**
• Optional Extended Year Program	**$14.1 million**
• Regional Service Centers	**$17.8 million**
• TDCJ (Windham) Schools	**$33.1 million**
• Early HS Grad Scholarship	**$43.2 million**
• Other Programs & TEA Administration	**$58.5 million**

2012-2013 Biennium - $4.0B FSP Funding Cuts

• Regular Program Allotment (FY 2012) Adjustment Factor 92.39%	**$2.0 Billion**
• Regular Program Allotment (FY 2013) Adjustment Factor 98%	**$0.5 Billion**
• Target Revenue Reduction (FY 2013) Adjustment Factor 92.35%	**$1.5 Billion**

In addition to the amounts above, no appropriation was made for the FSP New Instructional Facilities Allotment (NIFA), a decrease of $50 million from the prior biennium.


COVID-19 State Budget Shortfalls Could Be Largest on Record
Total shortfall in each fiscal year, in billions of 2020 dollars
2001 Recession
Great Recession
COVID-19*
'02 '03 '04 '05
'09 '10 '11 '12 '13
'20 '21 22
-$60
-$105
-$110
-$60
-$130
-$230
-$150
-$120
-$60
-$110
-$350
-$190
* Estimates based on CBPP calculations using Congressional Budget Office and Goldman Sachs unemployment estimates. Does not reflect use of rainy day funds or federal aid already enacted.
Source: CBPP survey of state budget offices (through 2013); CBPP calculations (2020-2022)
CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG