



**Senate Finance Committee:  
Organizational Meeting,  
LBB and Comptroller  
Reports, February 8, 2020**



The Senate Finance Committee held an organizational hearing. No public testimony was taken. Committee Chair Nelson convened the meeting, laying out the COVID-19 rules and stating that the Committee would meet Monday through Thursday with Friday being an overflow day. Senate Rules would have to be changed to allow for remote testimony.

<b>Members include:</b> <b>Chair</b> <a href="#">Jane Nelson</a> Vice Chair <a href="#">Eddie Lucio, Jr.</a>  Members <a href="#">Paul Bettencourt</a> <a href="#">Dawn Buckingham</a> <a href="#">Donna Campbell</a>	<a href="#">Brandon Creighton</a> <a href="#">Kelly Hancock</a> <a href="#">Joan Huffman</a> <a href="#">Lois Kolkhorst</a> <a href="#">Robert Nichols</a> <a href="#">Charles Perry</a> <a href="#">Charles Schwertner</a> <a href="#">Larry Taylor</a> <a href="#">Royce West</a> <a href="#">John Whitmire</a>
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**The Chair** stated that there is now a \$946 million shortfall and praised the committee for putting in place legislation and budget items that made getting through COVID-19 possible.

**Comptroller Presentation.** The Comptroller spoke from the first slide below. The remaining slides are provided as background. \$112.53 billion is available for general spending for the 2022-23 biennium, a slight decrease from the amount available with the current biennium. This drop in General Revenue (GR) funds is not due to a drop in projected revenue collections. We expect revenue collections to grow in the next biennium, with GR-Related (GR-R) tax collections increasing by \$6.5 billion, and the total GR-R collections growing by \$7.1 billion from this biennium to the next. The reason the available GR-R drops from this biennium to the next is because we started this biennium with \$4.84 billion beginning balance, whereas this estimate projects a \$946 million deficit at the beginning of next biennium. After subtracting the projected ending shortfall from estimated revenue collections, we then have to deduct \$5.83 billion in severance tax revenue that must be reserved for transfers to the Economic Stabilization Fund (ESF or "Rainy Day Fund") and the State Highway Fund (SHF). We must also set aside \$271 million in GR to cover a projected shortfall in the Texas Tomorrow Fund. This estimate does not include possible savings from the five-percent reductions agencies were instructed to make. Those spending reductions, if realized, could substantially reduce the projected ending shortfall. However, any new GR appropriations needed in a supplemental appropriations bill for this biennium would increase the projected deficit. The assumptions are based on positive economic growth but can be impacted by Pandemic spending. This is an unknown. Texas is well-positioned to recover economically from the pandemic.

# BIENNIAL REVENUE ESTIMATE

January 2021

## Revenue Available for General Purpose Spending

In Billions of Dollars

Before each regular legislative session, the Texas Comptroller issues the Biennial Revenue Estimate (BRE) to inform lawmakers of the funds available to spend on state programs through the next two-year budget period. Due to the economic effects of the COVID-19 pandemic, lawmakers can expect a negative beginning balance as they begin writing the 2022-23 state budget.

		2020-21	2022-23	CHANGE
General Revenue-Related (GR-R) Tax Collections	+	\$97.41	\$103.93	\$6.52
Other GR-R Revenues	+	\$15.03	\$15.65	\$0.62
Total GR-R Revenues	=	\$112.44	\$119.58	\$7.14
			SUBTOTAL	
Beginning Balance	+	\$4.84	-\$0.95	-\$5.79
Total GR-R Revenue & Fund Balances	=	\$117.28	\$118.63	\$1.35
			SUBTOTAL	
Revenue Reserved for Transfers to the Economic Stabilization and State Highway Funds	-	\$4.32	\$5.83	\$1.51
Amount Needed for Texas Tomorrow Fund*	-	N/A	\$0.27	\$0.27
Total Revenue Available for General-Purpose Spending	=	\$112.96	\$112.53	-\$0.44
			TOTAL	

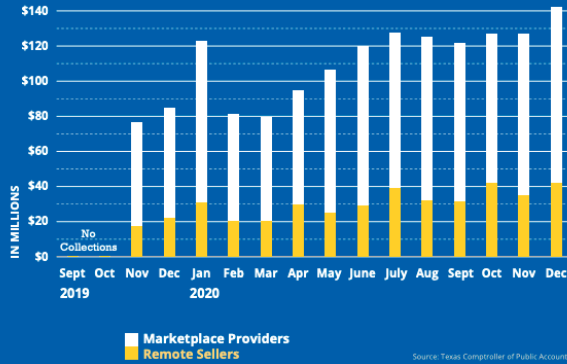
\* The original, constitutionally guaranteed prepaid tuition program is projected to have a cash shortfall of \$271 million in the 2022-23 biennium. The BRE assumes the shortfall will be paid from general revenue.  
Note: Totals may not sum because of rounding.

January 2021 BIENNIAL REVENUE ESTIMATE

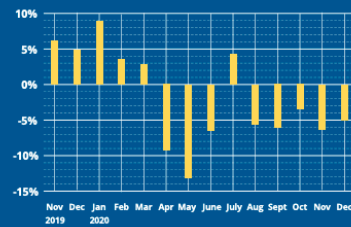
## NEW SOURCES OF SALES TAX REVENUE

The state's ability to benefit from a consumer shift to online purchasing drove higher-than-expected sales tax revenues. Out-of-state online vendors and marketplace providers were not required to collect Texas taxes until late in 2019, following the U.S. Supreme Court's *Wayfair* decision and subsequent legislation. Monthly sales tax collections were down in eight of the last nine months compared to the previous year, but the drop would have been greater if not for tax collections from online sellers.

**Remote Seller and Marketplace Provider Sales Tax Revenue**  
Sept. 2019 to Dec. 2020



**Monthly Sales Tax Collections**  
Percent Change from Previous Year/  
All Funds/Nov. 2019 to Dec. 2020

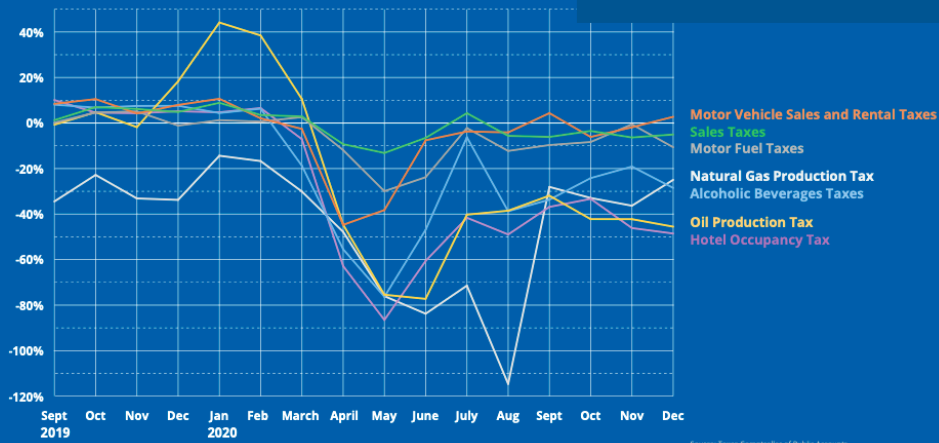


January 2021 BIENNIAL REVENUE ESTIMATE

## TAX REVENUE

The pandemic and collapsing oil prices caused a severe economic contraction in the first and second quarters of calendar 2020. The crisis was particularly hard on revenue sources such as severance, hotel occupancy and alcoholic beverage taxes. While they have rebounded from their low points, they remain well below collections in the same period of 2019. Sales tax revenue, while stronger than expected, has been down from the previous year in eight of the last nine months. Fallout from the pandemic will continue to curb growth in economic activity and sales tax collections in the near term.

**Monthly Tax Collections Percent Change From Previous Year**  
All Funds/Sept. 2019 to Dec. 2020

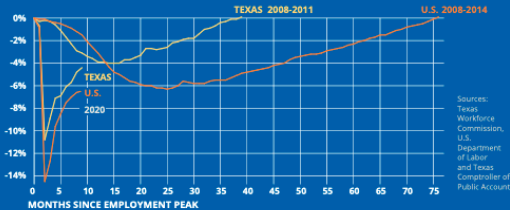


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## BIENNIAL REVENUE ESTIMATE

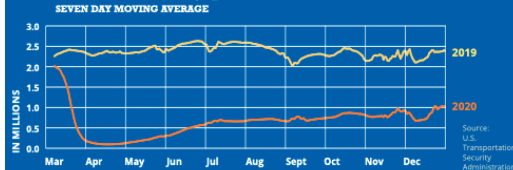
### HIGH-FREQUENCY INDICATORS

#### Texas and U.S. Employment Loss as Share of Peak Employment in the Great and 2020 Recessions



**TEXAS EMPLOYMENT** peaked in February, then the state lost more than 1.4 million jobs. The state still had nearly 570,000 fewer jobs in November than in February. Job losses as a share of the pre-pandemic peak remain deeper than in the Great Recession of 2008-09.

#### TSA Traveler Throughput/2019 and 2020



**THROUGHPUT** — travelers passing through U.S. Transportation Security Administration checkpoints — totaled 2.28 million on March 1, then fell below 90,000 by April 14. The number topped 1 million multiple times over the holidays, but compared to a year ago was still down, on average, by more than 50 percent.

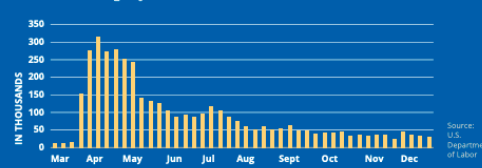
High-frequency indicators, some from nontraditional sources, can provide timely information about a rapidly changing economy. Traditional economic indicators such as revenue collections may lag the data they're tracking by a month or more. Together, these data show that the economy is rebounding from its 2020 lows but remains well below pre-pandemic peaks.

#### Open Table Reservations/ Texas Change from 2019



**OPEN TABLE**, a restaurant reservation service, reported the year-over-year (YoY) decline in Texas reached 100 percent by March 21 in Austin, Dallas, Houston and San Antonio. That held until May 1, when the YoY drop was 85 percent. The number of diners since has increased but remains well below the number from a year ago.

#### Initial Unemployment Insurance Claims/Texas 2020



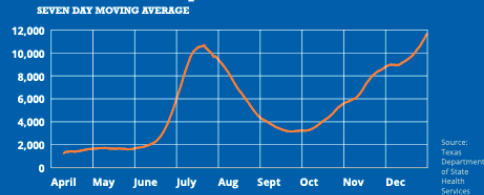
**WEEKLY UNEMPLOYMENT INSURANCE CLAIMS** in Texas peaked at more than 300,000 in early April. Numbers since have fallen — Texans filed 31,448 initial claims in the week ending Dec. 26 — but still are much higher than average weekly claims in early 2020.

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## BIENNIAL REVENUE ESTIMATE

### PUBLIC HEALTH UNCERTAINTY

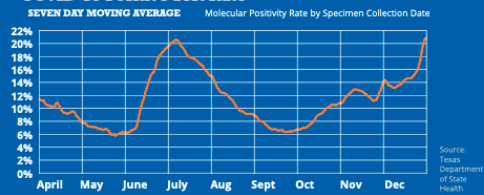
#### Texas Statewide Hospitalizations



A record 11,892 people with COVID-19 were **HOSPITALIZED** in Texas on Dec. 29. The increase in hospitalizations is straining facilities and staff.

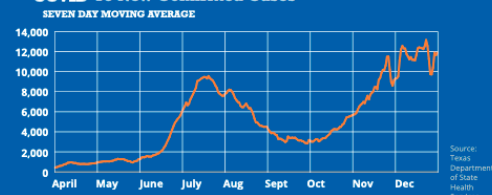
Surges in COVID-19 cases and hospitalizations have been a drag on economic growth and recovery. Texas isn't expected to experience the kind of economic contraction that occurred in spring 2020 again, but in the near term we could see a reversal of recent positive economic trends. The prospect of effective and widely administered vaccines could prompt a return to pre-pandemic levels of economic activity in the next year.

#### COVID-19 Positive Test Rate



The **SEVEN-DAY POSITIVITY RATE** measures the percentage of people who test positive (the number of new cases reported over the last seven days divided by new molecular test results received in that time).

#### COVID-19 New Confirmed Cases



Texas reported a cumulative total of 1.5 **MILLION CASES** of COVID-19 on Dec. 29, with an increase of 26,990 in a single day.



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### ENERGY UNCERTAINTY

West Texas Intermediate (WTI) Crude Oil Price and NYMEX Futures Price



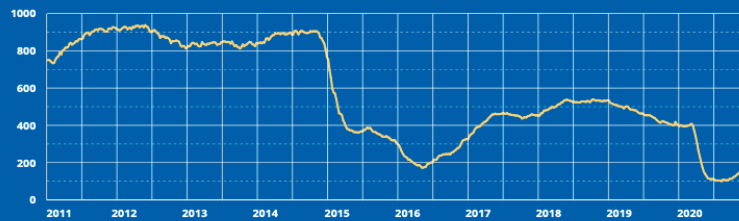
Texas' economically vital oil and gas industry is tied to volatile energy prices and was hammered in 2020 by forces including the pandemic. The state's rig count fell this summer to levels not seen in more than 80 years. The collapse affected not only severance tax revenue but sales tax and other state revenue tied to industry activity, hurting economic and revenue growth.

Note: Confidence interval derived from options market information for the five trading days ending Dec. 3, 2020. Intervals not calculated for months with sparse trading in near-the-money options contracts. Sources: U.S. Energy Information Administration Short-Term Energy Outlook, December 2020; and CME Group

IN AUGUST, THE WEEKLY COUNT OF ACTIVE DRILLING RIGS IN TEXAS **FELL TO 100,** DOWN FROM 450 A YEAR EARLIER.

The rig count, which plummeted this summer, has increased in recent months but remains well below 2019 levels.

Rig Count/2011-2020



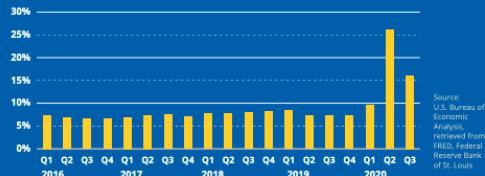
Source: Baker Hughes

January 2021

## BIENNIAL REVENUE ESTIMATE

### LOOKING AHEAD

U.S. Personal Saving as a Percentage of Disposable Income SEASONALLY ADJUSTED ANNUAL RATE



The personal saving rate in the U.S. was 12.9 percent in November, according to the U.S. Bureau of Economic Analysis. This figure represents personal saving as a percentage of disposable personal income.

U.S. Credit Card Debt by Quarter



Credit card balances fell somewhat in the third quarter following a record \$76 billion decline in the second quarter of 2020, according to the Federal Reserve Bank of New York.

Despite the difficulties posed by the pandemic, Texas is well-positioned to eventually recover and to again exceed the national rate of economic growth. People are saving more and some consumer debt has decreased, pointing to the possibility of a spending surge when pandemic fears have receded. In addition, another wave of federal relief is on its way; state agencies are cutting back to help meet the budget challenge; and Texas has a substantial Economic Stabilization Fund (ESF) to help meet its financial challenges.

#### 5% cuts from State Agencies

**POTENTIALLY \$1 BILLION IN SAVINGS**

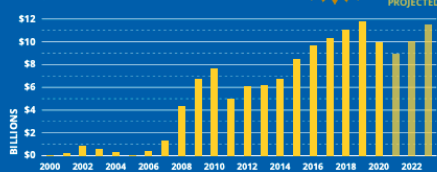
#### CARES ACT ALLOCATIONS

THE CARES ACT ALLOCATED NEARLY \$13 BILLION TO TEXAS AND ITS LOCAL GOVERNMENTS. SOME OF THE STATE'S ALLOCATION MAY REPLACE GR SPENDING THIS BIENNIAL, REDUCING THE BRE'S PROJECTED 2020-21 SHORTFALL.

A NEW ROUND OF FEDERAL RELIEF, APPROVED IN DECEMBER, ALSO COULD IMPROVE THE REVENUE OUTLOOK.

#### ESF Balance

PROJECTED THROUGH 2023



The Economic Stabilization Fund, the state's "Rainy Day Fund," is projected to have a balance of \$11.6 billion by the end of fiscal 2023, absent new appropriations from the fund.



**The Chair** asked what changed since the release of the [Certification Revenue Estimate](#) in July. The Comptroller stated that sales taxes have held up better than expected. The original sales tax estimate was projected to be 10% in the red and was actually 5%. Additionally, expenses on foundation school program have been less than anticipated.

**The Vice Chair** inquired about the [ADA Hold Harmless](#) factor. The Comptroller stated that the introduced version is higher than available revenue, but legislative actions can make the budget work.

**Senator Perry** in your projections are you considering the pent-up demand of people sitting at home? The Comptroller stated he does not have an exact number. Undoubtedly, however, when we projected half a billion, we undershot the mark. To-date, we have more than 540 marketplace providers registered with us. The pandemic has substantially driven that activity, and from our vantage point, this online purchasing activity will continue. You can bank on the e-commerce growth post-pandemic. There is a possible wide divergent depending on the vaccine rollout, whether the revenues can be higher than we anticipated or if we go backwards with the variants, there could be a slight contraction.

**Senator Bettencourt** stated we have a bifurcated economy. Brick-and-mortar business is still suffering. The long-term virtual buying may become permanent. The Comptroller concurred that online buying would continue.

**Senator West** inquired about the impact of the \$1.9 trillion stimulus package proposed by the President. The Comptroller stated that whatever stimulus is provided, this would put the state in a better position. The BRE does not include this as a variable.

**Senator Schwertner** inquired about Transportation, stating that ~ \$30 billion will be put into this budget for transportation. He discussed the taxation sources used to support the State Highway Fund and said that the most concerning is the motor fuels/gas tax. Because of the increasing number of electronic vehicles, that resource is diminishing. He and Sens. West, Powell, and Nichols, are drafting legislation to create a tax for these vehicles as a matter of fairness (benefitting from the highways but not contributing to their construction or maintenance). The Comptroller stated he has received many questions in this area and his office has produced [fiscal note articles on the subject](#). This is an issue states are grappling with, and if we want to maintain funding through this particular area of the state revenue stream, then this issue should be addressed as the number of electric vehicles will only increase with time. The sooner you address it, the better you'll get ahead of the curve.

**Senator Kolkhorst** stated that if we have an influx of dollars, those will likely not be recurring, correct? We've learned that we need to be careful to look at recurring liabilities and plugging the holes versus potentially one-time investments. Will your office be able to help us navigate that? The Comptroller replied that they would. Thankfully, the U.S. Congress last

year gave us more flexibility with the COVID dollars to ensure that we had the time to expend them through this calendar year. He and other treasurers have been advocating for maximum flexibility for states. We need to be conscientious that these are one-time dollars and we cannot count on them again. Sen. Kolkhorst asked if we have a good estimate of the remaining funds from previous COVID stimulus. The Comptroller replied that he would get back to the Committee with that information. Sen. Kolkhorst asked if we have a good accounting of funds distribution (state-level, jurisdictional, and dollars flowing through other entities and assigned for specific purposes). The Comptroller replied that they can only account for the dollars that flow through the state treasury. In the last federal stimulus, there were many dollars that did not flow through treasury.

**Senator Huffman** confirmed that new funding could come for which the Comptroller would have no accounting. The Comptroller confirmed, stating that for the 18 largest local cities and counties that can collect funds directly from the U.S. Treasury, the Comptroller's Office is able to retrieve that data. However, for certain entities like Transit Authorities and others, they can only extrapolate. They cannot see the exact formula or dollars. Sen. Huffman asked if some of these entities receiving indeterminable federal funds will also be receiving State appropriations. The Comptroller stated that he did not have specifics. His assumption would be that some may receive state dollars while others do not. Sen. Huffman stated that for entities receiving both, having an idea of the federal amounts received would be very important to making fair and reasonable appropriations of state dollars.

**Senator Whitmire** inquired about monitoring processes for funds received by the State of Texas. The Comptroller stated that they keep a running tally on the dollars coming through the State Treasury.

**Senator Nichols** inquired about the motor fuel tax fairness issue brought forward by Sen. Schwertner. The Comptroller stated if we don't address the issue of one citizen paying towards a shared resource and another citizen not paying, that's a fairness issue and an erosion of the tax base.

**Senator Hancock** commented on the Margins Tax, PPP, and small business owners (bragging about his bill from last session).

**The Chair** asked if the Comptroller expects that we will have enough revenue to trigger Prop 7 transfers to the SHF. The Comptroller said yes.

**The Chair** stated that SB1 covers the Texas Tomorrow Fund. She asked if the Comptroller included that assumption in his BRE. The Comptroller replied that he had; as long as it's in the final version of the bill, for certification purposes, then it will add back \$271 million in available GR-R. The Chair verified that because SB1 covers it, this Committee should add \$271 million to his estimate. The Comptroller confirmed, stating that right now that sum is



subtracted from the total available GR because it's constitutionally guaranteed, so whether the State appropriates it or not, he has to pay it.

**The Chair** inquired about oil production. The Comptroller stated it is up to \$50 for this fiscal year and \$55 for the next fiscal year.

**The Legislative Budget Board Staff [Presentation](#)**. The Director walked the committee through the presentation below.

#### Senate Bill 1, by Method of Finance

MOF Type	2020–21	2022–23	Biennial Change	% Change
General Revenue Funds	\$114,947.8	\$119,693.2	\$4,745.4	4.1%
General Revenue–Dedicated Funds	\$6,532.3	\$6,282.3	(\$249.9)	(3.8%)
Federal Funds	\$99,446.0	\$85,343.6	(\$14,102.5)	(14.2%)
Other Funds	\$43,878.3	\$39,883.2	(\$3,995.1)	(9.1%)
<b>ALL FUNDS</b> <i>(in millions)</i>	<b>\$264,804.4</b>	<b>\$251,202.3</b>	<b>(\$13,602.1)</b>	<b>(5.1%)</b>

#### General Revenue Funds, by Article

Article	2020–21	2022–23	\$ Change	% Change
1 – General Gov't	\$3,977.4	\$4,147.0	\$169.5	4.3%
2 – Health/Human Services	\$35,914.4	\$36,573.2	\$658.8	1.8%
3 – Public Education	\$44,561.5	\$48,595.2	\$4,033.7	9.1%
3 – Higher Education	\$15,841.3	\$15,890.9	\$49.6	0.3%
4 – Judiciary	\$553.8	\$546.9	(\$7.0)	(1.3%)
5 – Public Safety/Criminal Justice	\$11,869.5	\$11,849.3	(\$20.2)	(0.2%)
6 – Natural Resources	\$933.1	\$915.5	(\$17.5)	(1.9%)
7 – Business/Econ Development	\$520.9	\$477.8	(\$43.1)	(8.3%)
8 – Regulatory	\$367.8	\$287.3	(\$80.5)	(21.9%)
10 – Legislature	\$408.1	\$410.2	\$2.1	0.5%
<b>TOTAL, ALL ARTICLES</b> <i>(in millions)</i>	<b>\$114,947.8</b>	<b>\$119,693.2</b>	<b>\$4,745.4</b>	<b>4.1%</b>

#### PUBLIC EDUCATION

- Recommended funding for the Foundation School Program fully funds current law and includes projected student enrollment growth and state funding related to property tax compression.
- Recommendations for the Teacher Retirement System (TRS) include an increased state contribution rate, from 7.5% in 2020-21 to 7.75% in FY 2022 and 8.0% in FY 2023.

#### HEALTH & HUMAN SERVICES

- All Funds decrease of \$4.1 billion primarily related to COVID-related federal fund expenses in 2020-21 (\$1.8 billion), \$0.6 billion in 2020-21 new construction and repair/renovation projects, as well as projected decreases in Medicaid and CHIP client services (\$1.3 billion).

#### TRANSPORTATION

- All Funds decrease of \$2.5 billion, primarily related to an estimated \$2.4 billion decrease in 2020-21 federal reimbursements for highway planning, right-of-way, construction and maintenance.

#### HIGHER EDUCATION

- Higher Education formula General Revenue appropriations for the 2022–23 biennium were maintained at the 2020-21 appropriated levels.

#### ADULT CORRECTIONS

- Recommended funding maintains correctional security operations, with a decrease totaling \$148 million, primarily related to recent facility closures and 2020-21 repair/renovation projects.

#### Constitutional Limitations

2022–23 Remaining General Revenue Spending Authority (in billions)	
<b>Pay-as-you-go Limit</b> <i>Texas Constitution, Article III, Section 49a</i>	(\$7.2)
<b>Spending Limit</b> <i>Texas Constitution, Article VIII, Section 22</i>	\$3.2

*These amounts compare Senate Bill 1 as introduced with the Comptroller's Biennial Revenue Estimate and do not fully account for revisions that will occur due to supplemental appropriations, 5% agency reductions, and/or the use of federal funds.*



**The Chair** inquired about COVID-19 Relief Funds allocated to Texas to-date, and the COVID funds allocated for 2020-21 and 2022-23. As we go through each agency's budget, the federal amounts assumed in the LBB's document are based on agency submissions as of September. These numbers have already changed and will continue to change. Can you help us understand what we're looking at for this biennium and next? The LBB replied that within the \$99 billion in Federal Funds (FF) for 2020-21, there were ~ \$8 billion identified at the time as COVID-related funds. We believe that ~\$24-25 billion should be identified by the end of the biennium and placed in that 2020-21 number. Through the [Coronavirus Relief Fund \(CRF\)](#), [\\$11.2 billion](#) was allocated to Texas: \$3.2b was given to the large cities and counties and \$8b was given to the state. About half of that \$8b was given to locals through multiple streams—direct funding through TDEM, mass purchase of PPE and testing equipment, and medical surge capacity through DSHS. What was left of that \$8b (45%) was determined for public safety and public health costs. That funding will be used to replace the GR in the budget, and through the process of supplemental appropriations, we will make that available to reduce the deficit cited by the Comptroller.

**Sen. West** asked if the LBB's projected increase in FF for 2021 will erase the deficit altogether. LBB confirmed. Sen. West asked if this would reduce the FF biennial change from 2020-21 to 2022-23. LBB stated that that would depend on any new moneys received for 2022-23.

**The Chair** stated that a lot of the funds were to cover one-time agency costs.

**Senator Whitmire** stated that all corrections and public safety did was lock people down and public safety funds should be reviewed.

**Senator Schwertner** stated that the way the money was spent has been in a black box. He expressed a desire to receive information on the expenditure of the Cares Act.

**LBB stated** that there was an increased FMAP that increased available revenue, and that will continue through 2021.

**Senator Nichols** commented on Transportation Funds and stated that we do not know what the feds are going to do. **LBB stated** they will get the committee more information on this as well as on Texas Emissions Reduction Plan ([TERP](#)) Funds.

**Senator Kolkhorst** inquired about the All Funds decrease of \$4.1 billion primarily related to COVID-related federal fund expenses in 2020-21. LBB stated this is based on the uncertainty around the increased FMAP. When the public emergency ends and that increase stops, the caseloads will drop. During COVID, everyone on Medicaid is frozen and cannot drop off. We have received an indication that we will continue to receive the increased FMAP through calendar year 2021, but we don't know that with certainty.

**LBB stated** that the real controlling limit is the pay-as-you-go. **Medicaid may not need a supplemental because of the COVID-19 funds discussed above.**

**Senator Perry** inquired about data breaches. He asked about the fiscal impact of agencies selling/passing on client data to actors that are not credible. LBB stated that they would work with the Comptroller's Office to determine that information.

**Senator Nichols** concurred with the concern about selling citizen data by state agencies.

**The Chair** stated that there are things going on within this biennium that have not yet been captured in the BRE:

- 5% reduction (\$800 million);
- Use of federal funds and a reduction in the supplemental need; and
- Medicaid will not experience an operational shortfall, but Corrections health care will need relief.

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*This summary contains supplemental information from third-party sources where that information provides clarity to the issues being discussed. Not every comment or statement from the speakers in these summaries is an exact transcription. For the purpose of brevity, their statements are often paraphrased. These documents should not be viewed as a word-for-word account of every meeting or hearing, but a summary. Every effort has been made to ensure the accuracy of these summaries. The information contained in this publication is the property of Texas Insight and is considered confidential and may contain proprietary information. It is meant solely for the intended recipient. Access to this published information by anyone else is unauthorized unless Texas Insight grants permission. If you are not the intended recipient, any disclosure, copying, distribution or any action taken or omitted in reliance on this is prohibited. The views expressed in this publication are, unless otherwise stated, those of the author and not those of Texas Insight or its management.*

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