SPECIAL EDITION

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FISCAL NOTES

A REVIEW OF THE TEXAS ECONOMY FROM THE OFFICE OF GLENN HEGAR, TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

WEATHERING THE PANDEMIC

TEXAS INDUSTRIES AND COVID-19

By Olga Garza, TJ Costello, Jessica Donald, Peggy Fikac, David Green, Spencer Grubbs, Shannon Halbrook and Lisa Minton

To slow the spread of COVID-19 last spring, schools, businesses and sports venues began closing across Texas and the rest of the nation. Texans prepared as if for a hurricane rather than a year-long event that would upend businesses and their everyday lives.

After a spike in July, new cases fell off dramatically in August and September only to mount again in late fall. By Jan. 11, 2021, the Texas Department of State Health Services had confirmed more than 1.7 million COVID-19 cases in the state — and nearly 30,000 deaths from the disease.

But the pandemic isn't only a health crisis; it's an economic crisis that continues to wreak havoc on both

CONTINUED ON PAGE 3

Editor's Note: *Details of the new federal stimulus legislation were emerging as we went to press. The Comptroller's office is monitoring the impact of the new stimulus package and its effect on Texas industries.*

A Message from the Comptroller

As I write this, a truly disastrous year has just ended. According to Johns Hopkins University, about 1.8 million people have died due to COVID-19, nearly 375,000 of them in the U.S. Almost 30,000 Texans have succumbed to the disease.

Yet the devastation stretched well beyond this awful record. Many lost their jobs or saw their education disrupted. Lockdowns and layoffs altered consumer behavior radically. Thousands of businesses were forced to close — or to change.

We've looked at aspects of the coronavirus crisis in previous issues of *Fiscal Notes*. In this special issue, we examine how the pandemic hit some Texas industries that found themselves at the center of the year's disruptions.

Leisure and hospitality — including restaurants, bars, hotels and motels and recreational facilities and events, among others — experienced some of the most traumatic changes. Many businesses were forced to shut down for extended periods; even when they reopened, many customers stayed home. Some restaurants pivoted successfully to an emphasis on takeout and curbside pickup, but thousands closed their doors for good.

Retail sales evolved rapidly during the pandemic. Online sales continue to grow in importance and helped keep revenues coming in for large retailers, but smaller companies often are struggling to meet payrolls and lease payments.

Texas is home to two of the world's largest airlines — Southwest and American — and some of the nation's busiest airports. Air travel has been a large and high-paying employer for our state. But travel limitations and fear of the virus have sent airline revenues plummeting. 2020 will go down in the records as a "lost year" for air travel, although bookings for later in 2021 give some room for optimism.

Texas hospitals have had different troubles. Unprecedented demand for emergency services strained their resources enormously, while a decline in non-emergency procedures and an increase in the number of uninsured patients dented their finances.

It's been a very difficult year, not just for these industries but for all of us. But Texans have seen tough times before, and have repeatedly demonstrated their ability to find new ways to succeed and thrive.

I know you'll join me in hoping that 2021 is the beginning of a comeback for our state.

GLENN HEGAR

Texas Comptroller of Public Accounts

Note: This report contains estimates and projections that are based on available information, assumptions and estimates as of the date of the forecasts upon which they are based. Assumptions involve judgments about future economic and market conditions and events that are difficult to predict. Actual results could differ from those predicted, and the difference could be material.

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small firms and major industries. Closures, quarantines and other restrictions come with significant fiscal implications and, despite its strong and diverse economy, Texas isn't immune to the uncertainties of this unprecedented situation.

All Texas industry sectors have been affected by the pandemic to some degree, but some have struggled more than others, raising concerns over what some have called a "K-shaped recovery" — one in which different sectors, industries and employee groups fare differently, some recovering and others remaining in recession. In this special issue of *Fiscal Notes*, we take a closer look at some of the industries most affected by the pandemic: leisure and hospitality providers, restaurants and bars, retailers, passenger airlines and hospitals.

EMPLOYMENT CHANGES DURING THE PANDEMIC

Initial job losses due to COVID-19 were staggering. Between February and April 2020, the U.S. lost 22.2 million jobs, more than 1.4 million of them in Texas. Texas' unemployment rate spiked at 13.5 percent in April 2020, up from 3.5 percent just two months earlier. By November, nearly 1.2 million Texans remained unemployed (**Exhibit 1**).

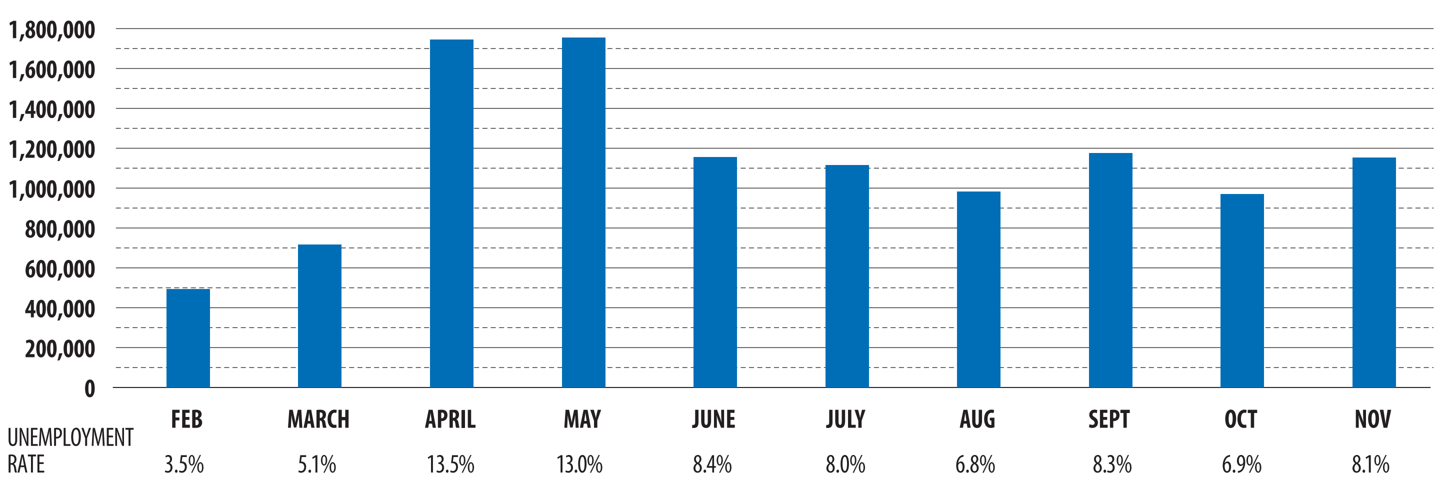
THE STEEPEST DROP

The "steepest and fastest drop in Texas economic activity in modern history" — that's the Federal Reserve Bank of Dallas' description of the pandemic's effects. This crisis is unique compared to previous downturns, adversely singling out certain sectors and making the economic effects and recovery process uneven and hard to predict. Sales tax collections, buoyed by retail sales, have declined moderately, but other affected industries have suffered much more. As of December 2020, the effects were still evident in some major taxes:

- **Sales tax** — $2.86 billion, down 5.0% from December 2019
- **Oil production tax** — $197 million, down 45.5%
- **Natural gas production tax** — $86 million, down 25.0%
- **Alcoholic beverage taxes** — $84 million, down 28.5%
- **Hotel occupancy tax** — $26 million, down 48.5%

EXHIBIT 1

TEXAS UNEMPLOYMENT, FEBRUARY-NOVEMBER 2020
(SEASONALLY ADJUSTED)



Source: Comptroller analysis of data from the Texas Workforce Commission

From mid-March through Jan. 2, 2021, Texans filed more than 4.1 million initial claims for unemployment insurance, 300,000 in the week ending April 4 alone. These have fallen significantly, but remain historically elevated.

The number of *continued* unemployment claims, which reflects those receiving benefits after an initial claim, peaked in Texas at 1.4 million in the week ending May 23, remained above 1 million through the week ending Aug. 29 and totaled 368,223 for the week ending Dec. 26.

Low-wage workers, disproportionately employed in service industries, bore the brunt of job losses. Many of these workers are women and minorities; in 2019, for instance, 58.7 percent of U.S. hotel and motel employees were women and 58.6 percent were members of ethnic minorities, according to the U.S. Bureau of Labor Statistics. Opportunity Insights, a Harvard-based research and policy institute, found that employment among Texans making less than $27,000 per year fell by 17 percent from January through Oct. 22, 2020. Employment for middle-wage workers ($27,000 to $60,000 per year) declined by just 3.6 percent; for workers earning more than $60,000, employment actually rose, though only slightly (0.5 percent).

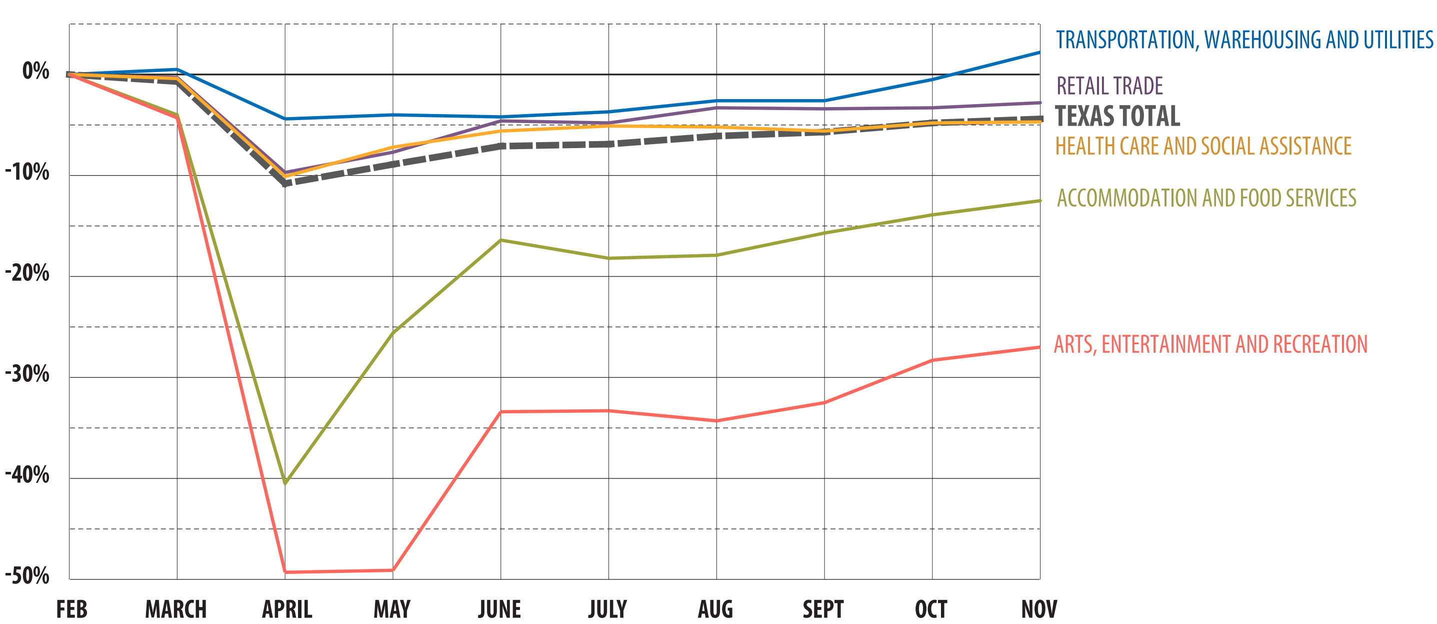
Employment among Texans making less than $27,000 per year fell by 17 percent from January through Oct. 22, 2020.

HARDEST-HIT INDUSTRIES

A September analysis of federal labor data by the *Washington Post* found that nine out of the 10 U.S. industries with the biggest job losses during the pandemic were service providers, including hotels, performing arts venues and restaurants. Texas Workforce Commission data indicate employment in the arts, entertainment and recreation fell by *nearly half* from February to April 2020, and remained 27 percent lower in November (**Exhibit 2**). Employment at hotels, restaurants and bars fell by 12.5 percent during this period.

EXHIBIT 2

PERCENT CHANGE IN TEXAS NONFARM EMPLOYMENT, SELECTED INDUSTRIES, FEBRUARY-NOVEMBER 2020 (SEASONALLY ADJUSTED)



Source: Comptroller analysis of data from the Texas Workforce Commission

Among these industries, the most significant shared characteristic is their inherent necessity to operate in close quarters with their customers; their profitability typically depends on face-to-face encounters or crowds, from restaurants to sports arenas. In addition, some businesses have been affected by the lack of consumer confidence and by a concern for individual health and safety. Many sectors are financially fragile, with little cash on hand to weather an economic downturn.

LEISURE AND HOSPITALITY

According to the federal government's industrial classification scheme, leisure and hospitality is a "supersector," a wide-ranging category including restaurants, bars, hotels, tourism, performing arts, sporting events, amusement parks, gyms and other enterprises. The supersector includes two sectors, arts, entertainment and recreation and accommodation and food services. The latter, in turn, is divided into two subsectors, accommodation and food services and drinking places — or, in other words, restaurants and bars.

No part of the state economy was injured more deeply by the pandemic than these industries. For the past several decades, leisure and hospitality jobs have comprised an increasing share of Texas' employment base, accounting for 10.9 percent of the state's total jobs in 2019. Between 2010 and 2019, employment growth in this sector outpaced statewide gains, rising by an annual average of 3.7 percent versus 2.4 percent for all Texas jobs (**Exhibit 3**). Restaurants and bars led employment growth, adding jobs at an average 3.8 percent per year.

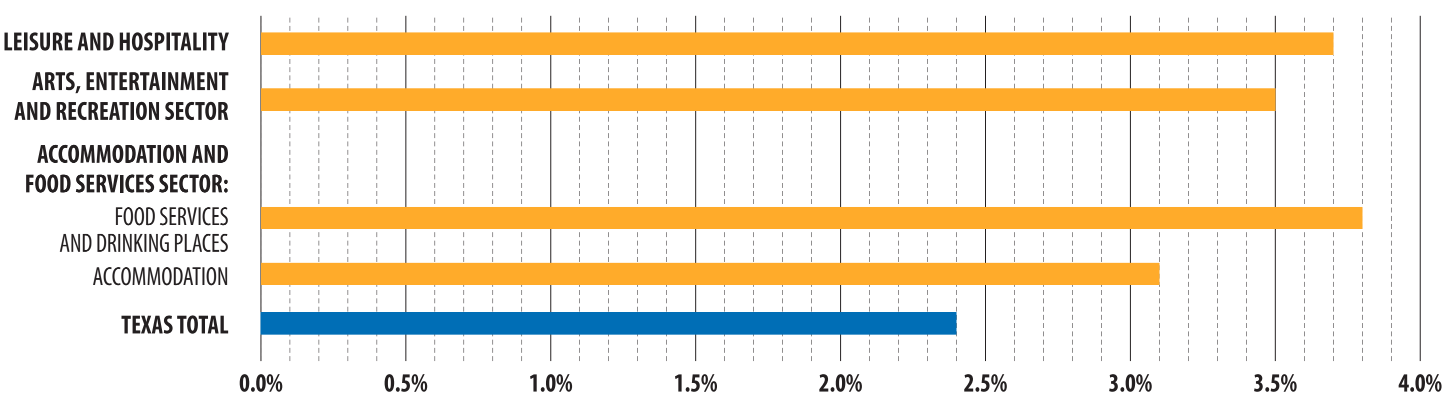
But then the pandemic arrived. In November 2020, Texas leisure and hospitality employment was down by 13 percent from the same month in the previous year, a loss of 181,800 jobs and 37.2 percent of *all* Texas job losses during this period. Restaurants and bars suffered the heaviest total losses, falling by 10.1 percent or 112,500 jobs. Employment in the arts, entertainment and recreation industries experienced the greatest percentage decline at 29.6 percent or 42,800 jobs.

After a rebound in May and June, sector employment growth had improved only modestly through November (**Exhibit 4**).

The contribution of the arts, entertainment, recreation, accommodation and food services — a group defined by the U.S. Bureau of Economic Analysis — to the Texas gross state product (GSP) also slumped. In 2019, these industries contributed $63.5 billion to the Texas economy, or 3.4 percent of the state's $1.84 trillion GSP. Between the first and second quarters of 2020, their combined Texas GSP fell by more than $19 billion or 32 percent.

EXHIBIT 3

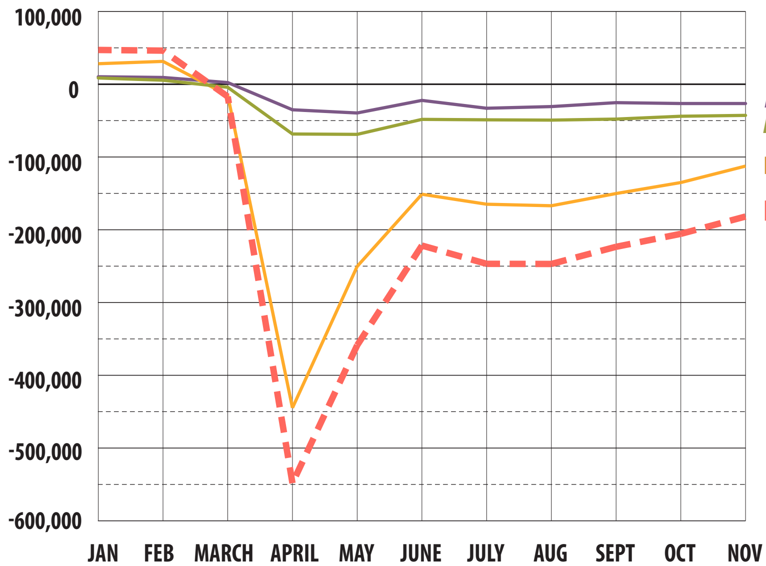
TEXAS LEISURE AND HOSPITALITY SUPERSECTOR, ANNUAL NONFARM EMPLOYMENT CHANGE, 2010-2019



Source: Comptroller analysis of data from the Texas Workforce Commission

EXHIBIT 4

TEXAS LEISURE AND HOSPITALITY INDUSTRIES, YEAR-OVER-YEAR EMPLOYMENT CHANGE, 2019 VS. 2020 (NOT SEASONALLY ADJUSTED)



Source: Comptroller analysis of data from the Texas Workforce Commission

Total output in the arts, entertainment and recreation industries declined by *more than half* (**Exhibit 5**).

Opportunity Insights' data describe the impacts on the sector in Texas:

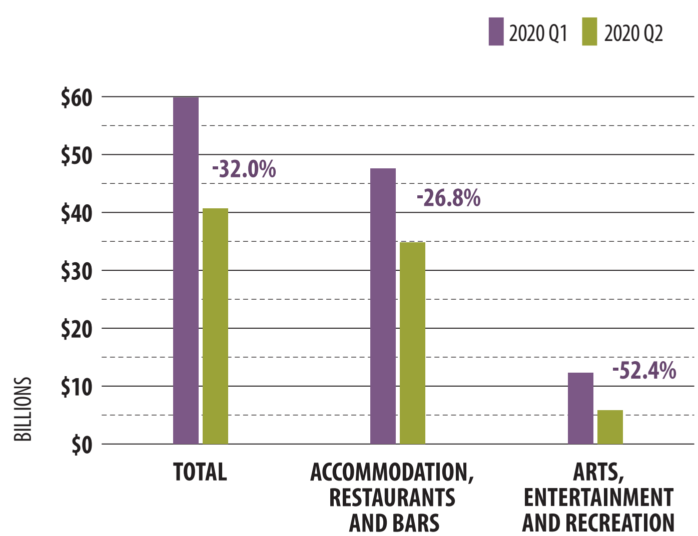
- small business revenue in leisure and hospitality fell by 74.3 percent between January and Dec. 30, 2020, versus a 39.1 percent decline for all small businesses.
- the number of small businesses open fell by 57.7 percent during this period, versus a 31.5 percent decline for all small businesses.
- compared to January 2020, consumer spending at Texas restaurants and hotels was down 11.8 percent for the week ending Dec. 6, and down 45.6 percent at entertainment and recreation sites; total consumer spending fell by just 1.0 percent in this period.

ACCOMMODATION

The accommodation industry includes businesses that provide overnight and short-term lodging for travelers. It plays a significant role in our economy by

EXHIBIT 5

TEXAS ARTS, ENTERTAINMENT, RECREATION, ACCOMMODATION AND FOOD SERVICES INDUSTRIES, GROSS STATE PRODUCT BY QUARTER, 2020



Source: Comptroller analysis of data from the U.S. Bureau of Economic Analysis supporting tourism and hosting meetings and events. The sharp reduction in travel caused by the pandemic has forced many businesses in the accommodation industry to consider taking drastic steps to stay above water.

In Texas, most hotel and motel employees earn considerably less than $45,000 annually; the industry's top three occupations earn an average of less than $25,000 a year (**Exhibit 6**). This is an economically high-risk group; among maids and housekeeping employees, nearly 55 percent are between the ages of 34 and 55 and almost 79 percent have only a high school degree or less.

In 2019, the accommodation industry contributed an estimated $9.4 billion to Texas GSP (**Exhibit 7**); this contribution showed a 5 percent compound annual growth rate between 2010 and 2019, slightly higher than the rate for all Texas industries.

As of November 2020, Texas' accommodation industry had lost 26,500 jobs in a year, a 19.5 percent decline. In April, the American Hotel and Lodging Association estimated that more than 296,000 Texas jobs directly and indirectly related to lodging were endangered by travel restrictions.

JUSTIN BRAGIEL

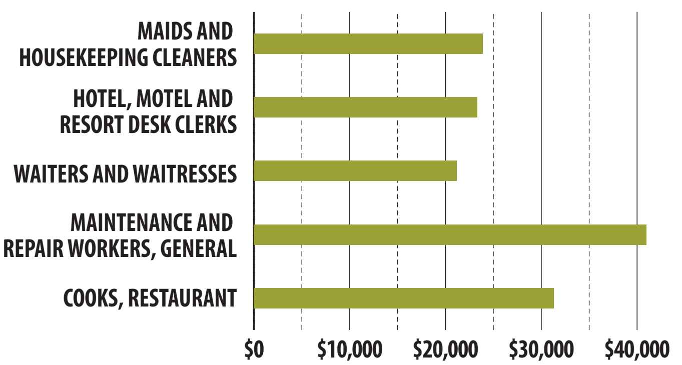
GENERAL COUNSEL, TEXAS HOTEL AND LODGING ASSOCIATION

According to Justin Bragiel, general counsel for the Texas Hotel and Lodging Association, the statewide hotel occupancy rate in November 2020 was at about 36 percent, 30 percent below average for that time of year. He cites examples of hotels that have created alternative revenue streams to help relieve financial pressures, such as leasing rooms for use as office space or contracting with local governments to provide quarantine space for COVID-positive employees.

"We believe difficult economic conditions will continue through 2021, [but] we're hopeful that the development and deployment of a successful vaccine will allow more travelers to return to normal conditions in late 2021 and beyond," Bragiel says.

EXHIBIT 6

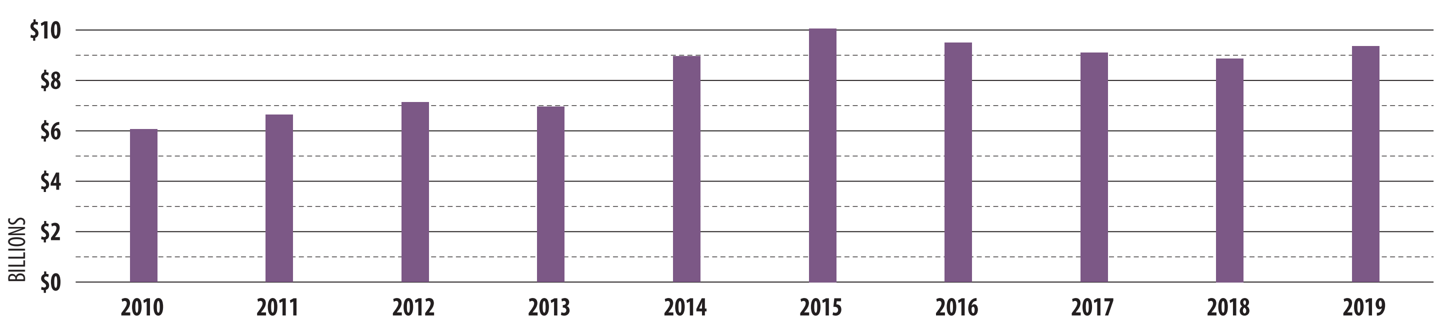
TOP OCCUPATIONS AND WAGES IN THE TEXAS ACCOMMODATION INDUSTRY, 2019



Source: JobsEQ

EXHIBIT 7

TEXAS ACCOMMODATION INDUSTRY, CONTRIBUTIONS TO TEXAS GROSS STATE PRODUCT, 2019



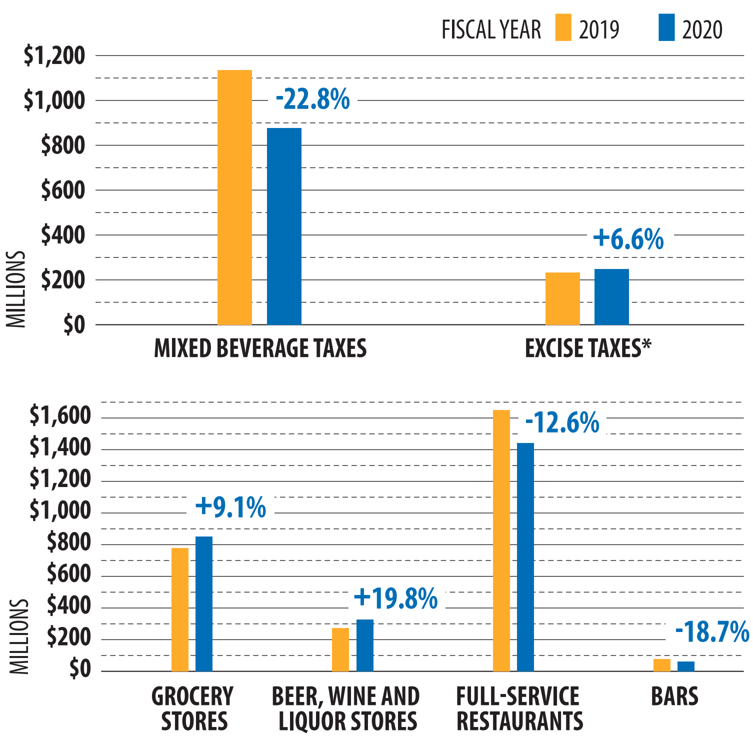
Source: U.S. Bureau of Economic Analysis

TEXAS ALCOHOLIC BEVERAGE INDUSTRY

Large-scale beer, wine and liquor companies are showing strong year-over-year growth in the economic downturn, thanks to increased sales at grocery and liquor stores. Alcohol sales at restaurants and bars, where the mixed beverage tax is levied, have plunged due to social distancing (**Exhibit 8**). Craft breweries, distilleries and wineries, whose business models rely heavily on taprooms, tours and tasting rooms, also have seen significant sales declines.

EXHIBIT 8

RECENT TRENDS IN TEXAS ALCOHOL TAXATION



* State taxes levied by volume on alcoholic beverages.
Source: Texas Comptroller of Public Accounts

The Brewers Association reports that Texas ranks third in the nation for the economic impact of its craft breweries. In April, a Texas Craft Brewers Guild survey showed that its members had seen a 71 percent decline in revenue since COVID-19 restrictions began. While nearly 90 percent of these breweries have shifted at least in part to beer to go, the industry still relies heavily on in-person patronage at its taprooms.

Texas wineries also rely heavily on foot traffic; wineries in the Texas Hill Country alone claimed more than a million visitors annually before the pandemic. Pandemic restrictions on tasting rooms pose a significant hurdle for the industry.

For more on how wineries, distillers and craft brewers are coping with the pandemic, see this month's *Line Items* feature at **FiscalNotes.org**.

RESTAURANTS AND BARS

In June, the National Restaurant Association estimated U.S. sales losses of $240 billion by the end of 2020. According to Open Table, the online restaurant-reservation service, reservations in Texas as of Nov. 6 were down by 25 percent from a year ago.

According to the Texas Restaurant Association (TRA), restaurants represented 51 percent of Texas' food spending before the pandemic. They're critical to the food supply chain, which includes farmers and ranchers, alcohol manufacturers, food distributors and trucking companies.

In the industry, the economic pain of the pandemic hasn't been distributed equally, although most have suffered. Large chain restaurants in particular are often better equipped to adjust; many employ models that fit well with pandemic restrictions, such as drive-throughs, carry-out and delivery. Dine-in restaurants, by contrast, often can't exceed 50 percent capacity due to social distancing restrictions. Large chains may also enjoy greater leverage on loan payments, royalty payments and lease terms. TRA estimates that 70 percent of Texas restaurants are independent operators that often lack access to these resources.

These advantages are reflected in recent company results. McDonald's, for instance, posted its best September sales in nearly a decade. By contrast, the review site Yelp reported that three-quarters of the 22,000 U.S. restaurant closures between March 1 and Sept. 10 represented companies with fewer than five locations.

During the pandemic, restaurants have found new ways to support this ecosystem — and their own bottom lines. With the state's permission and cooperation, many began selling bulk retail items directly to the public, boosting revenue while alleviating gaps in the supply chain. Restaurants also are embracing new product ideas such as family meal boxes and to-go alcohol orders, and

In September, the Texas Restaurant Association estimated that 15 percent of the state's 50,000 restaurants have closed for good.

nurturing new business models and partnerships with grocery stores, food trucks, bars, third-party delivery companies and alcohol manufacturers.

In September, TRA estimated that 15 percent of the state's 50,000 restaurants have closed for good, and that the share could increase to 40 percent without financial support. Most restaurants received only eight weeks of financial support through the federal Paycheck Protection Program (PPP), but had to endure months of required closures, reduced revenue and increased costs.

According to Kelsey Erickson Streufert, TRA's vice president of government relations and advocacy, about 200,000 Texans in the industry were still out of work in early December. "We do expect a full industry recovery eventually because we offer a product and a service that people want," she says. "The key questions for us are how long will the recovery take and how many restaurants — particularly the smaller, independent restaurants that are anchors to the community and local economy — can we help save in the process.

"Many of these businesses have anchored the community for decades," she says, "so we can't afford to lose them, and yet, they're often the most at risk because they're independent and local. These restaurants aren't looking for a bailout; they're simply asking for more time so they can outlast this pandemic, rebuild and continue to serve our communities."

YEAR OVER YEAR

Year-over-year (YOY) comparisons, common in discussions of finance and revenue, compare the results in one period with those of the same period in the previous year. This method removes the effect of seasonal variations (for instance, the expected spike in retail sales prior to Christmas each year) and makes it easier to spot long-term trends.

RETAIL SALES

KELSEY ERICKSON STREUFERT

VICE PRESIDENT OF GOVERNMENT RELATIONS AND ADVOCACY, TEXAS RESTAURANT ASSOCIATION

Our state's retail sector is truly Texas-sized, accounting for 1.29 million jobs or about one in 10 of all Texas workers. In 2019, the sector contributed $97 billion to Texas GSP, $54.8 billion in wages and about $12 billion in sales tax revenue.

Even before the pandemic, brick and mortar retailers faced steadily increasing competition from internet sales. COVID-19 accelerated the process. Many retailers considered non-essential were forced to close in March 2020. Even essential retailers such as grocery stores were subject to extreme uncertainty, often faced with conflicting orders by state, county and city governments.

As the crisis evolved, many retailers found success by expanding their online presence and offering curbside pickup. In Texas, retail reopenings generally began in late April. Since Sept. 21, Texas retailers have been permitted to open at 75 percent capacity. Customers still are required to wear face masks; many stores also have installed plastic shielding to protect checkers and instituted strict cleaning regimens.

As a result, Texas' in-state gross retail sales totaled about $107 billion in the second quarter of 2020, down 7.2 percent from the same quarter in the previous year. But the effects vary widely throughout the retail sector. Smaller retailers have suffered disproportionately, less able to meet payrolls and rent payments than their larger counterparts, although even some large retailers have entered bankruptcy, such as JCPenney and J.Crew. Similarly, specialty retailers have struggled more than general ones. The commercial real estate market also loses business when stores close or reduce their number of brick-and-mortar locations.

While the federal PPP and Pandemic Unemployment Assistance program certainly helped retailers retain employees, the Texas Retailers Association and other organizations have advocated for further support to help defray some of the costs of greater safety measures, unemployment insurance and liability protection.

GARY HUDDLESTON
TEXAS RETAILERS ASSOCIATION

"In many cases, the large retailer is the largest [private] employer in many small towns in Texas," says Gary Huddleston, a consultant for the association. "Small and main-street retailers are doing everything possible to serve customers and find some cash flow. [They] really need state and federal help."

While long-term effects on retail employment remain to be seen, the retail sector saw a huge number of furloughs and layoffs early in the crisis. The sector had nearly 114,000 fewer workers in April 2020 than in April 2019 (an 8.7 percent drop); as of November, the YOY gap had narrowed to 38,600 or 2.8 percent (**Exhibit 9**).

The exhibit lists the hardest-hit retail subsectors in terms of job losses; these include health, electronics, clothing and home furnishing stores. But again, the impacts have varied widely. More essential subsectors have seen surprising growth compared to last year. Food and grocery store employment, for example, rose by around 5 percent YOY during April and May 2020 before returning close to 2019 levels. Meanwhile, building material retailers are riding a construction boom, with November's employment more than 10 percent higher YOY.

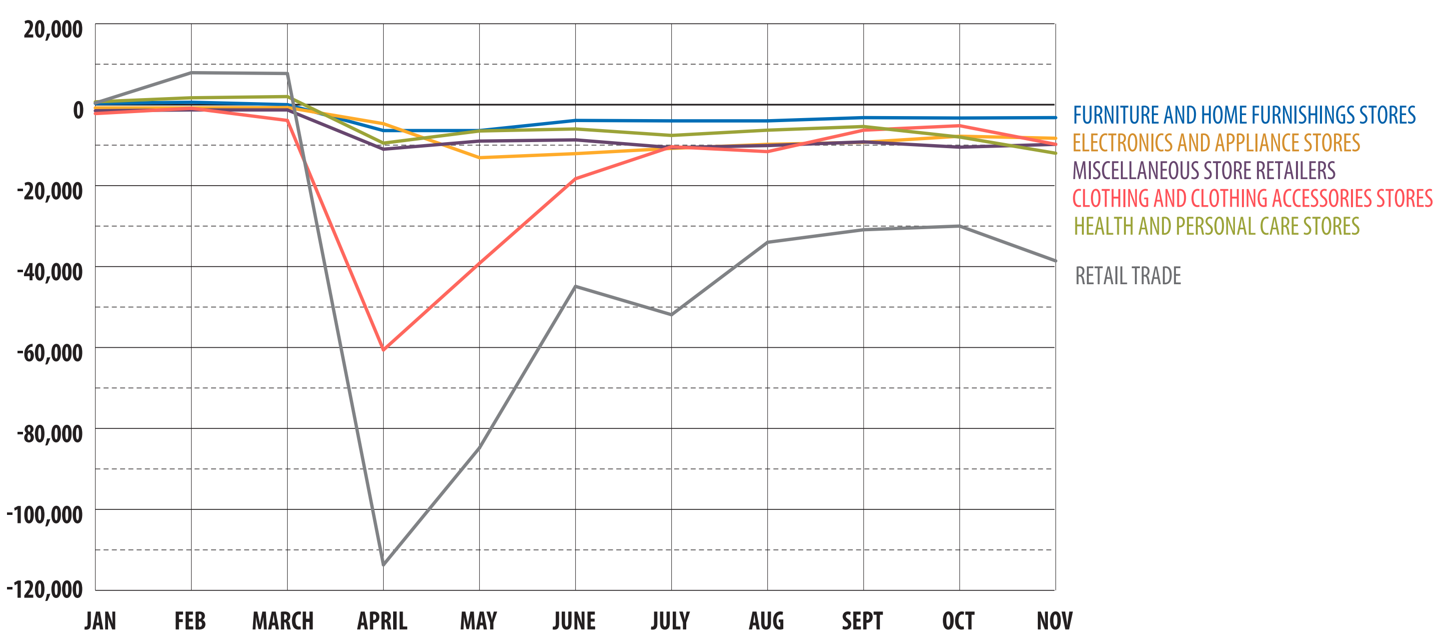
Clothing retailers have seen particularly dramatic volatility during the pandemic. In April 2020, the subsector had shed more than half its jobs compared to a year earlier — around 60,600 workers. By October, it had recovered most of those jobs on a YOY basis, but November saw another sharp decline.

After big dips in March and April retail sales, the long-term trend reflects surprisingly little damage to retail sales since the pandemic began. In September, Texas' retail sales totaled $45.7 billion, down from a high of $46.4 billion in January — not an insignificant decrease, but less catastrophic than some expected.

Sales tax revenue as of December was about 5 percent lower YOY, a much smaller decline than other major taxes. This was due in large part to the Supreme Court's *Wayfair* decision, which required sales taxes collection on internet sales.

EXHIBIT 9

MONTHLY YEAR-OVER-YEAR JOB CHANGES, TOP FIVE TEXAS RETAIL SUBSECTORS, JANUARY-NOVEMBER 2020
(NOT SEASONALLY ADJUSTED)



Source: Texas Workforce Commission

THE FEDERAL CARES ACT

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, 2020, was the third and largest of several federal emergency relief packages intended to address the economic fallout resulting from the COVID-19 pandemic.

A central component of the CARES Act was the U.S. Small Business Administration-administered Paycheck Protection Program, which initially expired on Aug. 8, 2020, but was revived on Dec. 21, 2020, after the passage of an additional federal stimulus bill. Under the CARES Act, the PPP provided 1 percent interest loans to small businesses to help keep their employees on payroll, with the stipulation that the federal government will forgive these loans entirely if the borrower uses the funds for payroll costs (at least 60 percent), mortgage payments, rent and utilities. Loans made under the PPP from March to August 2020 averaged about $101,000.

The federal stimulus bill signed into law in late December totals roughly $900 billion and dedicates $325 billion in small business aid through the PPP. Other major spending provisions include an 11-week extension and $300 boost in unemployment benefits; direct payments of $600 for eligible individuals; and grants and funding for education, health care and transportation initiatives. The December bill also makes a number of changes to the PPP, such as expanding eligible expenses for loan funds, to better assist small businesses.

Under the CARES Act, Texas small businesses received a total of $41.3 billion in PPP loans from March to August 2020, more than any other state except California.

And while sales taxes are down overall, *retail* sales tax revenue for the second half of fiscal 2020 is up more than 10 percent YOY, with food and beverage and building material sales largely making up the increase, as well as a 153 percent increase YOY in online shopping tax revenue.

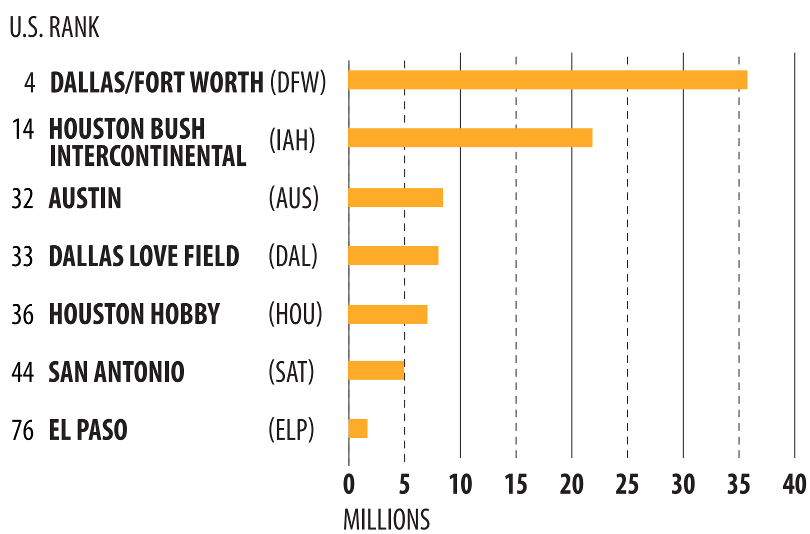
AIRLINES

The passenger airline industry began 2020 at a high point. In 2019, U.S. airlines carried an all-time high of 1.1 billion passengers. Texas benefits greatly from air travel; it's home to 25 commercial airports and six of the nation's 50 busiest airports (**Exhibit 10**), including two of the world's busiest: Dallas-Fort Worth (DFW) and Houston's Bush Intercontinental Airport (IAH). Texas also is home base for two of the world's largest airlines, American Airlines and Southwest Airlines, both in the Dallas-Fort Worth area. A third large airline, United Airlines, has a significant presence at IAH. The passenger airline industry contributed an estimated $20.7 billion to Texas GSP in 2019. As 2020 began, more than 105,000 Texans were employed in directly related businesses. Workers employed in Texas' passenger airline industry earn an average annual wage of about $88,000, significantly higher than the state average of about $59,000.

In 2018, the Texas Department of Transportation estimated that Texas' commercial airports employed about 112,000 workers in various roles from operations to retail to cargo services, with upwards of 40,000 working at DFW and 34,000 at IAH. A 2018 report by the Airports Council International estimated

EXHIBIT 10

TEXAS AIRPORTS' SCHEDULED ENPLANEMENTS ON U.S. AIRLINES, 2019



Source: U.S. Bureau of Transportation

that Texas' commercial airports supported $41.8 billion in payrolls and contributed $130.4 billion annually to the state's economy.

Air passenger traffic declined steeply and immediately with the onset of the pandemic. Previous crises, such as the 9/11 terrorist attacks, have been financially disastrous to the airline industry, but COVID-19 was even more devastating in comparison. On March 1, 2020, more than 2.3 million passengers and employees were screened at U.S. airport checkpoints. By month's end the number was less than 150,000 and continued to drop until April 14 when less than 90,000 were screened.

For the first half of 2020, worldwide airport passenger numbers were down 58.4 percent compared to the previous year; DFW recorded a 48.2 percent decrease in this period. During summer 2020, the three largest airlines serving Texas all reported a high number of inactive aircraft and significant drops in the number of seats available on flights departing from the largest Texas airport each of them served (**Exhibit 11**).

International trade through Texas' airports declined by $8 billion for the first six months of 2020 compared to the first half of 2019. This is widely attributed to the grounding of passenger jets, which normally carry nearly half of all global air cargo freight. To make up for this loss in cargo capacity, some passenger airlines began flying cargo-only flights. Prior to the pandemic, the last cargo-only flight by American Airlines was in 1984, but between March and October 2020, the airline made more than 3,000 cargo-only flights to more than 30 different destinations, many through DFW.

Air passenger traffic declined steeply and immediately with the onset of the pandemic.

Both Texas-based airlines suffered from COVID-related limitations on travel. American Airlines lost more than $2.2 billion in the first quarter of 2020 and at that time was burning through cash at a rate of $70 million a day. The airline reported a $2.4 billion net loss in the quarter ending in September, bringing its total losses for the first three quarters of 2020 to $6.7 billion. Southwest Airlines saw its first quarterly loss in almost 10 years in 2020, reporting a loss of $1.2 billion in the quarter ending in September 2020 compared to a $659 million profit in the same quarter of 2019. Southwest's losses for the first three quarters of 2020 have been reported at more than $2.2 billion.

In April 2020, the federal government's CARES Act included more than $50 billion in aid (including $25 billion in payroll support and $25 billion in loans) for passenger airlines to support the industry through summer and into the fall. These grants and loans contained provisions to protect workers and regional airports through furlough restrictions and minimum service guarantees through Sept. 30. American Airlines and Southwest Airlines received more than

EXHIBIT 11

LARGEST AIRLINES OPERATING IN TEXAS AND LARGEST TEXAS AIRPORT USED BY AIRLINE, SUMMER 2020

AIRLINE		TOTAL AIRPLANES IN COMPANY FLEET		LARGEST TEXAS AIRPORT USED BY AIRLINE		
	GLOBAL RANKING (AVAILABLE SEATS)	AIRPLANES IN SERVICE	PARKED AIRPLANES (INACTIVE)		SEATS AVAILABLE SUMMER 2020	PERCENT CHANGE FROM SUMMER 2019
SOUTHWEST	1	634	105	DALLAS LOVE FIELD	3,911,146	-13%
AMERICAN	4	653	348	DFW INTERNATIONAL AIRPORT	9,135,748	-48
UNITED	10	393	466	GEORGE BUSH INTERNATIONAL AIRPORT	2,187,712	-41

Note: OAG's "summer" classification based on data for March 29 through October 30; 2020 figures represent estimates made as of Sept, 28, 2020.
Source: OAG Aviation Worldwide Limited

Texas hospitals, like others across the country and around the world, have struggled to meet the unprecedented demand on their resources and capacity.

$5.8 billion and $3.2 billion, respectively, from the CARES Act.

As the year came to a close, American Airlines employed fewer than 100,000 persons worldwide, nearly 30 percent less than at the start of the pandemic. And according to Southwest Airlines' Sherri Hull, a senior advisor for governmental affairs, the company shrank its workforce by nearly 25 percent in 2020 through concessions and voluntary leave programs; many of these jobs were located in Texas.

Yet there are some signs the worst may be over. Southwest Airlines announced that it reduced its daily cash burn to an average of $16 million in the third quarter of 2020 and anticipates it falling to about $12 million in the fourth quarter. American Airlines expects its fourth-quarter 2020 average daily cash burn to come in at the high end of its previously forecasted range of $25-$30 million per day.

In October 2020, the Transportation Security Administration screened more than 1 million U.S. passengers for the first time since March, although the number has fluctuated since then. During the Sunday after Thanksgiving — typically one of the busiest days for air travel — nearly 1.2 million passengers passed through U.S. airports' security, the highest figure seen in months but still down 59.2 percent YOY.

2021 will be a challenge for all carriers, according to John Grant, chief analyst at OAG, a leading air travel information consultancy. But advance bookings for May and June 2021 already appear "pretty good" versus previous years. Uncertainty keeps the industry in flux, however — ticket sales flattened as the virus spiked in late autumn 2020 and new travel restrictions were implemented. In early December, Southwest Airlines notified more than 6,800 employees of potential furloughs (mandatory but temporary leaves of absence) in early 2021. After passage of the recent federal stimulus bill, however, the company said the furloughs wouldn't be needed at least through the end of 2021.

HOSPITALS

Texas has more than 500 hospitals, more than any other state. In 2019, the Texas hospital industry employed nearly 470,000 and accounted for about $50.4 billion of Texas GSP.

These hospitals, like others across the country and around the world, have struggled to meet the unprecedented demand on their resources and capacity. Their financial pressures have increased significantly, and their staffs have been stretched to the limit.

They've lost significant revenue by being forced to cancel or curtail non-emergency services while at the same time having to boost pandemic-related staffing; increase supplies of personal protective equipment (PPE), pharmaceuticals and ventilators; and modify their operations and facilities to expand capacity safely. Widespread, pandemic-related job losses mean hospitals are treating more uninsured patients than ever before (see the October 2020 issue of *Fiscal Notes* for more).

In August 2020, the Harris Health System reported that its Houston-area public hospitals have lost an average of $10 million a month since the end of March. These losses reflected decreases in outpatient visits and increases in supply and labor costs.

Inpatient surgeries and emergency room visits also have decreased, not only due to state or local orders but also because many patients are postponing care to avoid the risk of contracting the virus. According to a June 2020 survey conducted by the U.S. Centers for Disease Control and Prevention, 41 percent of U.S. adults avoided medical care during the pandemic because of concerns about COVID-19, including 12 percent who didn't go in for emergency care and another 32 percent who delayed routine visits.

In addition to these diminishing revenue streams, many staff members are experiencing financial pressure, as hospitals have been forced to resort to pay cuts, reduced hours, furloughs and even layoffs to stay afloat.

While most supply chains have resumed and many Texans are getting back to business, not all industries have bounced back.

As of August 2020, according to Becker's Hospital CFO Report, more than 260 hospitals and health systems in the U.S. had furloughed workers during the pandemic, and dozens of others have implemented layoffs. In June, Texas' Baylor Scott & White Health laid off about 930 employees and introduced pay cuts for 300 senior managers; in early December, the system announced it was laying off a further 102 finance and accounting employees and outsourcing their duties to India. In August, the University of Texas Medical Branch in Galveston announced it would lay off 200 employees as it faced a budget shortfall of $174 million.

From March 1 to June 30, 2020, the American Hospital Association (AHA) studied four financial challenges U.S. hospitals face:

- the effect of COVID-19 hospitalizations on hospital costs;
- the effect of canceled and forgone services (such as elective surgeries) on hospital revenue;
- additional costs associated with purchasing PPE as well as establishing additional COVID-19 wards, testing centers, etc.; and
- the costs of the additional supports some hospitals are providing to their workers.

Using these measures, the AHA estimated a total four-month financial impact of $202.6 billion in losses for U.S. hospitals and health systems — an average of $50.7 billion per month. The losses were expected to increase to $323 billion by the end of 2020.

The CARES Act and other recently enacted federal legislation allocated $175 billion to the Provider Relief Fund for U.S. hospitals and other healthcare providers. Texas providers received almost $3 billion in general funding. An additional $602.7 million was sent to 58 Texas hospitals located in COVID-19 high-impact areas and $1.2 billion was provided to Texas safety-net hospitals. Texas' rural health care providers (including hospitals) received another $725.7 million.

Texas' hospitals have stepped up in heroic and unprecedented ways to save lives and minimize the virus' spread. When they resume normal operations, some of the lessons learned and strategies improvised during the pandemic — such as telehealth services — may endure. (See our May 2020 *Line Items* article on telemedicine at **FiscalNotes.org**.)

AN UNCERTAIN YEAR TO COME

The COVID-19 crisis has changed life as we knew it last February. It may be a long time before pre-pandemic life returns — if it ever truly returns. One bright spot in these times is the way the public, businesses, schools and others have risen to the occasion by restructuring their workplace practices and accelerating their use of technology.

When everything paused last spring, nearly all Texas businesses saw a decline in commerce. While most supply chains have resumed and many Texans are getting back to business, not all industries have bounced back. Some industries and some people have been more affected than others, and that disparity will make our recovery more challenging.

But Texans are known for their resiliency, and our businesses and industries are working hard to adapt, meeting the economic chaos with creativity, agility and ingenuity. When the crisis passes, these innovations will remain. Amid the disruption, we will grow stronger. **FN**

State Revenue Watch

This table presents data on net state revenue collections by source. It includes most recent monthly collections, year-to-date (YTD) totals for the current fiscal year and a comparison of current YTD totals with those in the equivalent period of the previous fiscal year.

These numbers were current at press time. For the most current data as well as downloadable files, visit **comptroller.texas.gov/transparency.**

Note: Texas' fiscal year begins on Sept. 1 and ends on Aug. 31.

NET STATE REVENUE — All Funds Excluding Trust

(AMOUNTS IN THOUSANDS)

Monthly and Year-to-Date Collections: Percent Change From Previous Year

Tax Collections by Major Tax	DECEMBER 2020	YEAR TO DATE: TOTAL	YEAR TO DATE: CHANGE FROM PREVIOUS YEAR
SALES TAX	$2,860,349	$11,136,802	-5.27%
PERCENT CHANGE FROM DECEMBER 2019	-5.05%		
MOTOR VEHICLE SALES AND RENTAL TAXES	438,937	1,762,433	-0.39%
PERCENT CHANGE FROM DECEMBER 2019	2.72%		
MOTOR FUEL TAXES	277,658	1,182,927	-7.25%
PERCENT CHANGE FROM DECEMBER 2019	-10.63%		
FRANCHISE TAX	-53,229	1,742	-101.25%
PERCENT CHANGE FROM DECEMBER 2019	-60.59%		
OIL PRODUCTION TAX	197,462	824,029	-40.61%
PERCENT CHANGE FROM DECEMBER 2019	-45.53%		
INSURANCE TAXES	32,813	108,722	-2.72%
PERCENT CHANGE FROM DECEMBER 2019	45.40%		
CIGARETTE AND TOBACCO TAXES	126,031	468,726	20.20%
PERCENT CHANGE FROM DECEMBER 2019	11.19%		
NATURAL GAS PRODUCTION TAX	85,543	289,244	-30.57%
PERCENT CHANGE FROM DECEMBER 2019	-24.96%		
ALCOHOLIC BEVERAGES TAXES	84,107	346,287	-26.37%
PERCENT CHANGE FROM DECEMBER 2019	-28.52%		
HOTEL OCCUPANCY TAX	25,570	125,583	-41.39%
PERCENT CHANGE FROM DECEMBER 2019	-48.54%		
UTILITY TAXES[1]	1,601	122,680	-6.18%
PERCENT CHANGE FROM DECEMBER 2019	143.26%		
OTHER TAXES[2]	9,792	39,986	-48.62%
PERCENT CHANGE FROM DECEMBER 2019	-37.51%		
TOTAL TAX COLLECTIONS	**$4,086,635**	**$16,409,160**	**-8.13%**
PERCENT CHANGE FROM DECEMBER 2019	**-7.36%**		

Revenue By Source	DECEMBER 2020	YEAR TO DATE: TOTAL	YEAR TO DATE: CHANGE FROM PREVIOUS YEAR
TOTAL TAX COLLECTIONS	$4,086,635	$16,409,160	-8.13%
PERCENT CHANGE FROM DECEMBER 2019	-7.36%		
FEDERAL INCOME	4,459,167	19,573,494	35.12%
PERCENT CHANGE FROM DECEMBER 2019	40.81%		
LICENSES, FEES, FINES AND PENALTIES	438,529	2,074,255	-2.17%
PERCENT CHANGE FROM DECEMBER 2019	-0.93%		
STATE HEALTH SERVICE FEES AND REBATES[3]	327,483	1,656,480	-26.84%
PERCENT CHANGE FROM DECEMBER 2019	106.81%		
NET LOTTERY PROCEEDS[4]	252,033	897,489	26.11%
PERCENT CHANGE FROM DECEMBER 2019	40.46%		
LAND INCOME	135,924	516,500	-33.19%
PERCENT CHANGE FROM DECEMBER 2019	-35.12%		
INTEREST AND INVESTMENT INCOME	58,557	465,941	-56.93%
PERCENT CHANGE FROM DECEMBER 2019	-83.42%		
SETTLEMENTS OF CLAIMS	422,096	452,543	-0.29%
PERCENT CHANGE FROM DECEMBER 2019	-2.77%		
ESCHEATED ESTATES	18,106	109,635	15.68%
PERCENT CHANGE FROM DECEMBER 2019	129.30%		
SALES OF GOODS AND SERVICES	21,946	95,502	5.31%
PERCENT CHANGE FROM DECEMBER 2019	-12.45%		
OTHER REVENUE	216,974	885,346	110.48%
PERCENT CHANGE FROM DECEMBER 2019	118.18%		
TOTAL NET REVENUE	**$10,437,450**	**$43,136,345**	**6.89%**
PERCENT CHANGE FROM DECEMBER 2019	**10.01%**		

[1] Includes public utility gross receipts assessment, gas, electric and water utility tax and gas utility pipeline tax.

[2] Includes taxes not separately listed, such as taxes on oil well services, coin-operated amusement machines, cement and combative sports admissions as well as refunds to employers of certain welfare recipients.

[3] Includes various health-related service fees and rebates that were previously in "license, fees, fines and penalties" or in other non-tax revenue categories.

[4] Gross sales less retailer commission and the smaller prizes paid by retailers.

Notes: Totals may not add due to rounding.

Excludes local funds and deposits by certain semi-independent agencies.

Includes certain state revenues that are deposited in the State Treasury but not appropriated.

FISCAL NOTES

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