SEPTEMBER 2021

FISCAL NOTES

Lawmakers Tackle Long-Term Obligations

By Spencer Grubbs

BIG CHANGES TO THE STATE'S RETIREMENT SYSTEM ARE CREDIT POSITIVE

Texas Comptroller Glenn Hegar has been calling attention to the growing costs of the state's long-term financial obligations since he took office in 2015; in December 2016, he outlined concerns in a letter to state leaders. The Comptroller and credit-rating agencies alike warned that failure to address those obligations could jeopardize the state's reputation, credit rating and overall financial health. This year, Texas lawmakers continued their efforts to heed those warnings.

During the regular legislative session that ended in May, the 87th Legislature advanced plans to pay down the spiraling costs of the state employee pension system, a move that is projected to be credit positive for the state.

This article on long-term obligations — the third since 2017 — primarily focuses on recent changes to state employee pension funding. It also provides brief updates on retirement and health care benefits for public school teachers, the state's prepaid tuition plan and deferred maintenance for state-owned buildings.

STATE EMPLOYEE PENSION FUNDING

The Employees Retirement System (ERS) Plan currently serves about 395,000 active and retired public employees and their dependents. ERS Plan assets totaled $28.5 billion as of Aug. 31, 2020. However, the total amount needed to meet all future pension obligations on the books was $43.2 billion (**Exhibit 1**), a difference of $14.7 billion, which is the *unfunded* actuarial accrued liability (UAAL).

Gabriel, Roeder, Smith & Co. (GRS), a national actuarial and benefits consulting firm, determined that the financial outlook for ERS was "very poor." GRS projected that, based on the current state and employee contribution rates, the ERS plan would never have enough money to cover future obligations and would eventually be depleted.

The funding status of the ERS Plan has weakened, despite remedial actions taken by the Legislature since 2009, which included reducing benefits for new hires and increasing state and employee contribution

CONTINUED ON PAGE 3

A Message from the Comptroller

Every two years, the Texas Legislature meets for 140 days to consider thousands of bills. Our state lawmakers have done so since the mid-1800s, when they headed to the Capitol on a good horse or via stagecoach. According to the *Texas Almanac*, a one-way stagecoach trip between Austin and San Antonio in the 1850s took 18 hours — in the best of weather.

Texas legislators know a thing or two about overcoming obstacles. Maybe that's one reason the regular session of the 87th Legislature also got the job done, despite a global pandemic and a historic winter storm.

In this issue of *Fiscal Notes*, we highlight bills that address an issue that's been a priority for me for years — addressing our long-term obligations (LTOs), such as the state employees' pension system and health care system for retired teachers. These issues have been dear to my heart not only because of the Texans they affect but also because these LTOs have underfunding issues affecting their path to actuarial soundness. I have been concerned about the possible unintended consequences of credit-rating agencies lowering our ratings, thus costing the state more to borrow money. I'm happy to report lawmakers heeded my concerns and took up the issue of LTOs this session.

As legislators grappled with those big issues and the state's 2022-23 budget, I worked closely with them to ensure they had the latest information in the *Biennial Revenue Estimate* (BRE), our agency's best estimate of the state's financial condition. Published every two years in January, this year's BRE was impacted by the pandemic, but in May, as the Texas economy showed resilience, we made the decision to update the BRE during regular session.

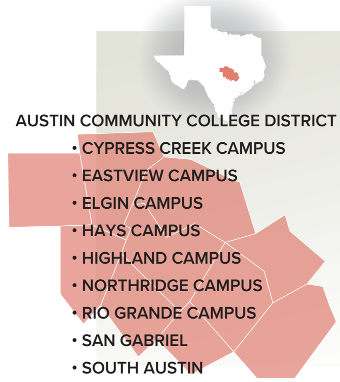
In this issue we provide the biennial roundup of the regular session, including budget numbers for the 2022-23 biennium and an overview of appropriations. We highlight legislation affecting our office and its customers, as well as other state agencies. We also compare this year's budget to previous years and look at current and upcoming special sessions.

As always, I hope you enjoy this issue.

GLENN HEGAR
Texas Comptroller of Public Accounts

TEXAS COMMUNITY COLLEGES

CAPITAL REGION



REGIONAL IMPACT OF COMMUNITY COLLEGES' SPENDING, 2019

EMPLOYMENT
5,305

OUTPUT
$691.8 MILLION

COMPENSATION
$399.6 MILLION

Texans' community college districts serve a vital role in our economy by developing our workforce, preparing students for further academic study and meeting specific educational and vocational needs. The 10 counties in the Capital region include one community college district.

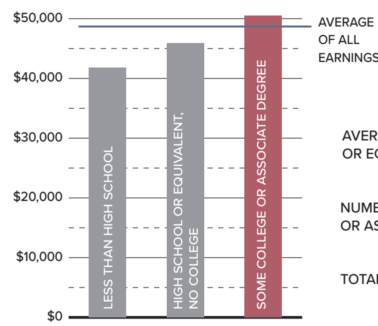
Note: Figures include direct, indirect and induced economic impacts.

Sources: JobsEQ, Texas Comptroller of Public Accounts, Texas Higher Education Coordinating Board and Texas community colleges.

NOTE: THESE ANALYSES PREDATED THE COVID-19 CRISIS AND THE ECONOMIC IMPACTS THAT FOLLOWED.

WAGES BY EDUCATIONAL ATTAINMENT

AVERAGE ANNUAL EARNINGS BY EDUCATIONAL ATTAINMENT, CAPITAL REGION, 2018



Source: JobsEQ

Community colleges provide their students with a good return on investment.

AVERAGE WAGE INCREASE OVER HIGH SCHOOL OR EQUIVALENT
$4,606

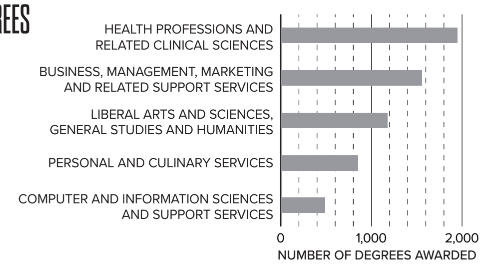
NUMBER OF WORKERS, SOME COLLEGE OR ASSOCIATE DEGREE
283,327

TOTAL REGIONAL ADDITIONAL WAGES
$1.31 BILLION

Sources: U.S. Census Bureau, JobsEQ and Texas Comptroller of Public Accounts

CERTIFICATES AND DEGREES

TOP CERTIFICATES AND DEGREES, CAPITAL REGION, 2017-2018 SCHOOL YEAR



Source: JobsEQ

SUMMARY

As Austin Community College, the Central Texas region's only community college district, works to address local skills gaps and meet the specific needs of area employers, it supports more than 5,300 jobs and adds almost $692 million in economic output annually. The higher pay of those with some college or an associate degree helps raise total wages in the region by more than $1.3 billion per year.

TO SEE INFORMATION ON COMMUNITY COLLEGES AND THE TEXAS ECONOMY:
comptroller.texas.gov/economy/economic-data/colleges

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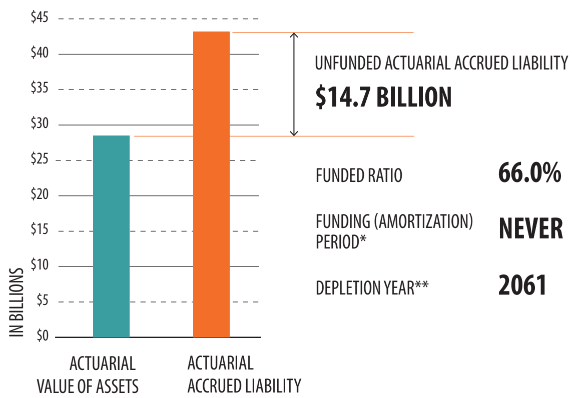
EXHIBIT 1

ACTUARIAL VALUATION RESULTS FOR ERS PLAN, AUG. 31, 2020



**Funding period: Estimates when a plan will become fully funded, based on current contribution rates and investment returns.*

***Depletion year: The year in which a plan is projected to become insolvent.*

Sources: ERS, 2020 Annual Comprehensive Financial Report; GRS, consulting actuaries, 2020 Actuarial Valuation Report

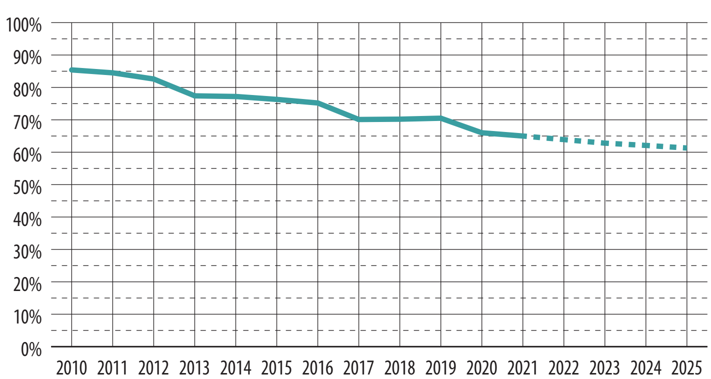
rates. The plan's funded ratio — an annual point-in-time measure of total assets divided by liabilities and expressed as a percentage — has declined from fiscal 2010 to fiscal 2020, with a steep drop occurring over the last year (**Exhibit 2**). GRS projected that the funded ratio would continue to shrink if the 87th Legislature did not "materially increase" contributions.

PENSION REFORM

In August 2020, projections indicated that the ERS Plan's UAAL was on track to grow by $1.5 billion each biennium, or $2 million a day.

EXHIBIT 2

HISTORICAL AND FUTURE PROJECTED FUNDED RATIOS FOR ERS PLAN, FY 2010-2025



Note: Reporting date is Aug. 31 of each fiscal year; projections are based on current contribution rates and a 7 percent investment return, among other assumptions.

Source: GRS, consulting actuaries, 2020 Actuarial Valuation Report, p. 33

During the regular session, Texas lawmakers committed to paying down the plan's UAAL and returning the plan to actuarial soundness. Their efforts culminated in the passage of Senate Bill (SB) 321, which launched the most comprehensive ERS pension reform package to date. Effective on Sept. 1, 2021, the bill has two key components: A requirement that the state pay down pension debt by a certain date *and* the inception of a new cash balance benefit retirement plan.

LEGACY PAYMENTS

The Texas Pension Review Board, which oversees all public pension systems in Texas, recommends that employer and employee contributions to a pension system be enough to eliminate its UAAL in 30 years or less; at present, the contributions to the ERS Plan fall short of this target.

SB 321 requires the state to make a payment to ERS each fiscal year that is "actuarially determined" to pay off its $14.7 billion UAAL by the end of fiscal 2054 — a funding period of 33 years. Before each legislative session, retirement actuaries will calculate the payment amounts — an estimated $510 million per fiscal year. These actuarially determined payments are in addition to the current state contribution rate of 10 percent of total payroll.

CASH BALANCE BENEFIT PLAN

Another consequential element of Texas' pension reform package is the cash balance benefit plan established as a new tier under the existing ERS retirement system (**Exhibit 3**). This reform affects only state employees hired *on* or *after* Sept. 1, 2022.

The new cash balance plan under ERS is structured differently than the defined benefit (DB) pension plan for current employees. A cash balance plan diverges from a traditional DB plan largely because it "defines the promised [retirement] benefit in terms of a stated account balance," according to the U.S. Department of Labor.

A member of the new ERS cash balance plan will receive a lifetime annuity with the annuity amount based on the accrued balance in the member's account at retirement rather than a formula that incorporates the member's highest salary and years of service. Cash balance annuity is dependent on the plan's investment performance, whereas traditional DB annuity is guaranteed, regardless of investment performance.

Cash balance benefit plans are not new, even in Texas. The Texas Municipal Retirement System, which administers retirement programs for nearly 900 cities in Texas, is the oldest cash balance plan in the United States. The state of Kentucky, which had implemented a cash balance plan for its state employee retirement

EXHIBIT 3

CENTRAL COMPONENTS OF THE NEW CASH BALANCE PLAN FOR PUBLIC EMPLOYEES HIRED ON OR AFTER SEPT. 1, 2022

- **LOWER EMPLOYEE CONTRIBUTION RATE** (6 percent of pay vs. 9.5 percent).
- **STATE MATCH** equal to 150 percent of member account balance at retirement.
- **FIVE-YEAR VESTING PERIOD** (versus the 10-year vesting period of the DB plan for employees who were hired on or after Sept. 1, 2009).
- **GUARANTEED ANNUAL INTEREST RATE** of 4 percent in member accounts.
- The opportunity to receive up to an additional 3 percent per year in "**GAIN-SHARE**," when investment earnings by the ERS Trust Fund total more than 4 percent over a five-year average.

Source: ERS, "87th Texas Legislature Sets Retirement Plan on Path to Solvency"

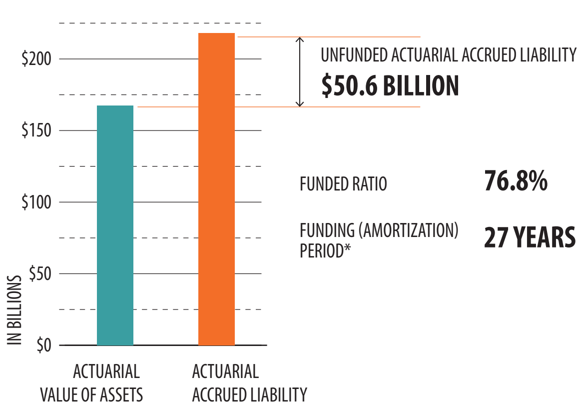
system in 2013, recently added a supplemental cash balance plan to its teacher retirement system. Other states with cash balance plans include California, Kansas and Nebraska.

TEACHER EMPLOYEE PENSION AND HEALTH CARE FUNDING

The Teacher Retirement System of Texas (TRS) — the sixth-largest U.S. public retirement system — administers a pension fund that currently serves about 1.7 million active and retired public school employees in Texas. As of Aug. 31, 2020, the total amount needed for TRS to meet all future pension obligations on the books was $218 billion, of which $50.6 billion represented UAAL (**Exhibit 4**).

EXHIBIT 4

ACTUARIAL VALUATION RESULTS FOR TRS PLAN, AUG. 31, 2020



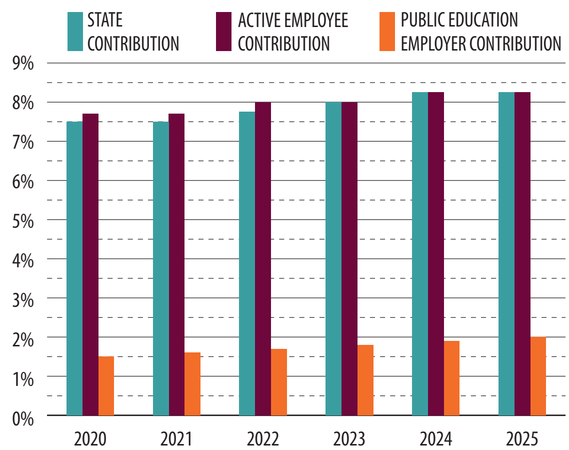
**Funding period: Estimates when a plan will become fully funded, based on current contribution rates and investment returns.*

Source: GRS, consulting actuaries, 2020 Actuarial Valuation Report

The 86th Legislature in 2019 approved a six-year plan for TRS to phase in higher state, employee and employer (school district) contribution rates, aiming to address pension debt and achieve actuarial soundness (**Exhibit 5**). Beyond fiscal 2024, contribution rates are not expected to change.

EXHIBIT 5

STATE, EMPLOYEE AND EMPLOYER CONTRIBUTION RATES FOR TRS, FY 2020-2025



Note: Each contribution rate is a percentage of the total employee payroll for that fiscal year.

Source: Teacher Retirement System of Texas

In addition to providing retirement benefits, TRS administers two health care benefit programs, one for active public school employees and another for retired employees. The latter program — known as TRS-Care — covered nearly 220,000 retirees, dependents and surviving spouses and children as of Aug. 31, 2020.

TRS-Care largely is funded by state, employee and employer contributions, but it is considered a "pay-as-you-go" plan. The Legislature makes periodic appropriations, in addition to state contributions, to provide health benefits and reduce or sustain monthly premiums for plan members. The Legislature has made seven supplemental appropriations since fiscal 2010, the largest of which was $768 million in fiscal 2015.

TRS-Care is not a long-term obligation for the state alone because of the cost sharing and self-funding structure of the program. Legislative appropriations aid in closing the program's ongoing funding gap and attempt to keep pace with health care expenses.

The 86th Legislature in 2019 approved a six-year plan for TRS to phase in higher state, employee and employer (school district) contribution rates, aiming to address pension debt and achieve actuarial soundness.

TEXAS GUARANTEED TUITION PLAN

The Texas Guaranteed Tuition Plan (TGTP) is a prepaid tuition plan created in May 1995 and opened for enrollment in 1996. Texas voters approved a constitutional amendment in 1997 that guarantees the plan's benefits with the full faith and credit of the state.

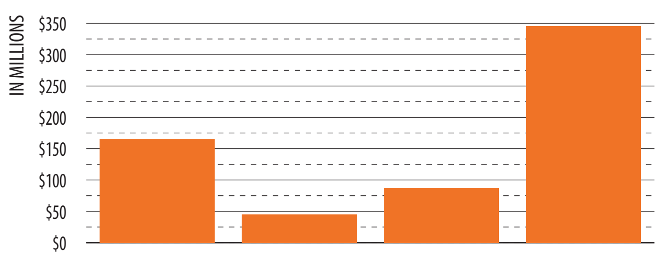
The TGTP stopped accepting new contracts when the Texas Legislature deregulated tuition in 2003 in anticipation of significantly higher tuition rates. In all, the plan sold 158,442 contracts prior to closure. As of Aug. 31, 2020, the plan still had 34,629 active contracts. The TGTP was replaced in 2008 by a new prepaid plan, the Texas Tuition Promise Fund.

The TGTP's contract payments and investment earnings have not kept pace with the cost of tuition. As of Aug. 31, 2020, the plan had an estimated unfunded liability of $483.4 million and was projected to run out of cash in fiscal 2022.

The 87th Legislature appropriated $271 million to cover the TGTP's projected cash deficit for the next biennium. The plan will require annual general revenue appropriations until 2039, when all contracts are expected to be fulfilled.

EXHIBIT 6

STATE DEFERRED MAINTENANCE COSTS BY PRIORITY LEVEL, 2020



PRIORITY LEVEL	I	II	III	IV
	Indicates that the need is immediate, or **"CRITICAL"** in terms of the item itself	Indicates that the need is **"TRENDING CRITICAL,"** with repair or replacement necessary within 12 months	Indicates that repair or replacement is **"NECESSARY"** within two to five years	Indicates that repair or replacement is **"RECOMMENDED"** within three to 10 years

Note: Table reflects state properties under Texas Facilities Commission management, which include properties for the Texas School for the Blind and Visually Impaired and the Texas School for the Deaf.

Source: Texas Facilities Commission, 2020 Master Facilities Plan Report

Texas has enjoyed the highest credit ratings provided by major credit agencies, and taking care of long-term obligations is essential for maintaining the state's good ratings.

DEFERRED MAINTENANCE FOR STATE BUILDINGS

Deferred maintenance refers to the postponed maintenance of buildings, equipment and systems due to a lack of sufficient funding. Each year maintenance is postponed, costs rise due to further deterioration of known deficiencies, the accumulation of new problems and higher costs for repair and construction.

In 2020, deferred maintenance costs for state-owned or state-leased buildings totaled about $644 million (**Exhibit 6**). This point-in-time estimate, however, does not reflect cost increases or cost associated with needed repairs becoming emergencies.

The Texas Legislature appropriated $450 million from general revenue to the Texas Facilities Commission (TFC) for fiscal years 2016 to 2021 to reduce the state's deferred maintenance backlog. In 2020, TFC, which manages owned and leased properties that support 97 state agencies, reported that it had expended $200 million of the appropriated funds, in addition to executing more than $300 million in contracts for deferred maintenance projects.

CONCLUSION

Texas has enjoyed the highest credit ratings provided by major credit agencies, and taking care of long-term obligations is essential for maintaining the state's good ratings.

"I have talked about our long-term liabilities for more than six years, and I'm thankful that the Legislature took much-needed action this year on ERS," Comptroller Glenn Hegar says. "Our long-term obligations will only continue to grow if they're not addressed, and that could mean larger program expenses in the future and even the potential for a downgrade in our credit ratings that could drive up the state's borrowing costs. This legislative action is important to keeping our state on sound financial footing, which benefits all Texans." **FN**

Want to know more about local and state pension plans in Texas? Visit the Comptroller's Public Pension Search Tool at ***Comptroller.Texas.Gov/application.php/pension***.

Regular Session Wrap-Up of the Texas 87th Legislature

By Patrick Graves

LAWMAKERS GRAPPLED WITH CHANGE

The biennial regular session of the 87th Texas Legislature occurred after a year unlike any in recent memory. As if the pandemic weren't enough, weather interrupted the session and played an outsized role as well.

"When the legislative session opened in January," recalls Comptroller Glenn Hegar, "I was confident Texas lawmakers would be able to reach an agreement on a budget and on key fiscal issues, but it was hard for me to see exactly how that would happen. The ground was shifting under our feet, and it felt like it never stopped moving."

Texas experienced a decade's worth of paradigm shifts in less than 18 months, says Hegar.

Substantial changes not only occurred before but also during the session. Rising case counts and mounting hospitalizations due to the COVID-19 pandemic gave way to emerging vaccines and fewer restrictions. As vaccination numbers rose and restrictions eased, the Texas economy showed resilience. Commerce reopened, and economic activity accelerated, warranting a revised revenue forecast from the negative balance projected in the January biennial revenue estimate (BRE).

The updated BRE issued in May projected $113.88 billion in revenue available for general-purpose spending in fiscal 2020-21, which ended Aug. 31. The May update anticipated a $725 million ending balance in general revenue-related (GR-R) funds, reflecting an increase of $1.67 billion from January's original projection.

The higher ending balance, combined with greater revenue collections expected in the biennium that began Sept. 1, produced an estimate of $115.65 billion available for general-purpose spending in fiscal 2022-23 — an increase of $3.12 billion from January's BRE projection.

Those figures increased again in July when the Comptroller issued a new revenue estimate for the 87th Legislature's first special session. After accounting for appropriations made by the Legislature, the projected GR-R ending balance for the 2022-23 biennium was $7.85 billion that included:

- $116.13 billion available for general-purpose spending in fiscal 2020-21.
- A $5.01 billion GR-R ending balance for fiscal 2021 (due mostly to state agency budget reductions, improved revenue collections and the replacement of eligible GR-R appropriations with federal relief funds).
- $123.02 billion available for general-purpose spending in fiscal 2022-23.

Increased consumer spending fueled increased sales tax collections, including sales taxes from online commerce. In 2019, remote sellers located outside Texas were required to collect and remit Texas sales taxes, and marketplace providers were required to collect and remit taxes for Texas sales made using their platforms. Along with increased consumer spending, the energy sector rebounded, boosting crude oil and natural gas production tax revenues. The latter not only buoys the budget but also benefits the state's savings account (aka the "Rainy Day Fund") and state highway funding.

Despite anticipated growth through the 2022-23 biennium, Hegar counsels caution; the pandemic's long-term economic effects remain unknown, dictating continued monitoring and analysis.

THE NEW BUDGET

Lawmakers authorized spending a little over $248.5 billion during the current two-year budget cycle, compared with $262.1 billion two years ago (**Exhibit 1**). (Note that the tables and content in this article only reflect actions taken during the 87th Legislature's regular session unless otherwise stated.)

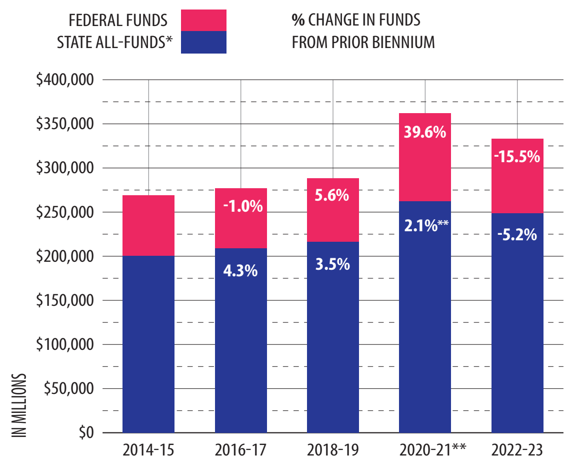
The current biennial budget is about 5 percent less than the previous one. General revenue (GR) spending is up 5.5 percent, but spending from general revenue-dedicated (GR-D) and other funds is down, for a *slight* overall increase of 1.2 percent combined.

A 15.5 percent drop in federal funds, due mainly to Texas agencies being eligible to receive aid from the Coronavirus State Fiscal Recovery Funds (CSFRF) instead of direct pandemic-related aid in 2020-21, accounts for most of the biennial decrease in appropriations. Funds received under the CSFRF have not been directly and separately appropriated by the Legislature.

The bulk of expenditures in the General Appropriations Act (GAA) pays for education, health and human services and public safety and criminal justice, in that order (**Exhibit 2**).

EXHIBIT 1

STATE ALL-FUNDS* BUDGET COMPARISON, CURRENT AND PREVIOUS FOUR BIENNIA



*Includes federal funds and supplemental appropriations, if any.

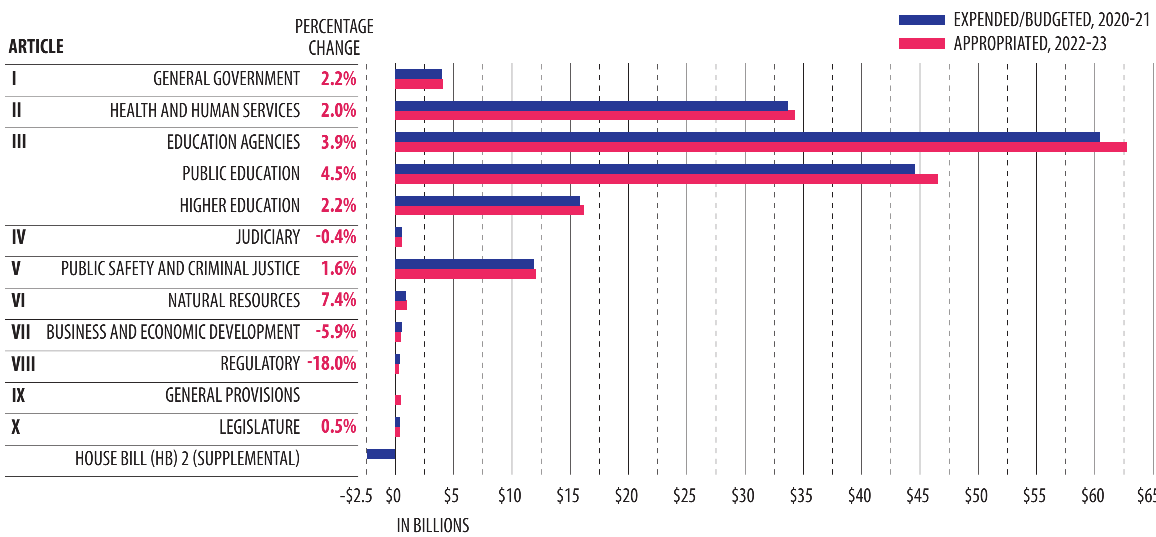
**Comparatively higher balance due largely to additional federal funds for pandemic-related relief used to offset personnel costs (salary swaps).

Note: As of this publication date, the state's 2022-23 budget does not yet allocate the federal pandemic relief monies received from the Coronavirus State Fiscal Recovery Funds.

Source: Legislative Budget Board (LBB)

EXHIBIT 2

GENERAL REVENUE APPROPRIATIONS* BY GOVERNMENTAL FUNCTION, 2022-23 BIENNIUM



*Excludes general revenue-dedicated, federal and other funds.

Notes:

- *Totals include the net effect of the General Appropriations Act SB 1, HB 2 (supplemental appropriations) and SB 1605 (miscellaneous claims). These amounts have been adjusted to include supplemental spending in fiscal 2021. These preliminary estimates are subject to change based on any future actions by the 87th Legislature and final reconciliations by LBB staff.*
- *Article IX contains job titles, salary schedules and other provisions related to appropriation authority, including contingency riders. Once all monies have been allocated and the GAA is fully reconciled, it becomes a zero sum, as in 2020-21.*
- *For Article X, under "Appropriated 2022-23," $315.883 million was vetoed. The Legislature provided funding of Article X in HB 5 during the second called special session, which at press time, was pending action from the governor.*
- *Totals may not add due to rounding.*

Source: LBB

THE SPENDING HIGHLIGHTS OF THE 87TH LEGISLATURE'S REGULAR SESSION

- Full funding for the state's commitment to the public education investments made last session, including projected enrollment growth during the biennium.
- An increase in state contribution rates to the Teacher Retirement System (TRS) from 7.5 percent in 2020-21 to 7.75 percent in fiscal 2022 and 8 percent in fiscal 2023.
- $897.6 million (up $39.5 million) to maintain current health insurance premiums and benefits for retired teachers.
- An additional $1.02 billion for the biennium, over and above the state's regular contributions, to begin making the existing Employees Retirement System pension fund actuarially sound.
- $139.2 million for law enforcement salary increases at several state agencies.
- Funding for 100 new state troopers along the border and 74 additional troopers and staff to enhance Capitol Complex security.
- $4.2 million to enhance the Public Utility Commission and other regulatory responses related to oversight of activities by the Electric Reliability Council of Texas (ERCOT).
- More than $3 billion in federal funds for continuing disaster recovery related to 2017's Hurricane Harvey, including $1.4 billion for short-term and community housing projects, $1.6 billion for infrastructure and mitigation projects and $221.4 million for coastal projects.
- $200 million to extend, improve and maintain coastal barriers, storm surge gates, seawalls and levees.
- $316.9 million from sporting goods sales tax allocations for the Texas Parks and Wildlife Department, a $100.6 million increase.

The Texas Constitution sets spending limits on state government. For the fiscal 2022-23 biennium, the LBB reports that a combined total of $6.3 billion authorized for general-revenue spending remains untapped. The new, two-year budget also falls well within the constitutional spending limits for debt and welfare.

CLOSING CHAPTER 313

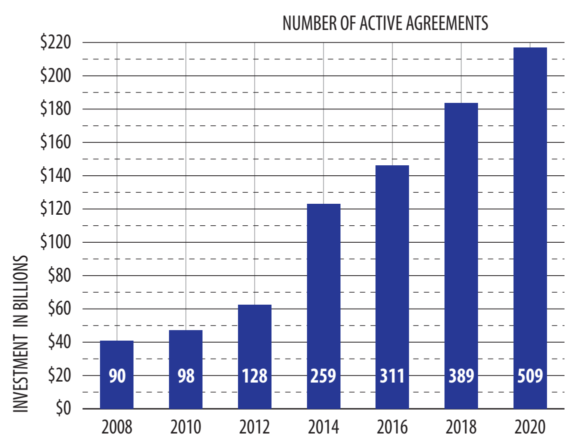
The state's largest economic incentive program for attracting corporate expansions and relocations since 2001 was not renewed. Consequently, barring legislative intervention, the Texas Economic Development Act (TEDA) expires at the end of 2022.

Dubbed "Chapter 313" due to its location in the tax code, the law allows school districts to offer property tax abatements to businesses that build facilities within their boundaries in exchange for direct payments and promises to create jobs and boost economic activity. Incentives in the form of *property value limitations* that last up to 10 years are applied to portions of taxable property values for new projects.

As of 2020, the program encompassed more than 500 active agreements representing $217 billion in investments (**Exhibit 3**). Many projects involve "big footprint" factories and plants (e.g., high-tech and energy industries). School property taxes typically are the largest portion of those enterprises' overall tax liability.

EXHIBIT 3

CHAPTER 313 BIENNIAL REPORT DATA



Source: Texas Comptroller of Public Accounts – Texas Economic Development Act, biennial reports

In 2019, the Comptroller's office received 133 applications, the largest amount since the program changed benefits from conveying a two-year tax credit coupled with an eight-year limitation to conveying a 10-year limitation.

In 2020, the Comptroller's office received 97 amendments to executed agreements, more than double the number for all of 2019. Although unusual, it is not entirely surprising given that the COVID-19 pandemic has disrupted various markets. Many amendments extend project timelines or modified projects' sizes or scopes.

TOTAL BILLS FILED, OTHER FISCAL MATTERS

Of 6,927 House and Senate bills filed before and during the regular session, 1,073 became law and 21 were vetoed (**Exhibit 4**). This represents a decrease from the 2019 legislative session, where 7,324 bills were filed, 1,373 were passed and 56 were vetoed.

OTHER MAJOR FISCAL ISSUES

Electrical Grid Failure and Winter Storm Tragedy

HB 16 prohibits retail sales to residential electricity customers of pricing products indexed to wholesale markets. **SB 3** requires power-generation companies to winterize their facilities and creates a statewide emergency system to alert residents about imminent power outages.

Franchise Tax Revenue Exclusions for Pandemic-Related Relief

HB 1195 exempts federal loan and grant proceeds received through COVID-19 relief programs, such as the Coronavirus Aid, Relief, and Economic Security (CARES) Act, from the state franchise tax. Expenses paid with any of those funds may be used in calculating gross margins for franchise tax purposes.

Delinquent Taxpayer Data Match at Financial Institutions

HB 1258 authorizes the Comptroller's office to request information from financial institutions for the purpose of matching accounts with delinquent taxpayer records.

Restricting Franchise Tax Credits for Historic Structure Rehabilitation

HB 3777 closes a loophole by precluding costs and expenses incurred to rehabilitate a historic structure from being eligible for a tax credit if the structure is leased to a tax-exempt entity in a disqualified lease.

Requiring Permits for E-Cigarette Sales

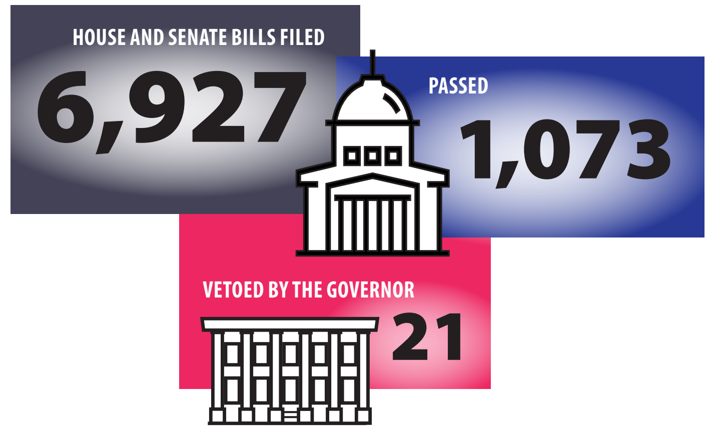
SB 248 regulates retail sales and/or delivery of e-cigarettes and related products, including requiring permits, imposing fees and providing administrative penalties. The law expands the applicable definition to include liquids and aerosols consumed while using e-cigarettes (vaping), even if they don't contain nicotine.

Alcohol-to-Go Authorization

An outgrowth of pandemic practices that helped keep many eateries in business, **HB 1024** allows establishments with state food and beverage permits to sell mixed drinks, wine and beer with food orders for pickup or delivery, effective Sept. 1.

EXHIBIT 4

BILL ACTIVITY IN THE 2021 LEGISLATIVE SESSION



Note: Does not include resolutions, memorial motions, etc.
Source: Legislative Reference Library

SPECIAL SESSION

Gov. Abbott called the Legislature back into session in July and again in August to address several issues, including funding for the legislative branch and election reform. Legislative activity temporarily was put on hold during the first called special session when most House Democrats (and some senators) left the state, preventing a quorum from being established in the House to conduct legislative business. Among the items ultimately approved by lawmakers were election system changes and increased border security funding.

Every 10 years, the Legislature uses new population figures to redraw electoral boundaries for the House, Senate, U.S. House of Representatives (Texas is gaining two seats) and State Board of Education, plus the courts. Because decennial census data from the federal government were delayed due to the pandemic and other factors, redistricting will be addressed in the third called special session, which began on Sept. 20. **FN**

Visit ***Comptroller.Texas.Gov/transparency/reports/biennial-revenue-estimate/*** to download a copy of the BRE and learn why it forms the basis of the state budget for each biennium.

Texas Dairy Grows, Goes High-Tech

The dairy industry has experienced dramatic changes over the years, consolidating and modernizing operations. Today's dairy farmers still tend to be family farmers, but with larger, streamlined operations that incorporate new technologies, such as an electronic collar that monitors bovine health much like a fitness watch. Read this story and others you might have missed at **FiscalNotes.org**.

Fintechs for the People

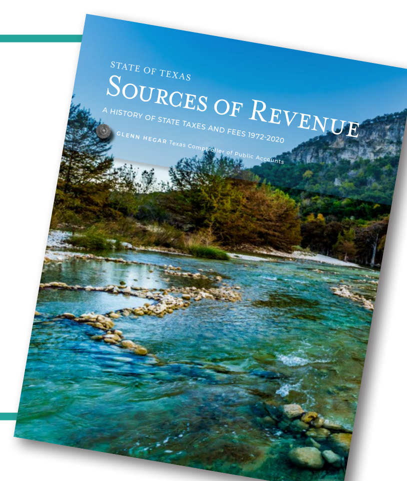
Financial technology firms, known as fintechs, are turning Austin into a city where lenders and borrowers can make and receive money, regardless of a borrower's history. Learn why JUST, one of Austin's up and coming fintechs, is on a mission to bring equity to borrowers who historically have been overlooked. Read about this phenomenon in *Line Items*, the exclusive online supplement to *Fiscal Notes*. See the story "High-Tech Financial Solutions for Low-Income Consumers" at **FiscalNotes.org**.

Transparency, Customer Service at Your Fingertips

It's more important than ever for people to be able to find information and do business online, and it has never been easier to use the Comptroller's website to do just that. We have the latest financial reports, tax updates and current information about tax deadlines and payment plans — and our revenue and expenditure tool allows users to examine state finances in detail. In addition, certain taxes can be submitted and paid online through Webfile. We're all about transparency and customer service at **Comptroller.Texas.Gov**.

Sources of Revenue—A Detailed History of Texas Revenue

Sources of Revenue has been updated through fiscal 2020 and provides a quick guide to the history and current status of Texas state revenue sources. This report supplies a detailed look at state tax and fee legislation through 2020. To provide the deepest historical perspective based on the most reliable and consistent data, the report uses the year 1972 as the starting point for tracking state revenue collections. Access the report at **Comptroller.Texas.Gov/transparency/revenue/docs/96-571.pdf**.



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	AUGUST 2021	YEAR TO DATE: TOTAL	YEAR TO DATE: CHANGE FROM PREVIOUS YEAR
SALES TAX	$3,334,780	$36,019,605	5.63%
PERCENT CHANGE FROM AUGUST 2020	18.26%		
MOTOR VEHICLE SALES AND RENTAL TAXES	624,583	5,730,934	19.02%
PERCENT CHANGE FROM AUGUST 2020	33.40%		
MOTOR FUEL TAXES	331,275	3,596,892	2.05%
PERCENT CHANGE FROM AUGUST 2020	15.44%		
FRANCHISE TAX	193,529	4,529,830	2.52%
PERCENT CHANGE FROM AUGUST 2020	-22.17%		
OIL PRODUCTION TAX	404,565	3,449,132	6.81%
PERCENT CHANGE FROM AUGUST 2020	85.06%		
INSURANCE TAXES	178,633	2,699,643	-1.53%
PERCENT CHANGE FROM AUGUST 2020	19.73%		
CIGARETTE AND TOBACCO TAXES	163,569	1,397,304	7.57%
PERCENT CHANGE FROM AUGUST 2020	43.06%		
NATURAL GAS PRODUCTION TAX	215,344	1,568,542	69.49%
PERCENT CHANGE FROM AUGUST 2020	-1539.46%		
ALCOHOLIC BEVERAGES TAXES	135,051	1,257,444	11.74%
PERCENT CHANGE FROM AUGUST 2020	95.62%		
HOTEL OCCUPANCY TAX	65,497	487,815	3.64%
PERCENT CHANGE FROM AUGUST 2020	111.71%		
UTILITY TAXES[1]	106,562	538,815	12.69%
PERCENT CHANGE FROM AUGUST 2020	78.24%		
OTHER TAXES[2]	25,675	197,529	-21.82%
PERCENT CHANGE FROM AUGUST 2020	385.19%		
TOTAL TAX COLLECTIONS	**$5,779,062**	**$61,473,483**	**7.13%**
PERCENT CHANGE FROM AUGUST 2020	**29.70%**		

Revenue By Source	AUGUST 2021	YEAR TO DATE: TOTAL	YEAR TO DATE: CHANGE FROM PREVIOUS YEAR
TOTAL TAX COLLECTIONS	$5,779,062	$61,473,483	7.13%
PERCENT CHANGE FROM AUGUST 2020	29.70%		
FEDERAL INCOME	22,638,256	81,940,096	40.99%
PERCENT CHANGE FROM AUGUST 2020	456.38%		
LICENSES, FEES, FINES AND PENALTIES	534,476	6,346,921	1.69%
PERCENT CHANGE FROM AUGUST 2020	-12.68%		
STATE HEALTH SERVICE FEES AND REBATES[3]	267,310	6,794,088	-9.38%
PERCENT CHANGE FROM AUGUST 2020	-39.60%		
NET LOTTERY PROCEEDS[4]	210,274	2,954,627	23.54%
PERCENT CHANGE FROM AUGUST 2020	8.72%		
LAND INCOME	248,122	2,147,842	18.71%
PERCENT CHANGE FROM AUGUST 2020	171.72%		
INTEREST AND INVESTMENT INCOME	64,388	1,975,496	-21.89%
PERCENT CHANGE FROM AUGUST 2020	-64.34%		
SETTLEMENTS OF CLAIMS	2,075	761,239	21.92%
PERCENT CHANGE FROM AUGUST 2020	-50.85%		
ESCHEATED ESTATES	11,276	792,564	10.78%
PERCENT CHANGE FROM AUGUST 2020	-79.37%		
SALES OF GOODS AND SERVICES	31,241	321,237	26.08%
PERCENT CHANGE FROM AUGUST 2020	-9.93%		
OTHER REVENUE	2,523,168	4,988,858	24.21%
PERCENT CHANGE FROM AUGUST 2020	5.93%		
TOTAL NET REVENUE	**$32,309,648**	**$170,496,451**	**20.43%**
PERCENT CHANGE FROM AUGUST 2020	**158.06%**		

[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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Fiscal Notes also provides a periodic summary of the financial statements for the state of Texas.

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