

THE 2022-23 CERTIFICATION REVENUE ESTIMATE UPDATE

Transmittal Letter

July 14, 2022

The Honorable Greg Abbott, Governor
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Dade Phelan, Speaker of the House
Members of the 87th Legislature

Ladies and Gentlemen:

Rapid, historically high revenue growth in recent months, well in excess of last year's estimate, warrants update of the *Certification Revenue Estimate* (CRE) published in November 2021. We now estimate the state will have \$149.07 billion in General Revenue-related (GR-R) funds available for general-purpose spending for the 2022-23 biennium, up \$13.75 billion, or 10.2 percent, from our November estimate. This results, after certain cost adjustments, in a projected fiscal 2023 ending balance of \$26.95 billion, a substantial upward revision of \$14.95 billion from our previously projected surplus of \$11.99 billion.

Of the increase to the projected ending balance, \$13.75 billion is a net increase in estimated revenue after setting aside transfers of severance tax revenues from the General Revenue Fund, and \$1.2 billion is due to net adjustments to projected GR-R costs for the Foundation School Program (FSP) and other probable disbursements. Increased projections provided by the Texas Education Agency and the Legislative Budget Board of local funding from property tax revenues, and our upward revision of estimated revenue accruing to the Property Tax Relief Fund from franchise tax and to the Tax Reduction and Excellence in Education Fund from sales taxes collected by online marketplace providers, result in a reduction of \$1.97 billion in GR-R costs for the FSP, offset in part by \$771 million in other probable disbursements for certain Medicaid costs funded by premium credits and for the recent budget execution order providing funds for additional mental health and school safety initiatives.

In fiscal 2023, the Economic Stabilization Fund (ESF) and State Highway Fund (SHF) will each receive \$3.58 billion in transfers from the General Revenue Fund for severance taxes collected in fiscal 2022. After accounting for appropriations and investment and interest earnings, we project an ESF fiscal 2023 ending balance of \$13.66 billion.

The return of high and persistent general price inflation has impacted both the national and global economies. Following the end of pandemic restrictions, elevated demand

buoyed by last year's stimulus programs and savings accumulated during the pandemic when normal spending activities were curtailed, has been met with continuing shortages and thus higher prices for many items due to still unresolved supply chain disruptions and labor force participation still remaining below pre-pandemic levels. Already increasing inflation was further exacerbated by spikes in oil and other commodity prices following the Russian invasion of Ukraine. The result has been record high sales tax and severance tax revenues.

The revised estimate is subject to substantial uncertainty. High inflation is now being met by the Federal Reserve System and other central banks with the intent of curbing price pressures by slowing economic activity in the U.S. and abroad. There is a significant risk that the shift to restrictive monetary policy may push economies into recession. Economic activity could also be impaired by further dislocations stemming from geopolitical conflict or renewed COVID restrictions among our global trading partners. While this is not a recession forecast and continued economic growth is expected, the rate of economic growth is anticipated to slow and revenue growth in fiscal 2023 is estimated conservatively in view of the degree of uncertainty and heightened risk of recession.

Our office will, of course, provide a new estimate for this biennium, along with our forecast for the 2024-25 biennium, when we publish the *Biennial Revenue Estimate* in January, prior to the start of the 88th Regular Session of the Texas Legislature. In the meantime, I will continue to closely monitor the Texas economy and state revenues, and will keep you informed of any significant events as they arise.

Sincerely,

Glenn Hegar

Enclosure