



July 7, 2021

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:

In accordance with my responsibilities under Article III, Section 49a of the Texas Constitution, I am providing you with an estimate of revenue available for the 87th Legislature, First Called Session.

As a result of actions taken by the 87th Legislature during the Regular Session to reduce General Revenue-Related (GR-R) appropriations for the current biennium and surging revenue collections in recent months, I now expect 2020-21 revenue available for general-purpose spending to be \$116.13 billion and the fiscal 2021 ending balance in GR-R funds to be \$5 billion. The projected ending balance for fiscal 2021 includes savings realized from state agency budget reductions and the replacement of eligible GR-R appropriations with federal relief funds.

The fiscal 2021 ending balance, combined with upwardly revised projections of revenue collections, results in an estimate of \$123.02 billion available for general-purpose spending in 2022-23. After adjusting for appropriations made by the 87th Legislature and gubernatorial vetoes, the projected fiscal 2023 ending balance is \$7.85 billion. Significant amounts of federal revenue also could become available but are not included in GR-R in this estimate.

I now expect to transfer \$1.4 billion each to the State Highway and Economic Stabilization funds in fiscal 2022 and another \$1.88 billion in fiscal 2023. After accounting for appropriations made from the Economic Stabilization Fund by the 87th Legislature, I project its balance to be \$11.66 billion at the end of the 2022-23 biennium.

The Texas economy rebounded strongly this spring as vaccination rates increased and the economy opened more fully, and we remain optimistic about growth in the near term as the state's economy continues to return to pre-pandemic patterns. There remain reasons to expect strong revenue collections in the coming months and economic activity could outpace this current revenue estimate. We have seen exceptionally strong sales tax collections despite remittances from oil- and gas-related industry sectors remaining significantly below pre-pandemic levels. An increase in oil field activity resulting from the recent rise in oil prices could support continued sales tax growth. And personal savings remain elevated, providing potential support for continued strength in consumer spending.



July 7, 2021

Page 2

Global supply chains, however, continue to experience bottlenecks that make it difficult to meet the rising demand for certain goods, while service industry businesses struggle to find employees. Costs have risen sharply for some goods, including autos and housing. Until supply-side issues are resolved, economic output may remain below its potential, and rising costs could erode consumer purchasing power. Increased instances of the Delta and other coronavirus variants in Texas, the U.S. and elsewhere also could throttle economic growth. And as always, energy prices remain inherently difficult to predict.

On balance, however, the Texas economy appears poised for continued growth and our economic outlook is more optimistic than just a few months ago, which this estimate reflects.

We will continue to monitor economic conditions and update this estimate as necessary.

Sincerely,



Glenn Hegar

cc: Jerry McGinty, Legislative Budget Board

