

Can Texas Weather Economic and Fiscal Challenges?

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- Foundation is guided by three principles:
 - Liberty
 - Free Enterprise
 - Personal Responsibility
- Based in Austin, TX

Economic and Fiscal Challenges

- 12th largest world economy is hampered by:
 - Slower global economic growth, especially China
 - Federal Reserve tightening credit: too low for too long
 - Low oil prices (15% of real private economy/21% in 80s)
 - First major recession in 30 years?
- Budget picture looks tight going into 2017 Legislative Session in January
- Fortunately, 2015 Legislature:
 - Passed a conservative 2016-17 budget: 2.9% increase
 - Passed \$4 B in tax and fee relief
 - Left \$7 B surplus & \$10 B in Rainy Day Fund

The Texas model leads comparable states and U.S. averages in most measures

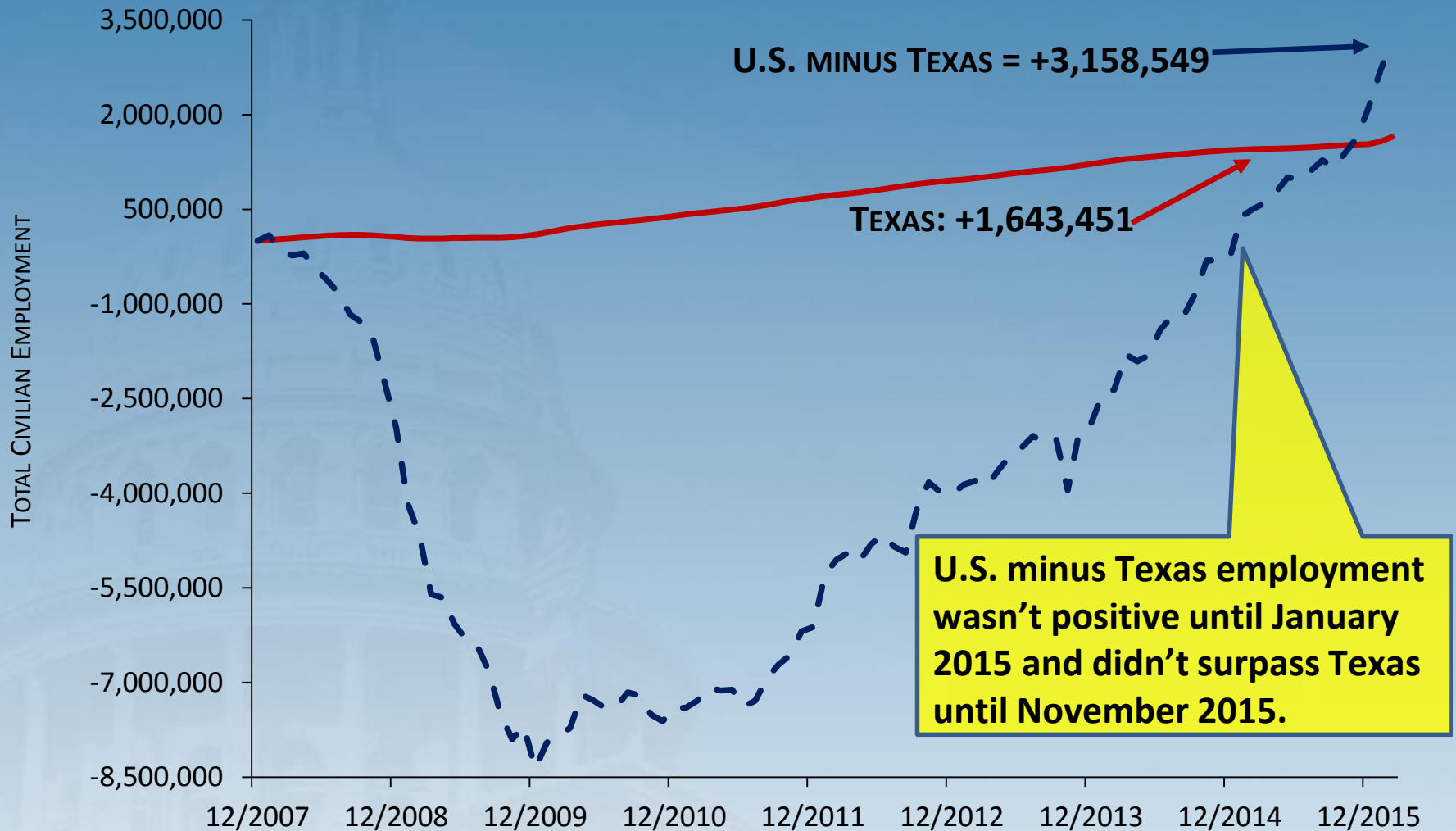
Measure	U.S.	Texas	Florida	California	New York
Economic Freedom of North America (2015)	--	3rd	3 rd	43 rd	47 th
State Business Tax Climate Index (2015)	--	10th	5 th	48 th	49 th
Soft Tyranny Index (2014)	--	1st	17 th	49 th	50 th
State-Local Tax Burden (2011)	--	46th	34 th	6 th	1 st
Census Bureau State Exports (2015)	--	1st	6 th	2 nd	4 th
Avg. Annual Nonfarm Job Creation (2000-14)	0.5%	1.6%	1.0%	0.7%	0.5%
Avg. U-3 Unemployment Rate (2000-14)	6.4%	5.7%	6.3%	7.6%	6.3%
Avg. U-6 Underutilization Rate (2003-14)	12.1%	11.1%	12.4%	15.1%	11.5%
Avg. Labor Force Participation (2000-14)	65.4%	66.6%	62.1%	65.0%	62.4%
Avg. Employment-Population Ratio (2000-14)	61.2%	62.6%	58.3%	60.1%	58.4%
Avg. Employment-Pop. Ratio 25-54 (2003-14)	77.52%	77.19%	77.59%	75.02%	75.90%
Total Civilian Emp. (12/07-12/14), ex. TX	-404,694	+1,572,694	+367,222	+617,937	-124,249
Total Nonfarm Emp. (12/07-12/14), ex. TX	+1,022,400	+1,219,600	+33,900	+438,500	+382,300
Real Avg. Annual Private Pay (2001-14)	6.1%	10.2%	6.1%	6.9%	5.4%
Avg. Gini Coefficient (2000-12)	61.5%	62.9%	66.2%	63.5%	65.9%
Avg. Top 10% Income Shares (2000-12)	47.4%	48.8%	52.0%	49.9%	54.1%
Avg. Top 1% Income Shares (2000-12)	20.3%	21.3%	23.9%	21.2%	25.4%
Supplemental Poverty Measure (2011-13)	15.9%	15.9%	19.1%	23.4%	17.5%

Notes: Dates in parentheses are for the data identified per measure. Data shaded in blue indicate "best" and in red indicate "worst" per category.

Source: TPPF, [A Labor Market Comparison: Why the Texas Model Supports Prosperity](#)

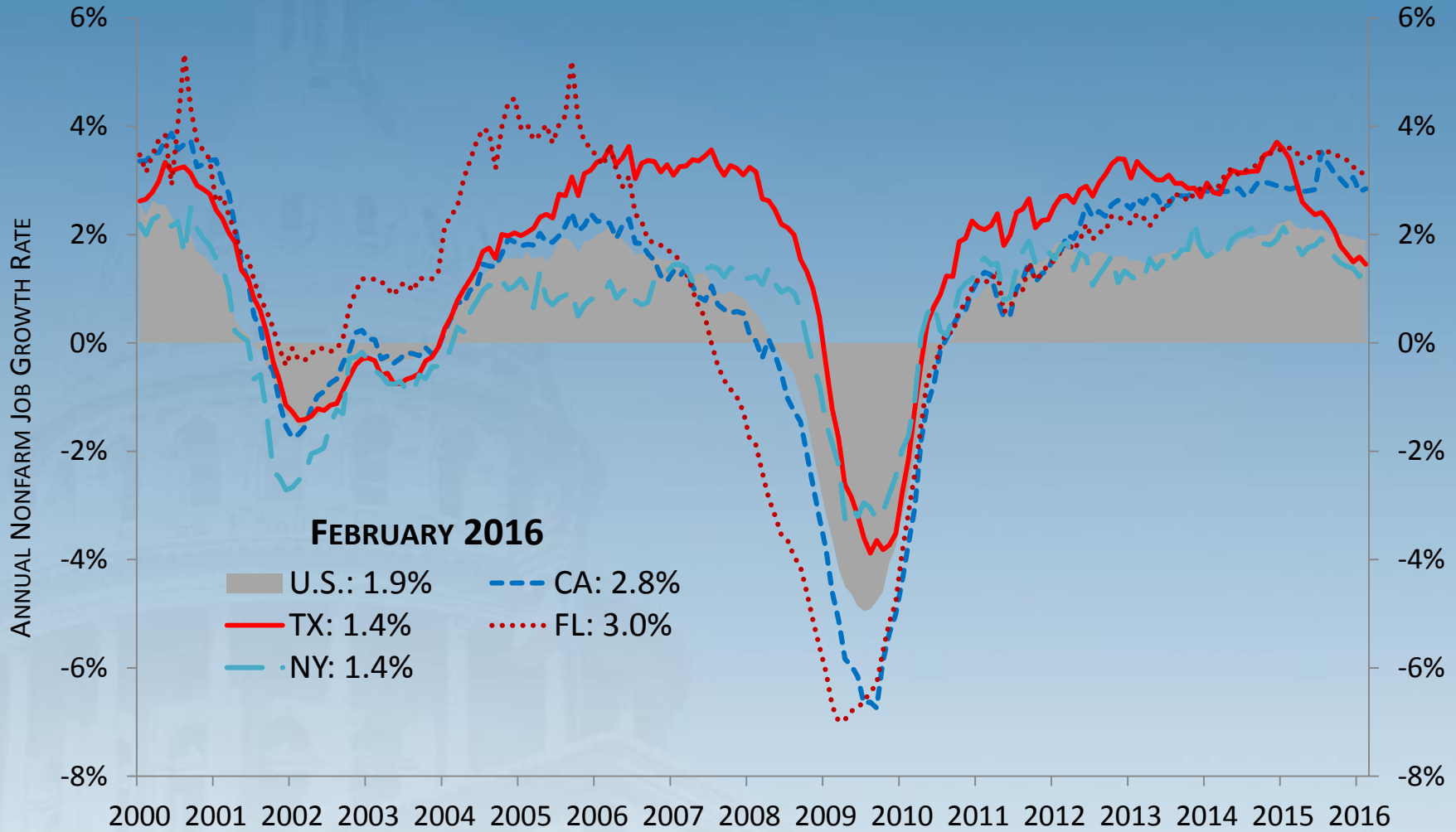
Texas, America's Jobs Engine

Texas has created 34% of total U.S. employment increase since pre-Great Recession.



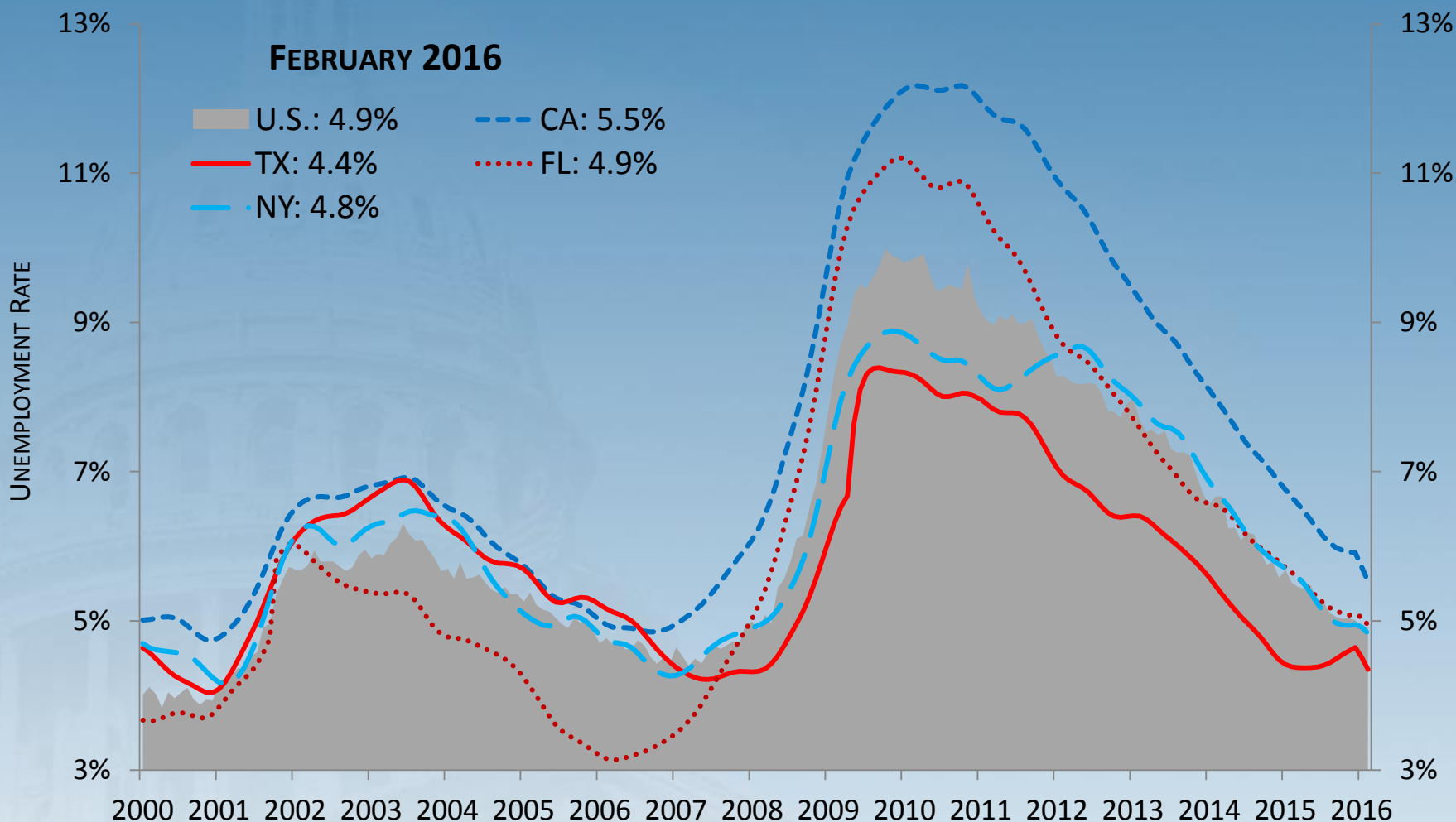
DATA ARE CUMULATIVE MONTHLY TOTAL CIVILIAN EMPLOYMENT FROM THE U.S. BUREAU OF LABOR STATISTICS FROM 12/2007 TO 2/2016.

Texas Created 170,900 Net Nonfarm Jobs During the Last Twelve Months



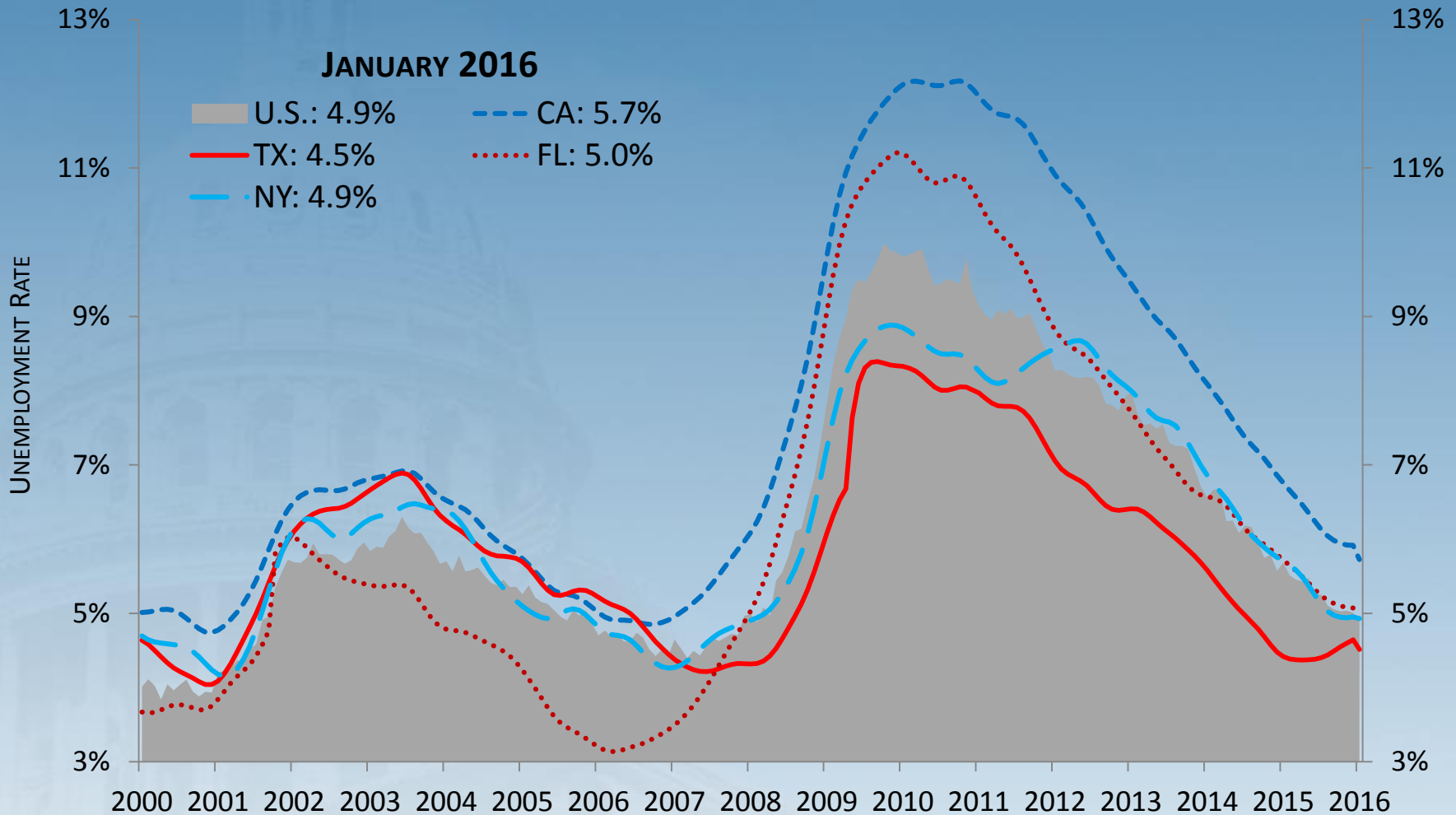
SEASONALLY ADJUSTED NONFARM EMPLOYMENT DATA ARE FROM THE BUREAU OF LABOR STATISTICS.

Texas' Unemployment Rate Lower than U.S. Average for 110 Consecutive Months



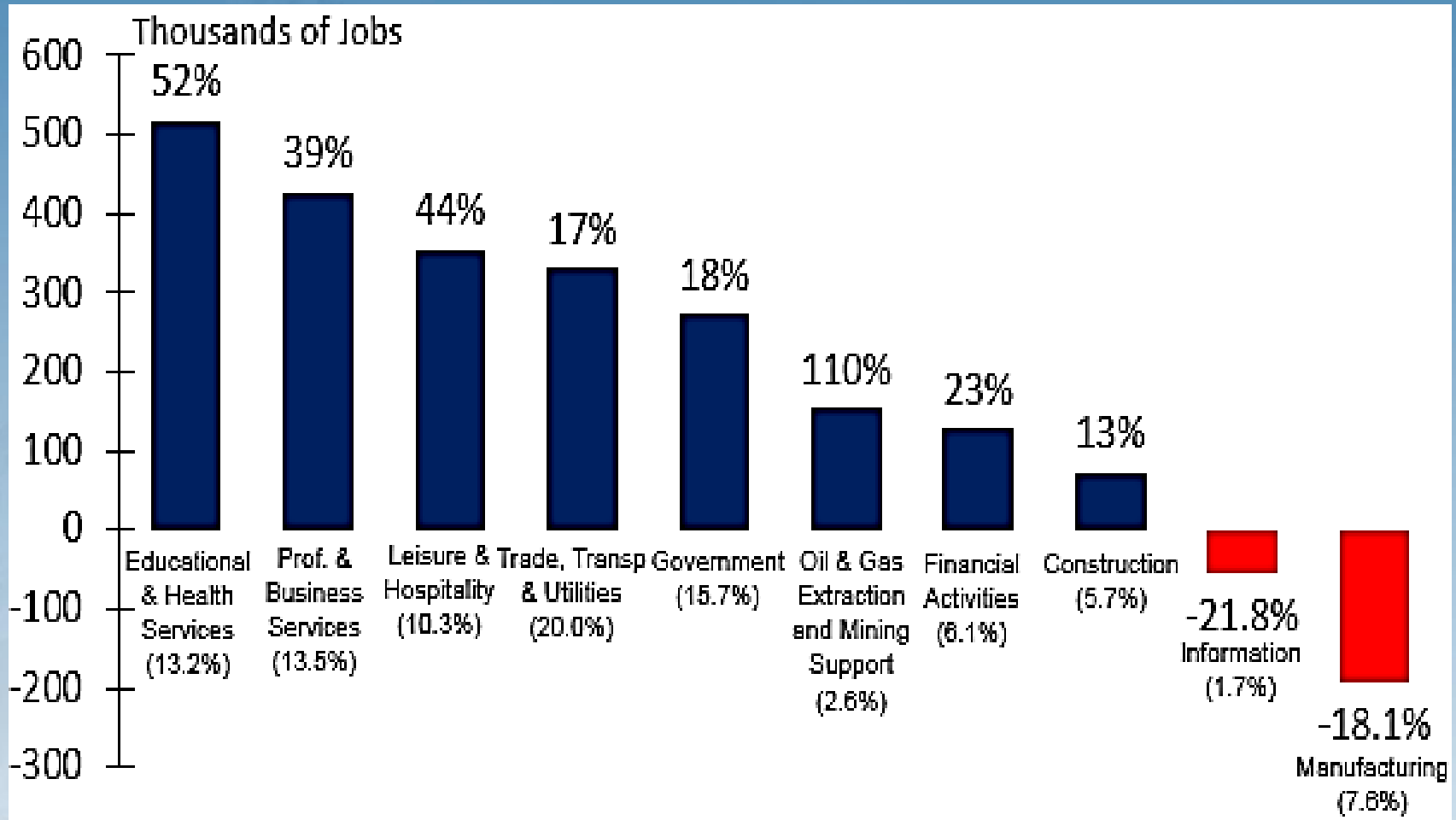
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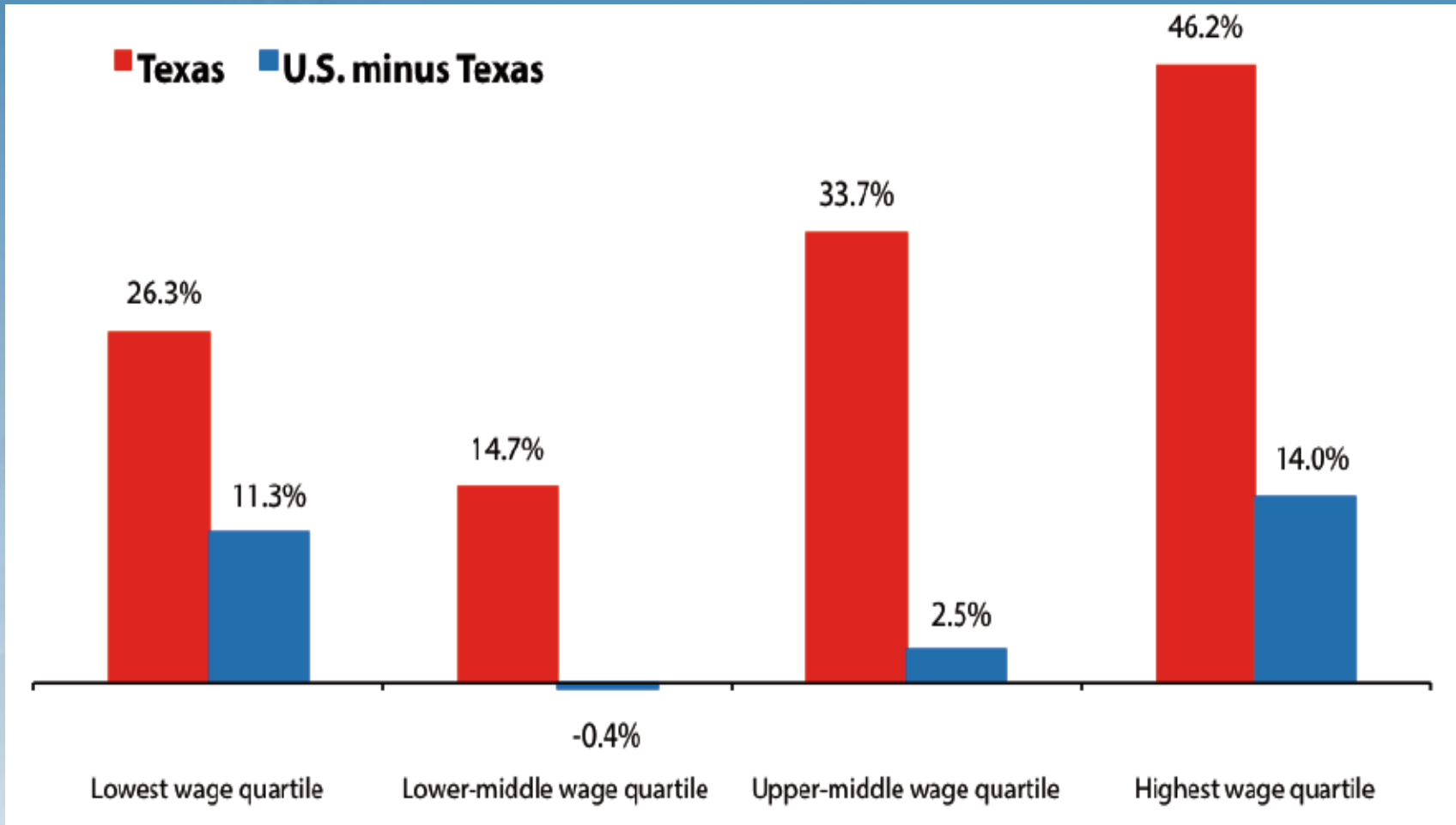
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Not Just Oil and Gas Jobs: Texas Job Creation from 2000 to 2014



Source: TPPF, [A Labor Market Comparison: Why the Texas Model Supports Prosperity](#), data in parentheses are that sector's share of the labor force.

Job Growth Across All Wage Quartiles from 2000–2014



Source: TPPF, [*A Labor Market Comparison: Why the Texas Model Supports Prosperity*](#)

Economic Challenges

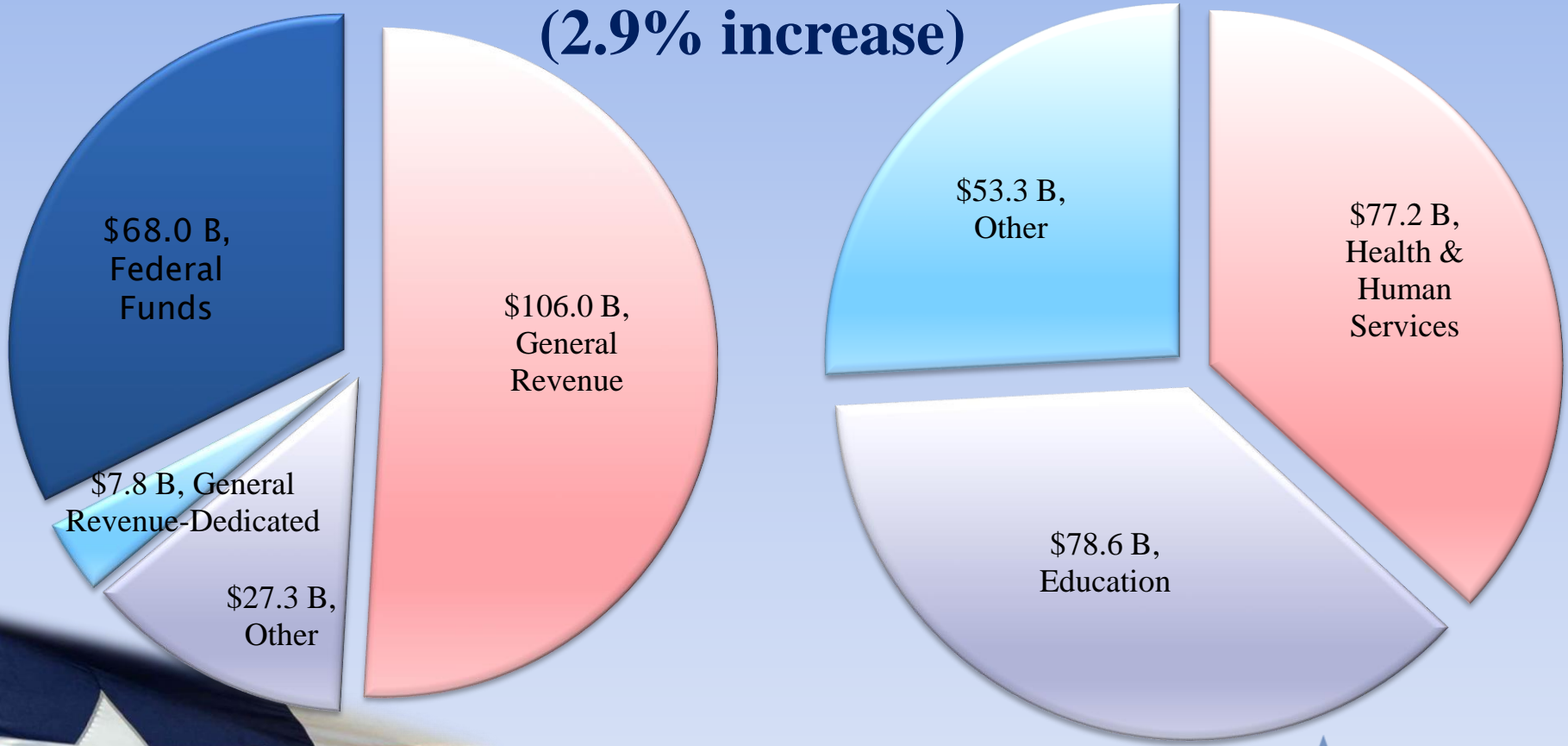
- Mining industry today:
 - 15% of real private economy; 2.5% of labor force
- Mining industry 1980s:
 - 21% of real private economy; 5% of labor force
- More diversification from market activity, NAFTA, pro-growth policies
- Still, low oil prices, slower global growth, and federal government are impediments
- TX will have another recession one day

Fiscal Challenges

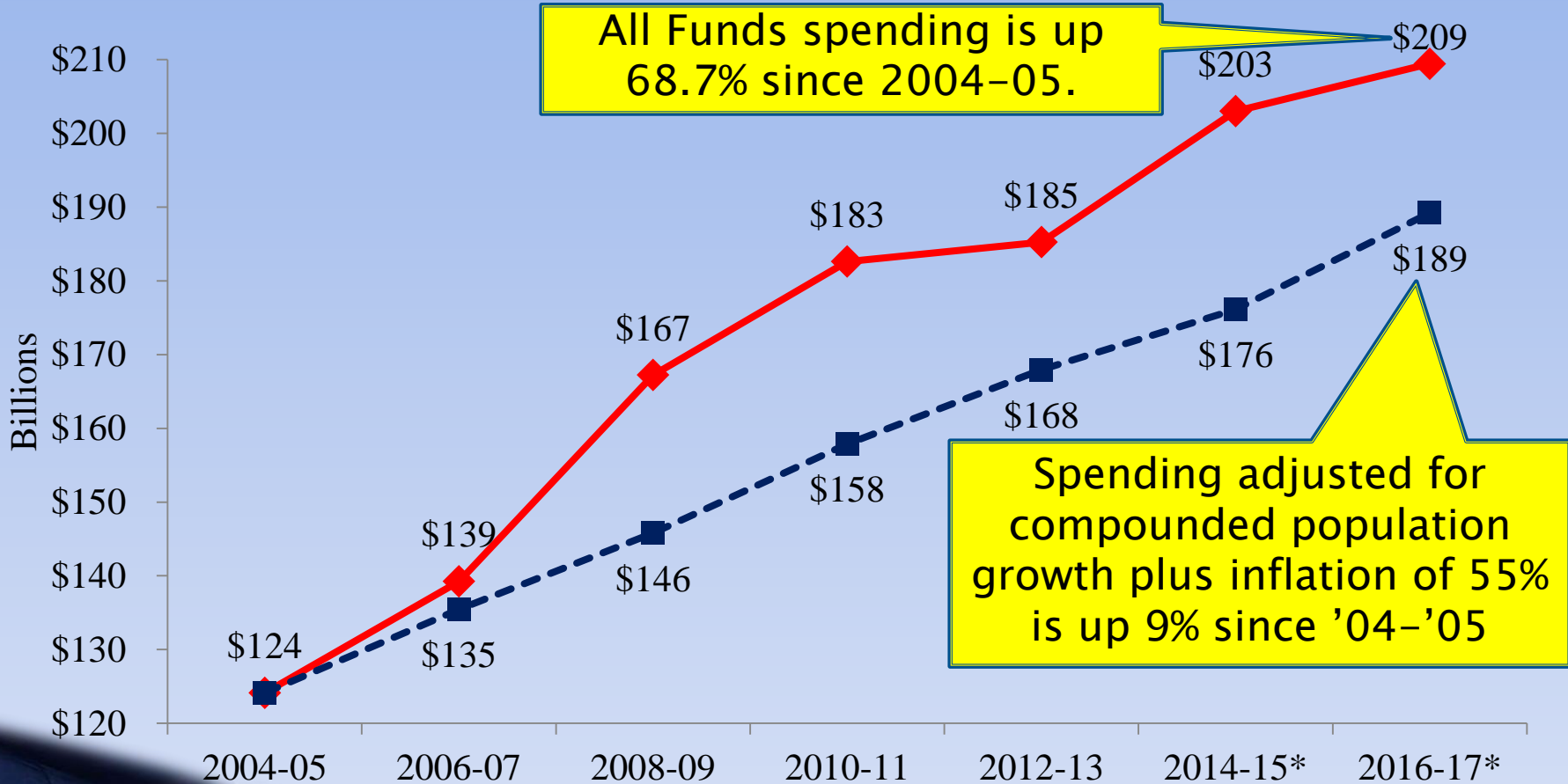
- No recent examples of consecutive conservative budgets:
 - 2001 session was followed by a \$10 billion shortfall in 2003 met with spending cuts without raising taxes
 - 2009 session accepted “stimulus” payment from the federal government and papered over in 2013
- 2015 session passed a conservative budget, cut taxes, and left money on the table
- Legislature should do so again in 2017

Texas State Budget: Where we Stand

Total 2016-17 All Funds Budget: \$209.1 Billion
(2.9% increase)



Budget more than state's needs shows need for reforming the spending limit



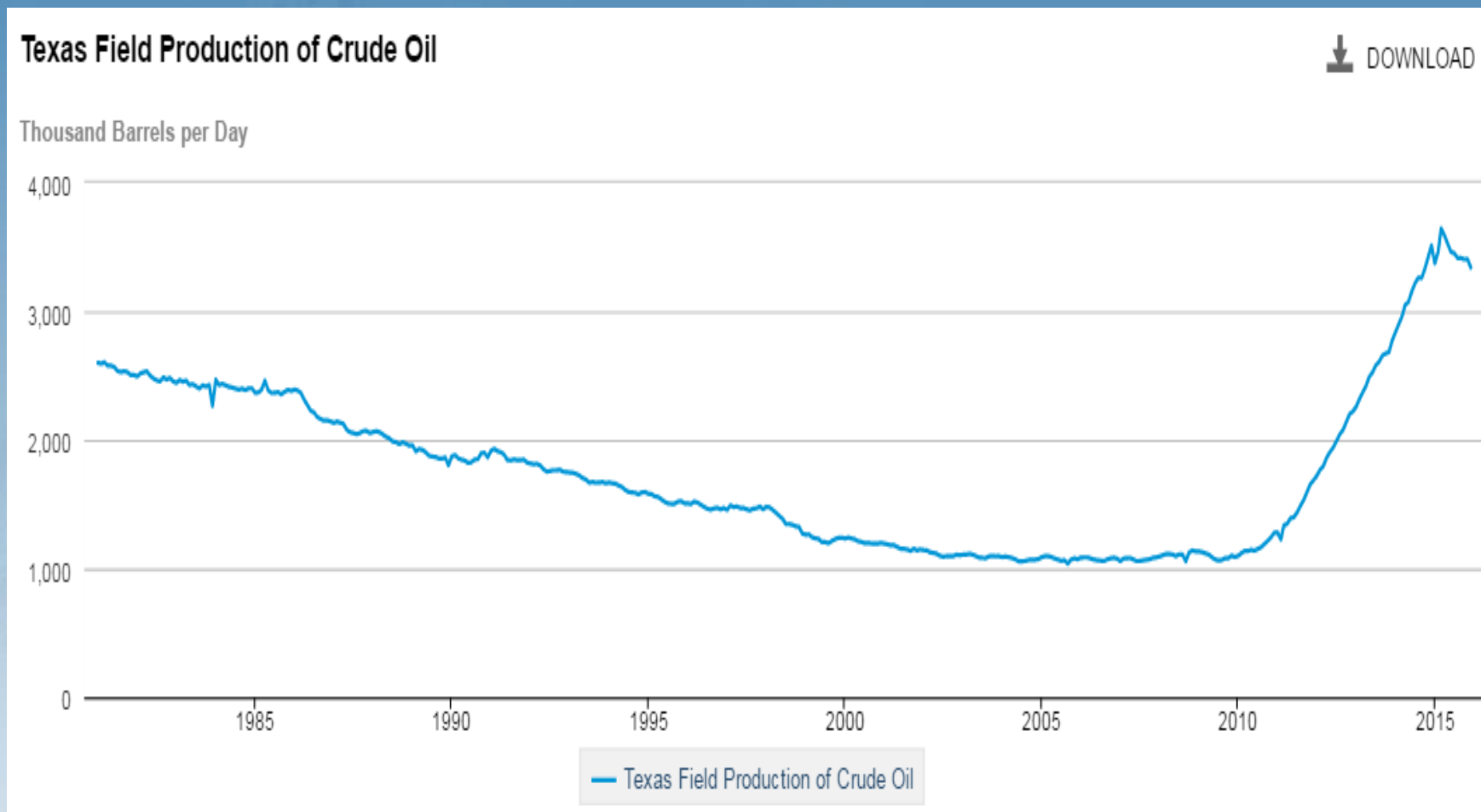
Source: Legislative Budget Board's *Fiscal Size-Up* and authors' calculations.

Drop in expected economic growth and oil prices lower revenue projections

\$ in Thousands	FY2016 (BRE)	FY2017 (BRE)	FY2016 (CRE)	FY2017 (CRE)
Real GDP	3.2%	4.1%	2.4%	2.3%
Nonfarm Employment	2.2%	2.3%	1.7%	1.8%
Unemployment Rate	5.0%	5.0%	4.3%	4.4%
Taxable Oil Price	\$64.52	\$69.27	\$49.48	\$56.52
Sales Tax	\$29,796,127	\$31,685,564	\$29,258,665	\$30,663,502
Franchise Tax	\$4,741,992	\$4,827,605	\$3,528,510	\$3,547,819
Net GR-Related Funds	\$53,778,041	\$56,656,471	\$51,743,275	\$54,023,469
Net Revenue All Funds	\$104,942,290	\$109,428,258	\$108,053,259	\$105,944,086

- BRE: about a \$7 B expected surplus
- CRE: about a \$4 B expected surplus
- Actual could be closer to \$0 given current trends

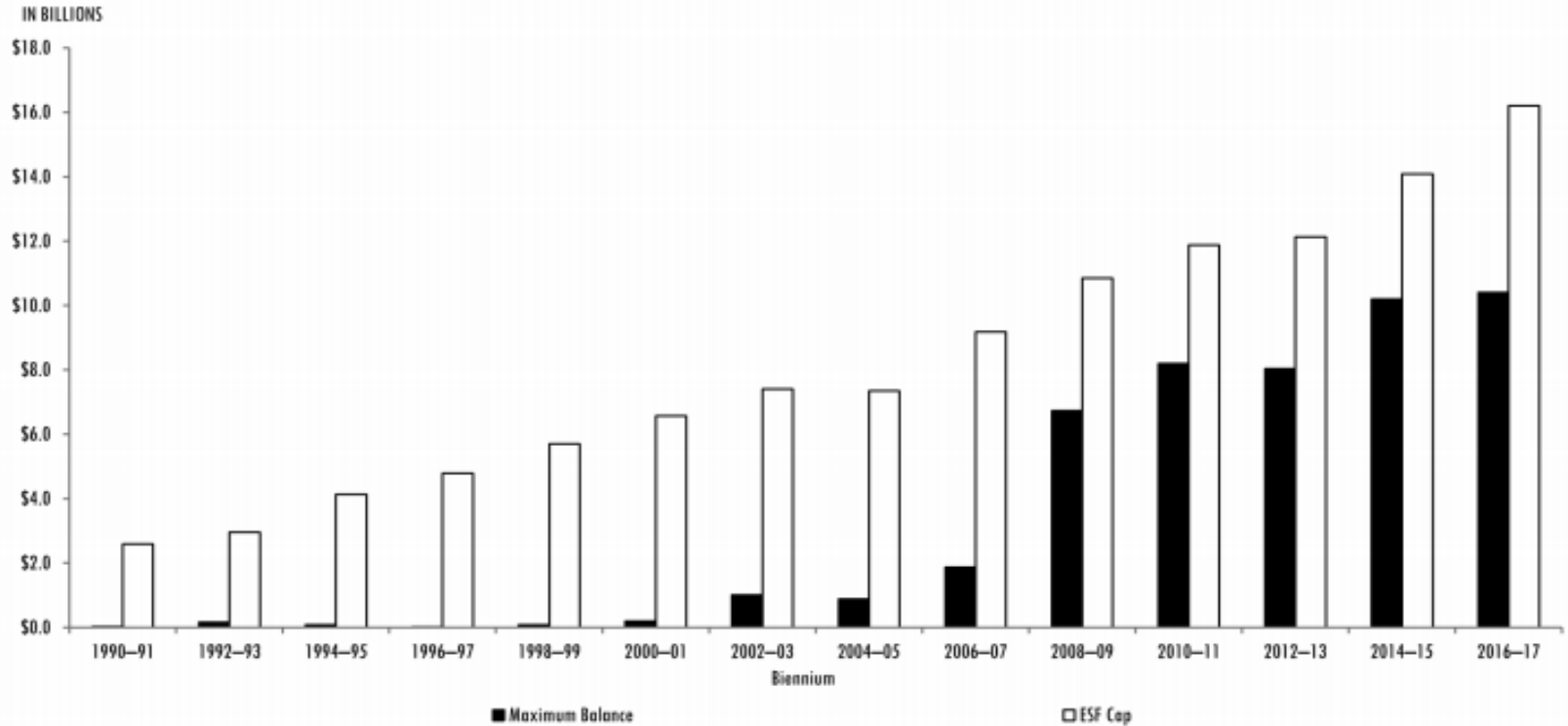
Oil production per day is down only 8% in Texas since March 2015 high



Source: [Energy Information Administration](#)

Rainy Day Fund looks to end the current budget period with a \$10.4 billion balance

**ECONOMIC STABILIZATION CAP COMPARED TO THE MAXIMUM MONTHLY ENDING BALANCE
1990-91 TO 2016-17 BIENNIA**



NOTE: 2016-17 amounts are estimated.
SOURCE: Comptroller of Public Accounts.

Source: [Legislative Budget Board](#)

Keys for 2017 Legislative Session

- ▶ Pass another conservative Texas budget such that the 2018–19 budget increase is below pop+inf
- ▶ Eliminate the business margin tax
- ▶ Reform the state's weak tax and expenditure limit
- ▶ Create the Sales Tax Reduction (STaR) Fund
- ▶ Increase budget transparency

**Spending is ultimately taxation,
so we must control the budget to
limit the footprint of government.**



The American Dream is not dead – it has simply moved to the **Lone Star State.**



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