



COVID-19 and Its Effect on Texas

In regards to Agriculture & COVID-19

Last month, outbreaks of Covid-19 began appearing in meatpacking facilities and processed food facilities all over the country. Not infecting the food, but the workers who handle it. As of April 23, at least 12 meatpacking plants and three processing food plants are currently closed. A total of 58 have reported cases of Covid-19. At least 2,460 workers are confirmed sick and at least 17 have died. Although there is no immediate risk of food shortages, the massive scale of closing multiple meatpacking plants means reduced processing capacity while the demand, induced by panic buying, increases. The shift that has come over time towards fewer and larger plants has exposed the industry to more risk from disease outbreaks.

Let's talk about oil prices

For some background, the Texas Legislature only meets in regular session every other year. During that time, the Legislature passes a two-year budget each session. In the 2019 session, legislators approved a \$251 billion budget for the 2020-21 fiscal years. Of that, roughly \$187 billion are state funds leaving \$64 Billion being federal funds for programs mailing in the healthcare and transportation portions of the budget. Due to a strong economy and very optimistic budget forecasts for the biennium, legislators did not use any funds available from the Economic Stabilization Fund, commonly known as the Rainy Day Fund.* During the session, the Comptroller estimated that the Rainy Day fund could reach a balance of \$15 billion if the economy continued to perform at current levels. As of this moment, the fund has a balance of roughly \$8.5 billion. The good news here is that even though oil prices have dropped significantly, there will not be a reduction in the fund, there will simply be no more money contributed to the fund.

The most significant funding mechanism for the Rainy Day Fund is the oil and gas severance tax. An issue arises as the price for a barrel of oil plunged into negative territory Monday, April 20th for the first time ever as the coronavirus pandemic has kept most of the world at home, decreasing the demand and ending the day with the price of a barrel to negative \$37.63.

For budget estimate purposes for the current budget cycle, the Comptroller estimated that a barrel of oil would remain at or near \$55 a barrel, leading the oil and gas severance tax accounts for \$4.9 billion of the annual revenue projections for the state. Since the price per barrel is significantly lower than \$55, and not expected to see much of an increase for the coming months, the state will see a deficit of somewhere between \$2 billion and \$4 billion just for the programs listed in the next paragraph that depend on the oil and gas severance tax.

*The Rainy Day Fund was created in 1989 to serve as a mechanism to allow the state to continue to meet its funding obligations during an economic downturn.

What is the Oil & Gas Tax, and what does it fund?

Texas charges businesses – the first purchaser – a 4.6 percent tax rate on oil production.

The oil production tax was responsible for \$4.89 billion of the state’s total 2019 net revenue (from all funds) of \$127.9 billion, according to the Comptroller.

Revenue from those taxes is divided among several state funds and found in the graphic below.

The state's savings account — technically called the Economic Stabilization Fund but known

around the Capitol as the Rainy Day Fund — gets 37.5 percent (\$1.67 billion in 2019). The

Legislature has used the Rainy Day Fund over the years for emergency and one-time expenses, including disaster relief.

Another 37.5 percent (\$1.67 billion in

2019) goes into the State Highway

Fund, which is used for highway

construction and maintenance and

policing public roads.

The remaining 25 percent goes to the

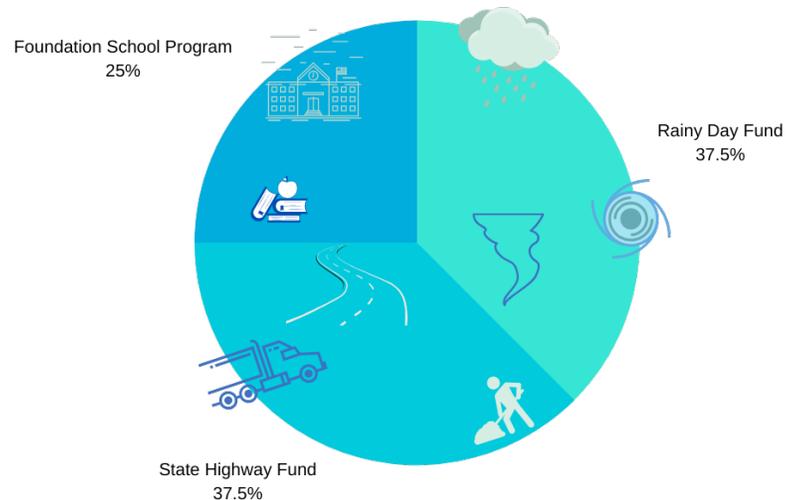
Foundation School Program, a Texas

Education Agency-administered fund

used for expenses such as teacher

salaries, bilingual education and

special education.



What does this mean for the State?

There may be mandated budget cuts

for state agencies in the upcoming legislative session. We will continue to follow on these

issues for you. In the meantime, Gov. Abbott signed an executive order authorizing the re-

opening of retail businesses effective April 24. Sales taxes in Texas account for 50% of all taxes

collected in the state that go to general revenue funding. In February, Texas collected \$2.7

billion in sales tax. Collections for March will be released in early May and will be significantly

lower. The Comptroller has refused to estimate any numbers, and will not comment until the

March figures are released. But, the loss in sales tax collections for the remainder of the year

will reach well into the billions, adding to the already dire budget situation legislators will face

in 2021. Fortunately, there are half a million jobs available in Texas right now. Big and small

businesses alike are hiring from the pool of 1.5 million unemployment claims that have been

filed.

What can small businesses do?

The U.S. House passed a nearly \$500 billion coronavirus rescue package on Thursday, April 23,

delivering emergency aid to small businesses and hospitals after weeks of stop-and-start

negotiations between Democratic and Republican leaders and the White House. The legislation

will now go to President Trump for enactment following Senate passage this week.

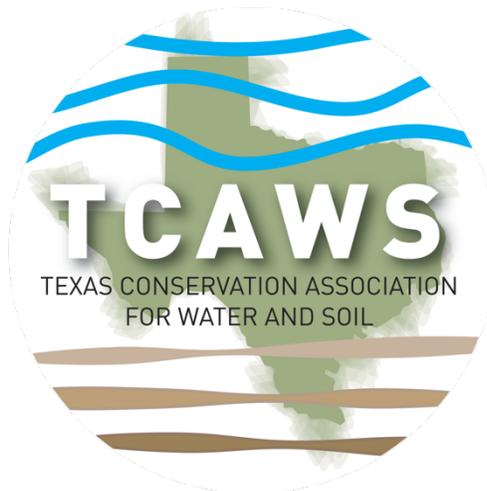
The bill will provide an immediate \$321 billion infusion for the Paycheck Protection Program,

the small business rescue fund that ran out of money last week. The \$484 billion package also

provides another \$60 billion in economic disaster loans for small businesses, \$75 billion in emergency relief for hospitals and \$25 billion to ramp up coronavirus testing. While the Paycheck Protection Program wasn't created with agriculture in mind, it offered another lifeline for farmers and ranchers who are bleeding profits. But the Small Business Administration was slow to approve agricultural lenders whose customers were lining up to apply, even as other businesses were snapping up loans. As of Thursday, when the program ran out of its initial \$350 billion pot, small businesses in agriculture, forestry, hunting and fishing had received about \$4.4 billion. More than 46,000 loans were approved for those businesses. For comparison, a similar number of transportation and warehousing businesses received about \$10.6 billion; accommodation and food services firms took in \$30.5 billion; and manufacturers received more than \$40.9 billion.

How long will this go on?

Data from the University of Texas shows that Texas has not reached its peak, but we are within a 91% chance of the peak happening within the next two weeks. Currently, Texas has tested of 215,000 people. There have been over 21,000 cases reported, 543 fatalities and over 7,000 patients have recovered. In order to reach the peak projection, we must all continue social distancing, disinfect surfaces, wash our hands and wear our masks as we re-open the economy. It will be a slow and steady process if we all work together.



If you have any questions, please contact Todd Kercheval or J Pete Laney.
Todd Kercheval (817) 296-9575 J Pete Laney (512) 799-6341