

THE BOND BUYER

Texas Revenues Soar as Pandemic Eases, Comptroller Says

By

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Published

June 02, 2021, 2:28 p.m. EDT

After a year of pandemic, a costly winter storm and a tumultuous legislative session, Texas is riding a lot higher than Comptroller Glenn Hegar expected.

“The word ‘uncertain’ has become a staple of my vocabulary,” Hegar told The Bond Buyer’s Texas Public Finance Conference in a keynote speech Wednesday. “The ground was shifting under our feet, and it felt like it was never going to stop moving.”

“We’re still a long way from completely understanding what will happen with the pandemic going forward,” he told the online event.



*“The word ‘uncertain’ has become a staple of my vocabulary,” Texas Comptroller Glenn Hegar told The Bond Buyer’s Texas Public Finance Conference. **Texas comptroller’s office***

Hegar, a former state legislator, called the recently completed legislative session the most unusual of his lifetime.

The session began with new threats to the municipal bond industry and issuers of debt, but some of the effects were blunted before the close of business on Sunday, according to bond market participants.

After an abrupt and deep recession in the first half of 2020, Texas' economy came roaring back, Hegar said.

Sales tax collections have set all-time records for two consecutive months, soaring 30% in May compared to the same month last year, for a \$3.4 billion total. While the 30% rise compares to a very low month amid the early-pandemic economic pullback of 2020, the revenues were still nearly 13% higher than May 2019, before COVID-19.

"Spending at restaurants also surpassed pre-pandemic levels, with increased dine-in patronage adding to still elevated take-out and delivery business," Hegar said. "While total spending in the sector increased sharply from a year ago, the recovery was uneven, with business at large popular restaurant chains up sharply while many smaller venues continued to languish."

Hegar called a statewide power outage during a severe winter storm in February a "black eye" for Texas that required legislative relief, including using the state's \$10 billion Economic Stabilization Fund, or "rainy day fund," as collateral for \$800 million of loans to the state's primary grid operator, the Electric Reliability Council of Texas. Hegar's office will administer the loans.

The legislature also authorized \$2.1 billion of bonds to be issued by the Texas Public Finance Authority to cover losses by natural gas suppliers and utilities.

Under House Bill 1520, the Texas Railroad Commission that regulates energy in the state will determine the losses that need to be securitized, and the money will be raised through bond sales by the TPFA, according to Paul Braden, head of public finance for Norton Rose Fulbright.

The bonds would be backed by an additional charge on the gas bills of utility customers, possibly for as long as 30 years, he said.

"The whole idea of this is that they're going to hit the ground running," he said.

Another key bill that will affect the bond industry is Senate Bill 19, awaiting Gov. Greg Abbott's signature. The bill requires any company doing business with the state that has 10 or more employees or receives more than \$100,000 to prove that it has no policies that discriminate against the firearms industry.

The bill was introduced after major banks such as Citi, Bank of America and JPMorgan Chase adopted a policy of restricting lending to companies that produce certain automatic firearms of the types used in numerous mass slayings across the country.

Theoretically, the banks would not be allowed to participate in bond issues in Texas if Gov. Greg Abbott signs the bill into law. Pension funds and local governments would also not be allowed to use the banks for their investments.

While Hegar said he did not think the law would have much effect on local government, Dallas chief financial officer Elizabeth Reich had another view.

“I think it is going to have an impact,” Reich said. “Any time you limit the competition for contracts, you raise the cost.”

Beyond banking, the bill would require Dallas to end business with tech companies that take positions against the firearms industry, she said.

“If I have to switch technologies, that’s a huge cost for the city of Dallas,” she said.

After the regular legislative session, lawmakers will return for a special session in the fall to distribute \$16 billion of federal relief funding and to deal with redistricting. The session was unable to draw new lines for political districts because of a delay in delivering U.S. Census data.

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