

Straight Talk Texas 2036 Interview: A Conversation with Texas Comptroller Glenn Hegar

The interview has been edited for clarity, brevity and key highlights.

Join us as Texas 2036 President and CEO, Margaret Spellings, speaks with Texas Comptroller Glenn Hegar about potential affects the COVID-19 pandemic has had on Texas's budget ahead of the 2021 Legislative Session. Prior to his election as Texas Comptroller in 2014, Hegar served in the Texas House of Representatives and Texas Senate.

Margaret Spellings: Let's dive in. You unveiled a new revenue estimate. You were one of the early people to use the "R" word, recession, in our economy. You've been on both sides of the table in the executive branch and in the legislative branch. Paint a picture of where we are today, and then we'll talk about where we're going in the next legislative session vis-à-vis the budget.

Glenn Hegar: If we just go back to February, Texas was tracking ahead of our revenue estimate we had provided last year. We had 50,000 job gains in the month, over 300,000 in the last 12 months. The point being, our economy was entering into this in a really strong position. Obviously, things changed drastically in March with the double headwinds of the global pandemic. There's a lot of things we still don't know, but one certainty is that, unfortunately, the pandemic is not going to fade away. It's a month to month issue and we're going to have to learn to live a new normal.

I wanted to get out pretty early and use the "R" word in order to manage expectations. Texas was going to be impacted. The period of lower oil prices and production impacted Texas more than other states because of our resource abundance. When a downturn hits, it's a double impact. And then there was a global pandemic. In Texas, we had a low unemployment rate, but we moved up to about 13%. We're about 8.7% now, but well over 2 million people in Texas are unemployed. State revenues have been impacted as well. If you look at our bottom line revenues, the four corners of the state budget that go through August of next year, we had about a \$3 billion surplus forecasted. More money than the legislature had appropriated. Now it appears as though that surplus of \$3 billion has turned into a deficit of about \$4.6 billion. The overall impact to revenue was closer to \$11.5 billion. However, there's less expenditures in some items than originally estimated, like public education, so there was a swing of about \$7.5 billion, which is a significant amount of money.

But we are blessed. It's not a consolation prize, but if you compare us to other states, we're in a better position than most, at least for the current two year biennium. We think the legislature can certainly weather this storm. The biggest question is what the future holds. Every revenue estimate has clouds of uncertainty, but this one has greater clouds of uncertainty than ever before because we've not had to deal with a global pandemic. There are so many unknowns. How governments are going to react, not just in Texas, but in the United States and worldwide.

Margaret Spellings: Essentially, we've got a solvable problem in the short run. Talk about some of the other tools that are in our tool kit: the potential for federal funds, the 5% cut, the rainy day fund.

Glenn Hegar: Earlier this year, the governor, lieutenant governor, and the speaker instructed state agencies to reduce expenditures by 5% for this two year budget. Since several months were already past the 24 months, it really means about an 8.5% cut. Agencies turned in those instructions to the leadership and they are working through those. Any of those savings will be savings in the treasury starting now. However, they don't actually get picked up on paper per se until next session in 2021 when the legislature is there, and they take action to capture those gains. The dollars are sitting in the treasury, they just have to be picked up from a mechanism standpoint. Our current revenue estimate doesn't take those gains into account, but we know they will be coming. We don't know the exact dollar figure, but we have estimates. Then we have about \$8.8 billion in our economic stabilization fund, or our rainy day fund, which is the state savings account.

Lastly, we've received a little over \$13 billion in federal dollars. The biggest portion, \$6.2 billion, is for COVID-related expenses. There are some discussions in Washington, DC that may loosen what those parameters are for those dollars and then it could be used in a broader context. If so, that would be helpful. But those dollars aren't taken into account because right now they're specifically for COVID-type expenses. Even though Congress is talking about additional dollars, until Congress passes it and the president signs it, there's nothing guaranteed.

Margaret Spellings: That leaves me feeling pretty good about how we're going to get from here to there through this biennium. But next biennium is going to be a really tricky hand. Obviously they've made big commitments around public education, and health and human services is a huge chunk of the state budget. How are we going to get there in the next biennium?

Glenn Hegar: We've been through several of these before and we've found ways to work through them. As a freshmen House member in 2003, I saw my first budget shortfall. Then when I was in the state senate, we had another one in 2011, which was very significant. The current budget of what we had to fill in the holes, plus the shortfall of potential expenses for the next two year cycle, was \$27 billion. Now that was, for lack of better words, a very miserable session. We found a way to get through it. It was very difficult because as you mentioned, when you look at public education, as well as health and human services, particularly Medicaid, those are about two thirds of the state budget. They're pretty much guaranteed, and obviously legislators want to keep their commitments to public education.

The real issues are October and November, because the assumptions that we made in this current revenue estimate, then revised and updated on Monday, have several basic assumptions. One, being that the economy is going to slowly open up, and two,

that there will not be any more government restrictions on business activity come this fall. Those are large assumptions to make. How do we continue to balance health and safety, the need to reopen and expand the economy? I'd like to test the assumptions we made in October and November because those months will be the basis for the next revenue estimate, which will be for the economy starting September 1st of 2021. Worst case scenario, it could be a situation where we have another 2011 with a large hole to fill or figure out. Depending on the extent to which we can free up some of the federal dollars we've received, the economy could end up doing better than we had anticipated. Right now, I want to manage expectations. We don't see the economy ramping up and recovering quickly. It'll probably be the fall of 2021 before we reach pre-pandemic levels.

Margaret Spellings: Can you talk a little bit about how to think long term in the middle of a crisis?

Glenn Hegar: This job is focused on long term responsibilities and liabilities. I was on both sides of the legislature, House and Senate, for 12 years. There, you're wanting to think long term, but you're so focused on the two year budget. Two years is a long time, but it's nothing like 10, 15, and 20. So after taking this job, I put together a great team and we released a long term liabilities report. Obviously the most immediate needs are critical, but how do we think longer term? Because the cost of kicking the can down the road ends up being much greater. Most members know that I'm going to keep pounding that issue. The fact is, if we don't tend to it, it's going to be there for future generations. I'm trying to emphasize what we're doing today also has implications for the long term, tomorrow, and the future.

Margaret Spellings: What do you wish we knew now in this pandemic, or what are things that the state ought to be collecting and thinking about as we get smart about the future and the current crisis?

Glenn Hegar: It's important we appreciate that the decisions we make today have real impacts on the health of this state, and opportunities for individuals and families. We look at a lot of nontraditional data points today that we've never looked at before. I never knew how many people flew every day in the United States until now, and airplanes are sitting on the ground. We have very large hubs and companies that are based here in the state of Texas, so how will this play out, not in the short term, but long term? So we're looking at things in different ways than we have before, and hopefully getting smarter about understanding the connection between the big and small picture. Texas as a state is the 9th largest economy in the entire world, so there's a lot going on here. How do we use those data points to make better decisions, at least that will impact the longer term as well as the short term?

Margaret Spellings: You mentioned the two biggest components of our state budget: education and Medicaid. They are so fundamental to the issues before us, our changing demographics, our future as a state, equity issues, racial justice

issues, and so on. We've got to think long term in the middle of a crisis because we're going to pay now or pay later on some of these things.

Glenn Hegar: We did a report for the legislature on public education last session. I knew Texas was gaining population every day, roughly 1,200 people a day, and more kids were entering the public school system. We're a younger demographic than many other states and nations. But with that being said, I didn't appreciate that Texas had crossed over the threshold of being a minority majority public school system in 2002. I knew we had moved that direction, but I didn't know it was that far back. We're getting a higher percentage of children in the public school system from economically disadvantaged families. We need to proactively target those kids because that's our future workforce demographic, and it's critically important to business to make sure those kids are well educated and equipped for the future.

As we're working from home, and kids are schooling from home, a lot of students do not have the same access to computers. This fall, we've got to find ways to help school districts that need additional resources so we can make sure those kids are plugged in. It really is critical for the health of this state, not just for those children and those families, but for the health of this economy as well.

Margaret Spellings: You've spent a lot of time in public service. I can tell you are fascinated by, stimulated by, and energized by your job. What advice do you have for young people thinking about entering public service? And on a personal note, how are you internalizing and managing this as a dad with school aged children, and a spouse that is employed?

Glenn Hegar: You've been in public service for a long time so you know it's not always easy. But I always remember I'm the one that asked for this job. My constituents are always correct, even when they may be yelling at me about something I have no control over in any shape, form, or fashion. It's important to me to figure out answers to their questions and get them where they need to be. I look at it through a customer service lens. Whether I'm serving or not, Texas is still going to be a good state. It's not because of me or through me, but if I can do things to help my constituents and the people that I serve, there's nothing more rewarding, period. You may not always get as many compliments as you get complaints. That's just how the world functions. But the fact is when you do get those compliments, there's really nothing more rewarding. It's rewarding to empower people to make decisions. That's what's really fun about this job. I empower my employees to make decisions that will help the agency, and the people of Texas prosper. Hopefully more and more people will be encouraged to enter into public service. I do have significant pains as I watch the state of politics in this country. Now it's not anything new. It's always been that way to some degree. It ebbs and flows as it gets worse or better at different times. It can seem pretty mean and harsh and personal, but there are a lot of people out there that appreciate the impact you're making. It's the act of helping somebody, even when no one will ever know about it, that's rewarding because it's personal to them and it means something to

them. I highly encourage people to enter into public service. You never know, you could be that 31-year old kid who knew nothing about politics and ended up being a state rep, and then a state senator, and then state comptroller.