



April 2016

# FISCAL NOTES

ALSO INSIDE THIS ISSUE:

UNEMPLOYMENT AND LABOR FORCE PARTICIPATION

6

STATE REVENUE WATCH

11

## Chapter 313: Attracting Jobs and Investment by Olga Garza and Annet Nalukwago

### STATE LAW AIMS AT LOCAL DEVELOPMENT

The 2001 Legislature's Texas Economic Development Act, often called "Chapter 313" for its position in the Texas Tax Code, allows public school districts to offer tax incentives for businesses that invest in their communities.

The Chapter 313 incentive is designed to attract new businesses by offering them a 10-year limitation on their appraised property value for a portion of the school district property tax. In exchange for the value limitation, the business agrees to build or install new property and create jobs in the school district.

Most of the local tax revenue the school district forgoes under Chapter 313 is replaced with state funding. Thus the act uses state revenue to promote local economic development.

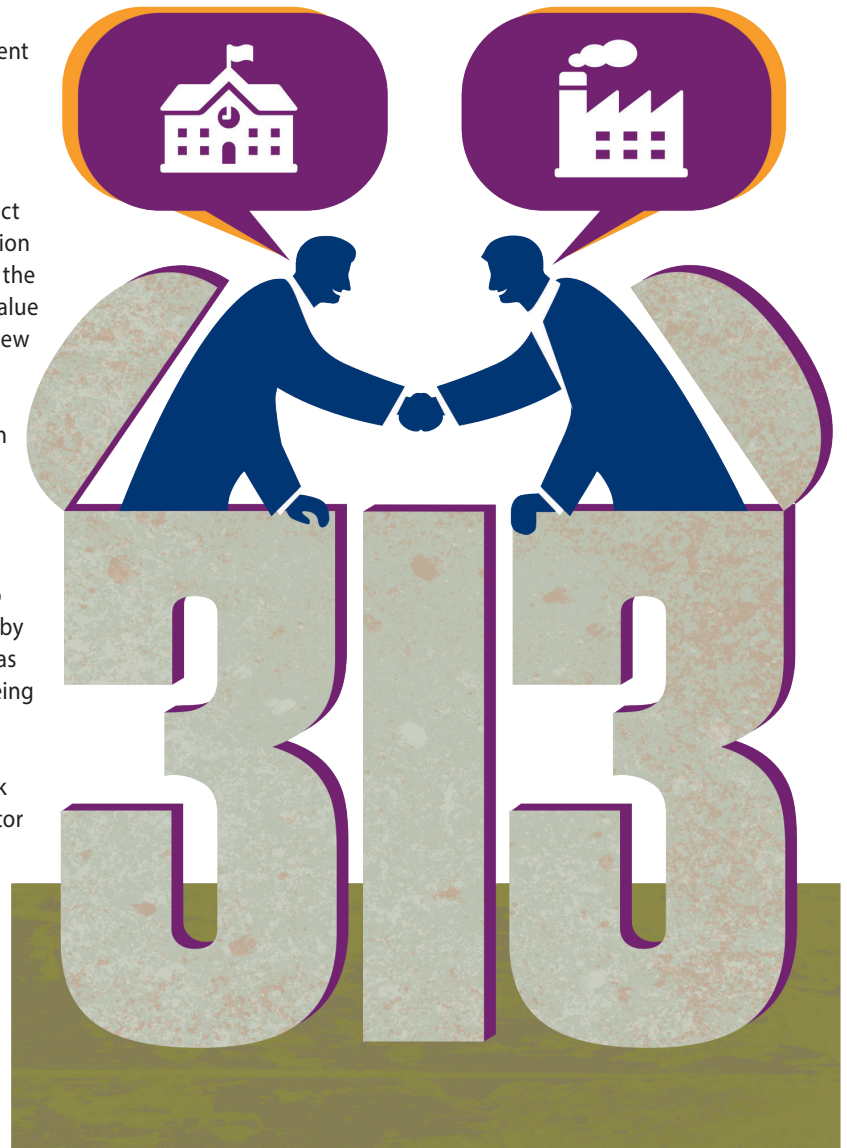
Chapter 313 was prompted by a growing sentiment among the state's leaders that Texas was becoming less attractive to businesses due to better economic development incentives offered by other states. In 2001, Texas legislators argued it was difficult to entice companies such as Intel and Boeing without competitive property tax incentives.

Over the years, Chapter 313 incentives have been credited with helping to bring a Toyota truck plant to San Antonio and a Samsung semiconductor facility to Austin.

The program isn't without its critics. In 2015, Governor Greg Abbott vetoed legislation to expand Chapter 313 incentives to projects involving multiple, contiguous school districts. The governor's veto stated that, "While the program may sometimes have a positive impact on local economic development, serious concerns exist about its oversight, its transparency, and its value to the taxpayers."

Opponents argue that Chapter 313 produces questionable returns for its investment of tax dollars, with incentives going to businesses that might have established themselves in Texas in any case.

Yet the program has proven popular with legislators. Originally set to expire in 2007, Chapter 313 has been extended three times, with a current expiration date of December 31, 2022.



Since the program's creation, the Legislature has made numerous changes to its requirements. Project eligibility, for instance, has expanded significantly. Other changes have been made to the program's job creation and wage requirements.

CONTINUED ON PAGE 3

# A Message from the Comptroller

In the last few decades, many states have offered economic incentives to companies that promise to bring jobs and investment, and Texas is no exception.

In this issue of *Fiscal*

*Notes*, we examine one of the state's most prominent programs of this kind, the Texas Economic Development Act, commonly known as Chapter 313 (after its place in the Tax Code).

Since 2001, Chapter 313 has provided a school district property tax break — a 10-year limitation on increases in appraised property value — to companies that build and hire in Texas school districts. These limitations provided businesses with about \$815 million in tax benefits between 2003 and 2013. School revenues lost are largely replaced with state funding.

Chapter 313 has both proponents and critics. Despite some debate concerning its value, the Legislature has extended the program three times. We'll discuss how it works.

We also take a look at how unemployment is defined and measured. The "official" unemployment rate reported in the press is actually only one of several unemployment rates tracked by the federal government, and some may do a better job of capturing its full dimensions. Still another measure, the labor force participation rate, may provide the best overall picture of employment conditions in Texas and the U.S.

As always, I hope you enjoy this issue!



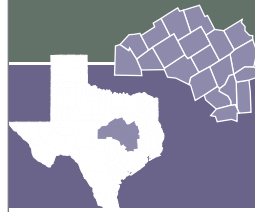
  
**GLENN HEGAR**  
 Texas Comptroller of Public Accounts

## REGIONAL SNAPSHOT: CENTRAL REGION

As the state's chief financial officer, I'm charged with monitoring the state's economic health. Therefore, it's vitally important that my office studies factors related to our regional economies.

The 20 counties comprising the Central Region have helped boost Texas' remarkable growth and resiliency over the past 10 years.

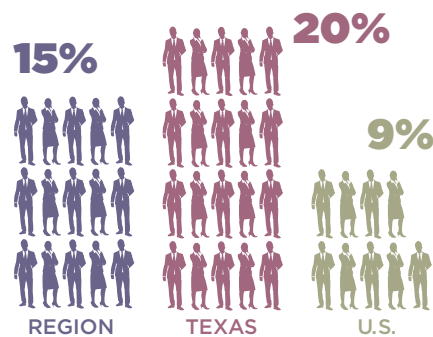
**-GLENN HEGAR**  
 Texas Comptroller of Public Accounts



### CENTRAL REGION COUNTIES:

BELL	FALLS	LAMPASAS	MILAM
BOSQUE	FREESTONE	LEON	MILLS
BRAZOS	GRIMES	LIMESTONE	ROBERTSON
BURLESON	HAMILTON	MADISON	SAN SABA
CORYELL	HILL	MCLENNAN	WASHINGTON

### POPULATION GROWTH



### CENTRAL REGION VS. TEXAS AND U.S. / 2003-2013

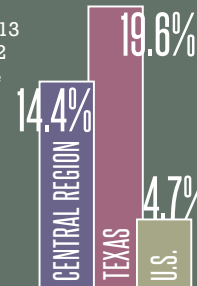


### JOBS & WAGES

### JOB GROWTH 2003-2013

The Central Region's 2013 average wage of \$40,332 was well below the state average of \$50,572.

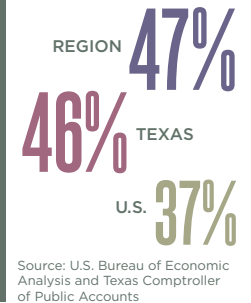
Two metropolitan areas, Killeen-Temple and College Station-Bryan, each posted job gains of about 20 percent between 2003 and 2013.



**MORE THAN 60,000 POUNDS OF SAUSAGE**  
 LEAVE CHAPPELL HILL SAUSAGE COMPANY EVERY WEEK.

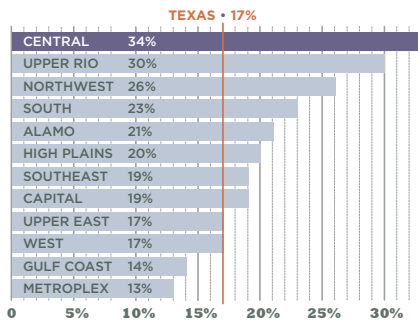
Source: Chappell Hill Sausage Company

### PER CAPITA PERSONAL INCOME GROWTH 2003-2013



## GOVERNMENT SECTOR DEPENDENCE

### GOVERNMENT JOBS AS SHARE OF REGIONAL ECONOMY / 2013



Public-sector employers provide nearly one of every three Central Region jobs. That's nearly double the state average.

The fact that government plays such a large role in job creation not only produces an economic imbalance but also makes the region especially vulnerable to the decisions of legislative budget writers.

**FOR A COMPLETE LIST OF REGIONAL SNAPSHOTS, VISIT:**  
[TEXASAHEAD.ORG/REGIONALRPTS](http://TEXASAHEAD.ORG/REGIONALRPTS)

If you would like to receive paper copies of *Fiscal Notes*, contact us at [fiscal.notes@cpa.texas.gov](mailto:fiscal.notes@cpa.texas.gov)

**HOW CHAPTER 313 WORKS**

An *appraised value limitation* is an agreement between a taxpayer and a school district in which the taxpayer proposes to build or install property — and create jobs meeting certain requirements — in exchange for a 10-year limitation on the taxpayer’s property value for tax purposes.

For the term of the limitation agreement, the maintenance and operations portion of the property tax isn’t levied on property value in excess of the limitation amount. The property remains fully taxable for the other portion of local property taxes, the interest and sinking tax.

**SCHOOL PROPERTY TAX COMPONENTS**

Texas public school districts derive most of their local funding from property taxes. The school district property tax includes two elements, a *maintenance and operations (M&O)* tax used to fund daily operations and an *interest and sinking (I&S)* tax used to pay debt service on bonds issued for facilities construction.

Chapter 313 limitation amounts are set in state law and vary from \$10 million to \$100 million in property value. Companies seeking the limitation must submit an application and fee to the school district in which the project will be located.

While Chapter 313 tax limitation agreements are made between individual companies and school districts, the Legislature has charged the Comptroller’s office with several duties related to them. Since 2013, the agency has been required to determine whether a proposed project is reasonably likely to generate, within 25 years, enough state taxes and local M&O tax revenue to offset the tax losses due to the limitation agreement. It must also find that the tax limitation is a determining factor in the applicant’s decision to invest and build in Texas. School districts cannot enter into Chapter 313 agreements without Comptroller certification.

Under current law, industries eligible for Chapter 313 school property tax limitation include:

- manufacturing
- research and development
- clean coal and other clean energy projects
- renewable electricity generation
- nuclear energy
- computer data centers
- “Texas priority projects” — those with a qualified investment commitment of more than \$1 billion

To be eligible for the tax limitation, a business must create a minimum of 25 “qualifying” jobs in non-rural school districts and 10 qualifying jobs in rural school

**313 TRANSPARENCY**

To improve the transparency of Chapter 313 projects, the 2009 Legislature required that Chapter 313 applications, economic impact evaluations and limitation agreements be posted on the Comptroller’s website. In addition, school districts must include links to this information on their own websites.

districts. The statute allows this minimum number of jobs to be waived in certain circumstances, however, and more than half of applicants in fact receive such waivers.

Qualifying jobs must provide certain healthcare benefits, offer the employee at least 1,600 hours of work per year and pay at least 110 percent of the average manufacturing wage for the county or the Council of Governments region in which the district is situated. The average wage of any other jobs created must exceed the county average wage for jobs in *all* industries.

**COUNCIL OF GOVERNMENTS REGIONS**

Councils of Governments (COGs) are planning and coordinating organizations made up of participating local governments in a single region. Texas has 24 COG regions.

**PROPERTY REQUIREMENTS**

To qualify for a Chapter 313 property tax limitation, companies are required to make a minimum qualifying investment in the school district in which they seek to locate, varying from \$1 million to \$100 million (**Exhibits 1 and 2**). Minimum property value limitations they can receive in return vary from \$10 million to \$100 million, depending on the school district’s taxable property values and whether it is considered a rural or non-rural district.

CONTINUED ON PAGE 4

**EXHIBIT 1**

**NON-RURAL SCHOOL DISTRICT PROPERTY INVESTMENT AND TAX LIMITATION AMOUNTS**

TAXABLE VALUE OF ALL SCHOOL DISTRICT PROPERTY	MINIMUM QUALIFIED INVESTMENT	MINIMUM TAX LIMITATION AMOUNT
\$10 billion or more	\$100 million	\$100 million
\$1 billion or more, but less than \$10 billion	\$80 million	\$80 million
\$500 million or more, but less than \$1 billion	\$60 million	\$60 million
\$100 million or more, but less than \$500 million	\$40 million	\$40 million
Less than \$100 million	\$20 million	\$20 million

Sources: Texas Tax Code and Texas Comptroller of Public Accounts

EXHIBIT 2

## RURAL SCHOOL DISTRICT PROPERTY INVESTMENT AND TAX LIMITATION AMOUNTS

TAXABLE VALUE OF ALL SCHOOL DISTRICT INDUSTRIAL PROPERTY	MINIMUM QUALIFIED INVESTMENT REQUIRED	MINIMUM TAX LIMITATION AMOUNT
\$200 million or more	\$30 million	\$30 million
\$90 million or more, but less than \$200 million	\$20 million	\$25 million
\$1 million or more, but less than \$90 million	\$10 million	\$20 million
\$100,000 or more, but less than \$1million	\$5 million	\$15 million
Less than \$100,000	\$1 million	\$10 million

Sources: Texas Tax Code and Texas Comptroller of Public Accounts

### CURRENT AGREEMENTS: INVESTMENTS

A 2015 Comptroller report to the Legislature assessed the progress of 259 Chapter 313 agreements. These agreements represented an estimated total investment of about \$123 billion through the entire length of the agreements, and reported investments of about \$59 billion through 2013 (**Exhibit 3**).

EXHIBIT 3

## CURRENT TAX LIMITATION AGREEMENTS: PROJECTS AND INVESTMENTS

CATEGORY	TOTAL ACTIVE PROJECTS	ESTIMATED TOTAL INVESTMENT FOR LENGTH OF AGREEMENT	REPORTED INVESTMENT THROUGH 2013
MANUFACTURING	116	\$93,464,080,000	\$42,877,117,000
RESEARCH AND DEVELOPMENT	4	\$835,587,000	\$835,587,000
RENEWABLE ELECTRIC POWER GENERATION (WIND)	127	\$24,486,016,000	\$15,249,763,000
RENEWABLE ELECTRIC POWER (NON-WIND)	9	\$1,342,214,000	\$548,988,000
ELECTRIC POWER GENERATION (INTEGRATED GASIFICATION COMBINED CYCLE)	1	\$2,848,414,000	\$0
NUCLEAR ELECTRIC POWER GENERATION	2	\$0	\$0
<b>TOTAL</b>	<b>259</b>	<b>\$122,976,311,000</b>	<b>\$59,511,455,000</b>

Note: Other eligible categories have no active projects at this time.  
Source: Texas Comptroller of Public Accounts

EXHIBIT 4

## JOB CREATION AND ACTIVE AGREEMENTS BY INDUSTRY, 2003-2013

PROJECT TYPE	NUMBER OF ACTIVE PROJECTS	PERCENTAGE SHARE OF JOB CREATION	SHARE OF ACTIVE PROJECTS
MANUFACTURING	116	90%	45%
RESEARCH AND DEVELOPMENT	4	1%	2%
RENEWABLE (WIND)	127	9%	49%
RENEWABLE (OTHER)	9	0%	3%
ELECTRIC POWER GENERATION (INTEGRATED GASIFICATION COMBINED CYCLE)	1	0%	0%
NUCLEAR	2	0%	1%

Source: Texas Comptroller of Public Accounts

### CURRENT AGREEMENTS: JOB CREATION AND SALARIES

Manufacturing projects are by far the most important Chapter 313 projects in terms of job creation, accounting for 90 percent of the qualifying jobs created through 2013 (**Exhibit 4**).

From 2003 through 2013, Chapter 313 applicants executed agreements to create a total of 4,903 qualifying manufacturing jobs with their projects. By 2013, they had greatly exceeded this figure, creating a cumulative total of 8,013 qualifying jobs in manufacturing (**Exhibit 5**).

In 2013, the average wage for qualifying manufacturing jobs created by Chapter 313 projects was \$59,451, substantially less than the statewide manufacturing average of \$68,904 (**Exhibit 6**).

Again, though, wages for qualifying jobs under Chapter 313 are determined by the average for manufacturing jobs in the specific county or region at the time of the application, and these areas may pay lower wages than the statewide average. Furthermore, the program does not require companies with agreements to raise wages during the length of the tax limitation. Both factors may explain the gap between average Chapter 313 wages and the state average.

**Manufacturing projects are by far the most important Chapter 313 projects in terms of job creation.**

EXHIBIT 5

## CHAPTER 313 MANUFACTURING PROJECTS, 2003-2013: CUMULATIVE NUMBER OF JOBS COMMITTED VERSUS ACTUAL JOBS CREATED

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
NUMBER OF QUALIFYING JOBS PROMISED	10	26	2,107	2,191	2,561	2,917	3,038	3,332	3,623	4,170	4,903
NUMBER OF QUALIFYING JOBS ACTUALLY CREATED	54	60	662	2,267	2,921	3,355	3,328	5,147	6,300	6,585	8,013
NUMBER OF ALL NEW JOBS CREATED	54	60	671	2,276	3,024	3,529	3,493	5,281	6,575	6,902	8,308

Source: Texas Comptroller of Public Accounts

EXHIBIT 6

**AVERAGE WAGES, CHAPTER 313 MANUFACTURING JOBS VS. STATE AVERAGE  
2007-2013**

	2007	2008	2009	2010	2011	2012	2013
<b>MANUFACTURING, CHAPTER 313*</b>	\$54,593	\$55,767	\$56,796	\$52,506	\$56,120	\$60,685	\$59,451
<b>MANUFACTURING, STATE</b>	60,040	60,489	60,350	63,253	66,017	68,517	68,904

\*Note: Agreement holders submit manufacturing jobs data for publication in the *Biennial Progress Report for the Texas Economic Development Act*.  
Sources: Texas Comptroller of Public Accounts and Economic Modeling Specialists Intl.

**REDUCTION IN TAXABLE VALUES**

From 2003 to 2013, the total taxable property value for Chapter 313 projects, without tax limitations, rose from about \$157 million to about \$23 billion. Chapter 313 tax

EXHIBIT 7

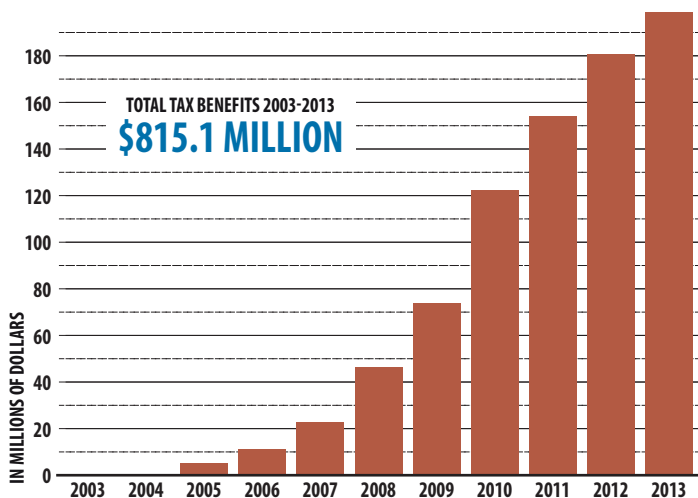
**CHAPTER 313 PROJECTS  
TAXABLE PROPERTY VALUES, 2003-2013**

TAX YEAR	TAXABLE PROPERTY VALUE WITHOUT TAX LIMITATION	TAXABLE PROPERTY VALUE WITH TAX LIMITATION
2003	\$156,904,000	\$156,904,000
2004	\$427,130,000	\$427,130,000
2005	\$933,392,000	\$570,405,000
2006	\$1,966,874,000	\$1,170,245,000
2007	\$4,399,191,000	\$2,253,999,000
2008	\$7,989,625,000	\$3,783,722,000
2009	\$12,726,138,000	\$6,043,803,000
2010	\$14,712,862,000	\$3,511,411,000
2011	\$16,781,608,000	\$2,878,658,000
2012	\$19,148,488,000	\$2,884,727,000
2013	\$23,126,254,000	\$5,362,144,000

Sources: Texas Tax Code and Texas Comptroller of Public Accounts

EXHIBIT 8

**GROSS TAX BENEFIT DUE TO CHAPTER 313 PROJECTS,  
2003-2013**



Source: Texas Comptroller of Public Accounts

agreements reduced the total taxable property value to about \$5 billion in 2013 (**Exhibit 7**).

These tax limitations provided companies with gross tax benefits of \$815 million in the same period (**Exhibit 8**).

**UNPREDICTABILITY**

Interest in Chapter 313 continues, with 52 applications received in 2014 and 68 in 2015. Yet so do concerns about the way in which its tax limitations are structured.

The statutory purpose of Chapter 313 is to encourage businesses to invest in Texas and create relatively high-paying new jobs. Proponents of the program assert that providing an early tax incentive to capital-intensive projects ultimately benefits local economies with an increased tax base at the end of the tax limitation period.

One bill introduced in the 2015 legislative session would have amended the Texas Economic Development Act to reclaim the foregone property tax revenue if the market value of the property declines by 20 percent or more during the tax limitation period.

While this provision didn't become law, it highlights a continuing difficulty posed by Chapter 313.

As noted above, state law requires the Comptroller's office to determine whether a proposed Chapter 313 project is reasonably likely to generate enough tax revenue to offset the loss due to the tax limitation within 25 years. Yet economic projections over such a long period are uncertain at best. Economic conditions change; companies and industries rise and fall. Some Chapter 313 projects fail to produce the predicted rise in property values.

Among the 13 projects with tax limitations that ended from 2013 to 2015, actual market values in the last year of the limitation period ranged from 28 percent to 125 percent of the initial market value. While most were within 20 percent of their initial projections, the wide range of values shows the volatility of assumptions made about as-yet-unbuilt projects.

This unpredictability poses an ongoing challenge in assessing the value of Chapter 313. **FN**

To learn more about the Chapter 313 program, visit the Comptroller's website at [texasahead.org/tax\\_programs/chapter313](http://texasahead.org/tax_programs/chapter313).

# Unemployment and Labor Force Participation by David Green

## EXAMINING EMPLOYMENT FROM DIFFERENT ANGLES



Again, however, the unemployment rate does *not* account for those who are not looking for work, only those actively seeking it. The U.S. Bureau of Labor Statistics (BLS) calculates several unemployment rates that may gauge labor market conditions more accurately.

The official unemployment rate regularly reported in the news is BLS' so-called U-3 rate, which estimates the share of the labor force unemployed for 15 weeks or longer (U-1) and those who have lost jobs more recently

or who have just finished temporary jobs (U-2). Everyone included in U-3 has, at least in theory, sought work within *the last four weeks*, based on the results of a monthly nationwide survey conducted by the Census Bureau.

The U-4 and U-5 rates include U-3 unemployment as well as jobseekers not accounted for in U-3 because they haven't searched for work for at least four weeks.

U-4 estimates the share of workers who have not searched for work in at least four weeks due to the *specific* reason that they believe no jobs are available for them — "discouraged" workers.

The U-5 rate captures working-aged Americans who have sought work within the prior 12 months but not within the last four weeks, for *any* reason — in BLS parlance, those "marginally attached" to the labor force.

The U-6 measure of unemployment, the broadest, captures the U-3 unemployed, the U-4 discouraged and the U-5 marginally attached, as well as those working part-time who would prefer full-time work. The difference between U-6 and U-5 is commonly called "underemployment."

Many economists believe U-6 to be the best reflection of the *real* unemployment rate.

**Exhibit 1** identifies average estimated unemployment and underemployment rates in the U.S. and Texas in 2015. In 2015, the average "official" Texas unemployment rate was 4.4 percent, compared to a U.S. average of 5.3 percent. In both cases, however, the broader U-6 rate is nearly twice as high.

On the other hand, the fact that Texas' 2015 average U-6 rate, 8.4 percent, was at its lowest since 2008 indicates a strengthening labor market (**Exhibit 2**).

By some economic measures, Texas and the nation as a whole have fully recovered from the Great Recession of 2008. As of February 2016, America's private sector had achieved 72 consecutive months of job growth. U.S. unemployment is at pre-recession levels, and Texas' rate is even lower.

To many Americans, however, the recovery feels weak at best. Median household incomes, when corrected for inflation, are lower now than they were before the recession, and average wages are barely achieving 2 percent annual growth. The tepid recovery, in fact, leaves many wondering if the unemployment rate accurately reflects reality. After all, it counts only those who are actively *looking* for work.

If a person isn't employed or actively looking for work for any reason — such as being in school, retired, disabled or simply discouraged — he or she isn't considered a part of the labor force and thus isn't reflected in the main unemployment number. In effect, they've simply dropped out of the statistic.

But the federal government actually calculates several unemployment rates other than the "official" one. And in recent years, another measure, the labor force participation rate (LFPR), has received increased attention from analysts and policymakers as an alternative measure of employment conditions.

### THE "REAL" UNEMPLOYMENT RATE?

The U.S. unemployment rate was 4.9 percent in January 2016, its lowest level since February 2008. Some economists consider this level as approaching "full" employment. The Texas rate was even lower, at 4.5 percent.

EXHIBIT 1

**UNEMPLOYMENT AND UNDEREMPLOYMENT (U-1 THROUGH U-6), U.S. AND TEXAS 2015 ANNUAL AVERAGES**

AREA	U-1	U-2	U-3	U-4	U-5	U-6
U.S.	2.3	2.6	5.3	5.7	6.4	10.4
TEXAS	1.6	2.1	4.4	4.8	5.3	8.4

Source: U.S. Bureau of Labor Statistics

**LABOR FORCE PARTICIPATION**

The labor force participation rate is a ratio — the population that is employed or actively searching for work as a share of the total civilian, non-institutional population aged 16 and older.

Today, the LFPR is near its lowest level since the mid-1970s, and has fallen by 3 percentage points since 2007. Thus, despite a falling unemployment rate and improved job prospects, the nonparticipating share of the working-aged population has continued to rise.

This decline has been accompanied by some particularly worrying features, such as a fall in participation by those in their prime working years (ages 25 to 54). Research suggests, however, that most of the overall decline is due to long-term structural trends, such as an aging population and increased college participation. BLS expects such demographic transitions to apply continuing downward pressure on the rate for the next decade.

**Today, the labor force participation rate is near its lowest level since the mid-1970s.**

Gauging the extent to which the falling participation rate is due to structural changes in the workforce rather than cyclical concerns, such as recession, is essential to crafting possible policy responses.

**LONG-TERM TRENDS**

The most significant structural change to the U.S. labor force in the 20<sup>th</sup> century was the increase in women’s participation, from 32 percent in 1948 to a peak of 60.3 percent in April 2000. The rise of women in the workforce coincided with a steady decline in male participation, from 87 percent in 1948 to a low of 68.7 percent in late 2015.

The *total* participation rate, including men and women, hovered between 58 and 60 percent from 1948 to the mid-1970s. The entrance of the Baby Boom generation caused a steady increase, bringing total LFPR to a peak of 67.3 percent in April 2000, the same month as the female participation peak.

The total LFPR hit 62.4 percent in September 2015, its lowest level since September 1976. Since then, the total rate has increased slightly, most recently to 62.9 percent in February 2016 (**Exhibit 3**).

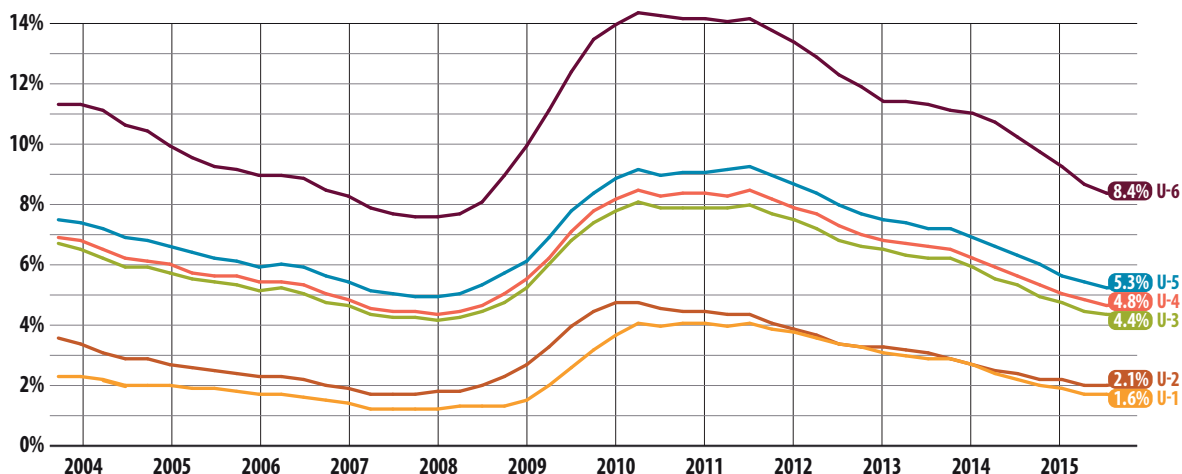
Participation rates among the prime 25- to 54-year-old age group also have fallen (**Exhibit 4**). The age group’s participation peaked in January 1999 at 84.6 percent, and slumped to 80.6 percent in September 2015. Its February rate was 81.1 percent.

The most dramatic decline in labor force participation has been among the young. The LFPR for those

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EXHIBIT 2

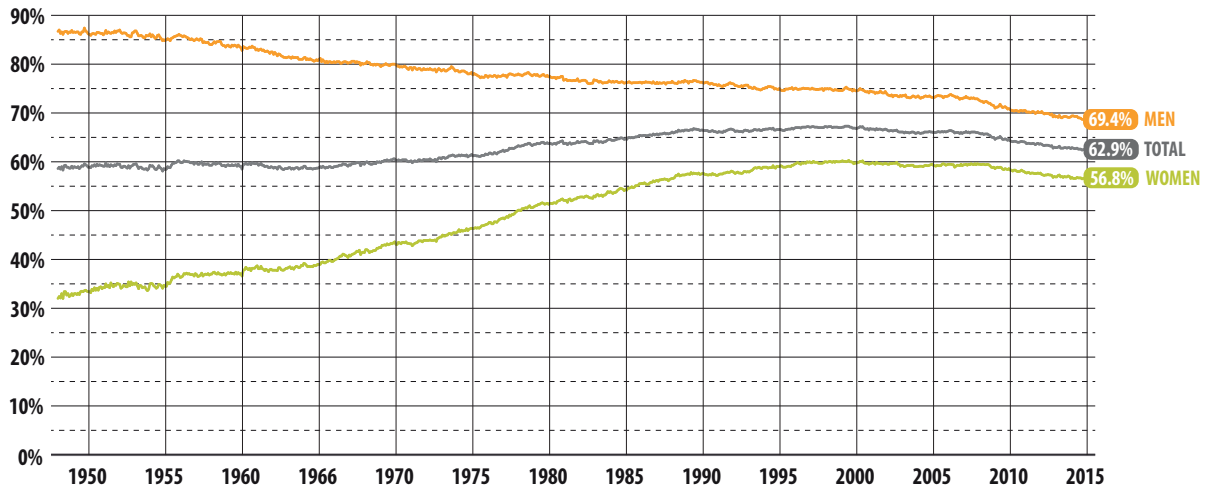
**TEXAS QUARTERLY UNEMPLOYMENT RATES, U-1 THROUGH U-6 2003-2015**



Source: U.S. Bureau of Labor Statistics

EXHIBIT 3

## U.S. MONTHLY LABOR FORCE PARTICIPATION RATES, TOTAL AND BY SEX JANUARY 1948 - FEBRUARY 2016



Sources: U.S. Bureau of Labor Statistics; U.S. Federal Reserve Bank of St. Louis; Texas Comptroller of Public Accounts

aged 16 to 19 peaked in 1978, at nearly 60 percent. Since then it has fallen precipitously, hitting a low of 32.7 percent in February 2014. The 20- to 24-year-old age group also has declined steadily, from a peak of nearly 80 percent in 1987 to 69.5 percent during 2015. This trend is due, at least in part, to the increasing share of this group that chooses to pursue higher education.

Conversely, participation rates among those aged 55 and above have risen, due to reasons such as longer life expectancy and changing attitudes toward retirement (as well as, in many cases, a lack of adequate retirement savings). This rate has risen from a low of 29.2 percent in 1993 to about 40 percent since 2010.

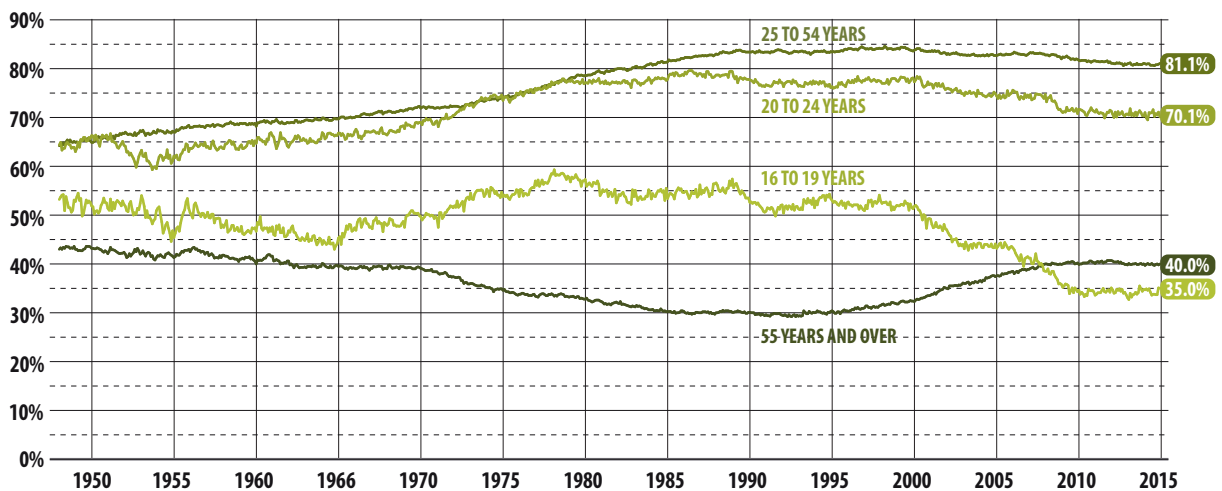
Although total participation rose slightly in recent months, the rate is expected to continue a generally downward trend for the next 10 years. In its 2014-2024 labor forecast, the BLS projects an LFPR of 60.9 percent by 2024, due to the massive wave of baby boomers entering retirement and the continued pursuit of higher education among those aged 16 to 24 years. The bureau does, however, expect the prime-age LFPR to rise slightly by 2024.

### STRUCTURAL OR CYCLICAL?

Various studies have tried to estimate how much of the fall in LFPR is due to structural causes, such as

EXHIBIT 4

## U.S. MONTHLY LABOR FORCE PARTICIPATION RATES BY AGE GROUP, JANUARY 1948 - FEBRUARY 2016



Sources: U.S. Bureau of Labor Statistics; U.S. Federal Reserve Bank of St. Louis; Texas Comptroller of Public Accounts



**The U.S. Congressional Budget Office concluded that about half the decline in LFPR from 2007 to 2013 was due to long-term structural trends, mostly the aging of the population.**

demographic changes, and how much to temporary weaknesses in the labor market (called “cyclical” effects).

A 2014 analysis by the Federal Reserve Board of Governors, for instance, concluded that worker discouragement and a lack of opportunities account for one percentage point or less of the recent decline.

The U.S. Congressional Budget Office (CBO), in examining the three-point decline in LFPR from the end of 2007 to the end of 2013, concluded that about half (1.5 percentage points) was due to long-term structural trends, mostly the aging of the population, versus about one percentage point due to temporary weakness in employment prospects. (Another half-point was due to “unusual aspects of the slow recovery.”) The CBO expects that lingering effects from the slow recovery will lower participation rates by 0.4 percentage points by 2024.

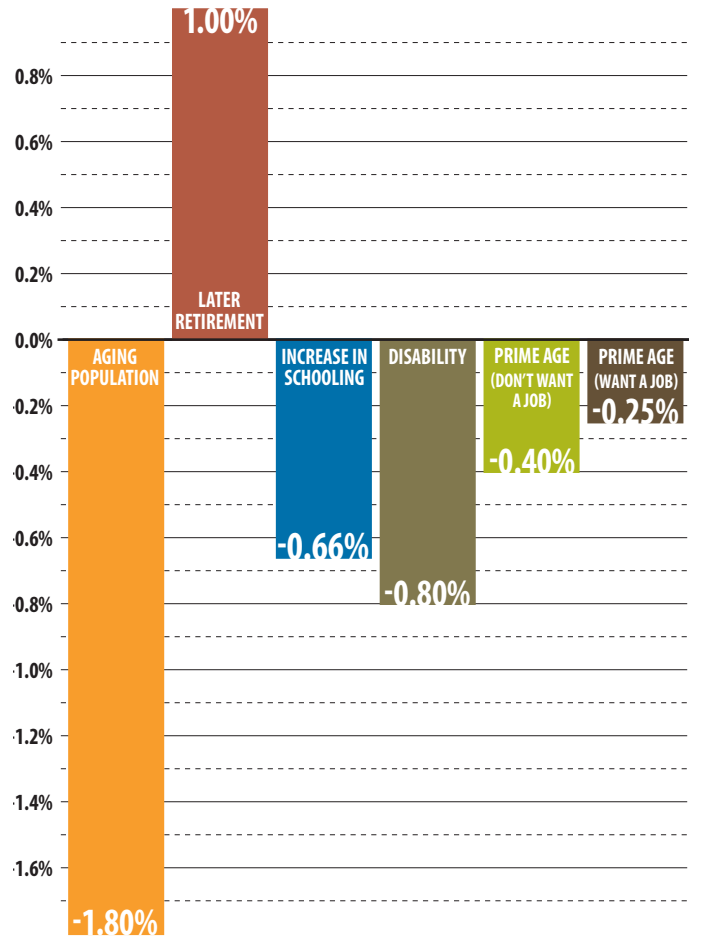
The Federal Reserve Bank of Atlanta also has analyzed the 2007-2014 decline, attributing more than half of it (1.8 percentage points) to an aging population (**Exhibit 5**). Interestingly, though, an increasing number of aging workers are delaying retirement. If the same share of the population aged 60 and older left the workforce in 2014 as in 2007, the LFPR would have been a point lower.

Perhaps the most important component to policymakers, however, is the drop in prime-age workers who want a job but are not in the labor force. The Atlanta Federal Reserve report attributed just a quarter of a percentage point in the decline to such cases, citing cyclical factors.

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EXHIBIT 5

**COMPONENTS OF CHANGE IN LABOR FORCE PARTICIPATION RATES, 2007-2014**



Source: Federal Reserve Bank of Atlanta



## TEXAS PARTICIPATION RATES

Texas has experienced similar participation trends to the rest of the U.S. The Texas LFPR peaked at 69.4 percent in August 1995 and has been in decline since, reaching 63.6 percent in February 2016 (**Exhibit 6**). Even so, in that month Texas still had the second-highest LFPR among the 10 largest states, behind Illinois; the highest rate among all 50 states was in Minnesota, at 70.9 percent.

Texas' 2015 average annual participation rate was 63.6 percent, ranking 27<sup>th</sup> among states (**Exhibit 7**). While Texas men ranked 13<sup>th</sup> among states, with a rate of 72.2 percent, the women's rate fell in the bottom half of states, at 55.4 percent.

Texas experienced similar declines across demographic groups as the U.S., while experiencing a similar uptick among the labor force aged 65 and older.

Thus most analyses of declining labor force participation suggest that it's due largely to long-term demographic and societal shifts, with only a relatively small part due to discouraged workers and lingering weakness in the economy. Policymakers at all levels, however, should be aware of the participation rate, and the insights it can give us about how employment responds to economic conditions. **FN**

For more information on employment and unemployment statistics, visit the U.S. Bureau of Labor Statistics at [bls.gov](http://bls.gov).

## EXHIBIT 7

### TEXAS AVERAGE ANNUAL LABOR FORCE PARTICIPATION RATES BY DEMOGRAPHIC GROUP, 2003 AND 2015; 2015 TEXAS RANKING AMONG ALL U.S. STATES\*

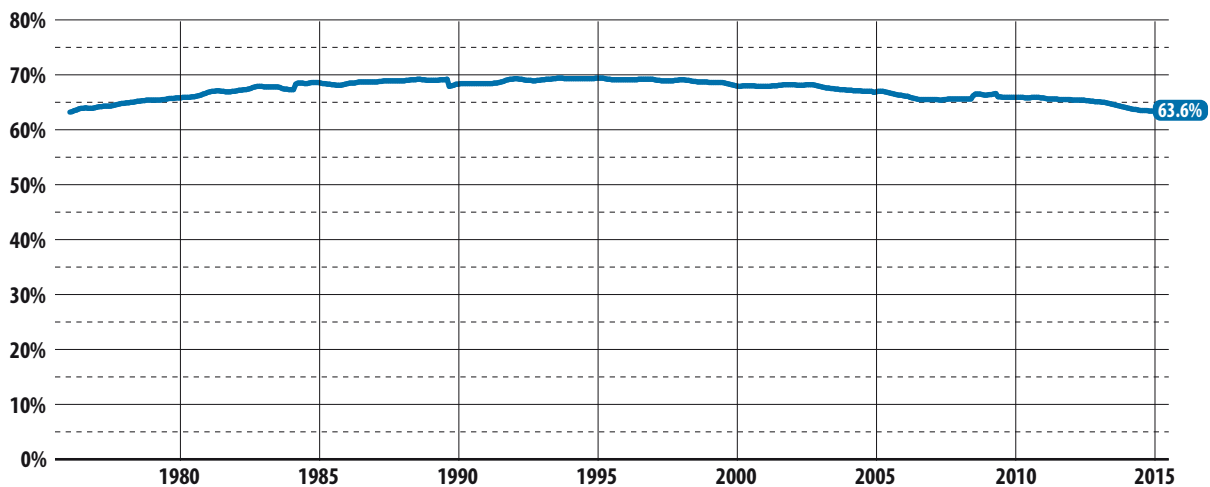
DEMOGRAPHIC GROUPS	2003 TEXAS RATE	2015 TEXAS RATE	PERCENTAGE POINT CHANGE, 2003-2015	TEXAS 2015 RANK
<b>TOTAL LABOR FORCE</b>	68.0	63.6	-4.4	27
Men	77.2	72.2	-5.0	13
Women	59.3	55.4	-3.9	38
White	67.7	63.1	-4.6	28
Black or African American	70.2	64.5	-5.7	18*
Hispanic or Latino/Latina ethnicity	66.8	64.6	-2.2	41
Total, Ages 16 to 19	40.6	30.2	-10.4	40
Total, Ages 20 to 24	76.9	70.5	-6.4	36
Total, Ages 25 to 34	82.3	78.8	-3.5	43
Total, Ages 35 to 44	83.3	81.6	-1.7	35
Total, Ages 45 to 54	81.4	79.6	-1.8	32
Total, Ages 55 to 64	65.1	63.1	-2.0	33
Total, Ages 65 years and older	15.7	19.0	3.3	28

\* Preliminary estimates for 2015. Due to sampling size, only 43 states and Washington, D.C. are included in the Black/African American population sample.

Source: U.S. Bureau of Labor Statistics

## EXHIBIT 6

### TEXAS MONTHLY LABOR FORCE PARTICIPATION RATE, JANUARY 1976-FEBRUARY 2015



Source: Texas Comptroller analysis of U.S. Bureau of Labor Statistics data

# State Revenue Watch

This table presents data on net state revenue collections by source. It includes most recent monthly collections, year-to-date (YTD) totals for the current fiscal year and a comparison of current YTD totals with those in the equivalent period of the previous fiscal year.

These numbers were current at press time. For the most current data as well as downloadable files, visit [TexasTransparency.org](http://TexasTransparency.org).

Note: Texas' fiscal year begins on Sept. 1 and ends on Aug. 31.

## NET STATE REVENUE — All Funds Excluding Trust

(AMOUNTS IN THOUSANDS)

### Monthly and Year-to-Date Collections: Percent Change From Previous Year

Tax Collections by Major Tax	FEBRUARY 2016	YEAR TO DATE: TOTAL	YEAR TO DATE: CHANGE FROM PREVIOUS YEAR
<b>SALES TAX</b>	\$2,304,064	\$14,199,957	-3.23%
PERCENT CHANGE FROM FEBRUARY 2015	-6.82%		
<b>MOTOR VEHICLE SALES AND RENTAL TAXES</b>	372,206	2,299,853	1.46%
PERCENT CHANGE FROM FEBRUARY 2015	5.15%		
<b>MOTOR FUEL TAXES</b>	286,502	1,742,864	1.02%
PERCENT CHANGE FROM FEBRUARY 2015	0.95%		
<b>FRANCHISE TAX</b>	-17,719	-227,602	-49.91%
PERCENT CHANGE FROM FEBRUARY 2015	-259.58%		
<b>INSURANCE TAXES</b>	593,176	682,387	-8.35%
PERCENT CHANGE FROM FEBRUARY 2015	-9.22%		
<b>NATURAL GAS PRODUCTION TAX</b>	7,694	384,011	-53.42%
PERCENT CHANGE FROM FEBRUARY 2015	-92.94%		
<b>CIGARETTE AND TOBACCO TAXES</b>	107,471	643,012	-9.87%
PERCENT CHANGE FROM FEBRUARY 2015	9.52%		
<b>ALCOHOLIC BEVERAGES TAXES</b>	91,168	574,867	3.38%
PERCENT CHANGE FROM FEBRUARY 2015	1.86%		
<b>OIL PRODUCTION AND REGULATION TAXES</b>	103,387	878,216	-47.96%
PERCENT CHANGE FROM FEBRUARY 2015	-44.14%		
<b>UTILITY TAXES<sup>1</sup></b>	42,184	208,617	-7.56%
PERCENT CHANGE FROM FEBRUARY 2015	14.43%		
<b>HOTEL OCCUPANCY TAX</b>	34,680	239,265	-1.57%
PERCENT CHANGE FROM FEBRUARY 2015	-10.34%		
<b>OTHER TAXES<sup>2</sup></b>	15,899	\$71,390	-42.89%
PERCENT CHANGE FROM FEBRUARY 2015	-25.13%		
<b>TOTAL TAX COLLECTIONS</b>	<b>3,940,711</b>	<b>\$21,696,837</b>	<b>-7.01%</b>
PERCENT CHANGE FROM FEBRUARY 2015	<b>-7.89%</b>		
Revenue By Source	FEBRUARY 2016	YEAR TO DATE: TOTAL	YEAR TO DATE: CHANGE FROM PREVIOUS YEAR
<b>TOTAL TAX COLLECTIONS</b>	\$3,940,711	\$21,696,837	-7.01%
PERCENT CHANGE FROM FEBRUARY 2015	-7.89%		
<b>FEDERAL INCOME</b>	3,612,975	20,394,070	10.08%
PERCENT CHANGE FROM FEBRUARY 2015	45.37%		
<b>LICENSES, FEES, FINES AND PENALTIES</b>	1,222,035	6,332,994	23.50%
PERCENT CHANGE FROM FEBRUARY 2015	133.34%		
<b>INTEREST AND INVESTMENT INCOME</b>	56,080	298,646	-16.02%
PERCENT CHANGE FROM FEBRUARY 2015	30.29%		
<b>NET LOTTERY PROCEEDS<sup>3</sup></b>	159,509	1,161,801	20.51%
PERCENT CHANGE FROM FEBRUARY 2015	-16.60%		
<b>SALES OF GOODS AND SERVICES</b>	19,491	147,920	-44.03%
PERCENT CHANGE FROM FEBRUARY 2015	-27.65%		
<b>SETTLEMENTS OF CLAIMS</b>	13,108	542,457	11.01%
PERCENT CHANGE FROM FEBRUARY 2015	425.58%		
<b>LAND INCOME</b>	60,793	522,445	-43.94%
PERCENT CHANGE FROM FEBRUARY 2015	-56.62%		
<b>CONTRIBUTIONS TO EMPLOYEE BENEFITS</b>	5	27	-14.14%
PERCENT CHANGE FROM FEBRUARY 2015	10.94%		
<b>OTHER REVENUE</b>	381,486	2,133,018	18.61%
PERCENT CHANGE FROM FEBRUARY 2015	6.63%		
<b>TOTAL NET REVENUE</b>	<b>\$9,466,193</b>	<b>\$53,230,216</b>	<b>2.78%</b>
PERCENT CHANGE FROM FEBRUARY 2015	<b>16.52%</b>		

<sup>1</sup> Includes public utility gross receipts assessment, gas, electric and water utility taxes and gas utility pipeline tax.

<sup>2</sup> Includes the cement and sulphur taxes and other occupation and gross receipts taxes not separately identified.

<sup>3</sup> Gross sales less retailer commissions and the smaller prizes paid by retailers.

Note: Totals may not add due to rounding.



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Texas Comptroller of Public Accounts  
Publication #96-369,  
**April 2016**