The Revenue Estimate: My Commentary
by Stuart Greenfield, Ph.D.

With the release of the Biennial Revenue Estimate (BRE) for the 2014 – 2015 Biennium, and state revenue collections through December, one can evaluate how Comptroller Combs' estimate for FY13 is tracking. Should growth in tax collections continue at its current growth rate, **we should expect an additional $2.2 billion in tax collections in FY13**. With state expenditures continuing to decline, t**he state surplus for FY13 could be $10.3 billion, an increase of almost $1.5 billion** more than in the current estimate. The **transfer to the Rainy Day Fund could also reach $2.4 billion, or about $670 million more than in the estimate**. Total state revenue should be a little more than $100 billion.

In the 2012-13 Certification Revenue Estimate (CRE) the Comptroller had estimated that tax collections for FY12 would increase by 3.8 percent to $40.3 billion, while total revenue was projected to decrease by 3.0 percent, to $91.5 billion. Actual FY12 tax receipts increased by 13.4 percent to $44.1 billion, while total revenue also increased by 0.4 percent to $94.5 billion. The CRE, which was released in December 2011, had projected a decrease in tax collections for FY13 (-0.2 percent) and an increase in total revenue (0.2 percent). These underestimates have been substantially adjusted and tax collections for FY13 are now projected to increase by 5.4 percent, with total revenue increasing by 8.3 percent. The estimated growth rate in tax collections is about half the year-to-date increase in tax revenue. Conversely, the growth in actual total revenue is about half the estimated growth rate.

The Comptroller is now estimating that tax collections for the FY14-15 biennium should increase by 7.0 percent and total revenue by 5.6 percent. In contrast tax collections actually increased by 22.0 percent for the FY12-13 biennium and 8.5 percent for total revenue. The average biennium increase since FY00-01 for tax revenue is 10.5 percent, while total revenue increased by 11.9 percent on average.

Below is an analysis of tax collections for the first four months of fiscal year 2013 and the implications for the state's fiscal future. Total tax collections since the beginning of the fiscal year have increased at a rate (10.1 percent) almost double the new BRE estimate (5.4 percent). The rate of increase

Table 1: All Funds Tax Collections by Major Tax (in millions dollars), FY12 (actual), CRE FY13, and BRE FY13

Tax Collections by Major Tax (in millions of dollars)	FY12 Receipts	CRE, Dec 2011	BRE, Jan 2013	BRE % Change vs FY12	YTD % Change vs FY12
Sales Tax	24,191.2	22,704.5	26,744.9	8.0%	10.6%
Motor Vehicle Sales/Rental Taxes	3,559.2	3,123.1	3,909.3	5.2%	13.4%
Motor Fuel Taxes	3,169.2	3,191.8	3,220.7	3.9%	2.7%
Franchise Tax	4,564.7	4,139.7	4,756.5	2.5%	-
Insurance Taxes	1,496.3	1,443.8	1,698.8	5.7%	31.1%
Natural Gas Production Tax	1,534.6	996.1	1,182.7	-30.8%	-27.4%
Cigarette and Tobacco Taxes	1,428.1	1,464.8	1,399.2	9.1%	17.4%
Alcoholic Beverages Taxes	929.7	934.9	989.2	6.1%	17.7%
Oil Production/Regulation Taxes	2,103.3	1,194.3	2,293.1	10.5%	50.9%
Inheritance Tax	(0.5)	0	-	-	-
Utility Taxes	450.9	490.0	451.4	-1.6%	1.9%
Hotel Occupancy Tax	401.4	379.7	442.6	5.2%	7.2%
Other Taxes	250.9	176.0	230.1	-8.2%	2.6%
Total Tax	**44,079.1**	**40,238.6**	**46,447.2**	5.4%	10.1%

Source: Comptroller of Public Accounts

for all major taxes, except for motor fuels, exceeds there estimated growth rates in the BRE. With the substantial increase in the oil production tax, the revenue level required to begin accumulating transfers to the Economic Stabilization Fund (aka the Rainy Day Fund or RDF) is already exceeded. It is likely that the FY14 RDF transfer will 40 percent ($670 million) more than in the newest revenue estimate, bringing the RDF balance in FY14 to almost $10.3 billion.

Table 2 shows that All Funds Total Net Revenue for the first four months of FY2013 is $1.3 billion more than received in FY2012. Over 90 percent of this increase is accounted for by the increase in tax collections. Federal income continued to decline, however this decline in federal income is markedly less than

Table 2: All Funds Revenue by Receipt Type (in millions dollars), Sept. – Dec., FY2012 and FY2013

Revenue by Receipt Type (in millions)	**FY13 Total**	**Change vs FY12**	**BRE % Chg 2012-2013**	**YTD % Change vs FY12**
Total Tax Collections	13,267.5	1,219.4	5.4%	10.1%
Federal Income	10,955.7	(254.9)	14.8%	-2.3%
Licenses, Fees, Permits, Fines & Penalties	2,442.2	255.3	16.4%	11.7%
Interest and Investment Income	540.0	(2.5)	1.8%	-0.5%
Lottery Proceeds	606.1	65.1	-5.0%	12.0%
Sales of Goods and Services	64.5	(85.3)	4.6%	-57.0%
Settlements of Claims	481.1	5.6	-3.9%	1.2%
Land Income	431.2	(220.3)	-19.7%	-33.8%
Contributions to Employee Benefits	0.0	(0.0)	-6.7	-19.6%
Other Revenue Sources	1,646.4	362.6	-5.9%	28.2%
Non-tax Revenue	17,167.2	125.5	10.9%	0.7%
Total Net Revenue	30,434.7	1,344.9	8.3%	4.6%

Source: Comptroller of Public Accounts

the decline in federal receipts that the state experienced in FY12. Given the reduced level of federal payments for FY12 and the continuing negative growth rate, federal income will be around $3.3 billion less than contained in the current estimate of $35.5 billion. One should expect that with the looming federal budget issues, further declines in federal income should be expected.

While the BRE forecasts an increase of $7.9 billion in total net revenue, should the current growth rate in revenue continue, we should expect total revenue to be $2.2 billion less when compared to the current revenue estimate. Total state revenue should still exceed **$100 billion** in FY13.

The substantial increase in both tax (10.1 percent) and non-federal other revenue (6.5 percent) should result in the "Estimated Ending Certification Balance," **the surplus** being increased to $10.3 billion, an increase of $1.5 billion. This balance should be more than sufficient to remedy the underfunding of critical state funds made in the 82nd session, along with other critical functions. While the spending limit only allows $6.9 billion in additional spending, a recent article, WTF[3] provides information on what the legislature could do to address the spending limit constraint and enact an appropriation bill to increase funding for public education and Medicaid.

While total revenue in the first four months increased by 4.6 percent ($1.3 billion), total expenditures declined by 3.9 percent ($1.4 billion). As shown in Table3, over 85 percent of the state's expenditures were accounted for by three items, employee compensation (15.0 percent), public assistance payments (33.3 percent), and intergovernmental payments (school finance obligations, 37.3 percent). While there

Table 3: All Funds Expenditures by Category (in millions dollars), First Four Months, FY2012 and FY2013

CATEGORY	FY2012	FY2013	Percent Change	Proportion Expenditure 2013
Employee Compensation	5,192.1	5,240.8	0.9%	15.0%
Public Assistance Payments	11,536.1	11,681.8	1.3%	33.3%
Intergovernmental Payments	14,513.2	13,052.4	-10.1%	37.3%
Other Expenditures	5,213.0	5,060.5	-2.9%	14.4%
TOTAL EXPENDITURES	36,454.5	35,035.5	-3.9%	

Source: Comptroller of Public Accounts

was growth in employee compensation and public assistance payments during the first four months, there increase was offset by the $1.5 billion decrease in intergovernmental payments, primarily spending for public education. The differing growth rates resulted in the proportion of state spending for intergovernmental expenditure declining from FY12, while the proportion spent on employee compensation and public assistance payments increasing.

Table 4 shows expenditures by function for the first four months of FY2012 and FY2013. The largest decrease, over $1.6 billion for education was larger than the overall decrease in total expenditures, $1.4 billion. Both the Foundation School Program (FSP) grant and other public education grants were each cut by $700 million, from FY12 outlays over the same period. The Government function was the only other function to experience a decrease greater than $200 million in expenditures during the first four months. Health & Human Services expenditure, the state's 2nd largest, increased by $296 million. So while aggregate state expenditures continued to decrease, expenditures declined by 3.9 percent from FY12, the decrease is accounted for primarily by the reduction in payments to school districts.

Table 4: All Funds Expenditures by Function (in millions dollars), First Four Months, FY2012 and FY2013

EXPENDITURES BY FUNCTION	FY2012	FY2013	Percent Change
Government Subtotal	1,156.8	946.1	-18.2%
Education	16,066.9	14,407.6	-10.3%
Employee Benefits	1,103.1	1,116.3	1.2%
Health and Human Services	12,634.0	12,930.3	2.3%
Public Safety and Corrections	1,505.7	1,526.8	1.4%
Transportation	2,397.4	2,451.9	2.3%
Natural Resources/Recreational Services	710.0	738.8	4.1%
Regulatory Services	123.7	131.8	6.6%
Lottery Winnings Paid	202.8	240.4	18.5%
Debt Service - Interest	379.1	393.8	3.9%
Capital Outlay	174.8	151.8	-13.1%
TOTAL EXPENDITURES	36,454.3	35,035.5	-3.9%

Source: Comptroller of Public Accounts

In the September-December period state tax revenue experienced a substantial improvement, increasing by 10.1 percent, while total state revenue increased by "only" 4.6 percent. Total state expenditures decreased by 3.9 percent, with this decrease attributable to cuts in public education expenditures.

Everyone concerned with ensuring continued prosperity in Texas should support having our leadership restore funding for public education immediately. The other reductions enacted to achieve a balanced budget for FY12-FY13 should also be restored. The state will only continue to prosper by developing a well-educated workforce. Saying that they're concerned about the future of Texas should be the focus of our leadership, not with "touting their spending restraint."

Dr. Greenfield holds a Ph.D. in economics from the University of Texas. He worked for three comptrollers of public accounts and other Texas state agencies. Since retiring from the state in 2000, Stuart has taught economics at ACC and UMUC.