

Yes, We Are Better Off

By Stuart Greenfield, Ph.D.

Each legislative session is binary, either plenty of money or not enough. Unfortunately, for the 82nd Legislative session they faced the latter situation. While Comptroller Combs initially estimated a 7.2 percent increase in biennial tax revenues to \$78.9 billion, this increase would not be sufficient to cover the current service budget. In May 2011, the Comptroller increased tax collections for the biennium by around \$1.5 billion. Even with this increase, adjustments were imposed on the state's two major expenditures, public education and Medicaid. The adjustment for public education was around \$5.4 billion, while the Medicaid adjustment was around \$9.0 billion.

While the Comptroller recently reported on the state's improved fiscal condition, there has been no official release of the magnitude of this improvement. The magnitude of these improvements is quite substantial, both relative to FY11 revenues and to the latest estimate from the Comptroller's Office.

With the continued improvement in the state's economy, especially, the oil and gas industry, state tax revenue in FY12 was \$44.1 billion, an increase of \$5.2 billion (13.4 percent) over FY11 tax collections. Total state revenue was \$94.6 billion, an increase of \$369 million compared to last year. The increase in tax collections was \$3.7 billion more than reported in the [last published revenue estimate](#). All funds revenue was \$3.2 billion more than last estimated, as the Comptroller had estimated a decline of \$2.8 billion in all funds revenue.

Along with the significant increase in tax revenue, state expenditures declined by \$1.2 billion. This increase in revenue and decrease in expenditures should provide the 83rd Legislative session with more than sufficient "free money" to correct the funding cuts in public education, Medicaid, and other services that resulted from the substantial shortfall in estimated revenue provided the previous legislature.

While the [Comptroller has recently indicated that tax revenue collections had improved](#), there has been no official release of the magnitude of this increase. The increase in state tax collections was 3.5 times the estimated growth rate in the Comptroller's estimate. This understatement was even greater than the understatement for FY11.

The following table shows collections by major tax, along with the percentage change from FY11. Also shown are the latest estimates of tax receipts compared to actual collections. For FY12 there was a 13.6 percent increase in total tax revenues compared to FY11. Actual tax receipts grew by 9.3 percent

Table 1: All Funds Tax Collections by Major Tax (in billions of dollars), FY12 Actual and Estimated

| Tax Collections by Major Tax | FY12 Total | % Change vs FY11 | FY12 Estimate† | % Change vs Estimate |
|---|-----------------------|---------------------------------|---------------------------|---------------------------------|
| Sales Tax | \$ 24.2 | 12.6% | \$ 22.6 | 6.9% |
| Motor Vehicle Sales/Rental Taxes | \$ 3.6 | 19.5% | \$ 3.2 | 10.2% |
| Motor Fuel Taxes | \$ 3.2 | 2.1% | \$ 3.1 | 1.8% |
| Franchise Tax | \$ 4.6 | 16.1% | \$ 4.0 | 13.2% |
| Insurance Taxes | \$ 1.5 | 10.9% | \$ 1.4 | 6.1% |
| Natural Gas Production Tax | \$ 1.5 | 38.3% | \$ 1.3 | 18.6% |
| Cigarette and Tobacco Taxes | \$ 1.4 | -8.4% | \$ 1.4 | 3.9% |
| Alcoholic Beverages Taxes | \$ 0.9 | 7.9% | \$ 0.9 | 4.5% |
| Oil Production/Regulation Taxes | \$ 2.1 | 42.8% | \$ 1.3 | 58.7% |
| Inheritance Tax | \$ - | - | - | - |
| Utility Taxes | \$ 0.5 | -1.5% | \$ 0.5 | -6.6% |
| Hotel Occupancy Tax | \$ 0.4 | 15.1% | \$ 0.4 | 9.1% |
| Other Taxes | \$ 0.3 | 24.7% | \$ 0.2 | 26.0% |
| Total Tax | \$ 44.1 | 13.4% | \$ 40.3 | 9.3% |

Source: Comptroller of Public Accounts, [Revenue Watch](#)

greater than forecast in the revenue estimate. **While the Comptroller will release a new or revised revenue estimate in January, it is apparent that the state should have total biennium tax collections of \$92 billion. Compare that to the \$80.6 billion in the current estimate.**

As indicated above, both the oil production tax and natural gas production tax realized substantial gains in collections, \$630 million and \$425 million, respectively. These increases will result in the transfer to the rainy day fund deposit increasing by \$750 million. This will result in \$1.9 billion being transferred to the fund.

The increase in the rainy day fund deposit will increase the fund balance to over \$8 billion after the transfer is made in November. This will result in the fund balance being around \$4 billion under the fund cap for FY12-13. Should oil and natural gas exploration and production continue at its current rate, the rainy day fund should have a \$10 billion balance after the transfer based on FY13 revenue.

The December 2011 revenue estimate forecast a 3 percent decline in total net revenue. This was chiefly attributed to a 7.1 estimated decline in federal income. While the decline in federal income was greater than expected, the increase in tax collections and other revenue sources resulted in the state realizing a minimal increase (0.4%) in total state revenue..

Table 2: All Funds Revenue by Receipt Type (in billions of dollars), FY12, Actual and Estimate

| Revenue Source | FY12 | % Change | FY12 | % Change |
|---|---------|----------|-----------|-------------|
| | Total | vs FY11 | Estimate† | vs Estimate |
| Total Tax Collections | \$ 44.1 | 13.4% | \$ 40.3 | 9.3% |
| Federal Income | \$ 32.9 | -14.3% | \$ 35.7 | -7.8% |
| Licenses, Fees, Permits, Fines & Penalties | \$ 7.6 | -3.6% | \$ 7.5 | 1.9% |
| Interest and Investment Income | \$ 1.1 | 6.2% | \$ 0.9 | 26.6% |
| Lottery Proceeds | \$ 1.8 | 9.3% | \$ 1.7 | 8.2% |
| Sales of Goods and Services | \$ 0.4 | 28.1% | \$ 0.4 | -13.4% |
| Settlements of Claims | \$ 0.6 | -4.8% | \$ 0.5 | 6.4% |
| Land Income | \$ 1.4 | -6.1% | \$ 0.7 | 92.4% |
| Contributions to Employee Benefits | \$ 0.0 | - | \$ 0.0 | - |
| Other Revenue Sources | \$ 4.8 | 18.6% | \$ 3.8 | 28.4% |
| Non-tax Revenue | \$ 50.6 | -8.8% | \$ 51.1 | -1.1% |
| Total Net Revenue | \$ 94.6 | 0.4% | \$ 91.5 | 3.5% |

Source: Comptroller of Public Accounts, [Revenue Watch](#)

The decline in federal income (-14.3 percent) was twice the decline shown in the revenue estimate. As federal receipts are primary used for health and human service related activities, legislation that tightened eligibility accounted for some of this decline. Given the continuing issues with federal expenditures, it would not be surprising if federal receipts were to again decline substantially. Should the state experience a reduction comparable to this year, the decline in federal receipts would be \$4.7 billion, or \$.5 billion less than this year.

While total revenue increased by 0.4 percent (or \$369 million) between FY11 and FY12, total expenditures declined by \$1.2 billion (-1.3 percent) to \$94.3 billion. Table 3 shows almost 85 percent of state spending was accounted for by three items: employee pay (16.2 percent); public assistance payments (37.0 percent); and intergovernmental payments (school finance obligations, 31.1 percent).

Table 3: All Funds Expenditures by Category (in billions of dollars), FY12 and FY11

| CATEGORY | FY12 | FY11 | Percent Change | Prop FY12 | Proportion Change |
|----------------------------|----------------|----------------|-----------------------|------------------|--------------------------|
| Employee Compensation | \$ 15.2 | \$ 15.6 | -2.6% | 16.2% | -1.5% |
| Public Assistance Payments | \$ 34.9 | \$ 35.9 | -2.8% | 37.0% | -1.5% |
| Intergovernmental Payments | \$ 29.3 | \$ 29.3 | -0.1% | 31.1% | 1.3% |
| Other Expenditures | \$ 14.8 | \$ 14.5 | 1.7% | 15.7% | 3.2% |
| TOTAL EXPENDITURES | \$ 94.3 | \$ 95.5 | -1.3% | | |

Source: Comptroller of Public Accounts,

The three major state expenditure categories each experienced a decline in state expenditures. Expenditures for other state activities, e.g., highways, environment regulation, public safety, increased by \$250 million (1.7 percent).

When the 83rd Legislature meets in January, one immediate task should or will be a revision to appropriations for FY13. According to the General Appropriations Act, all funds appropriations for FY13 are 16 percent less than the appropriation for FY12. Two activities, Health and Human Services (-\$9.1 billion) and Agencies of Education (-\$3.9 billion) account for 85.6 percent of the \$15.1 billion in reduced appropriations.

Table 4 shows state spending by function for FY12. The function with both the largest absolute and percentage decrease was general government. Health and Human Services experienced a slight decrease (\$144.8 million) in expenditures, while Education experienced a minimal increase (\$183.4 million). The increase in Education expenditures is primarily attributed to the “catch-up” payment made to school districts for under payments in FY11.

Table 4: All Funds Expenditures by Function (in billions of dollars), FY12

| EXPENDITURES BY FUNCTION | FY12 | Change vs. FY11 | Percent Change vs. FY11 |
|----------------------------------|----------------|----------------------------|--|
| Total General Government | \$ 3.0 | \$ (1.3) | -30.3% |
| Health & Human Services | \$ 38.1 | \$ (0.6) | -1.5% |
| Public Safety & Corrections | \$ 4.3 | \$ (0.3) | -5.6% |
| Transportation | \$ 6.9 | \$ 0.2 | 2.7% |
| Natural Resources and Recreation | \$ 2.2 | \$ 0.4 | 19.6% |
| Education | \$ 33.7 | \$ 0.1 | 0.4% |
| Regulatory Agencies | \$ 0.3 | \$ 0.0 | 8.0% |
| Employee Benefits | \$ 3.3 | \$ (0.1) | -2.6% |
| Debt Service - Interest | \$ 1.3 | \$ 0.3 | 31.3% |
| Capital Outlay | \$ 0.5 | \$ (0.0) | -7.6% |
| Lottery Winnings Paid | \$ 0.6 | \$ 0.1 | 14.3% |
| TOTAL EXPENDITURES | \$ 94.3 | \$ (1.2) | -1.3% |

Source: Comptroller of Public Accounts,

Like FY11, the fiscal condition of the state continues to experience substantial improvement. Not only did both state tax collections and total revenue significantly exceed the revenue estimate, but there was a slight reduction in state expenditures. If tax revenue growth continues through FY13 at the 9⁺ percent rate experienced in FY11 and FY12 then state tax revenue for FY13 will be \$48 billion. Combined with the increase in tax receipts for FY12 legislators should have sufficient revenue, over \$90 billion in tax receipts, to reverse the fiscal adjustments made by the 82nd Legislature to balance the current budget.

While the 83rd Legislature will also face the reoccurring binary decision, they should be in considerably better shape than the 82nd Legislature. Given Texas's favorable economic climate, one would expect that tax receipts should continue to increase at a substantial rate. At a minimum tax collections should exceed \$100 billion for the FY14-FY15 biennium. Were growth to continue as they have for the last two years, then tax revenue should be around \$110 billion.

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, Greenfield has taught economics at Austin Community College and University of Maryland University College. One can reach Stuart at sjg@austin.rr.com.