

State Revenue and Expenditures – Déjà vu All Over Again

by Stuart Greenfield, Ph.D.

With the close of the fiscal year on August 31, and the release by Comptroller Combs of [The 2014-15 Certification Revenue Estimate](#) (CRE), all indicators are that the state’s Comptroller continues providing fiscally conservative estimates. While acknowledging substantial growth in the Texas economy, Gross State Product (GSP) is forecasted to increase by over 5.5 percent, a rate 35% greater than forecasts of U.S. economic growth. This growth is not fully reflected in Comptroller Combs estimate of revenue for FY14-15. In fact, the ending balance for FY15 will be at least twice (over \$5 billion) the estimate in the CRE (\$2.6 billion). The state will also transfer at least another \$2 billion transfer to the Rainy Day Fund (RDF). My analysis also indicates that the 84th Legislature should have more than sufficient funds to address the continuing shortfalls in public education, Medicaid, and transportation.

In her letter to the leadership, the Comptroller indicated “In the event there are changes in economic or other conditions, this estimate will be updated—all to ensure that your deliberations are based on the most accurate and timely information available.” With the improved transparency at the Comptroller’s Office, we now have the ability to more immediately review both state revenue and expenditures to better evaluate the state’s fiscal condition. Below are both an analysis of all funds revenue and expenditures for the 1st quarter of fiscal year 2014 and the implications for the state’s fiscal future.

Total tax collections during the 1st quarter increased at a rate almost 3 times greater than forecast in the CRE. Almost 60 percent of the increase in tax collections is due to the increase in severance tax collections. Should these rates of increase continue for the balance of FY14, the transfer to the RDF will be over \$1 billion more than in the CRE.

**Table 1: All Funds Tax Collections by Major Tax (in millions dollars),
1st Quarter, FY2014 and FY2013**

	<i>FY2014</i>	<i>FY2013</i>	Actual Percent Change FY2013- FY2014	Estimated Percent Change CRE
Sales Tax	6,578.4	6,349.3	3.6%	3.5%
Motor Vehicle Sales and Rental Taxes	1,038.3	938.6	10.6%	5.3%
Motor Fuel Taxes	828.6	819.1	1.2%	0.7%
Franchise Tax	101.8	73.1	39.3%	-2.8%
Insurance Taxes	54.0	50.4	7.2%	-2.3%
Natural Gas Production Tax	421.8	317.7	32.7%	4.3%
Cigarette and Tobacco Taxes	286.8	389.4	-26.4%	-12.4%
Alcoholic Beverages Taxes	245.9	233.6	5.3%	3.2%
Oil Production and Regulation Taxes	953.3	661.8	44.0%	9.1%
Inheritance Tax	-	-	-	0.0%
Utility Taxes	118.5	115.8	2.4%	-1.8%
Hotel Occupancy Tax	117.6	102.9	14.2%	4.8%
Other Taxes	55.3	48.2	14.7%	-4.3%
Total Tax Collections	10,800.3	10,099.9	6.9%	2.4%

Source: Comptroller of Public Accounts

As can be noted from Table 1, every tax source, except the cigarette tax, is growing at a rate that exceeds the current estimate. Should these rates of growth continue through the fiscal year, the state should collect around \$1.8 billion more in taxes, with total tax collections for FY14 exceeding \$50.5 billion.

It would now appear that even with the increase in the Comptroller's forecast of state tax collections, the estimate while still conservative, is not as conservative as the previous session's estimate. **Given the continuing growth in state economic activity, biennial tax collections should exceed \$102 billion compared to the Comptroller's estimate of \$98.8 billion.**

Table 2 shows that All Funds Total Net Revenue for the 1st quarter of FY14 is only \$708 million more than received in FY13. This increase in total revenue is solely due to the increase in tax collections, as the \$200 million increases in both federal income and in land income just offset declines in other revenue sources. While tax collections are increasing at a substantially greater rate than in the CRE, the growth in non-tax revenues (0.1 percent) is markedly less than the estimated growth (4.5 percent) in the CRE. This decline is primarily due to the diminished growth in federal income.

**Table 2: All Funds Revenue by Receipt Type (in millions dollars),
1st Quarter, FY2014 and FY2013**

	FY2014	FY2013	Actual Percent Change FY2013- FY2014	Estimated CRE Percent Change
Tax Collections	10,800.3	10,099.9	6.9%	2.4%
Federal Income	8,540.9	8,259.4	3.4%	10.4%
Interest and Investment Income	1,996.9	2,093.5	-4.6%	4.7%
Licenses, fees, permits, penalties	422.2	457.5	-7.7%	-8.4%
Contributions to Employee Benefits	459.9	434.7	5.8%	-16.9%
Sales of Goods and Services	57.7	49.4	16.8%	68.6%
Land Income	19.4	10.1	91.0%	-11.7%
Lottery Proceeds	502.2	294.5	70.5%	-11.4%
Settlement of Claims	0.0	0.0	6.1%	29.4%
Other Revenue Sources	1,044.6	1,436.6	-27.3%	-16.5%
<i>TOTAL Net Revenue</i>	23,844.0	23,135.6	3.1%	3.5%

Source: Comptroller of Public Accounts

The CRE forecasts an increase in total revenue of \$3.5 billion, which we are on-track to attain. However, this is occurring because tax collections will exceed the current estimate, while federal income will not achieve its estimated values.

While total revenue in the 1st quarter increased by 3.1 percent (\$.7 billion), total expenditures grew by 5.8 percent (\$1.6 billion). As shown in Table 3, over 80 percent of the state's expenditures were accounted for by three items, employee compensation (13.5 percent), public assistance payments (32.7 percent), and public education payments (35.5 percent). Except for intergovernmental payments, all

**Table 3: All Funds Expenditures by Category (in millions dollars),
1st Quarter, FY2013 and FY2014**

CATEGORY	FY2013	FY2014	Percent Change	Proportion Expenditure 2014
Employee Compensation	3,925.3	4,042.1	3.0%	13.5%
Public Assistance Payments	9,220.6	9,793.3	6.2%	32.7%
Public Education Payments	10,161.8	10,635.1	4.7%	35.5%
Intergovernmental Payments	1,140.7	975.8	-14.5%	3.3%
Other Expenditures	3,829.9	4,481.3	17.0%	15.0%
TOTAL EXPENDITURES	28,278.4	29,927.6	5.8%	100.0%

Source: Comptroller of Public Accounts

expenditure category outlays increased from the 1st quarter of FY13. The YTD Proportions were little changed from FY13.

Table 4 shows expenditures by function for 1st quarter FY13 and FY14. The increase in expenditures by function was broad based, with Transportation increasing by 23.4 percent (\$425 million). Both Education and Health and Human Services increased by around \$470 million. Only one function, Lottery Winnings Paid had a decrease, which was only \$2 million.

**Table 4: All Funds Expenditures by Function (in millions dollars),
1st Quarter, FY2013 and FY2014**

EXPENDITURES BY FUNCTION	FY2013	FY2014	Percent Change
Government Subtotal	734.6	772.3	5.1%
Education	12,306.5	12,777.6	3.8%
Employee Benefits	834.8	915.5	9.7%
Health and Human Services	10,145.8	10,613.9	4.6%
Public Safety and Corrections	1,125.8	1,192.0	5.9%
Transportation	1,822.7	2,248.5	23.4%
Natural Resources/Recreational Services	583.5	593.2	1.7%
Regulatory Services	107.0	192.7	80.1%
Lottery Winnings Paid	147.9	145.8	-1.4%
Debt Service - Interest	347.8	352.4	1.3%
Capital Outlay	122.2	123.5	1.0%
TOTAL EXPENDITURES	28,278.4	29,927.6	5.8%

Source: Comptroller of Public Accounts

State tax revenue continues to increase at a rate substantially greater than the rate in the Comptroller's current estimate. However, total state revenue is increasing at a rate less than in the estimate. This is primarily due to the lower rate of growth in federal receipts. Total state expenditures increased by 5.8 percent, with this increase attributable to increases in transportation, health and human

services, and in public education expenditures. The growth rate in expenditures is a little bit higher (5.8 percent v. 5.0 percent) than the annual growth rate experienced between FY00 and FY13.

Bottom Line: Initial analysis of the state's fiscal condition indicates that tax collections will be significantly greater than in the current revenue estimate, as the current growth rate (6.9 percent) is 2.9x the rate in the CRE (2.4 percent). Should this differential continue, tax collections for the biennium (\$102 billion) should exceed the current estimate by around \$3.5 billion. Of this increase, around \$2 billion will be transferred to the RDF, while the certification balance should be double the current estimate.

I wish all a successful new year and the State continued growth in biennium revenue.

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 ACC and UMUC.