

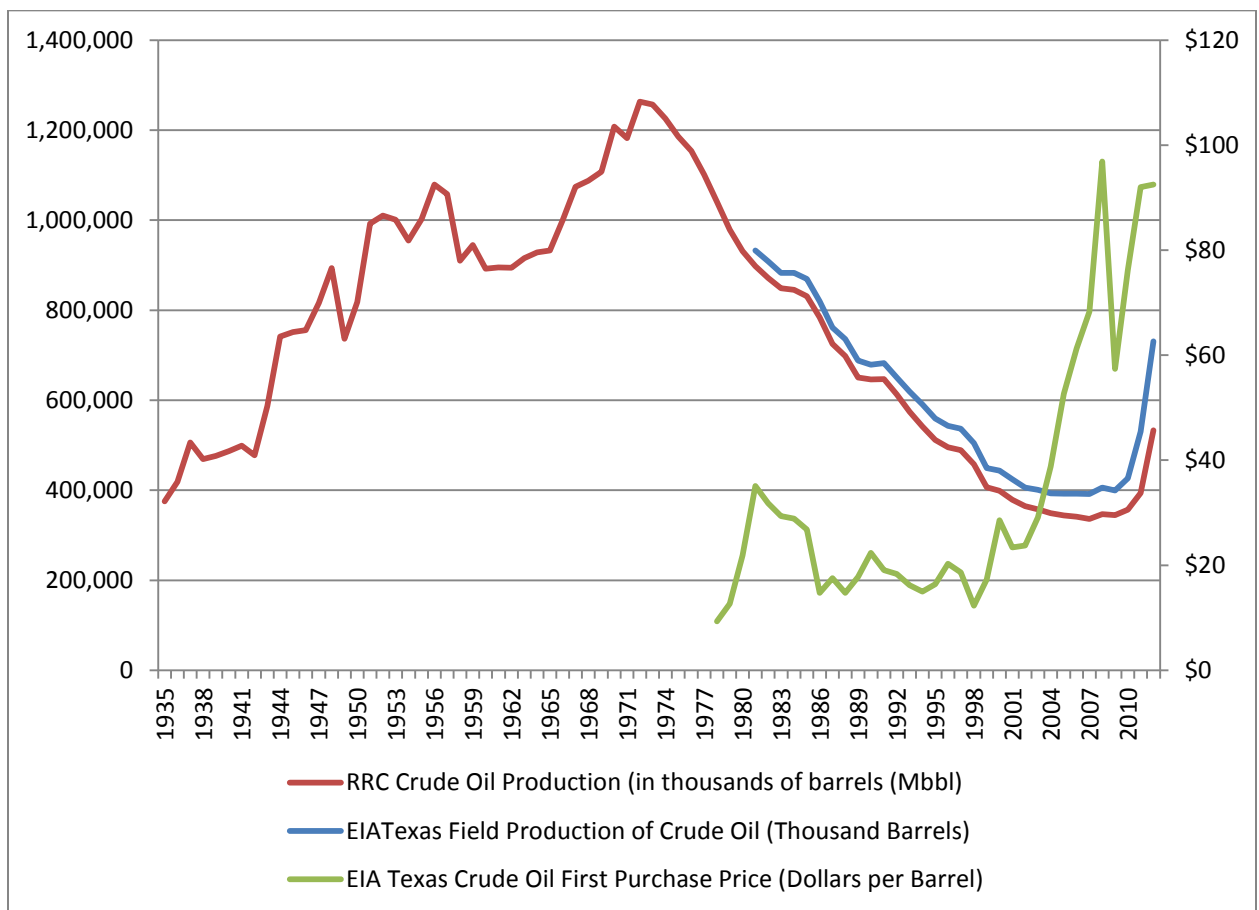
A Billion Here, A Billion There, Are We Talking Real Money?

By Stuart Greenfield, Ph.D.

As noted [here](#) and more recently with the release of the state's [Annual Cash Report](#), state finances improved in FY13 and according to preliminary analysis of state's year-to-date (YTD) revenue for FY14 this improvement will continue. In fact, tax collections for FY14 should be \$4 billion more than in the current estimate and biennial tax collections should be \$105 billion. When the Comptroller releases the Certification Revenue Estimate (CRE) in December, we will have the official estimate

The substantial increase in state tax collections is primarily attributable to fracking and its impact on severance tax collections. Oil Production Tax collections (\$650.6 million) through October already exceed the Rainy Day Fund (RDF) transfer amount and Natural Gas Tax collections (\$279.2) should reach the transfer amount (\$600 million) in January. As one should note, crude oil production in the state is skyrocketing, see chart below, having increased by over 20 percent per year over the last 3 years. It is quite possible that oil production for FY14 will exceed 1 billion barrels, a level not seen since the late 1970's.

Chart 1: Texas Oil Production (RRC and EIA), and Crude Oil Price (EIA), various years



With U.S. and world economic growth continuing, one should expect that oil prices will be stable at between \$80 and \$100 per barrel and that crude oil production will continue to increase. Under this condition it is expected that oil tax collections this fiscal year will be over \$4 billion, with natural gas collections of \$2 billion. This will result in the FY14 transfer to the RDF of near \$4 billion.

While the Comptroller’s Office is preparing the Certification Revenue Estimate, which I expect will be released in December, it is possible to review how state revenue is performing YTD and compare that to the current estimated growth rates. On July 31, the Comptroller increased severance tax receipts and total tax collections by \$900 million. However, there was no change in FY14-15 receipts. The consequences of not increasing severance tax collections for this biennium is that when one compares the current estimate with the state’s actual tax collections for FY13, the aggregate tax growth rate is negative (-1.0 percent). Were this forecast realized, I assume [Time magazine](#) will publish a retraction for its, “[Why Texas Is Our Future.](#)”

The following table shows collections by major tax, through October, along with the percentage change from FY13. Also shown are both the current estimate of tax receipts and the estimated percentage change from FY13.

Table 1: All Funds Tax Collections by Major Tax (in millions of dollars), FY14 YTD, Percent Change FY13, BRE Estimate for FY14 and BRE Percent Change from FY13

Tax Collections by Source	FY 14 YTD	% Change from FY13	BRE FY14 Estimate	% Change BRE FY14 v. FY13
Sales Tax	4,166.1	4.1%	26,744.9	3.1%
Motor Vehicle Sales/Rental Taxes	716.8	11.6%	3,909.3	0.8%
Motor Fuel Taxes	546.8	1.7%	3,220.7	0.0%
Franchise Tax	41.0	- %	4,756.5	-0.9%
Insurance Taxes	38.1	15.3%	1,698.8	-3.7%
Natural Gas Production Tax	279.2	34.9%	1,182.7	-20.9%
Cigarette and Tobacco Taxes	163.4	-34.6%	1,399.2	-12.4%
Alcoholic Beverages Taxes	163.0	3.9%	989.2	1.3%
Oil Production/Regulation Taxes	650.6	47.9%	2,293.1	-23.3%
Inheritance Tax	-	0.0%	-	0.0%
Utility Taxes	108.3	-2.1%	451.4	3.8%
Hotel Occupancy Tax	76.1	6.4%	442.6	0.3%
Other Taxes	32.9	6.8%	230.1	-7.1%
Total Tax	6,982.3	7.5%	47,318.6	-1.0%

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

As can be noted, except for the Cigarette and Tobacco Taxes and the Utility Taxes all other taxes are growing at rates greater than in the current estimate when compared to FY13 collections. The growth in severance tax collections is substantially greater than the rate in the current estimate and we should expect severance tax collections for FY14 to exceed the current estimate by 80 percent. Yes, severance tax collections for FY14 will be over \$6 billion compared to the current estimate of \$3.5 billion. This will result in a transfer to the RDF of almost \$4.0 billion, double the current estimate

The revised June 2013 revenue estimate forecasts a 3.2 percent increase in total net revenue compared to actual FY13 receipts. This is chiefly attributed to a 16.1 increase in federal income from FY13 receipts. As shown in Table 2 there is much greater variation in the various revenue sources than there are in tax sources.

Table 2: All Funds Revenue by Receipt Type (in millions of dollars)

Revenue Source	FY14 YTD	% Change v. FY13	BRE FY14 Estimate	% Change BRE FY14 v. FY13
Total Tax Collections	\$ 6,982.3	7.5%	\$ 47,318.6	-1.0%
Federal Income	5,758.7	4.5%	37,771.5	16.1%
Licenses, Fees, Permits, Fines, and Penalties	1,502.4	3.3%	8,159.4	3.0%
Interest and Investment Income	348.3	-2.4%	1,166.6	-1.4%
Lottery Proceeds 3	321.5	11.0%	1,747.8	-7.7%
Sales of Goods and Services	41.0	23.4%	380.9	68.6%
Settlements of Claims	6.9	-15.1%	538.5	-11.7%
Land Income	355.3	65.3%	1,174.0	-11.4%
Contributions to Employee Benefits	0.0	-19.2%	0.1	29.4%
Other Revenue Sources	951.5	-13.6%	3,977.0	-28.6%
Non-Tax Revenue	9,285.7	3.5%	54,915.9	7.1%
Total Net Revenue	16,268.0	5.2%	102,234.5	3.2%

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

While federal income is increasing (4.5 percent) given the budget discussions in Washington, it is quite conceivable that there will be further reductions in federal expenditures. One should expect that federal receipts for FY14 will increase from FY13; the amount of federal income will be less than in the current estimate (\$37.8 billion). When the CRE is released in December, expect federal income of \$34.0 billion.

The improved revenue situation in FY13 and continued growth in state revenue for FY14-15, allowed legislators to increase appropriations 5.1 percent for this biennium. This increase in appropriations allows agencies to increase expenditures. Table 3 shows that YTD expenditures increased by 6.0 percent compared to FY13. Almost 70 percent of state spending is accounted for by two items: 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	FY14	FY13	Percent Change	Prop FY14	Proportion of Increase
Employee Compensation	\$2,591.40	\$2,185.34	18.6%	12.1%	33.4%
Public Assistance Payments	\$6,713.24	\$6,266.32	7.1%	31.4%	36.7%
Public Education Payments	\$8,130.82	\$7,766.22	4.7%	38.0%	29.9%
Intergovernmental Payments	\$723.28	\$803.54	-10.0%	3.4%	-6.6%
Other Expenditures	\$3,227.01	\$3,146.86	2.5%	15.1%	6.6%
TOTAL EXPENDITURES	\$21,385.76	\$20,168.28	6.0%	100.0%	

Source: Comptroller of Public Accounts,

While public education payments increased, this was solely due to the increase in Foundation School Program (FSP) payments; other payments to school districts declined. As noted above intergovernmental payments declined by 10 percent. This was across the board, as both higher education institutions and other governmental units all experienced declines in state payments.

Table 4 shows state spending by function for FY14. Except for lottery winnings paid, expenditures for all state functions increased, with the largest absolute increase for transportation (\$352.2 million). The increase in education was accounted for by the \$403.9 million increase in FSP payments, as other expenditures for education declined.

Table 4: All Funds Expenditures by Function (in millions of dollars), YTD FY14

EXPENDITURES BY FUNCTION	FY14	Change vs. FY13	Percent Change vs. FY13
Total General Government	\$562.3	\$52.7	10.3%
Education	\$9,508.6	\$312.7	3.4%
Employee Benefits	\$593.2	\$39.1	7.1%
Health and Human Services	\$7,229.6	\$341.5	5.0%
Public Safety and Corrections	\$784.1	\$8.4	1.1%
Transportation	\$1,606.0	\$352.2	28.1%
Natural Resources/Recreational Services	\$418.6	\$8.3	2.0%
Regulatory Agencies	\$169.6	\$91.3	116.7%
Lottery Winnings Paid	\$92.6	(\$20.4)	-18.1%
Debt Service - Interest	\$333.8	\$12.5	3.9%
Capital Outlay	\$87.6	\$18.9	27.5%
TOTAL EXPENDITURES	\$21,385.8	\$1,217.5	6.0%

Source: Comptroller of Public Accounts,

Like FY13, the fiscal condition of the state continues to experience substantial improvement. Not only did both state tax collections and total revenue significantly exceed the current revenue estimate, but there were also increases in state expenditures for critical services, i.e., public education, health and human services, and transportation. If tax revenue growth continues through FY14 at the 7.5 percent rate experienced so far this year, state tax revenue for FY14 will be over \$50 billion. Given this increase

in tax collections and continued growth in FY15, the 84th Legislature will have the largest GR balance in history, exceeding the 8.0 billion GR balance in FY07.

With the substantial increase in oil and natural gas production, severance tax collections for the biennium should exceed \$12 billion. As the FY14 transfer (\$2.5 billion) to the RDF will be posted this month, and an estimated transfer of \$4 billion in FY15, even after the water and transportation payments, the RDF balance at the end of the biennium should approach \$10 billion, a not insignificant sum.

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