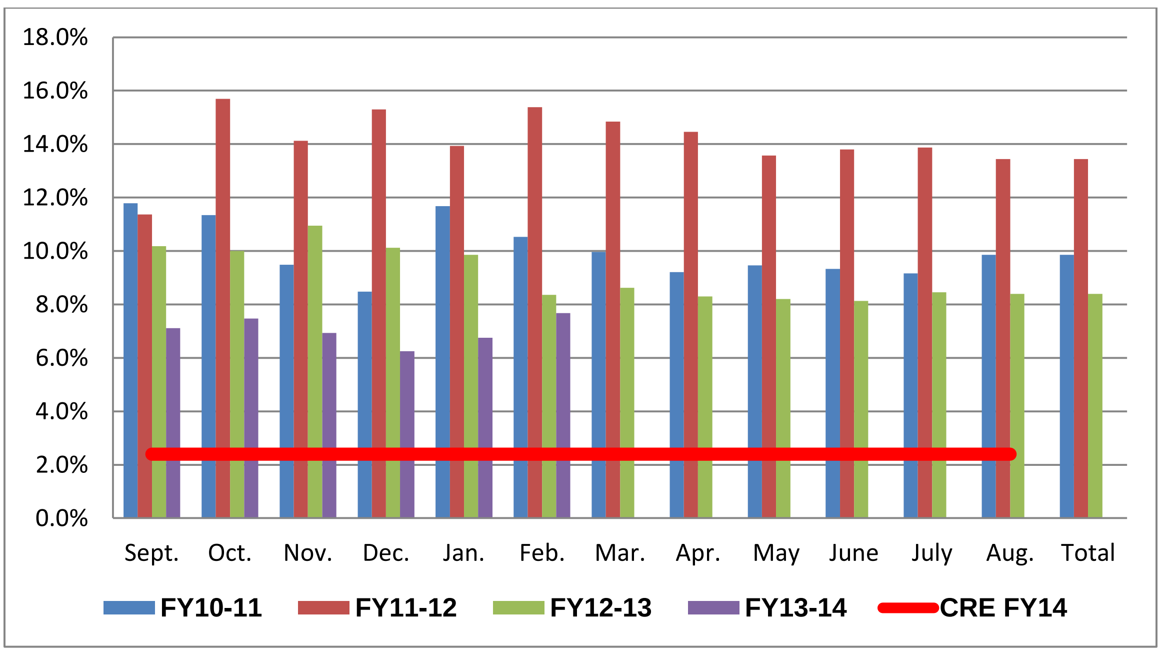
To Increase by How Much, That Is the Question
by Stuart Greenfield, Ph.D.

To use a football analogy, we are now through the 1st quarter of the game (the FY14-15 biennium), and our team is killing them. All funds tax collections, i.e., total state tax collections, are increasing at a rate 3 times greater than in the Certification Revenue Estimate (CRE), which the Comptroller "used to certify the General Appropriations Act for 2014-15 biennium and other appropriations bills approved by the 83rd Legislature." When the CRE was released in December, the Comptroller projected that the state should expect over $1.1 billion in additional tax revenue for FY14 and an additional $900 million in FY15. Tax collections through February have already increased by $1.5 billion and I expect tax collections in FY14 to exceed %50 billion.

With the release of revenue and expenditure data for February, Texas is now more than halfway through fiscal 2014 (FY14) and only eight months to the election that will determine both state-wide officials and members of the 84th Legislature. I would hope that having more up-to-date information on state revenue and expenditure situation would be helpful to all candidates and to my fellow Texans, the electorate.

While the cumulative growth in tax collections has declined from FY12-13, see Figure 1 below, the rate of increase (7.7 percent) in year-to-date tax collections is over 3 times greater than the rate (2.4 percent) estimated in the

Figure 1: Cumulative YTD Growth in Tax Collections, various fiscal years



Source: Comptroller of Public Accounts, Revenue Watch, various years.

CRE. Should this differential continue, tax collections in FY14 will be $1.5 billion more than in the current estimate. This should result in total tax collections exceeding $50 billion for FY14. Given the Comptroller's current

Table 1: All Funds Tax Collections by Major Tax (in millions dollars), YTD (through February) FY13 and FY14

	FY2013 YTD	***FY2014 YTD***	**Actual Percent Change**	**Estimated CRE Percent Change**
Sales Tax	12,746.9	13,360.9	4.8%	3.5%
Motor Vehicle Sales and Rental Taxes	1,862.7	2,037.7	9.4%	5.3%
Motor Fuel Taxes	1,597.5	1,629.0	2.0%	0.7%
Franchise Tax	(160.4)	(198.4)	-	-2.8%
Insurance Taxes	580.7	828.4	-	-2.3%
Natural Gas Production Tax	702.9	812.0	15.5%	4.3%
Cigarette and Tobacco Taxes	741.7	616.3	-16.9%	-12.4%
Alcoholic Beverages Taxes	474.2	493.8	4.1%	3.2%
Oil Production and Regulation Taxes	1,357.9	1,844.3	35.8%	9.1%
Inheritance Tax	(10.3)	-	0.0%	
Utility Taxes	204.4	214.3	4.8%	-1.8%
Hotel Occupancy Tax	196.0	215.9	10.1%	4.8%
Other Taxes	93.2	98.2	5.4%	-4.3%
Total Tax Collections	**20,387.4**	**21,952.2**	**7.7%**	**2.4%**

Source: Comptroller of Public Accounts, Revenue Watch

estimate for growth in FY15 (1.9 percent), I would expect that the Agency is giving serious consideration to revising the current estimates. The $1.5 billion increase in tax collections is primarily due to the increase in sales tax ($353.1 million) and in the oil production tax ($799.3 million) and natural gas production tax ($167.6 million).

With the substantial increase in the oil production tax and in the natural gas tax, the transfer to the Economic Stabilization Fund (the Rainy Day Fund or ESF) and Highway Fund is likely to be around $3.5 billion, around $700 million more than in the estimate.

Were the estimate to follow the historical relationship between the state's economy and state revenue one should expect the "estimated ending certification balance" for FY15 to be $5.8 billion, an increase of almost $3.2 billion from the current estimate. The transfer to the Rainy Day Fund should be $400 million more, resulting in a balance of over $8.4 billion in FY15.

The growth in total net revenue is 7.8 percent, a rate over twice the 3.5 percent increase forecasted in the CRE (Table 2). The year-to-date increase in total revenue has already reached the increase ($3.5 billion) forecast in the CRE.

Should this growth rate continue for the remainder of the year, we should expect that total state revenue to exceed $105 billion, an increase of over $3 billion from the current estimate. The primary reason for the increase in total revenue is the increase in tax collections ($1.5 million), along with increases in federal income ($1.2 billion) from FY13. Also underlying this increase is that three major revenue sources, taxes (7.7 percent), licenses and fees (22.0 percent), and land income (55.1 percent), are increasing at a rate markedly higher than estimated in the CRE.

Table 2: All Funds Revenue by Receipt Type (in millions dollars), YTD (through February) FY12 and FY13

	FY2013 YTD	***FY2014 YTD***	Actual Percent Change	Estimated CRE Percent Change
Total Tax Collections	21,952.2	20,387.4	7.7%	2.4%
Federal Income	16,863.9	15,709.6	7.3%	10.4%
Licenses, Fees, Permits, Fines &	4,336.5	3,553.6	22.0%	4.7%
Interest and Investment Income	691.6	699.0	-1.1%	-8.4%
Lottery Proceeds	971.4	919.7	5.6%	-16.9%
Sales of Goods and Services	119.9	106.6	12.5%	68.6%
Settlements of Claims	514.2	485.9	5.8%	-11.7%
Land Income	889.8	573.7	55.1%	-11.4%
Contributions to Employee Benefits	0.0	0.0	-1.3%	29.4%
Other Revenue Sources	1,991.8	2,381.9	-16.4%	-16.5%
Non-tax Revenue	26,379.1	24,430.0	8.0%	4.6%
Total Net Revenue	48,331.3	44,817.4	7.8%	3.5%

Source: Comptroller of Public Accounts

Along with the increase (7.8 percent) in total revenue, total expenditures have also increased by a comparable amount (7.7 percent). As shown in Table 3, two items, public assistance payments (37.9 percent), and public education payments (26.6 percent) accounted for almost 2/3rds of state expenditures.

Table 3: All Funds Expenditures by Category (in millions dollars), through February, FY2013 and FY2014

CATEGORY	FY2013	FY2014	Percent Change	Proportion Expenditure 2014
Employee Compensation	$8,273.7	$7,928.6	4.4%	16.3%
Public Assistance Payments	$19,215.8	$16,651.4	15.4%	37.9%
Public Education Payments	$13,481.9	$13,296.2	1.4%	26.6%
Higher Ed Payments	$578.6	$567.0	2.1%	1.1%
Intergovernmental Payments	$1,118.1	$1,450.5	-22.9%	2.2%
Other Expenditures	$8,075.1	$7,207.9	12.0%	15.9%
TOTAL EXPENDITURES	**$50,743.2**	**$47,101.6**	**7.7%**	**100.0%**

Source: Comptroller of Public Accounts

Over 70 percent of the increase in state expenditures was accounted for by the increase in public assistance payments ($2.6 billion). While public education expenditures increased, the increase was minimal, 1.4 percent and the proportion of the state budget devoted to public education declined from 28.2 percent in FY13 to 26.6 percent this fiscal year. Had public education expenditures maintained its FY13 proportion, expenditures would be $845 million more.

A reason for the reduced growth in state expenditures for public education, even after the increased appropriation for both FY14 and FY15, is that local tax collections and/or property value were significantly higher than was expected when the appropriation for 2013 was made back in 2011, or if student counts came in lower. This would result in the amount owed back to the state increasing. In fact, TEA has received over $403 million of the approximately $884 million in prior year over payments. Funds are being held back from 887 of the state's 1,226 districts and charters. As property values continue to increase, state expenditures for public education should be markedly less than anticipated.

Other categories (employee compensation, higher education payments, and intergovernmental payments) accounting for 19.6 percent of expenditures had minimal increases or a decline.

Table 4 shows expenditures by function through February of FY13 and FY14. Total expenditures increased by $3.6 billion, most of it due to the over $2.4 billion increase in health and human service expenditures. Except for decreases in lottery winnings paid and capital outlays, all other state functions experienced increases.

Table 4: All Funds Expenditures by Function (in millions dollars), through February, FY2013 and FY2014

EXPENDITURES BY FUNCTION	**FY13**	**FY14**	**Percent Change vs. FY13**	**Change vs. FY13**
General Government	$1,353.5	$1,436.1	6.1%	$83
Education	$17,460.8	$17,799.1	1.9%	$338
Employee Benefits	$1,715.6	$1,876.0	9.3%	$160
Health and Human Services	$18,528.3	$20,898.7	12.8%	$2,370
Public Safety and Corrections	$2,122.4	$2,250.4	6.0%	$128
Transportation	$3,517.2	$3,932.1	11.8%	$415
Natural Resources/Recreational Services	$1,147.6	$1,156.7	0.8%	$9
Regulatory Services	$175.8	$264.3	50.4%	$89
Lottery Winnings Paid	$347.7	$314.5	-9.5%	$(33)
Debt Service - Interest	$483.8	$570.1	17.8%	$86
Capital Outlay	$249.0	$245.2	-1.5%	$(4)
TOTAL EXPENDITURES	**$47,101.6**	**$50,743.2**	**7.7%**	**$3,642**

Source: Comptroller of Public Accounts

State tax revenues continue to improve through February of FY14, with tax collections increasing by 7.7 percent compared to FY13. With the growth in state tax collections, FY14 tax collections should be $1.5 billion more than the current estimate. Total state receipts are also increasing at a rate over twice the current estimated rate and one should expect that state revenue for FY14 to be over $3.3 billion more than forecasted.

Total state expenditures increased 7.7 percent, with the majority of this increase attributable to the $2.3 billion increase in health and human services expenditures. While education expenditures increased, the increase was minimal (1.9 percent), with public education expenditures increasing by only 1.4 percent.

The state score board continues to read "revenue up way more than the estimate." One would hope that Comptroller Combs and her staff are giving serious thought to revising the estimate for the 2014-2015 biennium. Tax collections and total revenue for FY14 should be increased by $1.5 billion and $3.3 billion, respectively. The estimated growth rate in tax collections for FY14, 2.4 percent, has only been experienced 8 times in the last 50 years (4 of these times have been since 2000 due to recessions). The estimated increase in tax receipts for the biennium, 7.5 percent, is the fourth lowest change in tax collections since the 1960-1961 biennium. In fact, the historical compound growth in biennium tax revenues has been 16.7 percent, a rate over twice the estimated rate for the 2014-2015 biennium.

Given both the Comptroller's forecast of state economic growth and those offered by both the Perryman Group and the FRB of Dallas, the likelihood of a downturn in state economic growth is as likely as one winning the Powerball. Given continued growth in the state's economy, we should expect that the Total General Revenue-Related Funds Available for Certification be increased from $98.9 billion to 102.1 billion, which will increase the FY14-15 Ending Certification Balance from the current $2.6 billion to $5.8 billion. Along with increasing the estimated available revenue, one should expect an increase in the transfer to the RDF and State Highway Fund from $5.4 billion to $7.6 billion, an increase of 40 percent.

I would hope that given this information that those running for office will indicate to the electorate what these additional funds will be used for. Will it be used to reduce taxes to selected businesses or will it be used to improve public education, health care and the state's infrastructure? Given these additional resources, it should not be too difficult for candidates to inform the electorate what their priorities are and how these additional funds will provide a path to fulfill their goals, which one would hope will benefit all Texans.

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