

State Revenue and Expenditures – The Uptick Continues

by Stuart Greenfield, Ph.D.

Happy days are here again; at least as far as state tax revenue is concerned. And that's good news for Texans and lawmakers.

Both state tax collections and total revenue continue to increase at a rate substantially greater than in the [Certification Revenue Estimate](#) (CRE) released by the Comptroller's Office on December 12, 2013.

The growth rate in total state tax collections is almost three times more than predicted in the CRE. If this growth continues, Texans should expect that tax collections in FY14 will bring in \$2 billion more than the current estimate.

Almost half the increase in tax collections comes from the ever increasing severance tax collections, which will increase transfers to the Rainy Day Fund.

As shown in Table 1, with the increase in the Natural Gas Production Tax also exceeding

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

	<i>FY2014</i>	<i>FY2013</i>	Actual Percent Change FY2013- FY2014	Estimated Percent Change CRE
Sales Tax	11,147.7	10,655.5	4.6%	3.5%
Motor Vehicle Sales and Rental Taxes	1,693.2	1,545.7	9.5%	5.3%
Motor Fuel Taxes	1,360.1	1,342.1	1.3%	0.7%
Franchise Tax	(160.5)	(128.4)		-2.8%
Insurance Taxes	82.4	87.6	-6.0%	-2.3%
Natural Gas Production Tax	692.1	572.1	21.0%	4.3%
Cigarette and Tobacco Taxes	532.4	634.2	-16.1%	-12.4%
Alcoholic Beverages Taxes	416.4	402.0	3.6%	3.2%
Oil Production and Regulation Taxes	1,529.5	1,101.6	38.8%	9.1%
Inheritance Tax	-	(10.3)	0.0%	0.0%
Utility Taxes	207.8	197.2	5.4%	-1.8%
Hotel Occupancy Tax	181.9	165.2	10.1%	4.8%
Other Taxes	83.3	78.7	5.9%	-4.3%
Total Tax Collections	17,766.3	16,643.2	6.7%	2.4%

Source: Comptroller of Public Accounts

estimate, the amount transferred to both the Rainy Day Fund and to the State Highway Fund in FY15 should be over \$1.8 billion, each. This is \$400 million more being transferred to each fund than the Comptroller has estimated. Happy Roads are here again. ☺

All other state revenue collections through January of FY14 are increasing more than twice that in the estimate. As shown in Table 2 tax collections are increasing 2.8 times the rate in the estimate, while non-tax revenue is increasing at a rate 75 percent greater than forecast by the Comptroller's Office.

After tax collections, federal funds are the second highest revenue source in Texas. While federal income has increased, the rate of increase is 25 percent less than forecast in the CRE. Licenses and fees revenue is increasing five times the forecasted rate, accounting for over 25 percent of total revenue growth.

The other major receipt types also are increasing at a rate greater than predicted in the CRE.

Table 2: All Funds Revenue by Receipt Type (in millions dollars), YTD, FY2014 and FY2013

	FY2014	FY2013	Actual Percent Change FY2013- FY2014	Estimated CRE Percent Change
Total Tax Collections	17,766.3	16,643.2	6.7%	2.4%
Federal Income	14,353.9	13,315.5	7.8%	10.4%
Licenses, Fees, Permits, Fines, and Penalties	3,877.2	3,093.3	25.3%	4.7%
Interest and Investment Income	605.9	613.7	-1.3%	-8.4%
Lottery Proceeds 3	801.9	770.9	4.0%	-16.9%
Sales of Goods and Services	99.0	85.4	16.0%	68.6%
Settlements of Claims	493.8	482.5	2.3%	-11.7%
Land Income	752.3	482.9	55.8%	-11.4%
Contributions to Employee Benefits	0.0	0.0	-14.2%	29.4%
Other Revenue Sources	1,641.1	2,077.0	-21.0%	-16.5%
Non-Tax Revenue	22,625.3	20,921.1	8.1%	4.6%
Total Net Revenue	40,391.6	37,564.3	7.5%	3.5%

Source: Comptroller of Public Accounts

The CRE forecasts \$102.5 billion in total state revenue, an increase in total revenue of \$3.5 billion. We are now 80 percent of the way there, as total revenue as already increased by \$2.8 billion. Should state revenue continue on its current path, total state revenue will be \$106 billion, or double the increase in the current estimate.

Total state spending through January increased at a rate, 7.8 percent (\$3.2 billion), slightly greater than the increase in total revenue of 7.5 percent (\$2.8 billion). Table 3 shows more that 80 percent of state's expenditures were for employee compensation, 15.4 percent; public assistance payments, 37.2 percent; and payouts for public education, 28.6 percent. Only spending for intergovernmental payments declined from the FY13 period.

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

CATEGORY	FY2014	FY2013	Percent Change	Proportion Expenditure 2014
Employee Compensation	\$6,868.0	\$6,599.5	4.1%	15.4%
Public Assistance Payments	\$16,577.5	\$14,206.4	16.7%	37.2%
Public Education Payments	\$12,748.0	\$12,541.2	1.6%	28.6%
Higher Ed Payments	\$512.7	\$510.8	0.4%	1.2%
Intergovernmental Payments	\$982.4	\$1,196.9	-17.9%	2.2%
Other Expenditures	\$6,880.3	\$6,271.2	9.7%	15.4%
TOTAL EXPENDITURES	\$44,568.9	\$41,326.0	7.8%	100.0%

Source: Comptroller of Public Accounts

While all expenditure categories, except intergovernmental payments, increased, over 70 percent of the increase in state expenditures was accounted for by the increase in public assistance payments. In fact, while much was heralded concerning increasing public education expenditures this biennium, the year-to-date increase has been minimal, 1.6 percent (\$207 million), and the proportion of state expenditures devoted to public education declined from its comparable FY13 value.

The 83rd Legislature increased appropriations for public education by \$3.4 billion, \$1.5 billion in FY14 and \$1.9 billion in FY15. It now appears that state expenditures for public education will be considerably less than the amount appropriated. As public education is a joint state-local program, local school districts will be paying for more of the program as local property values have increased.

Table 4 shows expenditures by function through January for FY13 and FY14. The increase in expenditures by function was broad based, with Health and Human Services, Transportation, and Regulatory Services each increasing by double-digits. Only Lottery Winnings Paid and Capital Outlay experienced a decline.

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

<i>EXPENDITURES BY FUNCTION</i>	FY2013	FY2014	Percent Change
Government Subtotal	\$1,170.3	\$1,229.8	5.1%
Education	\$16,073.4	\$16,416.7	2.1%
Employee Benefits	\$1,426.8	\$1,548.5	8.5%
<i>Health and Human Services</i>	\$15,779.8	\$17,940.0	13.7%
Public Safety and Corrections	\$1,833.3	\$1,852.9	1.1%
Transportation	\$2,996.2	\$3,366.9	12.4%
Natural Resources/Recreational Services	\$928.2	\$975.1	5.0%
Regulatory Services	\$153.9	\$241.1	56.7%
Lottery Winnings Paid	\$295.3	\$258.0	-12.6%
Debt Service - Interest	\$451.9	\$537.7	19.0%
Capital Outlay	\$217.0	\$202.3	-6.8%
TOTAL EXPENDITURES	\$41,326.0	\$44,568.9	7.8%

Source: Comptroller of Public Accounts

Health and Human Services accounted for \$3.2 billion or two-thirds of the increase in spending, followed by Transportation at 11.4 percent, while education accounted for 10.6 percent of the increase in state expenditures. The YTD growth rate in expenditures is a little higher (7.8 percent v. 5.0 percent) than the annual growth rate experienced between FY00 and FY13.

Before presenting my bottom line, I would suggest one read the [informative article](#) on the state's generosity prepared by the Texas Taxpayer and Research Association. One should also view the Comptroller's [Budget, Financial and Economic Reports and Forecasts](#) site, a depository of all things Comptroller.

Bottom Line: Both state tax revenue and total revenue continue to increase at a rate much greater than in the Comptroller's current estimate.

That should mean tax collections will be significantly higher than the latest estimate, because the current growth rate of 6.7 percent is 2.8 times the CRE's predicted rate of 2.4 percent. If this growth rate continues, we should expect tax collections for the biennium of \$102 billion exceeding the current estimate by as much as \$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.

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