

A Billion Here, a Billion There and Then You're Talking About a Real State Surplus: State Revenue and Expenditures –First Quarter, FY13 Results

by Stuart Greenfield, Ph.D.

Last December when Comptroller Combs released the [Certification Revenue Estimate](#), (CRE) the Comptroller also indicated, “that she’ll revise the numbers if needed between now and the end of this two-year budget in August 2013.” With the release of the [state’s annual cash report for FY12](#) and [revenue data for the 1st quarter, FY13](#), there should be complete confidence that the Comptroller’s forthcoming biennial revenue estimate for FY14-15, should exceed everyone’s expectations, with a “surplus” approaching **\$9 billion**.

State tax revenue for FY12 (\$44.1 billion) was \$3.7 billion more than the revenue estimate, while total state revenue for FY12 (\$94.6 billion), exceeded the estimate by \$3.2 billion. State tax collections continue to increase at a substantial rate (11.0 percent over FY12), while total state revenue is over \$1 billion more than the 1st quarter of FY12. Given these year-to-date increases, we should expect an increase of \$8.5 billion in tax collections for FY13 from the current estimate (\$40.2 billion) and total state revenue to be \$7.6 billion greater

Below is an analysis of all funds revenue and expenditures for the 1st quarter of fiscal year 2013 and the implications for the state’s fiscal future.

Total tax collections during the 1st quarter increased at a rate 11.2 percentage points greater than forecast in the CRE, which estimated a -0.2 percent decline in tax collections. Two taxes, sales tax (63.4

Table 1: All Funds Tax Collections by Major Tax (in millions dollars), 1st Quarter, FY2012 and FY2013

Tax Collections by Major Tax (in millions)	FY13 Total	Change vs FY12	% Change vs FY12	% Change vs Estimate
Sales Tax	\$ 6,349.3	\$ 631.5	11.0%	18.3%
Motor Vehicle Sales/Rental Taxes	\$ 938.6	\$ 124.3	15.3%	31.4%
Motor Fuel Taxes	\$ 819.1	\$ 25.7	3.2%	2.5%
Franchise Tax	\$ 73.1	\$ (2.0)	-2.7%	7.3%
Insurance Taxes	\$ 50.4	\$ 11.8	30.7%	35.5%
Natural Gas Production Tax	\$ 317.7	\$ (145.4)	-31.4%	5.7%
Cigarette and Tobacco Taxes	\$ 357.2	\$ 62.1	21.1%	18.0%
Alcoholic Beverages Taxes	\$ 265.8	\$ 45.0	20.4%	19.7%
Oil Production/Regulation Taxes	\$ 661.8	\$ 250.9	61.0%	120.8%
Inheritance Tax	\$ 0.0	-	-	-
Utility Taxes	\$ 115.8	\$ (13.3)	-10.3%	-17.4%
Hotel Occupancy Tax	\$ 102.9	\$ 4.5	4.5%	10.5%
Other Taxes	\$ 48.2	\$ 1.4	3.1%	47.0%
Total Tax	\$ 10,099.9	\$ 996.8	11.0%	19.9%

Source: Comptroller of Public Accounts

percent) and oil production tax (25.2 percent) accounted for almost 90 percent of the increase in state tax collections. While there has been a decrease in natural gas production tax receipts compared to FY12, collections should still exceed the current estimate of \$996.1 million. With the substantial increase in the oil production tax, the revenue level required to begin accumulating transfers to the Economic Stabilization

Fund (aka the Rainy Day Fund or RDF) has begun. It is likely that the FY13 RDF transfer will be comparable to the FY12 transfer of almost \$2.0 billion. This will bring the RDF balance to over \$10 billion.

Table 2 shows that All Funds Total Net Revenue for the 1st quarter of FY2013 is \$1.4 billion more than received in FY2012. Along with the \$1 billion increase in tax collections, there was also a \$390 million increase in non-tax revenue. Federal income continued to decline, however this decline in federal income

**Table 2: All Funds Revenue by Receipt Type (in millions dollars),
1st Quarter, FY2011 and FY2012**

Revenue by Receipt Type (in millions)	FY13 Total	Change vs FY12	YTD % Change vs FY12	CRE % Chg 2012-2013
Total Tax Collections	\$ 10,099.9	\$ 996.8	11.0%	-0.2%
Federal Income	\$ 8,259.4	\$ (167.1)	-2.0%	-0.5%
Licenses, Fees, Permits, Fines & Penalties	\$ 2,093.5	\$ 475.6	29.4%	1.0%
Interest and Investment Income	\$ 457.5	\$ (25.3)	-5.2%	7.3%
Lottery Proceeds	\$ 434.7	\$ 31.2	7.7%	0.4%
Sales of Goods and Services	\$ 49.4	\$ (65.9)	-57.2%	0.4%
Settlements of Claims	\$ 10.1	\$ (6.5)	-39.0%	-11.0%
Land Income	\$ 294.5	\$ (271.4)	-48.0%	-2.5%
Contributions to Employee Benefits	-	-	-	-
Other Revenue Sources	\$ 1,436.6	\$ 416.3	40.8%	9.1%
Non-tax Revenue	\$ 13,035.7	\$ 386.9	3.1%	0.5%
Total Net Revenue	\$ 23,135.6	\$ 1,383.7	6.4%	0.2%

Source: Comptroller of Public Accounts

is markedly less than the 14.3 percent decline in federal receipts that the state experienced in FY12. Given the reduced level of federal payments for FY12 and the continuing negative growth rate, federal income will be around \$3.3 billion less than contained in the current estimate of \$35.5 billion. Should the “fiscal cliff” not be resolved, there will be a [further decline in federal income](#).

While the CRE forecasts an increase of \$150 million in total net revenue, should the current growth rate in revenue continue, we should expect total revenue to increase by \$7.6 billion compared to the current revenue estimate. This would result in total state revenue exceeding **\$100 billion** in FY13.

The substantial increase in both tax and total revenue should result in the “Estimated Ending Certification Balance,” **the surplus** approaching \$9 billion. While this balance would be sufficient to remedy the underfunding of critical state funds made in the 82nd session, the [spending limit only allows \\$6.9 billion in additional spending](#). A recent article, [WTF³](#) provides information on what the legislature needs to do to address the spending limit constraint and enact an appropriation bill to increase funding for public education and Medicaid.

While total revenue in the 1st quarter increased by 6.4 percent (\$1.4 billion), total expenditures declined by 3.0 percent (\$1.1 billion). As shown in Table 3, almost 90 percent of the state's expenditures were accounted for by three items, employee compensation (13.9 percent), public assistance payments (32.6 percent), and intergovernmental payments (school finance obligations, 40.0 percent). While there

**Table 3: All Funds Expenditures by Category (in millions dollars),
1st Quarter, FY2011 and FY2012**

CATEGORY	FY2012	FY2013	Percent Change	Proportion Expenditure 2013
Employee Compensation	\$ 3,847.3	\$ 3,925.3	2.0%	13.9%
Public Assistance Payments	\$ 8,596.6	\$ 9,220.6	7.3%	32.6%
Intergovernmental Payments	\$ 12,698.8	\$ 11,302.6	-11.0%	40.0%
Other Expenditures	\$ 4,002.6	\$ 3,829.9	-4.3%	13.5%
TOTAL EXPENDITURES	\$ 29,145.3	\$ 28,278.4	-3.0%	

Source: Comptroller of Public Accounts

was growth in employee compensation and public assistance payments during the 1st quarter, there increase was offset by the \$1.4 billion decrease in intergovernmental payments, primarily public education. The differing growth rates resulted in the proportion of state spending for expenditure declining from FY12, while the proportion being spent on public assistance increasing.

Table 4 shows expenditures by function for the 1st quarter of FY2012 and FY2013. The largest decrease, almost \$1.5 billion for education was almost twice the overall decrease in total expenditures, \$867 million. Both the Foundation School Program (FSP) grant and other public education grants were each cut by \$700 million, each, for FY13. The Government function was the only other function to experience a decrease greater than \$100 million in expenditures during the 1st quarter. Health & Human Services, the state's 2nd largest expenditure, increased by \$655 million. So while aggregate state expenditures continued to decrease, expenditures declined by 1.1 percent in FY12, the decrease is accounted for primarily by the reduction in payments to school districts.

**Table 4: All Funds Expenditures by Function (in millions dollars),
1st Quarter, FY2012 and FY2013**

EXPENDITURES BY FUNCTION	FY2012	FY2013	Percent Change
Government Subtotal	907.1	734.6	-19.0%
Education	13,796.1	12,306.5	-10.8%
Employee Benefits	815.4	834.8	2.4%
Health and Human Services	9,490.1	10,145.8	6.9%
Public Safety and Corrections	1,040.3	1,125.8	8.2%
Transportation	1,850.8	1,822.7	-1.5%
Natural Resources/Recreational Services	520.6	583.5	12.1%
Regulatory Services	100.4	107.0	6.6%
Lottery Winnings Paid	149.9	147.9	-1.3%
Debt Service - Interest	339.1	347.8	2.6%
Capital Outlay	135.1	122.2	-9.5%
TOTAL EXPENDITURES	29,145.1	28,278.4	-3.0%

Source: Comptroller of Public Accounts

State tax revenue experienced a substantial improvement between the 1st quarter of FY2012 and FY2013, increasing by 11.0 percent, while total state revenue “only” increased by 6.4 percent. Total state expenditures decreased by 3 percent, with this decrease attributable to cuts in public education expenditures.

When the Biennial Revenue Estimate for FY14-FY15 is released early next month, one should expect a budget surplus of around \$9 billion and total state revenue for FY13 approaching \$100 billion. Assuming continued growth in both the U.S. and Texas economies, total state revenue for the FY14-15 biennium will be around \$213 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, Stuart has taught economics at ACC and UMUC.