

## **FY13 Cash Balance = \$5.5 Billion, so Hail, Hail, the Conquering Revenue Estimators.**

By Stuart Greenfield, Ph.D.

With the close of FY13, the state reported \$47.8 billion in tax collections, an increase of 8.4 percent over FY12 collections. Total state revenue increased by \$4.4 billion to \$99.0 billion. While total revenue was \$4.4 billion less than in the estimate, the critical estimate, tax receipts, was within \$434 million of actual tax collections. Everyone should acknowledge the precision of the Comptroller's Revenue Estimating staff, so [click here](#) and let them know your appreciation.

State spending dropped .7 percent last fiscal year. With increased revenue and lower expenditures, the state cash balance was \$5.5 billion, the highest level this century.

Table 1 shows collections by major tax, along with the percentage change from FY12 and the estimated growth rates for FY13 and FY14.

The latter growth rate compares estimated tax collections for FY14 with actual FY13 receipts. Total tax revenues increased 8.4 percent compared to FY12. This was 1 percentage point greater than the growth rate in the July 31 revised estimate.

**Table 1: All Funds Tax Collections by Major Tax (in millions of dollars), FY13 Actual, Percent Change from FY12 and BRE Estimated Growth Rates for FY13 and FY14**

<b>Tax Collections by Major Tax</b>	<b>FY13 Total</b>	<b>% Change vs FY12</b>	<b>BRE FY13 Estimate†</b>	<b>BRE FY14 Estimate†</b>
Sales Tax	25,943.8	7.2%	8.0%	3.1%
Motor Vehicle Sales/Rental Taxes	3,878.4	9.0%	5.2%	0.8%
Motor Fuel Taxes	3,221.5	1.6%	3.9%	0.0%
Franchise Tax	4,798.7	5.1%	2.5%	-0.9%
Insurance Taxes	1,764.2	17.9%	5.7%	-3.7%
Natural Gas Production Tax	1,495.2	-2.6%	-8.0%	-20.9%
Cigarette and Tobacco Taxes	1,598.1	11.9%	9.1%	-12.4%
Alcoholic Beverages Taxes	976.9	5.1%	6.1%	1.3%
Oil Production/Regulation Taxes	2,990.9	42.2%	36.7%	-23.3%
Inheritance Tax	(10)		0.0%	
Utility Taxes	434.9	-3.6%	-1.6%	3.8%
Hotel Occupancy Tax	441.1	9.9%	5.2%	0.3%
Other Taxes	247.7	-1.3%	-8.2%	-7.1%
Total Tax	47,781.0	8.4%	7.4%	-1.0%

†Growth based on current FY14 estimate compared to actual FY13 collections..

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

When the Comptroller increased the estimate for the oil and the natural gas severance tax receipts in July, no change was made in tax collections for either FY14 or FY15. As one should note from Table 1, comparing the current FY14 estimate with the actual collections for FY13 show that tax collections will decline by 1 percent in FY14. Based on the current estimate, should tax collections just achieve the minimal growth rate, 1.9 percent, in the January BRE, the state will have about \$1.4 billion in additional tax revenue in FY14 and an additional \$2.0 billion in FY15. I would expect that when the Certified Revenue Estimate (CRE) is released in December, these should be the minimum adjustments that will be released.

Had the Comptroller adjusted the FY14 and FY15 estimate to account for the improved revenue situation, there would have been no need to ask voters to pass Constitutional amendments to provide funding from the Rainy Day Fund (RDF) to fund water development and highways. While I am absolutely, positively sure that the state's leadership was aware of the improved fiscal condition for the current biennium, the improved status was not certified by the Comptroller.

Even after the adjustments to severance tax collections, both the oil production tax and natural gas production tax collections were \$116 million and \$83 million, respectively more than in the revised estimated. These increases will result in a further \$150 million transfer to the RDF and should result in \$2.5 billion being transferred to the fund in November. This should result in the November balance for the RDF being almost \$9 billion.

The January 2013 revenue estimate forecast a 8.4 percent increase in total net revenue, and the July revision showed a jump of 9.3 percent.

**Table 2: All Funds Revenue by Receipt Type (in millions of dollars), FY13, Percent Change from FY12 and BRE Estimated Growth Rates for FY13 and FY14**

<b>Revenue Source</b>	<b>FY13 Total</b>	<b>% Change vs FY12</b>	<b>BRE FY13 Estimate†</b>	<b>BRE FY14 Estimate†</b>
Total Tax Collections	47,781.0	8.4%	7.4%	-0.1%
Federal Income	32,530.3	-1.2%	14.8%	-0.1%
Licenses, Fees, Permits, Fines &	7,919.6	4.3%	16.4%	-7.7%
Interest and Investment Income	1,182.9	7.6%	1.8%	4.3%
Lottery Proceeds	1,893.3	3.4%	-5.0%	0.5%
Sales of Goods and Services	225.9	-37.7%	4.6%	0.4%
Settlements of Claims	610.0	9.0%	-3.9%	0.1%
Land Income	1,325.7	-3.4%	-19.7%	6.6%
Contributions to Employee	0.1	-31.5%	-6.3%	-5.1%
Other Revenue Sources	5,567.6	15.5%	-5.9%	-12.3%
Non-tax Revenue	51,255.3	1.4%	10.9%	-2.0%
Total Net Revenue	99,036.4	4.6%	9.3%	-1.1%

†Changes based on July 31, 2013 revisions to BRE.

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

However, while tax collections exceeded estimates, non-tax revenue, expected to increase by 10.9 percent, only increased by 1.4 percent, (see Table 2 above). This was due to a significant decline in federal Income.

While total revenue increased by 4.6 percent (or \$4.4 billion) between FY12 and FY13, total spending dropped by almost \$700 million (-0.7 percent) to \$93.6 billion.

Table 3 shows almost 85 percent of state spending was accounted for by three items: employee pay (16.6 percent); public assistance payments (37.7 percent); and intergovernmental payments (payments to public schools and universities, 25.1 percent).

**Table 3: All Funds Expenditures by Category (in millions of dollars), FY12 and FY13**

<b>CATEGORY</b>	<b>FY2012</b>	<b>FY2013</b>	<b>Percent Change</b>	<b>Proportion Expenditures 2013</b>
Employee Compensation	15,232.8	15,502.4	1.8%	16.6%
Public Assistance Payments	34,916.1	35,278.2	1.0%	37.7%
Public Education Payments	25,551.4	23,471.2	-8.1%	25.1%
Intergovernmental Payments	3,772.1	3,818.1	1.2%	4.1%
Other Expenditures	14,786.0	15,497.0	4.8%	16.6%
<b>TOTAL EXPENDITURES</b>	<b>94,258.4</b>	<b>93,567.0</b>	<b>-0.7%</b>	<b>100.0%</b>

Source: Comptroller of Public Accounts

Hardest hit was public education spending. Table 3 shows public education payments of \$25.6 billion, a decline of over \$2.0 billion. In fact, the decline in state spending is more than accounted for by this decrease. The proportion of state expenditures for public education declined from 27.1 percent in FY12 to 25.1 percent in FY13.

Table 4 shows state spending by function for FY12 and FY13. Two functions, general government and education, were the only two to experience declines in expenditures. While general government had the largest relative decline (-10.4 percent), the absolute decline was miniscule compared to the \$2.2 billion decrease in expenditures for education.

Within education, over 98 percent of the decline was due to reducing public education expenditures. Had the legislature not reversed the payment date, the reduction in public education expenditure would have been almost \$4.0 billion. I would hope everyone would email the legislative leadership concerning not restoring funding for public education.

**Table 4: All Funds Expenditures by Function (in millions of dollars), FY12 and FY13**

<b>EXPENDITURES BY FUNCTION</b>	<b>FY2012</b>	<b>FY2013</b>	<b>Change</b>	<b>Percent Change</b>
General Government	3,025.1	2,709.0	(316.1)	-10.4%
Education	33,702.8	31,531.0	(2,171.8)	-6.4%
Employee Benefits	3,320.6	3,478.2	157.6	4.7%
Health and Human Services	38,127.3	38,735.8	608.5	1.6%
Public Safety and Corrections	4,294.8	4,296.0	1.2	0.0%
Transportation	6,889.8	7,603.8	714.0	10.4%
Natural Resources/Recreational	2,163.1	2,303.8	140.7	6.5%
Regulatory Services	337.5	357.7	20.2	6.0%
Lottery Winnings Paid	619.0	661.2	42.2	6.8%
Debt Service - Interest	1,286.0	1,334.5	48.5	3.8%
Capital Outlay	492.1	556.2	64.1	13.0%
<b>TOTAL EXPENDITURES</b>	<b>94,258.4</b>	<b>93,567.0</b>	<b>(691.4)</b>	<b>-0.7%</b>

Source: Comptroller of Public Accounts

The cuts in education expenditures allowed for expenditures in all functions except general government to increase, while overall expenditures declined. We'll have to await the state expenditure reports for FY14 to determine if state expenditures for public education have increased.

The state's fiscal condition continues to improve. While state tax collections exceeded the estimate, total revenue increased, but at a rate less than in the estimate. Along with a slight reduction in state expenditures, the state's all funds balance (revenue – expenditures) increased by \$5.5 billion.

If tax revenue growth continues through FY14 at just half the rate experienced in FY13 (8.4 percent) then state tax revenue for FY14 will be almost \$50 billion, \$2.5 billion more than in the current FY14 estimate. With the estimated growth rate for FY15 remaining at 4.8 percent, tax revenues for FY15 will be \$2.6 billion more than in the current estimate. These minimal growth rates imply that the 84<sup>th</sup> Legislature should expect at least \$5 billion in additional tax revenues when they meet in January 2015..

While the 84<sup>th</sup> Legislature will face the reoccurring binary decision, enough or not enough revenue, they should have more than enough funding to not only address the continuing shortfall in public education funding, but also to provide for increased funding for both water development and highways. When the Comptroller releases the certification estimate in December, tax collections for FY14-FY15 should be at least \$102 billion, \$5 billion more than in the current estimate. A more realistic forecast would be \$105 billion. With the FY14-FY15 base at \$102 billion, the 84<sup>th</sup> Legislature should expect tax collections for FY16-FY17 to be at least \$110 billion

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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 Austin Community College and University of Maryland University College. Stuart's commentary and data are available at [TexasFiscal.com](http://TexasFiscal.com).