

## State Revenue and Expenditures –Second Quarter Results

by Stuart Greenfield, Ph.D.

Comptroller Susan Combs released the 2014-2015 Biennial Revenue Estimate (BRE) in January, and it indicated an improved fiscal condition for the state.

With the release of revenue and expenditure data for February, Texas is now halfway through fiscal 2013 (FY13) and the public is better able to track whether the state is achieving the Comptroller's estimate and whether her projections should be revised. After reviewing state revenue through the 2<sup>nd</sup> quarter, the answer to the first question is **YES**, while serious consideration is appropriate for the second question.

Through the 2<sup>nd</sup> quarter of FY13 tax collections have increased by 8.4 percent over FY12, a rate significantly higher than the 5.4 percent estimate in the BRE (Table 1). The growth in total net revenue is 1.4 percent, considerably less than the 8.4 percent increase in the BRE (Table 2). State expenditures continue to decline, with the rate of decline increasing from -3.2 percent through January to -4.3 percent through February (Table 3).

Total tax collections through the 2<sup>nd</sup> quarter continue to increase at a rate greater than forecast in the Biennial Revenue Estimate (BRE). However, this increase has declined from a double digit rate earlier in the

**Table 1: All Funds Tax Collections by Major Tax (in millions dollars), YTD (through 2<sup>nd</sup> Quarter) FY13 and FY12**

	<i>FY2013 YTD</i>	<i>FY2012 YTD</i>	Actual Percent Change	Estimated BRE Percent Change
Sales Tax	12,746.9	11,730.0	8.7%	8.0%
Motor Vehicle Sales and Rental Taxes	1,798.4	1,659.1	8.4%	5.2%
Motor Fuel Taxes	1,597.5	1,565.3	2.1%	3.9%
Franchise Tax	(160.4)	(151.3)	6.0%	2.5%
Insurance Taxes	580.7	538.4	7.8%	5.7%
Natural Gas Production Tax	702.9	886.0	-20.7%	-30.8%
Cigarette and Tobacco Taxes	709.5	707.2	0.3%	9.1%
Alcoholic Beverages Taxes	506.5	446.7	13.4%	6.1%
Oil Production and Regulation Taxes	1,357.9	943.9	43.9%	10.5%
Inheritance Tax	(10)	(0.1)		
Utility Taxes	204.4	219.4	-6.8%	-1.6%
Hotel Occupancy Tax	196.0	179.2	9.4%	5.2%
Other Taxes	93.2	91.6	1.7%	-8.2%
<b>Total Tax Collections</b>	<b>20,387.4</b>	<b>18,815.6</b>	<b>8.4%</b>	<b>5.4%</b>

Source: Comptroller of Public Accounts

fiscal year. The \$1.5 billion increase in tax collections is primarily due to the increase in sales tax (\$1.0 billion) and in the oil production tax (\$414 million). With the substantial increase in the oil production tax and reduced decline in the natural gas tax, the transfer to the Economic Stabilization Fund (the Rainy Day Fund or ESF) is likely now be around \$2.3 billion. This is over \$600 million more than in the estimate.

Table 2 shows that All Funds Total Net Revenue for the 2<sup>nd</sup> quarter of FY13 is \$622 million more than received in FY12. The primary reason that the increase in total revenue is less than the increase in tax collections is that many of the non-tax revenue sources have declined. The largest decline is in federal income, \$574 million from FY12. It is expected that with passage of HB 10, the Medicaid supplement, federal income will increase by \$6.6 billion.

**Table 2: All Funds Revenue by Receipt Type (in millions dollars),  
YTD (through 2<sup>nd</sup> Quarter) FY11 and FY12**

	<i>FY2013 YTD</i>	<i>FY2012 YTD</i>	Actual Percent Change	Estimated BRE Percent Change
Tax Collections	20,387.4	18,815.6	8.4%	5.4%
Federal Income	15,709.6	16,283.5	-3.5%	14.8%
Interest and Investment Income	3,553.6	3,828.8	-7.2%	16.4%
Licenses, fees, permits, penalties	699.0	664.3	5.2%	1.8%
Contributions to Employee Benefits	919.7	867.8	6.0%	-5.0%
Sales of Goods and Services	106.6	213.2	-50.0%	4.6%
Land Income	485.9	532.3	-8.7%	-3.9%
Lottery Proceeds	573.7	821.0	-30.1%	-19.7%
Settlement of Claims	0.0	0.1	-37.9%	-6.7%
Other Revenue Sources	2,381.9	2,168.9	9.8%	-5.9%
<b><i>TOTAL Net Revenue</i></b>	<b>44,817.4</b>	<b>44,195.6</b>	<b>1.4%</b>	<b>8.3%</b>

Source: Comptroller of Public Accounts

The BRE projects that all funds tax collections will increase by \$2.3 billion in FY13. With the improved economy and resulting growth in tax collections, the increase in tax collections should exceed the estimate by over \$1 billion. The BRE forecasts an increase of almost \$8 billion in total net revenue, if the current growth rate continues; the state could expect total revenue to increase by an additional \$700 million. The in total net revenue is that the two major revenue sources, taxes and federal income (with passage of HB 10), are increasing at a rate higher than estimated in the BRE.

While total revenue in the 2<sup>nd</sup> quarter increased by 1.4 percent (\$622 million), total expenditures declined by 4.3 percent (\$2.1 billion). As shown in Table 3, over 80 percent of the state's expenditures were accounted for by three items, employee compensation (16.8 percent), public assistance payments (35.4 percent), and public education payments (28.2 percent). The growth in both public assistance payments and public education payments were negative through the 2<sup>nd</sup> quarter. Almost 90 percent

**Table 3: All Funds Expenditures by Category (in millions dollars), through 2nd Quarter, FY2013 and FY2012**

<b>CATEGORY</b>	<b>FY2013</b>	<b>FY2012</b>	<b>Percent Change</b>	<b>Proportion Expenditure 2013</b>
Employee Compensation	7,928.6	7,799.9	1.6%	16.8%
Public Assistance Payments	16,651.4	17,140.8	-2.9%	35.4%
Public Education Payments	13,296.2	15,194.6	-12.5%	28.2%
Intergovernmental Payments	2,017.5	1,909.5	5.7%	4.3%
Other Expenditures	7,207.9	7,198.8	0.1%	15.3%
<b>TOTAL EXPENDITURES</b>	<b>47,101.6</b>	<b>49,243.5</b>	<b>-4.3%</b>	<b>100.0%</b>

Source: Comptroller of Public Accounts

of the decrease in state expenditures was accounted for by the reduction in public education payments (\$1.9 billion). With the substantial decline in public education expenditures, the proportion of the state budget devoted to public education declined from almost 31 percent in FY12 to 28.2 percent this fiscal year. There were minimal increases in employee compensation, intergovernmental payments, and other expenditures.

The supplemental appropriation bills passed or being considered by the legislature will reverse the decline in public assistance payments, as [HB 10](#) (passed) appropriates over \$11 billion for public assistance. HB 10 also appropriates \$640 million for public education. Another bill, [SB 758](#), will shift \$1.75 billion in payments to school districts from FY14 to this fiscal year. A third bill is being considered to increase funding by \$1.3 billion for public ed. Even after these changes funding for public education will be around \$800 million less than in FY12.

Table 4 shows expenditures by function for the 2<sup>nd</sup> quarter FY12 and FY13. Total expenditures declined by \$2.1 billion, almost all of it due to the over \$2.0 billion reduction in education expenditures. The decreases in general government and health and human services offset the increase in other government functions. Given the supplemental appropriations bills that have been filed and certain to pass, we should expect the Education appropriation for FY13 to be around \$1.5 billion less than in FY12, while Health and Human Services appropriations should be around \$2.2 billion more than the FY12 appropriation.

**Table 4: All Funds Expenditures by Function (in millions dollars), through 2<sup>nd</sup> Quarter, FY2012 and FY2013**

<i><b>EXPENDITURES BY FUNCTION</b></i>	FY2012	FY2013	Change	Percent Change
General Government	1,620.8	1,353.5	(267.3)	-16.5%
Education	19,535.3	17,460.8	(2,074.5)	-10.6%
Employee Benefits	1,673.2	1,715.6	42.4	2.5%
Health and Human Services	18,772.0	18,528.3	(243.7)	-1.3%
Public Safety and Corrections	2,072.0	2,122.4	50.4	2.4%
Transportation	3,286.8	3,517.2	230.5	7.0%
Natural Resources/Recreational Services	1,065.9	1,147.6	81.8	7.7%
Regulatory Services	169.2	175.8	6.6	3.9%
Lottery Winnings Paid	306.2	347.7	41.5	13.5%
Debt Service - Interest	501.0	483.8	(17.1)	-3.4%
Capital Outlay	241.0	249.0	8.0	3.3%
<b>TOTAL EXPENDITURES</b>	<b>49,243.5</b>	<b>47,101.6</b>	<b>(2,141.9)</b>	<b>-4.3%</b>

Source: Comptroller of Public Accounts

State tax revenues continue to improve through the 2<sup>nd</sup> quarter of FY13, with tax collections increasing by 8.4 percent compared to FY12. With the growth in state tax collections, FY13 tax collections to be \$1 billion more than the estimate in the BRE.

While tax collections are increasing substantially, total state revenue has only increased by 1.4 percent, as most of the non-tax sources of revenue have experienced negative growth rates. The negative growth in federal receipts should be reversed with the passage of HB 10, which will increase federal funds by \$6.6 billion.

Total state expenditures decreased by 4.3 percent, with this decrease attributable to the \$2 billion reduction in education expenditures. With the supplemental appropriations bills, all funds appropriations for FY13 should increase to \$92.7, which is about \$1.5 billion less than the appropriation for FY12.

While the halftime score board reads revenue up, expenditures down, serious thought should be given to revising not only the estimate for FY13, but especially for the 2014-2015 biennium. Tax collections and total revenue for FY13 should be greater by \$1 billion and \$700 million, respectively. The estimated growth rate in tax collections for FY14, 1.9 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 percent, is the fourth lowest change in tax collections since the 1960-1961 biennium. In fact, the compound growth in biennium tax revenues has been 16.7 percent, a rate over twice the estimated rate for the 2014-2015 biennium.

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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 ACC and UMUC.