We're Halfway Through FY18 and Who Could Ask for Any More [Gelt](#)

by Stuart Greenfield, Ph.D.

Before offering my analysis of the state's revenue situation through the first six months of FY18, I would like to thank a reader for pointing out my lack of attention and misstating the state's revenue situation through January. I originally wrote that the state's General Revenue-Related (GRR) revenues were almost collected by January which was a little outlandish. As was pointed out through January the expected increase ($2.3 billion) in GRR for FY18 had almost been received, not the entire $54.6 billion.

I can now report (Table 1) with certainty that the expected increase for FY18 in both GRR tax collections ($2.50 billion) and GRR total revenue ($2.30 billion) has been exceeded. GRR tax collections have increased by $2.55 billion through February, and GRR total revenue has increased by $2.59 billion.

Table 1: General Revenue-Related-Revenue Total Taxes and Total Revenue through February FY17, FY18 (in millions of dollars) and Actual and CRE Rate of Change

	FY2017	FY2018	Actual Percent Change	CRE Percent Change	Actual Change	CRE –FY17 Change	Actual Change/ CRE Change
Sales Taxes	11,795.2	12,974.3	10.0%	5.5%	1,179.2	1,583.3	74.5%
Motor Vehicle Sales and Rental Taxes	1,922.3	2,077.0	8.0%	10.3%	154.7	461.7	33.5%
Motor Fuel Taxes	466.5	485.3	4.0%	1.6%	18.8	15.4	122.1%
Franchise Tax	-429.0	-309.0	-28.0%	3.6%	120.0	98.3	122.0%
Oil Production Tax	996.4	1,474.3	48.0%	9.8%	477.9	207.5	230.3%
Insurance Taxes	929.2	928.5	-0.1%	8.1%	-0.7	191.3	-0.4%
Cigarette and Tobacco Taxes	341.7	317.2	-7.2%	-7.7%	-24.5	-48.3	50.8%
Natural Gas Production Tax	451.6	706.5	56.5%	-9.5%	254.9	-93.6	
Alcoholic Beverages Taxes	588.3	618.3	5.1%	4.6%	30.1	56.4	53.3%
Hotel Occupancy Tax	239.3	272.7	14.0%	2.0%	33.4	10.4	322.0%
Utility Taxes 1	205.6	200.6	-2.5%	1.1%	-5.0	4.7	
Other Taxes 2	39.8	94.2	136.4%	12.4%	54.4	12.2	445.3%
Total Tax Collections	20,314.2	22,862.1	12.5%	5.5%	2,547.8	2,499.3	101.9%
Non-Tax Revenue	3,155.0	3,200.0	1.4%	-2.9%	44.9	-199.0	
Total Net Revenue	23,469.3	26,062.0	11.0%	4.40%	2,592.8	2,300.3	112.7%

Source: Revenue Watch and Certification Revenue Estimate

As you'll note from Table 1, sales tax collections are increasing at a rate (10.0 percent) almost twice that in the CRE (5.5 percent) Can that continueonly the Shadow Knows. However, one can offer alternative scenarios to evaluate what is likely.

For the sales tax increase to just achieve the value in the CRE, would require that sales tax collections increase by 1.4 percent for the remainder of the fiscal year. Were sales tax collections to increase at the 5.5 percent rate in the CRE for the rest of the fiscal year, there would be an additional $600 million in sales tax collections for the fiscal year. Finally, should sales tax collections continue at the current rate of increase (10.0 percent), sales tax collections would be $1.2 billion greater than in the CRE for FY18.

While only the Shadow knows with certainty, the state should expect between $600 million and $1.2 billion in additional GRR sales tax revenue for FY18. Not all this increase will drop to the bottom-line as $190 million of this increase in sales tax collections is obligated to the State Highway Fund (SHF) due to the passage of Proposition 7 in 2015. The residual will be added to the states' ending balance, which is currently estimated to be $94 million.

For each one (1.0) percentage point increase in All Funds sales tax collection in FY18, biennial sales tax collections should increase by $625.4 million. The cumulative increase results from applying the Comptroller's estimated growth rate for sales tax collections for FY19 (5.1 percent) to the increased FY18 collections and summing these increases (+$304.9 million + $320.5 million = $625.4 million).

Both severance taxes (oil production and natural gas production) are increasing at substantially greater rates than in the CRE. The oil production tax is increasing at 48.0 percent compared to an estimated 9.8 percent increase in the CRE. The natural gas production tax has increased at 56.5 percent compared to a -9.5 percent change in the CRE. Should these rates of increase continue for the rest of FY18, severance tax collections will be $1.5 billion more than in the estimate. From this $1.5 billion increase, an additional $540 million will be transferred to both the Rainy Day Fund and the SHF. The state's ending balance will receive $360 million.

Again, will the severance tax rates of increase continue through the rest of the fiscal year? For this question, only the Oracle at Delphi knows with certainty. However, even if the rates of growth fall to the rates in the CRE, severance tax collections will be $680 million more than in the CRE. A $680 million increase would result in an additional $250 million for the RDF and SHF, not a trivial increase. The state's ending balance would increase by $180 million.

Some/all might ask, "What does Herr Doktor Professor Greenfield know about the future state of the Texas economy?" My answer, less than a good number of folks in the Capitol complex, the Perryman Group, and the economists at the FRB-Dallas. However, like me, none of these groups are forecasting a slowdown in economic growth in Texas.

Table 2 shows the actual and estimated rate of growth in GRR revenue sources and the growth rate for the rest of the fiscal year to achieve the estimated growth rate for FY18. For both GRR tax collections and total net revenue, the growth rate for the remainder of the fiscal year would need to be negative to reduce these growth rates to that estimated in the CRE.

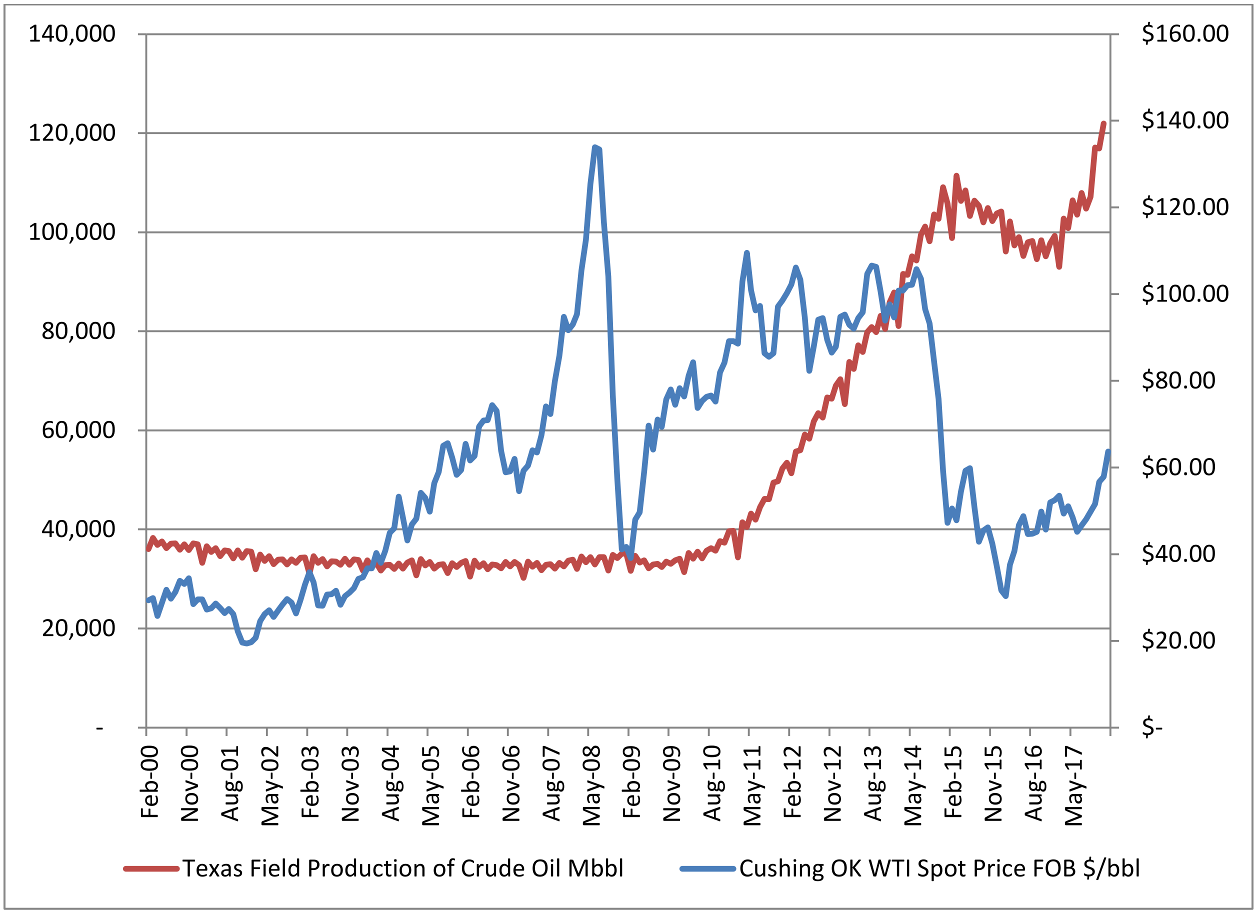
Table 2: Actual and CRE Rates of Growth in GRR Revenue Sources, and The Rate of Change to Achieve CRE Growth Rate

	YTD Percent Change	CRE Estimated Growth	Growth to Achieve CRE Percentage Change
Sales Taxes	10.0%	5.5%	1.4%
Motor Vehicle Sales and Rental Taxes	8.0%	10.3%	11.7%
Motor Fuel Taxes	4.0%	1.6%	-0.7%
Franchise Tax	-28.0%	3.6%	-0.7%
Oil Production Tax	48.0%	9.8%	-24.3%
Insurance Taxes	-0.1%	8.1%	13.3%
Cigarette and Tobacco Taxes	-7.2%	-7.7%	-8.4%
Natural Gas Production Tax	56.5%	-9.5%	-65.6%
Alcoholic Beverages Taxes	5.1%	4.6%	4.2%
Hotel Occupancy Tax	14.0%	2.0%	-7.9%
Utility Taxes 1	-2.5%	1.1%	4.2%
Other Taxes 2	136.4%	12.4%	-71.6%
Total Tax Collections	12.5%	5.5%	-0.2%
Non-Tax Revenue	1.4%	-2.9%	-6.5%
Total Net Revenue	11.0%	4.4%	-1.0%

The growth rate is sales would need to decline by 86 percent to achieve the 5.5 percent growth in the CRE. Both severance taxes would have to experience negative rates of growth for the rest of FY18 to reach the estimated growth rate in the CRE. Given the direct relationship between growth in the state's economy and sales tax collections, how likely is a dramatic decline? No forecaster is either projecting or expecting a decline in the estimated three percent growth in state Gross State Project (GSP).

As Figure 1 shows, it is also highly unlikely that severance tax collections will decline for the rest of the fiscal year. As you'll note, both production and prices have been increasing over the last six months of 2017. As economic growth in the U.S. and in Texas continues, it is highly unlikely that either oil production or prices will decline. Remember from your principles of economics course, an increase in demand will increase both the equilibrium price and quantity.

Figure 1: Texas Monthly Production Crude Oil and WTI Spot Price, 2000-2017

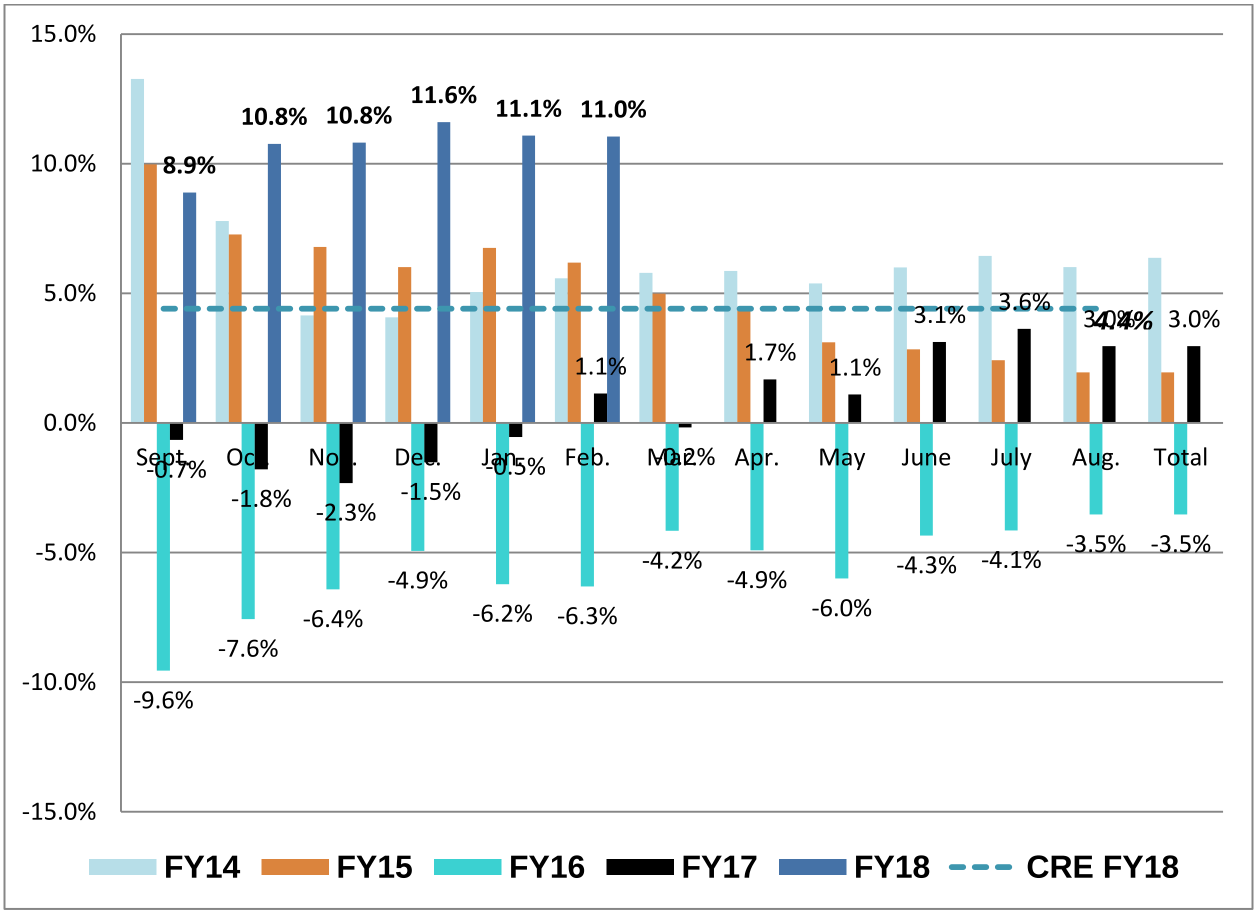


Source: EIA, Oil Production and Spot Prices

Planet Money recently did a piece on "Oil's Magic Price." The $64/barrel, which is the magic price, is what West Texas Intermediate (WTI) is now selling at. This $64/barrel price is magic as it is the price which allows smaller, stripper producers to cover their costs.

Figure 2 shows GRR revenue continuing to increase at a rate 2.5 times the rate of increase (4.4 percent) in the CRE. While it is not unheard of for the state to have a double-digit increase in cumulative YTD growth in GRR revenue (Oct. 2011 – Jan 2013) and everyone would like a double-digit increase to continue, even I do not expect this to continue. However, I do expect that the growth rate in GRR revenue will exceed the 4.4 percent growth rate in the CRE for FY18 and this will contribute to an increase in the GRR revenue growth rate for FY19. The CRE estimates that GRR revenue will decline by 1.0 percent in FY19. Remember a decline in a negative number is an increase.

Figure 2: Cumulative YTD Growth in General Revenue-Related Revenue, FY14-FY18



Source: Comptroller of Public Accounts

According to the Comptroller, the biennial increase in GRR revenue for FY18-19 is 5.4 percent. Each one percentage point increase in the biennial GRR growth rate provides the state with an additional billion dollars in GRR revenue for the biennium. For those with concerns whether there will be sufficient funding for the various creative budgeting techniques used to balance this biennium's appropriation bill, divide these billions by one billion, and that will indicate the number of percentage points the 5.4 percent GRR growth rate will need to increase. I would hope this change is at least 3.6 percentage points.

What I can say with complete certainty is that the beginning Fiscal Year 2020 General Revenue-Related Adjusted Fund Balance will be greater than Fiscal 2018-19 Ending Certification Balance, but less than the beginning balance Governor Brown of California is expected to have as he enters his terminal year in office. The range between these two numbers is not infinity, but it is large. You can determine what my best guess on the Ending Certification Balance is by adding the Comptroller's Ending Certification Balance estimate to Governor Brown's "surplus" and divide this sum by two (2). That should provide you an estimate close enough for private sector work. ☺

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.

Oil's magic price, https://www.npr.org/sections/money/2018/03/02/590376257/oil-s-magic-price?utm_source=npr_newsletter&utm_medium=email&utm_content=20180303&utm_campaign=money&utm_term=nprnews

EIA oil spot price, https://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm

CRE Press Release, https://comptroller.texas.gov/about/media-center/news/2017/171010-cre.php