Old Man Money Just Keeps Rolling In

by Stuart Greenfield, Ph.D.

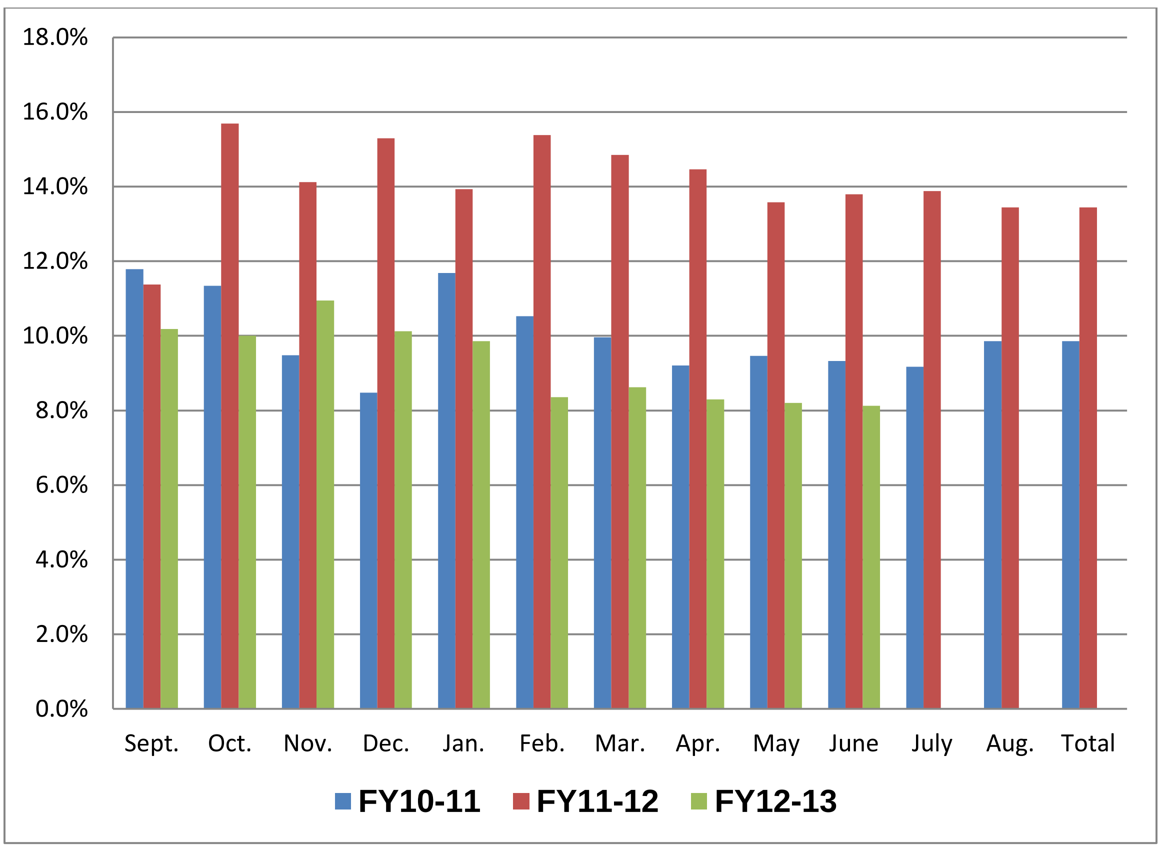
With a few weeks left in the 83rd Legislative 2nd Called Session one might hope the given the $683.1 million that remains unappropriated and the increase in tax collections the Governor would expand the call to increase funding for both public education and for transportation. In her July 1 letter to the leadership and members of the 83rd Legislature, Comptroller Combs, while not increasing the revenue estimate, stated that "$683.1 million, of an estimated $100.7 billion available for general-purpose spending, remains unappropriated."

State tax collections are increasing at a rate 50 percent greater than in the Biennial Revenue Estimate (BRE), 8.1 percent compared to 5.4 percent in the BRE. This will result in tax collections being over $1.2 billion more than the current estimate. While over 70 percent of this increase is from increases in both severance taxes, which will result in the Rainy Day Fund (RDF) transfer increasing by $650 million to over $2.3 billion, with other changes in General Revenue-Related Revenue we should expect that the certifiable ending balance increasing by $800. This should result in an ending balance of almost $1.5 billion.

With the significant increase in tax collections for this year, the higher tax base from FY13 along w/ a better than estimated growth rate for FY14, the current estimate is 1.9 percent, should result in an increase in both the certifiable balance for FY14-15 and the RDF transfer. The certifiable balance for FY14-15 should be increased by $3.9 billion, while the transfer to the RDF should be 50 percent greater ($1.8 billion) than the current estimate..

While the growth in tax collections is no longer at double digit rates (Figure 1 below), the rate of increase

Figure 1: Cumulative YTD Growth in Tax Collections, various fiscal years



in tax revenue collections, through June continues to increase at a rate over 50 percent greater than in the BRE (8.1 percent v. 5.4 percent). Were there to be no further growth in tax receipts for the rest of the fiscal year the

Comptroller's current estimate of total tax collections would already be achieved. Should tax revenue continue at its current pace there should be around $1.3 billion in increased tax receipts from the current estimate for FY13.

Table 1: All Funds Tax Collections by Major Tax (in millions dollars), YTD (through June) FY12 and FY13

	FY2012 YTD	***FY2013 YTD***	Actual Percent Change	Estimated BRE Percent Change
Sales Tax	19,786.0	21,337.1	7.8%	8.0%
Motor Vehicle Sales and Rental Taxes	2,867.1	3,127.8	9.1%	5.2%
Motor Fuel Taxes	2,630.2	2,673.7	1.7%	3.9%
Franchise Tax	4,328.6	4,603.2	6.3%	2.5%
Insurance Taxes	934.0	1,128.6	20.8%	5.7%
Natural Gas Production Tax	1,364.3	1,188.0	-12.9%	-30.8%
Cigarette and Tobacco Taxes	1,169.6	1,254.0	7.2%	9.1%
Alcoholic Beverages Taxes	770.4	810.9	5.3%	6.1%
Oil Production and Regulation Taxes	1,737.0	2,418.4	39.2%	10.5%
Inheritance Tax	(0.5)	(10)		
Utility Taxes	310.2	293.9	-5.3%	-1.6%
Hotel Occupancy Tax	322.5	355.3	10.2%	5.2%
Other Taxes	205.6	205.1	-0.2%	-8.2%
Total Tax Collections	36,424.9	39,385.8	8.1%	**5.4%**

Source: Comptroller of Public Accounts

Compared to the estimate for FY12, the estimate for this fiscal year should be considered spot-on. The $3.0 billion increase in year-to-date tax collections is primarily due to the increase in sales tax ($1.5 billion) and in the oil production tax ($700 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 to be around $2.4 billion. This is almost $650 million more than in the estimate.

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 almost $1.3 billion. Over half of this increase is accounted for by improved severance tax collections. Increased Insurance Tax and Franchise Tax collections will each experience an additional $200 million in collections.

Were the estimate to follow the historical relationship between the state's economy and state revenue one should expect the "estimated ending certification balance" for FY15 to be around $105 billion, an increase of $3.9 billion from the current estimate. The transfer to the Rainy Day Fund should be $1.7 billion more, resulting in a balance of over $9 billion in FY15 (after accounting for the $3.9 billion appropriated from the fund in FY13).

Table 2 shows that All Funds Total Net Revenue through June of FY13 is $1.7 billion more than collected in FY12. The primary reason that the increase in total revenue is less than the increase in the BRE is that many of the non-tax revenue sources have declined. The largest decline is in federal income, a $1.1 billion decrease from FY12. Sales of Goods and Services, and Land Income each declined by around $140 million each. With enactment of HB 10, the Medicaid supplement, the LBB estimated that federal income should increase by $6.6 billion in FY13.

Table 2: All Funds Revenue by Receipt Type (in millions dollars), YTD (through June) FY12 and FY13

	FY2012 YTD	***FY2013 YTD***	Actual Percent Change	Estimated BRE Percent Change
Total Tax Collections	36,424.9	39,385.8	8.1%	5.4%
Federal Income	28,027.5	26,898.0	-4.0%	14.8%
Licenses, Fees, Permits, Fines, and Penalties	6,468.3	6,233.8	-3.6%	16.4%
Interest and Investment Income	1,013.7	1,059.0	4.5%	1.8%
Lottery Proceeds 3	1,530.6	1,574.5	2.9%	-5.0%
Sales of Goods and Services	327.8	187.3	-42.9%	4.6%
Settlements of Claims	554.1	593.4	7.1%	-3.9%
Land Income	1,206.9	1,073.2	-11.1%	-19.7%
Contributions to Employee Benefits	0.1	0.1	-31.9%	-6.7%
Other Revenue Sources	3,893.2	4,098.9	5.3%	-5.9%
TOTAL Net Revenue	**79,447.3**	**81,103.9**	**2.1%**	**8.3%**

Source: Comptroller of Public Accounts

The BRE forecasts an increase of almost $8 billion in total net revenue, which appears to be an almost perfect estimate. This perfect estimate is the result of underestimating tax collections by $1.3 billion and overestimating non-tax receipts by $1 billion. One should commend the Comptroller's Revenue Estimating staff for the substantial improvement in the FY13 estimate.

While total revenue year-to-date increased by 2.1 percent ($1.7 billion), total expenditures continue to decline. Through June total state expenditures have declined by 3.1 percent ($2.5 billion). As shown in Table 3, cuts to two items, public assistance payments (-$1.3 billion), and public education payments (-$1.9 billion) exceeded the overall decrease.0

Table 3: All Funds Expenditures by Category (in millions dollars), through June, FY2012 and FY2013

CATEGORY	**FY2012**	**FY2013**	**Percent Change**	**Proportion Expenditure 2013**
Employee Compensation	12,884.1	13,113.6	1.8%	17.0%
Public Assistance Payments	29,873.9	28,686.8	-4.0%	37.3%
Public Education Payments	21,468.1	19,560.5	-8.9%	25.4%
Intergovernmental Payments	3,165.7	3,251.1	2.7%	4.2%
Other Expenditures	12,020.5	12,307.3	2.4%	16.0%
TOTAL EXPENDITURES	**79,412.2**	**76,919.2**	**-3.1%**	**100.0%**

Source: Comptroller of Public Accounts

With the substantial decline in public education expenditures, the proportion of the state budget devoted to public education declined from 27.2 percent in FY12 to 25.4 percent this fiscal year. Had public education expenditures maintained its FY12 proportion, expenditures would be $1.4 billion more. Items (employee compensation, intergovernmental payments, and other expenditures) accounting for 37.2 percent of expenditures had minimal increases.

Table 4 shows expenditures by function through June of FY12 and FY13. Over 80 percent of the decline in total expenditures is due to the $2.1 billion reduction in education expenditures. Substantial declines in general government ($300 million) and health and human services ($1.4 billion) offset some of the increase in other government functions. Taking into account the supplemental appropriations that were enacted, Texans should expect the Education expenditure for FY13 to be around $1.5 billion less than in FY12, while Health and Human Services expenditures should be around $2.2 billion more than the FY12 expenditure.

Table 4: All Funds Expenditures by Function (in millions dollars), through June, FY2012 and FY2013

EXPENDITURES BY FUNCTION	FY2012	FY2013	Change	Percent Change
General Government	2,539.0	2,228.4	(310.5)	-12.2%
Education	28,436.4	26,374.5	(2,061.9)	-7.3%
Employee Benefits	2,792.8	2,887.7	94.9	3.4%
Health and Human Services	32,595.8	31,641.0	(954.7)	-2.9%
Public Safety and Corrections	3,622.3	3,693.2	70.9	2.0%
Transportation	5,547.7	5,999.1	451.5	8.1%
Natural Resources/Recreational Services	1,760.5	1,891.5	131.0	7.4%
Regulatory Services	267.3	281.5	14.2	5.3%
Lottery Winnings Paid	523.0	573.1	50.1	9.6%
Debt Service - Interest	922.5	902.2	(20.3)	-2.2%
Capital Outlay	404.8	447.1	42.3	10.5%
TOTAL EXPENDITURES	**79,412.2**	**76,919.2**	**(2,492.9)**	**-3.1%**

Source: Comptroller of Public Accounts

State tax revenues continue to improve through June of FY13, with tax collections increasing by 8.1 percent compared to FY12. With the growth in state tax collections, FY13 tax collections should be $1.3 billion more than the estimate in the BRE.

While tax collections are increasing substantially, total state revenue has only increased by 2.1 percent, as many 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 should increase federal funds by $6.6 billion.

Total state expenditures decreased by 3.1 percent, with the majority of this decrease attributable to the $2.1 billion reduction in education expenditures. With the supplemental appropriations bills, all funds appropriations for FY13 should increase to $92.7, about $1.5 billion less than the appropriation for FY12.

The state score board continues to read "revenue up, expenditures down." I would hope that the Comptroller will give serious thought to providing the special session with a revised estimate. Tax collections for FY13 should be increased by $1.3 billion. The estimated growth rate in tax collections for FY14, 1.9 percent, should also be increased. 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.

With the increased revenue, the Legislature could increase appropriations for both public education and for transportation. In fact, there is no need for transferring funds from the RDF (Senate bill) or the convoluted House method to increase TxDOT funding. There is more than sufficient revenue available both this fiscal year and in the next biennium to increase appropriations to TxDOT by $1 billion per year.

Should the Comptroller provide legislators an update to the current estimate, I would hope for an increase for this fiscal year and a substantial increase for the FY14-15 biennium. Unless there is a recession forecast for FY14, a growth in tax collections of 1.9 percent has a minimal chance of happening.

I expect that the certifiable balance for FY14-15 to be $105.6 billion, about $4.2 billion more than in the current estimate. I also expect that the transfer to the Rainy Day Fund for FY14-15 to be $5.3 billion, over $1.6 billion more than in the current estimate. One would hope that with these additional funds will be sufficient to increase appropriations for volunteer fire departments (VFDs), public education, and highways.

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 Maryland University College.