What Ought to Be

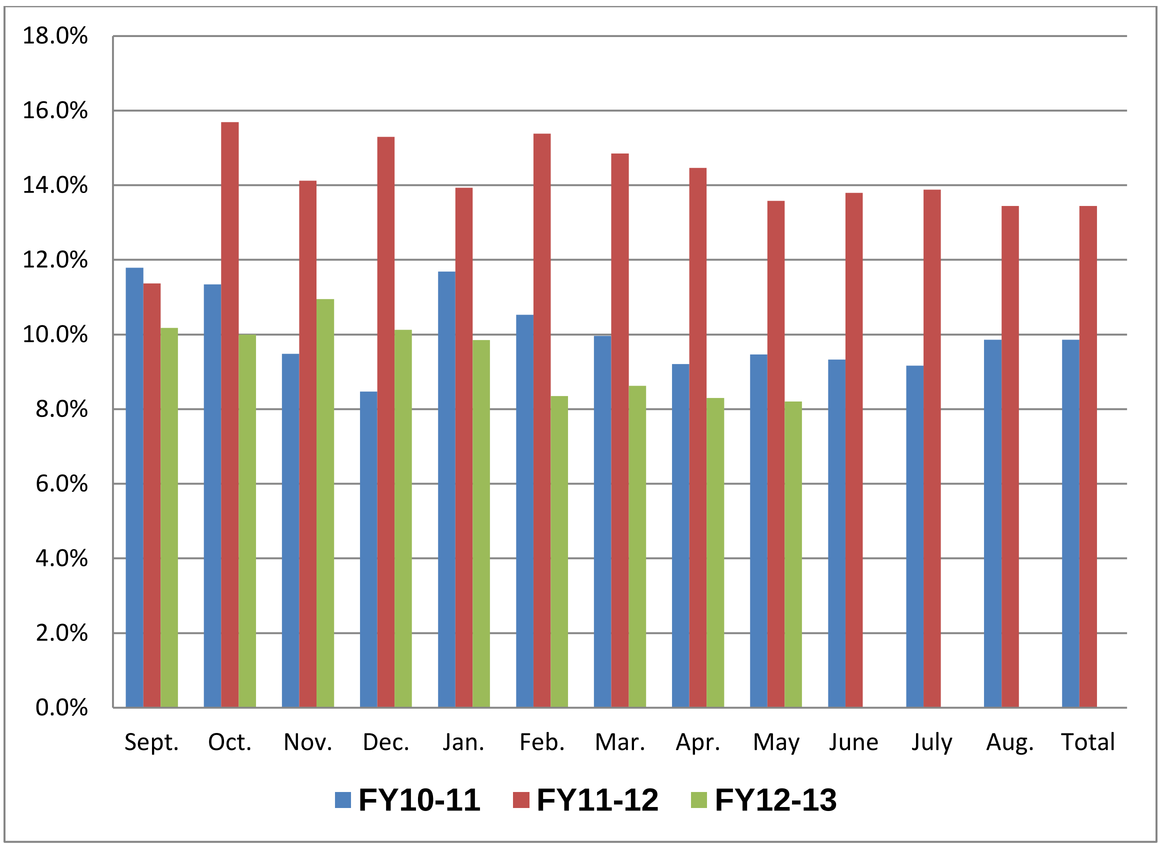
Certifiable Balance Should Be Increased

by Stuart Greenfield, Ph.D.

While the 83rd regular Legislative Session is now history, the special session is considering calls to increase highway funding. It should be helpful had the Comptroller provided our legislators with more up-to-date information on the revenue situation, I hope this analysis provides information in deciding how additional appropriations might be funded. While the estimate for tax collections for this fiscal year are a significant improvement from the last estimate, it would appear that there will be $1.7 more in General Revenue-Related Revenues (GR-RR) for this fiscal year and around $5.2 billion more for the FY14-15 biennium. Non-tax revenues for FY13 will be a billion less, so total revenue will be on estimate. With the increase in GR-RR for FY13, the ending certifiable balance for FY13 should be around $850 million more than in the current estimate and the Rainy Day Fund (RDF) transfer should be increased by $850 million to $2.4 billion in FY13. The certifiable balance for FY14-15 should also be increased by $4.2 billion.

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 May continue to increase at a rate over 50 percent greater than in the BRE (8.2 percent v. 5.4 percent, Table 1, below). Were there to be no further growth in tax receipts for the rest of the fiscal year the Comptroller's current estimate would be achieved. Should tax revenue continue at its current pace there should be around $1.4 billion in increased tax collections from the current estimate for FY13.

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

	FY2012 YTD	***FY2013 YTD***	Actual Percent Change	Estimated BRE Percent Change
Sales Tax	17,793.9	19,163.5	7.7%	8.0%
Motor Vehicle Sales and Rental Taxes	2,546.2	2,804.1	10.1%	5.2%
Motor Fuel Taxes	2,353.1	2,390.9	1.6%	3.9%
Franchise Tax	4,278.6	4,580.2	7.0%	2.5%
Insurance Taxes	897.8	1,098.4	22.3%	5.7%
Natural Gas Production Tax	1,259.6	1,088.4	-13.6%	-30.8%
Cigarette and Tobacco Taxes	1,045.2	1,133.3	8.4%	9.1%
Alcoholic Beverages Taxes	687.8	722.9	5.1%	6.1%
Oil Production and Regulation Taxes	1,538.8	2,134.8	38.7%	10.5%
Inheritance Tax	(0.5)	(10)		
Utility Taxes	310.1	293.8	-5.3%	-1.6%
Hotel Occupancy Tax	287.3	315.6	9.9%	5.2%
Other Taxes	182.4	187.0	2.5%	-8.2%
Total Tax Collections	33,180.3	35,902.6	8.2%	**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 $2.7 billion increase in year-to-date tax collections is primarily due to the increase in sales tax ($1.4 billion) and in the oil production tax ($600 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 $2.5 billion. This is almost $850 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 $1.4 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 $250 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 $105.6 billion, an increase of $4.2 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 May of FY13 is $1.2 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 $150 million each. With enactment of HB 10, the Medicaid supplement, federal income will increase by $6.6 billion in FY13.

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

	FY2012 YTD	*FY2013 YTD*	Actual Percent Change	Estimated BRE Percent Change
Total Tax Collections	33,180.3	35,902.6	8.2%	5.4%
Federal Income	24,895.5	23,558.3	-5.4%	14.8%
Licenses, Fees, Permits, Fines, and Penalties	5,803.4	5,740.0	-1.1%	16.4%
Interest and Investment Income	975.7	1,039.6	6.6%	1.8%
Lottery Proceeds 3	1,398.3	1,444.1	3.3%	-5.0%
Sales of Goods and Services	312.8	167.4	-46.5%	4.6%
Settlements of Claims	553.3	591.0	6.8%	-3.9%
Land Income	1,126.5	968.7	-14.0%	-19.7%
Contributions to Employee Benefits	0.1	0.1	-31.8%	-6.7%
Other Revenue Sources	3,563.4	3,592.0	0.8%	-5.9%
TOTAL Net Revenue	**71,809.3**	**73,003.7**	**1.7%**	**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 $1.4 billion and overestimating non-tax receipts by $1 billion. Given the substantial improvement in this year's estimate, I would have expected the Comptroller's Revenue Estimating staff to have been placed on Texas Monthly's Best list.

While total revenue year-to-date increased by 1.7 percent ($1.2 billion), total expenditures continue to decline. Through May total state expenditures have declined by 4.2 percent ($3.0 billion). As shown in Table 3, cuts to two items, public assistance payments (-$1.6 billion), and public education payments (-$2.0 billion) exceeded the overall decrease.0

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

CATEGORY	FY2012	FY2013	Percent Change	Proportion Expenditure 2013
Employee Compensation	11,678.4	11,867.7	1.6%	17.4%
Public Assistance Payments	26,538.3	24,956.4	-6.0%	36.6%
Public Education Payments	19,382.9	17,430.3	-10.1%	25.5%
Intergovernmental Payments	2,814.5	2,948.8	4.8%	4.3%
Other Expenditures	10,829.3	11,019.8	1.8%	16.2%
TOTAL EXPENDITURES	**71,243.3**	**68,223.0**	**-4.2%**	**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 25.5 percent this fiscal year. Had public education expenditures maintained its FY12 proportion, expenditures would be $1.1 billion more. Items (employee compensation, intergovernmental payments, and other expenditures) accounting for 37.9 percent of expenditures had minimal increases.

Table 4 shows expenditures by function through May of FY12 and FY13. Almost 70 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 are 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 May, FY2012 and FY2013

EXPENDITURES BY FUNCTION	FY2012	FY2013	Change	Percent Change
General Government	2,318.0	2,030.2	(287.8)	-12.4%
Education	25,737.1	23,643.1	(2,094.1)	-8.1%
Employee Benefits	2,520.9	2,604.9	84.1	3.3%
Health and Human Services	29,037.6	27,640.7	(1,397.0)	-4.8%
Public Safety and Corrections	3,152.0	3,231.4	79.4	2.5%
Transportation	4,933.0	5,317.2	384.3	7.8%
Natural Resources/Recreational Services	1,583.3	1,723.3	140.1	8.8%
Regulatory Services	238.6	253.4	14.8	6.2%
Lottery Winnings Paid	485.0	525.8	40.8	8.4%
Debt Service - Interest	866.9	850.7	(16.3)	-1.9%
Capital Outlay	370.8	402.7	31.8	8.6%
TOTAL EXPENDITURES	**71,243.3**	**68,223.0**	**(3,020.3)**	**-4.2%**

Source: Comptroller of Public Accounts

State tax revenues continue to improve through May of FY13, with tax collections increasing by 8.2 percent compared to FY12. With the growth in state tax collections, FY13 tax collections should be $1.4 billion more than the estimate in the BRE.

While tax collections are increasing substantially, total state revenue has only increased by 1.7 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 4.2 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 $1.4 billion. 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.

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.