To Increase or Not To Increase, Is No Longer the Question

Certifiable Balance Should be Increased

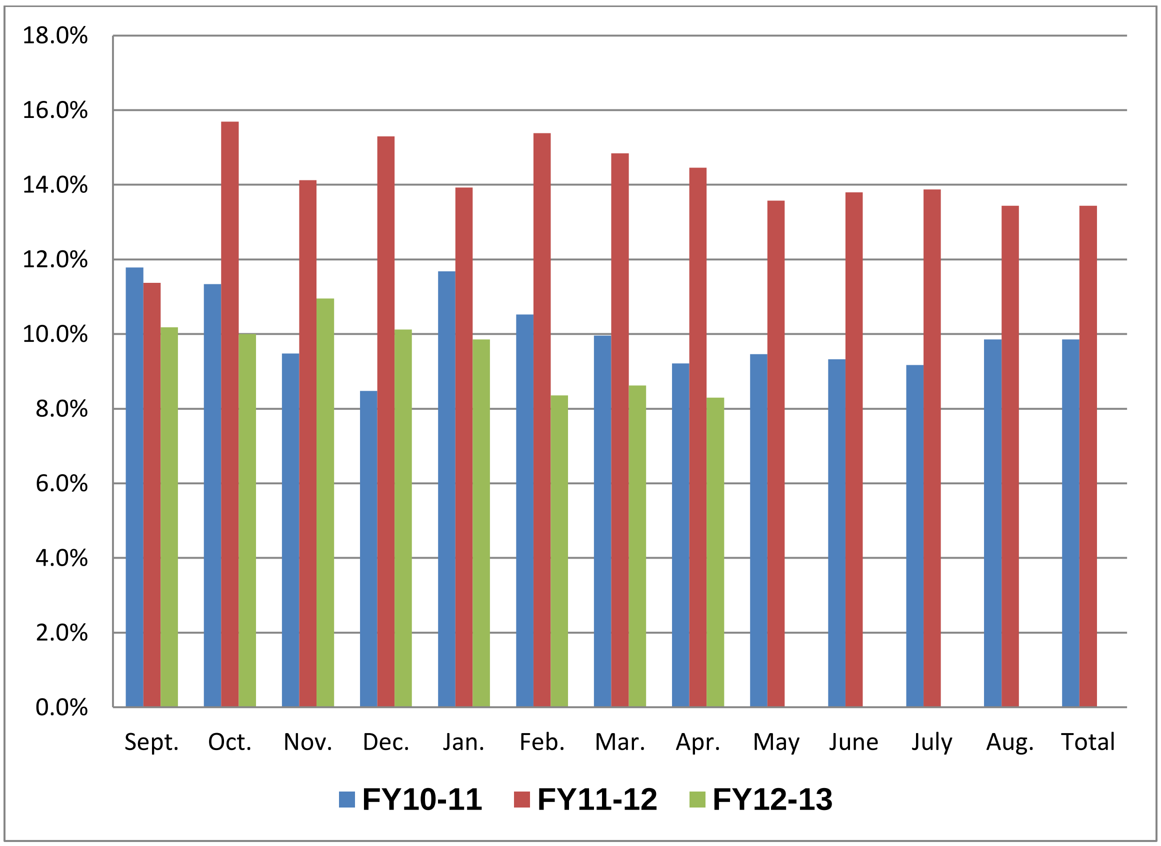
by Stuart Greenfield, Ph.D.

With about 10 days before sine die, it should be helpful to everyone to have the most up-to-date information on the state's fiscal condition. First, let us commend the Comptroller and her staff for their spot-on estimate for total state revenue for the current fiscal year. While tax collections for FY13 will be around $1 billion more than in the current estimate, while non-tax revenues will be a billion less, so the total will be on estimate.

As the conference committee is now deciding what the state will spend and what their priorities will be, having the most up-to-date information on state revenue should be useful to legislators. It now appears that the ending certifiable balance for FY13 should be around $500 million more than in the current estimate. The certifiable balance for FY14-15 should also be increased by $3 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 April continue to increase at a rate over 50 percent greater than in the BRE (8.3 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 would be achieved. Should tax revenue continue at its current pace there should be around $1 billion in increased tax collections from the current estimate for FY13.

The growth in total net revenue is 1.1 percent, a rate considerably less than the 8.3 percent increase in the BRE (Table 2). This reduced growth rate is primarily due to the decline in federal income (-5.5 percent).

Total tax collections through April continue to increase at a rate greater than forecast in the BRE. However, this increase has declined from a double digit rate in FY12. Compared to the estimate for FY12, the

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

	FY2012 YTD	***FY2013 YTD***	Actual Percent Change	Estimated BRE Percent Change
Sales Tax	15,691.1	16,895.0	7.7%	8.0%
Motor Vehicle Sales and Rental Taxes	2,213.7	2,455.4	10.9%	5.2%
Motor Fuel Taxes	2,088.9	2,119.4	1.5%	3.9%
Franchise Tax	291.1	286.0	-1.7%	2.5%
Insurance Taxes	874.7	1,070.1	22.3%	5.7%
Natural Gas Production Tax	1,132.1	943.6	-16.7%	-30.8%
Cigarette and Tobacco Taxes	898.5	997.9	11.1%	9.1%
Alcoholic Beverages Taxes	608.2	641.1	5.4%	6.1%
Oil Production and Regulation Taxes	1,338.9	1,874.9	40.0%	10.5%
Inheritance Tax	(0.2)	(10)		
Utility Taxes	303.4	289.6	-4.5%	-1.6%
Hotel Occupancy Tax	250.6	275.5	9.9%	5.2%
Other Taxes	158.4	156.7	-1.0%	-8.2%
Total Tax Collections	**25,849.6**	**27,995.0**	**8.3%**	**5.4%**

Source: Comptroller of Public Accounts

estimate for this fiscal year should be considered spot-on. The $2.1 billion increase in year-to-date tax collections is primarily due to the increase in sales tax ($1.2 billion) and in the oil production tax ($536 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 $2.3 billion. This is almost $630 million more than in the estimate.

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 $104.4 billion, an increase of $3 billion from the current estimate. The transfer to the Rainy Day Fund should be $1.7 billion more, resulting in a balance of over $13 billion in FY15.

Table 2 shows that All Funds Total Net Revenue through April of FY13 is $374 million 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. Licenses, Fees, Permits, Fines, and Penalties, and Land Income each declined by $260 million. It is expected that with enactment 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 April) FY12 and FY13

	FY2012 YTD	***FY2013 YTD***	Actual Percent Change	Estimated BRE Percent Change
Total Tax Collections	25,849.6	27,995.0	8.3%	5.4%
Federal Income	21,877.0	20,739.8	-5.2%	14.8%
Licenses, Fees, Permits, Fines, and Penalties	4,872.6	4,606.2	-5.5%	16.4%
Interest and Investment Income	869.1	961.8	10.7%	1.8%
Lottery Proceeds 3	1,223.0	1,224.6	0.1%	-5.0%
Sales of Goods and Services	272.0	149.1	-45.2%	4.6%
Settlements of Claims	560.9	505.4	-9.9%	-3.9%
Land Income	1,119.9	853.5	-23.8%	-19.7%
Contributions to Employee Benefits	0.1	0.1	-31.8%	-6.7%
Other Revenue Sources	3,067.8	3,321.5	8.3%	-5.9%
TOTAL Net Revenue	**59,712.0**	**60,356.9**	**1.1%**	**8.3%**

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 almost $1.3 billion. About 65 percent of this increase is accounted for by improved severance tax collections.

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 $1.3 billion. Given the substantial improvement in this year’s estimate, I would suggest the Comptroller provide the Revenue Estimating staff with a well-deserved day or two off.

While total revenue year-to-date increased by 1.1 percent ($645 million), total expenditures continue to decline. Through April total state expenditures have declined by 4.4 percent ($2.8 billion). As shown in Table 3, cuts to two items, public assistance payments (-$1.4 billion), and public education payments (-$1.9 billion) exceeded the overall decrease.

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

CATEGORY	**FY2012**	**FY2013**	**Percent Change**	**Proportion Expenditure 2013**
Employee Compensation	10,386.4	10,571.3	1.8%	17.4%
Public Assistance Payments	23,340.2	21,974.4	-5.9%	36.1%
Public Education Payments	17,828.7	15,909.7	-10.8%	26.1%
Intergovernmental Payments	2,547.0	2,678.2	5.2%	4.4%
Other Expenditures	9,624.8	9,788.8	1.7%	16.1%
TOTAL EXPENDITURES	**63,727.2**	**60,922.4**	**-4.4%**	**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 28.8 percent in FY12 to 26.1 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 37.6 percent of expenditures had minimal increases.

Table 4 shows expenditures by function through April of FY12 and FY13. Total expenditures declined by $2.8 billion, most of it due to the over $2.1 billion reduction in education expenditures. Substantial declines in general government ($300 million) and health and human services ($1.1 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 March, FY2012 and FY2013

EXPENDITURES BY FUNCTION	FY2012	FY2013	Change	Percent Change
General Government	2,094.3	1,797.7	(296.6)	-14.2%
Education	23,515.8	21,453.7	(2,062.1)	-8.8%
Employee Benefits	2,224.4	2,312.8	88.4	4.0%
Health and Human Services	25,525.1	24,391.2	(1,133.9)	-4.4%
Public Safety and Corrections	2,828.7	2,907.0	78.3	2.8%
Transportation	4,316.6	4,664.1	347.5	8.1%
Natural Resources/Recreational Services	1,414.1	1,534.6	120.4	8.5%
Regulatory Services	216.6	224.7	8.2	3.8%
Lottery Winnings Paid	423.5	449.5	26.0	6.1%
Debt Service - Interest	846.3	828.8	(17.5)	-2.1%
Capital Outlay	321.6	358.4	36.8	11.4%
TOTAL EXPENDITURES	**63,727.2**	**60,922.4**	**(2,804.8)**	**-4.4%**

Source: Comptroller of Public Accounts

State tax revenues continue to improve through April of FY13, with tax collections increasing by 8.3 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 1.1 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 4.4 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.” Let’s hope serious thought is being given to revising not only the estimate for FY13, but especially for the 2014-2015 biennium. Tax collections for FY13 should be greater by $1.3 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.

When the Comptroller provides legislators the 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 only a 1 in 12 chance of happening.(One should note that this is a substantially greater probability than winning the PowerBall jackpot.)

I expect that the certifiable balance for FY14-15 to be $104.4 billion, about $3 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 public education, highways, and water.

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.