

FY23 Revenue, a third-quarter report

by Stuart Greenfield, Ph.D.

When Comptroller Glen Hegar released the Biennial Revenue Estimate ([BRE](#)) in early January, there was dancing in the Capitol. Comptroller Hegar stated, “We project \$165.9 billion in total collections of general revenue-related (GR-R) funds” for FY24-25. There is an estimated ending balance in FY22-23 of \$32.69 billion. This substantial increase in available GR-R revenue has provided our legislators with an Aladdin lamp of revenue.

Using the methodology I used when I was Chief Revenue and Economic Forecaster in the Revenue Estimating division of the Comptroller’s office, I can state that already this fiscal year, state GR-R total revenue collections exceeds the estimate by \$2.0 billion. As a result, we should expect between \$3.4 and \$5.5 billion in GR-R revenue for FY23 and between \$10.0 and \$15.0 billion in additional GR-R total revenue in FY24-25.

With the session ending May 29, Memorial Day, providing an update on the money available to the 88th Legislature is critical. Comptroller Hegar is expected to give an official update to the BRE before the session ends on May 29. It’s been 37 years since I worked in Revenue Estimating. Over the years, state budgeting has become so complex that even a Ph.D. in Economics has difficulty understanding it. So I will return to the days we used [Visicalc](#) to track the revenue estimate.

While understanding the intricacies of the flow of funds is only known by three people kept in a secret crypt at the State Cemetery, it does not take a Ph.D. in Economics to understand today’s bottom line. So, let’s look at the changes in General Revenue-Related (GR-R) revenue through the first eight months of FY23 and how these changes affect the amount that could be available for use by the 88th Legislature while deciding on an appropriations bill.

Table 1 below shows that revenue growth for General Revenue-Related (GR-R) funds in FY23 has increased substantially greater than the estimated increase in the BRE. Through April 2023, eight months through the fiscal year, Year-to-date (YtD) GRR tax collections have increased by \$4.8 billion compared to the BRE’s estimated annual increase of \$3.4 billion. Total GR-R revenue has increased by \$6.0 billion compared to a \$4.0 billion in BRE.

Table 1: General Revenue-Related-Revenue Total Taxes and Total Revenue through April, FY22, FY23 (in thousands of dollars), and Actual and BRE Rate of Change

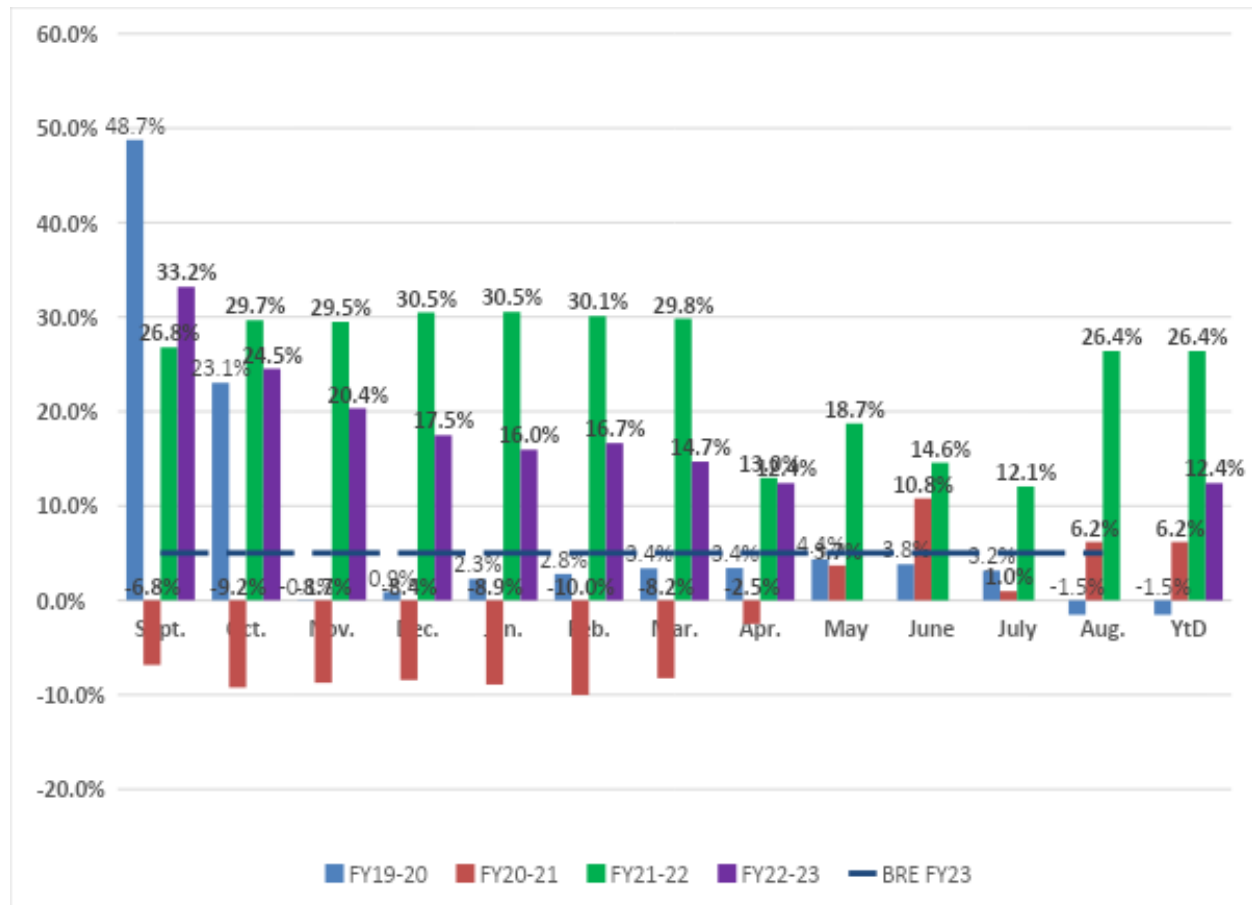
	FY22, Sept - Apr	FY23, Sept - Apr	Actual Percent Change	BRE Percent Change	Actual Change	BRE Change
Sales Taxes	27,075,836.0	29,824,825.0	10.2%	7.6%	2,748,989.0	2,932,744.4
Motor Vehicle Sales and Rental Taxes	3,984,575.0	4,321,872.0	8.5%	4.9%	337,297.0	288,861.2
Motor Fuel Taxes	660,027.0	672,042.0	1.8%	3.5%	12,015.0	34,465.5
Franchise Tax	959,147.0	1,136,343.0	18.5%	8.4%	177,196.0	334,525.1
Oil Production Tax	3,784,174.0	4,040,474.0	6.8%	-13.8%	256,300.0	(878,808.5)
Insurance Taxes	1,808,416.0	2,425,420.0	34.1%	13.5%	617,004.0	422,524.6
Cigarette and Tobacco Taxes	402,018.0	383,691.0	-4.6%	2.4%	(18,327.0)	12,826.8
Natural Gas Production Tax	2,560,157.0	2,766,205.0	8.0%	0.7%	206,048.0	30,071.5
Alcoholic Beverages Taxes	1,046,708.0	1,162,518.0	11.1%	4.0%	115,810.0	66,127.7
Hotel Occupancy Tax	421,445.0	494,111.0	17.2%	7.8%	72,666.0	54,368.8
Utility Taxes 1	308,242.0	369,819.0	20.0%	8.5%	61,577.0	47,447.3
Other Taxes 2	82,177.0	144,707.0	76.1%	35.3%	62,530.0	47,796.2
Total Tax Collections	43,092,922.0	47,742,026.0	10.8%	5.0%	4,649,104.0	3,392,950.5
Non-Tax Revenue	5,251,129.0	6,600,700.0	25.7%	7.0%	1,349,571.0	644,062.2
Total Net Revenue	48,344,056.0	54,342,725.0	12.4%	5.3%	5,998,669.0	4,037,012.8

Source: [Revenue Watch](#) and [Biennial Revenue Estimate](#)

One should immediately note that the YtD GR-R tax collections increase, and total net revenue exceeds the BRE increase. Tax collections are increasing at a rate over 2.2 times the rate in the BRE. In addition, non-tax revenue is growing at a rate almost four times the increase in the BRE. Overall, GR-R revenue is increasing at a rate nearly four times the rate in the BRE. These rates of increase have resulted in YtD GR-R tax collections exceeding the BRE estimate by almost \$1.2 billion (37.0 percent). In addition, GR-R YtD's total revenue exceeds the BRE estimate by nearly \$2.0 billion (fifty percent).

Figure 1 shows the cumulative growth rate over the last five fiscal years in total net revenue (TNR). The YtD growth in FY23 TNR is 12.4 percent), about half the increase in FY22. While this year's increase is less than the FY22 increase, since FY08, only three other fiscal years (FY11, FY12, and FY22) had double-digit total revenue increases.

Figure 1: Cumulative YTD Growth in General Revenue-Related Total Net Revenue, FY19-FY23



Source: Comptroller of Public Accounts

When I began my career at the Comptroller's Office in 1977, a co-worker, Lloyd Rolén, tracked revenue using large [accounting sheets](#). With the advent of Visicalc, Lotus 123, and Excel, we converted the accounting sheets to spreadsheets to track the revenue estimate. While the Comptroller's revenue estimating staff uses more sophisticated methods to track the estimate, I continue to use the Rolén method. This method involves projecting the current fiscal year revenue based on the YtD growth rates in each revenue category. Given that total tax and total net GR-R revenue have increased by rates twice that forecasted in the BRE, Table 2 shows my estimates given the substantial increase in GR-R growth rates.

Table 2 uses two algorithms to project GR-R revenue for FY23. Column 3 uses the YtD growth and then assumes growth will return to the FY23 growth rates in the BRE. Finally, column 5 uses the current growth rates for the entire fiscal year. The algorithms indicate that GR-R revenue will increase from \$3.4 billion to \$5.5 billion.

Table 2: Alternative Projections of General Revenue-Related-Revenue Total Taxes and Total Revenue

Tax Collections by Major Tax, in thousands	BRE FY23 Estimate	BRE FY23 Estimate, w/ YTD growth rate and BRE growth for the rest of fiscal year	Change from BRE, Col 3	BRE FY23 Estimate, w/ YTD growth rate continuing	Change from BRE, Col 5
Sales Taxes	41,759,741	42,463,592	703,851	42,767,937	1,008,196
Motor Vehicle Sales and Rental Taxes	6,215,792	6,358,894	143,102	6,428,942	213,150
Motor Fuel Taxes	1,026,227	1,015,305	(10,922)	1,009,812	(16,415)
Franchise Tax	4,305,561	4,401,957	96,396	4,305,561	-
Oil Production Tax	5,482,879	6,261,926	779,047	6,792,374	1,309,495
Insurance Taxes	3,543,524	3,915,703	372,179	4,185,884	642,360
Cigarette and Tobacco Taxes	543,909	515,871	(28,038)	506,865	(37,044)
Natural Gas Production Tax	4,500,017	4,688,839	188,822	4,829,776	329,759
Alcoholic Beverages Taxes	1,710,100	1,783,807	73,707	1,825,796	115,696
Hotel Occupancy Tax	754,308	794,238	39,930	820,609	66,301
Utility Taxes 1	604,109	639,412	35,303	667,883	63,774
Other Taxes 2	183,226	216,754	33,528	238,478	55,252
Total Tax Collections	70,629,393	73,103,898	2,474,505	74,491,255	3,861,862
Non-Tax Revenue	9,880,435	10,818,693	938,258	11,724,540	1,844,105
Total Net Revenue	80,509,828	83,874,993	3,365,165	85,963,092	5,453,264

Source: [Revenue Watch](#) and [Biennial Revenue Estimate](#)

Almost thirty percent, \$967.8 million, of the column 4 increase, \$3.4 billion, is due to the increase in severance tax collections. Seventy-five percent of this increase will flow to the Rainy Day Fund (RDF) and State Highway Fund (SHF). The remainder, \$2.6 billion, will increase the ending balance.

Should growth continue at its current rate, column 5, GR-R net revenue would increase by \$5.5 billion. Again about thirty percent, \$1.6 billion, of this increase is from severance taxes. The

\$1.6 billion increase in severance tax collections will result in the RDF and SHF each receiving an additional \$615 million. After these transfers will increase the ending balance by almost \$4.2 billion.

With this additional revenue, the Legislature will have additional funding to improve public education and an issue most relevant to me, an increase in retired state employee pensions. While retired teachers have received a pension supplement in the 87th Legislative session and legislation, SB 10, which is being considered in the current session, no legislation will provide an immediate supplement to the 122,000 retired state employees whose last increase was in 2001. As someone who benefitted from both the last 13th check and the 2001 COLA, since then, the purchasing power of my annuity, along with [all retired state employees](#), has declined.

Given the expected increase in the BRE, every elected member of the 88th Legislature, especially the five House and five Senate members who serve on the conference committees that finalize budget appropriations, should agree on a supplement for retired state employees comparable to that being appropriated for retired teachers. At a minimum, an additional \$3.4 billion in GR-R total revenue in FY23. The 88th Legislator will likely have between \$4.0 and \$5.0 billion in additional GR-R total net revenue. So not having sufficient funds to appropriate funds for a retired state employee increase is a *non sequitur*.

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