

BIENNIAL REVENUE ESTIMATE

January 2023

The Texas Comptroller issues the Biennial Revenue Estimate before every regular legislative session, projecting the amount that lawmakers have available for state programs and services through the upcoming biennium. The 88th Legislature will have a projected 2022-23 ending balance of \$32.69 billion, in addition to \$155.54 billion in total collections of available general revenue-related (GR-R) funds in 2024-25.

Revenue Available for General-Purpose Spending

In Billions of Dollars

PROJECTED

		2022-23	2024-25	
General Revenue-Related (GR-R) Tax Collections	+	\$137.87	\$148.17	
Other GR-R Revenue	+	\$19.12	\$17.72	
Total GR-R Revenue	=	\$156.98	\$165.9	SUBTOTAL
Beginning Balance	+	\$11.68	\$32.69	
Total GR-R Revenue & Fund Balances	=	\$168.66	\$198.58	SUBTOTAL
Reserve for Transfer of Unencumbered and Unobligated General Revenue Fund Balance to the Economic Stabilization Fund	-	\$5.71	\$0	
Reserve for Transfer to the Texas Tomorrow Fund	-	\$0	\$0.15	
Reserve for Transfer of Severance Taxes to the State Highway Fund	-	\$6.96	\$7.34	
Reserve for Transfer of Severance Taxes to the Economic Stabilization Fund	-	\$6.96	\$2.86	
Total Revenue Available for General-Purpose Spending	=	\$149.04	\$188.23	TOTAL

State Revenue, General Revenue-Related

Motor Vehicle Sales & Rental Taxes

Oil Production Tax

Franchise Tax

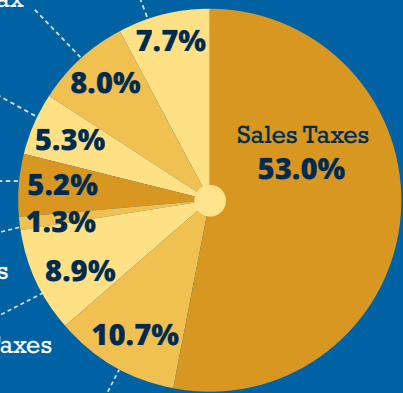
Natural Gas Production Tax

Motor Fuel Taxes

All Other State Taxes

Other Revenues

Fees, Investments & Other Non-Tax Revenue



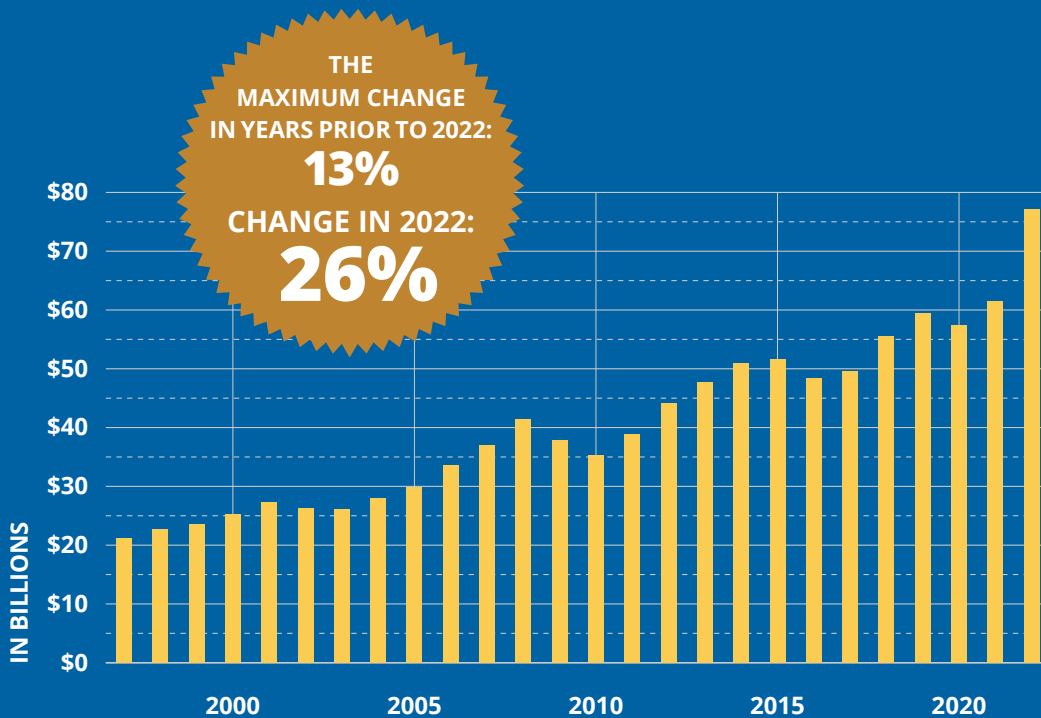
Note: The amount reserved for transfer of severance taxes to the ESF is reduced by \$0.69 billion in fiscal 2024 and by another \$3.79 billion in fiscal 2025 because the ESF will have reached its constitutional cap.

Totals may not sum because of rounding.

REVENUE COLLECTIONS

Total Tax Collections 1997 to 2022

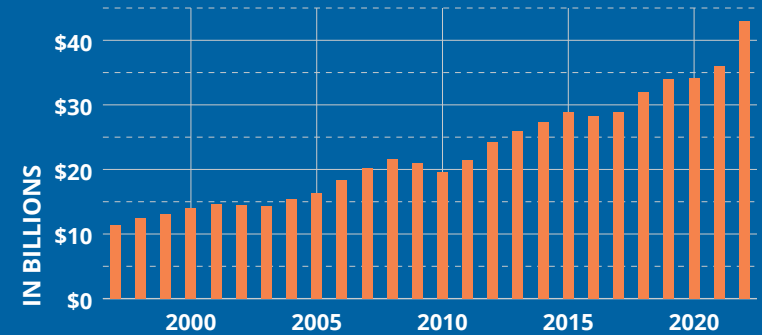
(All Funds, Excluding Trusts)



Texas has seen record growth in All Funds revenue tax collections, due to a vigorous economic rebound after pandemic restrictions were lifted, high energy prices and inflation. The increase for fiscal 2022 was 25.6 percent compared to the previous year. Since 1997, the growth rate has exceeded the prior fiscal year by double digits only five times — and the largest previous increase was 13.4 percent.

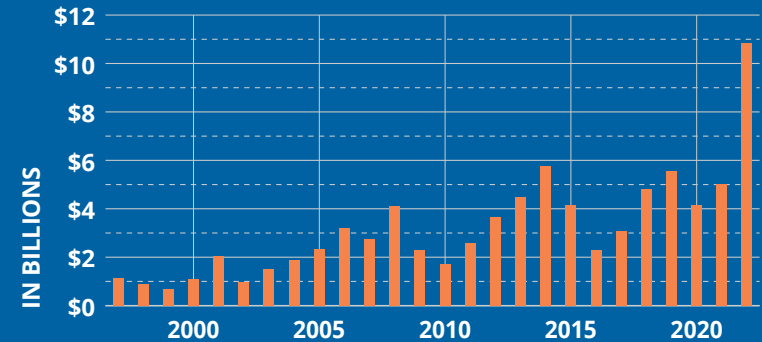
Sales Tax Collections, 1997 to 2022

(All Funds, Excluding Trusts)



Severance Tax Collections, 1997 to 2022

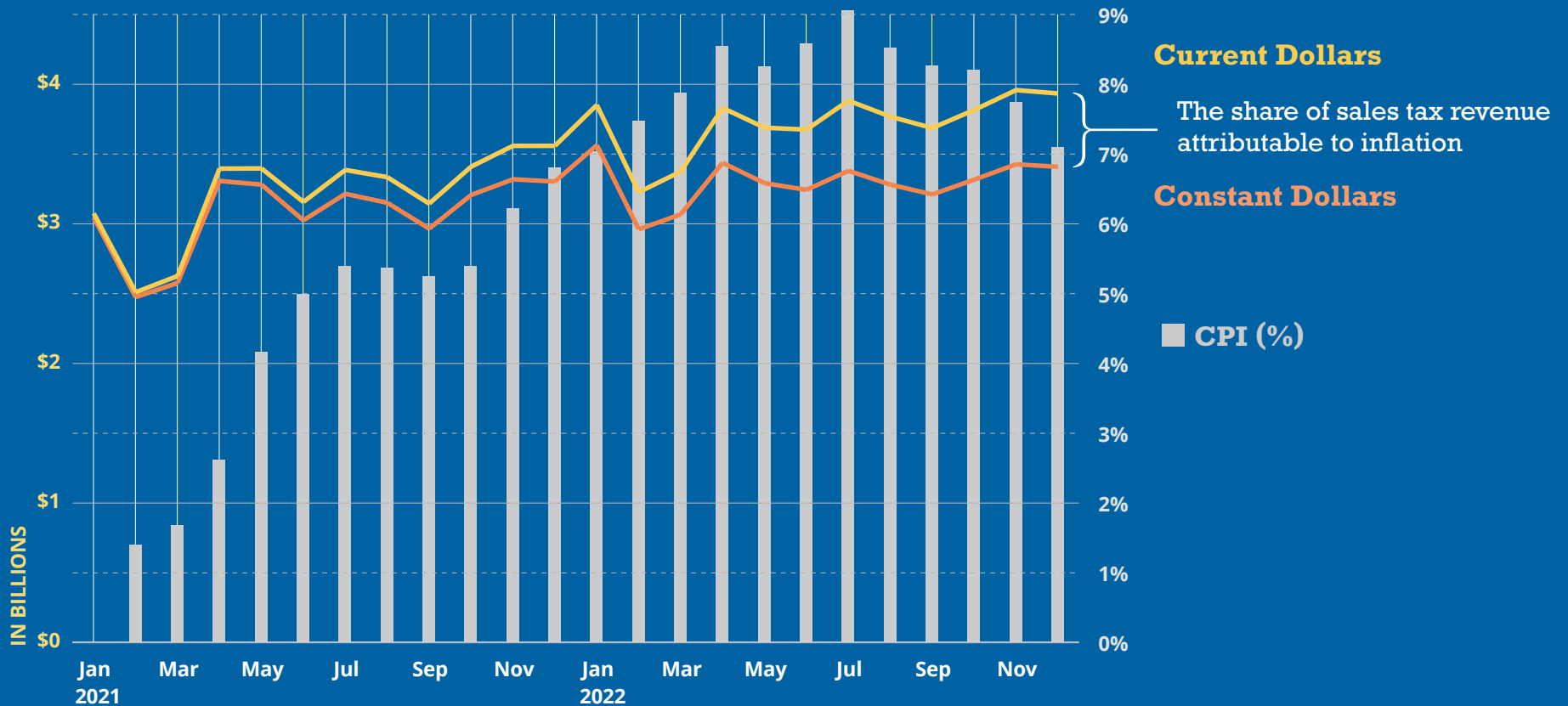
(All Funds, Excluding Trusts)



INFLATION

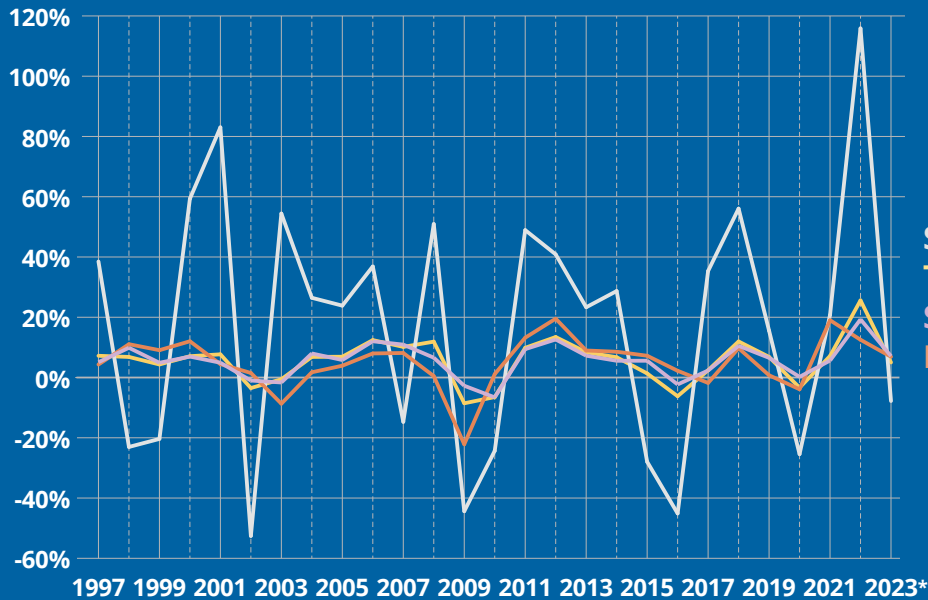
The highest rate of general price inflation in 40 years has helped to drive the substantial increase in sales tax revenue collections. Inflation is no longer accelerating, but it remains well above the Federal Reserve's policy target. If the Federal Reserve again significantly increases interest rates to try to control inflation, this could deepen an expected mild recession in 2023.

Sales Tax Revenue, Jan. 2021 to Dec. 2022



VOLATILITY

Percent Change in Sales Taxes, Motor Vehicle Sales and Rental Taxes, Severance Taxes and Total Taxes 1997 to 2023 (All Funds, Excluding Trusts)

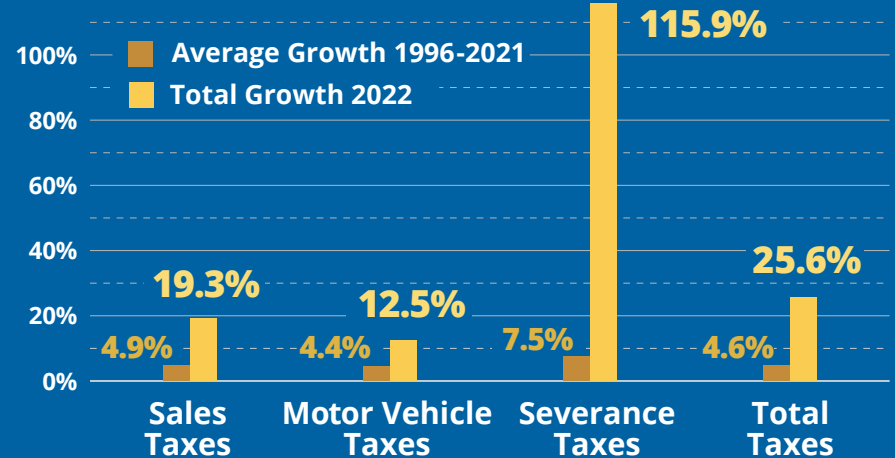


*Amount is estimated in 2024-25 Biennial Revenue Estimate

There is some volatility in all tax collections, but severance tax collections stand out for their large swings over the past two decades. Oil prices were less than \$20 a barrel in January 2002, spiked to a record high of more than \$134 in June 2008, saw a record low negative \$37.63 on April 20, 2020, and surged to \$123 on March 8, 2022, before dropping to \$83 in September 2022. Natural gas market prices, which were around \$2 per million BTUs in the 1980s and 1990s, began climbing in 2002. They reached an all-time monthly average high of \$13.45 in October 2005, declined until they were \$2.05 in April 2012 and rose again to hit \$9.68 in August 2022.

Severance Taxes
 Total Taxes
 Sales Taxes
 Motor Vehicle Sales and Rental Taxes

Growth in Tax Collections



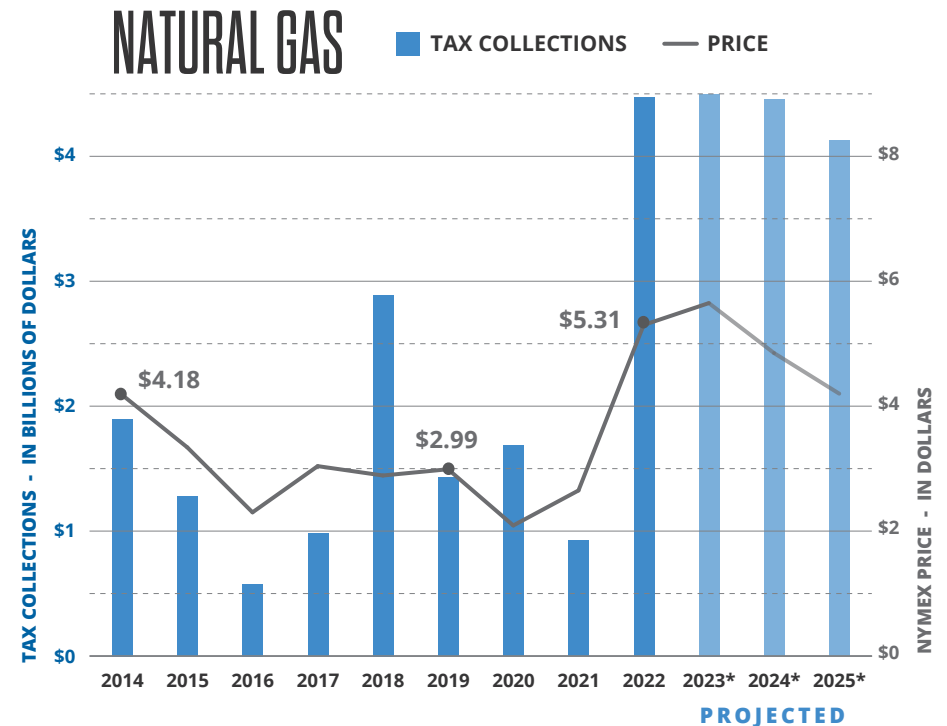
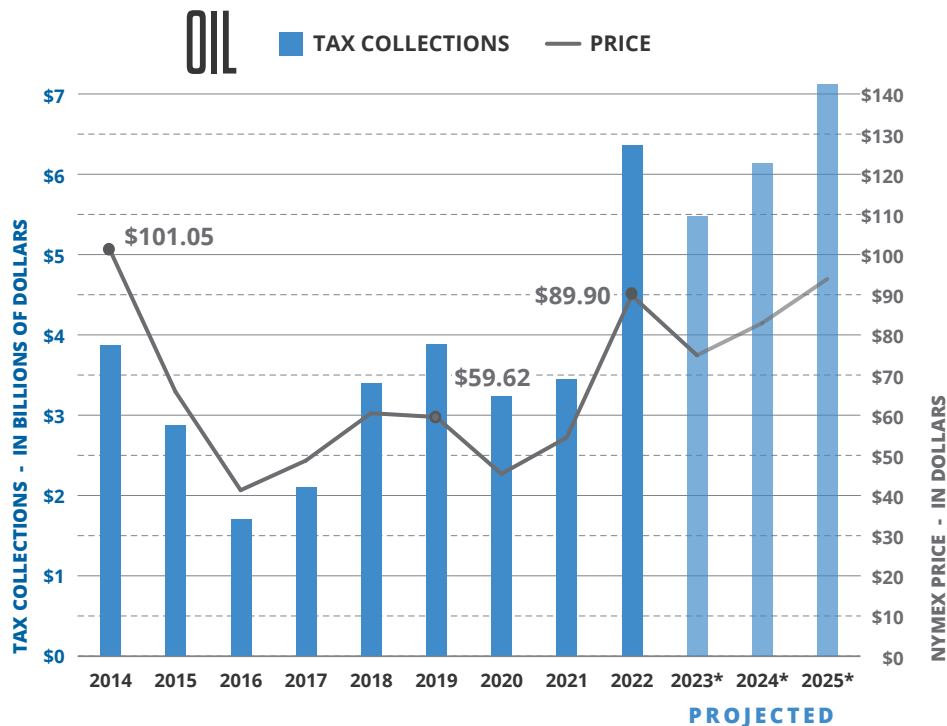
SEVERANCE TAXES: A STORY OF VOLATILITY IN REVENUE AND PRICES

Oil and natural gas production taxes are taxes on the removal of natural resources from Texas land. The oil production tax is levied at 4.6 percent of value, and the natural gas production tax is levied at 7.5 percent of value. These taxes are the product of two factors: price and production. The price of these resources during the last nine years is a study in volatility.

During the last nine fiscal years, the average New York Mercantile Exchange (NYMEX) market monthly prices of oil ranged from \$16.70 to \$114.34. Prices even were negative \$37.63 on April 20, 2020, in response to the COVID-19 pandemic.

The average monthly natural gas NYMEX prices ranged from \$1.70 to \$8.16. FY 2022 saw the second highest price on record (\$9.32 on June 6, 2022), which was mainly attributable to domestic demand increase and the rise of liquified natural gas exports to the European Union to mitigate its supply crises.

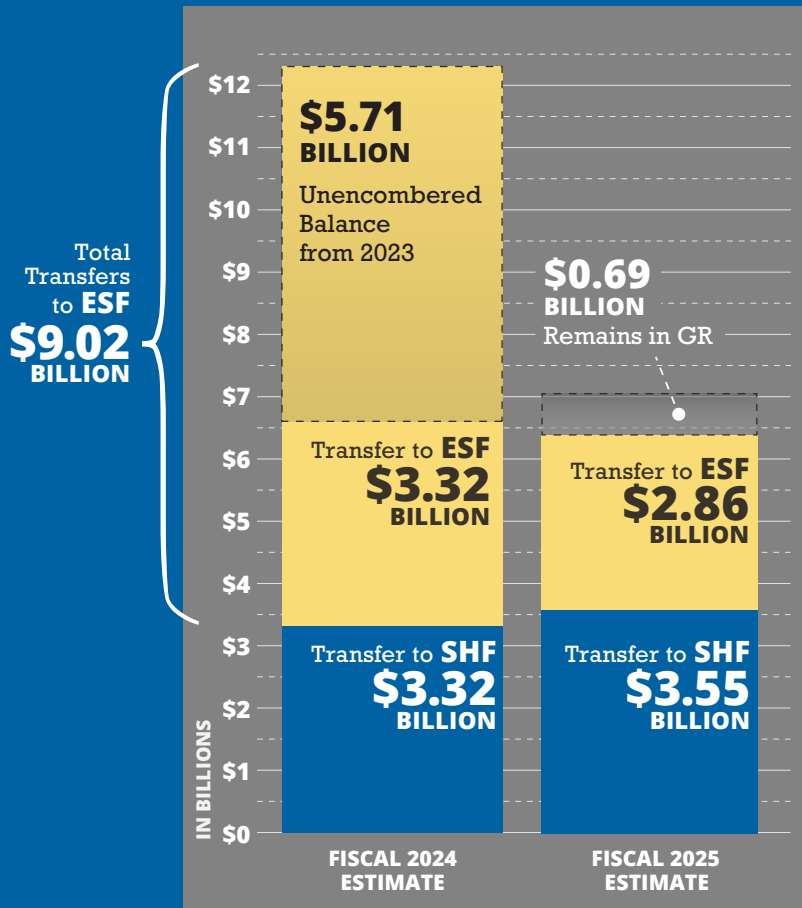
Oil and Natural Gas Production Taxes, Annual Collections and NYMEX Oil and Natural Gas Prices, FY 2014-2025



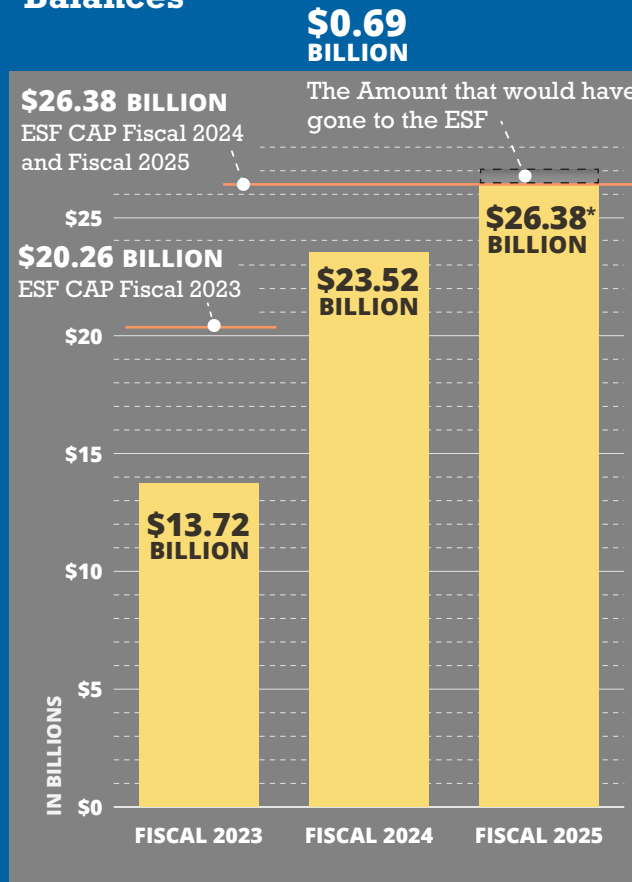
* Tax collections and price are estimated in the 2024-25 BRE
Sources: Texas Comptroller of Public Accounts; U.S. Energy Information Agency (EIA).

TRANSFERS TO ESF AND SHF

Unencumbered and Unobligated General Revenue Fund Balance and Severance Tax Transfers to the Economic Stabilization Fund (ESF) and State Highway Fund (SHF)



Economic Stabilization Fund (ESF) Estimated Ending Balances



The State Highway Fund (SHF) and Economic Stabilization Fund (ESF) receive oil and gas severance tax revenue. In addition, the ESF receives half of any unencumbered balance at the end of a biennium, and the SHF receives a share of sales tax and motor vehicle sales tax. The SHF in 2024-25 will receive \$6.87 billion in severance tax revenue; \$5.65 billion in motor fuel tax revenue; \$5 billion in sales tax revenue; and about \$1.43 billion in motor vehicle sales tax revenue.

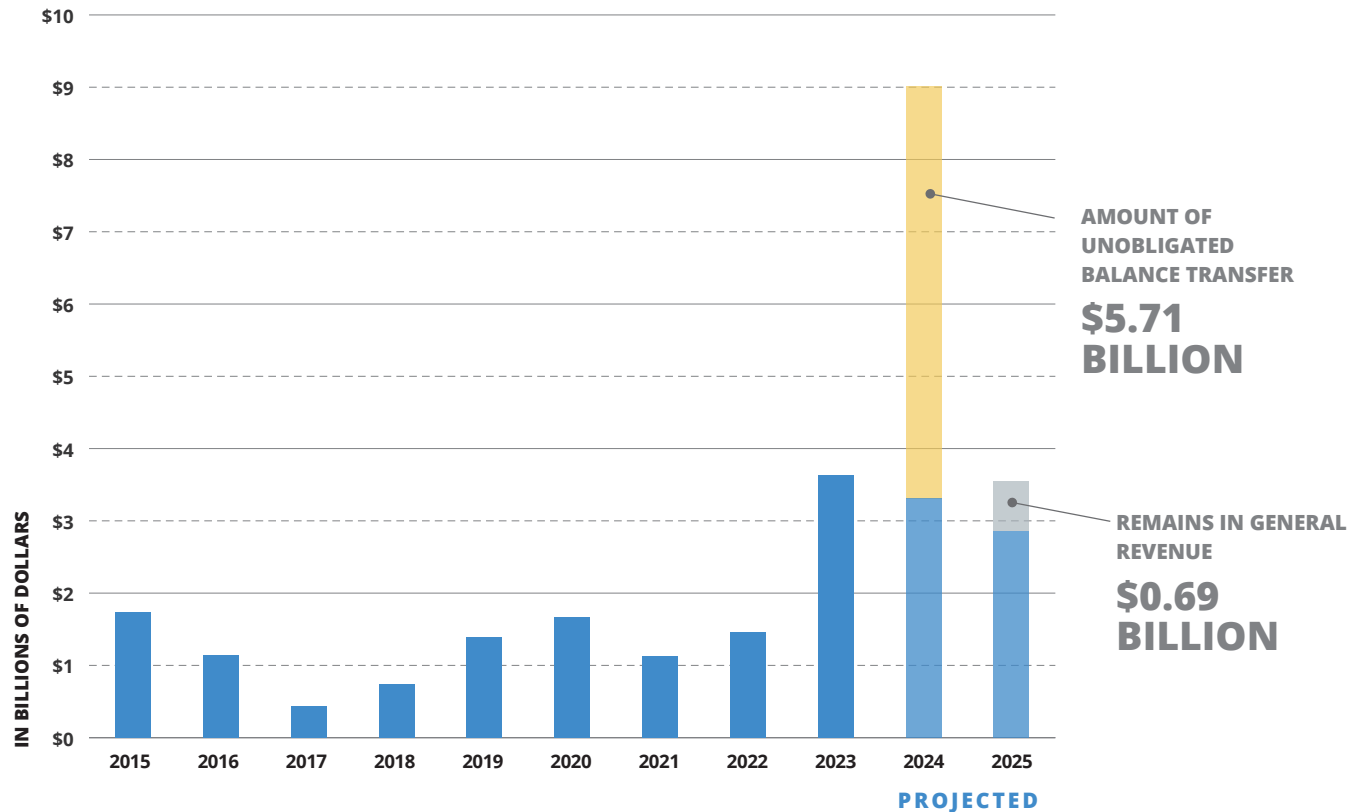
The ESF will receive about \$5.71 billion in general revenue, which is half the unencumbered ending balance for fiscal 2023 (absent any legislative appropriations affecting that balance).

If not for a constitutional spending cap on the ESF, it also would receive about \$6.87 billion from severance taxes in 2024-25. But because the Texas Constitution caps the ESF balance at an estimated \$26.38 billion in fiscal 2025, about \$0.69 billion instead will remain available for general-purpose spending.

*The transfer of severance taxes in fiscal 2025 will result in the ESF reaching its constitutional limit of \$26.38 billion for the 2024-25 biennium. We project that returns on the invested portion of the ESF will result in a fiscal 2025 ending balance of \$27.13 billion.

ECONOMIC STABILIZATION FUND: FUNDING SOURCES, FY 2015-2025

Severance Taxes and Unencumbered and Unobligated General Revenue Fund Balance Transfers to the Economic Stabilization Fund, FY 2015-2025



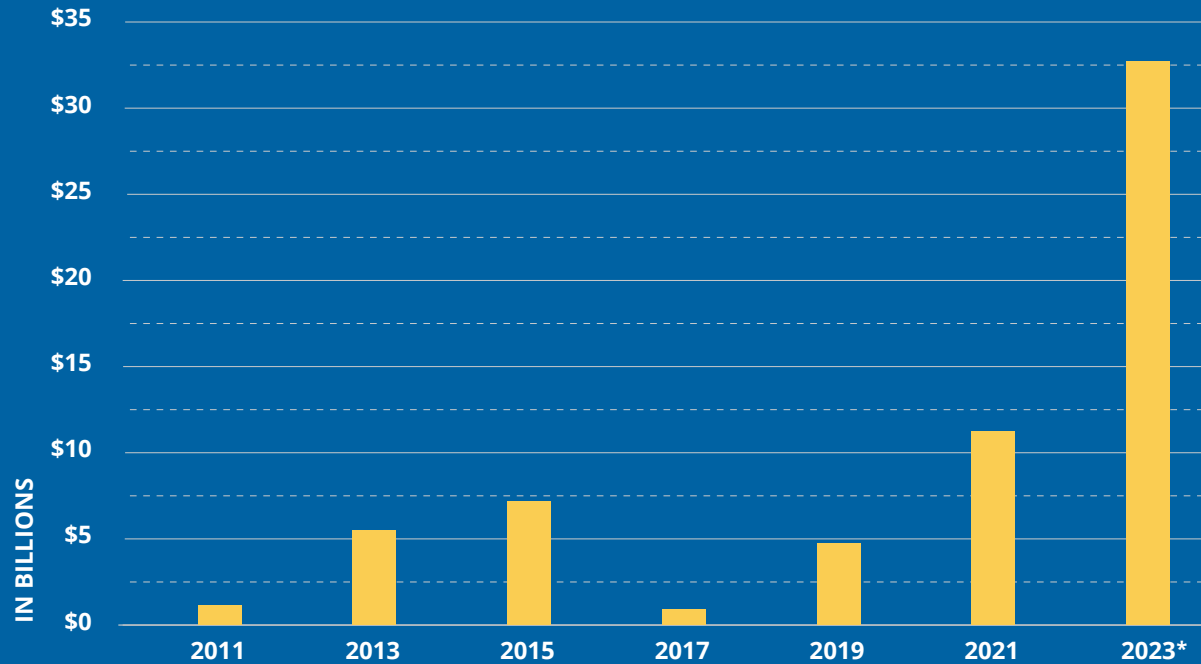
The ESF receives:

- An amount from General Revenue (GR) equal to at least one-half of 75 percent of oil production and natural gas production tax revenues in any fiscal year that exceeds fiscal 1987 collections with the remainder going to the State Highway Fund. These taxes are referred to collectively as “severance” taxes.
- One-half of any unencumbered GR surplus at the end of each biennium. Unencumbered GR is net of any tax allocations yet to be made, state agency encumbrances, accounts payable and payroll accruals, dedicated account balances and any required transfers to the ESF.
- All of the interest earned on the ESF balance and investment income.
- Direct appropriations to the ESF by the Legislature. Through fiscal 2022, no direct appropriations to the ESF have been made.

Source: Texas Comptroller of Public Accounts

BIENNIAL ENDING BALANCES

Ending Balance, Revenue Available for General-Purpose Spending, as of Aug. 31 2011 to 2023



A projected ending balance of \$32.7 billion will be carried forward from 2022-23, giving lawmakers a spending cushion as they make appropriations for state programs and services through the next two-year budget period. A portion of the ending balance is unencumbered, meaning not restricted or committed for future liabilities, such as payroll for work already performed, vendor payments, grants payable or future construction expenditures under an existing contract. Without legislative action, half of the unencumbered balance — \$5.7 billion — is required by the Texas Constitution to be transferred to the ESF. A two-thirds legislative vote would be required to spend this money, and this amount is excluded from the \$32.7 billion available for general-purpose spending.

*Amount is estimated in 2024-25 Biennial Revenue Estimate