

December 12, 2013

The Honorable Rick Perry, Governor  
The Honorable David Dewhurst, Lieutenant Governor  
The Honorable Joseph R. Straus, III, Speaker of the House  
Members of the 83rd Legislature

Ladies and Gentlemen:

In accordance with the Texas Government Code, Section 403.0131, I present herewith the detailed tables for the revenue estimate that I used to certify the General Appropriations Act for the 2014-15 biennium and other appropriations bills approved by the 83rd Legislature.

The estimates in this document include actual state revenue collections and disbursements through Aug. 31, 2013, the end of fiscal 2013, as well as the estimated fiscal impacts from all legislation passed by the 83rd Legislature. After accounting for statutory transfers, adjustments and balances on hand at the close of the 2012-13 biennium, the state will have a total of \$98.89 billion in General Revenue-related funds available to finance appropriations in the 2014-15 biennium. This available revenue supports General Revenue spending of \$96.31 billion for the 2014-15 biennium, producing an expected General Revenue-related biennial ending balance of \$2.58 billion.

This ending balance includes \$964 million, the expected balance on Aug. 31, 2015 from my revenue estimate for the Third Called Session, coupled with the net effect of an assortment of fiscal adjustments expected during the 2014-15 biennium. Also included, and not appropriated for use in 2014-15, is another \$453 million resulting from fiscal 2013 net revenue collections exceeding estimated amounts, and also the effect of significantly less-than-expected state agency spending (approximately \$1.2 billion in unused funds) upon closing the fiscal 2012-13 biennium.

Turning to the economy, the U.S. and Texas are growing, although at different rates. Texas has recovered 100 percent of the jobs lost during the recession and added 597,000 beyond the previous peak in August 2008. In contrast, while growing, the U.S. is still at an employment level 1.5 million lower than that immediately prior to the onset of the recession — now six years ago. The Texas unemployment rate — as low as 4.3 percent in early 2007 — is now at 6.2 percent and continuing to slowly recede.

The economic forecast underlying this revenue estimate projects Texas will continue adding jobs in fiscal years 2014 and 2015, although not at the pace of 2011, 2012 or 2013. Recent data, both for the state and the U.S., point to employment patterns showing continued growth but at a reduced pace. Over the 2014-15 biennium, Texas nonfarm employment is expected to increase by an average of 2.1 percent each year. Adjusted for inflation, Texas' gross state product is expected to grow by an average of 3.6 percent annually in fiscal 2014 and 2015, slightly exceeding the nation's expected growth rate of 2.8 percent annually.



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It should be noted that oil (and natural gas) exploration and production figured prominently in the state's economic and fiscal fortunes these past few years. Oil prices have remained firm from late 2009 to the present; the number of drilling rigs operating is near an all-time high; and the Eagle Ford Shale and new Permian Basin plays continue development with accompanying increases in production. Fiscally, this level of activity contributed substantially to the \$2.51 billion transfer to the Economic Stabilization Fund (ESF) I made late last month. Further, following voter approval last month, I have transferred \$2.00 billion from the ESF to the State Water Infrastructure Fund for Texas. In fiscal 2015, I expect to make an additional \$1.38 billion transfer to the ESF from oil and natural gas severance tax revenue, as well as a \$1.38 billion transfer to the State Highway Fund assuming voter approval in November 2014 of such distributions. I am projecting the ESF will end the 2014-15 biennium, assuming no further appropriations, with a balance of \$8.07 billion.

The Texas economy has recovered and is sustainably expanding; however, events throughout the world are, as is always the case, of great concern. A broad Eurozone recession, something I have brought to your attention previously, did in fact unfold. While recovery appears to have sluggishly begun, growth in Europe is quite weak. China is recovering from an economic slowdown, but is not back to the level of economic performance seen prior to 2008. And the continuing political gridlock in Washington is still, generating an unwanted economic headwind, a negative effect not only on the purchasing decisions of households, but of businesses as well. The most likely scenario for our state during the 2014-15 biennium continues to be one of slow, steady expansion.

I shall continue to monitor the Texas economy and revenues closely, and I shall keep you informed of any significant events as they arise.

Sincerely,

Susan Combs

Enclosure

cc: Ursula Parks, Director, Legislative Budget Board

