The 2016-17 Certification Revenue Estimate

The State of Texas will have an estimated $110.31[1] billion available for general-purpose spending in the 2016-17 biennium, 6.4 percent more than in 2014-15. This figure represents the sum of the 2014-15 ending balance and estimated tax and non-tax revenue collections in 2016-17, less revenue set aside for transfers to the Economic Stabilization Fund (ESF) and State Highway Fund (SHF), and adjustments to General Revenue-dedicated account balances. Taking all state revenue sources into account, the state is expected to collect $214.00 billion in revenue for all state funds in 2016-17.

The state's tax system is the main source of General Revenue-related funding.[2] Tax collections in 2016-17 will generate $93.13 billion, while non-tax revenue sources will produce an additional $12.63 billion. Factoring in the estimated $8.34 billion ending balance carried forward from 2014-15, these three sources will total $114.11 billion. Against this amount, $2.67 billion must be placed in reserve for future transfers to the ESF and the SHF, and $1.13 billion must be deducted for various adjustments to General Revenue-dedicated account balances (**Table 1**).

General Revenue-related spending is expected to total $106.22 billion in the 2016-17 biennium (**Table 2**). Subtracting this amount from the projected $110.31 billion available for general-purpose spending leaves an estimated 2016-17 ending balance of $4.09 billion (**Table 3**).

Texas Economic Outlook

Despite significant retrenchment in the oil and natural gas and related industries during the past eight months, Texas added 319,000 nonfarm jobs in fiscal 2015, more than any other state except California. Total nonfarm employment rose by 2.8 percent in 2015, to 11,775,000. Employment growth is expected to slow in the 2016-17 biennium, however, rising by a projected 1.7 percent in fiscal 2016 and 1.8 percent in 2017 (**Table 4**).

After increasing by 5.8 percent in fiscal 2014, Texas real gross state product (GSP) grew by an estimated 2.4 percent in 2015, led by increases in the construction, mining and logging and education and health services industries. Real GSP is expected to increase by 2.4 percent in fiscal 2016 and another 2.3 percent in 2017.

While Texas real GSP grew by 2.4 percent in fiscal 2015, its nominal (current-dollar) value rose by only 0.7 percent as a result of the precipitous decline in oil and natural gas prices. The monthly average market price for oil fell from $96.54 per barrel in August 2014 to $42.87 in August 2015, a decline of more than 55 percent. Nominal GSP is expected to increase by 3.2 percent in 2016 and 4.3 percent in 2017.

1 The amount originally cited as reserved from fiscal 2016-17 oil and natural gas tax collections for transfer to the ESF and the SHF ($2.539 billion) was slightly understated, and the report has been revised to reflect the correct amount of $2.669 billion, a difference of $129.5 million.

2 General Revenue-related funds affect the discretionary spending detailed in the General Appropriation Act and consist of the General Revenue Fund; Available School Fund; State Instructional Materials Fund; Foundation School Program General Revenue-Dedicated Account; and the General Revenue Account related to the Tobacco Settlement. Unless otherwise specified, revenues presented in this report are for General Revenue-related funds.

After growth of 4.2 percent in fiscal 2014, Texas personal income rose by an estimated 4.8 percent in 2015. Personal income is projected to grow by 4.7 percent in 2016 and 5.9 percent in 2017.

The Texas unemployment rate has improved substantially, from an average of 5.3 percent in fiscal 2014 to 4.4 percent in 2015. As of August, the state's unemployment rate was 4.1 percent. Further improvement is not expected in the next two years, however, with an estimated average of 4.3 percent in 2016 and 4.4 percent in 2017.

In summary, the recent fall in oil and natural gas prices and the absence of significant recovery in those prices is expected to result in reduced economic activity that will slow the rate of growth of the Texas economy during the next two years. Texas' GSP, personal income and employment growth all are projected to be in line with U.S. growth rates, but lower than Texas experienced during the rebound from the Great Recession. Texas' unemployment rate, however, will continue to be lower than that of the U.S.

The 2014-15 Ending Balance

The ending General Revenue-related certification balance for 2014-15 was $8.34 billion, after setting aside $2.27 billion for constitutionally required transfers to the ESF and SHF from fiscal 2015 oil and natural gas severance tax collections. The ending balance, in addition to estimated net revenue collections in the 2016-17 biennium, will be used to fund 2016-17 appropriations (**Table 3**).

Transfers to the Economic Stabilization Fund and State Highway Fund

The constitutionally required transfer of fiscal 2015 oil production tax and natural gas production tax collections reserved for deposit to the ESF and SHF in fiscal 2016 will total $2.27 billion, an amount that will be divided equally between the two funds. These transfer amounts have been deducted from revenues and balances available for the 2016-17 biennium.

In fiscal 2017, the two funds will receive equal shares from an estimated $1.19 billion reserved from oil and natural gas production taxes collected in fiscal 2016. An estimated $1.48 billion will be reserved from fiscal 2017 oil and natural gas tax collections for transfer to the two funds in fiscal 2018, in the next biennium.

After the fiscal 2017 transfers, and accounting for interest and other investment earnings, the total ESF balance—cash and the invested balance—should reach $10.40 billion at the end of the 2016-17 biennium, absent any additional appropriations from the fund. The constitutional limit on the ESF balance, estimated to be $16.20 billion during the course of the 2016-17 biennium, will not be reached.

Tax Revenue

The state's tax system is the main source of General Revenue-related funding. Tax collections in the 2016-17 biennium are expected to total $93.13 billion, a modest 1.5 percent increase from collections in 2014-15. In 2016-17, tax collections will be 88 percent of total net general revenues (**Table 1**).

Since 1988, state sales tax revenues have accounted for more than half of all state General Revenue-related tax collections. In the 2016-17 biennium, sales tax collections are expected to be $59.69 billion, accounting for 64 percent of all General Revenue-related tax collections. The motor vehicle sales and rental taxes, at $9.77 billion, and the franchise tax, at $5.70 billion, are the next largest sources of General Revenue-related revenue for 2016-17.

Sales and Use Taxes: General Revenue-related collections from the state sales tax (at a rate of 6.25 percent) were $56.06 billion in the 2014-15 biennium, an increase of 12.3 percent compared to 2012-13 collections of $49.94 billion. This growth was propelled by an expanding economy, with taxable spending by consumers and businesses on the rise. Growth in sales tax revenue was tempered in the latter months of fiscal 2015, as oil and gas exploration and production companies began to curb spending in response to lower energy prices.

While the outlook is for continued expansion in the broader economy, subdued spending in the energy sector should further dampen the rate of growth in sales tax collections in the 2016-17 biennium. General Revenue-related sales tax revenue is forecast to grow by only 6.5 percent for the biennium, to $59.69 billion. The estimate assumes no unfavorable outcomes for the state related to significant sales tax litigation during the biennium.

The fireworks sales tax was repealed by the 84th Legislature (SB 761, effective September 1, 2015). A small amount of revenue will be collected in the 2016-17 biennium.

Franchise Tax: Franchise tax collections for all funds increased by a modest 0.3 percent, from $9.36 billion in the 2012-13 biennium to $9.39 billion in 2014-15, reflecting changes made by the 83rd Legislature to the tax, including temporary reductions in the basic franchise tax rates, an additional method for determining taxable margin, and a new tax credit for research and development activities. Without those changes, the growth in tax collections would have been in line with growth of the Texas economy.

More significant changes were enacted by the 84th Legislature (HB 32, effective January 1, 2016). The basic tax rates were permanently reduced by 25 percent; the rate for the EZ calculation was reduced from 0.575 percent to 0.331 percent; and the total revenue threshold to determine eligibility for the EZ calculation was raised from a maximum of $10 million to a maximum of $20 million. These changes will save taxpayers an estimated $2.6 billion in the 2016-17 biennium. Estimated franchise tax revenue collections for 2016-17 for all funds are $7.08 billion, a decrease of 24.6 percent from 2014-15.

Because of the way franchise tax revenue is allocated by law between the General Revenue Fund and the Property Tax Relief Fund (PTRF), the impacts of the tax changes will affect only the PTRF. An estimated $5.70 billion will be deposited to General Revenue in 2016-17. An additional $1.38 billion will be deposited to the PTRF. The estimate assumes no unfavorable outcomes for the state related to significant franchise tax litigation during the biennium.

Motor Vehicle Sales and Rental Taxes: The motor vehicle sales tax applies to retail sales of new and used vehicles (including seller-financed sales) at a rate of 6.25 percent. This group of taxes includes the motor vehicle rental tax (10 percent on rentals of 30 days or less or 6.25 percent on rentals of 31 to 180 days) and the manufactured housing sales and use tax (5 percent of 65 percent of the sales price of a new manufactured home). Together, General Revenue-related collections from this entire group of taxes are expected to reach $9.77 billion in the 2016-17 biennium, an increase of 13.0 percent from 2014-15 collections of $8.65 billion. An additional $80 million will be deposited to the PTRF and the Emissions Reduction Plan Account from collections in 2016-17.

Oil Production (and Regulation) Taxes: The oil production tax is levied at a rate of 4.6 percent of market value. Oil prices declined precipitously during fiscal 2015 as supply continued to outpace demand. The average NYMEX market price in 2015 was $64.94 per barrel, 36 percent below the 2014 average of $101.05. Although Texas oil production in 2015 was almost 19 percent higher than in 2014, oil production tax collections of $2.88 billion in 2015 were 25.7 percent below 2014's all-time record of $3.87 billion.

Looking forward, in 2016 Texas oil production is expected to decline after six years of rising production, as prices are expected to remain low in the near term. The market price is estimated to average $49.48 per barrel in fiscal 2016 and $56.52 in 2017. In turn, oil production tax collections are expected to generate $3.91 billion in the 2016-17 biennium, compared to $6.75 billion in 2014-15, a decrease of 42.1 percent.

The oil regulation tax was repealed by the 84th Legislature (SB 757, effective September 1, 2015). A small amount of revenue will be collected in the 2016-17 biennium.

Natural Gas Production Tax: This tax is levied at a rate of 7.5 percent of market value. As with oil, natural gas market prices fell in fiscal 2015, from an average of $4.23 per million BTUs in November 2014 to a low of $2.59 in April 2015, a drop of 39 percent, and then recovered slightly through the remainder of the year. The fiscal 2015 average of $3.34 was 20 percent lower than the 2014 average of $4.18.

The average number of natural gas drilling rigs operating in Texas fell to 70 in fiscal 2015 from an average of 103 in 2014, yet improved well productivity combined with substantial amounts of natural gas associated with oil production (known as casinghead gas) allowed total production to remain stable in 2015. Production is expected to decline slightly in 2016 and 2017, with prices averaging $2.91 in 2016 and $3.05 in 2017. Tax collections for the 2016-17 biennium are expected to total $1.92 billion, a 39.8 percent reduction from 2014-15 collections of $3.18 billion.

The Railroad Commission has reclassified some oil wells as natural gas wells, potentially making them eligible to pay reduced natural gas production tax rates under the high-cost natural gas provisions of the Tax Code. An increase in the number of such reclassifications granted could result in lower collections from the natural gas production tax than in the estimates in this document.

Motor Fuel Taxes: Motor fuel taxes are levied on gasoline and diesel fuel at a rate of 20 cents per gallon, and on liquefied and compressed natural gas at a rate of 15 cents per gallon. About 75 percent of these taxes are deposited to the SHF and the remaining 25 percent to General Revenue-related funds. These taxes are expected to produce $1.90 billion for General Revenue-related funds during the 2016-17 biennium, 4.3 percent more than the $1.82 billion collected in 2014-15. The revenue increase is primarily due to increased fuel consumption by a growing state population and economy.

The liquefied gas tax on propane fuel was repealed by the 84th Legislature (HB 1905, effective September 1, 2015). A small amount of revenue from the repealed tax will be collected in the 2016-17 biennium, but that will be offset by refunds for unused decals.

Tobacco and Alcoholic Beverage Taxes: Collections to all funds in the 2016-17 biennium from the taxes on cigarettes ($1.41 per pack), cigars (from 1 cent per 10 cigars to $15 per 1,000 cigars) and other tobacco products ($1.22 per ounce for snuff, chewing tobacco, roll-your-own tobacco and pipe tobacco) are expected to decline by 1.5 percent to $2.83 billion from $2.87 billion in 2014-15, a trend consistent with recent fiscal periods. From 2016-17 collections, $1.15 billion will be deposited to the General Revenue Fund and $1.68 billion will be credited to the PTRF.

Texas levies six alcoholic beverage taxes: the mixed beverage gross receipts tax (6.7 percent of gross receipts); the mixed beverage sales tax (8.25 percent); and excise taxes on liquor ($2.40 per gallon), beer ($6 per barrel), wine (from 20.4 to 51.6 cents per gallon) and ale (19.8 cents per gallon). Alcoholic beverage tax collections are deposited to General Revenue. In 2016-17 collections should grow by 11.1 percent to $2.44 billion, compared to $2.19 billion in 2014-15. A seventh tax, levied on airline and passenger train beverages, was repealed by the 84th Legislature (HB 1905, effective September 1, 2015). A small amount of revenue will be collected from that tax in the 2016-17 biennium.

Insurance Taxes: General Revenue-related insurance tax revenue is projected to reach $4.41 billion in the 2016-17 biennium, up 10.3 percent from the $4.00 billion collected in 2014-15. An additional $2 million will be deposited directly to the Department of Insurance operating account in 2016-17. The tax base is expected to display modest growth throughout the biennium, spurred by increases in population, property values and the volume of real estate sales. In addition, the expansion of Medicaid managed care in long-term care facilities (which is subject to the insurance premium and maintenance taxes, while Medicaid on a fee-for-service basis is not) is expected to result in an increase in associated insurance tax payments.

Hotel Occupancy Tax: The hotel occupancy tax is imposed on a person who pays for a hotel, motel or a similar facility at a state tax rate of 6 percent of the price paid for the room. Fiscal 2015 was the fourth consecutive year of record hotel tax collections, reaching $526 million, and 2014-15 biennium collections of $1.01 billion were 20.0 percent above the previous biennium. In 2016-17, collections are expected to reach $1.13 billion, 12.0 percent above 2014-15. Local taxing authorities are authorized to impose and collect an additional local hotel tax.

Utility Taxes: The utility taxes group comprises three separate taxes: the gas, electric and water utility tax, which accounts for more than 80 percent of the group's tax collections; the public utility gross receipts assessment; and the gas utility pipeline tax. In the 2014-15 biennium, utility tax revenue collections were $959 million, an increase of 8.3 percent from 2012-13 primarily due to extreme weather in the winter of 2013-14 that substantially raised utility companies' taxable receipts. In 2016-17, collections are expected to grow by 1.2 percent, to reach $971 million.

Other Taxes: The 84th Legislature repealed, effective September 1, 2015, several taxes in this category, including the attorney occupation tax, sulphur tax, bingo rental tax, controlled substance tax and inheritance tax. Collections from those abolished taxes totaled $35 million in the 2014-15 biennium. The taxes that remain in this category include taxes on oil well services, coin-operated amusement machines, cement and combative sports admissions.

The other taxes category is expected to generate $156 million in General Revenue-related collections in 2016-17, down 53.5 percent from $336 million in 2014-15. In addition to the repeals' fiscal impacts, this expected decline is due to oil well service tax collections falling by 58 percent as oil exploration and production in Texas contracts. A small amount of revenue from the repealed taxes will be collected in the 2016-17 biennium.

Non-Tax Revenue

In 2016-17, the state's General Revenue-related funds are expected to receive $12.63 billion in non-tax revenue, a 1.1 percent increase from $12.49 billion in 2014-15 receipts. The major revenue sources are licenses, fees, fines and penalties; lottery proceeds; interest and investment income; the vendor drug program; unclaimed property and escheated estates; and tobacco settlement payments.

Licenses, Fees, Fines and Penalties: Texas collects revenue from charges levied on business and personal activities, such as transportation (e.g., vehicle registrations and drivers licenses), business regulation (professional licenses), activities that may affect the environment (environmental permits), park usage and certain outdoor activities (parks fees and hunting/fishing licenses), education (university tuition), and court charges. Collections from these sources in the 2016-17 biennium are expected to reach $2.68 billion, 13.5 percent less than 2014-15 collections of $3.10 billion.

More than two-thirds of that revenue decline is due to two actions of the 84th Legislature. HB 7 repealed the $200 annual surcharge applied to various professional licenses, effective September 1, 2015, while SB 1512 redirected the collections from several motor vehicle registration and certification fees from the General Revenue Fund to a new Texas Department of Motor Vehicles Fund, effective September 1, 2016.

Net Lottery Proceeds: Large jackpots on multi-state draw games like Powerball and Megamillions create waves of sales in Texas, but the timing of such events cannot be predicted. The estimate assumes average jackpot levels over the 2016-17 biennium, along with continued steady growth in the scratch-off ticket sales that made up 77 percent of total lottery sales in fiscal 2015. Transfers from lottery sales to the Foundation School Account in General Revenue are projected to total $2.31 billion in 2016-17, an increase of 0.4 percent from the $2.30 billion transferred in 2014-15.

Interest and Investment Income: Interest and investment return collections are expected to be $2.21 billion in 2016-17, 27.6 percent more than 2014-15 collections of $1.73 billion. These revenues largely represent the investment return distribution from the Permanent School Fund (PSF) to the Available School Fund (ASF). They also include interest on state deposits. Most of the 2016-17 growth is attributable to a $433 million increase in the 2016-17 ASF distribution from the amount distributed in 2014-15, due to a rapidly rising balance of the investment corpus in the PSF and the State Board of Education's adoption of a higher distribution rate for 2016-17.

Vendor Drug Program: Revenue from the federally mandated and state-supplemental Medicaid vendor drug programs consists of rebates the state collects from drug manufacturers for drugs that are covered by state Medicaid programs. The General Revenue portion of these rebates is expected to total $1.38 billion in the 2016-17 biennium, an increase of 2.1 percent from the $1.35 billion received in 2014-15. The 2016-17 estimate is based on the Texas Health and Human Services Commission's assumptions for future Federal Medical Assistance Percentages (FMAP) as of August 2015.

Unclaimed Property and Escheated Estates: Revenue collections from these sources are expected to increase to $1.16 billion in the 2016-17 biennium, 15.5 percent more than 2014-15 collections of $1.01 billion. These revenues are the proceeds from abandoned personal property such as checking accounts, savings accounts, certificates of deposit, safe deposit boxes, stocks, bonds mutual funds, mineral proceeds and other types of property.

Tobacco Suit Settlement Claims: In fiscal 1999, Texas began receiving regularly scheduled court settlement payments from tobacco product manufacturers. Texas tobacco settlement collections in the 2014-15 biennium were $986 million, 92 percent of the state's collections from all settlement claims. In 2016-17, Texas tobacco settlement receipts are expected to total $942 million, a 4.5 percent decline from 2014-15, reflecting declining trends in national cigarette consumption.

Revenue to All Funds

Revenue collections deposited to all funds are expected to total $214.00 billion in the 2016-17 biennium, a 0.2 percent decrease from the $214.37 billion collected in the 2014-15 biennium. In 2016-17, General Revenue-related receipts will total $105.77 billion, 1.4 percent above the 2014-15 total of $104.28 billion.

Dedicated federal income in 2016-17 will account for $72.80 billion, 2.6 percent more than the $70.97 billion received in 2014-15. Most federal funds received will be used for health and human services, highway construction and maintenance, and public education programs. A second large source of all funds revenue is the SHF's share of motor fuels tax revenue. This fund is constitutionally dedicated to activities associated with the state highway system.

BP is nearing completion of a legal settlement with the U.S. government and the five states that were affected by the Gulf of Mexico Deepwater Horizon oil spill in April 2010. Under its provisions BP will pay civil penalties to the federal government, with 80 percent of those payments deposited into a trust fund managed by the U.S. Treasury Department to distribute money to the states for programs, projects and activities that restore and protect the environment and economy of those states' coastal areas. The Comptroller assumes any money deposited to the Texas treasury from that trust fund will be dedicated federal income and not available for general purpose spending.

Total estimated revenues do not include certain local funds that are appropriated but not deposited into the State Treasury, but they do include certain revenues deposited in the State Treasury but not appropriated such as royalties deposited to the PSF.