

October 13, 2015

The Honorable Greg Abbott, Governor
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Joseph R. Straus, III, Speaker of the House
Members of the 84th Legislature

Ladies and Gentlemen:

In accordance with the Texas Government Code, Section 403.0131, I present herewith the detailed tables for the revenue estimate I used to certify the General Appropriations Act for the 2016-17 biennium and other appropriations bills approved by the 84th Legislature.

The estimates in this document include actual revenue collections and disbursements through August 31, 2015, and the estimated fiscal impact of all legislation passed by the 84th Legislature, including historically significant tax and fee cuts. These included a reduction in franchise tax rates, a constitutional amendment pending voter approval to increase the homestead exemption for school district property taxes, the elimination of eight taxes and the repeal of a \$200 fee for many professions.

After accounting for statutory transfers, balances on hand at the close of the 2014-15 biennium and expected revenue collections and adjustments, the state will have a total of \$110.31 billion in General Revenue-related funds available. This revenue supports general-purpose spending of \$106.22 billion for the 2016-17 biennium, resulting in an expected ending General Revenue-related certification balance of \$4.09 billion, of which \$3.48 billion represents General Revenue-dedicated account balances.

In fiscal 2016, the Economic Stabilization Fund (ESF) and State Highway Fund (SHF) each will receive \$1.13 billion in transfers from the General Revenue Fund from severance taxes collected in fiscal 2015. We are projecting lower average oil and natural gas prices in fiscal 2016 than we experienced in fiscal 2015. These lower prices, combined with reduced production, will result in transfers of \$594 million to both the ESF and SHF in fiscal 2017.

The Legislature passed a proposed constitutional amendment that would direct more revenue to the state's transportation needs. If voters in November approve the proposed constitutional amendment to deposit a portion of state sales tax and motor vehicle sales tax revenue to the SHF, deposits will begin in fiscal 2018 and, therefore, will have no effect on the 2016-17 biennium.



Comptroller.Texas.Gov

P.O. Box 13528

Austin, Texas 78711-3528

512-463-4444

Toll Free: 1-800-531-5441 ext: 3-4444

Fax: 512-463-4902

** 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.*

October 13, 2015
Page Two

The economic forecast supporting this estimate assumes moderate growth in the state's economy. Recent declines in oil and natural gas prices, with no significant recovery expected in the biennium, will result in slower economic growth than the state experienced in recent years. Thanks in part to a welcoming business climate and regulatory environment, the Texas economy benefited from a technological revolution in oil and natural gas drilling. The "fracking boom" in oil and natural gas production helped Texas emerge from the Great Recession more quickly and strongly than the nation did.

We are projecting a more modest expansion of the Texas economy in this biennium, below the growth rates of recent years. The most likely scenario is one of slow, steady expansion. Economic growth in Texas likely will track more closely to the national rate of growth, in contrast to more robust growth in recent years.

Global economic conditions, of course, can affect the U.S. and Texas economies. Economic growth in China appears to have slowed and Europe remains a concern. Political gridlock in Washington could hamper growth in the economy and can have a direct impact on Texas revenues if it slows the allocation of federal funds for transportation, education and other matters.

Pending state and federal legal and regulatory issues in Texas also could affect revenue and spending. Court decisions in ongoing tax litigation could significantly affect both franchise and sales tax revenues. An expected Texas Supreme Court decision in the school finance case also could affect state spending, revenue collections or both. In addition, the Texas Railroad Commission has reclassified some oil wells as natural gas wells, making them potentially eligible for the high-cost natural gas tax rate reduction. If such reclassifications were expanded, it could adversely affect revenues as a result of refunds and reduced natural gas tax collections. Finally, any changes to Federal Medical Assistance Percentages (FMAP) rates could affect both estimated state revenue collections and spending for the Medicaid program.

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

Sincerely,



Glenn Hegar

Enclosure

cc: Ursula Parks, Director, Legislative Budget Board

