

## The Biennial Revenue Estimate vs. Actual Revenues

*More than Meets the Eye*

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The single bill that must pass every legislative session is the General Appropriations Act (GAA). The GAA itself must be certified by the Texas Comptroller of Public Accounts since the Texas Constitution requires the state budget balance. That is, the comptroller determines whether or not there is enough money in the form of revenues and fund balances to keep expenditures from exceeding available funds.

Every comptroller has a different style. It is a statewide elective office, so politics and personalities play an inevitable part in how the officeholder is perceived. Some comptrollers have made concerted efforts to affect public policy. Others have been content to do only a little more than the duties specifically assigned to them by the constitution and state statute.

One area where some have perceived politics has played a role in comptroller duties is the Biennial Revenue Estimate. A careful look at revenue estimates in comparison to

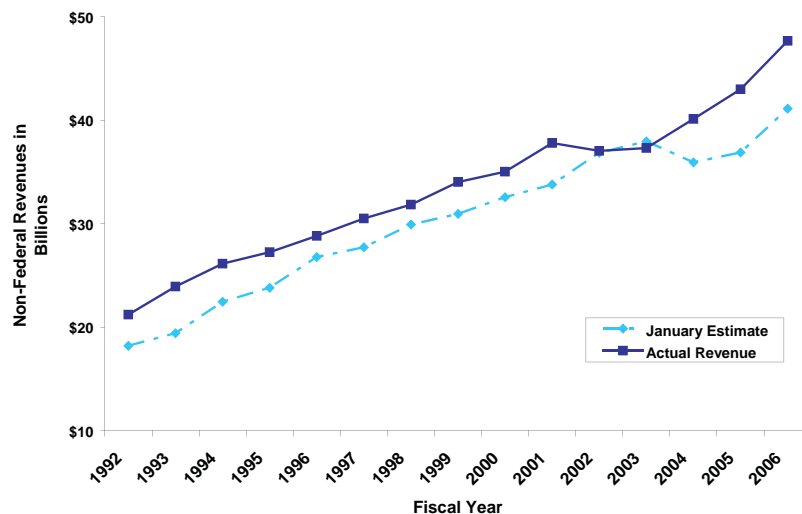
actual revenues fails to confirm such a view, however.

### ACTUAL VERSUS ESTIMATED REVENUES

In Figure 1, the dark line shows actual revenues by fiscal year. The lighter line shows revenue estimates. The estimates were those reported at the beginning of a regular session of the legislature, in January of odd-numbered years. A revenue estimate released in January 1995, for example, gave estimated revenues for fiscal years 1996 and 1997. This is a period of time stretching from September 1, 1995 to August 31, 1997. By the end of any odd-numbered fiscal year, the original revenue estimate for that year was released two years and nine months earlier. It is a truly challenging task for a revenue estimator to prognosticate so far into the future.

Figure 1 shows that revenue estimates regularly undershoot actual revenues. From 1992 through 2001, the average difference in

**Figure 1: January Session Revenue Estimates vs. Actual Revenues**



Source: Comptroller's Biennial Revenue Estimates

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actual and estimated revenues was \$3 billion per year. Actual revenues averaged 12.4 percent higher than estimates from 1992 to 2001.

The average of the differences from 2004 through 2006 is \$5.6 billion per year, an average 14.7 percent difference. The biggest percentage difference occurred in 1993, however, when actual revenues were 23 percent higher than estimated. This was about the time when the income portion of the old franchise tax was freshly implemented. Over the entire period illustrated in Figure 1, including the recent recession, actual revenues exceeded estimated revenues by an average 11.1 percent.

The greater absolute and percentage differences in 2004 through 2006 compared to the differences from 1992 through 2001 would seem to lend credence to the opinion that recent revenue estimates have been intentionally low. However, Figure 2 appears to tell a different story.

## REVENUE ESTIMATES FOLLOW ACTUAL REVENUES

The two lines in Figure 1 look very similar. It almost looks as if they would hardly be distinguishable if one line was laid on top of the other. This impression is confirmed in Figure 2.

Actual revenues are pushed forward in Figure 2 by two fiscal years. That is, the actual revenue for fiscal 1998 is aligned with the revenue estimate for fiscal 2000. To put it another way, the dark line in Figure 1 is advanced to the right two fiscal years in order to get Figure 2. The lines align because of the data, not because of any computer graphic techniques.

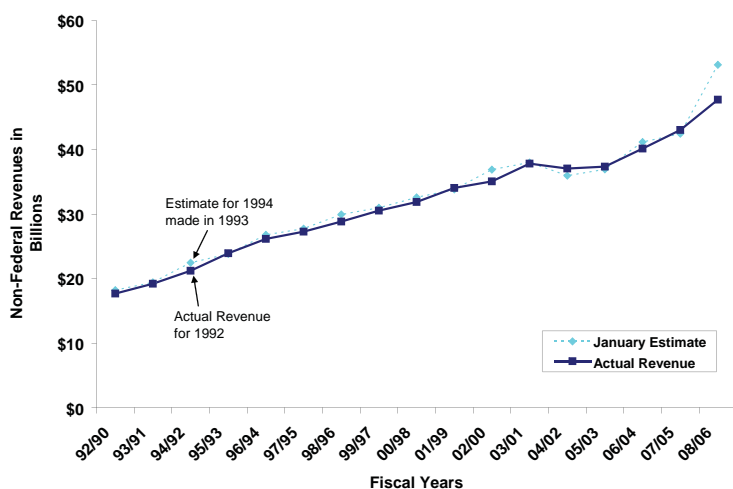
The result is that now the dark line showing actual revenues practically lies on top of the light line showing revenue estimates. The closeness of actual revenues to the revenue estimates for 2 years hence is quite remarkable. It seems to indicate that the revenue estimate for a given fiscal year is just the actual revenue from two years previous, plus about 1.5 percent. In fact, this pattern repeats even through the economic downturn after fiscal 2001, explaining the apparently larger underestimates in recent years. The pattern also repeats through three comptrollers—Bullock, Sharp, and Strayhorn.

In January 1999, when the estimate for 2001 was made, not all revenues for 1999 had yet been collected. Nevertheless, the estimate for fiscal 2001 almost exactly aligns with 1999 actual revenues. It should not be that difficult, however, to estimate what actual revenues will be for a fiscal year once three months of that fiscal year have passed and by January 1999, three months of fiscal 1999 had, indeed, passed.

Note that the last data points in the graph diverge significantly. The estimate for 2008 exceeds the actual for 2006 by \$5.4 billion. This is because the estimate reflects the implementation of the new margins tax on business as well as greatly increased tobacco taxes and other revenues passed in the 3rd Called Session in 2006.

When all the positive fiscal notes from the bills passed in 2006 are summed, new revenues for 2008 amount to an estimated \$4.3 billion. Thus, the revenue estimate for 2008 exceeds actual 2006 revenues and previous estimates of new taxes by \$1.1 billion. The revenue estimate for 2008 appears not to be as conservative as past estimates have been.

**Figure 2: Actual Revenues vs. Estimates for 2 Years Hence**



Source: Comptroller's Biennial Revenue Estimates

## CONCLUSION

Legislators should rest assured—odds are that revenue estimates are significantly lower than what actual revenues will be. In every year but two since 1992, the revenue estimate has been much lower than actual revenues turned out to be. It appears that what we have referred to as 'revenue estimates' were not so much estimates, but simply restatements of actual revenues from the previous two years, adjusted for any changes in tax policy or law. ★