



MARCH 2017

# FISCAL NOTES

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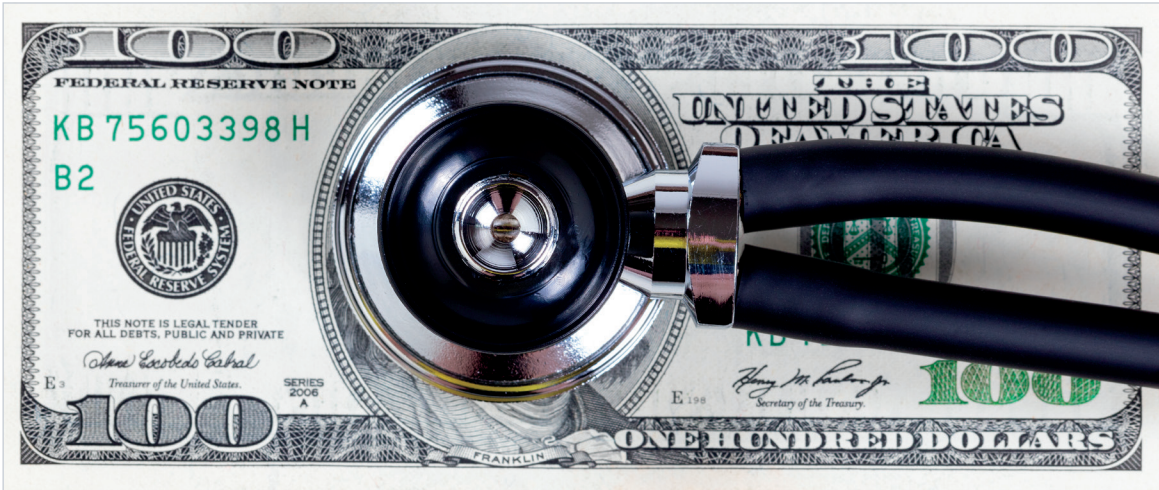
STATE REVENUE WATCH

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## Counting the Cost of Texas Health Care

By Lisa Minton, Liz Vela and Bruce Wright

### COMPTROLLER REPORT EXAMINES VITAL STATE SPENDING



Health care isn't just a common human need, it's one of the largest items in the Texas state budget. It presents a significant continuing challenge to lawmakers, who must find ways to meet the rising costs of medical services provided to indigent and disabled Texans, state employees and retirees and those incarcerated in state prisons.

A new report by the Comptroller's office, *Texas Health Care Spending Report: Fiscal 2015*, quantifies these costs, analyzing spending data provided by 68 state agencies and higher education institutions for the five-year period from fiscal 2011 through 2015.

#### \$43 BILLION AND RISING

Health care spending represents nearly half of the state budget. In fiscal 2015, Texas spent \$42.9 billion on health care, or 43.1 percent of all its appropriations from state, federal and other sources. About 42 percent of this spending came from state general revenue, including dedicated accounts within general revenue. Federal funds covered 43.6 percent, while the remainder came from grants, interagency contracts and other sources.

State government health care spending rose by 19.7 percent from fiscal 2011 to 2015, exceeding the growth of inflation and the Texas population during the same time period (**Exhibit 1**).

A variety of state agencies and institutions support or directly administer numerous health services,

including Medicaid, the Children's Health Insurance Program (CHIP), mental health services, prison health care, health-related research, medical insurance for both active and retired state government employees, workers' compensation and other programs (**Exhibit 2**).

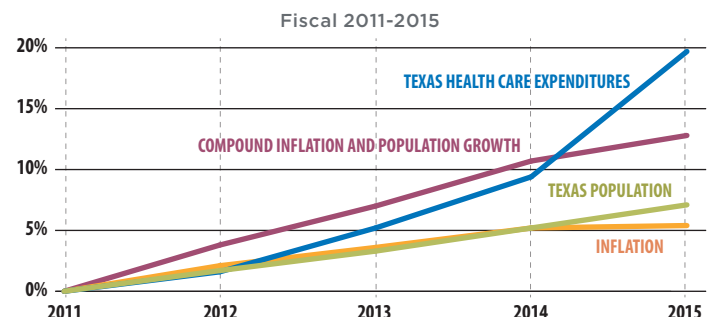
#### SPENDING BY AGENCY

Five state agencies — the Texas Health and Human Services Commission (HHSC), Texas Department of Aging and Disability Services (DADS), Texas Department of State Health Services (DSHS), Employees Retirement

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EXHIBIT 1

#### ANNUAL AND CUMULATIVE RISE IN TEXAS HEALTH CARE SPENDING VS. POPULATION AND INFLATION



Sources: U.S. Census Bureau, U.S. Bureau of Labor Statistics and Texas Comptroller of Public Accounts

# A Message from the Comptroller

Health care is one of the largest areas of government spending in Texas, accounting for about \$42.9 billion or 43 percent of all appropriations made in 2015. And these costs are rising quickly — faster than both the general inflation rate and the growth of the Texas population.



In this issue of *Fiscal Notes*, we look at a recent report by my office, *Texas Health Care Spending Report: Fiscal 2015*, which examines and quantifies health care spending by 68 state agencies and higher education institutions in a recent five-year period. Our report also discusses the reasons for the rapid rise in health care costs — factors such as the introduction of expensive new drugs and medical technologies, the growing incidence of chronic disease and billions in spending for medical care provided to uninsured Texans.

For those seeking better information on the complexities and causes of government health care spending, our report is a good place to start.

We also examine the potential for greater trade with Cuba, the communist regime that's been subject to a U.S. trade embargo for more than 50 years. Despite the embargo, America does allow some trade with the island nation, primarily in food products allowed under humanitarian exceptions in federal law. Relaxing or even removing the embargo could open new markets for Texas, particularly our agricultural producers, but despite recent overtures between Cuba and the U.S., significant statutory and political obstacles remain in place.

As always, I hope you enjoy this issue!

**GLENN HEGAR**

Texas Comptroller of Public Accounts

## PORT OF ENTRY • PORT SAN ANTONIO

Texas' location and diverse economy offer unique trade opportunities and make it a critical gateway to global business. Our state boasts **29 OFFICIAL PORTS** of entry that facilitated nearly **\$650 BILLION** in trade in 2015, trade that supports an estimated **1.6 MILLION TEXAS JOBS** and adds **\$224.3 BILLION** to our gross state product annually. Our ports of entry benefit every part of our state. By highlighting them, we hope to emphasize their importance to a strong, diverse and growing Texas economy.

**Glenn Hegar**  
Texas Comptroller of Public Accounts

## ROOM TO GROW

Port San Antonio was created in 1995 on the site of the former Kelly Air Force Base. Its layout, location and structure differ somewhat from typical ports in our state, providing:

- Convenient access to three interstate highways
- 1,900-acre campus
- 11,500-foot runway with large aircraft capability
- 350-acre rail-served site

## DALLAS-FORT WORTH CUSTOMS DISTRICT

Port San Antonio is part of the larger Dallas-Fort Worth Customs District, which includes Oklahoma and most of Texas. Trade in the district has seen steady growth in recent years.

Year	Imports	Exports
2003	25	15
2004	32	18
2005	38	22
2006	45	25
2007	42	28
2008	40	25
2009	45	22
2010	48	25
2011	52	28
2012	55	30
2013	58	32
2014	60	35
2015	62	38

Source: U.S. Census Bureau

## HOME SWEET PORT

More than 70 public and private-sector tenants call Port San Antonio home. A general-purpose foreign trade zone designation makes it attractive to a variety of industries, including:

- AEROSPACE
- ADVANCED MANUFACTURING
- CYBERSECURITY
- DEFENSE
- LOGISTICS
- ENERGY

## BY THE NUMBERS

Port San Antonio's contributions to the Texas economy are estimated to include:

- 27,000** DIRECT AND INDIRECT JOBS
- \$5.2 BILLION** OUTPUT
- \$3.0 BILLION** GDP
- \$1.8 BILLION** DISPOSABLE PERSONAL INCOME

**PORT SAN ANTONIO IS ONE OF 29 OFFICIAL TEXAS PORTS OF ENTRY.**  
To see a complete list, plus more in-depth regional data, visit:  
[COMPTROLLER.TEXAS.GOV/ECONOMY/ECONOMIC-DATA/](http://COMPTROLLER.TEXAS.GOV/ECONOMY/ECONOMIC-DATA/)  
If you would like to receive paper copies of *Fiscal Notes*, contact us at [fiscal.notes@cpa.texas.gov](mailto:fiscal.notes@cpa.texas.gov)

System (ERS) and Teacher Retirement System (TRS) — accounted for 82.5 percent of all health care spending in fiscal 2015 (**Exhibit 3**).

**HHSC** represented about 59 percent of the state's health care spending in fiscal 2015, with \$25.4 billion in total expenditures, including \$10.4 billion from state funds and \$14.9 billion from the federal government. From fiscal 2011 to 2015, HHSC's health care spending from all funds rose by 26 percent.

Both HHSC and DADS administer Medicaid and CHIP in Texas. Medicaid, a federal program jointly financed by the federal and state governments, supports health care for low-income children and their families as well as long-term care for aged and disabled clients. CHIP pays for health and dental care for children up to age 19 whose family incomes are higher than allowed by Medicaid but still at or below 200 percent of the federal poverty level.

Spending for Medicaid and CHIP totaled \$30.3 billion in 2015, or 70 percent of all state government health care spending.

**DADS** administers Medicaid-funded long-term care in community and institutional settings for the elderly and disabled, including residential services for people with intellectual disabilities in 13 state-supported living centers (formerly called state schools) across the state.

In fiscal 2015, DADS spent \$4.7 billion on long-term care services such as daily needs assistance, employment services, home improvements and hospice care. The state contributed almost \$1.9 billion toward these services in fiscal 2015 (about 40 percent), while the federal government supplied the remaining \$2.8 billion.

**DSHS** provides psychiatric services through the state's mental health hospitals and administers public health programs including disease prevention, community health workers and substance abuse services. DSHS spent \$2.1 billion on these programs in fiscal 2015, 19 percent more than in fiscal 2011. The state's share totaled \$1.4 billion, or 64.3 percent of the total.

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## EXHIBIT 2

### TEXAS HEALTH CARE EXPENDITURES, FISCAL 2015

(AMOUNTS IN MILLIONS)

AGENCY	STATE FUNDS	FEDERAL FUNDS	OTHER*	ALL FUNDS
Cancer Prevention and Research Institute of Texas*	-	-	\$33.9	\$33.9
Employees Retirement System	\$1,355.5	\$292.5	252.9	1,900.9
State Office of Risk Management	22.4	5.0	3.1	30.5
Department of Aging and Disability Services	1,883.7	2,844.3	-	4,728.0
Department of Assistive and Rehabilitative Services	52.1	98.0	1.1	151.2
Department of Family Protective Services	6.7	0.1	-	6.8
Department of State Health Services	1,363.6	533.6	225.0	2,122.3
Health and Human Services Commission	10,435.3	14,940.8	-	25,376.1
Texas School for the Blind and Visually Impaired	6.3	0.7	-	7.0
Texas School for the Deaf	5.2	-	-	5.2
Teacher Retirement System of Texas	1,310.2	-	-	1,310.2
University of Texas System	436.0	-	436.5	872.4
Texas A&M University System	136.6	3.9	70.3	210.8
Health-Related Institutions of Higher Education**	-	-	-	5,041.5
Health-Related Research at Higher Education Institutions***	351.8	-	136.4	488.2
Texas Department of Criminal Justice	619.5	-	0.6	620.1
Texas Juvenile Justice Department	37.9	-	0.6	38.5
Texas Department of Agriculture	2.6	1.7	-	4.2
Texas Department of Transportation	1.9	-	-	2.7
<b>Total Health Care Expenditures</b>	<b>\$18,027.3</b>	<b>\$18,720.5</b>	<b>\$1,156.4</b>	<b>\$42,950.5</b>

Totals may not add due to rounding.

\*\*Other\* includes grants from private foundations, interagency contracts, trust funds, bond proceeds, local accounts held by higher education institutions, etc.

\*\*Expenditures are presented as "All Funds" since the method of finance detail was not available.

\*\*\* "All Funds" does not include all research expenditures. The category includes state general revenue and state grants only.

Source: Texas Comptroller of Public Accounts and various state agencies and institutions

**ERS** administered health insurance for 541,600 plan participants in fiscal 2015, including employees and retirees of state agencies and higher educational institutions other than the University of Texas and Texas A&M University systems (which offer a separate benefit plan) as well as some local government retirees.

In fiscal 2015, the state spent \$1.9 billion in all funds on these benefits, nearly 20 percent more than in fiscal 2011. The state's share of that amount was \$1.4 billion,

23 percent more than in fiscal 2011. (These totals do not include participant co-pays, deductibles or dependent contributions.)

**TRS** administers health insurance for current public school employees (the TRS-ActiveCare plan) and retirees (TRS-Care). As of Aug. 31, 2015, TRS-ActiveCare covered about 290,000 employees, while TRS-Care covered 253,000 retirees.

In fiscal 2015, TRS spent \$1.3 billion, all state funds, on health care coverage for its participants. This total represents a nearly 170 percent increase from 2011, largely due to supplemental legislative appropriations made in fiscal 2013 through 2015 to maintain the financial health of TRS-Care, which has been chronically underfunded for much of its history.

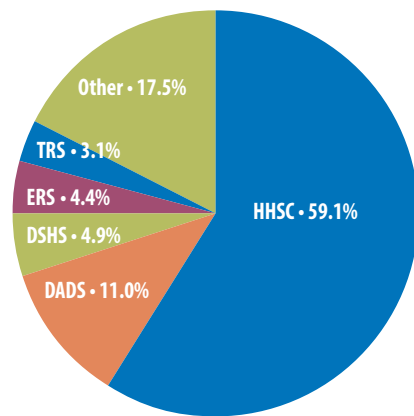
As seen in **Exhibit 2**, a number of other state entities report health care-related expenditures. Collectively, this spending totaled \$7.5 billion in 2015, or 17.5 percent of all health care spending. It included payments for workers' compensation, funding for medical research, services for the disabled, health care for adult and youth offenders, support for rural hospitals and health benefits for personnel of the Texas A&M and University of Texas systems.

### WHAT'S DRIVING COSTS?

The rapid rise in Texas' health care spending is due to a number of factors.

EXHIBIT 3

### SHARE OF ALL HEALTH CARE SPENDING FISCAL 2015



Source: Texas Comptroller of Public Accounts

## DEFINING HEALTH CARE

*Texas Health Care Spending Report: Fiscal 2015* employs a definition of "health care" largely following that used by the U.S. Department of Health and Human Services to produce official estimates of nationwide health care spending.

For the purposes of the report, Texas health care spending includes expenditures for the following goods and services:

### MEDICAL SERVICES

- hospital care
- physician and clinical, dental and other professional services
- home health care
- nursing care facilities and continuing care retirement communities
- other health, residential and personal care

### MEDICAL GOODS

- retail sales of medical products
- prescription drugs
- other non-durable medical products
- durable medical equipment
- personal health care, payers and programs

### HEALTH INSURANCE

- private health insurance\*
- Medicare
- Medicaid
- Children's Health Insurance Program

### OTHER THIRD-PARTY PAYERS AND PROGRAMS

- workers' compensation
- general assistance
- maternal and child health
- vocational rehabilitation
- substance abuse and mental health services
- school health\*\*

### PUBLIC HEALTH ACTIVITY

- non-commercial research
- structures
- equipment

\* Includes health care benefits for state employees and public school teachers.

\*\* Includes costs for the state schools for the blind and deaf.

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## Patented and costly “specialty” drugs are used by only 1 to 2 percent of the American population, but account for about 38 percent of the nation’s spending on pharmaceuticals.

**New medical technologies:** Recent decades have seen unprecedented progress in the medical sciences, including groundbreaking drugs, advanced imaging equipment, improvements in acute disease treatment, the development of non-invasive procedures and a variety of new medical devices.

While such advances have saved innumerable lives, they also drive up the cost of health care significantly. The Hastings Center, a bioethics research institute, reports that up to half of medical cost increases can be attributed to the introduction of new technologies or increased use of older ones. It may seem counterintuitive, given that technological innovation often drives down costs, but understandably both doctors and patients tend to demand the latest and greatest treatments regardless of price.

In particular, drugs represent a significant share of health care costs — about 10 percent of all U.S. health care spending in 2014, according to the National Center for Health Statistics. Total U.S. spending on prescription medicines rose by 13.1 percent in 2014 alone, to \$374 billion.

Patented and costly “specialty” drugs used to treat chronic diseases and conditions are providing much of the impetus behind rising drug costs. A November 2015 report by the Pew Charitable Trusts says specialty drugs are used by only 1 to 2 percent of the American population, but account for about 38 percent of the nation’s spending on pharmaceuticals.

**Chronic disease:** Spending on specialty drugs, in turn, is driven by the prevalence of chronic diseases such as arthritis, asthma, cancer, diabetes, heart disease and stroke. Chronic disease is responsible for nearly two-thirds of all deaths in Texas each year.

Direct medical costs related to chronic diseases, including office visits, inpatient hospital stays, emergency room visits, nursing home care, prescription drugs and medical equipment, continue to rise. According to the Partnership to Fight Chronic Disease, 83 cents of every Medicaid dollar spent goes to treat these conditions.

**Aging population:** People generally require more medical care as they age, and are much more likely to develop one or more chronic medical conditions. Today, a huge number of baby boomers are heading, if reluctantly, into their senior years.

In Texas, the Federal Administration on Aging expects the share of the state’s population 65 and older to rise to 15.6 percent by 2030, up from 9.9 percent in 2000. The number of Texans 65 and older will more than double in the same period, from 2.1 million to 5.2 million.

The aging of the Texas population will have far-reaching health care implications, including an increased need for disability services and home care.

**Increased utilization:** Due in part to the aging of the population, rising obesity rates and other factors leading to a greater incidence of chronic disease, Americans are seeking medical attention more frequently than in the past. According to the National Center for Health Care Statistics, between 2000 and 2010 U.S. primary care physician office visits per 100 persons rose by 11 percent; hospital outpatient visits rose by 10 percent; and emergency room visits increased by 10 percent.

**Uncompensated care:** Each year, Texas hospitals, community providers and physician’s offices provide billions of dollars’ worth of uncompensated care — services provided, generally to indigent persons, without payment. In 2014, Texas hospitals assumed costs of \$5.5 billion in uncompensated care; the nationwide total was \$43 billion in 2015. A 2015 study published by the National Bureau of Economic Research found that each uninsured individual in the U.S. costs hospitals about \$900 per year.

Uninsured patients represent a substantial share of uncompensated care costs. The uninsured are more likely to delay medical care until they are very sick and often seek basic care in emergency rooms, where treatment is much more expensive.

Uninsured Texans are disproportionately poor. In 2015, 58 percent of uninsured Texans lived in households with annual incomes of less than \$50,000, compared with 35 percent of their insured counterparts.

All levels of government help defray the costs of uncompensated care. According to the Kaiser Family Foundation, in 2013 the federal government contributed 62 percent of this funding (\$32.8 billion), while state and local governments provided 37 percent (\$19.8 billion). Private funding, including charity care, accounted for the remainder.

Emerging technologies and the demographics of our state ensure that our need for health care products and services will continue increasing and rising in cost. The question for policymakers is how to contain these costs. **FN**

To see the full text of this report, visit [Comptroller.Texas.Gov](http://Comptroller.Texas.Gov) and search for Texas Health Care Spending Report: Fiscal 2015.

# Will the U.S. Open Up Trade with Cuba?

By Jackie Benton and Bruce Wright

## WARMER RELATIONS COULD BOOST TEXAS EXPORTS



The numbers are an exporter's dream: 11 million consumers in a new, untapped market. Already, Texas businesses are gearing up to provide this market with food products, information technology and even travel-related services.

So, what's the catch?

This dream market is the island nation of Cuba, the communist dictatorship that spent more than a half-century locked in a cold war with the U.S. — one that very nearly turned catastrophically hot. And at this point, despite the recent improvement in diplomatic relations, there's the not-so-little matter of a very strict trade embargo still in effect.

Since former President Barack Obama's March 2016 meeting with Cuban President Raul Castro, renewed trade with Cuba has seemed close. President Obama said he expected the trade embargo to be lifted, which President Castro called "the most important obstacle to our economic development and the well-being of the Cuban people."

But the historic meeting also demonstrated how difficult it will be to normalize relations with a communist state, with all the suspicion and red tape that involves. Even as President Obama was declaring a "new day" between the U.S. and Cuba, President Castro was asserting that his nation had no political prisoners — something few outside Cuba believe. And since the meeting, Cuba's government has repeatedly stressed that it will tolerate no threat to its "sovereignty" in its relations with the U.S.

The suspicion runs both ways. Many Republicans in Congress believe better trade relations would benefit Cuba's rulers rather than ordinary Cubans. President Donald Trump has expressed skepticism about trade relations with Cuba and mentioned his desire to "make a better deal" for both Cuban citizens and America.

Many Americans know of the trade embargo. Fewer, however, are aware the wall against trade has gaps. The U.S. has been quietly exporting goods to Cuba, mostly agricultural products considered humanitarian aid, for more than 15 years. Many Texas farmers hope the federal government will allow more trade in the future.

Texas Governor Greg Abbott led a large state delegation to Cuba in November 2015, meeting with officials from Cuba's Ministry of Foreign Trade and Investment, its Port of Mariel, the Cuba Chamber of Commerce and two Cuban state companies. Abbott described Cuba as an untapped, multibillion-dollar market for Texas farmers, ranchers and energy producers.

### HISTORY OF THE EMBARGO

President John F. Kennedy signed an executive order enacting the U.S. trade embargo on Feb. 3, 1962, in reaction to Cuba's nationalization of U.S.-owned assets. Kennedy said the embargo's purpose was to reduce the "threat posed by [Cuba's] alignment with the communist powers." To date, this executive order still stands.

Congress reinforced the embargo in 1992, with the Cuban Democracy Act, and then again in 1996 with the Cuban Liberty and Democratic Solidarity Act, often

called the Helms-Burton Act, which spelled out very specific conditions for lifting the embargo, including the protection of property rights of U.S. nationals; the legalization of all political activity and release of all political prisoners; a transition to free and fair elections; freedom of the press; legalization of labor unions; and respect for internationally recognized human rights. The embargo can be lifted only when the president determines these conditions are being met.

The Helms-Burton Act was tempered somewhat with the Trade Sanctions Reform and Export Enhancement Act of 2000 (TSRA). Under TSRA, which became effective in July 2001, Cuba can import “humanitarian” goods from the U.S., including medicines and medical devices, airline and civil aviation safety equipment, environmental protection equipment, renewable-energy or energy-efficiency goods, telecommunication products and goods and services to meet the needs of the Cuban people. All proposed exports are reviewed on a case-by-case basis.

TEXAS EXPORTS: TOP FIVE DESTINATIONS, 2016	
NATION	VALUE OF EXPORT
MEXICO.....	\$92,673,905,230
CANADA.....	19,865,410,712
CHINA.....	10,806,601,602
BRAZIL.....	7,147,281,676
SOUTH KOREA.....	6,881,001,217

Source: U.S. International Trade Administration

The rules for this trade, the Export Administration Regulations, are administered by the U.S. Department of Commerce’s Bureau of Industry and Security and the Department of the Treasury’s Office of Foreign Assets Control.

Congress’s enactment of the TSRA allows for certain trade exemptions, but continues to ban federal and private financing for U.S. exports to Cuba. In other words, no U.S. governmental program or private concern can extend credit to Cuban buyers.

The result: Cuba must pay in cash, in advance, for all American goods and services. Cuba has found it difficult to acquire the hard currency needed for such transactions, and building trade without financing has proven challenging.

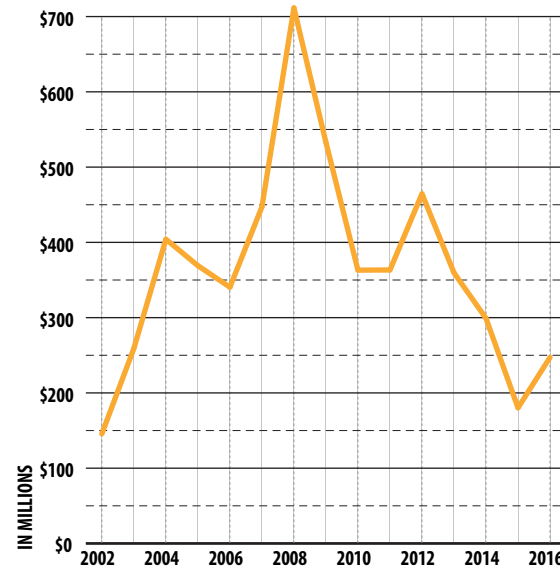
### EXPORTS TO CUBA RISE — AND FALL

According to the International Trade Administration, U.S. exports to Cuba under the various exceptions written into law totaled only \$145.6 million in 2002 but quintupled within five years, reaching \$711.5 million in 2008 (**Exhibit 1**). Exports to Cuba have fallen significantly since that time, however, declining by 65 percent since 2008.

Texas exports to Cuba followed a similar pattern but declined even more sharply, peaking at nearly \$96.2 million in 2008 and declining to less than \$219,000 in 2016 (**Exhibit 2**). In 2016, Texas accounted for only about 0.1 percent of U.S. exports to Cuba (**Exhibit 3**).

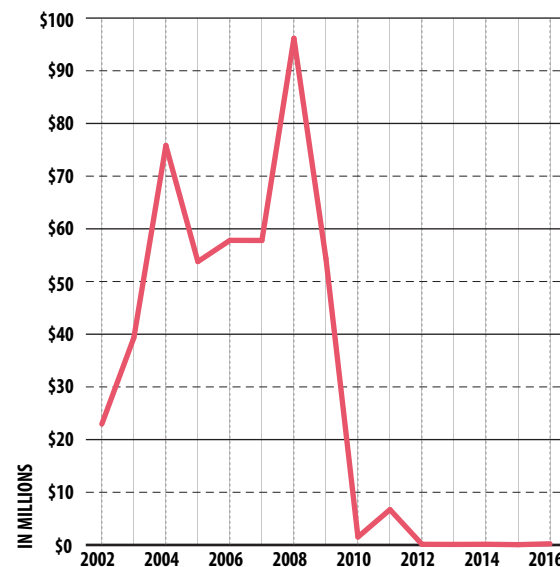
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**EXHIBIT 1**  
**U.S. EXPORTS TO CUBA**  
**2002 - 2016**



Source: U.S. Department of Commerce, International Trade Administration

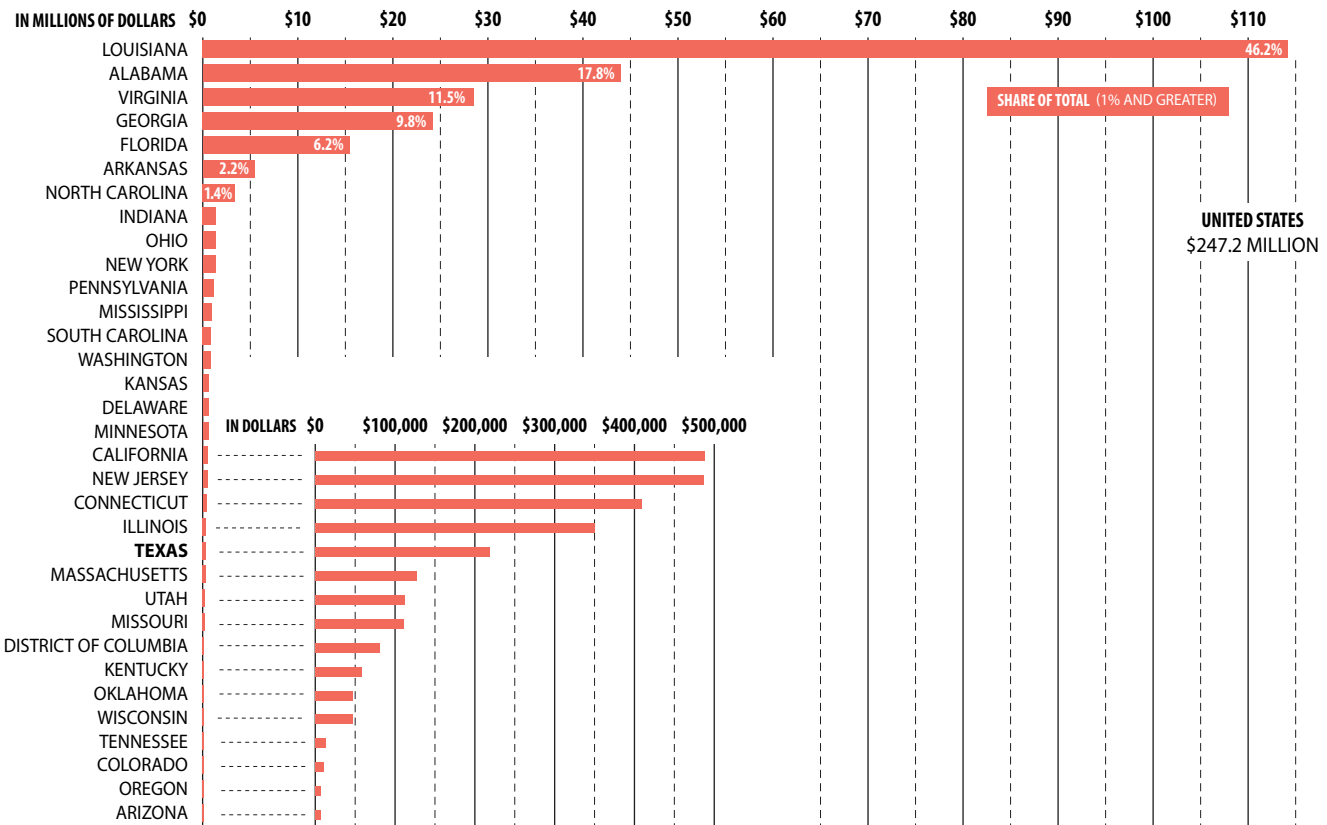
**EXHIBIT 2**  
**TEXAS EXPORTS TO CUBA**  
**2002 - 2016**



Source: U.S. Department of Commerce, International Trade Administration

EXHIBIT 3

U.S. EXPORTS TO CUBA, 2016, BY STATE



Source: U.S. Department of Commerce, International Trade Administration



**Dr. C. Parr Rosson**  
Department Head,  
Department of Agricultural  
Economics, Texas A&M  
University

Cuba imports up to 80 percent of its food each year, and nearly all of its imports from the U.S. are foodstuffs, particularly poultry, corn and soybean products.

In the peak year of 2008, two industrial categories — agricultural products and “food manufactures,” animal and vegetable materials that have been processed into food products, such as packaged chicken parts — accounted for 93 percent of U.S. exports to Cuba and all but a tiny fraction of Texas’ exports.

Dr. C. Parr Rosson, head of the Department of Agricultural Economics at Texas A&M University, attributes the sharp decline in exports to Cuba to the fact

that the island nation has shifted away from U.S. food products in favor of those from the European Union, Brazil, Argentina, Vietnam and other nations. Credit terms offered by some of these nations allow Cuba to conserve its hard currency reserves and make larger purchases over time.

**CASH IS KING**

The TSRA “cash-only” requirement, then, may have cost U.S. and Texas agriculture producers dearly.

Cuban demand for rice is huge, for example, but no U.S. rice producer has exported to Cuba since 2008. Dwight A. Roberts, president and CEO of the U.S. Rice Producers Association, says the market potential for Texas farmers is significant.

“Cuba is a country of just over 11 million people, and they are very large consumers of rice,” Roberts says. “They eat approximately 80 kilos per person per year — it’s a basic staple of their diet, as it is in a lot of countries around the world. Their annual consumption is 900,000 tons to a million tons, and they have to import because they only produce about half of what they need.

“Cuba has never neglected to pay under cash terms,” Roberts says. “But credit is a large part of international trade and financing. For Cuba to not be allowed credit — they take it as an insult.”

In January 2017, Arkansas U.S. Representative Rick Crawford introduced H.R. 525, the Cuba Agricultural Exports Act, which would repeal restrictions on export financing and give producers access to U.S. Department





**Dwight A. Roberts**, President and CEO,  
U.S. Rice Producers Association

of Agriculture marketing programs that could help them compete in Cuba's markets. It would also allow limited U.S. investment in Cuban agribusinesses, as long as U.S. regulators certify the entities are privately owned and not controlled by the Cuban government or its agents. At this writing, the bill is being jointly considered by the U.S. House committees for Foreign Affairs, Financial Services and Agriculture.

### **PORT OF MARIEL**

Dr. Luis A. Ribera, associate professor and director of the Center for North American Studies with Texas A&M's Department of Agricultural Economics, says Cuba's newly opened Port of Mariel, only 903 miles from the

Port of Houston, should make the island particularly appealing to Texas exporters.

Before Mariel's new container facility opened, Cuba's ports could receive only relatively small cargo vessels.

"It's definitely a game changer," says Ribera. "It's a state-of-the-art port and can handle the big ships that can carry 12,500 TEUs. The port is equipped with four cranes with a capacity of 824,000 TEUs annually." (A 20-foot equivalent unit, or TEU, represents a shipping container 20 feet long and eight feet tall; it's a standard measure of cargo capacity.)

The Port of Mariel is trying to establish itself as the "hub of the Americas," as part of the Mariel Special Economic Development Zone, a 180-square-mile area destined for business development in areas such as agricultural processing, manufacturing and oil imports.

### **WARMING TREND**

While relations between the U.S. and Cuba have been slow to improve, signs of a thaw are unmistakable.

For the first time in more than 50 years, U.S. airlines are flying regularly scheduled passenger flights to Havana. On Nov. 28, 2016, Texas-based American Airlines Flight 17 became the first regularly scheduled U.S. commercial flight to land in Havana, leaving Miami

**CONTINUED ON PAGE 10**



Port of Mariel, Cuba. Photo courtesy of Dr. Luis A. Ribera

and arriving to a water-cannon salute. Since then, seven other U.S. airlines — Alaska Airlines, Delta, Frontier, JetBlue, Spirit, Southwest and United — have begun service to Cuba.

In June 2016, Starwood Hotels & Resorts announced an agreement with the Cuban government to open Four Points Havana, the first American hotel allowed to operate there since the revolution. Under the agreement, the Cuban government owns the hotel, while Starwood manages the property's renovation and day-to-day operations. The agreement received the approval of the U.S. Treasury Department, allowing Starwood to finance property improvements through U.S. financial institutions.

Airbnb, an online community marketplace for home sharing, launched in Cuba after travel restrictions were loosened in 2015. Cuba quickly became the fastest-growing market the online giant has ever launched, despite issues such as a pervasive lack of internet access in Cuba — private citizens cannot access the internet without government authorization — and the inability of Cuban hosts to receive payments directly from an American company. (Instead, Cubans employ work-arounds involving "hosting partners," essentially middlemen.)

But Rosson says Cuban internet use is on the rise and predicts it will have major implications for Cuba's future.

"Internet penetration in Cuba five years ago was about 5 percent," says Rosson. "By last year it had gone up to 35 percent, and is projected to increase again in the next couple of years. And that represents a groundswell of change in terms of information, communications, access to information that people can factor into their business and daily decisions. Those kinds of changes are subtle, but they're very important."

Cuba will never be one of America's largest trading partners, but the potential benefits are real and significant. The Peterson Institute for International Economics estimates that U.S. exports to Cuba could reach \$4.3 billion per year if the embargo is lifted. A 2015 study by the Center for North American Studies found that Texas agricultural exports to Cuba could rise to \$18.8 million annually if the embargo were lifted, resulting in total economic gains of nearly \$43 million annually.

Further expansion of this trade, however, will depend upon relations between the U.S. government and the island's mercurial leadership. **FN**

For more information on U.S.-Cuba relations, visit the U.S.-Cuba Trade and Economic Council, Inc. at cubatrade.org.

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# State Revenue Watch

This table presents data on net state revenue collections by source. It includes most recent monthly collections, year-to-date (YTD) totals for the current fiscal year and a comparison of current YTD totals with those in the equivalent period of the previous fiscal year.

These numbers were current at press time. For the most current data as well as downloadable files, visit [comptroller.texas.gov/transparency](http://comptroller.texas.gov/transparency).

Note: Texas' fiscal year begins on Sept. 1 and ends on Aug. 31.

## NET STATE REVENUE — All Funds Excluding Trust

(AMOUNTS IN THOUSANDS)

### Monthly and Year-to-Date Collections: Percent Change From Previous Year

Tax Collections by Major Tax	FEBRUARY 2017	YEAR TO DATE: TOTAL	YEAR TO DATE: CHANGE FROM PREVIOUS YEAR
<b>SALES TAX</b>	\$2,406,245	\$14,240,582	0.29%
PERCENT CHANGE FROM FEBRUARY 2016	4.43%		
<b>MOTOR VEHICLE SALES AND RENTAL TAXES</b>	373,218	2,309,098	0.40%
PERCENT CHANGE FROM FEBRUARY 2016	0.27%		
<b>MOTOR FUEL TAXES</b>	289,681	1,770,638	1.59%
PERCENT CHANGE FROM FEBRUARY 2016	1.11%		
<b>FRANCHISE TAX</b>	-49,881	-428,967	88.47%
PERCENT CHANGE FROM FEBRUARY 2016	181.50%		
<b>INSURANCE TAXES</b>	824,763	929,722	36.25%
PERCENT CHANGE FROM FEBRUARY 2016	39.04%		
<b>NATURAL GAS PRODUCTION TAX</b>	83,604	451,560	17.59%
PERCENT CHANGE FROM FEBRUARY 2016	986.56%		
<b>CIGARETTE AND TOBACCO TAXES</b>	100,263	688,648	7.10%
PERCENT CHANGE FROM FEBRUARY 2016	-6.71%		
<b>ALCOHOLIC BEVERAGES TAXES</b>	91,528	588,257	2.33%
PERCENT CHANGE FROM FEBRUARY 2016	0.40%		
<b>OIL PRODUCTION AND REGULATION TAXES</b>	194,127	996,412	13.46%
PERCENT CHANGE FROM FEBRUARY 2016	87.77%		
<b>UTILITY TAXES<sup>1</sup></b>	6,980	205,641	-1.43%
PERCENT CHANGE FROM FEBRUARY 2016	-83.45%		
<b>HOTEL OCCUPANCY TAX</b>	38,677	239,310	0.02%
PERCENT CHANGE FROM FEBRUARY 2016	11.52%		
<b>OTHER TAXES<sup>2</sup></b>	9,675	65,498	-8.25%
PERCENT CHANGE FROM FEBRUARY 2016	-39.15%		
<b>TOTAL TAX COLLECTIONS</b>	\$4,368,879	\$22,056,400	1.66%
PERCENT CHANGE FROM FEBRUARY 2016	10.87%		
Revenue By Source	FEBRUARY 2017	YEAR TO DATE: TOTAL	YEAR TO DATE: CHANGE FROM PREVIOUS YEAR
<b>TOTAL TAX COLLECTIONS</b>	\$4,368,879	\$22,056,400	1.66%
PERCENT CHANGE FROM FEBRUARY 2016	10.87%		
<b>FEDERAL INCOME</b>	3,623,774	20,047,095	-1.70%
PERCENT CHANGE FROM FEBRUARY 2016	0.30%		
<b>LICENSES, FEES, FINES AND PENALTIES</b>	1,179,674	6,085,921	-3.90%
PERCENT CHANGE FROM FEBRUARY 2016	-3.47%		
<b>INTEREST AND INVESTMENT INCOME</b>	95,734	381,443	27.72%
PERCENT CHANGE FROM FEBRUARY 2016	70.71%		
<b>NET LOTTERY PROCEEDS<sup>3</sup></b>	165,029	919,724	-20.84%
PERCENT CHANGE FROM FEBRUARY 2016	3.46%		
<b>SALES OF GOODS AND SERVICES</b>	24,709	146,122	-1.22%
PERCENT CHANGE FROM FEBRUARY 2016	26.77%		
<b>SETTLEMENTS OF CLAIMS</b>	11,949	72,417	-86.65%
PERCENT CHANGE FROM FEBRUARY 2016	-8.84%		
<b>LAND INCOME</b>	166,465	830,669	59.00%
PERCENT CHANGE FROM FEBRUARY 2016	173.82%		
<b>CONTRIBUTIONS TO EMPLOYEE BENEFITS</b>	4	35	29.79%
PERCENT CHANGE FROM FEBRUARY 2016	-24.17%		
<b>OTHER REVENUE</b>	419,423	2,237,182	4.88%
PERCENT CHANGE FROM FEBRUARY 2016	9.94%		
<b>TOTAL NET REVENUE</b>	\$10,055,641	\$52,777,008	-0.85%
PERCENT CHANGE FROM FEBRUARY 2016	6.23%		

<sup>1</sup> Includes public utility gross receipts assessment, gas, electric and water utility taxes and gas utility pipeline tax.

<sup>2</sup> Includes the cement and sulphur taxes and other occupation and gross receipts taxes not separately identified.

<sup>3</sup> Gross sales less retailer commissions and the smaller prizes paid by retailers.

Note: Totals may not add due to rounding.



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Texas Comptroller of Public Accounts  
Publication #96-369,

**March 2017**