

# Texas' 2012-13 Budget: The Good, the Bad, and the Ugly

by The Honorable  
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## Key Points

- The state's new budget for fiscal 2012-13 authorizes \$173.5 billion in total spending, a decrease of \$14 billion or 7.5 percent from the previous biennium's spending levels.
- **The Good:** State spending reduced by historic proportions; small number of state agency consolidations; no new major taxes or tax increases are passed; a pro-growth agenda is advanced; and Texas keeps a reasonable balance in its Economic Stabilization Fund.
- **The Bad:** The state's workforce grows; dependency on the federal government deepens; one-time stimulus monies become recurring costs, and no additional budget transparency.
- **The Ugly:** Heavy use of accounting gimmicks and no substantive changes made to limit the long-term growth of state spending.

## Authors' Note:

*Last month, the Legislative Budget Board (LBB) released its biennial report on the state's new two-year budget in a publication titled **Fiscal Size-up 2012-13**. The LBB's in-depth budget analysis, which accounts for all the various riders, vetoes, and other modifications in the General Appropriations Act, serves as the basis for this report.*

## Budget Overview

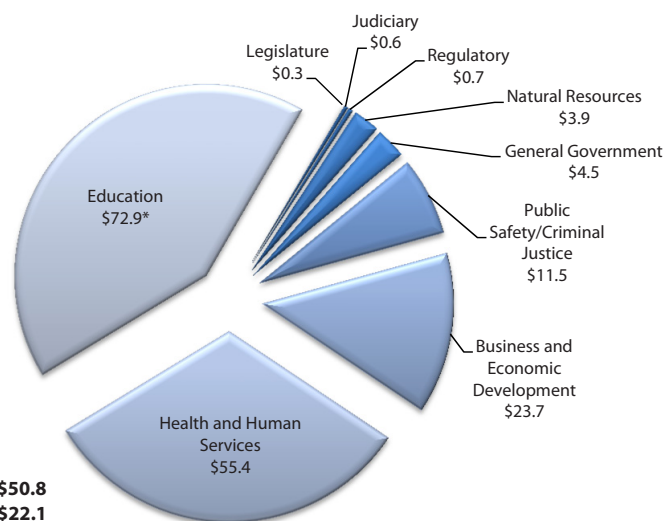
Texas' 2012-13 budget authorizes \$173.5 billion in total spending, a decrease of \$14 billion or 7.5 percent from the previous biennium's spending levels. This reduction was primarily achieved in two ways: Spending cuts and the expiration of stimulus funds.

In terms of funding within the budget, major areas include: Article III: Education (\$75.6 billion); Article II: Health and Human Services (\$54.2 billion), and Article VII: Business and Economic Development (\$24.4 billion). Collectively, these three areas of the budget are set to spend an estimated \$154.2 billion or 89.5 of all appropriations for fiscal 2012-13.

## The Good

**Historic Spending Cuts.** For the first time in at least 50 years, the Legislature reduced the state's total budget from the preceding biennium. Estimated All Funds\* appropriations for fiscal 2012-13 total \$173.5 billion, a decrease of \$14 billion or 7.5 percent from fiscal 2010-11 spending levels.

Texas' 2012-13 Budget (in billions)



Source: Legislative Budget Board

\* The All Funds budget includes all appropriations from all sources including General Revenue, General Revenue-Dedicated, Federal Funds, and Other Funds. For more information on the budget and its terminology, see *Budget 101: A Guide to the Budget Process in Texas*.

## All Funds Budget (in billions)

All Funds Budget (Billions)	2010-11 Budget (Expended)	2012-13 Budget (Appropriated)	% Change
General Government	\$5	\$4.5	(11.1)
Health and Human Services	\$65.5	\$55.4	(15.3)
Agencies of Education*	\$76.4	\$72.9	(4.6)
The Judiciary	\$0.7	\$0.6	(4.4)
Public Safety and Criminal Justice	\$12.1	\$11.5	(4.7)
Natural Resources	\$3.6	\$3.9	9.2
Business and Economic Development	\$23.2	\$23.7	2
Regulatory	\$0.736	\$0.677	(7.9)
The Legislature	\$0.4	\$0.3	(7.9)
<b>TOTAL</b>	<b>\$187.5</b>	<b>\$173.5</b>	<b>(7.5)</b>

\* Includes appropriations for public education and institutions of higher education.

Source: Legislative Budget Board

Among the major articles of the budget, most saw their total funding reduced for the biennium with the largest percentage decreases occurring in Health and Human Services, General Government, the Legislature and Regulatory agencies. Only two articles, Natural Resources and Business and Economic Development, experienced an increase in total funding.

In addition to reducing the size of the total budget, lawmakers also cut discretionary state spending this cycle, marking only the third time since World War II that such a spending

reduction has occurred.\* For fiscal 2012-13, general revenue (GR) appropriations decreased by \$640 million or 0.8 percent compared to 2010-11 spending levels.

Similarly, most major articles of the budget saw a reduction in GR funding with the largest percentage decreases occurring in Natural Resources, General Government, and Regulatory agencies. Only two articles, Health and Human Services and Business and Economic Development, experienced an increase in GR funding.

## General Revenue Budget (in billions)

General Revenue Budget (Billions)	2010-11 Budget (Expended)	2012-13 Budget (Appropriated)	% Change
General Government	\$2	\$2.1	(14.2)
Health and Human Services	\$21.7	\$22.9	5.6%
Agencies of Education*	\$46.8	\$45.9	(1.9)
The Judiciary	\$0.4	\$0.4	(9)
Public Safety and Criminal Justice	\$8.6	\$8.2	(4.8)
Natural Resources	\$0.8	\$0.6	(24)
Business and Economic Development	\$0.5	\$0.6	16.7
Regulatory	\$0.3	\$0.3	(9.3)
The Legislature	\$0.4	\$0.3	(7.9)
<b>TOTAL</b>	<b>\$81.9</b>	<b>\$81.3</b>	<b>(0.8)</b>

\* Includes appropriations for public education and institutions of higher education.

Source: Legislative Budget Board

\* Only twice before in Texas history, during the 2003 and 2009 legislative sessions, have lawmakers reduced general revenue spending from the preceding biennium.

Having said all that, it is important that the reader keep these spending cuts in the proper context. That is, the Legislature's spending cuts occurred at the same time as one-time funding from the American Recovery and Reinvestment Act (ARRA) was exhausted. In fiscal 2010-11, these funds totaled \$12.1 billion in All Funds appropriations.

**Agency Consolidations.** State lawmakers carried out two major consolidations this cycle. The first consists of a merger between the Texas Youth Commission and the Texas Juvenile Probation Commission, creating the Texas Juvenile Justice Department. The consolidation of personnel and facilities from these two agencies into one is expected to save the state an estimated \$84.1 million, according to the Foundation's criminal justice experts.<sup>1</sup>

The second consolidation merges the Texas Department of Rural Affairs with the Texas Department of Agriculture, phasing out the former's operations after fiscal 2012 and then transferring them to the latter. At this time, these actions are not expected to produce any immediate savings.

**No New Major Taxes.** Heeding the call to balance the budget within available revenue, lawmakers opted not to raise or create any taxes this biennium—with two very minor exceptions: 1) The Amazon tax,\* billed as a "tax clarification" rather than a tax increase; and 2) A cigarette tax stamp increase,† purportedly an industry agreed-upon levy increase.

**Texas' Tax Burden Remains Low.** The absence of any major tax increases in fiscal 2012-13 means that the state's low tax, business-friendly environment remains intact for the immediate future. Obviously, no economic data yet exists allowing a comparison of tax burdens across all states for the state's most recent budget; however, we can see from a comparison of fiscal 2010 data, provided by the Legislative Budget Board (LBB),

that Texas taxpayers enjoy one of the lowest tax burdens in the nation when measured as a share of personal income.

From Fiscal Size-up: "In 2010, Texans paid \$41.37 in state taxes for each \$1,000 of personal income, about 72.6 percent of the \$57.02 national average. The state ranked 47th among the states in state tax revenue per \$1,000 of personal income in 2010."<sup>2</sup> (see table below)

**No Rainy Day Funds Spent.** Wisely, the Legislature chose not to spend any money from the state's Economic Stabilization Fund or rainy day fund to pay for the 2012-13 budget. Preserving these funds for future emergencies means that the state's "savings account" will likely grow to \$7.3 billion by the end of the current biennium.<sup>‡</sup>

## The Bad

**Bigger State Workforce.** In spite of the state's budget challenges in the last legislative session, Texas' new two-year budget actually grows the state's workforce.

For fiscal 2012-13, the number of full-time equivalent (FTE) positions provided for in the state's budget increased to 235,239 in fiscal 2012 and 235,047 in fiscal 2013, up from 231,911 FTEs in fiscal 2011. That is not to say that there are 3,300 more state government workers this biennium, but rather that state agencies and institutions of higher education have that much more capacity should they need the additional manpower.

Over a more extended period, the number of FTEs provided for in the state's budget has steadily increased from 222,685 FTEs in fiscal 2000 to 235,047 in fiscal 2013, a growth of approximately 12,500 FTEs. Since fiscal 2004, state government employment has increased every year, except fiscal 2011.

### State Tax Revenue (per \$1,000 of personal income in 2010)

	Texas	U.S. Average	Alaska (Highest)	New Hampshire (Lowest)
State Tax Revenue Per \$1,000 of Personal Income (FY 2010)	\$41.37	\$57.02	\$143.15	\$37.03

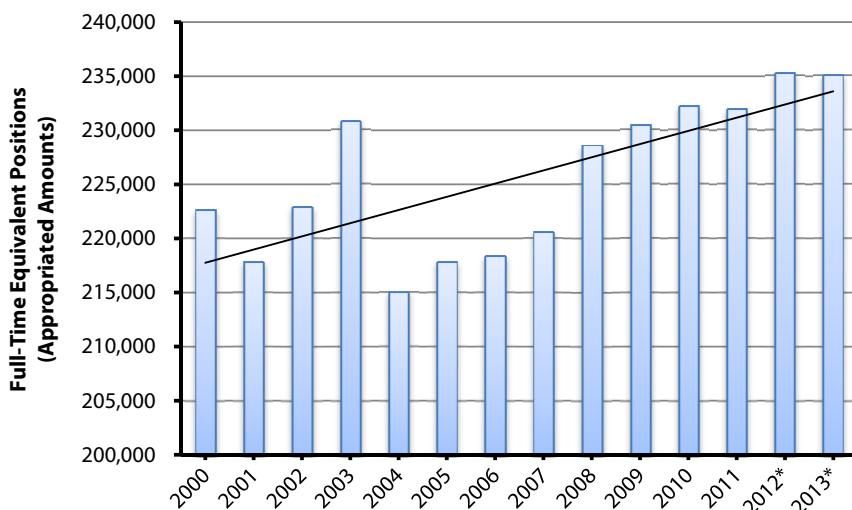
Source: Legislative Budget Board

\* For a more detailed explanation of the Amazon tax and its effects, see The Amazon Tax – Part I, The Amazon Tax – Part II, and The Amazon Tax – Part III.

† For a more detailed explanation of the cigarette tax stamp increase, see "Bill Analysis: Review of Senate Bill 1811."

‡ There is a possibility that the Legislature will choose to draw down on the rainy day fund balance and apply those funds to what is expected to be a larger-than-usual supplemental appropriations bill. However, for the time being, the balance remains intact.

### State Government Employees

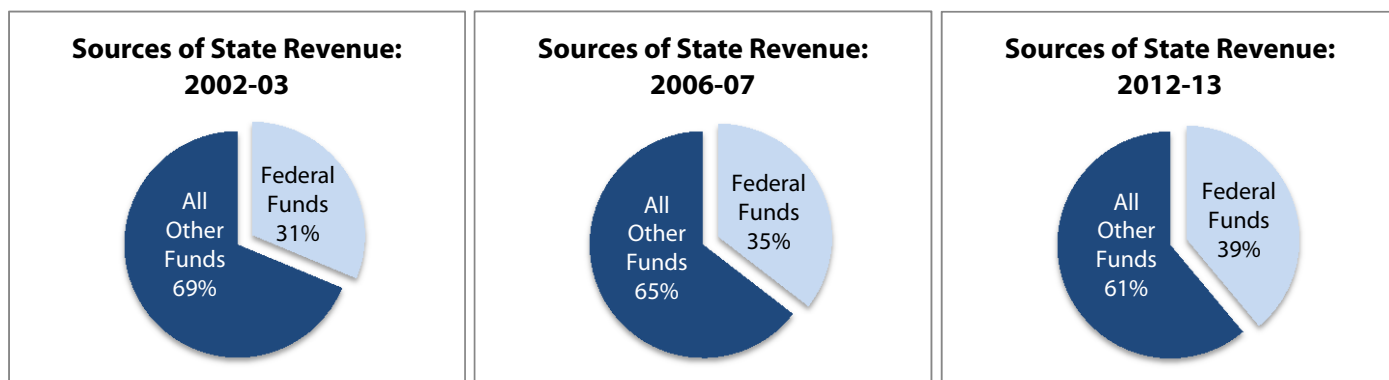


\* For fiscal 2012 and 2013, the FTE count signifies the cap rather than filled positions.  
 Source: Legislative Budget Board

**Growing Dependency on Federal Receipts.** Continuing a longstanding practice, appropriators relied heavily on federal receipts to bolster the state’s revenue picture this biennium. Of the \$183.1 billion in total revenues projected for fiscal 2012-13, federal receipts are estimated at \$71.2 billion or 38.9 of the total. This makes the federal government the second largest source of revenue for the state, behind only tax collections which are projected at \$80.6 billion or 44 percent of all revenue for the biennium.

As hinted at above, the state’s revenue picture has grown increasingly dependent on federal receipts over the years. Over a 10-year time horizon, federal receipts have gone from making up 31 percent of total state revenues in fiscal 2002-03 to 35.5 percent in fiscal 2006-07 to 39 percent this biennium.<sup>3</sup> This growing dependence could prove troublesome and costly in the years to come as state lawmakers increasingly cede their legislative discretion to federal lawmakers.\*

### Sources of State Revenue



Source: Legislative Budget Board

\* For more information on federal funds in the Texas budget and their impact on state government finances, see "Budget Driver: Federal Funds."

**One-time Stimulus Funds Become Recurring Costs.** Despite reassurances that one-time federal stimulus monies would not become recurring costs for the state's taxpayers, it now appears that these "free" federal funds will end up costing Texas taxpayers for years to come. In the most egregious example of this, in the state's Medicaid program, it is estimated that "to replace Federal Funds associated with the temporary FMAP\* under ARRA†" it will cost \$4.3 billion for the current biennium—a cost that is sure to mean that lawmakers will have to pass a larger-than-expected supplemental appropriations bill.‡ In other areas, such as education, the exact cost of replacing stimulus funds with state revenue are still unclear.

**No Budget Layout Reform.** Despite persistent efforts to bring greater government transparency to the appropriations process, the Legislature failed to change the budget layout from its strategic and performance-based budgeting format to a program-based layout.§ Without this reform in place, taxpayers and budget watchers will, once again, be unable to scrutinize the state's budget in a detailed and skilled fashion.

## The Ugly

Accounting Gimmicks. Lawmakers did more than just cut spending to balance the budget, they also used a fair number of accounting tricks and gimmicks to keep the spending level artificially high. Here are some of the major ones:

- **Foundation School Program Deferral:** Legislators deferred a \$2.3 billion payment to the Foundation School Program, "the principal vehicle for distributing state aid to school districts," from August 2013 to September 2013.¶ By delaying this payment to public schools into the 2014-15 biennium, legislators were able to avoid reducing the size of public education.
- **Underfunding Medicaid Caseload Growth:** Based on current projections, the Legislature only provided enough funding for the state's Medicaid program until spring 2013, ensuring that next session's lawmakers will have to pass a large supplemental appropriations bill to pay for any additional costs incurred by the program since it is an entitlement program. As of current date, those additional costs are estimated at \$3.9 billion.

- **One-time Revenues:** Lawmakers sped-up collections for things like fuel taxes and alcoholic beverage taxes, resulting in a net GR gain for fiscal 2012-13 of \$67.1 million and \$17.6 million, respectively.¶ These speed-ups required the entire sum of taxes up front before any sales had been made, acting like a short term tax increase and removing cash flow from certain private sector industries.

Another one-time revenue measure "provided for a delay in the transfer of motor fuels tax receipts from the General Revenue Fund to the State Highway Fund." This delay is anticipated to result in a net revenue gain of \$403 million to the General Revenue Fund for fiscal 2012-13.¶

- **Unexpended Balances:** The "pay-as-you-go" provision of the state's Constitution § requires that the Texas Comptroller certify that every appropriations bill is within available revenue—or in other words, that the state has enough revenue to pay for the items in the bill. As straightforward as this might sound, lawmakers have found a way around this requirement. The sleight of hand works like this.

Balances within certain funds accumulate over time as a given program or service collects more in fees than it needs to support itself. As these balances accrue, they are counted as part of the state's available revenue, even though they are intended for a specific purpose.

While lawmakers have often used unexpended balances in the past to help certify the budget, this sleight of hand has grown increasingly prevalent in the past few biennia to the point where it has increased from \$1.8 billion during the 2002-03 biennium to \$4.3 billion in the current budget.

By using the above accounting tricks and deferrals to the degree that they did, lawmakers have, in many regards, made more difficult the next legislative session.

**Long-term Spending Reforms Still Lacking.** To their credit, the 82nd Legislature produced a budget that made near unprecedented cuts in government spending—at least on pa-

\* FMAP is an abbreviation for Federal Medical Assistance Percentage, a funding formula used to determine the federal and state share of funding for the Medicaid program.

† ARRA is an abbreviation for the American Recovery and Reinvestment Act, the official name of the legislation that provided federal stimulus funding.

‡ For more information on program-based budgeting and how it differs from strategic and performance-based budgeting, see "Make the Budget Process More Transparent: HB 2804 and SB 1653."

§ See Article III, Section 49a of the Texas Constitution.

per—and preserved the state's low tax, business-friendly environment, all without raising taxes or raiding the state's rainy day fund. On the surface, this looks to be a fairly successful session from a fiscal conservative standpoint—but while lawmakers took steps to address the state's immediate budget challenges, they passed few, if any, reforms to control the long-term growth of state spending. And there is definitely a need to do so.

Consider that from fiscal year 1990 to current date, total state spending has risen from \$23 billion to \$94.2 billion, an increase of 310 percent. Yet by contrast, the growth of Texas' population plus general inflation increases only 130 percent.\* This means that the growth of government spending has outpaced the growth of population and inflation by a rate of nearly 2.5 to 1. It goes without saying that this rate of growth is unsustainable over the long-term. And yet despite these alarming statistics, lawmakers opted not to pass any commonsense reforms like:

- Strengthening the state's constitutional tax and expenditure limit to tighten the reins of the growth of the budget;†
- Requiring a supermajority for tax increases to make sure lawmakers don't take the easy way out when hard decisions are called for;‡
- Reforming the state's public pension systems to a more sustainable model;§ or
- Overhauling the state's school finance system to put more control in the hands of Texas taxpayers by restoring control at the school district level.\*\*

Without any of these long-term spending reforms in place for the state's finances, the Texas taxpayers will have dodged a bullet only to face the cannon.

## Conclusion

The 2012-13 budget is a bit of a mixed bag.

On the one hand, lawmakers reduced state spending in ways that few other legislatures have, and they did so without raising taxes or raiding the rainy day fund; they consolidated a handful of agencies; and they protected the state's low tax, business-friendly image.

However, on the other hand, they accomplished some of those positives with accounting tricks and gimmicks; they enlarged the size of the state's workforce; they increased the dependency of the state on federal revenues; and they did little to rein in the long-term growth of state spending. In short, they did little, if anything, to change the footprint of government.

And so, when the next legislature convenes in January 2013, they are sure to come into a difficult session, hurt not helped by the prior session's direction and decisions. But incoming lawmakers should fear not because while the next session's challenges may loom large, somewhat exacerbated by the last session, there will also be an appetite and the opportunity to enact meaningful reforms to redefine the hows and whys of state government. For long-term fiscal stability, they really will have no other choice. ★

\* For more information contrasting the growth of state government spending and population plus inflation, see UPDATE: Trends in Texas Government: State Government Spending.

† For more information on strengthening the state's constitutional tax and expenditure limit and why those reforms are needed, see "Strengthening Texas Tax and Expenditure Limit."

‡ The legislature considered several bills last session that would have achieved this goal, most notably SJR 12, but none became law.

§ For more information on public pension reform, see "Reforming Texas' Public Pension Systems for the 21st Century."

\*\* For more information on reforming public school finance, see "The Texas Taxpayer Savings Grant Program."

## Endnotes

- <sup>1</sup> Levin, Marc and Vikrant P. Reddy, "Center for Effective Justice: Review of the 82nd Session of the Texas Legislature," Texas Public Policy Foundation (29 June 2011).
- <sup>2</sup> Legislative Budget Board, "Fiscal Size-up: 2012-13 Biennium" (Jan. 2012) 52.
- <sup>3</sup> See Fiscal Size-up reports on state revenues for corresponding biennium.
- <sup>4</sup> Legislative Budget Board, "Fiscal Size-up: 2012-13 Biennium" (Jan. 2012) 157.
- <sup>5</sup> Legislative Budget Board, "Fiscal Size-up: 2012-13 Biennium" (Jan. 2012) 220.
- <sup>6</sup> Legislative Budget Board, "Fiscal Note for Senate Bill 1" (27 June 2011).
- <sup>7</sup> Ibid.

## About the Authors

**The Honorable Talmadge Heflin** is the Director of the Texas Public Policy Foundation's Center for Fiscal Policy. For 11 terms, Heflin served the people of Harris County as a state representative. Well regarded as a legislative leader on budget and tax issues by Democratic and Republican speakers alike, he for several terms was the only House member to serve on both the Ways and Means and Appropriations committees.

In the 78th Session, Heflin served as chairman of the House Committee on Appropriations. He navigated a \$10 billion state budget shortfall through targeted spending cuts that allowed Texans to avoid a tax increase.

**James Quintero** is a senior fiscal policy analyst within the Foundation's Center for Fiscal Policy and contributes to the following issues: restricting the growth of taxation; appropriations reform; increasing governmental transparency at both the state and local level; and instituting expenditure limits.

Prior to joining the Foundation, Quintero completed his Master's of Public Administration degree with an emphasis in Public Finance at Texas State University–San Marcos. His Applied Research Project, "Regional Economic Development: An Economic Base Study and Shift-Share Analysis of Hays County, Texas" is currently featured on the TSU website.

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