



The 2016-17 Texas Budget *It's Not a Conservative Texas Budget Yet*

by Vance Ginn, Ph.D.,
and Bill Peacock

Key Points

- Texans will be the winner if the Legislature passes historic tax cuts while keeping spending below population growth plus inflation.
- While overall spending is currently below population growth plus inflation, general revenue spending is substantially up across the board in both budgets.
- Potential large increases in public education spending and the fact that budgets can often increase in conference committee means that Texans should continue to keep a close eye on the budget process.
- The best way to reduce the growth of government in the long run is by reforming the state's tax and expenditure limitation.

With less than four weeks left before the Texas Legislature adjourns sine die on June 1, the Texas Senate and House are working to resolve differences between the two chambers' versions of the 2016-17 state budget.

Both budgets leave money on the table for significant tax cuts. This is important, and whichever tax cut package finally passes, Texans will receive well-deserved tax relief. And so far the Legislature is showing a moderate level of spending constraint—especially when compared with 2013.

These are both significant improvements. However, the large increase in general revenue appropriations in both chambers' budgets, the push for large increases in public education spending—\$3 billion in the House and \$1.8 billion in the Senate, and the fact that budgets can often increase in conference committee, means that Texans should continue to keep a close eye on the budget process.

Putting all of this together, spending by the state in many areas is still growing faster than needed. If the Texas Legislature can properly set its priorities and manage to keep both state and federal spending under 6.5 percent, under population growth plus inflation, this would mark substantial progress. Texans should continue to push for a broad spending limit that keeps increases in spending by the Texas Legislature to less than the lower of population growth plus inflation, personal income growth, or gross state product growth.¹

Evaluating the Current House and Senate Versions of the Budget

The Senate's version² of the 2016-17 budget appropriates \$211.4 billion for the next biennium, while the House version³ appropriates \$209.8 billion, increases over current spending of 4.6 percent and 3.8 percent, respectively. Both versions are well below the 6.5 percent⁴ all funds spending limit based on population

growth plus inflation supported by the Texas Public Policy Foundation and 14 other members of the Conservative Texas Budget Coalition.*

When it comes to the appropriation of state funds only, i.e., without federal funds, the Senate budget

the
Conservative
TEXAS BUDGET

SPENDING LIMITS FOR 2016-17 BUDGET

\$142.3	\$215.2	
BILLION	BILLION	
<i>state funds</i>	<i>all funds</i>	
	6.5%	
	<i>increase</i>	
	<small>(pop. + infl.)</small>	

ABOVE 2014-15 SPENDING

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* See www.conservativetexasbudget.com for the Coalition's recommendations and members.

slightly exceeds the Coalition’s recommended spending limit with a 6.9 percent increase. The House still comes in below the limit at 5.7 percent.

However, the biennial increase of general revenue appropriations is much larger. Table 1 shows that under the Senate’s version, appropriations of general revenue would increase by 12.9 percent, while the House’s version increases by 9.9 percent.

Table 1: Comparison of Major Revenue Sources Show Largest Increases in General Revenue

Revenue Source	HB 1 Est. 2014-15 Expenditures	House CSHB 1 2016-17 Approps.	Senate CSHB 1 2016-17 Approps.
General Revenue	\$95,164.6	\$104,554.6 (+9.9%)	\$107,395.3 (+12.9%)
General Revenue-Dedicated	\$7,353.5	\$7,312.1 (-0.6%)	\$6,990.5 (-4.9%)
Other Funds	\$31,113.8	\$28,857.3 (-7.3%)	\$28,513.8 (-8.4%)
State Funds	\$133,631.8	\$140,724.0 (+5.3%)	\$142,899.6 (+6.9%)
Federal Funds	\$68,451.4	\$69,061.2 (+0.9%)	\$68,487.2 (+0.1%)
All Funds	\$202,083.3	\$209,785.1 (+3.8%)	\$211,386.8 (+4.6%)

Notes: Figures presented in millions of dollars. Percent changes from previous period in parentheses.

The appropriations of general revenue, the spending that the Legislature has the most control over and largely comes from state taxes and fees, is substantially up across the board in both budgets. Table 2 shows that the Senate budget increases general government spending by 12 percent, education by 10.8 percent, and business and economic development by 72.9 percent.

Table 2: Senate General Revenue Appropriations per Article

FUNDING BY ARTICLE, GENERAL REVENUE FUNDS				
(IN MILLIONS)				
ALL FUNCTIONS	ESTIMATED/BUDGETED 2014-15	SCSHB1 2016-17	BIENNIAL CHANGE	PERCENTAGE CHANGE
Article I – General Government	\$2,731.6	\$3,060.5	\$328.8	12.0%
Article II – Health and Human Services	\$29,789.9	\$32,702.5	2,912.7	9.8%
Article III – Agencies of Education	\$50,674.6	\$56,140.6	5,466.0	10.8%
<i>Public Education</i>	<i>\$37,421.7</i>	<i>\$41,598.9</i>	<i>4,177.2</i>	<i>11.2%</i>
<i>Higher Education</i>	<i>\$13,253.0</i>	<i>\$14,541.8</i>	<i>1,288.8</i>	<i>9.7%</i>
Article IV – The Judiciary	\$446.8	\$463.1	16.3	3.6%
Article V – Public Safety and Criminal Justice	\$9,220.8	\$11,090.3	1,869.6	20.3%
Article VI – Natural Resources	\$714.8	\$828.2	113.4	15.9%
Article VII – Business and Economic Development	\$932.9	\$1,613.2	680.3	72.9%
Article VIII – Regulatory	\$279.2	\$318.0	38.8	13.9%
Article IX – General Provisions	\$0.0	\$793.5	793.5	N/A
Article X – The Legislature	\$373.9	\$385.3	11.4	3.1%
Total, All Articles	\$95,164.5	\$107,395.3	\$12,230.8	12.9%

Summary of Senate Committee Substitute for House Bill 1, Texas Legislative Budget Board

The House budget also contains substantial increases presented in Table 3. For instance, spending for Article II, Health and Human Services, would increase 11 percent. Article V spending for Public Safety and Criminal Justice grows by 19 percent. The largest percent increase in the House budget is in Article VII, Business and Economic Development spending, which jumps a whopping 215 percent, or just over \$2 billion.

Table 3: House General Revenue Appropriations per Article

FUNDING BY ARTICLE, GENERAL REVENUE FUNDS				
(IN MILLIONS)				
ALL FUNCTIONS	ESTIMATED/BUDGETED 2014–15	HB1 AS ENGROSSED 2016–17	BIENNIAL CHANGE	PERCENTAGE CHANGE
Article I – General Government	\$2,731.6	\$2,936.6	\$204.9	7.5%
Article II – Health and Human Services	\$29,789.9	\$33,063.3	\$3,273.4	11.0%
Article III – Agencies of Education	\$50,674.6	\$51,979.5	\$1,304.9	2.6%
<i>Public Education</i>	\$37,421.7	\$37,722.1	\$300.4	0.8%
<i>Higher Education</i>	\$13,253.0	\$14,257.4	\$1,004.4	7.6%
Article IV – The Judiciary	\$446.8	\$483.7	\$36.8	8.2%
Article V – Public Safety and Criminal Justice	\$9,220.8	\$10,973.9	\$1,753.1	19.0%
Article VI – Natural Resources	\$714.8	\$813.7	\$98.9	13.8%
Article VII – Business and Economic Development	\$932.9	\$2,941.7	\$2,008.8	215.3%
Article VIII – Regulatory	\$279.2	\$315.7	\$36.5	13.1%
Article IX – General Provisions	\$0.0	\$661.3	\$661.3	N/A
Article X – The Legislature	\$373.9	\$385.3	\$11.4	3.1%
Total, All Articles	\$95,164.5	\$104,554.6	\$9,390.1	9.9%

Summary of Enrolled Version of House Bill 1, Texas Legislative Budget Board

How can appropriations of general revenue grow so much while state and overall increases are more restrained? Regarding state spending, the key category to examine is what is known as Other Funds. Appropriations from Other Funds drop \$2.6 billion, or 8.4 percent, in the Senate budget, and almost as much in the House budget. Tables 4 and 5 show that the drop in Other Funds appropriations comes from three main areas, depending on the budget.

Table 4: Senate Other Funds Appropriations per Article

FUNDING BY ARTICLE, OTHER FUNDS				
(IN MILLIONS)				
ALL FUNCTIONS	ESTIMATED/BUDGETED 2014–15	SCSHB1 2016–17	BIENNIAL CHANGE	PERCENTAGE CHANGE
Article I – General Government	\$958.7	\$1,685.3	\$726.7	75.8%
Article II – Health and Human Services	\$673.6	\$620.6	(\$53.0)	(7.9%)
Article III – Agencies of Education	\$10,556.9	\$9,492.0	(\$1,065.0)	(10.1%)
<i>Public Education</i>	\$8,222.9	\$7,215.7	(\$1,007.2)	(12.2%)
<i>Higher Education</i>	\$2,334.0	\$2,276.3	(\$57.8)	(2.5%)
Article IV – The Judiciary	\$179.9	\$180.3	\$0.4	0.2%
Article V – Public Safety and Criminal Justice	\$1,399.7	\$152.5	(\$1,247.2)	(89.1%)
Article VI – Natural Resources	\$2,350.0	\$284.8	(\$2,065.2)	(87.9%)
Article VII – Business and Economic Development	\$14,949.1	\$16,035.5	\$1,086.4	7.3%
Article VIII – Regulatory	\$45.7	\$22.8	(\$22.9)	(50.1%)
Article IX – General Provisions	\$0.0	\$39.8	\$39.8	NA
Article X – The Legislature	\$0.1	\$0.2	\$0.1	64.4%
Total, All Articles	\$31,113.8	\$28,513.8	(\$2,599.9)	(8.4%)

Summary of Senate Committee Substitute for House Bill 1, Texas Legislative Budget Board

Table 5: House Other Funds Appropriations per Article

FUNDING BY ARTICLE, OTHER FUNDS				
(IN MILLIONS)				
ALL FUNCTIONS	ESTIMATED/BUDGETED 2014-15	HB1 AS ENGROSSED 2016-17	BIENNIAL CHANGE	PERCENTAGE CHANGE
Article I – General Government	\$958.7	\$860.3	(\$98.3)	(10.3%)
Article II – Health and Human Services	\$673.6	\$628.4	(\$45.3)	(6.7%)
Article III – Agencies of Education	\$10,556.9	\$11,842.1	\$1,285.2	12.2%
<i>Public Education</i>	\$8,222.9	\$9,565.7	\$1,342.8	16.3%
<i>Higher Education</i>	\$2,334.0	\$2,276.4	(\$57.7)	(2.5%)
Article IV – The Judiciary	\$179.9	\$180.3	\$0.4	0.2%
Article V – Public Safety and Criminal Justice	\$1,399.7	\$152.5	(\$1,247.2)	(89.1%)
Article VI – Natural Resources	\$2,350.0	\$284.6	(\$2,065.4)	(87.9%)
Article VII – Business and Economic Development	\$14,949.1	\$14,846.6	(\$102.4)	(0.7%)
Article VIII – Regulatory	\$45.7	\$22.5	(\$23.2)	(50.8%)
Article IX – General Provisions	\$0.0	\$39.7	\$39.7	N/A
Article X – The Legislature	\$0.1	\$0.2	\$0.1	64.4%
Total, All Articles	\$31,113.8	\$28,857.3	(\$2,256.5)	(7.3%)

Summary of Enrolled Version of House Bill 1, Texas Legislative Budget Board

By far the largest drop in Other Funds comes in Article VI, Natural Resources, with a decline of more than \$2 billion in both budgets. This is a result of the one-time legislative appropriation from Texas' savings account, the Economic Stabilization Fund, of about \$2 billion last session for developing water infrastructure. Since this was done through a constitutional amendment, the money is categorized as Other Funds and is not subject to the current constitutional spending limit.

Also in both budgets is a reduction in Other Funds for Article V, Public Safety and Criminal Justice. The reason for this is the decision to stop using Fund 6 transportation money to fund the Texas Department of Public Safety and other functions not directly related to building roads and funding mass transit, including trains. Over \$1.2 billion in Other Funds is shifted from Article V to Article VII, through which transportation spending is funded. Tables 2 and 3 show that this decline is made up for through an increase in general revenue.

The Senate and House take different approaches when it comes to education funding. While the Senate shows a decrease of \$1 billion in Other Funds for public education, the House shows an increase \$1.3 billion. The difference between the two is a reflection of the different tax cut packages from each body.

The House has proposed a cut of both the state's business, or margin, tax and the sales tax. This tax package effects on the state's general revenue. So its education budget includes a \$1.3 billion increase in Other Funds appropriations for public education. The source of this increase is higher property tax revenue due to higher effective tax rates in school districts.

On the other hand, the Senate has proposed to cut the margin tax and the property tax. The property tax cut, effected by an increase in the homestead exemption, is estimated to reduce property tax revenue for the state, and thus the Other Funds, by about \$2.2 billion. The Senate (more than) makes up for the loss of Other Funds by increasing general revenue funding for public education by \$4.2 billion, while general revenue in the House budget increases by only \$300 million. However, including the increase in Other Funds and the House's efforts for more general revenue for education, the House is pushing for a total increase of \$3 billion in public education funding.

Overview of the Budget

The following three tables provide comparisons of all funds, state funds, and general revenue funds appropriations, respectively by both chambers. The LBB also provides a budget comparison summary and differences between each Article.

Table 6: Increases in House & Senate Versions of the 2016-17 All Funds Budget are Below 6.5%

Article (millions of \$)	HB 1 Est. 2014-15 Expenditures	House CS HB 1 2016-17 Approps.	Senate CS HB 1 2016-17 Approps.	Differences Between House-Senate Versions
I-General Government	\$5,218.8	\$5,175.1	\$6,158.8	(\$983.7)
II-Health & Human Services	\$74,513.4	\$79,111.2	\$77,359.9	\$1,751.3
III-Agencies of Education	\$73,941.9	\$77,024.6	\$78,799.2	(\$1,774.5)
• Public Education	\$55,403.8	\$57,460.6	\$58,987.3	(\$1,526.7)
• Higher Education	\$18,538.1	\$19,564.0	\$19,811.8	(\$247.8)
IV-The Judiciary	\$764.0	\$793.0	\$779.4	\$13.6
V-Public Safety & Criminal Justice	\$11,765.2	\$11,895.2	\$11,998.9	(\$103.7)
VI - Natural Resources	\$6,931.1	\$4,086.2	\$4,259.0	(\$172.8)
VII - Business and Eco. Dev.	\$27,447.6	\$29,111.0	\$29,807.0	(\$696.0)
VIII - Regulatory	\$1,127.3	\$915.1	\$899.7	\$15.4
IX - General Provisions	\$0.0	\$1,284.1	\$939.3	\$344.8
X - The Legislature	\$374.0	\$385.5	\$385.5	\$0
All Funds	\$202,083.3	\$209,781.1	\$211,386.8	(\$1,605.6)
Percent Increase from 2014-15	-	+3.81%	+4.60%	-

Source: Legislative Budget Board

Table 7: House & Senate Versions of 2016-17 State Funds Increase Around 6.5%

Article (millions of \$)	HB 1 Est. 2014-15 Expenditures	House CS HB 1 2016-17 Approps.	Senate CS HB 1 2016-17 Approps.	Differences Between House-Senate Versions
I-General Government	\$4,556.0	\$4,462.7	\$5,446.4	(\$983.7)
II-Health & Human Services	\$31,655.0	\$36,009.0	\$34,257.7	\$1,751.3
III-Agencies of Education	\$63,907.8	\$66,581.9	\$68,356.4	(\$1,774.5)
• Public Education	\$45,644.7	\$47,287.9	\$48,814.6	(\$1,526.7)
• Higher Education	\$18,263.1	\$19,294.0	\$19,541.8	(\$247.8)
IV-The Judiciary	\$760.2	\$789.6	\$776.0	\$13.6
V-Public Safety & Criminal Justice	\$10,644.5	\$11,185.2	\$11,288.9	(\$103.7)
VI - Natural Resources	\$4,274.9	\$2,342.6	\$2,515.4	(\$172.8)
VII - Business and Eco. Dev.	\$16,345.3	\$17,433.9	\$18,129.9	(\$696.0)
VIII - Regulatory	\$1,114.1	\$905.6	\$890.2	\$15.4
IX - General Provisions	\$0.0	\$1,198.0	\$853.2	\$344.8
X - The Legislature	\$374.0	\$385.5	\$385.5	\$0
State Funds	\$133,631.8	\$141,294.0	\$142,899.6	(\$1,605.6)
Percent Increase from 2014-15	-	+5.73%	+6.94%	-

Source: Legislative Budget Board

Table 8: General Revenue Funds Increase by More than 6.5% in Both Chambers' Versions

Article (millions of \$)	HB 1 Est. 2014-15 Expenditures	House CSHB 1 2016-17 Approps.	Senate CSHB 1 2016-17 Approps.	Differences Between House-Senate Versions
I-General Government	\$2,731.6	\$2,936.6	\$3,060.5	(\$123.9)
II-Health & Human Services	\$29,789.9	\$33,063.3	\$32,702.5	\$360.8
III-Agencies of Education	\$50,674.7	\$51,979.5	\$56,140.7	(\$4,161.1)
• Public Education	\$37,421.7	\$37,722.1	\$41,598.9	(\$3,876.7)
• Higher Education	\$13,253.0	\$14,257.4	\$14,541.8	(\$284.3)
IV-The Judiciary	\$446.8	\$483.7	\$463.1	\$20.6
V-Public Safety & Criminal Justice	\$9,220.8	\$10,973.9	\$11,090.3	(\$116.5)
VI - Natural Resources	\$714.8	\$813.7	\$828.2	(\$14.6)
VII - Business and Eco. Dev.	\$932.9	\$2,941.7	\$1,613.2	\$1,328.5
VIII - Regulatory	\$279.2	\$315.7	\$318.0	(\$2.3)
IX - General Provisions	\$0.0	\$661.3	\$793.5	(\$132.2)
X - The Legislature	\$373.9	\$385.3	\$385.3	\$0
General Revenue Funds	\$95,164.6	\$104,554.6	\$107,395.3	(\$2,840.7)
<i>Percent Increase from 2014-15</i>	-	+9.87%	+12.85%	-

Source: Legislative Budget Board

Conclusion

It is impossible to overstate the importance of the debate between the Senate and House over the historic tax relief packages. Whatever the outcome, Texans will see their taxes reduced by somewhere between \$4 billion to \$5 billion. When this is the primary debate during a legislative session, taxpayers will generally come out winners.

However, Texas still needs to make progress towards reducing the growth of state government. The best way to address this in the long run is by reforming the state's tax and expenditure limitation. But that doesn't mean that taxpayer advocates should take their eyes off the Texas budget process. With only a few more weeks of session to go, whether the outcome of this session is a conservative Texas budget or not is still up in the air. ☆

Notes

¹ *Reforming Texas' Tax and Expenditure Limit*, Talmadge Heflin and Vance Ginn, Ph.D. (Jan. 2015).

² *Summary of Senate Committee Substitute for House Bill 1*, Texas Legislative Budget Board (March 2015).

³ *Summary of House Committee Substitute for House Bill 1*, Texas Legislative Budget Board (March 2015).

⁴ *The Conservative Texas Budget*, Talmadge Heflin and Vance Ginn, Ph.D. (March 2015).

About the Author



Vance Ginn, Ph.D., is an economist in the Center for Fiscal Policy at the Texas Public Policy Foundation. He is an expert on Texas' state budget, franchise tax, tax and expenditure limit, and other fiscal issues. In 2006, he graduated with honors from Texas Tech University with a B.B.A in economics and accounting and minors in political science and mathematics. After interning for a U.S. Texas Congressman in Washington, D.C., he started his doctoral degree in economics at Texas Tech University and graduated in 2013. Before joining the Foundation in September 2013, Ginn interned at the Foundation as a Charles G. Koch

Summer Fellow in 2011 and then taught at three universities and one community college across Texas. He has successfully published peer-reviewed articles in academic journals, commentaries in multiple media outlets, and posts in free market blogs.



Bill Peacock is the vice president of research and director of the Texas Public Policy Foundation's Center for Economic Freedom. He has been with the Foundation since February 2005. Peacock has extensive experience in Texas government and policy on a variety of issues including, economic and regulatory policy, natural resources, public finance, and public education. His work has focused on identifying and reducing the harmful effects of regulations on the economy, businesses, and consumers.

Prior to joining the Foundation, Peacock served as the Deputy Commissioner for Coastal Resources for Commissioner Jerry Patterson at the Texas General Land Office.

About the Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute. The Foundation's mission is to promote and defend liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

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The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

