



Policy Perspective

The Real Texas Budget: Why Texas Needs to Ratchet Down Spending Growth

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Key Points

- Total Texas government spending for 2016-17 is estimated to be \$209.1 billion, a 68.5 percent increase since 2004-05.
- Texas government spending has increased faster than the increase in population growth plus inflation since 2004, at a cost to taxpayers of \$22.1 billion during this two-year budget cycle.
- The Real Texas Budget demonstrates the need for increased transparency in the Texas budget to help taxpayers control the growth of state spending.
- Legislators should pass a Conservative Texas Budget in 2017 holding increases in appropriations of all funds and all state funds to less than population growth plus inflation from current levels.

By the end of the current fiscal two-year budget cycle on August 31, 2017, Texas' government will have spent more than \$1.2 trillion over the 14 years since the state's fiscal year (FY) 2004. Putting this amount in perspective, total spending is up 11.8 percent above increases in compounded population growth plus inflation during this period. This large sum and pace of growth underscores the need for Texas government to slow down its ongoing increases in spending.

In 2015, the 84th Texas Legislature made some progress to this end. Starting with the state's coffers overflowing with cash from a robust economy, legislators could have spent most of the money to meet the wishes of the many constituencies that flood Austin seeking handouts each session. Fortunately, they started the session by focusing on how much to provide Texans with tax cuts—total tax and fee relief was a significant \$4 billion—instead of how much of their money to spend. This novel concept should be the starting point every session.

To help Texans accurately understand how the state is spending their money, the Foundation has combed through numerous sources to catalogue state spending and appropriations since FY 2004. The result is [The Real Texas Budget](#), a comparison of Texas appropriations and spending from 2004 through 2017 (Heflin et al. 2016). This paper highlights some of the findings in that document, including:

- Total appropriations for the 2016-17 biennium were \$209.1 billion, a 4.3 percent increase over appropriations from the

previous biennium, an indication that overall Texas spending this biennium will increase over fiscal years 2014-2015 less than the key metric of population growth plus inflation.

- However, spending of state (non-federal) funds and general revenue in fiscal years 2016-17 could increase faster than population growth plus inflation.
- Texas government spending has increased 11.8 percent faster than increases in compounded population growth plus inflation since FY 2004, a cost to taxpayers of \$22.1 billion in the current two-year budget cycle.

The 2016-17 Texas Budget

In putting together The Real Texas Budget, the Foundation has relied on several sources. These include the appropriations bills from the 84th Texas Legislature and Texas' official repository of budget information, the Legislative Budget Board's (LBB) Fiscal Size-Up, generally published near the end of each odd-numbered year or early the next year following a legislative session.

To make apples to apples comparisons with this information from one biennium to another, it is important to account for the fact that Texas almost always spends more in a biennium than the Legislature initially appropriates. For example, over the last seven budget periods the initial appropriation of funds has totaled \$1.17 trillion, which is \$39 billion less than total spending during that time. One reason this occurs is that the amount of money appropriated is generally

an estimate of what will be spent, especially when it comes to federal funds. Usually a bigger factor is the Legislature's regular passage of a supplemental appropriations bill during the following legislative session which (usually) increases spending for the current biennium. This process is sometimes referred to as "backfilling." The major increase usually associated with backfilling is Medicaid spending; most recently, the 84th Legislature passed a total supplemental bill of \$564.3 million with \$424.1 million going to fund Medicaid during 2014-15 ([LBB 2016, 57](#)).

Accounting for all of this, initial data in The Real Texas Budget indicate that the 2016-17 budget will increase overall spending compared with the previous biennium's spending by less than the key metric of population growth plus inflation. Compared with 2014-15 spending, the 2016-17 appropriations of \$209.1 billion increased so far by only 2.9 percent—less than the 6.5 percent growth of population plus inflation during fiscal years 2013 and 2014 ([Heflin and Ginn, 2015](#)). However, we cannot be certain whether this holds until all the spending numbers are in for 2016-17, though an apples to apples comparison of the increase in initial appropriations from 2014-15 to 2016-17 (a 4.3 percent increase) looks promising.

Budget comparisons for state (non-federal) and general revenue appropriations are less rosy. The Real Texas Budget shows that the Texas Legislature appropriated \$131.7 billion of state funds for 2014-15. For the current biennium, the Legislature appropriated \$141.1 billion, a 7.1 percent increase from last session—and above population growth plus inflation. The same is true for general revenue appropriations, the category which legislators have the most control; GR appropriations increased

11.6 percent across biennia. If spending for the current biennium follows the trends of appropriations, it is possible that the 2016-17 Texas spending of state funds will exceed the Conservative Texas Budget growth rate limit of 6.5 percent ([Heflin and Ginn, 2015](#)).

Historical Spending

How much Texas expenditures have grown and whether that growth is too much or too little is a constant topic of debate. To shed some light on this topic, The Real Texas Budget looks back over the last 12 years of the Texas budget, and then uses estimated spending for the next two years.

Table 1 shows that since the beginning of FY 2004, Texas' biennial total government spending has grown by \$85 billion or 68.5 percent.

Biennial spending in Texas during this period not only increased in absolute numbers, but also increased \$22.1 billion (11.8 percent) when accounting for compounded population growth plus inflation since 2004. This means that an average family of four pays about \$1,600 a year more than they would had the Legislature increased the budget by no more than this key metric. Table 1 shows that each of the subcategories of spending in the Texas budget increased by more than this key metric except general revenue-dedicated funds.

Similarly, the LBB's numbers in The Real Texas Budget show that all categories of Texas spending have increased faster than population and inflation except for general revenue-dedicated funds. The spending excess is smaller, though, because the LBB's numbers do not adjust for the removal of patient income in 2014-15.

TABLE 1: TOTAL TEXAS SPENDING (STATE & FEDERAL FUNDS) BY BIENNIUM
(Billions of \$)

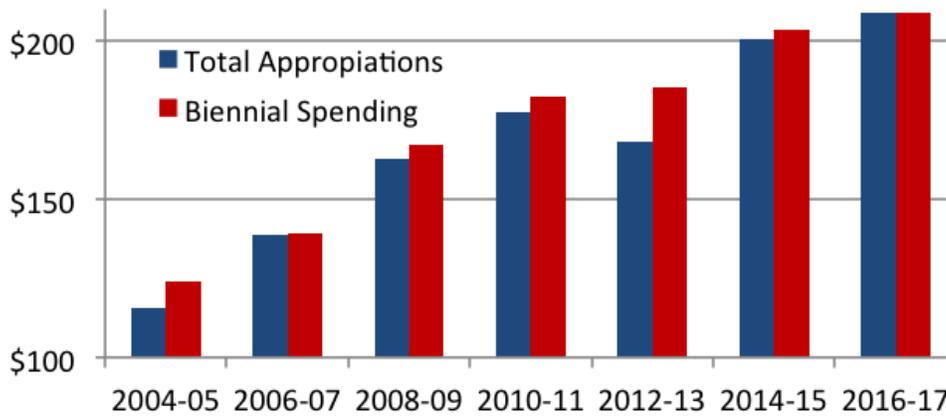
TYPE	2004-05	2016-17	CHANGE	PERCENT CHANGE	CHANGE ADJUSTED FOR POP+INFLATION	ADJUSTED PERCENT CHANGE	TOTAL SPENDING
GR	\$58.9	\$106.0	\$47.1	79.81%	\$17.2	19.37%	\$577.8
ESF	1.9	0	n/a		n/a		9.8
GR+ESF TOTAL	\$60.8	\$106.0	\$45.2	74.28%	\$14.4	15.70%	\$587.7
GR-D	5.9	7.8	1.9	32.2%	-1.1		46.2
OTHER	13.0	27.3	14.2	109.2%	7.6		155.7
STATE TOTAL	\$79.8	\$141.1	\$61.3	76.91%	\$21.0	17.45%	\$789.6
FEDERAL	44.4	68.0	23.6	53.24%	1.2	1.73%	421.3
ALL FUNDS TOTAL	\$124.1	\$209.1	\$85.0	68.45%	\$22.1	11.83%	\$1,210.9

Sources: Legislative Budget Board and authors' calculations with expected spending in 2016-17.

What You See Is Not Always What You Get

As noted, backfilling through the supplemental appropriations process is common in Texas. Some of this is to be expected, of course. The Texas budget cycle lasts two years, and it is impossible for the Legislature to know exactly what it should spend over that period. Unfortunately, the process often results in the public being misinformed about how much money the Legislature spends. Figure 1 illustrates the difference between initial appropriations and spending in each budget cycle.

FIGURE 1: A COMPARISON OF INITIAL APPROPRIATIONS VERSUS SPENDING
(Billions of \$)



Sources: Legislative Budget Board and authors' calculations with biennial spending estimates for 2014-15 and 2016-17.

Total spending from 2004-05 through 2014-15 is estimated to be just over \$1.21 trillion. However, the initial appropriation of funds during that period was only \$1.17 trillion. That means the Texas Legislature has used backfilling, or the supplemental appropriations process, to spend somewhere in the neighborhood of \$40 billion.

The problem with overuse of backfilling is most apparent in the 2012-13 budget cycle. After the Legislature left town in 2011, it looked like it had trimmed spending to meet the anticipated \$10 billion to \$15 billion revenue shortfall. It had appropriated only \$168 billion, down from the previous biennial spending of \$182.6 billion. However, in 2013 the Legislature returned to the Capitol and restored many of these spending "cuts" and more through backfilling, resulting in an increase of total biennial spending to \$185.3 billion. While the resulting 1.4 percent increase in biennial spending was welcome relief in comparison to the previous few budget cycles, it did not match with the accounts of state spending from two years prior. In addition, it raised the baseline for spending in 2014-15, allowing appropriators to spend more than they would otherwise have been allowed under the state's constitutional spending limit.

The Need for Increased Budget Transparency

The Real Texas Budget is designed to give Texans an accurate picture of government spending, which is how their tax dollars are being spent. Developing this required the review of multiple appropriations bills, fiscal notes, and LBB publications. To ensure its accuracy, we invite feedback from anyone who believes the numbers can be improved.

The difficulty in developing The Real Texas Budget leads the Foundation to renew its call for greater transparency in the budget process. This can be accomplished in two ways ([Ginn, 2016](#)).

First, the current strategic budget format of Texas' budget makes it challenging for experts much less ordinary citizens to track funds in the budget. This format was first used in the 1993 appropriations bill with the goal of providing legislators with a longer-term view of budget goals beyond the two-year appropriation cycle. Although this is a reasonable goal, the lack of transparency poses a major challenge for taxpayers and legislators. By obscuring the amount of funds approved for each agency program or service, there is little

incentive to remove programs that are ineffective because it is almost impossible to single them out. This makes it difficult for Texans to communicate with their legislators on what spending to vote for and makes it difficult for legislators not directly involved with writing the budget to determine their spending priorities.

To overcome the shortcomings of the strategic budget format, the state should convert to a program-based budget format. The budget should be written so that each agency's income and expense is listed by program, as is done in the agency's own internal budget. In addition, the source of funds should be listed for each line item. This change is a way to simplify the budget process for taxpayers and legislators to review programs that may need to be eliminated, reduced, or increased and more easily identify and deal with any waste, fraud, and abuse.

Second, the public should have access to near real-time budget data online. The current requirement of waiting for the LBB to publish documents puts taxpayer advocates days, weeks, or even months behind the appropriations process. For example, the LBB's ([2016](#)) Fiscal Size-Up: 2016-17 Biennium, its sum-

mary of the 2016-17 Texas budget, was not released until May 2016, eleven months after the Legislature adopted the budget. The exact format and content of the online access could take many forms, but one possible presentation of the data would be a spreadsheet format as is currently provided in the “[State Budget by Program](#)” on the LBB’s website. Taxpayers would be able to access past spending for each budget line item along with the proposed appropriations levels for the upcoming biennium. The data could be originally posted when state agencies submit their funding requests, and then updated once appropriation bills are drafted and filed. Updates should be made online throughout the legislative process as changes are made during hearings and after final adoption of the appropriation bill. Information about how much spending is being proposed in relation to the constitutional spending limits should also be included.

It is reasonable to expect the Legislature to provide transparency and accountability of taxpayer dollars so Texans understand the benefits achieved with their money. As the next session

approaches, the Legislature would do a great service to Texas taxpayers and legislators by converting from a strategic budget format to a program-based budgeting layout and providing budget information online in real time throughout the budget process.

Conclusion

While the Texas Legislature has occasionally passed a conservative budget that increased by no more than population growth plus inflation, Texas needs to keep past costly budget cycles from repeating. The current budget will either meet or come close to meeting the criteria for the Conservative Texas Budget. It is imperative that legislators repeat and even better their effort from 2015 by passing a budget in 2017 that meets this criteria of holding increases in appropriations of both all funds and all state (non-federal) funds to less than population growth plus inflation from the current levels of \$209.1 billion and \$141.1 billion, respectively. To this end, the Foundation will soon release its target growth rate and levels for the 2018-19 Conservative Texas Budget. ★

References

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