

# LEGISLATOR'S GUIDE to the Issues

## Understanding Federal Funds

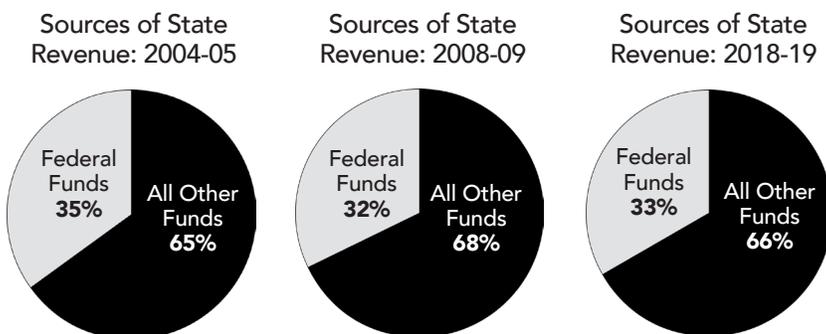
### The Issue

About one-third of Texas' state budget depends on federal funds, which include grants, payments, and reimbursements from the federal government to state agencies. As written in the U.S. Constitution, states should be able to act as independent and sovereign entities. With more federal aid funding the state's budget, legislators lose their independence to act responsibly for their constituents, and all Texans lose in the process.

With massive federal budget deficits and the national debt exploding, Congress must eventually find ways to slow spending. This change would likely affect how much Texas receives in federal aid, potentially putting pressure on the state's budget without preparing in advance by increasing transparency and identifying ways to reduce the use of federal funds.

As a percentage of the [2018-19 budget](#), federal funds constitute approximately 33%, or \$72 billion, of the \$217 billion in total appropriations. This is about \$350 million below estimated federal aid expenditures in the 2016-17 budget. Of the \$72 billion in federal aid, Health and Human Services (Article II) was the biggest recipient with an estimated \$43.8 billion, or almost two-thirds of the total. Appropriations supported by federal funds for general government (Article I) functions increased the most by 18% over the previous budget.

A valuable measure of state dependency on federal funds is the percentage of the budget from federal aid. The figures below show that federal aid went from 35% of the 2004-05 budget, declined to 32% in 2008-09, and then increased to its current share of 33%.



Source: Legislative Budget Board

This one percentage-point increase in the share of federal aid from just a few budget cycles ago further burdens state legislators with more red tape and less independence from the federal government and burdens Texans in the process. From 2000 to

2015, this share averaged 33.7% in the Lone Star State, which ranks as the [15th highest share nationwide with the national average of 31%](#), according to the Pew Charitable Trusts. In addition, federal dollars per Texan increased 32% from about \$1,970 in 2004-05 to \$2,600 in 2018-19.

As Milton Friedman said, "There is no such thing as a free lunch." The common misconception that federal-aid is free is not true. There are ample examples of ways that the federal government controls the choices made by the state and threatens fiscal federalism in the process. As more federal aid makes legislators more dependent on national policies, these policies crowd out the ability for state lawmakers to enact legislation that affects Texans. Specifically, growing federal-aid dependency drives more state spending as legislators try to maximize federal funds, handicaps state decisions as lawmakers focus on federally funded programs and lose control of the growth of the budget, and slows economic growth and job creation as private sector funds are redistributed.

### The Facts

- Federal funds constitute approximately 33%, or \$72 billion, of the 2018-19 budget.
- Federal funds per person went from \$1,970 in 2004-05 to \$2,600 in 2018-19, a 32% increase.
- From 2000 to 2015, the federal funds share of the budget averaged 33.7% in the Lone Star State, ranking Texas as having the 15th highest federal share nationwide.

### Recommendations

- Prepare for the next federal budget crisis by identifying and measuring the cost of the mandates attached to federal funds.
- Evaluate the economic and fiscal impacts of a rising share of federal funds when writing the budget; minimize any increase in federal aid or reduce it.
- Rising federal-aid funding for transportation and other state-level projects suggest legislators should consider ways to return more state dollars to fund projects without strings attached.

### Resources

[Through a Glass Darkly: On the Need for Greater Transparency Regarding Federal Funds Going Directly to Texas Local Governments](#) by Thomas Lindsay, Texas Public Policy Foundation (Nov. 2016).

[Which States Rely the Most on Federal Aid?](#) by Liz Malm and Richard Borean, Tax Foundation (Jan. 2015).

[Budget Driver: Federal Funds](#) by Talmadge Heflin, Texas Public Policy Foundation (Feb. 2010).