



The Real Texas Budget *A Need for Greater Transparency*

by The Honorable
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Key Points

- Total Texas state government spending for 2014-15 is estimated to be \$201.9 billion, a nine percent increase over the previous biennium.
- Texas government spending has increased faster than the growth in inflation and population since 2004, at a cost to taxpayers of \$16.3 billion this biennium.
- The Real Texas Budget demonstrates the need for increased transparency in the Texas budget to help taxpayers control the growth of state spending.

Introduction

By the end of the current fiscal biennium on August 31, 2015, Texas will have spent more than \$1 trillion over the 12 years since the beginning of the state's Fiscal Year (FY) 2004.

It takes a massive effort to collect and spend all this money. However, even more challenging is accurately accounting for this money and determining how much state government costs Texans. Legislative tactics, insufficient reporting, and the complexity of the system make it difficult for Texans to accurately assess the size and scope of their government.

To help Texans access accurate information about state spending, 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 2015. This paper highlights some of the findings in the Real Texas Budget, including:

- Total Texas state government spending for 2014-15 is estimated to be \$201.9 billion, a 9 percent increase over the previous biennium.
- Non-dedicated general revenue spending this biennium may increase faster than the 10.7 percent constitutional spending limit.
- The Legislature's decision to take \$6.1 billion in patient income spending off the books means the LBB's reported 5.1 percent increase in total appropriations is inaccurate.

- Texas government spending has increased faster than the growth in inflation and population since 2004, at a cost to taxpayers of \$16.3 billion this biennium.
- The Texas Legislature appropriated \$44 billion more in 2013 than it did in 2011, a 25.8 percent increase.

The Real Texas Budget makes it clear that it is difficult for Texans to know how much of their money the government is spending. It is also difficult for Texans to know what their money is being spent on. These challenges demonstrate the need for increased transparency in the Texas budget. Providing access to the budget online in near real-time and changing the appropriations bill to a program-based bill pattern would address both of these problems and help Texans reign in the growth of state government.

The 2014-15 Texas Budget

Texas' official repository of budget information is the Legislative Budget Board's (LBB) *Fiscal Size Up*, generally published near the end of each odd-numbered year following a legislative session. The *Fiscal Size-Up: 2014-15 Biennium* shows that the Texas Legislature appropriated \$200.4 billion for 2014-15, a 5.1 percent increase over spending in 2012-13. However, this does not provide Texans an accurate picture of actual spending for the current biennium or the increase in spending from the previous biennium.

The Foundation estimates that total Texas state government spending for 2014-15 will

* Since the Texas Legislature meets in regular session only once every two years, Texas has a two-year, or biennial, budget cycle. The information in this report is reported on a biennial basis.

Table 1: Total Texas Spending 2012-13 & 2014-15

Year	2012-13	2014-15	Increase
TPPF	\$185,254,700,000	\$201,921,200,000	9.00%
LBB	\$190,754,800,000	\$200,421,100,000	5.07%

Sources: Legislative Budget Board and authors' calculations

be \$201.9 billion, a 9 percent increase over the previous biennium. Spending of only state (non-federal) dollars is projected to be \$132.3 billion, an increase of 9.9 percent, while the Foundation projects that spending of general revenue (GR) funds will be \$95.6 billion, an increase of 11.2 percent. It is likely that the spending of state funds and GR will increase faster than the growth of population and inflation, and possibly that GR spending will increase faster than the 10.7 percent constitutional spending limit set by the LBB on November 15, 2012.¹

The sections below describe how the Foundation reconciled official LBB numbers to provide this accurate accounting of Texas government spending.

Backfilling

Texas almost always spends more in a biennium than the Legislature initially appropriates, so the LBB's comparison of this biennium's appropriations to last biennium's spending must be adjusted to account for this. For example, over the last six biennia the initial appropriation of funds has totaled only \$962.7 billion, which is \$37.6 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. More importantly, in the subsequent legislative session during the biennium in question the Legislature often passes a supplemental appropriations bill which (usually) increases spending. This process is sometimes referred to as "backfilling."

To account for backfilling in the current biennium, the Foundation has added \$1.5 billion in Medicaid spending to the amount appropriated in 2013, resulting in our estimated spending of \$201.9 billion for the biennium. Backfilling Medicaid is a regular practice because Medicaid is an entitlement and its exact cost cannot be known until

after the fact. The Legislature generally underestimates Medicaid costs in its initial appropriation.

Patient Income

Backfilling accounts for only one-fifth of the 77.5 percent difference between the Foundation's and LBB's reported increases for the biennium. The primary reason for this difference is the "removal of patient income (\$6.1 billion) as an appropriated method of finance for health-related institutions" from the 2014-15 appropriations bill.²

During the appropriations process in 2013, the Legislature decided that the patient fees collected and spent by health-related institutions should not be included—as it has in the past—as a line item in the appropriations bill. Instead, it is now included in an informational rider. As a result, the appropriations bill shrunk by \$6.1 billion, even though this money continues to be spent. If the current bill had followed the previous bill pattern, spending for this biennium would have been reported as \$206.5 billion.

Just as the Legislature made this adjustment, businesses sometimes change the way they report income or spending. However, businesses making adjustments also restate previous earnings or spending in order to provide accurate comparisons over time. The Legislature's decision to exclude patient income from the current appropriations bill's totals along with the LBB's decision not to restate previous biennia's spending distorts reported changes of government size and spending over time—this will be further examined below. To adjust for this distortion, the Foundation has removed spending of patient income from its totals back to the 2004-05 biennium. While this understates the level of state spending during this period, it allows for accurate comparisons of historical spending to current spending and future spending.

Table 2: Total Texas Spending (State & Federal Funds) by Biennium*

Type	2004-05	2014-15 [†]	Change	% Change	Change adjusted for Pop/Inflation	% Change	Total Spending
GR	\$58,956,000,000	\$95,607,000,000	\$36,651,000,000	62.17%	\$7,448,120,335	8.45%	\$471,357,300,000
ESF	1,869,139,844	2,000,000,000	n/a		n/a		9,839,800,964
GR+ESF Total	\$60,825,139,844	\$97,607,000,000	\$36,781,860,156	60.47%	\$6,653,132,979	7.31%	\$481,197,100,964
GR-D	5,889,900,000	7,314,600,000	1,424,700,000		-1,492,764,566		38,330,900,000
Other	13,042,860,156	27,413,100,000	14,370,239,844		7,909,674,751		126,754,299,036
State Total	\$79,757,900,000	\$132,334,700,000	\$52,576,800,000	65.92%	\$13,070,043,164	10.96%	\$646,282,300,000
Federal	44,376,100,000	69,586,500,000	25,210,400,000	56.81%	3,229,432,698	4.87%	354,120,700,000
All Funds Total	\$124,134,000,000	\$201,921,200,000	\$77,787,200,000	62.66%	\$16,299,475,862	8.78%	\$1,000,403,000,000

Sources: Legislative Budget Board and authors' calculations

Historical Spending

How much Texas spending has 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 10 years of the Texas budget, and then projects spending for the next two years.

Table 2 shows that since the beginning of FY 2004, biennial total spending for Texas government has grown by \$77.8 billion or 62.7 percent.

Spending in Texas during this period not only increased in absolute numbers, but also increased when taking into account population and inflation. The total population/inflation adjusted increase in biennial spending since 2004 is \$16.3 billion. This means that an average family of four pays \$1,200 a year to support the growth of Texas government since 2004. Another way of putting it is that total spending by Texas government has grown 8.8 percent faster than population and inflation. The same can be said for each of the subcategories of spending in the Texas budget, as shown in Table 2.

Similarly, the LBB's numbers show that all categories of Texas spending have increased faster than population and inflation. The increase is smaller, though, because the LBB's numbers do not take into account total spending and fail to adjust for the removal of the patient income in 2014-15.

* Spending prior to 2014-15 is adjusted to restate historical spending to reflect the Legislature's decision to remove expenditures from patient income from the 2014-15 appropriations figures. Also, Economic Stabilization Fund (ESF) spending is itemized separately—the LBB includes it as "Other" spending.

[†] Total spending for 2014-15 includes an estimated \$1.5 billion for Medicaid that may be appropriated by the 84th Texas Legislature in 2015 in keeping with the general practice of the Legislature to slightly underfund Medicaid because of the uncertainty of its cost.

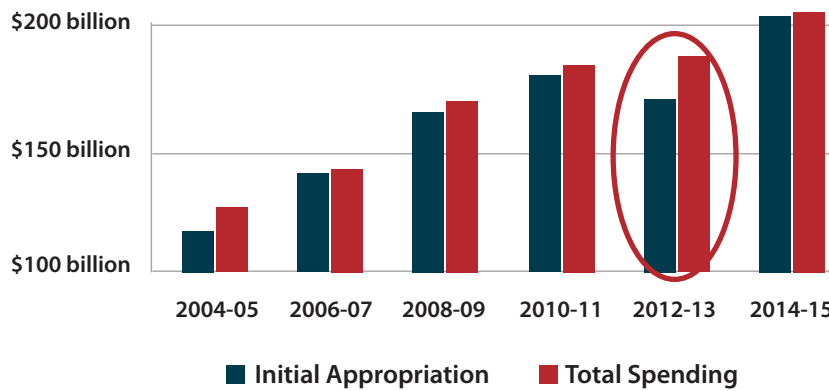
What You See Is not Always What You Get

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.

Total spending from 2004-05 through 2014-15 is estimated to be just over \$1 trillion. However, the initial appropriation of funds during that period was only \$962.7 billion. That means the Texas Legislature has used backfilling, or the supplemental appropriations process, to spend somewhere in the neighborhood of \$37 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 \$167.9 billion, down from the previous biennium's spending of \$182.6 billion. However, in 2013 the Legislature came back and restored many of these spending "cuts" through backfilling, resulting in total spending for the biennium of \$185.3 billion. While the resulting 1.4 percent increase in biennial spending was welcome relief in comparison to the previous few biennia, it did not match with the accounts of state spending

Figure 1: A Comparison of Initial Appropriations v. Spending



Sources: Legislative Budget Board and authors' calculations

from two years prior. In addition, it raised the baseline for spending in 2014-15, allowing appropriators to spend more than would otherwise have been allowed under the state's constitutional spending limitation.

Total Appropriations by Legislative Session

Backfilling and removing budget line items are just two ways the Legislature can shift or mask spending. Another way is to briefly delay spending and shift it from one biennium to the next. The spending still occurs with no loss to the recipient, but the Legislature can then spend the money that was “saved” on another program in the current biennium. However, the spending that was shifted will occur twice in the next biennium, once for the delayed payment and again for the regularly scheduled payment. So while there is temporary relief in the current biennium, the unwillingness to reduce funding for certain programs in the present leads to higher revenue requirements for the next biennium.

Since all of these budget gimmicks are difficult to discern in official budget documents, last year the Foundation de-

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veloped a metric for evaluating legislative appropriations that is not affected by them. The metric, Total Appropriations by Legislative Session, measures all appropriations made during a legislative session, regardless of whether the appropriation was “backfilling” into the current biennium or going forward into the upcoming biennium; it has also been referred to as “Session Spending.”

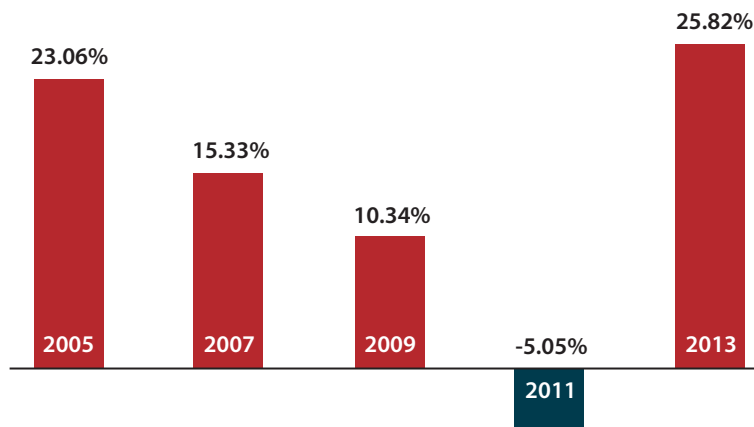
Table 3 shows the total appropriations made by the Legislature in each legislative session. By far the biggest increase came in the 2013 session, when the Texas Legislature appropriated \$44 billion more than it did in 2011.

Table 3: Total Appropriations by Legislative Session*

	2003	2005	2007	2009	2011	2013
All Funds Total	\$114,714,103,000	\$141,165,669,508	\$162,800,961,914	\$179,628,884,466	\$170,563,726,572	\$214,599,707,533

Sources: Legislative Budget Board and authors' calculations

* Appropriations prior to 2013 are adjusted to restate historical appropriations to reflect the Legislature's decision to remove expenditures from patient income from the 2014-15 appropriations figures. Also, Economic Stabilization Fund (ESF) spending is itemized separately—the LBB includes it as “Other” spending.

Figure 2: Change in Total Appropriations by Legislative Session

Sources: Legislative Budget Board and authors' calculations

Figure 2 highlights the variability of the appropriations over time. The greatest change was the 2013 increase of 25.8 percent, while the smallest change was the 5 percent decrease in 2011.

If the Texas Legislature did not use the various budget gimmicks to shift or obscure spending, the change in appropriations by session would track closely with the change in spending by biennium, and there would be little need for the Session Appropriations metric. However, because the Legislature tends to make use of these budget gimmicks, this metric provides Texans with valuable insights into how their tax dollars are being spent.

Why 2004-05?

The Foundation begins its analysis of the Texas budget and state spending with the 2004-05 biennial budget. This starting point was chosen purposely, for three reasons.

First, the 10-year examination of historical state spending is long enough to provide a solid foundation for the examination of the current budget and the Foundation's recommendations. Second, the period is short enough that its analysis is relevant to the budget deliberations taking place today. Third, the 2004-05 budget is the most taxpayer-friendly budget the citizens of Texans have paid for in many years. While not perfect, it focused primarily on restraining the growth of spending to balance the budget,

unlike the 2012-13 budget that primarily relied on budget gimmicks. The 2004-05 budget is the best benchmark taxpayers have for gauging the recent growth in Texas state government spending.

Recommendations: The Need for Increased Budget Transparency

The Real Texas Budget is designed to give Texans an accurate understanding of the amount of money its government is spending—and the amount of money they are paying to support it. 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.

First, 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 instance, the LBB's *Fiscal Size-Up: 2014-15 Biennium*, its summary of the 2014-15 Texas budget, was not released until March of this year, eight months after the Legislature adopted the budget.

Making the change to a program-based budgeting system is an effective way to simplify the budget process for taxpayers and get more eyes on the budget.

The LBB's State Budget by Program webpage could serve as an example of how the LBB could post current budget information online. Taxpayers would be able to access past spending for each budget line item along with the proposed spending levels for the upcoming biennium. The data could be originally posted when state agencies submit their funding requests, then updated once appropriations bills are filed and updated through the legislative process. It could be viewed online or downloaded as a spreadsheet.

Second, the appropriations bills and any online data repository should be presented in a program-based format. Today, the Texas state budget is formatted in such a way that even budget experts have trouble tracking funds in the budget, let alone the average taxpayer—or legislator. The problem lies in the strategic budgeting format—or bill pattern—currently used in the appropriations bills each session. The format was first used in the 1993 appropriations bill. The concept behind the strategic format was to give legislators a longer-term view of programs and spending beyond the two years appropriations cycle. Money is no longer appropriated by programs but by strategy, with performance measures used to measure the accomplishment of goals over time. However, the process has failed

to achieve any meaningful improvements in the efficient use of tax money. In fact, the primary result has been a tremendous reduction in the transparency, accountability, and efficiency of the appropriations process.

To fix this problem, the state should move to an improved program-based budgeting system. 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. And the source of funds should be also listed in each line item. Making the change to a program-based budgeting system is an effective way to simplify the budget process for taxpayers and get more eyes on the budget. In turn, this will multiply our chances at spotting waste, fraud, and abuse.

Two bills were filed in the 82nd Texas Legislature that would move the state toward program-based appropriations—HB 2804 and SB 1653. Though neither bill became law, the hearing on HB 2804 before the House Appropriations Committee led to the development of a program-based presentation of the budget on the LBB's website. While this is helpful, the information at this portal is updated months after the fact, giving neither taxpayers nor legislators real-time access to spending on specific programs at state agencies during the appropriations process. The only way to resolve this problem is to change the appropriations bill to a program-based bill pattern. More information about this can be found in the Foundation's publication, *Make the Budget Process More Transparent: HB 2804 and SB 1653*. ★

Endnotes

¹ Legislative Budget Board, *Budget And Policy Recommendations for the 2014-15 Biennium* (Jan. 2013).

² Legislative Budget Board, *Fiscal Sizeup*, p. 7.

About the Authors



The Honorable Talmadge Heflin is the Director of the Foundation's Center for Fiscal Policy. Prior to joining the Foundation, Heflin served the people of Harris County as a state representative for 11 terms. 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.



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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.

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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.

