Texas Budget Policy Part II

Texas is where the modern conservative theory of budgeting - the belief that you should never raise taxes under any circumstances, that you can always balance the budget by cutting wasteful spending - has been implemented most completely. If the theory can't make it there, it can't make it anywhere.

Paul Krugman

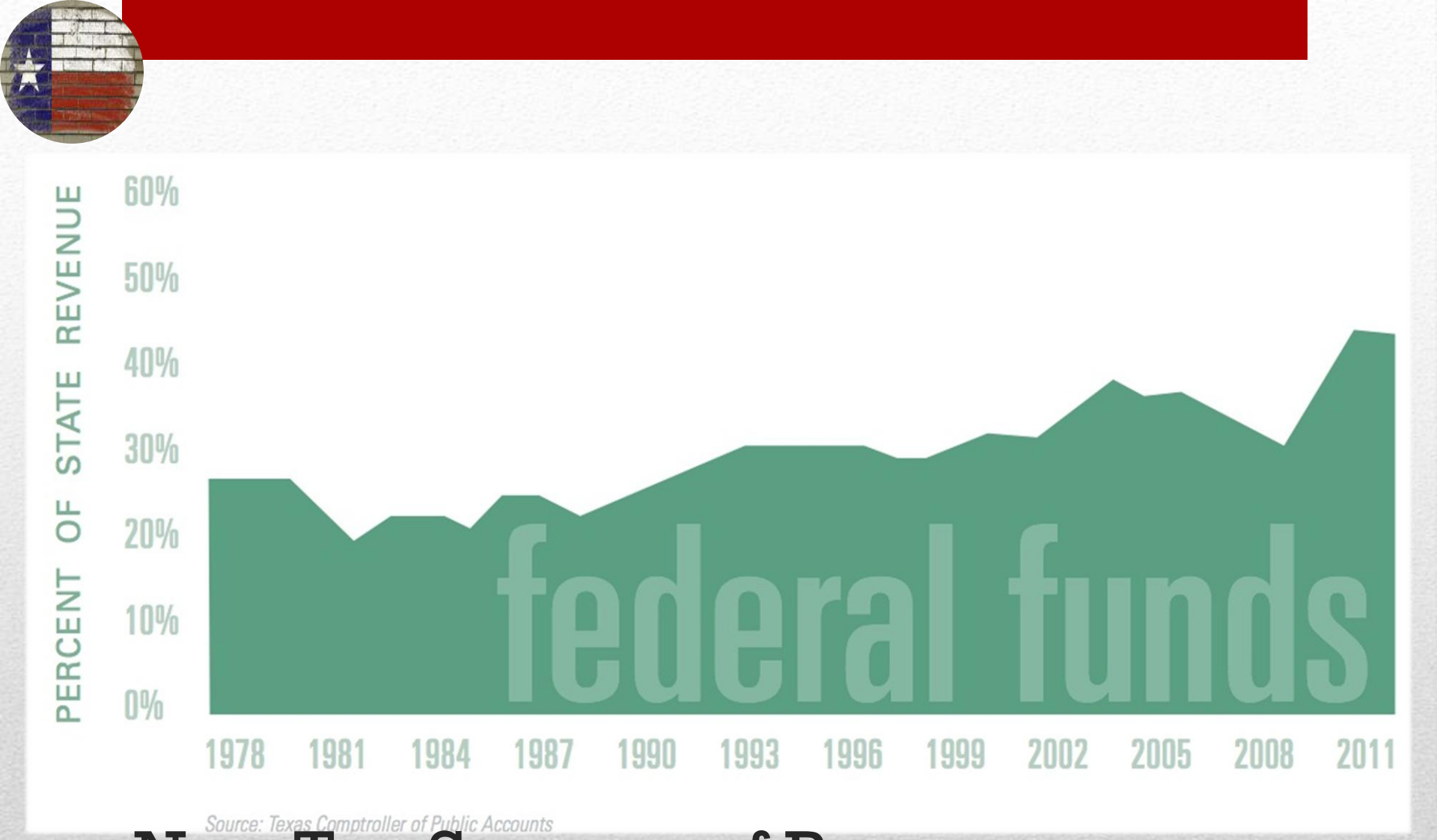
Non-Tax Revenue by Source, FY 2017

Revenue Source	Amount	% of Total Revenue	% Change from 2016
federal income	$38,365,630,033	34.5%	-2.8%
licenses, fees, permits, fines, penalties	$10,378,557,433	9.3%	-10.7%
interest and investment income	$1,691,191,616	1.5%	24.1%
net lottery proceeds	$2,053,243,707	1.8%	-7.5%
sales of goods and services	$308,230,150	0.3%	5.2%
settlements of claims	$527,518,330	0.5%	-19.1%
land income	$1,694,312,814	1.5%	48.7%
contributions to employee benefits	$57,253	0.0%	4.5%
other revenue sources	$6,533,309,363	5.9%	8.0%
total non-tax sources	$61,552,050,699	55.4%	-2.0%

Non-Tax Sources of Revenue

- Federal funds are a vital part of any state budget, and they are particularly important in the Texas state budget.
- Texas ranked 11th highest in federal funds as a share of state government spending.
- The federal government is a major funding source for Texas government, accounting for more than a third of state revenues (34.5% in 2017).
- Texas uses a significant amount of matching federal funds to greatly expand health care access for low-income residents.
- Do Hurricane Harvey Victims Deserve Less Federal Aid Because Texas is a Low-Tax State?

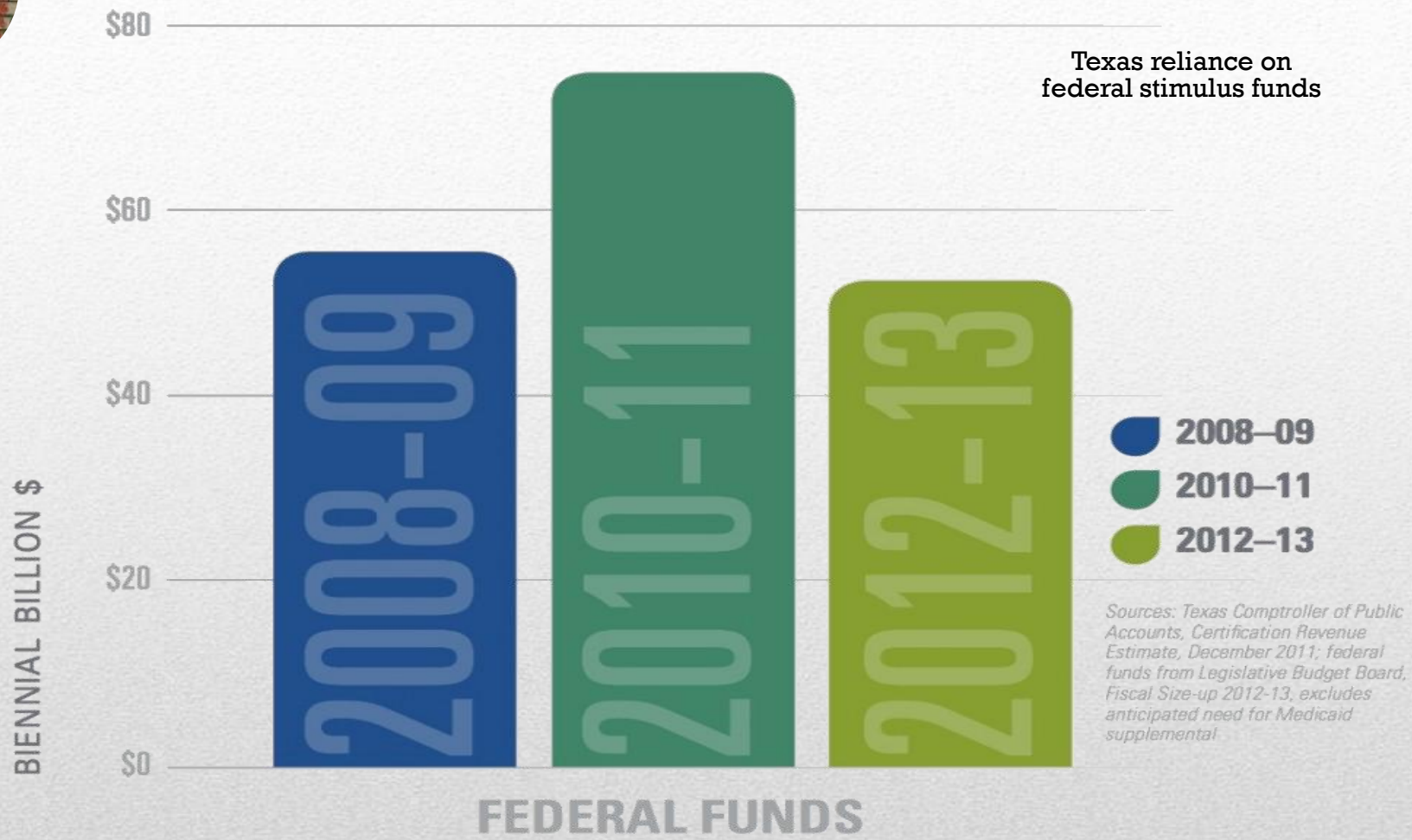
Non-Tax Sources of Revenue: Federal Funds



Non-Tax Sources of Revenue: Federal Funds

- In the 2010-11 biennium, the federal government supplied more than 40% of all state revenue, due to additional American Recovery and Reinvestment Act (stimulus) funds.
- The state budget received $15 billion in federal stimulus support in 2009, 2010 and 2011.
- While some of the money was dedicated to specific, one-time uses, the legislature used about half to replace General Revenue spending on schools and health care. In other words, rather than take advantage of the ARRA funds to jumpstart the economy, Texas used it to fund public services typically paid for with General Revenue funds.
- Starting in 2013, actions to reduce the federal budget deficit reduced the amount of federal money available to states.

Non-Tax Sources of Revenue: Federal Funds



Non-Tax Sources of Revenue: Federal Funds

- Of the eight largest federal grants in the state budget, Medicaid is by far the largest, bringing almost 5 times as much federal revenue to Texas as the second largest, Highway Planning and Construction.
  - Medicaid: federal program designed to provide health coverage to poor people, the disabled and elderly Americans who are impoverished
  - Medicaid eligibility, benefits and administration are managed by the state within federal guidelines.
- Federal benefits administered by state agencies such as SNAP and unemployment insurance are not included because funds for these benefits are not appropriated in the state budget.

Non-Tax Sources of Revenue: Federal Funds

- Texas raises money through the sale of licenses and the collection of fees.
- They are collected from individuals who wish to drive a motor vehicle, operate businesses, go hunting and fishing, attend a state university, sell alcoholic beverages, carry a handgun, etc.
  - A $200 annual licensing fee for lawyers, doctors and engineers was repealed in 2015.
- In 2017, licenses and fees accounted for 9.3% of state revenue.

Non-Tax Sources of Revenue: Licenses and Fees

- Texas holds billions of dollars in cash and securities in several investment programs that generate dividend and interest income.
  - Texas Teacher Retirement System (TRS) Trust Fund: pension fund for the state's public school teachers
  - Employees Retirement System (ERS) Trust Fund: pension fund for state employees
  - Permanent School Fund (PSF): established in the Texas constitution as an endowment to finance public elementary and secondary education … assets include many publicly owned lands within Texas and various other investments … interest distributed to the state's public school districts in proportion to their average daily student attendance

Non-Tax Sources of Revenue: Interest and Investment Income

Non-Tax Sources of Revenue: Interest and Investment Income

- Permanent University Fund (PUF): established in the Texas constitution as an endowment to finance construction, maintenance and other activities at UT and Texas A&M
  - receives all revenue from oil, gas, sulfur and water royalties; increases in investments; rent payments on mineral leases; sales of university lands
  - one of the largest university endowments in the world
- The amount of interest and investment income varies, depending on the investment climate.
- The reports of independent auditors indicate that both the TRS and the ERS lack sufficient funds to cover future liabilities. This will require future legislative attention.

- Texas has more than 20 million acres of land that produce revenue for the state.
- The revenue is generated from leases for oil and gas production; solar, wind and geothermal power; agricultural related activities; commercial development; etc.
- Demand for public land in Texas from energy companies has gone up since 2016 but income from the leases has dropped, reflecting recent low oil prices.
- In 2017, land income accounted for 1.5% of state revenue.

Non-Tax Sources of Revenue: Land Income

Non-Tax Sources of Revenue: Lottery Revenue

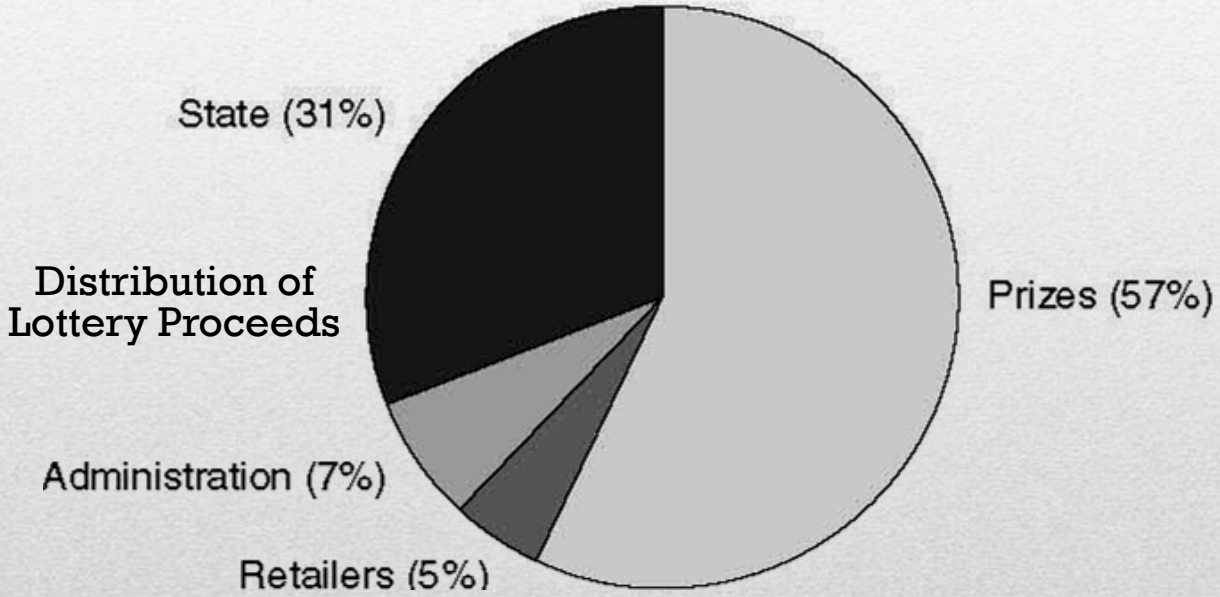
- Since the Texas lottery began in 1992, $25 billion has been generated in revenue for the state, including more than $19 billion for public education and more than $66 million for veterans.
- The lottery topped the $5 billion mark in scratch-off and lottery drawing tickets during the 2016 fiscal year, and put a record $1.39 billion into state coffers.
- In 2017, it accounted for 1.8% of state revenues.
- The Texas lottery outsources most of its functions to private vendors, far more than in other states.

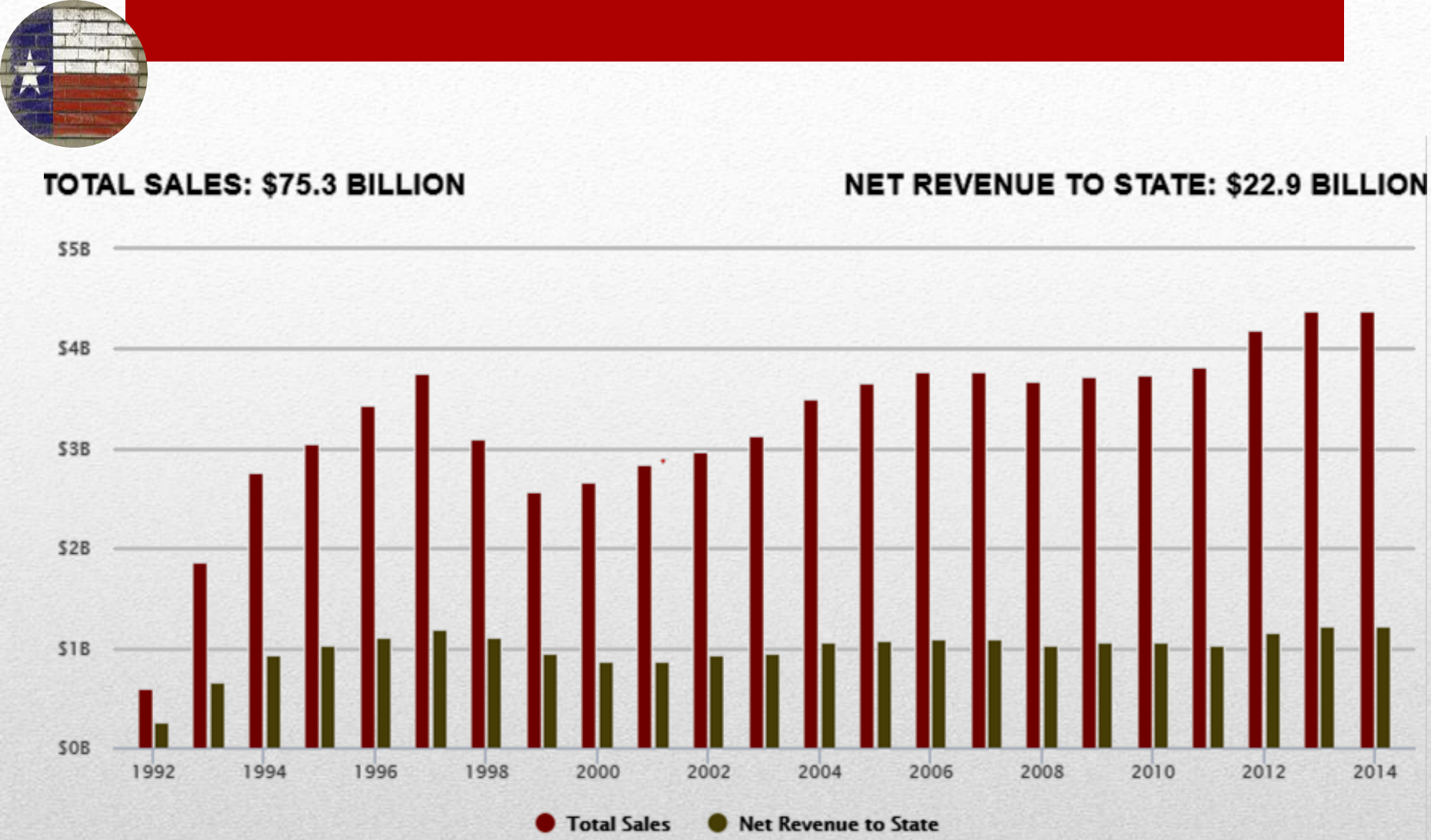
- Lottery proceeds were dedicated to public education but had no impact on the total amount spent for public education because the legislature reduced education spending by a sum equal to the amount anticipated by lottery proceeds.
- In 2003, the legislature approved participation in a multistate lottery in hopes of generating additional revenue. Texans joined Mega Millions players in Georgia, Illinois, Maryland, Massachusetts, Michigan, NJ, NY, Ohio, Virginia and Washington.
- In 2009, legislation was passed directing the lottery to offer a scratch ticket game benefiting the Fund for Veterans' Assistance (FVA). The FVA makes grants available to eligible charitable organizations, local government agencies and veterans service organizations that provide direct services to Texas veterans and their families.

Non-Tax Sources of Revenue: Lottery Revenue

Non-Tax Sources of Revenue: Lottery Revenue

- When the Texas Lottery Commission's Sunset bill reached the floor of the House in 2013, it was initially voted down, which would have shut down the lottery as of September 2014. But within a few hours, the House reconvened and voted it through, continuing the agency for 12 more years.





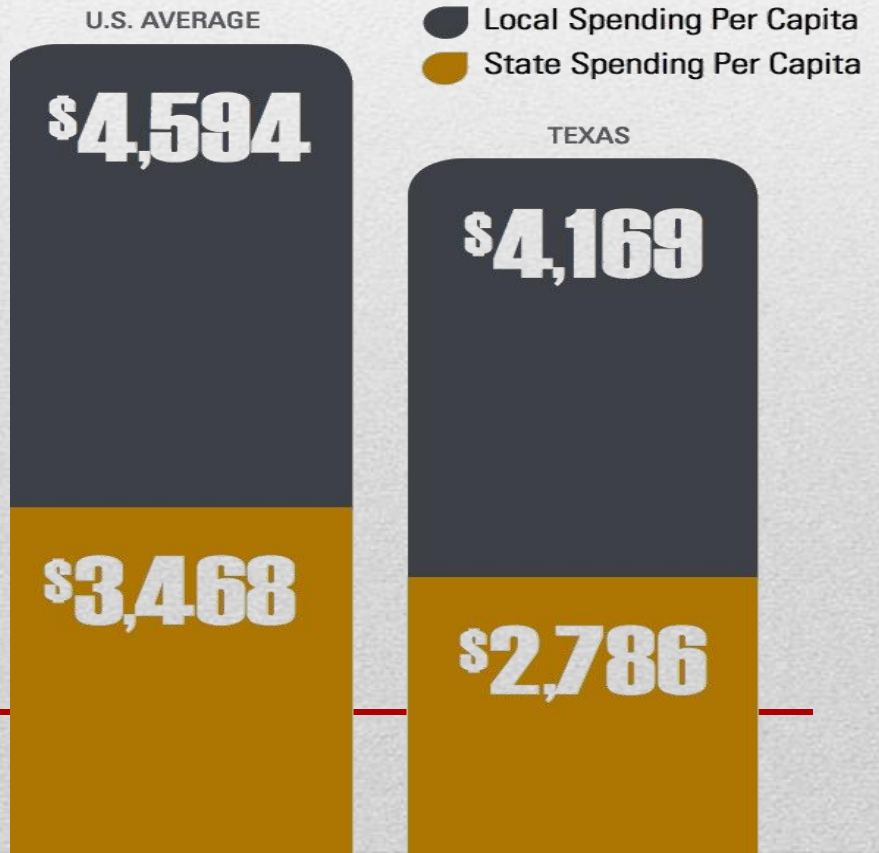
Non-Tax Sources of Revenue: Lottery Revenue

- The state generates revenue from other non-tax sources.
- These miscellaneous revenue sources include employee benefit contributions and revenue from the tobacco lawsuit settlement.
- In 2017, these collective non-tax sources generated 6.7% of total state revenue.

Non-Tax Sources of Revenue: Other Non-Tax Revenue

Expenditures

- Texas has long been a low-spending state, often at the expense of some of the most necessary services.
- Texas spends less per resident than the US average.
- Texas is 47th on direct general spending per capita.
- Public services are provided by both state and local governments.



State Budget Funds: General Revenue Fund

- The state budget is made up of several funding sources.
- The General Revenue Fund receives state tax revenues and fees considered available for general spending.
  - Often described as the *discretionary* part of the budget, giving the impression that legislators are free to allocate money without too many restrictions, but the legislature has control over less than 1/5 of the state's general revenue. The rest is controlled by things like state court orders, state law, constitutional provisions and federal regulations.
  - general sales taxes and motor vehicle sales taxes, some taxes linked to consumption (motor fuels taxes and portions of sin taxes on cigarettes, tobacco and alcohol), portion of the franchise tax

State Budget Funds: General Revenue-Dedicated Fund

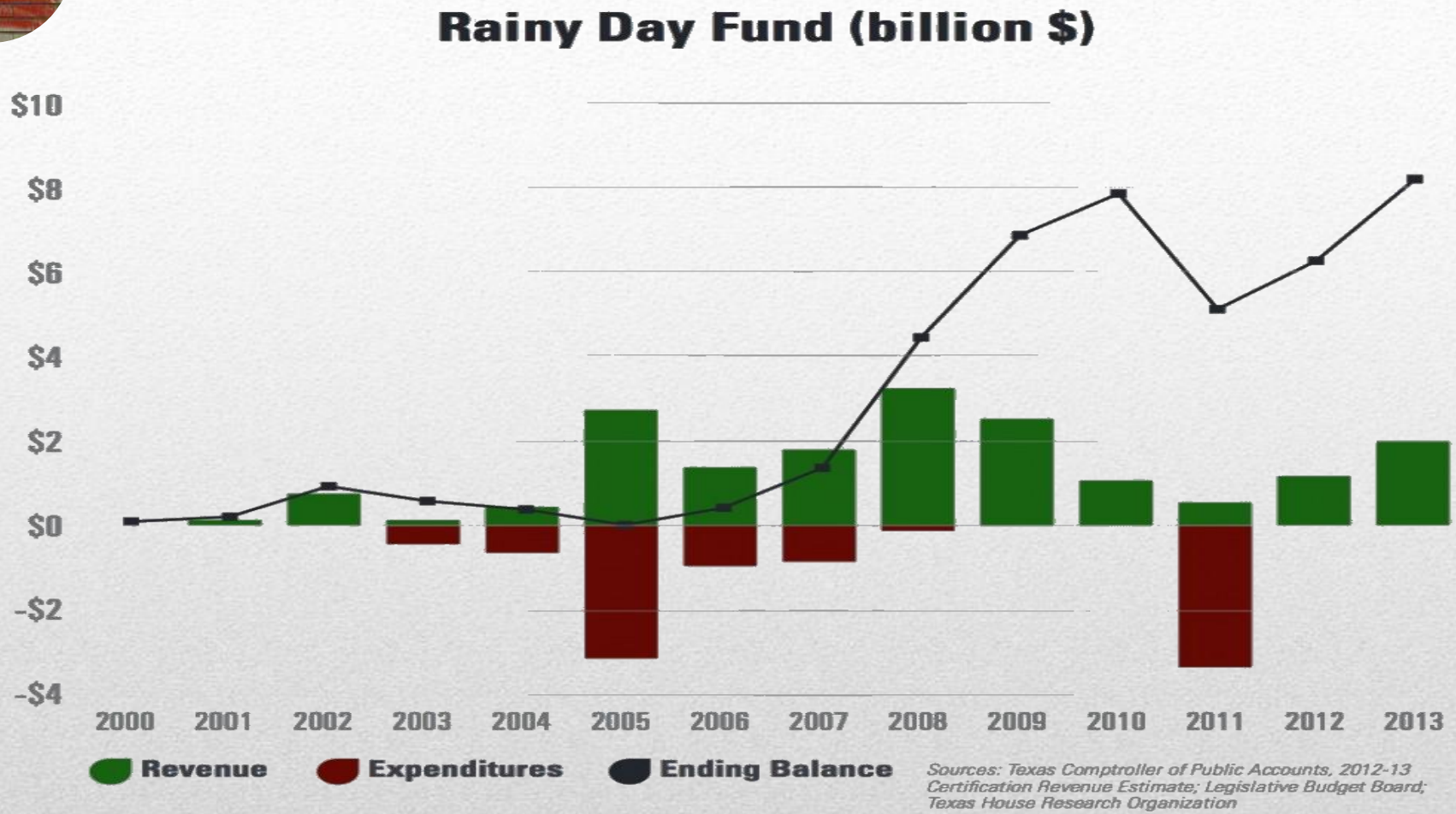
- The General Revenue-Dedicated Fund is money set aside for particular purposes.
  - Game, Fish and Water Safety
  - Clean Air Account
  - Petroleum Storage Tank Remediation
  - Solid Waste Disposal
  - 9-1-1 Service Fees
  - Volunteer Fire Department Assistance
  - Texas Emissions Reduction Plan
  - Child Abuse Neglect Operating and Trust Funds
  - System Benefit Fund
  - Designated Trauma Facility and EMS
  - Regional Trauma Account
  - Physician Education Loan Repayment Program

State Budget Funds: Rainy Day Fund

- After a sharp decline in state revenue in the mid-1980s, Texans amended the state constitution to create the Economic Stabilization Fund, commonly called the Rainy Day Fund.
- designed to save revenue collected in good times to pay for services when revenue drops in bad times
- As the economy recovers, revenue recovers and the state can once again pay for services out of current revenue.
- not intended to cover only one-time costs or to be set aside to respond to natural disasters … purpose is to protect the state's ability to provide ongoing services

- The constitution requires that deposits to the fund be made when oil or gas production taxes collected in a fiscal year exceed the amounts each tax collected in 1987 and when unencumbered General Revenue remains at the end of a biennium.
- The legislature can also appropriate money to the fund.
- The constitution limits how big the Rainy Day Fund can become. The cap is 10% of revenues deposited in General Revenue in the prior biennium, excluding interest and investment income and fund transfers.
- The current cap is about $13 billion. A 2/3 vote of those legislators present and voting is required to spend money from the fund in most circumstances.

State Budget Funds: Rainy Day Fund



State Budget Funds: Rainy Day Fund

State Budget Funds: Rainy Day Fund

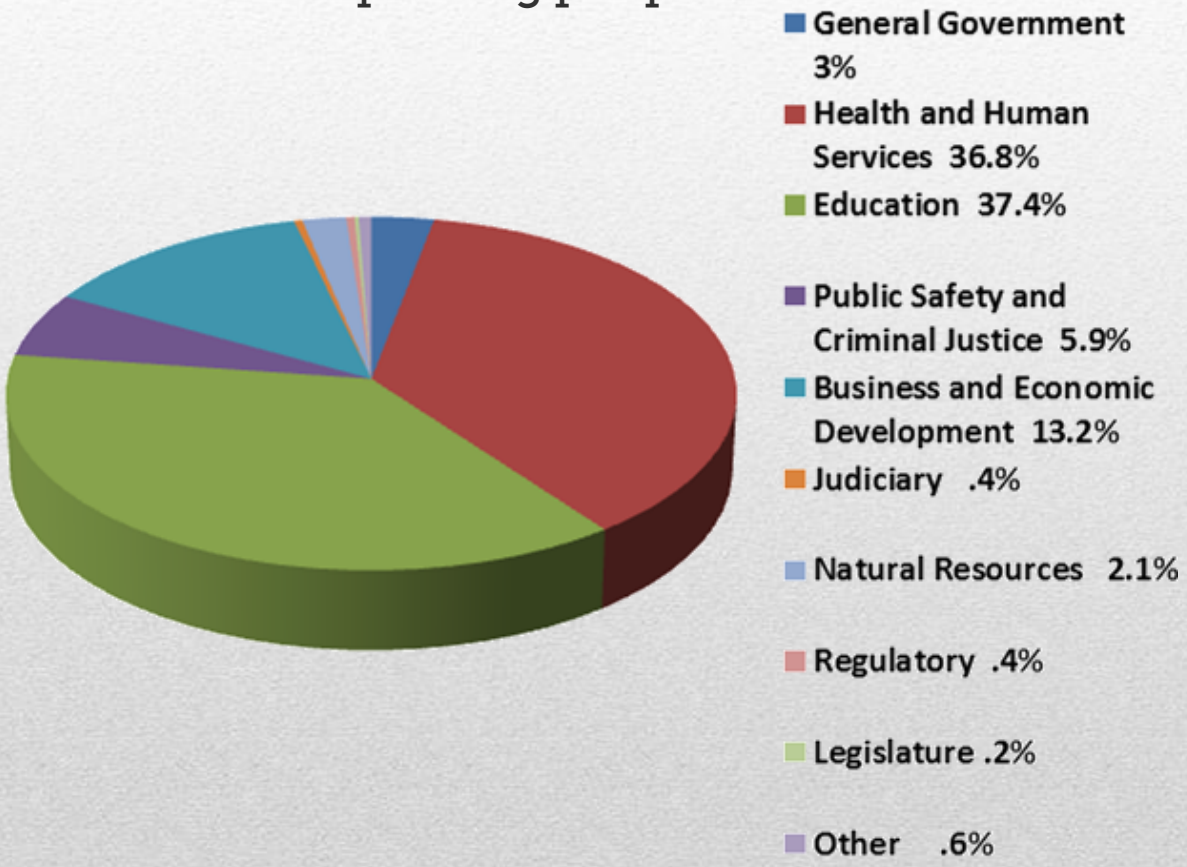
Use of the Rainy Day Fund has become a point of contention. Historically, however, the Legislature has used the fund freely.

- In 1991, $29 million of the Rainy Day Fund was spent on public schools;
- In 1993, $197 million was used for criminal justice.
- The 2003 legislature spent $1.2 billion from the Rainy Day Fund—almost all that legislators expected it to contain through 2005. One-third went to cover CHIP (Children's Health Insurance Program) and Medicaid shortfalls for 2003, while the remainder was appropriated for 2004-05 to fund retired teachers' health care and the creation of the Texas Enterprise Fund.
- The 2005 legislature spent $1.9 billion from the Rainy Day Fund, using roughly half for 2005 shortfalls and the other half for 2006-07 budget items (including the new Emerging Technology Fund and child protective services reforms).
- The Legislature did not appropriate any money from the fund in 2007 because General Revenue for the next biennium was expected to continue to grow quickly, or in 2009, when the federal government provided billions in stimulus aid used in place of General Revenue for 2010-11.
- The 2011 Legislature used $3.2 billion to help close the 2011 revenue shortfall, but chose to cut public education funding and deliberately shortchange Medicaid rather than use the Rainy Day Fund for the 2012-13 budget.

State Budget Funds: Other Funds

- Property Tax Relief Fund
  - all revenue generated by 2006 changes to the franchise and cigarette taxes over the amount that would have been collected under the former law
  - can be used only to reduce school property tax rates by replacing local property tax revenue
- State Highway Fund
  - 3/4 of state motor-fuels taxes (on gasoline and diesel fuel)
- Available School Fund
  - 1/4 of state motor-fuels taxes
- Federal Funds

The two largest areas of spending at the state level are public education and health and human services, which together make up more than half of the state's General Revenue budget. Still, Texas ranks near the bottom in education spending per student and health care spending per patient.



2016-2017 Budget Expenditures

Expenditures

- Texans disagree about the appropriate level of government expenditures.
- Texas ranks 47th among the 50 states in terms of overall state government spending per capita, 25% below the national average.
- State and local government expenditures per capita for welfare, health and hospitals, parks and recreation, the environment and fire protection are below the national average.
- Conservatives favor limited government with low tax rates and low levels of government expenditures. Liberals argue that the state's low-tax, low-spend philosophy fails to address basic social problems.

expenditure category	Texas rank among 50 states (50th lowest, 1st highest)
total general expenditures	50th
public health	45th
uninsured	1st
mental health	47th
education	37th
spending / K-12 pupil	38th
highways	49th
public welfare and Medicaid	45th
Medicaid payments / enrollee	40th
parks and recreation	48th
police protection	49th
government administration	50th
environmental protection	46th

Expenditures

Expenditures: Medicaid

- Medicaid: a federal grant-in-aid program through which the national government gives money to state and local governments for expenditures in accordance with set standards and conditions
- Medicaid is the nation's largest health care program, covering the cost of 2/3 of nursing home residents and 1/3 of all births. 25% of Americans will be on Medicaid at some point over the course of the year … many are just a pink slip away from being eligible.
- Medicaid is a large and rapidly growing component of state spending.
- State governments nationwide are struggling to control Medicaid costs. Those costs have increased much faster in recent years than has the growth in government revenues.

Expenditures: Medicaid

- The Texas Medicaid program provides medical services to millions of poor and disabled residents of the state.
- For every $1 invested, Texas receives $1.55 in federal matching funds for Medicaid.
- Still, more Texans are uninsured than are residents of any other state. More than 1 out of 4 people in Texas live without health insurance.
  - Uninsured people more typically seek medical care at emergency rooms because they do not have a doctor whom they can see on a regular basis.
  - Taxpayers, the insured and employers who offer health benefits pay more to cover care for the uninsured.

- Texas has lost millions in federal family planning money since 2013 when it excluded Planned Parenthood and any clinics affiliated with abortion providers from the state's women's health program.
- Texas also lost billions in federal aid (and kept more Texans uninsured) when it refused to expand Medicaid under the Affordable Care Act, leading to 16.6% of Texans who are uninsured (8.6% nationally) … the highest in the nation.
- The Uninsured: The Big Problem in Texas

Expenditures: Medicaid

- Children's Health Insurance Program (CHIP): federal program designed to provide health insurance to children from low-income families whose parents are not poor enough to qualify for Medicaid
- Congress created CHIP in 1998 to reduce the number of children without health insurance coverage.
  - Following decades of steady progress, largely driven by expansions in Medicaid and CHIP, the children's uninsured rate has reached an all-time low of 5%.
- For every $1 invested, Texas receives $2.64 in federal matching funds for CHIP.
- However, Texas has consistently failed to take advantage of the CHIP money available.

Expenditures: CHIP

TEXAS Health and Human Services

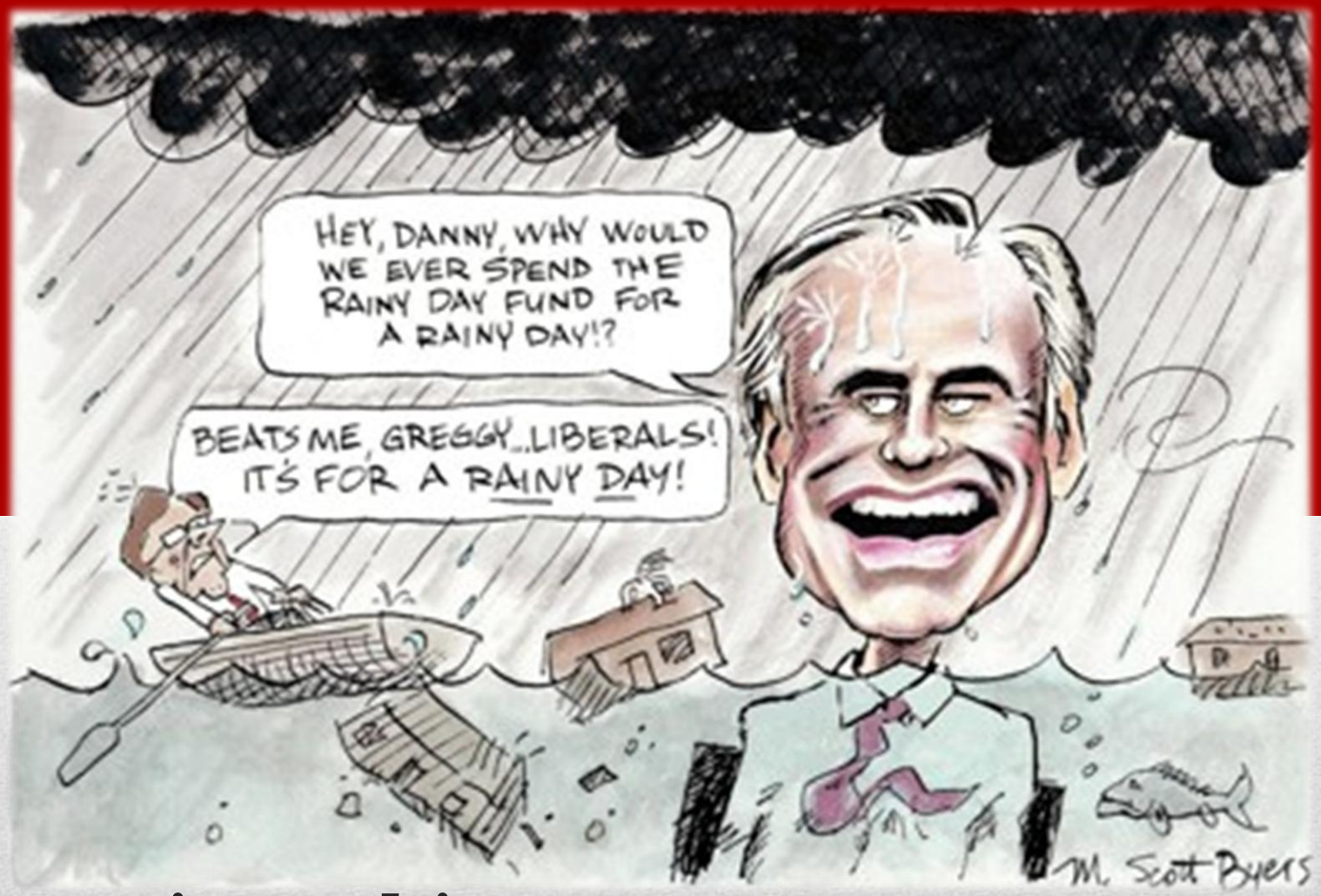
CHIP

- Between 1998 and 2003, the state passed up more than $600 million in federal funds because it failed to meet the federal matching funds requirement, which is a legislative provision that the national government will provide grant money for a particular activity only on condition that the state or local government involved supplies a certain percentage of the total money required for the project or program.
- The state passed up another $550 million in federal funds during the 2004-2005 biennium because the legislature and the governor cut CHIP funding so they could balance the budget without raising taxes.
- Despite the improved budget outlook, the legislature and the governor failed to restore cuts when they wrote the 2006-2007 budget.

Expenditures: CHIP

Expenditures: CHIP

- Since then, Texas has forfeited more than $900 million in federal funds that have been returned to the US Treasury and redirected to other states. Texas tax dollars are paying for other states to cover virtually all of their children.
- Currently, new national legislative authority is needed to continue CHIP funding beyond 09/30/2017. In addition, the administration and Congressional leadership have called for repeal and replacement of the ACA and restructuring of Medicaid financing to a block grant or per capita cap.
- Loss of CHIP funding, repeal of the ACA and capping Medicaid financing all have the potential to reverse the coverage gains achieved to date and increase the number of uninsured children.



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Texas Budget Policy Part III