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Spending federal money is nothing to be ashamed of

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It's easy for Texas politicians to rail against Washington, willfully ignoring that federal spending has been saving our bacon.

In last week's gubernatorial debate, even Gov. Rick Perry was portrayed as a big spender.

A huge deficit looms for the state, so Perry wants agencies to cut their budgets now. But primary challenger Debra Medina pointed out that spending in Perry's executive branch grew by 13.5 percent -- "when everyone else has been tightening their belts for a year," she said.

"It's unfortunate that the governor is not taking his own fiscal advice," Medina added.

She has the numbers right, but they're not close to telling the real story. Much of the increase for the quarter, which includes September, October and November, comes from seasonal and sporadic events, not a bloated bureaucracy.

Federal stimulus dollars are also passing through the executive office, swelling total expenditures.

The executive branch includes about two dozen agencies and essentially serves as a conduit for a lot of federal spending. In one category, Perry's fiscal office, federal revenue almost tripled from 2008 to 2009, after the stimulus kicked in.

That's nothing to be ashamed of, but Perry never explained why his office appears to be spending so much more money today. His opponents in the primary, U.S. Sen. Kay Bailey Hutchison and Medina, didn't illuminate the matter, either.

Call it the inconvenient truth of Texas politics: Almost 37 percent of state revenue came from the feds last year, second only to sales tax collections as a money source.

Perry likes to say that Texas is a donor state, in that it contributes more to Washington than it gets back.

But Texas received nearly \$31 billion in federal income last year, an increase of 17.6 percent.

Rail at Washington, if you like -- or if you're a politician unbothered by hypocrisy -- but the increase was especially important last year. The recession stung Texas deeply, with the state recording revenue declines almost across the board.

Total tax collections fell by \$3.5 billion, and nearly every revenue category fell by double digits. Interest and investment income declined 42 percent; licenses and fees contributed 30 percent less; taxes on natural gas production fell 48 percent.

In effect, federal money helped prop up the economy -- even in the great state of Texas. Last month, I reported that government added 88,200 jobs in Texas in the 12 months ending in November, while the private sector eliminated 360,300 positions over the same period.

State budget numbers paint a similar picture with tax collections and spending. There's no disgrace in that, in my view, because the stimulus was designed to supplement a faltering economy.

Publicly acknowledging the federal role would be useful now, because the help won't go on forever. The big question is what to do when the gravy train stops.

"When that money runs out, we're in for a rude awakening," says Talmadge Hefflin, director of fiscal policy for the Texas Public Policy Foundation, a conservative think tank in Austin. "It's hard to turn down any money, but we should have been more frugal."

His complaint is that stimulus funds were used to supplement day-to-day expenses. Without that help, he estimates that up to \$6 billion in operations will have to be cut next year or covered by future commitments.

It's legitimate to debate how the stimulus funds were spent. I preferred more infrastructure improvements, whose benefits would continue after the money was gone; others wanted to preserve existing jobs, especially teachers and safety officers; some argued for more tax cuts.

States did not have the option of just banking the money. It was a use-it-or-lose-it proposition.

Health and human services in Texas, which includes Medicaid, got \$3 billion more in federal funds last year. The recession is a factor in the growth, because big job losses lead to more people qualifying for assistance.

Public safety got an \$870 million increase -- more than the gains in education, transportation, and the work force commission combined. Public safety and corrections easily had the biggest percentage gain in spending last year, rising 24.6 percent.

The state is projected to get about \$15 billion in federal stimulus, with a lot of money still to arrive. In December, the North Central Texas Council of Governments received a \$2.5 million grant to develop alternative fuel projects for government fleets. The same state agency, operating under the governor, awarded a \$1.9 million grant to Bedford to upgrade and synchronize traffic lights.

The Texas Department of Housing and Community Affairs, another agency under Perry, received \$12 million in stimulus funds in the fall. The big payout, \$1.6 billion, is slated to be spent in the next two to three years.

The agency has 313 full-time workers and plans to hire about 50 on a temporary basis. It's expanding programs for affordable rental housing, weatherizing homes for low-income residents, aiding the homeless, and providing community grants. As the stimulus dollars slow, it plans to eliminate the temporary staff, so the state isn't hit with a higher payroll.

The governor's office appears to have adopted that strategy, albeit on a small scale. While total spending for the executive branch rose, as Medina said, the governor's administrative spending declined slightly.

The problem is that this category represents only 0.2 percent of Perry's total executive branch budget. Most of the big money comes from Washington.

Mitchell Schnurman's column appears Sundays and Wednesdays. 817-390-7821

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