

Texas Public Policy Foundation

Reducing State Dependency on Federal Funds

Legislator's Guide to the Issues 2015-16

Reducing State Dependency on Federal Funds



The Issue

Texas' dependency on federal funds—including grants, payments, and reimbursements from the federal government to state agencies—has increased over the past few biennia. This is a dangerous trend threatening the state's financial stability and independence.

As a percentage of the 2014-15 budget, federal funds constitute approximately 34%, or \$68.7 billion, of total appropriations. This marks an increase of \$3.9 billion (or 6%) above federal aid for the 2012-13 budget.

Of the \$68.7 billion in federal aid, Health and Human Services was the biggest recipient with an estimated \$42.4 billion—or more than half the total. The state function with the largest percentage increase of 17.9% over the previous biennium was Business and Economic Development, which the \$1.7 billion increase was driven primarily by an increase for the Highway Planning and Construction program.

A good way to measure the dependency of the state on federal funds is to consider the percentage of the budget from federal aid.

Federal aid went from 35% of the budget in 2004-05, declined to 32% in 2008-09, then increased to its current share of 34%.

This 7% increase in the share of federal aid just three biennia ago burdens state legislators with more red tape and less independence from the federal government burdening Texans in the process. Over the 2001 to 2012 period, this share averaged 35.5% in the Lone Star State, which the State Budget Solutions ranks Texas as having the 13th highest share in the nation.

Federal money per person went from \$1,965 in 2004-05 to \$2,522 in the current biennium, a 28% increase. It's one thing for taxpayers to fund legislation that is passed by state lawmakers, but it's another thing entirely when so many state functions are directed and funded by those in Washington, D.C.

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 as private sector funds are redistributed, hurting job creation.

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.

With massive federal budget deficits and the national debt exploding, there is little doubt that Congress must find ways to slow spending. This change would likely affect how much states receive in federal aid. With over one-third of Texas' total budget funded by federal aid, legislators could face a serious fiscal imbalance.

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 causing all Texans to lose in the process.

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The Facts

- Federal funds constitute approximately 34%, or \$68.7 billion, of the 2014-15 budget. This marks an increase of \$3.9 billion (or 6%) above federal aid for the 2012-13 budget.
- Federal funds per person went from \$1,965 in 2004-05 to \$2,522 in 2014-15, a 28% increase, burdening all Texans.
- Over the 2001 to 2012 period, the federal funds share of the budget averaged 35.5% in the Lone Star State, ranking Texas the 13th highest in the nation.

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 and minimize any increase in federal aid or actually 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

Increased Federal Aid to States is a Long Term Trend by State Budget Solutions (Mar. 2014).

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

