



The Conservative Texas Budget A Review of the First Three Biennia

by Hon. Talmadge Heflin
Director, Center for Fiscal Policy

Bill Peacock
Vice President, Research

Key Points

- The Conservative Texas Budget is a simple standard that the public can use in real time to see if policymakers are keeping spending growth to less than population growth plus inflation.
- Since the introduction of the Conservative Texas Budget, spending of state funds has grown more slowly than it had in the previous decade.
- The Foundation’s “appropriations to appropriations” methodology is more logical and accurate than the LBB’s “spending to appropriations” methodology for estimating spending growth.
- With six opportunities over three budget cycles, the Legislature will likely have exceeded the Conservative Texas Budget 5 out of 6 times by the end of the 2020-21 biennium.

Executive Summary

The Conservative Texas Budget (CTB), which sets growth limits on state appropriations and spending to no more than population growth plus inflation, has been in place for three regular sessions of the Texas Legislature. Its purpose is to provide Texas policymakers and the public with an upper limit on how much Texas state government should be spending. Spending below the limit is “conservative”; spending above the limit is not.

How has the Legislature done in staying within the CTB limits?

With six opportunities over three budget cycles—the CTB tracks spending growth for both state funds and all funds (including federal), the Legislature will likely exceed the CTB 5 out of 6 times by 2021. Even so, average spending of state funds has increased by only 8.06 percent per biennium since the introduction of the CTB, in contrast to an 11.32 percent average increase in the previous decade.

For the 2020-21 biennium, Texas’ overall (All Funds) budget increased by 8.58 percent, which missed the 8 percent CTB target by about \$1.1 billion. However, this figure is based on an apparent miscalculation by the Legislative Budget Board (LBB); spending could still increase by 10.2 percent this biennium.

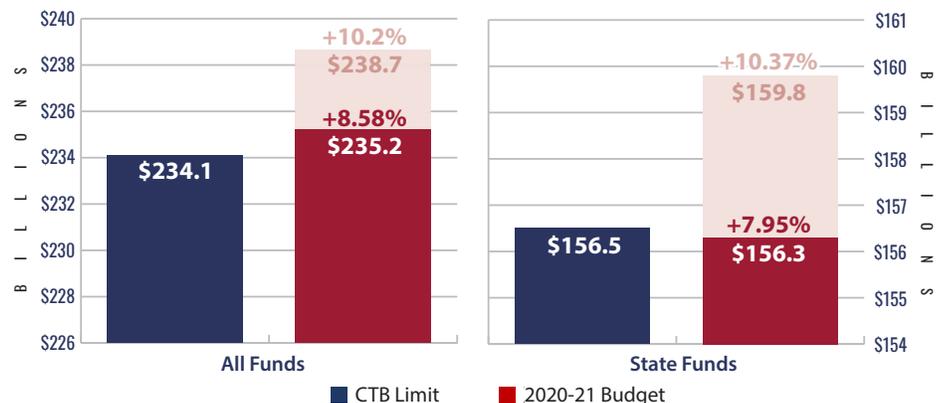
The CTB has also proven to be a more accurate indicator of spending growth in real time than LBB official figures.

Overall, it appears the CTB has provided the public with a reliable measure of the Legislature’s budget performance and helped restrain spending growth.

The 2020-21 Texas Budget

In 2019, the Texas Legislature appropriated \$248.3 billion for the 2020-21 fiscal biennium. This is an increase of \$31.7 billion, or 14.63 percent, over what it appropriated in 2017 for the 2018-19 biennium.

Figure 1. 2020-21 Texas Budget versus the CTB’s 8% spending growth limits.



However, the 2020-21 appropriations numbers the Foundation used in calculating the CTB are significantly less than what the Legislature actually appropriated. This is because the Foundation excluded \$8.1 billion in Harvey-related spending and \$4.98 billion in increased education spending used for property tax relief (we have raised our estimate of Harvey-related spending in this budget from our original estimate of \$2.5 billion). The exclusion of Harvey-related spending accommodated one-time spending for one of the largest natural disasters in Texas history, while the increased education spending was excluded because these funds were used to reduce school district tax rates and thus resulted, in conjunction with the reduced “rollback” rate, in no net increase in government spending.

Using this methodology, **Figure 1** shows that the all funds budget adopted by the Texas Legislature in 2019 still exceeds the 8 percent growth limits of the CTB, but the state funds budget falls just under the limit, with one caveat.

The Foundation has decreased our estimate of spending on K-12 education by \$3.5 billion because Rider 3 of the Texas Education Agency’s appropriation in HB 1 indicates that the LBB overstated the appropriation for the state’s Foundation School Program (FSP). However, in order to satisfy FSP formula funding, it is possible that the \$3.5 billion will have to be included in the 2021 supplemental budget. Without the FSP adjustment, all funds spending would increase by 10.2 percent and state funds spending by 10.4 percent. Given this, along with likely additional supplemental spending on Medicaid and other programs in 2021, it is unlikely state funds spending will come in below the CTB limit by the end of the 2020-21 biennium.

The adjustments described above are why the growth estimates of the 2020-21 budget in this paper are below our original estimate of 12.5 percent released at the end of the recent legislative session.

The Texas Legislature’s Conservative Texas Budget Track Record

The CTB limits were first set for the 2016-17 budget after a decade in which increases in state spending averaged 11.32 percent per biennium. During that decade, many groups attempted to identify spending reductions in specific programs to limit growth but found the appropriations process is not designed to eliminate programs or limit growth. The concept behind the CTB is to provide an easy to understand number for the Legislature (and the public) that would keep the size of government about the same, relative to population growth and inflation, and then let the Legislature make the decisions regarding how to limit spending growth. **Figure 2** shows the Texas Legislature has missed the CTB limits 5 out of 6 times.

The 2018-19 results are new in this paper. In 2017, the Texas Legislature passed a 2018-19 budget that left open the possibility of coming in under the CTB limit. However, the supplemental appropriations bill adopted in the recently concluded regular session was too big, pushing spending for all funds (including federal) and state funds just above the CTB’s 4.5 percent growth limit. We noted the 2020-21 outcomes above. While these will not be final until after the close of the 2020-21 biennium on August 31, 2021, it is unlikely that the 87th Legislature could reduce spending enough in 2021 to meet the CTB targets for the upcoming biennium.

Although the Legislature has not always hit the mark, spending growth of state funds has been closer to population growth plus inflation since the introduction of the CTB than in previous years. For the period covering from the 2016-17 biennium through the 2020-21 biennium, we estimate average spending of state funds will increase by 8.06 percent per biennium. In contrast, the average increase in spending of state funds per biennium in the previous decade (2006-07 through 2014-15) was 11.32 percent.

Figure 2. The Texas Legislature’s Conservative Texas Budget track record.

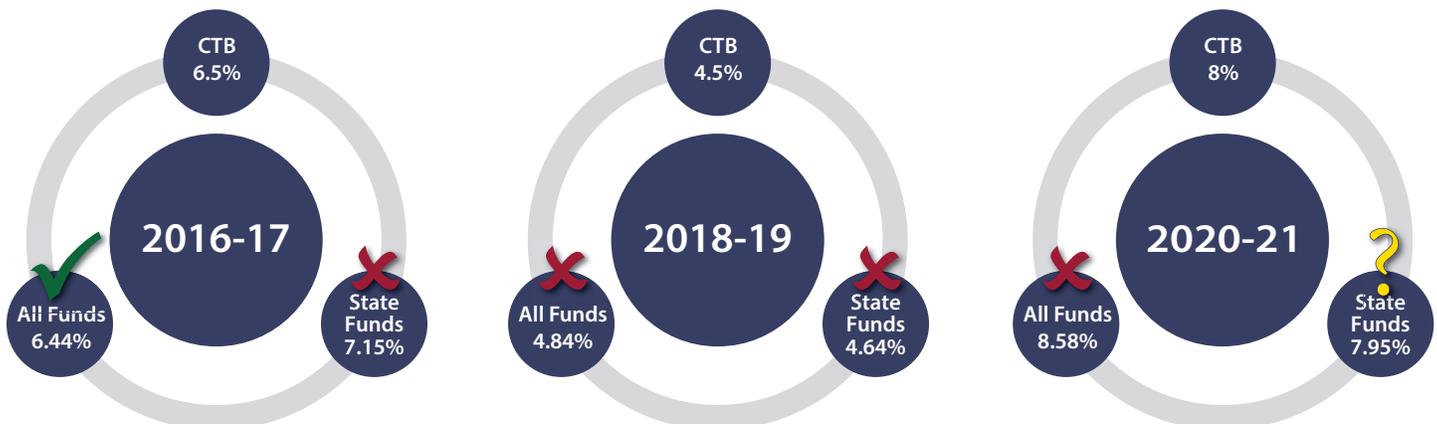


Figure 3. Comparing methodologies.

LBB v. TPPF Methodology	LBB Avg. Margin	TPPF Avg. Margin	LBB Under/Over	TPPF Under/Over
State Funds	-4.27%	-1.30%	7/1	4/4
All Funds	-5.61%	-1.10%	8/0	6/2
Average/Total	-4.94%	-1.20%	15/1	10/6

Source: Legislative Budget Board and the author's calculations

For all funds, we estimate spending growth from 2016-17 through 2020-21 to increase 10.5 percent per biennium, actually slightly more than the 10.1 percent growth of the previous decade. However, if we exclude Harvey-related spending, the growth drops to only 7.16 percent. If the Legislature returns to adhering to the CTB limits over the next two biennia, long-run spending growth will continue its downward trend with all funds, too.

CTB v. LBB Methodology

The CTB and the LBB use different methodologies for estimating spending growth. As we document below, the methodology used in the CTB is a better predictor of actual spending growth over an entire biennium. This is important because the final numbers on spending growth are only available more than two years after the budget has been adopted, far too late to make a difference. The accuracy of the CTB, then, provides real-time accountability for the Legislature's spending decisions.

We have previously noted that in 2019 the Texas Legislature appropriated \$248.3 billion for the 2020-21 fiscal biennium. This is an increase of \$31.7 billion, or 14.63 percent, over what it appropriated in 2017 for the 2018-19 biennium.

Yet this 14.63 percent change is not what shows up in the [official budget summary](#) prepared by the LBB. Instead, the LBB shows an increase of only 6.3 percent. This is because

the LBB compares the appropriations the Legislature made for the upcoming biennium to estimated spending in the current biennium. The approach works for the LBB's official responsibilities, but for estimating spending is like comparing apples to oranges. Spending for a biennium is always going to be higher than appropriations, because appropriations bills are estimates of spending. This is especially true when looking at the initial appropriations bill for a biennium, which is followed up two years later with a supplemental appropriations bill that usually totals billions of dollars.

For the purposes of calculating whether the budget adopted by the Legislature falls within the CTB limit of population growth plus inflation, the Foundation has chosen a different methodology. Growth in government spending is estimated by comparing appropriations from one biennium to the next. This "apples to apples" methodology is more logical and accurate than the LBB's "spending to appropriations" methodology.

Figure 3 shows that the LBB's methodology consistently underestimates actual spending growth. In 16 total instances (for both state and all funds) over the last eight budget cycles, the LBB's methodology underestimated spending 15 times, by an average of -4.94 percent. In contrast, the Foundation's methodology underestimated spending 10 times and overestimated spending 6 times, with a much lower average margin of only -1.20 percent. The Foundation's methodology is clearly a more accurate indicator of how much spending growth will take place over time and in any particular biennium. Figure 4 shows the full set of calculations.

Conclusion

It is virtually impossible for the average citizen to get an accurate understanding of how much his various governments are spending from the official numbers that are made

Figure 4. Comparing appropriations to actual spending growth.

	2004-05	2006-07	2008-09	2010-11	2012-13	2014-15	2016-17	2018-19			
State Funds											
LBB Est. Spending v. Appropriated	-0.72%	9.90%	22.10%	-0.76%	2.64%	2.43%	5.83%	0.49%			
Initial Appropriation v. I. Appropriation	-3.58%	17.93%	24.10%	-0.15%	1.40%	16.22%	7.13%	2.59%			
Conservative Texas Budget							6.50%	4.50%			
Actual Spending Growth	5.54%	15.57%	23.13%	-1.80%	9.56%	6.86%	7.16%	5.19%	Avg Margin	Under	Over
LBB-Actual Difference	-6.26%	-5.67%	-1.03%	1.04%	-6.92%	-9.31%	-1.33%	-4.70%	-4.27%	7	1
TPPF-Actual Difference	-9.12%	2.36%	0.98%	1.65%	-8.16%	4.48%	-0.02%	-2.60%	-1.30%	4	4
All Funds											
LBB Est. Spending v. Appropriated	1.40%	10.10%	15.20%	7.40%	-8.10%	3.70%	3.60%	0.20%			
Initial Appropriation v. I. Appropriation	1.39%	19.70%	17.62%	8.84%	-5.25%	19.31%	4.33%	3.59%			
Conservative Texas Budget							6.50%	4.50%			
Actual Spending Growth	9.25%	12.72%	20.59%	8.94%	1.73%	6.58%	6.24%	9.16%	Avg Margin	Under	Over
LBB-Actual Difference	-7.85%	-2.62%	-5.39%	-1.54%	-9.83%	-6.04%	-2.64%	-8.96%	-5.61%	8	0
TPPF-Actual Difference	-7.86%	6.97%	-2.97%	-0.10%	-6.97%	9.57%	-1.91%	-5.57%	-1.10%	6	2

Source: Legislative Budget Board and the author's calculations

available to the public. The CTB is designed to provide a simple, real-time standard that the public can use to see if Texas policymakers are keeping spending growth within population growth plus inflation. This level of growth is the

highest the public should accept, particularly the segment of the public that believes that government is too big as it is. The CTB is not perfect, but it is proving effective in helping slow the growth of Texas state government spending. ★

About the Authors



The Honorable Talmadge Heflin is the director of the Texas Public Policy 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 the 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.



Bill Peacock is the vice president of research at the Texas Public Policy Foundation and has been with the Foundation since February 2005. Bill 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, Bill served as the deputy commissioner for Coastal Resources for Commissioner Jerry Patterson at the Texas General Land Office (GLO). Before he worked at GLO, he was a legislative and media consultant, working with

groups like Citizens for a Sound Economy and Putting Children First. Bill also served as the deputy assistant commissioner for intergovernmental affairs for Commissioner Rick Perry at the Texas Department of Agriculture, as a legislative aide to Rep. John Culberson in the Texas House of Representatives, and as an analyst for the Texas Senate Committee on Education.

About Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute. The Foundation promotes and defends liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

Funded by thousands of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

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.

