



LEGISLATIVE BUDGET BOARD

Budget Overview

Process, Fiscal Policy, and Budget Mechanics

**PRESENTED TO SENATE FINANCE COMMITTEE
URSULA PARKS, LEGISLATIVE BUDGET BOARD**

AUGUST 12, 2014

Legislative Budget Board

The LBB is a permanent joint committee of the Texas Legislature

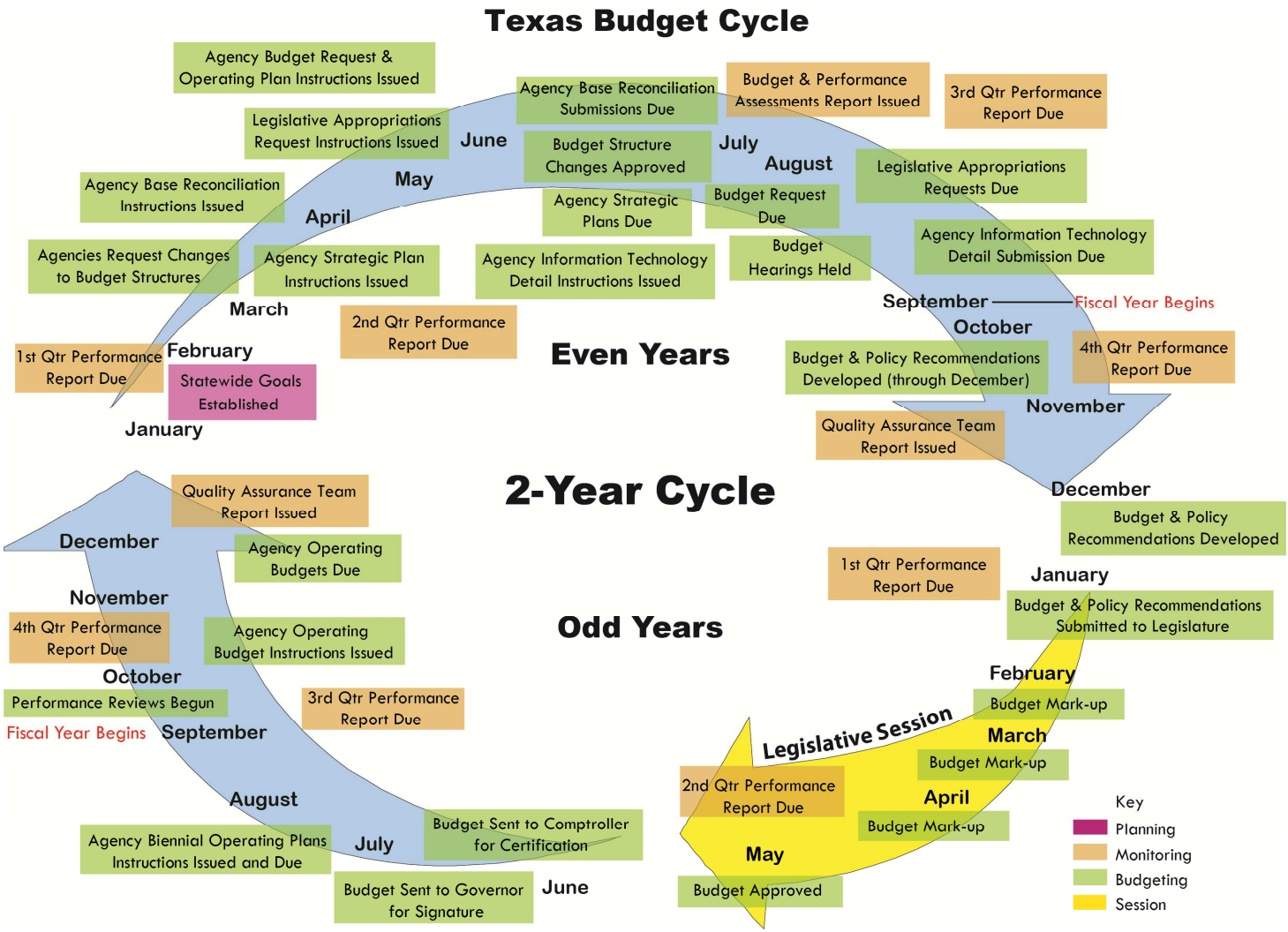
- Develops budget and policy recommendations for legislative appropriations
- Completes fiscal analyses for proposed legislation
- Conducts evaluations and reviews to improve the efficiency and performance of state and local operations

Selected Items

Items of Focus:

1. Process Overview: What to expect
2. Fiscal Policy: Constitutional Spending Limits
3. Budget Mechanics: Methods of Finance
4. Budget Highlight: Border Security

Budget Process Overview



Budget Development

Legislative Appropriations Requests	August 2014
Joint Budget Hearings	August-September 2014
Budget Recommendations	August-December 2014
Bill as Introduced	January 20, 2015
Legislative Budget Estimates	January 18, 2015
Government Effectiveness and Efficiency Report	January 20, 2015

SOURCE: Legislative Budget Board.

Committee Process

LBB staff support the Senate Finance and House Appropriations Committees throughout the legislative session.

Materials on each state agency and institution of higher education are provided to the committee:

- Initially laying out the bill as introduced
- Subsequently laying out committee decisions

Constitutional Spending Limits

The Texas Constitution includes four limitations on state spending:

- Debt limit
- Welfare spending limit
- Pay-as-you-go limit
- Limit on the growth of certain appropriations (a.k.a. spending limit)

The 2014-15 budget is within all of these limits.

Debt Limit

Texas Constitution, Article III, Section 49 (j)

- Limits the authorization of additional state debt if in any fiscal year the resulting annual debt service payable from the unrestricted General Revenue Fund exceeds 5 percent of the average annual unrestricted General Revenue Funds for the previous three years
- Approved by voters November 4th, 1997
- As of the end of fiscal year 2013, the Bond Review Board reported the debt service ratio for issued debt was 1.34 percent. For the same period, the debt service ratio for issued plus unissued debt was 3.04 percent.

Welfare Spending Limit

Texas Constitution, Article III, Section 51-a

- Provides that the state funds appropriated for assistance grants on behalf of needy dependent children and their caretakers (i.e., Temporary Assistance for Needy Families [TANF]) shall not exceed 1 percent of the state budget in any biennium
- Approved by voters August 25, 1945
- The 2014-15 All Funds state budget totals \$200.4 billion which sets the welfare limit at \$2.0 billion
- State funds appropriated for TANF grants during 2014-15 total \$132.5 million, which is \$1.9 billion below the limit

Pay-as-You-Go Limit

Texas Constitution, Article III, Section 49a

- Requires that all appropriations are within available revenue in the fund from which the appropriations are made
- Approved by voters on November 3rd, 1942
- After the 83rd Session, the Comptroller certified that available revenue was forecasted to exceed appropriations by \$683.1 million
- The Comptroller's December 2013 *Certification Revenue Estimate* increased the amount by which revenue is forecasted to exceed appropriations to \$2.6 billion

What Appropriations are Limited by Pay-as-You-Go?

The Comptroller of Public Accounts is constitutionally required to certify whether appropriations are within available revenue. However, the commonly used term “the pay-as-you-go limit” only applies to General Revenue Fund appropriations. This includes the beginning balance in the General Revenue Fund, collections deposited to the General Revenue Fund, and as a result of funds consolidation, unappropriated General Revenue-Dedicated account balances.

- Due to federal, constitutional or statutory provisions, certain accounts in General Revenue do not count against the pay-as-you-go limit
- General Revenue-Dedicated appropriations reduce the overall amount of General Revenue available for certification
- While certain Other Funds are estimated in the Biennial Revenue Estimate, as they are not General Revenue they do not count against pay-as-you-go. Major such funds include:
 - Economic Stabilization Fund
 - State Highway Fund
 - Mobility Fund
 - Property Tax Relief Fund

Spending Limit

Texas Constitution, Article VIII, Section 22

- Limits the rate of growth from one biennium to the next
- Approved by voters November 7th, 1978
 - (a) In no biennium shall the rate of growth of appropriations from state tax revenues not dedicated by this constitution exceed the estimated rate of growth of the state's economy...*

2014-15 appropriations from state tax revenues not dedicated by the Constitution are below the spending limit by \$263.4 million

What Appropriations are Controlled by the Spending Limit?

Only appropriations funded with tax revenue not dedicated by the Constitution are subject to the limit

- Sales tax
- Motor vehicle sales tax
- Franchise tax
- Cigarette and tobacco taxes

Appropriations funded with tax revenues are not subject to the limit if the Constitution requires the tax revenues to be used for a certain purpose

- Motor fuel taxes are constitutionally dedicated for transportation and education
- 25 percent of oil and natural gas production taxes are constitutionally dedicated for education

Appropriations funded with non-tax revenues are not subject to the limit

- Fee, fines, penalties
- Interest and investment income
- Lottery proceeds

How Fast Can Appropriations Subject to the Spending Limit Grow?

Texas Constitution Article VIII, Section 22 (a)

- Can not grow faster than the state's economy
- Legislature shall provide procedures to implement this subsection

Government Code 316.002

- Directs the LBB to use Texas personal income growth to measure growth in the state's economy

Methods of Finance

There are four main categories of revenue to support appropriations:

- General Revenue Fund
- General Revenue-Dedicated Accounts
- Federal Funds
- Other Funds

2014-15 appropriations from all methods of finance (All Funds) total \$200.4 billion

General Revenue Related

- General Revenue Related is a term describing all funds in General Revenue, including General Revenue-Dedicated accounts
- Those two fund types are broken out separately in the GAA for purposes of ease and transparency

General Revenue

- The General Revenue Fund is the state's primary operating account
- Most state tax revenue, many state fees, and various other sources of revenue are deposited to the General Revenue Fund
- 2014-15 General Revenue appropriations total \$95.0 billion.

General Revenue-Dedicated

- General Revenue-Dedicated accounts are separate accounts within the General Revenue Fund
- There are approximately 200 dedicated accounts
- These accounts either must be appropriated for purposes identified in statute, or are dedicated as a result of the funds consolidation process
- An account listed in an agency's bill pattern is typically identified by its Comptroller-assigned account number

General Revenue-Dedicated

(continued)

Most unappropriated GR-D balances are available to certify the GR budget as a result of funds consolidation. The 10 largest GR-D balances used to certify the 2014-15 budget are listed below (in \$millions):

GR Account 5071 – Emissions Reduction Plan (TERP)	\$992.6
GR Account 0151 – Clean Air	\$209.2
GR Account 5128 – Employment and Training Investment Holding	\$182.4
GR Account 5050 – 9-1-1 Service Fees	\$177.8
GR Account 0655 – Petroleum Storage Tank Remediation	\$144.0
GR Account 5103 – Texas B-On-Time Student Loan	\$137.5
GR Account 5144 – Physician Education Loan Repayment Program	\$120.6
GR Account 5000 – Solid Waste Disposal Fees	\$117.6
GR Account 5137 – Regional Trauma	\$ 96.7
GR Account 5111 – Designated Trauma Facility and EMS	\$ 94.7

GR-D used for certification decreased in 2014-15 by an estimated \$1.2 billion.

2014-15 General Revenue-Dedicated appropriations total \$7.3 billion.

Federal Funds

Federal Funds include only those federal revenues that enter the state treasury

- Some Federal Funds received by agencies do not enter the treasury, and are therefore not listed in the GAA

Federal Funds include grants, allocations, payments and reimbursements from the federal government, but do not include earned federal funds

- Earned Federal Funds primarily include funds received as a reimbursement for previous expenditures, and are deposited to general revenue

2014-15 Federal Fund appropriations total \$68.7 billion.

Other Funds

Other Funds are those that receive state revenue but are not contained within the General Revenue Fund.

In addition, for the purposes of the GAA, the Other Funds category includes an agency's self-generating appropriated receipts, and the value of interagency contracts.

- Appropriated receipts are fees, reimbursements and other revenue received for an authorized service and appropriated to an agency usually to offset costs of providing the service.
- Interagency contracts (IACs) are funds received from another state agency for services, material or equipment through a written agreement. The value of IACs is subtracted when tallying the GAA to avoid double counting appropriations.

Other Funds

(continued)

Examples of Other Funds include:

- State Highway Fund
- Mobility Fund
- Property Tax Relief Fund
- Economic Stabilization Fund
- Bond proceeds, and
- Most constitutional funds

2014-15 Other Fund appropriations total \$29.4 billion.

Economic Stabilization Fund

Texas Constitution, Article III, Sec. 49-g

- Approved by voters as an amendment to the Texas Constitution in November 1988, the Economic Stabilization Fund is the state's main reserve that can assist the funding of government operations when revenues do not match expenditures.
- The legislature may, by a two-thirds vote of the members present in each house, also appropriate amounts from the Economic Stabilization Fund at any time and for any purpose.

What goes into the ESF?

The Texas Constitution currently requires the following funds must be placed into the ESF:

- 50 percent of any unencumbered balance remaining in the General Revenue Fund at the end of a biennium;
- A deposit of General Revenue equivalent to 75 percent of any oil or natural gas production tax revenue that exceeds the amount collected in fiscal 1987.

Assuming voter approval of Senate Joint Resolution 1 to amend the Texas Constitution, the allocation noted above would change to:

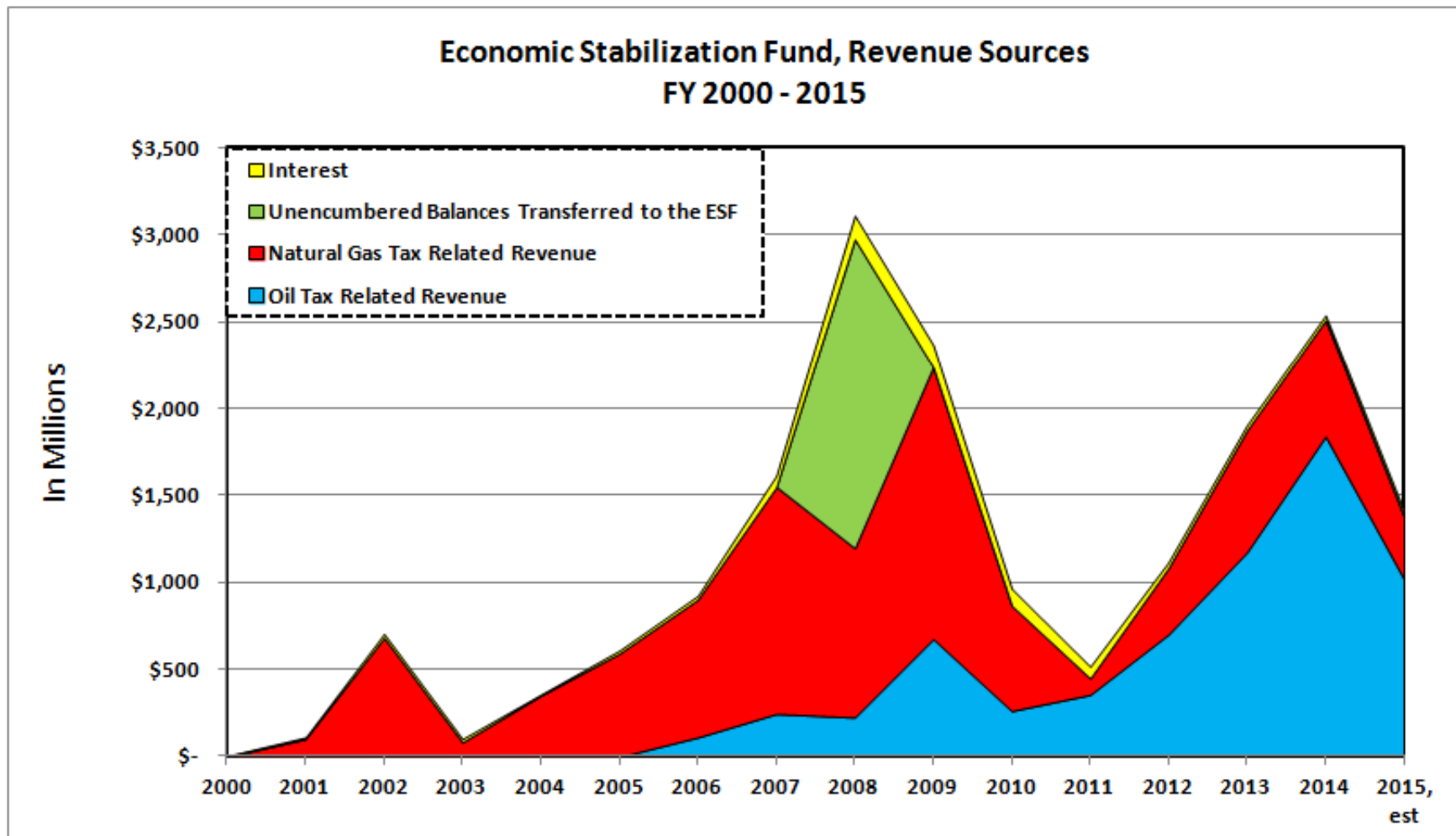
- 50 percent of any unencumbered balance remaining in the General Revenue Fund at the end of a biennium;
- A deposit of General revenue equivalent to 37.5 percent of any oil or natural gas production tax revenue that exceeds the amount collected in fiscal 1987.

How Big Can the ESF Be?

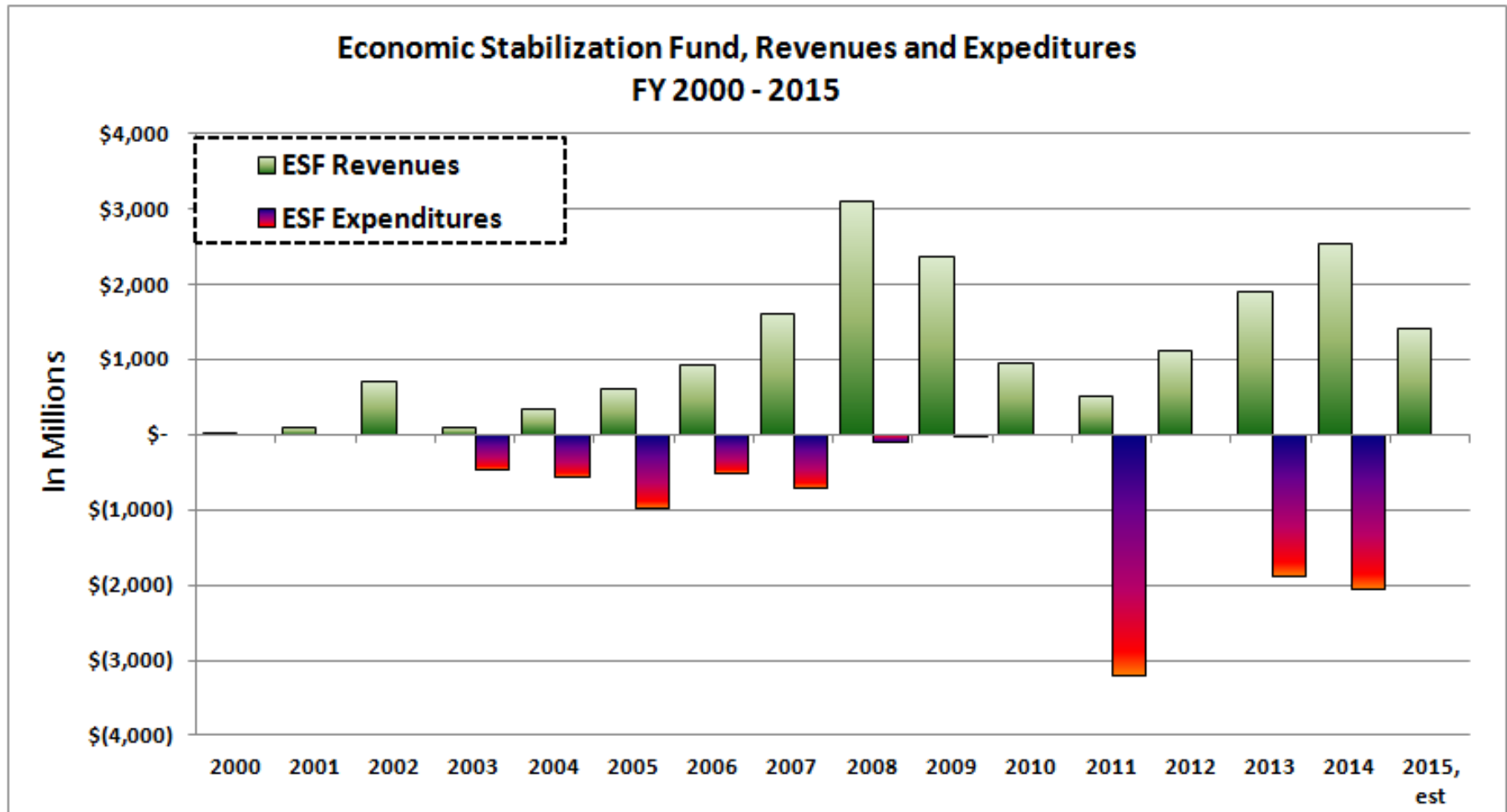
The Texas Constitution prohibits the value of the ESF from exceeding an amount equal to 10 percent of the total amount deposited into general revenue (minus certain types of income and funds) during the previous biennium.

- The ceiling value of the ESF has historically been much higher than the value of the ESF - many funds, including certain Federal Funds, are first deposited into the General Revenue Fund before being transferred to other accounts which inflates the ceiling value of the ESF.
- The ceiling value for fiscal 2014-15 is \$14.1 billion.

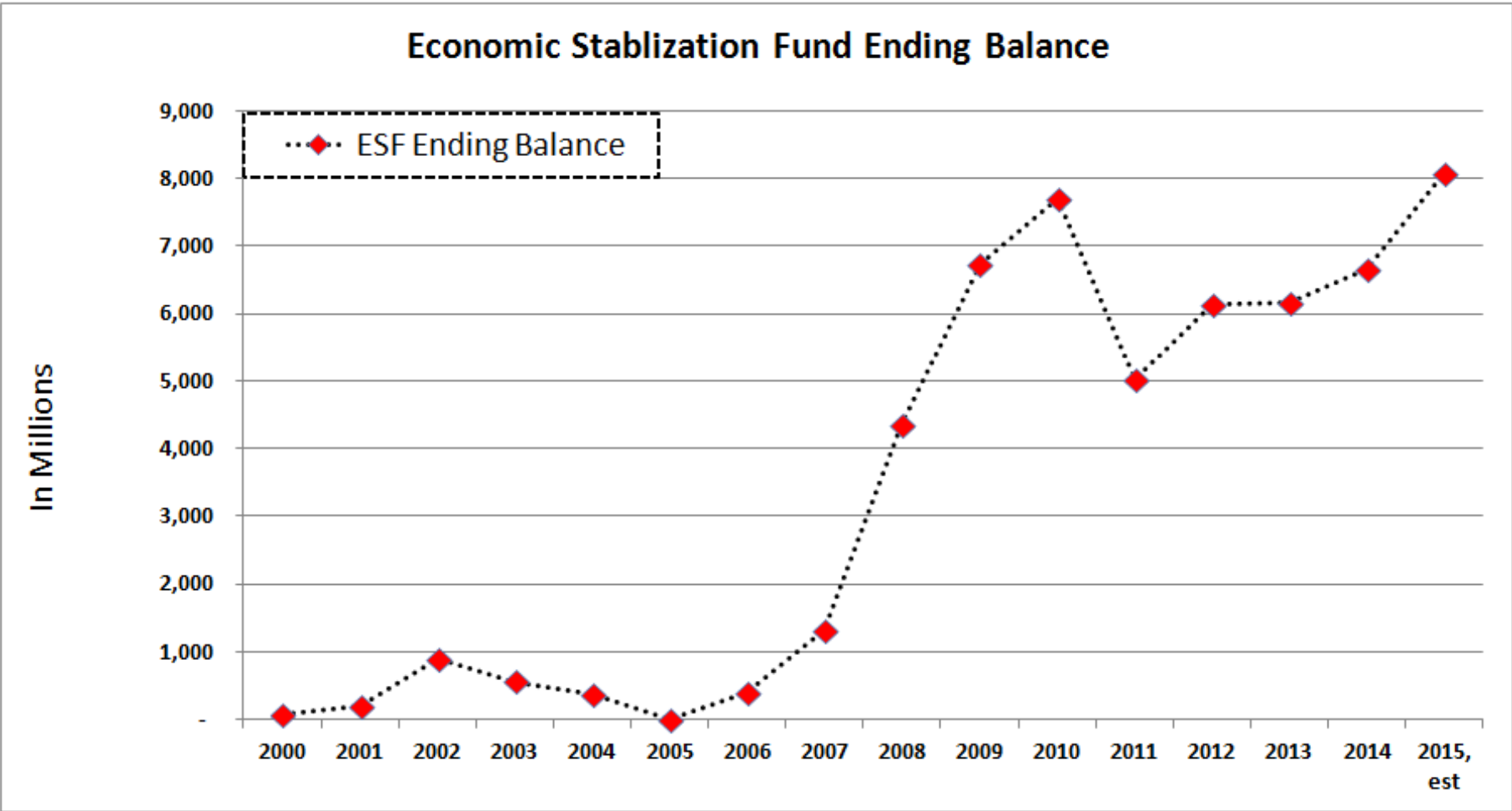
Funding Sources of the ESF



ESF Revenues & Expenditures



How Much is in the ESF?



Border Security

- (1) Border security funding provided by the 83rd Legislature in 2014-15
- (2) Additional spending demands for the 2014-15 biennium
- (3) Direct budget ramifications to the Department of Public Safety and the Texas Military Department of the recent Governor-directed activities
- (4) Potential indirect budget impacts of unaccompanied children to Health and Human Services and to public education
- (5) Options to address costs

Border Security Funding by the 83rd Legislature

Agency	Item	14-15 \$ (millions)
DPS	Baseline border security funding	\$200.8
	Trooper salary increases and additional recruit schools	\$86.9
	Patrol vehicles and fuel	\$17.2
	DNA testing, crime lab capacity	\$19.7
	<u>Tactical Marine Unit ops and misc. funding</u>	<u>\$6.7</u>
	<i>DPS Total</i>	\$331.2
TPWD	Enhanced border operations, overtime, equipment and vehicles	\$5.3
Gov	Trusted programs - Prosecution resources	\$6.8
Total, 2014-15 Border Security Appropriations		\$343.3

Border Security

Additional Interim Costs

All estimates below and on the following two pages are based on information provided by the affected agency; LBB staff will provide estimates as more data are available:

Operation Strong Safety II – started June 18, 2014

• **\$7.2 million** spent as of August 5

- Salary/overtime (74%), travel (17%), fuel & maintenance (8%), other (1%)

• **\$1.3 million** per week cost estimate

National Guard Deployment – started July 21, 2014

• No expenditures reported by TMD to date

• **\$12 million** per month cost estimate

- Pay/allowances and meals/lodging (72%), operations/maintenance (11%), flight hour costs (17%)

• **\$17-18 million per month** estimate for combined DPS and National Guard costs

Border Security Budget Ramifications

Reimbursement of 2014-15 Biennial Expenditures

- Repayment of \$38 million to the Emergency Radio Infrastructure Fund
- Additional costs depend on whether funding is sourced from fund balances or surplus appropriations
- State expenditures may be reimbursed by federal government

Public Safety

- 2016-17 costs depends on duration of enhanced border operations
- DPS may need funds for accelerated wear and tear on vehicles and equipment due to border operations

Health and Human Services (HHS)

- Medicaid** – Undocumented immigrants do not qualify for Medicaid other than emergency care. HHSC reviewed Medicaid emergency costs in border hospitals between July 2013 and July 2014 and found no noticeable cost increases
- Other HHS costs** – No significant state cost impacts, as immediate health costs have been handled by federal agencies

Border Security Budget Ramifications

Public Education

FY2015

- **4,280** unaccompanied alien children (UACs) released to sponsors in Texas, Jan. 1 to July 7 – 14% of national total
- By end of 2014, UACs in Texas could be ~**8,400**
- TEA estimate of full-year FSP cost of up to \$9,500 per UAC in ADA, for a FY2015 total of ~**\$75 million**
- 2014-15 biennial FSP appropriation currently estimated to be sufficient to absorb costs

2016-17 Biennium

- FSP costs would continue and increase for additional UACs

Note: Substantial UAC increases began in FY2012, so baseline FSP cost assumptions include some UAC impact

Border Security

Options for Funding 2014-15 Costs

Budget Execution – Government Code CH 317

- Governor or LBB may propose transfer of existing appropriations from one agency or program to another; both must approve, with the LBB in formal meeting
- Statutory dedications may be superseded

Disaster Declaration – Government Code CH 418, GAA, Art IX Sec. 14.04

- Governor has broad latitude to declare a disaster
- Upon declaration, GAA Art IX allows for transfer of funds between agencies and programs. Any transfer has to be agreed to by both the Governor and the LBB
- Provides basis for expenditure of disaster funds appropriated to the governor, although this is not required by the GAA
- Statutory dedications may not be superseded

Border Security

Options for Funding 2014-15 Costs

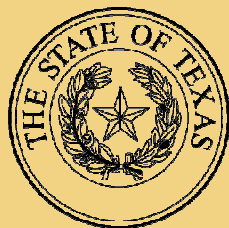
Emergency Declaration – GAA, Rider 2 in Governor’s Trusted Programs

- Upon Governor certification of emergency to the Comptroller, Rider 2 appropriates to an agency funded from special funds, additional available balance amounts from special funds to address emergency.
- Governor has identified \$38 million in Emergency Radio Infrastructure Fund balances, which statutorily may be used for any public safety purpose.
- Of the \$38 million, \$7 million to DPS and remaining amount to TMD for National Guard deployment.

Resources

For more information about this topic:

- Fiscal Size-up, 2014-15 biennium
http://www.lbb.state.tx.us/Documents/Publications/Fiscal_SizeUp/Fiscal_SizeUp.pdf
- General Appropriations Act, 2014-15 Biennium
[*http://www.lbb.state.tx.us/Documents/GAA/General_Appropriations_Act_2014-15.pdf*](http://www.lbb.state.tx.us/Documents/GAA/General_Appropriations_Act_2014-15.pdf)
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