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Title

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Permalink

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Journal

California Journal of Politics and Policy, 3(2)

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Publication Date

2011-04-19

DOI

10.5070/P2M010

Peer reviewed

THE CALIFORNIA *Journal of*
Politics & Policy

Volume 3, Issue 2

2011

Texas Budget: The 2010-2011 Biennium

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Abstract

The Texas Legislature did not meet in 2010. The expenditure and revenue forecasts for the next biennium budget project a shortfall of \$11 to \$15 billion. The projected shortfall exceeds the \$8 billion “rainy day” fund and will require hard decisions about reducing spending and making revenue adjustments. The president of the Texas Taxpayers and Research Association noted, “good money management is not always good politics and vice versa.”

Keywords: Texas budget, state budgets, taxes, fiscal policy



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Introduction

In his State of the State address delivered to the Texas Legislature on January 27, 2009, Governor Rick Perry set the tone for the legislature's deliberations on the state budget for the 2010-2011 biennium:

I am convinced that the fiscal discipline we exercised together over the past few sessions has left us in much better shape than other states. Let's build on our shared record of success and press on to do even more to protect our citizens' families, jobs, and rights.

The governor also reiterated his call for fiscal discipline in his biennial budget submission:

We are fortunate that Texas is not among those states facing the crippling shortfall that so many states must address; however, our comparatively stronger economy and better financial picture did not come easy. Together, we worked to solve a \$10 billion budget shortfall in 2003 by setting priorities instead of raising taxes. Our vigilance in maintaining low taxes, establishing a stable and predictable regulatory climate, and setting budget priorities, has attracted new businesses, new jobs, and new Texans to the Lone Star State over the past five years. We must maintain that same commitment in today's challenging economic climate.

The Comptroller of Public Accounts estimates that the state will end the 2008-2009 biennium with a \$2.1 billion surplus of which \$1.7 billion must be transferred to the Economic Stabilization Fund, Texas's rainy day fund. The Economic Stabilization Fund is projected to reach \$9.1 billion by the end of the 2010-2011 biennium

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unless the legislature draws on it in the appropriations process. Recognizing that the legislature might choose to appropriate from the rainy day fund if faced with a revenue shortfall, the governor included a caution in his State of the State address by saying “you may be tempted to dip into our rainy day fund. If you do, let’s limit our use of those funds to significant one-time expenditures, not recurring items.”

State of the Economy

The Texas economy contracted modestly in fiscal 2008-2009. Although Texas added 252,000 jobs in fiscal 2008, ranking first among the states, Texas employment is expected to decline by 111,000 jobs in the first two quarters of calendar 2009. The comptroller is optimistic that the employment decline will reverse in the fourth quarter of calendar 2009 with employment growth returning in fiscal 2010 and into 2011. Income growth is forecast to parallel that for employment with the growth rate declining from 5.2 percent per year over 2008-2009 to 3.7 percent during 2010-2011. The Gross State Product is projected to rise to \$1,354.2 billion in fiscal 2011. The strongest growth is expected in professional and business services with contraction occurring in the manufacturing, information, construction, natural resources, and mining sectors (Combs 2009, 3-5).

Demographics

The population of Texas is estimated to grow by 1,069,000 in 2010-2011, reaching a total population of 25,779,000 in 2011. Slightly more than half of the projected growth will come from net migration as Texas continues to offer economic opportunities. The remainder of the growth will flow from natural increase (Combs 2009, 4). The age and ethnic distribution will remain essentially the same as in the 2008-2009 biennium.

Political Composition of State Government

Texas remains a “red” state. Senator McCain received 55 percent of the vote in the 2008 presidential election while Senator Obama received 44 percent. Republican U.S. Senator John Cornyn was reelected to his second term while Republican Railroad Commissioner Michael Williams, the only state executive official on the ballot, was reelected to his third term. All of the Republican justices of the Supreme Court and Court of Criminal Appeals were reelected.

Only the state legislature saw significant changes in membership, with both chambers becoming a slightly bluer shade of red. The House now has 76 Republicans and 74 Democrats while the Senate is composed of 19 Republicans and 12

Democrats. With a Republican lieutenant governor, the Republicans remain firmly in control of the Senate, however the close partisan divide in the House gave 11 rebellious Republican representatives the opportunity to unseat the incumbent Speaker, Republican Tom Craddick, who was seeking a fourth term as Speaker. The rebels joined with 64 Democrats to force Speaker Craddick to withdraw, setting the stage for the election of a two-term moderate Republican as Speaker.

The new Speaker is acutely aware that he owes his position to the Democratic supporters and as a consequence, there have been extensive changes in committee membership and chairs. Though considerably weakened, conservatives continue to dominate the legislature and to resist the progressive social agenda of liberal members. In this effort, conservative legislators have the support of the governor.

While the House Appropriations Committee and the Senate Finance Committee were holding hearings on the budget proposals early in the biennial session, the principle item of legislative business was a bill to prevent voter fraud by requiring voters to present proof that they were in fact the person registered in their name. The bill was a Republican initiative that was strongly resisted by the Democrats. It passed in the Senate on a straight party vote of 19 to 12 but never received a vote in the House. House Democrats prevented a vote by engaging in a parliamentary maneuver known as “chubbing” that involves members raising questions on bills from the Local and Consent Calendar that are normally passed without debate or comment. The Democrats simply “ran out the clock” in the final days of the session.

Consequently, hundreds of bills from the general calendar never got a final vote and died. Among these bills was legislation to renew five major executive agencies including the Department of Transportation and several items of high priority to the governor. The governor called the legislature back for a brief special session in July. The legislature approved all the items on the governor’s call.

During the regular session, a disagreement developed between the legislature and the governor over accepting the federal “economic stimulus” money. Governor Perry announced that he would actively seek Texas’s share of the stimulus funds that is targeted to one-time only programs but he would decline any money for programs that would require a recurring state commitment. He explicitly rejected \$555 million for expanded unemployment compensation because the federal provisions would require changing the Texas law that sets the eligibility criteria to include part-time employment. There was substantial opposition to this change in the business community. Democratic legislators called for the state to take all of the stimulus money, especially the additional unemployment compensation funds. There was some ambivalence among Republican legislators but the business community strongly supported the governor’s position (Alexander and Embry 2009).

Governor Perry has been highly critical of the many programmatic requirements in the federal economic stimulus package. He has asserted that it amounts to excessive interference by Washington into state affairs. In an appearance at an anti-tax “tea party” on April 15, the governor even alluded to the possibility that Texas might secede from the United States and return to its earlier status as an independent nation. When questioned about his remarks by a news reporter, the governor said, “We’ve got a great union. There’s absolutely no reason to dissolve it. But if Washington continues to thumb their nose at the American people, you know, who knows what might come out of that? But Texas is a very unique place, and we’re a pretty independent lot to boot” (Selby 2009).

Conservative commentators had a field day with the governor’s statement despite the assurance of the Texas State Library and Archives Commission that Texas did not have a constitutional right to secede.

Budget Process

As we noted in our 2008 report, the Texas budget process is dominated by the legislature. The budget presented to the legislature is prepared by the Legislative Budget Board. The LBB is chaired jointly by the lieutenant governor and the Speaker of the House and eight other members of the legislature. While the governor produces an executive budget proposal in the form of broad policy statements, the LBB budget document is actually the starting point for legislative consideration of the budget. The governor’s vision statement informs the LBB proposal but the Texas governor actually has little formal budget power, except at the conclusion of the process through his line-item veto power.

One of the principal means of influence for the governor is the budget instructions sent to agencies from both the Governor’s Office of Budget and Planning (GOBP) and the LBB. The instructions are prepared jointly by the two offices and include a copy of the governor’s vision statement.

For the 2010-2011 budget the governor adopted the LBB’s budget estimates and pledged his cooperation saying, “I believe Texas is best served if the governor and the legislature work together over the next 126 days to jointly craft a budget that reflects our principled commitments to the state” (Governor’s Budget 2010-2011). In his budget message, Governor Perry did spell out his programmatic preferences in economic development, public education, cancer research, and border security.

The LBB proposed to spend \$83,378 million from General Revenues in the biennium and \$170,078 million from all funds including federal moneys. However, the comptroller forecast total revenues from all sources to be only \$167,700 million. Either the legislature had to make cuts to the LBB’s proposed expenditures or appropriate money from the Economic Stabilization Fund. The revenue shortfall

increased the pressure to take as much of the federal stimulus money as possible. The stage was set for serious conflict between the legislature and the governor on this issue.

Appropriations

In accordance with the legislature's appropriations practice, it was the Senate's turn in the 81st Legislature to carry the General Appropriations Bill, which was designated Senate Bill 1 (SB1). The Senate passed SB1 in early April appropriating \$182,225 million from All Funds and \$80,811 million from General Revenue. The House then took up SB1 and after a remarkably calm and cordial debate passed its version of the General Appropriations Bill by a vote of 149 to zero. The House appropriated \$177,431 million from All Funds and \$76,688 million from General Revenue. The House bill increased spending by five percent over the current biennium and allocated more for state employee salaries and college financial aid than the Senate bill. On the other hand, the Senate had appropriated considerably more for public education and Health and Human Services (Legislative Budget Board Summary).

Both bills avoided drawing on the rainy day fund or making major cuts in state services by using \$11 billion in federal stimulus money. The stimulus funding is targeted toward education, Medicaid, transportation, and other expenses. As a practical matter, the two bills were primarily statements of priorities, with the final appropriations act to be written by the five senators and five representatives on the conference committee.

In the end, the House and Senate adopted the conference committee report and appropriated approximately \$182,300 million from all funding sources including \$80,700 million from the General Revenue Fund for the fiscal biennium beginning September 1, 2009.

Executive Action

The governor was pleased with the legislature's appropriations in general. In his veto proclamation he observed:

The legislature has done a commendable job in reducing the general revenue appropriations to live within the revenue estimate the comptroller issued in January. It is particularly noteworthy that this balanced budget was produced without making appropriations from the state's "Rainy Day Fund," and without a tax increase.

The governor's line item vetoes totaled \$97.2 million in general revenue and \$288.9 million from all sources. Most of the items vetoed were contingent appropriations for bills that died in the House legislative "meltdown."

The Texas economy did contract somewhat in 2009 resulting in job losses and decreased tax revenue. However, the state economy remained robust compared to the rest of the nation. No significant spending cuts or tax adjustments were necessary. The pattern of spending and taxing remains essentially the same as before the recession. Consequently, problems in healthcare delivery, public education funding, and higher education expansion must wait for the next biennium.

2010 Adjustments to the 2010-11 Biennial Budget

The Texas Legislature did not meet in 2010. Consequently, reductions in authorized spending to match reduced revenue collections were made by the governor and the Legislative Budget Board. In January 2009, the Texas Comptroller of Public Accounts predicted that after three years of robust growth the Texas economy would experience some contraction but modest growth would occur in 2010 (Combs 2009, 3). She notes the contraction in her March 19, 2010 Economic Outlook,

During 2009, Texas' gross state product (GSP) declined more slowly than the U.S. economy (-1.7 percent versus -2.5 percent). Despite the state's economy contracting in 2009, Texas' relative economic advantage should continue as the state and U.S. economies turn around and expand again in 2010. Although job growth will continue to lag the renewed expansion of economic production, the Comptroller's office estimates that the Texas GSP will grow by 2.6 percent during calendar 2010 (Combs 2010, Economic Outlook).

State of the Economy in 2010

Although Texas lost over 100,000 jobs in 2009, in January 2010 the total non-agricultural employment increased by 14,800 jobs continuing a four-month trend of job growth. The state's unemployment rate in January was 8.2 percent compared to the U.S. rate of 9.7 percent (Combs 2010, Economic Outlook).

The housing market weathered the national real estate crunch without significant damage to property values. While building permits declined in 2009 by 10 percent over the previous year and the sales of existing homes fell 4.8 percent, the median price of single-family homes increased by 4 percent from January 2009 to January 2010. The Texas foreclosure rate has remained largely stable for the past three years; currently it is one in every 785 mortgages (Combs 2010, Economic Outlook).

Tax revenues have declined. Sales tax receipts are down 8.8 percent from fiscal year 2009. Natural gas and oil production tax collections are significantly lower in the first six months of fiscal 2010 over fiscal 2009. Since there is no income tax, the other principal source of state tax revenue is the business franchise tax, which has been disappointingly lower in revenue than expected. However, the Comptroller continues to be optimistic that the tax revenues will rise in the second half of fiscal 2010 as business conditions improve (Combs 2010, Economic Outlook).

Executive Action

In recognition of the reduced revenue collections the governor, lieutenant governor (as leader of the Senate) and Speaker of the House of Representatives issued a joint letter in January directing all state agencies, courts and public institutions of higher education to develop plans to reduce expenditures by five percent (DeWhurst, Perry, and Strauss, Letter, January 15, 2010). The spending cuts are expected to save \$1 billion in current biennial expenditures. The spending reduction plans were implemented in June 2010.

While the state received \$18 billion in federal stimulus money, which partially mitigated state revenue losses, the governor warns that the recently enacted federal health care reform law will cost Texas billions of dollars.

Unfortunately, the health care vote had more to do with expanding socialism on American soil than it does fixing our health care finance and delivery systems. The Obama health care bill undermines patient choice, personal responsibility, medical innovation and fiscal responsibility in America.

As passed by the U.S. House, the bill will cost Texas taxpayers billions more, and drive our nation much deeper into debt. Congress' backroom deals and parliamentary maneuvers undermined the public trust and increased cynicism in our political process.

Texas leaders will continue to do everything in our power to fight this federal excess and find ways to protect our families, taxpayers and medical providers from this gross federal overreach (Perry, March 21, 2010).

Consequently, the Texas attorney general has joined in the Florida lawsuit challenging the statute's constitutionality with the governor's approval.

Our state's lawsuit is the next reasonable approach to protecting our individual and state's rights from an unreasonable and unresponsive federal government. Left unchallenged, these 2,400 pages of unprecedented federal overreach will seriously diminish the quality of health-care, impose onerous new taxes and penalties on individuals and employers, and crush our state budget (Perry, March 23, 2010).

Texas officials are very worried about the “cap and trade” energy bill now being considered by the United States Congress. They allege it will adversely impact the Texas economy. The Comptroller of Public Accounts asserts:

The goal of [the American Clean Energy and Security Act of 2009] is to dramatically reduce America’s conventional energy usage. The only realistic way to do this is through higher energy prices. Our analysis indicates Texas could lose 170,000 to 425,000 jobs by 2030 as a result of those increased energy prices (Combs, March 25, 2010).

Forecast for the 2012-13 Biennium

The expenditure and revenue forecasts for the next biennium budget project a shortfall of \$11 to \$15 billion. The projected shortfall exceeds the \$8 billion “rainy day” fund and will require some hard decisions about reducing spending and/or making revenue adjustments. As the president of the Texas Taxpayers and Research Association has noted, “good money management is not always good politics and vice versa” (Alexander, April 5, 2010).

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