

WRITING THE TEXAS BUDGET FOR 2012 AND 2013

The Texas Legislature will convene on Tuesday, January 11, 2011, for the 82nd Regular Session. For essential state services to continue in 2012 and 2013, the Legislature must pass a state budget before adjourning. This *Policy Page* explains the process of writing the 2012-13 budget and how you can participate to ensure a budget aligned with your values—a budget that invests in the critical public services and structures necessary to create opportunity and prosperity.

After the draft budget bill is introduced (House or Senate Bill 1) and the revenue estimate issued, the legislative budget-writing committees (House Appropriations and Senate Finance) hold hearings. Public testimony is taken on agencies' budget requests. Sometimes, limits are imposed on the amount of time each witness can speak (such as three minutes). Advocates who are new to the Capitol and the state budget process need to keep in mind that attempts to create brand-new state services—for example, at-risk youth programs—require not just a bill authorizing the program to pass both the House and Senate, but also that the program's funding be included in the appropriations bill in both chambers.

Differences in the House and Senate versions of the budget (whether for new or existing programs) are reconciled in the conference committee process, which is the last stage at which advocates can have any impact on legislators' work on the budget. After the conference committee report on the budget is issued, it usually passes the House and Senate in the last few days of the session. The budget then goes to the Governor for line-item vetoes—another stage in which advocates may need to express their support for, or opposition to, a particular state program or service—and finally, to the Comptroller for certification.

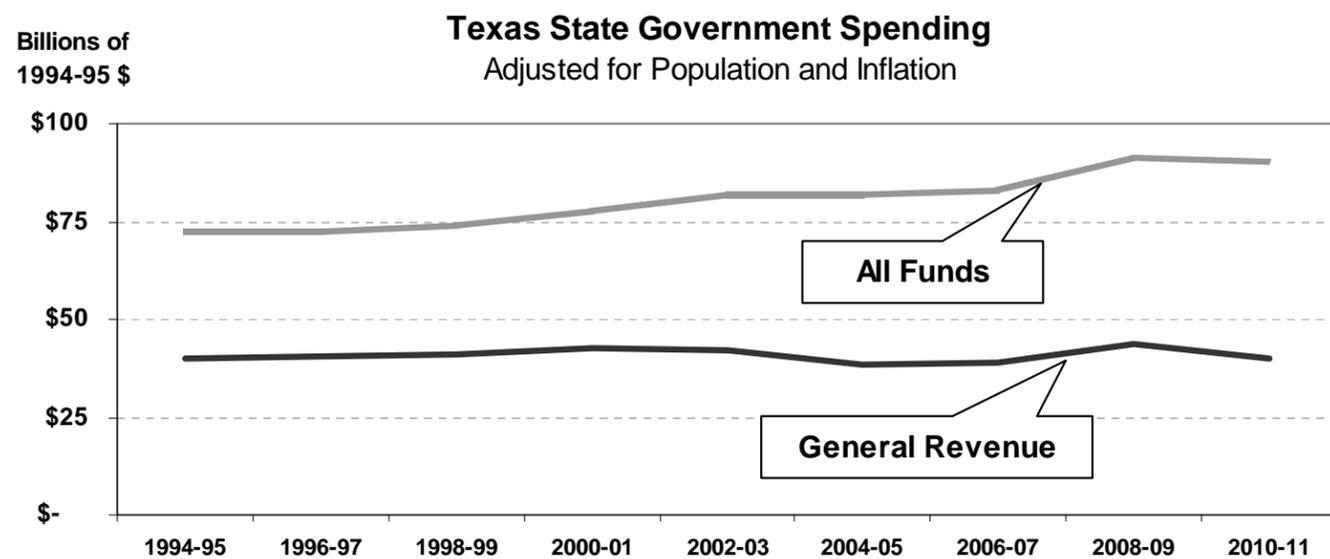
Need More Information?

Two recent CPPPP publications are must-reads for anyone wanting to know more about the next state budget:

- [Lessons From 2003](#), a Policy Page recounting how the Rainy Day Fund, federal fiscal relief, new state revenue, and accounting mechanisms helped balance the 2004-05 budget.
- [Use All of the Rainy Day Fund](#), a Policy Page providing more information about the state's Economic Stabilization Fund, and recommending that legislators use more than \$9 billion in the fund to maintain the state's investments in critical public structures and systems such as education.

Legislative agencies issue more detailed reports on the state budget process, but these have not yet been updated for the 82nd Session. The latest versions are

- [Writing the State Budget: 81st Legislature](#) by the House Research Organization and
- [Budget 101: A Guide to the Budget Process in Texas](#) by the Senate Research Center.



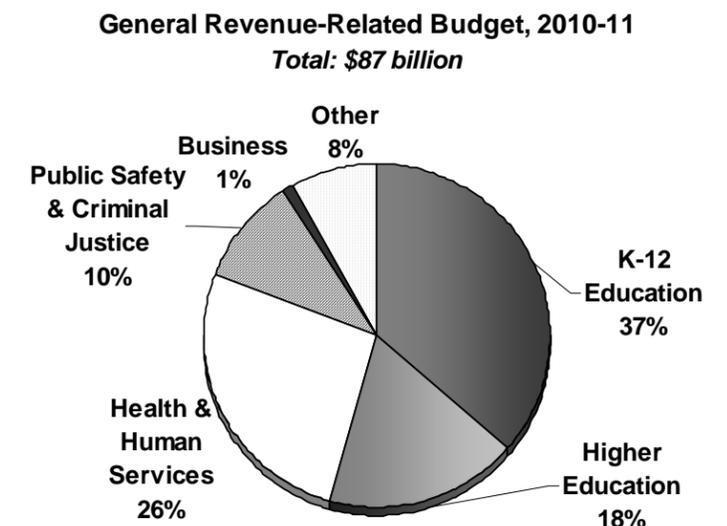
Source: Legislative Budget Board, Fiscal Size-Up, 2008-09 and 2010-11.

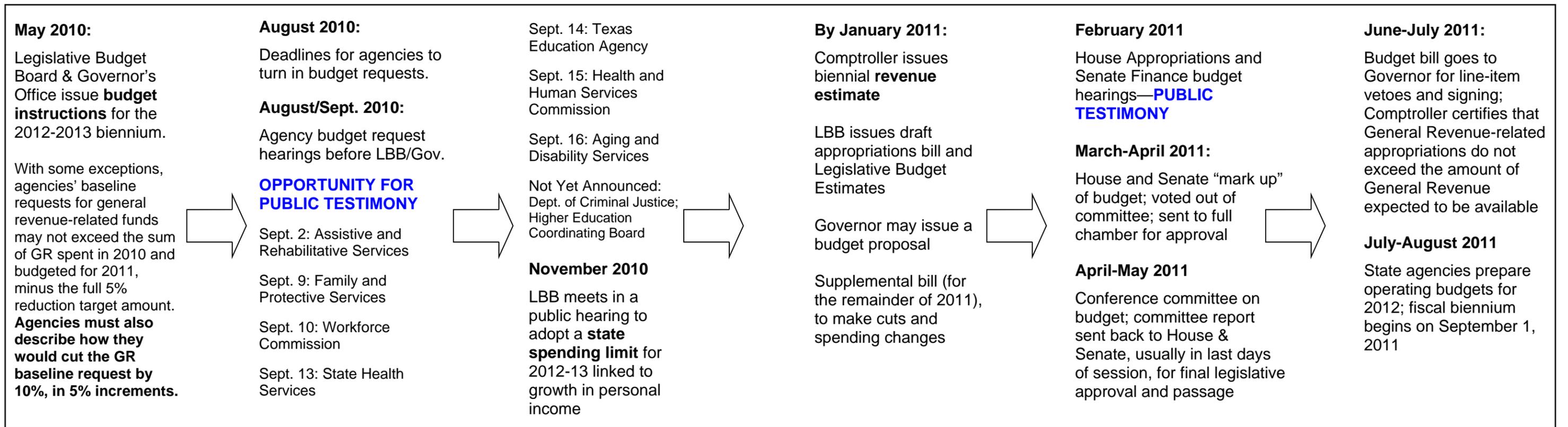
- **State officials told agencies to submit baseline budget proposals for 2012-13 in late May.**
- **Agencies also had to submit proposals by February 15 indicating how they would cut general spending by 5% for 2010-11.**
- **You can speak out on state budget proposals in August and September during pre-session hearings.**
- **You can also speak out on state budget proposals in February at hearings held by the House Appropriations and Senate Finance committees.**

Pre-Session Developments

Before legislators' work on the state budget begins, some important decisions are made by other key state government officials. First, the Governor's budget office and the Legislative Budget Board (LBB) jointly issue [budget instructions](#) to state agencies. The instructions tell state agencies how to prepare legislative appropriations requests (LARs) for General Revenue (GR) for the next biennium, including General Revenue that is legally earmarked for a specific purpose (GR-Dedicated funds). Federal Funds and "Other" Funds, such as the State Highway and Property Tax Relief funds, are also important in writing the state budget, but the appropriations process revolves mainly around General Revenue dollars.

The allocation of General Revenue and GR-Dedicated funds for the current (2010 and 2011) budget is shown below. Over half of General Revenue supports public education, such as state aid to more than 1,000 local school districts, and higher education. One-fourth goes to health and human services, primarily Medicaid matching dollars that fund





health care for 3 million low-income Texans. The remainder is spent mostly on the state prison system. Compared to other states' budgets, Texas spending is more concentrated in these basic areas—education, health and human services, and corrections.

For the 2010-11 budget cycle, the Governor's budget office and LBB have instructed state agencies and institutions of higher education to request the same amount of General Revenue for their "baseline" that they received for 2008-09. The "baseline" is the part of the LAR most likely to be included in the appropriations draft bill that the LBB will distribute in January; everything else in the agencies' appropriations requests is an "exceptional item." Agencies were also told to describe how the services they provide would be affected if they cut General Revenue-related spending by 10%, compared to 2008-09 levels.

The requirement to hold GR spending flat means that, **for the most part, agencies will not be allowed to include in their baseline the additional funding required to cover higher energy prices (and budgets for gasoline and utilities), health care cost increases,**

and other inflation-related items. State services and programs that are *not* federal entitlements—for example, the Children's Health Insurance Program—will not even have caseload growth included in the baseline. The instructions state: "Exceptions to the baseline request limitation include amounts necessary to maintain funding for the Foundation School Program, satisfy debt service requirements for existing bond authorizations, maintain caseloads for federal entitlement services, satisfy employer contribution requirements for state pension systems, and maintain adult prison populations."

If past sessions are any indication, the cost of inflation, non-federal-entitlement caseload growth, and other factors beyond agencies' control will add up to billions of dollars in General Revenue that will not be included in the draft "baseline," creating an unrealistically low estimate of the need for state revenue. Most state officials are predicting a multibillion-dollar budget shortfall for the next budget cycle, even though neither the Comptroller nor any other state official has estimated how much General Revenue the state's tax system will generate in 2012-13, and compared to what it would actually cost to fund current services in 2012-13.

LBB-Governor's Budget Office Hearings

Legislators, the general public, and the media will get more details on agencies' budget requests and potential impact on state services at joint public hearings held in late summer and early fall. Unlike issuing the budget instructions, this part of the budget process allows for public testimony at the Capitol. Details on time and location of agency budget hearings are available at www.lbb.state.tx.us/Budget_HearingsSchedule_by_Date.htm.

After the hearings are done, the LBB compiles agencies' requests into a document called "Legislative Budget Estimates" and into a draft appropriations bill. Both of these become available in late December or early January.

Legal Limits on State Spending

Several limits affect the amounts of General Revenue spending recommended by the LBB in the draft budget. One is the constitutional limit capping growth in state spending of undedicated tax revenue. This limit, linked to estimated growth in state personal income, is adopted by the LBB before the session starts (usually by November). Other limits on state spending include caps on debt service; a welfare spending limit on aid to needy children and their caretakers; and the "pay as you go" limit

requiring the Comptroller to certify that General Revenue spending in the appropriations act does not exceed the revenue estimate for the coming biennium.

During the Legislative Session

Before the session starts, the Comptroller will issue the biennial revenue estimate for 2012-13 and revise the revenue forecast for 2010-11. Once the revenue estimate is available, legislators will know the maximum amount of General Revenue they can appropriate for the next budget. General Revenue spending can exceed that limit if legislators increase revenue from taxes or fees, or if at least four-fifths of legislators vote to exceed the revenue estimate (an extremely unlikely event).

In addition to funding state services for 2012-13, legislators may also have to approve supplemental appropriations and reductions for the rest of 2011. Supplemental appropriations are necessary when state agencies have budget shortfalls due to higher-than-expected caseloads or costs, or lower-than-expected federal funding. Where possible, budget shortfalls are dealt with through transfers of unspent funds, but sometimes additional GR must be appropriated, reducing the amount of money available for the next budget cycle.