INTRODUCTION

Texas entered the 2008-2009 biennial budget cycle with a nearly $10 billion all funds surplus and a favorable general fund revenue forecast. This circumstance made it possible for the governor and the legislature to consider rectifying the effects of the draconian cuts in spending that had been made in the previous biennium when the state was faced with a $10 billion revenue shortfall. Fiscal decision-making in Texas reflects the nineteenth century origins of its institutional structures and prevailing political culture favoring limited government and greater individual independence. The notion of a balanced budget, achieved by low tax rates and low to moderate levels of government spending, continues to dominate state fiscal policy. As several observers of Texas politics have noted in their book on the subject,

The state’s elected officials appear to adopt the view expressed by economist Milton Friedman that ‘the preservation of freedom requires limiting narrowly the role of government and placing primary reliance on private property, free markets and voluntary arrangements’ (Brown 2005, 289).

This strong conviction that individuals are responsible for solving their own economic and social problems with a minimum of government intervention or assistance is illustrated rather dramatically in the fact that Texas consistently spends the least amount of money per capita of any state in the Union. The most recent figure was $3,549, making Texas #50 in the nation, even though 24 percent of the population is without healthcare insurance and nearly 25 percent of Texans are in official poverty (LBB 2008a).

STATE OF THE ECONOMY

The Texas economy has experienced strong growth in almost every year since the 1950s, usually outpacing the national economy. Between 2001 and 2007 the Texas economy grew at an average rate of 6.6 percent, while the U.S. economy grew at an average annual rate of 5.0 percent. The current economic forecast for 2008 and 2009 by the Comptroller of Public Accounts (the state’s principal fiscal officer) predicts an average annual increase in the Texas gross state product of about 5.4 percent, well above the expected national growth rate. The per capita personal income in 2006 was $35,058. Personal income is expected to grow 6.2 percent in fiscal year 2008 and 5.6 percent in fiscal year 2009. In 2006, the civilian labor force numbered 11,640,100 with an unemployment rate of 4.5 percent. From 2000 to 2007, the Texas private sector workforce grew by 863,000 employees. The employment growth was driven entirely by the service industries because employment in the manufacturing and energy production sectors actually declined by
21,000. This employment growth pattern is projected to continue though the 2008-2009 biennium (LBB 2008, 36).

DEMOGRAPHICS

The Texas population continues to grow at a dramatic rate. From 1996 to 2006, the population increased by 24 percent to 23,507,783 making Texas the second most populous state in the Union. In 2005-2006, the population grew at a rate of 2.5 percent, adding some 579,000 people in one year. The U.S. Census Bureau estimates that net migration accounts for 59 percent of the increase and natural increase (births over deaths) was 41 percent. The Texas birthrate is high at 16.9 live births per 1,000 population which is second only to Utah’s rate of 20.9. Although, the most rapid growth has occurred in the over-45 age group, making it one-third of the total population, the under-18 population constitutes 28 percent of the total which presents challenges to the state to provide for education, occupational training, and job creation (Fiscal Size-Up, 41-42). The male/female distribution is basically equal with females constituting 50.2 percent of the population. The racial/ethnic composition is: white (non Hispanic) 48 percent, Hispanic (all races) 36 percent, Black 12 percent, Asian/Pacific Islander 3.5 percent, and Native American .5 percent (LBB 2008a, 21).

POLITICAL COMPOSITION OF STATE GOVERNMENT

Texas is now a “red” state. However, the dominance of the Republican Party in state politics is a relatively recent development. The Democratic Party dominated all levels of government from the end of Reconstruction in 1876 until the civil rights era of the 1950s and 1960s. Following the removal of Federal troops and the restoration of suffrage to the former (and decidedly unrepentant) Confederates, a renascent Democratic party swept the Republicans from elective office and relegated them to political impotence for over a hundred years.

The immediate objective of Democratic politicians in the post-Reconstruction years was the restoration of the pre-Civil War elite rule in state government. This was accomplished by systematically disenfranchising African Americans and poor white voters. In this period, Texas politics was an internal Democratic game. But as the national Democratic Party embraced civil rights in the 1950s and 1960s and actively sought the end of segregation, Texans who were dissatisfied with this shift looked toward the Republican Party as an alternative.

The first significant defection from uniformly supporting Democrats in elections occurred in 1952 when Texas voters flocked to Republican presidential candidate Dwight Eisenhower. The real breakthrough came in 1961 when John Tower was elected to the U.S. Senate in the seat vacated by Lyndon B. Johnson, becoming the first Republican elected to Congress from the South since the late 1800s. In 1978, William Clement was elected governor, the first Republican to win that office after the end of Reconstruction (Collier 2008, 194). In the years following the Clement victory, Republicans have become increasingly competitive electorally, such that they are now the party of government at the state level.
The two U.S. Senators from Texas, Kay Bailey Hutchison and John Cornyn, are both Republican. The Texas delegation to the U.S. House of Representatives is currently 19 Republicans and 13 Democrats. In 1996, Republicans won a majority in the Texas State Senate and in 2002, they did so in the House of Representatives, giving the Republicans control of both chambers of the state legislature.

The 80th Legislature which adopted the 2008-2009 biennial budget was composed as follows: the Senate had 20 Republicans and 11 Democrats while the House of Representatives had 80 Republicans and 69 Democrats with one vacant seat. The Texas Senate has 31 members who are elected to four year terms from single member districts. The Senate terms are staggered so that one half of the Senate is chosen every two years. There are 150 members of the House of Representatives who are elected to two year terms from single member districts.

The court system in Texas is “highly complex, confusing, and muddled” (Collier 2008, 122). There are more than 3,000 judges in the system ranging from municipal courts and justices of the peace to the Supreme Court. The 535 judges in the state courts of general and appellate jurisdiction are all elected in partisan elections. Currently a majority of these judges at all levels are Republican.

The Executive Branch is plural and fragmented with six constitutional officers elected statewide for four year terms. The officers are Governor, Lieutenant Governor, Attorney General, Comptroller of Public Accounts, Commissioner of Agriculture, and Land Commissioner. All of these executive officers are Republicans.

GOVERNOR-LEGISLATURE RELATIONSHIP

Historically the relationship between the governor and the legislature has been contentious and remains so today despite the fact that Republicans dominate both the Executive and Legislative branches. The legislature meets in regular session for 140 days biennially. The governor may call the legislature into special sessions (limited to 30 days in duration) but to do so has been exceptional and rare. The legislature does not have the power to call itself into special session and can only address the topics designated by the governor in the call for the special session. Despite the limitations on its sessions, the legislature has jealously guarded its prerogatives and maintains virtually continuous oversight of executive agencies through its interim committees.

In terms of formal powers, the Texas governor is a “weak” governor. The executive power is fragmented among the six constitutional officers and the nearly 300 boards and commissions over which the governor has limited authority. Although the governor appoints many of the members of the boards and commissions, the appointments must be approved by the Senate and the governor cannot remove these officials without the consent of two-thirds of the Senate.

The governor’s budgetary powers are notably weak. The Legislative Budget Board (LBB), co-chaired by the Lieutenant Governor and the Speaker of the House, has dominated the
The budget process has been in place since its creation in 1949. Governors may propose a state budget reflecting their policy preferences, but the legislature frequently ignores the governor’s proposed budget and responds primarily to the recommendations of the LBB. Consequently, the current governor, Rick Perry, has twice not proposed a budget at all though he has used his line-item veto liberally.

Governor Perry’s relations with the Lieutenant Governor, David Dewhurst, and the Speaker of the House, Tom Craddick, often appear to be more rivalry than congenial cooperation as a governing team.

BUDGET PROCESS

The General Appropriations Act for each biennium begins with a draft assembled by the Legislative Budget Board. While the Governor’s Office of Budget, Planning and Policy also provides a recommended budget, the legislature typically favors the document provided by the LBB.

The drafted General Appropriations Act is introduced in both the Senate and House, where they are directed to the Senate Finance Committee (SFC) and the House Appropriations Committee (HAC). The SFC and HAC hold separate hearings and workgroups, ultimately producing a number of recommendations before sending the General Appropriations Act back to the main chamber for debate and amendments.

Both chambers pass a separate General Appropriations Act, but only one chamber will officially carry the bill. The two chambers alternate carrying the bill every biennium. This accounts for why the 80th Legislature’s General Appropriations Act is designated as House Bill 1 while its predecessor from the 79th Legislature is Senate Bill 1.

The chamber that will carry the bill sends their engrossed legislation to the other chamber, which substitutes its native bill with the carrying chamber’s bill. A conference committee is called to work out conflicts between the two chambers before the two chambers pass an identical General Appropriations Act. The engrossed bill is sent to the comptroller to be certified before reaching its final destination in the governor’s office. The legislation is subjected to the governor’s line-item veto before being signed into law.

The budget process was given high marks by the Pew Center on the States in its state management performance report, “Grading the States 2008,” published in Governing magazine. The process itself was rated as a “strength” as were the Information categories of Strategic Direction, Budgeting for Performance, and Performance Auditing and Evaluation. The report noted that “Texas is a leader in the quality of overall state planning and the production and use of meaningful performance measures” (Barrett & Greene 2008). Performance budgeting is largely the basis for the high management grade awarded to Texas.
PERFORMANCE BUDGETING

Texas’s performance budgeting process was initially conceived in 1991 when the legislature passed a law establishing the Strategic Planning and Budgeting (SPPB) System. The process was strongly supported by Democratic Governor Ann Richards and Republican Governor George W. Bush and has been lauded by many observers outside Texas.

However, current governor, Rick Perry, has been in conflict with the legislature regarding the continuation of performance budgeting in Texas. The February 2005 issue of Governing magazine notes that Governor Perry views performance budgeting as “a costly operation that doesn’t justify its expense” (Barrett & Greene 2005). When Texas experienced a $10 billion fiscal shortfall in 2002, Governor Perry rejected the budget draft and prepared his own budget using zero-based budgeting. While this did result in a 12.5 percent cut in spending, the performance budget process continues to be utilized today.

The Strategic Planning and Performance Budgeting System is composed of three components: strategic planning, performance budgeting, and performance monitoring. The strategic planning phase is performed by each agency and involves the creation of a five-year plan including the agency’s mission statement, goals, objectives, and the measures used to track the agency’s success. The Legislative Budget Board (LBB) and the Governor’s Office of Budget, Planning, and Policy (GOBPP) give instructions and aid agencies in formulating strategic plans prior to each legislative session. The LBB and GOBPP may require that certain items be added to an agency’s strategic plan.
When the legislature convenes, these strategic plans are integrated into the General Appropriations Act (see above example). Agencies develop Legislative Appropriations Requests (LAR) indicating the goals, objectives, and strategies utilized by the agency along with requested dollar amounts. The LBB and GOBPP receive the LARs, hold public hearings, and make appropriation recommendations. The LBB creates a draft appropriations bill and submits it to the legislature. The legislature modifies the bill, adopts it, and then sends it to the governor for his signature and/or line-item vetoes.

The finalized budget allocates resources based upon the goals and strategies of each agency and sets performance targets. Goals are listed under the performance target heading for each agency accompanied by the goal’s desired outcomes. Beneath each goal’s outcomes is a list of strategies used to achieve the goal with designated dollar amounts. The expected output of the agency’s policies and efficiency targets are listed beneath each strategy.

Following the adoption and implementation of the budget, agencies are monitored by the LBB to ensure performance targets are met. Each agency collects data on their success in achieving performance targets and submits this data every 3 months to the LBB via an online platform.

Source: Legislative Budget Board
reporting system called the Automated Budget and Evaluation System of Texas (ABEST). If an agency’s performance diverges from its target by more than 5 percent, the agency must explain the variance.

The Texas State Auditor’s Office (SAO) also conducts periodic audits of agencies by investigating the data collection and reporting accuracy of performance information for selected agencies. The SAO works with the LBB to identify agencies for these audits.

Programs and agencies established by the legislature are reviewed every 10 years as part of Texas’s sunset review process. If the legislature fails to pass legislation to continue an agency’s operations, the agency is abolished. To guide the legislature in deciding which agencies should be retained and which should be abolished, the Sunset Advisory Commission (SAC) submits reviews of each agency during the 10 year cycle. These reviews typically result in the continuation, termination, modification, or merging of agencies.

THE BUDGET AND MAJOR ISSUES

Several issues were central to the politics of preparing the 2008-2009 budget. First and foremost was implementing changes to the funding mechanisms for public education. Secondary goals were increasing Health and Human Services spending in order to meet the ever rising cost of Medicaid and to provide for an expanded enrollment in the Children’s Health Insurance Program. Then the legislature sought to meet the governor’s requests for more resources to bolster security on the Texas-Mexico border and funding for long-delayed repairs at state parks.

Public schools in Texas are funded principally by property taxes. The inevitable variation in property values among the more than 1,000 school districts resulted in a decade long battle over how to achieve an equitable funding system. A policy crisis occurred in November 2005 when the Texas Supreme Court upheld a ruling by a state district judge that “school districts lacked ‘meaningful discretion’ in setting local maintenance and operation (M & O) tax rates, effectively resulting in an unconstitutional statewide property tax” (House Research Organization 2006). The legislature was ordered by the court to fix the unconstitutional statewide property tax by June 1, 2006 or the court would forbid the state to distribute funding for the public school system. It took three special sessions before the legislature enacted the recommendations of the Texas Tax Reform Commission which had been appointed by the governor. The legislature adopted a revised business franchise tax, a motor vehicle standard presumptive value for sales tax purposes, and a tax rate increase for cigarettes and other tobacco products. All of the additional revenue generated by the new or revised taxes was dedicated to reducing school property tax rates. Further, the legislature mandated a one-third reduction in school district M & O taxes by 2007. Since it was unknown how much revenue would be produced by the new business franchise tax, the legislature was prepared to appropriate money from the General Fund to effect the property tax reduction.
EXECUTIVE BUDGET

The 2006-2007 biennium ended with a substantial budget surplus of $8.8 billion in General Revenue and General Revenue-Dedicated funds. The Comptroller of Public Accounts estimates that General Revenue will grow in the 2008-2009 biennium by $10.7 billion over 2006-2007. She estimates that there will be $160.5 billion available from all sources, a 7.3 percent increase from the previous biennium (see Appendix A).

The governor chose to submit spending recommendations for the biennium proposing expenditures of $78.3 billion from General Revenue leaving some $4 billion unspent. His priorities for spending increases were public education, property tax relief, state park repairs, and border security. The governor’s recommendations for spending from All Funds (including federal monies) totaled $152.3 billion for a seven percent increase over 2006-2007 expenditures.

FINAL BUDGET

The appropriations process followed the familiar pattern of partisan differences on spending priorities, executive-legislative contention, interest group lobbying, and intense deal-making. The LBB proposed to spend $147.6 billion which was a two percent increase over the previous biennium’s appropriations. The governor’s recommendations amounted to $4.6 billion more than the LBB’s proposals. In the end, after much fretting over how to meet the court mandated reduction in school property taxes while maintaining some semblance of equity in public school financing, the legislature appropriated a total of $167.8 billion, an increase of 15.7 percent over the previous biennium (see Appendix B).

There continues to be many demands on the Texas budget, including rising healthcare and higher education costs, continuing efforts to correct public school funding inequalities, and public employee pay raises. Future budget priorities will depend on the outcome of the 2008 legislative elections. The Democrats are eager and optimistic about recapturing control of the House of Representatives. On the other hand, the Republicans are confident about retaining majorities in both chambers.
APPENDIX A: REVENUE

Figure 1

ESTIMATED STATE REVENUE COLLECTIONS
2008–09 BIENNium

TOTAL = $160,488.8 MILLION

SOURCE: Comptroller of Public Accounts.
## STATE REVENUE BY SOURCE
### FISCAL YEARS 2005 TO 2009

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<tr>
<th>IN MILLIONS</th>
<th>REVENUE</th>
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<td>2005</td>
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<td>2008</td>
<td>2009</td>
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<td>Sales tax</td>
<td>$16,312.8</td>
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<td>Oil production taxes</td>
<td>681.9</td>
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<td>835.0</td>
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<td>Natural gas production tax</td>
<td>1,657.1</td>
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<td>Motor fuel taxes</td>
<td>2,934.6</td>
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<td>Motor vehicle sales and rental taxes</td>
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<td>Corporation franchise tax</td>
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<td>Cigarette and tobacco taxes</td>
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<td>Alcoholic beverage taxes</td>
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<td>Insurance occupation taxes</td>
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<td>Utility taxes</td>
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<td>Inheritance tax</td>
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<td>Hotel occupancy tax</td>
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<td>Other taxes</td>
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<td>TOTAL, TAX COLLECTIONS</td>
<td>$29,838.3</td>
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<td>$40,975.3</td>
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**Source:** Comptroller of Public Accounts.
APPENDIX B: EXPENDITURE

Figure 3

ALL FUNDS
2008–09 BIENNIAL

IN MILLIONS

TOTAL = $167,787.2 MILLION

Source: Legislative Budget Board.
GENERAL REVENUE FUNDS
2008–09 BIENNIAL

IN MILLIONS

- Business and Economic Development: $623.2 (0.8%)
- Public Safety and Criminal Justice: $7,910.8 (9.9%)
- The Judiciary: $405.2 (0.5%)
- Natural Resources: $686.4 (0.9%)
- Regulatory: $348.7 (0.4%)
- General Provisions: $244.1 (0.3%)
- The Legislature: $325.6 (0.4%)
- General Government: $2,005.9 (2.5%)
- Health and Human Services: $20,558.8 (25.7%)
- Agencies of Education: $46,842.8 (58.6%)

TOTAL = $79,951.5 MILLION

SOURCE: Legislative Budget Board.
TRENDS IN STATE GOVERNMENT EXPENDITURES

IN MILLIONS

ALL FUNDS

GENERAL REVENUE FUNDS

*Estimated.

SOURCES: Legislative Budget Board; Comptroller of Public Accounts.
REFERENCES


About the Authors
Gilbert K. St. Clair, Visiting Professor, Department of Political Science, Southwestern University (stclairg@southwestern.edu)

Matthew Maschino, Research Assistant, Department of Political Science, Southwestern University (maschinm@southwestern.edu)