

TEXAS BUDGET TRENDS IN ARTICLE III

OVERVIEW

The 84th Texas Legislature passed a 2016-17 total budget including state and federal funds of \$209.1 billion for an increase of 2.9 percent from the previous budget's expected expenditures ([Legislative Budget Board \(LBB\) 2016a, 2](#)). Although this was a conservative budget, defined as an increase at or below the increase in population growth plus inflation of 6.5 percent during the prior two fiscal years ([Heflin and Ginn 2015, 5](#)), individual budget functions that increase by more than this key metric deserve scrutiny.

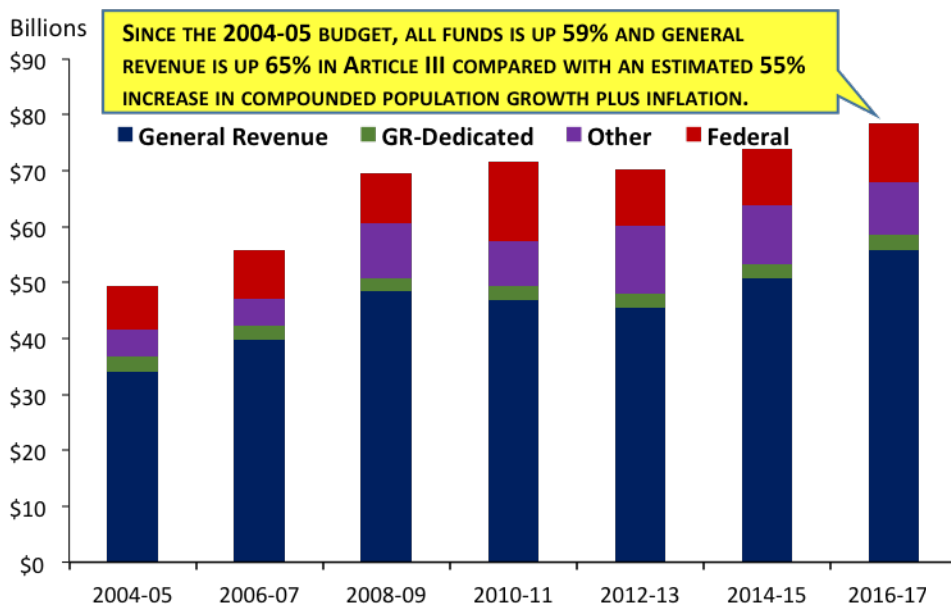
This paper highlights Texas budget trends in Article III since the 2004-05 budget and notes the education functions for both public education and higher education that increase faster than population growth plus inflation in the 2016-17 budget.

Article III Budget Increases by More than Population Growth Plus Inflation Since 2004-05

Education is an integral part of Texas' two-year budget, as education functions are appropriated the largest amount of taxpayer dollars. The 2016-17 all funds appropriations to Article III is \$78.6 billion, an increase of \$3.9 billion, or 5.1 percent, from the previous budget's expected expenditures. This increase is primarily for public education in the amount of \$2.4 billion, or 4.2 percent, to \$58.6 billion. The additional \$1.5 billion increase is appropriated to higher education for a 7.5 percent increase to \$20 billion.

Chart 1 notes that the Article III total budget has increased by more than compounded population growth plus inflation since the 2004-05 budget, for a cumulative increase over each budget period through 2016-17 of \$470 billion, and the general revenue portion is also up by more than this key metric.

Chart 1: Article III spending growth outpaces population growth plus inflation since 2004-05



Notes: Data are from the Legislative Budget Board ([2016a](#)) and Heflin, et al. ([2015](#)) with expected spending in 2014-15 and 2016-17..

continued

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- The Article III all funds budget is up 59 percent since the 2004-05 budget compared with only a 55 percent increase in population growth plus inflation.
- The 84th Legislature appropriated \$78.6 billion for Article III of the 2016-17 all funds budget, which is an increase of 5.1 percent from the previous budget.
- These increases in the budget and functions should be watched closely as agencies make their requests and during the legislative process next session.



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Chart 2: Functions in 2016-17 Article III all funds budget that increase by more than population growth plus inflation

FUNCTION (IN MILLIONS)	2014-15 APPROPRIATIONS	2016-17 APPROPRIATIONS	BIENNIAL CHANGE	PERCENTAGE CHANGE
<i>Higher Education Coordinating Board</i>	\$1,488.8	\$2,007.3	\$518.5	34.8%
<i>Available University Fund</i>	\$1,320.5	\$1,690.5	\$370.0	28.0%
<i>Higher Education Fund</i>	\$525.0	\$656.3	\$131.3	25.0%
<i>Retirement and Group Insurance</i>	\$239.2	\$300.0	\$60.8	25.4%
<i>Optional Retirement Program</i>	\$263.4	\$326.3	\$62.9	23.9%
<i>Higher Education Employees Group Insurance Contributions</i>	\$1,192.8	\$1,377.9	\$185.1	15.5%
<i>Teacher Retirement System</i>	\$3,904.7	\$4,346.8	\$442.1	11.3%
<i>Available National Research University Fund</i>	\$55.8	\$61.1	\$5.3	9.4%
<i>School for the Blind and Visually Impaired</i>	\$44.3	\$47.6	\$3.3	7.4%
<i>Permanent Fund Supporting Military and Veterans Exemptions</i>	\$0.0	\$23.5	\$23.5	--

Source: Legislative Budget Board ([2013](#), [2016b](#))

Fortunately, the current Article III budget is below population growth plus inflation, but these previous excesses since the 2004-05 budget warrant cautiously considering future budget changes in education. Chart 2 highlights the key functions included in Article III that increased by more than 6.5 percent in appropriations from 2014-15 to 2016-17.

The primary causes for these increases are listed below:

- ★ \$102.5 million of the Higher Education Coordinating Board budget increase is for the “Texas Research Incentive Program” that received remaining funds from the eliminated Emerging Technology Fund to award “institutions based on the receipt of private donations” ([LBB 2015, 42,78](#)); another major cause in the increase is \$86.5 million towards the new strategy “TEOG Public Community Colleges” to provide Texas Educational Opportunity Grants at eligible colleges ([LBB 2016b, III-42](#)).
- ★ \$246.7 million of the Available University Fund budget is for “The University of Texas System Allocation” to “provide management and administrative support for endowment funds” that includes: “(1) new construction, major repairs and rehabilitation, equipment, maintenance, operation, salaries, and support, including the matching of private grants for the endowment of scholarships, fellowships, library support, and academic positions for The University of Texas at Austin; and (2) necessary direct administration operations of The University of Texas System Administration and for necessary expenses to provide administrative support for Board operations” ([LBB 2016b, III-61,62](#)).
- ★ \$131.3 million of the Higher Education Fund budget increase is for eligible institutions ([LBB 2016b, III-59](#)) whereby the appropriations are “dedicated by the Texas Constitution to support certain capital costs at institutions of higher education that are not eligible to receive funding from the Available University Fund” ([LBB 2015, 72](#)).
- ★ \$31.5 million of the Retirement and Group Insurance budget increase is to fund “group insurance” related to the Employees Retirement System and claims for benefits made by retirees along with “additional benefits for FTE increases” ([LBB 2016b, III-94](#)).
- ★ \$62.9 million of the Optional Retirement Program budget increase is to fund the program, including personnel who administer the program ([LBB 2016b, III-34](#)).
- ★ \$79.3 million of the Higher Education Employees Group Insurance Contributions budget increase is for the goal of “retirement contributions, ERS” that funds the following: “a. the majority of the cost of the basic life and health coverage for all active and retired employees; and b. fifty percent of the total cost of health coverage for the spouses and dependent children of all active and retired employees who enroll in coverage categories which include a spouse and/or dependent children” ([LBB 2016b, III-38](#)).
- ★ \$405.1 million of the Teacher Retirement System budget increase is for “public education retirement” to fund “retirement contributions for public education em-

ployees” ([LBB 2015, 70](#)) that are “primarily due to the projected growth of payroll amounts in the 2016–17 biennium” ([LBB 2016b, III-31](#)).

- ★ \$5.3 million of the Available National Research University Fund budget increase is for “support and maintenance of educational and general activities that promote increased research capacity at the institution” ([LBB 2016b, III-64](#)).
- ★ \$850,000 of the School for the Blind and Visually Impaired budget increase is for “short-term programs” to “provide summer school and short-term programs to meet students’ needs” ([LBB 2016b, III-23](#)).

- ★ \$23.5 million of the Permanent Fund Supporting Military and Veterans Exemptions (MVE) budget increase is for eligible institutions to fill in the gap from reductions in higher education funding from the Hazlewood Legacy Program ([LBB 2016b, III-65](#)).

CONCLUSION

Although the increase in Article III was less than population growth plus inflation in the 2016-17 budget, the trend since the 2004-05 budget shows that it has exceeded this key metric. Therefore, the budget for public education and higher education and their functions should be watched closely as agencies make their requests and during the legislative process next session. ★

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The Honorable Talmadge Heflin is the director of the 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 was the only House member to serve on both the Ways and Means and Appropriations committees for several terms.

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