TEXAS TAXPAYERS TTARA AND RESEARCH ASSOCIATION

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A Once in History Cash Bonanza

Or Everything You Wanted to Know about the Revenue Estimate, the Budget, the Spending Limit, and the Rainy Day Fund, but Were Afraid to Ask

Texans may be used to the occasional downpour, but right now it's raining money. The amount of cash heading to the Texas Treasury is a bounty of historic proportions never seen before, and may never be seen again. Veteran lawmakers used to knock-down, drag-out battles over a few hundred thousand dollars now face an excess of cash that is literally tens of billions of dollars more than they can spend under the state's spending limits.

HB 1 and SB 1, the general appropriations acts, leave $42 billion of general revenue untouched after all the numbers are tallied. Obligating that money will require working around the spending limit.

Both the Senate and House have introduced their 2024-25 budgets, but an estimated $42 billion of general revenue remains untouched. The battle for that cash will likely be brutal, testing the political skills of lawmakers as they balance demands for regular program funding, tax cuts, and infrastructure needs.

General Revenue – the Fund that Matters Most. The Texas Treasury holds many different funds but the most important pot of money in the budget process is the general revenue fund (GR) and those related funds that interact with it. GR dollars are typically free of dedications, allowing lawmakers great discretion in their use. They are the funds most fought over in budget battles and are the focus of this analysis.

The 2024-25 Revenue Outlook. The first number every revenue estimate begins with is the ending balance from the previous budget period. Lawmakers have known ever since the final pieces of the 2022-23 budget passed that some money would be left over, but over the ensuing months each time State Comptroller Glenn Hegar checked the numbers they got bigger. At the January 2023 start of the 88th Regular Session the Comptroller notified lawmakers they would end the current budget and start the 2024-25 budget with a $32.7 billion surplus – roughly three times higher than the state's previous record surplus. That number has captured the attention of the press, and it is most certainly a staggering sum. Three factors have contributed to the total:

1. Stronger-than-expected growth in the overall Texas economy (aided by federal pandemic stimulus dollars),
2. A robust oil and gas industry charging out of the pandemic, and
3. Inflation-driven prices of goods and services that drove sales tax revenue.

Figure 1
The 2024-25 Biennial Revenue Estimate $ billions

	2022-23	2024-25	Increase
Beginning Balance	$11.2	$32.7	$21.5
Current Revenues			
Sales Taxes	$80.6	$87.9	$7.3
Severance Taxes	$20.8	$21.3	$0.5
Other Revenues	$55.6	$56.7	$1.1
Less: Transfers & Adjustments	($19.2)	($10.4)[1]	$8.8
Total Current Revenues	$137.8	$155.5	$17.7
Total Available GR	**$149.0**	**$188.2**	**$39.2**

Note: Transfers in 2024 reflect a one-time $5.7 billion transfer of surplus general revenue funds; 2025 transfers are reduced by $0.7 billion though, as the Economic Stabilization Fund is projected to hit its constitutional cap.

But the 2023 surplus is just one part of the state's revenue picture (Figure 1). To that, the Comptroller adds the amount of revenue the state will collect through the end of 2025 – $155.5 billion. The result is total general revenue available to the 88th Legislature of a whopping $188.2 billion.

House and Senate Budget Bills. Both Senate and House budget bills have been filed and though the spending totals are the same, each bill includes some riders that identify differences in intent. Overall, each bill spends $130.1 billion directly from general revenue funds, plus an additional $9.7 billion for further property tax relief. The bills also identify $6 billion in supplemental appropriations necessary to close out the 2022-23 state budget.

Public Education. The bills fully fund state formulas for schools, but general revenue funding for public education drops by $2.1 billion. Included within those base budget numbers are $5.3 billion to fund existing requirements in law to "compress," or reduce school tax rates. Included in that is what amounts to a refund of $2.2 billion in 2022-23 property taxes districts were required to levy under HB 3, but could not use. Both bills transfer an additional $9.7 billion from general revenue to a separate fund so it can be used for further school property tax relief. The Senate budget states that a portion of this would be used to increase the school homestead exemption from the current $40,000 to $70,000.[1]

Higher Education. Both bills provide a $3.8 billion increase in funding for higher education, of which $2.5 billion is a new endowment fund. The House budget makes additional funding for individual institutions contingent on their freezing tuitions.

Health and Human Services. The bulk of Health and Human Services funding is for Medicaid – a state-federal health coverage entitlement program for certain low-income Texans. General revenue funding for Medicaid is increased by $1.5 billion; however, the budget does not provide for increases for inflation, acuity, and utilization – items that ultimately will have to be paid for. The budgets also provide $350 million in new funds for child protective services.

Public Safety and Criminal Justice. The budgets increase general revenue funding for Public Safety and Criminal Justice by a whopping $5.5 billion. Of this, roughly $1 billion replaces federal pandemic relief funds (which had been used in lieu of general revenue to

[1] The revenue loss to school districts from increasing the homestead exemption to $70,000 is $2.5 billion for the biennium. If lawmakers want to extend that relief to senior homeowners whose school taxes are currently frozen, the biennial cost rises to $4 billion.

Figure 2
House and Senate Budget Bills, General Revenue $ billions

Article	2022-23	2024-25	$ Incr.	% Incr.
Health & Human Services	$37.5	$41.0	$3.5	9.3%
Public Education	40.5	38.4	(2.1)	5.1%
Higher Education	17.2	21.0	3.8	22.2%
Public Safety & Criminal Justice	11.9	17.4	5.5	46.6%
Other	11.1	12.3	1.2	10.8%
Total, All Articles	**$118.2**	**130.1**	**$11.9**	**10.1%**

Source: Legislative Budget Board, Summary of Budget Estimates, 2024-25 Biennium, House/Senate, January 2023.

fund 2022-23 operations). Additional funds are provided for prison operations and other agencies. Overall funding for border security tops $4.6 billion in both budgets.

Other Budget Highlights. Within the numbers are two consecutive 5% state employee pay raises with a $3,000 minimum. An additional $916 million is used to shore up the Employees Retirement System.

A Stratospheric Bottom Line. Matching all of the obligations in HB 1/SB 1 and possible supplemental spending against available revenue, the bills increase general revenue spending by 10% with $42 billion to spare (Figure 3). That $42 billion is unparalleled in the state's history. Nothing in prior years comes even close.

Spending Limits. For the first time in recent years, the state's spending limits will constrain budget decisions. Texas has two spending limits in place, one in the Constitution and another in statute. Of the two, the constitutional limit will be a bigger factor.

At $130.1 billion both budgets appear to be within the limit; however, the $9.7 billion transfer and ultimate appropriation of additional funds for property tax relief will count against the limit, seemingly putting the budget over the constitutional limit;[2] however both bills include this statement:

> *It is the intent of the Legislature that any property tax relief directed by Subsection (d) shall be structured so as to not exceed the limit provided under Texas Constitution, Article VIII, Section 22, Limitation on the Rate of Growth of Appropriations.*

Lawmakers could suspend the limit with a simple majority record vote, something previously done to implement school property tax relief in 2007 (SCR 20 by Ogden/Chisum). But there may be some reluctance in 2023 for a similar vote. An alternative approach that avoids a direct vote on suspending the limit would be to obligate the funds by constitutional amendment. That would require a 2/3 supermajority vote and a public referendum. The latter approach poses a greater vote barrier, but perhaps a lower political barrier. And, since neither party has a 2/3 majority in either chamber, it requires a bipartisan effort.

Still, the budgets leave $42 billion untouched – not for new programs, not for additional tax cuts. The $42 billion question is, "What will lawmakers do with it?"

Sustainability. Budget writers have concerns that this session's fiscal largess may be transitory, and they may not have money in the next session to continue paying for this session's new obligations. Most certainly a sixth of the $188.2 billion now available to the

[2] Generally, tax cuts don't count against the constitutional limit, as the result is not more spending, but lower revenue coming into the Treasury. The exception to that rule is the property tax. The state can mandate schools cut their property taxes, but it appropriates additional state dollars to schools to make up their lost taxes.

Figure 3
General Revenue Top and Bottom Lines

Beginning Balance (Surplus)	$32.7 bl
2024-25 Revenues	$155.6
Total Revenue Available	$188.2 bl
GR Spending in HB1/SB1	($130.1 bl)
HB1/SB1 Property Tax Transfer	($9.7)
2022-23 Supplemental Bill	($6.0)
Total Spending	($145.8 bl)
Unobligated Excess	**$42.4 bl**

Legislature is the surplus carried over from the previous budget. The remaining $155.5 billion, however, is current revenues, forming a base that will carry forward into future years. With the recurring obligations in HB 1/SB 2 totaling near $135 billion, conceivably lawmakers could obligate an additional $20 billion over the current budget bills for tax relief or other on-going purposes without creating a structural gap. As for this session's $32.7 billion surplus? That money may be more appropriately used for one-time initiatives such as infrastructure or shoring up state pension funds.

The Rainy Day Fund.[3] Even then, there is little need to set aside a portion of the $188.2 billion as a cushion for the future, as lawmakers will have $27.2 billion in the state's Economic Stabilization Fund (commonly called the "Rainy Day Fund") – the highest balance currently allowed under the law – for future use. That is nine times greater than the single biggest use of the fund during a previous time of fiscal difficulty ($3.2 billion in 2011's HB 275).

By that measure, the state's savings account would appear to be excessive. And at $27 billion, that amounts to 40% of one year's worth of general revenue spending, far exceeding the 16%, two-month, standard recommended by the Governmental Finance Officers Association. Contributing to the fund's growth is a transfer of half the 2023's unencumbered funds within the ending balance number – a transfer the Comptroller estimates at $5.7 billion. Lawmakers will partially negate that transfer by spending additional money in the 2023 supplemental appropriations bill. They could eliminate it entirely by temporarily moving a portion of the balance into a separate state fund. That would leave lawmakers with even more general revenue to work with, provided they can find a way around the spending limit.

What Do Tax Cuts Cost?

Tax	Biennial Cost
Property Tax[1]	
Raise HS Exemption by $10,000	$1.3 bl
Raise HS Exemption by $25,000	3.3 bl
Cut School Tax Rate by $0.10	$6.9 bl
Cut School Tax Rate by $0.20	$13.8 bl
Sales Tax[2]	
Cut Sales Tax Rate by 0.25%	$3.9 bl
Cut Sales Tax Rate by 0.50%	$7.8 bl
Cut Sales Tax Rate by 1.0%	$15.5 bl
Franchise Tax[3]	
Cut Tax Rate by 1/3	$4.2 bl
Eliminate Tax Entirely	$12.6 bl

Notes: Figures are TTARA's unofficial estimates. [1]Estimates assume relief is extended to taxpayers whose school taxes are currently capped. [2]Estimates are for a full 24 months, and are not adjusted for likely effective dates. [3]A 1/3 reduction would bring rates to 0.5% for most taxpayers and 0.25% for wholesalers and retailers.

Conclusion. Texas lawmakers in 2023 are going boldly where no one has gone before – climbing a mountain of revenue they are never likely to see again. Will that translate into a big win for taxpayers? We'll know in a few months.

[3] More information about the Economic Stabilization Fund is available in TTARA's 2017 research report, The Economic Stabilization Fund, Origins and Historical Use.