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FOCUS *on* STATE FINANCE

Writing the state budget

Writing a budget is one of the Texas Legislature's main tasks. The state's budget is written and implemented in a two-year cycle that includes development of the budget, passage of the general appropriations act, actions by the comptroller and governor, and interim monitoring. During the 2021 regular session, the 87th Legislature will consider a budget for fiscal 2022-23, the two-year period from September 1, 2021, through August 31, 2023.

Initial budget development

Developing the budget begins with state agencies receiving instructions for submitting budget requests. Agencies then submit their budget proposals, and hearings are held on their requests. Next, the Legislative Budget Board (LBB) adopts a growth rate that limits appropriations, the comptroller issues an estimate of available revenue, and preliminary budgets are drafted.

Pre-session budget instructions and hearings. State agencies are required in even-numbered years to develop five-year strategic plans (Government Code sec. 2056.002) that include agency goals, strategies for accomplishing those goals, and performance measures. Before a regular legislative session begins, agencies submit funding requests to the governor's budget office and the LBB. These requests are called Legislative Appropriations Requests, or LARs. The LARs have two parts: the base-level request and requests for exceptional items beyond the baseline.

In August 2020, state agencies were instructed to submit spending requests with base funding equal to their adjusted fiscal 2020-21 base. Some agencies had their fiscal 2020-21 base funding adjusted after the governor, lieutenant governor, and speaker of the House asked state agencies and institutions of higher education to pursue cost savings for fiscal 2020-21 that would not affect the agencies' responses to the COVID-19 pandemic and to let any savings return to the state treasury. Agencies and institutions also were asked to identify ways to reduce their general revenue and general revenue-related spending by 5 percent and to submit the recommendations for reductions to the governor and Legislative Budget Board

Writing and passing a biennial budget

The Texas budget is written and implemented in a two-year cycle. Initial budget development typically starts in even-numbered years during the lead-up to the legislative session. During regular sessions, which occur in odd-numbered years, the Legislature deliberates on and passes the general appropriations act, the budget is certified by the comptroller, and the governor takes action. The budget is then monitored and adjusted in the interim. The Legislature also may consider and adopt a supplemental appropriations bill for the current biennial budget cycle when in session.

Initial budget development

- Pre-session budget instructions are issued; hearings are held
- Agencies submit Legislative Appropriation Requests
- Growth rate is adopted
- Comptroller releases Biennial Revenue Estimate
- LBB submits budget estimates
- Governor submits budget proposal

General appropriations bill

- SB 1, HB 1 are filed and considered in committees
- Budget bills are adopted, go to conference committee
- Chambers adopt conference committee report

Action after passage

- Comptroller certifies budget
- Budget is sent to governor, who has line-item veto authority

Interim budget actions

- LBB monitors agency expenditures
- LBB, governor may use budget execution authority
- Legislative leaders may request spending reductions

(LBB). Several items were excluded from the 5 percent reductions. The August 2020 instructions said some agencies exempted from the request to identify 5 percent reductions in fiscal 2020-21 appropriations would receive adjusted baselines for their fiscal 2022-23 requests.

Agencies' requests for fiscal 2022-23 above fiscal 2020-21 base amounts, including requests to restore the 5 percent reductions, were to be included in their LARs as exceptional item requests. Funds for certain programs were exempted from this baseline request limit, including amounts necessary to maintain funding for the Foundation School Program, Child Protective Services, and the Department of Public Safety.

The instructions exempted money used to maintain funding for programs serving individuals with intellectual or developmental disabilities from the spending reductions. Exemptions also included funds to maintain current benefits and eligibility in Medicaid, the Children's Health Insurance Program (CHIP), foster care programs, the adoption subsidies programs, and the permanency care assistance program, which provides financial support under certain circumstances to relatives and others who become foster parents. Agencies were directed to include funds to cover projected caseload growth in the baseline requests for these programs.

Expenses to satisfy debt service requirements for bond authorizations also were exempt from the spending reductions, as were expenses to maintain funding at fiscal year 2021 budgeted levels for state contributions to pensions systems for teachers and state employees and health insurance programs, although benefit plan modifications could be considered.

State law requires the governor to hold budget hearings at which agencies and the public may testify (Government Code secs. 401.043 and 401.044). Such hearings are optional for the LBB (Government Code sec. 322.010). The LBB and the governor's budget staff held joint hearings in late fall of 2020 for agencies to explain their requests and answer questions about their LARs.

Strategic fiscal review. During the fiscal 2022-23 budget cycle, 11 agencies underwent strategic fiscal review, a process designed to comprehensively examine an agency's budget and activities. As part of the process, the LBB collects detailed data on an agency's programs and finances and examines alternative funding levels for the agency's activities. It also studies the relationship of an agency's program to its mission and statutes. The 86th Legislature, in SB 68 by Nelson, required the LBB to perform a strategic fiscal review for each state agency under review by the Sunset Advisory Commission. The LBB released its review of the 11 agencies in October 2020.

The 11 entities that underwent review are:

- Texas Holocaust and Genocide Commission;
- Teacher Retirement System of Texas;
- Texas Commission on Fire Protection;
- Texas Commission on Jail Standards;
- Texas Commission on Law Enforcement;
- Texas Department of Agriculture;
- Texas Animal Health Commission;
- Texas Parks and Wildlife Department;
- Texas Department of Licensing and Regulation;
- Texas Racing Commission; and
- State Board of Veterinary Medical Examiners.

Growth rate adopted. Under the Texas constitutional spending cap (Art. 8, sec. 22), spending not constitutionally dedicated to particular purposes may not increase from one biennium to the next beyond the estimated rate of growth of the state's economy adopted by the LBB unless the cap is waived by a majority vote of both houses of the Legislature. On November 30, 2020, the LBB adopted an estimated growth rate for the Texas economy of 7.06 percent from fiscal 2020-21 to fiscal 2022-23. Subject to revisions in the revenue forecasts and subsequent appropriations, this limits spending from non-dedicated tax revenue in fiscal 2022-23 to $105.8 billion.

Comptroller's revenue estimate. Before each regular legislative session, the comptroller must estimate the revenue and expenditures for the current fiscal year and the anticipated revenue for the upcoming biennium (Art. 3, sec. 49a of the Constitution). A supplemental estimate is required before any special session.

The revenue estimate issued in January 2021 projected the 87th Legislature would have $112.5 billion available for general-purpose spending for the next biennium. This is a 0.4 percent decrease from the funds available for fiscal 2020-21.

This available amount takes into account anticipated transfers of $5.83 billion to the Economic Stabilization Fund ("rainy day fund") and the State Highway Fund, $271 million to the Texas Tomorrow Fund, the state's guaranteed prepaid tuition plan, and meeting an expected negative balance of $946 million at the end of fiscal 2020-21.

The comptroller may revise the initial revenue estimate at any time. The only revenue estimate that applies in determining if the state budget is balanced is the one made when the comptroller certifies the general appropriations bill (see "Certification," page 7). See the comptroller's January 2021 Biennial Revenue Estimate for fiscal 2022-23 for a detailed description of revenue estimates and the projected economic outlook.

Rainy day fund. The rainy day fund is expected to reach $11.6 billion by the end of fiscal 2022-23, absent appropriations from the fund, according to the comptroller's biennial revenue estimate.

Revenue for the rainy day fund comes almost entirely from oil and natural gas production taxes, also known as severance taxes. Before fiscal 2015, the rainy day fund received 75 percent of severance tax revenue that exceeded the amount collected in fiscal 1987. A constitutional amendment adopted in 2014 requires the comptroller to send half of this amount to the State Highway Fund, with the rest continuing to go the rainy day fund.

The comptroller must reduce or withhold allocations to the State Highway Fund as needed to maintain a sufficient balance in the rainy day fund. Previously, state law required a legislative select committee to determine a sufficient balance of the rainy day fund. In 2019, however, the 86th Legislature enacted SB 69 by Nelson, which abolished the committee and established provisions for the comptroller to determine the allocations of severance tax revenue for transfer to the State Highway Fund and rainy day fund. Beginning in fiscal 2022, the comptroller must adopt a threshold for adjusting allocations that is equal to 7 percent of the certified general revenue related appropriations made for that biennium.

The comptroller also must transfer half of any unencumbered balance remaining in the general revenue fund at the end of a biennium to the rainy day fund (Texas Constitution Art. 3, sec. 49-g(b)). Only twice has such a balance been transferred to the fund under this provision — once in fiscal 1992 ($20.2 million) and again in fiscal 2008 ($1.8 billion).

The rainy day fund may not exceed 10 percent of the total amount deposited into general revenue (minus certain types of income and funds) during the previous biennium (Texas Constitution Art. 3, sec. 49-g(g)). The cap for fiscal 2022-23 is $19.7 billion. Money drawn from the rainy day fund counts toward the state's constitutional spending limit, according to the LBB.

Spending money from the rainy day fund requires legislative approval. At least three-fifths of the members present in each house of the Legislature must approve spending from the fund to cover but not exceed an unanticipated deficit in a current budget or offset a decline in revenue for a future budget. However, any amount from the fund may be spent for any purpose if approved by at least two-thirds of the members present in each house (Texas Constitution Art. 3, sec. 49-g(k)-(m)). According to the LBB's *Fiscal Size-up*, in 2019, the 86th Legislature appropriated from the rainy day fund $4.9 billion for the 2018-19 biennium and $1.2 billion for fiscal 2020-21.

LBB budget submission. Government Code sec. 322.008 requires the LBB to send copies of an estimated state budget to the governor and the Legislature at the beginning of each legislative session. These documents are called Legislative Budget Estimates (See House and Senate versions of the LBB's *Summary of Legislative Budget Estimates 2022-23 Biennium*, January 2021). The LBB also must submit a budget in the form of a bill at the beginning of the regular session. These proposals serve as the starting point for the Legislature's budget deliberations.

Governor's budget proposal. Governors are required to submit their own budget proposals (Government Code sec. 401.0445). Historically, these documents have varied in detail. The governor must submit a budget before giving the State of the State address (Government Code sec. 401.046) and may prepare a general appropriations bill that must be submitted by the 30th day of the session (Government Code sec. 316.009). In February 2021, Gov. Abbott released a list of budget priorities for fiscal 2022-23. The proposal highlights certain programs and spending across state government and includes information on federal funding for the state's response to the COVID-19 pandemic.

General appropriations bill

The Senate and House general appropriations bills for fiscal 2022-23, HB 1 by Bonnen and SB 1 by Nelson, are the starting points for the Legislature to authorize agency spending and other budgetary provisions.

Budget format. Appropriations bills may deal only with spending. The Texas Constitution, in Art. 3, sec. 35, limits bills to one subject, except for general appropriations bills, which may include various subjects and accounts. House Rule 8, sec. 4 explicitly prohibits changes in general law in an appropriations bill.

For fiscal 2022-23, LBB recommendations for the general appropriations act retain the basic structure of previous budget acts and include 10 articles for agency budgets. Articles 1 through 8 include state agency budgets by functional category. For example, Article 3 covers agencies of public and higher education. Article 9 contains general provisions and directions to state agencies, the state salary classification schedule, and other items. Article 10 contains appropriations for the Legislature.

Agency budget configuration. Each agency's budget first lists the mix of revenue sources intended to finance the agency's appropriation. Sources can include the general revenue fund, general revenue dedicated accounts, federal funds, and other funds.

House and Senate budget bills list agency goals and strategies, with each strategy having its own appropriation. Goals are general statements of the agency's purposes. Strategies, sometimes called line items, state how an agency intends to achieve its goals and are the basis for appropriating money to an agency. An appropriation for a single strategy may fund more than one department or program in the agency. The agency may need more than one strategy to accomplish a goal.

Goals and strategies are linked to output and efficiency measures. Output measures gauge the quantity of a service provided or good produced. Efficiency measures gauge cost or time per unit, such as the average cost for the Department of Public Safety to complete a DNA case.

The examples on page 5 show the format for two portions of the fiscal 2022-23 appropriation for the Commission on the Arts in HB 1 as introduced. Figure 1 expresses one set of goals and strategies in terms of funds appropriated, and Figure 2 illustrates the performance measure targets for the same set of goals.

Riders in an appropriations bill can do several things, including set conditions or limits on use of funds or make an

Figure 1

COMMISSION ON THE ARTS

	For the Years Ending August 31, 2022	August 31, 2023
Items of Appropriation:		
A. Goal: ARTS AND CULTURAL GRANTS		
Provide and Support Arts and Cultural Grants.		
A.1.1. Strategy: ARTS ORGANIZATION GRANTS	$ 4,000,926	$ 4,000,926
A.1.2. Strategy: ARTS EDUCATION GRANTS	$ 710,787	$ 710,787
A.1.3. Strategy: CULTURAL TOURISM GRANTS	$ 5,670,000	$ 5,670,000
A.1.4. Strategy: DIRECT ADMINISTRATION OF GRANTS	$ 629,498	$ 629,498
Total, Goal A: ARTS AND CULTURAL GRANTS	$ 11,011,211	$ 11,011,211

source: HB 1 by Bonnen as introduced

Figure 2

	2022	2023
Performance Measure Targets:		
A. Goal: ARTS AND CULTURAL GRANTS		
Outcome (Results/Impact):		
Percentage of Grant Dollars Provided to Minority Organizations	12%	12%
Percentage of Grant Dollars to Rural Counties	6%	6%
Percentage of Grants Funded for Arts Education	25%	25%
Number of Artists Compensated for TCA Texas Touring Roster Performances	1,500	1,500
Number of Texas Cities in Which Organizations Received TCA Grants	150	150
Number Served by Arts Respond Projects in Education	750,000	750,000
Number Served by Arts Respond Projects in Health & Human Services	77,500	77,500
Number Served by Arts Respond Projects in Public Safety & Criminal Justice	90,000	90,000
A.1.3. Strategy: CULTURAL TOURISM GRANTS		
Output (Volume):		
Number of Grants that Promote Cultural Tourism	157	157

source: HB 1 by Bonnen as introduced

appropriation. Some riders provide instructions specific to a particular agency's operations. Riders also are used to describe an agency's capital budget or to break down agency funding by goals and strategies and by performance measures. Some riders contain contingent appropriations, which appropriate money only if the Legislature enacts other specific bills. If such bills are not enacted, these riders have no effect.

Lump-sum appropriations. In recent state budgets, each institution of higher education has been funded through a single line item, or lump-sum appropriation, instead of through multiple-line appropriations for separate strategies.

Legislative action

While the House and the Senate each work on the budget and hold hearings simultaneously, they traditionally take turns originating the general appropriations bill and chairing the budget conference committee. For the 2021 regular session, the bill is expected to originate in the Senate, so the final version of the bill would be SB 1.

House action. In the House, the Appropriations Committee (HAC) has jurisdiction over appropriations bills. House Rule 4, sec. 4(b) prohibits the chair of the Appropriations Committee from serving on another substantive committee. The chair of the HAC usually appoints subcommittees to consider different parts of the budget, such as general government, health and human services, education, criminal justice, and business and economic development.

Time constraints. House Rule 8, sec. 21(g) requires the HAC to report the general appropriations bill to the House by the 90th day of the session, which will be April 11 for the 2021 session. Under House Rule 8, sec. 21(a), during the first 118 days of the session the speaker may not lay before the House any bill appropriating money unless the general appropriations bill already has been enacted and the comptroller has certified it. If the HAC does not meet its 90th-day reporting deadline, this rule is suspended. The 118th day of the 2021 session is May 9.

House Rule 8, secs. 21(b) and (f) also restrict consideration of certain appropriations bills. To ensure compliance with the constitutional limit on spending from state tax revenue not dedicated by the Constitution, no bill appropriating such revenue may be considered before final approval of the general appropriations bill, and no bills may be considered that would exceed the limit when added to amounts previously appropriated.

Bills reducing taxes or providing payment for legislative expenses, judgments against the state, and or emergency matters are not subject to rules restraining House appropriations (House Rule 8, sec. 21(e)).

Dynamic economic impact statement. The HAC chair must send the general appropriations bill to the LBB to prepare a dynamic economic impact statement. This statement must include the number of state employees to be affected and the estimated impact on private sector and local government employment resulting from any change the bill makes in state expenditures (Rule 4, sec. 34 (a-1)).

Distribution of the bill. Under the regular House rules, a printed copy of the general appropriations bill reported by the HAC must be distributed to each House member at least 168 hours (seven days) before it may be considered on second reading during a regular session. During a special session, the bill must be distributed at least 72 hours in advance (House Rule 8, sec. 14(a-1)).

In addition, the Calendars Committee must post electronically the calendar on which the general appropriations bill is eligible to be considered on second reading at least 144 hours (six days) in advance for that calendar to be eligible for consideration (House Rule 6, sec. 16(a-1)).

For the 2021 regular session, House Rule 16, which establishes special rules for House operations during emergencies such as epidemics or pandemics, is activated. Under this rule, an electronic copy of the general appropriations bill must be made available to each member and notice sent to their Capitol email addresses at least 168 hours (seven days) before the bill may be considered (House Rule 16, sec. 18). Printed copies must be distributed to members as soon as practicable after the requirements for electronic distribution have been met.

Limit on amendments. The House Calendars Committee usually adopts a special rule limiting floor amendments to the appropriations bill to changes that do not increase the budget's overall expenditures. The rule generally has required that any amendment adding or increasing an appropriation item must contain an equal or greater reduction in one or more other appropriation items. For a special rule proposed by the Calendars Committee concerning a general appropriations bill to take effect, House members must adopt it by a majority vote (House Rule 6, sec. 16(f)).

Second-reading amendments must be filed at least 72 hours before the calendar on which the bill appears is eligible for consideration (House Rule 11, sec. 6(h)). The House usually considers numerous floor amendments before approving its version of the budget.

Senate action. The Senate Finance Committee develops the Senate budget proposal. Budget hearings often have occurred before the entire committee, although in past sessions workgroups have considered specific areas of the budget.

Conference committee action. After both chambers adopt their versions of the general appropriations bill, a conference committee is appointed to reconcile differences between the bills. The conference committee usually includes the chairs and four other members of the House Appropriations and Senate Finance committees, although the rules do not restrict who may be chosen.

House Rule 13, sec. 9(b) and Senate Rule 12.04 allow conferees to reconcile only points on which the House and Senate bills differ. They may not alter figures that are identical in both bills. On any given spending item included in both bills, the conferees may not set the amount lower than the smaller of the two amounts nor increase it above the larger amount. If an item appears in only one bill, the conferees may include or delete it.

The conferees may not include an item in the conference committee bill that does not appear in either the House or the Senate bill. However, House Rule 13, sec. 9(b)(5) and Senate Rule 12.04(5) allow the conference committee to add contingent appropriations for purposes or programs authorized by bills that have been passed by at least one chamber. The conference committee may seek permission from the House and the Senate to make changes otherwise prohibited by the rules — "outside the bounds" — by means of a resolution specifying the changes.

House Rule 13, sec. 10(a) and Senate Rule 12.09(a) require that the conference committee report be laid out for 48 hours before being considered in a regular session and 24 hours before being considered in a special session.

Action after final passage

After final approval by the Legislature, the appropriations bill must be certified by the comptroller. It is then sent to the governor, who, subject to certain deadlines, has line-item veto authority over parts of the bill.

Certification and restrictions on state spending. After it is passed by each chamber and signed by the House speaker and the lieutenant governor, the appropriations bill goes to the comptroller. Under Art. 3, sec. 49a of the Texas Constitution, no appropriations bill may be enacted or sent to the governor for consideration until the comptroller certifies the state will have enough revenue to cover the approved spending. Government Code sec. 403.0131(a) requires the comptroller to certify the appropriations by the 10th day, excluding Sundays, after the act is reported enrolled by the chamber from which it originated.

Art. 3, sec. 49a of the Texas Constitution allows appropriations in excess of anticipated revenue in cases of "emergency and imperative public necessity" with approval of four-fifths of the total membership of each chamber. Generally, however, the Legislature does not approve an appropriations bill unless the revenue necessary to pay for it is available.

Appropriations bills also must comply with other constitutional and statutory restrictions on spending (see "Restrictions on spending," page 8).

Governor's veto powers. Art. 4, sec. 14 of the Texas Constitution states: "If any bill presented to the Governor contains several items of appropriations he may object to one or more of such items, and approve the other portion of the bill." In 2019, Gov. Abbott did not use this authority to veto any appropriations, while in 2017 he vetoed about $120 million in appropriations.

When the Legislature is in session, the governor has 10 days (not counting Sundays) after receiving the spending bill to veto appropriations. If the governor fails to act within the 10 days, the bill becomes law. If the Legislature still is in session when the governor vetoes items, the bill is returned to the Legislature, which may override the veto if two-thirds of the members present in each chamber approve. The chamber where the bill originated votes first.

If the appropriations bill goes to the governor later than the 10th day (not counting Sundays) before the session ends, the governor has 20 days (counting Sundays) after the session ends to act. Because the general appropriations act usually receives final approval during the last few days of a session, the Legislature typically forfeits the chance to override these vetoes.

Interim budget action

An enacted appropriations bill may be adjusted after it takes effect, either to reduce or adjust appropriations.

Adjustments. Once it enacts a general appropriations bill, the Legislature may adjust appropriations during the two-year budget period, either in a special session called by the governor or in a subsequent regular session. The appropriations bill itself may include provisions allowing agencies to make discretionary transfers between appropriations items, subject to various limitations or prior approval by the governor and the LBB.

Budget execution authority. Government Code ch. 317 allows the governor and the LBB, acting jointly, to use budget execution authority to make certain changes in appropriations when the Legislature is not in session. A budget execution order may prohibit an agency from spending funds, transfer an appropriation from one agency to another, change the purpose for an appropriation, or change the time an appropriation is distributed to an agency. An order may not withhold for more than 180 days money appropriated to any agency.

Informal reductions. The governor and legislative leaders also may informally instruct agencies to modify their spending without taking official action to reduce appropriations. In May 2020, the governor, lieutenant governor, and speaker of the House asked state agencies and institutions of higher education to pursue cost savings that would not affect the state's response to the COVID-19 pandemic and to let any savings return to the state treasury. They also asked agencies and institutions to identify ways to reduce their general revenue and general revenue related spending by 5 percent and to submit the recommendations for reductions to the governor and Legislative Budget Board (LBB). About $1 billion in potential reductions was identified. Several items were excluded from the 5 percent reductions.

Supplemental appropriations. The Legislature may change the state budget through a supplemental appropriations bill. Because the regular session begins in January, with eight months remaining in the two-year budget period, the Legislature sometimes appropriates funds to supplement an agency for the last fiscal year of a biennium.

Budget monitoring. The House Appropriations Committee and the Senate Finance Committee may schedule oversight hearings during the interim between regular sessions. Other House and Senate committees also may review spending of state agencies under their jurisdiction. In addition, the LBB monitors agency performance measures and expenditures and summarizes the state budget, state revenue, and state government functions, activities, and agencies in its *Fiscal Size-up* report.

Restrictions on spending

Lawmakers must adhere to a number of restrictions when approving state spending, including limits in the Texas Constitution and state law and limits associated with dedicated and federal funds.

Constitutional limits. Five major constitutional limits affect the appropriations process.

Appropriation requirement. Under the Texas Constitution, no money may be drawn from the state treasury unless it has been appropriated by law, and no appropriation may be made for longer than two years (Art. 8, sec. 6).

Budget growth limit. The Texas Constitution also caps spending of state tax revenue that is not dedicated by the Constitution to a particular purpose. State spending not constitutionally dedicated to particular purposes may not increase from one biennium to the next beyond the rate of growth in statewide personal income adopted by the LBB unless the cap is waived by a majority vote of both chambers of the Legislature. Examples of revenue subject to the spending cap include funds resulting from sales, motor vehicle sales, franchise, and cigarette and tobacco taxes (Art. 8, sec. 22). Revenue that the Constitution restricts to a specific purpose is not subject to the constitutional spending limit

Government Code ch. 316, subch. A specifies how the LBB adopts the growth rate. On November 30, 2020, the LBB adopted an estimated growth rate of the state economy of 7.06 percent from fiscal 2020-21 to fiscal 2022-23. Subject to revisions in the revenue forecasts and subsequent appropriations, this limits spending from non-dedicated tax revenue in fiscal 2022-23 to $105.8 billion, up from $98.8 billion in such appropriations for the 2020-21 biennium. The spending cap amount is subject to change with further appropriations or adjustments for fiscal 2021. Additional appropriations for fiscal 2021 may be made through supplemental appropriations bills enacted by the 87th Legislature.

Prohibition on deficit spending. The Constitution also limits spending to the amount of revenue the comptroller estimates will be available during the two-year budget period (Art. 3, sec. 49a). The comptroller must certify that the state will have enough revenue to pay for the approved spending. The Legislature may override the deficit spending prohibition only if at least four-fifths of the members in each chamber approve.

The state may end a fiscal biennium with an unanticipated deficit but must eliminate the deficit in the subsequent budget. Any deficit carried from one biennium to another must be deducted from anticipated revenue when determining how much revenue is available for appropriation and certification in the new biennium (see Atty. Gen. Opinion, No. JM-666, April 1, 1987).

Limits on state debt. The Texas Constitution prohibits state borrowing except to "supply casual deficiencies of revenue" up to $200,000, repel invasion, suppress insurrection, defend the state in war, or for a purpose it specifically authorizes (Art. 3, sec. 49).

The Legislature may not authorize general obligation or revenue bonds or large lease-purchase agreements designed to be repaid from general revenue if the resulting annual debt service from general revenue would exceed 5 percent of the average amount of general revenue (excluding funds dedicated by the Texas Constitution) during the preceding three fiscal years (Art. 3, sec. 49-j). The limit does not include bonds that are backed by the full faith and credit of the state and are reasonably expected to be paid from other revenue sources and not draw on general revenue.

At the end of fiscal 2020, debt service on outstanding debt payable from general revenue equaled about 1.23 percent of unrestricted general revenue, according to the Bond Review Board. The total authorized debt service (issued and unissued) equaled 2.67 percent of unrestricted general revenue.

Limit on child welfare spending. The Texas Constitution limits state spending on assistance to needy children and their caretakers to no more than 1 percent of the total state budget in a biennium (Art. 3, sec. 51-a(b)). Federal matching funds and administrative expenses are not included under this cap, which was about $2.5 billion for fiscal 2020-21, according to the LBB. The fiscal 2020-21 budget allocated $86.5 million to Temporary Assistance for Needy Families grants, which fall under this limit.

Dedicated revenues and funds. Discretion in legislative spending also is restricted by constitutional or statutory dedications that reserve certain revenue sources for special purposes or by requirements for the state to comply with court orders or federal requirements.

General revenue dedicated funds are those funds within the general revenue fund, such as the State Parks Account, reserved for specific purposes by the Texas Constitution or specific statutes. Many of these funds have balances carried over from previous biennia that have been unspent but counted toward budget certification.

According to the LBB's *Fiscal Size-up: 2020-21 Biennium*, 81.7 percent of the general revenue funds and general revenue dedicated funds appropriated for fiscal 2020-21 is restricted by various means. Of the general revenue and general revenue dedicated funds budgeted in fiscal 2020-21:

- 47 percent is restricted by constitutional or statutory dedications;
- 23.4 percent is restricted by federal laws, regulations, and court decisions; and
- 11.2 percent is restricted by funding formulas.

After accounting for these restrictions, 18.3 percent of all general revenue and general revenue dedicated funds in fiscal 2020-21 were available for discretionary spending, according to the LBB.

The 86th Legislature appropriated $6.2 billion in general revenue dedicated funds for fiscal 2020-21, a decrease of $441.7 million from fiscal 2018-19. The comptroller reported estimated balances of about $5.8 billion across all general revenue dedicated accounts available to be counted toward budget certification for 2020-21 general revenue fund appropriations.

Federal funds. The state's $248.3 billion total appropriation for fiscal 2020-21 included about $86.5 billion in federal fund expenditures. Federal funds generally are granted for specific purposes or with restrictions on how states may spend them.

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