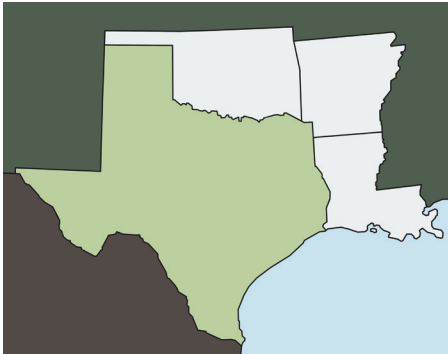


## TEXAS Budget Report Card



DESPITE TEXAS'S \$12.5 billion rainy day reserve and triple-A credit ratings, most of its grades on budget practices for fiscal 2016 through 2018 show room for improvement.

The state's worst performance was in legacy costs—a D-minus, the lowest grade possible. Texas did not follow actuarial recommendations in making annual contributions for either its public employee pension plans or other postemployment benefits, mainly health care. Only five other states received an average grade of D-minus in legacy costs.

While Texas recorded a C average in forecasting, its annual mark in the category rose to B in 2018 from D in 2016 and 2017 after a legislative decision to experiment with long-term revenue and expenditure estimates. The General Appropriations Act for the 2018–19 biennial budget required the Legislative Budget Board to produce a report analyzing the impact of economic and demographic growth on state finances for ten fiscal years, September 2019 through August 2029. The legislature will then evaluate the process and determine whether to continue providing the long-term estimates.

Texas posted a B average in budget maneuvers, though its grade of B in 2017 fell to a C in 2018. The decline stemmed from the state's decision to expedite a sale of unclaimed securities, which added \$500 million for spending in the 2018–19 biennial budget. If any of these securities are claimed in the future, they must be repaid.

Texas averaged an A in reserve funds, thanks to policies that specify when cash from the rainy day fund can be withdrawn and a timetable for its replacement. The state learned the hazards of operating with no cash cushion in 1988, when an oil bust crimped revenues and pushed it to establish the Economic Stabilization Fund. With a record balance in the fund as of November 2018, Texas is trying to ensure the ability to deliver basic services does not depend on unpredictable petroleum revenues and that reserve fund deposits are linked to the volatility of state revenues.


### WEST SOUTH CENTRAL STATES SIDE BY SIDE: Three-Year Average Grades, 2016-18


	BUDGET FORECASTING	BUDGET MANEUVERS	LEGACY COSTS	RESERVE FUNDS	TRANSPARENCY
Arkansas	D	A	C	C	D
Louisiana	B	D	D	A	B
Oklahoma	B	B	A	A	B
Texas	C	B	D-	A	B
US AVERAGE	C	B	C	B	B


**NOTE** States are grouped by US Census Bureau divisions.


Average grades are based on annual numerical scores. For more information, download *Truth and Integrity in State Budgeting: Preventing the Next Fiscal Crisis* at [VolckerAlliance.org](http://VolckerAlliance.org).


## TEXAS Budget Report Card

BUDGET FORECASTING			
	2016	2017	2018
 CATEGORY GRADE	<b>D</b>	<b>D</b>	<b>B</b>
Consensus Revenue Forecasts	<b>X</b>	<b>X</b>	<b>X</b>
Multiyear Expenditure Forecasts	<b>X</b>	<b>X</b>	✓
Multiyear Revenue Forecasts	<b>X</b>	<b>X</b>	✓
Revenue Growth Projections	✓	✓	✓
3-YEAR AVERAGE <b>C</b>		3-YEAR TREND ↗	

BUDGET MANEUVERS			
	2016	2017	2018
 CATEGORY GRADE	<b>B</b>	<b>B</b>	<b>C</b>
Deferring Recurring Expenditures	<b>X</b>	✓	✓
Revenue and Cost Shifting	✓	<b>X</b>	<b>X</b>
Funding Recurring Expenditures with Debt	✓	✓	✓
Using Asset Sales and Up-Front Revenues	✓	✓	<b>X</b>
3-YEAR AVERAGE <b>B</b>		3-YEAR TREND ↘	

LEGACY COSTS			
	2016	2017	2018
 CATEGORY GRADE	<b>D</b>	<b>D</b>	<b>D</b>
Public Employee OPEB Funding	<b>X</b>	<b>X</b>	<b>X</b>
Public Employee Pension Funding	<b>X</b>	<b>X</b>	<b>X</b>
Public Employee Pension Funded Ratio*	73%	76%	76%
3-YEAR AVERAGE <b>D</b>		3-YEAR TREND —	

RESERVE FUNDS			
	2016	2017	2018
 CATEGORY GRADE	<b>A</b>	<b>A</b>	<b>A</b>
Positive Reserve or General Fund Balance	✓	✓	✓
Reserve Funds Disbursement Policy	✓	✓	✓
Reserve Funds Replenishment Policy	✓	✓	✓
Reserves Tied to Revenue Volatility	✓	✓	✓
3-YEAR AVERAGE <b>A</b>		3-YEAR TREND —	

TRANSPARENCY			
	2016	2017	2018
 CATEGORY GRADE	<b>B</b>	<b>B</b>	<b>B</b>
Consolidated Budget Website	✓	✓	✓
Provides Debt Tables	✓	✓	✓
Discloses Deferred Infrastructure Replacement Costs	<b>X</b>	<b>X</b>	<b>X</b>
Discloses Tax Expenditures	✓	✓	✓
3-YEAR AVERAGE <b>B</b>		3-YEAR TREND —	

### KEY

✓	Followed best practice
<b>X</b>	Did not follow best practice

**BUDGET FORECASTING** evaluates whether and how states estimated long-term revenue and expenditure trends. **BUDGET MANEUVERS** evaluates whether states used one-time revenues, borrowings, asset sales, and other measures to achieve short-term budgetary balance. **LEGACY COSTS** evaluates whether states provided adequate funding, as defined by retirement system actuaries, for pensions and other promised retirement benefits for public workers. **RESERVE FUNDS** evaluates states' rainy day funds and other fiscal reserves, as well as any policies governing their use and replenishment. **TRANSPARENCY** evaluates the accessibility to the public of states' budget practices.

\* SOURCE Bloomberg; 2017 data also used for 2018.