



Handicapping the 2013 Texas Legislature: What to Expect on the Fiscal Front Summer 2012

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Agenda

1. The Current Budget
2. The Fiscal Outlook for the 83rd Legislature
 - a. Revenues
 - b. “Normal” Budget Pressures
 - c. “Non-Normal Budget Pressures
 - d. The “Rainy Day” Fund



The Current Budget

Where the 2012-13 Budget Began

(Billions of Discretionary Dollars)

Item	2010-11	2012-13	Difference
Beginning Balances	\$5.8	(\$4.3)	(\$10.1)
Federal Stimulus Funds	\$8.3	\$0.0	(\$8.3)
Current Revenues	<u>\$75.8</u>	<u>\$80.9</u>	<u>\$5.0</u>
Total Revenue Available	\$89.9	\$76.7	(\$13.4)

Note: Amounts include state general revenue funds and all funds which interact with general revenue as an offset, including the property tax relief fund and the portion of 2010-11 federal stimulus money used to supplant general revenues.

The 2012-13 Budget Gap

- Matching anticipated revenue against the cost of maintaining the current level of state services yielded a budget gap of \$27 billion.*

* Texas Legislative Budget Board, 2012-13 Fiscal Size-up, page 3.



Closing the \$27 Billion Gap

Draw From Rainy Day Fund	\$3.2 billion
Cuts to Existing 2010-11 Budget	\$1.2 billion
Increased Revenue Estimate	\$1.5 billion
Revenue Contingent Appropriations	\$1.0 billion
Revenue Legislation	\$2.5 billion
Foundation Payment Deferral	\$2.3 billion
Medicaid Underfunding	\$4.3 billion
Medicaid “Cost Containment”	\$1.8 billion
Foundation School Program Cuts	\$4.0 billion
Other 2012-13 Cuts	\$5.2 billion

The 2012-13 Budget, as passed

General Revenue, Federal Stimulus & Property Tax Relief

<u>Area</u>	<u>2010-11</u>	<u>2012-13</u>	<u>\$ Diff</u>	<u>% Diff</u>
Public Education	\$41.4	\$38.1 ^a	(\$3.3)	-7.9%
Health/Human Svcs	26.1	22.9	(3.2)	-12.2%
Higher Education	13.2	12.2	(1.0)	-8.0%
Pub Safe/Crim Jus	8.6	8.2	(0.4)	-4.8%
Other	<u>4.9</u>	<u>4.3</u>	<u>(0.6)</u>	<u>-12.0%</u>
Total	\$94.2	\$85.7	(\$8.5)	-9.1%

^a An additional \$2.3 billion will be made available in September of 2013.

Medicaid

- 85% of Health and Human Services spending is Medicaid
- Texas has little flexibility to set eligibility or service levels for this entitlement program
- Current H&HS projections put ultimate costs at \$4.7 billion above what was budgeted for 2012-13—money that would have to come from the Rainy Day Fund

One Time Money in the 2012-13 Budget

<u>Item</u>	<u>2012-13</u>	<u>2014-15</u>	<u>\$ Diff</u>
School Aid Deferral	\$2.3	(\$0.0)	(\$2.3)
<u>Speed-ups/Deferrals</u>			
Unclaimed Property	\$0.3	\$0.0	(\$0.3)
Taxes	\$0.3	(\$0.3)	(\$0.6)
Fuels Tax Transfers	\$0.4	(\$0.4)	(\$0.8)
Rainy Day Medicaid	<u>\$4.7</u>	<u>\$0.0</u>	<u>(\$4.7)</u>
Total	\$8.1	(\$0.7)	(\$8.8)



So...

...At session end, there was:

- 1. little general revenue left on the table,*
- 2. the amount appropriated for Medicaid was nearly \$5 billion short of expected costs, and*
- 3. a structural gap going forward of almost \$9 billion.*



...But a funny thing happened on
the way to the next fiscal crisis

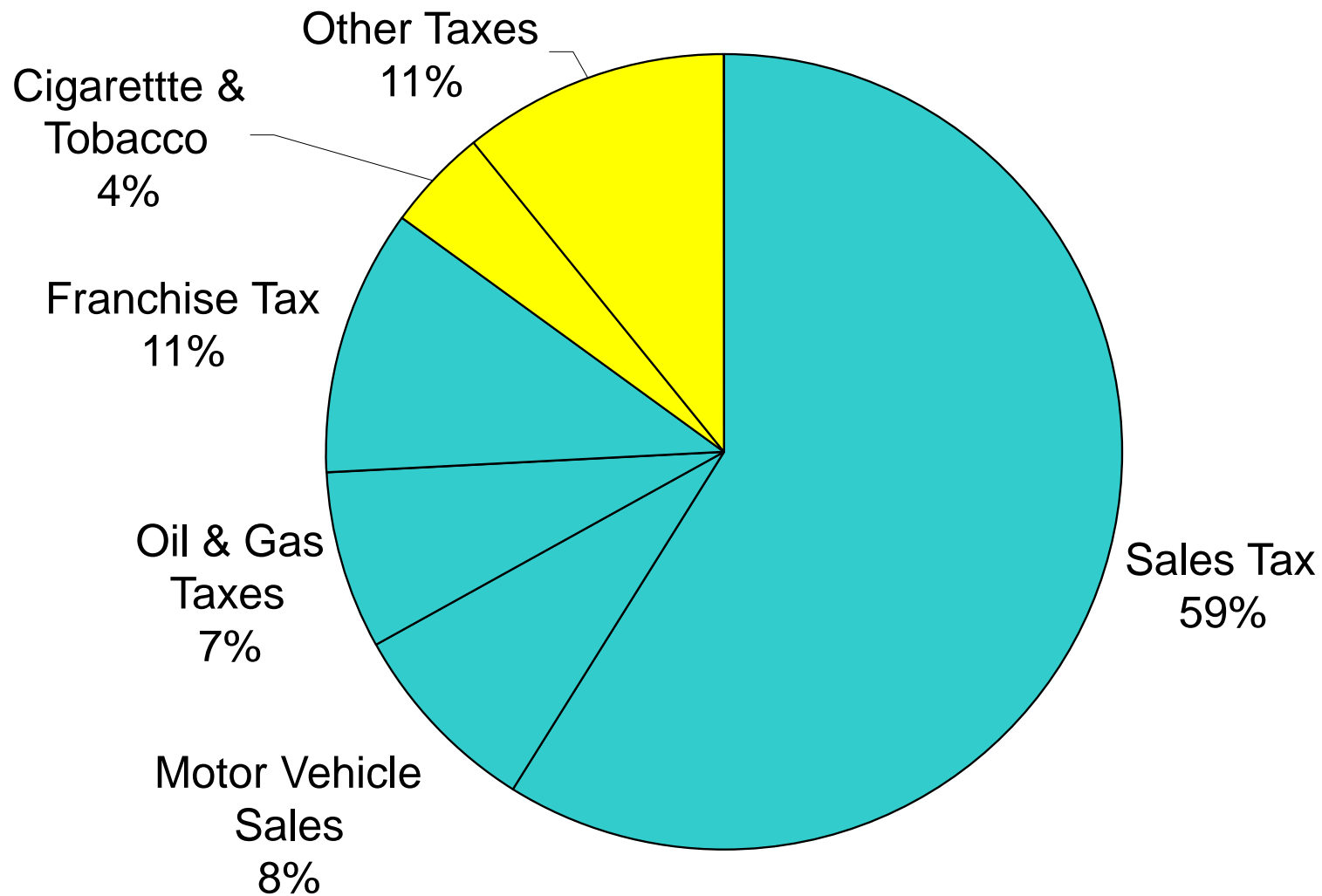
... the economy is improving.

*Last December, the Comptroller has raised
the revenue estimate by \$2.5 billion,*

- triggering \$1.0 billion in contingent spending
(mostly for Medicaid) and*
- projecting an ending general revenue
surplus of \$1.6 billion.*

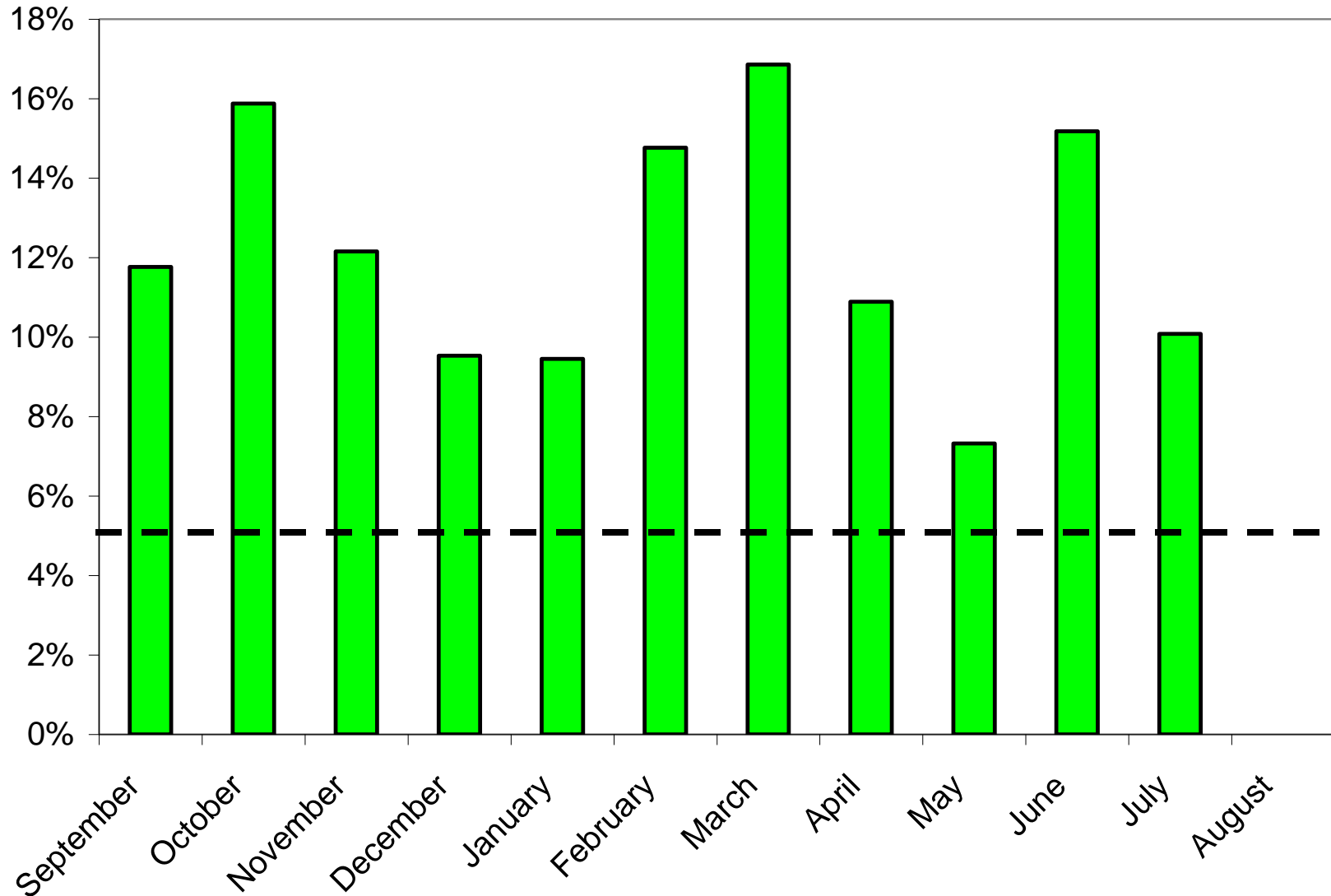
... and things seem to be even much better.

Key State Taxes

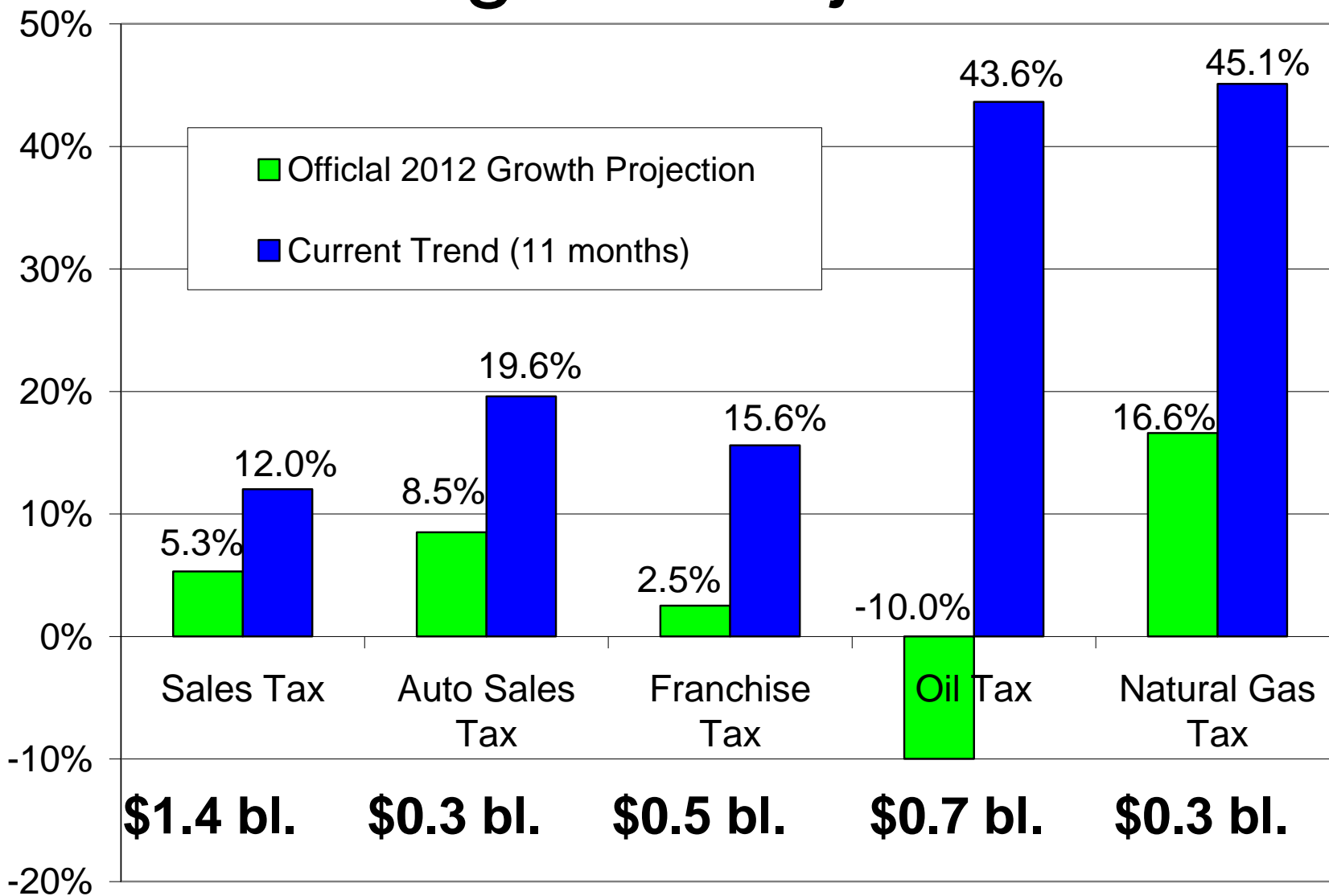


Monthly Sales Tax Growth

Compared to the Same Month in the Previous Fiscal Year



Tracking the Major Taxes



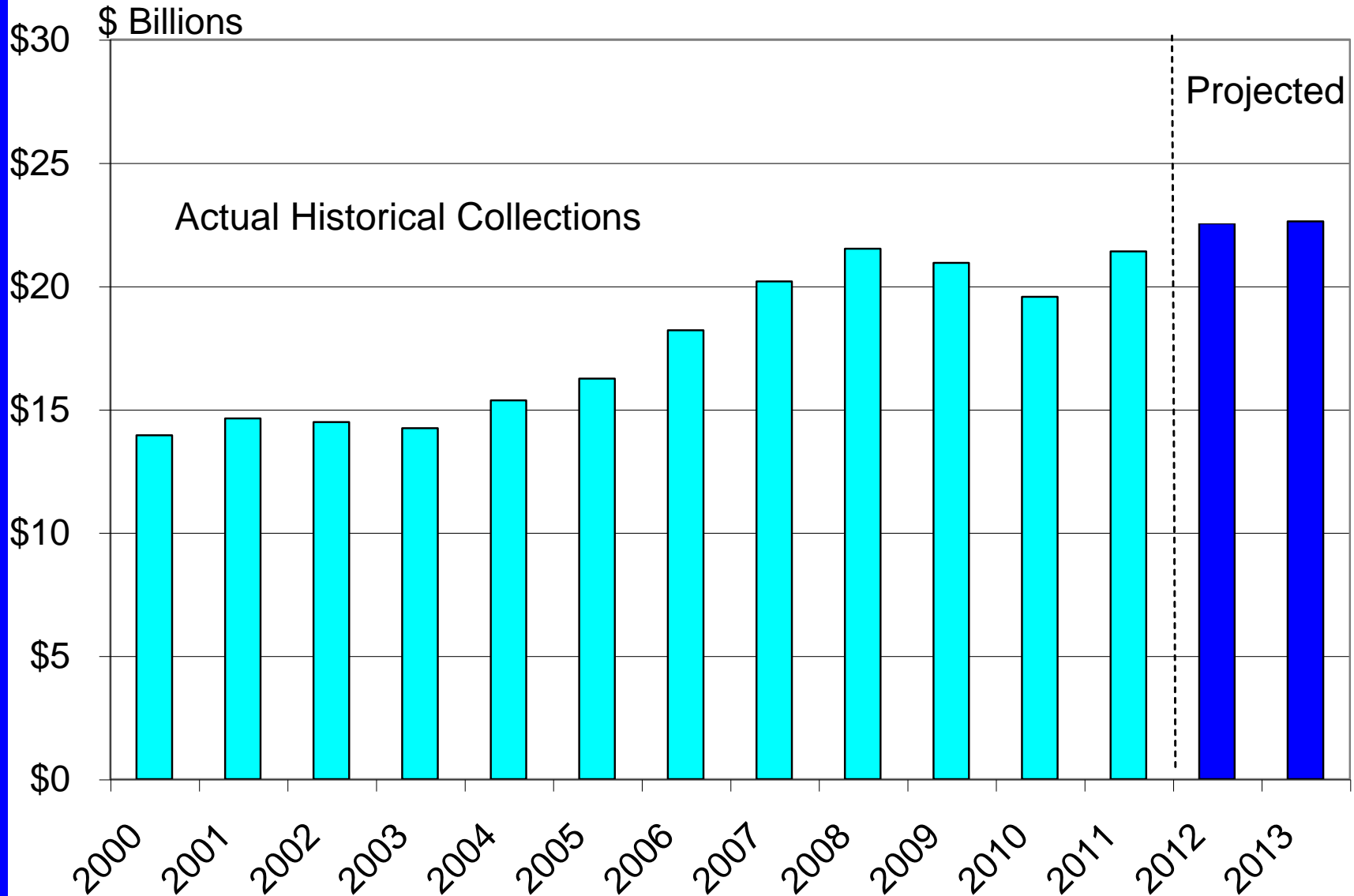


State's Cash Flow Improving

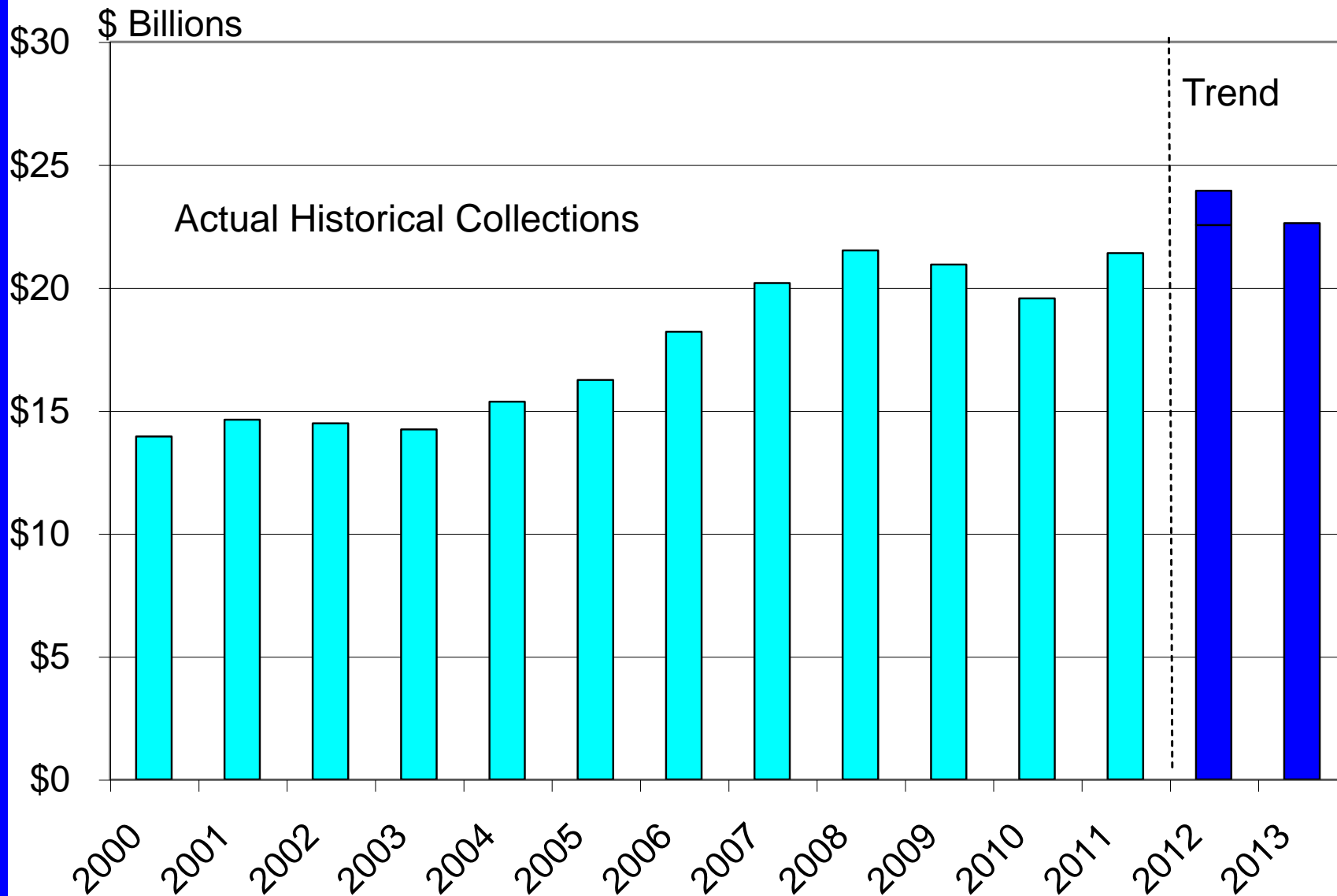
A year ago, the Comptroller projected the state's non-dedicated general revenue balance at the end of 2012 would be **\$6.7** billion in the red.

The Comptroller's recent projections anticipate a 2012 balance of **\$1.8** billion in the red—a **\$4.9** billion improvement.

Sales Tax Trends



Sales Tax Trends





So...

... Before the books close on the current budget, Texas will have substantially more general revenue than anticipated—enough to:

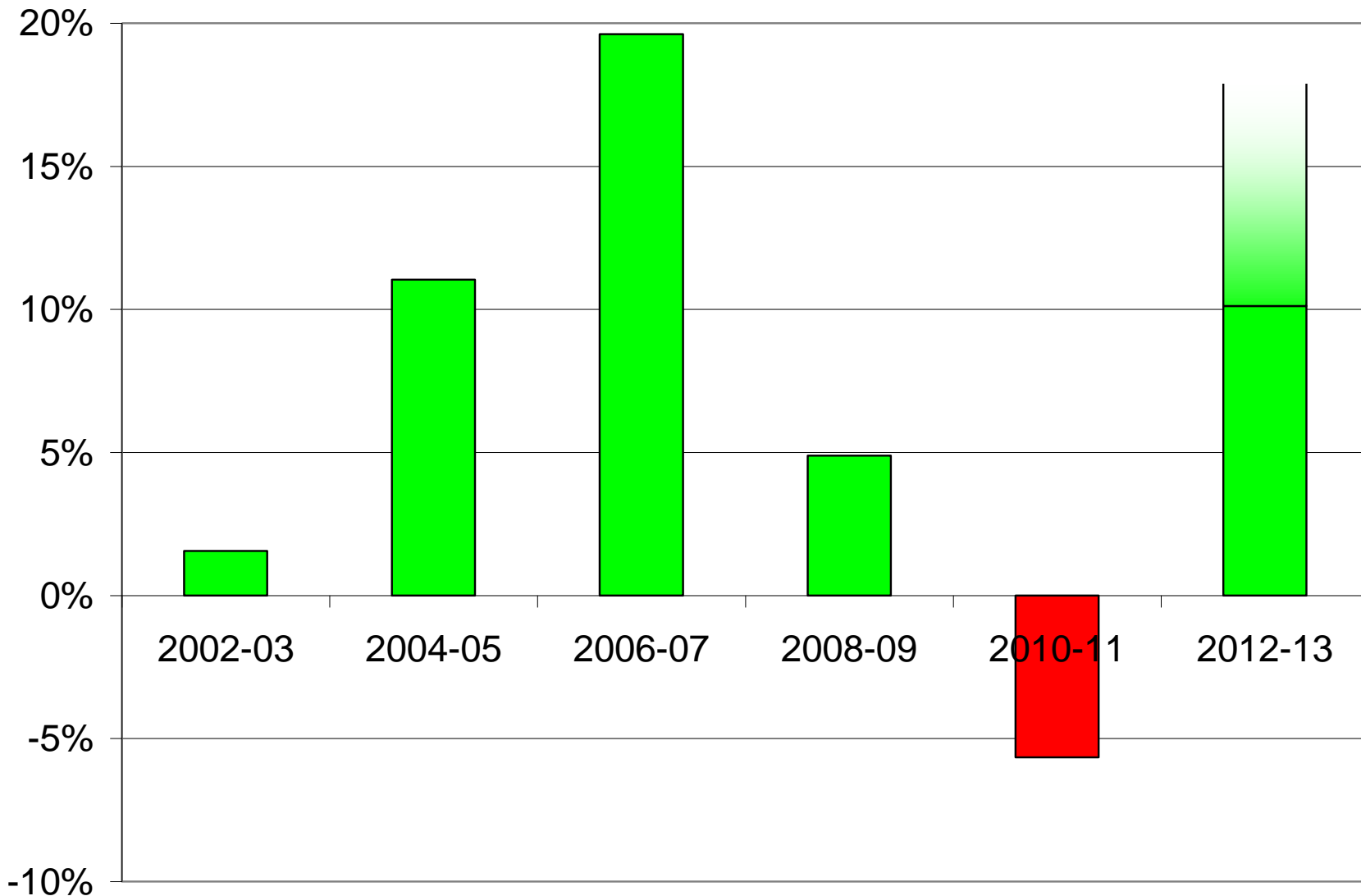
- 1. fully fund Medicaid,*
- 2. meet certain other supplemental requirements, and*
- 3. undo some of the one-time measures used to balance the budget*



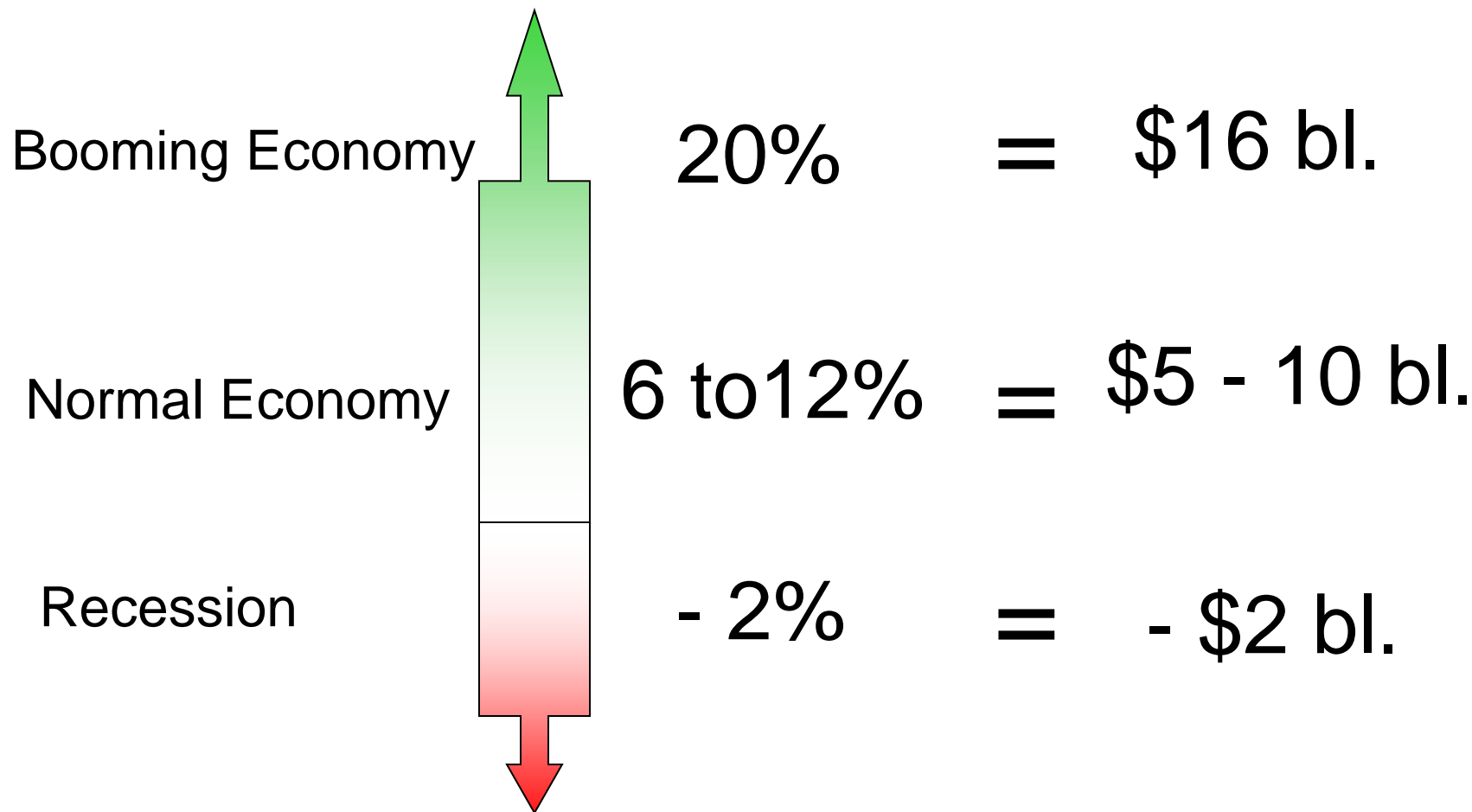
The Fiscal Outlook for the 83rd Legislature



Historical General Revenue Growth



Biennial Revenue Growth

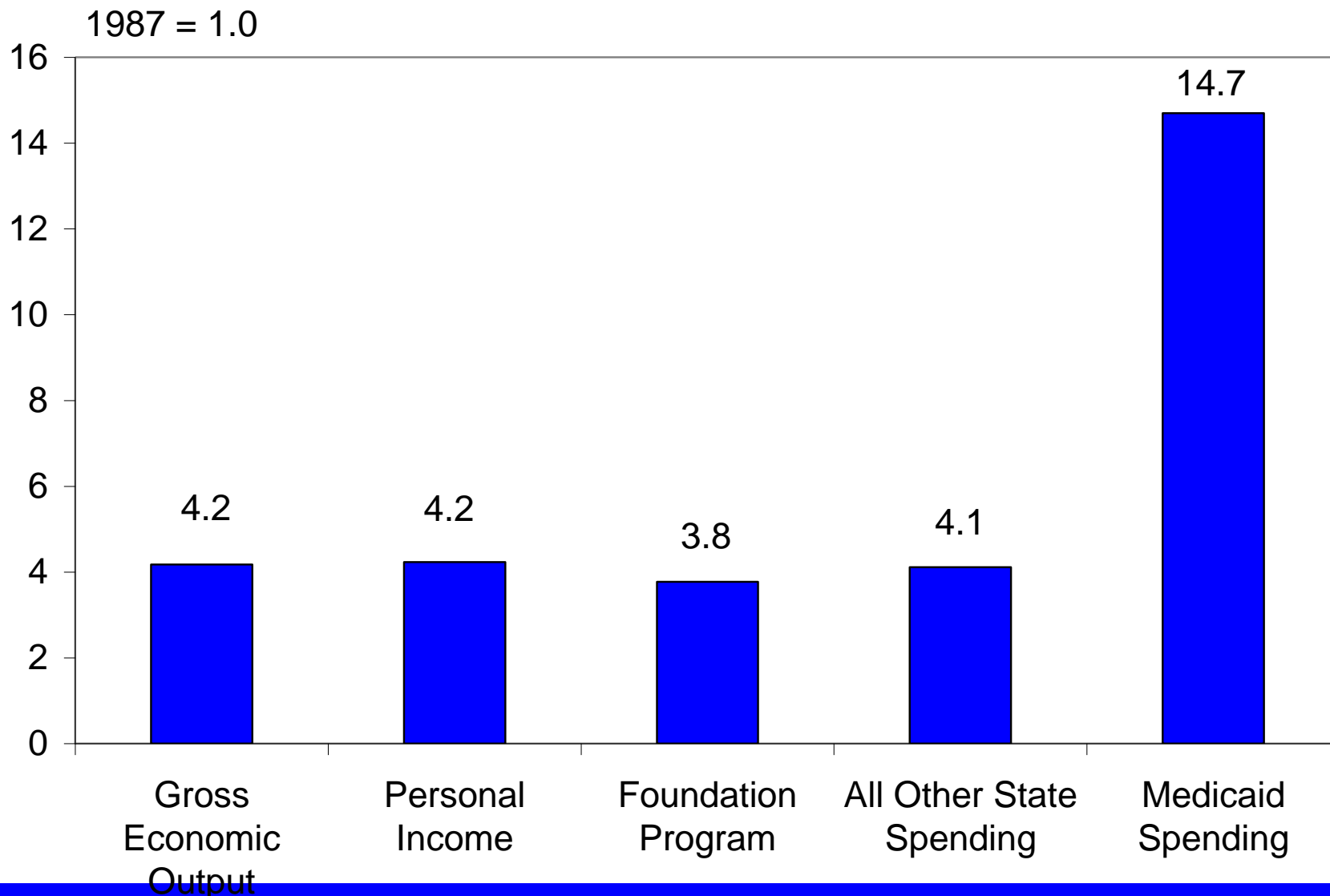


Normal” Budget Pressures

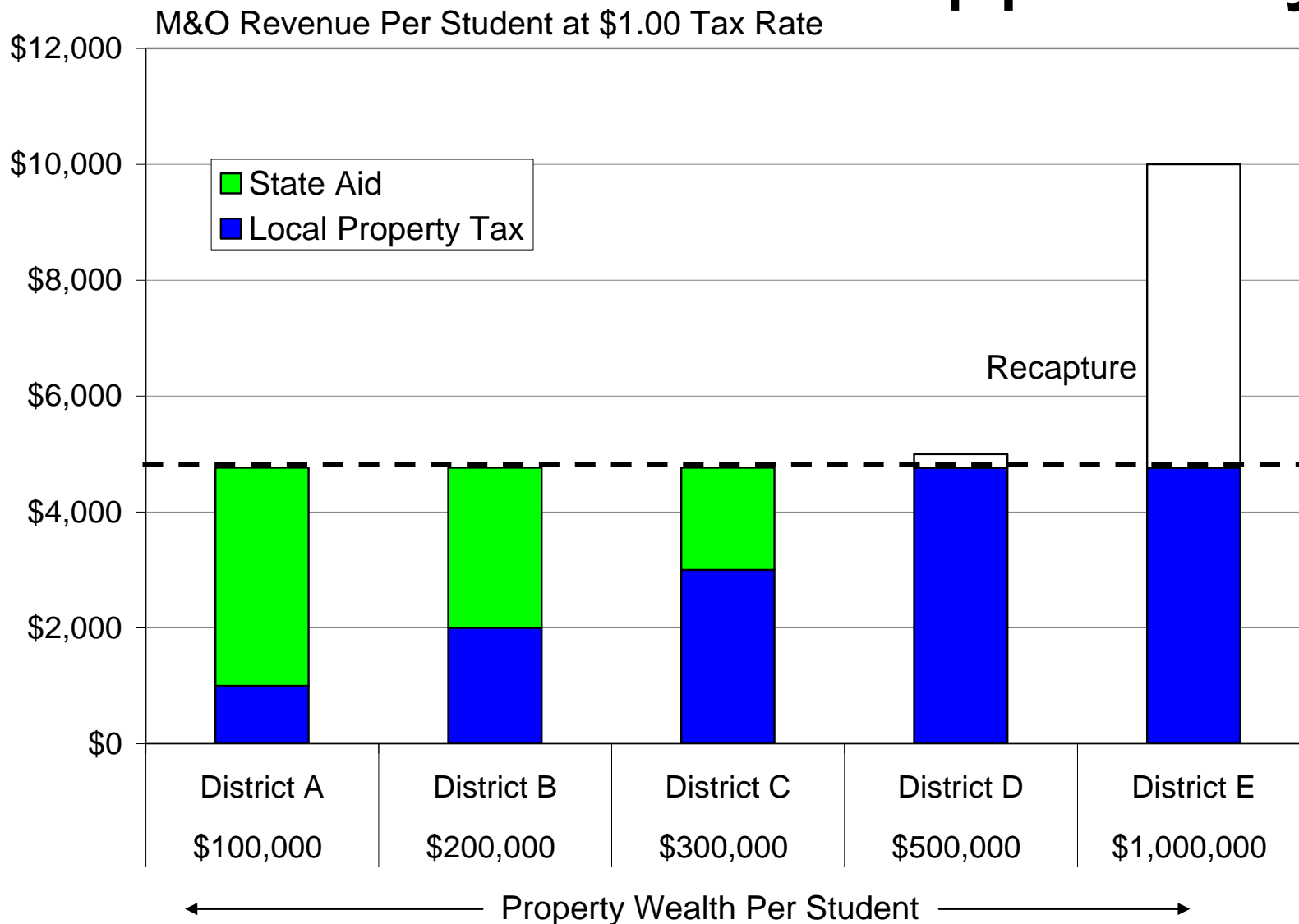
Structural Budget Gap	\$0 to 3 billion
Medicaid Growth (state share)	\$3 to 5 billion
Public Schools	\$ 0 to 2 billion
Other (retirement systems, corrections, etc.)	<u>\$1 to 2 billion</u>
Total	\$4 to 12 billion


Texas Growth Statistics

1987 to 2011



School Finance... supposedly





Taxable Values and the Costs of School Enrollment Growth (\$billions)

Growth in Taxable Values	State	Local
No Growth in Values	\$2.0	\$0.0
2% Annual Growth	\$1.0	\$1.0
4% Annual Growth	\$0.0	\$2.0



So ...

Current trends suggest that the legislature *may* have near sufficient funds to pay for “normal” 2014-15 spending pressures.

Caveat: Of course, current trends may not hold.



Non-Normal” Budget Pressures

Affordable Care Act	\$1 to 1.5 billion
School Finance Lawsuit	≈ \$4 + billion
End Diversions of Dedicated Revenues	\$3.5 to 4 billion
Restore Funding (Undo cuts of last session)	???

Affordable Care Act

- Individuals required to have health insurance or be subject to penalty,
- Mandated increases in provider rates, and
- Medicaid expanded to all individuals up to 133% of federal poverty level (\$14,856 individual; \$25,390 family of 3). Currently only children, pregnant women, and elderly are covered.

Additional Costs to 2014-15

<u>Item</u>	<u>State</u>	<u>Federal</u>
Increased Medicaid enrollment	\$0.7	\$1.0
Increased provider rates	\$0.4	\$2.0
Medicaid expansion to adults?	<u>\$0.3</u>	<u>\$8.0</u>
Total	\$1.4	\$11.0

Additional Costs to 2014-15

Item	<u>State</u>	<u>Federal</u>
Increased Medicaid enrollment	\$0.7	\$1.0
Increased provider rates	<u>\$0.4</u>	<u>\$2.0</u>
Total	\$1.1	\$3.0

School Finance Lawsuit

- At least five different plaintiff groups have filed against the current school finance system:
 - State Property Tax
 - Adequacy
 - Equity
 - Equal Protection
 - Equal and Uniform Taxation

The 2012-13 Budget, as passed

General Revenue, Federal Stimulus & Property Tax Relief

<u>Area</u>	<u>2010-11</u>	<u>2012-13</u>	<u>\$ Diff</u>	<u>% Diff</u>
Public Education	\$42.1	\$38.3 ¹	(\$3.8)	-9.0%
Health/Human Svcs	25.8	22.7	(3.1)	-12.1%
Higher Education	13.1	11.8	(1.3)	-9.9%
Pub Safe/Crim Jus	8.6	8.1	(0.5)	-6.1%
Other	<u>4.9</u>	<u>4.2</u>	<u>(0.7)</u>	<u>-14.8%</u>
Total	\$94.5	\$85.0	(\$9.5)	-10.0%

The Rainy Day Fund

- Largely funded by oil and gas tax collections in excess of 1987 levels
- May have close to:
 - \$8 billion by end of 2013;
 - maybe growing to \$10 billion by 2015
- 2/3 vote of both houses will be required to draw from the fund

In Conclusion

- The budget next session will be tight, but probably manageable with some tough decisions.
- It will NOT be a repeat of 2011's challenges.
- If the state must respond to extraordinary items, there is more than sufficient money in the Rainy Day Fund to cover them.

Thanks for Joining Us!

If you have any questions or comments, please feel free to contact TTARA staff.

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