



# **A Briefing on the Texas Budget Situation**

**Texas Taxpayers and Research  
Association**

**[www.ttara.org](http://www.ttara.org)  
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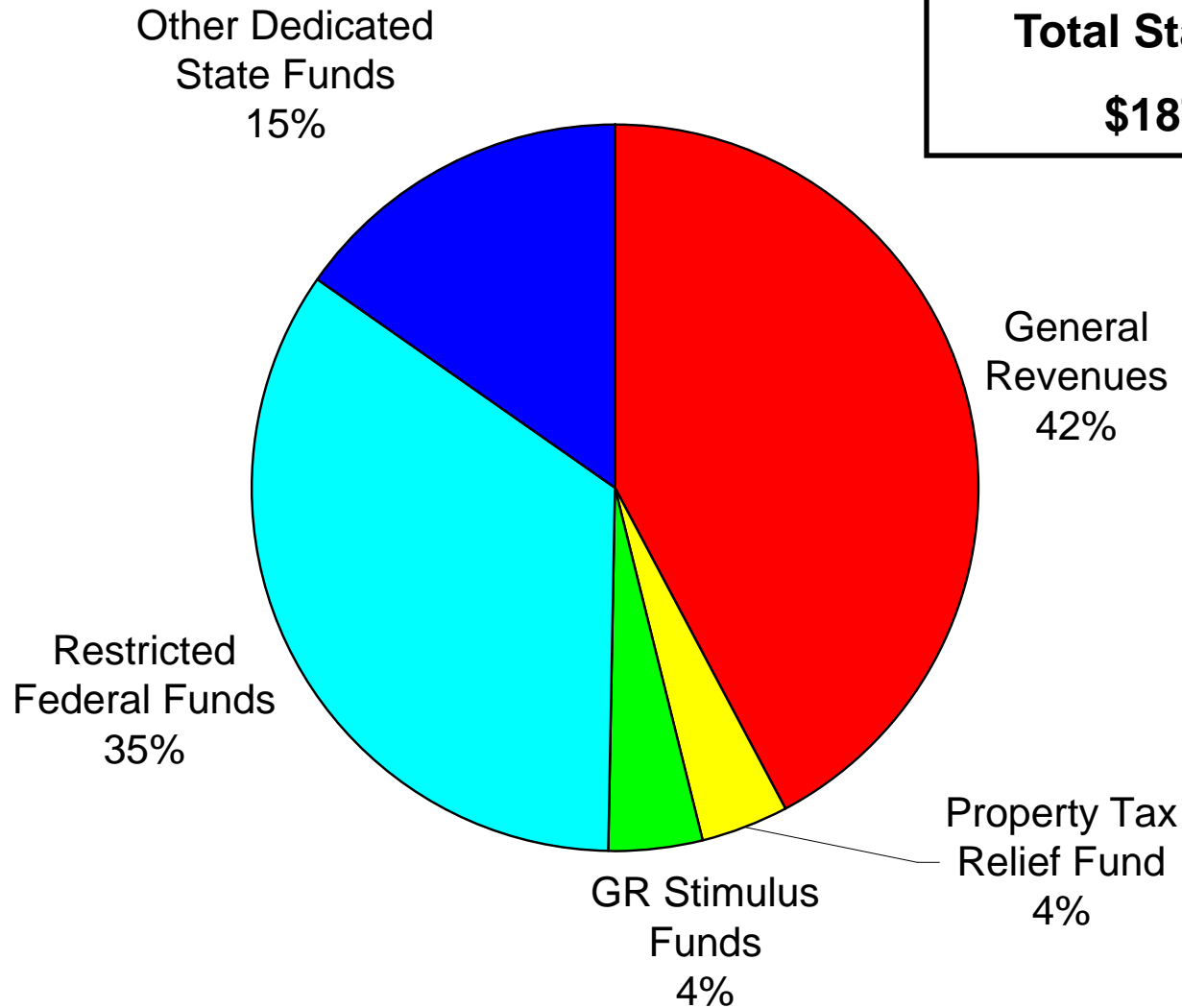
# TTARA

*The Texas Taxpayers and Research Association is a non-profit membership-supported organization of businesses, trade associations, tax practitioners and individuals that endorse sound state and local fiscal policies in Texas. Our members come from the entire range of economic sectors and share a common belief that all participants in our state's economic system have a stake in and should have a meaningful say in determining its future.*

# The State Fund Structure

## 2010-11 Biennium

**Total State Spending:**  
**\$187.5 billion**





# Comptroller's Revenue Estimate

(Billions of General Revenue Dollars)

Item	2010-11	2012-13	Difference
Beginning Balances	\$2.8	(\$4.3)	(\$7.1)
Current Revenues	<u>\$71.6</u>	<u>\$76.4</u>	<u>\$4.8</u>
Total General Revenues	\$74.3	\$72.1	(\$2.2)
Property Tax Relief Revenues	\$4.2	\$4.5	\$0.3
Property Tax Relief Balances	\$3.0	0.0	(3.0)
Federal Stimulus Funds	<u>\$7.9</u>	<u>\$0.0</u>	<u>(\$7.9)</u>
Total Revenue Available	\$89.5	\$76.7	(\$12.8)



# The Past “Worst” Sessions

- 1987:** Facing lingering problems from the dual collapse of the oil markets and the commercial real estate, lawmakers enacted the largest tax bill in the history of the state.
- 2003:** A long national recession takes its toll on Texas; lawmakers adopt a budget balanced largely with spending cuts, but with no major tax increase.



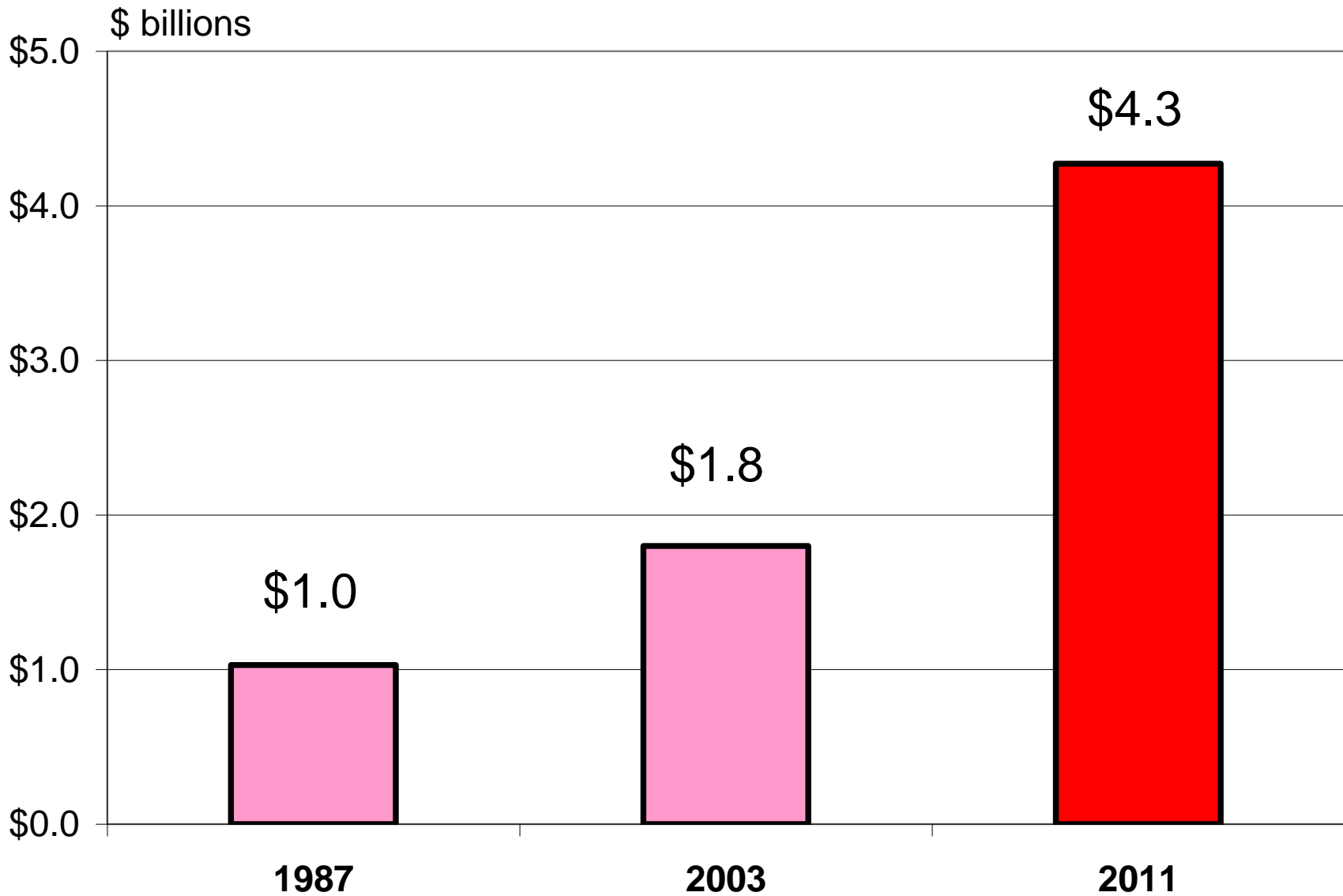
# Definition: “Deficit”

A very *specific* term used when available revenues are not sufficient to fully fund the appropriations in place.

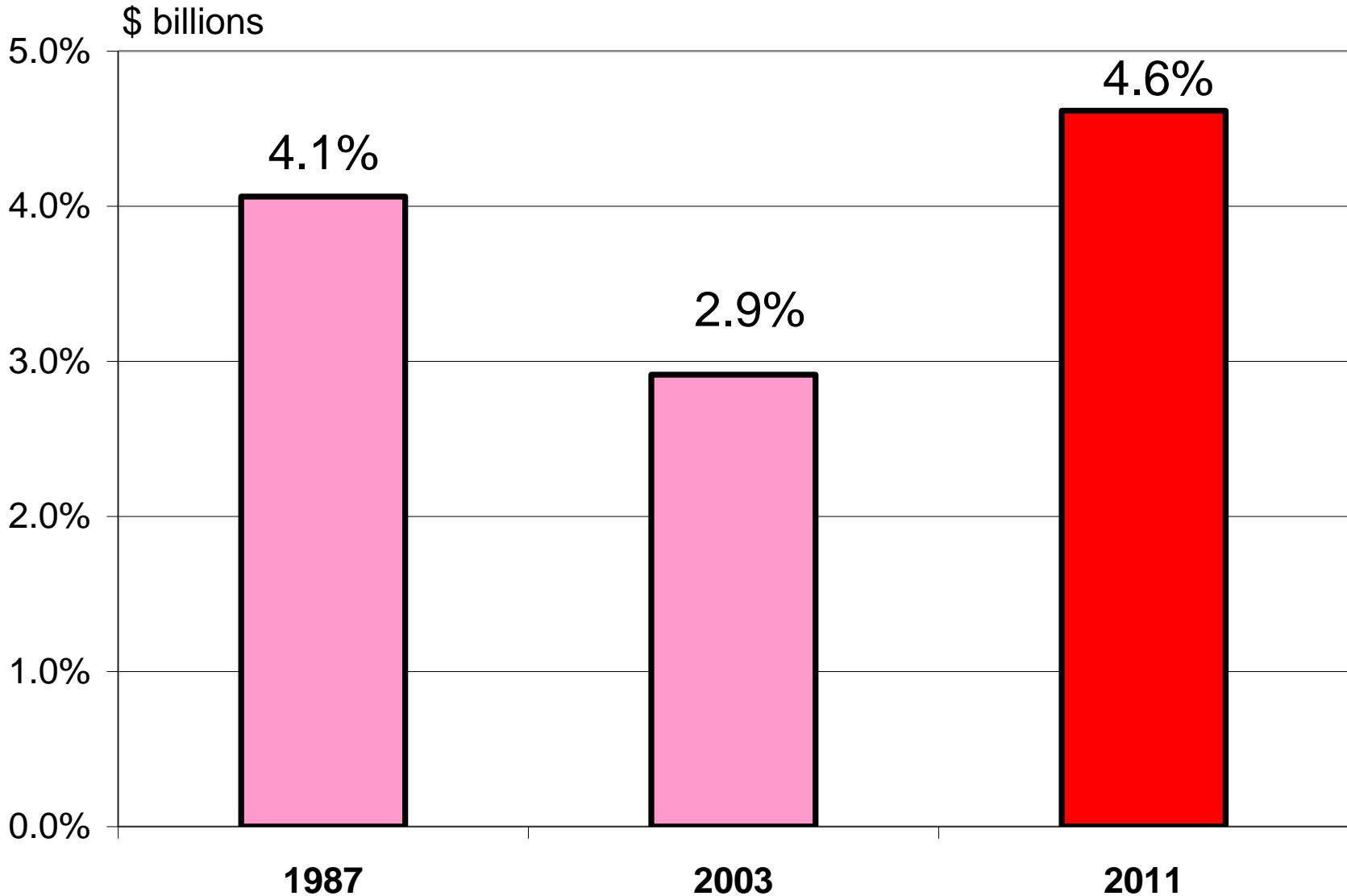
Texas is facing a **\$4.3** billion deficit.



# Comparing Projected Deficits



# Deficits vs. Budget in Place





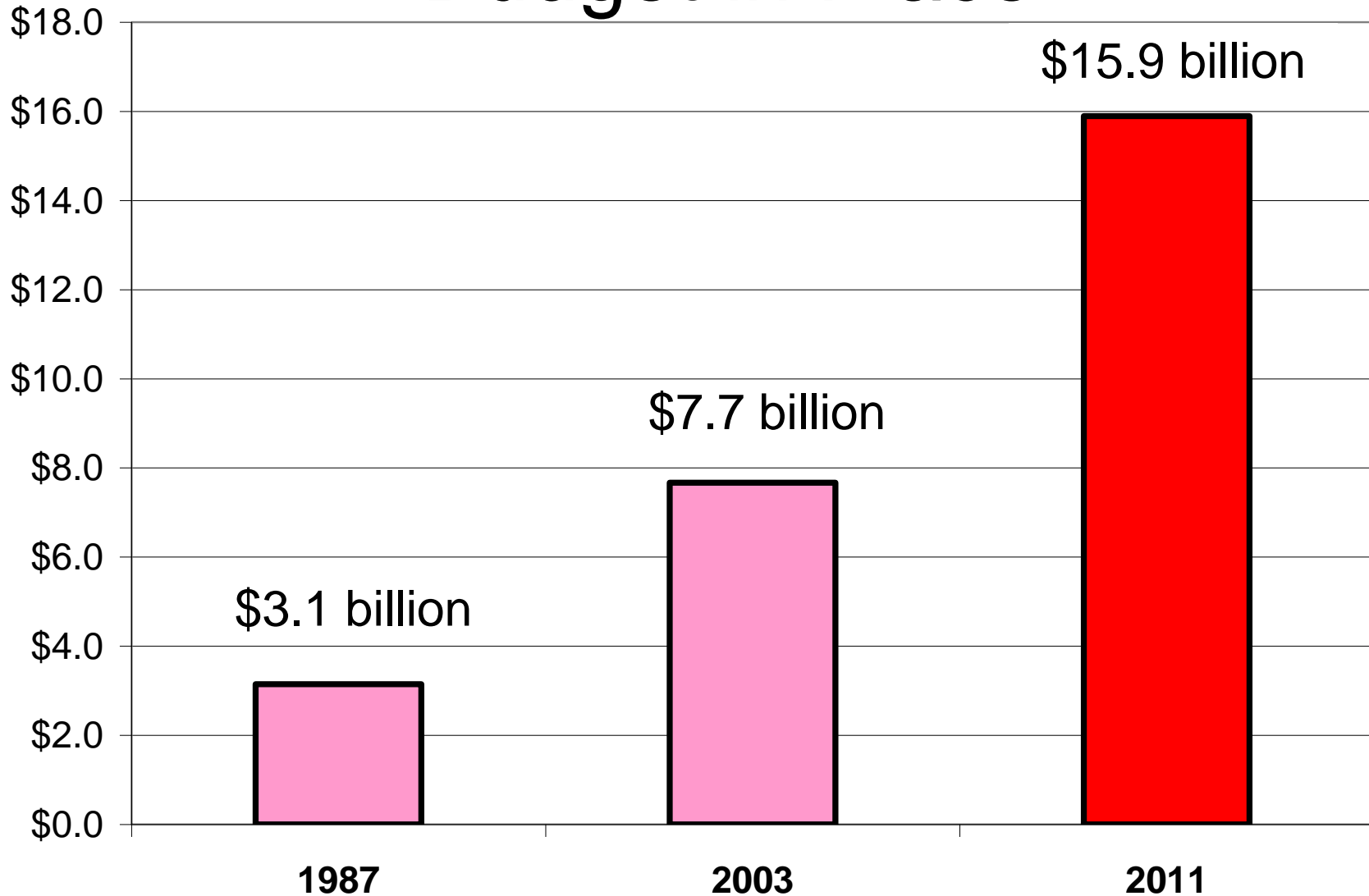


# Definition: Shortfall

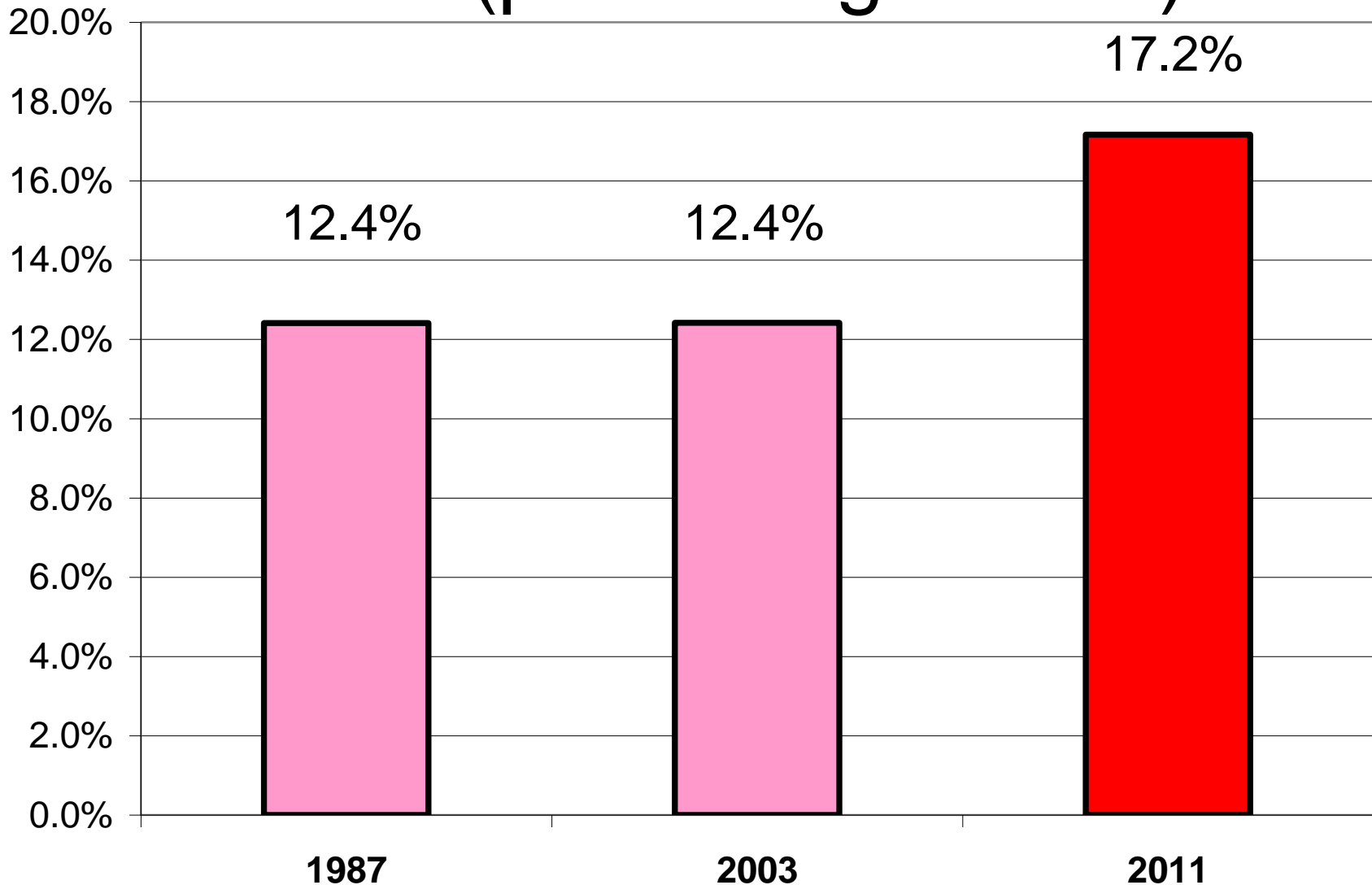
A *general* term used when anticipated revenues are not sufficient to fully fund some measure of spending.

Texas has a shortfall that can be measured in different ways.

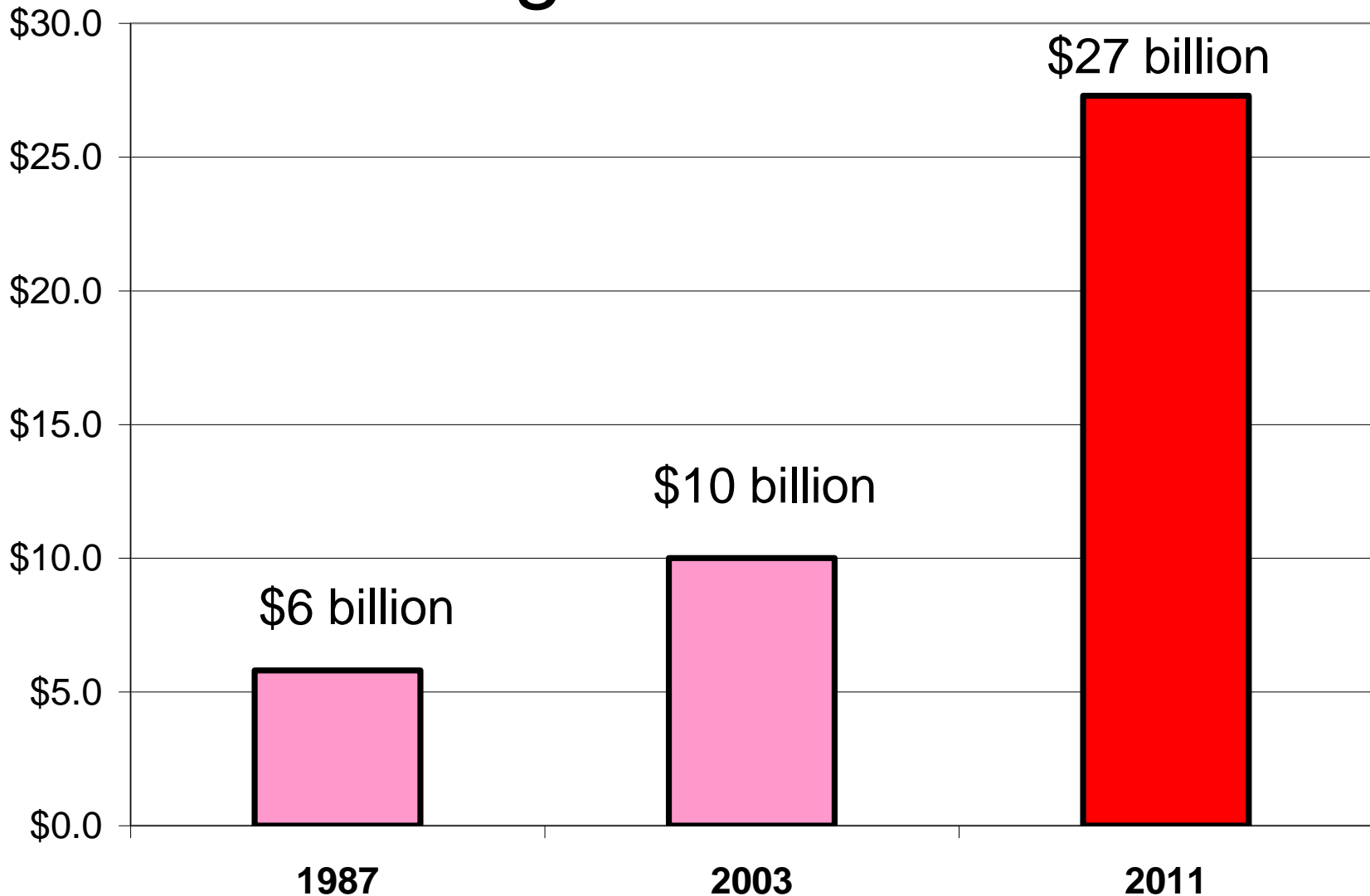
# Projected Revenues vs. Budget in Place



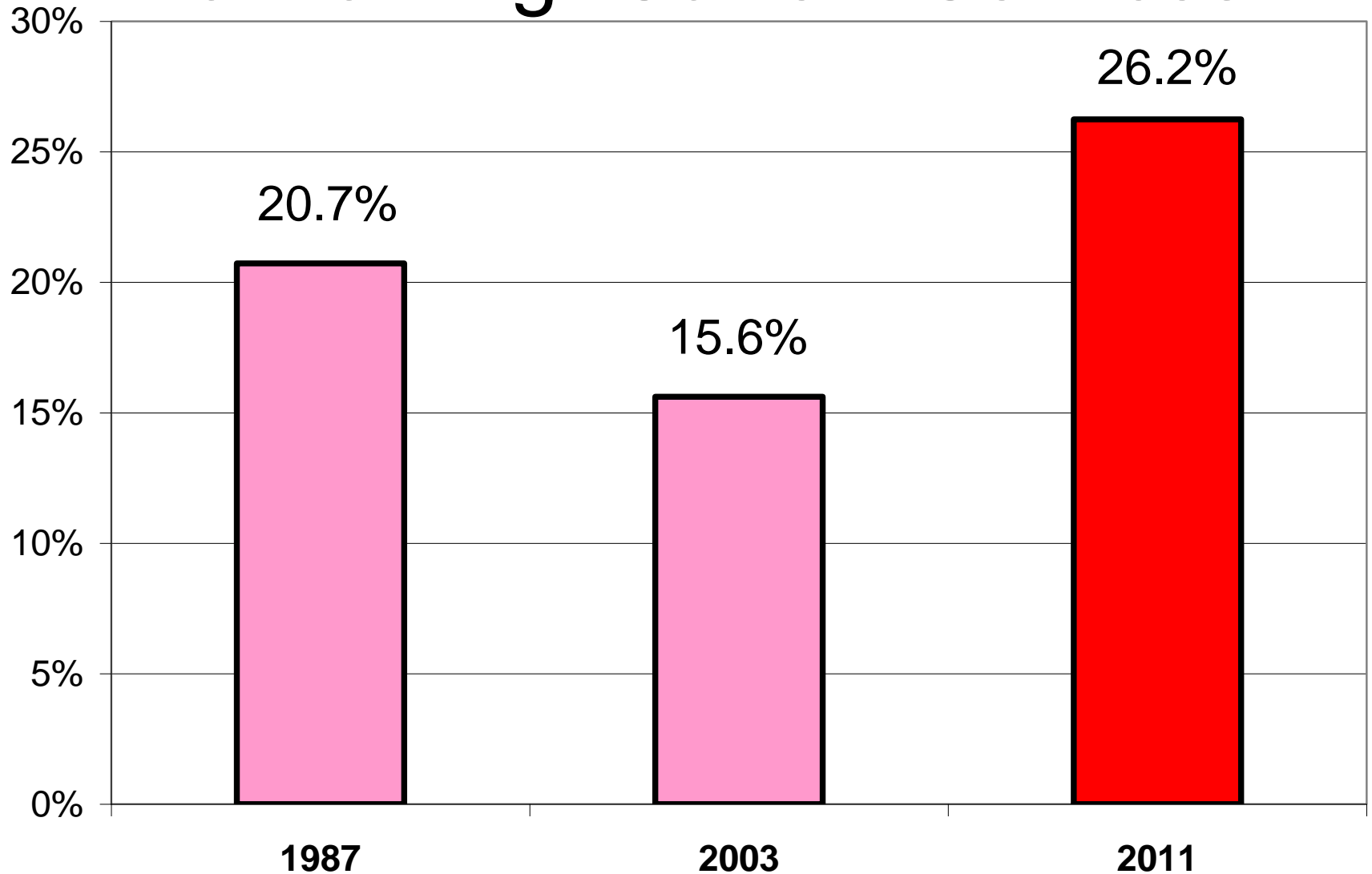
# Projected Revenues vs. Budget in Place (percentage basis)



# Projected Revenues vs. Cost of Maintaining "Current Services"



# Projected Revenues vs. Cost of Maintaining "Current Services"





# Is the Franchise Tax the Problem?

(Dollars are in billions)

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Original Estimates	\$5.9	\$6.0	\$6.4
Actual Revenue	<u>\$4.5</u>	<u>\$4.3</u>	<u>\$3.9</u>
Annual Difference	\$1.4	\$1.7	\$2.5



# Is the Franchise Tax the Problem?

- While franchise taxes fell short of initial estimates in 2008-09, the state ended 2009 with a multi-billion dollar surplus
- According to the Comptroller, the recession has dropped franchise tax revenues by \$1.0 billion
- The increase in the small business exemption also reduced revenues in 2010

# The House Budget

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	\$41.6	\$35.3	(\$6.4)	-15%
Health/Human Svcs	25.7	20.0	(5.7)	-22%
Higher Education	13.3	11.0	(2.3)	-17%
Pub Safety/Crim Jus	8.6	7.5	(1.2)	-14%
Other	<u>4.9</u>	<u>4.1</u>	<u>(0.9)</u>	<u>-18%</u>
Total	\$94.2	\$77.8	(\$16.4)	-17%



# Comparing the House & Senate

## General Revenue & Property Tax Relief

<u>Area</u>	<u>Senate</u>	<u>House</u>	<u>S v H</u>
Public Education	\$36.0	\$35.3	\$0.7
Health/Human Svcs	19.0	20.0	(1.0)
Higher Education	11.5	11.0	0.5
Pub Safety/Crim Jus	7.7	7.5	0.2
Other	<u>4.1</u>	<u>4.1</u>	<u>0.0</u>
Total	\$78.3	\$77.8	\$0.5



# Balancing the House and Senate Budgets

- Both the House and Senate budgets are dependent upon additional legislation in order to balance
- Both assume passage of a bill cutting 2011 appropriations
- Both anticipate an additional \$300 million in land income pursuant to actions of the School Land Board



# Keys to the Final Budget

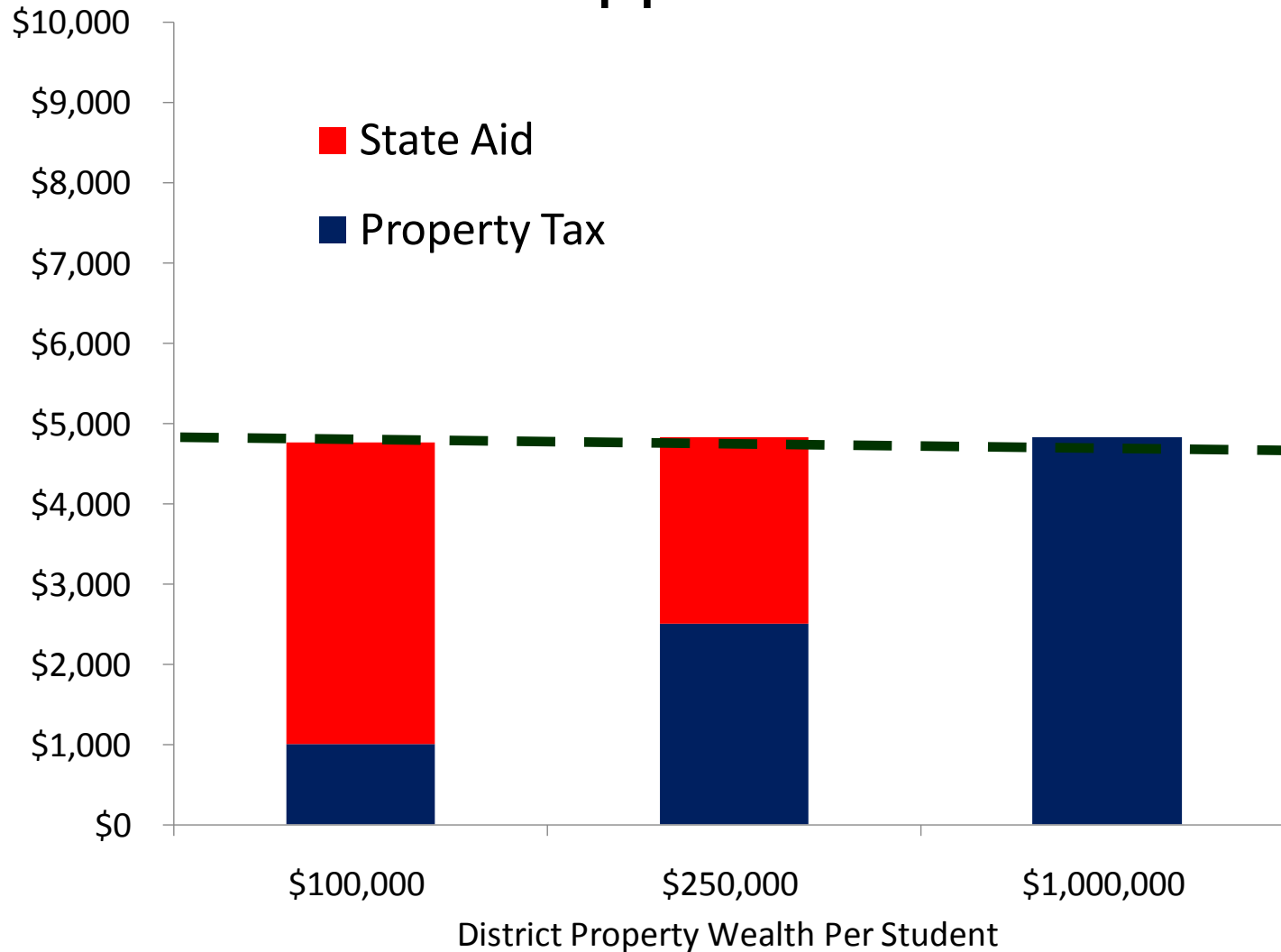
- Public Education finance reform bill
- Medicaid reform bill and federal approval
- Higher Education funding
- Use of Rainy Day Fund
- Deferrals
- Other



# School Finance

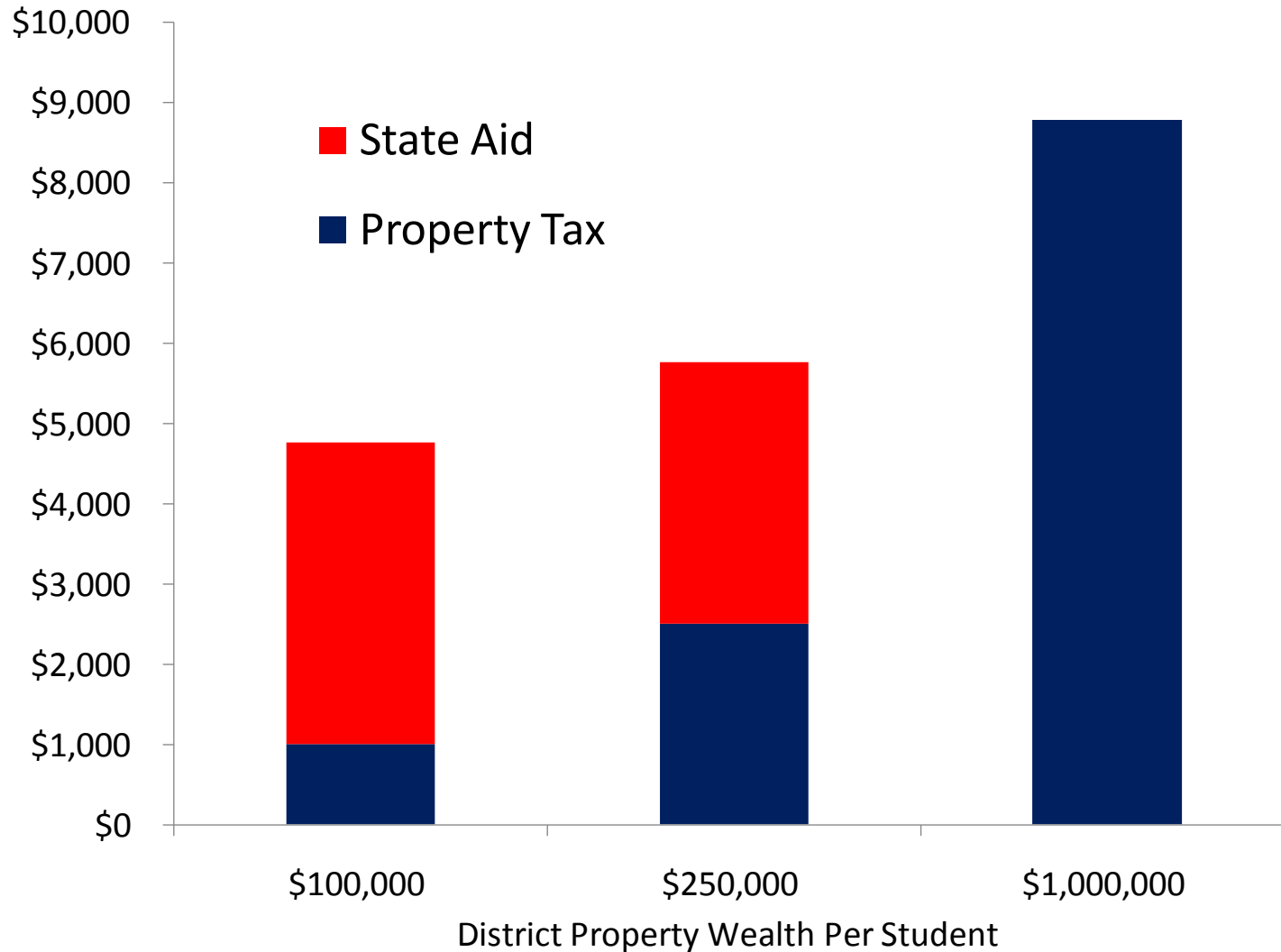
*School districts decide what tax rate to levy. Complex formulas in state law determine how much revenue each school district is guaranteed to raise largely based on the district's tax rate, property values, and the number of students. If local taxes fall short of the guaranteed amount of revenue, the state makes up the difference. If local taxes generate more than the guarantee, a portion may be "recaptured."*

# School Finance: How It's Supposed to Work

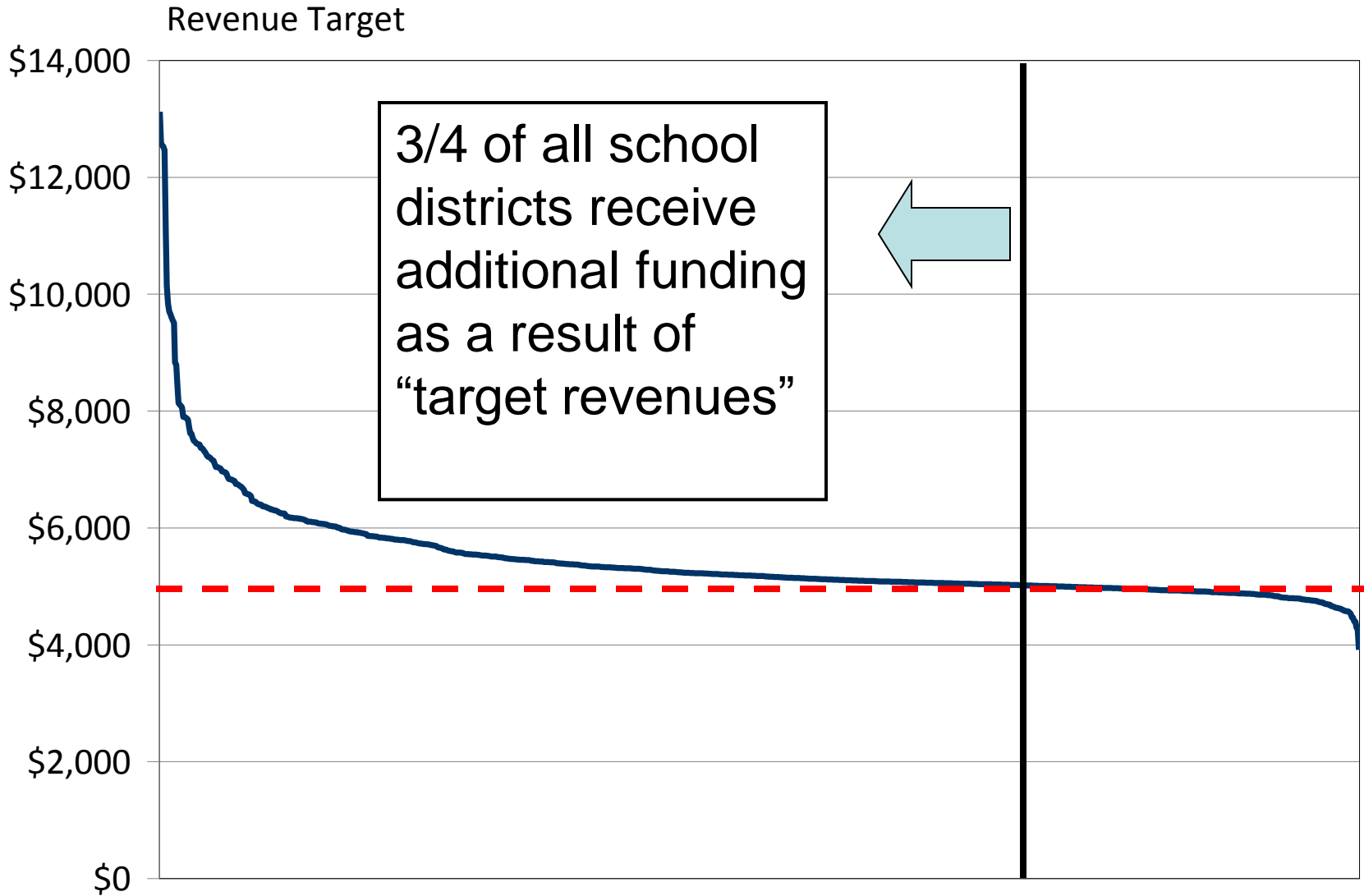


# School Finance:

## How It Can Work Under Current Law



# Revenue Targets Vs. Formulas





# Public Education: Funds Not Provided

- **Enrollment growth** (approximately 80,000 new students annually)
- State funds to offset the **loss in property taxes** resulting from declines in values per student
- **Federal stimulus money** used to pay for operational costs in 2010-11 is not replaced
- **“Settle-up” moneys** to offset underfunding in 2010-11 are not budgeted





# According to the LBB

*The total funding level for the FSP is estimated to be **\$9.3 to 9.8 billion below** the amount required to fund the school finance formulas under the Texas Education Code.*

*Funding levels assume passage of legislation that enacts reductions to school district.. entitlements.*



# Other Public Education

- Teacher incentive pay
- Student success initiative
- Pre-kindergarten

*The House eliminates \$1.3 billion in funding for these discretionary grant programs. The Senate reduces funding by \$0.9 billion.*



# Medicaid, Not Funded

Caseload and Cost Growth	\$1.7 billion
Replacement of Federal Stimulus Funds	\$4.3 billion
Ten Percent Reduction in Provider Rates	<u>\$1.6 billion</u>
Total State “Savings”	\$7.6 billion
Total Funds Impact	\$18.0 billion



# What Drives Medicaid Costs

$$\begin{aligned} & \text{Eligible Clients (caseloads)} \\ \times & \text{ Services Provided} \\ \times & \underline{\text{Cost of Services}} \\ & = \text{Total Cost of Medicaid} \end{aligned}$$



# Medicaid Strategies

- Cutting Medicaid funding without amending state law to change eligibility and services does not absolve the state from incurring those costs
- Eligibility standards and/or the services the state provides must be reduced in state law or the cuts will be illusory
- These changes will be subject to federal approval



# Higher Education

- Enrollment growth is not funded
- Institution budgets are cut from 5 to 10 percent from 2010-11 levels
- Special item funding cut 25 percent
- Financial aid funding generally limited to current students
- House closes four community colleges; Senate does not



# Other Items to Note

- State employee positions reduced by 8,167 (Senate) or 9,610 (House)
- Retirement contributions reduced to Constitutionally-required minimums, but systems still relatively sound
- Some health insurance cost-shifting to state and junior college employees



# The “Rainy Day Fund”

- 1988 constitutional amendment established the Economic Stabilization Fund (Art. 3, Sec. 49-g)
- Fund holds
  - 75% of oil taxes above 1987 collections
  - 75% of natural gas taxes above 1987 amount
  - 50% of any *unencumbered* positive general revenue balance
- Fund balance expected to be \$9.4 billion by the end of 2013.





# Accessing the “Rainy Day Fund”

- **Previous Biennium (2010-11):** 3/5 vote (members present) to finance existing appropriations if current revenues fall below level of appropriations certified
- **Current Biennium (2012-13):** 3/5 (members present) vote to finance spending up to the amount of the previous biennium’s revenues
- **At any time:** 2/3 vote required



# Potential Deferrals

- August 2013 payment of state aid to school districts
- August 2013 payment to Medicaid providers
- Summer contributions to the retirement systems
- Summer contributions to the state highway fund

# What is a Tax Increase?

*A provision that:  
raises tax rates*

*--or--*

*expands existing tax bases by eliminating  
or deferring exemptions, deductions,  
credits, or refunds.*

TTARA

# Thanks for Joining Us!

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

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