



Legislative Study Group

Texas House of Representatives

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TEXAS HOUSE BUDGET PRIMER

OVERVIEW OF THE PROPOSED HOUSE BUDGET

According to the Texas Comptroller, the State of Texas will have \$177.8 billion available in total state funds in the 2012-2013 biennium. Of those dollars, \$72.2 billion has been certified for general revenue expenditures. **In order to maintain current state services – including population growth for each and every new Texan that has moved to Texas for work or for school – the state would need at least \$99 billion in general revenue spending.**¹ Therefore, the initial revenue estimate presented by the Comptroller represents a \$26.8 billion shortfall for the upcoming biennium.

It is important to remember that the revenue estimate projected by the Comptroller on January 10, 2011 is expected to be greater by May 2011. Before the release of the House budget, Governor Rick Perry announced that he predicts that, “our budget numbers are going to progressively look better, even by the time May rolls around, we may have some continuing positive messages from our revenue sources.”²

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Crafting the state budget is an ongoing negotiation for elected officials in both the House and the Senate. The proposed budget is a starting point, with the expectation that changes will be made throughout the 82nd Legislative Session. Additionally, since the revenue estimate is expected to change in a way that would lessen the current projected shortfall, some of the proposed cuts in the introduced House budget could change in the coming months and ultimately prove to not be necessary.

The introduced House Appropriations Bill (House Bill 1) suggests a number of cuts that would negatively impact Texas families, especially Texas seniors and Texas children. Those cuts include:

- ***Eliminating Pre-K Early Start and Early Childhood School Ready Programs***
The recommended appropriation for statewide educational programs is reduced by \$740 million from the 2010-2011 biennium, which includes eliminating the Pre-K Early Start grant at \$104M/year, cutting 109,000 children, and another 83,000 children from the Early Childhood School Ready program.³
- ***\$9.8 Billion Reduction in the Foundation School Program, Cutting Education Spending***
The Foundation School Program is the primary account for financing Texas’ public schools. The introduced version of the House budget does not appear to appropriate funds for student enrollment growth, which is constitutionally required. The *Dallas Morning News* reported that the Legislature, “would have to rewrite school-funding formulas” and possibly pass major changes to Texas’ school finance formulas in order to achieve the major cut to the Foundation School Program.⁴ Further study and attention is required on this important issue.

➤ ***Elimination of 9,600 State Employee Jobs***

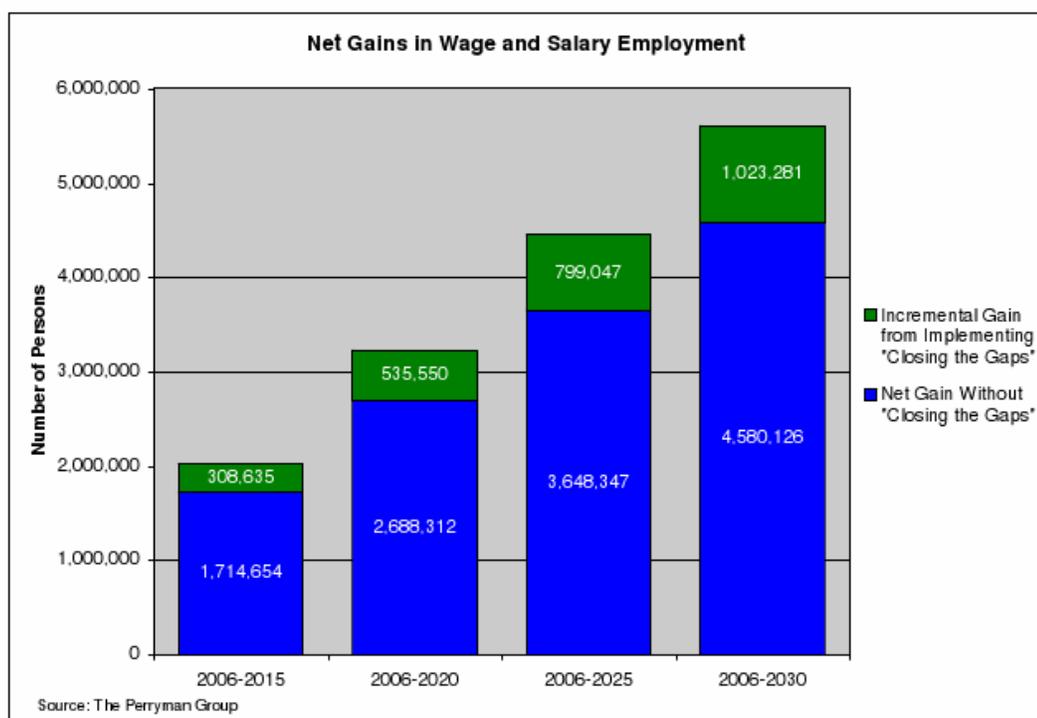
The introduced House budget eliminates 9,600 state employee jobs across Texas’ state agencies. Rural areas of the state are expected to be hit the hardest by the cuts, since county hospitals and prisons are often the largest employer in Texas’ rural counties. Economist Ray Perryman has found that every lost public sector job results in an additional one-and-a-half jobs lost⁵ – which would mean that eliminating 9,600 state jobs will result in an additional 14,400 jobs eliminated, for a total of 24,000 lost jobs.

➤ ***\$1.57 Billion Reduction in Nursing Facility Payments***

The introduced House budget proposes reducing funding for nursing facility payments by \$1.57 billion less than what the Department of Aging and Disability Services (DADS) requested for 2012-2013. According to DADS, there are over 3.7 million Texans of 60 years of age or more, representing 14% of the state’s population.⁶ The average nursing home resident is an Anglo woman, age 80 and above, who has used all of their assets to pay for a nursing home. Nursing home residents and the disabled make up 70% of the state's Medicaid expenses.

➤ ***\$1.15 Billion Reduction for Closing the Gap Programs, Including TEXAS Grant, Threatens the Current Growth, Increased Production and Productivity of Texas***

Proposed cuts to Texas’ Closing the Gap programs, which are specifically designed to attract students to Texas’ colleges and universities in fields that are beneficial to Texas’ economy, would have a dramatic impact on Texas’ future. Economist Ray Perryman, in a report for the THECB, recently found that fulfilling Texas’ Closing the Gap goals would, by 2030, amount to “annual gains (in 2006 dollars) of \$489.6 billion in total spending, \$194.5 billion in gross state product, and \$121.9 billion in personal income, as well as 1,023,281 permanent jobs.”⁷



How We Got Here: Built-In Budget Shortfall Comes from the 2006 Tax Package

The current \$26.8 billion budget shortfall is partly the result of a built-in budget hole created in the 3rd Called Special Session of the 79th Texas Legislature, which has now created a structural shortfall in three successive legislative sessions. Unless the tax structure is changed, Texas lawmakers will begin every legislative session with the built-in budget shortfall.

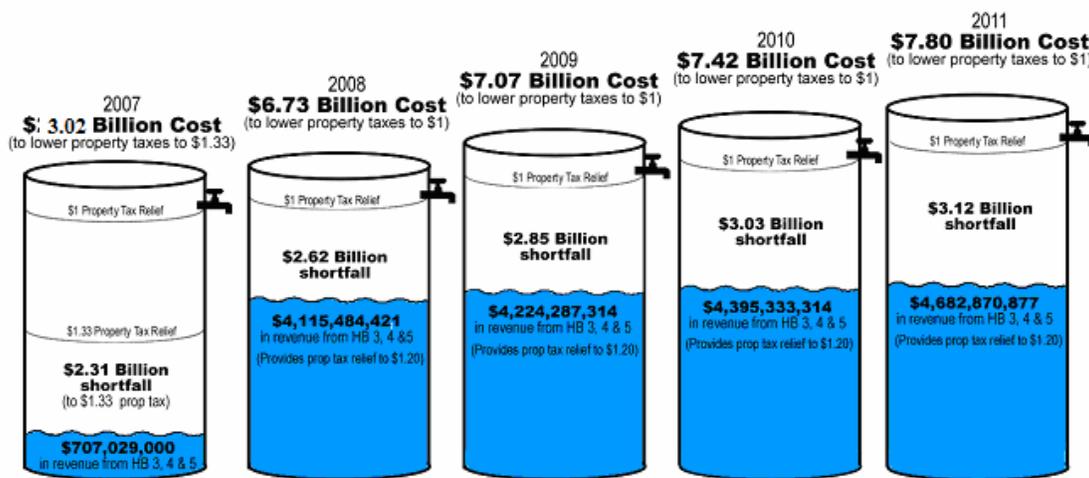
In 2006, Governor Perry signed into law a tax package that changed the state’s business tax structure, redirecting billions each year away from public schools and into a newly created Property Tax Relief Fund. The tax package consisted of four major pieces of legislation:

- House Bill 2 (3rd Called Special Session of the 79th Texas Legislature), creating the “Property Tax Relief Fund” which collected money from the other three tax bills in the tax package
- House Bill 3 (3rd Called Special Session of the 79th Texas Legislature), the franchise tax or “margins tax” bill
- House Bill 4 (3rd Called Special Session of the 79th Texas Legislature), the motor vehicle sales and use tax
- House Bill 5 (3rd Called Special Session of the 79th Texas Legislature), the \$1 cigarette tax

At the time the tax package was presented to the Legislature and signed into law by Governor Perry, the Comptroller estimated that the revenues generated from the new tax package would fall \$14 billion short of the cost of the legislation in the first five years. The predicted shortfall has come true, leaving the state billions short of necessary funds to maintain basic state services.

The pictograph below – which comes from a *Legislative Study Group* report issued in May 2006 – highlights the predicted shortfall, based on fiscal notes for the proposed tax package. The chart on the following page compares the predicted five-year shortfall with the actual five-year shortfall.

2006 Fiscal Notes Projected a \$14 Billion Shortfall for the Tax Package Over Five Years



Not a Drop Left for Public Education

The 2006 Tax Package: Predicted vs. Actual Shortfall					
Year	2007	2008	2009	2010	2011
Projected cost of 2006 tax package	\$3.02 billion	\$6.73 billion	\$7.07 billion	\$7.42 billion	\$7.8 billion
Predicted revenue raised from 2006 tax package	\$0.71 billion	\$4.11 billion	\$4.22 billion	\$4.39 billion	\$4.68 billion
Predicted shortfall	\$2.31 billion	\$2.62 billion	\$2.85 billion	\$3.03 billion	\$3.12 billion
Total Predicted Shortfall Over Five Years - \$13.93 billion⁸					
Year	2007	FY 2008-2009	FY 2010-2011		
Actual cost of 2006 tax package	\$2.2 billion	\$14.2 billion	\$14.9 billion		
Actual revenue raised from 2006 tax package	\$0.7 billion	\$4.9 billion	\$5.4 billion		
Actual shortfall	\$1.5 billion	\$9.3 billion	\$9.5 billion		
Total Actual Shortfall Over Five Years - \$20.3 billion⁹					

The Rainy Day Fund's \$9.4 Billion Remains Untouched

Texas' Economic Stabilization Fund, more commonly known as the Rainy Day Fund, has \$9.4 billion in its account, according to the Comptroller's January 2011 revenue estimate. The fund's purpose is to stabilize the state budget during periods of economic downturn.

The fund was created following the passage of a constitutional amendment and subsequent voter approval in 1988. The dollars for the Rainy Day Fund come from two sources:

- 75% of funds from oil and gas production taxes that exceed the amount collected in 1987;
- Unencumbered general revenue remaining at the end of the biennium.

The Legislature can also appropriate money to the fund, although they never have. The Rainy Day Fund always replenishes, due to the state's century-long success in the oil and gas industry. According to the Center for Public Policy Priorities, the Rainy Day Fund has only been used four times, most recently in 2003 and 2005 to compensate for budget shortfalls as well as to put money into the Texas Enterprise Fund (2003) and the Emerging Technology Fund (2005).

About the Texas Legislative Study Group

The Legislative Study Group is dedicated to advancing mainstream public policy ideals and ensuring that all LSG caucus members have the necessary information to make informed decisions, leading to the best public policy for all Texans. Since the 73rd Legislative Session, LSG staff has provided accurate and detailed bill evaluations for all of its members. In addition, LSG floor reports have proved to be an invaluable tool for dissecting legislation and preparing for floor debates.

By arming members with accurate information LSG has proved to be a vital part of many legislative battles including protecting key teacher's rights to benefits, protecting and strengthening our public schools by helping to defeat the sending of tax dollars to private schools, and leading the effort to stop the crippling cuts to the CHIP program. In recent sessions, LSG reports on top tier universities and abuse at Texas' state schools have led to substantial policy improvements in Texas.

LSG serves as a primary conduit for the flow of information to legislators on the House floor, during the legislative session. Full time, expert staff focused on key policy areas provide detailed analysis of bills which fall into one of five areas of interest: education, environment, budget, health and human services, and worker and consumer issues. Each area of interest has a specific LSG staff member assigned to track and analyze legislation.

If you have any questions about this report or the Legislative Study Group, you may email us at Info@TexasLSG.org or call LSG Executive Director Joe Madden or LSG Policy Director Phillip Martin at 512-827-8756.

1. "Revenue estimate puts shortfall at \$27 billion," Austin American-Statesman, January 10, 2011.

http://www.statesman.com/blogs/content/shared-gen/blogs/austin/politics/entries/2011/01/10/revenue_estimate_puts_shortfal.html

² "Rick Perry on the Budget, the Border and the Feds," *Texas Tribune*, January 18, 2011. <http://www.texastribune.org/texas-state-agencies/governors-office/rick-perry-on-the-budget-the-border-and-the-feds/>.

³ Article III, page III-6, Section A.2.1 of the Legislative Budget Board Estimates for the introduced House budget.

⁴ "Public schools, college students, Medicaid hammered in Texas House budget plan," *Dallas Morning News*, January 19, 2011. <http://www.dallasnews.com/news/politics/state-politics/20110118-public-schools-college-students-medicaid-hammered-in-texas-house-budget-plan.ece>

⁵ "Texas job cuts coming," *KUT News*, January 18, 2011. <http://www.tpr.org/news/2011/01/news1101181.html>

⁶ Department of Aging and Disability Services LAR request to the LBB for the 82nd Regular Session, taken from page 1 of the Administrator's statement. http://cfoweb.dads.state.tx.us/lar/2012_13/volumel.asp

⁷ "A Tale of Two States—And One Million Jobs!!" Report prepared by The Perryman Group, March 2007, for the Texas Higher Education Coordinating Board.

⁸ All projections are based on LBB fiscal notes provided for House Bill 3, 4, and 5 of the 3rd Special Session of the Texas Legislature.

⁹ "Building Texas: The 2010-2011 State Budget," Center for Public Policy Priorities, June 24, 2009.
<http://cppp.org/research.php?aid=897&cid=6>. Note: numbers