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COMPTROLLER'S REVENUE ESTIMATE SHOWS SHORTFALL OF AT LEAST \$26.8 BILLION AND THE NEED FOR A BALANCED APPROACH TO MEETING THE NEEDS OF TEXAS

(AUSTIN, Texas)—Center for Public Policy Priorities Executive Director F. Scott McCown made the following statement in response to today's release of the biennial revenue estimate by the Comptroller.

"Today the Texas Comptroller of Public Accounts delivered her constitutionally required biennial revenue estimate. While she projects continuing economic recovery, her forecast shows a \$4.3 billion deficit in the current budget and only \$5 billion more in General Revenue for the upcoming two fiscal years than in the current biennium adjusted for the deficit. When increased population and higher costs are taken into account, Texas is at least \$26.8 billion short of the General Revenue needed to provide for current services into the next biennium. In other words, we are short by at least 25 percent.

"With a revenue shortfall this large, the Legislature cannot write a budget through cuts alone without doing terrible damage to Texans and to the Texas economy. For example, cuts alone mean shortchanging our children's education from kindergarten through college. Cuts alone mean compromising public safety. Cuts alone mean suffering for children, the elderly, and those with disabilities. Cuts alone mean losing jobs and curtailing economic development.

"Instead, the Legislature should do what Texas families do. When Texas families face tough times, they use their savings and try to raise more money before they resort to cutting back on things their family *really* needs. The Legislature should take a similar balanced approach.

"A balanced approach requires using the Rainy Day Fund. Texans created the Rainy Day Fund by constitutional amendment in 1988 to help even out the 'boom and bust' cycles in state revenue. Rainy Day Fund revenue comes from higher-than-1987 levels of oil and gas severance taxes plus any General Revenue remaining at the end of a biennium. Thanks to continuing high prices for oil and increased production of natural gas, the comptroller projects Texas will have \$9.4 billion available in the Rainy Day Fund. We need to use it all to bridge the budget gap created by the Great Recession. As our economy recovers, the fund will replenish automatically.

"A balanced approach also requires adding new revenue. Texas does not have the problems of the federal government or big-spending states. Our problem is that we are under-investing in education and infrastructure needed for greater economic growth. Paying slightly higher taxes would foster economic growth if we spent the money wisely, for example, on education. (Texas ranks 45th among the states in state taxes collected as a percentage of total personal income and 47th in state taxes collected per resident.)

"We have options. We could increase our cigarette tax by a dollar a pack and raise about \$1.9 billion. We could temporarily increase our state sales tax by half a percent, with a rebate to protect low-income families, and raise about \$3 billion. Or, we could expand the sales tax base by eliminating unwarranted exemptions or exclusions.

"In over 30 states, the debate about how to deal with the downturn in state revenue due to the Great Recession began with leadership saying, 'no new taxes,' and ended with a tax increase. Once Texans see what it really means to write a budget without the Rainy Day Fund and without new revenue, the Texas debate will begin.

"In the end, Texas will be best served by a balanced approach."

How Big Is the Shortfall? At least \$26.8 Billion.

Different people mean different things when they give a number for our “shortfall” or “what we need.” Usually they mean either: 1) the difference in the revenue available to fund the current budget versus the revenue available to fund the next budget, or 2) the difference in how much we spend in the current budget versus how much we need to spend in the next budget to provide the same services adjusting for more people and higher costs. Using the second, more meaningful, definition the shortfall is at least \$26.8 billion. As the chart below documents, just for nine state agencies and higher-education formulas that account for 82 percent of General Revenue-related spending, Texas needs to spend almost \$20 billion more in the next budget than the current budget to provide current services. Texas needs at least roughly \$99 billion in General Revenue for all current services. Given the Comptroller’s revenue estimate of \$72.2 available General Revenue, Texas has a shortfall of at least \$26.8 billion.

SELECTED GENERAL REVENUE NEEDS FOR POPULATION AND COST GROWTH

	2010-11 GR- Related Budget (billions)	2012-13 GR-Related Baseline and Current Services Exceptional Items (billions)	Increase
Texas Education Agency ¹	\$28.4	\$37.5	\$9.0 billion
Health & Human Services ²	23.0	31.4	\$8.3 billion
Higher Education Formula Funding ³	8.1	8.8	\$730 million
Dept. of Criminal Justice ⁴	5.9	6.3	\$361 million
Employee Retirement System ⁵	2.2	2.8	\$576 million
<u>Teachers Retirement System</u>	<u>3.9</u>	<u>4.8</u>	<u>\$908 million</u>
Total	\$71.6 billion	\$91.6 billion	\$19.9 billion

Definition: “GR-Related” is the sum of General Revenue and General Revenue-Dedicated funding. Items listed above account for 82 percent of all GR-related spending in 2010-11 (including American Recovery and Reinvestment Act funds used instead of GR).

Sources:

Legislative Appropriations Requests for 2012-13 for Texas Education Agency, Employees Retirement System, Teacher Retirement System, Department of Criminal Justice (www.lbb.state.tx.us/External_Links/LAR_82R/Agency_LAR_Listing_82R.htm); Higher Education Coordinating Board, *Formula Funding Recommendations 2012-13 Biennium*, www.theccb.state.tx.us/download.cfm?downloadfile=033B7409-09F1-B37F-EEAC78F058D656C4&typename=dmFile&fieldname=filename, HHS 2012-13 Consolidated Budget, www.hhsc.state.tx.us/about_hhsc/Consolidated-BudgetFY12-13.pdf.

Notes:

- ¹ TEA has no exceptional items requests; of its \$9 billion GR baseline increase, **\$3.25 billion is needed to replace one-time federal stimulus funds (ARRA)**. The TEA request does not reflect subsequent changes in estimates of local property tax collections.
- ² See HHS Consolidated Budget, pages 13 and 14, “Maintain Current Services and Cost Trends for Medicaid/CHIP; Medicaid Managed Care Savings [\$601 million total]; Maintain Current Services: Non-Medicaid”, plus exceptional items for DARS Maintain Services for Selected Programs, DFPS Reduce Caseloads to FY 09 Average; HHSC Eligibility Resources for Caseload Growth; and HHSC Capacity of HHS-Funded Community Services. Of the total GR increase in HHS, **\$4.9 billion is needed to replace ARRA Medicaid and other one-time federal stimulus funds**.
- ³ Includes Coordinating Board Trusteed Funding.
- ⁴ TDCJ request for 2012-13 excludes facilities and staff costs for Exceptional Items 24 and 25.
- ⁵ Reflects only the ERS exceptional items for actuarial soundness and group health insurance cost increases, not the group benefit reserve fund.