



CPPPP ON THE STATE OF THE STATE

Today the Governor gave his State of the State Address¹ to the Legislature. Cutting the state budget in the middle of an economic recession would be counterproductive, and more must be done for those who have lost their jobs and for those who have no health insurance. Texas needs a bolder vision.

Cutting the State Budget Would Hurt the Economy and Texans

Texas already has a lean state budget, spending \$50 billion a biennium less than the national average. Cutting the budget now would be foolish in the short and long run. Public spending during a recession stimulates the economy;² state budget cuts would mean fewer dollars directly spent on goods and services in Texas. Cutting programs such as education would undermine long-term economic prosperity, and cutting health and human services would leave vulnerable children and families unprotected during an economic recession.

With extra federal help and money from the Economic Stabilization Fund (commonly called the Rainy Day Fund), Texas can write a budget that helps us all cope with our nation's economic downturn. Contrary to the Governor's recollection, during the economic downturn in 2003, Texas used extra federal help, billions of dollars from the Economic Stabilization Fund, and new state revenue from fees. Similarly today, Texas needs to take advantage of all available funds.

Texas designed the Economic Stabilization Fund specifically to stabilize the state budget during an economic downturn.³ By 2011, the economy will have improved and state revenues recovered, and the Economic Stabilization Fund will have been replenished with taxes on oil and gas production. Bond rating agencies understand the importance of stabilizing budgets and expect prudent states to spend their rainy day funds when necessary.⁴ During the most significant period of economic stress in a generation, the Legislature should spend a significant portion of our rainy day fund.

Texas Needs to Strengthen Unemployment Insurance

The state's unemployment rate is rising rapidly, and today is at 6 percent. Texas faces even higher unemployment, which generally peaks two years after a recession ends. According to the Texas Workforce Commission, the unemployment rate could rise to 6.9 percent by the end of fiscal 2009. Consequently, the Unemployment Insurance Trust Fund faces a deficit. The federal government may offer Texas help to modernize its unemployment insurance system, stabilize the trust fund, and stimulate consumer spending. Texas needs to take advantage of that help.

Texas Needs to Do More for Those without Health Insurance

In the United States, Texas has the highest percentage of residents without health insurance, including both the highest percentage and largest number of uninsured children. As more Texans lose their jobs, even more Texans will lack health insurance. The Legislature should invest in fixing the state's broken enrollment system, work to reach families who need help, and maximize coverage through Medicaid and CHIP. These changes will get more children the health care they need and help draw more federal dollars to our state.⁵

¹ Perry, State of the State (Jan. 27, 2009) at <http://governor.state.tx.us/news/speech/11852/>.

² Johnson, *Budget Cuts or Tax Increases at the State Level: Which is Preferable During a Recession?* (CBPP Jan. 12, 2009) at www.cbpp.org/1-8-08sfp.htm.

³ McNichol, *Is It Raining Yet?* (CBPP Feb. 21, 2008) at www.cbpp.org/2-21-08sfp2.htm.

⁴ “Reserves provide financial flexibility to react to budget shortfalls or other unforeseen circumstances in a timely manner.... It is important to keep in mind that use of budget stabilization reserves is not in and of itself a credit weakness. The reserves are clearly in place to be used.” Standard and Poors at http://www2.standardandpoors.com/portal/site/sp/en/us/page.article_print/3.1.1.0.1204837014383.html

⁵ For more information on investment needed in CHIP and Medicaid in Texas, visit www.txfinishline.org