CPPP Center *for* Public Policy Priorities

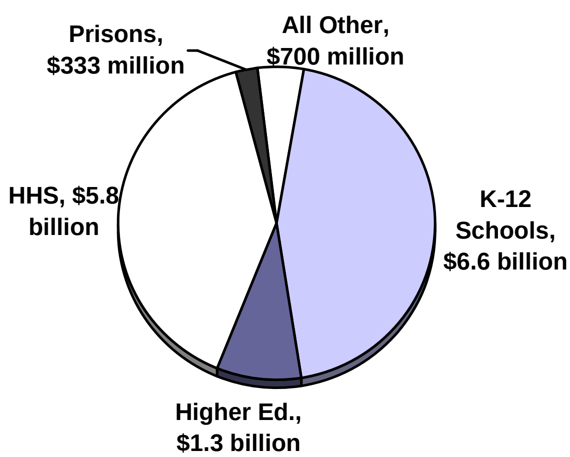
February 4, 2010

To the Texas Congressional Delegation:

The Center for Public Policy Priorities is a member of the State Fiscal Analysis Initiative, and we monitor the state budget closely. While the recession may not be as long or deep in Texas, things are bad. Because of falling tax revenues our state government needs additional fiscal help from Congress to avoid reductions in public services such as education or increases in taxes such as the school property tax. We urge Congress to provide additional state fiscal relief to ensure our state can meet vital needs and our economy fully recovers.

The Governor, Lieutenant Governor, and Speaker have already asked state agencies to prepare five percent budget reductions. While such reductions would be harmful, they would not begin to cover the state's potential budget shortfall. The last five state budgets were very lean, growing less than population and inflation. Projecting from this historical rate of growth and accounting for the need to replace one-time federal dollars provided by the American Recovery and Reinvestment Act (ARRA), CPPP projects that Texas must either increase spending for 2012-13 by about $17 billion in General Revenue (GR) or cut state services such as education and Medicaid. The chart below illustrates how much could be needed in each major area of the state budget.

New General Revenue Needed to Balance Texas Budget in 2012-13
(Includes $7 billion to replace ARRA funds for Education and HHS)



We are not suggesting Congress should cover the total. Texas will have about $9 billion in its Rainy Day Fund. We also assume economic growth will increase state tax revenue from one biennium to the next. But even after spending the Rainy Day Fund, the economy would have to grow by 4 percent a year to cover the budget shortfall. Realistically, Texas will need additional federal aid to avoid service reductions or tax increases.

When the state government cuts its budget, state agencies and local governments have to lay off workers, cut salaries and benefits, and scale back payments to private-sector providers and nonprofits, which in turn have to lay off workers and cut salaries and benefits. With these workers spending less money in the local economy, other businesses suffer as well and are less able to create or preserve jobs. As a result, we could be tipped back into recession.

Federal aid helped balance the 2010-11 state budget through two primary programs: 1) Medicaid (through an increase in the federal share of Medicaid expenditures) and 2) the State Fiscal Stabilization Fund run by the U.S. Department of Education. In January 2011, halfway through the upcoming fiscal year, the federal matching rate for Medicaid will revert to the pre-Recovery Act level, costing Texas roughly $3 billion. The State Fiscal Stabilization Fund, which provided Texas $4 billion, will also be exhausted.

Congress is now considering legislation that would extend federal aid to the states. The House has passed legislation in its jobs bill that would extend the Medicaid funds by six months and put more money into the State Fiscal Stabilization Fund. The Senate is considering its own job-creation legislation. Some fiscal relief also could be included in health care reform legislation; the House-passed health bill included a six-month FMAP extension.

But whatever the vehicle, state fiscal relief is essential to economic recovery. We urge you to act promptly to protect Texas.

Sincerely yours,

F. Scott McCown
Executive Director

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C: State Leadership