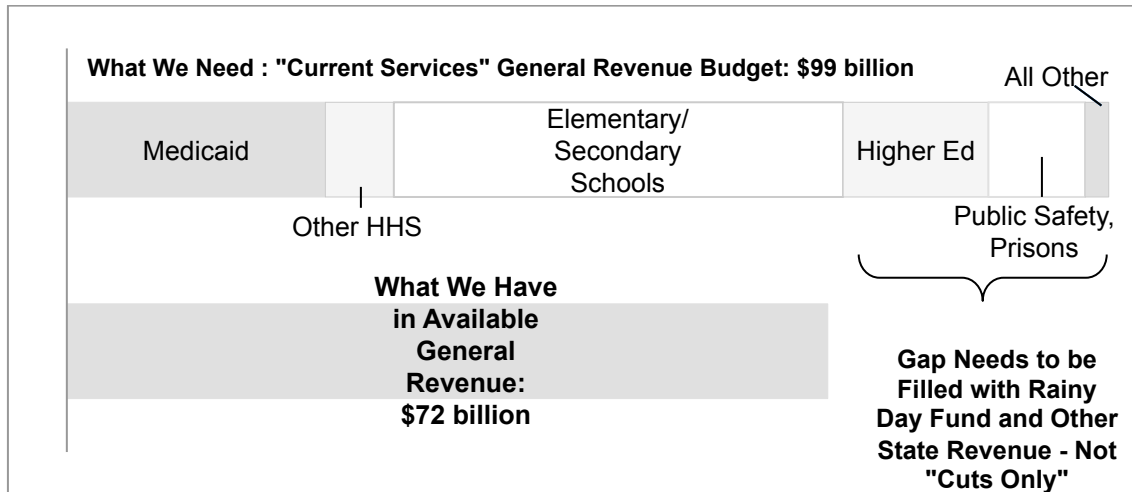




# Cover Texas Now: Quality Affordable Coverage and a Sustainable Health Care System

Cover Texas Now Advocacy Day • March 30, 2011 • Texas State Capitol • Austin, Texas

## Texas' \$27 Billion Revenue Shortfall for 2012-13



### THE REVENUE SIDE: \$72 billion available

Texas has to enact a balanced biennial (two-year) budget. This means that the legislature cannot write a budget with more **general revenue** ("GR", or state dollars) than what the Comptroller forecasts will be available for the next budget cycle—in this case, through August 2013.

For 2012-13, the Comptroller predicted in January 2011 that \$77.3 billion in General Revenue would be collected by August 2013. This does not include the Rainy Day Fund, which the Comptroller said would have a \$9.4 billion balance by August 2013. But after subtracting \$866 million in transfers to the "Rainy Day" Fund, and covering an anticipated \$4.3 billion deficit in the current budget, **only \$72.2 billion in GR would be available for the 2012-13 budget.**

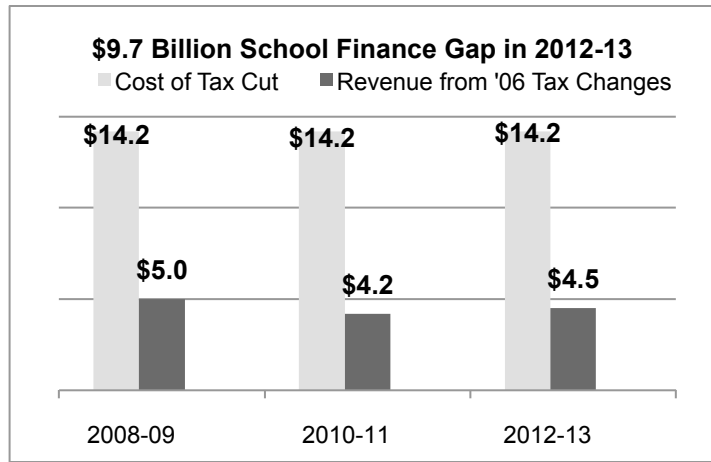
The House's recent decision to eliminate the \$4.3 billion deficit in our current 2010-11 budget with a combination of spending cuts and \$3.2 billion in Rainy Day Fund revenues increases the amount of GR available for 2012-13, but still nowhere near enough to meet the "current services" needs.

### THE SPENDING SIDE: at least \$99 billion needed

The General Revenue budget in 2010-11 originally totaled \$87 billion. But \$6.4 billion of this was federal Recovery Act (ARRA) money, used instead of state dollars because the 2009 legislature was short on revenue to cover 2010-11 needs until ARRA came to the rescue. (Without ARRA, the Rainy Day Fund probably would have been used in 2009.) By January 2011, the amount of Recovery Act money used as state funds in the 2010-2011 budget had climbed by another \$1.9 billion. This means that even spending as much as we did in 2010-11 requires \$89 billion in General Revenue.

As state tax collections fell short in 2010, the state's leadership made \$1.4 billion in budget cuts for 2010-11—mostly for health care providers of Medicaid and CHIP services, and in higher education and public safety.

State agencies and universities turned in budget requests during Summer/Fall 2010 showing that at least \$11 billion in additional General Revenue is needed to cover “current services” for 2012 and 2013, mainly for school and college enrollment growth, and health care services client and cost growth. Both House and Senate versions of the budget bill (HB 1 or SB 1, the General Appropriations Act) spend less than what Texas spent in 2008-2009 (\$82 billion in GR)—even before adjusting for population growth and inflation.



**WHY THE GAP?**

Almost 2/3 of the revenue gap is due to state tax collections dropping, as the recession hit Texas and hundreds of thousands of unemployed Texans cut back on spending. (Our state’s tax system relies heavily on sales or “consumption” taxes.)

Adding to the revenue problems caused by the recession is the “structural gap” caused by a tax cut passed by the legislature in 2006. That attempt to lower local school property taxes costs the state \$14 billion every two years, so that school districts would be no worse off. But the new state business and cigarette taxes to offset the lost local revenue are about \$10 billion below what’s required to pay for the school tax cuts. This means that every two years, \$10 billion that could otherwise have gone to health and human services, higher education, public safety, or other state services is needed just to fill this “hole.”

**ALTERNATIVES TO A ‘CUTS-ONLY’ APPROACH**

Legislators have several options available to them that can balance the budget without making the devastating cuts to schools and health care proposed in the House and Senate budgets:

**Use the Rainy Day Fund.** On the House side, \$6.2 billion remains unspent in the state’s Economic Stabilization Fund, which is intended to be used when state revenue falls because of a recession.

**Eliminate unwarranted tax exemptions.** The Texas tax code includes many tax credits and other provisions that have long outlived their usefulness, or that were never proven to be effective economic development tools.

**Enact a “Healthy Texas” tax package.** Increasing the cigarette tax by another \$1 per pack would raise \$1.5 billion for the biennium. A penny-per-ounce tax on sugar loaded beverages would raise \$2.5 billion.

**Delay large payments.** For example, instead of cutting school aid, legislators could postpone a payment to school districts so that it happens in the next (2014-15) budget cycle, “saving” \$1.8 billion temporarily and buying time for state revenue to recover.

**Recap of spending side:**

2010-11 General Revenue starting point (including ARRA used as GR):	\$89 billion
Cuts to 2010-11 spending (from 5% and 2.5% mandates):	-1.4 billion
Additional needed to cover “current services” in 2012-13:	<u>11.0 billion</u>
	\$99 billion
<b>Compared to available General Revenue:</b>	<u>\$72 billion</u>
<b>GAP:</b>	\$27 billion