



Fiscal Issues for the 83rd Legislature January 2013

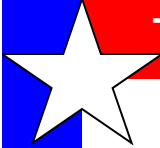
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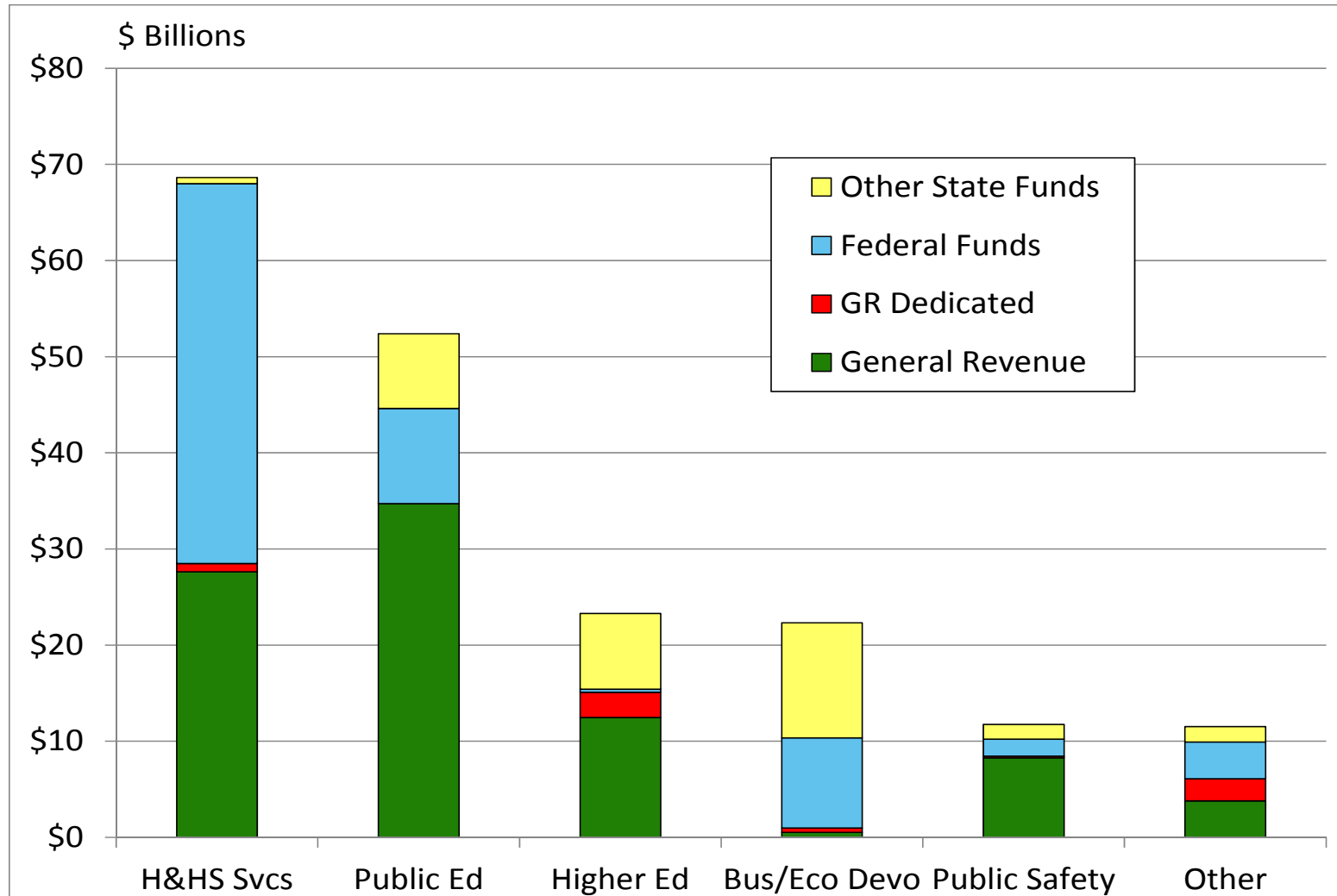


TTARA

The Texas Taxpayers and Research Association is a non-profit membership-supported organization of businesses, trade associations, tax practitioners and individuals that endorse sound state and local fiscal policies in Texas. Our members come from the entire range of economic sectors and share a common belief that all participants in our state's economic system have a stake in and should have a meaningful say in determining its future.



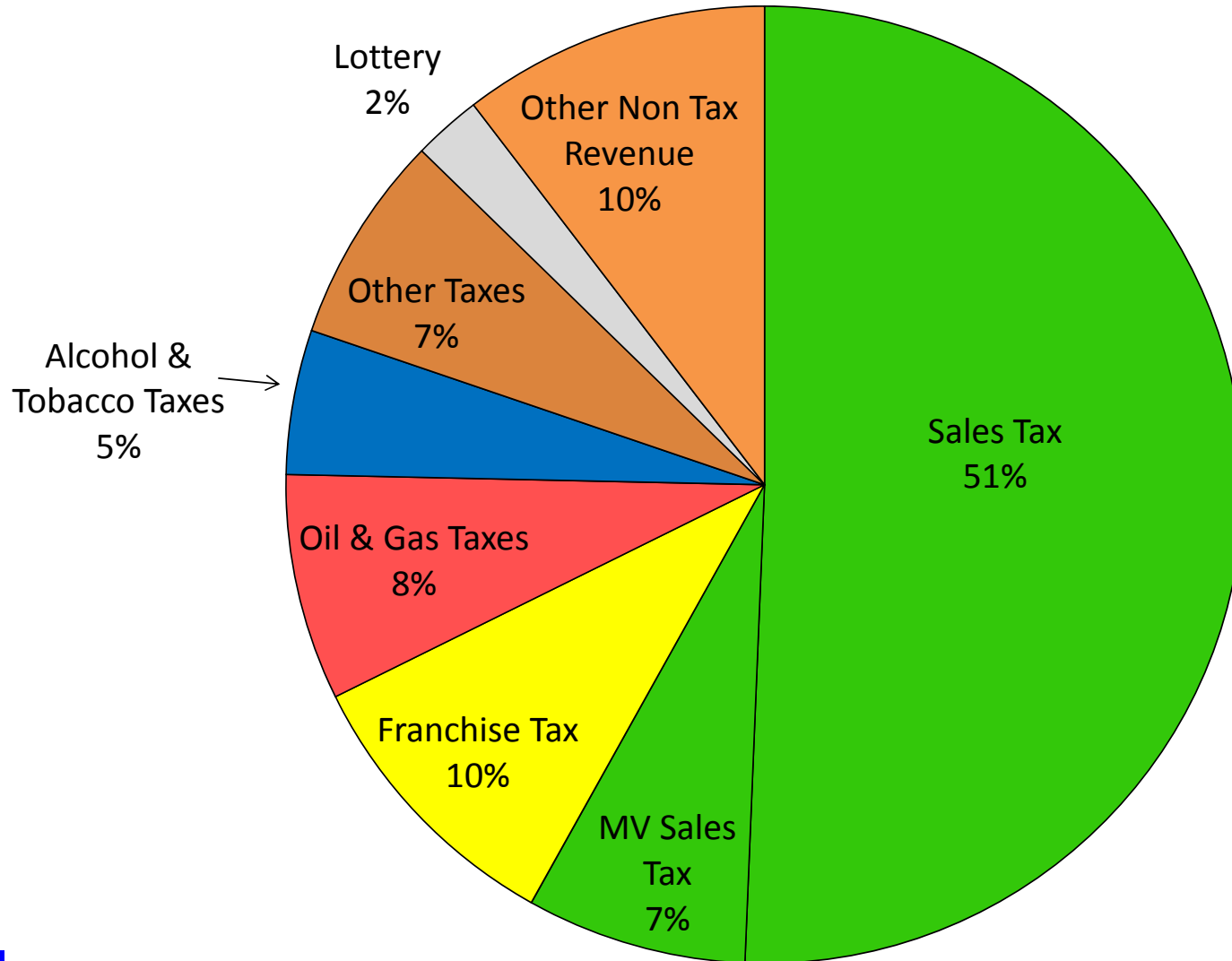
The Texas State Budget 2012-13



Technical Note

The figures showing general revenue funds include the property tax relief fund, including all revenues from franchise and tobacco taxes.

Sources of General Revenues



Recap of 2011

- Expected revenues fell short because of the recession
- Lawmakers faced an immediate \$4.3 billion deficit for 2011 (CPA, Jan 2011 BRE)
- Looking ahead to the 2012-13 budget, lawmakers faced a \$27 billion shortage (LBB, Fiscal SizeUp, 2012-13)



Balancing the 2012-13 Budget

\$ Billions

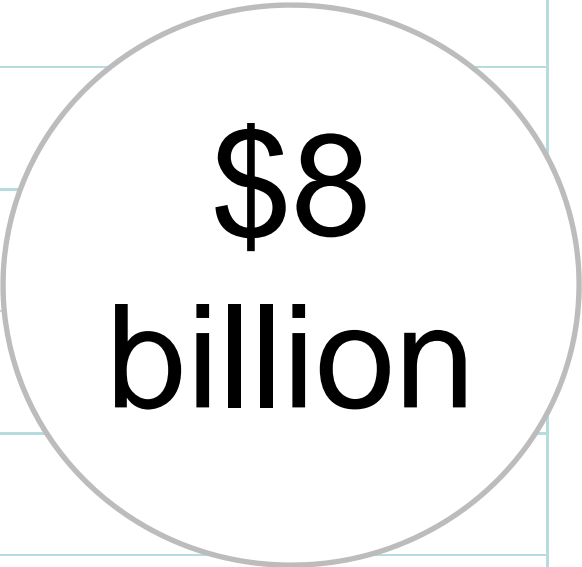
Item	Total
Cut Current Budget	\$1.2
Rainy Day Fund	\$3.2
Revenues	\$5.0
Reduce School Formulas	\$4.0
Defer Aug State Aid Pmt	\$2.3
Underfund Medicaid	\$4.3
Other Spending Cuts	<u>\$7.0</u>
Total	\$27.0



One Time Money

\$ Billions

Item	Total
Cut Current Budget	
Rainy Day Fund	
Revenues	
Reduce School Formulas	
Defer Aug State Aid Pmt	
Underfund Medicaid	
Other Spending Cuts	



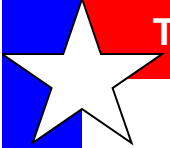
Things Start Looking Up

- Comptroller raises her estimate of revenues in certifying the 2012-13 budget in December of 2011
 - \$1.0 billion of contingent appropriations certified
 - Ending surplus of general revenue funds estimated at \$1.6 billion

Improving Revenues

Prior and Current Estimates of 2012-13 Revenues (\$ billions)

<u>Source</u>	<u>2012-13 CRE</u>	<u>January 2013 Rev.</u>	<u>Difference</u>
Sales Taxes	\$51.5	\$57.3	\$5.8
Severance Taxes	\$4.8	\$7.0	\$2.2
Franchise Tax	\$8.2	\$9.2	\$1.0
Other Taxes	\$12.1	\$12.1	\$0.0
Non-Tax Revenues	<u>\$11.5</u>	<u>\$11.9</u>	<u>\$0.4</u>
Total Gross Revenues	\$88.1	\$97.5	\$9.4
Rainy Day Fund Reserve	<u>(\$1.9)</u>	<u>(\$3.6)</u>	<u>(\$1.7)</u>
Net Revenues	\$86.2	\$93.9	\$7.7



Revised Estimate of 2013 Surplus

Summer 2011	\$0.0 billion
December 2011	\$1.6 billion
January 2013	\$8.8 billion



Using the 2013 Surplus

Medicaid & HHS Obligations	\$4.52 billion
Other Supplemental Items	\$0.51 billion
Undo School Aid Deferral	<u>\$1.75 billion</u>
Total Supplemental Items	\$6.78 billion
Undo Tax Speed-Ups	<u>\$0.33 billion</u>
Total	\$7.11 billion



The Overall Revenue Outlook

\$ Billions

<u>Source</u>	<u>2012-13</u>	<u>2014-15</u>	<u>Growth</u>	<u>Pct</u>
Beginning Balances/Adjmts	\$1.6	\$8.8	\$7.2	n.a.
Sales Taxes	\$57.3	\$62.9	\$5.6	9.8%
Severance Taxes	\$7.0	\$7.1	\$0.1	1.0%
Franchise Tax	\$9.2	\$9.5	\$0.3	3.1%
Other Taxes	\$12.1	\$11.8	(\$0.3)	(2.5%)
<u>Non-Tax Revenues</u>	<u>\$11.9</u>	<u>\$10.6</u>	<u>(\$1.3)</u>	<u>(11.0%)</u>
Total Gross Revenues	\$99.1	\$110.7	\$11.6	11.7%
<u>Rainy Day Fund Reserve</u>	<u>(\$3.6)</u>	<u>(\$3.6)</u>	<u>(\$0.0)</u>	<u>n.a.</u>
Net Revenues	\$95.5	\$107.1	\$11.6	12.1%



Key Revenue Estimate Assumptions

<u>Assumption</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Personal Income	2.7%	7.8%	4.7%	5.3%	5.1%	5.3%
Sales Tax Growth	(6.6%)	9.4%	12.6%	8.1%	2.4%	5.9%
Price of Oil	\$72.75	\$87.91	\$91.96	\$85.00	\$82.18	\$80.33
Nat Gas Price	\$3.91	\$4.09	\$3.51	\$3.10	\$3.68	\$4.04

The Senate and House Budgets

General Revenue Discretionary Funds (\$ Billions)

<u>Area</u>	<u>2012-13</u>	<u>Senate 2014-15</u>	<u>House 2014-15</u>
Health & Human Svcs	\$27.6	\$28.4	\$28.8
Public Education	\$39.1	\$40.6	\$40.5
Higher Education	\$12.5	\$12.2	\$12.1
Public Safety	\$8.3	\$8.5	\$8.5
<u>Other</u>	<u>\$4.3</u>	<u>\$4.8</u>	<u>\$4.8</u>
Total	\$91.8	\$94.5	\$94.7



House/Senate Differences

\$ Billions

Medicaid Caseloads	\$0.4 H+
Pub Ed Assessment Program	\$0.1 S+
Higher Ed: Formulas	\$0.1 S+
Miscellaneous Other: <i>Law Enforcement Education Grants, 911 Next Generation, Firefighters Pension, Communities in Schools, Wildfire Protection, DPS</i>	negl.



Is There More Than Enough?

\$ Billions

<u>Item</u>	<u>House</u>	<u>Senate</u>
Revenue Available	\$107.1	\$107.1
2013 Supplemental	(\$5.0)	(\$5.0)
Undo School Deferral	(\$1.8)	(\$1.8)
Budget Draft	<u>(\$94.9)</u>	<u>(\$94.6)</u>
Net	\$5.44	\$5.66



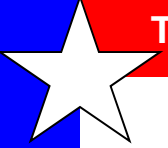
Three Elephants in the Room

\$ Billions

<u>Item</u>	<u>Cost</u>
1. Medicaid Caseloads, Costs, and Utilization	\$2 to \$4
2. Public School Finance	\$0 to ???
3. Use of Dedicated Funds for General Purposes	\$0 to \$5

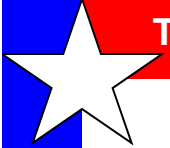
1. Medicaid

- The House funds caseload growth, the Senate does not
- Neither funds inflation, higher utilization or increased acuity
- Neither funds changes resulting from the Affordable Care Act



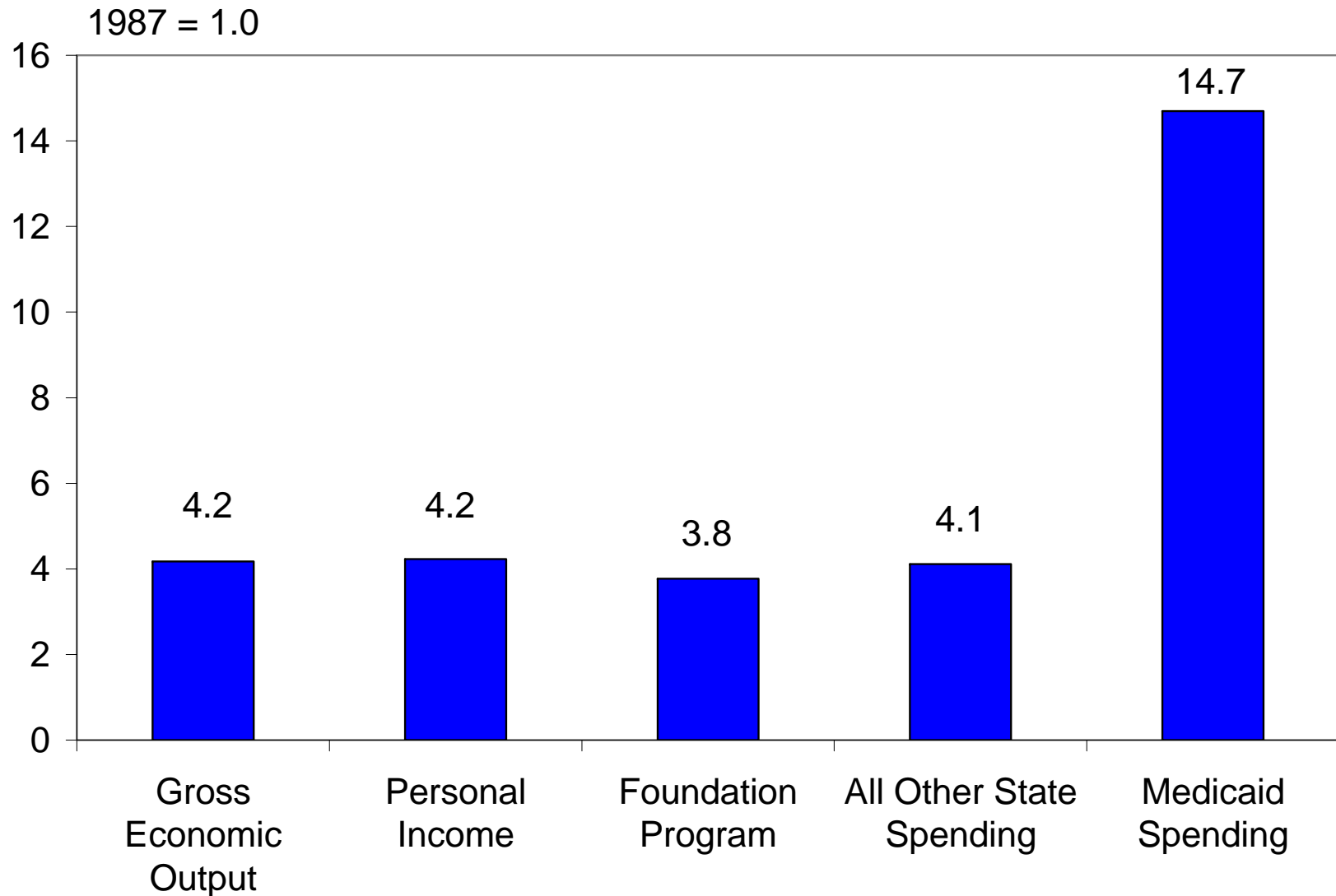
What Drives Medicaid Costs

$$\begin{aligned} & \text{Eligible Clients (caseloads)} \\ X & \text{ Services Provided} \\ X & \underline{\text{Cost of Services}} \\ \\ = & \text{Total Cost of Medicaid} \end{aligned}$$



Texas Growth Statistics

1987 to 2011

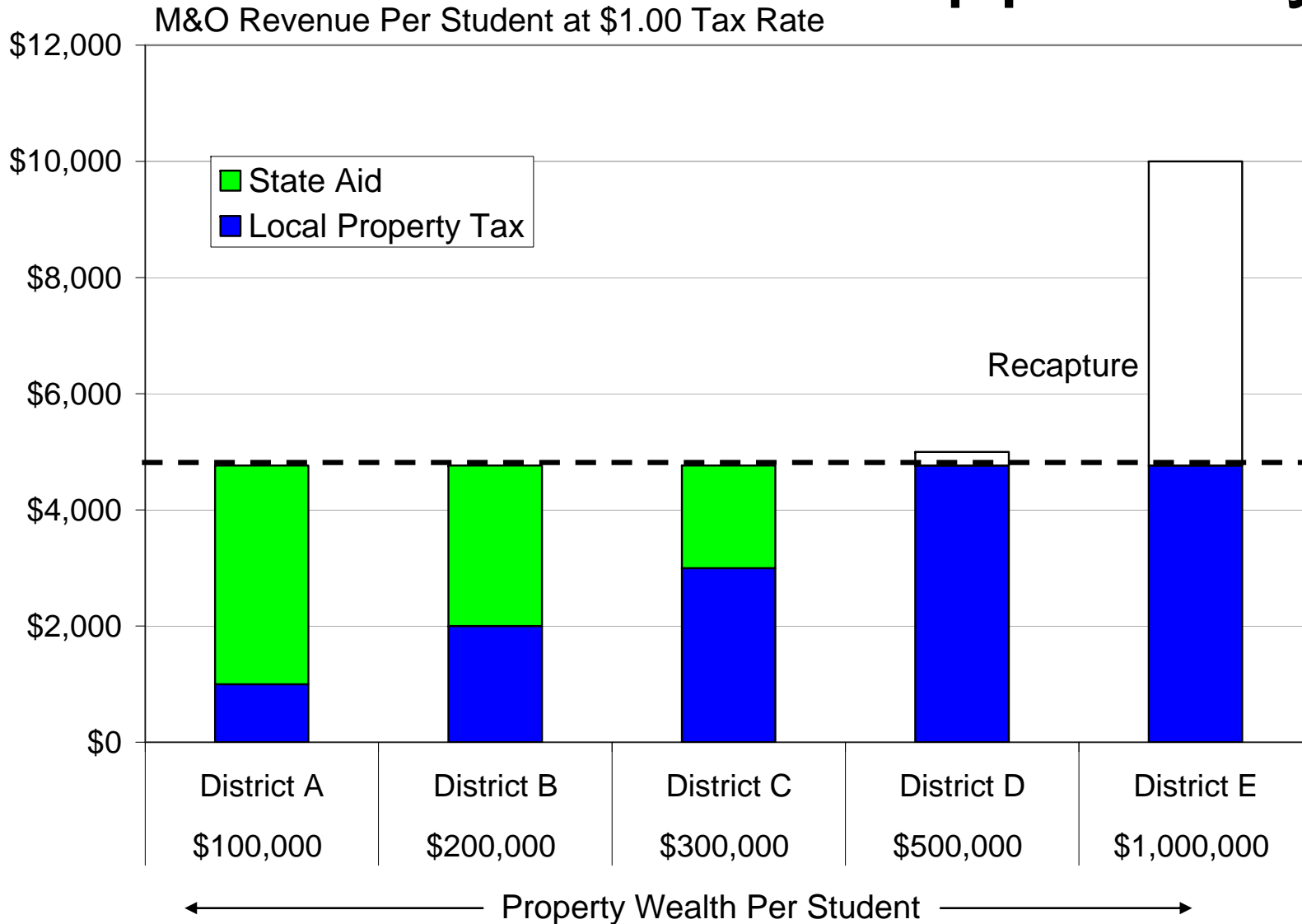




2. Public School Funding

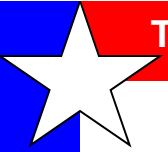
Cost of Enrollment Growth	\$2.2 b
Less:	
Local Property Taxes	(\$1.5 b)
Change in "Settle-Up"	(\$0.9 b)
Plus:	
Deferral Undoing	<u>\$0.3</u>
Net Increase to Public Schools	\$0.1

School Finance... supposedly



3. Dedicated Funds

- The state collects fees and revenues dedicated for particular programs
- The budget appropriates less to the programs than the revenue collected
- The un-appropriated moneys add to the ending balance of the general revenue fund
- The legislature appropriates these balances for general purposes



Texas Spending Limit

Texas Constitution Art. 8 Sec 22

Sec. 22. RESTRICTION ON APPROPRIATIONS.

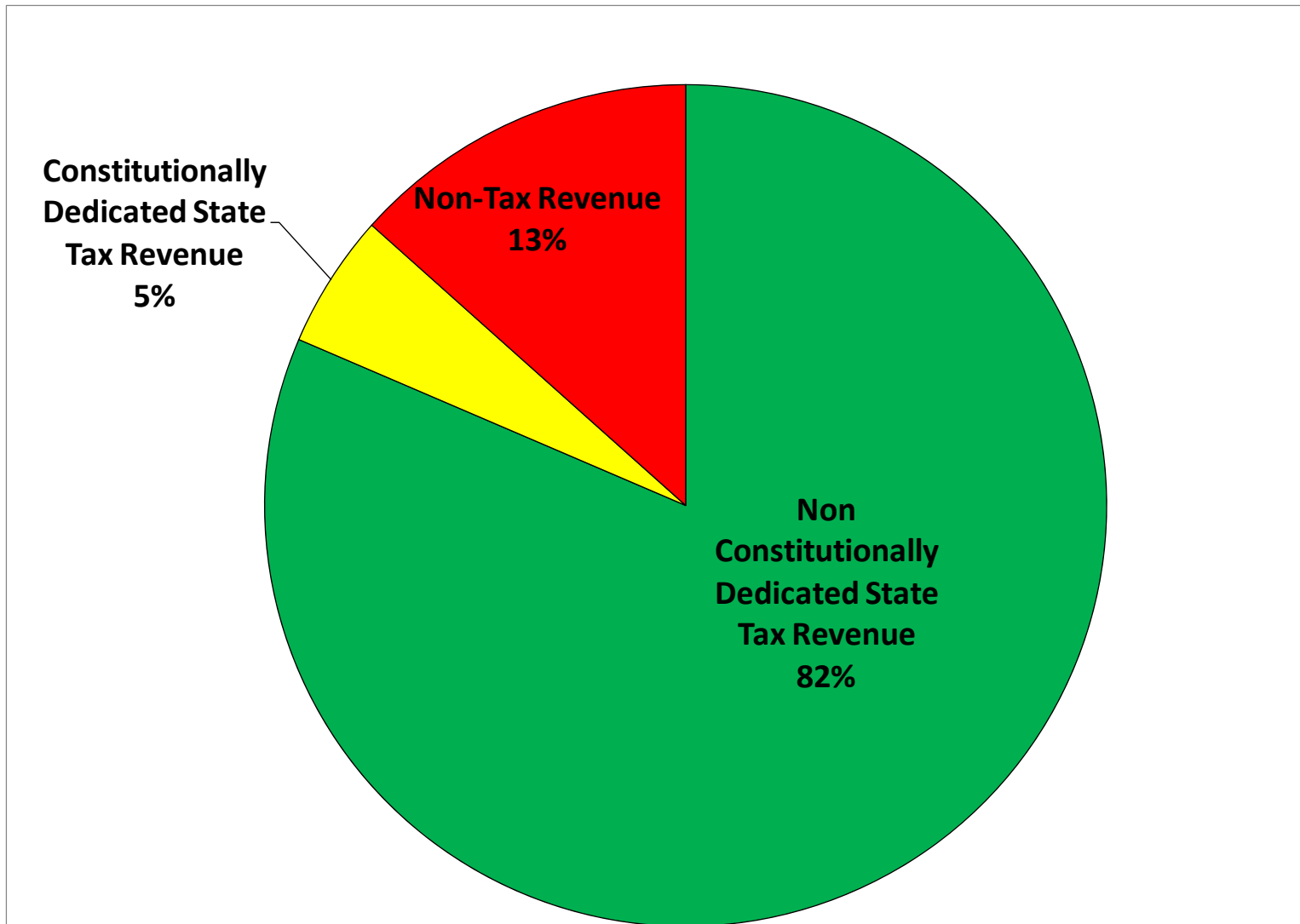
(a) In no biennium shall the rate of growth of appropriations from ***state tax revenues not dedicated by this constitution*** exceed the estimated rate of growth of the state's economy...

(b) ...the legislature by adoption of a resolution approved by a ***record vote of a majority of the members***...may provide for appropriations in excess of the amount

The Spending Limit

- LBB, as required by statute, adopted a spending limit based on personal income growth of 10.7 percent
- The limit requires a complex cross-walk calculation because the limit applies to only a portion of state revenues (see *Texas Register, November 9, 2012*)

Calculating the Limitation Base





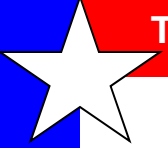
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- The limit requires a complex cross-walk calculation because the limit applies to only a portion of state revenues (see *Texas Register, November 9, 2012*)
- The limit will be adjusted as revenues and appropriations shift

The Spending Limit and the House and Senate Budgets

	<u>Senate</u>	<u>House</u>
Excess Revenue	\$5.7 b	\$5.4 b
Room Under the Limit	<u>\$4.5 b</u>	<u>\$4.3 b</u>
Revenue Above the Limit	\$1.2 b	\$1.1 b

Note: Assumes supplemental appropriations in 2013 of \$6.8 billion.



The Bottom Line

- May be a very real constraint this session
- It will be challenging to stay under the limit if the budget:
 - fully funds Medicaid, and
 - restores all funds previously cut from Public Education.



Rainy Day Fund Record

- The Rainy Day Fund is projected to have a record ending balance at the end of fiscal year 2015:

\$11.8 Billion



The “Rainy Day” Fund

Texas Constitution, Article 3, Section 49-g

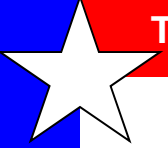
- Four ways money goes into the fund:
 - 50% unencumbered biennial cash balance
 - 25% oil tax money over 1987 collections
 - 25% natural gas tax money over 1987 collections
 - Any other amounts *appropriated* by the Legislature
- Balance may not exceed 10 percent of general revenues from previous biennium (excluding interest, investments, and interfund borrowing)



Spending the “Rainy Day” Fund

Texas Constitution, Article 3, Section 49-g

- A 3/5 vote (members present) is necessary to...
 - fund *existing* appropriations to the extent existing revenues projected to fall short
 - fund prospective appropriations up to the amount of money in the previous budget
- A 2/3 vote (members present) is necessary for any other circumstance



Thanks for Joining Us!

If you have any questions or comments, please feel free to contact TTARA staff.

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