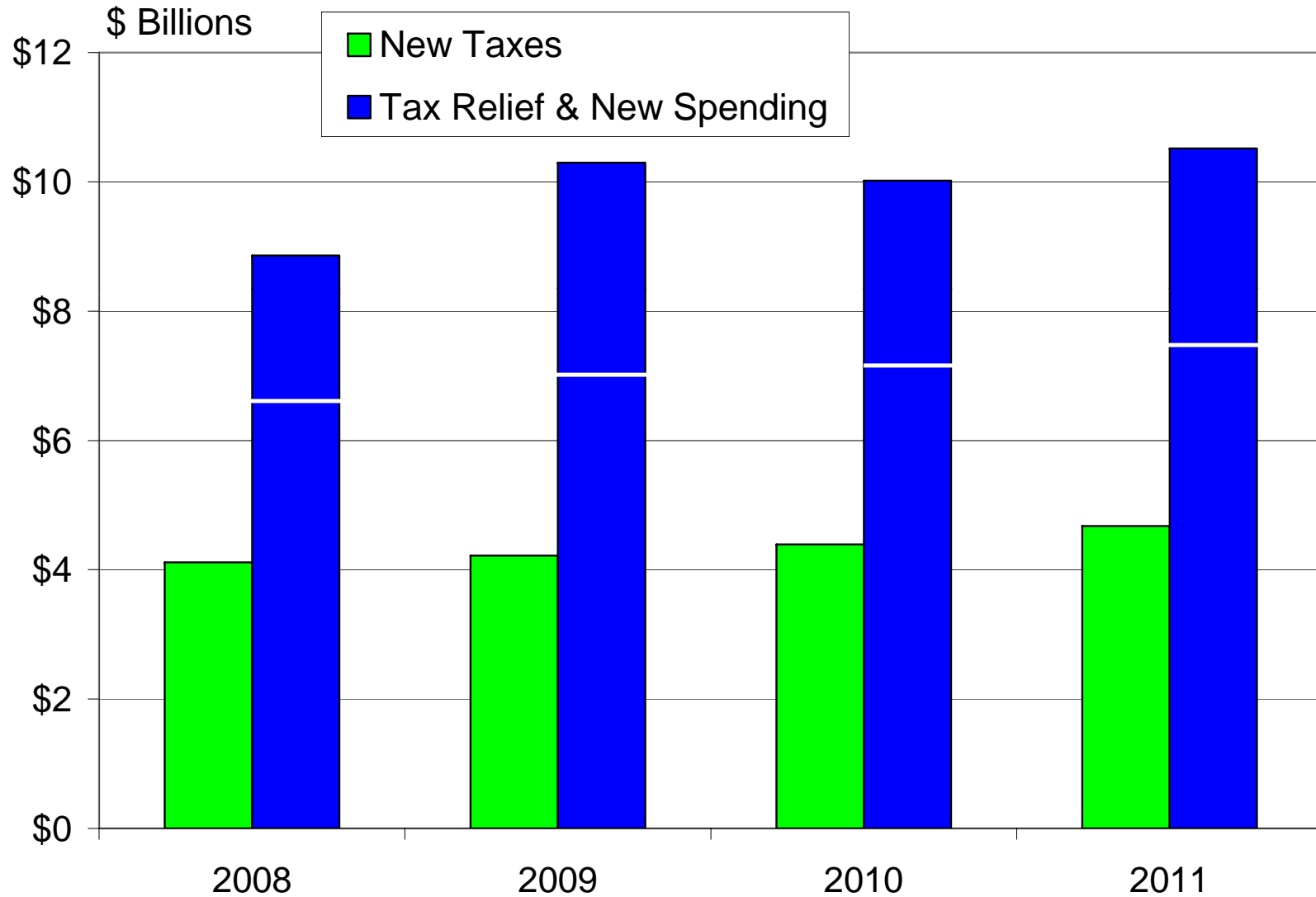


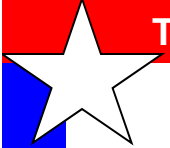
Dealing with Texas' Fiscal Challenges

Dale Craymer,
President

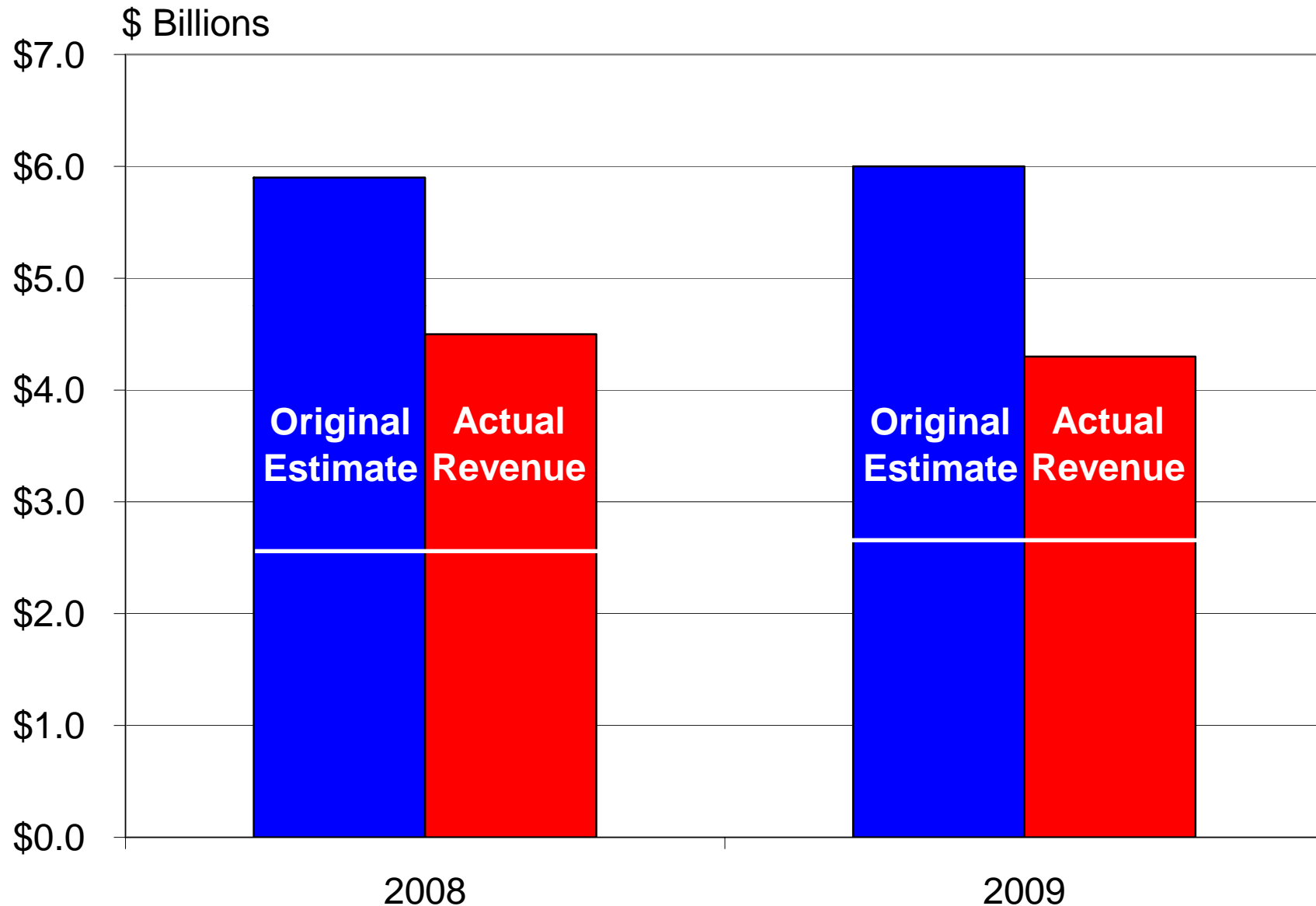
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The 2006 Tax Relief Initiative





The Franchise Tax Estimates



The 2006 Initiative In Retrospect

\$ billions

	New Spending	Intended Net Tax Relief	Intended State Cost	Unintended Tax Relief	Total Actual State Cost
2008	(\$2.1)	(\$2.5)	(\$4.6)	(\$1.6)	(\$6.2)
2009	(\$3.3)	(\$2.6)	(\$5.9)	(\$1.7)	(\$7.6)
2010	(\$2.7)	(\$2.8)	(\$5.5)	(\$2.4)	(\$7.9)
2011	(\$2.8)	(\$2.9)	(\$5.7)	n.a.	n.a.

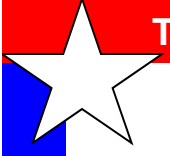
The Facts

- In 2006, lawmakers intended:
 - \$2.5 billion/year in net tax relief, and
 - \$2.5 billion/year in new education spending
 - These amounts were built into the budget
- Missed estimates has added \$1.5 billion a year of unintended tax relief

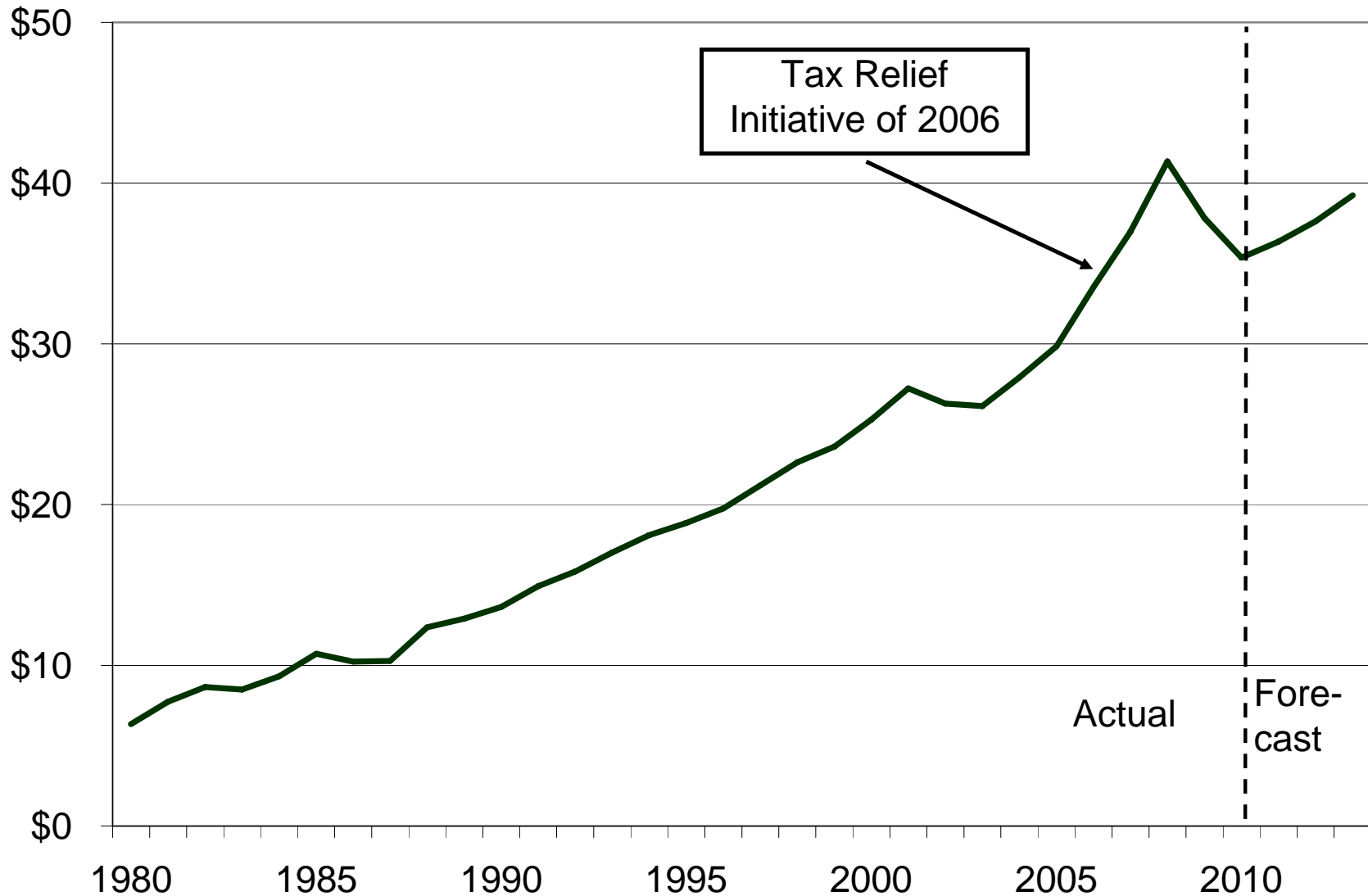


The Facts, continued

- In the first biennium the franchise tax was in effect, the state's projected surplus was \$400 million **better** than predicted. The franchise tax "shortfall" was offset by higher-than-expected other revenues.
- Had it not been for the recession, the franchise tax shortfall would have continued to be absorbed by other revenues



Texas Tax Revenue Growth





Comptroller's Revenue Estimate

(Billions of Discretionary Dollars)

Item	2010-11	2012-13	Difference
Beginning Balances	\$5.8	(\$4.3)	(\$10.1)
Federal Stimulus Funds	\$8.3	\$0.0	(\$8.3)
Current Revenues	<u>\$75.8</u>	<u>\$80.9</u>	<u>\$5.0</u>
Total Revenue Available	\$89.9	\$76.7	(\$13.4)

Note: Amounts include state general revenue funds and all funds which interact with general revenue as an offset, including the property tax relief fund and the portion of 2010-11 federal stimulus money used to supplant general revenues.

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Comptroller's Revenue Estimate

(Billions of Discretionary Dollars)

Item	2010-11	2012-13	Difference
Beginning Balances	\$5.8	(\$4.3)	\$18.4
Federal Stimulus Funds	\$8.3	\$0.0	
Current Revenues	<u>\$75.8</u>	<u>\$80.9</u>	<u>\$5.0</u>
Total Revenue Available	\$89.9	\$76.7	(\$13.4)

Note: Amounts include state general revenue funds and all funds which interact with general revenue as an offset, including the property tax relief fund and the portion of 2010-11 federal stimulus money used to supplant general revenues.



Revenue/Savings Measures

- **Comptroller** raised 2011 revenue estimate by \$1.5 billion
- **HB275 by Pitts:** Appropriates \$3.2 billion from the Rainy Day Fund to close the 2011 deficit
- **HB4 by Pitts:** Cuts \$1.2 billion from existing 2011 state appropriations (and appropriates an additional \$0.8 billion for schools)



Revenue/Savings Measures, continued

- **SB 1 by Duncan** (special session “fiscal matters” bill):
 - Defer August school payment \$2.3
 - Rewrite school finance formulas \$4.0
 - Various tax provisions \$0.8

The 2012-13 Budget, as passed

General Revenue, Federal Stimulus & Property Tax Relief

<u>Area</u>	<u>2010-11</u>	<u>2012-13</u>	<u>\$ Diff</u>	<u>% Diff</u>
Public Education	\$42.1	\$38.3 ¹	(\$3.8)	-9.0%
Health/Human Svcs	25.8	22.7	(3.1)	-12.1%
Higher Education	13.1	11.8	(1.3)	-9.9%
Pub Safe/Crim Jus	8.6	8.1	(0.5)	-6.1%
Other	<u>4.9</u>	<u>4.2</u>	<u>(0.7)</u>	<u>-14.8%</u>
Total	\$94.5	\$85.0	(\$9.5)	-10.0%

¹ An additional \$2.3 billion will be made available in September of 2013.

Public Education

- Texas law, arrived at after many years of litigation, establishes how much the state must spend, in combination with local school property taxes
- Lawmakers re-wrote current law to reduce the amount required for public education by \$4.0 billion—roughly a 6% cut from what old formulas would have required
- A lawsuit over the new school finance provisions and level of funding is expected

Medicaid

- 85% of Health and Human Services spending is Medicaid
- Texas has little flexibility to set eligibility or service levels for this entitlement program
- Absent federal approval of programmatic cuts, Texas Medicaid cuts will be illusory
- Current projections suggest Texas will need an additional \$4.8 billion over what is budgeted for 2012-13
- Texas may need an additional \$2 billion in 2014-15 for new federal health care mandates



The Texas Rainy Day Fund

January 2011 Projection	\$9.4 billion
Comptroller Revision	0.3
HB275 Appropriation for 2011	<u>(3.2)</u>
Amount Currently Available	\$6.5 billion
Medicaid Shortfall	<u>(\$4.8 billion)</u>
Balance Available ending 2013	\$1.7 billion



One Time Money in the 2012-13 Budget

<u>Item</u>	<u>2010-11</u>	<u>2012-13</u>	<u>\$ Diff</u>
School Aid Deferral	\$2.3	(\$0.0)	(\$2.3)
Speed-ups/Deferrals			
Unclaimed Property	\$0.3	\$0.0	(\$0.3)
Taxes	\$0.3	(\$0.3)	(\$0.6)
Fuels Tax Transfers	\$0.4	(\$0.4)	(\$0.8)
Rainy Day Medicaid	<u>\$4.8</u>	<u>\$0.0</u>	<u>(\$4.8)</u>
Total	\$8.1	\$0.7	(\$8.8)



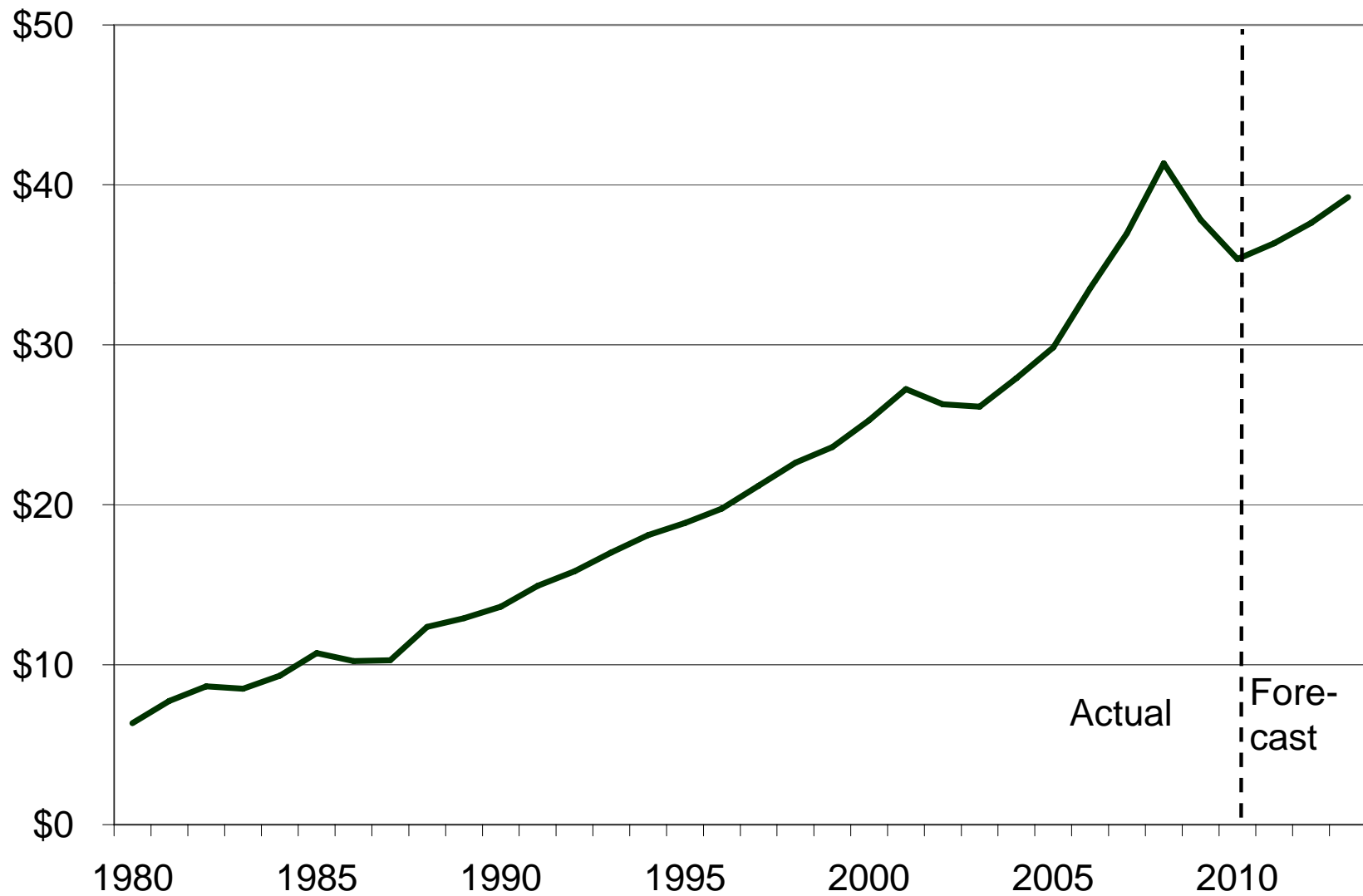
The Major Budget Challenges

2013 Medicaid shortfall	\$ 4.8 billion
2014-15 Medicaid mandates	\$ 2 billion
Public school finance lawsuit	??? billion
Fill gap from use of one-time moneys	\$ 9 billion

BUT...

- In times of prosperity, Texas' revenue system has the ability to generate substantial amounts of new money, as it did after the 2001 recession
- The current recovery, at present is modestly exceeding official expectations

Texas Tax Revenue Growth



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

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