State Fiscal Issues	Tab 18

Background:

The Committee received an update during its August meeting regarding the *Texas Forward* advocacy coalition. At that time, the committee asked staff to provide additional information regarding the coalition and its activities, and additional information regarding policy issues related to the state's fiscal crisis. Additional information is provided in meeting materials.

Public Policy Committee **Agenda Item 8. B.**	**Expected Action:** The Committee will receive an update and provide guidance as needed. The Committee may also recommend a Council position on state revenue issues.
Council **Agenda Item 20. B.**	**Expected Action:** The Council will review any recommendation from the Public Policy Committee concerning state revenue issues and determine final action.

Summary of Agency FY 2012-2013 Legislative Appropriations Requests

Background

Prior to the start of each legislative session, the Legislative Budget Board (LBB) and the Governor's Office of Budget, Policy and Planning (GOBPP) jointly issue instructions to each Texas state agency regarding how to develop their Legislative Appropriations Request (LAR). An agency's LAR is their request to the Legislature for money to operate their programs over the next two-year biennium. Each LAR can be several hundred pages in length and is available online at: www.lbb.state.tx.us/External_Links/LAR_82R/Agency_LAR_Listing_82R.htm.

Below is a simplified summary of the key items included in various agencies' LARs that may impact people with developmental disabilities. This summary will be updated as more agencies release their budget information. For more information, contact Angela Lello at angela.lello@tcdd.state.tx.us or (512) 437-5417.

Health and Human Services Commission

The Health and Human Services Commission (HHSC) provides health services for low-income children and individuals with disabilities through the Medicaid and Children's Health Insurance Programs. In addition to Medicaid and CHIP, HHSC operates the Supplemental Nutritional Assistance Program (SNAP), or food stamps, the Temporary Assistance to Needy Families (TANF) program, indigent health care program, family violence services, refugee services and disaster assistance.

HHSC also provides administrative oversight for the health and human services system, including the Department of Aging and Disability Services, the Department of State Health Services, the Department of Assistive and Rehabilitative Services, and the Department of Family and Protective Services.

HHSC Base Request Includes

The HHSC base request does not maintain service levels or account for growth in several programs including child and maternal health care, children and medically needy risk groups, refugee services, and others. The base request also reduces reimbursement rates to Medicaid providers.

HHSC Exceptional Items Include

HHSC's LAR includes requests to expand community services, reducing the time for individuals on waiting/ interest lists. This exceptional item would fund additional waiver slots in Medicaid waivers operated by DADS, reduce the waiting lists for the independent living services and comprehensive rehabilitation services programs operated by DARS, and community mental health services operated by DSHS.

Department of Aging and Disability Services

The Department of Aging and Disability Services (DADS) administers long-term services and supports for people who are aging or who have cognitive and physical disabilities. DADS also licenses and regulates providers of long-term services and supports programs. DADS programs include State Supported Living Centers, home and community based Medicaid waiver programs, nursing facilities and ICFs/MR.

Base Request Includes

DADS base funding level would reduce the number of persons served in community-based Medicaid waivers by 13,368 individuals. The current FY 2010-2011 budget expanded the number of persons served in community waiver services. The FY 2012-2013 LAR base request reduces the number of persons served overall, and truncates any expansion efforts that occurred in FY 2010-2011. Additionally, Community MR Services and In-Home Family Support Services are funded below their current (FY 2011) levels.

Exceptional Items Include

Maintaining FY 2010-2011 Service Levels: Several exceptional items would allow DADS to continue to serve the same number of individuals in community waiver programs that are served in FY 2011. These exceptional items would account for the replacement of ARRA funds, maintaining expanded service levels, etc. These items would impact Medicaid waiver services, community MR services, and the In-Home and Family Support Services.

Promoting Independence: An exceptional item requested by DADS would fund 500 HCS waiver slots for individuals in large ICFs/MR and State Supported Living Centers, 192 HCS waiver slots for foster children aging out of care, 240 crisis slots for people at imminent risk of entering an ICF/MR and 100 slots for individuals at imminent risk of entering a nursing facility. Also, this item would fund Behavior Intervention Teams (BIT) in nine areas of the state to provide intensive behavioral support to individuals with behavioral needs.

Specialized Residential Behavioral Services: This item would create residential services for individuals with intensive behavioral needs who require short-term services to remain in the community.

Department of Assistive and Rehabilitative Services

The Department of Assistive and Rehabilitative Services (DARS) provides vocational rehabilitation and independent living services to people with disabilities. DARS also operates the Early Childhood Intervention (ECI) program for children with developmental delays.

Base Request Includes

Early Childhood Intervention Services (ECI): The base funding reflected in DARS FY 2012-2013 LAR does not include one-time stimulus funding of $44.5 million in IDEA Part C federal stimulus or $11.7 million in FMAP stimulus funds to support operations in ECI. Additionally, DARS FY 2012 GR baseline is below the IDEA Part C Maintenance of Effort (MOE) level by $1.3 million because of the way baseline is calculated. Not meeting the MOE can result in the loss of $39.7 million IDEA, Part C grant award. The base request would provide an average of two hours of direct services per child per month to approximately 27,000 children. DARS must narrow eligibility and serve fewer children if only base funding is received.

Vocational Rehabilitation (VR): At this time, DARS is requesting a 3 percent increase in base funding.
VR Grant Growth – DARS requests state revenue to match expected growth in the federal grant of 3.6%. This VR grant draws down $4 federal for every $1 state match. The request would enable DARS to outsource certain important non-core functions to allow existing VR Counselors to carry higher caseloads and would increase employment outcomes by more than 1,000 customers for the biennium. This is for both VR-Blind and VR-General programs.

Exceptional Items Include

ECI: Two exceptional items would allow DARS to narrow ECI eligibility less significantly and serve approximately 34,527 children with two hours of services per month. Another exceptional item would allow DARS to provide 4 hours of services per month per child to approximately 17,000 children each year of the biennium. This would be achieved with a significant narrowing of eligibility for the program.
VR: DARS is requesting $4.0 million in state funds to draw $14.8 million in federal funds, increasing the number of individuals served by 1,000 for the biennium.

Department of State Health Services

The Department of State Health Services (DSHS) administers the Children with Special Health Care Needs (CSHCN) program, community mental health services, in-patient psychiatric services (state hospitals) and other community health programs.

Base Request Includes

The DSHS LAR base request includes reductions in the Children with Special Health Care Needs, Community Mental Health Crisis services, Substance Abuse Treatment Services, and State Hospital capacity.

CSHCN: This program covers children who are not eligible for CHIP or Medicaid and have special health care needs. It also covers adults with cystic fibrosis. Children are connected to health and related services to keep them healthy and prevent further disability. CSHCN currently provides 5,555 individuals with case management and 2,248 individuals with medical services. The average cost per client in medical services is $13,077. There is a waiting list for this program. A 10% cut means 837 fewer children with special health care needs would receive services.

Community MH Crisis Restoration Services (CRS): An average of 16,647 individuals per year receive CRS. Providing intensive and emergency mental health crisis services diverts people with serious mental illness from law enforcement and hospital emergency rooms. Children are included in these services. A 5% ($5.3 million) reduction over the biennium would mean 2,694 individuals per year would not receive services. A 10% reduction proposal for DSHS ($7.5 million) and would result in 3,842 individuals per year not receiving mental health crisis services and 1,666 clients would not receive community crisis transitional services.

Mental Health Services – Adults: An average of 52,484 individuals receive mental health services per month, including 21,032 who require and receive new generation medications. A 5% ($16.9 million) reduction would cut mental health services for 8,471 individuals per year. A 10% ($25 million) reduction would mean 5,922 adults each year would not receive mental health services. DSHS contracts with 39 Community Mental Health Centers and NorthSTAR to deliver mental health services in communities across Texas. Over 60,000 individuals per year receive community mental health through NorthSTAR. A 10% cut in NorthSTAR means 5,966 fewer individuals would receive services over the biennium. Community interventions can eliminate or manage symptoms and promote recovery for individuals with serious mental illnesses, including schizophrenia and bi-polar disorder. Mental health services provide an integrated approach that merges clinical and rehabilitation staff expertise, including psychiatric, substance abuse, employment, and housing.

Children's Mental Health: In 2009 an average of 12,664 children per month received mental health services. This number dropped to 12,206 in 2010 and will remain stagnant with the 2012-13 LAR. A 5% ($ 4.4 million) cut in GR would mean that 1,094 individuals per year would not receive services from mental health professionals. A 10% ($9.6 million) cut would mean 2,377 children with serious mental illness would not be served. Texas families without access to services are turning their child over to child protective services and relinquishing parental rights just to get their child help.

State Mental Hospitals: $45.3 million cut over biennium would take 193 beds. This means 1,428 fewer patients would be served in state hospitals in FY 2012 - 2013. Private Mental Hospital: A $30 million exceptional item would provide 120 beds serving approximately 1,600 individuals per year.

Substance Abuse Screening Services: Nearly $2 million reduced from OSARs (Outreach, Screening, Assessment and Referral) would mean that 40,811 individuals each fiscal year would not receive these front door substance abuse services.

Exceptional Items Include

Community Mental Health and Substance Abuse : $18.6 million in GR/$21 million all funds to fund Continuity of Care Task Force and Mental Health Transformation Recommendations for jail diversion; comprehensive prevention and treatment for border communities and expand capacity of the clinical management Behavioral Health System.

State Mental Hospitals: $37.8 total including $22.3 million to maintain current hospital capacity and provide alternatives to long-term hospitalization for patients, provide stipends for psychiatrists and nurse practitioner residents to fill the gap in shortage of mental health professionals and provide peer-to-peer support specialist services. $15.5 million is requested for critical equipment, building renovation and vehicles.

Department of Family and Protective Services

The mission of The Texas Department of Family and Protective Services (DFPS) is to protect children, the elderly and people with disabilities from abuse, neglect and exploitation by involving clients, families and communities.

DFPS operates Child Protective Services (CPS), which investigates reports of abused or neglected children. CPS also provides services to children and families in their homes, places children in foster care, helps youth in foster care transition to adult hood and places children in adoptive homes. DFPS also operates Adult Protective Services, which is responsible for investigating abuse, neglect and exploitation of adults who are elderly or have disabilities, including adults who live in their own home or adults who live in long-term care facilities. DFPS also licenses and regulates all child-care operations in the state and establishes the minimum standards of caring for children.

DFPS Base Request Includes

The CPS foster care program is considered an “entitlement” program, therefore the DFPS LAR includes funding for the growth in foster care caseloads in the base request, approximately $75.8 million GR. Other programs such as adoption subsidies for children in protective care, as well as the DFPS caseworkers in all programs including foster care, were not considered entitlements and were therefore not included in the base request.

Existing program staff were able to manage the requirements from several legislative initiatives passed during the 81st Legislature involving APS and facilities-based investigations, specifically reforms to investigations of abuse, neglect and exploitation allegations at State Supported Living Centers and community-based services. However, it is too early to know the full extent of workload increases, especially those involved with investigations in the community system of services for person with intellectual disabilities.

DFPS Exceptional Items Include

The adoptions subsidies program, funded with Title IV-E entitlement funds, was not identified as an Article II entitlement program therefore it could not be included in the baseline request. If the adoptions subsidies program is not funded through general revenue it could mean not all current adoption assistance agreements could be honored, putting adoptive families at risk of economic hardships. The average number of adoption subsidies is predicted to grow by 9 percent in FY 12 and 8.2 percent in FY 13. Without the funding of the adoption subsidies program there will not be enough sufficient financial support for special needs children who are adopted, there would be fewer children adopted, and these children would remain in the care and custody of DFPS. At the end of June 2010 for FY 10 there were 27,311 children in open substitute care and of those approximately 4 to 6 percent were noted as having some type of developmental disability.

The baseline request for foster day care services currently exceeds the FY 10-11 appropriations. Inadequate funding will increase the number of children entering the foster care system and put a strain on current foster home capacity. Funds needed to address this baseline issue are included in an exceptional item request.
Regulation of child-care centers and requesting additional resources for Child Care Licensing operations is also included as an exceptional item request. This request is due to the growth in the child population in Texas along with the number of child-care centers opening in Texas and their capacity. Child Care Licensing must regulate the child-care industry by requiring minimum safety and protection standards. With the increase in centers and children's attendance this will require more time and effort by department staff to regulate.

Texas Department of Housing and Community Services

The Texas Department of Housing and Community Services (TDHCA) administers programs to assist low-income individuals. TDHCA administers federal housing and community services grants and acts as a housing finance agency for several major housing programs. TDHCA also ensures program compliance with state and federal housing laws and provides essential services and affordable housing to low-income individuals, including people with disabilities. The Department also publishes educational material and provides technical assistance for housing, housing related and community services matters.

TDHCA Base Request Includes

The Section 8 Housing Choice Voucher program is funded with federal dollars. TDHCA's HCV program contracts with local units of government, community action agencies and public housing authorities in 29 counties to assist with the administration of approximately 1,000 housing choice vouchers. The Department administers vouchers. Project Access is a collaboration between TDHCA and the Department of Aging and Disability Services (DADS) to assist low-income non-elderly persons with disabilities in transitioning from nursing homes to the community. TDHCA submitted an application to the federal Department of Housing and Urban Development (HUD) for additional vouchers for Category 1 Section 8, and Category 2 Project Access and will hear from HUD on October 1, 2011. They will expand Project Access to include individuals transitioning out of state mental hospitals and those over 62 transitioning from nursing homes.

TDHCA Exceptional Items Include

TDHCA Exceptional Item 1 requests $1.9 million to restore funding to the Housing Trust Fund (HTF).
HTF supports the preservation and production of affordable housing and increases opportunities for low-income people to access decent, affordable homes. For people with developmental disabilities, HTF grants through the Amy Young Barrier Removal Program make a home accessible to assist in transition from institutions to the community, and also help individuals to maintain independence and health. The HTF provides an Affordable Housing Match Program that promotes greater access to federal and private funds for housing, including supportive housing for people with disabilities.

Exceptional Item #2 requests $4 million over the biennium to build on and expand the Bootstrap Loan Program, Affordable housing match Program, Amy Young Barrier Removal Program and the other programs of the fund. Home ownership assistance- Bootstrap Self-Help program- provides low-interest loans to build homes. TDHCA funds are 95%

federal funds with required and narrow uses. HTF fills the gaps for housing needs of people with developmental disabilities that are not adequately met by other federal and local programs.

Texas Education Agency

The Texas Education Agency (TEA) helps guide and monitor activities and programs related to public education in Texas. TEA directly administers several programs designed to improve student performance and improve the quality of education services in Texas.

TEA's LAR includes the funding requests for programs funded by the agency. Some programs, such as Regional Education Service Centers, provide services to school districts that help districts improve programs for students with disabilities. TEA's LAR includes funding reductions to some programs that can be achieved through a change in strategy to provide staff development and some instructional materials online. TEA has not included Exceptional Items to offset those proposed reductions.

Local school districts receive money from the state based on a school financing formula which is determined by the Legislature outside of the appropriations process. Therefore, TEA's LAR does not determine how much money each school district will receive for the biennium. The 81^{st} Texas Legislature appointed the Joint Select Committee on School Finance, Weights, Allotments, and Adjustments to study the current school finance system. This committee will issue a report to the 82^{nd} Legislature on December 1, 2010 and may or may not make specific recommendations regarding changes to the school financing system.

TEXASForward™
A Balanced Approach to a Balanced Budget

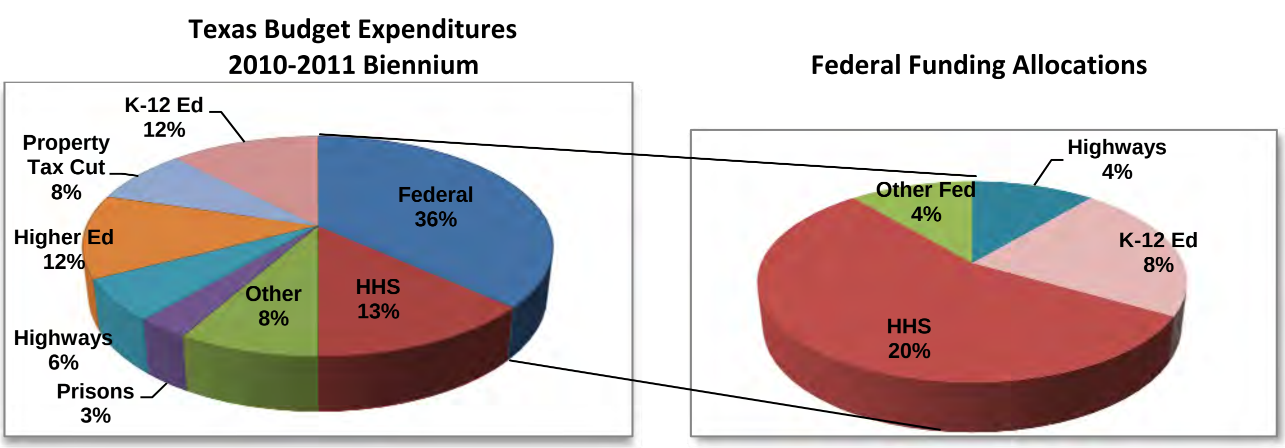
TEXAS*Forward*
Update on activities of Texas Forward budget coalition

On Tuesday, August 31, TEXAS*Forward*, the Center for Public Policy Priorities (CPPP), and Texans Care for Children hosted a forum on the following topic: Balanced Approach to Balancing the State Budget. During this forum, Senior Fiscal Analyst for CPPP Dick Lavine, gave a presentation on Texas revenue sources, reasons for the structural deficit in the budget, and suggestions for closing the structural deficit.

Texas budgeted $182 billion for Fiscal Years 2010-2011, 36 percent of which is federal dollars. Health and human services accounts for 20 percent of the federal dollars Texas receives and another eight percent of total federal funds received is spent on education. The amount of federal money the state receives is contingent upon the amount of state dollars dedicated to certain programs that receive federal “matching” funds, such as Medicaid. So in certain programs like Medicaid and Vocational Rehabilitation, state funding cuts have a larger effect in that such cuts are coupled with a reduction in the amount of federal funding the state is eligible to receive.

Property taxes comprise 40 percent of state budget revenue (22 percent of which is allocated for school funding, eight percent goes to cities, eight percent is appropriated to counties, and six percent goes to special districts, i.e. hospital districts).

Sales tax is 35 percent of total state revenue, and other types of revenue comprise ¼ of revenue.



Two Structural Deficits in the Texas State Budget
In 2006, the state cut property taxes by 1/3 and was supposed to make up the difference in funding to school districts by raising state revenues. The state attempted to raise the revenue to pay for the property tax cuts by changing the franchise tax to a margin tax and raising tobacco taxes. However, neither new tax generated the revenue that was lost by the property tax cuts. By the end of FY 2011, there will be a structural deficit of $9.5 billion in school funding. This budgetary gap was filled from federal stimulus funds for the FY 2010- 2011 biennium, cash on hand, and the property tax relief fund.

Additionally, there were 14 consecutive months of sales tax decline, sometimes by double digit differences (sales tax change is measured by comparing one month's sales tax receipts with the same month in the previous year). This lost revenue further increased the budget deficit.

Limitations of Revenue Sources

- Dedicated Funding Sources, such as the lottery, do not necessarily grow as the economy expands. Gambling taxes, such as the lottery and casino gambling generate higher revenue initially but stagnate once the initial excitement has worn off.
- Consumption taxes (i.e. sales taxes, cigarette taxes, etc.) do not cover expenses that many individuals utilize, such as services that people are spending more money on today like legal services. Consumption taxes are regressive, meaning that low-income individuals pay a greater share of their income on the tax.
- Businesses pay more in property taxes than under the margins tax. Because the margins tax is no longer directly related to income (rather companies can pay the margin of the difference between sales and compensation or the cost of goods sold), this will not necessarily grow in proportion to the economy. This is problematic because more revenue is needed as the economy grows.

Proposed Solutions for Addressing the Budget Deficit

- Rainy Day Fund: The RDF or Economic Stabilization Fund is expected to be $8.2 billion at the beginning of the 2012-2013 biennium. It is expected to grow by another $1 billion by the end of the biennium, although it could be lower if oil and gas revenue fall. Two-thirds approval from the legislature is necessary to use the RDF.
- Accounting adjustments: Smoke and mirrors can be used to postpone budgetary disbursements until a subsequent fiscal year. For example, the Permanent School Fund payment for August 2013 can be postponed to September 2013 so that it does not show up in the books for FY 2013. This would "save" between $1.4 and $1.6 billion in 2013. There are about $2 billion in payments that can be postponed until the end of the fiscal year.
- Maximizing use of federal funding: By expending funds that can draw down federal dollars, the state will enhance its revenue.
- New taxes: There are revenue-raising measures that do not have to be classified as raising taxes, such as raising park admission fees that still raise revenue. Also, there is no tax on coal excavation at the present time.
- Eliminating tax exemptions: A consistent sunset process for regularly reviewing tax exemptions may be implemented to determine whether tax exemptions are still feasible and necessary.
- Raise taxes: Some tax rates have not kept pace with inflation, such as the gas tax, which has not been raised since 1991. Thirty-three states have raised taxes during the recession.
- Economic growth: One percent in economic growth raises an additional $800 million in revenue; however, this is contingent upon the economy growing.

Other states have addressed budget problems since the recession began by making cuts in spending (37 percent), federal assistance (33 percent), raising taxes and fees (17 percent), and other techniques – such as smoke and mirrors (13 percent).

TEXAS*Forward*™ 2011 Legislative Agenda

Adopted by the **TEXAS*Forward*™** *membership in May 2010.*

Texas faces both a short-term and a long-term budget deficit. These deficits have different causes and therefore have different solutions.

The longer-term deficit is a result of the unfunded property tax cuts passed in 2006 and the overall structure of Texas' revenue system. The lack of sufficient new revenue to replace foregone property taxes has created a continuing budget hole of at least $9 billion a biennium. Structural changes in Texas' revenue system will be required to eliminate this structural deficit.

The immediate deficit facing the 2011 legislative session is caused by the global economic recession, which has temporarily reduced state revenue. This short-term deficit can be closed with one-time measures.

Texas Forward therefore adopts the following agenda for the 2011 legislative session:

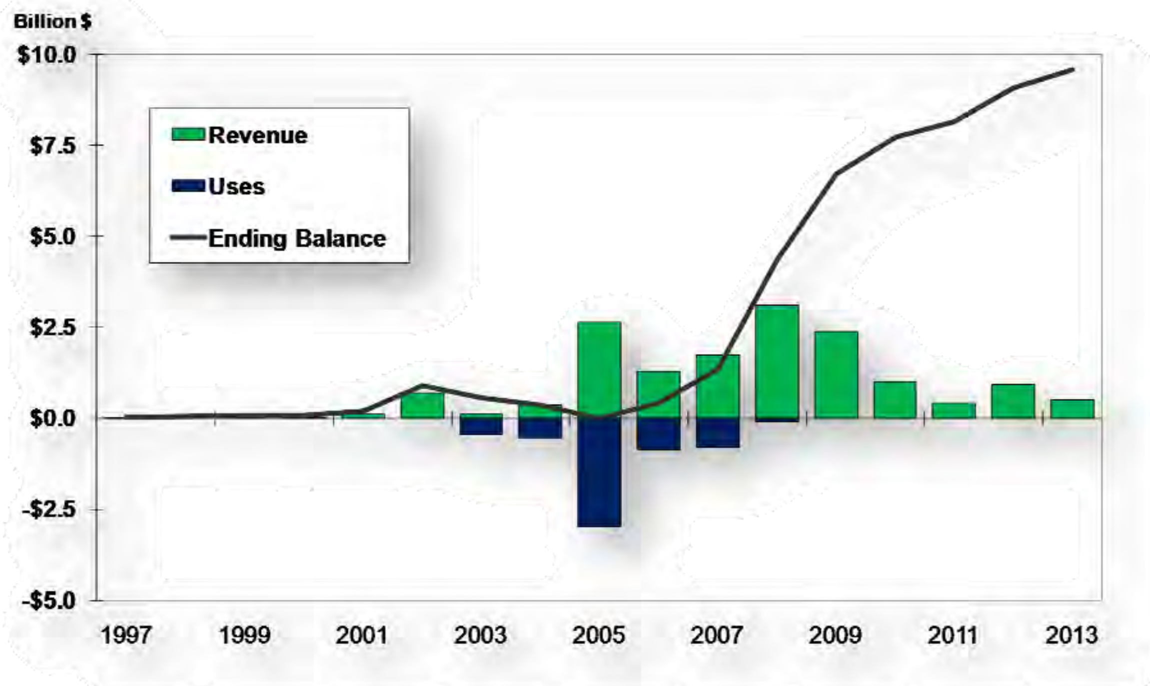
Vital public services in Texas are not funded to meet today's needs or to prepare Texas for future demands. Therefore, before reducing any state services in fiscal year 2011 or in the 2012-13 state budget, the Legislature must:

1. **Use all of the Rainy Day Fund, estimated to have $9.2 billion available for spending in the 2012-13 budget. The constitutional purpose of the fund is to maintain vital state services during economic downturns; it is not a solution to a long-term structural deficit.**
2. **Maximize use of all available federal funding, including any additional stimulus aid or any new matching funds made available by health care reform.**
3. **Create new sources of revenue that are equitable and can grow along with the growth in need for public services, including elimination of unproductive tax breaks.**

In addition, in 2011 the Legislature should examine the structural changes needed to address the long-term structural deficit, in preparation for the 2013 session.

To learn more about the TEXAS*Forward*, visit http://www.txforward.org.

The Rainy Day Fund



PAST USES—

1991: Entire balance of the fund ($29 million) spent on public schools. **1993:** $197 million spent on criminal justice.

2003: Almost all that was expected to be in the fund through 2005 was spent ($1.25 billion). One-third was for Children's Health Insurance Program (CHIP) and Medicaid shortfalls for 2003. The Legislature appropriated the remainder for 2004-05 to fund retired teachers' health care and to create the Governor's Texas Enterprise Fund for economic development incentives.

2005: Almost all that was *expected* to be in the fund through 2007 ($1.9 billion) was spent; half for 2005 shortfalls, and the rest for 2006-07 budget items (including the new Emerging Technology Fund and Child Protective Services reforms). Higher-than-anticipated oil and gas prices brought in hundreds of millions of dollars of unexpected revenue to the fund, which ended fiscal 2007 with a balance of $1.3 billion.

2007: No appropriations made from the fund.

2009: No Rainy Day Fund appropriations made in the year that the federal government provided $6.4 billion in American Recovery and Reinvestment Act funds that could be used in place of general revenue.

Why was it created?

As described in the 1987 bill analysis by the House Research Organization:

"...would establish a *rainy day fund* **to even out the wide fluctuations in state revenue** that Texas has suffered over the past few years.... Should the state ever face another fiscal crisis like the current one, **there would be money put aside for the state to fall back on**. If the Economic Stabilization Fund existed now, the Legislature might not be facing the difficult choice between falling short of maintaining current state services and raising taxes in difficult economic times. **Money could be appropriated from the fund to support existing programs.... The Economic Stabilization Fund would bring certainty to state fiscal planning.... The Economic Stabilization Fund would improve the state's attractiveness to the business community.** Corporations would be more likely to relocate here if they did not fear the wild swings in the state budget would suddenly bring new taxes or cuts in vital state services...."

The Texas Constitution (Article 3, Section 49-g - ECONOMIC STABILIZATION FUND)

(a) The economic stabilization fund is established as a special fund in the state treasury.

How it builds:

(b) The comptroller shall, not later than the 90th day of each biennium, transfer to the economic stabilization fund **one-half of any unencumbered positive balance of general revenues** on the last day of the preceding biennium. If necessary, the comptroller shall reduce the amount transferred in proportion to the other amounts prescribed by this section to prevent the amount in the fund from exceeding the limit in effect for that biennium under Subsection (g) of this section.

(d) If in the preceding year the state received from **oil production taxe**s a net amount greater than the net amount of oil production taxes received by the state in the fiscal year ending August 31, 1987, the comptroller shall transfer to the economic stabilization fund an amount equal to 75 percent of the difference between those amounts. The comptroller shall retain the remaining 25 percent of the difference as general revenue. In computing the net amount of oil production taxes received, the comptroller may not consider refunds paid as a result of oil overcharge litigation.

(e) If in the preceding year the state received from **gas production taxes** a net amount greater than the net amount of gas production taxes received by the state in the fiscal year ending August 31, 1987, the comptroller shall transfer to the economic stabilization fund an amount equal to 75 percent of the difference between those amounts. The comptroller shall retain the remaining 25 percent of the difference as general revenue. For the purposes of this subsection, the comptroller shall adjust his computation of revenues to reflect only 12 months of collection.

How much it can build:

(g) During each fiscal biennium, the amount in the economic stabilization **fund may not exceed** an amount equal to **10 percent** of the total amount, excluding investment income, interest income, and amounts borrowed from special funds, deposited in **general revenue** during the preceding biennium.

How it can be used:

(j) The comptroller **may transfer money from the economic stabilization fund to general revenue to prevent** or eliminate a **temporary cash deficiency** in general revenue. The comptroller shall return the amount transferred to the economic stabilization fund as soon as practicable, but not later than August 31 of each odd-numbered year.

(k) Amounts from the economic stabilization fund may be **appropriated during a regular legislative session** only for a purpose for which an appropriation from general revenue was made by the preceding legislature and may be appropriated in a special session only for a purpose for which an appropriation from general revenue was made in a preceding legislative session of the same legislature. An appropriation from the economic stabilization fund may be made only if the comptroller certifies that **appropriations from general revenue made by the preceding legislature for the current biennium exceed available general revenues and cash balances for the remainder of that biennium**.... An appropriation from the economic stabilization fund must be approved **by a three-fifths vote** of the members present in each house of the legislature.

(l) If an estimate of anticipated **revenues for a succeeding biennium ...is less than the revenues that are estimated** ...by the comptroller to be available for the current biennium, the legislature may, **by a three-fifths vote** of the members present in each house, appropriate for the succeeding biennium from the economic stabilization fund an amount not to exceed this difference. Following each fiscal year, the actual amount of revenue shall be computed, and if the estimated difference exceeds the actual difference, the comptroller shall transfer the amount necessary from general revenue to the economic stabilization fund so that the actual difference shall not be exceeded. If all or a portion of the difference in revenue from one biennium to the next results, at least in part, from a change in a tax rate or base adopted by the legislature, the computation of revenue difference shall be adjusted to the amount that would have been available had the rate or base not been changed.

(m) In addition to the appropriation authority provided by Subsections (k) and (l) of this section, the legislature may, **by a two-thirds vote** of the members present in each house, appropriate amounts from the economic stabilization fund **at any time and for any purpose**.

Rethinking Sales-Tax Exemptions

1. **Additional revenues are needed.** The Rainy Day Fund can fill 40 to 50 percent of the budget gap projected for the next biennium, if you use it all. All options should be considered to ensure we aren't cutting programs families and communities need in these challenging times.

2. **Removing sales-tax exemptions is a possible, viable solution.** One often-mentioned option is raising the sales tax. A half-cent increase in that tax, to 6.75 cents state/8.75 cents total, would bring in about $3.2 billion in fiscal 2012-2013. But there's an alternative that allows you to raise even more revenue from the sales tax, without raising rates. Many business and professional services are not subject to the sales tax at all. By applying the existing state sales tax of 6.25 cents to these services, we can raise $5.6 billion over the 2012-2013 budget cycle. Here's where the $5.6 billion would come from, by business category:

Business Category	Amount (in $ millions)
legal services	$993.8
architectural & engineering services	$854.3
freight hauling	$568.7
real estate brokerage and agency	$523.1
accounting and audit services	$494.7
management consulting and p.r.	$426.5
financial services brokerage	$390.6
contract computer programming	$313.2
research/development lab services	$298.9
other financial	$157.1
temporary labor supply	$116.3
testing labs	$116.0
veterinary service	$109.2
employment agency services	$77.0
billboard advertising	$63.2
other transportation (except scheduled passenger)	$60.5
economic and sociological research	$48.4

3. **Removing sales-tax exemptions make sense in a modern economy.** There is no good reason to exclude these business activities from the reach of the sales tax. And there are several good reasons for bringing them under the sales tax. ***Services make up an ever-larger share of the economy.*** Excluding them from taxation erodes the tax base, leaving the goods-producing/manufacturing sector and the rest of us bearing a larger share of the tax load than necessary.

4. **Removing sales-tax exemptions promotes fairness and long-term fiscal stability.** Including these service-sector industries in the sales-tax base will increase both the fairness and capacity of the tax structure. By closing these service-sector loopholes in the sales tax, we also begin to take care of the structural deficit in state funding. Adding $5.6 billion to the estimated $9.2 billion available from the Rainy Day Fund in fiscal 2012-2013 would fill somewhere between 70 percent and 80 percent of the anticipated budget gap. There's a large part of your answer to anyone who says it's simply impossible to fill the budget gap without severe cuts in public services.

Note: All these gains can be achieved without taxing lifeline services–medical, dental care and children's day care.

State Budget

By The Honorable Talmadge Heflin, Director, Center for Fiscal Policy
& James Quintero, Fiscal Policy Analyst

THE ISSUE

Texas could be facing one of the most significant budget challenges in the state's history.

By most accounts, the state's projected 2012-13 budget shortfall is expected to range between $11 billion and $15 billion, largely the result of a weak national economy, declining state revenues, and recurring state expenses created by spending the federal stimulus money.

In order to balance a shortfall of that magnitude, without completely exhausting the Rainy Day Fund or passing hefty tax increases, the Legislature will need to take bold steps with clarity, vision, and leadership. With that in mind, the Foundation offers several guidelines to help the Legislature accomplish their mission:

★ Make the 2012-13 budget a "0" growth budget;

★ Prioritize state spending on the basis of constitutional mandates, followed by statutory requirements;

★ Limit the use of the Rainy Day Fund to either emergency tax relief or one-time emergency spending items;

★ Maintain a Rainy Day Fund balance of at *least* 5 percent of the general revenue and general revenue-dedicated funds spent in the 2012-13 budget;

★ Make it easy to identify and report government fraud and waste by posting all state and local budgets, expenditures, contracts, and other relevant financial information in a searchable and user-friendly format;

★ Structure state agencies' performance measures to reflect outcomes rather than outputs;

★ Fund only those programs that return a greater value to the taxpayer than the program's cost; and

★ Avoid duplication of services by focusing on programs that are not provided by local governments or the private sector.

Using a principled approach, the Legislature has the ability to bridge the state's multi-billion dollar budget shortfall, without raising taxes. Now, all that is needed is the will to do so.

THE FACTS

★ For the 2011 legislative session, Texas is facing a multi-billion dollar budget shortfall, similar to what it faced in 2003.

★ The state's projected budget shortfall, which ranges between $11 billion and $15 billion, is largely the result of a weak national economy, declining state revenues, and recurring expenses created by the stimulus.

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- ★ In part, the state's current relatively strong economy can be attributed to the efforts in 2003 to meet the budget shortfall with no new taxes.

- ★ Effectively solving the state's budgeting difficulties will require clarity, vision, and leadership guided by a principled approach.

RECOMMENDATIONS

- ★ Balance the state's budget without raising taxes or depleting the Rainy Day Fund.

- ★ Adopt a set of budgeting principles to guide the state's fiscal decisions.

RESOURCES

Blueprint for an Effective Budget by The Honorable Talmadge Heflin and James Quintero, Texas Public Policy Foundation (Feb. 2009) http://www.texaspolicy.com/pdf/2009-02-budgetguidelines-handout.pdf.

Principles for Determining Budget Priorities by The Honorable Talmadge Heflin and Byron Schlomach, Texas Public Policy Foundation (July 2006) http://www.texaspolicy.com/pdf/2006-07-PP-budgetpriorities-bsth.pdf.