



**House District 101
Online**

Greetings!

When this past legislative session began, everyone knew that balancing the budget was going to be difficult. For several months leading up to the session, estimates of the revenue shortfall continued to increase. Few individuals, however, anticipated that the state would face more than a \$20 billion gap.



Several factors contributed to our revenue shortfall. We are just now emerging from the worst economic downturn since World War II, a downturn caused in large measure by a collapse of the residential housing market. As you know, our state pays for a good deal of its largest expenditure--education--with revenues indexed to local property values. When you combine the impact of plummeting property values with decreases in consumer spending, which triggered a sales tax revenue slump, you get a situation in which Texas' main revenue sources spent several months in a free fall. Even though we have now experienced almost a year of rising sales tax receipts, neither property values nor gross sales tax revenue have returned to previous biennium levels.

HD 101 Website

Special Session

So far, the Governor has added the following items to the call for the special session:

Unlike in Washington, D.C., Texas cannot pass a budget based on deficit spending. Therefore, when we face a revenue shortfall, we have two choices: reduce expenditures or find new sources of revenue. In order to find new sources of revenue, the Legislature would have been forced to do one of three things: raise taxes, extend taxation to items or activities not currently taxed (in other words, new taxes), or spend down the state's rainy day fund.

-- School Finance and Flexibility Measures

-- Medicaid Reform

-- Congressional Redistricting

--Texas Windstorm Insurance Reform

-- Sanctuary Cities

-- Driver License Security

The Cost of a Tax Increase

At several points during our budget debates, members of the minority party suggested that we were going about the budgeting process in the wrong way because House leadership did not consider adding new revenues (raising taxes) to our budget. One of the advantages of being in the minority party is that criticisms can be offered without revealing all the implications of the counter positions advocated. What the minority party never came close to revealing in the debate is just how much we would have to raise taxes to cover our current shortfall.

Town Hall Schedule

For example, according to the Comptroller's office, the first penny per dollar spent added to the state's sales tax would generate around \$2.5 billion in new revenue. Each penny after the first would generate less revenue, due to the diminishing nature of returns on increased taxation.

In other words, in order to cover just \$20 billion of our shortfall, the Legislature would have been forced to increase the sales tax rate by 7.75 to 8.25 cents, or to an effective percentage rate, excluding local taxation, of 14.5%! This rate would mean that Texas would have the highest sales tax rate in the United States, with second place (California) more than 6.25 percentage points behind us.

The Rainy Day Fund

Many other individuals suggested that the Legislature should have responded to the current shortfall by spending down the state's emergency reserve, known as the rainy day fund.

At the beginning of the session, the Legislature spent \$3.2 billion of the rainy day fund to balance the books for the current biennium. When combined with additional cuts to last year's budget and an increased revenue estimate, this use of the fund made available an additional \$4.5 billion for appropriation for this budgeting cycle. The Comptroller estimates that we will end this current budgeting cycle with approximately \$6.4 billion in the rainy day account.

Admittedly, \$6.4 billion is a lot of money, and though it would not come close to solving our entire budget shortfall, many people argued that the account should be drained to fund programs of particular concern. While I sympathize with such arguments, we cannot risk draining our reserves while the future of our economy and the challenges we face as a state are far from clear.

Of greatest concern is the potential growth of Texas' Medicaid costs. Under the provisions of the recent federal healthcare act, it is estimated that as many as 1 in 5 Texans will find themselves on the Medicaid rolls by 2014. The Lt. Governor has argued that the cost for such coverage would add a \$24 billion item to the state budget.

Granted, it is possible that sections of the federal law will be struck down or that costs will not be as much as projected (I hope so on both accounts). However, even if we do not face catastrophic Medicaid increases, it is still very likely that our Medicaid payments will grow over the course of the biennium.

For instance, Texas is waiting to see if the Obama administration will grant several reasonable Medicaid waivers. Even assuming that we receive these waivers, it is still very common for Medicaid costs to outstrip our estimates. Just this past year we were forced to spend most of the money saved by interim departmental cuts to fund our supplemental Medicaid payments.

Additionally, it is important to remember that the rainy day fund is the only real mechanism our state has for funding recovery efforts after natural disasters. Just this past month the House approved almost \$200 million in aid to battle the effects of the massive wildfires engulfing our state. With all the recent severe weather and with hurricane season just around the corner, it seemed prudent to leave some money in the bank for emergencies. After all, as was demonstrated recently in the current administration's failure to designate our wildfires as an emergency, Texas cannot

**Sunnyvale - June
30th from 7:00 to
8:00 pm at the
Sunnyvale Town
Hall**

**Balch Springs - July
5th from 6:30 to 7:30
pm at the Balch
Springs Library
Auditorium**

**Mesquite - July 7th
from 7:00 to 8:00 pm
at the Mesquite Arts
Center**

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depend on Washington for help.

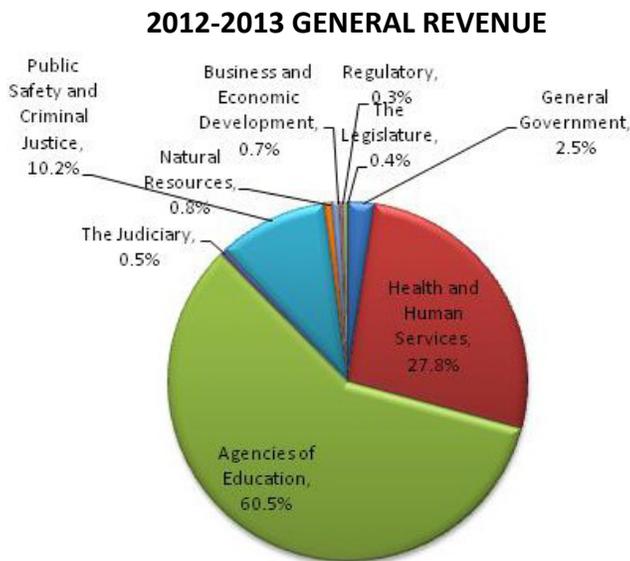
Budget Statistics

In the end, the budget the Legislature passed allowed us to fund our priorities as a state while still living within our means. Below you will find two charts. The first is a graph that depicts how Texas will spend our state's general revenue over the course of the next two years. You will note that 60.5% of general revenue is spent on agencies of education (which represents a \$3 billion increase for public education over the last biennium) and 27.8% is dedicated to health and human services. The second graph depicts how we will spend all funds that flow through our state government (this includes federal money, grants, and dedicated revenues). As you can see, education and health and human services make up more than two-thirds of all state spending.

In the next few days, I will be sending out an email that addresses education legislation and education funding in particular. As I mentioned in my last email, it is my intention to send out several emails over the next month that delve into the work of the 82nd Legislature.

Again, please do not hesitate to contact me or my office with any questions or concerns.

In friendship,



2012-2013 ALL FUNDS

