

# 2011 State Budget Cuts



HOW THE PROPOSED BUDGET  
CUTS WILL AFFECT THE  
COMMUNITY

# Texas Budget By The Numbers



- Texas is the 45<sup>th</sup> lowest taxed state in the country
- Texas is 50<sup>th</sup> in per capita spending on education

# Texas Budget By The Numbers



- In 2006, the state legislature approved the property tax reduction act which created the Margins Tax to replace the Franchise Tax, which few Texas businesses paid
- Margins Tax starts with total revenue and allows a deduction of
  1. **Cost of Goods Sold**
  2. **Employee Compensation**
  3. **30% of Total Revenue**
  4. **Currently exempts \$1 million of total revenue**

# Texas Budget By The Numbers



- Margins Tax has never produced estimated revenue
- In 2007 & 2009, the state saved money to carry forward to cover the structural shortfall
- Annual shortfall is \$2 to \$4 billion, based on current projections

# Texas Budget By The Numbers



- Letter from Texas Comptroller to Governor Perry in 2006

**Dear Governor Perry:**

**The Legislature is concluding its work on your tax plan. Your plan is fiscally irresponsible -- it includes an unconstitutional income tax on partnerships and unincorporated associations, the largest tax increase in Texas history and leaves the largest hot check in Texas history. What you should do is show true leadership and veto this legislation.**

...

**In 2007, your plan is \$3.4 billion short; in 2008 it is \$4.3 billion short; in 2009 it is \$5.4 billion short; in 2010 it is \$4.9 billion short; and in 2011 it is \$5 billion short. These are conservative estimates.**

...

**Carole Keeton Strayhorn,  
Texas Comptroller**

**Source: Texas Comptroller of Accounts website - [window.state.tx.us/news/60515letter.html](http://window.state.tx.us/news/60515letter.html)**

# Texas Budget By The Numbers



- Current budget (2009-2011) projected shortfall \$3 billion - \$5 billion
- 2011-2013 no-growth budget shortfall is \$15 billion
- 2011-2013 shortfall that carries forward services at current levels, \$27 billion
- Projected shortfall in public education: \$9 billion

# How Bad Is The Deficit?



- Total state General Fund Budget (non-dedicated funds or debt service) is \$87 billion
- Public education, Health & Human Services and Higher Education constitute at least 85 percent of this budget
- All other agencies could be shut down – the prison system, juvenile probation, TCEQ – and the shortfall would still **not** be covered

# How Bad Is The Deficit?



- This is **NOT** a two-year problem
- Margins tax shortfall is structural, economic recovery is not projected to improve school funding shortfalls
- We have at least an even chance that two years from now we could be having this same discussion unless there are some adjustments made in the tax structure

# Pressure On Spending



- 80,000 new students in public education each of the next two years (**NOT** included in next biennium budget projections)
- 60,000 of those students qualify for assistance (free lunches, breakfast programs, etc.)
- Record enrollment in state universities and community colleges
- Medicaid a big question mark, cost driven by population growth, federal policy and cutbacks tend to affect businesses in the medical field as well as recipients

# The Economic Stabilization Fund



- Established in 1980s to fill in budget gaps during economic downturns
- Used by every governor since establishment, including Rick Perry
- Current estimated balance: \$9.8 billion
- House Appropriations Committee voted to use \$3.2 billion to balance **current** budget, requires three-fifths, or 90 votes in the House
- Deal with Perry to use fund for this budget year puts fund off limits for 2011-2013, at least for House members
- Use of fund for 2011-2013 requires two-thirds vote, 100 House members, 21 Senators

# Projected Impact



- Legislative Budget Board estimated last week a 271,000 job loss in 2012, or \$11.2 billion in personal income; in 2013 its 335,000 jobs and \$15.2 billion in personal income
- \$35 million of Arlington ISD's budget is from state operational funding and state grants

# Public School Mandates, Flexibility



- HB 400, SB3 and SB 443 attempt to reduce state requirements of school districts in order to reduce spending pressure and facilitate budget cuts, including:
  - **Allowing salary reductions or furloughs in lieu of layoffs**
  - **Relaxing the student-teacher ratio in the classroom**
  - **Moving the notice date for termination of teachers to the last day of the instruction year**

## Where Are We?



- Flexibility bills bogged down in negotiations between associations representing school administrators and school boards and teachers; teachers resisting efforts to make salary reduction flexibility permanent
- House budget, approved 18-7 in committee, debated this Friday on House floor; no amendments to increase spending in any area will be allowed without an offsetting reduction
- Senate Finance Subcommittee has tried to restore \$6 billion to public ed funding, no idea where that money would come from