

# The Budget

# Basic Points

- Two full fiscal years – 2012 & 2013
- Budget must be balanced
- Process starts with BRE (January)
- Four budget documents

# Basic Numbers – 2010/2011

- Total State budget – \$182.3 billion
- General Fund Budget: \$87 billion
- Education: 56% General Fund
- Health & Human Services: 29% General Fund
- Economic Development
- Transportation

# The Big Issue

**Chair of House Appropriations expects an \$18 billion shortfall:**

- Current General Fund drained two reserve funds
- \$12 billion in stimulus money used
  - \$6.4 billion directly used for General Fund obligations
  - \$5.6 billion is so called "GRAVY"
- Less revenue, more population

**The Truth: We don't know yet.**

# How did we get here?

- It's not entirely an economic problem
- It's in large part a structural problem
- The Great Tax Shift of 2006
  - special session in 2006
  - \$14 billion in property tax cuts
  - Raise cigarette tax; liar's affidavit
  - Created the so called "Margins Tax"

## **Other Structural Deficits**

- Transportation deficit
- Dedicated funds diversions
- Bailed out by Obama

**How did we get here?**

## **Margins Tax/Cigarette Tax/Liar's Affidavit**

- Projected to raise a little over \$8 billion/biennium
- Automatic \$6 billion shortfall
- Margins Tax hasn't met expectations

**How did we get here?**

# Options

**Cash**

**Cuts**

or

**The Kitty**

## The Kitty

- Economic Stabilization Fund
  - The Rainy Day Fund
  - Approximately \$9 billion
- Doesn't help the structural problem
- What happens in 2 years?
- Still may not cover the deficit

Options

# Cash

- Taxes
- Fees
- Gambling

**Options**

## Cuts

2003: \$7.4 billion deficit

Myth: They solved it with cuts

Reality: They solved it with a combination of tools

**Options**

# 2003

## Cuts

- Medicaid/CHIP “cuts” = less than \$1 billion
- Higher Ed “cuts” = tuition deregulation
- State Employees, Retirees & Teachers
- School Districts’ Health Costs for Retired Teachers

## Cash

- Telecommunications Infrastructure Fund: \$250 million
- Tax amnesty program: \$50 million
- Multi-State Lotto: \$102 million

**Kitty: \$1 billion from Rainy Day Fund**

## Accounting Gimmicks

- Schools payments
- Deferring payments
- Dedicated funds

**Options**

## The Real Lesson of 2003

- Cuts alone probably can't do it
- Education & Healthcare = 84% of Budget
- Recent efforts show it's hard

**Options**

# Accountability

- Diversion
- Deception
  - Dedicated Accounts
  - Margins Tax
  - Stimulus Money
  - The 5% solution – Now the 10% solution
- Debt

It is indeed “rickety”

## Basic Truth of the Budget

- Process is broken by diversions, debt delay
  - The process has broken the product
  - The product can't be fixed until the process is
  - The broken product of a broken process shouldn't be passed

**Accountability**

## **Likely strategies to do it the same old way**

- Cash: additional revenue (i.e. talk of closing sales tax exemption)
- Cuts: Deep, painful cuts more dramatic than 2003
- Kitty: Drain most or all of Rainy Day Fund
- Gimmicks: Delay school payments, etc.

Limited, short-term, short-sighted

**Accountability**

## **Don't support rash actions without transparency**

- No new Taxes
- No draining our savings
- No debilitating cuts

Need better sense of how state is spending our money

**Accountability**