

Texas Public Policy FOUNDATION

May 31, 2012

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The Honorable Rick Perry
Governor, State of Texas
State Insurance Building

The Honorable Joe Straus
Speaker, Texas House of Representatives
Texas State Capitol, Room 2W.13

The Honorable David Dewhurst
Lieutenant Governor, State of Texas
Texas State Capitol, Room 2E.13

Dear Governor Perry, Lt. Governor Dewhurst, and Speaker Straus:

In short order, state agencies and institutions of higher education will receive detailed instructions on preparing their legislative appropriations requests for the upcoming 2014-15 biennium. Prior to the issuance of these instructions, the Texas Public Policy Foundation would like to strongly urge you to consider including a provision directing these entities to prepare for certain budget reduction scenarios.

More specifically, the Foundation is respectfully requesting that you ask *all* state agencies and institutions of higher education to identify and enact general revenue-related (GR and GR-Dedicated) savings of at least 3 percent for fiscal year 2013 and 7 percent for the 2014-15 biennium. In our estimation, these reductions have the potential to generate as much as \$5.8 billion in savings for the biennium. As you well know, savings of this magnitude will prove to be a tremendous asset in the upcoming legislative session.

When the 83rd legislature convenes in six months, state lawmakers are likely to be confronted with two major budget challenges next session: an estimated budget deficit for fiscal year 2013 ranging between \$3 billion to \$4.5 billion and a projected budget shortfall for the 2014-15 biennium ranging from \$10 billion to \$13 billion. Though these figures may fluctuate some in the coming months, most fiscal experts expect major budget challenges of this nature in the coming session, brought on by exploding health care costs, past budget gimmicks, and possible pressure from the courts to increase public education funding.

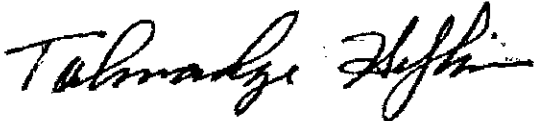
Only with principled leadership and a commitment to sound fiscal policy will Texas emerge from these looming fiscal challenges better than it was before. It is important to remember that:

- *In the past*, asking state agencies and institutions of higher education to help prepare the state for future budget crises has proven successful. In fact, before the start of the last regular legislative session, the state's leadership pursued a similar strategy and secured several billion dollars in cost-savings from state entities resulting from three separate requests;

- *Right now*, most state agencies and institutions of higher education have accumulated enough excess in their respective budgets that a slight reduction will not greatly impact their core functions. Consider that total state government spending between fiscal 1990 and fiscal 2012 has increased by 310 percent while over the same period the sum of population growth plus inflation increased by just 132 percent; and
- *In the future*, Texas' economy and employment prospects will be much brighter if reductions are found now rather than depending on state lawmakers to have the political willpower to close the state's budget shortfalls without job-killing tax increases.

We appreciate your consideration of our budget reduction request to help better prepare the state for the coming challenges in the 83rd legislative session. While we understand there are almost certainly political difficulties associated with this request, the Foundation is certain that this path forward gives the state the best opportunity to avoid job-killing tax increases next session.

Sincerely,

A handwritten signature in black ink, appearing to read "Talmadge Hefflin". The signature is written in a cursive, flowing style.

The Honorable Talmadge Hefflin
Director, Center for Fiscal Policy
Texas Public Policy Foundation

Cc: Members of the 82nd Texas Legislature