

Texas Public Policy Foundation

Keeping Texas Competitive

A Legislator's Guide to the Issues 2013-2014



State Budget ★ Keeping Texas Competitive Priority

The Issue

In January 2013, the next legislative session will convene amid a period of great budget difficulties.

Current estimates suggest that the state will have to contend with an estimated \$3 billion to \$4.5 billion budget deficit for the current biennium, and a \$10 billion to \$13 billion projected budget shortfall for the next. Virtually all of the deficit and shortfall are the result of a surge in obligations under the Medicaid program.

If Texas' economy hopes to continue creating jobs and growing the economy over the next few years, it is imperative that the Legislature close these two budget gaps with existing revenues and avoid any job-killing tax increases.

By implementing reforms needed to make this happen, Texas lawmakers will get the state's budget challenges under control and ensure that Texas stays on the path to prosperity.

The Facts

- Incoming lawmakers are likely to face two major budget hurdles: 1) an estimated \$3 billion to \$4.5 billion deficit for the 2012-13 biennium; and 2) a projected budget shortfall of \$10 billion to \$13 billion for the 2012-15 biennium.
- The bulk of the state's deficit and shortfall is attributable to a surge in obligations under the Medicaid program.
- An improving economy and rebounding revenues may soften the blow some, but the state's budget challenges are still thought to be significant, growing more so by fiscal 2014-15.
- Effectively solving the state's budgeting difficulties will require bold leadership and vision guided by a principled approach, similar to the approach outlined in *Real Texas Budget Solutions: 2013 and Beyond*.

Recommendations

- **Revamp Public & Higher Education.** While public education spending needs to be accountable to taxpayers, the top-down approach of running classrooms from Austin isn't working. We need to scrap many state mandates, burdensome education programs, and the school funding system so we can start from scratch to increase efficiency, capture cost savings, and most importantly, improve educational achievement. One way to do this is to make Home Rule Districts and Campus Charters easier to create, give them more freedom from state mandates, to pursue blended learning models, and to give parents more control over their creation and operation. When it comes to higher education, funding should be shifted toward student-centered funding.
- **Reduce Social Welfare Spending.** Social welfare spending is exploding as new Federal mandates and caseloads increase each year. Spending on Medicaid alone in 2014-15 could increase by over \$10 billion. Texas needs to decrease these costs and get out from under federal health care and other welfare mandates. However, federal mandates for Medicaid and other programs dramatically limit the ability to save in this area.

continued on back

- **Cut Overregulation, Unnecessary Programs, and Subsidies.** Overregulation, unnecessary programs, and subsidies to businesses and consumers cost Texans billions of dollars each year while reducing economic growth. Eliminating or reducing these will reduce taxes, cut prices, and increase economic growth.
- **Prioritize Transportation Spending on Relieving Congestion.** Shift scarce resources toward reducing congestion and away from areas and uses—like rail—that fail to address the state's congestion problems.
- **Move Future State Employees into Defined-contribution Retirement Plans.** To protect taxpayers and state employees, future state employees should be incentivized to move into a defined-contribution 401(k) plan, the same plan the vast majority of non-government workers use.
- **Strengthen Texas' Tax and Expenditure Limitation.** Allow all state and local spending to increase only by the sum of population growth plus inflation, the growth in gross state product or the growth personal income, whichever is less.
- **Shift to Program-based Budgeting.** The general appropriations bill each session should specify the amount of the proposed appropriation for each program which is being funded, rather than the current practice of appropriating funds based on "strategies." Letting taxpayers know what programs are funded and for what amount is common-sense.
- **End the Practice of Using Special Fund Balances to Certify the Budget.** There are many government funds, like the System Benefit Fund, that hide money from taxpayers in order to certify the budget. But the money cannot be spent for general purposes, so this practice essentially results in deficit spending.

Resources

Real Texas Budget Solutions: 2013 and Beyond by Texans for a Conservative Budget (Mar. 2013).

