



Center for Fiscal Policy: Review of the 82nd Session of the Texas Legislature

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THE 2012-13 STATE BUDGET*

- ★ At \$172.3 billion, the state's 2012-13 All Funds budget appropriates \$10 billion less than the amount in the 2010-11 General Appropriations Act (GAA). This represents a 5.5 percent decrease from the previous biennium. As compared to the expended total in the 2010-11 biennium, All Funds appropriations for fiscal 2012-13 decreased by \$15.2 billion or 8.1 percent.
- ★ The state's All Funds budget for 2012-13 represents the first budget in 50 years or so that appropriates an amount less than the previous biennium.
- ★ Funding for the state's two main priorities—health care and education—vary greatly in the new budget. All Funds appropriations for Article II: Health and Human Services decreased by \$5.4 billion or 9.1 percent from the 2010-11 GAA. Meanwhile, All Funds appropriations for Article III: Agencies of Education—which includes funding for both public education and higher education—increased by \$0.2 billion or 0.2 percent.
- ★ General Revenue (GR) appropriations in the state's 2012-13 budget decreased by approximately \$170 million or 0.2 percent as compared to the 2010-11 GAA. As compared to the amount expended in the 2010-11 biennium, GR appropriations for fiscal 2012-13 decreased by \$1.6 billion or 2 percent.
- ★ The new budget provides for approximately 3,300 fewer Full-Time Equivalent positions in both fiscal years 2012 and 2013.
- ★ Primary reasons for the funding decrease include: a sharp decline in state revenues; expiration of \$12 billion in federal stimulus funds; underfunding Medicaid caseload growth; and a \$2.3 billion Foundation School Program deferral.
- ★ During the 82nd Regular Session (regular session) and the First Called Special Session (special session) of the Texas Legislature, two major agency consolidations were announced. The first, as presented in SB 653 of the regular session, was the merging of the Texas Youth Commission with the Texas Juve-

nile Probation Commission to create the new Texas Juvenile Justice Department. According to the Foundation's experts, the consolidation of these two agencies should generate \$84.1 million in savings for the coming biennium. The other consolidation, as proposed in SB 1 of the special session, was the abolition of the Texas Department of Rural Affairs and the creation of the Office of Rural Affairs within the Texas Department of Agriculture. According to the Legislative Budget Board, no immediate savings are expected from this consolidation.

THE ECONOMIC STABILIZATION FUND

- ★ In January 2010, the Economic Stabilization Fund (ESF), also thought of as the state's savings account, was projected to have \$9.4 billion available for the regular session. In May, that figure was revised by the Texas Comptroller of Public Accounts to include an additional \$300 million, bringing the total available amount to \$9.7 billion.
- ★ During the regular session, the Legislature elected to appropriate \$3.2 billion from the ESF to apply towards the deficit for the current 2010-11 biennium. This was accomplished through the passage of HB 275.
- ★ The remaining balance, projected at \$6.5 billion, was left untouched for the remainder of the session. Many legislators and the Foundation successfully argued that it was poor public policy to consider spending one-time funds on ongoing future obligations.
- ★ A nearly successful attempt was made during the special session to tap the ESF further. During debate of SB 2, an amendment was added to the bill that would have siphoned off up to \$2 billion in rainy day funds to pay for enrollment growth in K-12. After a contentious debate and with some help from the Governor—who said that he would veto the bill if it came to his desk as is—the amendment was ultimately stripped during conference committee thus ensuring that much of the fund will be available for use by future legislatures.

* Amounts taken from the Conference Committee Report for House Bill 1. Does not reflect vetoes or other modifications.

TAX & EXPENDITURE LIMIT

- ★ During the regular session, the Legislature failed to pass any legislation to improve the state's constitutional Tax and Expenditure Limit (TEL), despite several bills having been filed and received a hearing—HB 380, HB 581, and HB 756. The Center offered oral and written testimony in support of all of the above measures.
- ★ Additionally, the Legislature failed to pass any legislation that would have restricted the growth of local government spending. One measure—HB 2952—was filed during the regular session, but never received a hearing.

TAXES & SPENDING REFORMS

- ★ The Texas Taxpayer Savings Grant Program—a program designed to reduce the amount of general revenue spent on public education by reducing enrollment and the associated costs of the state's public K-12 schools—was proposed as an amendment to SB 1811 but failed to win passage.
- ★ In the special session, the Texas Taxpayer Savings Grant Program was revived as HB 33 and received a hearing in the Government Efficiency and Reform committee. A fiscal note for the bill estimated that, if passed, the measure would cost the state \$195.5 million in the first two years (FY 2012 and 2013), but generate a combined savings of \$689.4 million in fiscal years 2014, 2015, and 2016.
- ★ Senate Bill 563, as amended, implements a promising new pilot program at the Texas Workforce Commission that seeks to find efficiencies through certain evaluative processes. This program, dubbed the Lean Six Sigma model, has proven successful in other states and localities, and the Foundation is hopeful that it will yield cost-savings over the long-term.
- ★ During the regular session, the Governor vetoed HB 2403, a bill that would have extended the sales and use tax to online retailers doing business in Texas. In his explanation of the veto, the Governor cited concerns of the “impact and appropriateness” of the measure as well as the potential for “significant unintended consequences.” During the special session however, the Legislature revived the measure as part of SB 1—this session's centerpiece legislation—and sent the bill back to the Governor. As of current date, the Governor has not signed the bill nor indicated any intention to veto the proposed legislation.
- ★ Senate Bill 1, of the special session, includes several notable franchise tax-related changes such as a two-year extension of the \$1 million total revenue exemption; eliminating the tax liability of certain businesses whose taxable income is zero or less; and expanding the definition of entities engaged in “retail trade” to include apparel rental activities for the purposes of the franchise tax.

- ★ Another provision in SB 1 reduces the discount provided to cigarette distributors from 3 percent to 2.5 percent. Though the Foundation aggressively sought the removal of this provision on the grounds that it would mean higher taxes for these businesses, it was ultimately included in the final bill which now awaits the Governor's approval.

PENSION REFORM

- ★ The Legislature failed to pass a major pension reform bill which originated from and was strongly advocated by the Foundation. This bill, HB 2506, would have frozen defined benefit plans for current state employees and created a defined contribution system for new employees. However, though the measure did not make it out of the Pensions, Investments, and Financial Services committee, the Foundation was invited to participate in an interim study looking at the issue, which we hope will lead to meaningful reforms in the 83rd Legislature.

TRANSPARENCY IN GOVERNMENT

- ★ The Legislature failed to pass a major transparency reform bill this session—HB 2804—which would have changed the format of the appropriations bill from a strategic-based budgeting format to a program-based budgeting format. As the Foundation has previously stated, changing the layout would make the budget more readable and understandable for taxpayers and legislators.
- ★ Though HB 2804 failed to pass as a stand-alone measure during the regular session, the bill was added as an amendment to SB 1811, a major non-tax revenue bill. However, that measure was ultimately stripped by the conference committee.
- ★ During the special session, HB 2804's language was included as an amendment to SB 1. Unfortunately, this measure was again stripped by the conference committee despite strong bipartisan support.
- ★ The Legislature failed to pass another notable transparency measure, HB 2439, which would have required all state agencies with 1,500 or more employees to post a link on their website allowing state workers to offer suggestions and ideas on how the agency could become more efficient.
- ★ During the special session, an amendment to SB 1 was adopted that would require school districts to begin posting financial information online, such as annual budgets, end-of-year financial reports, and a check register. This measure failed to make it out of conference committee.
- ★ An amendment to SB 1, of the special session, would, if passed, require every state agency, institution, and department to prepare and submit a zero-based budget plan in addition to its other prepared documents. Though this measure could have led to substantial savings in state government, it was stripped by the conference committee.