



TEXAS PUBLIC POLICY FOUNDATION
LEGISLATORS' GUIDE TO THE ISSUES

State Budget

By The Honorable Talmadge Heflin, Director, Center for Fiscal Policy
& James Quintero, Fiscal Policy Analyst

THE ISSUE

Texas could be facing one of the most significant budget challenges in the state's history.

By most accounts, the state's projected 2012-13 budget shortfall is expected to range between \$11 billion and \$15 billion, largely the result of a weak national economy, declining state revenues, and recurring state expenses created by spending the federal stimulus money.

In order to balance a shortfall of that magnitude, without completely exhausting the Rainy Day Fund or passing hefty tax increases, the Legislature will need to take bold steps with clarity, vision, and leadership. With that in mind, the Foundation offers several guidelines to help the Legislature accomplish their mission:

- ★ Make the 2012-13 budget a "0" growth budget;
- ★ Prioritize state spending on the basis of constitutional mandates, followed by statutory requirements;
- ★ Limit the use of the Rainy Day Fund to either emergency tax relief or one-time emergency spending items;
- ★ Maintain a Rainy Day Fund balance of at *least* 5 percent of the general revenue and general revenue-dedicated funds spent in the 2012-13 budget;

- ★ Make it easy to identify and report government fraud and waste by posting all state and local budgets, expenditures, contracts, and other relevant financial information in a searchable and user-friendly format;
- ★ Structure state agencies' performance measures to reflect outcomes rather than outputs;
- ★ Fund only those programs that return a greater value to the taxpayer than the program's cost; and
- ★ Avoid duplication of services by focusing on programs that are not provided by local governments or the private sector.

Using a principled approach, the Legislature has the ability to bridge the state's multi-billion dollar budget shortfall, without raising taxes. Now, all that is needed is the will to do so.

THE FACTS

- ★ For the 2011 legislative session, Texas is facing a multi-billion dollar budget shortfall, similar to what it faced in 2003.
- ★ The state's projected budget shortfall, which ranges between \$11 billion and \$15 billion, is largely the result of a weak national economy, declining state revenues, and recurring expenses created by the stimulus.

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- ★ In part, the state's current relatively strong economy can be attributed to the efforts in 2003 to meet the budget shortfall with no new taxes.
- ★ Effectively solving the state's budgeting difficulties will require clarity, vision, and leadership guided by a principled approach.

RECOMMENDATIONS

- ★ Balance the state's budget without raising taxes or depleting the Rainy Day Fund.
- ★ Adopt a set of budgeting principles to guide the state's fiscal decisions.

RESOURCES

Blueprint for an Effective Budget by The Honorable Talmadge Heflin and James Quintero, Texas Public Policy Foundation (Feb. 2009) <http://www.texaspolicy.com/pdf/2009-02-budgetguidelines-handout.pdf>.

Principles for Determining Budget Priorities by The Honorable Talmadge Heflin and Byron Schlomach, Texas Public Policy Foundation (July 2006) <http://www.texaspolicy.com/pdf/2006-07-PP-budgetpriorities-bsth.pdf>. ★

