<p align="center">**LEGISLATIVE BUDGET BOARD**
Austin, Texas</p>

<p align="center">**DYNAMIC ECONOMIC IMPACT STATEMENT**</p>

<p align="center">**82ND LEGISLATIVE REGULAR SESSION**
Revision 1</p>

<p align="center">**March 30, 2011**</p>

TO: Honorable Jim Pitts, Chair, House Committee on Appropriations

FROM: John S O'Brien, Director, Legislative Budget Board

IN RE: HB1 by Pitts (General Appropriations Bill.), **Committee Report 1st House, Substituted**

HB 1, Committee Report 1st House, Substituted (CSHB1) would appropriate $83,840.7 million from all funds sources in FY 2012 and $80,663.4 million in FY 2013. The biennial total represents a decrease of $22,994.0 million, or 12.3 percent, from 2010-11 appropriations. As required under House Rule 4, Section 34 (a-1), the Legislative Budget Board has analyzed the dynamic economic impact of the bill. Recommended funding levels provide for 233,699 full-time-equivalent positions (FTEs) in fiscal year 2012 and 233,341 FTEs in fiscal year 2013. These represent reductions, when compared to fiscal year 2011 budgeted levels, of 7,163 FTEs in fiscal year 2012 and 7,521 FTEs in fiscal year 2013. Other effects on employment, personal income, GSP, and other economic variables, assuming passage of CSHB1, were analyzed using the REMI Policy Insight Model, a dynamic forecasting and policy analysis tool that uses a combination of econometric, input-output, and computable general equilibrium methodologies. The forecasted changes in several economic indicators for the state of Texas, as a result of CSHB1 spending relative to a baseline scenario, are displayed in Table 1.

Several adjustments were made to the All Funds reduction entered into the model to account for the fact that a reduction in appropriations is not necessarily an equal reduction in state spending. For instance, the Medicaid spending to cover projected caseload and cost increases, and the loss of the ARRA FMAP level not funded in CSHB1 are included in the spending number to reflect the fact that Medicaid is an entitlement program and the spending will occur regardless of appropriations. After these adjustments, the level of state spending as a result of CSHB1 analyzed in the model was $87,924.5 million in FY 2012 and $86,387.9 million in FY 2013.

Correct interpretation of the results in Table 1 is essential to properly understand the effects of CSHB1 on the Texas economy. For instance, the negative 272 thousand change in jobs predicted for 2012 does not imply the state will lose that many jobs from our current employment level upon enactment of CSHB1. Rather, that figure implies Texas will have 272 thousand jobs less than a baseline scenario where state expenditures remained constant relative to 2010-11 levels and available revenue matched these spending levels. Since available revenue for the 2012-13 biennium is predicted to fall well below that amount, in large part due to the national economic recession, many of these job losses can be attributed to the steep downturn of the Texas economy during the past several years. Finally, it should be noted that since appropriations must fall within available revenue, in the absence of CSHB1 some other combination of spending cuts, revenue increases, spending of the rainy day fund, payment deferrals, etc. would be required to cover the gap between 2010-11 spending levels and available revenue for the 2012-13 biennium, each of which would have a different effect on the results displayed in Table 1.

<p align="center">TABLE 1
Dynamic Economic Impact, CS HB1
State of Texas, Calendar Year 2012-2013</p>

Category	Units	2012	2013
Total Employment*	Jobs	(271,746.1)	(335,244.1)
Total Employment % Change	Percent	-1.9%	-2.3%
Private Non-Farm Employment	Jobs	(117,060.5)	(146,457.0)
Total Government Employment	Jobs	(154,684.6)	(188,787.6)
Gross State Product	Billions of Fixed (2005) Dollars	(15.2)	(19.0)
Personal Income	Billions of Current Dollars	(12.6)	(17.2)
Disposable Personal Income	Billions of Current Dollars	(11.2)	(15.2)
PCE-Price Index	2005=100 (Nation)	-0.057	-0.142

* The employment data comes from a different source than data reported in the Biennial Revenue Estimate. While numbers reported in the BRE are from the Texas Workforce Commission, data used in the REMI model comes from the Bureau of Economic Analysis which makes adjustments for employment not covered by state

unemployment insurance programs (the primary source for TWC data). Therefore, the base number of jobs in the model is approximately three million higher than the employment number presented in the BRE.

Source Agencies:

LBB Staff: JOB, KK, SD