

LEGISLATIVE BUDGET BOARD
Austin, Texas

DYNAMIC ECONOMIC IMPACT STATEMENT

82ND LEGISLATIVE REGULAR SESSION
Revision 1

March 30, 2011

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

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

IN RE: HB4 by Pitts (relating to making supplemental appropriations and giving direction and adjustment authority regarding appropriations.), **Committee Report 1st House, Substituted**

HB 4, Committee Report 1st House, Substituted (CSHB4) would reduce FY 2011 All-Funds appropriations by \$853.6 million. As required under House Rule 4, Section 34 (a-1), the Legislative Budget Board has analyzed the dynamic economic impact of the bill. The effects on employment, personal income, GSP, and other economic variables, assuming passage of CSHB4, 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 idiosyncratic effects of the appropriations reductions on the allocation of the change in total government jobs between the number of federal, state, and local employees cannot be estimated because affected agencies and institutions have discretion in the means by which they implement the reductions. The forecasted changes in several economic indicators for the state of Texas, as a result of CSHB4, 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, approximately \$117.0 million in CSHB4 savings are debt service reductions, which the LBB assumes would have lapsed if not captured in the bill and, thus, would have no effect on overall state spending. After other similar adjustments, the net reduction in state spending from CSHB4 analyzed in the model was \$631.6 million.

It should be noted that results below only assume enactment of CSHB4 and do not account for required policy changes in absence of the bill's passage. The baseline scenario in the REMI model assumes that available revenue matches FY 2011 appropriations, when in actuality; this revenue was well short of the 2009 Certification Revenue Estimate due to a variety of factors, most importantly the national economic recession. Since appropriations must fall within available revenue, some other action would be required to cover the \$853.6 million FY 2011 shortfall in the absence of CSHB4. These could include but are not limited to, some combination of payment deferrals, increased revenue collections, use of the rainy day fund, etc., each of which would have a different effect on the results displayed in Table 1.

TABLE 1						
Dynamic Economic Impact, CSHB 4						
State of Texas, Calendar Year 2011 - 2015						
Category	Units	2011	2012	2013	2014	2015
Total Employment*	Jobs	(22,752.0)	(470.7)	(157.2)	79.1	181.6
Total Employment % Change	Percent	-0.17%	-0.03%	-0.01%	0.00%	0.01%
Private Non-Farm Employment	Jobs	(9,766.6)	(399.4)	(110.4)	102.5	195.3
Total Government Employment	Jobs	(12,987.5)	(72.4)	(45.9)	(24.9)	(13.1)
Gross State Product	Billions of Fixed (2005) Dollars	(1.26)	(0.03)	(0.01)	0.01	0.02
Personal Income	Billions of Current Dollars	(1.02)	(0.12)	(0.08)	(0.05)	(0.03)
Disposable Personal Income	Billions of Current Dollars	(0.91)	(0.11)	(0.07)	(0.05)	(0.03)
PCE-Price Index	2005=100 (Nation)	(0.00468)	(0.00600)	(0.00279)	(0.00189)	(0.00128)

* 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