

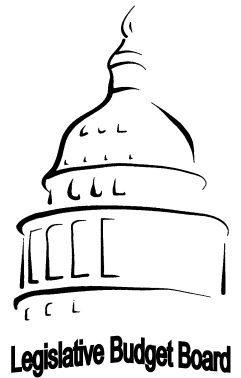
Summary of Legislative Budget Board Budget and Policy Recommendations for the 2012-13 Biennium

House Committee on Ways & Means

February 21, 2011



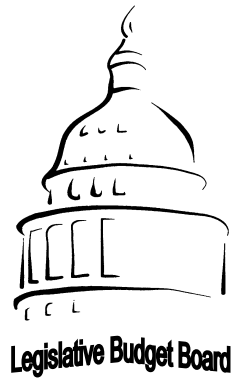
Overview



- The Fiscal Backdrop
- The LBB Approach to Budget Reductions
- Next Steps

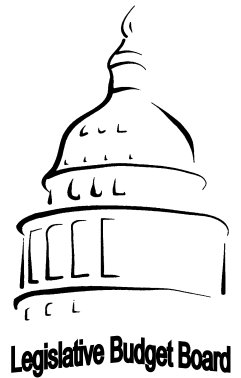


The Fiscal Backdrop



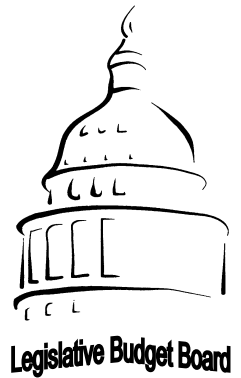
- 2009 Surplus: \$5.7 billion
- 2011 Revenue Hole: \$4.3 billion
- ARRA Cliff: \$8.3 billion

LBB Approach to Budget Reductions



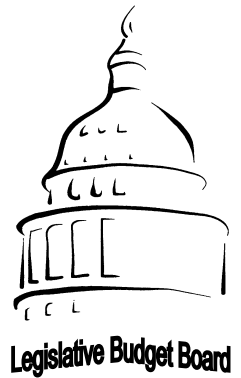
- Protect agency core programs where possible.
- Target reductions to discretionary programs and services.
- Suspend funding for some programs; make deep reductions to others.
- Revert to prior funding levels.
- Make use of agency 10% reduction schedules.
- Use methods of finance other than GR where appropriate.
- Ensure that certain services are self-funding with fees.
- Assume passage of legislation to reduce costs.

Selected Statutory Changes Embedded in Budget Bill



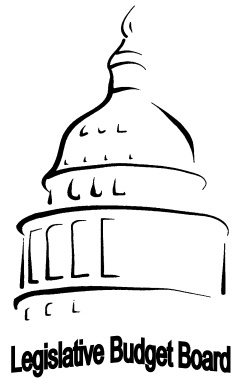
- Teacher Retirement System - reduce state contribution to 6% (related impact on active member contribution).
- TRS-Care - reduce state contribution rate to 0.5%.
- Repeal prohibition of managed care in South Texas.
- Eliminate insurance premium tax credit for exam fees and overhead assessments.
- Reduce school finance formula entitlements by 13.7%.

Medicaid Funding Highlights



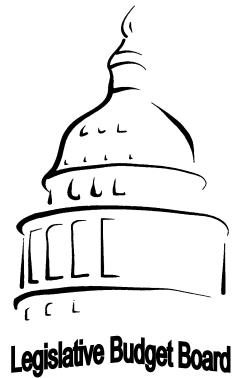
- 10% provider rate reduction
- Insufficient funds to:
 - replace federal stimulus funds
 - cover anticipated increases in the number of clients who will be eligible for and enroll in the program or anticipated increases tied to medical inflation, higher utilization, or increased acuity

Foundation School Program Highlights



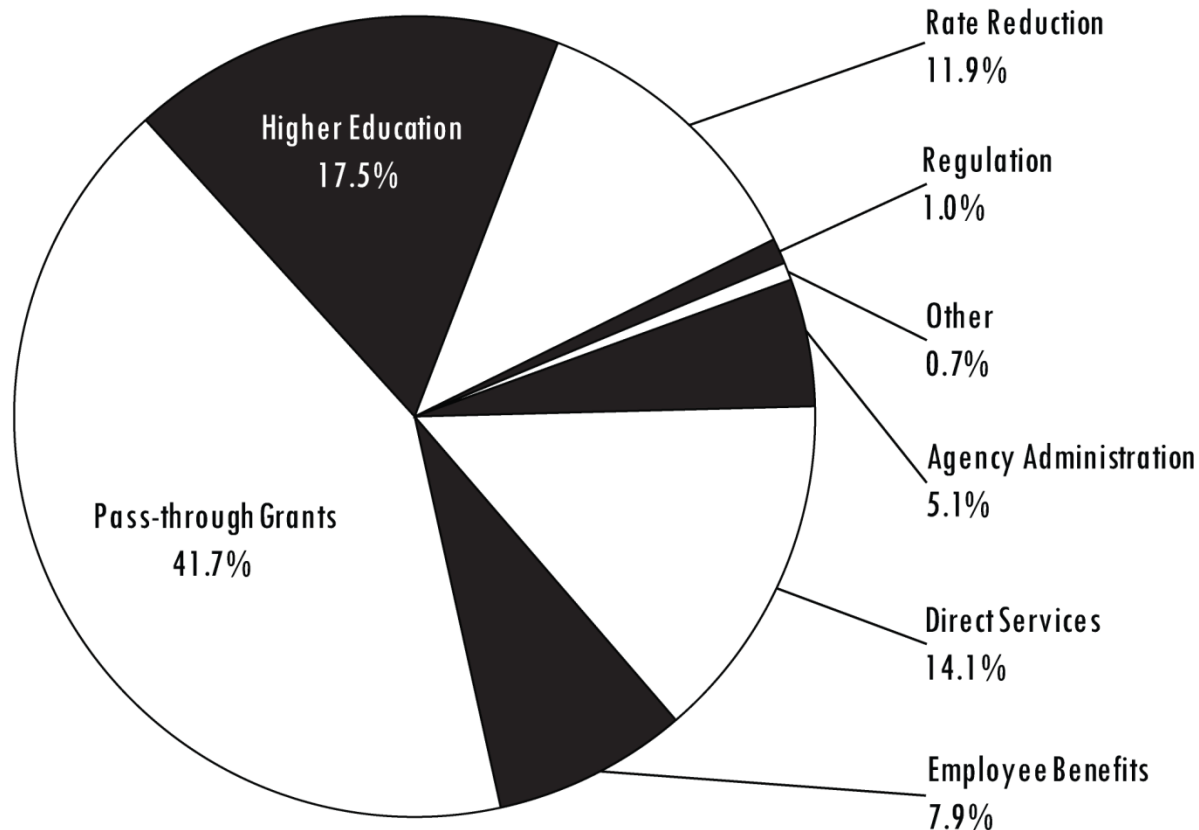
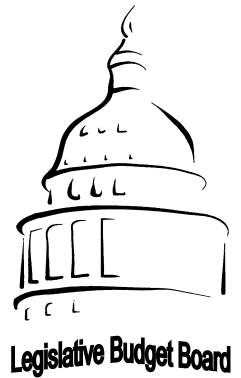
- Insufficient funds to:
 - replace federal stimulus funds
 - cover expected enrollment growth
 - offset expected reduction in school district property values
 - cover state-district settle up needs
- Requires passage of legislation to reduce school finance formulas by an estimated 13.7%

Summary of Budget Recommendations

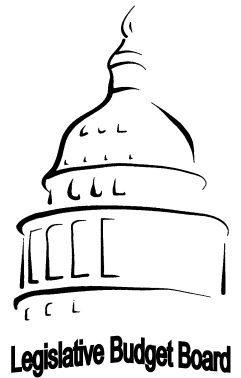


- LBB recommendations total \$156.4 billion in All Funds. This is \$31.1 billion, or 16.6%, below 2010-11 spending levels.
- GR-related recommendations total \$79.3 billion. This is \$9.2 billion, or 10.4%, below 2010-11 spending levels.

GR-Related Reductions by Type Compared to 2010-11 Base

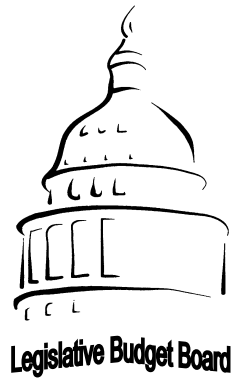


Tools Not Considered in LBB Budget Recommendations



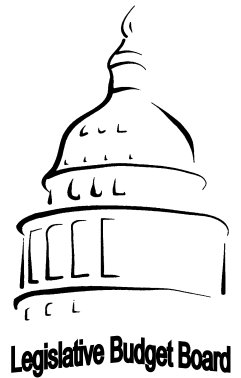
- Appropriations from Economic Stabilization Fund
- Spending deferrals
- Certain LBB Government Effectiveness and Efficiency Report (GEER) recommendations
- Other revenue enhancement legislation

Selected GEER Recommendations Not Included in Budget Bill



- Modify sales tax timely filer and prepayment discounts.
- Suspend sales tax holiday.
- Implement a surcharge on inefficient vehicles.
- Increase state traffic fines.
- Phase out the tax refund for economic development program
- Reduce escheat dormancy periods.

2011 Supplemental Appropriations Bill



5% reduction target
remaining after 2010
set aside

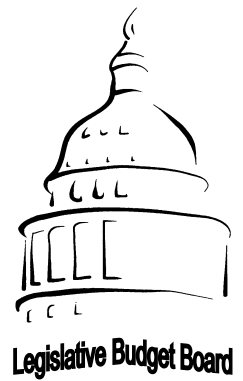
\$945 million

Estimate for additional
2.5% target

\$438 million

Anticipated needs in
Foundation School
Program

(\$415 million)



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