

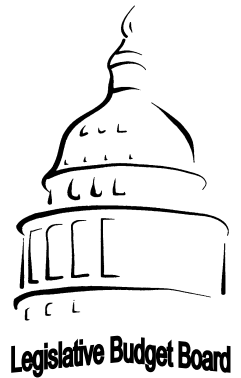
Summary of Legislative Budget Board Budget and Policy Recommendations for the 2012-13 Biennium

Senate Finance Committee

January 31, 2011



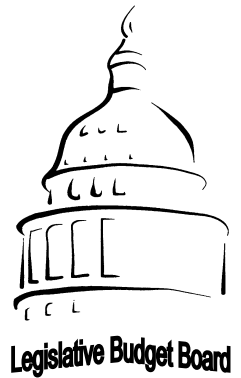
Overview



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

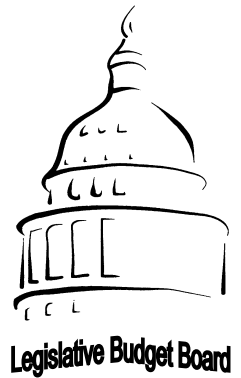


The Fiscal Backdrop



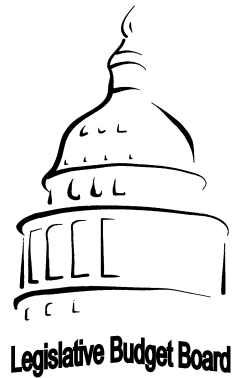
- 2009 Surplus: \$5.7 billion
- 2011 Revenue Hole: \$4.3 billion
- ARRA Cliff: \$8.3 billion

LBB Approach to Budget Reductions



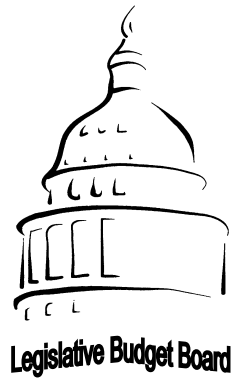
- Protect agency core programs where possible.
- Target reductions to discretionary programs and services.
- Suspend funding for some programs; make deep reductions to others.
- Revert to prior funding levels.
- Make use of agency 10% reduction schedules.
- Use methods of finance other than GR where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

Selected Statutory Changes Embedded in Budget Bill



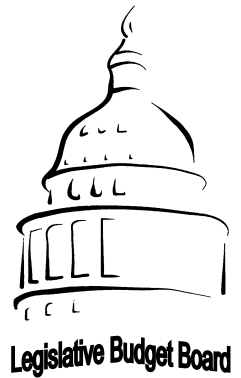
- Teacher Retirement System - reduce state contribution to 6%.
- TRS-Care - reduce state contribution rate to 0.5%.
- Repeal prohibition of managed care in South Texas.
- Eliminate insurance premium tax credit for exam fees and overhead assessments.
- Reduce school finance formula entitlements by 13%.

Medicaid Funding Highlights



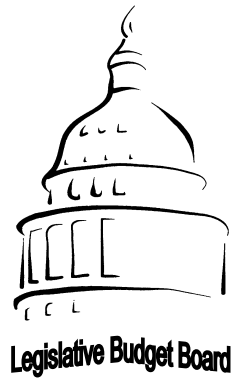
- 10% provider rate reduction
- Insufficient funds to:
 - replace federal stimulus funds
 - cover anticipated increases in the number of clients who will be eligible for and enroll in the program or anticipated increases tied to medical inflation, higher utilization, or increased acuity
- GR savings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

Foundation School Program Highlights



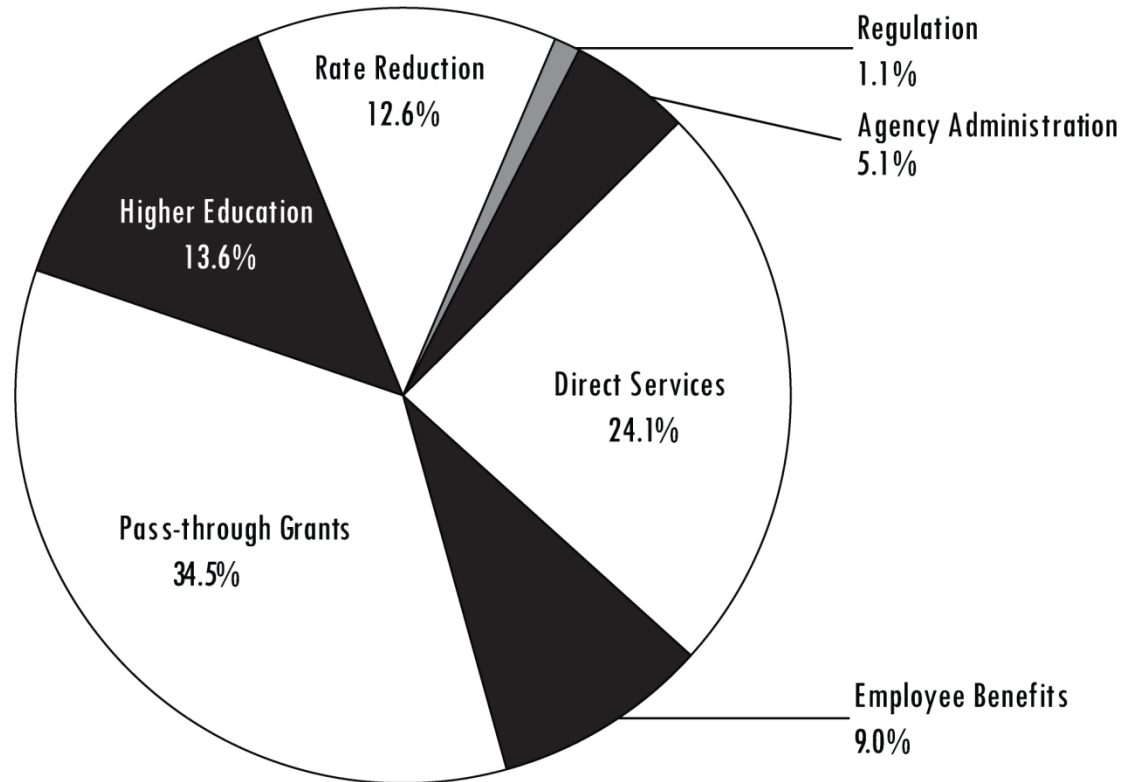
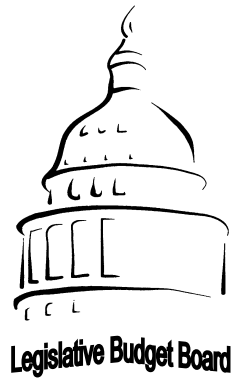
- Insufficient funds to:
 - replace federal stimulus funds
 - cover expected enrollment growth
 - offset expected reduction in school district property values
 - cover state-district settle up needs
- Requires passage of legislation to reduce school finance formulas by an estimated 13%

Summary of Budget Recommendations

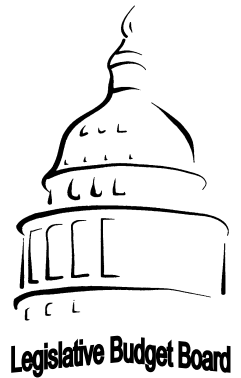


- LBB recommendations total \$158.7 billion in All Funds. This is \$28.8 billion, or 15.4%, below 2010-11 spending levels.
- GR-related recommendations total \$79.7 billion. This is \$8.8 billion, or 9.9%, below 2010-11 spending levels.

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

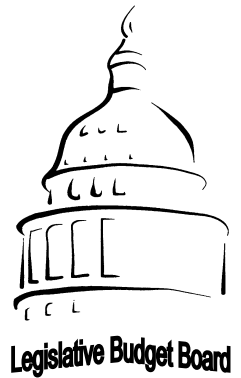


Tools Not Considered in LBB Budget Recommendations



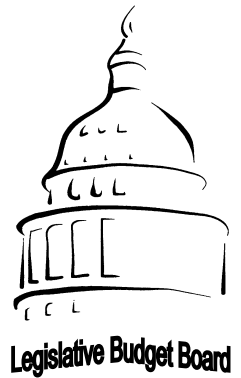
- Appropriations from Economic Stabilization Fund
- Spending deferrals
- Certain LBB Government Effectiveness and Efficiency Report (GEER) recommendations

Selected GEER Recommendations Not Included in Budget Bill



- Increase employee/retiree share of group health insurance costs.
- Modify sales tax timely filer and prepayment discounts.
- Suspend sales tax holiday.
- Implement a surcharge on inefficient vehicles.
- Increase state traffic fines.
- Reduce escheat dormancy periods.

2011 Supplemental Appropriations Bill



5% reduction target
remaining after 2010
set aside

\$945 million

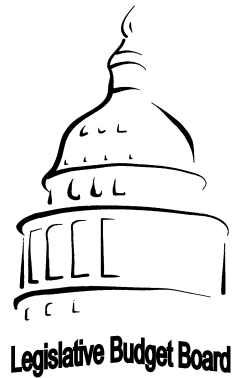
Estimate for additional
2.5% target

\$400 million

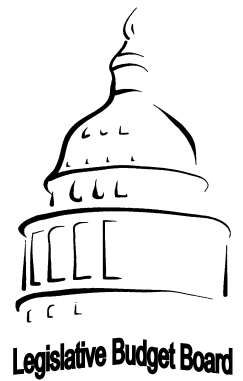
Anticipated needs in
Foundation School
Program

(\$415 million)

LBB Staff



- It has been a difficult process to bring you these recommendations.
- Our role now shifts to answer questions, analyze proposals, and help you modify S.B.1 to fit your priorities for the state budget.
- Introduction of managers and review of LBB publications.



John O'Brien, Director

Legislative Budget Board

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