



LEAGUE OF WOMEN VOTERS OF TEXAS

Financing Texas Government: **Not Just Trimming the Fat, but Scraping the Bone**

Background: This year the 82nd Texas Legislature is facing a shortfall of \$26.8 billion. The reason for the shortfall is two-fold: First the country is in the throes of the worst economic decline since the Great Depression. Second, and more importantly, in better economic times the 2005 legislature cut property taxes by a third, creating a continual biannual* shortfall of \$10 billion in state revenue. That means that the Texas government will constantly lack funds for its obligations and services in a growing economy and with a larger, younger and potentially poorer population. In 2009 the federal government's \$14 billion stimulus package helped to balance the budget and masked the looming problem. Now is the time for reckoning.

The Dilemma: The legislature can cut spending or raise revenue or both. LWV-TX suggests that there are problems with cutting spending, although careful spending reductions are possible. The legislature also needs to consider raising revenue to offset the shortfall.

The Problem with Spending Cuts: Cutting spending is the proposed legislative tactic. Earlier in the year state agencies were told to cut 5% from their budgets. Now state leaders are talking about an additional 10% across-the-board cut. Although these cuts seem at first glance simple and fair, they are far more simple than fair. Many of the proposed cuts are going beyond the fat and muscle to actually scraping the bone of state government.

Cutting spending as presently proposed assumes that Texas can stimulate economic growth and protect and educate its citizens for the next two years with 15% less money than it took in 2008. Consider that in the last ten years, Texas' population has grown by 4 million, almost 20%. We have one of the youngest populations in the nation. How can we get by without adequately funding for the growing need for education and social services?

Effects of cutting spending: Across-the-board cuts could:

- Endanger the health and wellbeing of our most vulnerable citizens, the poor and the young. Texas is now dead last in the percentage of our citizens who have health insurance. Almost a quarter of Texans have no insurance. With the proposed cuts, 140,000 Texans could lose mental health services.
- Deprive Texans of \$15 billion annually in federal matching funds for basic services that programs like Medicaid provide. Texas ranks 44th in the percentage of its population living below the poverty line. One in every six Texans lives in poverty.
- Decimate the quality of education in Texas which is already challenged to educate children for the 21st century.
- Leave our water and air quality more vulnerable to degradation through under-funding of regulatory agencies.

ADVOCACY PAPER

The Case for Increasing Revenues: LWV-TX recognizes that raising taxes is politically dangerous, and that imposing “user fees” or enhancing revenue seems less so. The last time the Texas legislature raised taxes was in 2003.

Historically, there is a precedent for raising taxes. In 1987 Governor Bill Clements broke his promise of no new taxes in a similarly dire economic period without grave political consequences. Although a small number of leaders have spoken about tax reform, making our present regressive tax system more equitable and transparent has few political champions.

Additional funds could come from one or more of the following actions:

- Use the Economic Stabilization or Rainy Day fund with it’s approximately \$9 billion. Its constitutional purpose is to maintain vital state services during economic downturns like our present situation.
- Eliminate sales tax exemptions for business and professional services. This could raise \$5.6 billion over a two year period.
- Index the gasoline tax from its present level of 20¢ per gallon, set in 1991 when the price of gas was \$1.14, to a percentage of the sales price.
- Adjust the franchise tax so it is more equitable and effective. Closing the loop-holes would raise an additional \$5.6 billion over the biennium.
- Impose an additional \$1 per carton on cigarettes which could raise \$1.9 billion.
- Increase the already regressive sales tax by half a percent, with a stipulation to protect low-income families which would raise \$3 billion.
- Increase state issued fines, penalties and fees like driver’s licenses by 20%, which would yield \$2.74 billion.

Conclusions: The major responsibilities of the Texas government are to educate its children, protect its citizens, maintain its infrastructure and ensure its economic health and future wellbeing. Systemic and chronic shortages of funding have already caused our state to be marginally effective in these responsibilities. Texas citizens must call on their legislators to balance the budget carefully and thoughtfully by using the rainy day fund, carefully reducing spending and enhancing revenue.

Let’s not cut services to the bone but instead make thoughtful and prudent adjustments to spending and income so as to meet our obligations to all Texans and keep our future bright.

* Annual \$10 billion shortfall changed to biannual to correct our misunderstanding on 03/15/2011.

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