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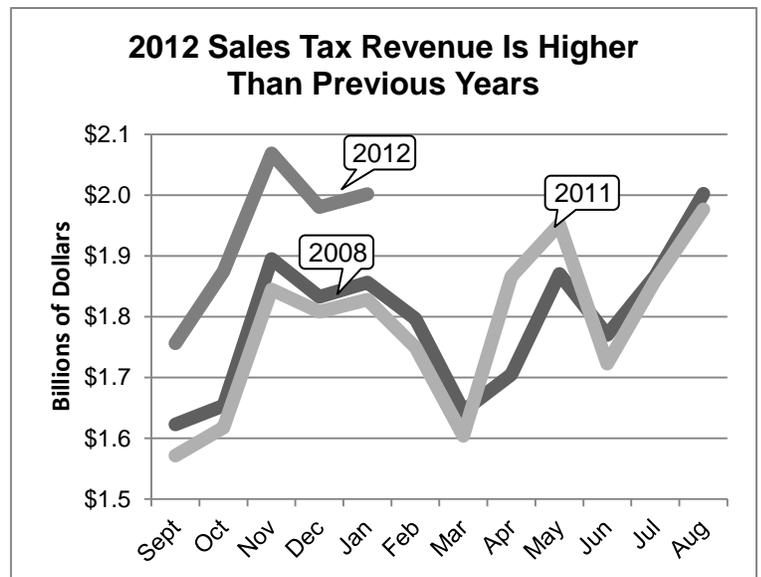
Time Proves State’s Refusal to Spend Rainy Day Fund Misguided; What We Should Do Now and for the Future

During the legislative session, the Center for Public Policy Priorities recommended that the state spend the Rainy Day Fund to prevent damaging cuts to vital state services, particularly public education. See [Using the Rainy Day Fund to Ensure our Recovery and Prosperity](#) (Feb. 21, 2011). The Rainy Day Fund is a constitutional fund designed to save money in good times to pay ongoing expenses during bad times when revenue is short. After the economy improves, and revenue rebounds, general revenue once again pays for ongoing expenses. During the 2011 legislative session, with billions available for appropriation from the Rainy Day Fund, the state had no need to cut spending on public education—the proven path to good-paying jobs. Unfortunately, the state cut public education spending by \$5.3 billion.

What We Can Do Today

Time has proven our recommendation to use the Rainy Day Fund a sound one. The Comptroller’s December 2011 certification revenue estimate projects a \$1.6 billion ending balance by August 2013, because of improved tax collections since the 2011 legislative sessions ended. The economy has begun to recover. The state sales tax brought in more money in the first five months of fiscal 2012 than in the similar period of any previous year, including 2008—the current record year for sales tax revenue. At this rate, sales tax collections for 2012 may be some \$1.4 billion higher than predicted by the comptroller when she certified the current state budget.

If the governor called the legislature into special session today, \$1.6 billion (the currently estimated ending balance), along with \$400 million from the Rainy Day Fund, could be appropriated to restore public education spending for the upcoming 2012-13 school year. With the Rainy Day Fund expected to have a balance of \$7.3 billion at the end of the present biennium—more than enough to cover any supplemental General Revenue needed for Medicaid in 2013—the state could confidently restore Foundation School Program spending before school districts are forced to make additional damaging cuts in the next few months.

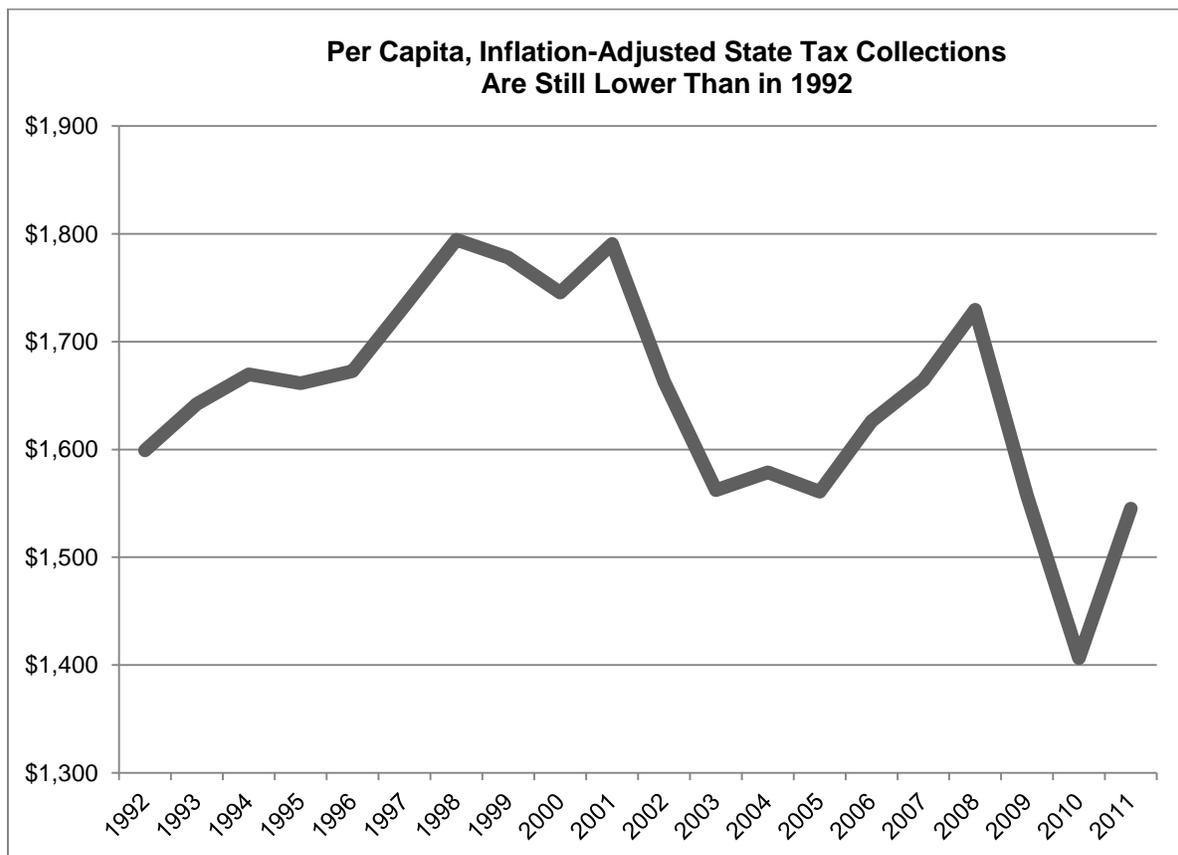


SOURCE Comptroller, state sales tax collections to general revenue, <http://www.window.state.tx.us/taxinfo/salestax/>

What We Need to Do for the Future

Looking at our state's revenue system from a longer-term perspective, though, reveals that our antiquated revenue system cannot produce enough revenue to maintain even our inadequate budget after you factor in population growth and the higher cost of providing services. In fact, even with a recovering economy, inflation-adjusted, per-capita sales tax revenue in 2011 is still lower than twenty years ago!

Although we welcome the opportunity to use the unexpected increase in state tax collections to avoid some of the most harmful cuts to public education currently planned in the state budget for 2013, it is clear that a longer-term solution is needed to meet the needs of Texas. Our state revenue system must be restructured to provide an adequate funding stream for the investments we must make to ensure a more prosperous future.



SOURCE Comptroller, annual cash reports (1992-2011); U.S. Dept of Commerce, Bureau of Economic Analysis, implicit price deflators for gross domestic product; U.S. Census Bureau, Population Division, population estimates; Calculations by the center

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