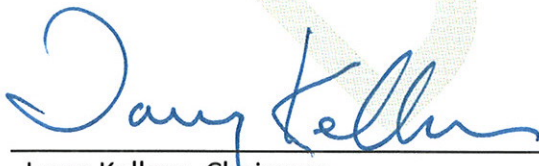


Resolution of the Board of Directors in Support of Additional Usage of the Rainy Day Fund

The Greater Houston Partnership supports the use of the \$3.2 billion from the Rainy Day Fund and the additional use of \$4 billion from the fund to be allocated toward the Foundation School Program and Medicaid for the 2012-2013 biennium. House Appropriations Chairman Jim Pitts filed HB 275 calling for the use of \$3.2 billion of the Texas Economic Stabilization Fund, commonly known as the Rainy Day Fund, to be applied to the current biennium's shortfall.

Providing Texas' young people with necessary resources to learn at a young age is essential for their future prosperity. Additional Medicaid funding would allow our state's underprivileged youth, senior citizens and disabled receive the health care coverage they deserve.



Larry Kellner, Chairman



Jeff Moseley, President and CEO



Tony Chase, Secretary

BACKGROUND MEMORANDUM

DATE: April 6, 2011

TO: Greater Houston Partnership Board of Directors

FROM: Charles Swanson, Chair, Business Issues Committee

SUBJECT: Resolution of the Board of Directors in Support of Additional Usage of the Rainy Day Fund

RECOMMENDATION

The Greater Houston Partnership supports the use of the \$3.2 billion from the Rainy Day Fund and the additional use of \$4 billion from the fund to be allocated toward the Foundation School Program and Medicaid for the 2012-2013 biennium. House Appropriations Chairman Jim Pitts filed HB 275 calling for the use of \$3.2 billion of the Texas Economic Stabilization Fund, commonly known as the Rainy Day Fund, to be applied to the current biennium's shortfall.

Providing Texas' young people with necessary resources to learn at a young age is essential for their future prosperity. Additional Medicaid funding would allow our state's underprivileged youth, senior citizens and disabled receive the health care coverage they deserve.

BACKGROUND:

Budget estimates in January 2011 ranged up to \$27 billion in terms of a budgetary shortfall, taking into account future growth in population and, as a result, growth in state services such as health care and education.

The House budget calls for the state to spend \$77.6 billion of its own funds over two years. Even after an agreement to make a limited withdrawal from Texas' reserve fund, the Economic Stabilization Fund. The plan still would underfund public schools by almost \$8 billion and Medicaid by \$4 billion. The figures are contingent on passage of the plan to tap the reserve fund.

A state study released on March 24, 2011 showed Texas would lose 335,000 jobs if the current budget proposal in the House became law. Data from the non-partisan Legislative Budget Board said the budget would eliminate 188,787 state jobs by the end of 2013 and private companies would eliminate 146,457 jobs under the House plan.

Experts also say a proposed cut to Medicaid reimbursement rates for nursing homes could leave as many as 45,000 senior citizens homeless.

Rainy Day Fund:

In 1988, voters approved a Constitutional Amendment to create the Economic Stabilization Fund, commonly referred to as the Rainy Day Fund¹. The fund was sold to voters as a way to maintain services in the event of an economic downturn. The wording on the ballot was as follows: "The constitutional amendment establishing an economic stabilization fund in the state treasury to be used to offset unforeseen shortfalls in revenue."

The Rainy Day Fund is funded by oil and/or gas production taxes collected in each fiscal year that exceeds the amount collected in 1987, and by unencumbered General Revenue funds at the end of a biennium.

History of the use of the Rainy Day Fund:

- 1990 - \$29 million (entire fund balance)
- 1993 - \$125.8 million (most of the fund balance)
- 1994 - \$72 million of the \$80 million in the fund
- 2003 - \$1.26 billion, leaving \$365 million in the fund
- 2005 - \$2.03 billion

The current balance of the Rainy Day Fund is estimated to be \$8.2 billion, and is projected to grow to \$9.4 billion through 2012-2013. The fund should grow by a little more than \$1 billion over the next biennium. Forty-eight U.S. states have some kind of rainy day fund, according to the National Association of State Budget Officers (NASBO). NASBO also reports that two states — Texas and Alaska — have rainy day fund balances exceeding those of all other states combined.

To tap into the Rainy Day Fund, a vote of 3/5 of the Texas Legislature is required (90 in the House and 19 in the Senate).

On March 15, 2011 the House Appropriations Committee unanimously voted in favor of HB 275 filed by Chairman Jim Pitts, which called for the use of \$3.2 billion from the Rainy Day Fund. The \$3.2 billion that was approved will be applied to the shortfall of the current biennium but not to the 2012-2013 biennium budget.

Texas Education Agency - Foundation School Program:

The Foundation School Program (FSP) is the primary source of state funding for Texas school districts. The FSP was established by the Gilmer-Aikin Laws in 1949. The state distributes funds from the Available School Fund to local school districts through the two-tiered program. Tier-one of the FSP provides funds to meet the costs of basic education programs that meet state accreditation standards. Tier-two provides schools with equal access to revenue for

¹ Numbers, The. "Rainy Day Fund 101 - January/February 2011 Fiscal Notes." Susan Combs - Texas Comptroller of Public Accounts. Jan. 2011. Web. 28 Mar. 2011. <<http://www.window.state.tx.us/comptrol/fnotes/fn1102/>>.

educational enrichment. Both tiers contain a state and local share, with the latter depending on the property wealth of each district. Under Tier-one of FSP, additional funding is made available to school districts for special, vocational, compensatory, bilingual and gifted and talented programs.

The program is administered by the Texas Education Agency. The FSP, in its current form, is meant to ensure that all school districts, regardless of property wealth, receive "substantially equal access to similar revenue per student at similar tax effort."

Medicaid:

Medicaid is a jointly funded state-federal health care program, established in Texas in 1967 and administered by the Health and Human Services Commission (HHSC)². Medicaid as an entitlement program does allow the federal or the state governments to limit the number of eligible people who can enroll, and Medicaid must pay for any services covered under the program.

In December 2009, one in eight Texans (3.2 million of the 24.9 million) relied on Medicaid for health insurance or long-term services and support. Today Medicaid covers 3.3 million Texans. In less than four years, it will expand to cover more low-income adults, increasing the program's size by 1.2 million-2 million enrollees. Texas Medicaid is only going to increase as more people move to Texas and our population ages. Most Medicaid enrollees — 69 percent — are babies, children of the working poor, pregnant women and low-income parents. Another 23 percent are seniors or patients with disabilities. In fiscal year 2009, Texas Medicaid cost \$20 billion. Texas' share was \$7 billion. While most enrollees are children, they only account for only about 30 percent of the program's costs. Seniors and patients with disabilities account for 59 percent.

A large incentive to finance this gap with the Rainy Day Fund is the higher federal match rate the state would receive for Medicaid expenses.

FISCAL IMPACT:

Much of the recent growth in Texas' Economic Stabilization Fund is due to sharp increases in the price of natural gas, which drove up contributions from the state's natural gas production tax. At the start of the 82nd Texas Legislature, the fund contained nearly \$8.2 billion.

\$3.2 billion will be taken out of the Rainy Day Fund to cover the shortfall of the current biennium, leaving \$5 billion in the fund. If \$4 billion of the Rainy Day Fund were to be used

² "Texas Medicaid and CHIP in Perspective: Eighth Edition." Texas Health and Human Services Commission, Jan. 2011. Web. 28 Jan. 2011.
<<http://www.hhsc.state.tx.us/medicaid/reports/PB8/PDF/Cover.pdf>>.

toward the Foundation School Program and Medicaid, there would be a fund balance close to \$1 billion.

KNOWN OPPOSITION:

There may be organizations that support only the use of the \$3.2 billion from the Rainy Day Fund to cover the current biennium's shortfall.

IMPLEMENTATION:

To implement this recommendation, GHP will communicate its support of this resolution.

RESOURCES REQUIRED:

This recommendation can be implemented with available GHP staff and within current operating budget resources.