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## Man-Made Fiscal Crisis Worse than 2003

### Cutting School Property Taxes to \$1.00 Would Require Massive Cuts in State Budget

Using state revenue to replace school property taxes, cutting tax rates to \$1.00 in 2008, would force a 16% cut in state spending subject to the constitutional cap on spending in the 2008-09 budget. Such a cut would needlessly force damaging cuts in vital state services.

#### How Cutting Property Taxes Squeezes Out the Rest of the State Budget

As described in *Policy Page # 264* and *263*, the constitutional limit on spending controls the amount of undedicated tax revenue that may be spent each biennium. Within the spending permitted by the cap, a commitment of large amounts of state revenue to cutting school property taxes to \$1.00 would crowd out many important programs.

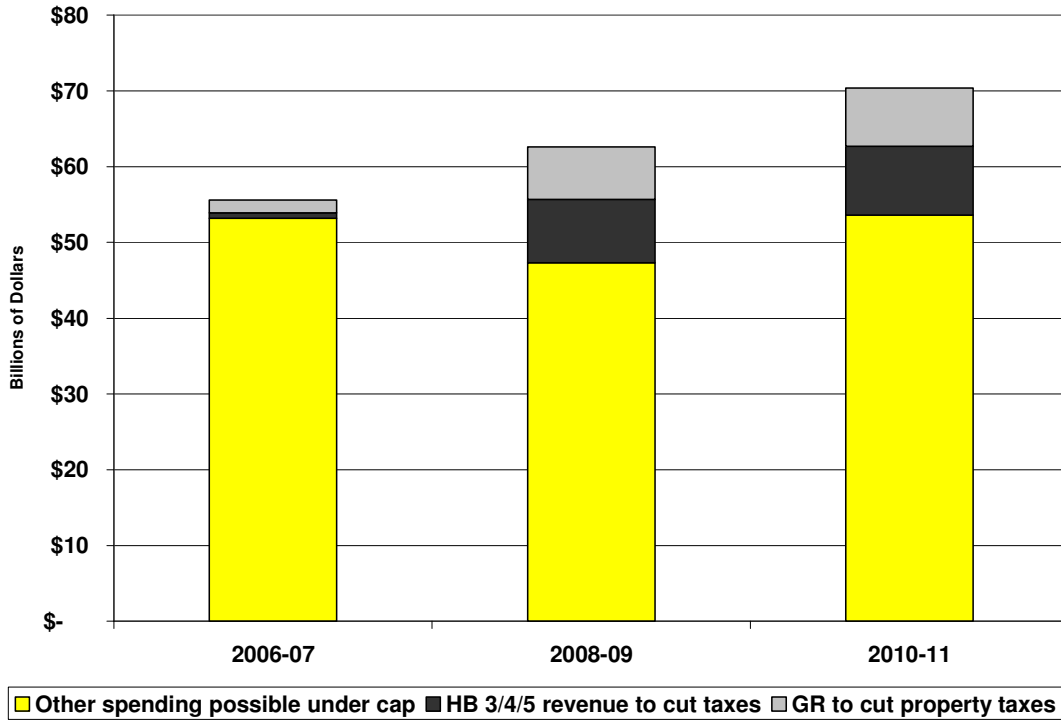
The chart below shows the effect of devoting so much of the state revenue available to the new task of replacing local property tax revenue. Each bar shows the total amount that could be spent in a biennium under the restrictions of the constitutional cap, which limits growth in spending to the projected growth in personal income. (Growth projections for the chart are from the comptroller's Spring 2006 economic forecast.)

The dark areas at the top of each bar show how much of the permitted spending would have to go to cutting school tax rates to \$1.00. The money to replace property taxes would come from this session's tax bills (HB 3, 4, and 5) and, since the new tax revenue would not be enough to cut all the way to \$1.00, from general revenue.

The remaining available revenue must cover all expenditures currently funded in 2006-7. The chart demonstrates that these expenditures would have to shrink by roughly \$8.7 billion in 2008-09. Even after growing in 2010-11, these expenditures would remain below current levels.

To get an idea of what spending would be squeezed out: almost 60% of general revenue spending goes to education – two-thirds of that for K-12 public education, the rest to support higher education; one-quarter of GR spending is for health and human services (primarily Medicaid); more than 10% is for prisons and public safety; the remainder covers everything else -- general government, natural resources, the courts, business and economic development, and regulatory agencies.

A 16% cut for 2008-09 could be achieved by completely eliminating general revenue support for public universities; slashing HHS funding by two-thirds (costing the state billions in federal matching funds for health care); or by closing state prisons and eliminating all General Revenue support for any non-education, non-HHS state program.



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