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State budget looks tight despite surplus

Lawmakers need to find ways to pay for the new school finance plan and property tax cuts

By PEGGY FIKAC

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AUSTIN — Despite a strong economy and billions of surplus dollars, state leaders looking toward the next budget face a tight money situation driven by the need to fund the new school finance package, including a cut in property tax rates.

Advocates for lower-income Texans say those who need programs such as health care and who struggle to pay college tuition are among those who could pay the price and won't benefit from the tax changes.

Republican leaders say the package will benefit Texas and they'll still meet state priorities, although a top senator acknowledges it will be close.

Unofficial estimates from Gov. Rick Perry's office identify money totals — factoring in "conservative" revenue growth, an economic boost from tax changes and the balance in the state contingency fund — that come close to covering his staff's estimates of major spending needs in the coming two-year budget period. The needs, identified in May, include such things as Medicaid growth but not recently high-profile issues such as parks funding.

For the two-year budget period after that — the one lawmakers won't write until 2009 — forecasts are more uncertain.

In that period, the state would be \$300 million short of paying just for the school and tax package under what Perry budget director Mike Morrissey called conservative revenue projections. He said the estimates don't fully account for factors such as potential economic growth.

Partisan disagreement

Rep. Jim Dunning of Waco, House Democratic Caucus chairman, dismissed the figures from Perry's office as "ludicrous estimates."

Sen. Steve Ogden, R-Bryan, Senate Finance Committee chairman, said: "The budget is going to be tight. But I don't think it's going to be anything that we can't manage."

"I think we're going to be fine. I'm not 100 percent sure," Ogden said. "I think the next biennium, we're going to be OK. I'm not ready to speculate on the biennium beyond that."

Even before the school and tax package championed by Perry was approved, many Democrats and Comptroller

Carole Keeton Strayhorn — an independent challenging Perry — voiced concern that it would dig the state into a big hole.

The package used state surplus funds and expanded state taxes, including business levies, to lower local school property taxes. The higher state taxes don't cover the entire cost of the property tax cut because leaders wanted to pass a net decrease.

Strayhorn estimated the effort would create a shortfall of \$23 billion over five years. The nonpartisan Legislative Budget Board put it at \$25 billion.

The comptroller is the only one who can make official revenue estimates, a point Morrissey noted. The comptroller is required to make such an estimate for the next Legislature, which returns in January 2007.

'Proof is in the pudding'

Deputy Comptroller Billy Hamilton emphasized that point when asked about Morrissey's figures, and he disputed the idea that there would be a huge economic response to the tax changes.

"You can come up with all sorts of scenarios, but really, the proof is in the pudding," Hamilton said. "And right now, the pudding says \$23 billion to \$25 billion short in the plan. That's \$5 billion a year, and that takes a lot of economic growth to make up."

Ogden plans budget hearings starting after Labor Day. State agencies already have been told by Morrissey and Legislative Budget Board director John O'Brien to prepare spending requests that are 10 percent less than currently appropriated. There are some exemptions and agencies can seek to justify additional spending. A 10 percent cut would amount to about \$1.5 billion, Morrissey said.

F. Scott McCown of the Center for Public Policy Priorities, which advocates for programs for lower-income Texans, said the governor's overall figures amount to "irresponsible budgeting. ... It's exactly like an employee dreaming that his boss is going to give him a bonus at the end of the year, and then spending money all year long based upon the dreamed-up bonus."

Perry spokeswoman Kathy Walt said leaders' priorities benefit the state, including cutting property tax rates to help people afford homes.

"The Center for Public Policy Priorities has never seen a dime of your money it didn't want to spend on government programs," Walt said.

McCown disagreed and shot back at Perry's priorities, saying his center wouldn't spend money on "giveaways to corporations through so-called tax incentives that don't provide jobs at good wages."

Spending vs. revenue

State Rep. Mike Villarreal, D-San Antonio, House Ways and Means Committee vice chairman, said his biggest worry is the budget lawmakers will write in 2009. He said the state doesn't "have a tax system that is adequate to cover the bill."

Higher property appraisals still will affect the taxes people pay, he said, despite the billions spent to lower local tax rates.

"Anybody who wants to send their kid to a state college, anyone who sends their child to a public school, anyone using health insurance from the state, anybody who drives on a highway, and anybody who wants to keep prisoners locked up and completing their full term, all these folks are going to be impacted" by the budget, he

said.

Chief economist Byron Schломach of the Texas Public Policy Foundation, which supports limited government, said revenue isn't the problem.

"If there is any issue with a shortfall, it would be due to spending, not a lack of tax revenue," he said.

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