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Texas revenue estimate is down by \$9 billion

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AUSTIN – Comptroller Susan Combs delivered somber news to Texas budget writers Monday, telling them they have \$9.1 billion less to spend than they did two years ago.

Although Combs also acknowledged that, by coincidence, \$9.1 billion will be available in a "rainy day" fund for emergencies by September 2011, she warned lawmakers not to empty the fund, which grows rapidly only when oil prices spike, as they did last summer.

The Republican comptroller's numbers were generally worse than expected and a signal to lawmakers, as they return to Austin for a new session today, that they'll be traveling a difficult fiscal path that may involve cuts, tapping the fund, or tweaking taxes. But she said the situation is not as dire as in 2003, when they had to pass painful cuts to avoid raising taxes.

"I would urge lawmakers to have special consideration toward making sure the decisions of today will fit within our means going forward," Combs said.

She said the unknowns include whether Texas consumers feel better this spring and resume shopping, and how much federal aid flows to the state as part of President-elect Barack Obama and Congress' attempt to jump-start the economy.

Combs' revenue estimate caps how much lawmakers can spend over the next two years in their most important bill of the session, the budget.

She projected there will be \$77.1 billion in state funds, down from \$86.2 billion in the current two-year budget cycle, which ends in August. Including federal receipts and investment income, Texas will have \$167.7 billion for the next two years, down from \$170 billion, she said.

Combs' estimate echoed GOP state leaders' recent assessments that the national economic woes have finally descended on Texas and that the budget will be too tight to allow new programs.

She said that with tax receipts likely to decline a bit while the state's population grows by more than 1 million people, lawmakers will face tough choices as they hammer out a spending blueprint over the next 140 days.

They'll be doing it in a politically difficult climate. With both houses and the governorship still held by Republicans, raising taxes, though it would provide breathing room, is off the table. The GOP, meanwhile, has only a 76-74 margin in the House and key leaders in both parties already are casting an eye toward next year's state elections.

The budget outlook, though tight, is not as bad as it was six years ago, after the dotcom bubble burst and the

economy contracted sharply after the 9/11 attacks.

Combs said that while lawmakers have \$9.1 billion less to spend, that's a far cry from the \$9.9 billion shortfall of 2003.

The biggest difference is the "rainy day" fund, which builds when oil and gas tax revenues exceed 1987 levels.

"You have plenty of money" in the fund, Combs said, "whereas before, in '03, there was almost nothing."

Combs spokesman R.J. DeSilva said there was only \$560.5 million in the fund six years ago.

Combs said it will have \$6.7 billion by Aug. 31 and foresees it growing to \$9.1 billion by September 2011.

Another factor contributing to her tight assessment is an assumption that, because of the stock market's recent slump, public schools won't get \$1.4 billion in investment income over the next two years.

The reason is a provision of the Texas Constitution that limits distributions from the Permanent School Fund to the actual returns on assets generated over any 10-year period.

The stock market's swoon has put a question mark over 2010-11, though the State Board of Education has asked Attorney General Greg Abbott if he sees any wiggle room.

And while the state began the current budget cycle with a \$9 billion cushion, it enters the next with \$2 billion, not counting the rainy day fund. That's in large part because Lt. Gov. David Dewhurst insisted on setting aside \$3 billion for the cost of school property tax cuts passed in 2006.

"I made it a priority to set aside revenue to protect Texas from the economic downturn, and today we have the funds necessary to deliver essential services instead of a deficit like dozens of states," Dewhurst said Monday.

Gov. Rick Perry said "this revenue estimate reminds us we are not an island" unaffected by national economic trends.

He called for "prioritizing our spending."

Likely House Speaker Joe Straus, R-San Antonio, declined a request for comment.

Combs said the state's prosperity has cooled because of raging turmoil in financial, housing and auto markets.

She estimated that Texas, which has 10.5 million people employed, will see a loss of about 110,000 nonfarm jobs in the next nine months. That contrasts with last year's net gain of 250,000 jobs.

Sales tax receipts, which provide most state revenue, will be essentially flat in the fiscal year that begins Sept. 1 – growing only 0.5 percent.

They'll increase by a modest 4.2 percent the following year, Combs said.

Combs said she doesn't know if she'll issue a revised revenue estimate this spring. However, many comptrollers have upped their forecasts late in the session, helping to ease budget tensions.

Teacher groups and advocates for the poor and middle-income Texans reacted to her estimate by calling on lawmakers to draw down the rainy day fund to protect state health and education programs.

"The alternate is the Legislature has to choose which sick child does not get medical attention and which high school graduate cannot afford to go to college," said Dick Lavine, senior fiscal analyst with the Center for Public Policy Priorities.

However, former House Appropriations Committee Chairman Talmadge Heflin, fiscal guru for the Texas Public Policy Foundation, which advocates free markets and limited government, called for "pruning state spending now."

He said restraint "will give us more options in the event that this national recession is prolonged."