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Texas Senate approves \$182.3 billion budget

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AUSTIN – The Senate unanimously approved a \$182.3 billion, two-year state budget Thursday that covers many basic needs and doesn't raise taxes. So smooth was the process, it took just a few minutes, and senators asked no questions.

But that ease masks a looming fiscal crisis.

Billions of dollars in federal economic stimulus money let lawmakers traipse past tough decisions. But a similar federal bump isn't likely in 2011. And as school property tax cuts eat into the budget while business tax revenue keeps falling short, budget writers very well could have to slash in two years, especially if the recession lingers.

"The state is likely to face severe budget constraints, not just today, but for a long time into tomorrow," said Dale Craymer, chief economist for the business-backed Texas Taxpayers and Research Association.

Stimulus money "allowed us to buy time and to push the problem a little farther out," said Craymer, who served as budget chief for the late Gov. Ann Richards. "Next session, we're going to have severe challenges."

Indeed, lawmakers are spending slightly less in state money than they did in the budget they wrote two years ago, but the federal money staved off drastic cuts.

The House is likely to give the budget a final blessing today and send it to Gov. Rick Perry, who is expected to trim some spending but is generally satisfied. GOP leaders heralded the spending blueprint as responsible, particularly when other states are struggling badly.

"In these challenging economic times, it's more important than ever we are prudent with the people's money," said Lt. Gov. David Dewhurst. He bragged of saving \$9.1 billion in the state's rainy day fund – much of which will probably be needed to fill the shortfall likely to open over the next two years.

Bryan Republican Steve Ogden, the Senate's chief budget writer, said a 7 percent boost to higher education would expand financial aid and increase funding for state colleges and medical centers.

Ogden also talked up the budget's "historical commitment to assisting our citizens with intellectual disabilities." He touted funds to improve state schools for the mentally disabled, and reduce waiting lists in community-based programs "for these most deserving citizens to receive the help and treatment that they need."

The budget also would confer one-time \$800 bonuses for most state employees and 5 percent more money for public schools, Ogden said. He noted that other states are cutting education funding and laying off workers.

Stimulus issue

"We made a sound budget based on the fact that the economy won't get worse but it won't get a lot better in the near future," he said.

Former House Appropriations Committee chief Talmadge Heflin, R-Houston, said taking \$12 billion in stimulus funds "could come back to bite" if lawmakers aren't willing to cut spending next session.

"We could have as much as a \$15 billion gap to fill," said Heflin, now with the conservative Texas Public Policy Foundation.

Craymer of the business research group guesses the gap will be \$13 billion. While most could be filled by draining the rainy day fund, the politics could be tricky, he said, because two-thirds of both the House and the Senate have to vote to spend it.

"That's a huge political hurdle," he said.

Ogden said future lawmakers will grapple with spiraling public school enrollments as Texas' population swells. Currently, he said rising property appraisals mask the cost. But if real estate values stagnate or slide, it could easily put a \$1.5 billion dent in a two-year budget, he said.

Ogden said the Legislature also will need ways to restrain cost growth in Medicaid, the nation's main health care program for the poor. Costs are "growing 8 to 10 percent a year," far outstripping state revenues' growth, he said.

'Structural deficit'

Eva DeLuna Castro, a senior policy analyst at the liberal Center for Public Policy Priorities, said budget writers ducked tough questions and didn't even fund Medicaid adequately.

"They said, 'Yeah, we'll pay for that just not now,' " she said of Medicaid.

Demographic trends suggest Texas will have a slew of low-wage, undereducated adults in coming years, said DeLuna Castro, who once worked at the comptroller's office.

"If you have a lot of people who don't pay into our tax system because they don't make much money and you have humongous needs for social services, that's a structural deficit," she said. Considering the state's education and health needs, she said, the "true budget gap" is \$25 billion.

"Train wreck may be overstatement," DeLuna Castro said, but "it will at the very least be a challenge."

Heflin, though, said job one next session will be to ramp up incentive pay for teachers and push public schools to "put out a better product," as well as rein in Medicaid and trim other spending.

"We're not a high tax-and-spend state," said Heflin, who was House budget chief when lawmakers closed a \$10 billion shortfall in 2003. "That's one of the reasons that our economy has been stronger and we haven't had the kind of deficits other states have had."

Even by 2003 standards, he said, the next session looks daunting.

"The economy will have to come back with a vengeance to keep them from having a real problem," he said.

Why the deficit?

Three big reasons the state has a deficit clouding its fiscal picture:

School property tax cuts will cost **\$9 billion** more over two years than taxes meant to offset them will bring in.

Medicaid is underfunded by at least **\$1.2 billion**, possibly more.

Public schools add about 80,000 children each year. Tax revenue from higher property appraisals cover most of the tab, but if values dwindle, it's a budget hit of **\$1.5 billion**.

What the budget means to you

Under the \$182.3 billion two-year budget the Senate approved Thursday and the House is expected to finalize today, higher education and care of the mentally disabled would receive significant funding increases. But the spending blueprint generally resists major new initiatives because lawmakers expect a shortfall next session. Here are highlights:

EDUCATION

Teachers: Across-the-board raises of \$800 would be provided. A merit-pay program, the nation's largest, would be overhauled and cut, from \$245 million this school year to \$195 million in each of the next two years.

Retired teachers: More than 265,000 retirees – 44,000 of them in North Texas – would receive a one-time payment of \$500, if Attorney General Greg Abbott finds it legal to dispense money outside of their pension fund.

Public schools: Public school funding would increase by about 5 percent if separate legislation passes.

College students: Texas Grants, the state's main financial aid program, would receive a 43 percent funding boost, helping about 35,000 more low-income students.

State universities: With one exception, each of the 35 four-year institutions would receive at least 4 percent more from their formula funding this budget cycle. Texas Woman's University in Denton, hurt by a phase-in of new formula weights, would receive \$3 million less.

Dallas higher education priorities: The state would put \$50 million into a new fund to create more top-tier research universities and rake about \$300 million from an existing savings account for the effort. The University of North Texas at Dallas would receive \$6 million to expand into a four-year school in southern Dallas. UNT would get \$5 million to start a law school in Dallas. UT-Dallas would get \$11 million for medical ethics and brain research, while UT-Arlington would get \$5 million for nursing education.

SOCIAL PROGRAMS

Mentally disabled: The state would shorten by about 18 percent the years-long waits for services that allow families to care for the mentally disabled at home or place them in nearby group homes. The trouble-plagued state schools for mentally disabled would get about \$70 million.

Elderly, physically disabled: Nearly 60,000 home care attendants who help keep enfeebled Medicaid recipients out of nursing homes are paid as little as \$6 an hour. That would rise to average hourly pay of \$8 in two years. Also, home- and community-based services keeping people out of nursing homes would receive \$33 million more, trimming those waiting lists by 10 percent.

Children's health and welfare: If a separate bill becomes law – a big if, given opposition voiced by Gov. Rick Perry on Thursday – about 80,000 youngsters would be added to the Children's Health Insurance Program. Families would pay premiums, on a sliding scale based on income. Also, foster families would get a 3.3 percent rate increase.

Medicaid: Nursing homes caring for the elderly would get a 3 percent increase in reimbursements, as would clinics treating poor children. For ambulance services, the fee increase would be 2 percent. Doctors get no raise. Only \$500 million of state money was added to cover rising costs and recipient rolls – far less than needed, most experts agree.

STATE EMPLOYEES

Most of the 10,000 state employees in North Texas would get a one-time \$800 bonus. Exceptions include correctional officers, who would get 7 percent raises, and state troopers, whose average raise would be about 8 percent, a key lawmaker said. The nearly 5,000 retirees in Dallas-Fort Worth would get a \$500 bonus, under the same caveat that applies to retired teachers.

TRAFFIC CONGESTION

The Transportation Department will get \$17 billion, with \$6 billion of bonds authorized for new highway construction, said Senate Finance Committee Chairman Steve Ogden, R-Bryan.

Robert T. Garrett