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COMBS PREDICTS U SHAPE RECOVERY WITH LITTLE STEAM TIL 2011**With low appraisal growth rate, state may have to shoulder more of the burden of 80,000 new students per year**

Comptroller **Susan Combs** sketched out the shape of the recovery to come for a lunchtime audience at the *Texas Public Policy Foundation* today. And here's what that shape is – a U.

In other words, don't expect the state to grow like gangbusters in the fiscal year that starts next week. But the state's economy won't be shrinking either. Instead, much like if you were tracing the letter U on a piece of paper, the economy has already descended into a trough. It will bump along at a slow growth rate for the next 12 months before accelerating in the fiscal year that starts a year from now.

"Well, the words you've been hearing in the alphabet – U, V and L. We think we're going to be in a U-shaped recovery," Combs said. "We think fiscal 2010, which starts Tuesday, would show some growth but it's going to be modest. We think 2011 will be quite a bit stronger as we move into a full recovery."

She added that the state's revenue projections will mirror the recovery patterns in the overall economy, with sales tax collections not picking up drastically until FY 2011. On the plus side, the full-throated recovery won't be limited to the oil and gas or the manufacturing sectors. She said that the retail sector would also see a big bump, too.

One other possible characteristic of the coming recovery could be lower rates of growth in property values. **LBB** Director **John O'Brien** said that the state is projecting roughly 3 percent annual growth in property values. That's quite a bit lower than in recent years, which saw increases in the 6 percent to 13 percent range.

That ends up having a significant impact on the state's public schools budget. Over the past few years, the increase in property values has more than covered the costs of adding 80,000 new students each year to the public school system. That level of enrollment growth is not expected to subside, O'Brien said, so it is entirely possible that local jurisdictions might find themselves in the position where tax gains from higher property values won't cover the costs of adding new students.

In the end, those costs shift to the state. Over the past 15 years or so, the overall trend has been for the state to shoulder less and less of the burden of funding public schools. The mechanism was reset when property tax rates were compressed in 2006. But the trend of the state shifting costs to the local taxpayers has started again.

If O'Brien's scenario comes to pass, state budget writers might need to start accounting for a cost shift in the other direction, from the local level to the state level.

By John Reynolds

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