

## TPPF forum: Texas economy good, but don't spend like crazy

by William Lutz

Comptroller **Susan Combs** told the Texas Public Policy Foundation's fiscal policy primer Aug. 27 that Texas is doing better than most other states. But she cautioned that the current business cycle may result in a "U-Shaped" recovery, with possibly another year to go before things get markedly better.

In other words, the state is in better fiscal shape than most of its counterparts, but that doesn't mean the budget will be easy to write or that the state has a license to start spending.

"You may have seen *The Economist* [which did a recent cover story comparing the Texas and California economies]. We [in Texas] are the ones [depicted on the magazine cover] with the Ski-Doo, and California is the one with the broken surfboard," Combs said. "And I think that's a pretty good image."

Combs noted that home prices are still rising, though not as fast as in other states. She said only one out of 781 homes in Texas got a foreclosure notice, compared to one out of 56 in Nevada, one out of 123 in California, and one out of 154 in Florida.

Despite a comparatively high unemployment rate of 7.9 percent Texas is creating lots of new jobs, Combs said, with people moving here faster than the economy is expanding. The lowest unemployment in the state is in the Amarillo metropolitan area, with the highest in the McAllen metropolitan area.

She praised lawmakers for leaving money in the state's Rainy Day Fund and noted that the state is getting better interest rates on its bonds because of the reserve. She said the state's most recent Tax Revenue Anticipation Note interest rate was 0.48 percent, compared with 1.15 percent for Illinois. She also quipped that California did a private deal to get its cash and isn't disclosing the interest rate.

Combs said she expects extremely modest revenue growth in 2010 combined with more robust growth in Fiscal Year 2011. She said, as expected, state revenues for Fiscal Year 2009 are under the revenue estimate, but that spending is also trailing what was expected, so the state's fiscal shape is about as anticipated.

Legislative Budget Board Director **John O'Brien** noted that although the state's budget increased about 7 percent this biennium general revenues spending (from state tax dollars) declined

2 percent. In spite of that, the state invested more money in health care and public schools. O'Brien noted that the federal stimulus package made a lot of that investment possible, while still preserving the Rainy Day Fund.

Looking ahead to the next budget, O'Brien noted that health care is the state's biggest cost driver. When he said health care, O'Brien noted that included not only Medicaid and the Children's Health Insurance Program (subsidized health care for the poor), but also health care for state employees and prison inmates. O'Brien noted that both caseloads (number of people covered) and costs are growing in health care.

### Transparency

One of the key themes of the Combs administration is increasing transparency in spending at all levels of government. Combs discussed with TPPF her efforts to make Texas spending from the federal stimulus package transparent – in spite of an inability to do anything comparable at the federal level. She also discussed the Single Set of Books initiatives, under which the Comptroller's office is working to ensure that all state agencies use uniform accounting standards. She notes that the Legislature appropriated her office \$26 million to improve transparency at the Texas Department of Transportation, in response to the agency's \$1.1 billion accounting error.

More challenging is local government transparency. For school spending, the Legislature has mandated that districts publish more information about how they spend money. Other units of government have fewer state mandates.

"There's no excuse not to be transparent," Combs said of local governments. "The goal is to have online budget, online financial reports, and online check registers." Combs' office is willing to do "transparency check-ups" to help local governments become more transparent.

She noted that 10 counties (out of 254) post all three and that Tyler is the only city that posts all three, and only 91 school districts post all three.

The Comptroller said she sent a survey to local officials asking why they aren't being more transparent. Combs said one was returned answered, "Nobody Cares, so why do it." Combs said 92 percent of local governmental units declined offers from her office to send staff to

assist them in becoming more transparent. She added that the local officials did request a template, and her office will work on that.

### Tuition deregulation to blow hole in the budget

Combs warned that the Legislature's tuition deregulation bill will likely cause \$1.5–2 billion shortfall in the state's pre-paid tuition program starting in 2016-17. The State is constitutionally obligated to pay tuition for parents who bought Texas Tomorrow Fund contracts from the programs inception in the mid-1990s to 2003 when then-Comptroller **Carole Keeton Strayhorn** cut off new enrollment in the program in response to tuition deregulation.

"The deregulation of both fees and tuition over the last 10 years, I think, netted out to an average of 11 percent a year extra tuition in cost. There's no way anybody can match that with a return, especially when you have to convert from equities to cash to pay out."

### The budget process

**Blane Brunson**, budget director for Lt. Gov. **David Dewhurst**, and **Mary Katherine Stout**, director of budget, planning and policy for Gov. **Rick Perry**, talked about the process that led to the 2010-11 budget (adopted in May 2009).

Stout noted that when—at first—it appeared the state would have a surplus, agencies submitted more than \$20 billion in exceptional item requests. (Exceptional items are spending over and above currently authorized agency functions.)

When it became clear that the revenue estimate would be tight, fiscal restraint was easier to enforce. Stout noted that her office had two key priorities during the budget process—avoid recurring, unsustainable new obligations and preserving funding for the governor's key economic development priorities.

Brunson said that one of Dewhurst's top budget priorities was preserving the state's Economic Stabilization Fund (commonly known as the Rainy Day Fund). Initially, the goal was to minimize the amount of the fund that would be spent in the budget.

Once the federal government came forward with the stimulus package, the whole budget picture changed, because the stimulus allowed the Legislature to expand existing

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**Scores/from 8**

release said Hispanics fared better in math than in previous years.

A lower number of public school students took the SAT this year—possibly because they took the ACT instead.

**ACT**

Students in Texas have increased their scores in the English, math, and science ACT exams each year since 2005, whereas reading scores remain stuck at the same level.

Senior students taking the ACT increased their scores to 20.8 out of a possible 36 in 2009—up from 20.2 in 2005, according to the TEA.

Usually, the TEA said, when the number of test-takers increases, scores tend to decrease. But not this year.

The composite scores were as follows: English, 19.9; math, 21.3; reading, 20.9; and science, 20.6. The overall composite score was 20.8.

The TEA said 82,640 members of the Class of 2009 took the ACT—about 10,000 more than since 2005 and 3,500 more since 2008.

ACT officials use results on their tests to determine whether students have a 50 percent chance or better of earning a grade of at least a “B” in freshman basic classes. They projected that 63 percent of the Texas Class of 2009 are ready for freshman college English Composition, 49 percent for college social studies classes, 44 percent for algebra, and 26 percent for biology.

Scott said this confirms what the Texas Assessment of Knowledge and Skills exam shows—with weak areas on the TAKS being math and science. But, Scott said, the ACT numbers since 2005 show a 29 percent overall increase in college readiness.

“Over the past few years, Texas educators have worked hard to improve the postsecondary readiness of our students,” Commissioner Scott said. “In collaboration with Texas colleges and universities, educators have implemented early college high school programs; science, technology, engineering and math (STEM) programs and articulated career and technical programs. They have added dual credit classes, expanded Advanced Placement offerings, and increased the rigor of high school classes. Today, we have solid evidence that this work is paying off.”

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programs without tapping the Rainy Day Fund.

Combs said her agency, in conjunction with the Employee Retirement System, is examining and modeling the health care cost drivers for the state. She said she would add information about federal health care reform plans when that becomes clear and available.

Brunson warned that the current version of the Obama health care plan expands eligibility for subsidized health care to those under 400 percent of the poverty level and will result in more single adults on Medicaid. The federal government is planning to pick up the cost for states for the first couple of years, but afterward plans on shifting some of those costs to states. In a nutshell, the Obama health care plan will likely cost state governments money in the long run.

Next session, speakers agreed, will likely be a tight budget session. The state can’t assume another stimulus package from Washington, D.C., and revenue growth will be modest at best. But health care obligations will continue to rise in cost, and lawmakers will want to continue to fund increases in public education spending.

**Around Texas/from 4**

1974 (ERISA) pre-empts application of state law when a large company self-funds its benefit program. ERISA allows large employers to offer the same health plan across state lines and prevents states from regulating the benefits of those plans.

But the court, writing in *Lone Star Ob-Gyn v. Aetna Health Inc.*, held that the state may regulate contracts between claims administrators and health care providers. This decision is similar to several lower court rulings and rulings from other circuits that allow states to ensure that doctors are paid promptly and accurately by all types of health plans. The Texas Prompt Pay law passed in 1999 and was strengthened in 2003, and was a top priority for both the Texas Medical Association and the Texas Hospital Association.

“The courts continue to validate the TMA position that the contractual remedies provided under Texas prompt pay laws do not fall under ERISA preemption,” said Lee Spangler, associate general counsel for TMA. “The prompt pay laws were not designed to regulate the benefits provided under ERISA, but were carefully crafted to address the problems associated with the late payment of claims by insurers and administrators.”

Rulings of the U.S. Court of Appeals for the Fifth Circuit are binding on all courts in Texas, Louisiana, and Mississippi unless reversed by the U. S. Supreme Court.

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