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State education faces \$10-billion deficit

By Nolan Hicks, Daily Texan Staff
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Budget analysts warned that the 2006 overhaul of how Texas pays for public education has opened up a permanent \$10-billion hole in education financing.

Solving the problem has run into the age-old debate of whether those deficits can be closed by cutting services alone, or whether elected officials should start using one of the dirtiest words in state politics — taxes.

The Republican chairman of the House Select Committee on Fiscal Stability refused to endorse tax increases as necessary to balance the books during the next budgeting session. But he didn't slam the door on the idea either.

"I won't know that until we go through looking at where we can trim the budget," said Rep. John Otto, R-Dayton, the committee chairman. "I don't think we ought to go into this looking for sources of revenue because what happens is then when the economy picks up, no one ever goes back and repeals those taxes that you put in place in a down economy."

Texas faces a \$10-billion structural budget deficit unless significant changes are made to how the state funds public education, Dick Lavine, senior fiscal analyst for the Center for Public Policy Priorities, told the committee Monday morning.

Reports from the Center for Public Policy Priorities claim the property-tax overhaul in 2006 dramatically lowered the cap on property tax rates school boards could set, which resulted in \$14 billion in lost funding for every two-year budget cycle.

Lawmakers had hoped to offset those reductions by changing the franchise tax and the state's business tax, increasing the cigarette tax and covering the rest with \$4-5 billion in surplus general revenue funds.

Estimates provided to lawmakers, in a May 2006 Fiscal Note, said the franchise tax overhaul would generate \$7.7 billion during 2010-11. But the weak performance of the franchise hasn't been able to pay for funds lost from the overhaul of the property tax.

"The state, by setting these target revenues, guaranteed the school districts that their total state and local revenue would be no lower than it had been going into that period," Lavine said.

The Comptroller of Public Accounts Office estimated in their November 2009 certification that the franchise tax will only generate \$3.4 billion, less than half of what was projected. The plan to use general revenue funds to help fill the hole has been torpedoed by mounting state budget deficits.

There is a hole of more than a \$9 billion in the current state budget and based on the most recent estimates from the comptroller it looks like the same will be true of the next budget, Lavine said.

"There is every reason to believe this is going to continue on into the future until something is done," he said.

The Comptroller's office, which also made a presentation during the committee hearing Monday, acknowledged the franchise tax was underperforming when compared to initial projections.

The franchise tax will earn about \$4 billion a year, said Associate Deputy Comptroller Mike Reissig. That created the \$10-billion structural deficit because of the \$14 billion lost from the property tax overhaul — and a major contributor to the deficit faced in the next budget cycle.

He said the tax will likely not create more than \$5 billion in revenue in the next 5 years.

"The tax will continue to underperform where we thought it would originally be," Reissig said.

While acknowledging significant budget troubles lay ahead for the state, the Texas Public Policy Foundation told lawmakers during the hearing they shouldn't raise taxes.

"We believe [tax cuts] are the best way for the economy to rebound," said Talmadge Heflin, director of the Center for Fiscal Policy at the foundation. "All of the residents of Texas want to rebound as quickly as possible, if you raise taxes or increase fees that just takes more money out of the private sector — impairing them from creating jobs."

Instead, the TPPF recommends that state leaders look to slash spending as the way to solve the budget deficit.

"Reducing spending is the answer for the long-term viability of the state," he said.

That proposal didn't sit well with Rep. Sylvester Turner, D-Houston, who said that he wouldn't support cuts like the ones made in 2003 to social services and education that reduced the number of children on state rolls for the Children's Health Insurance Program by about 60 percent.



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“We’re going to balance the budget just by making these cuts, the system would be draconian,” he said. “A lot of children and seniors would go without services, our education systems would be crippled, and I don’t think Texans would stand for that.”

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 **DebbiethDem** 1 hour ago

Hey Nolan, shouldn't you be looking for ways to blame Perry for this? Do your job!

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