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Legislature likely to cut deep to meet possible \$25 billion budget gap

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AUSTIN – Texas faces a budget crisis of truly daunting proportions, with lawmakers likely to cut sacrosanct programs such as education for the first time in memory and to lay off hundreds if not thousands of state workers and public university employees.

Texas' GOP leaders, their eyes on the Nov. 2 election, have played down the problem's size, even as the hole in the next two-year cycle has grown in recent weeks to as much as \$24 billion to \$25 billion. That's about 25 percent of current spending.

The gap is now proportionately larger than the deficit California recently closed with cuts and fee increases, its fourth dose of budget misery since September 2008.

Against the backdrop of the acrimonious campaign between Republican Gov. Rick Perry and Democratic challenger Bill White, Texas' top elected and budget officials have guarded even more tightly than usual against leaks of information. But bad numbers continue to dribble out in legislative testimony and agency reports.

The bottom line: Public schools, college students and government employees, not just poor and needy Texans, might very well lose money, grants, benefits and even livelihoods during and after next year's legislative session.

"They'll have to cut," said former Rep. Talmadge Heflin, R-Houston, the House's budget chief during the last budget meltdown, in 2003. "When you look at the big numbers, I just don't think there's any way that you make it match without making some reduction in education, both higher [education] and public education," or grades K-12.

No 'single magic bullet'

Even in the budget crises of the late 1980s, 1991 and 2003, Texas never cut state funding of public schools.

But declines in revenues, property values and federal Medicaid help have added between \$3 billion and \$4 billion this month to a late-August guess that the two-year shortfall could top \$20 billion.

Ongoing expenses, including property tax cuts passed four years ago, cost between \$95 billion and \$100 billion in state funds, now that a federal flow of stimulus cash is winding down.

Dale Craymer, president of the business-backed Texas Taxpayers and Research Association, said next year very well could bring unprecedented retrenchments, including layoffs or furloughs.

"This budget's not going to be solved with a single magic bullet," said Craymer, a top budget adviser to former Govs. Ann Richard and George W. Bush. "It's going to be solved by a number of very hard decisions that cause a lot of pain in a lot of different areas. So furloughs may indeed be part of the solution," though even far-ranging layoffs of state employees wouldn't close the budget gap by themselves, he said.

In 2003, the Legislature eliminated more than 5,300 full-time jobs with the state or its universities and two-year colleges. Already this fall, though, the state agencies alone – not counting potential layoffs at the campuses – have pointed to nearly 10,000 full-time jobs lawmakers might whack if they desire to cut most programs' spending by 10 percent. Employee groups fear that health benefits, recently reduced, will take further hits.

"It's going to be pretty gruesome," Craymer said.

Leaders in brag mode

With the next legislative session little more than 11 weeks away, lawmakers' budget aides huddle on Thursdays at the Robert E. Johnson Building near the Capitol – in secret, as is Texas' budget-making norm, but amid more strident than usual warnings about keeping information confidential.

Even as the hired help prepares a menu of unpleasant options for leaders, though, Perry and Lt. Gov. David Dewhurst campaign in full brag mode. The state's two leading Republicans boast that Texas was last into the recession, has dodged major cuts so far and is well-prepared for any challenges because it has pinched pennies.

Comptroller Susan Combs, who sets the limits for how much the Legislature can spend, has declined to lower her January 2009 revenue estimates, even though they were about \$2 billion too optimistic for the budget year that ended Aug. 31.

Combs, a Republican, made even more rosy forecasts for this year, although sales tax receipts so far don't support them. She is due to deliver her final estimate to the Legislature in January.

Sen. Steve Ogden, R-Bryan, head of the Senate Finance Committee, and House budget chief Jim Pitts, R-Waxahachie, declined to be interviewed about the huge deficit.

The outlook keeps deteriorating.

Earlier this month, a Texas Education Agency official testified that declining property values will force upward – by \$2 billion to \$3 billion – the state's obligation to public schools. Last week, the Health and Human Services Commission disclosed that federal Medicaid matching money will dip by \$1.2 billion more than expected, because Texans' personal income rose in comparison to other states in recent years.

Experts and former officials sized up the developments as meaning that a late-August deficit estimate by senior legislative staff members – \$20.6 billion, as reported by *The Dallas Morning News* – is now on the low side. They say the number has reached \$23.8 billion to \$24.8 billion, and could go higher if the economy doesn't pick up.

As Texas once again fills a budget breach, it brings new assets and liabilities. On the plus side, as Perry and Dewhurst frequently have stressed, the state should have about \$9 billion in a rainy day fund that budget writers could tap, though that requires a supermajority of both houses.

But while that was easily achieved four times in the past two decades, some analysts said this year's tea party movement – not to mention the 2006 property tax cuts that weren't funded – could spook Republicans who once blithely consented.

Fewer tools for lawmakers

The looming gap, though, is massive. It far exceeds the \$9.9 billion shortfall lawmakers solved in 2003, and some of the tools they used then are no longer available.

Craymer, the former gubernatorial aide, said seven years ago the state could reduce Medicaid eligibility and benefits.

"That now appears to be prohibited by the [federal] health care reform act," he said.

Also, lawmakers offset a tight budget for higher education in 2003 by ceding to campuses control over tuition and fees, which have skyrocketed.

"So that tool has been used," he said, adding, "Many people forget that in 2003, we got \$1.3 billion in 'free' federal money that was a part of a federal bill to help the states. It would appear that the federal spigot is now off."

Recently, House Speaker Joe Straus, R-San Antonio, said the "base budget" introduced by legislative leaders in January probably would assume no use of rainy day money. He said doing so "will give lawmakers a clearer picture. ... The cuts may seem drastic and painful, but this is a discussion we will be required to have."

Two officials familiar with the budget process, who said they were not authorized to speak publicly about current deliberations, said the introductory spending blueprint will contain cuts touching a broad swath of Texans.

They said the base budget, if passed, would force universities and junior colleges to raise tuition again, while slashing financial aid. Teachers, some of whom keep asking lawmakers how big their pay raises will be next year, would be lucky to keep their jobs after the state scales back aid to public schools, the officials said.

"There are going to be entire agencies zeroed out and a lot of employees and programs cut to unsustainable levels," one official said.

The other official said he's unsure how many Republicans could support so many cuts.

Rep. Scott Hochberg, D-Houston, the House's chief education budget writer, said he sees no way public schools will be spared if the GOP majority rules out raising new revenue.

Hochberg said no-tax-hike pledges by many Republican colleagues ignore Texas' dire need to improve high school and college graduation rates, so it can capture higher-paying jobs.

"We've been following a path of trying to be the cheapest state to do business in," Hochberg said. "To the extent we continue ... we're destined to be behind not only the rest of the world, but other states in our ability to be economically prosperous."

The Legislature convenes Jan. 11.

ISSUES WATCH: PERRY, WHITE ON THE DEFICIT

What Republican Gov. Rick Perry and his Democratic challenger, Bill White, say about the state's looming budget deficit:

RICK PERRY

Plays down talk of a state budget shortfall projected to reach as much as \$25 billion. Has ruled out tax increases. Generally says the Legislature should balance the budget the way it did in 2003 – with cuts, not tax increases. Those actions included dropping 180,000 youngsters from the Children's Health Insurance Program, reducing teacher insurance benefits, raising fees and delaying payments to schools and Medicaid reimbursements to doctors.

BILL WHITE

Hasn't endorsed – or ruled out – tax increases. Says he wants to ask agencies how workloads can be reallocated among employees to cut down on cost; look at contracts and see which ones have price-escalator clauses that should be renegotiated based on changes in the market; and look at all the overhead costs of government – such as security, energy and health benefits. Is willing to consider eliminating "outdated" tax exemptions, though he hasn't named any.

Staff and wire reports

BY THE NUMBERS: TEXAS REVENUE, SPENDING

The Texas Legislature will confront what's likely to be the toughest fiscal crisis in state history when it convenes Jan. 11 – a gap of up to \$25 billion between anticipated revenue and expenses for the next two-year budget cycle. Here's where the money came from and where it went for the most recent two-year budget:

Where the money came from ...

\$86.9 billion in general revenue from sales and business taxes and land interests

\$65.5 billion in federal funds that were designated for health care and roads

\$29.6 billion in dedicated funds (gas taxes for roads, bond retirement, etc.)

Where the discretionary

spending went ...

\$48.9 billion to public schools, junior colleges, universities

\$24.4 billion to Medicaid, foster care, mental health services, disability, children's health care and elder care

\$8.6 billion to prisons, probation and the Department of Public Safety

\$5 billion to all other programs

Where the state's 238,000 employees work ...

86,000 in higher education and the Texas Education Agency

57,000 in social services

53,000 in prisons, criminal justice and public safety

42,000 in all other programs

SOURCES: Dallas Morning News research; Legislative Budget Board

HOW BAD IS THE BUDGET CRUNCH?

The options are few when it comes to finding \$25 billion in the state's budget. Texas already ranks 50th nationally in per-capita state spending, so big cuts will have to come from essential services.

Teachers and welfare workers are paid mostly from local and federal money, so cutting those positions won't net much savings. To give you an idea how difficult this could be, we took an imaginary whack at state government and programs.

You could eliminate

state government functions

to save ...

- \$2.4 billion (22 entire state government agencies, including the offices of the attorney general and comptroller)
- \$437 million (state judiciary)
- \$875 million (oversight of environmental regulations, water control and parks)
- \$587 million (business and economic development programs)
- \$312 million (31 regulatory agencies, including those overseeing insurance, racing and utilities)
- \$354 million (the Legislature: budget planning, legal advice and staff)

And you could ...

- Fire half the prison, parole and probation officers to save \$1.4 billion.
- Eliminate college financial aid/scholarships to save \$1.2 billion.
- Spend half of the state's rainy day fund to raise \$4.5 billion.
- Eliminate all grants for Temporary Assistance for Needy Families to save \$131 million.

But after all that, you'd have saved just \$12.2 billion, barely half of what probably will be needed.

SOURCE: Dallas Morning News research