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Texas' finances not as rosy as they seemed

The state prides itself as a model of conservative spending and responsible budgeting. But a new \$27-billion budget gap undercuts its image as a business-seducing, fiscally adaptive state.

By Evan Halper, Los Angeles Times

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Reporting from Austin, Texas

The lecturing from Texas leaders about how California wouldn't be in such a budget mess if its politicians did business the way it is done in Austin has been relentless for years.

Texas Gov. Rick Perry delights in telling tales of his California "hunting trips" — hunting for businesses ready to flee the Golden State.

But the latest budget projections out of Texas have sharply changed the discussion: The Lone Star State is facing a budget gap of about \$27 billion, putting it in the same league as California among states facing financial meltdowns. The gap amounts to roughly one-third of the state's budget.

In a place where government is already lean, there aren't many areas to make up that kind of cash. The budget blueprint Texas' Legislature is mulling would mean layoffs for tens of thousands of teachers, closure of community colleges, and a severe reduction in state services for the poor and those with mental health problems.

Texas has a two-year budget cycle, which allowed it to camouflage its red ink last year, thanks in large part to billions of dollars in federal stimulus money. Now, however, "someone just turned the lights on in the bar, and the sexiest state doesn't look so pretty anymore," said California Treasurer Bill Lockyer, with evident satisfaction.

The scene in the statehouse in Austin in recent days would be familiar to those who frequent California's Capitol. Throngs of advocates for the poor, the disabled and the elderly told ashen-faced lawmakers on the Senate Finance Committee about the various horrors that would befall their clients if the state made its planned cuts.

Nursing homes, rural health clinics and counseling centers for at-risk youth would close, they warned. One advocate said that under the Legislature's plan, her grandchildren in Louisiana would have a more secure

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safety net than Texas children. The unfavorable comparison to a state many Texans regard with disdain was delivered like a gut punch.

As if to punctuate the point that Texas has found itself in a California-style mess, a power-grid problem caused rolling blackouts statewide Wednesday as the Capitol was consumed with fiscal crisis.

"It's going to be a tough time for us," said Rep. Warren Chisum, a Republican from a rural Panhandle district that would be particularly hard hit by the education cuts. "I represent 19 counties. The school district is the biggest employer in every one of them."

Texas is confronting its budget crisis in a fashion that reflects its conservative politics. Its leaders do not talk in terms of shortfall. The word "shortfall" would imply that Texas ought to try to preserve the services it now offers, they say. Why have that conversation, they argue, if the money is not there?

The Republicans who dominate the statehouse won't be closing loopholes that emerged in a recently enacted business tax change, costing the state billions in anticipated revenue.

Lt. Gov. David Dewhurst, who wields considerable influence over the budget process, said talk of budget shortfalls reflects "establishment thinking."

"A lot of the things we are doing arguably aren't priorities for the people of Texas," he said. "People could stake me and Gov. Perry on the ground and torture us, and we still would not raise taxes."

Dewhurst provides some examples of bloat, like millions of dollars spent to put sand on beaches for tourists. But the real savings in the legislative budget plan come from slashing Medicaid and cutting per-student spending from more than \$9,000 to \$7,800 each year. The state's cap of 22 students per elementary school class is almost certain to be lifted.

State leaders also are loathe to dip into a rainy day fund that contains \$9 billion in oil tax revenue, saying it would not be fiscally responsible.

"There is no indication that there is going to be a robust economic rebound," said Talmadge Heflin, a former Republican lawmaker who now runs the Texas Public Policy Foundation's Center for Fiscal Policy. Legislators aren't sure what the next budget scenario will be, he said, so "don't spend your savings now when you can get by just by cutting."

The Texas budget crisis is prompting some experts to reconsider what had been dubbed the Texas Miracle. The state has much lower unemployment than California, but economists note that many of the jobs are low-paying. One out of three wage earners in Texas earns too little to keep a family of four above the federal poverty level, according to a 2009 study by the Corp. for Enterprise Development, a Washington-based nonprofit. That is double the percentage of similarly low-wage Californians.

Such figures call into question whether Texas' economy has really transitioned into a new 21st century model, or whether it has been buoyed by high oil prices and lots of loosely zoned land where construction of cheap houses endured through the recession.

"You have to separate out what your public policies have done for you and what God has done for you," said Scott McCown, executive director of the left-leaning Center for Public Policies and Priorities in Austin. "People shouldn't be fooled by what is going on here."

Texas lags far behind California in major research universities, patents produced, high-tech infrastructure and

venture capital investment, according to the Missouri-based Kauffman Foundation. The foundation's 2010 ranking of states in "movement toward a global, innovation-based new economy" put California at No. 7. Texas was No. 18.

"Their model is a low-wage economy with greater income inequality," said John Ellwood, a professor of public policy at UC Berkeley. "For all the talk of Texas being a high-tech state, they have never really caught up to California.... Look at the big new growth companies. Where is Facebook? Where is Google? Are any of these companies in Austin? No."

Even Perry's claims of companies that have decamped from California to lay down roots in Texas appear to be overblown. When the Austin American-Statesman looked into the Texas governor's boast that there were 153 such companies in 2010, reporters found the claim included California firms that stayed put but maybe opened a Texas branch. The newspaper concluded that Perry's figure was grossly inflated.

Perry's staff said the governor was too busy to be interviewed in Austin last week. Media reports later revealed that he was on a five-day trip through California, which involved trying to coax companies east. His spokesman refused to name the companies.

The state's dogged determination to not tinker with its tax system or lean on business in other ways is certain to win points with some executives. But some Texans question whether business leaders will tolerate the resulting deterioration of public infrastructure, particularly in the education system.

State Rep. Dan Branch, a Republican from the Dallas area, says his efforts to bolster the state's university system are colliding against a public perception that "governments are wildly bloated and massively in debt. When we have that perception out there, we have to manage it."

Yet if Texas simply makes drastic cuts, particularly in education, the state could suffer, he says. "We have been on a roll," he said, and the world has taken note. "If we start pulling back now, people will question whether it is a serious effort."

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