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Legislature still using gimmicks to balance Texas budget

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One in an occasional series examining the state's economic record under Gov. Rick Perry.

Gimmicks. Shell games. Smoke and mirrors.

For more than 20 years, Texas lawmakers have had no trouble finding colorful words to convey their aversion to accounting tricks the state relies on to balance its books. Yet in recent years, use of the ploys has only accelerated as lawmakers have needed larger sleights of hand to avoid raising taxes or further cutting spending.

By delaying payments and effectively writing IOUs this year, lawmakers kicked billions of dollars in costs to the Legislature that will convene in 2013. At the same time, they arranged to collect hundreds of millions of dollars earlier than expected, preventing that money from being available in the next legislative session.

The financial maneuvers complicate assessments of the state's economic picture. While Gov. Rick Perry's presidential campaign has repeatedly touted him as having six balanced budgets under his belt, others don't agree, especially when looking at the current two-year budget.

"If he wants to say that, that's fine, but in all reality the budget is not balanced," said state Rep. Garnet Coleman of Houston, a Democratic leader in the House. "I believe it's disingenuous."

Talmadge Heflin, director of the conservative Texas Public Policy Foundation's Center for Fiscal Policy and a former House member, is also critical of the one-time fixes and gimmicks lawmakers use to make budgets look good on paper. While this year's budget was technically balanced, Heflin said, "If you look at what will have to be spent in the biennium, you can certainly make the argument that from a practical standpoint ... it is not."

To be sure, Texas is not alone in using budget gimmicks.

"Every state uses a number of less than perfectly transparent or gimmicky tools to balance their budgets," said David Gamage, an assistant professor of law at the University of California, Berkeley, who studies public finance and taxes.

Economists have argued that such measures shield taxpayers from the real cost of government and make it more difficult to gauge which programs are effective.

Texas has employed budget gimmicks on and off for over 25 years. States most often resort to accounting tricks at the start of an economic downturn, Gamage said. They are essentially betting that the economy will improve and provide them with extra revenue to make up for the delayed payment or diverted funds later on.

This year, Texas lawmakers delayed payments to schools by at least \$2 billion and arranged to collect over \$700 million in tax collections ahead of schedule, said Eva DeLuna Castro, a senior budget analyst for the liberal Center for Public Policy Priorities in Austin.

Such measures are expected to make budget negotiations in 2013 more difficult, especially if, as the state comptroller predicted last month, Texas' economic growth remains sluggish.

"There's always more [use of gimmicks] during an economic downturn, and sometimes that's OK if things do turn up," said Elizabeth McNichol, a state budget expert with the liberal Center on Budget and Policy Priorities in Washington, D.C. "It's a problem when the recession stretches on longer than expected as we're seeing now."



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Of all the accounting tricks Texas lawmakers used this year, their decision to underfund Medicaid by about \$4.8 billion drew the most attention. Previous Medicaid deficits were well under \$1 billion.

"They usually low-ball what they're going to give Medicaid upfront," Castro said. "This is that on steroids."

Based on the size of that single obligation, many lawmakers argue that the state's rainy-day fund, which had over \$6 billion in it earlier this year, is largely already spent. The comptroller's office said last week that it expects the fund to have about \$7 billion by 2013.

"We routinely underfund Medicaid because it's not an exact science," said House Speaker Joe Straus, R-San Antonio. "We underfunded perhaps by a larger degree this time than before."

Straus said lawmakers wanted to seek federal help in cutting Medicaid costs before spending all the money in advance.

"We're going to continue to work with Washington for relief and hopefully it will appear, and if it doesn't I think we can cover the shortfall when we get back," Straus said.

Critics like Heflin counter that the underfunding simply allowed lawmakers to claim that billions were left in the rainy-day fund when, in all likelihood, the bill was just delayed by two years.

"It's six of one and half a dozen of the other," Heflin said.

While underfunding Medicaid and fiddling with the financial calendar draws criticism from budget wonks, the issue of diverting dedicated funds is a political hot potato. The fees hit Texans from a dozen different directions, including a surcharge on utility bills to help the poor and elderly keep their lights on and markups on specialty license plates meant to aid various public causes.

This year, the Legislature had \$7.1 billion to spend in dedicated revenue but only appropriated \$2.2 billion to their intended uses, according to a comptroller's report. The remaining amount, nearly \$5 billion, was stockpiled to make the state's coffers appear more flush.

"It's a practice that the state now relies on," said Dale Craymer, president of the pro-business Texas Taxpayers and Research Association. "Ultimately, the state is using its own money, but it is collecting for one purpose and using it for another."

While the diversions let the state avoid deeper budget cuts, they also make it more difficult for lawmakers to ever use that money for its intended purposes.

Perry made a campaign issue out of ending the practice in 2006, calling on state budget writers to end "disingenuous, money-shifting shell games." At the time, Perry couldn't recall whether he had ever voted for such diversions while he was a state representative from 1985 to 1991.

"I'm not saying it didn't happen, but compared to the frequency and volume we see it today, not even close," Perry said.

While the state discontinued some fees, the diversions still grew. Since 2007, the amount being stockpiled has grown 60 percent, state records show. Perry spokeswoman Lucy Nashed said the governor continues to support "truth in budgeting" and "truth in taxation" reform in Texas.

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