



# Past fiscal decisions, not just oil slump, root cause of budget woes

STATE-GOVERNMENT

By Sean Collins Walsh - American-Statesman Staff



Texas House Appropriations Committee Chairman John Zerwas, R-Richmond.

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## Highlights

State lawmakers are preparing to make severe cuts despite the fact that the Texas economy is growing.

Past decisions, including a tax cut and a transportation funding set-aside, are tying the Legislature's hands.

GOP lawmakers disagree over whether to tap the rainy day fund, which is projected to reach almost \$12 billion.

As they prepare to make budget cuts to state agencies and public universities that could limit such services as chronic disease and tobacco use prevention programs and eliminate others like the University of Texas' Bureau of Economic Geology, many Texas lawmakers are lamenting the position they've found themselves in this legislative session.

The budget pinch, however, is primarily the product of decisions lawmakers made in recent legislative sessions, not forces beyond their control.

Although low oil and gas prices have put a significant dent in tax revenue, other sectors have grown enough to

ensure that the Texas economy is still expanding overall and that the state unemployment rate remains low, which should be good news for lawmakers. But budgeting measures adopted by the GOP-controlled Legislature — especially a \$2.6 billion tax cut for businesses and a \$4.7 billion set-aside for highway projects in 2015 — have left lawmakers with less money to dole out in 2018 and 2019 than they did for the current two-year budget.

"It's not a natural disaster. It's a man-made disaster," said Dick Lavine, fiscal analyst for the left-leaning Austin think tank Center for Public Policy Priorities. "It's one thing to say, 'What can we do? This is the global oil market.' It's another to say, 'We made these decisions, and as it turns out, it's really going to cause us a lot of pain.' You have to take responsibility."

After factoring in population growth and inflation, the state Senate's initial \$213.4 billion budget proposal would amount to a 7.9 percent cut compared with current spending, according to the Legislative Budget Board. The \$221.4 billion House plan would be a 5.6 percent cut in spending.

Texas already spends less per resident than all but three other states, according to Census Bureau data.

## About the Author



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"They create a little bit of challenges for us, if you will, as we look to this budget session, but no regrets about them at all," House Appropriations Committee Chairman John Zerwas, R-Richmond, said. "They are things that are very, very important. I'm glad we did them."

To limit the impact of the belt-tightening, Zerwas and House leaders are pushing for the state to consider tapping the Economic Stabilization Fund, better known as the rainy day fund. But conservative hard-liners are vowing to make do without tapping the reserve, which is projected to grow to \$12 billion in the next budget cycle.

Without taking money from the state's substantial reserves, lawmakers will likely enact severe cuts across government.

The state's top three leaders — Republicans Gov. Greg Abbott, Lt. Gov. Dan Patrick and House Speaker Joe Straus — last year instructed state agencies to submit budget proposals with 4 percent cuts, and most of those recommendations were folded into the House and Senate's initial budget plans. They exempted several programs, including the beleaguered Child Protective Services, public schools and border security.

The Senate's proposal, authored by Finance Committee Chairwoman Jane Nelson, R-Flower Mound, includes an additional 1.5 percent across-the-board cut.

'Shortsighted'

In the wake of an oil and gas boom that flushed state coffers, lawmakers in 2015 went on a spree of tax cutting and spending on GOP priorities.

They cut the state franchise tax on businesses by 25 percent, costing \$2.6 billion over two years; green-lighted a vote on a constitutional amendment that will redirect to transportation projects \$4.7 billion in state sales tax revenue from general funding that could pay for schools, prisons and health care services; spent an unprecedented \$800 million on the state's border security campaign; and expanded the local property tax homestead exemption, a move the state pays for on the back end when it shores up school district budgets.

Even though it was already becoming clear that the fat times were coming to an end — prices for the benchmark West Texas Intermediate crude oil had already plummeted from above \$100 per barrel to about \$50 by the start of the 2015 legislative session — lawmakers adopted those measures knowing that they would have significant ongoing costs to the state.

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The cost of the business tax cut will grow substantially over time, while the set-aside for the highway fund will take up to \$5 billion in sales tax revenue each two-year budget cycle. Lawmakers have the option of undoing the transportation set-aside with a supermajority vote in both chambers, but they are unlikely to do so after voters' overwhelming approval of the constitutional amendment that approved it.

"It looked good to have a \$4 billion tax cut for your campaign flier, but that probably was shortsighted," state Rep. Donna Howard, D-Austin, said of the package of tax and fee reductions approved in 2015. "At that point, we already knew we were going to have a downturn."

Howard said Republicans overcommitted the state in 2015 as "part of the overall strategy of creating a problem" to justify cuts later.

Dale Craymer, executive director of the business-backed Texas Taxpayers and Research Association, applauded the franchise tax cut and the transportation spending but said the timing was "unfortunate."

"Hindsight is always 20/20 and if the Legislature knew two years ago what it knows now, they probably would have obligated less of the surplus and deferred the highway commitment out a bit further," Craymer said.

The tax cut, he said, is no more to blame for the budget crunch than automatic increases in spending for programs like Medicaid, the state-federal health care provider for low-income residents that the state has little control over, and the global oil market.

"There was concern at the time that oil prices were below what the budget was built on, and that was part of the reason they were willing to leave \$4 billion unspent," he said of the budget's surplus, which is separate from the rainy day fund. "There was hope the prices would rebound, and ultimately they never rebounded."

At the beginning of the 2015 legislative session, Texas Comptroller Glenn Hegar predicted oil would trade at about \$65 per barrel in 2016 and \$69 per barrel in 2017, assumptions that factor into the estimate of how much money lawmakers can spend. When oil prices continued to crater after the legislative

session, he lowered those projections by about \$15 each.

The state is now projected to finish the budget cycle with only about \$1.5 billion unspent, and much of that could be used up in a supplemental budget, a stop-gap measure to plug holes in the current budget that is approved before lawmakers tackle the next two-year cycle.

Is it raining?

As lawmakers decide to what extent they want to cut their way out of the shortfall, a key decision will be whether to tap the rainy day fund.

Not tapping the fund, Lavine said, will be another example of the Legislature opting for "self-inflicted" fiscal crises. "It was created exactly to prevent harmful budget cuts," he said.

Although Craymer disagrees with Lavine over why the state has a shortfall, they agree on the solution: "The state is short of money, and it's got a huge stockpile," Craymer said.

Straus' initial budget plan is about \$4 billion higher than the amount of money Hegar has projected the state has to spend, and House leaders have been signaling that the way to make the numbers work will be tapping the rainy day fund, which was created in 1988 after an oil bust and is largely funded by revenue from oil and gas production taxes.

Tapping it won't be easy.

Zerwas, the top House budget-writer, last week pressed the governor's staff on the rainy day fund. He complained that conservatives have been arguing that the fund should only be used during disasters and asked for Abbott to take a stand.

"It's an extraordinary amount of money," Zerwas said at a committee hearing. "To have \$12 billion in the Economic Stabilization Fund and for it to be characterized as a disaster relief fund, I think there needs to be some direction from the governor."

"We are more than willing to discuss any scenario that the committee would like," said Steven Albright, Abbott's budget director.

"So I don't feel like I got an answer," Zerwas responded.

"No, that's a fair assessment," Albright said to laughter.

Asked for comment, Abbott spokesman John Wittman pointed to the governor's State of the State address at the beginning of the legislative session, in which he said, "I'm confident we can balance the budget without looting the rainy day fund."

Patrick, who leads the Senate, has criticized the House budget, saying it can only be balanced through tax increases or transfers from the rainy day fund and he's not interested in either.

Tea party-aligned Republicans also have argued that tapping the fund will hurt the state's credit rating. Representatives from Hegar's office, however, have testified that the fund is so large that taking several billion dollars from it wouldn't hurt the state's credit and using that money for productive purposes, such as infrastructure improvement, might actually improve the state's standing with the ratings agencies.



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*by Staff, American-Statesman staff*

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## **UPDATE: Bastrop County authorities seek info on child porn case**

*by Mary Huber, Austin Community Newspapers Staff*

Investigators believe a Cedar Creek man arrested for possession of child pornography last week could have had inappropriate contact with children, Bastrop County Sheriff Maurice Cook said. Jason Matthew Pertolanitz, 40, was found with several pieces of child pornography on his phone when child exploitation unit investigators searched his home on April...

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## **East Texas aggravated robbery suspect from Georgetown arrested**

*by Claire Osborn, American-Statesman Staff*

A Georgetown man accused of being involved in a robbery in which two victims were shot in Oakwood, Texas, has turned himself in, according to a press release from the U.S. Marshals Service on Tuesday morning. Cullen Shane Pate, 22, has been charged with aggravated robbery. He was accused of being involved in a robbery April 7 in Oakwood, which is about...

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*by Asher Price, American-Statesman Staff*

A grand experiment by Texas Agriculture Commissioner Sid Miller to hasten "the feral hog apocalypse" is on hold after the company producing a bait meant to kill the destructive animals has asked the Texas Agriculture Department to withdraw its approval of the product. The rollout of the product, Kaput Feral Hog Bait, had faced wide skepticism...

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## **JUST IN: Pedestrian killed in crash involving Burnet Co. reserve deputy, authorities say**

*by Mark D. Wilson , Tony Plohetski , American-Statesman Staff*

A pedestrian was killed in a crash over the weekend that involved a Burnet County reserve deputy, the sheriff's office confirmed on Tuesday. The crash happened around 2:31 a.m. on Saturday when a 2010 Ford Crown Victoria headed northeast on RM 963 hit a man who was lying in the roadway near Oakalla in northeast Burnet County, about 12 miles...

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