A looming storm?

Sure, there will be thunderous debate on how to fix state revenue shortfall, but lawmakers must be prudent on spending, taxes

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Fourth in a series on the state budget gap

Lawmakers of the 82nd Legislature face some difficult decisions in crafting a balanced state budget. To the list of things the state normally funds — student growth, rising Medicaid caseloads and other pressures — budget writers must add a shortfall and the loss of one-time federal stimulus funds. Estimates of the overall budget gap range from $11 billion to more than $27 billion.

There is no question that lawmakers' first response, as it should be, will be to cut back on spending. Gov. Rick Perry, Lt. Gov. David Dewhurst and House Speaker Joe Straus already have laid that groundwork. But given the sheer magnitude of the gap, the spending cuts will be deep and, in many cases, unpopular. We might think of state government as bureaucrats sitting in high-rise buildings, but the truth is, most state spending is to support local schools and universities, to pay for medical services to the poor, to build roads, and to provide public safety. There are clearly some programs that can be cut with little immediate impact on the public, but the larger the budget gap, the closer to home the cuts will come.

There is a misperception that our newly elected lawmakers will gleefully cut everything in sight. Most I've talked to are facing the challenges ahead with great thoughtfulness. They outline a reasoned approach of identifying their priorities, so that what money we have is spent on what we need most. The process will be difficult, but the decisions will not be made with blinders on.

As a professional budget nerd, I offer advice to those who serve.

Easy on the mandates

"Local control" is a popular catchphrase, but in fact, Texas schools are saddled with pages and pages of state mandates. State law prescribes minimum class sizes for certain grades, and salaries are driven by decisions in Austin, as are the needs for nonteaching personnel. If schools are going to be asked to do more with less, let them be the ones to decide what works best. Many of these mandates should be suspended for the next two years. Once state finances are back on track, we can re-evaluate whether or which mandates should be re-implemented. Unless schools have the flexibility to respond to lower amounts of state aid, the result is going to be a rash of property tax increases across the state.

Use the rainy day fund judiciously

Texas did something right the last time it faced a budget problem of similar magnitude. In 1988, Texas voters approved creation of the "rainy day fund," setting aside a portion of growing gas and oil tax revenues. There will be $9.4 billion available as a tool in this crisis. Unfortunately, that money will not replenish quickly. If lawmakers use too much of the rainy day fund or other one-time measures to fund recurring programs, the can of fiscal woes will simply be kicked a little further down the road. (California, anyone?) Texas in 2013 will face the same problems as today, but our savings account will be empty. Lawmakers must take a longer-term view of matching the spending we can afford today with the resources we are likely to have in the years to come.

Don't play games with numbers
Medicaid is an entitlement program: If you qualify for the program, you are entitled to a broad variety of services. The Medicaid budget is really just a forecast of caseloads and costs. Typically, budget writers lowball the forecasts, freeing up money so it can be spent elsewhere, but forcing the next Legislature to fill the hole. Medicaid should not be off-limits from scrutiny. Identify the services that should and can be provided, but then fully fund them. Realistic budgeting for Medicaid is conservative budgeting — it prevents money from being used to grow other parts of the budget.

Don't play games with words

I've had several in the Capitol tell me they weren't going to raise taxes and in almost the same breath ask me what tax exemptions we could live without, or how can we "fix" the franchise tax to raise more money. Expanding the base of a tax means people pay more in taxes. It's a tax increase. It shifts money from the private sector to the public sector, causing the same economic consequence as raising the rate of a tax. If in the final analysis, more money is needed for the budget, the policy question I hope lawmakers will ask is, "What revenue options will do the least harm to the economy?" and not "How can I raise a whole bunch of money and still claim I didn't raise taxes?"

Correctly evaluate state economic incentives

Recently, some of the state's economic development programs have come under criticism as being too costly. That word needs to be better understood. Texas offers some eligible businesses a tax break for new facilities by temporarily abating a portion (but not all) of the new local taxes they are liable for. That approach makes money, creating a new Texas taxpayer that otherwise might have invested elsewhere. Eliminating these programs in this current economy is akin to unilateral disarmament at a time when other states are champing at the bit to lure new investment.

Don't overreact; the sun will rise again

The economic factors that caused our current budget woes are transitory. Eventually, they will pass, and strains on the budget will ease. The time is not ripe for a personal income tax, nor any other dramatic new tax that could have harmful long-term consequences.

Let's look at the state's last budget crisis, in 2003. That gap was closed by cutting some state services, deferring almost $2 billion in state payments, and draining the rainy day fund. Texas soon rebounded.

From 2003 to 2009, the state had a massive structural surplus, enabling lawmakers to restore almost all the previous cuts, repay all of the deferrals, fund a net tax cut of roughly $4 billion annually and rebuild an all-time record balance in the rainy day fund. As the economy rebounds, many of today's budget cuts can be revisited, if appropriate.

Plan for the future

The best revenue systems are those that match the economy: The more prosperous the economy, the more revenue the tax system generates. That gives government a stake in providing a fiscal climate that encourages growth. Spending systems, on the other hand, are countercyclical. The better the economy, the lesser demands the public places on government, and vice versa.

Texas' rainy day fund has proved to be a blessing of foresight. Still, state government has a tendency to spend too much when times are good and revenue is plentiful. The seeds of the next fiscal crisis are often planted during times of prosperity. New initiatives are funded not just for their merits, but for the simple fact that the state has the money.

The state should set aside a greater portion of excess revenue during times of prosperity to limit the temptation to create programs of marginal need. Adding that money to the rainy day fund will give us a bigger cushion during times of fiscal duress.

The budget debate will be a raucous one. Some will look at a number and proclaim that it's a horrendous cut, and others will point to the same number and say it's an increase. Believe it or not, the term "budget cut" has no standard definition.
My final piece of advice to lawmakers is to make the decisions you deem best and let the rhetoric take care of itself. There will always be some who will say we spent too much and others who will say we spent too little. But then, that's the nature of consensus.

Dale Craymer is president of the Texas Taxpayers and Research Association, a nonpartisan membership organization of businesses and individuals endorsing sound state and local fiscal policies. He has worked on state fiscal policy since 1983, serving as a top-ranking budget official for Govs. Ann Richards and George W. Bush and as the state’s chief revenue estimator under Comptroller Bob Bullock.

Your thoughts

What steps should be taken to balance the budget? How might changes in state taxes and spending affect you or people you know? Join the discussion at statesman.com/go/insightforum.

Find the first three installments of this series online at statesman.com/insight.