

Texas' economic outlook: slow and risk-filled

By PEGGY FIKAC, AUSTIN BUREAU

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AUSTIN - Texas' economy is moving more fully into recovery with job growth and higher-than-expected tax revenues, but the risk of a new recession remains, the state comptroller said Monday.

Giving measured hope to those battered by the economy, State Comptroller **Susan Combs** said that "the most likely scenario continues to be one of slow, steady recovery from the worst recession in our state since World War II."

She also warned that world economic troubles provoke great concern and that Washington gridlock negatively affects consumer and business confidence. The overall picture, she said, is "one of slower-than-normal recovery with above-average risks of a new recession." Texas' unemployment rate, she said, shows no sign of receding rapidly.

Combs' assessment came in a report to state leaders and lawmakers bearing some good budget news: Revenues are expected to be higher than anticipated, yielding \$1.6 billion more than needed to cover the budget approved by state lawmakers for the two-year period that began Sept. 1.

State sales tax collections increased 9.4 percent in fiscal year 2011, while motor vehicle sales taxes "advanced strongly in response to an improving economy." Severance tax revenues also got a sharp boost due to an oil-price increase and activity in the Eagle Ford Shale Formation and Permian Basin, she wrote.

Challenges remain

While welcome, the \$1.6 billion would not alleviate the budget challenges that lawmakers face when they return in regular session in January 2013.

In the current budget, lawmakers and Gov. **Rick Perry** sharply cut spending and used accounting maneuvers and spending delays to help meet a multibillion-dollar shortfall stemming from the recession and past budget decisions.

They allocated \$4 billion less to public schools than they would have received under the previous funding formula, prompting several school districts to file lawsuits accusing the state of providing inadequate financial support.



Lawmakers also failed to provide funding for up to \$4.8 billion in projected Medicaid costs that come due in the final months of the two-year budget.

"The estimate of revenue is short of fixing the almost \$10 billion hole that is left in the budget" from this legislative session, said Rep. Garnet Coleman, a Houston Democrat who heads the County Affairs Committee and is an expert on key budget issues.

Growing population

State Rep. Mike Villarreal, a San Antonio Democrat who serves on the House Appropriations Committee and is Ways and Means vice chairman, said, "While I'm glad to see that our revenue system is generating more than what the comptroller originally estimated, it does not overcome what we've identified to be a fundamental problem with our finances, and that is that the state revenue system is not keeping up our growing state population."

Perry has touted Texas' job growth and lean budget as he runs for president. Josh Havens, a spokesman in Perry's state office, said, "Comptroller Combs' revenue estimate today proves state leaders have kept Texas on the path to prosperity by prioritizing and balancing our state budget without raising taxes, while preserving our rainy day fund."

Texas added more jobs in the 2011 fiscal year than any other state, and had the highest job growth, Combs said in the economic outlook report included in her certification of revenue for the current two-year period.

However, she said, the state's population growth - up 227,000 from net migration alone - and the increasing number of Texans entering the working age population "has resulted in a Texas labor force that is growing faster than the supply of jobs."

'Nothing to celebrate'

Eva DeLuna Castro, of the Center for Public Policy Priorities, which advocates for programs for lower-income Texans, noted that Combs' new estimate predicts a higher unemployment rate for the next two years - 8.3 percent for fiscal year 2012, and 8.1 percent for 2013 - than she had predicted in January.

"It's nothing to celebrate," she said of Combs' economic outlook.

Dale Craymer, of the business-based Texas Taxpayers and Research Association called Combs announcement "good news." While Texas is experiencing "tepid recovery," he said, it is stronger than the rest of the nation.

He was particularly struck by the growth in the oil and natural gas industries.

"This revenue estimate, like many before it, is being largely driven by a healthy oil and gas economy. What is different today is that in the past, that was driven by better-than-expected oil

and gas prices. What's really driving this boom is technology," Craymer said. "It's an industry that is growing on reality, and not on speculation. That's exactly the kind of boom you want to see in oil and gas."

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