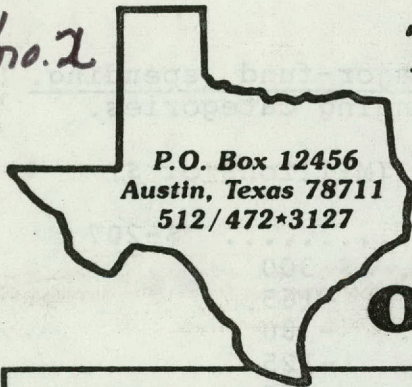


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# TEXAS RESEARCH LEAGUE BULLETIN on Texas State Finance

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- Jared E. Hazleton, President

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## GOVERNOR LAYS OUT BUDGET PROPOSAL

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"Make no mistake: Texas has a major budget problem....a billion-dollar deficit looming, and (a need to) spend more on prisons, higher education research and a number of other priorities." But, went on the governor, that does not mean a "stampede" into enacting new taxes before budget priorities are closely examined. The 1988-1989 executive budget slices \$2 billion from the widely discussed \$5.8 billion "revenue shortfall," labled by the governor as "mythical," and including a spending "wish list."

### LEGISLATIVE AND EXECUTIVE 1988-1989 MAJOR FUND SPENDING (Billions of Dollars)

	Legislative	Executive	Difference
1987 Deficit	\$ 1.0	\$ 1.0	\$ ---
1987 Spending Level	26.0	25.7	0.3
Spending Increase	2.0	0.3	1.7
Total	<u>\$ 29.0</u>	<u>\$ 27.0</u>	<u>\$ 2.0</u>
Available Revenue	23.2	23.2	---
Shortfall	<u>\$ 5.8</u> =====	<u>\$ 3.8</u> =====	<u>\$ 2.0</u> =====

A balanced budget would be achieved principally by "relying on the revenue stream now in effect" - a continuation of the sales and gasoline tax increases enacted on a temporary basis last year would add \$2.9 billion to major fund revenue in 1988-1989. The remaining \$900 million would come from three non-tax sources.

- \* A resolution of outstanding legal problems involving franchise and insurance gross premiums taxes is priced at \$250 million.
- \* Sale of surplus state land is pegged at \$315 million. (No buyers have been found previously, so the governor proposes the sale to other state agencies such as the Permanent School Fund).
- \* Use of capital gains income (\$276 million) (1) from the Permanent School Fund to pay for improvements in teacher evaluation and compensation, and (2) from the Permanent University Fund to finance research at UT-Austin and Texas A&M.

The executive budget adds \$250 million to current major-fund spending. But, there would be substantial reallocations among spending categories.

EXECUTIVE POLICY BUDGET - CHANGES IN CURRENT FUNDING (Millions of \$)

Public Education.....		\$-207
Enrollment Growth.....	\$ 300	
Teacher Evaluation & Career Ladder.....	-165	
Eliminate Funding for Full-Day Kindergarten.....	- 80	
Reduce Vocational Education Allotment.....	-125	
Adjust Foundation Program for Bank Franchise Tax...	- 66	
Reduce State Contribution to Teacher Retirement....	- 46	
Other Changes.....	- 25	
Higher Education.....		8
Research & Development Funding.....	140	
Funding of Special Items.....	- 49	
Eliminate Contingency Fund for Tuition Shortfalls..	- 35	
Changes in Optional Retirement Program.....	- 36	
Other Changes.....	- 12	
Highways.....		19
Fuel Tax Changes.....	443	
Eliminate General Revenue Transfer to Highways.....	-422	
Eliminate Farm-to-Market Road Transfer.....	- 30	
Finance Other Programs from Highway Fund.....	- 17	
Growth in User-Based Revenues.....	45	
Health & Human Services.....		37
Case Load Increases.....	132	
Administrative Cost Savings.....	- 69	
Other Changes.....	- 26	
Public Safety & Corrections.....		518
Purchase Prison Facilities Under Construction.....	85	
Additional Prison Capacity.....	282	
Other Department of Corrections.....	97	
Adult Probation Commission.....	4	
Board of Pardons & Paroles.....	51	
General Government & Other Programs.....		-125
Total Changes.....		\$ 250

Tax Reform

"Restructuring the tax system to make it more equitable," gained the governor's endorsement, "so long as it is framed within the context of this current level of tax burden." A two-cent reduction in the gasoline tax is recommended which could be replaced from other tax sources under an expanded sales tax base (including services) with a reduced rate. But, "any tax reform plan will only be drawn to maintain the current revenue stream. Tax reform will not be a code word for tax increase. If it is, I guarantee such a tax reform plan will be vetoed." The next League Bulletin will examine the governor's non-spending priority policy recommendations.