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April 8, 2011

After Years of Cost Cuts, Texas Tries to Find More

By **JAMES C. MCKINLEY Jr.**

AUSTIN, Tex. — It is hard to overstate the budget-cutting furor that has gripped lawmakers in this capital, where the Republicans who control the Legislature and all statewide offices believe voters sent them an ironclad mandate last year to shrink the size of government.

But the Texas government was already a relatively lean operation after years of conservative fiscal policies. So when the Texas House [passed its budget bill](#) last weekend, the depth of the cutbacks necessary for the Republican majority to stick to its promise of no new taxes became clearer. It was not a pretty picture.

The bill would slash \$23 billion from the current level of state and federal spending over the next two-year budget cycle — a 12.3 percent reduction that does not take into account rising costs to meet the needs of Texas's growing population.

In a party-line vote, the House slaughtered dozens of sacred cows. The budget bill makes huge cuts to public education, nursing homes and health care for the poor. It slashes financing for highways, prisons and state parks. It eliminates full-day preschool, cuts teacher incentive pay and reduces scholarships for college students by two-thirds.

“You are cutting to the bone in the state of Texas,” said State Representative Sylvester Turner, a Houston Democrat. “The Republican game is: ‘We want smaller government, and we will do whatever it takes by whatever means necessary, regardless of the cost.’ ”

On Wednesday, conservatives and [Tea Party](#) supporters held a rally on the steps of the Capitol calling on the Legislature to cut even deeper into some programs, while thousands of state workers marched to protest the House spending plan.

What galls state employees and many liberals in the state is the refusal by Gov. [Rick Perry](#) and his House allies to buffer some of the pain by tapping into the more than \$6 billion left in an emergency fund fed by taxes on oil production. (Last month, the House approved using \$3 billion from the fund to close a deficit in the current two-year budget.)

But Republican leaders in the House say that the state has to live with its reduced revenues. Raising taxes would hurt the economy, they say, and dipping into the Rainy Day Fund is unwise, given the prospect of cutbacks in federal aid.

“This is the hand we were dealt,” said State Representative Larry Taylor of the Houston area, the chairman of the Republican Caucus. “That’s how much money we have. We don’t have a choice in Texas. We can’t print money. We can’t go into debt.”

The depth of the cuts, however, has caused divisions in the party. Some Republicans in the Senate are balking at the large reductions in money for public education and health care for the poor, calling them shortsighted. “The kids aren’t going away,” said State Senator Robert F. Deuell, a Republican from Greenville and a physician. “So you can build a school, or you can build a prison.”

The Senate is currently laying out its own budget bill, and Republican leaders say it will contain about \$10 billion more than the House version, most of it for public schools and Medicaid. Senate Republicans are looking at various ways to raise revenue without calling them tax increases, like speeding up tax collections and eliminating some exemptions.

In a normal year, the Senate and House in Texas enter into negotiations and split the difference between proposals. The speaker of the House, Joe Straus, said in an interview that he saw the House bill as the beginning of a long negotiation. “We are not blind to the issues that are unaddressed,” he said.

But this year the two chambers are so far apart, and the public mood here is so hostile toward anything resembling a tax increase, that it is unclear how the two houses will bridge their differences. The House is not likely to accept any increases in revenue; the Senate is not likely to go along with the deep cuts in education and health care.

Veteran lawmakers on both sides said they were suffering from the public reaction against federal spending and the deficit in Washington, even though the state has little debt. In the Texas House, 31 freshman Republicans were swept in on the Tea Party tide on a small-government platform, and they are in no mood to compromise on raising taxes.

“You can’t exaggerate the anger and frustration in Texas with the behavior of the federal government,” said the State Senate finance chairman, Steve Ogden, a Republican from Bryan. “And to a certain extent we are thrown into the same boat.”

The public pressure to reduce taxes makes it difficult to do something about what many budget experts say is a chronic shortage of revenue in Texas. The experts said the economic downturn caused only a third of the revenue shortfall here, as sales tax receipts fell off. Most of it, they said, stemmed from the state’s decision to overhaul its business tax structure and to reduce local property taxes in 2006. Various tax exemptions have also weakened revenues over the years.

“The tax system is out of whack,” Senator Ogden said. “There are more and more exemptions, and the taxes we do have are not performing as expected.” At the same time, Texas continues to grow by about 1,500 people a day, and costs are rising inexorably. “It’s unstable,” he said. “The curves will not cross.”

Given the political climate, however, few in the Capitol expect the Legislature to perform major surgery on the tax code. The Democrats were sidelined in the Republican landslide last fall, and moderate Republicans are worried about their re-election prospects after seeing so many incumbents fall to Tea Party challengers in the last election. If the final budget resembles the House version, however, some politicians fear that there could be a price to pay at the polls next year — a backlash to the backlash.

The House plan would give schools almost \$8 billion less than current state law requires over the next two years. Medicaid would be about \$4 billion short of what officials say is needed to meet the growth in caseloads. One group of budget analysts predicted that 97,000 teachers and school employees would be laid off. Other analysts said that the cuts to Medicaid would force hundreds of nursing homes out of business and would have a devastating effect on rural hospitals and doctors.

Those sorts of austere budget cuts have not been seen in Texas since Truman was president, not even during the oil bust in the late 1980s and the recession in 2003, several lawmakers said.

“There is nothing comparable to this since World War II,” said State Senator John Whitmire, a veteran Houston Democrat who is the vice chairman of the Finance Committee. “I think we are in a hell of a mess, and I am not sure of the path out of it.”