



GOVERNOR'S BUDGET
2010-11



January 27, 2009

The Honorable David Dewhurst, Lieutenant Governor
The Honorable Joe Straus, Speaker of the House
Members of the Eighty-first Texas Legislature
Citizens of Texas

Fellow Texans,

I submit my state budget and priorities for fiscal years 2010 and 2011 as required by the Texas Government Code and the Texas Constitution.

As our nation's economy struggles, experts conservatively predict that states will be forced to close more than an estimated \$100 billion budget shortfall over the next two years, and news reports detail deliberations about the difficult budget cuts and significant tax hikes those states must contemplate in light of their present financial condition and outlook. Texas is not immune to these challenges, and, the Comptroller's recent revenue estimate indicates that our next two years will be tight.

In spite of this tightening financial picture, we are fortunate that Texas is not among those states facing the crippling shortfall that so many states must address; however, our comparatively stronger economy and better financial picture did not come easy. Together, we worked to solve a \$10 billion budget shortfall in 2003 by setting priorities instead of raising taxes. Our vigilance in maintaining low taxes, establishing a stable and predictable regulatory climate, and setting budget priorities, has attracted new businesses, new jobs, and new Texans to the Lone Star State over the past five years. We must maintain that same commitment in today's challenging economic climate.

A little more than 20 years ago, Texas suffered from high unemployment and the collapse of real estate markets and the state's oil and gas industry. In the years since, Texas has diversified its economy and attracted business and industry in most every sector of the economy. Today Texas is home to more Fortune 500 companies than any other state, and enjoys recognition as the "Best State for Business" according to CNBC, the "Best State to Do Business" by *CEO Magazine* for the third year in a row, and the state best suited to weather the financial turmoil by the *Financial Times of London*. While recent booms in oil and gas have been good for Texas, it is our diverse economy that puts our state at the top of these lists and makes us the seventh largest economy in the world.

Texas can maintain its competitive advantage and weather this current financial crisis only if we remain committed to the vision that brought us here: a government that is limited in size and mission, but meets essential state needs. Our state will feel the strain of a slower economy this next biennium, but it is important that Texas remains a place where the government burden is low, and people are free to build their businesses, invest their capital, and chart their own path toward prosperity.

Writing the state's 2010-11 budget in this economic environment is the most significant challenge facing the 81st Texas Legislature. Therefore, I have adopted the Legislative Budget Board's *Legislative Budget Estimates for 2010-11*, for purposes of compliance with Government Code 401.0445-.046. I believe Texas is best served if the Governor and the Legislature work together over the next 126 days to jointly craft a budget that reflects our principled commitments to this state. I look forward to working with the Texas Legislature to finalize a responsible budget that keeps Texas a great place to live and work, and ensures we will weather the nation's financial crisis with the strength and vision characteristic of this great state.

Below are my 2010-11 budget priorities. I look forward to working with you over the coming days as we continue working to move Texas forward.

ECONOMIC DEVELOPMENT

Texas has a strong economy. Numerous accolades tout Texas as the “Best State for Business” and the state best suited to weather the financial turmoil. Our low taxes and predictable regulatory climate attract businesses to Texas, bringing significant capital investment along with new jobs. As we prepare for an economic downturn and its impact on our citizens, all tools to continue our growth should be considered, including implementing additional sales tax holidays.

TEXAS ENTERPRISE FUND

The Texas Enterprise Fund (TEF) is one of the state’s biggest success stories. Since its inception in 2003, the state has closed deals on projects in urban and rural communities across the state, generating over 53,800 jobs and \$14 billion in capital investment with \$377 million in grants. The TEF gives Texas the competitive edge in attracting new business to the state or assisting existing businesses with substantial expansion.

I recommend \$260 million for the Texas Enterprise Fund for the 2010-11 biennium.

EMERGING TECHNOLOGY FUND

The Emerging Technology Fund (ETF) brings new ideas and products to the marketplace by supporting innovation and commercialization that will have a long-term profound impact on Texas and enhance the state’s global competitiveness. ETF grants are awarded in three areas, all of which are a collaborative effort with institutions of higher education:

- ★ Research Superiority Acquisition Awards provide funds for Texas higher education institutions to recruit the best research talent in the world.
- ★ Commercialization Awards assist companies taking ideas from concept to development to the marketplace.
- ★ Matching Awards support the creation of public-private partnerships to leverage the unique strengths of universities, federal government grant programs, and industry.

Since it was formed in 2005, the ETF has invested approximately \$53 million in 54 early-stage companies, and another 34 early-stage companies are currently moving through the approval process for an additional state investment of \$40 million. The ETF has been recognized nationally as the most active early-stage technology venture fund in the country.

In addition to investing in early-stage companies, the ETF has also invested in new commercialization research programs at 16 universities throughout the state, and attracted more than 45 world-class researchers. These programs will compound the investment by developing new technological and scientific discoveries which can be commercialized in the future.

I recommend \$203.5 million for the Emerging Technology Fund for the 2010-11 biennium.

FILM INCENTIVES

In fiscal year 2008, the Texas Moving Image Industry Incentive Program had a combined economic impact to the state of \$102.4 million through five segments of the industry: feature films, television, commercials, sports, and video games. By comparison, in 2008, New Mexico’s feature film and television productions brought its state \$242 million, and in 2007, Louisiana’s film and television production generated its economy an estimated \$350 million.

I recommend increasing the Texas Film Incentive Program to \$60 million for the 2010-11 biennium.

SKILLS DEVELOPMENT FUND

This Skills Development Fund, managed by the Texas Workforce Commission, provides grants for partnerships between public community or technical colleges and employers to provide customized job training in targeted industries and specialized occupations. Employers and employees benefit from custom-training to better support industry demand.

I recommend increasing the Skills Development Fund program to \$60 million for the 2010-11 biennium.

EDUCATION

The state's growing and diverse economy requires an educated workforce that is ready to compete in today's global economy. To meet these demands, the state must continue to fund an accountable public school system that graduates career- or college-ready students, along with affordable higher education opportunities.

TEXAS HIGH SCHOOL PROJECT

The Texas High School Project (THSP) is one of the largest public-private initiatives in the nation committed to increasing graduation and college enrollment rates among the state's most at-risk students. The project has funded many of the state's most promising and innovative high school campuses, including 29 Early College High Schools and over 30 Texas Science, Technology, Engineering and Mathematics (T-STEM) Academies and Centers. Since inception in 2003, THSP has awarded more than \$338 million in grants to more than 500 high-need school districts, and today serves more than 83,000 students.

I recommend \$97 million for the Texas High School Project for the 2010-11 biennium.

TEACHER INCENTIVE AND REWARDS PROGRAMS

In 2006, the Texas Legislature passed the nation's largest teacher incentive pay program in the country. The Texas Educator Excellence Grant and the District Award for Teacher Excellence (DATE) programs attract and retain the state's brightest teachers with annual awards for those who improve student performance. The awards also help Texas retain the best teachers in critical subject areas or hard-to-staff campuses. Today, the school districts participating in the DATE program employ almost half the state's teachers and enroll nearly 2.1 million children. During the 2008-09 school year, these districts will award \$147.5 million to Texas public school teachers and staff.

I recommend \$622.5 million to expand and continue the District Award for Teacher Excellence and Texas Educator Excellence Grant programs for the 2010-11 biennium.

REPRIORITIZING HIGHER EDUCATION FUNDING

Special item funding has increased from \$75.9 million in 1986-87 to \$1,197.8 million in 2008-09, a 1,479 percent increase. Once funded, many of these special items continue indefinitely, long after the projected termination date. Recommitting these funds to student financial aid would better address the priorities of the state and the needs of students.

I recommend reallocating \$645.7 million of special item and excellence funding to increase student financial aid and support other higher education priorities, including a fund, equal to one percent of each system's funding, to support system priorities as determined by each system's Chancellor and Board of Regents.

I also recommend transferring responsibility for developmental education from four-year institutions to community colleges. This move would benefit students through lower tuition and would save the state \$3.6 million over the biennium.

FINANCIAL AID

From the savings identified above I recommend increasing student financial aid by an additional \$110 million for the TEXAS Grant program. This increase will provide TEXAS Grants to all eligible students in 2011.

Additionally, to ensure that more of these students are funded, I propose adding merit criteria consistent with the state's college readiness standards and increasing TEXAS Grant funding.

Community colleges play an important role in the state's higher education system by serving more than 500,000 students across the state. I recommend tripling financial aid funding for community college students by increasing the Texas Educational Opportunity Grant (TEOG) from \$14 million in 2008-09 to \$42 million in 2010-11. This would serve an estimated additional 8,900 students over the biennium.

I recommend a \$110 million increase for TEXAS Grant and a \$28 million increase in funding for community college financial aid for the 2010-11 biennium.

HIGHER EDUCATION INCENTIVE FUNDING

Last session the Texas Legislature committed \$80 million to higher education incentive funding. Additional funding would expand the program to give two- and four-year institutions additional rewards for increasing the number of degrees granted, and for graduating at-risk students or awarding degrees in critical areas such as science, engineering and nursing.

I recommend a \$168.9 million increase for higher education incentive funding for the 2010-11 biennium.

NURSING EDUCATION

In 2007, the Texas Legislature passed House Bill 3443 establishing the Texas Hospital-Based Nursing Education Partnership Grant Program, though the program was not funded by the legislature. This innovative program leverages partnerships between hospitals and academic institutions to graduate more nurses.

I recommend \$10 million for the hospital-based nursing program for the 2010-11 biennium.

HEALTH AND FITNESS

A healthy Texas is an essential component of a strong and competitive state. From promoting the use of technology to improve the quality of care and supporting life-saving research initiatives, to providing students with a critical foundation for a healthy lifestyle, I remain committed to improving the health and fitness of Texans.

CANCER PREVENTION AND RESEARCH

In 2007, voters overwhelmingly approved Proposition 15 allowing the state to establish the Cancer Prevention and Research Institute of Texas (CPRIT) and bonding authority for a 10-year, \$3 billion cancer initiative. In line with Texas voters, I recommend fully funding cancer prevention activities and new research grant funding for 2010-11 so that grants for cancer research and prevention programs can be awarded. I recommend transferring the Texas Cancer Registry to CPRIT from the Texas Department of State Health Services to ensure statistical cancer data measures the impact of prevention and research activities.

I recommend \$53 million in funding for debt service on the cancer research bonds, plus an appropriation for the Institute's operations for the 2010-11 biennium.

STUDENT HEALTH AND FITNESS

To combat the trends in declining health and fitness among Texas children, the 80th Texas Legislature increased the physical activity requirement for middle school students and required an annual Fitnessgram assessment for grades 3-12. The results of the state's first Fitnessgram confirmed concerns that Texas students score poorly when it comes to physical fitness, particularly as students get older. To combat students' declining health and fitness trends, I recommend an incentives-based pilot program targeted to 90,000 middle school and high school students in schools with the lowest Fitnessgram performance.

I recommend \$10 million for an incentives-based health and fitness pilot program for middle and high school students for the 2010-11 biennium.

INFRASTRUCTURE

The United States Census Bureau projects Texas will be home to 33 million people by 2030, up from 20.8 million in 2000. To keep pace with growth in the state's economy and population, Texas must continue to make strategic investments in critical infrastructure.

TRANSPORTATION

Gas tax revenue not constitutionally dedicated to education should be spent on the construction and maintenance of the state's transportation system. I propose ending diversions from the gas tax to ensure that tax dollars are used for the purpose for which they are collected, thereby increasing the funds available to the state for road construction and maintenance. Ending this diversion complies with my commitment to truth-in-budgeting, while helping fulfill the need for transportation infrastructure.

Additionally, I support the expansion of the highway and debt service payment line items in the state budget. This level of budget transparency more accurately captures the agency's budget for legislators and taxpayers.

WATER 2060

As the state's population grows, so too does the need for water. The 2007 Texas State Water Plan projects that the demand for water will increase 18 percent over the next 50 years, from 18.3 million acre-feet per year in 2010 to 21.6 million acre-feet per year in 2060 (one acre-foot is equivalent to 325,851 gallons), when the population is estimated to be almost 46 million. A one-time fund transfer from the Economic Stabilization Fund to a new Infrastructure Account would utilize principal and interest for debt service for the acquisition of 16 previously designated reservoir sites. Accelerating the acquisition and construction of these sites would provide cost-effective and reliable surface water supplies for municipal and industrial users, steam electric power generation, and other purposes in many areas of the state.

I recommend transferring \$260 million in one-time funding from the Economic Stabilization Fund to a new Infrastructure Account.

PUBLIC SAFETY AND SECURITY

Protecting the safety and security of Texas citizens is a priority. Whether it is a natural disaster, an act of terrorism or a porous border, we must continue to work to ensure every Texan is safe.

TEXAS DISASTER AND EMERGENCY TRUST FUND

Over the course of the biennium, Texas remains vulnerable to a number of natural disasters and emergencies from fires and floods, to hurricanes and tornadoes. In 2008 alone, Texas endured several major storms, requiring state agencies to mobilize quickly and coastal communities to evacuate. Hurricane Ike was the most destructive and costly hurricane in the state's history.

Texas must have readily available resources to prepare for and respond to disasters and emergencies, particularly in light of recent challenges in negotiating the federal bureaucracy for financial reimbursements and assistance. A disaster and emergency trust fund will allow Texas to better address the state's needs in a timely manner.

I recommend \$150 million in disaster and emergency appropriations for future natural disasters and other state emergencies for the 2010-11 biennium.

TEXAS BORDER SECURITY AND GANG STRATEGY

To deter crime along the Texas-Mexico border, the 80th Legislature allocated \$110 million to increase land, water, and air patrol capacity. My homeland security strategy for 2010-11 includes \$135 million for the current border strategy plus three new priorities: (1) combating transnational gangs, (2) providing additional investment in local law enforcement, and (3) preventing border corruption.

This funding provides resources for gang enforcement initiatives including surge operations, investigation, prosecution, gang prevention programs and the addition of a multi-agency gang intelligence section in the Texas Fusion Center. This funding also provides overtime and operational costs for local law enforcement, including grants to fund 200 new full time positions, and provide increased oversight of the funds distributed.

I look forward to working together on the challenges and opportunities facing our great state. As we develop our state's budget, I urge the continued use of fiscal restraint and remain committed to only using the Rainy Day Fund for one-time expenditures.



Rick Perry
Governor of Texas



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