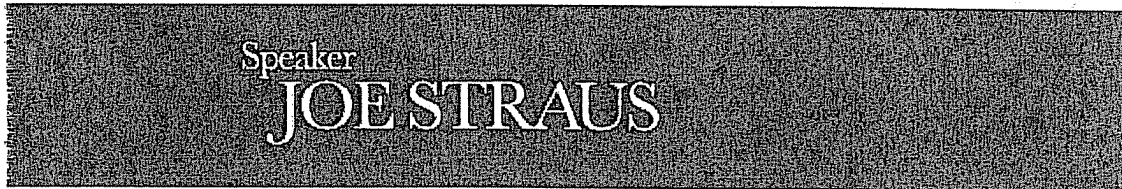


Scott, Rider

From: Speaker Joe Straus [joe@joestraus.org]
Sent: Wednesday, October 20, 2010 2:49 PM
To: Scott, Rider
Subject: A Blueprint for Addressing Our Budget Shortfall



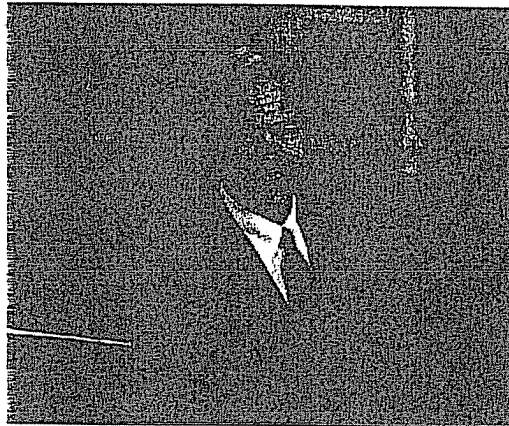
An Update from the Speaker

By now, most Texans are well aware of the significant budget shortfall our state faces as we head into the next legislative session. Last week, I had the privilege of addressing a group of business leaders at the Texas Taxpayers and Research Association meeting on this very topic.

When businesses face fiscal challenges, they look at what is causing the problem and monitor the factors that impact their bottom line. We have to do the same thing in state government. We've been hit with a one-two punch: declining revenue and increased spending to meet the demands of our growing population. Our approach to solving the budget shortfall is simple, but not easy.

First, we must return to the fundamentals of state government: education, healthcare, transportation infrastructure and public safety. Second, we must do more with less, and be more efficient and more effective with taxpayer funds. And third, most of all, we must make hard choices about our "needs" versus our "wants."

The real discussion about our priorities will begin in January when the House introduces the budget. As most of you know, the state does have a savings account, commonly known as the Rainy Day Fund, which could be used, in part, to balance our budget. However, before we decide whether and how much of the Fund should be spent, I strongly believe lawmakers need to have a clear picture of the true cost of running state government. The proposed cuts may seem drastic and painful, but we must make the tough choices now, to leave our state in better financial shape down the



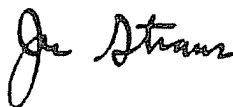
from which to develop the base bill:

- One: We must spend no more than our available revenue;
- Two: We must not assume the use of the Rainy Day Fund;
- Three: We must limit government, and
- Four: We must not raise taxes.

As someone who worked at one time in the Reagan Administration, I always remember his quote that, "business isn't a taxpayer, but a tax collector," meaning when business taxes are raised, those taxes are ultimately passed on to consumers as higher prices. That's why I have asked members of the House to recommend ways to balance our budget without placing an additional tax burden on Texas families.

While other states continue to experience economic challenges, Texas is widely noted as having the best business climate in the nation: Forbes, The Economist, CNBC, and The Wall Street Journal all agree. So, while we will face a significant budget shortfall next session, I know that we are up to the challenge.

Sincerely,



Speaker Joe Straus

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REPRESENTATIVE WARREN CHISUM
CANDIDATE FOR SPEAKER OF THE TEXAS HOUSE

October 13, 2010

Dear Colleagues,

Today I throw my hat, my experience, and my commitment to the House into the ring for consideration as Speaker of the Texas House of Representatives. Those of you who know me, know that this is not a decision I have entered into lightly, but like many of you I have come to realize that the time has come for us to unite behind a speaker that will lead the Texas House next session as we face our state's many challenges together.

The times demand a strong and decisive leader. The Texas House has enjoyed strong, experienced leadership under Speakers Laney and Craddick, who were fully supported by majorities of their respective political parties. Sadly, recent history has shown us that when a chamber's leadership does not enjoy majority support from his own party mixed with good support from the opposition party, his leadership is weak and ineffective. As a candidate for Speaker of the House, I will give Republicans and Democrats an opportunity to decide whether the Texas House wants to lead this session, or whether it doesn't.

Since 1989, I have served with you, lead with you, fought in the trenches with you, and submitted myself to the leadership of the speaker we all elected. You know my character, my trustworthiness, my fairness, and my faithfulness to conservative principles. In January, we will be facing the most difficult session Texas has ever faced. Together, we must find a way to appropriately fund the state's obligations while not raising taxes. This can only be done by reducing government budgets, a fight I have fought before, and won.

The budget is only one of our challenges; we must also face the contention that redistricting brings. I have served with you during the last three redistricting sessions, and know how to fairly navigate those treacherous waters while continuing the other serious business the House must complete for a successful session.

In deciding to run for Speaker of the House, I heavily weighed the experience of last session with the demands of the upcoming session. In earnest, we entered the 81st session with open minds, hoping for the brand of leadership Speaker Straus had pledged. However, his approach, guided by his inexperience, instead allowed the

minority party to control much of the session's agenda, and the result was no leadership during the total breakdown in the most critical days of the session. Speaker Straus has never served on Appropriations, never served on Ways and Means, has never even faced a difficult budget cycle, much less served as a member during a redistricting session. As the 82nd Legislature approaches, Texas demands a speaker who can successfully navigate these waters. I have the experience and skill that the House requires.

The vote for the Speaker is a decision made by us, by 150 individuals and whom we trust to lead us through 140 days. It is a vote about leadership, experience, and trust. I look forward to visiting with each of you soon about the challenges and opportunities ahead and how we can bridge those gaps together.

Sincerely,

Warren Chisum

For immediate release:
Wednesday, November 3, 2010

Statement from Speaker Joe Straus:

"On the night of this landmark election, Texas heard a resounding call from voters for continued fiscal responsibility and conservative leadership in Austin. I am proud that Republicans have gained a record number of seats in the Texas House, reversing the losing trend for the past three election cycles."

"As Speaker, I congratulate every House candidate elected tonight, and I look forward to working with each member for the good of our state. I will continue to lead the Texas House in a fair and respectful way as Speaker, and at this early hour, I'm grateful to have 122 colleagues support me for Speaker, including 76 Republicans and 46 Democrats, and I look forward to visiting with more members in the coming days."

Confirmed List of Pledges for Republican Texas House Speaker Joe Straus
UPDATED: November 3, 2010 12:00 a.m.

Aliseda, Jose
Allen, Alma
Alonzo, Roberto
Alvarado, Carol
Anchia, Rafael
Anderson, Charles "Doc"
Aycok, Jimmie Don
Beck, Marva
Bohac, Dwayne
Bonnen, Dennis
Branch, Dan
Brown, Fred
Burnam, Lon
Button, Angie Chen
Callegari, William "Bill"
Carter, Stefani
Castro, Joaquin
Coleman, Garnet
Cook, Byron
Creighton, Brandon
Crownover, Myra
Darby, Drew
Davis, John
Deshotel, Joe
Driver, Joe
Dukes, Dawna
Dutton, Harold
Eiland, Craig
Eissler, Rob
Elkins, Gary
Farias, Joe

Farrar, Jessica
Fletcher, Allen
Frullo, John
Geren, Charlie
Giddings, Helen
Gonzales, Larry
Gonzales, Veronica
Gonzalez, Naomi
Gooden, Lance
Guillen, Ryan
Gutierrez, Roland
Hamilton, Mike
Hancock, Kelly
Hardcastle, Rick
Harless, Patricia
Harper-Brown, Linda
Hartnett, Will
Hernandez, Ana
Hilderbran, Harvey
Hochberg, Scott
Hopson, Chuck
Howard, Donna
Huberty, Dan
Hughes, Bryan
Hunter, Todd
Jackson, Jim
Johnson, Eric
Keffer, Jim
King, Susan
King, Tracy
Kleinschmidt, Tim
Kolkhorst, Lois
Kuempel, Edmund
Larson, Lyle
Laubenberg, Jodie
Lavender, George
Legler, Ken
Lewis, Tryon
Lozano, J.M.
Lucio III, Eddie
Lyne, Lanham
Madden, Jerry
Mallory Caraway, Barbara
Margo, Dee
Marquez, Marisa
Martinez, Armando
McClendon, Ruth Jones
Menendez, Jose
Miles, Borris
Miller, Doug
Miller, Sid
Munoz, Sergio, Jr.

Murphy, Jim
Naishtat, Elliott
Oliveira, Rene
Orr, Rob
Otto, John
Parker, Tan
Patrick, Diane
Paxton, Ken
Pena, Aaron
Phillips, Larry
Pickett, Joe
Pitts, Jim
Price, Four
Quintanilla, Chente
Raymond, Richard
Reynolds, Ron
Riddle, Debbie
Ritter, Allan
Rodriguez, Eddie
Schwertner, Charles
Scott, Connie
Sheffield, Ralph
Shelton, Mark
Smith, Todd
Smith, Wayne
Smithee, John
Solomons, Burt
Strama, Mark
Straus, Joe
Taylor, Larry
Thompson, Senfronia
Torres, Raul
Truitt, Vicki
Veasey, Marc
Walle, Armando
Weber, Randy
Workman, Paul
Zedler, Bill
Zerwas, John

*Partial Listing as of 12:00 a.m; 11/3/2010

Statements of Support for Speaker Joe Straus

"Speaker Straus showed real leadership when he went to the appropriation committee hearing and said despite the budget challenges we will face next session, we will not increase taxes. I'm proud to support him for Speaker and believe his leadership will help us once again pass conservative, fiscally responsible legislation in the Texas House." - Representative Drew Darby

"Speaker Straus and I are from different political parties and have different points of view, but I believe he respects all the Members and works to find common ground for the good of Texas. I support his re-election as Speaker." - Representative Senfronia Thompson

"Speaker Straus earned the support of the vast majority of the Republican Caucus because he consulted with us, he worked to help us pass conservative legislation and he brought a constructive spirit to the Texas House." - Representative Harvey Hilderbran

"Fiscal conservatives have a solid leader in Texas House Speaker Joe Straus. He is a true and responsible Republican steward of state government." - Representative Lois Kolkhorst

"Joe Straus is a good friend. He is sensitive, fair and judicious with his treatment of all Texas House colleagues. He personifies what makes Texans proud of Texas." - Representative Aaron Peña

"Speaker Straus' leadership has allowed the legislative process to work for the Texas and he has earned another term as Speaker." - Representative Rob Eissler

"Joe Straus is a role model fiscal conservative. He knew that Texans were ready for a strong Republican majority and he personally worked to make it happen." - Representative Vicki Truitt

"Speaker Straus is an exemplary conservative Texas leader. His integrity and commitment to leadership with civility is what separates the Texas Legislature from Washington styled politics." - Representative Jim Keffer

"Members of the House felt we had the opportunity to have input and Speaker Straus had an open door. That's why I support his re-election as Speaker." - Representative Ryan Guillen

"Speaker Straus made serving in the House fun again because all the Members felt they had a chance to contribute and represent the constituents who sent them to Austin." - Representative Edmund Kuempel

"Speaker Straus is committed to jobs, economic growth, and fiscal responsibility and he works with Members to enact policies that are best for Texas." - Representative Byron Cook

"I support Joe Straus for Speaker because he works constructively with all Members to make sure the Texas House does what is best for Texas." - Representative Allan Ritter

"Leadership is an earned attribute. As my friend and colleague, Joe Straus has earned the post of Republican Texas House Speaker by achieving results for Texas and the Republican Party." -Representative Patricia Harless



KIRK WATSON
STATE SENATOR
DISTRICT 14

COMMITTEES:
TRANSPORTATION & HOMELAND SECURITY - VICE-CHAIR
BUSINESS & COMMERCE
ECONOMIC DEVELOPMENT
JURISPRUDENCE
NOMINATIONS

CAPITOL ADDRESS
P.O. BOX 12068
ROOM E1.712
AUSTIN, TEXAS 78711
512/463-0114
FAX 512/463-5949

September 1, 2010

Honorable Susan Combs
State Comptroller
P. O. Box 13528
Austin, TX 78711

Dear Comptroller Combs:

As you know, today marks the beginning of Fiscal Year 2010 – meaning the state is halfway through the two-year budget that the legislature approved last year. I think you would agree that it has been a difficult year, fiscally and economically, and there are likely to be more challenges through the rest of this biennium and the next one. Unfortunately, despite what I detect as widespread concern about the situation that Texas is facing, there simply is not much information to inform the concerns – and guide the preparations – of Texans and even state legislators.

Indeed, the state's budget preparations have become defined by uncertainty, both for the current 2010-11 biennium and the next one in 2012-13. For example, projections for the 2012-13 revenue shortfall have ranged from as low as roughly \$10 billion to as high as \$18 billion. That difference, in itself, would cover the lion's share of the entire oft-cited budget shortfall in 2003.

So I am respectfully asking that you, as the state's Chief Financial Officer, provide badly needed information about the state's finances, for both the current biennium that Texans are coping with and the next one that legislators are preparing for. At the very least, I suggest that you update the revenue estimate for the 2010-11 biennium, as the Texas Constitution clearly contemplates – and, I believe, requires you to do during times of such fiscal instability and uncertainty. I also urge you to provide additional information, particularly about the budget difficulties legislators are likely to face in balancing the 2012-13 Texas budget – if only because it would be such a poor business practice not to.

You are in a unique position to provide clarity to this picture in that your agency can give Texans an authoritative perspective of the state's budget situation – helping them understand what they are facing and allowing legislators to begin working to address it.

September 1, 2010
Page 2 of 6

I understand that this information and analysis would be subject to change, due to economic factors and the final Fiscal Year 2010 revenue figures that your staff will tabulate in coming weeks.

But it would also provide key data points to help us all prepare for a situation that demands preparation.

Variations of this information seem to have been provided already to bond rating agencies. I believe Texans deserve and would appreciate a similar report – not in the context of sinking funds, cash flow, and Texas' ability to take on an even larger debt burden, but rather in the context of the challenge we face meeting the state's obligations in Fiscal Year 2011 and balancing the budget in 2012 and 2013.

The Texas Constitution anticipates that the Comptroller will assume this role – particularly regarding the revenue picture for a biennium such as this one. Indeed, it appears to require that you do so.

Article III, Section 49-a of the Constitution, which establishes your office's duty to produce what is known as the Biennial Revenue Estimate, states clearly: "Supplemental statements *shall be submitted* at any Special Session of the Legislature and *at such other times as may be necessary to show probable changes*" to the Revenue Estimate (emphasis added).

I think most would agree that there have been "probable changes" to the state's revenue picture since January of 2009.

What those changes have been, of course, remains the subject of considerable speculation, even among widely regarded experts on the Texas budget. In the last month alone:

- You were quoted in an August 11 Associated Press report stating that there have been substantial shifts in state revenue sources, ranging from sales tax to oil and natural gas taxes, but that you did not believe a new revenue estimate was needed. I assume your hypothesis, at that time, was that these shifts would largely cancel each other out. But that is only an assumption about a point that needs to be clarified – for the public and the legislature.
- In fact, that hypothesis seems to have been contradicted by your agency's report to bond rating agencies, also last month. As noted in a posting on The Quorum Report web site on August 16, your report to the agencies indicated that the General Fund balance was off by more than \$3 billion compared to what had been previously projected.
- In that same posting, the Chairman of the House Ways and Means Committee predicted a budget deficit of as much as \$4.5 billion for just the current biennium.

September 1, 2010
Page 3 of 6

An updated revenue estimate could help turn this uncertainty about the size of the problem into actual efforts to solve it.

So, even beyond what I see as a legal requirement that you update the Biennial Revenue Estimate in the face of "probable changes" to the state's revenue picture, I would urge you to embrace this opportunity to provide basic transparency, accountability and clarity about the budget and Texas' fiscal situation to the public and the legislature.

This information is needed and widely desired. And providing this report would be more than basic common business sense – it would be the right thing to do. A private business of any size should never fly into a fiscal storm blindly, and neither should Texans or their elected officials.

Without a clear picture of the state's financial condition, we find ourselves in the situation of working on a problem that has not yet been actually defined. Significant budget cuts have been instituted and more have been planned. Yet these budget cuts are being ordered, proposed, and implemented without the benefit of a revenue estimate that reflects the state's current budget and fiscal situation.

I hope your report on the state's finances will not stop with an updated revenue estimate for Fiscal Years 2010 and 2011. As you know, any action the state takes to address the current budget deficit (as the Ways and Means Chairman characterizes it) will directly impact our ability to address the problems we are certain to face in the 2012-13 biennium.

So, in updating the revenue estimate for the current biennium, I am requesting that you also report on the issues and challenges Texas will be facing in the next biennium, as well. Such a report reasonably would include, but would not necessarily be limited to, information and data addressing:

A financial forecast: Given the potential for further revenue shortfalls in coming years, please provide the public and the legislature with a basic five-year forecast of revenues, expenditures (based on historical budget growth, if need be) and Rainy Day Fund projections. This would provide important, basic information that would help legislators start work right now on creating a secure, stable budget – for 2012 and 2013 and beyond.

(As you know, the phrase "structural deficit" is now a common part of the budget discussion in Texas, whereas in previous years, it was always assumed that the state budget was not only balanced but *sustainably balanced*. So, in your financial forecast, please also advise how structural deficits will impact budgets beyond the 2012-13 biennium if the legislature fails to address the issue.)

Texas' debt situation: Please report on the amount of money that the state borrowed over FY 2010 (through bonds and any other devices) to cover its budget obligations for

September 1, 2010
Page 4 of 6

the current fiscal year and biennium, as well as the debt service on those obligations, comparisons with bond issuances and related debt service payments from the previous five years, and the amount, by revenue source (e.g. General Revenue, General Revenue-Dedicated, Fund 0006, etc.) used to repay the debt.

Also, please provide information regarding the state's Cash Management Committee, including:

- The role that the committee played in determining how much borrowing was necessary to meet 2010 obligations,
- When and how that decision was made,
- What factors and considerations went into that decision,
- Whether any of those factors have changed since the decision was made,
- The committee's schedule of meetings and public discussions, along with the agendas from those meetings, over the past five years,
- Any written materials provided to or reviewed by the committee.

The failure of the Business Tax: Given the failure of the revised franchise tax to live up to its projections – let alone cover the promises made by its supporters in 2006 – please provide an update detailing:

- What this tax was projected to generate for Fiscal Years 2010 and 2011 when it was originally passed,
- What it was projected to generate for these two years in the most recent Biennial Revenue Estimate,
- What it actually generated for Fiscal Year 2010,
- And what it is now projected to generate in FY 2011, 2012, and 2013.

In addition, please offer an explanation for the inability of this revenue measure, also known as the Margins Tax, to meet its expectations, as well as any recommendations you might offer as the state's Chief Financial Officer for fixing it.

Finally, please let me know when you plan to re-convene the Business Tax Advisory Committee, which has been idle during this growing budget crisis for nearly two years, and what you, as the Chair, expect to be on the agenda if the committee does meet. And please report on whether you intend to recommend that the legislature extend the life of the committee – as you know, the state law creating the committee (Section 171.214, Tax Code) is scheduled to sunset on January 31, 2013.

The status of the Rainy Day Fund: Please include in your reporting an up-to-date projection of how much money will be available in the state's Economic Stabilization Fund, also known as the Rainy Day Fund, for budget balancing purposes when the legislature convenes in 2011.

September 1, 2010

Page 5 of 6

Please also report on what revenues are projected to flow into the fund in the 2012-13 biennium should the legislature choose to use some of this funding to balance the budget in the next session. Specifically, I noted that, per your report to bond rating agencies, \$870 million was transferred into the fund in Fiscal Year 2010 (see page 12), whereas less than half that amount – \$431 million – is projected to be transferred into it in Fiscal Year 2011 (page 16). Does this reflect a declining economic stabilization funding stream that in itself could make it harder to balance the 2012-13 budget? And how does that decline relate to revenue from oil and natural gas taxes, which you said (per the August 11 Associated Press story mentioned above) have performed better than expected?

Finally, please report on the amount of Rainy Day Fund money that you, as the state's CFO, believe should be used to balance the 2010-11 budget and/or pay off debt that was accumulated in this biennium, and please provide recommendations on the amount of money that should remain in the Fund through the 2012-13 biennium so that the state's bond rating is not damaged.

The status of General Revenue-Dedicated funds: As part of any updated revenue estimate, please provide an update on the status of the state's General Revenue-Dedicated funds, specifically:

- The ending balance in General Revenue-Dedicated accounts (restricted and unrestricted) on August 31, 2010, and the beginning balance on September 1, 2010, if those amounts are different,
- An update to your office's most recent "Report on Use of General Revenue Dedicated Accounts" to reflect the actual revenue collected in FY 2010, the amounts expended from those accounts, and the revised balance projected at the end of Fiscal Year 2011,
- A report on whether you expect to use some of these funds – all of which were raised for specific purposes (such as clean air, trauma centers, state parks, and utility bill relief) through specific taxes and/or fees imposed on Texans – to meet the state's budget obligations in the current biennium.

In addition, I am aware that some of the state agencies' "5 Percent" savings plans that were approved by the Governor and the Legislative Budget Board involve General Revenue-Dedicated funds. Please provide the total amounts, broken out by agency and by revenue source, that have been transferred as of September 1, 2010, to a "reduction" or "savings" account in compliance with the "5 Percent" directive.

As you are aware, I passed an amendment to House Bill 4583 during the 81st Legislative Session to require greater transparency with regard to these funds. Since the 2001 session, the growth of the unspent balances in these funds – in other words, the collection of taxes and fees from Texans and then the failure to use the money as promised – has nearly tripled, revealing a troubling failure in accountable budget practices. My amendment called for your office to include, in your Biennial Revenue Estimate due in

September 1, 2010
Page 6 of 6

January, "an estimate of general revenue dedicated account balances based on the laws then in effect, separately identifying those account balances available for certification". So it would be expected that any updated revenue estimate would also include this level of accountability, and it is vital that we be completely honest with Texans about how this money is being and likely to be used in coming weeks, months and years.

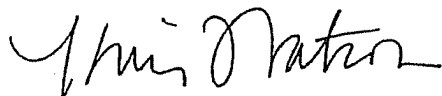
Clearly, the information reflected above, in most cases and certainly for private enterprises the size of the State of Texas, would simply be the start of a report reflecting the state's true fiscal condition. But in the absence of a more reliable and systematic fiscal reporting process, the basic information outlined above would be invaluable to budget writers, legislators, and Texans – providing basic openness and transparency about the state's finances and following the lead of the private sector in routinely analyzing and forecasting fiscal conditions. And given that so much of it is straightforward, basic information about where Texas is and what is coming next, I would request that you provide as much of it as you can as soon as possible – preferably by September 15.

I understand – and I would certainly hope – that much of this information already exists and is available for Texans to review. But in my experience, the information is spread over a number of different sources that are not always easy to find or decipher – particularly in cases such as the bond rating documents, which were prepared for a unique audience concerned with specificities that might or might not connect with the real and immediate challenges of everyday Texans. In a great many cases, people do not know where to seek out these answers to their questions, and it is often unclear how the answers they can find tie together.

So, whether or not you have in fact provided some of this data and analysis to certain individuals in different capacities, I think it is absolutely essential that you provide it all, in one place, to the people of Texas.

Without this sort of comprehensive budget picture, people are left bracing for the worst and, simultaneously, unsure of what to brace for. I hope you will utilize your office's expertise and authority to provide needed clarity for this situation that has already attracted so much concern.

Sincerely,



Kirk Watson