



Letter From Comptroller Carole Keeton Strayhorn to Governor Rick Perry regarding the Perry Tax Plan

May 15, 2006

The Honorable Rick Perry
Governor, State of Texas
Capitol Building, Room 2S.1
Austin, Texas 78701

Dear Governor Perry:

The Legislature is concluding its work on your tax plan. Your plan is fiscally irresponsible - it includes an unconstitutional income tax on partnerships and unincorporated associations, the largest tax increase in Texas history and leaves the largest hot check in Texas history. What you should do is show true leadership and veto this legislation.

As the state's chief fiscal officer, it is my responsibility to spell out exactly what the Perry Tax Plan means to our state's fiscal integrity. As you have known since it was made public, your plan simply does not pay for itself. **As of this moment, this legislation is a staggering \$23 billion short of the funds needed to pay for the promised property tax cuts over the next five years.**

In 2007, your plan is \$3.4 billion short; in 2008 it is \$4.3 billion short; in 2009 it is \$5.4 billion short; in 2010 it is \$4.9 billion short; and in 2011 it is \$5 billion short. **These are conservative estimates.**

At best, your plan is a prelude to another huge tax bill in the next regular session, one that will not only be heaped on Texas businesses but will fall heavily on the same taxpayers you claim to be helping now. At worst, it will relegate Texans to Draconian cuts in critical areas like education and health care for at least a generation. This is not a victory for taxpayers. It is a sham, and Texans will see it for what it is.

There is no economic miracle that will close the gap your plan creates. Even if every single dollar of the current \$8.2 billion surplus was poured into the plan, it would not cover the plan's costs for more than two years, 2007 and 2008. The gap is going to continue to grow, year by year. There are only two ways to close a chasm of that magnitude -- future tax increases that you are hiding from Texans now or massive cuts in essential state services -- like public education -- already devastated by your past fiscal indifference.

I have outlined \$7.7 billion in long-term "Strayhorn Solutions" to finance needed programs, such as a significant teacher pay raise, real property tax cuts and fully restoring the Children's Health Insurance Program. Those solutions include reinstating e-Texas Performance Reviews and the Texas School Performance Reviews to the Texas

Comptroller's office, implementing video lottery terminals, closing corporate loopholes in the franchise tax, eliminating the taxpayer-funded Texas Enterprise Fund and Emerging Technology Fund, and a \$1-a-pack increase in the cigarette tax tied to vital health-related programs.

Texans deserve relief from high property taxes, but they do not need it at the expense of future tax hikes and more cuts in public education. Educators are justifiably skeptical of this program because they know that when the state controls the purse strings, rather than locally elected school boards, the result will be devastating to our schools.

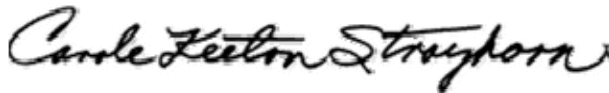
The property tax relief contained in the bill, if it can be financed past 2008, will be quickly eroded by rising property values, and increases in local tax rates forced on local school districts struggling to keep up with rising costs. In as little as five years, the state could be right back in court.

Finally, your plan represents the largest tax bill in Texas history, includes an unconstitutional income tax, represents a 200 percent tax increase on Texas businesses at a time when the state has taken an \$8.2 billion surplus out of the pockets of hardworking Texans, and does not pay for itself as required by the spirit of our Texas Constitution's "pay-as-you-go, no-deficit-spending" provision. That is unconscionable.

Governor, we should be working to improve state services for Texans and to reduce the burden of government on businesses and individuals. This plan creates a rolling mess that will take 20 years for future leaders of the state to untangle. Texans will recognize this plan for what it is -- a short-term, smoke-and-mirrors patch at best.

I urge you to show true leadership and veto this legislation. Texas needs a school finance plan that provides long-term, pay-as-you-go solutions for education.

Sincerely,



Carole Keeton Strayhorn,
Texas Comptroller

c: The Honorable David Dewhurst, Lieutenant Governor
The Honorable Thomas R. Craddick, Speaker of the House
Members of the 79th Legislature