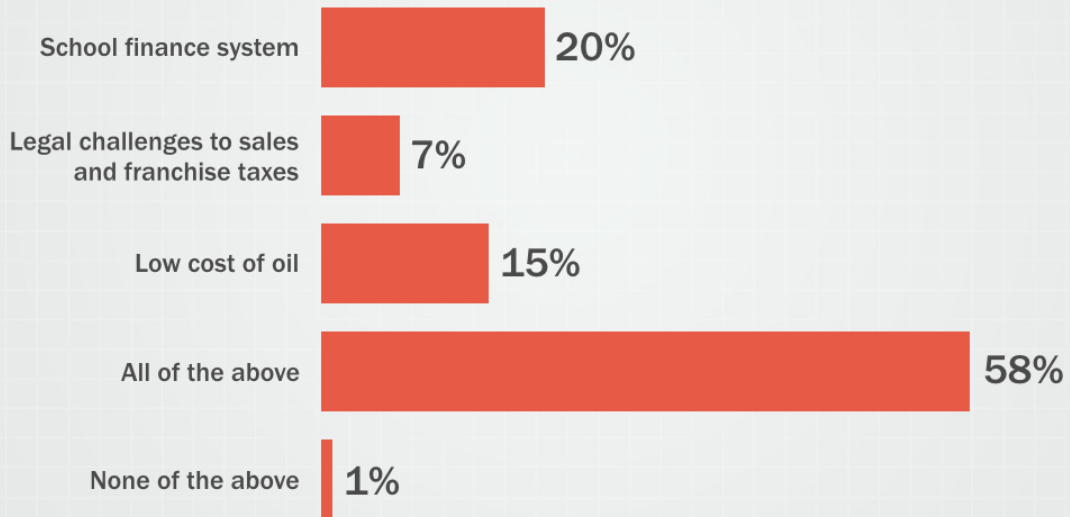


“INSIDE” INTELLIGENCE

*The Texas Weekly/Texas Tribune insider poll
for the week of 22 April 2016*

INSIDE INTELLIGENCE

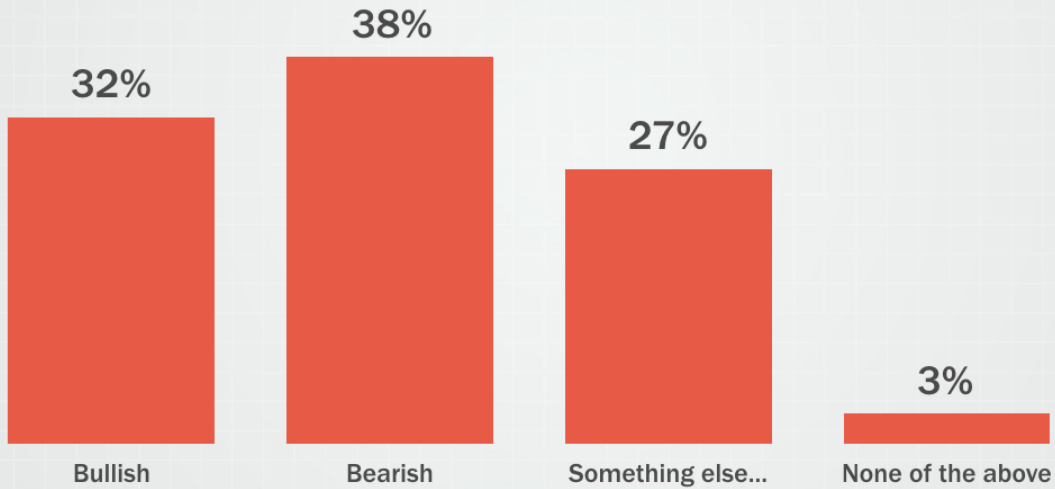
CONGRATULATIONS, YOU'VE BEEN NAMED THE NEW HOUSE APPROPRIATIONS CHAIRMAN. WHAT WORRIES YOU THE MOST?



Inside Intelligence is an informal survey of political and government insiders in Texas and is not meant to measure public opinion.

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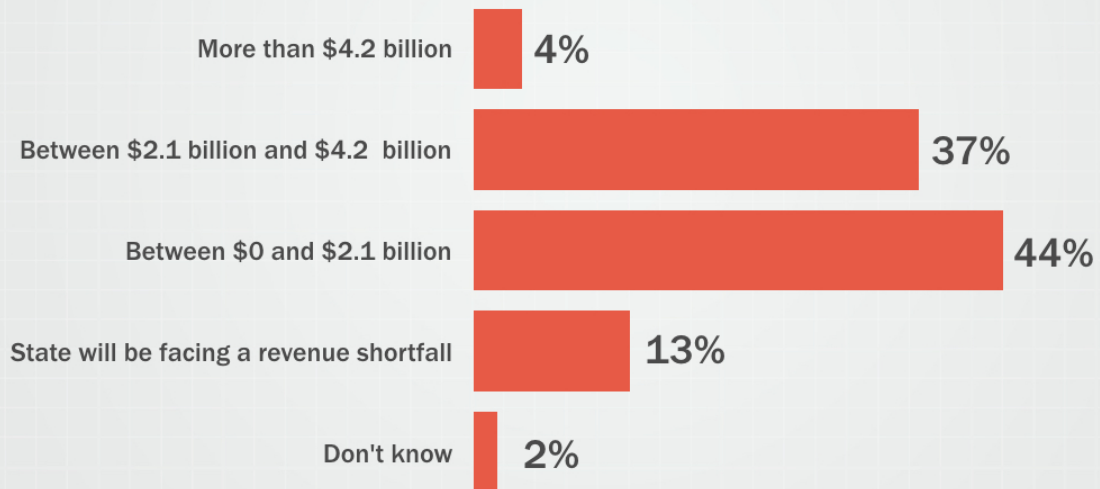
BASED ON WHAT YOU KNOW NOW, WHAT'S YOUR TAKE ON THE TEXAS ECONOMY OVER THE NEXT TWO YEARS?



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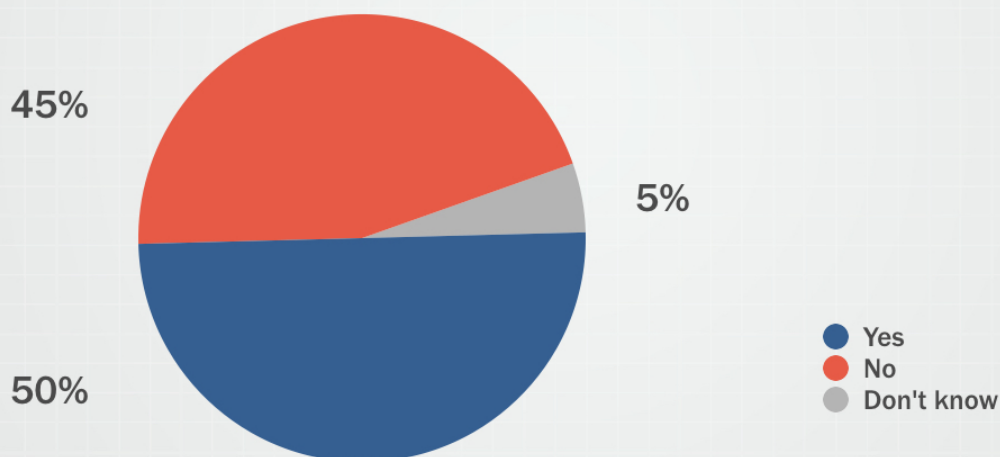
HOW MUCH OF THE STATE'S \$4.2 BILLION
PROJECTED REVENUE SURPLUS WILL STILL BE THERE WHEN
LAWMAKERS RETURN IN JANUARY?



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IF THE STATE IS ON THE LOSING END OF ONE OR MORE OF SEVERAL LARGE TAX CASES, WILL LAWMAKERS USE THE RAINY DAY FUND TO COVER THE COST?



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Congratulations, you've been named the new House Appropriations chairman. What worries you the most?

- "Even wars in the Middle East aren't pushing up the price of a barrel of oil."
- "You only listed revenues. I'm worried most about expenses (like health care and insurance and other things that costs what they cost regardless of the price of oil or sales tax collections)."
- "I would have the same look George Clooney had in the Perfect Storm. I would need to figure out how to tell Texas we need to tap the Rainy Day Fund."
- "It's not going to be a fun year on appropriations. But, in classic Joe Straus fashion, the budget process will conclude in an anti-climactic way with a reasonable, generally conservative, but also fairly responsible budget."
- "Talk about a house of cards. Decades of failing to shore up revenue generation and school finance could create a nightmare scenario."
- "...in addition to what's already happened (state tax cuts and dedications of future \$ to highways). In

other words: the money we already KNOW for sure won't be there, versus what MIGHT happen."

- "Legal challenges to taxes have the most immediate negative effect. Oil will eventually rebound and our economy is more resistant today than in the past. School finance could be a problem, but let's see how the courts deal with a suit that presumes we need more money to fund a good education system brought by school districts that continue to insist they are going a great job educating our children with what they have."

- "We MUST fully fund education — REAL education — NOT PEARSON-centered testing education for the benefit of former legislators who now lobby for PEARSON!!! Salaries and numbers of administrators must be reined in with money directed towards TEACHERS, materials and LEARNING."

- "If my answer is not 'all of the above' then I've been appointed to this position because I've mastered political hackery."

- "Oil, while very important, isn't nearly the economic driver it once was thanks to the diversified Texas economy. School finance, on the other hand, has the potential to gum up the budget like nothing else."

- "In the '80s we had school finance, MHMR, and prison system all thrown out by courts with oil in the crapper too!"

- "And transportation issues, child protective services and all of HHSC, high cost of higher ed, leaving federal

dollars on the table because of petty political stances... I can keep going..."

- "Even though a bill won't pass in the regular session, the Appropriations Committee will need to hold aside a substantial sum to pay for one in a special session."

- "A loss in the school finance system would be bad, but would probably be remanded back to a Republican-friendly three judge panel to start over. The most dangerous development would be the loss of the Southwest Royalties sales tax case and/or the AMC franchise tax case. These are private companies that along with thousands of their like-situated brethren, may be due back billions of dollars in overpaid taxes. There's no magic wand or legislative trick that would make that go away."

- "All of the above, but low oil prices top the list."

- "All of the above, but especially the low cost of oil. Not because oil will stay low; but rather, because the State relies heavily upon a commodity price they cannot control."

- "Oil will go up, school finance; sheesh, liberal meddling judges will always be a pain in my arse and for any approps chair, but the tax system being turned upside down will take some real skill and time to fix."

- "It's going to be an interesting session to be sure."

- "The trifecta of appropriator nightmares."

- "The person with real worries is the chair of Ways & Means. There's no way

out of this without more money."

Based on what you know now, what's your take on the Texas economy over the next two years?

- "Donald Trump and Hillary Clinton un-inspire economic activity, especially in Texas."

improvement in standards of living for most Texas families."

- "Does a bear beat a bull? What if a dinosaur or a dragon were involved? Batman?"

- "Oil's got nowhere to go but up!"

- "If I could predict the future, I would be rich."

- "Slightly bullish, even given the challenges of low energy prices and a federal administration hell bent on 'reforming' our economy in its own naive image."

- "It's going to be a little of both. We will see mid-size cities become quality of life hubs, which will increase their revenues. The Rio Grande Valley Region is getting their act together and by uniting, will be able to bring economic opportunity to the area."

- "BEAR!!! Didn't we all know that \$160 barrel of oil was too high? We certainly know that \$24 is too low. We will be VERY cautious moving forward. I expect the projections from the comptroller to be on the conservative side and the budget to follow suit — pay for ONLY the required items; make it as lean as possible. FYI — anyone looking for some 'new' money from the state for projects, programs, etc. please DO NOT try to get it this session."

- "Though not totally dependent on oil & gas, Texas is affected by its serious slump. Also, the economic instability throughout the world gives us reason for caution."

- "Much of what will happen in Texas is dependent on what happens in the White House and at the Supreme Court."

- "Texas is diversified and robust enough to weather most storms. We just have to be reasonable in our expectations and not overly rosy in our projections."

- "WTI is at \$41 today, which is about \$20 less than a year ago. Hard to see it rising much higher. As oil and gas sputter along, eventually the ripple effects will make their way through the rest of the economy."

- "Population growth (from a high birthrate, not movers from other states or countries) will continue to create a lot of new low-pay, low-benefit jobs in personal service sectors. So there will probably be better job growth than in much of the U.S., but not any

- "Respectable."

- "We will rock along. The state diversified itself in the '80s and '90s. We will be OK."
- "Squeamish."
- "Hold"
- "I'm fearing a natural disaster and other problems to be named later!"
- "Oil and gas are much more important to the Texas economy and revenue than many want to believe. The state's economic peaks and valleys still follow the drilling cycle. You'd think we'd be past that by now. But we ain't. If oil and gas stay down, Texas goes down — some."
- "Muddle through."
- "We always bounce back, hey, maybe we can finally cut some waste, yes, there is real waste; those Rhinos who say we cannot cut any more are, well, Rhinos."
- "Cautiously pessimistic ... if that's a real term. While not a replay of the late '80s, there are clearly headwinds. Energy prices, overbuilding, weaknesses in national and international economies, a potential mess subsequent to November elections ... and always a few surprises. Hope I'm wrong."
- "Unless the Supreme Court screws it up!"
- "The national economy is still growing, so Texas will, too, but not at the rate of the past. The era of Texas Exceptionalism is over."

Based on what you know now, how much of the state's \$4.2 billion projected revenue surplus will still be there when lawmakers return in January?

- "While the state will say it is facing a revenue shortfall, it will still have anywhere up to \$2 billion."
- "The GRE was based on fairy tale assumptions. What surplus?"
- "The \$4.1 billion 'surplus' in the October CRE includes \$3.5 billion in dedicated GR balances, so the next Lege will be lucky to have any 'regular' General Revenue that's not already committed to something. 2016 General Revenue collections will be at least 2 percent short of the Comptroller's most recent forecast. Best case scenario: local property taxes for schools continue rising enough to reduce state aid, freeing up money that's already been appropriated so it can be used for any shortfalls (Medicaid supplemental, natural disasters, etc.)"
- "With zero-based-budgeting, there's no such thing as a budget shortfall. Who says you have to spend everything you

spent last year plus population growth! You don't."

- "The number actually depends on how much of the 'surplus' includes funds, which are dedicated to only one type of use but which are included in the official general revenue estimate regardless of the limitations."
- "As much as we like to 'fool' ourselves into thinking we have a diversified Texas economy, we are STILL heavily dependent upon old man oil; his troubles are our budget troubles."
- "Closer to \$4.2B than \$2.1B."
- "It's important to note that the projected surplus is just that: a projection. It's not actually an amount of cash being eaten down by bad times. It simply won't materialize in the first place."

If the state is on the losing end of one or more of several large tax cases, will lawmakers use the Rainy Day Fund to cover the cost?

- "Both Tea Partiers and Progressives want the Rainy Day Fund gone. Here's their chance to work together, across virtual party lines."
- "The RDF has become off limits for some reason. It will only be used to pay for GOP red meat issues — not real governance and operations."
- "Como se dice re-election?"
- "We may tap into the fund for a specific large need that other ways can't be accommodated by current revenue, namely schools or overhauling child protection. The GOP base will stomach

- "The surplus will be there, but the items for the supplemental will quickly erase that amount. The real question is, will the Legislature have the will to draw down the Rainy Day Fund?"

- "The Texas economy is steadily weathering the economic storm, so the correct response to the question is, what will be the impact of losing one, two or all three of the pending cases?"
- "If we don't spend it all like fools and drunk sailors, some of it could be there; and if we cut, yes, you can cut."
- "Unless the Supreme Court screws it up!"
- "It's not really a 'surplus' in the sense of extra money. Just a cash balance, most of which is actually GR-Dedicated funds."

that, at least modestly. But we will never use the fund to make up for lower revenues or higher spending."

- "Possibly, if the leadership can't find & agree on enough 'smoke and mirrors'-type budget balancing mechanisms (postponing large payments to 2019; speeding up tax collections; re-amassing GR-dedicated balances). School finance resolution could be postponed to a 2018 special session."
- "They are a huge unfunded liability. There will be no choice except to pay from the Rainy Day Fund."

- "They should, at least as a stop gap measure. Theoretically that is the lesser of the evils when compared to raising taxes. The danger is that they will gut the recent dedications of revenue to transportation in order to remain ideologically pure regarding tax increases."

- "That is what it is for, people!"

- "They didn't use much of it when the budget cratered in 2011, and if that doesn't tell you something then nothing will."

- "If they do, it'll only delay the inevitable day of reckoning."

- "They will cut funds for the people with no lobbyist or voice at the Capitol."

- "Too many of our honorable legislators don't have enough sense to come inside when it's raining. Even when it's best for the whole family's well being. Who wants to stay home and watch a sick kid when they should be at work?"

- "Even though it would only take 16 votes to pass, the Senate won't get 19 votes to take up a bill to spend from the Economic Stabilization Fund."

- "The Tea Party hasn't fully defined the new orthodoxy on when and how they will allow members to use the Rainy Day Fund. But it seems like the scenario you describe involves 1) a time period when income to the fund is flat-lining (or worse), and 2) the argument to tap the fund is for ongoing future operating expenses of the state (as opposed to capital expenses, like the recent exceptions for water and roads, or

other one time charges). I'm betting the combo you describe won't be enough 'rain' to justify tapping the fund prospectively, or at least not without a very serious fight. A more likely result: keep the Rainy Day cash, but don't phase out the Franchise Tax."

- "They won't use the Rainy Day Fund directly if they can avoid it. Look for some sleight of hand to make things look more palatable. And also some payback against the industries that brought these lawsuits."

- "Yes, no other choice. But will be a battle among the conservatives."

- "Yes, if it's a one-time expenditure; no, if it's for recurring budgeting."

- "It's either that or raise taxes. They are not going to raise taxes if at all possible."

- "Where else you gonna get the money?"

- "They need to. That is why it was created."

- "Punt the ball down the road, not make real change or cuts, or true tax reform, chicken littles."

- "Sounds like a 'Rainy Day' to me."

- "The Supreme Court will have screwed it up ... the only thing worse would be using one-time revenues to cover operational costs. The Texas Legislature will need to step up and fix the revenue gap."

- "Sticky 'let them eat crap.'"

- "Even if Noah was building an ark, they won't touch the fund." just to deal with school finance and avoid really harmful budget cuts."
- "Even of the state doesn't lose the cases, the Lege will have to use the RDF"

Our thanks to this week's participants: Gene Acuna, Brandon Aghamalian, Brandon Alderete, Clyde Alexander, Jay Arnold, Charles Bailey, Andrew Biar, Allen Blakemore, Tom Blanton, Chris Britton, Raif Calvert, Lydia Camarillo, Kerry Cammack, Elna Christopher, Randy Cubriel, Beth Cubriel, Denise Davis, Eva De Luna-Castro, June Deadrick, Nora Del Bosque, Glenn Deshields, Tom Duffy, David Dunn, Richard Dyer, John Esparza, Dominic Giarratani, Bruce Gibson, Eric Glenn, Kinnan Golemon, Daniel Gonzalez, John Greytok, Clint Hackney, Wayne Hamilton, Bill Hammond, Steve Holzheuser, Kathy Hutto, Deborah Ingersoll, Mark Jones, Robert Kepple, Richard Khouri, Tom Kleinworth, Sandy Kress, Dale Laine, Pete Laney, Dick Lavine, James LeBas, Luke Legate, Ruben Longoria, Vilma Luna, Matt Mackowiak, Jason McElvaney, Steve Minick, Bee Moorhead, Mike Moses, Keats Norfleet, Todd Olsen, Nef Partida, Jerod Patterson, Robert Peeler, Tom Phillips, Wayne Pierce, Allen Place, Gary Polland, Jay Pritchard, Jay Propes, Ted Melina Raab, Patrick Reinhart, David Reynolds, Carl Richie, A.J. Rodriguez, Grant Ruckel, Andy Sansom, Barbara Schlieff, Stan Schlueter, Robert Scott, Bruce Scott, Steve Scurlock, Ben Sebree, Ed Small, Martha Smiley, Larry Soward, Dennis Speight, Colin Strother, Sherry Sylvester, Sara Tays, Trey Trainor, Vicki Truitt, Ware Wendell, David White, Darren Whitehurst, Christopher Williston, Peck Young, Angelo Zottarelli.