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## Cutting Texas Education Spending Poses Economic Risks, Business Leaders Say

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Sometimes the business community rails against government spending. But recently, some Texas business leaders have been railing against spending cuts.

Their target: a planned \$4 billion reduction in school funding over the next two years, which is backed by Republican majorities in the Legislature.

"It doesn't take a CEO to know that if something is important to your future, you invest in it," said Ed Whitacre, former chief executive of AT&T and General Motors, in a television ad for an education advocacy group called Raise Your Hand Texas.

"Now the state Legislature wants to further cut educational spending," he said, even though Texas already ranks near the bottom in spending per student among the 50 states.

The tension is heating up as a legislative special session began this week with a focus on school funding. Lawmakers who voted for the budget plan say spending reductions are necessary amid revenue shortfalls.

Some private-sector executives applaud the drive to rein in education spending if that's what it takes to balance the budget.

"The clients we service, when they look at education, they don't necessarily look at spending more or spending less," said John Boyd, a corporate site selection consultant in Princeton, N.J. "They're looking at re-engineering our education system and doing more with less. They're more concerned about the fiscal integrity of the state. Can the state pay its bills?"

But business leaders such as James Oberwetter, president of the Dallas Regional Chamber, warn that shortchanging education spending could undermine the state's ability to compete for jobs and investment.

He argues that lawmakers should avoid skimping on school funding even if it means tapping the savings in the state's rainy day fund.

"Business is growing concerned about the future of a quality workforce as it sees education spending being reduced," said Oberwetter, a former U.S. ambassador to Saudi Arabia under President George W. Bush and former adviser to Dallas oilman Ray Hunt.

#### Proposed cuts

Under the current budget plan, state education funding would amount to about \$4 billion less over the next two years than what school districts would be entitled to under current law.

All districts would face similar cuts for the 2011-12 school year, averaging 3.3 percent, but reductions would vary widely in 2012-13 based on an updated formula.

The cuts are bound to cause short-term economic pain, including nearly 50,000 school district layoffs under the plan adopted by the Senate, according to the Center for Public Policy Priorities, a liberal think tank in Austin.

Many analysts also warn of long-term dangers for a state that already faces significant educational shortcomings. Texas ranked 42nd nationwide in school spending per student in 2008, according to the U.S. Census Bureau.

That same year, less than 80 percent of Texans had a high school degree or more, the lowest percentage among the 50 states, according to the Census Bureau. The national average was 85 percent.

Lower education levels translate into lower incomes, said Steve Murdock, a sociology professor at Rice University.

"One of the clearest long-term relationships we have is the relationship between average income and level of education," said Murdock, a former Texas state demographer and former director of the Census Bureau.

The state's educational challenges are on the rise. About 65 percent of Texas population growth over the last decade came from the Hispanic population, Murdock said.

As a group, Hispanics have lower-than-average educational levels.

Boosting educational levels among all children is a critical long-term challenge.

"I would never argue that spending more guarantees better outcomes," said Bernard Weinstein, an economist at Southern Methodist University's Cox School of Business.

But declining educational spending "probably isn't good for the long-term economic prospects of the state, or for the prospects of the kids who are in our public school system," he said.

Rainy day fund

So how else could the state address educational funding shortfalls?

Tap the rainy day fund for starters, said Bill Ratliff, a Republican and former Texas lieutenant governor who is on the advisory board of Raise Your Hand Texas.

The group started running its education spending ads last month.

"We don't see a lot of risk in using \$4 billion, if necessary," he said.

"I think business leaders are distressed at what's happening to the public school system in Texas, at least the ones we communicate with at Raise Your Hand Texas," Ratliff added.

One issue facing the state's public till is a business tax that was adopted in 2006 as part of a package of school finance changes.

The business tax and other items were meant to compensate for a one-third cut in local property taxes. In practice, revenue from the business tax, also known as the margins tax, has lagged by \$5 billion a year.

"Clearly that margins tax did not boost the revenue that the state thought it would to support public education costs," said Oberwetter, the Dallas Regional Chamber president.

Oberwetter said he would support an interim legislative study to examine how the margins tax could be made "as effective as it was intended to be."

"It's pretty clear," he said, "that public education cannot continue to take hits with respect to revenue reductions."

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