Thank you Brooke. I am so grateful to the thoughtful public policy research and advocacy done by such a strong force for limited government: the Texas Public Policy Foundation. It is good to see my friends in the Legislature, friends of free enterprise, and each and every person in this room who shares my passion for building a better Texas. I covered a lot of public policy ground in my state of the state address Tuesday. As someone pointed out, I covered 30 years of pop culture from Popeye to Seinfeld. I want you to know that the Perry Family celebrates Christmas, though we have the highest respect for those who celebrate Festivus.

I want to focus today on a couple of issues I spoke about Tuesday. First, I believe there is no better time to talk about spending restraint than when government is awash with your money. With a record surplus, it is certainly a unique opportunity to make strategic investments in our long-term prosperity. But it should not be license to spend beyond what we can sustain in the years ahead. As the father of modern-day American conservatism, Ronald Reagan, once said, “nothing is so permanent as a temporary government program.” Two days ago I put forward a full, detailed budget, the first time a governor has done that in modern memory. It reflected my priorities and included some very worthwhile investments in our future. I believe this is a unique opportunity to invest in the pillars of prosperity: education, jobs and healthcare. I supported a $360 million increase for financial aid because I believe a college education is critical to competing in a global economy. I proposed a new plan to make more affordable insurance available to two million Texans because nothing can devastate a family budget like a life-threatening illness in the face of no health coverage. And I supported close to a half billion dollars for investments in jobs, especially technology jobs, the lynchpin to future economic growth and prosperity.

My budget makes all these investments while increasing spending less than five percent a year, excluding property tax relief. The truth be told, I believe the spending cap is meant to stop runaway spending, not runaway tax relief. And yes, despite the consternation expressed by some, I believe we should give some of the surplus back. There are two ways to better restrain government spending: cut taxes, because government can’t spend what is not in the treasury, or create a tougher self-imposed limit through a stricter spending cap. There is no better time than now for the legislature to consider a new spending cap. The current limit, tied to personal

http://governor.state.tx.us/news/speech/9432/
income growth, is hardly a limit at all, and is only a concern this session because the extraordinary shift in education spending from locals to the state in order to provide a record reduction in property taxes. I believe there is a better way.

If we are to recommend that local governments should be able to live with a five percent increase every year, why shouldn’t state government do something similar? My proposal is to tie the spending limit to the average inflation and population growth of the previous six years. That could create an annual spending limit for the next biennium of less than five percent a year. Some don’t believe there should be any limit, and others think we ought to just spend less. I believe there is a middle ground. We can’t afford to spend less in state with rapid population growth. The cost of school enrollment growth alone makes that impossible, as do federal mandates tied to the funding of Medicaid and other caseload needs. At the same time, we shouldn’t use growth as an excuse to let the budget explode. The economy will ultimately take a downturn, and rather than forcing decisions between large tax hikes and large spending reductions, I believe it is important to avoid overspending in the years of strong economic growth. By cutting taxes further, restraining new spending to less than five percent a year, and putting more than $4 billion into the state Rainy Day Fund, my budget puts us on firm footing for future years.

The second issue I want to discuss is another important budget priority. After years of payments delays and accounting sleights of hand, it is time we get right with the people and wipe the slate clean by ending this practice in the midst of great prosperity. For years, highway funding from Fund 6 has been diverted to other needs, at the cost of building needed transportation projects. My budgets rights this wrong, ensuring fund 6 funds highways while the priorities it used to fund get covered by state general revenue. Along those lines, we must end the practice of budgetary diversions where fees collected for trauma care, clean air and state parks are spent on something else, such as balancing the budget. Going forward, I say we either spend fees for the purpose they are collected or give the money back. I am reminded of a Biblical analogy in this regard: be ye hot or cold, but not lukewarm, or I will spit you out of my mouth. Let’s either spend the money or give it back, but not let it sit in an account for neither purpose. These funding diversions have harmed our state parks system, and it’s time this kind of budgetary shell game came to end. And look, I’m not casting blame. I signed a number of budgets that contained delayed payments and accounting sleights of hand during tougher economic times. But now we have a chance to end it all, and my budget shows legislators how, despite recent protests that we can not afford it. But where there is a will, there is a way, and I have shown the way with a budget that spends more than $5 billion to end the accounting gimmicks.

Let me discuss one other important issue. The vision I outlined Tuesday includes selling the state lottery for a 40-year private concession for a conservatively estimated $14 billion. Some people may be getting twisted up on the math, so here are the facts. Putting $14 billion in three difference endowments will generate an estimated $1.3 billion based on an annual nine percent return. Do the math: today an unstable source of revenue like the lottery currently generates $1 billion. Selling the lottery will generate $300 million more each year in interest payments. If the market dips in a given year, so will lottery proceeds. Furthermore, if funding cancer research is supported by members of the legislature, they will have to decide how best to finance it. In fact, with a bond proposal, funding $3 billion in cancer research costs $300 million a year for twenty years, or a total of $6 billion. So if legislators are willing to find $300 million in general revenue to finance bonds to fund cancer research, then I would think they could find an even smaller amount instead to make education funding whole under the alternative scenario of selling the lottery. And keep in mind, the $14 billion estimate on the sale of the lottery is conservative based on our discussions with finance experts. It could generate 17 or 20 billion
dollars. At seventeen billion dollars, the money generated by the lottery in recent years for education would be matched by the interest generated on a $11 billion trust fund for education each year. The numbers work. And I happen to believe the governor who sold the lottery plan to benefit education – Ann Richards – would look with pride upon what we are doing if it also helped us find a cure for cancer.

Let’s not forget what this is about. The financing mechanism is just the means to an end goal, which is to advance our research against cancer in such a bold way that we will attract the world’s top cancer research experts, that we will create collaborative projects that bring great minds from different universities together in advancing a common research vision. Don’t forget these numbers when we are considering the lottery numbers. 400,000 cancer survivors in Texas live with its emotional scars and the fear it will come back. 95,000 Texans this year will hear those dreadful words, “you have cancer.” And 34,000 of our family members and friends, our co-workers and neighbors, our precious children will lose the fight and die too soon. And on top of all this, this proposal largely removes the state of Texas from the gaming business. We will still have to regulate it, and negotiate terms of sale that are best for Texas. But we have the potential to get a good sales price now that over the long haul of forty years is sure to produce a solid return that is greater than the proceeds the lottery generates each year. It’s good fiscal policy, and it’s a long-lasting source of revenue that can ensure we have the money we need to invest in the great challenges we face.

Let’s be bold in how we attack our great challenges. Let’s lay a marker down for reducing the number of uninsured, eliminating various forms of cancer, investing in education, and keeping our spending commitment both effective and modest. Our future is in your hands. And whether you call you’re a Republican or a Democrat, you have the power to achieve great things that will serve this state well for generations to come. Let's invest in a better Texas through wise use of our resources and a continued commitment to fiscal responsibility. And let's always remember that while government can design worthy programs, it can't solve every social ill. At the end of the day, it is families, and not government, that guide our children’s values. And it is personal responsibility, and not the politics of victimhood, that is the key to ensuring our programs work and our people prosper. May we work together for causes greater than self, greater than party, to empower the powerless, lift up the lowly, and bring hope and opportunity far and wide. Thank you, and God bless you all.