



How Much Are We Spending?

State budget conferees are almost done reconciling the House and Senate's different proposals for state spending in 2006 and 2007. This Policy Page gives a preview of where spending levels are likely to end up, and provides some benchmarks against which any increases in spending should be compared.

First: How much is being spent in 2004-05?

Even a simple question like this can result in different answers depending on whether "spent" means the spending levels originally authorized by the 2003 legislature, or the higher levels that are now estimated due to increased federal funds, post-session restorations (such as smaller cuts to the rates paid to certain health care providers, or restorations of Medicaid eligibility for low-income pregnant women), and higher-than-budgeted costs and caseloads in Medicaid and CHIP.

IS IT \$117 BILLION? The General Appropriations Act enacted in 2003—House Bill 1—appropriated \$117 billion in all funds (state and federal) for 2004 and 2005, including \$58.2 billion in "pure" General Revenue, or state tax and other revenue that is not dedicated to any specific spending purpose. Compared to 2002-03, this was an overall funding increase of \$1.3 billion (a scant 1.1%), or a General Revenue DECREASE of \$2.5 billion (4.1%).

OR \$118 BILLION? But HB 1 is not the only action taken by the 2003 legislature that shaped the state budget. In December 2003, the Legislative Budget Board (LBB) was reporting state spending levels of \$118.2 billion in all funds, or \$58.9 billion in General Revenue, for 2004-05. These revised totals account for some Medicaid and CHIP restorations made in late summer 2003 and additional budget measures enacted in special sessions and through use of state fiscal relief language in HB 1.

Adjusting these totals for inflation and population growth, the LBB reported that the 2004-05 spending

levels translated to a 3.1% all-funds cut from 2003 to 2004, followed by another drop of 4.3% in 2005. General Revenue spending in the state budget would fall by 7.3% in 2004 and 3.7% in 2005.

OR ALMOST \$127 BILLION? Finally, in releasing the draft budget for 2006-07 at the beginning of the 2005 session, the LBB reported that 2004-05 spending levels now stand at \$126.6 billion in total funds, or \$59.7 billion in General Revenue. This \$8.4 billion all-funds increase is due to supplemental, or "emergency", spending needed to address Medicaid and CHIP shortfalls for 2005; shortfalls in K-12 funding; the addition of \$4.2 billion in unexpected federal funds for transportation, education, and health and human services; and other non-GR sources of revenue. The amount of supplemental funding needed for 2005 (and thus, the total spending level for 2004 and 2005 combined) will be revised again once the House and Senate agree on a final version of HB 10. The House's version of the supplemental spending bill would have a net effect of adding \$2.5 billion in all funds or \$491 million in General Revenue and \$974 million in "Rainy Day Fund" dollars to fiscal 2005 spending levels. The Senate Finance Committee substitute unveiled on May 19th proposed about \$730 in net General Revenue spending for fiscal 2005, or an all funds increase of about \$2.8 billion. Other spending for 2006-07 was also included in the Senate's version of HB 10.

What's Been Proposed for 2006-07?

The draft budget that was recommended by the LBB in January called for \$134.4 billion in All-Funds spending, or a 6.1% increase over the \$127 billion in current

spending. The General Revenue spending level was \$63.5 billion, a 6.3% increase over 2004-05.

The Governor's budget, released soon after the LBB's, called for slightly higher spending levels: \$135.4 billion (6.9% more) in all funds, or \$64.1 billion (7.3% more) in General Revenue.

Neither the LBB nor the Governor's proposals were a departure from prior budgets in terms of spending priorities: in both plans, public K-12 education would continue to receive about 40% of General Revenue, followed by health and human services (27%), higher education (16%), public safety and criminal justice (11%), and all other (6% for general government, the judiciary, natural resources, business and economic development, regulatory, and legislative agencies combined).

The Senate Finance Committee's mark-up resulted in total spending levels of \$139.3 billion all funds, or \$66.2 billion in General Revenue.

The House Appropriation's mark-up of the budget is a little more complicated because some of the spending authorized for 2006-07 (mainly for child protective services reform and some K-12 education spending items) would actually take place in HB 10. After accounting for these transfers, the House proposal was to spend \$139 billion in all funds, or \$67.3 billion.

The main differences as the House-Senate conference on SB 1 got underway was that the Senate proposed more funding for Medicaid restorations; adult protective services reform; reduction of HHS waiting lists; the K-12 Student Success Initiative; higher education formula- and non-formula funding and student financial aid; a state employee pay raise; and bond debt service/capital projects. The House had more funding for child protective services reform and the low-income utility bill assistance program, as well as a \$3 billion "placeholder" for school finance reform.

What's the Most that Could be Spent?

If the SB 1 budget conferees came up with a compromise budget that funded the higher amount proposed for each area of the budget (General Government, HHS, etc.), the total would be \$142 billion in all funds, or \$69 billion in General Revenue. This would be a 12% increase in all funds spending, or an almost 16% increase in General Revenue spending.

However, at least a 7% increase is needed to deal with expected general population and inflation through fiscal 2007, and in some health care programs, inflationary pressures are closer to 10% to 15% annually. (Health care inflation is not just a challenge for the state budget; it is putting pressure on federal, state, and local governments across the country, as well as on all employers who subsidize their workers' health care coverage.)

Of course, regardless of how much the Senate or House proposed to spend, the final say will be had by the Governor's line item veto power and the Comptroller's certification estimate. Legislators can only spend as much revenue as the state will have on hand in 2006 and 2007, and the Comptroller's January 2005 revenue estimate currently limits legislators to \$64.7 billion in General Revenue and \$2 billion from the "Rainy Day Fund." Any proposed spending beyond \$66.7 billion will have to be offset by new taxes or other revenue measures, such as those found in HB 3540.

The SB 1 conference committee is expected to wrap up negotiations soon and send their report to the House and Senate for approval before the session ends. SB 1 will then go to the governor for his signature. The new state budget will take effect September 1, 2005.

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