



RELEASE OF 2004-2005 REVENUE ESTIMATE REVEALS BUDGET GAP OF ALMOST \$16 BILLION Comptroller's \$9.9 billion shortfall estimate ignores student enrollment increases, other population growth, and inflation

On January 13, the Comptroller announced that Texas should expect only \$54.1 billion in General Revenue in fiscal 2004 and 2005. This is \$7.4 billion less than currently authorized General Revenue spending of \$61.5 billion for 2002-2003. Added to \$2.5 billion in spending items the Comptroller deems essential, such as the new school district employee health plan, the revenue decrease results in a Comptroller-estimated shortfall of \$9.9 billion. However, an even larger and more realistic budget gap—about \$15.6 billion—becomes evident when nondiscretionary budget items, such as Medicaid and foster care caseload growth, are added to the Comptroller's figures, and allowances are made for student enrollment increases, other population growth and inflation. This brief Policy Page provides more information on the latest state budget developments and revises CPPP's estimate of a current services budget gap; you may also want to see Policy Page 177 for additional background information.

WHAT THE COMPTROLLER ANNOUNCED

THE 2004-05 OUTLOOK: Yesterday, the Comptroller issued her Biennial Revenue Estimate for fiscal 2004 and 2005 (<http://www.cpa.state.tx.us/taxbud/bre2004/>). The single most important item in this report was the grim news that for the 2004-05 budget cycle, only \$54.1 billion in General Revenue will be available for spending. This is a decrease of \$7.4 billion from 2002-2003 levels of GR spending.

FISCAL 2003 PICTURE WORSENS: The Comptroller also revised the revenue estimate for the remainder of the current budget cycle (2002-2003), informing legislators that the state would end fiscal 2003 in the red to the tune of \$1.8 billion, after a required \$135 million transfer to the state's Rainy Day Fund is made.

IF UNTAPPED, RAINY DAY FUND WILL GROW TO \$1.3 BILLION BY 2005: State law and the constitution require automatic transfers to the state's Economic Stabilization Fund, which held \$904 million at the beginning of fiscal 2003. After the transfer for fiscal 2005 is made, the so-called "Rainy Day Fund" should

contain almost \$1.3 billion, unless legislators tap the fund to help address the revenue shortfall.

COMPTROLLER'S \$9.9 BILLION SHORTFALL SCENARIO: Along with the official revenue estimate, the Comptroller also presented what she called a "No New Programs Budget," which would require \$64 billion in General Revenue, or \$9.9 billion more than she said would be available. This scenario would fully fund the new health plan for local school district employees (cost: \$1.25 billion more in GR) and some health and human service budget needs (another \$1.26 billion), but would not provide any new state funds for K-12 enrollment growth, higher education enrollment increases, growth in state prison populations, increases in state debt service, or any other items which are usually included in the baseline budget. It also does not include any cost adjustments for inflation or the projected population growth of 1 million new Texans by 2005 (from 21.7 million residents in 2002 to 22.7 million in 2005).

WHY CPPP ESTIMATES THAT AT LEAST \$15.6 BILLION IS NEEDED TO MAINTAIN CURRENT SERVICES

In *Policy Page 177*, CPPP argued that a more realistic budget shortfall scenario is one that takes into account current services

costs for health and human services (based on Health and Human Services Commission figures), and reasonable cost increases due to population and inflation for the rest of the state budget (i.e., everything EXCEPT health and human services). Using the new demographic and economic forecasts provided in the Biennial Revenue Estimate, and including the full two-year cost of teachers' health insurance, CPPP now estimates that the state's revenue system will be \$15.6 billion short of funding current services in 2004-2005. The chart below indicates how the \$15.6 billion gap results from a combination of:

On the revenue side:

- \$54.1 billion in General Revenue for 2004-2005

On the expenditure side:

- \$61.5 billion in current GR spending; PLUS
- \$1.25 billion more needed for teachers' health insurance;
- \$2.7 billion to maintain HHS current services (the increased cost of complying with current law and preventing services from deteriorating); and
- \$4.3 billion to maintain the current biennium's inflation-adjusted spending per Texan for all non-HHS programs.

THE BOTTOM LINE: The General Revenue cost of maintaining the current level of state services in 2004-2005 is thus \$69.7 billion—\$15.6 billion more than the amount of General Revenue estimated to be available.* This \$15.6 billion is the shortfall amount that more realistically measures the challenge ahead and what it would cost merely to “tread water” in state services. (And it is worth citing at least a few examples of what “treading water” means: more than 60,000 Texans on waiting lists for community care services; more than 52,000 children on waiting lists for low-income child care subsidies.) It is impossible to eliminate a shortfall of this enormous magnitude by reducing waste and increasing efficiency. It is also impossible to close this gap through spending cuts alone, without causing unacceptable pain for all Texans. Additional state revenue is needed. For some potential sources, see the Texas Revenue Primer at

<http://www.cppp.org/products/reports/rev-primer.pdf>

*IMPORTANT CLARIFICATION: *Policy Page 177* discussed a potential General Revenue **and GR-Dedicated shortfall**; this Policy Page is only about **General Revenue** demands. Adding in the total amount of spending that would be possible with GR-dedicated funds increases the 2004-2005 current services total to \$73.8 billion.

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