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## **\$64.7 BILLION FOR 2006-07 DOES NOT FUND CURRENT SERVICES**

Cost of current services grows faster than revenue; pricetags for CPS reform, school finance make gap even wider

The \$64.7 billion in General Revenue that the Comptroller estimates will be available to fund the 2006-2007 budget is not enough to fund current services. Even more would be needed to restore services cut from 2003 to 2005. More still would be needed to fund improvements to state services, such as child protection and public schools. Finally, much more would be needed to reduce local property taxes. This *Policy Page* explains the significant gap between revenue and budget demands facing the 79<sup>th</sup> Legislature. If this gap is not resolved with new revenue, more cuts to critical state services are likely to be enacted.

### The Revenue Estimate: More Details

The state comptroller estimates that revenue available for general purposes ("General Revenue-Related funds") will total \$64.742 billion in the 2006-2007 budget biennium. Of this amount, only \$63.3 billion will actually be collected in the next two years; 86 percent of this \$63.3 billion will come from taxes. The remaining \$2.3 billion is the unspent General Revenue that will be on hand at the end of August 2005, unless legislators authorize new spending for the rest of this current fiscal year.

The Comptroller also estimates that **all** funds available to write the next state budget—not just General Revenue, but also federal and other earmarked funds—will total \$130.5 billion.

Finally, the state's Economic Stabilization Fund ("Rainy Day Fund"), which had been drained in the writing of the 2004-2005 budget, will be back up to \$2 billion after the required transfer of certain natural gas tax revenues slated for fiscal 2007. This \$2 billion is in addition to the General Revenue or all-funds figures mentioned above.

As part of the revenue estimate, the Comptroller also releases an economic forecast that includes population and inflation estimates for 2006 and 2007. These figures reveal that the real per-capita decline in General Revenue that began in 2000 will continue in the next budget cycle. In 2005 (inflation adjusted) dollars, state General Revenue has declined from \$1,500 per Texas resident in 2001 to \$1,370 in fiscal 2005. By 2007, it will fall even more, to \$1,302 in GR per Texan. Federal and other funds, which had grown fast enough since 2000 to boost All-Funds revenue even as General Revenue declined, will start to drop in the next two years. All-Funds per capita revenue, adjusted for inflation, will fall from a peak of \$2,851 in 2005 to \$2,658 by 2007—a 7 percent drop—unless legislators create new revenue sources during the session.

### What the Comptroller's \$6.0 Billion Includes

In releasing her revenue estimate, the Comptroller informed legislators that while they had \$6.4 billion more to spend than 2004-2005 appropriations, \$6.0 billion of that would be needed just to meet "today's spending levels." Her list of "current services" needs is:

- For public K-12 schools, which serve more than 4.3 million children, the cost of 24 months of Foundation School Program payments and enrollment growth;
- The cost of the state retirement contribution for new school employees;

- Caseload growth; increased costs/utilization; and a less favorable match rate for Medicaid, which provides health care to 2.6 million low income Texans, 1.8 million of whom are children and the rest primarily elderly and people with disabilities; and
- Supplemental appropriations that may be needed for the current fiscal year 2005 for Medicaid, the Children's Health Insurance Program (CHIP), and public education.

The comptroller adds the \$6.0 billion that these items cost to the \$58.325 billion appropriated for 2004-05 to come up with a GR cost of \$64.325 billion to run state government for the next two years. After subtracting this from her estimate of \$64.742 billion in available General Revenue, roughly \$400 million remains unspent (the so-called "surplus").

However, the \$58.3 billion spending figure for 2004-05 does not include the amount of GR spending supported by the Rainy Day Fund, which the LBB estimated (in December 2003) to be \$801 million. If in fact the true cost of keeping 2004-05 spending constant is \$59.1 billion, the \$400 million surplus vanishes. A more up-to-date General Revenue spending figure should be available when the *Legislative Budget Estimates* are released by the LBB.

### COMPTROLLER METHODOLOGY

\$2.3 billion unspent by end of fiscal 2005	PLUS	\$63.3 billion in new revenue for 2006-2007
EQUALS		
\$64.742 billion in General Revenue available for 2006-2007		
MINUS		
2004-05 appropriations of \$58.3 billion	And	\$6.0 billion needed for some current services
EQUALS		
\$400 million in General Revenue remaining for any other purposes		
Not included above: \$2 billion in "Rainy Day Fund" revenue expected to be available by fiscal 2007; \$801 million in Rainy Day Fund- supported spending that is considered "General Revenue"		

### Governor/LBB Methodology

The Legislative Budget Board and Governor take a different approach that results in more new General Revenue being considered "surplus" than the Comptroller announced. Instead of asking how much funding all state services would need to comply with current law—including increases in the number of clients who might qualify for services, and the increased costs of delivering those same services—the LBB and governor's budget office told most agencies to request 5 percent less in General Revenue for 2006-2007 than they currently get. With a few important exceptions (such as K-12 enrollment growth and debt service), these instructions allow for little growth in "current services," and dictate how the appropriations process will begin. The baseline that legislators will use as a starting point for the appropriations act is \$63.5 billion.

### LBB/GOVERNOR'S METHODOLOGY

\$64.742 billion in General Revenue available for 2006-2007
MINUS

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2004-05 starting point of \$63.5 billion (assumes cuts of 5% to more than 100 agencies' GR spending; some increases allowed for K-12, higher ed, Medicaid, state employee health insurance)

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EQUALS

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\$1.2 billion in General Revenue remaining for Legislature to allocate

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NOT INCLUDED: Rainy Day Fund revenue or uses

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CPPP's Definition of "Current Services": At least \$7.2 billion

Because agencies were never asked to describe their "current services" demands for new General Revenue, CPPP staff searched through budget documents and identified the cost of several current services items in major areas, using historical "baseline" instructions as a guide. Until the 2003 budget crisis, for example, higher education enrollment growth, entitlement growth in Medicaid and foster care caseloads, K-12 textbook purchases, increased costs of state employee benefits, and prison inmate increases were part of the budget baseline. The list below identifies over \$7.2 billion in "current services" items that should be considered part of meeting "today's spending levels." Failure to fund these needs means another round of cuts in aid to local school districts; more increases in higher education tuition; further restrictions in Medicaid and CHIP eligibility and benefits; higher premiums and co-pays or benefit cuts for employee health plans; more across-the-board cuts to providers of health care and foster care; and worsening caseloads for state employees in child protective services, prisons, and other critical areas. There is also the potential of additional pressures on cities, counties, hospital districts, and community colleges to increase local taxes to pay for services not funded by the state.

	Current Services Cost Increases (General Revenue, 2006-2007)
EDUCATION	
K-12 enrollment growth; new textbooks; Guaranteed Yield increase; continuing the Student Success Initiative; returning to original Foundation School Program payment schedule	\$2.776 billion
Higher education enrollment (excludes two-year colleges)	\$182 million
HEALTH CARE	
Supplemental appropriation for Medicaid/CHIP 2005 shortfall	\$320 million
Medicaid	\$2.6 billion
CHIP	\$32 million
Health benefits for state employees and dependents (ERS)	\$427 million
Solvency of TRS-Care for retired teachers	\$259 million
OTHER	
Pension benefits for state employees/dependents (ERS)	\$71 million
State prison system	\$196 million
Foster care/child protective services	\$111 million
Other HHS programs	\$273 million
TOTAL	\$7.2 billion

Restorations Will Also Compete for New Revenue

CPPP also identified at least \$5 billion in critical restorations that would return public services to the levels funded in fiscal 2002, before state budget cuts started to take effect. (Note: in fiscal 2002, Texas ranked last nationwide in state government spending per capita.) Among CPPP priorities are the restoration of Medicaid and CHIP eligibility, benefits, and provider rates to 2003 levels, which would cost at least \$550 million in General Revenue. Restoring programs that prevented child abuse or neglect would require \$26 million in two-year funding.

School Finance Fix and Improvements to CPS, APS, Other Services Also Need New GR

If all legislators wanted to do was to continue the current level of services identified by CPPP (i.e., only those shown in the table above—not state courts or parks or general government or any other service funded by the state) for another two years, they could use all available General Revenue, drain the Rainy Day Fund, make no restorations at all, and go home in May. But their budget priorities also include school finance reform, Child and Adult Protective Services improvements, and some Medicaid and CHIP restorations.

#### CPPP METHODOLOGY

\$64.742 billion in General Revenue available for 2006-2007		
MINUS		
2004-05 starting point of \$59 billion (includes Rainy Day Fund spending)	And	At least \$7.2 billion for “current services” increases
EQUALS		
\$1.5 billion shortfall, before making any restorations (total: \$5 billion) or improvements		
NOT INCLUDED: Rainy Day Fund revenue		

#### Property Tax Reductions

A school finance “fix” that raises new revenue only to lower local school property taxes will not address any of the needs in other areas of state government. Just as an example, \$2.2 billion in state revenue would be needed to replace a dime in school property taxes for a biennium.

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