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TAB FOR CURRENT STATE SERVICES WILL RISE BY \$6.9 BILLION, FOR A TOTAL OF \$73.8 BILLION IN GENERAL REVENUE-RELATED TWO-YEAR SPENDING

Revenue estimate and budget drafts for 2004 and 2005 will soon be released; unlikely to provide adequate funding for schools, health care

State legislators are about to convene in Austin for the 78th Legislative Session, and the one task they must accomplish before August 2003 is the preparation of the state's biennial budget. The next key step in the budget process will be the Comptroller's announcement of the biennial revenue estimate on Monday, January 13. She will reveal the amount of General Revenue estimated to be available in 2004 and 2005 if no changes are made to existing revenue sources or methods of accounting. Then, a "base" budget bill will be introduced that is likely to fall far short of a true "current services" budget—a budget that continues the state's current commitment to funding K-12 education; nursing homes; health insurance premiums for low-income children and the aged or disabled; and other essential public services. This Policy Page provides more information on the preparation of the state budget and how you can make your concerns known to your state senator and representative.

FIRST, SOME CONTEXT

In 2002-2003, Texas state government will spend \$66.9 billion in General Revenue (GR) and GR-dedicated funds—the critical factors in the biennial revenue estimate (BRE) and state budget-writing process. Adding federal and other dedicated funds to GR spending, the total 2002-2003 state budget reaches \$114.1 billion. In 2003, this works out to about \$2,615 per Texan in all-funds spending for everything that state government supports, such as schools, teacher retirement and health care benefits, universities, Medicaid, highways, prisons, and state parks. According to the latest 50-state data from the National Association of State Budget Officers, Texas spends less per resident than almost any other state—in 2001, only Nevada ranked lower.

HOW EASILY COULD A MULTI-BILLION DOLLAR SHORTFALL BE ABSORBED? Since June 2001, state officials and the media have raised the specter of a possible \$5 billion shortfall for the next biennium (2004-2005). Recent reports suggest it may well be closer to \$10 billion. Some have downplayed the magnitude of a \$5 billion gap, calculating that it is less than 5% of a \$114 billion budget

and stating (with few or no specifics) that this gap can and should be covered through spending cuts. But at least two critical points are overlooked by those who believe the revenue generated by our current system will be adequate:

- 1) The budget process is driven by the amount of General Revenue available for spending, not by all-funds spending. General Revenue spending in 2002-2003 is only \$67 billion (including \$5.4 billion in GR-dedicated dollars); the rest is earmarked federal funds and other dedicated sources. A \$5 billion shortfall would thus be more than 8% of undedicated GR spending (\$61.5 billion); a \$10 billion shortfall would be a 16% gap.
- 2) The amount of General Revenue needed to maintain basic state services in 2004-2005 will increase for a variety of reasons beyond the control of state agencies, such as population growth (especially in the number of children and elderly, and in the number of poor or uninsured Texans); rapid increases in the cost of health care; implementation of the new, phased-in state subsidy of local school district employees' health insurance; and growth in federal entitlements such as Medicaid and foster care.

If the state's revenue system were adequate, the soon-to-be-released revenue estimate would include enough General Revenue to fund the 2004-2005 cost of everything already authorized by state and federal law (in many cases, at a higher cost than was possible in 2002-2003), and also to cover anticipated shortfalls for the remainder of fiscal 2003 (mostly in Medicaid and CHIP, the Children's Health Insurance Program). If the revenue estimate is not enough to cover these costs, legislators will either have to raise additional revenue or cut current services.

SO, "CURRENT SERVICES" IS THE BARE MINIMUM THAT NEEDS TO BE FUNDED—HOW MUCH IS THAT?

No one has yet calculated what a true current services state budget—one that funds what the state is already doing, while taking into account cost increases from inflation and growth in programs we must provide—will require in new GR or total funding. Instead, budget instructions issued by the Legislative Budget Board (LBB) and Governor require agencies to submit "baseline" requests for new funding which in many cases do not take into account the true cost of maintaining current services.

For the agencies under its authority, the Health and Human Services Commission's consolidated budget helps to clarify requests for money above and beyond the baseline by putting these requests (or "exceptional items") into categories such as "current services," "rate increases," and other budget items. Using the HHSC's figures, the table below shows the total amounts of GR and GR-dedicated funds being requested by the eleven Article II (Health and Human Services) agencies.

Texas Health and Human Services Agencies' Budget Requests for 2004-2005 Biennium

	Amount of General Revenue	Increase From 2002-03
Spent/budgeted for 2002 and 2003	\$14.989 billion	NA
Baseline increase requested for 2004 and 2005	\$1.425 billion	9.5%
Exceptional Items for Current Services	\$1.242 billion	8.3%
Exceptional Items for Rate Increases	\$684 million	4.6%
Other Exceptional Items	\$734 million	4.9%

BOTTOM LINE—HHS AGENCIES NEED \$2.7 BILLION MORE IN GR JUST TO TREAD WATER: In other words, the HHSC is estimating that health and human services agencies need \$2.7 billion more in General Revenue (\$1.425 billion baseline growth plus \$1.242 billion in exceptional items for current services), or almost

18% more in GR than they currently spend, just to comply with current law and keep services from deteriorating. About \$1 billion of the GR needed to maintain current services is requested for utilization and caseload increases in Medicaid, CHIP, long-term care, community care, foster care, and other HHS programs.

For more information on what's at stake in the budget increases requested above, see http://www.hhsc.state.tx.us/about_hhsc/finance/reports/cbud0405/05a-Recommend.html. As the legislative session gets under way, CPPP will provide budget updates on selected programs, such as Medicaid, CHIP, Temporary Assistance for Needy Families, Food Stamps, child care, and child protective services.

HOW MUCH MORE GR DOES THE REST OF THE BUDGET NEED? In addition to the HHS agencies, other parts of the state budget require new General Revenue, primarily for increased student enrollment (public K-12 schools and universities) and for teacher and state employee/retiree health plans. As mentioned earlier, a "current services" budget is not available for most state agencies. But, using data on projected population growth from the Texas State Data Center and the latest forecasts of inflation, CPPP estimates that at least \$4.25 billion in additional GR spending would be necessary to maintain the current biennium's inflation-adjusted level of spending per Texan in all non-HHS spending.

AND THE GRAND TOTAL IS...: After adding the \$2.7 billion in baseline and current services needs identified by the HHSC to the \$4.25 billion required for the rest of the budget, the total amount of new General Revenue required is more than \$6.9 billion, or 10.4% more than the current budget's level of GR/GR-dedicated spending (\$66.9 billion). **In other words, at least \$73.8 billion in GR and GR-dedicated dollars is needed merely to continue the status quo.** Reaching this spending level would require approximately the same biennial budget increase that the 2001 legislature authorized over the prior biennium's spending (10.2%). This spending level (\$73.8 billion) is also the amount that should be compared to the upcoming Biennial Revenue Estimate to get an early idea of how large the GR budget shortfall may be.

WHAT ELSE WILL DRIVE THE BUDGET PROCESS?

CONSTITUTIONAL SPENDING CAP: In November 2002, the LBB carried out another early and important step in the budget process that limits the rate at which a certain kind of state spending (the spending of undedicated tax revenue) can grow from one biennium to the next. Legislators adopted an 11.83% two-year growth rate, based on a range of economic forecasters' estimates of growth in state personal income. Applied to 2002-2003 spending levels, as required by the constitution, the

11.83% growth rate means that a maximum of \$5.8 billion in additional, undedicated tax revenue can be spent in 2004-2005.

BIENNIAL REVENUE ESTIMATE: On Monday, January 13, the Comptroller is expected to release the biennial revenue estimate, outlining what amounts of General Revenue and other revenue sources legislators may have available for spending in 2004-2005. Because of constitutional “pay as you go” provisions, the Comptroller’s revenue estimate is the effective ceiling on what legislators can spend from GR and GR-dedicated funds. It may be updated later in the session if the economic forecast improves or worsens, or if legislators enact changes to tax laws or accounting methods.

BUDGET BILLS FROM LBB AND GOVERNOR: Also in mid-January, a base appropriations bill will be filed that will become a starting point for House Appropriations and Senate Finance committee hearings on the state budget. Unlike in past sessions, the Governor’s budget office is preparing a detailed appropriations bill and asking the legislature to use its version instead of the baseline budget prepared by the LBB. This could be a radical departure from the standard process, and serious concerns have arisen

that an appropriations bill based on something other than the LBB-prepared version would provide far less detail about the effect of any proposed cuts.

WHAT ABOUT PUBLIC INPUT?

After appointments to the House Appropriations and Senate Finance committees are made, CPPP will let readers know which senators and representatives are on these key budget-writing panels. House and Senate budget hearings that allow for public testimony will probably take place in February and March; CPPP will provide additional information about these hearings when they are scheduled. Anyone concerned about a specific program or about the adequacy of state spending in general can also contact their state senator or state representative immediately; address, telephone, and other contact information is available at <http://www.capitol.state.tx.us/>.

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