

Analysis of the Comptroller's Revenue Estimate

January 10, 2011

The Comptroller's Biennial Revenue Estimate indicates that Texas will have a net \$3 billion less in revenue to appropriate next biennium compared to last (accounting for both General Fund revenue and revenue expected from the Property Tax Relief Fund as well as an offset for a \$4.3 billion shortfall in revenues for the current biennium). However, last biennium the legislature appropriated a total of \$12 billion that will not be available this biennium from a combination of federal State Fiscal Stabilization Funds and state General Fund balances from the prior biennium. Combining these two figures puts the state roughly **\$15 billion** short of being able to appropriate what they spent last biennium.

To that \$15 billion, there are increases in appropriations necessary because of the increased cost of maintaining current law. For example, in public education, the TEA Legislative Appropriations Request identifies the need for an additional \$5.7 billion to cover enrollment growth and an anticipated reduction in school district property tax collections. Increased costs in Health and Human Services, Higher Education, and other areas of state government could cost an additional \$3 billion conservatively. Adding these costs to the \$15 billion above brings the shortfall to **\$23.7 billion**. The five percent cuts that lawmakers required of state agencies in the current biennium, if carried forward, are worth an additional \$1.25 billion next session, which would reduce the \$23.7 billion shortfall to **\$22.45 billion**.

Other organizations have different views on the cost of current services, some higher and some lower. In particular, there are wide variations on assumptions regarding the amount of funds needed for additional Health and Human Services spending. The Center for Public Policy Priorities has estimated the need for \$6.3 billion more in spending than MCA took into account in the figures above.

How public education will be affected depends substantially on how lawmakers decide to handle the shortfall. For example, the Comptroller estimates that \$9.4 billion will be available in the state rainy day fund, although many lawmakers have expressed reluctance to use the fund. In addition to the cuts implemented in the current biennium, state agencies have identified \$3.5 billion in further cuts through a required 10 percent reduction exercise, though implementing all of these would be difficult. There are also some less painful options for lawmakers that include things like a Foundation School Program payment delay which would push roughly \$2 billion into the next biennium. Which of these options lawmakers use remains to be seen, but substantial cuts in public education appear likely, even under optimistic scenarios.

There are a few other pieces of information in the revenue estimate that are worth noting. One is that the document makes clear Texas' reliance on federal funds to get through the current biennium. In the current biennium, Texas will take in more in federal funds (\$75.3 billion) than it will collect in taxes (\$71.7 billion), though a decrease in federal funds is expected in the next biennium. In addition, although the shortfall is substantial regardless of how one chooses to account for it, it does not appear that the Comptroller is being overly pessimistic when projecting revenues for next biennium. In fact, she is estimating that sales tax collections will grow by 8 percent over this biennium (though it is worth remembering that this biennium, sales tax collections are down 6.3 percent compared to last biennium).

What this means for school personnel is that reductions in overall funding are coming and continuing efforts to identify areas for budget reductions remain necessary. The Comptroller's estimate does not, however, answer the question of how much will be taken from public school budgets next biennium.