

Legislative Budget *Update*

Texas is fortunate to have a thriving economy, and we can afford to make the investments needed to ensure that hard-working Texans can share in the state's prosperity. State investments in high-quality education, health care, transportation and other public goods help communities flourish as Texas continues to grow. Our elected leaders in the Texas Legislature have the responsibility to decide every two years what that level of investment will be.

Our state budget is a moral document that should reflect the needs of Texans from all backgrounds and help every Texan thrive.

Where do things stand on the 2020-2021 state budget?

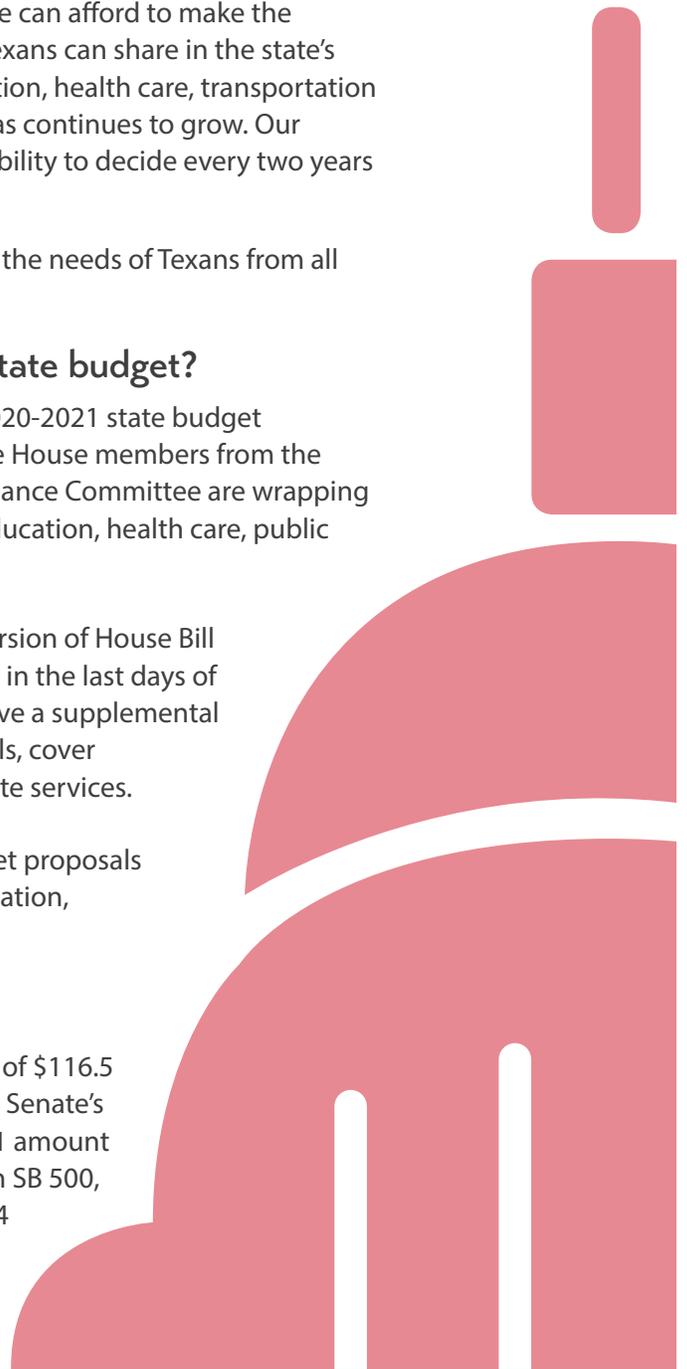
The Texas House and Senate have each approved draft 2020-2021 state budget proposals, which are now in a conference committee. Five House members from the Appropriations Committee and five Senators from the Finance Committee are wrapping up negotiations on proposed state budget support for education, health care, public safety, highways, and other services.

After the conferees' negotiations, we should see a final version of House Bill 1 (HB 1) that will go to the House and Senate for approval in the last days of the regular session. The 2019 Legislature must also approve a supplemental spending bill (SB 500) to finish paying 2019's Medicaid bills, cover Hurricane Harvey costs, and provide support for other state services.

This CPPP analysis compares and contrasts the two budget proposals in their latest formats and highlights the impacts on education, health care, and other essential programs and services.

Key Takeaways

- The House's HB 1 proposes General Revenue spending of \$116.5 billion, which is \$336 million (0.3 percent) less than the Senate's proposed \$116.8 billion. However, if we add to the HB 1 amount the additional 2019-2021 General Revenue spending in SB 500, then the House proposal is \$119.2 billion, which is \$674 million (0.6 percent) more than the Senate's \$118.6 billion.



- The gap between the two spending plans widens if we factor in the proposed uses of the Economic Stabilization Fund (ESF, or “Rainy Day Fund”). Between HB 1 and SB 500, the House has approved \$6.6 billion in ESF support for state services. This is \$2.2 billion more than the Senate’s proposed use of \$4.4 billion in SB 500. The House also proposes to withdraw money from the ESF to create a constitutional Legacy Fund (contingent on passage of HJR 10, \$500 million), and would re-direct some future revenue that would have gone to the ESF to this new fund. Interest and earnings from the Legacy Fund would go to a new Legacy Distribution Fund to be used only for state debt, unfunded state and public education pension liability, state infrastructure, or other long-term obligations.
- When we look at “All Funds” – which includes federal and earmarked state funds along with General Revenue – neither the House nor the Senate proposal would keep up with projected population and consumer inflation by 2021. The House’s proposed uses of General Revenue in 2020-2021, in HB 1 and SB 500 combined, would accomplish that (0.2 percent adjusted growth), but for many state services, costs rise faster than consumer inflation.
- The state’s Economic Stabilization Fund is the second largest such reserve fund in the country and would be on track to reach \$15.4 billion by 2021 if the 2019 Legislature chose not to tap it at all. Designed to smooth out the volatility of state revenue sources and help prevent sudden, massive cuts to essential services like schools and health care, the ESF can and has been used by the Legislature to support more than \$11.6 billion in state budget needs since 1990.

In the final weeks of the legislative session, HB 1 and SB 500 conferees are hashing out a compromise 2020-2021 state budget, while other House-Senate conferees work out a final proposal (House Bill 3) to change how the state budget supports schools – the single largest use of General Revenue in the budget. CPPP will once again analyze the impact of the budget on core Texas services before final votes by the House and Senate.

Budget Alert - 2020 Census

This legislative session, CPPP is urging state budget writers to fund outreach campaigns and Complete Count Committees (CCC) for the 2020 Census. With over 25 percent of Texans living in hard-to-count communities, there is a significant risk of an undercount. An undercount of Texas’ population by even one percent could cost Texas \$300 million a year in federal funding for health care, child welfare, and child care subsidies over the next decade. This \$300 million per year would instead have to come from state revenue. The 2020 Census will also decide our representation in Congress, and experts believe that, with a complete count, Texas could gain up to three additional seats. The House budget proposal has \$50 million in Article XI for outreach grants to local governments, while the Senate’s Article XI provides \$10 million for the same purpose, contingent on passage of CCC legislation (SB 1934). Any support from the state would be a significant help in promoting a more accurate 2020 Census and making sure Texans count.

Economic Opportunity



Foundation School Program

2018-2019 level	2020-2021, House Bill 1 (as passed by House)	2020-2021, Senate substitute for HB 1	CPPP insights
<p>\$42.7 billion All Funds, of which \$34.6 billion is General Revenue</p> <p>SB 500, Senate and House versions, have \$905.5 million in Economic Stabilization Funds for FSP costs caused by 2017's Hurricane Harvey. Of that \$905.5 million, \$271 million is required by current-law formulas, and \$634 million is at the Legislature's discretion.</p>	<p>\$52.6 billion All Funds, including \$41.3 billion in General Revenue</p> <p>Note: \$636 million in FSP funding is in SB 500, using ESF for Harvey's continued impact on 2020-2021 formula aid</p> <p>\$9 billion is contingent on HB 3 or other school finance legislation that increases the state share of formula funding; enhances the minimum amount districts receive per student; decreases recapture, and provides at least \$2.7 billion in local property tax reductions, while maintaining equity in the finance system</p> <p>In January, House/Senate "current law" proposals assumed that local property values and taxes for schools rose by 6.19 percent in tax year 2019 and 4.07 percent in 2020. The state share of school finance formula funding would have dropped to 35 percent by 2021, from its current 38 percent, because the main per-student funding amount (Basic Allotment) would remain at \$5,140, where it's been since the 2015-16 school year. The combined effect of these assumptions and higher revenue from other Foundation School Program sources would have reduced General Revenue by \$1.6 billion, compared to the 2018-2019 level.</p>	<p>\$52.3 billion All Funds, including \$41.7 billion in General Revenue</p> <p>The Senate's additional funding is contingent on a classroom teacher and librarian salary increase (\$3.7 billion, plus \$293 million for associated pension & health benefits); local property tax reductions and reduced reliance on recapture (\$2.7 billion); and \$2.3 billion contingent on legislation changing school finance to increase state funding</p>	<p>Both the House and Senate proposals would increase the state's share of school funding compared to current law. But a higher state versus local share does not necessarily translate to more resources per student.</p> <p>HB 3 will ultimately determine how much new state funding goes toward property tax reductions, and how much is a net increase in resources for the 5.4 million Texas public school students.</p> <p>A larger Basic Allotment of \$5,700 (versus the current \$5,140) for the 2020-21 school year would make up for Consumer Price Index inflation since the last increase. The allotment would have to be at least \$5,800 to cover state & local government inflation.</p> <p>The latest House proposal includes a Basic Allotment of \$6,030; the Senate increases it to \$5,880. However, those amounts are not "apples to apples" comparisons because of other proposed formula changes.</p>



Teacher Retirement and Health Benefits

2018-2019 level	2020-2021, SB 500 supplemental (House)	2020-2021, SB 500 supplemental (Senate)	CPPP insights
Teacher Retirement System: public education retirement receives \$3.5 billion All Funds; retiree health, \$1.2 billion All Funds	<p>House: \$684 million in General Revenue to raise state contribution rate from 6.8 percent now to 7.8 percent in 2020 and 8.05 percent in 2021. Added to HB 1 funding, House has \$4.8 billion in All Funds for state retirement contribution.</p> <p>Supplemental payment (sometimes called the “13th check”): House proposes \$658 million in ESF for an extra payment equal to whichever is lower: \$2,400 or a retiree’s regular payment</p>	<p>Senate proposes \$347 million in ESF to raise contribution rate to 7.25 percent in 2020 and 7.5 percent in 2021. Including amounts in HB 1, Senate total is \$4.5 billion (\$337 million less than House).</p> <p>Supplemental payment: Senate proposes \$195 million in ESF for an extra payment equal to whichever is lower: \$500 or a retiree’s regular payment</p>	Teachers and other school staff are doing heroic work with limited resources and deserve better compensation. Though they are local government employees, their compensation is affected by state budget support for their pensions and health care benefits.
	Both chambers propose \$231 million in supplemental funds to maintain retiree health plan (TRS-Care) premiums and benefits at the 2019 plan year level. House uses ESF; Senate proposes General Revenue.		We support increased state investments to ensure sustainable funding for retiree health care.



Higher Education Formula Funding

2018-2019 level	2020-2021, House Bill 1 (as passed by House)	2020-2021, Senate substitute for HB 1	CPPP insights
\$7.1 billion in General Revenue and \$1.4 billion in General-Revenue-Dedicated funds for public general academic, health-related, community, state, and technical college or institution formulas	<p>House proposes \$7.7 billion in General Revenue (a \$446 million increase from 2018-19) and \$1.4 billion in statutory tuition and other General-Revenue dedicated support (down \$2.4 million).</p> <p>House devotes more of the proposed increase to infrastructure support formulas: \$614 million, or \$17 million more than the Senate</p> <p>For community colleges, the House has \$3.8 million more than the Senate for core operations formula rate increases, and \$11.5 million more than the Senate for success points rate increases. Success points measure student completion of 11 metrics for an outcomes-based model of instruction and administration funding.</p>	<p>Senate proposes \$7.8 billion in General Revenue (a \$551 million increase from 2018-19) and \$1.5 billion in statutory tuition and other General-Revenue dedicated support (down \$2.4 million).</p> <p>Senate puts more new General Revenue into instruction and operations formulas: \$3.05 billion, \$33 million more than the House</p>	Neither proposal fully adjusts state formulas for inflation. The Higher Education Coordinating Board recommended a \$710 million (8 percent) increase “for Texas institutions to be able to provide affordable, quality credentials and degrees.”
	Both chambers propose \$7.3 billion in General Revenue (a \$153 million, or two percent, increase) and \$1.5 billion in statutory tuition and other General-Revenue dedicated support (up \$56 million, or almost four percent).		When the state budget underfunds formula growth for higher education, then colleges and universities are more likely to raise tuition or eliminate academic programs.



Higher Education Financial Aid

2018-2019 level	2020-2021, House Bill 1 (as passed by House)	2020-2021, Senate substitute for HB 1	CPPP insights
<p>\$1.1 billion in All Funds for financial aid programs in the Higher Education Coordinating Board “affordability and debt” strategy</p>	<p>\$1.2 billion All Funds (\$59 million, or 5 percent, more) in the House proposal, which is only \$550,000 higher than the Senate’s.</p> <p>Both chambers fund the TEXAS Grant Program at \$866 million. This is an increase of \$80 million (10 percent) compared to 2018-2019 but would only support 70 percent of eligible students.</p> <p>For tuition equalization grants (students attending private colleges), the House proposes \$1 million more than the Senate, or 143 more students supported per year. Proposals for Texas Educational Opportunity Grants for public community colleges and for the College Work Study Program are the same as far as total funding in 2020-2021.</p>		<p>Along with funding statewide financial aid programs, the Legislature could also address affordability and student debt through attempts to “re-regulate” public university tuition.</p>

Health and Wellness



Medicaid Health Care

2018-2019 level	2020-2021, House Bill 1 (as passed by House)	2020-2021, Senate substitute for HB 1	CPPP insights
<p>\$65.6 billion All Funds, of which \$26.6 billion is General Revenue</p> <p>(amounts assume lawmakers approve supplemental 2019 funding of \$2.1 billion in General Revenue and \$2.3 billion in federal funds)</p>	<p>\$68.6 billion All Funds, \$25.6 billion of it General Revenue</p> <p>The \$1.1 billion House decrease in General Revenue is due mostly to a better federal match rate (the “FMAP,” or Federal Medical Assistance Percentage) in 2020. The 2021 match is not yet known but experts assume it will be even better.</p>	<p>\$67 billion All Funds, \$25 billion of it General Revenue</p> <p>The Senate proposal, which has a decrease of \$1.6 billion in General Revenue from 2018-2019, is due to the better match rate plus a \$350 million General Revenue “cost-containment” funding reduction made in Finance Committee mark-up.</p>	<p>Texas has long relied on under-funding medical inflation as a way to enact a smaller balanced budget. This makes the need for supplemental Medicaid funding in the following regular legislative session inevitable.</p>
	<p>The final reason that General Revenue support decreases in both proposals is the choice to assume no increase above fiscal 2019 average costs for most Medicaid services. As the Legislative Budget Board summaries say, “Full funding for anticipated increases in cost due to medical inflation, higher utilization, or increased acuity is not included.”</p>		<p>During mark-up, 2020-2021 cost growth in Medicaid not in HB 1 as filed was estimated at \$1.9 billion in General Revenue, plus \$1.9 billion federal funds.</p>



Children's Health Insurance Program (CHIP)

2018-2019 level	2020-2021, House Bill 1 (as passed by House)	2020-2021, Senate substitute for HB 1	CPPP insights
\$2.1 billion All Funds, of which \$145 million is General Revenue	Both chambers propose \$2.2 billion All Funds, of which \$459 million is General Revenue. A higher share of CHIP will be covered with General Revenue because the U.S. Congress passed a phase-down of the 23-percentage-point increase to the match rate created by the Affordable Care Act (ACA). As with Medicaid services: projected caseload growth is included in the starting-point proposals, but medical cost growth is not.		The ACA's increased CHIP match rate has the federal government paying over 93 cents of each dollar of care today. The phase-down will reduce the federal CHIP match for Texas to a rate close to 72 cents by 2021, still much higher than for Medicaid.



Behavioral Health and Substance Use Disorder Services

2018-2019 level	2020-2021, House Bill 1 (as passed by House)	2020-2021, Senate substitute for HB 1	CPPP insights
Appropriated amount: \$4.04 billion, of which \$2.9 billion is General Revenue or GR-Dedicated Amount excludes \$3.6 billion in behavioral health services provided through Medicaid or CHIP. Programs are overseen by 18 state agencies across six "articles" of the budget.	\$4.0 billion All Funds, of which \$3.0 billion is General Revenue or GR-Dedicated House proposal was increased by \$1 billion All Funds in mark-up; some of the added funds are for construction and deferred maintenance at state hospital	Same All Funds amount; slightly higher General-Revenue-related (\$3.2 billion) than the House. Additional funds proposed by Senate are (1) \$100 million contingent on the creation of the higher education Texas Mental Health Care Consortium, and (2) for expanding outpatient mental health treatment capacity for adults and children (\$59 million All Funds, most of it GR).	Absent from either proposal is a solution to Texas's Medicaid Coverage Gap. Providing coverage to low-income Texans with mental health or substance use disorders (including opioid addiction) is the best way to provide better services to these populations and would bring in an estimated \$9 billion in annual federal funds. Under current Texas policy, low-income adults generally do not qualify for Medicaid insurance, even with many significant mental health or addiction diagnoses.



Child Protective Services

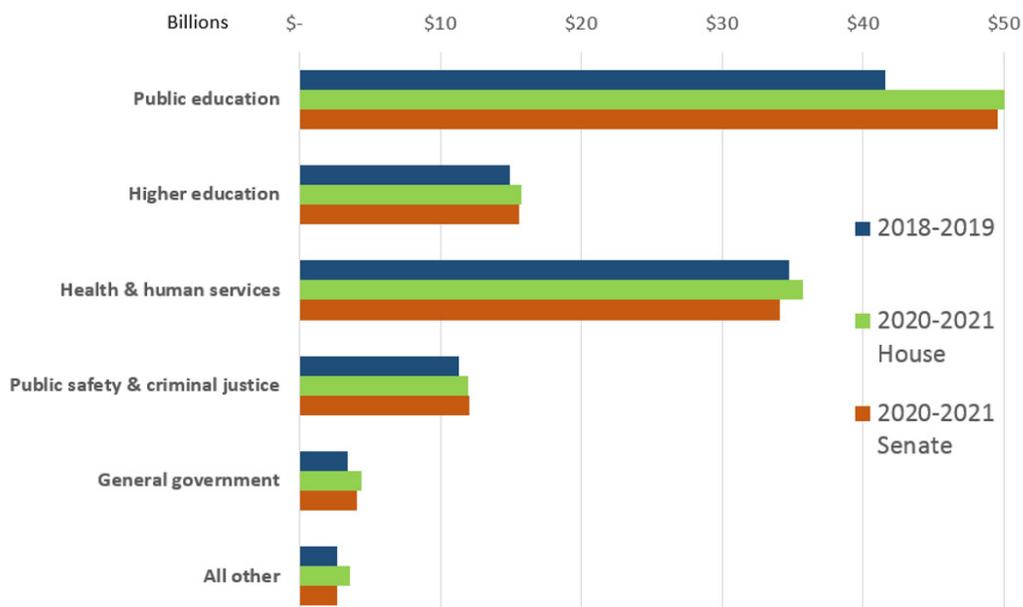
2018-2019 level	2020-2021, House Bill 1 (as passed by House)	2020-2021, Senate substitute for HB 1	CPPP insights
\$3.6 billion All Funds, of which \$2 billion is General Revenue	\$3.9 billion All Funds proposal by the House, including \$2.2 billion in General Revenue CPS funding increased by \$0.2 billion All Funds during mark-up, some of it for rate increases for certain foster care providers	\$3.8 billion All Funds is lower than the House; General Revenue proposal is \$2.2 billion The Senate proposal includes lower caseloads for workers in kinship, foster and adoptive developmental homes, and residential child care investigations	As in the case of Medicaid-funded health care, a better federal match rate for Title IV-E reduces the increased need for General Revenue for many foster care and CPS-related programs
	Both the House and Senate proposals maintain most CPS worker caseloads, and reduce caseloads for conservatorship services.		



Women's Health Programs

2018-2019 level	2020-2021, House Bill 1 (as passed by House)	2020-2021, Senate substitute for HB 1	CPPP insights
<p>\$279 million All Funds, of which \$200 million is General Revenue</p> <p>Compared to the 2017 session's approved budget, women's health programs need \$32.6 million more in General Revenue in 2018-2019 "due to federal matching funds being available in a lesser amount," according to the Legislative Budget Board</p>	<p>\$375 million All Funds</p> <p>For "Healthy Texas Women" (HTW): \$236 million All Funds, of which \$126 million is General Revenue - \$74 million more than in 2018-2019</p> <p>Family Planning: \$93 million All Funds (\$89.5 million General Revenue)</p> <p>Breast and Cervical Cancer Services (BCCS): \$20.4 million All Funds (\$3.3 million GR)</p> <p>House also increases General Revenue funding by \$5 million, an amount not allocated to a specific program, plus has \$1.5 million GR for a pilot program designed to improve maternal and infant health outcomes for women on Medicaid</p>	<p>\$315 million All Funds</p> <p>Senate HTW proposal: \$188 million All Funds, \$78 million of it from General Revenue - a \$27 million GR increase</p> <p>Family Planning: \$83.8 million All Funds (\$80 million GR)</p> <p>BCCS: \$26 million All Funds (\$8.9 million GR)</p> <p>Senate's HTW rider assumes that a lower amount of General Revenue will be needed once the federal government approves HHSC's Healthy Texas Women 1115 waiver application. Both Senate and House riders direct HHSC to transfer funds, rather than cut services, if federal funds do not become available.</p>	<p>The Legislature continues to underfund women's health programs. In 2018, the number of clients served by the Healthy Texas Women and Family Planning programs grew 21 percent from the prior year. The House proposal fully funds HHSC's exceptional item for caseload growth and ensures funding for the existing HTW program. The Senate proposal does not fully fund anticipated growth in these key programs.</p>

Proposed General Revenue and Economic Stabilization Fund used as GR in HB 1 and SB 500



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