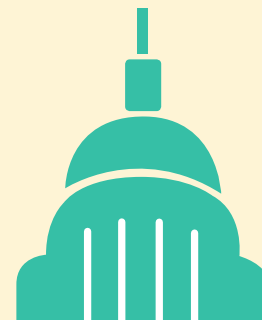


Not Good Enough for Texas: 2018-2019 State Budget

by Eva DeLuna Castro

The state budget for 2018-2019 is a mixed bag that, overall, does not do enough to invest in a strong future for hard-working Texans and their families.

We appreciate the lawmakers who worked tirelessly to support Child Protective Services, mental health services and other critical items. But budget writers failed to make meaningful investments in public education, underfunded Medicaid enough to ensure a large supplemental bill for the 2019 Legislature, and did the bare minimum for higher education.



With education and health care funding stagnant, the best that can be said about these areas of the 2018-19 budget is that even bigger cuts and underfunding were averted. Public education and health care will continue to be strained by increases in students, clients, and costs, as both the All Funds and General Revenue spending levels approved by the legislature remain at or below the 2016-17 level. No major cuts to state revenue were enacted, though a phase-out of the franchise (margins) tax got much further in the legislative process than fiscal realities should have allowed. More restrictive local property tax caps also failed to make it past both chambers, but could return in a special session if the Governor desires.

The \$217 billion All Funds budget is only \$359 million higher than the 2016-17 budget – less than a 0.2 percent increase. This means the proposed funding level is a 7.6 percent decrease in “real” terms, given the population growth and inflation forecast for the next two years.

Except for highways, almost every area of state spending faces cuts or underfunding, such as an expected Medicaid “IOU” over \$1 billion that this budget creates for the 2019 Legislature. Those who claim that we have to “live within our means” should remember that lawmakers have repeatedly reduced “our means” through tax cuts and diversions. The 2013 and 2015 tax cuts and revenue diversions reduced the amount of General Revenue – mainly used for health care and education – by more than \$10 billion, independent of the drop in oil and natural gas prices.

The total amount of General Revenue spending in the 2018-2019 budget is \$106.7 billion, below the current (2016-2017) budget of \$108 billion. This state budget is at least \$2 billion short of the “bare bones” General Revenue amount that would have funded current services, and even further below the almost \$115 billion requested by state agency heads. Keep in mind that as the Texas population grows rapidly,

so does the number of students enrolled in public schools – to give just one example of a major budget driver. When overall spending is flat, this is actually a significant cut to state investments, or a cost shift to local taxpayers, such as for school property taxes.

Accounting tricks: The House conferees on the state budget did not agree to the Senate’s March 2017 proposal to delay a \$2.5 billion constitutional transfer for highways but still appropriate that money in the 2018-19 budget cycle, in effect counting the same \$2.5 billion twice. Instead, the final budget reduces the Proposition 7 sales tax revenue used during the 2018-19 biennium by \$1.8 billion. This means the Comptroller can certify \$1.8 billion in additional General Revenue. The money will still go to the Highway Fund and the Department of Transportation in fiscal 2020.

Rainy Day Fund: The state’s Rainy Day Fund already contains \$10 billion, making it the largest such state reserve fund in the country. The final budget proposes to spend \$989 million in Economic Stabilization Funds (Rainy Day Fund) – a small fraction of the Fund, and almost entirely for state facilities repairs, construction, and equipment purchases. By choosing to leave \$11 billion unspent (the balance that will be reached by 2019), lawmakers are choosing to cut and underfund key state services unnecessarily. The Rainy Day Fund is specifically designed for times like these, to help prevent cuts to essential services like health care and education.

Budgets are moral documents that demonstrate our priorities as a state, and in too many instances this budget represents misguided priorities. CPPP will continue crunching the numbers and analyzing the impact of the budget during the interim period. We will also raise awareness of the need for strong, stable sources of revenue to build a budget that meets Texans’ needs.

Ensure Health and Wellness



Medicaid

| 2016-17 level | What is in the Budget? |
|---|---|
| <p>Estimated at \$64.3 billion All Funds, of which \$26.0 billion is General Revenue</p> <p>The average monthly caseload in 2016 for Medicaid (acute care and STAR+PLUS) was 4.1 million.</p> <p><i>The House's version of the 2017 supplemental, HB 2, would have added \$2.6 billion All Funds (\$931 million General Revenue) for the Medicaid shortfall to address cost growth per participant (unfunded by the 2015 Legislature), plus \$51 million All Funds (\$21.5 million General Revenue) for partial restoration of pediatric care therapy services. The final version of HB 2 appropriated only the Senate's Medicaid shortfall amount of \$2.4 billion All Funds (\$794 million General Revenue)</i></p> | <p>2018-19 proposal is \$62.4 billion All Funds, \$25.6 billion of that from General Revenue. This is a biennial decrease, even though full-benefit caseloads will rise to 4.2 million by 2019.</p> <p>Only one year (2018) of caseload growth is funded. Average costs per client are funded at the 2017 level, with a few exceptions (long-term care waivers that are maintained at the August 2017 level).</p> <p>HHSC Rider 34 requires cost-containment that reduces Medicaid spending by \$830 million All Funds (\$350 million General Revenue).</p> <p>HHSC Rider 158 assumes another \$183 million All Funds Medicaid reduction (\$76 million General Revenue) through a reduced risk margin for managed care premiums for STAR, STAR Health, STAR+PLUS, and STAR Kids.</p> <p>SB 1 provides only enough funding to undo 25 percent of the pediatric therapy rate cuts mandated by the 2015 Legislature. Funding level also requires phasing in cuts related to reimbursement policies for therapy assistants.</p> |

CPPP Insights

Lawmakers should expect to fill at least a \$1.2 billion General Revenue Medicaid hole in the next regular session, before state fiscal 2019 ends. The shortfall could be closer to \$2 billion if costs run high and cost-containment wish-lists cannot yield the required savings.

The House version of SB 1 had proposed a 75 percent restoration of the therapy rates, and the House version of HB 2 included \$21.5 million General Revenue to begin restoring services in 2017, as well as to repeal the directive for HHSC to move ahead seeking additional cuts. None of these positive proposals survived.

Ensure Health and Wellness



Children's Health Insurance Program (CHIP)

| 2016-17 level | What is in the Budget? |
|--|--|
| <p>\$1.8 billion All Funds, of which \$158 million is General Revenue</p> <p>Average monthly caseload for all CHIP programs in fiscal 2016: almost 396,000</p> | <p>\$2.0 billion All Funds, to cover caseload growth of almost 14 percent (451,149 children, all programs) by 2019. SB 1 assumes a 93 percent federal match for fiscal 2018 and 2019.</p> <p>HHSC Rider 158 assumes an \$11.1 million All Funds reduction (\$765,680 in General Revenue) through a reduced risk margin for CHIP managed care premiums.</p> |

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Federal Medicare Access and CHIP Reauthorization Act (MACRA) funds are likely to run out in the 2018 state fiscal year. SB 1 assumes that new federal funding will continue CHIP through 2018 and 2019, but that is uncertain. With 93 cents per dollar of CHIP spending in Texas coming from federal support, Congressional reauthorization of both the program and the current federal "mega-match" is needed to keep Texas children out of danger.



Women's Health Programs (HHSC)

| 2016-17 level | What is in the Budget? |
|---|--|
| <p>\$254 million All Funds (\$230.5 million General Revenue).</p> <p>This budget strategy includes the state's two family planning programs (Healthy Texas Women and Family Planning Program) and the Breast and Cervical Cancer Screening Program.</p> | <p>\$284 million All Funds, enough to serve almost 233,000 (monthly average) clients through Healthy Texas Women; 77,150 adults through family planning; and 4,651 women (age 21 or over) through the federal Maternal and Child Health program.</p> |

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HHSC Rider 161 assumes significant federal funding (\$90 million in fiscal 2019) for Healthy Texas Women starting in September 2018 from a not-yet-submitted Medicaid 1115 waiver.

Ensure Health and Wellness



Behavioral Health and Substance Abuse Services

| 2016-17 level | What is in the Budget? |
|---|--|
| <p>\$3.6 billion, of which \$2.7 billion is General Revenue or General Revenue-Dedicated (GR-D) funds, for behavioral health and substance abuse services not funded by Medicaid or CHIP.</p> | <p>\$4 billion All Funds (\$2.9 billion of it General Revenue or General Revenue-D).</p> <p>New funding in SB 1 includes:</p> <ul style="list-style-type: none"> • A \$63 million All Funds increase for waitlists for community mental health services for adults and children • \$69 million in contingent General Revenue for legislation creating grants to community entities, and expanding access to peer supports • \$10.3 million for new maximum security beds at the North Texas State Hospital – Vernon campus • \$25 million for existing purchased inpatient beds and state hospital beds • \$300 million in Economic Stabilization Funds for state hospital repairs and construction, and \$66 million in ESF for urgent maintenance at state hospitals. |

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The budget includes the continuation of important funding for mental health programs. Funding accompanies some of the important mental health policies adopted this session.

Amounts above do not include Medicaid and CHIP expenditures for behavioral health services in the next two years, which are estimated at \$3.5 billion for Medicaid, \$49 million for CHIP.



Child Protective Services (CPS)

| 2016-17 level | What is in the Budget? |
|---|--|
| <p>\$3.0 billion, of which \$1.6 billion is General Revenue</p> | <p>\$3.5 billion, an All Funds increase of \$509 million (17 percent). Most of the new funding is from General Revenue – a \$400 million increase compared to 2016-17. SB 1 increases full-time staffing by about 600 employees (6 percent more) by fiscal 2019.</p> <p>Funding above includes \$60 million that is contingent on legislation, so it is not final until after the Governor's veto period ends.</p> <p>SB 1 includes \$32.5 million All Funds for the provision in House Bill 4 that expands relative caregiver payments in 2018-2019. HB 4 was signed by the governor on May 31.</p> |

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The Legislature made a significant increase in funding for Child Protective Services. This funding will help hire CPS caseworkers and raise their pay. The funding for HB 4 House Bill 4 provides modest but important support to grandparents and other "kinship caregivers" who step up to take care of Texas children. The modest subsidy in this legislation is well below the true cost of raising a child, but it is still a meaningful improvement over the current system.

Expand Economic Opportunity



Public Education

Foundation School Program

2016-17 level

\$42.4 billion All Funds, of which \$35.5 billion is General Revenue

The Foundation School Program is the main way that state aid is provided to public school districts and charter schools to educate the 4.9 million students in average daily attendance (2015-16).

What is in the Budget?

\$42.7 billion All Funds, of which \$34.4 billion is General Revenue. State FSP aid stays about the same, even as attendance grows by at least 80,000 students annually, to almost 5.2 million in 2019.

Revised forecasts for local property tax collections: 7.04 percent for tax year 2017 (earlier budget drafts assumed 5.85 percent), and 6.77 percent for tax year 2018 (up from 4.89 percent)

Basic Allotment will remain at \$5,140 in 2018 and 2019

Funding amount above includes \$23.8 million annually for the New Instructional Facilities Allotment, and \$75 million for certain school districts with rapid declines in property values.

CPPP Insights

No significant increased funding for schools will come from the state budget, meaning that local property taxpayers will continue to foot well over half the bill for public schools. The House passed a good bill to remodel the school finance system, but the Senate poisoned the bill by adding a school voucher program.

Pre-K

2016-17 level

Foundation School Program (formula funding):
\$1.515 billion

Non-formula Funding:

- "High Quality" Pre-K Grant: \$118 million
- Supplemental Pre-K Funding: \$30 million

What is in the Budget?

\$1.580 billion. New Texas Education Agency Rider 78 requires the TEA Commissioner to ensure that school districts and charters receiving formula aid for pre-K spend at least 15 percent (or \$236 million) on "High Quality" programs.

These grants are not funded in SB 1.

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The final budget eliminated \$148 million in high quality grant and supplemental funding for Pre-K. TEA Rider 78 directs school districts receiving formula aid to use it to implement the high-quality Pre-K standards from the grant program. This directive essentially changes the optional grant program into an unfunded mandate on school districts.

Expand Economic Opportunity



Higher Education General Revenue Support

State Funding for Four-Year Academic Universities

| 2016-17 level | What is in the Budget? |
|--|--|
| \$5.0 billion of General Revenue to help support a fall 2016 enrollment of 636,750 students. | \$5.0 billion – essentially flat-funding (0.9 percent more), but an improvement compared to the significant cuts that had been proposed during the session. Biennial growth of \$46 million is far short of the \$423 million (9 percent) increase recommended by the Higher Education Coordinating Board (THECB). |

State Funding for Health-Related Institutions

| 2016-17 level | What is in the Budget? |
|---|---|
| \$2.811 billion of General Revenue to support educating 24,450 students in fall 2016. | \$2.811 billion of General Revenue to support educating 24,450 students in fall 2016. \$2.855 billion in General Revenue support, an increase of \$44.2 million (1.6 percent). THECB had recommended \$161 million more in formula funding, an 8.5 percent increase compared to 2016-17. |

State Funding for Community and Junior Colleges

| 2016-17 level | What is in the Budget? |
|--|--|
| \$1.780 billion of General Revenue to support a fall 2016 enrollment of almost 732,300 students (credit courses only). | \$1.795 billion in General Revenue (0.8 percent more). Funding increase includes “success points,” outcome-based funding. As with the general academic institutions and health science centers, these institutions’ funding is far short of the 9 percent formula increase recommended by THECB, heightening the possibility of local tuition or property tax increases. |

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Several potentially damaging proposals were blocked that would have cut funding to higher education. General academic and health-related institutions avoided the sudden loss of all “special item” support, but SB 1 puts most of this nonformula funding on a path to be recategorized, reduced or eliminated in the future.

CPPP is an independent public policy organization that uses research, analysis and advocacy to promote solutions that enable Texans of all backgrounds to reach their full potential. Learn more at CPPP.org. For more information, please contact Oliver Bernstein at bernstein@cppp.org or call 512.823.2875.



Expand Economic Opportunity



Higher Education Financial Aid Programs

Texas Grant Program

2016-17 level

\$716 million. Need-based grants will reach 71,000 students in 2017. The program serves high school graduates or recent recipients of associate's degrees who completed the Recommended or Advanced High School Program, are enrolled in college at least $\frac{3}{4}$ time and maintain a 2.5 GPA or higher.

What is in the Budget?

\$786 million, a 10 percent increase, and enough to serve 81,900 students by 2019 (92 percent of those eligible). The House had proposed \$803 million, to reach 95 percent of eligible students.

Tuition Equalization Grants

2016-17 level

\$192 million for these need-based grants for students at independent non-profit colleges. Students must be enrolled in college at least $\frac{3}{4}$ time and maintain a 2.5 GPA or higher.

What is in the Budget?

\$172 million, an 11 percent reduction

Texas B-On-Time

2016-17 level

\$80 million. Legislature ended program for new students in 2015. These are zero-interest loans to students who graduate under the Recommended or Advanced High School Program and attend a public or private Texas university. The loan is forgiven if students graduate with a B average within the number of years required for the degree program or within six hours of their major.

What is in the Budget?

\$18.2 million for the B-On-Time program for public colleges
\$7.3 million for the B-On-Time program for private colleges, which is almost phased out by 2019

Top Ten Percent Scholarships

2016-17 level

\$18.2 million. Legislature ended program for new students in 2015.

What is in the Budget?

\$3.2 million

Other Higher Education Coordinating Board financial aid

2016-17 level

\$86.5 million for TEOG-Community Colleges
\$7.5 million for TEOG-State/Technical Colleges
\$18.8 million for Texas College Work Study

What is in the Budget?

\$88.5 million for Texas Educational Opportunity Grants for community colleges, enough to serve 21 percent of eligible students
\$7.5 million for TEOG grants for public state and technical colleges, to serve 20 percent of eligible students
\$18.8 million for the Texas College Work Study Program

CPPP Insights

Fortunately, several potentially damaging proposals were blocked that would have reduced or eliminated financial aid for Texas students. Budget writers made modest increases in need-based financial aid for university students and community college funding that advances successful student outcomes.