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HOUSE RESEARCH ORGANIZATION

state finance report

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FISCAL 1996-97 BUDGET — HOUSE APPROPRIATIONS COMMITTEE VERSION

CSHB 1 by Junell, the general appropriations bill for fiscal 1996-97, was reported favorably by the House Appropriations Committee on March 16. The proposed state budget would appropriate $44 billion in state general revenue, up 8.2 percent from fiscal 1994-95 spending, and $77.6 billion from all funds, a 3.7 percent increase over the current budget.

Areas that would receive significant funding increases include criminal justice, to pay for prison operations and construction of new youth correctional facilities; public education, to fund the school finance plan enacted last session and meet increased enrollment requirements, and Medicaid, to substantially cover rising client caseloads. Article 11 of the bill includes a "wish list" of provisions that may be funded should additional revenue become available.

This State Finance Report, by Kristie Zamrazil, reviews major spending categories in CSHB 1, highlighting changes from current spending and examining the impact of the spending proposals.

INTRODUCTION

CSHB 1, the general appropriations bill, was reported favorably by the House Appropriations Committee on Thursday, March 16, by 26-0, with one member absent. CSHB 1 would appropriate $44 billion in state general revenue, an increase of $3.3 billion, or 8.2 percent, from the previous budget period. The budget, based on the January revenue estimate submitted by State Comptroller John Sharp, would require no tax-rate increases or new taxes. HB 1, upon enactment, would become the General Appropriations Act for fiscal 1996-97. The House and Senate alternate originating the appropriations bill each session; this session the proposal is a House bill.

Agencies and programs that would receive funding increases in CSHB 1 include: criminal justice, to pay for prison operations and to build and operate new youth incarceration facilities; Medicaid, to pay for rising client caseloads; and public education, to pay for school finance requirements enacted last session. General budget increases also reflect inflation and generally rising costs.

Despite funding increases in Medicaid and other health and human services, CSHB 1 appropriations would not meet current service levels or all federal requirements, which would force cutbacks in those who qualify for health, family assistance, job training, abuse and neglect protection and other services. CSHB 1 would also rely on federal funding under existing federal laws and program rules, factors that could change during the upcoming fiscal 1996-97 biennium. CSHB 1 would rely on $23.1 billion in federal funds, an increase of $1.7 billion or 8.1 percent over fiscal 1994-95.

CSHB 1 would eliminate funding for the National Research Laboratory Commission, the Texas Incentive and Productivity Commission and the Council on Workforce and Economic Competitiveness. The Texas Alcohol and Drug Abuse Commission and Department of Protective and Regulatory Services would receive reduced general revenue funding, partially in response to issues regarding agency mismanagement. CSHB 1 would also fund fewer state advisory boards than in fiscal 1994-95.

Other measures to reduce state general revenue expenditures include method of finance changes that would shift payment of workers' compensation and unemployment compensation claims to state agency budgets, replacing general revenue funding with anticipated federal funding increases and capping state employment levels. Some of the proposed general revenue savings were recommended by the Texas Performance Review division of the Comptroller's Office.

This report describes the organization of the appropriations bill and many of the major issues considered by the House Appropriations Committee. It also compares features of the House committee report to the bill as introduced and to the marked-up version of the Senate Finance Committee. A detailed summary of CSHB 1 is contained in the Legislative Budget Board report, *Summary of House Committee Substitute for HB 1 for the 1996-97 biennium*. For information on the rules, laws and constitutional provisions governing the budget process, see the House Research Organization State Finance Report, No. 74-1, *Writing the State Budget*.

TOTAL STATE FUNDING

CSHB 1, the committee substitute reported by the House Appropriations Committee (HAC), would appropriate $44.013 billion in general revenue for fiscal 1996-97, an increase of $3.3 billion (8.2 percent) over spending in fiscal 1994-95. Including all funds, CSHB 1 would appropriate $77.622 billion, an increase of $2.8 billion (3.7 percent) over fiscal 1994-95 spending.

CSHB 1 represents a balanced budget without deferring end-of-biennium obligations for payment during the subsequent biennium. The fiscal 1994-95 general appropriations act was balanced, in part, through the deferral to fiscal 1996 of $1.23 billion in end-of-the-year payments to the Foundation School Program, Higher Education, Teacher and Employee Retirement Systems, the Highway Fund and to certain Medicaid programs.

On January 10, 1995, Comptroller John Sharp estimated that the state would have $46.9 billion in general revenue to spend during the next two-year budget period, including about $3 billion carried over from the fiscal 1994-95 biennium and $3.3 billion from previously dedicated revenue (referred to in CSHB 1 as general revenue-consolidated). When federal funds and other revenues are included, the comptroller also estimated that the state would receive about $78.2 billion in 1996-97 (see the Comptroller's Office report, *Biennial Revenue Estimate 1996-97*).

CSHB 1 would spend about $200 million less than estimated available general revenue. The LBB estimates that the state would have about $44.2 billion in available general revenue, taking into consideration certain CSHB 1 savings and other adjustments. CSHB 1 spending levels plus $772 million appropriated this session for payment deferrals from the previous biennium and the reestablishment of the dental board and other adjustments, would bring state general revenue spending to about $44 billion.

CSHB 1 is almost identical to HB 1 as filed — the House Appropriations Committee mark-up added $43.1 million in general revenue spending. CSHB 1 also contains almost $5 billion in "wish list" items that would be funded if additional revenue became available for certification.

Table 1. Total State Spending

(*billions of dollars*)	1994-95 **	HB 1 as filed	CSHB 1	CSHB 1 change over 1994-95
General revenue*	$ 40.7	$ 44.2	$ 44.0	8.2 %
Federal funds	$ 21.4	$ 23.1	$ 23.1	8.1 %
Other funds	$ 12.8	$ 10.4	$ 10.5	(17.9%)
Total	$ 74.8	$ 77.7	$ 77.6	3.7 %

* includes general revenue-related and consolidated funds

** LBB-adjusted due to technical corrections and emergency funding for the dental board and the prison system.

Figure 1
Spending by Function

The Bill Format

Budget by function areas

HB 1 was organized into 12 articles, instead of eight as in the past. The committee report contains 13 articles due to the insertion of an Article 11. New to the bill format this session is the allocation of costs for employee benefits and debt service to each article to more completely reflect the true costs in performing each state function. Employee benefits and debt service costs are described at the end of each article under the heading "Other Appropriations" and in the recapitulation ("recap") of each article. The bill is divided as follows:

• Article 1 covers general government agencies;

• Article 2, health, welfare and rehabilitation agencies;

• Article 3, education agencies, including public education, higher education and special educational schools such as the School for the Deaf;

• Article 4, the judiciary;

• Article 5, public safety and criminal justice agencies;

• Article 6, natural resources;

• Article 7, business and economic development;

• Article 8, regulatory and licensing agencies.

• Article 9, general provisions, such as salaries, employment policies, travel regulations and other limitations made on the appropriations act;

• Article 10, the Legislature.

• Article 11, a "wish list" of possible spending;

• Article 12, the savings clause stating that, if any part of the act is held to be invalid, the remaining portions of the act will not be affected.

• Article 13, an emergency clause to ensure that the bill takes effect sooner than 90 days after adjournment.

Recaps for each article and for the overall budget describe proposed state spending by types of funds: general revenue, general revenue-consolidated (general revenue funds plus dedicated funds that under prior law are due to lose their dedication and become general revenue accounts in September 1995), federal funds, other funds (such as dedicated revenues not available for discretionary spending and interagency contracts) and all funds.

Agency budgets

Individual agency budgets remain organized in essentially the same strategic planning format first used in the fiscal 1994-95 appropriations act enacted by the 73rd Legislature, except that a new, separate appropriation is made for indirect administrative costs (such as payroll, personnel and other overhead costs) and an information item has been added to describe the number of fulltime employees. Indirect administrative budgets are not broken out for small, narrowly focused agencies (such as health care licensing boards) or agencies headed by elected officials. A more detailed description of agency budget formats may be found in HRO State Finance Report Number 74-1, *Writing the State Budget*.

HB 1 as filed "saved" about $1.4 to $1.6 million by funding only federally required advisory boards to state agencies and eliminating the budgets of all advisory boards, committees or task forces established by statute or board rule. This was in response to legislation enacted last session (SB 383 by Truan) that made changes to the establishment and funding of advisory committees including abolishing most advisory committees on September 1, 1997, and requiring advisory committee expenditures to be authorized by the General Appropriations Act or through budget execution orders. CSHB 1 added about 20 advisory boards back into the bill; however, the agencies affected did not receive additional funding for the boards.

All riders attached to state agency budgets in the fiscal 1994-95 general appropriations act were removed in the filed version of HB 1; only riders relating to spending across state agencies in Article 9, General Provisions, were included. During consideration of agency budgets, the House Appropriations Committee added riders deemed necessary, working from a separate document containing riders prepared by the LBB.

FUNDING STATE FUNCTIONS

Public Education

Education, the largest function area in the state's budget, accounts for 42 percent of the fiscal 1995 budget, and 60 percent of all general revenue spending. Public education is 59 percent of the education budget. Public schooling is financed by general revenue related funds and other state funds (41.6 percent), federal funds (8 percent) and local property taxes (50.4 percent). Texas is under a court-imposed equity standard to finance public education in a manner that gives substantially equal access to similar revenues per pupil at similar levels of tax effort.

Public school enrollment, a driving factor in school funding allocations, is projected to grow at slower rates than in the past due to the aging of the overall population. CSHB 1 would fund enrollment levels based on LBB calculations that project that by the end of next biennium Texas will have about 352,700 children enrolled in public schools. However, the Texas Education Agency, using school district input, recently projected about 40,000 more students than LBB calculations.

CSHB 1 would fully fund the public school finance system as established last session under SB 7 by increasing general revenue related funding by $1.7 billion. It would also provide $170 million for school facilities, the minimum amount considered necessary, to build new or renovate existing classrooms to meet anticipated enrollment, contingent upon enacting legislation. CSHB 1 would also add $26.8 million to fiscal 1994-95 funding levels for textbook purchases and $25 million to provide Windham School programs at new criminal justice units.

CSHB 1 would dedicate $3 million each year for professional development as recommended in the LBB *Performance Report*, decrease $4 million from TEA administration and transfer adult education, proprietary schools, drivers education and veteran's education out of the TEA. CSHB 1 would also require students enrolling at the School for the Deaf to be admitted through a review process sponsored by their local school district. Under present School for the Deaf admittance policies about 80 percent of the student body has been referred to the school by their parents without input or review from local districts.

The need for public education funding beyond the CSHB 1 funding levels may result from the rise or fall of enrollments and local property values, and the enactment of proposed legislation to rewrite the Education Code or to increase teacher salaries.

Article 11, the budgetary "wish list," includes over $2 billion in funding requests for the TEA and $250,000 for proprietary schools. It also contains four provisions that would fund teacher pay raises. One would increase TEA funding by $838 million contingent upon the approval of enacting legislation to cover 75 percent of the cost to raise teacher salaries to the national average. Another would increase the basic allotment to schools by $700 million through the Foundation School Program. Two provisions would increase teacher salaries at special state schools by appropriating an additional $365,000 for the School for the Blind and $498,000 for the School for the Deaf.

Texas teacher salaries are among the lowest in the nation: the average teacher salary in Texas is $31,046, compared to the national average of $36,742. Salaries are paid by state and local revenue sources. Former Commissioner Lionel Meno testified to the House Appropriations Committee that Texas would need an additional $700 million to raise teacher salaries by 5 percent or another $2 billion to raise salaries to the national average.

Table 2. Texas Education Agency

(*billions of dollars*)	1994-95 *	CSHB 1	CSHB 1 change from 1994-95
General revenue	$ 15.003	$ 16.918	12.8 %
All funds	$ 18.598	$ 20.342	9.4%

* LBB-adjusted

Higher Education

Texas funds 35 general academic (four-year colleges), nine health-related institutions, four technical colleges and 50 community colleges plus Baylor College of Medicine and Baylor College of Dentistry. Higher education receives a relatively large portion of the state's general revenue (around 13 percent in CSHB 1), but the portion of the state's budget dedicated to higher education has declined in recent years.

Higher education as a percentage of the state's general revenue appropriations dropped from about 50 percent in 1970 to about 16 percent in 1995, according to the Higher Education Coordinating Board. Other sources of revenue, such as tuition, fees, gifts and grants, have increased as a percentage of institutional funding. Texas ranks relatively low when compared to other populous states in tuition fees. According to the comptroller, college tuition covers about one-sixth of the cost of education.

Higher education has experienced moderate growth that is expected to continue, and growth in community colleges is expected to exceed general academic institutions in 1997. Enrollment in health-related institutions has shown the highest rate of growth, and the growth rate is expected to continue.

State funding for four-year colleges varies widely depending upon the institution; some institutions are almost totally supported by state funding, others rely heavily on external support. About 75 percent of the state funds appropriated to public universities are allocated through 13 funding formulas designed by the Higher Education Coordinating Board. Health-related institutions are appropriated funds by justification; only nursing faculty salaries are allocated by formula. Funding for the Baylor College of Medicine and the Baylor College of Dentistry approximates the cost of educating their students in Texas public medical or dental schools.

Public community colleges are funded by local taxes and state assistance. In 1992 state assistance accounted for about 44 percent of community college revenues. Most of the state assistance is allocated through a funding formula developed by the Higher Education Coordinating Board. Texas technical colleges, two-year programs in primarily residential settings, do not have a local tax base. About 75 percent of their funding comes from state assistance allocated by funding formulas.

Funding for new construction, major repair or rehabilitation, land acquisition, capital equipment and library materials is derived from endowment funds. The Permanent University Fund (PUF) supports the University of Texas System, the Texas A&M System and Tarleton State University — a total of 24 institutions and agencies. The Higher Education Assistance Fund (HEAF) supports 32 institutions not supported by PUF, including the Texas State Technical College System. This session several bills have been filed to fund capital construction or renovation projects through the issuance of tuition-backed revenue bonds.

In general, CSHB 1 would fund higher education at fiscal 1994-95 funding levels, about $250-300 million short of what is needed, according to higher education experts. Class offerings, faculty positions, student services and South Texas education initiatives could be some of the activities reduced or slowed by the funding shortfall. Formula funding would remain at the fiscal 1994-95 level, and most general academic non-formula items would be funded at 80 percent of 1994-95 levels (Sec. 140, Art. 9). HEAF would receive $250 million over fiscal 1994-95 funding levels, as required by HB 1207 enacted last session.

CSHB 1 would eliminate funding for the Natural Research Laboratory Commission. The commission was established in 1987 to coordinate plans or proposals with the federal government relating to the development, financing and operation of the superconducting super collider research facility, including issuing general obligation bonds. Federal funding for super collider research was eliminated in 1994. CSHB 1 would assume revenue bonds for the commission would be defeased and provide only debt service on general obligation bonds through the Texas Public Finance Authority.

Health-related institutions would receive $76.1 million or 2.8 percent less in total funding, primarily due to reduced estimates of patient income at all institutions, increased revenue bond debt service and the transfer of funding from the UTMB to the Texas Department of Criminal Justice for hospital care.

Additional biennium funding requests in Article 11 for higher education range from a low $170,000 for the Veterinary Medical Diagnostic Laboratory to about $164 million for community colleges. Article 11 also contains requests totaling about $180 million in general higher education to pay for the elimination of the 20 percent reduction in non-formula funding, utility costs and to offset the loss of other educational and general income. It also includes two provisions that would direct appropriations from the University of Texas Health Science Center in San Antonio to Cameron, Hidalgo, Willacy, Starr and Webb counties to develop health education and residency programs.

Table 3. Higher Education Funding
All Funds

(*billions of dollars*)	1994-95	CSHB 1	change from 1994-95
Two-year colleges	$ 1.264	$ 1.260	(0.3%)
General academic institutions	$ 3.369	$ 3.457	2.6 %
Health-related institutions	$ 2.712	$ 2.636	(2.8%)
Texas A&M System	$ .408	$ .415	1.7 %
Higher Education Fund	$ .200	$ .450	125.0 %
Available University Fund	$ .489	$ .484	(1.0%)
Other	$ .417	$ .382	(8.3%)
Total	**$ 8.862**	**$ 8.929**	**.8 %**

Health and Human Services

Health and human services, the state's second largest budget function, accounts for 33 percent of the fiscal 1995 budget and 23 percent of general revenue spending. Federal directives are driving forces for most of the health and human service programs. Entitlement programs, such as Medicaid and Aid to Families with Dependent Children (AFDC), are federal/state programs in which the state is required to provide services to all individuals who meet the eligibility standards. Federal funds finance approximately 59 percent of all health and human services funding and often require the state to spend a matching amount. Texas health and human services expenditures rank consistently low in comparison to other states.

CSHB 1 would fund most agencies at or below fiscal 1994-95 general revenue spending levels, with the exception of the Texas Department of Health and the Department of Human Services, which would receive increased funding to meet some of the Medicaid and AFDC caseload growth. Health and human services would receive an increase over 1994-95 funding levels of $754 million in general revenue, or almost $2 billion in all funds. The Texas Department of Mental Health and Mental Retardation (TxMHMR) would receive 2.4 percent less in general revenue funds, which is expected to be partially offset by new methods to maximize federal funding. Other increases include $29.6 million in general revenue for mental health operating costs of Lubbock Community Hospital and El Paso Psychiatric Center.

The Health and Human Services Commission (HHSC), an umbrella agency in charge of coordinating health and human services, testified before the House Appropriations Committee that health and human services needed about $800 million more in general revenue to maintain entitlement programs and basic services. The HHSC also questioned LBB assumptions about state receipt and use of federal funds, since all federal health and humans services programs are being reevaluated by the Congress and may be eliminated, reduced or transposed into block grants.

Health and human services advocates say the proposed budget is about $1 billion short of what it would take to maintain current services. Community care for the elderly, child care and services for the disabled are among the programs that would be affected. Two agencies, the Texas Department of Protective and Regulatory Services and the Texas Commission on Alcohol and Drug Abuse, would receive reduced general revenue funding of $5 million and $16 million respectively because they were unable to meet performance expectations.

Other major reductions include $7.1 million in general revenue funding for the County Indigent Care Program and $46.2 million in welfare employment services and

$28.5 million in welfare child care services primarily due to a loss of federal funds. Increases in community care funding to compensate for the discontinuation of the federal frail elderly program in September 1995 would cover only one-third of frail elderly clients in fiscal 1996-97, leaving 17,000-19,000 clients without services.

Medicaid

Medicaid, the state/federal health insurance program for the poor, accounts for 79 percent of the health and human services budget and 26 percent of the entire state budget. Medicaid helps fund programs in six state agencies: the Department of Health, the Department of Human Services, the Department of Protective and Regulatory Services, Texas Mental Health and Mental Retardation, Early Childhood Intervention and the Texas Rehabilitation Commission.

Program expenditures are split between the state and federal government. In general, every state dollar spent on Medicaid is matched by about $1.75 in federal funds. The state matching rate fluctuates according to Texas' economic standing in comparison to other states. In 1994 the federal government paid for 64.2 percent of program expenditures; in 1995, 63.3 percent. For fiscal 1996-97 the federal matching rates will be 62.3 percent and 61.8 percent.

Medicaid is an entitlement program whose funding is growing due to increasing numbers of low-income uninsured individuals, increased federal program requirements and rising medical costs. Although caseload growth rate is slowing, actual numbers are increasing. Medicaid assists about 2 million low-income, uninsured Texans with health care and pays for over 66,000 or almost 75 percent of all residents in nursing homes. More than half of the state's Medicaid recipients are children, and about 22 percent of the recipients are aged, blind or disabled.

CSHB 1 would increase Medicaid funding by $977.5 million in general revenue related funds over fiscal 1994-95 funding levels. According to the LBB, CSHB 1 is about $311 million short of the state general revenue funding needed to continue current policies and meet entitlement requirements.

Medicaid reform proposals, such as the implementation of a Medicaid managed care program, are expected to contain future Medicaid program costs but will most likely not result in substantial savings to the state during this biennium.

AFDC

Aid to Families with Dependent Children (AFDC) pays a state-determined cash grant to certain poor families with children. It is an entitlement program with anticipated growth from 786,395 recipients in 1994 to 798,755 recipients in 1997; about two-thirds of the recipients are children. The average grant for a mother and two children in Texas is $188 a month, which usually raises a family's income to 18 percent of the federal poverty level. (The national average grant for a family of three is $388 per month). AFDC federal matching rates are the same as those used for Medicaid.

CSHB 1 would keep monthly AFDC payments to recipients and funding for eligibility determination at 1995 levels. An AFDC child with one parent would receive $58.93 per month; an AFDC child with two unemployed parents would receive $51.34 per month (limited to six months). CSHB 1 would increase AFDC general revenue funding by $18 million over fiscal 1994-95 to meet anticipated case load requirements and to compensate for federal matching funds. AFDC is budgeted at $1.120 billion for the biennium when federal and other funds are included.

The Texas Constitution limits state spending on assistance to needy dependent children and their caretakers to 1 percent or less of the state budget. The CSHB 1 appropriation of $424.4 million is $351.8 million less than $776.2 million or 1 percent of the fiscal 1996-97 budget.

Although CSHB 1 funding is expected to satisfy AFDC caseloads, funding in related welfare programs that AFDC recipients are eligible for, such as child care, employment services and Medicaid, is considered insufficient to cover existing service levels. Employment services would be decreased by $46 million, most of which is federal funds. Child care services would also be budgeted at fiscal 1994-95 general revenue levels but would be reduced by $28.5 million in federal funds.

Welfare reform measures considered in Texas, such as HB 1863 by Hilderbran and SB 22 by Zaffirini, could increase both state and local government expenditures but are intended to save costs in the long run. Proposed federal welfare reform measures include combining into a block grant AFDC, child care, child protection and nutrition programs, restructuring the federally funded food stamp program and restricting welfare and food stamp program eligibility.

TCADA

Amid allegations of financial mismanagement, the Texas Commission on Alcohol and Drug Abuse (TCADA) was closely scrutinized in budget hearings. Treatment centers run under contract with TCADA allegedly have used state funds to hire unnecessary staff, award excessive bonuses and purchase personal items and gifts. Program expenditures, spending on consultants and the effectiveness of substance abuse programs and contracted providers also were questioned.

HB 1 as filed would have increased TCADA funding by about $120 million to $463 million for the biennium. TCADA relies mostly on federal funds; about $60 million of the agency’s total budget is general revenue. Federal "maintenance of effort" requirements often prohibit substituting state funding with federal funding.

CSHB 1 would fund the agency quarterly, subject to the approval of a special legislative committee that would meet monthly to oversee program management and expenditures. TCADA’s funding also was reduced by $17 million, state funds that were considered unnecessary to qualify for federal funds. Programs that would be cut are gambling treatment and prevention and substance abuse treatment as an alternative to incarceration. The total TCADA budget would be $398.2 million, or 15.9 percent over fiscal 1994-95 levels, due to federal funding increases.

A special Senate investigating committee was formed to investigate the allegations, along with the Texas Rangers and grand juries in Austin and Corpus Christi. One provider, the Austin Rehabilitation Center, is also being investigated by the U.S. attorney’s office, the Internal Revenue Service and the U.S. Inspector General. TCADA is surveying 400 program contractors and plans to audit all providers by August 31. The lieutenant governor and several senators also are exploring the option of state conservatorship, an untried provision in the Government Code allowing agency functions to be managed by a governor-appointed committee.

Article 11

The Article 11 "wish list" for health and human services agencies includes about $338 million for programs in the Texas Department of Health (at least $274 million for the Medicaid program), $310 million for programs in the Texas Department of Human Services ($135 million for community care for the frail elderly, $61 million for Medicaid nursing home payments), $249 million for the Texas Department of Mental Health and Mental Retardation ($32 million for community placements, $31 million for home community-based services, $24 million for construction and renovation) and $35 million for Protective and Regulatory Services.

Table 4. Health and Human Services
All Funds

(*millions*)	1994-95	CSHB 1	change from 1994-95	reason for funding change
Department on Aging	$ 128.4	$ 126.7	(1.3%)	federal fund reductions
Commission on Alcohol and Drug Abuse	$ 343.6	$ 398.2	15.9 %	general revenue reductions; federal and other funds increases
Commission for the Blind	$ 80.8	$ 79.1	(2.1%)	general revenue increase; federal and other funds reductions
Cancer Council	$ 8.1	$ 8.1	0.0	
Children's Trust Fund of Texas	$ 3.6	$ 3.3	(8.3%)	other funds reductions
Commission for the Deaf	$ 2.7	$ 2.7	0.0	
Interagency Council on Early Childhood Intervention	$ 75.6	$ 103.1	36.4 %	federal funds increases
Texas Department of Health	$11,827.9	$13,386.7	13.2 %	general rev., federal and other funds increases
Health and Human Services Commission	$ 10.9	$ 9.2	(15.6%)	other funds and general rev. cuts
Department of Human Services	$ 6,394.9	$ 6,720.3	5.1 %	federal funds and general revenue increases
Department of Mental Health and Mental Retardation	$ 2,790.1	$ 2,758.0	(1.2%)	general revenue reductions
Department of Protective and Regulatory Services	$ 980.7	$ 1,006.0	2.6 %	general revenue reductions; federal funds increases
Rehabilitation Commission	$ 462.5	$ 460.8	(0.4%)	federal funds reductions
Total *	**$23,109.8**	**$25,062.2**	**8.4 %**	

* does not include employee benefits and bond debt service

Adult and Juvenile Justice

Criminal justice has been growing the fastest in terms of expenditures and employment of any function of state government, but its growth is expected to slow as new prisons come on line and become fully operational. In fiscal 1986-87 public safety and criminal justice composed 4.2 percent of the budget, in fiscal 1994-95, 9.5 percent.

Texas Department of Criminal Justice

The Texas inmate population is projected to grow to 156,808 by 1997, from populations of 40,499 in 1987 and 128,109 in 1995. Texas has the largest correctional system in the U.S. and ranks highest among all states in incarceration rate per 100,000 population. In 1994 Texas incarcerated 539 inmates per 100,000 population; the national average was 370 per 100,000.

CSHB 1 would increase funding to the Texas Department of Criminal Justice (TDCJ) to pay for full operation of state jail beds and prison beds that were phased in during 1994-95. Experts predict that for the first time in two decades the state will have more prison capacity than prisoners, a situation that under current law could last for at least a year. They also project that the state will be able to empty its backlog from county jails and meet its statutory 45-day turn around time and not need to reimburse counties for holding state criminals. CSHB 1 would provide an overall increase of $768.5 million in general revenue funding for TDCJ. It would also increase basic education funding (the Windham School Program) by $25 million in the TEA budget.

CSHB 1 would appropriate $76.5 million in general revenue funding for substance abuse treatment — 5,200 beds in the Substance Abuse Felony Punishment (SAFP) program and 800 beds in the In-Prison Therapeutic Community (IPTC) program. HB 1 as filed would have provided an additional $125.6 million for substance abuse treatment over the fiscal 1994-95 funding level; the committee report reduced general revenue funding by $49.1 million, cutting the number of SAFP treatment beds from the LBB recommended level of 7,200 beds to 5,200 beds. In-prison therapy, now operating with about 1,200 beds and originally planned for a total of 2,000 beds, was reduced to an 800-bed program level.

The Criminal Justice Policy Council reported to the House Appropriations Committee that treatment programs for probationers are not well-enough established to meet planned program increases. The council recommended maintaining the treatment program at 5,200 beds. The Senate Finance Committee budget would tentatively fund the operation of 5,200 SAFP beds and would eliminate the in-prison program.

Reductions in state spending from the fiscal 1994-95 criminal justice budget include $24 million from certain inmate counseling programs, $13.3 million from a program allowing inmates to take college courses and a $1.6 billion reduction in bonded construction funding (no new additional capacity construction).

Funding levels for criminal justice could change depending on the outcome of other legislative activities. State recommendations increasing incarceration lengths of stay or punishable crimes or transferring adult beds into juvenile justice facilities could increase demand for prison and state jail beds and reduce excess capacity. Texas will receive federal anti-crime funds allocated through a funding formula; it could receive additional funds if sentencing policies for violent offenders are revised to meet federal requirements, but such a revision may potentially reduce prison capacity and increase state costs in the long-run.

Table 5. Texas Department of Criminal Justice

(billions of dollars)	1994-95 *	HB 1 - filed	HB 1 - Cmte report
General revenue related	$ 3.257	$ 4.001	$ 4.026
All funds	$ 5.016	$ 4.167	$ 4.192

* LBB-adjusted

Juvenile justice

Juvenile crime rates and juvenile justice reform measures are projected to increase commitments to the Texas Youth Commission (TYC) and increase state spending for juvenile corrections. In August 1995 TYC will have a total bed capacity of about 2,498 beds. Experts predict that under the present system the state could need up to 4,000 beds by the year 2000; juvenile justice reform measures being considered in the House could increase the need to 6,200 beds.

CSHB 1 would increase Juvenile Probation Commission funding by $9.9 million in general revenue and $1.9 million in other funds. The increases would fund community correction initiatives begun in 1995 that are aimed at diverting juveniles from state commitment and county juvenile probation services.

The Texas Youth Commission (TYC) would receive an overall increase of \$56.1 million in general revenue funding to contract for 515 additional beds, to pay for increased operating costs, to provide aftercare for youth receiving specialized treatment, to buy vehicles and computer equipment. The TYC would also receive \$96.5 million through other funds (general obligation bonds) to build at least 1,024 additional beds.

CSHB 1 would fund juvenile justice at a level to maintain services under the current system. Juvenile justice reform measures being considered by the Legislature would most likely require increases in appropriations. For example, the projected fiscal impact of HB 327 by Goodman when considered on the House floor was \$31.7 million in additional general revenue funds for fiscal 1996-97. Other options being considered include converting TDCJ facilities into youth facilities, contracting outside the system for more beds and using general revenue bonds to construct facilities.

The governor's request for \$37.5 million in bond revenues for construction of local detention facilities was also not included in CSHB 1.

Table 6. Juvenile Justice
All Funds

(millions of dollars)	1994-95	HB 1 - filed	CSHB 1
Juvenile Probation Cmsn.	\$ 91.3	\$103.1	\$103.1
Texas Youth Cmsn.	\$201.8	\$329.9	\$332.0

Article 11

Additional funding for the Texas Department of Criminal Justice totals about \$223 million for the biennium in the areas of medical services, secondary education, inmate treatment services, diversion programs, probation and teleconferencing equipment. It also includes a rider to direct appropriations to fund the Battering Intervention and Prevention Project.

Additional funding requests for the Juvenile Probation Commission total about \$25 million for additional probation officers, intensive supervision officers, prevention services, community corrections, training assistance, juvenile border projects and the Harris County Boot Camp. About \$18 million in additional funding is requested for

TYC for increased lengths of stay, special treatment services, prevention and equipment and furniture acquisition.

Other Government Funding

Texas spends less per capita than any other state on state government and employs fewer state government workers per capita than the other large-population states, according to LBB surveys. The budget's regulatory and general government function, plus certain other regulatory and administrative spending categories, are examined below.

Regulatory and general government

CSHB 1 would fund most regulatory agencies at fiscal 1994-95 levels. Many agencies that rely on dedicated revenues to implement long-term plans or cover unexpected costs will lose that funding source on September 1, 1995, when most dedicated funds become accounts in the general revenue fund that must be specifically appropriated by the Legislature. Funds consolidation was initiated under a recommendation of the Texas Performance Review to increase the availability of general revenue for appropriation and comptroller certification.

A rider was added to many agency budgets that allowed the agency to receive additional appropriations for specified strategies if the agency raised sufficient fee revenue to pay for the added amount. This rider was added to ensure the fee increases will be included in the comptroller's certification of available revenues when the budget is passed by both houses.

Major increases over fiscal 1994-95 funding levels include $2.4 million for the State Office of Administrative Hearings, $1.2 million for the reestablishment of the Board of Dental Examiners, $6.8 million for the Department of Banking and $1.9 million for the Savings and Loan Department (contingent upon the value of regulated assets and the number of institutions with financial problems) and $2.5 million for the Racing Commission. The Attorney General's Office would receive $48.6 million over fiscal 1994-95 primarily from increased federal funds and increases in receipts for crime victims compensation.

The Comptroller's Office would receive an increase of $26.2 million in general revenue for the design and implementation of a reengineered tax payment and processing system (Comptroller's Office report, *Gaining Ground*, recommendation GG15) that would integrate the state's taxes and fees into one tax processing system and streamline tax paperwork and state auditing processes. The change would generate an estimated $225 million increase during fiscal 1996-97. The agency would receive $12.4 million less in general revenue by agency request and due to lease-purchase instead of outright purchase of certain capital items.

CSHB 1 would eliminate funding for the Texas Incentive and Productivity Commission ($400,000 all funds), reduce General Services Commission funding by $54.1 million or 32.3 percent (largely from decreases in bond proceeds for office facilities) and reduce Treasury Department funding by 4.1 percent or $3.5 million in all funds from reductions in estimated claims for unclaimed property and from transferring cigarette and tobacco tax administration to the comptroller. The Preservation Board would receive $70.8 million less than 1994-95 total funding due to the completion of Capitol construction and renovation.

HB 1 as filed would have eliminated funding for public information strategies in the Office of Public Insurance Counsel (OPIC) because of alleged duplication of services performed by the Texas Department of Insurance. OPIC advocates argued that the information from OPIC is more consumer-oriented than TDI information, which must balance consumer and industry interests. CSHB 1 would fund this strategy at $175,000 for the biennium, an amount also being considered by the Senate Finance Committee. CSHB 1 also would include a rider directing OPIC and TDI to coordinate information activities. OPIC is funded through a 3.5 cent and 5.7 cent assessment on insurance policies, which is funneled through general revenue appropriations.

Natural resources

Funding for the Texas Natural Resource Conservation Commission (TNRCC) would increase $37.1 million over fiscal 1994-95, primarily from other funds related to federal Clean Air programs and grant funds for used oil recycling. The Low-Level Radioactive Waste Disposal Authority would receive an increase of $34.5 million for the construction of a low-level radioactive waste disposal facility in Hudspeth County.

The Railroad Commission would receive $11.5 million less than its fiscal 1994-95 budget due to agency request, the elimination of the High Speed Rail Authority and the federal deregulation of motor carriers, eliminating most state transportation regulation activities.

Economic development

CSHB 1 would increase economic development funding primarily from increased federal funds in the Texas Department of Transportation, increases in federal and other funds for the Commerce Department in the Smart Jobs program and the Job Training Partnership Act and an increase of dedicated general revenue funds for Lottery Commission administration. CSHB 1 would also transfer $90 million from Lottery administration to the general revenue fund. Almost all of the funding for the Lottery Commission comes from a statutory dedication of 10 percent of lottery proceeds, which is expected to result in $270 million per year for commission spending or about $90 million over the amount projected to be necessary for commission operations.

No funding would be provided for the Texas Council on Workforce and Economic Competitiveness (funded at $3.1 million for fiscal 1994-95; HB 1 as filed would have funded the council at $2.6 million). The council was established in 1993 to develop an educated, skilled workforce and state and local planning process, including developing a plan for consolidating state workforce development activities. Implementing legislation for the council includes a sunset provision that would abolish the council on September 1, 2001, unless continued by the Legislature. A rider attached to the budget for the Texas Employment Commission would provide a contingency appropriation of almost $500,000 for SB 596 by Ellis, which would consolidate job training programs under a new Workforce Development Department.

Compensation changes

Sec. 54, Art. 9, would require state agencies to pay 25 percent of their worker's compensation claims from agency appropriations, a measure expected to result in savings of $24.3 million in the Attorney General's Office Workers' Compensation Division for fiscal 1996-97. The state is also expected to save about $10 million from reduced incidents of on-the-job accidents and other incentives to encourage injured workers to return to work. These measures were based on recommendations from the Texas Performance Review, the Sunset Commission, the Legislative Budget Board staff, the House Committee on Business and Insurance and the Legislative Oversight Committee on Workers' Compensation.

Sec. 52, Art. 9, would require state agencies to reimburse the state for 50 percent of the cost of unemployment compensation benefits for terminated employees and would decrease general revenue-related funding of the unemployment benefit compensation account by about $15 million.

Teacher Retirement

CSHB 1 would include at least three Texas Performance Review teacher retirement recommendations for a combined estimated savings of about $313 million.

It would reduce state contributions to the Teacher Retirement System (TRS) from 7.31 percent to 6 percent, reduce state contributions to the Optional Retirement Program (ORP) from 7.31 percent to 6 percent and would eliminate full general revenue funding of higher education retirement funds by requiring the state contribution to be in proportion to professor salaries paid from state general revenue (*Gaining Ground* recommendations EI8, EI9 and ED24).

TRS/ORP retirement funds are considered financially sound and capable of supporting this cost-savings measure without negative impact; appropriations to the system remain at levels similar to fiscal 1994-95 despite the reduced contribution rates. The TRS sunset bill (SB9 by Armbrister and HB 1158 by Gray and Junell) would provide for a $1.6 billion benefit increase for teachers over the next 15 years.

State employment

CSHB 1 would cap state employment in most agencies at or below 1994 levels, reduce state contributions to retirement systems and social security liability for certain employees, limit executive director and exempt salary levels and remove agency authority to award achievement bonuses. CSHB 1 also includes a funding increase of $192.1 million for the biennium in state employee group health insurance to cover growth in state employment, primarily in criminal justice.

CSHB 1 also would modify general provision riders affecting equal opportunity employment, affirmative action and personnel policies and procedures (Art. 9, secs. 93-97). Art. 11, the budget "wish list," contains provisions to increase monthly salary rates $50 to $100 should additional funds become available.

Sec. 135, Art. 9, would direct each state agency and institution of higher education to reduce employment to a specified number of positions for 1996 and 1997. This section would also direct the comptroller to reduce agency appropriations by specified amounts to coincide with agency staffing reductions, to result in about a $300 million savings to the state. The total number of full-time equivalent state employment positions would be capped at 223,472 for 1996 and 222,868 for 1997. In 1995 the state budgeted for 236,039 full-time equivalent positions.

Sec. 137, Art. 9, would save about $21.3 million in general revenue contingent on the enactment of legislation making the first year of state employment ineligible for participation in the Employees Retirement System. Affected new employees would be authorized to purchase their first year of service credit after five years of employment.

Sec. 138, Art. 9, would save about $18.8 million in general revenue contingent upon the enactment of SB 102 by Bivins or similar legislation eliminating the state payment of employees' share of social security taxes. SB 102 passed the Senate on February 2 and is scheduled for a hearing on March 27 in the House State Affairs Committee.

Sec. 1, item 16, in Art. 9 would limit agency authority to create additional exempt positions or to increase exempt salary rates and would reduce specified exempt salaries in 28 state agencies from current levels if the position is vacated during the biennium. For example, if the position of the Commissioner of Insurance is vacated in the upcoming biennium, the salary would be reduced to $90,000 from $150,000.

The Legislature

Reductions in the Legislature's budget from fiscal 1994-95 spending levels are the result of accounting changes that would shift the expenses of staff relocations and renovations of the former Texas Department of Insurance building at the Capitol Complex and the Sam Houston Building to the budget of the General Services Commission until the projects are completed and fully occupied.

Table 7. Other Government Functions (All Funds)

(*millions*)	1994-95 *	HB 1 — filed	CSHB 1	Change from 1994-95
General government	$ 1,934.5	$ 1,750.3	$ 1,784.0	(7.8%)
Judiciary	$ 249.3	$ 251.6	$ 251.8	1.0%
Natural resources	$ 1,477.7	$ 1,520.4	$ 1,547.4	4.7%
Business and Eco. Development	$ 8,262.9	$ 8,754.0	$ 8,757.0	6.0%
Regulatory	$ 387.0	$ 391.3	$ 403.6	4.3%
Legislature	$ 219.0	$ 219.1	$ 216.2	(1.2%)

* LBB-adjusted

Other Funding Issues

Federal funds

Texas' revenue from federal funds remains uncertain as Congress deliberates eliminating, reducing or altering payment of many federal programs administered by the states. Federal revenue of $9.1 billion in 1994 was second only to state sales tax revenue ($9.8 billion) as a source of state revenue, according the comptroller's *Comprehensive Annual Financial Report*.

Major programs being reviewed by Congress include: Medicaid, Aid to Families with Dependent Children and associated programs concerning employment services, emergency assistance, child care, foster care and adoption and school-based and home-based food assistance. In addition to funding cuts, these programs also could be rolled into one or several block grants with few federal spending requirements.

According to Comptroller Sharp and others, plans to reduce or cap federal funding at current benefit levels could penalize Texas, where benefit levels are not as high as those in other states. Such a cap or reduction also would not accommodate Texas' growing population and shift a larger burden onto Texas government than onto states with stable or shrinking populations.

Federal funding levels in HB 1 assumed that federal laws governing these programs would remain essentially constant for the biennium, and program budgets were adjusted according to caseload fluctuations and federal matching and entitlement requirements.

CSHB 1 would spend about $23 billion in federal funds. The recommended federal funds budget constitutes about 29.8 percent of the total budget. A General Provisions rider also was adopted by the Appropriations Committee to require state agencies affected by federal funding changes to file a proposed plan of action with the Legislature, for approval by the Legislative Budget Board (sec. 22, Art. 9). Discussion in the Appropriations Committee focused on whether adopting this rider would be surrendering input by the entire Legislature on programs that may be vital to constituencies not directly represented on the LBB.

A budget execution order, approved by both the LBB and the governor, could be issued to prohibit an agency from spending funds, change the purpose for an appropriation, change the time that an appropriation is distributed to an agency or transfer an appropriation from one state agency to another. Some still question whether the sec. 22 rider would allow the LBB to change appropriations without approval by the governor. However, the governor would have the option of calling a special session to modify the budget for state programs affected by federal funding changes.

State funding allocations

El Paso. Allegations of statewide funding inequities prompted an unusual judicial investigation in El Paso. On February 18, 1994, State District Judge Edward Marquez of the 65th District Court convened a Court of Inquiry to investigate whether the state was criminally liable for a maldistribution of state funds. The investigation focused primarily on the Texas Department of Transportation, the Department of Mental Health and Mental Retardation and the Department on Aging. The Attorney General's Office questioned the legality of the proceedings and successfully persuaded the Court of Criminal Appeals to temporarily stop the inquiry. None of the agencies responded to the judge's request for funding allocation information.

In response to the judge's investigation, the Senate Finance Committee held a two-day public hearing in El Paso on November 15-16, 1994. The committee released a report in February finding the El Paso area, and other areas in the state, to have experienced inadequate and inequitable funding in health and human services and transportation. The report recommended that state agencies implement funding allocation review processes and that agency allocation formulas be routinely reviewed in legislative budget and auditing activities. The report also recommended ongoing legislative reviews of statewide funding distributions, that the unique problems facing El Paso and the border communities be given fair budgetary considerations and that public access to agency policies, strategic plans and funding be improved.

TxMHMR. During the interim the board of the Texas Department of Mental Health and Mental Retardation (TxMHMR) made two attempts to ensure Texans have equal access to state hospital beds. Both attempts, a bed allocation plan and a revised funding distribution formula, were designed to distribute mental health funds across the state based on population size and other factors. The board stopped each attempt after hearing from legislators who complained that the funding redistribution would take money from rural areas, possibly closing many facilities and redistribute it to urban areas. Others complained that the proposed formula did not take into account the availability of private and other public mental health facilities in urban areas and the distances rural populations must travel to access care.

The department noted that its funding is inadequate to meet state needs, with over 40,000 people on waiting lists to receive TxMHMR services. Texas ranks 48th in the country for mental health funding and 47th for mental retardation funding, according to national surveys.

OTHER PROPOSED BUDGETS

The Governor's Budget

On February 15, 1995, Governor George W. Bush issued *A Budget Policy Message to the Seventy-Fourth Legislature,* which described his funding priorities as increasing state funding for public education, expanding state capacity to house violent juvenile offenders and meeting health and human services problems within present delivery systems while also reforming the system for future years. The governor also endorsed the goal of limiting the number of state employees. Governor Bush did not release detailed budget recommendations for each agency, in line with the practice of his two most recent predecessors.

The governor is required to submit a budget by the sixth day of the regular legislative session (Government Code, sec. 401.046) and may prepare a general appropriations bill by the 30th day of a regular session (Government Code sec. 316.009). The sixth day of the 74th legislative session was January 16, 1995, and the 30th day was February 8. Outgoing Governor Ann Richards did not submit a budget proposal.

LBB Budget

Government Code sec. 322.008 requires the LBB to send copies of an estimated state budget to the governor and each member of the Legislature within the first five days of a regular session. This document, called "Legislative Budget Estimates," was submitted to the Legislature on January 10, 1995, along with a report summarizing the budget. The Legislative Budget Estimates document includes agency-by-agency figures for spending in previous years, the budget amounts requested by the agency, the amount recommended by the LBB, the methods of financing the recommendation and the percentage change the request or recommendation would make compared to the fiscal 1995 budget level.

The LBB was also required by law to submit a budget in the form of a bill within seven days of the beginning of the regular session. The LBB did not formally adopt a budget for the 74th Legislature; however, the general appropriations act as filed (HB 1 and SB 2) represented staff recommendations developed under the direction of the board. The last time the LBB adopted a budget was in 1991 when it adopted two budgets: a budget based on available state revenues for the House and a "current services" budget for the Senate.

A current services budget would show the amount of funding necessary to continue state government services at the levels established by the prior Legislature. A current services budget was not prepared for the 73rd or 74th Legislature. For fiscal 1996-97 state agencies were required to keep funding requests within fiscal 1994-95 budget levels unless increases were needed to meet court or federal mandates or other extraordinary circumstances. Unofficial predictions for a fiscal 1996-97 current services budget ranged between $6-8 billion over fiscal 1994-95 expenditures (the filed version of HB 1 included a $3 billion increase over the 1994-95 biennium).

The LBB is also required to submit to the Legislature by the third Tuesday of a regular session (January 24, 1995) a report evaluating the performance and efficiency of agency programs (Texas Government Code, sec. 322.011). Many of the recommendations cited in the LBB's *Staff Performance Report to the 74th Legislature* were incorporated into the filed version of the appropriations act. In February the LBB also released a report, *Trends in State Government Finances*, which described current and predicted issues in the state's economy, population and government funding.

REVENUE SOURCES

Comptroller's Revenue Estimate

Comptroller John Sharp estimated on January 10, 1995, that the state would have $46.9 billion to spend for general purposes in fiscal 1996-97, roughly $7.8 billion over the amount certified for the fiscal 1994-95 biennium. General state revenues would consist of about $43.9 billion in taxes, fees and other revenues and about $3 billion in unspent general revenue carried over from fiscal 1994-95.

Table 10. State Revenue Available for General Purpose Spending

(millions of dollars)	1994-95 available to certify the budget	1996-97 available for appropriation	Percent change
Beginning balance	$ 1,330.3	$ 2,983.2	124.2
Tax revenue	32,043.9	35,502.0	10.8
Other revenue (i.e., lottery, fee, interest and dividend revenues)	5,757.7	5,145.3	(10.6)
Previously dedicated revenue scheduled to lose dedication on August 31, 1995	0.0	3,273.1	n/a
Total state revenue	$ 39,132.0	$ 46,903.7	19.9

Source: Texas Comptroller of Public Accounts, *1996-97 Biennial Revenue Estimate*

The Texas Constitution, in Art. 3, sec. 49a, limits legislative appropriations for a two-year spending period to the amount of state revenue that the comptroller estimates will be available to spend during that biennium. An appropriations bill may become law only if the comptroller certifies that sufficient revenue will be available to fund it. The Legislature may override the provision if at least four-fifths of the members of each house approve.

The comptroller is not bound by the pre-session revenue estimate and may revise it at any time. The only revenue estimate used in determining if the state has a deficit is the one made when the comptroller certifies the general appropriations bill after it has been approved. Once the comptroller certifies a general appropriations bill, the certification stands, even if the comptroller subsequently determines that revenues will not cover expenditures. The state may end the fiscal biennium with an unanticipated deficit, but it may not deliberately begin a biennium with a deficit.

The amount available for certification is based on "major fund revenues." Major fund revenues, also called "general revenue related revenues," consist of undedicated general revenue, plus interest and dividend earnings of the Available School Fund, the Foundation School Fund and the State Textbook Fund as well as balances in general revenue accounts. Since undedicated general revenue collected in fiscal 1996-97 accounts for more than 91 percent of major fund revenues and revenue from other major funds are dedicated to education, the amount available for certification is commonly referred to simply as "general revenue."

The comptroller’s revenue report also projected the amount of revenue from federal and dedicated funds at $34.2 billion. Revenue from all sources — including federal funds, fees and other dedicated revenue sources — for fiscal 1996-97 is projected to be $78.2 billion, an increase of $3 billion (4.1 percent) over revenue from all sources in fiscal 1994-95. (see Table 11.) Because the comptroller’s estimate of available general revenue is the major limit on legislative appropriations, most discussion of appropriations focuses on general revenue spending, rather than spending from all sources.

Table 11. Revenue from all funds

Fiscal 1996-97 revenue estimates	**(billions)**
General state revenue	$ 43.9
Federal and other dedicated revenue	$ 34.2
Total 1996-97 revenue	$ 78.2

** major funding sources only