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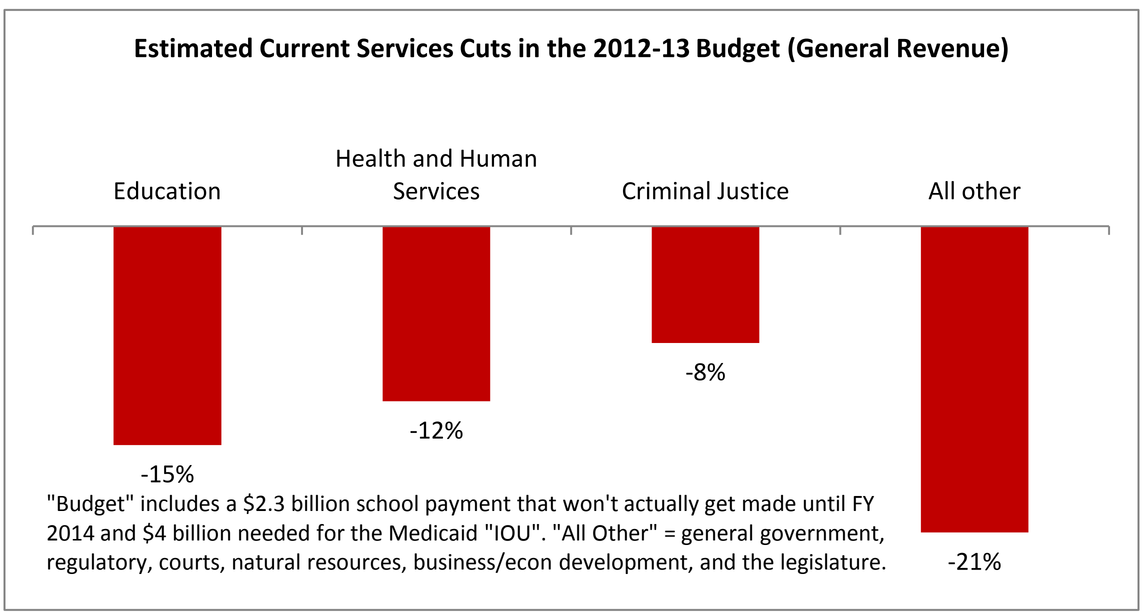
June 19, 2012 **Contact** Eva DeLuna Castro, delunacastro@cppp.org

Texas' Budget Process Moves Further Away From Reality

On June 4, the Governor's Budget Office and the Legislative Budget Board issued budget instructions to state government agencies, state courts, and public higher education institutions. For most state services, these instructions define the General Revenue (GR) baseline for the coming 2014-15 biennium at the reduced funding levels established by the 2011 session's budget cuts. Because these instructions do not allow the baseline to grow enough to cover population growth or cost inflation – what "current services" proposals would require – they keep Texas on the wrong path by concealing the true consequences of an ever-growing population. Agencies and universities must also describe how they would cut GR spending by another 10 percent. The Legislature will use the baseline proposals to write the draft budget bill it will consider in 2013.

Typically, the budget instructions try to account for at least some enrollment-driven increases needed in a few key areas, such as public education, Medicaid, CHIP, and foster care. These areas are also exempt from the 10-percent-cut calculations. But the agencies responsible for these key areas and other critical state services, such as higher education, environmental protection, and public safety, will not be asked to prepare baselines that undo the significant cuts made in 2011. (See figure below.) Holding the baseline constant does not take into account rising fuel costs and inflation, ignores growing waiting lists and the additional manpower needed to address them, and inhibits agencies from tackling currently unfunded initiatives such as the state's water plan. Instead, these very real needs have to be proposed in the form of "exceptional items" which unfairly get labeled as "wish lists."



The June 4 instructions do not provide a realistic “current services” starting point, or even acknowledge that the 2011 cuts were made. They help contribute to the illusion that any additional dollars that might be collected are somehow “surplus” dollars, rather than money that’s needed to undo the accounting tricks, underfunding, school finance structural deficit, and other fiscal maneuvers which have piled up over the past decade.

In contrast, a budget process that started off with a realistic picture of unmet needs would make it crystal clear that the 83rd Legislature needs to use the Rainy Day Fund for the anticipated $4 billion in Medicaid funding needed for 2013 and then devote any current and future revenue growth to getting Texas back on the right track. Texas simply cannot create jobs today and ensure prosperity tomorrow by refusing to plan for growth and ignoring built-up needs.

Why do the instructions matter?

As the first step in Texas’ performance-based budgeting system, the instructions are issued in the spring—usually May or June—of even-numbered years so agencies can submit budget proposals, or “Legislative Appropriations Requests” (LARs), by late summer. The LBB and Governor’s Budget Office then hold hearings, which include opportunities for public testimony, on the draft LARs from late August through October. The LBB then compiles all the agency requests into a draft appropriations bill (House/Senate Bill 1) that is considered in the regular legislative session.

The exact phrasing of the instructions matters heavily influences what gets included in the “baseline” proposal in HB/SB 1 and what has to be funded as an “exceptional item” if there is additional General Revenue. Because of how narrowly the baseline gets defined, exceptional items are not “wish list” proposals that would create new programs or improve services; instead, they more often than not describe the hundreds of millions, or even billions, of dollars needed to fund current services levels that recognize growing caseloads and costs.

For example, additional General Revenue needed to pay for rising health insurance premiums for state employees or retirees is now typically an exceptional item, whereas a decade ago, it would have been in the baseline. When premium increases are not fully paid for in the budget, shortfalls can and do arise that must be dealt with through benefit cuts or higher out-of-pocket costs for people served by the program. Similarly, in the very distant past (1996), budget instructions allowed for cost increases in federally mandated Medicaid services, whereas today, only caseload growth can be requested in the baseline.

How are the 2014-15 instructions different?

For the coming biennium, agencies and institutions of higher education will be allowed to ask for the same amount of General Revenue and GR-Dedicated funds for their baseline that they are spending in 2012 and 2013. Additional General Revenue can be included in the “base” request if it is needed to “…maintain funding for the Foundation School Program; satisfy debt service requirements for bond authorizations; maintain benefits and eligibility in Medicaid entitlement programs, the Children’s Health Insurance Program, the foster care program, the adoption subsidies program, and the permanency care assistance program; and satisfy employer contribution requirements for state pension systems and employee group benefits (not including payroll contributions made by state agencies and institutions of higher education for group health insurance), though group benefit modifications may be considered."

The instructions also require all agencies to "submit a supplemental schedule detailing how they would reduce the baseline request by an additional 10 percent (in 5 percent increments)" in general-revenue related funding. As bad as the threat of another round of 10 percent cuts might sound—especially on the heels of the devastating GR current services cuts made in 2011, in a state that perennially ranks at the very bottom in per capita spending—it is not as bad as if the 10 percent cut had to be made to the 2012-13 spending baseline. This worse-case scenario was not considered necessary by the state officials (Governor, Lt. Governor, and Speaker of the House) who crafted the instructions, because state revenues have been rising higher than forecast since the budget was written, and several billion of un-appropriated GR dollars are now expected to be in the state treasury by the end of the 2012-13 biennium. On a more pessimistic note, the instructions state that the starting point baseline "…does not preclude the possibility that state agencies may be asked to reduce their fiscal year 2013 budgets should state fiscal conditions warrant it."

Similarly, in 2008, agencies were told to submit a "flat" budget request for 2010-11, which generally asked for the same amount of General Revenue that the agency was already spending in the 2008-09 biennium. For the 2010-11 budget, agencies were also asked to describe how their programs and services would be affected by a 10 percent GR reduction. After the Comptroller's gloomy revenue forecast was issued in January 2009, the Speaker of the House and the Lieutenant Governor also asked state agencies to identify 2.5 percent General Revenue savings in their fiscal 2009 budgets.

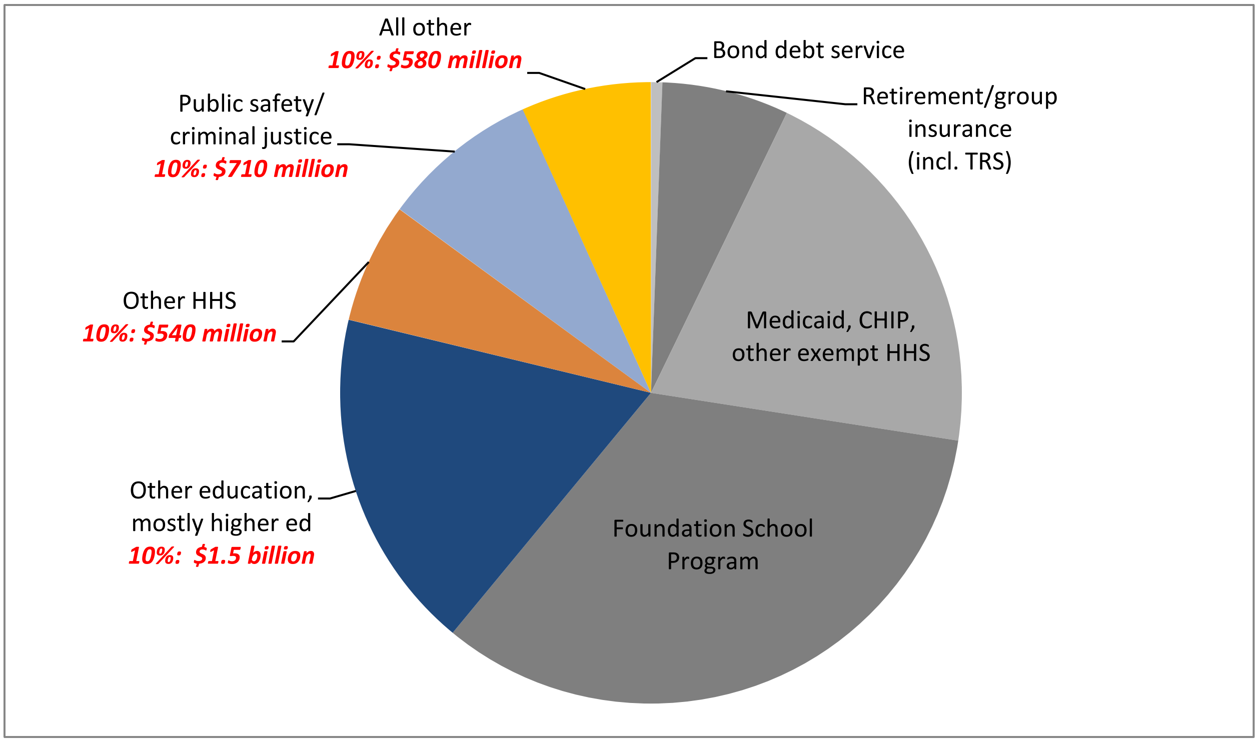
Going further back, baseline instructions have called for:

- 10 percent cuts for the 2008-09 budget
- 5 percent cuts for 2006-07
- 12.5 percent cuts for 2004-05 in the "building block" approach used after the January 2003 release of the biennial revenue estimate, along with a call for 7 percent reductions to fiscal 2003.

"Current services" estimates have not been officially requested or prepared since 1991, meaning that it has been more than 20 years (i.e., for the 1992-93 biennium) since legislators have had this information provided to them by the Legislative Budget Board. State leaders have defended asking for 10 percent cuts by saying if you don't ask you won't know; yet, they refuse to apply the same logic to the cost of current services, preferring to keep themselves and the public in the dark.

Which state services might be targeted for the 10 percent cuts?

Assuming that the same programs that are allowed some growth in the baseline are also exempt from the supplemental schedule 10 percent cuts– the approach that has been taken in the past – the total amount of proposed cuts could add up to about $3.4 billion in general-revenue-funded services. The chart below shows how the $88 billion in GR and GR-dedicated revenue appropriated for 2012-13 is budgeted. Areas shown in gray on the right side are assumed to be exempt; the areas shown in color on the left form the basis for estimates of potential cuts.



About half of the proposed reductions would come from education agencies, totaling to $1.5 billion. That includes a $127 million cut to Texas Education Agency programs; $190 million in cuts to community colleges and other public two-year institutions; $580 million to general four-year academic institutions; and $240 million to public health-related institutions. Higher Education Coordinating Board programs would be cut by about $110 million, most of which is financial aid.

Another $540 million in General Revenue cuts would be proposed by health and human services (HHS) agencies. Much of the General Revenue that isn't spent on HHS Medicaid, CHIP, or foster care-related services is budgeted for the state's eligibility determination system for Medicaid/SNAP/cash assistance; for preventing or investigating child and elder abuse and regulating child care providers; for non-Medicaid services for Texans with intellectual developmental disabilities; and for state matching funds required to receive federal grants such as Maternal and Child Health, Mental Health Block Grant, Substance Abuse Prevention, the Social Services Block Grant, and Temporary Assistance for Needy Families.

Public safety and criminal justice cuts would come to about $710 million. The Department of Criminal Justice would propose about $580 million in reductions out of that total, even though the adult prison system is already underfunded by at least $60 million for correctional managed health care.

Other areas vulnerable to reductions are natural resources, general government and state employee health care. The state's primary environmental protection agency would have to propose $60 million in cuts, with another $90 million in cuts proposed by state parks, the agriculture department, and other natural resources agencies.

Conclusion

These budget instructions are only the first official step in the 2014-15 budget cycle, but they are a big step in the wrong direction. Without a realistic picture of the true need for additional state revenue—needed just to maintain the status quo—Texas cannot adequately support even the minimal level of public services needed to ensure prosperity tomorrow. Rather than continually asking state agencies to propose cuts to historical levels of funding and asking them how they can work with less money, Texas legislators could benefit from a reality-based budgeting system that allows agencies to ask for what they need and make responsible, forward-looking decisions for us all.

For More Information

For more information or to request an interview, please contact Brian Stephens at stephens@cppp.org or 512.320.0222, ext. 112.

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