

Losing Ground:

The Texas State Budget for 2004-05

January 2004



Center *for* Public Policy Priorities

The Center is a 501(c)(3) non-partisan, non-profit policy research organization committed to improving public policies and private practices to better the economic and social conditions of low- and moderate-income Texans.

The Center pursues this goal through independent research, policy analysis and development, public education, and technical assistance.

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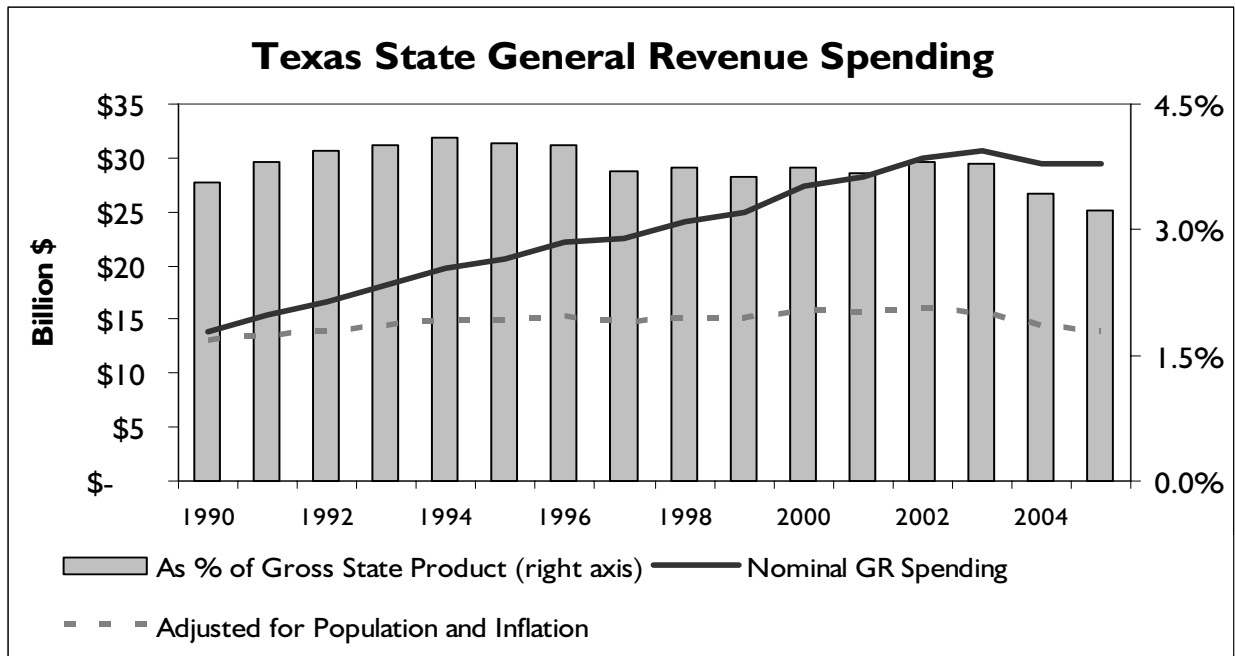
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Sources used for this analysis: Texas Legislative Budget Board, *Fiscal Size-Up for 2004-05 Biennium*, available on-line at http://www.lbb.state.tx.us/Fiscal_Size-up/Documents.htm; the LBB Texas Budget Source, at <http://tbs.lbb.state.tx.us/>; and the Texas Comptroller's Certification Revenue Estimate, at <http://www.cpa.state.tx.us/taxbud/cre0405/>

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TOTAL STATE BUDGET

2002-2003 General Revenue spent: \$60.7 billion

2004-2005 General Revenue budgeted: \$58.9 billion

Funding Change: \$1.8 billion less (a 3% reduction)

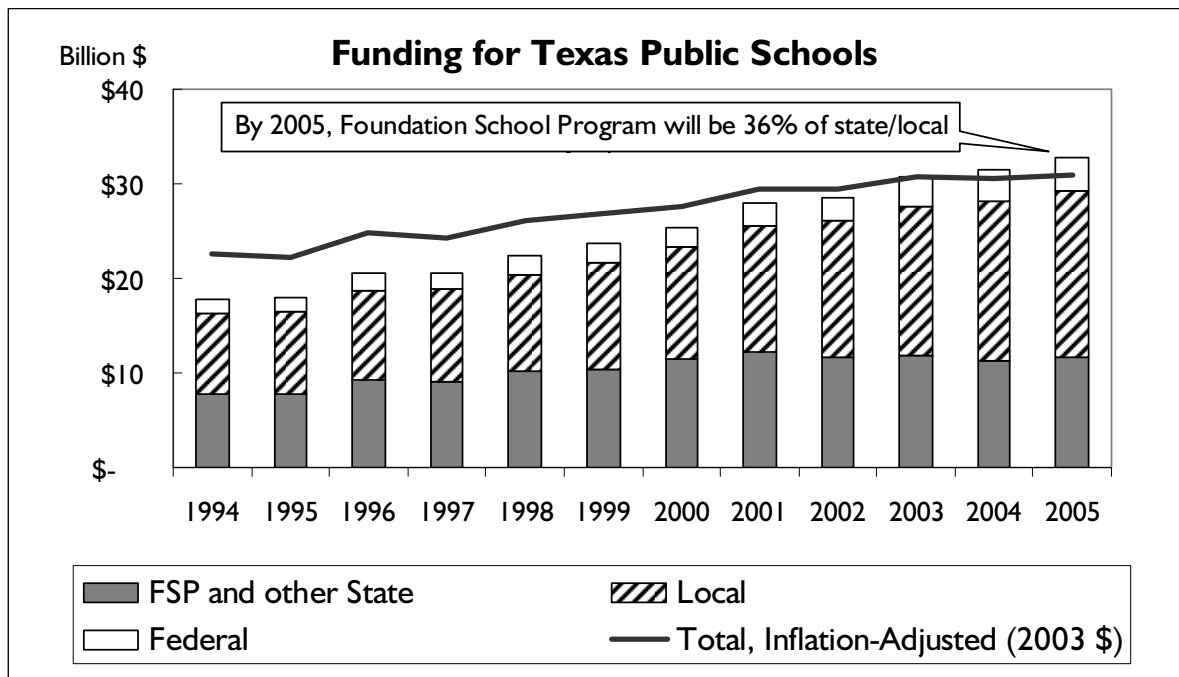
How General Revenue Cuts Were Made, in General:

Health Care Programs: Health care is 30% of all General Revenue spending and is found in every part (“Article”) of the state budget. Virtually all state-supported health programs—such as Medicaid and CHIP, nursing home and hospice care, community care, public health, university teaching hospitals, state employee and local school district employee insurance coverage, and adult and youth inmate health care—experienced budget cuts. These reductions range from making certain people ineligible, to eliminating benefits that were previously offered, to reducing payments to health care providers serving those still eligible. Some health care programs did have an increase in General Revenue funding compared to 2002-03, but with health costs once again rising more than 10% annually, even a modest (3 to 5%) increase means a cut in actual services provided. Specific cuts are described in later sections.

State Employee Layoffs: House Bill 1 (the General Appropriations Act for 2004-05) eliminates funding for 4,900 state jobs by 2005, including 2,722 in health and human services, 1,267 in public safety/criminal justice, and 907 in education agencies. More HHS jobs could be eliminated through privatization and call centers for eligibility determination.

Anything that could be postponed: Capital purchases or building repairs will have to wait.

The distribution of state General Revenue remains more or less unchanged from 2002-03: in the 2004-05 biennium, 42% of GR goes to K-12 education; 16% to higher education; 25% to health and human services; 11% to public safety and criminal justice; and 6% to all other functions combined.



K-12 Education

2002-2003 General Revenue spent: \$25.7 billion

2004-2005 General Revenue budgeted: \$24.7 billion

Funding Change: \$1 billion less (a 4% reduction)

How General Revenue Cuts Were Made:

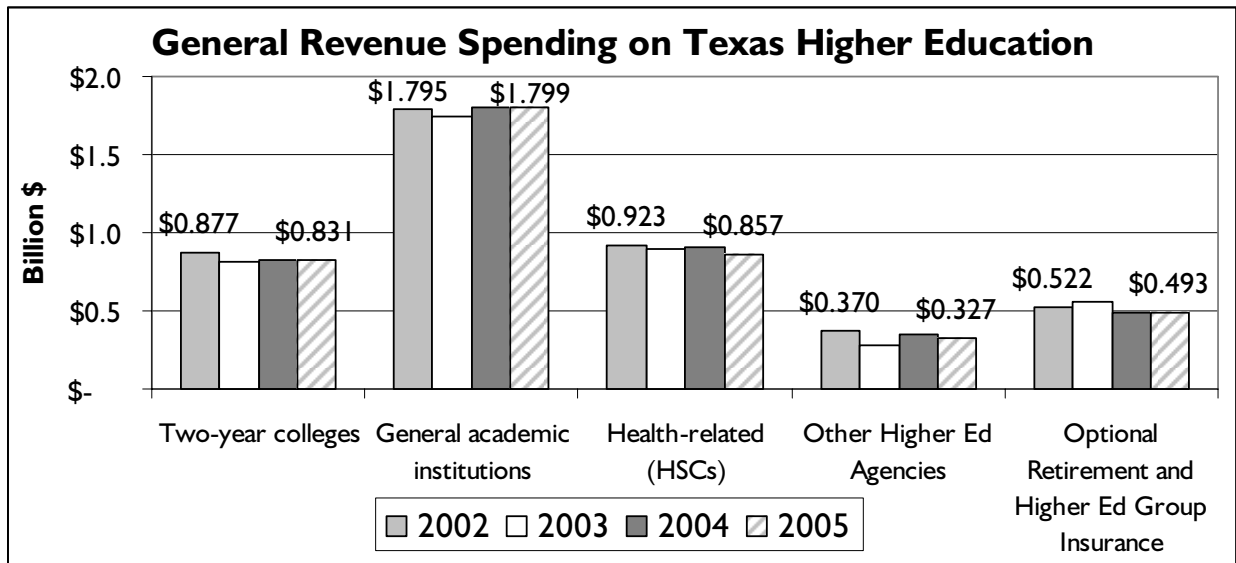
Teacher Retirement System: Health care benefits were reduced for current and retired school teachers and other local school district employees.

Texas Education Agency: Layoffs of 94 employees, or 11% of staff

School Textbooks: Funding for new textbooks will be at least \$121 million lower than in 2002-2003. Non-TAKS textbook purchases are being delayed until at least fiscal 2006.

Other Programs: GR reductions for Student Success Initiative teacher training (\$65 million cut); Disciplinary Alternative Education (\$26 million cut); Reading/Math/Science Initiative (\$15 million All-Funds cut); After-School Initiative (GR for this was totally eliminated—\$25 million); Kindergarten & Pre-K Grants (\$15 million GR cut). Less funding for voc. ed.

Schools will receive \$110 more per student in weighted average daily attendance (state cost: \$1.2 billion), but \$800 million of this is being paid in fiscal 2006. K-12 funding overall (All Funds) is increasing 3.4% due to new federal funds for No Child Left Behind and special education, and increased “recapture” from property-rich school districts. Long-term trend: more and more reliance on local property taxes.



Higher Education

2002-2003 General Revenue spent: \$10.0 billion

2004-2005 General Revenue budgeted: \$9.7 billion

Funding Change: \$268 million less (a 2.7% reduction)

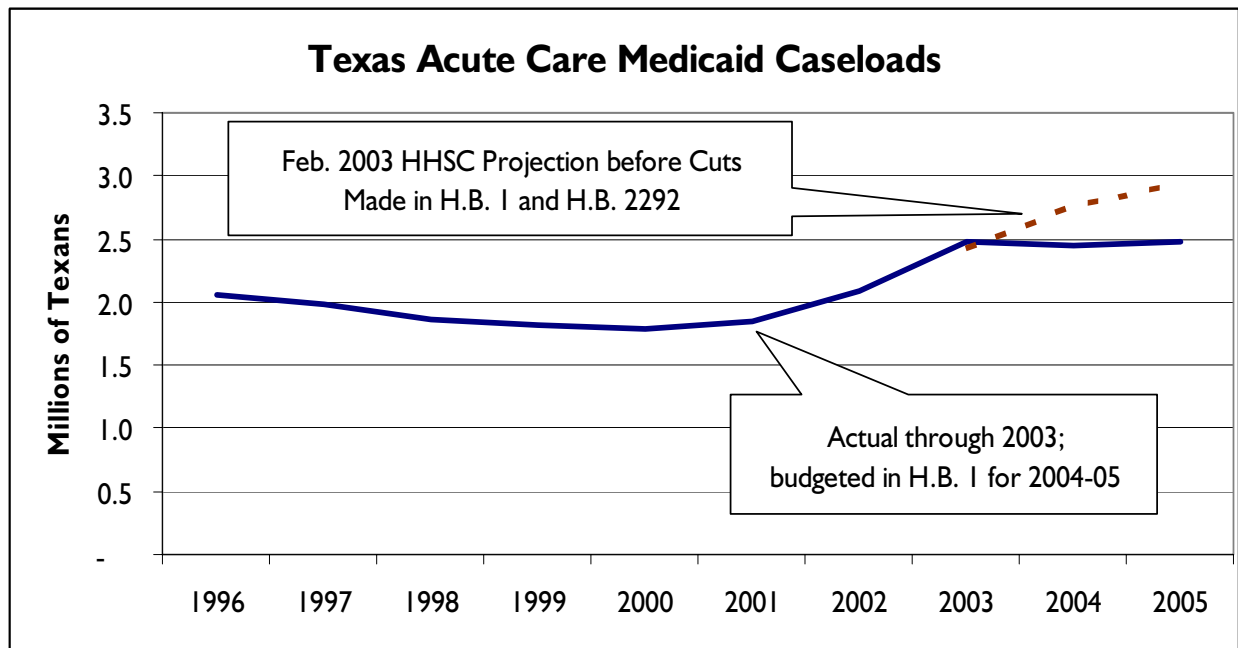
How General Revenue Cuts Were Made:

Health Insurance Benefits for Higher Education Employees: Eligibility for General-Revenue-funded health insurance for active and retired employees was made more restrictive. Health insurance coverage was redesigned: new employees now have a 90-day waiting period before coverage takes effect; employees and retirees have higher co-pays and deductibles; state's contribution for part-time employees has been reduced.

Texas Excellence Fund/University Research Fund: Funding vetoed by Governor. New University Research Fund (H.B. 3526) will provide research support to eligible universities.

Tuition Deregulation: To make up for inadequate General Revenue at the same time that enrollment continues to rise (by 4% for state universities, 1.6% for community colleges), public universities' governing boards now have the authority to raise tuition (rates may differ based on program and course level). A certain percentage of revenue raised from tuition hikes must be set aside for financial aid. About 40% of universities have already approved tuition increases: UT Austin tuition went up 13% in Spring 2004 semester, and 29.3% by Fall 2004; Texas A&M approved a 21% increase for Fall 2004 semester; University of Houston tuition increased by 12.3% in Spring 2004, and another 12% increase is being considered for Fall 2004.

Higher education institutions are dealing with budget cuts in various ways, including elimination of less-popular programs/classes; larger class sizes; more use of adjunct faculty (often part-timers who don't get full-time employee pay or benefits); new or increased fees.



HHS: Medicaid

2002-2003 General Revenue spent: \$11.0 billion

2004-2005 General Revenue budgeted: \$11.4 billion

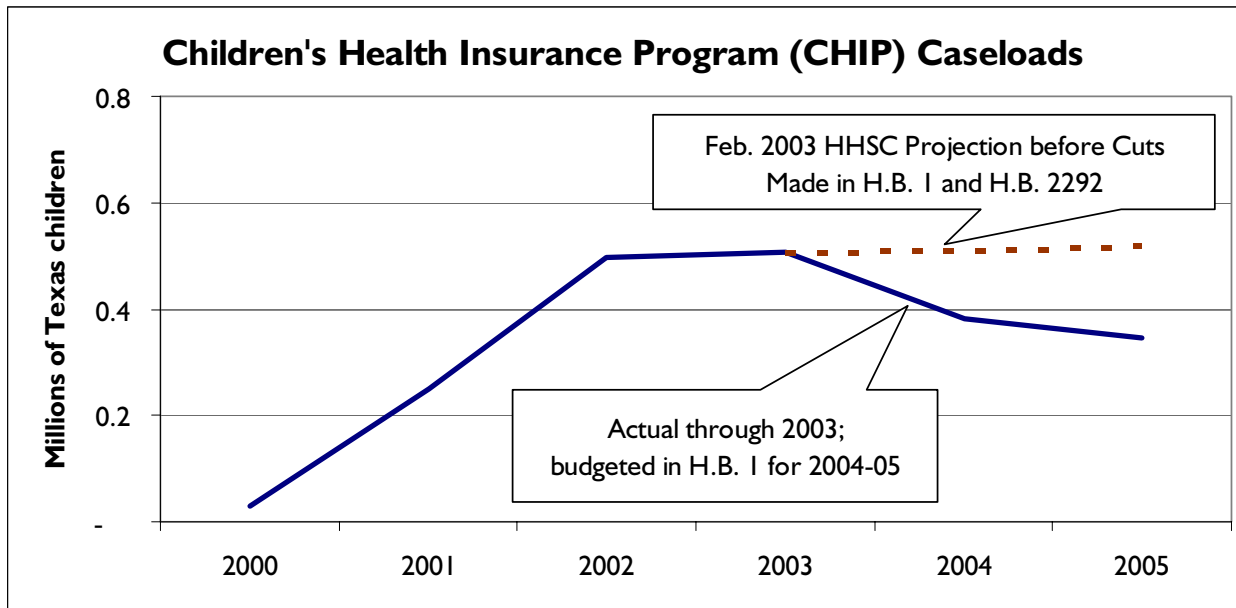
Funding Change: \$422 million more (a 3.8% increase)

How General Revenue Cuts Were Made: Eligibility was restricted, enrollment procedures will slow the growth rate in Children’s Medicaid caseloads, covered benefits were reduced, and provider rates were cut. For more details, see “State Budget 2004-05: Implications for Health Care and Vulnerable Texans,” at

<http://www.cppp.org/research.php?aid=434&cid=6>

Monthly Average Caseloads Budgeted in H.B. 1: In 2003, 2.5 million Texans received Medicaid acute care services (monthly average); 1.6 million of those were children. By 2005, Medicaid acute care services are budgeted to have about 4,000 fewer enrollees than in 2003. If eligibility policies had remained unchanged, at least 350,000 additional children and adults could have been covered by Medicaid.

Before the 2003 legislative session began, the Health and Human Services Commission (HHSC) estimated that \$13.9 billion in GR and other state funds was needed to draw down federal matching dollars requested by HHS state agencies for Medicaid-funded programs and services in 2004-2005. The state funding approved in H.B. 1 falls about \$2.5 billion short of this amount, leaving more than \$3.9 billion in federal Medicaid dollars “on the table” that could have been used to provide health care to Texans in the current biennium.



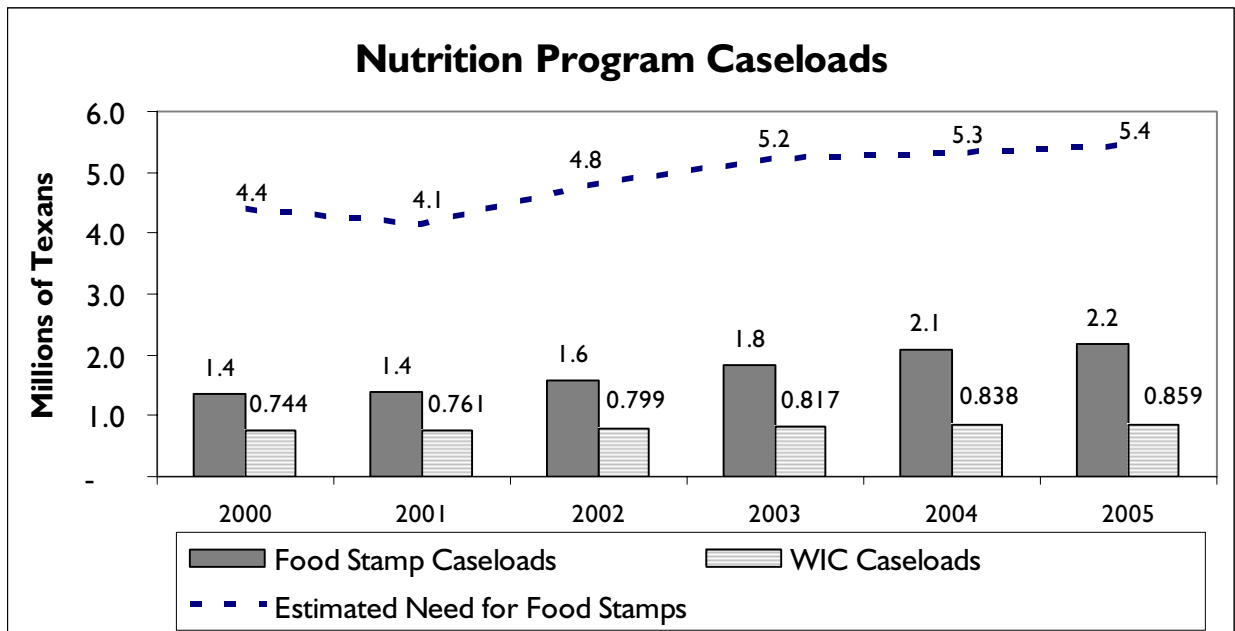
HHS: CHIP

2002-2003 General Revenue spent: \$501 million
 2004-2005 General Revenue budgeted: \$287 million
 Funding Change: \$214 million less (a 43% reduction)

Where General Revenue Cuts Were Made: CHIP now has more restrictive eligibility policies and covers fewer benefits. CHIP also has new higher co-pays and premiums (i.e., cost-shifting to those using the program, as in the case of public employee health programs) and a new 90-day waiting period before coverage takes effect. For more details, see “State Budget 2004-05: Implications for Health Care and Vulnerable Texans,” at <http://www.cppp.org/products/testimony/presentations/prs-hcbudget-10-29-03.pdf>

Monthly Average Caseloads Budgeted in H.B. 1: In fiscal 2003, about 508,000 children were covered by CHIP. By 2005, the state budget forecasts that enrollment will drop by more than 160,000 children—a 30% decline.

The post-session restorations of CHIP mental health benefits prevented Texas from setting a precedent: with no mental health coverage and other cuts made to the CHIP benefit in 2003, Texas’ coverage would have become the least generous in the nation.



HHS: Food Stamps

2002-2003 General Revenue spent: \$212 million
 2004-2005 General Revenue budgeted: \$241 million
 Funding Change: \$29 million more (a 14% increase)

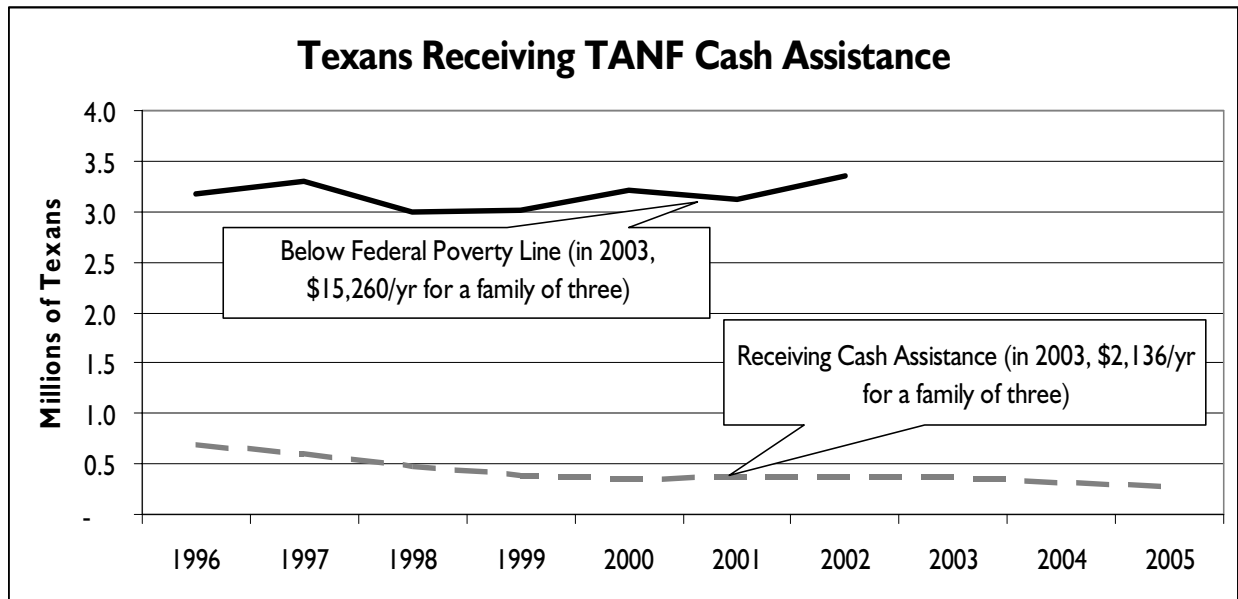
What Increased Funding Will Do:

Food Stamp Recipients: Between 2003 and 2005, Food Stamp caseloads are budgeted to rise by 330,000 individuals. This means that nearly 2.2 million Texans will receive 100% federally funded Food Stamp benefits that allow eligible families and individuals to purchase food, rather than relying solely on local food pantries and other emergency food providers.

The Texas Department of Human Services estimates that almost 40% of Texans who are potentially eligible will be reached by the Food Stamp program in 2005, a dramatic improvement over the 31% reached in 2000.

Economic Value of Benefits: Local grocery stores will benefit because Food Stamp recipients will be able to make \$2.2 billion worth of food purchases in 2005, an increase of almost \$400 million compared to the \$1.8 billion in Food Stamp benefits redeemed by Texans in 2003. The total value of Food Stamps issued will rise 22% from 2003 to 2005. The average household of three people receiving Food Stamps will get benefits worth \$288 per month in 2005, up from \$270 per month in 2003. (Note: Food Stamp benefits themselves are not appropriated by the legislature; only the administration of the program is affected by the state budget.)

Texas Food Stamp caseloads have not yet recovered to the pre-welfare-reform peak of 2.8 million participants in 1994.



HHS: TANF Cash Assistance

2002-2003 General Revenue spent: \$234 million

2004-2005 General Revenue budgeted: \$196 million

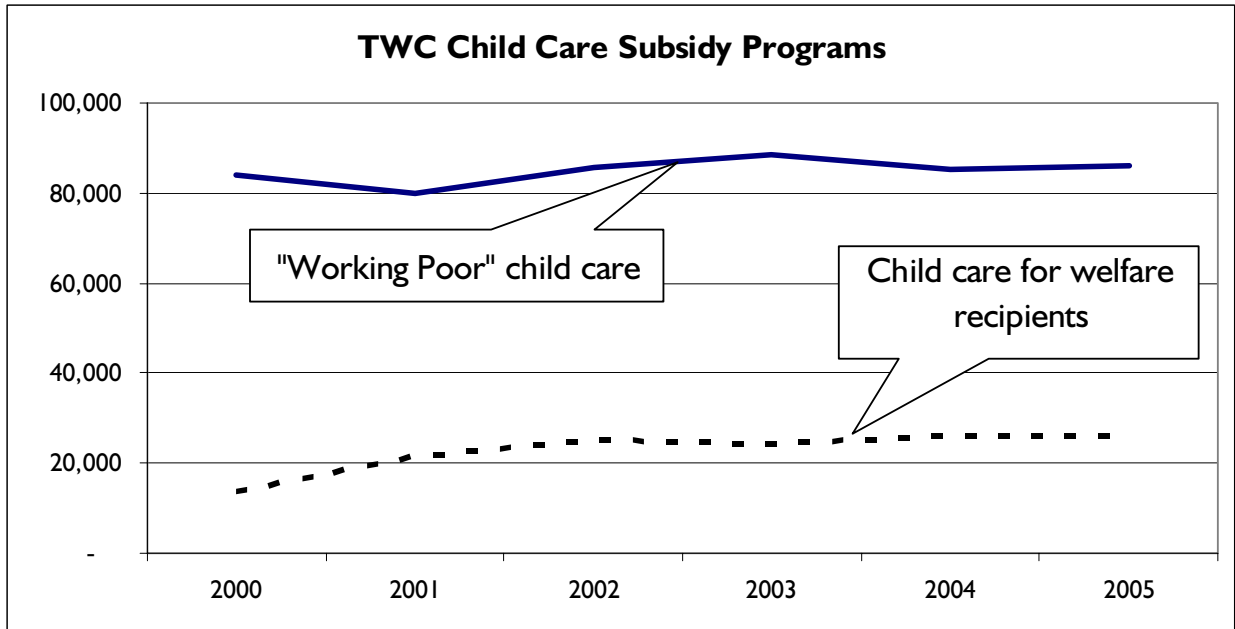
Funding Change: \$38 million less (a 16% reduction)

Total Funding Changes: Because cash assistance can be provided either with federal TANF (Temporary Assistance for Needy Families) dollars or with state maintenance of effort funds, or with some combination of both, it is necessary to look at the total funding (state and federal) for TANF cash assistance. In the 2002-03 biennium, \$562 million in federal and state funds was spent on cash assistance for Texas' neediest families. For 2004-05, the total budgeted for TANF cash assistance is only \$510 million, a 9% drop compared to 2002-03.

Monthly Average Caseloads Budgeted in H.B. 1: In 2003, only 367,454 Texans (the vast majority of them children) were receiving cash assistance through TANF, which is funded through the federal welfare block grant and state General Revenue. The state budget assumes a TANF caseload of 303,165 in 2004, and of 267,565 in 2005 (a drop of 27% from fiscal 2003 levels), as people are forced off the rolls because of time limits and stronger enforcement of the state Personal Responsibility Agreement which recipients are required to sign. Less than one-fifth of those leaving the TANF caseloads are projected to do so because of increased earnings from employment.

Monthly Grant: For a family of three, the TANF cash assistance monthly grant will rise from an average of \$174 in fiscal 2003, to \$198 in 2004 and \$202 in fiscal 2005. This is because of a rider in the state budget that says the cash grant must equal 17% of the federal poverty line.

Cash assistance, which reached one out of five poor Texans before welfare reform in 1996, will reach barely one out of ten poor Texans in 2004-2005.



Business and Economic Development: Child Care Subsidies

2002-2003 General Revenue spent: \$146 million

2004-2005 General Revenue budgeted: \$140 million

Funding Change: \$6 million less (a 4% reduction)

Total Funding Changes: As in the case of cash assistance, subsidized child care for working parents and for welfare recipients in job training or employment programs is another part of the budget that is more accurately judged by looking at the total (state and federal) amount of funding available. In 2004-2005, child care funding for programs at the Texas Workforce Commission is budgeted at \$876 million, up \$14 from the \$862 million budgeted for 2002-2003. This represents an increase of 1.6% for the biennium.

Monthly Average Caseloads Budgeted in H.B. 1: By 2005, about 111,870 children in Texas will be served by the state's subsidy program administered by local workforce development boards. Although this is only a reduction of 675 child care "slots" from 2003 levels, the negative impact on working poor families will be greater. More and more welfare recipients will require child care, requiring that 1,890 slots be redirected to the CHOICES child care clients served by TWC. This means that there will be 2,560 fewer slots for working-poor families (those leaving the welfare rolls or at-risk of going on welfare).

The waiting list for low-income child care is expected to have more than 36,400 children on it during fiscal 2004. Fewer than 10% of Texas children who are federally eligible for child care are reached by the state's subsidy program.