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SENATE FINANCE COMMITTEE BUDGET PROPOSAL FOR 2012-13

The Senate Finance Committee (SFC) proposed budget for 2012-13 would reduce All Funds and General Revenue support for state services by 5% compared to 2010-11 (after including a \$2 billion delayed Foundation School Program payment and \$3 billion from the Rainy Day Fund). In a state that is already near the bottom in state spending per resident, the implications of these reductions are even worse when Texas's growing population and rising health care costs are taken into account. In "current services" terms, the SFC budget proposes General Revenue cuts of 13% overall, and would leave billions of federal dollars for health care and other social services unmatched. This analysis outlines the major cuts proposed in the general appropriations act for 2012-13 as voted out of Senate Finance. Instead of relying so heavily on cuts, the Senate needs to take a more balanced approach that spends the entire Rainy Day Fund and adds more revenue.

Overall Spending Levels in Senate Finance proposal

The \$85.9 billion General Revenue budget proposed for 2012-13 is a 5% cut from the \$90.3 billion in General Revenue budgeted for 2010-11 (including \$8.3 billion in federal Recovery Act money that took the place of GR), and 19% short of state agencies' requests for General Revenue for 2012-13. However, the proposal is more than the \$77 billion in GR available (counting \$300 million in new sales tax revenue) after eliminating the 2011 ending deficit. The roughly \$8 billion gap would be closed by using \$3 billion from the Rainy Day Fund; postponing a \$2 billion Foundation School Program payment to the next budget cycle (2014-15); and using \$3 to \$4 billion in nontax revenue. The Senate Finance Committee's All-Funds proposal for 2012-13 is \$176.5 billion, or 18% below the \$214 billion requested for state services in 2012-13.

Public Elementary and Secondary Schools

The SFC proposes funding the **Foundation School Program**—the primary way that state aid goes to local school districts to educate over 4.5 million students—at a level that is \$4.0 billion (9%) below what is currently required by the Texas Education Code. The SFC proposal lacks the funding needed to fully cover the costs of replacing \$3.25 billion in federal Recovery Act money used instead of General Revenue to help pay for schools in 2010-11; enrollment growth of about 92,000 students a year in the next two years (\$2.2 billion); state-district "settle up" needs (\$1.4 billion); reduced local property tax collections (\$1.94 billion); and enrichment cost increases (\$242 million). A \$4 billion cut to state aid could mean that local school districts reduce staffing by 49,400 jobs, costing the Texas economy another 69,000 private-sector jobs.

The SFC budget would also do away with \$222 million in Foundation School Program set-asides for the Juvenile Justice Alternative Education Program; extended year programs; the Investment Capital Fund; the Limited-English-Proficiency Student Success Initiative; Communities in Schools; teen parenting education; and TAKS assessments and study guides. Communities in Schools would instead get \$20 million plus \$4.8 million a year in federal welfare block grant money (Temporary Assistance for Needy Families)—roughly a 29% cut. Overall, non-FSP grant programs would lose \$863 million in funding (a 64% cut), with specific grants facing drastic cuts or complete elimination in 2012-13. For example, Teacher Excellence district awards would receive \$125 million, a 68% cut; the Virtual School Network would be funded at \$9 million, a 44% cut; and the Student Success Initiative would receive \$194 million, a 34% cut.

Higher Education

At the Higher Education Coordinating Board, the SFC proposal would reduce the cuts in student financial aid to \$88 million, including a \$50 million contingency. This is an improvement over the \$381 million cut in the Senate budget as introduced, and would (among other improvements) fund Texas Grants awards to 20,000 new students a year in 2012 and 2013. Along with significant GR reductions to formula funding and special items, general academic and health-related institutions would see cuts in GR needed for enrollment growth and to avoid more reductions to higher education employees' health insurance. Overall, the SFC General Revenue proposal leaves higher education underfunded by 19%.

Health and Human Services

Medicaid, which provides 3.5 million Texans with access to health care (including nursing home and other long-term care services), would be funded at almost \$43 billion (All Funds), or 13% less than in 2010-11, in the SFC proposal. Of the cuts made to Medicaid, \$900 million to \$1 billion in GR reductions would come from rate cuts to health care providers, and a roughly equal amount would come from cost-containment initiatives. Texas Medicaid caseload/cost increases would be underfunded by at least \$1.7 billion GR; Medicaid services would also not be appropriated another \$1 billion GR (out of \$4.3 billion originally needed) to replace federal Recovery Act dollars. This \$2.7 billion GR shortfall may have to be dealt with in a supplemental appropriations bill before fiscal 2013 ends, along with \$700 million in "federal flexibility" savings that may not materialize. Mark-up did add \$4.5 billion in GR (compared to the Senate budget as introduced) to reduce the anticipated Medicaid shortfall and to make smaller, more targeted cuts to Medicaid health care providers.

The rate cuts still proposed for 2012-13 are in addition to Medicaid and other HHS rate cuts already made at the request of state leaders. Certain hospitals, for example, already cut by 2% in 2010-11, could see another 8% in cuts. Texas Medical Association surveys show that Medicaid rates are so low that only 42% of physicians in the state will accept all new Medicaid patients. This is a considerable decrease from 67% of physicians in 2000. Medicaid nursing home rates in Texas are also among the nation's lowest. Trying to maintain health care access, the SFC proposal would leave physicians with the 2% cut made in 2010-11, and nursing homes with the 3% cut made in 2010-11, but would not impose the additional 10% cut originally proposed in the Senate budget draft.

In **child protection**, foster care rates are restored and caseload growth is funded, allowing foster care redesign to move forward. The number of CPS direct delivery staff is reduced by 288 authorized positions, including 146 caseworkers. Funding for the relative caregiver payment program, assessments and day care is restored to 2010-11 levels, but caseload growth is not funded. Protective day care is also kept at 2010-11 levels (no caseload growth). Adoption purchased services would see a cut of 28% (\$5.8 million); the SFC proposal assumes this would be replaced by county/local funding. In prevention/early intervention programs, the Senate proposal would restore STAR to the 2010-11 funding level; restore CYD close to its 2010-11 level; cut child abuse and neglect prevention by 40%; and reduce Nurse Family Partnership funding by 30%.

Criminal Justice

The Department of Criminal Justice would receive \$540 million more (All Funds), compared to the Senate budget as introduced. Programs getting significant restorations (compared to the Senate budget draft) include correctional managed health care, which would receive a 3% biennial cut, instead of 24%; community supervision, increased by almost 3% (rather than cut by 12%); and parole programs, increased by 0.5% (rather than cut by 3%).

Other Assistance/Grant Programs

The Senate would still make significant cuts to services funded with dedicated General Revenue, allowing the unspent amounts in these accounts to help balance ("certify") the budget. For example, the Texas Emission Reduction Plan would see a 43% cut, and the Low Income Vehicle Repair, Replacement and Retrofit Program would be cut by 75%. At the Public Utility Commission, the electric utility discount program for low-income Texans would be eliminated (\$220 million) in 2012-13.