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STATE BUDGET FAQ'S FOR 2002-03

Why Senate and House Budget Proposals Are Likely to Leave Many Needs Unmet

The House Appropriations and Senate Finance Committees are almost done hearing testimony from state agencies and the public on the introduced version of the biennial budget bill, Senate Bill (SB) 1, which will appropriate funding for all state agencies and programs in fiscal 2002 and 2003. This Policy Page answers some frequently asked questions about state spending and revenue for the next budget cycle.

What's in the "Base"?

Senate Bill 1 (SB 1) as filed, the Appropriations Act for 2002 and 2003, proposes spending **\$108.2 billion** in all funds (state General Revenue, federal, and other) for everything that state government will be doing in the next 2 years for 21 million Texans. Of the proposed spending, \$63.9 billion is the state's own-source money (General Revenue, or GR, and GR-Dedicated); \$32.4 billion is federal, and \$11.9 billion is "other" funding sources (including the State Highway Fund). SB 1 recommendations were developed by the Legislative Budget Board (LBB), after considering agencies' requests submitted last summer and holding joint hearings with the Governor's Budget Office in late summer and fall of 2000.

The \$108.2 billion for 2002-03 works out to about **\$2,550 per Texan in annual spending**, which will probably find Texas still at **the very bottom among states in per-capita spending**. In fact, if Texas had the revenue to meet all state agencies' **requested** needs for 2002 and 2003—\$119 billion, all funds—state government would be spending only about \$2,800 per capita, enough to raise Texas to 48th place (ahead of only Tennessee and Florida). The largest shortfalls at this point (i.e., the differences between agency requests and SB 1 proposed spending) are in health and human services (\$4.5 billion all-funds gap, or \$2.1 billion in General Revenue) and education (\$3 billion all-funds gap, or \$3.2 billion in General Revenue).

"Base" levels proposed in SB 1 should not be confused with "current services" levels, which would indicate the funding needed by agencies to serve the same number of clients—often, at higher costs. Budget instructions

issued to agencies in May 2000 limited most "baseline" GR requests to the same amount of GR received in 2000-01. Certain kinds of agencies were allowed to ask for additional General Revenue, but even these requests did not necessarily cover all "current services" needs. Agencies that were allowed to request new GR funding in the "baseline" were those dealing with K-12 or higher education enrollment growth; school finance equity needs; new or expanded prisons; state debt service; federally mandated caseload changes; or employee benefit changes due to payroll adjustments. Because of these instructions, Texas state agencies generally have to use "exceptional items" to ask for funding increases that would be considered "current services" in other states—for instance, to account for inflation, population-driven caseload growth (even when eligibility criteria remain unchanged), or other factors beyond agencies' control.

How much will the budget bill change between now and the end of the session?

Once public hearings are complete, the House and Senate budget committees will mark up their respective versions of the budget, vote it out of committee to the full House and Senate for their approval, then appoint a conference committee to iron out any differences. At any of these stages, programs in the budget could have their funding increased or decreased, or new programs could be introduced. These changes are shaped primarily by the amount of money that was left "on the table" in writing the draft of SB 1. When SB 1 was introduced in January, the LBB and other state budget officials said that about \$1 billion in expected revenue remained available to pay for any other items not already in the bill, or for shortfalls in the current

budget (2000-01). This \$1 billion would drop to about \$300 million if the expected supplemental appropriations bill is approved in the next few months. Legislators have also been informed by the Health and Human Services Commission that SB1 as filed is not enough to maintain current services levels for various health and human services agencies, putting additional pressure on state budget writers. According to HHSC, another \$740 million in GR (or almost \$2 billion, all funds) is needed for current services items such as

- increased Medicaid costs and caseloads,
- Protective and Regulatory Services funding to maintain caseloads per worker and to make up for Adult Protective Services' loss of Title XX dollars,
- Expected increases in TANF cash welfare client caseloads at the Department of Human Services,
- Increased acuity costs in Community Care, Nursing Facility and Hospice Payments, and STAR+Plus strategies at DHS,
- MHMR state facilities.

Most of these items originally appeared in agencies' budget requests last year, while others are new or had a higher price tag due to revisions in projected caseloads. Beyond the \$740 million in "current services" needs not included in SB 1, HHSC estimates that \$621 million more in GR (\$1.5 billion, all funds) is needed to pay for rate increases, inflation, staff salary raises for nursing homes and community care attendants, and various initiatives in its "Promoting Independence" request. Faced with these huge demands, House and Senate budget committees appointed a working group to develop Medicaid funding recommendations for 2002-03 that should prevent major differences in each chamber's version of the state budget for HHS.

In addition, other big-ticket items (such as teacher's health insurance, higher education initiatives, highway needs, and a state employee pay raise) are competing with HHS needs for unallocated General Revenue. Some good news for anyone concerned about SB 1's funding levels is that SB 1 also contains items which may be changed to "free up" more GR. For instance,

- Almost \$450 million was included to fund costs of retired public school employees' group health insurance benefits, which could be applied towards the cost of a new insurance program if it covered retired and current teachers and other school district employees.
- \$187 million in GR for 4 newly completed prisons and contracted prison beds will most likely be deemed unnecessary in the next biennium,
- about \$154 million in GR could be available if legislators decide not to undo a 1999 decision to defer one month's worth of Medicaid premiums into the next budget cycle,

- a \$200 million contingency fund (GR) was proposed for growth in entitlement programs, school enrollment, and other needs in 2002-03.

In addition, the Comptroller's January revenue estimate includes deposits to the state's Rainy Day Fund of \$327 million from 2001 natural gas tax revenues, \$290 million from 2002, and \$185 million from 2003. As of January 1, 2001, the fund had only \$190 million in it; with the estimated deposits, the balance would increase to about \$1 billion by November 2003. Tapping the Rainy Day Fund (which has not happened since 1994-95) would require approval of 3/5 or 2/3 of each chamber, depending on the reasons for using the fund.

What's in the supplemental spending bill?

HB 1333, as introduced, authorizes the following spending for the remainder of fiscal 2001:

- \$35.7 million in GR for prison guard pay raises authorized in the interim;
- \$74.6 million in GR to operate new prison beds and pay for contracts with counties for temporary prison space;
- \$45 million in GR to cover the Texas Department of Health (TDH) Medicaid shortfall resulting from changes in the Federal Medical Assistance Percentage (FMAP);
- A "placeholder" of \$1 million in GR to fund other TDH Medicaid budget needs resulting from increased prescription drug costs, caseload changes, and other developments. TDH estimates that these shortfalls could be as high as \$550.5 million.

Other HHS shortfalls for fiscal 2001 total about \$50 million in GR, and agencies are trying to resolve these by using funds already in their budgets. For example, DHS is proposing to use some of the enhanced federal funding earned from the Food Stamp program to cover shortages in other DHS programs.

Recent budget sessions have also included supplemental appropriations, such as those approved in 1999 (\$104 million in GR), 1997 (\$24 million GR), and 1995 (\$321 million in GR, \$236 million in bonds and \$310 million in retirement system funds). But the size of the 2001 shortfall is prompting many to ask whether or not it was truly "unforeseen," rather than based on assumptions that should have been more closely scrutinized. For example, rapid caseload drops seen in many HHS programs between 1995-99 had slowed or even flattened out by spring 1999, when the 2000-01 budget was finalized. Yet, continued caseload drops were assumed when making appropriations to several HHS program budgets in 1999, even as legislators approved new outreach efforts and other initiatives that would be expected to **increase** Medicaid caseloads.

Another point to consider is that in 1999, the gap between TDH's GR requests for Medicaid match in 2000-01 and the amount appropriated by legislators was at least \$520 million—not too far off from TDH's current \$600 million shortfall. While not explicitly stated in budget documents, the GR amounts requested by TDH in 1999 appear to be based on an assumption that the federal Medicaid match rate would continue to fall. This, in turn, was a quite realistic assumption, considering the projected increases in state per capita personal income and faster economic growth in Texas than in the US overall (as forecast by the Texas Comptroller's revenue estimates in 1999). But the final, appropriated, GR amounts approved in 1999 for Medicaid used the same match rate for 2000 and 2001. As a result, the seemingly slight difference between the 61.36% match rate assumed for 2001 versus the actual 60.57% figure cost Texas an additional \$82 million in General Revenue—providing a strong argument in favor of setting up a Medicaid contingency fund.

Why is Texas' spending always so low?

One basic rule of writing the state budget is that it has to balance. Unlike the federal government, Texas and other states can only spend as much as they take in. What sets Texas apart from other states is its very low level of taxation, particularly compared to its faster-rising per-capita personal income (which in turn reduces federal match for Medicaid, child care, foster care, and other programs) and its high poverty rate.

Where exactly does the state rank among other states in per-capita tax burdens? In 1999, Texas was in 48th place, with state taxes of about \$1,281 per person (ahead only of New Hampshire and South Dakota). When state and local taxes are considered together, Texas' per capita tax load is 40th (\$2,247 in 1997). Not only does a low level of taxation limit what the state can spend of its own money (General Revenue), it makes less money available to draw down federal matching funds for services in almost every area of state government.

Tax cuts enacted in 1997 and 1999 cost about \$2.6 billion that could have been available in this biennium—particularly if the revenue had been deposited in the state's "Rainy Day" fund, used for contingency funds for Medicaid or other programs with rapidly increasing costs, or used to undo some of the "smoke and mirrors" maneuvers that have been used in the past to create one-time "gains" by pushing costs into the next fiscal year. The previously mentioned deferral of one month's worth of Medicaid premiums is one such example; another is the fact that state employees get paid on the first of the month rather than the last day, an accounting mechanism which would now cost over \$500 million to undo.

How does proposed spending on specific programs and services compare?

Let's go back to that \$2,550 per capita figure for state government spending—roughly, here's how some of it would translate to annual per-capita spending for 2003:

	Proposed Fiscal 2003 Spending in SB 1 (All Funds)	
	Million \$	Per capita
State aid to local K-12 schools	\$14,721.3	\$ 687.60
Highway construction	2,973.4	138.88
Incarceration of state inmates	2,083.5	97.31
DHS Nursing Home & Hospice Payments	1,775.2	82.92
Medicaid Premiums for Aged and Disabled	1,487.3	69.47
State employee group insurance	889.1	41.53
K-12 school lunch/breakfast	871.7	40.71
Public community & jr. colleges	748.4	34.95
Medicaid Premiums for TANF Adults and Children	584.5	27.30
Children's Health Insurance Program (CHIP), Phase II	409.9	19.14
Child Care Subsidies	403.6	18.85
Foster care/adoption payments	345.5	16.14
University of Texas at Austin	343.7	16.05
Texas A&M at College Station	283.6	13.24
TANF (Cash Assistance) Grants	267.9	12.51
Mental Health Community Services for Adults & Children	214.5	10.02
Prison diversion	204.0	9.53
Parks and Wildlife Department	200.8	9.38
Child support enforcement	191.2	8.93
Child Protective Svcs. Investigations	184.2	8.60
Texas Tech University	143.0	6.68
Employment and training services for welfare recipients	126.5	5.91
Prison schools (TDCJ)	70.4	3.29
Alcohol & Drug Abuse Prevention and Intervention Services	61.9	2.89
Adult education/family literacy	57.3	2.68
Affordable housing programs	53.3	2.49
Dept. on Aging Nutrition Programs	38.0	1.77
TDH Immunizations	33.7	1.58
DHS Family Violence Programs	17.6	82 cents
Commission on the Arts	5.4	25 cents

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