



WHAT TEXAS CAN'T BUY WITH \$54.1 BILLION Current-law revenue estimate would barely fund key areas of 2002-2003 spending; 12.5% cut for 2004-2005 would be devastating

The 2003 Legislature learned in mid-January that it should only expect \$54.1 billion in General Revenue-related funds for 2004-05. If legislators are unwilling to create new revenue sources or tap the Rainy Day Fund, they will have to decide what "nonessential" items in the 2002-03 budget (\$61.5 billion in General Revenue) will be slashed. One way of significantly narrowing the multibillion-dollar budget shortfall would be an across-the-board cut of 12% in General Revenue spending, with no exceptions made for ANY programs--even those required by the constitution or federal and state law. To begin a "zero-based budget" approach, agencies have submitted revised budget requests identifying the bare-bones services that could be funded with 12.5% less in General Revenue. This Policy Page summarizes what that would mean for programs at the largest HHS agencies.

THE FIRST THING EVERYONE NEEDS TO KNOW: TEXAS HAS A REVENUE PROBLEM, NOT A SPENDING PROBLEM
General Revenue will be lower than originally forecast for 2002-03, contributing to a deficit in this year of \$1.8 billion. For 2004-05, the comptroller estimates that current tax laws combined with the economic forecast will generate only \$54.1 billion in General Revenue--\$7.4 billion (12%) less than GR spending in 2002-03.

SECOND: STAYING WITHIN THE REVENUE ESTIMATE WILL REQUIRE CUTS OF 12% IN ALL GENERAL REVENUE SPENDING

By now, most of the large agencies have testified before Senate Finance and House Appropriations members, explaining what a 12.5% reduction in GR spending (as directed by the leadership) would do to their key programs. Legislators and other state officials may be thinking that these "worst case" scenarios will not actually take place--that they will be able to spare key areas from budget cuts, while finding \$7 or \$8 billion in GR cuts in other parts of the budget. The problem is that if some large programs are indeed exempted from cuts, the reductions to other areas will be even larger.

The following table shows what a 12.5% cut from 2002-03 spending levels would be in some major parts of the budget:

Budget Area	12.5% Cut from 2002-03 GR Spending
K-12 Education <i>(Aid to local school districts)</i>	\$2.8 billion
Teacher Retirement System	\$478 million
Higher Education	\$1.3 billion
Health and Human Services	\$1.8 billion
Texas Workforce Commission	\$27 million
State worker retirement/insurance	\$175 million
Corrections <i>(TDCJ, Texas Youth Commission)</i>	\$666 million
All other	\$428 million
TOTAL	\$7.7 billion

CUTS TO HEALTH AND HUMAN SERVICES WILL BE ESPECIALLY PAINFUL

Proposed HHS cuts are notably distressing considering the state's long-standing underfunding of programs for poor and low-income Texans, its high poverty rates, and high proportion of residents with no health insurance.

Health & Human Services Commission (HHSC)

A budget cut of 12.5% to this agency means eliminating and reducing services to children, aged/disabled, and other low-income Texans in CHIP (Children's Health Insurance Program) and Medicaid. CHIP coverage would be eliminated for 252,000 children, compared to the

number who would have been served in 2005 under current policies, and child Medicaid caseloads would drop by at least 334,000. Almost 69,000 adults (elderly/disabled and pregnant women) would lose Medicaid coverage. Prescription drug coverage would be cut for 476,000 elderly and disabled adults and 145,400 low-income adults (TANF). These reductions would come from:

- **Eliminating Medicaid for Aged/Disabled above the SSI income level** (about 74% of poverty, or \$6,650 annually for one person).
- **Eliminating Medicaid for Pregnant Women (those between 134 to 185% of poverty, or \$20,448 to \$28,231 annual income for a family of 3).**
- **Eliminating Medicaid for Medically Needy adults** (those who “spend down” to about 24% of poverty, or \$3,662 annually for a family of three).
- **Eliminating Breast and Cervical Cancer coverage** being provided to about 370 women.
- **Eliminating prescription drug coverage for all adults except pregnant women & nursing home clients**, as well as optional benefits for adults (podiatry, hearing aids, glasses, psychologist svcs., chiropractors).
- **Implementing a 33% cut to HHSC-paid Medicaid providers** (\$1.6 billion in state funds, plus at least \$2.3 billion in federal dollars, for doctors, hospitals, clinics, home health care, etc.).
- **Holding continuous eligibility at 6 months** (vs. going to 12, as required by S.B. 43, 2001) cuts **children’s Medicaid caseloads by 221,400** in 2005.
- Reinstating **face-to-face interviews** at a DHS office to apply for children’s Medicaid; reinstating **documentation of assets** for children’s Medicaid, and possibly for CHIP. These provisions **reduce children’s Medicaid caseloads in 2005 by another 112,700.**
- **Cutting CHIP eligibility to 150% of federal poverty line**, from the current level of 200% (a family of 3 would only be eligible if it has less than \$22,890 in income, versus the current \$30,520 cap).
- **Increasing CHIP co-pays and premiums** to federal limits (\$14 per month).
- **Cutting continuous eligibility for CHIP kids to 6 months** (from current 12 months).
- **Delaying CHIP coverage** so it does not start until 90 days after a child is declared eligible (a child already has to be uninsured for 90 days to become eligible).
- **Eliminating CHIP dental benefits.**

Department of Human Services (DHS)

A budget cut of 12.5% to this agency means that people in community care settings may be forced into more

expensive nursing homes. Cash assistance for Texas’ poorest children will be cut and other services reduced.

- **Community Care (Entitlement Programs):** 58,947 fewer clients will be served by 2005 (a 58% cut), including almost 34,400 clients cut through the complete elimination of the Frail Elderly program.
- **Community Care (Waivers):** 8,360 fewer clients (25% cut) by 2005; **Community Care (State Programs):** 3,760 fewer clients (22% cut) by 2005.
- **In-Home and Family Support:** Services will be eliminated for 4,220 Texans with a disability.
- **TANF Grants:** 60,560 fewer clients (a 17% cut) by 2005. The monthly grant would stay at the current maximum (\$213 for a family of three, or 17% of the poverty line), losing ground in 2004 and 2005 to inflation as it did through most of the 1990s. A recently reinstated \$60 annual payment per TANF child would be eliminated. Asset limits would be tightened.
- **Family Violence:** 7,570 fewer clients (9% cut)
- **Summary of cuts listed above:** 143,400 fewer clients will be served by 2005 (a 24% cut from 2003).

Mental Health and Mental Retardation (MHMR)

A budget cut of 12.5% to this agency means that Texas’ already scarce mental health services will become even more difficult to access. Services for Texans with mental retardation will also be reduced. Cuts would come from:

- **Restructuring Community ICF-MR Services:** No one will lose services, but more clients (4,700) will be served through waivers; everyone will be in 6-bed settings, vs. 3 or 4-bed settings.
- **Closing a State MR Residential Facility**, and consolidating clients into the remaining 12.
- **Reduced funding for MH Community Hospitals:** 26 fewer inpatient beds (12% cut).
- **Reduced funding for Adult MH Community Centers:** Affects 10,187 clients (they will either not be served at all, or get less services).
- **Reduced funding for Children’s MH Community Centers:** Affects 2,390 clients.
- **Cuts to NorthSTAR Services for the Indigent:** 12,012 fewer clients (non-Medicaid clientele) (10% cut).
- **Cuts in state funding for MR Community Centers:** Would affect 3,697 clients.

Texas Department of Health (TDH)

A budget cut of 12.5% to this agency means the complete elimination of several programs and other reductions in public health and health care programs.

- **Fewer served in the HIV Medication Program:** Without additional funds, income eligibility (now capped at \$17,960/year for one person) will be more restrictive,

and fewer clients will be served. These cuts will not happen in fiscal 2003, as had been proposed, but are still part of the 2004-05 budget proposal.

- **Women's Health Services:** \$2.9 million cut; **Family Planning:** \$1.4 million cut.
- **Children with Special Health Care Needs:** Medical services and case management would be eliminated for some chronically ill or disabled children not eligible for Medicaid or CHIP.
- **Less funding for EPSDT Medical/Dental prevention programs, Medical Transportation, and Family Planning:** Reduced funding under the assumption that 12-month continuous eligibility for Children's Medicaid will not be implemented.
- **CUTS to following public health programs:** Vision/Hearing Screening, Spinal Screening, Newborn Screens, Audiometric Lab, Teen Health, Traffic Safety, Take Time for Kids, Family Violence Prevention, Male Involvement, System for Perinatal Care, Family Health Services Info./Referral Line; Community Grants; Abstinence Education; Dental Health; Kidney Health.
- **ELIMINATED COMPLETELY:** Birth Defects Registry; Epilepsy Program (5,000 clients in 2003); Cancer Registry; Treatment and Supervision of Sexually Violent Predators; Indigent Health Reimbursement; Osteoporosis Prevention; Alzheimer's Disease program (provides about 28,600 patient consultations in 2003); Children's Outreach Heart Program.

Protective and Regulatory Services (PRS)

A budget cut of 12.5% to this agency means that children will be at greater risk of abuse or neglect, fewer services will be provided to families to reduce or prevent child abuse, and foster care placements in the child's own community will be even harder to find. PRS has proposed:

- **Cutting 240 staff from Child Protective Services:** Investigators and other direct CPS staffing would be funded at 4,346, down from 4,586 CPS workers in 2002-03. Caseloads per worker are already high and would have worsened even without a cut to the number of CPS workers.
- **Cutting foster care and adoption payments by 25%:** Rate cuts mean fewer foster care homes; scarcity of placement resources means children will be sent to homes far from their communities.
- **Cuts to Adult Protective Services:** Caseloads will worsen.
- **The elimination of state support for the following prevention programs:** Healthy Families (1,768 families now served); Family Outreach (997 families); Secondary/Tertiary (240 to 320 families); At-Risk Mentoring (2,435

youth); Buffalo Soldiers (299 youth); HIPPY (393 families); Second Chance (763 teen parents, 839 children); Parents as Teachers (413 parents).

- **Reduced funding for these prevention programs:** Services to At-Risk Youth (STAR), Community Youth Development, Runaway Hotline, and Communities in Schools.

IF HHS AGENCIES WERE FUNDED AT "CURRENT SERVICES" LEVELS, \$6.8 BILLION MORE IN FEDERAL DOLLARS WOULD BE AVAILABLE FOR LOCAL COMMUNITIES' HEALTH CARE AND SOCIAL SERVICES NEEDS

In complying with the most recent set of budget-cutting directives, state agencies were also allowed to ask for General Revenue they needed **above and beyond** the reduced amount, to continue services to currently eligible clients and address other current needs. The five major HHS agencies described above requested **an additional \$5.1 billion in General Revenue**--43% more than the amount of General Revenue allotted to them under a 12.5% cut. If this funding could be provided to the agencies, an additional \$6.8 billion in federal dollars would be available for Texas.

TEXAS WORKFORCE COMMISSION

The Texas Workforce Commission's budget proposal for the 2004-2005 biennium is projected to reduce child care assistance for working poor families by 4,900 slots. However, the actual impact may turn out to be worse, as this projection does not appear to include the full impact of pending federal TANF legislation which may drastically increase work requirements for TANF families without providing additional child care funding. To meet this increased demand, even more "working poor" slots might have to be shifted to TANF families. In Congress, a House version of this legislation has passed; action is still pending in the U.S. Senate. In response to current child care funding pressures, local workforce boards have already cut reimbursement rates, increased parent co-pays, and cut quality initiatives.

CUTS TO EDUCATION AND STATE EMPLOYEE BENEFITS MEAN COST-SHIFTING

In many cases, a reduction in state General Revenue support will mean **higher local property taxes** (for schools, hospitals, law enforcement, and other essential services) and **higher user fees** (tuition increases for university and community college students, increased co-pays for state workers' health insurance plans). Cities and counties already experiencing problems balancing their budgets (because of lower sales or property tax collections) will see those problems worsen.

K-12 Education Cuts: An almost \$2.8 billion cut in appropriations to the Texas Education Agency means that local school districts would lose \$1.1 billion in Foundation School Program funding. Other cuts would be made to reading and math programs, state funding for textbooks and instructional material, and grants for pre-kindergarten and teacher training. If local school boards decide that cuts in state funding will be replaced with more funding at the local level, property taxes will go up where possible (many school districts are already at the legal cap). TEA also proposed to eliminate about 15% of its full-time employees, staff working on programs such as dropout prevention and school monitoring. Another \$478 million in cuts would be made to the Teacher Retirement System, most likely in health insurance benefits.

Colleges and Universities: A cut of \$1.3 billion to higher education would include the following General Revenue **reductions:**

- Public community and junior colleges statewide: \$197 million cut
- University of Texas at Austin: \$61 million
- UT Medical Branch at Galveston: \$56 million
- Texas A&M at College Station: \$52 million
- UT M.D. Anderson Cancer Center: \$35 million
- Univ. of Houston (main campus): \$33 million
- Texas Tech: \$28 million
- UT Health Science Center at Houston: \$32 million

Higher education cuts would probably lead to larger class sizes as faculty positions are eliminated; tuition increases to the maximum allowed by state law; and postponement or cancellation of plans to repair and maintain campus buildings and other facilities.

State Employee Benefits: State employees in Texas are not very highly paid--half made less than \$30,150 in 2002, according to the State Auditor. But most state workers do get health insurance and pensions that many private-sector employers do not offer workers. A 12.5% cut to state workers' benefits would eliminate at least \$175 million in GR support, which would probably be passed on in the form of higher health insurance co-pays for state employees and other benefit reductions.

THE SPECTER OF ALL THESE CUTS WOULD NOT HAVE ARISEN IF TEXAS' REVENUE SYSTEM KEPT UP WITH ITS CHANGING ECONOMY AND NEEDS

As mentioned in Point #1, General Revenue will be \$7.4 billion less under current tax laws than the amount of General Revenue that agencies are spending in 2002-03. GR-related sales tax collections, which account for about

half of all General Revenue in 2002-03, fell by 1.1% from 2001 to 2002, and may fall again in 2003 if current trends continue. This downward trend is not just the result of a bad economy; throughout the 1990s, state tax collections have **shrunk** as a percent of total personal income in Texas. In 1991, state taxes took just under one nickel (4.8 cents) of every \$1 of Texans' personal income. By 2005, state taxes will take only 3.7 cents per \$1 of personal income. If state tax collections had remained at their 1991 proportion of personal income, the state would have **an additional \$15 billion** in revenue in the 2004-05 biennium.

WHAT CAN YOU DO?

Contact legislators as soon as possible (see <http://www.capitol.state.tx.us/fyi/fyi.htm> if you do not know who represents you). Let legislators know you want them to take a responsible and balanced approach to writing the state budget. The current shortfall cannot be closed by budget cuts alone. Following the example of prior Texas Legislatures in a similar situation, revenue increases must be made a part of the solution.

BUDGET WRITERS

The budget will be marked up in the next few weeks by members of the House Appropriations and Senate Finance Committee (see members below).

HOUSE: The following are on **House Appropriations:** Talmadge Heflin (Chair), Vilma Luna (Vice-Chair), Leo Berman, Dan Branch, Fred Brown, Betty Brown, Myra Crowner, John Davis, "Joe" Deshotel, Dawanna Dukes, Craig Eiland, Dan Ellis, Roberto Gutierrez, Peggy Hamric, Ruben Hope, Suzanna Hupp, Carl Isett, Elizabeth Ames Jones, Lois Kolkhorst, Ruth Jones McClendon, Jose Menendez, "Joe" Pickett, Jim Pitts, Richard Raymond, Jim Solis, Jack Stick, Vicki Truitt, Sylvester Turner, and Arlene Wohlgenuth.

SENATE: The **Senate Finance Committee** is chaired by Sen. Teel Bivins, Vice-Chair is Judith Zaffirini. Other members are Kip Averitt; Gonzalo Barrientos; Kim Brimer; Robert Duncan; Kyle Janek; Jane Nelson; Steve Ogden; Florence Shapiro; Eliot Shapleigh; Todd Staples; Royce West; John Whitmire; and Tommy Williams.

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