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## House Appropriations Wraps Up HHS Budget Hearings

### Senate Finance Committee Now Hearing Agency Spending Requests; Funding Gaps Exist Between HHS Needs and LBB Proposals

#### Legislative Budget Process Well Underway

Six weeks into the 76<sup>th</sup> Legislative Session, House budget subcommittees are nearly done hearing the initial budget presentations of health and human services and other state agencies, as well as taking public testimony on the budget proposals made by the Legislative Budget Board, the Governor, and agency officials.

The Center for Public Policy Priorities has testified before House members on better ways to utilize the TANF surplus, as well as for increased funding for child protective services, nutrition and hunger issues, the Children's Health Insurance Program (CHIP), the Texas Integrated Enrollment and Services (TIES) system, Medicaid programs, and other state responsibilities. CPPP has begun testifying on these issues as the Senate Finance Committee holds its budget hearings. This Policy Page provides more detailed information on individual agencies budget needs compared to the Legislative Budget Board's base budget bill (HB 1/SB 2) and to the Governor's proposal, released January 28<sup>th</sup>.

#### State Budget Actions on the House Side

The draft version of the General Appropriations Act (HB1/SB2), sponsored by Senator Bill Ratliff and Representative Rob Junell, was introduced as soon as the Legislature convened on January 12<sup>th</sup>. Based on recommendations by the Legislative Budget Board (LBB), HB1/SB2 proposes \$26.9 billion in spending for all Article II (health and human services) agencies, not counting some additional funds earmarked from the tobacco settlement.

Compared to the agencies' requests, HB1/SB2 leaves \$3.9 billion in needs (including exceptional items) unfunded (Exhibit 1). The Texas Workforce Commission, found in Article VII (business and economic development), has a recommended budget of \$1.9 billion, compared to its request of \$2.2 billion. Total proposed state spending in HB 1/SB 2 is \$93.5 billion, almost two-thirds of which is General Revenue (GR) or GR-dedicated revenue.

Hearings on the proposed budget started soon after House and Senate committee membership was announced; on the House side, this took place the last week of January. The 27-member House Appropriations Committee (HAC), once again

chaired by Rep. Junell, kicked off its deliberations by hearing budget overviews from the LBB, the Governor, and state officials overseeing criminal justice, education, transportation, Y2K projects, and natural resources and workforce agencies.

In full committee, HAC also heard testimony from Health and Human Services Commissioner Don Gilbert, who discussed long-term trends in state demographics, poverty and health insurance coverage rates, and other caseload-related data indicating a future increased demand for state services. Commissioner Gilbert also presented the CHIP and TIES funding proposals—including the negative impact of factoring Medicaid "spillover" into the cost of CHIP—and briefly discussed Medicaid managed care issues and the Sunset Commission's HHS proposals.

HAC subcommittee membership was announced on February 3<sup>rd</sup>; the 5-member Health and Human Services subcommittee (Reps. Glaze [chair], Coleman, Eiland, Hartnett, and Janek) began taking testimony from Article II agencies on February 8<sup>th</sup> and wrapped up initial budget presentations and public testimony a week later. In that time, CPPP's

position on several health, welfare, and workforce development areas was presented to House Appropriations members:

- CPPP testified on the inadequacy of funding for child protective services—part of the Department of Protective and Regulatory Services budget request—particularly in light of the recent alarming increase in child deaths in Texas.
- CPPP spoke in favor of implementing CHIP with coverage of children in families having incomes up to 200 percent of the poverty level.
- For the TIES project, CPPP endorsed further implementation of the initiative and encouraged the TIES agencies to continue to be open to feedback from advocacy groups concerned about the project and its potential impact on needy Texans. Funding to replace the SAVERR system is also critical.
- When the HHS subcommittee heard budget requests for the Department of Health, CPPP presented testimony on the need for increased Medicaid funding.
- At the Department of Human Services' budget request presentation, CPPP unveiled its proposal for using surplus TANF funds, which the LBB proposal for the most part left unutilized (see Policy Page 72, February 12, 1999) . CPPP also endorsed DHS' exceptional items for community care and for long-term care services.
- CPPP testified on hunger and nutrition problems in the state, pointing out that Food Stamp caseloads have fallen much more rapidly than state poverty or other indicators of need. CPPP presented several specific nutrition assistance proposals, including Food Stamp benefits for legal immigrants and increased funding for the Summer Food Service Program.
- The Texas Workforce Commission's budget request was considered by the HAC General Government subcommittee, chaired by Rep. Talmadge Heflin. CPPP again presented its recommendations on ways to best use TANF surplus dollars to support working families.

### Senate Budget Hearings Now Underway

The 11-member Senate Finance Committee, chaired by Senator Ratliff, began hearing the budget requests of HHS agencies on February 18<sup>th</sup>, starting

with HHSC and the Department of Health. CPPP staff again testified on TIES, Medicaid, CHIP, using TANF surplus funds, and the DHS and TWC budget requests.

### Specific HB1/SB 2 Issues

As CPPP analysts get more information about the proposed appropriations act from the LBB and legislators, some good news has emerged. For example, some GR funding has been included by the LBB in DHS's base budget to provide Food Stamp benefits to about 330 elderly or disabled immigrants. However, most legal immigrants in Texas remain ineligible for Food Stamps as a result of the 1996 federal welfare reform.

The biggest concern for HHS programs overall is that HB1/SB2 leaves almost \$4 billion in unfunded exceptional items for the Legislature to decide as a whole. As a result, these items will have to compete with other spending proposals and with proposed tax cuts for the remaining \$2.6 billion in "discretionary" funds that HB1/SB 2 leaves on the table.

The LBB proposal also does not take full advantage of the ability to transfer TANF funds to Title XX or to the Child Care Development Fund (CCDF).

### Emergency Appropriations Being Considered for Rest of FY 99

SB 472 (Ratliff) provides increased funding for several state agencies for the remainder of fiscal 1999. Emergency spending proposed by SB 472 totals \$97 million, almost all of it from GR. The biggest item receiving funding is state prison capacity (\$27.6 million), followed by boll weevil and other cotton pest eradication programs at the Department of Agriculture (\$25 million). Child protective services at DPRS would receive an additional \$8.9 million in total funding (including \$6.7 million GR); along with that budget increase, SB 472 authorizes DPRS to increase CPS staffing by up to 220 employees at the close of fiscal 1999. Funding for the Governor's social promotion initiative is also part of SB 472.

### Governor's Budget Proposal

The Governor's budget proposal, unveiled on January 28<sup>th</sup>, surprised many observers of the state budget-making process by including agency-level recommendations for funding (GR and total) and for staffing levels. Not so surprisingly, it also included \$2.6 billion in tax cuts, some versions of which have already been introduced by various legislators.

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\* Testimony presented by CPPP staff is available at [www.cppp.org/products/testimony.html](http://www.cppp.org/products/testimony.html) or by contacting the Center.

Overall, the Governor proposes \$96.4 billion in state spending for 2000-01, of which \$53.8 billion would come from GR. For health and human services, the Governor's budget proposes more all-funds appropriations than the LBB did—\$28.2 billion versus \$26.9 billion—but the increase is largely due to the Governor's proposed use of federal TANF and TANF maintenance of effort (MOE) funds. General revenue support for HHS agencies is lower in the Governor's budget proposal: \$10.8 billion overall, versus the LBB's \$11.1 billion.

**Child welfare:** Some of the more favorable features of the Governor's budget proposal, compared to HB1/SB2, are the increased funding levels for DPRS child protective services programs. The Governor's proposals would authorize 393 additional caseworkers by fiscal 2001, compared to 1999 staffing levels. Although this increase in child protective services staff is not enough to fully address the recommendations made by Judge Scott McCown, it is a good start. The Governor's budget also provides funds to take the Victim Assistance-CASA program statewide.

**HHS Investments:** The Governor proposes positive investments in several health and human services programs. The proposal would allocate \$63.2 million in tobacco settlement funds to the Texas Department of Mental Health and Mental Retardation (MHMR) for "new generation" medications, enabling persons with schizophrenia and bipolar disorder to function in the community. (MHMR estimates \$106 million would be required to serve all Texans needing these medications.) Also included in the governor's budget are amounts to recognize inflation of health care costs in certain Medicaid-funded programs (no inflation or price increases are included in the LBB budget). Physicians' fees, outpatient hospital bills, prescription drugs, nursing home care, and community care would receive some inflation increases. Three Medicaid "waiver" programs designed to allow people with disabilities or serious illnesses and frail elders to remain at home and out of institutions would receive funds to increase the number of clients served (DHS' Community Based Alternative, the Health Department's Medically Dependent Children's Program, and MHMR's Home and Community Service Program).

For TIES, the Governor's budget includes \$87 million in total funding. Continued TIES funding is an exceptional item in the HHSC budget request.

**CHIP Limited:** Unfortunately, the Governor's proposal limits the CHIP program to an upper

income limit of 150% of the federal poverty level, rather than the 200% allowed by federal law. The 200% level is supported by a majority of members of the Texas House and by the 60 statewide organizations in the Texas CHIP Coalition.

**TANF Issues:** While the LBB proposal leaves nearly \$600 million in TANF surplus funds largely unallocated—with those decisions deferred to the Legislature—the Governor does spend \$398 million of the estimated surplus. Several positive proposals closely parallel the Center's own priorities for the use of TANF. The Governor's budget proposes an increased earnings disregard for TANF recipients—a much-needed welfare-to work support in Texas. Taking advantage of transferability provisions under TANF, the governor moves \$151 million to the Child Care Development Fund to significantly reduce waiting lists for child care for the working poor. He also transfers \$55.4 million to Title XX to offset federal cuts. Compared to the LBB proposal, which actually cuts employment services for welfare recipients, the governor's budget adds \$32.4 million using TANF funds. Another governor initiative supported by the Center would direct TDHS to begin an effort to identify and remove the barriers to work for many hard-to-serve TANF recipients, with \$10 million in TANF. In a method of finance change, the governor would allocate TANF funds to cover the entire cost of the current \$50 pass-through of child support collected for TANF recipients, and would allow the Attorney General's Office to retain the \$4 million in GR that is freed up to improve child support collection efforts.

Another more far-reaching change in method of finance for TANF and TANF maintenance of effort (MOE) funds is of significant concern. The Governor's budget would make DPRS the state agency for TANF MOE spending. This is very different from the LBB's proposed use of MOE funds—the LBB recommended no TANF MOE funding for DPRS programs, and consolidated most of it within the DHS budget. The Center will be monitoring the Governor's proposed use of TANF MOE funds very carefully, to ensure that it does not lead to supplantation of state GR funding for protective services and foster care. In the Center's opinion, more information must be provided on the proposed use of TANF MOE funds before budget makers can undertake such a major funding change.

**Adult ed:** Another item that will be monitored in the Governor's budget proposal is a \$7 million reduction in funding for Adult Education programs at the Texas Education Agency, compared to the

LBB budget. With adult illiteracy continuing to be a major workforce development challenge in Texas, this budget cut seems especially ill-advised.

Tax proposals: In the area of tax cuts, the lion's share proposed by the Governor is for \$2 billion in property tax cuts. Legislation on how this would be accomplished has not yet been introduced.

The Governor also proposed tax relief for small businesses. SB 148 (Fraser), which has already cleared the Senate Finance Committee, would exempt corporations grossing \$100,000 or less per year from the franchise tax and from tax report filing. SB 148 is estimated to cost the state \$57.2 million in lost revenue for the 2000-01 biennium.

Another business tax break championed by the Governor is a \$250 million research and development (R&D) tax credit. SB 5 (Sibley) would provide a franchise tax credit or refund for certain R&D expenses, similar to the federal incentive.

The other major category of tax cuts proposed by the Governor is aimed at consumers, providing sales tax exemptions for over-the-counter medicines (\$150 million), health aids (\$50 million), diapers (\$110 million), and Internet access (\$20 million). HB 254 (Hilderbran) would create all these exemptions, as well as another for back-to-school clothes priced under \$50 and a tax break for small businesses.

Finally, while not part of the budget proposal issued on January 28<sup>th</sup>, the Governor's request that legislators provide temporary tax relief for the oil and gas industry has also cleared the Senate and will be taken up by the House Ways and Means Committee on February 24<sup>th</sup>. SB 290 (Brown) will cost the state an estimated \$45 million in lost revenue.

Exhibit 1. Selected Texas State Agency Budgets (Actual and Proposed), 1998-2001

	1998-99 Funding		Agency request for 2000-01		HB 1/SB 2 recommended funding, 2000-01		Governor's Proposed Budget, 2000-01	
	GR	All funds	GR	All funds	GR	All funds	GR	All funds
Aging	13.8	118.8	27.5	132.4	13.7	119.4	13.7	119.4
Alcohol and Drug Abuse	54.5	306.7	67.1	351.6	54.5	304.8	54.5	343.9
Commission for the Blind	18.1	93.3	25.5	97.7	21.0	93.7	18.1	93.7
Cancer Council	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Children's Trust Fund	-	8.6	3.8	7.1	3.8	7.6	-	7.6
Deaf and Hard of Hearing	1.6	3.3	2.6	4.5	1.6	3.4	1.6	3.4
Council on Early Childhood Intervention	66.4	146.9	100.2	192.5	66.4	161.5	66.4	161.5
Department of Health	4,593.2	12,977.9	5,670.7	14,386.6	5,115.3	12,882.6	4,761.2	13,052.7
Health and Human Services Commission	19.8	65.2	49.5	199.3	13.1	42.4	45.4	490.3
Healthy Kids Corporation	6.5	6.5	3.0	3.0	-	-		
Dept. of Human Services	2,548.0	7,028.4	3,427.2	8,716.6	2,922.5	7,339.1	2,673.7	7,712.0
Dept. of Mental Health and Mental Retardation	1,895.6	3,404.0	2,287.5	4,039.3	1,902.4	3,382.3	1,937.5	3,518.9
Dept. of Protective and Regulatory Services	469.0	1,114.5	560.7	1,233.7	401.2	1,174.8	628.1	1,262.8
Rehabilitation Comm.	<u>90.2</u>	<u>535.7</u>	<u>123.5</u>	<u>587.2</u>	<u>110.4</u>	<u>541.4</u>	<u>100.7</u>	<u>580.5</u>
Subtotal	\$9,784.7	\$25,817.8	\$12,357.0	\$29,959.6	\$10,633.9	\$26,061.0	\$10,308.9	\$27,354.7
Other budget items*	<u>458.4</u>	<u>549.3</u>	<u>468.6</u>	<u>847.6</u>	<u>468.6</u>	<u>848.6</u>	<u>442.0</u>	<u>813.8</u>
All HHS	\$10,243.1	\$26,367.1	\$12,825.6	\$30,807.2	\$11,102.5	\$26,909.6	\$10,750.9	\$28,168.5
Workforce Commission	\$193.6	\$1,901.2	\$298.4	\$2,161.1	\$183.7	\$1,861.5	\$188.3	\$2,014.0

Note: GR indicates General Revenue or GR-related spending or appropriations.

\* Includes state employee retirement and group insurance, Social Security or Benefit Replacement Pay, bond debt service, lease payments, and adjustments for interagency contracts.

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