

May 27, 1999

No. 88

Critical Funding Decisions Made by Budget Conferees

With just a few days remaining, state budget for 2000 and 2001 not quite wrapped up

On May 24, the HB 1 (General Appropriations Act) Conference Committee signed off on a \$98.1 billion state spending plan for fiscal 2000-01. This action marked the end of weeks spent reconciling the different budgets proposed by the House and Senate. The HB 1 conferees' recommended budget was approved by the House on May 26, and must now be approved by the Senate before the end of the session on May 31.

Under the HB 1 conference committee's recommendations, health and human services agencies would receive \$27.4 billion in all funds (including the tobacco settlement), up 4% from the current biennium. This Policy Page summarizes the major decisions made by the conferees about how that amount will be allocated to specific programs. (In some cases, references are made to proposals in the House and Senate budget versions; see Policy Pages 80 and 84.) Additional CPPP analyses in the next few weeks will provide more information on strategy-by-strategy funding in the final budget and the effect on clients.

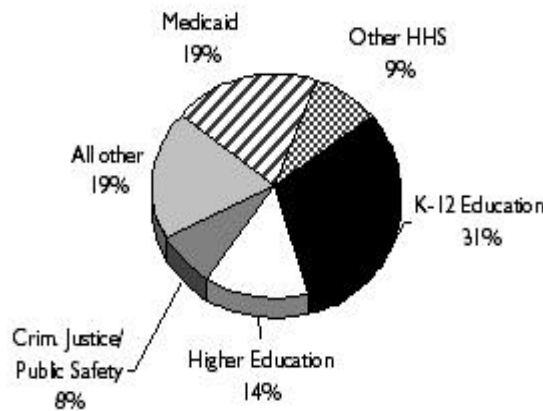
State Budget: Big Picture

The HB 1 conferees' recommended funding for all state operations in 2000 and 2001 is \$98.1 billion, of which \$61.4 billion is General Revenue (GR) and GR-dedicated funds. The biggest category of state spending is education, with \$44.5 billion (45%) of all-funds spending in the next biennium. Of that, K-12 public education would receive \$31.1 billion, including \$807 million in new funds made available by the Comptroller's May 13 revised revenue estimate. Comparing that amount to K-12 funding in 1998-99, the increase would appear to be almost \$4.5 billion. However, the actual amount of new money going to public schools in Texas is still being decided by SB 4 conferees. These legislators will recommend how \$3.8 billion already in HB 1 for teacher pay raises, school finance equity, and local property tax relief would be allocated among these three

items. Any state money used to reduce or freeze local property taxes would not contribute to a net increase in K-12 spending. The House and Senate also have not yet decided the fate of various business and consumer tax cuts, most of which would reduce franchise and sales tax collections.

Article II, through which most health and human services programs are funded, would take the second largest share of state appropriations. The \$27.4 billion recommended for Article II is \$1 billion more than HHS agencies received in the current budget period. About \$680 million of that increase is made possible with federal funds, which would

Proposed State Spending, 2000-2001



"All other" includes general and regulatory agencies, natural resources, business and economic development, and the legislature, among others.

provide \$16.2 billion in HHS funding during 2000-01. General revenue and GR-dedicated funding for HHS agencies would total \$11.1 billion, up \$420 million from 1998-99 spending. For the Texas Workforce Commission

(TWC), HB 1 conferees recommended a budget of just over \$2 billion (all funds), up 6.2% from the current budget period.

Employment levels at HHS agencies would fall to 51,412.5 staff by 2001, from the fiscal 1999 level of 53,846.5. The proposed budget includes up to \$399 million to fund a \$100 monthly pay raise for state agency employees, and \$157 million for pay raises for non-faculty employees of public colleges and universities.

With a few exceptions, HB 1 conferees chose the less costly recommendation for HHS programs where the House and Senate proposals differed considerably—especially if the higher funding level would have required general revenue. Decisions on big-ticket items such as rate increases and on items making contingent appropriations for bills that had not yet passed were left to the very end of the conference committee negotiations. The funding prospects for these “watch list” issues did not improve substantially even after the Comptroller’s revised revenue estimate—released the day before budget conferees wrapped up their public deliberations.

HHS Method of Finance Decisions

Federal funds played critical roles in the conference stage, especially the \$1.3 billion in Temporary Assistance for Needy Families (TANF) funds that Texas will get by August 2001. HHS programs also benefited from \$348 million from the tobacco settlement, which will bring almost \$2 billion into state coffers through 2001. Without the TANF surplus and tobacco funds, improvements in child protective services (CPS); TANF-related benefits and supports such as child care; New Generation medications; and other critically needed HHS programs—including the Children’s Health Insurance Program—might not have been possible. However, because TANF funds were also used to supplant \$162 million in GR support for HHS programs, rather than spending the TANF in addition to existing GR support, legislators missed out on the opportunity to expand the use of TANF in ways that would truly have made Texas families more self-sufficient in the long run.

TANF initiatives : HB 1 conferees did approve three uses of TANF that will increase the level of financial assistance for families receiving TANF monthly payments:

- \$34 million will maintain the monthly benefit at 17% of the federal poverty level;*
- \$27.6 million will fund an annual \$60 payment per TANF child to help families with back-to-school expenses; and,
- \$17.7 million will improve the earnings disregard for working TANF parents. The expanded disregard will

exclude the first \$120 earned per month and 90% of other earnings in the first four months, and \$120 of monthly earnings in the next four months. The \$17.7 million is lower than what legislators previously approved because the new disregard will not go into effect until December 1999.

The House’s proposal to provide TANF from the date of application was not approved by HB 1 conferees. Other TANF initiatives that did make it into the HB 1 conference report include:

- \$12 million for the Barriers project to help TANF clients with significant obstacles to employment to find and keep good jobs;
- \$3.3 million for “Second Chance” homes for teen parents; and
- \$1.8 million to expand the Healthy Families program.

TANF funds were also used for the CPS, foster care, and child care regulation programs at the Department of Protective and Regulatory Services; and to expand Communities in Schools, double the Self-Sufficiency Fund to \$24 million; and expand child care at TWC. HB 1 conference recommendations leave a contingency of \$110 million in TANF unused by the end of fiscal 2001.

Tobacco settlement uses in HHS budget: The single largest health and human services program receiving tobacco settlement funds is CHIP, with \$179.6 million in funding for 2000-01. HB 1 conferees decided this amount would be enough to fund the basic CHIP program (children under 19 in families with incomes up to 200% of poverty) as well as CHIP for legal immigrant children and similar coverage for state employees’ children (which required separate legislation).

Tobacco funds will also pay for New Generation medications (\$30.5 million for the biennium) for mentally ill clients of the Department of Mental Health and Mental Retardation (MHMR); the Healthy Kids Corporation (\$3 million); and other health services such as the Medically Dependent Children’s Program, newborn hearing screens, respite care, additional waiver program slots, and mental health care (\$50 million). About \$81 million of tobacco funding for HHS programs will count towards the state’s share of Medicaid costs, drawing down \$129 million in federal funds.

Endowments created with tobacco settlement money will generate additional revenue for the Department of Health: the Permanent Fund for Tobacco Education and Enforcement (\$20 million); the fund for Children and Public Health (\$10 million in investment earnings); the fund for EMS and Trauma Care (\$10 million); the fund for Rural Health Facility Capital Improvement (\$5 million); and the Community Hospital Capital Improvement Fund (\$2.5 million).

* The current TANF grant of \$188/month provides a family of three with an annual income that is 16.3% of poverty in 1999.

Recommendations for DHS and TDH

Medicaid programs are a significant share of the state HHS budget, especially at the Department of Human Services and the Department of Health. Thus, it is not surprising that a large share of the recommended increases in HHS funding overall were for Medicaid programs.

To maintain current services funding for Medicaid programs, HB 1 conferees had to find GR or other revenue to make up for the effect of lower Medicaid match rates (the federal share will drop from 62.45% in 1999 to 61.36% in 2000). Medicaid costs are also increasing due to caseload growth among cost-intensive elder and disabled clients, despite declines in poverty-related caseloads. Other Medicaid cost-drivers include rising foster care payments and nursing home clients with higher levels of need. For all Article II agencies, Medicaid funding will total \$18.8 billion in 2000-01, including \$7.2 billion in GR and the remainder in federal funds.

At the Department of Health (TDH), Medicaid premium programs received about a 2.5% annual increase (\$127 million all funds) to cover rate increases. Medicare programs paid through Medicaid received funding to cover expected federal premium increases and caseload growth. For the Vendor Drug program, funding was provided to cover a 7% annual rise in prescription costs.

Other TDH program funding that was decided by the HB 1 conference committee:

- For sexually transmitted disease prevention and diagnosis services, conferees started with the House-recommended level (\$147 million for the biennium) and added \$38 million in state and federal funding.
- For immunizations, conferees went with the slightly lower Senate recommendation (\$33.9 million per year) and endorsed the Senate plan to earmark \$5.4 million in tobacco settlement funds for children's vaccinations. Hepatitis A vaccinations for children and teens in high-incidence areas will receive \$800,000 for the biennium.
- Conferees approved the \$42 million exceptional item funding for chronic disease services (including the Kidney Health and Epilepsy Programs) asked for by TDH and clients, but not the extra \$5 million that the Senate had recommended for client services and higher costs for transportation reimbursement.
- Conferees did not fund the \$8 million initiative for Women's Health Services.
- For dental provider services, conferees added a rider to TDH's budget expressing legislative intent for the agency to increase enrollment and provider participation. However, appropriations were not made contingent on increased participation.

Department of Human Services (DHS): Many of the TANF initiatives described earlier affect DHS program

clients. Other critical items decided by the budget conferees include the following:

- Community Care services: HB 1 conference recommendations include a \$12 million tobacco funds financing change, as well as several compromises between the House and Senate proposals. To address higher client level of need for entitlement programs, \$5.2 million was added to the House's proposed funding level. For CBA waivers, \$60.9 more was added to the House amount; the Senate had recommended an \$82 million increase. For non-Medicaid clients, \$2 million over the House level was decided on by conferees. The combined effect of these decisions is that community care will be funded at \$883 million in 2000 and \$941 million in 2001. Funding, but not staffing increases, were approved for CBA enrollment and the Community Alzheimer's Resources and Education pilot. A rider added by conferees authorizes a community care services rate increase costing \$27 million in 2000. If HHSC certifies that improvements are being made in community care workers' wages and benefits, another \$27 million can be spent on rate increases in 2001.
- Long-term care eligibility and service planning: HB 1 conferees endorsed the House proposal of \$98.5 million in 2000 and \$100.2 million in 2001. For long-term care facilities, conferees added \$5.6 million (\$3.0 million GR) for regulation and \$1.1 million for enforcement (but once again, no authorization for new staff). The LTC credentialing strategy was funded at the House level, which did not include funding for 12 new staff to expand the LTC registry.
- Nursing facility and hospice payments: Budget conferees recommended \$1.7 billion in 2000 and \$1.5 billion in 2001 for these items. As in the case of community care services, a rider authorizes rate increases for these services linked to better working conditions and quality of care for clients. For 2000, \$41 million could be spent on rate increases, matched by another \$41 million in 2001 if HHSC certifies that direct care staffing and pay have improved.
- In a rider, DHS is authorized to spend up to \$2 million to develop and operate nutrition education and outreach programs for low-income Texans. Funding for the programs would come from enhanced federal contributions due to anticipated reductions in Food Stamp error rates. DHS could also use up to \$2 million for bonus pay for employees who helped achieve the lower error rates.
- The DHS strategy for TANF, Food Stamps, and other client self-support eligibility determinations got a \$4.8 million cut (half in GR, half in federal funds), and will have a staff reduction of 100 workers.

- TIES: Transferring funding of the integrated eligibility determination project from HHSC to DHS, the HB 1 conference committee recommended \$54.8 million (all funds) to continue a substantially modified version of TIES. That amount of funding is only enough to cover the cost of replacing the SAVERR system with some improvements, but far short of the goal to integrate DHS eligibility programs and centralize client access to a host of HHS programs via call centers. Renamed the Texas Integrated Eligibility Redesign Systems (TIERS), the project will be funded through the DHS Client Self-Support Eligibility strategy.

Funding for Other HHS Agencies

Aging: Conferees agreed on an additional \$1 million for the Ombudsman program (down from the Senate's \$3 million) in the "Connections" strategy. The HB 1 conference report also includes the House's lower recommended funding level for the Department on Aging's nutrition services, and except for the approval of \$280,000 more for the Retired Senior Volunteer Program, the House's lower funding level for strategies enhancing independence and productivity.

Commission on Alcohol and Drug Abuse : For prevention services, HB 1 conferees endorsed the Senate's recommendation (the House had wanted to add \$500,000 in federal funds for technical assistance for service providers). Also, treatment services did not get the \$10.8 million extra in federal funds recommended by the Senate for chemical dependency counseling. The toll-free line for compulsive gamblers received another \$400,000 in interagency funds from the Lottery Commission.

Commission for the Blind : Independent living skills case management services will receive \$250,000 more in GR than what the House had endorsed, versus the \$1 million increase that had been recommended by the Senate. For children's habilitative services, HB 1 conferees also approved a \$250,000 GR increase over the House's proposal. Budget conferees also recommended increasing staffing (6 more employees in 2000; 8 more by 2001) over the House-proposed level of 610.5 employees.

Cancer Council : The council had no issues for HB conferees to decide.

Children's Trust Fund of Texas Council : The CTF will have \$0.9 million less in available federal fund balances to spend in 2000-01. However, its staffing was authorized to increase by two employees. If DPRS is designated as the lead agency for the Community-Based Family Resource and Support Grants program, CTF staffing will drop to four employees.

Commission for the Deaf and Hard of Hearing : The contract services strategy (which funds case management and other services) received \$250,000 more than the

House had recommended. TCDHH was also given authority to hire another staff person for these services. For the strategy that helps clients get specialized telecommunications devices, budget conferees approved the higher funding level (\$343,704 per year) in the Senate's proposal, plus two additional employees.

Interagency Council on Early Childhood Intervention : The resource coordination strategy, which provides comprehensive services for children in local communities, had a reduction of \$12 million in federal funds. As a result, funding for this strategy for 2000 will be \$76.7 million, increasing to \$80.3 million in 2001. HB 1 conferees also decided to add \$1 million in tobacco funds to ECI's budget for family respite care.

Health and Human Services Commission : For HHSC, the budget conferees had several issues to resolve, including the following:

- \$14.6 million in federal funds will transfer to the Department of Economic Development for the enterprise communities and empowerment zones program, as recommended by the Senate;
- the Information and Referral project (receiving 3 new employees and \$1.1 million in GR-related funds) will be continued;
- \$100,000 in GR was added for guardianship assistance grants; and
- HHSC was authorized to do a special demographic and economic data survey of Texans (to supplement information available from decennial and other federal census data), but only if funds are donated or granted to the agency to do this.

Mental Health and Mental Retardation : As mentioned earlier, MHMR clients needing New Generation medications will benefit from an allocation of tobacco settlement funds to pay for the drugs. About 5,200 additional clients will be served per year with the \$30.5 million increase. HB1 conference recommendations also include \$19.8 million in GR for the New Generation drugs and \$16 million for community support services for New Generation clients.

In a method of finance change, children's mental health programs at MHMR received tobacco funding (\$15 million) to offset a \$15 million GR reduction.

In community MR programs, HB 1 conferees chose the Senate's lower funding for vocational services and added \$0.5 million in GR. The net effect will be to increase the monthly number of clients getting MR supported/competitive employment services from 2,000 currently to 2,391 by 2001. In-Home and Family Support training services programs had output and efficiency measures added to the budget, showing that 5,479 clients per year will be served, and that the average grant will be \$2,000.

For Home and Community-based Services (HCS), the Senate had proposed to add \$25 million more than the House. HB 1 conferees chose a funding level that will increase the number of HCS clients being served from 4,850 in 1999 to 5,812 in 2001.

Protective and Regulatory Services : HB 1 conferees for the most part went with the Senate's recommendations to increase child protective services funding and related programs such as CPS purchased services, foster care (receiving a 7% annual increase, at a cost of \$29 million), and at-risk prevention programs. Recommended funding is enough to continue the 220 new CPS staff authorized in the emergency spending bill (SB 472), as well as to hire 160 additional caseworkers and other staff needed for better CPS investigations. TANF funds were used for several of these initiatives, requiring revised state plans and federal approval.

Rehabilitation Commission : HB 1 conferees approved funding levels that would expand vocational rehabilitation, independent living, the Deaf-Blind Medicaid Waiver (which will be moved to DHS by another piece of legislation), and disability determination programs at TRC. About 12,000 more clients will receive vocational rehabilitation services, and 330 more will receive TRC supported independent living services. Most of the increase is from federal funds (\$16.4 million).

Workforce Commission : Budget conferees approved transferring TANF surplus funds to the Child Care Development Fund to make more child care available for low-income families. Total funding for child care at TWC will be \$380 million in 2000 and \$366 million in 2001, up from the 1999 level of \$336 million. The increase will provide child care to about 6,600 more children by 2001 (in child care not related to CHOICES and Food Stamp Employment and Training clients). Also, contingent on passage of SB 666 (which phases out the work requirement exemptions for TANF parents with young children),

CHOICES and child care programs will receive \$22 million in TANF to meet the increased demand.

Policy effects of HB 1

Some other items included in the HB 1 conference committee recommendations have more of a policy effect rather than a budgetary effect, at least in the short-term.

One such provision was included in the riders that apply to all HHS agencies. The new language requires DHS to work with TDH in implementing procedures that will allow children's Medicaid eligibility to be reviewed automatically in cases where families are losing TANF benefits. In most cases, the children would still be eligible for Medicaid, and this provision ensures that their health coverage will not be interrupted unnecessarily.

Another initiative, in the General Provisions article of the budget that applies to all agencies, lists TWC as one of five agencies selected for an activity-based costing (ABC) project recommended by the Comptroller's 1999 performance review. ABC is an attempt to identify the actual cost of a good or service provided by a state agency, to help legislators and agency administrators make better decisions about specific program operations. It can also be part of efforts to identify services that could be privatized. The Comptroller's original recommendation would also have included DPRS and MHMR in the ABC pilot. Depending on the results of the first ABC project, future rounds may include HHS agencies.

More to come

Future Policy Pages will individually analyze the budgetary changes for specific agencies and programs. If you have questions about these or other areas of the state budget, contact Eva DeLuna Castro at CPPP.

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