



Legislative Study Group

Texas House of Representatives

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LSG Floor Report On Conference Committee Report on Senate Bill 1

Recommendation: Favorable

Evaluate by:

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SB 1 (Ogden | Pitts)

Summary

The 81st Legislature faced a \$9.1 billion shortfall entering session similar to the \$10 billion budget shortfall that the state faced in 2003. In 2003, the 78th Legislature ultimately decided to cut spending on certain state agency programs. Texas state agencies are still trying to recover from those cuts today. In 2007, the 80th Legislature approved over \$14 billion in property tax cuts. Those tax cuts were intended to be neutralized by other taxes like the franchise tax. However, the franchise tax has not brought in as much revenue as was expected, and has led to a larger budget shortfall for this session.

According to the members of the 2009 SB 1 conference committee, this has been one of the most difficult budgets to write and yet one of the most congenial processes with both chambers and parties working together to produce a budget that “has something for everyone.” SB 1 has been a very difficult bill to produce due to the financial situation of the state constantly changing during this hard economic time. But, in the end, the Legislature has a balanced budget with no major cutbacks and an untouched Rainy Day Fund. This budget process will mostly be remembered for the American Reinvestment and Recovery Act of 2009 (also known as the Federal Stimulus Package or ARRA) that brought \$15.2 billion in federal relief to Texas after it was signed into law on February 17. However, the budget process started before the session began and before the ARRA was signed into law. Before the session began, the Comptroller projected that the state would have \$9.1 billion less in GR for FY 2010-11 than it did for FY 2008-09. Texas was also facing a \$1.2 billion Medicaid shortfall, \$1 billion in hurricane damages in need of funding, and no funds able to be transferred from the Permanent School Fund for textbooks. The Governor had asked all state agencies to show fiscal restraint by cutting their budgets by 10% for FY 2010-11, and state legislators were preparing their arguments to convince 2/3 of the House to spend Rainy Day Funds.

The final version of the budget has \$80.7 billion in General Revenue funds and \$182.3 billion in All Funds. There are no major cuts in state agency budgets due to financial constraints, in fact there has been an increase in funding for many health and human services and education programs. Hurricane damages, textbooks, community college health benefit losses and the Medicaid shortfall were all funded through the Supplemental Appropriations bill, HB 4586, which also freed up \$200 million in GR to use for FY 2010-11 thanks to stimulus funds. Increased CPS workers, state school reform and funds to address long waiting lists, and increased community mental health crisis services have been appropriated funds. State higher education institutions have all been funded at 104% of their base budgets or higher. Texas has been able to pass legislation to attract filmmakers, renovate aging courthouses, reform public school finance, fund over \$2 billion in new highway and bridge construction projects, increase scholarships for higher education, and increase weatherization assistance to homes in need. All of this has been funded without spending any of

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the state's Rainy Day Funds mainly due to the \$15.2 billion from the federal ARRA and the \$5.2 billion in GR it freed up for the FY 2010-11 budget.

Since the state will not be spending any of the Rainy Day Fund, it will be available next session when Texas is projected to face another significant budget shortfall. The ARRA stimulus funds were a one-time federal expenditure, and there will most likely not be another stimulus package next biennium to aid the shortfall. The House and Senate worked together to create limitations on the use of the ARRA funds, in order to not obligate increased funding of projects created by these funds. The Federal Economic Stimulus Committee also worked hard to create legislation to place accountability and transparency on the state agencies that receive the ARRA funds and how they use the funds. When the Legislature convenes next session, these accountability and transparency measures will help aid the budget process by allowing legislators to see where and how these funds were spent, and the Rainy Day Fund will be available to provide coverage.

Impact:

At a time when unemployment rates are rising, investments are shrinking, homeowners are facing foreclosure, and businesses are failing, it is imperative that the needs of individuals be a priority for the state. Aid, assistance, and emergency services to impacted individuals are necessary, and there will be an inevitable need for it during this time. Education has always been a key to opening more doors and sending more individuals to careers that help them and the economy as a whole. Economic development is one of the main priorities for the ARRA stimulus dollars, due to the net positive impact that creating jobs and sending more money into a system has on the community. SB 1 does help to address these issues by increasing funding to health and human service programs, education programs and scholarships, construction projects, pay raises for certain individuals, and incentive funds to attract more businesses to come to Texas.

SB 1 is a positive bill, and shows compromise, but it could be improved. It does not provide funding for Medicaid eligibility expansion to 12 months instead of 6 months, which would help more individuals remain covered. It also does not include the \$555 million for Unemployment Insurance that was offered in ARRA funds contingent upon legislation. The receipt of those funds would prevent businesses from being forced to pay increased taxes for the UI account, which is projected to happen this October when the account balance is negative.

Rider 48 in Article II will positively impact many individuals with mental and developmental disabilities. The services available to these individuals and the care they receive have been an issue in the state for an extended period of time. Rider 48 will appropriate \$464 million to DADS and HHSC to increase home and community-based program slots, reduce the long waiting lines for services, provide aid for youth aging out of the foster care system, and help with alternatives for individuals at risk of institutionalization due to emergency crisis situations. This rider will help many individuals and families that struggle with these situations and help to increase choices and levels of care.

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Economic Outlook coming in to 81st session:

\$9.1 billion Comptroller's projected revenue **shortfall** from 08-09 budget

\$14.9 billion cost from **Property Tax Cuts**

\$3 billion available in **Property Tax Relief Fund** from 08-09

\$0 eligible to be transferred from **Permanent School Fund** to **Available School Fund**

\$9.1 billion projected in **Rainy Day Fund**

Governor asked all agencies to **cut budgets by 10%** at beginning of session

Developments during session:

\$15.2 billion in federal ARRA **stimulus dollars**

\$555 million rejected for Unemployment Insurance

Increase FMAP by 6.2 points due to ARRA for **2009 and 2010**

\$200 million freed up by Supplemental Appropriations bill **HB 4586** due to FMAP

Senate budget SB 1: AF \$182.2B, GR **\$80.8B**

House budget CSSB 1: AF \$178.4B, GR **\$80.6B**

2010-11 Conference Committee Budget:

\$80.7 billion General Revenue

\$182.3 billion All Funds

| | | |
|--------------------------------------|------------------------|--------------------|
| I- General Government: | \$2.14 billion GR | \$4.07 billion AF |
| II- Health & Human Services: | \$24.34 billion GR | \$59.61 billion AF |
| III- Education: | \$49.14 billion GR | \$75.42 billion AF |
| IV- Judiciary: | \$0.43 billion GR | \$0.66 billion AF |
| V- Criminal Justice & Public Safety: | \$8.58 billion GR | \$10.75 billion AF |
| VI- Natural Resources: | \$0.86 billion GR | \$3.44 billion AF |
| VII- Bus & Ec Development: | \$0.58 billion GR | \$20.70 billion AF |
| VIII- Regulatory: | \$0.38 billion GR | \$0.89 billion AF |
| IX- General Provisions: | \$0.23 billion GR | \$0.66 billion AF |
| X- The Legislature: | \$0.35 billion GR | \$0.35 billion AF |
| XII- ARRA Stimulus funds: | adds \$6.38 billion GR | \$5.67 billion AF |

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Major Budget Highlights for 81st Session:

Article I- General Government

- \$450 million in bonds approved for the Cancer Prevention & Research Institute
- Rider adopted to limit Governor's transfer authority between the Emerging Technology Fund and the Texas Enterprise Fund without written approval of the LBB. The Office of the Governor also may not transfer FTEs or appropriations from trusted programs to other agencies without the LBB's written approval.
- Rider adopted for \$11 million each year to fund the film grant program, and up to \$1 million each year for the costs associated with film incentives.
- Rider for the Historical Commission to receive \$300,000 from the Governor's trusted program for economic development and tourism and \$1 million from TxDOT to promote Historical Sites throughout the state.

Article II- Health and Human Services

- Rider 48 will have a major impact on DADS and HHSC. The Rider will appropriate \$464 million for the purpose of increasing home and community-based services and waiver slots for persons with mental disabilities, to reduce the waiting time for services, and to provide direction to reshape the system of care for persons with developmental disabilities. This rider will positively impact the number of services for individuals moving out of medium and large ICFs/MR, children aging out of foster care services, children who are at risk of being institutionalized in ICFs/MR, and individuals who are at imminent risk of institutionalization as a result of emergency or crisis situations.
- Memorandum of Understanding between DARS and TEA to divide Special Education funding, and to send the DARS portion to Early Childhood Intervention Services
- \$4.5 million for prevention programs that address situations that result in negative outcomes for children and youth. \$1.6 million for prevention programs that provide services to families with low-priority cases of abuse and neglect.
- Continuation of CPS Reform Rider from 80th Legislature
- House Rider to allow prescription drugs to be distributed to minors who have had a child was not adopted.
- Riders distributing \$3.25 million each year to provide substance abuse treatment services to adults on probation, and \$2 million each year to provide substance abuse treatment services to DFPS clients were adopted.
- Rider prohibiting funding for any direct or indirect costs of elective abortions, and prohibiting funding to any agency that performs elective abortions or contracts with an agency that performs elective abortions.
- Funding provided for Professional Nursing Shortage Reduction program
- Doubled funding from last session for community mental health crisis centers. Rider adopted requiring the DSHS to submit reports on the services provided, for DSHS to contract with a private entity to evaluate the services, and for DSHS to use a portion of the funds for transitional and on-going services for certain clients.
- Increased funding for HIV testing in high morbidity areas, which include Houston and Dallas
- Rider allowing for funding of CHIP enrollment growth, however the legislation to expand CHIP eligibility is still pending.
- Does not provide funding for expansion of Medicaid enrollment to 12 months
- Rider requiring all SAVERR systems to be converted to TIERS systems by August 31, 2011.
- No funding provided for newborn cystic fibrosis screening
- No funding provided for 12 month Medicaid eligibility
- Medicaid cost savings rider adopted that proposes to save \$107 million for the biennium.

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Article III- Education

- Riders set aside \$11.5 million each year of the biennium for Juvenile Justice Alternative Education Programs and \$4.75 million each year of the biennium for safe schools programs.
- \$8 million each year of the biennium to go towards Texas reading, math, and science initiatives in public schools.
- \$152 million appropriated each year of the biennium for the Student Success Initiative focused on reading, math, and postsecondary readiness. The Commissioner of Education will provide grants to schools that have students with a history of not meeting TAKS standards.
- Texas High School Completion and Success Initiative includes \$50 million each year to address dropout rates and conduct a study on dropout rates in middle and high schools. It also includes \$1.5 million each year for the Boys and Girls Club mentoring program, and \$500,000 each year to train high school counselors on college enrollment and helping with financial aid.
- \$198 million each year to fund the Educator Excellence Awards Program
- \$141 million each year to fund educator salary increases for public school teachers.
- \$2 million in 2010 to fund steroid testing for high school students.
- Rider providing for the Higher Education Assistance Program that provides college and financial aid information to high schools with the lowest college-going rates. The program also provides for assisting high school seniors with filling out applications and financial aid forms.
- Financial aid program Rider provides \$312 million in 2010 and \$300 million in 2011 for the TEXAS Grant program, which is a \$186 million increase for the biennium
- Rider appropriates \$49.7 million each year for the Professional Nursing Shortage Reduction Program to be distributed by the Higher Education Coordinating Board.
- \$2.5 million each year to establish a pilot program for developmental education at community and technical colleges.
- Rider allowing for the contingency appropriation for Small Business Development Centers at certain community colleges in the state. The appropriation is contingent upon certification by the Comptroller.
- Rider allowing the FSP to spend the maximum amount allowed under federal law for pre-K expenditures.
- Higher education institutions funded at least 104% of their base budgets.

Article IV- Judiciary

- \$5 million in Federal Funds for court improvement projects.
- One-time funding of \$10 million each year for Basic Civil Legal Services to address a shortfall in the account from the Interest on Lawyers Trust Accounts Program that normally funds the services.
- Rider requiring the Court of Criminal Appeals to implement the recommendations from the State Auditors Office for grants from the Court for personnel training.
- \$29 million each year of the biennium for indigent defense.

Article V- Public Safety and Criminal Justice

- Correctional officer and certain other employee pay raises of 3.5% in 2010 and in 2011.
- Rider placing more strict reporting requirements on the Adjutant General's Office for emergency leave time to address abuse of the pay.
- Rider authorizing TDCJ, TYC, and TWC to work together to prepare a strategic plan to improve Project RIO educational and workforce services.
- \$3.25 million each year for the Treatment Alternatives to Incarceration Program.
- \$14 million each year to lower the caseloads for probation officers of medium and high risk offenders.
- \$34 million for mental health services for TDCJ
- \$26 million in 2010 and \$24 million in Diversion funding for the Juvenile Probation Commission.
- Border Security Rider appropriates \$13.7 million in 2010 and \$9.6 million in 2011 from State Highway Fund 6 to enhance border security operations for highway patrol, narcotics enforcement, vehicle theft enforcement, texas rangers, and aircraft operations. There are also additional funds appropriated for border security operations in the City of Laredo.

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Article VI- Natural Resources

- \$14.7 million to pay off bad debt for the Department of Agriculture.
- \$2.8 million each year in grants for contracts with agencies to promote local air pollution control.
- \$1 million for a contract with the Mickey Leland National Urban Air Toxics Research Center to study the health effects of pollution in major cities.
- \$1.25 million each year for outreach programs to underserved populations for the Parks and Wildlife Department.
- \$12.6 million each year out of the sporting goods tax for coastal erosion projects.
- \$7.5 million each year for construction and repair to flood control dams.

Article VII- Business and Economic Development

- \$10 million each year for homeless housing and services provided by the Department of Housing and Community Affairs
- TxDOT allowed \$2 billion in bonds for road and highway construction projects
- More strict reporting requirements on all appropriations made by TxDOT.
- \$16 million in federal funds for the Battleship TEXAS
- \$500,000 to construct a Gray County heliport for emergency medical air services.
- Increased federal funds to TWC to provide childcare services.
- Texas Workforce and Economic Development Rider to provide immediate relief to the state's businesses and citizens, support worker training programs, and align educational services to workforce needs.

Article IX- General Provisions

- \$91 million each year of the biennium for the Rail Relocation and Improvement Fund to be allocated by TxDOT.
- \$500 one-time payment to be distributed to retired teachers and retired state employees.
- \$10 million to fund seat belts on school buses to be distributed by TEA to local districts.
- \$11 million for restoration of the Governor's mansion.
- Ban on funding stem cell research was not adopted.

Article XII- American Recovery and Reinvestment Act

- Spends \$12 billion in Federal Funds
- Frees up \$6.4 billion in GR to be distributed to other articles.
- 2009 appropriations outside of SB 1: \$1.6 billion for the enhanced FMAP rate, \$27.3 million for Child Support enforcement through the Office of the Attorney General, and \$662 million for Highway and Bridge Construction.
- Riders requiring the agencies to report the estimated number of jobs created with the funds, to limit the use of the funds only to the intended purposes in statute, to prioritize spending of funds to expenditures that do not recur past 2011.
- Riders requiring TWC stimulus funds to create a green jobs training program, and ensuring that agencies have minority participation in the business that they conduct with stimulus funds.