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BUDGET BREAKDOWN

A CLOSER LOOK AT THE HOUSE AND SENATE BUDGET PROPOSALS

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OUTLINE FOR TODAY

- Context in which Texas budget is written: low-spend, low-tax approach, versus growing needs
- State revenue overview – How did we get here?
- A closer look at supplemental needs & HB 1 / SB 1 needs
- Other budget-related bills CPPP is watching



TEXAS STATE BUDGET CONTEXT

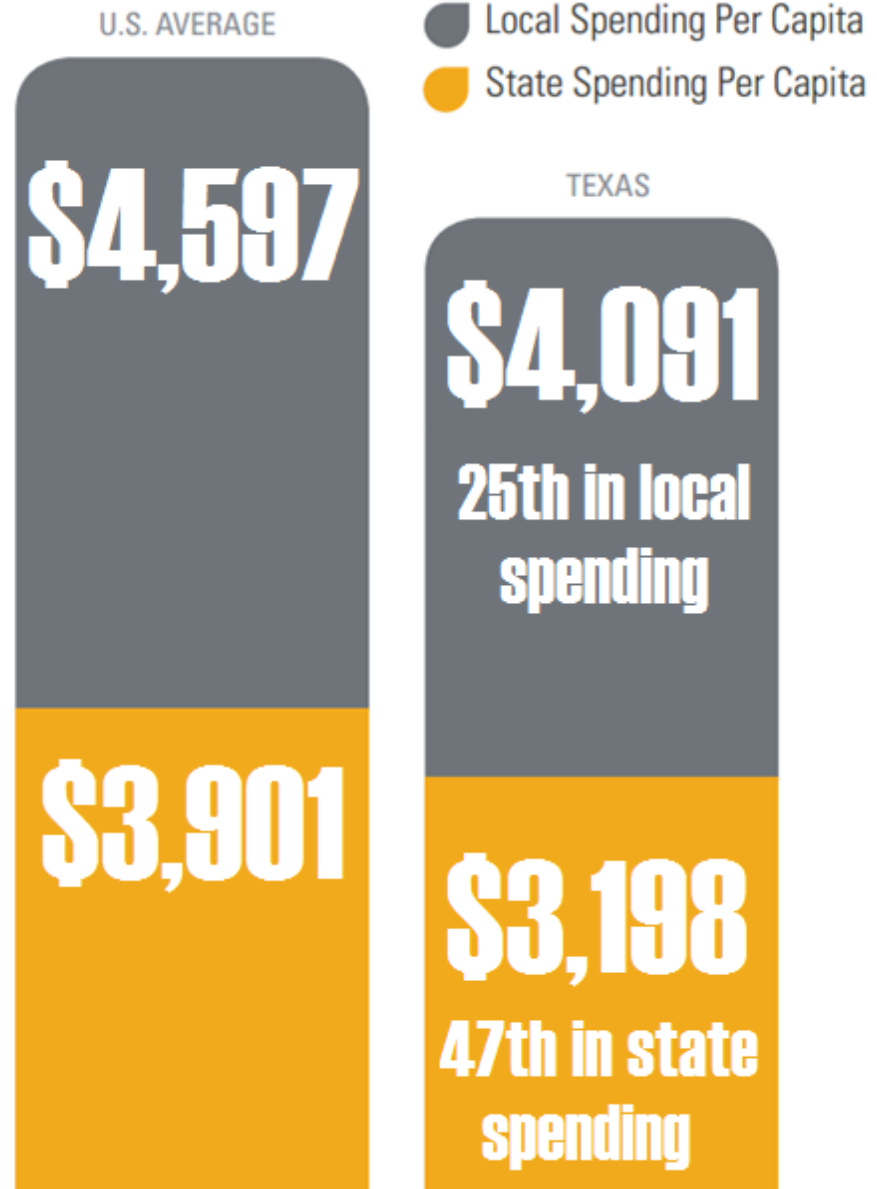
MAJOR FACTORS SHAPING THE STATE BUDGET

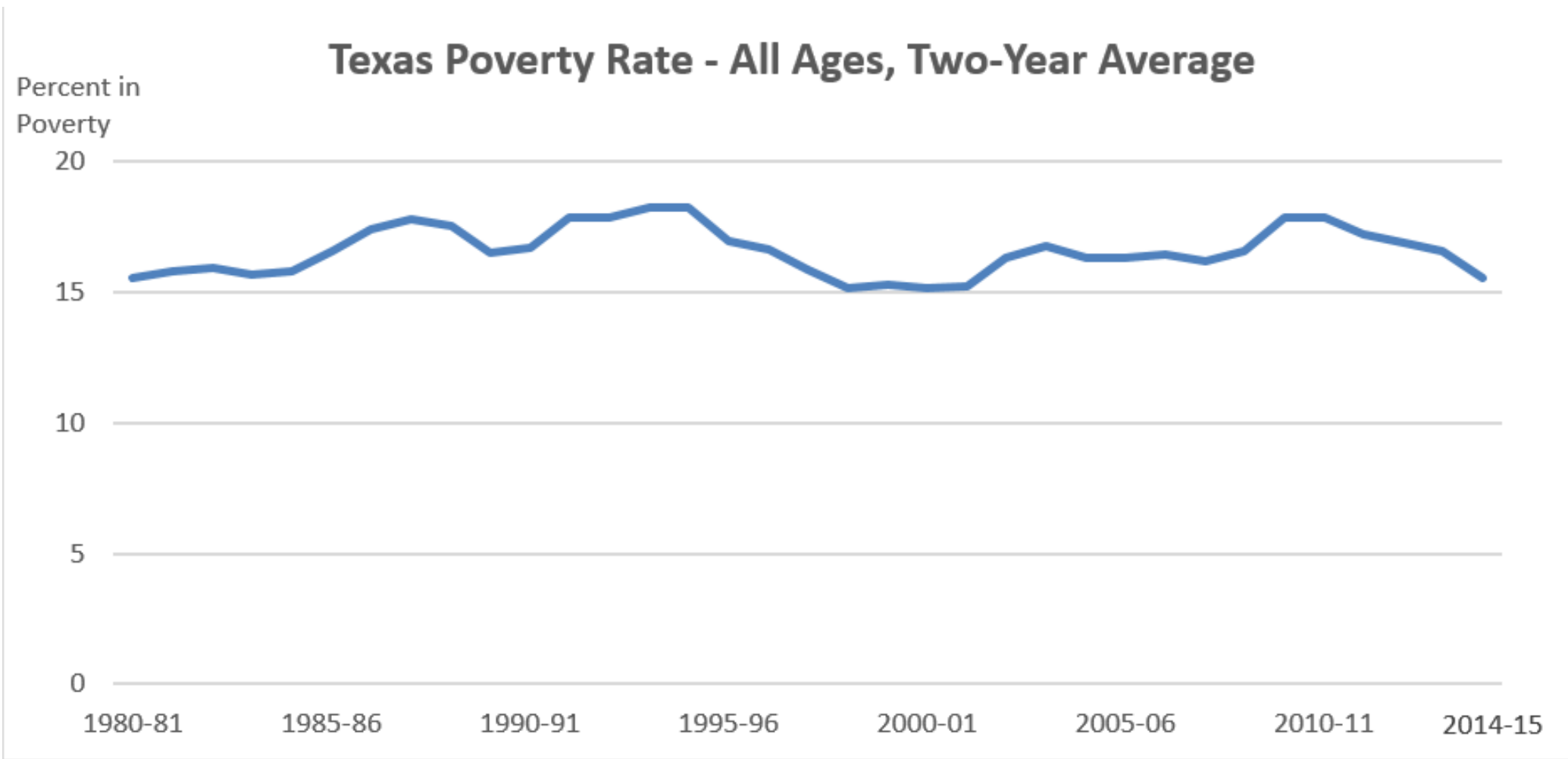
- Texas has been low-tax and low-spending at state government level for decades.
- Half of rapid population growth is from a high birth rate – which also makes Texas a young state.

40th

Texas ranks 40th in state & local government spending per capita in 2014

Source: U.S. Census Bureau, Annual Surveys of State and Local Government Finances, Direct General Expenditures; Population from Census Bureau's 2014 State Estimates.

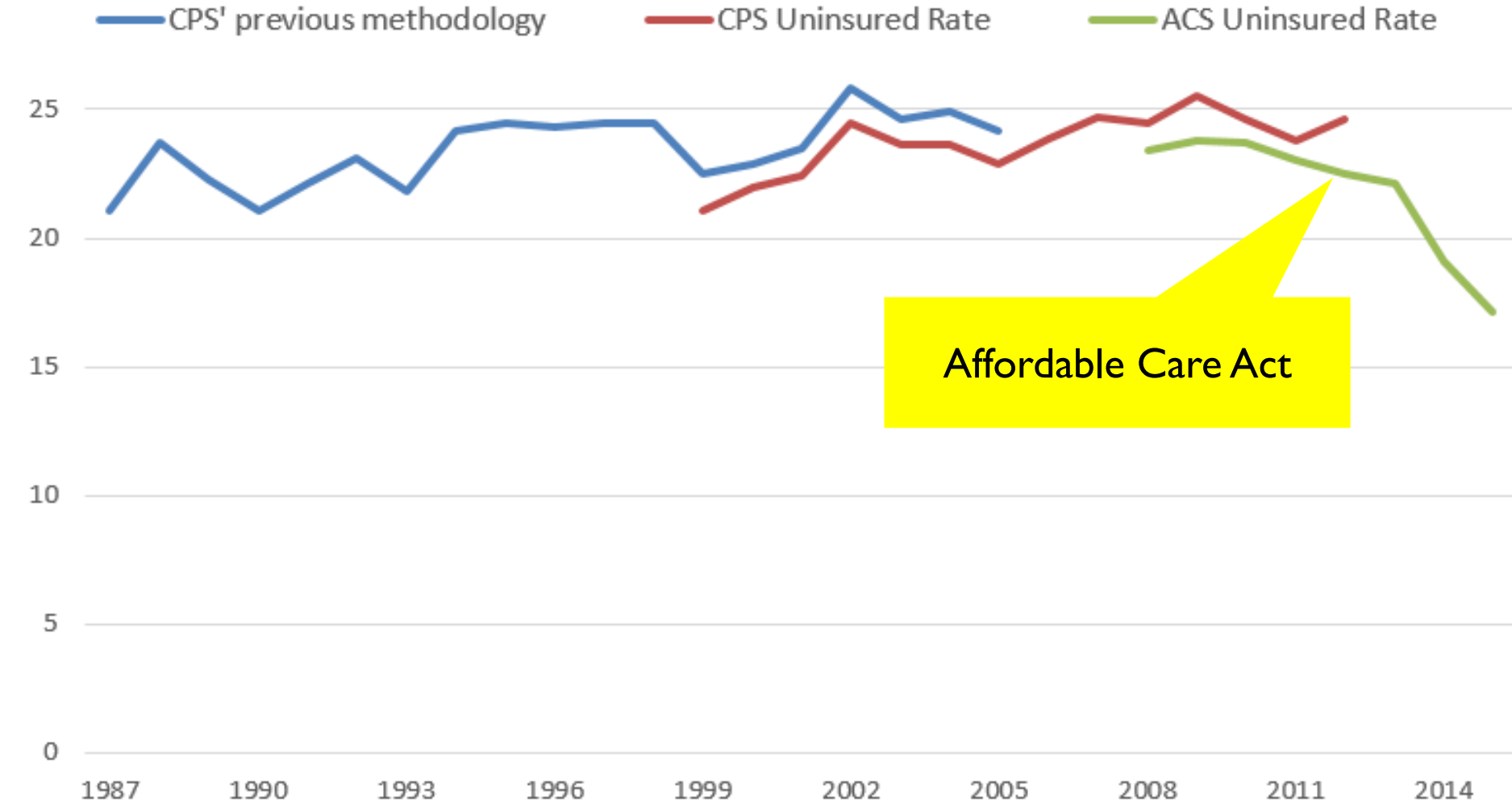




Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement.

Texas Uninsured Rate - All Ages, Single-Year Estimates

Percent



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, and American Community Survey.

LEADERSHIP COMMENTS ON STARTING-POINT BUDGETS

- **“This base budget is a starting point, and I look forward to working with my colleagues to develop a balanced budget that addresses our needs and strengthens our economy.”**

-Senator Jane Nelson, Finance Chair

LEADERSHIP COMMENTS ON STARTING-POINT BUDGETS

- **“We keep overall spending low while making investments in children and our future. The Members of the House...will now have the chance to shape this budget and decide how best to allocate resources during an economic slowdown. This is the first step toward producing a balanced budget that reflects the priorities of the Texas House and does not raise taxes.”**

-House Speaker Joe Straus

	House proposal	Senate proposal	Governor
2016-17	\$216.2 billion All Funds (General Revenue, GR-Dedicated, Federal, Other)	\$213.7 B in All Funds - \$2.6 billion (1.2%) less than House proposal	Hiring freeze thru Aug., except DFPS Exempt: Attorney General, Agriculture, Supreme Court, other elected officials' agencies
2018-19	\$221.3 billion All Funds. LBB says this is a 5.6% cut from 2016-17, factoring in population & inflation.	\$213.4 B All Funds. This is a 9% cut from House's 2016-17 proposal, factoring in population & inflation.	\$213.3 B All Funds. Compared to Senate: less for Health & Human Services, Education, Judiciary, Public Safety & Criminal Justice, Natural Resources, Business/Economic Development, & Regulatory
	Not cut: TXDoT - state highway projects - would get a nominal 13.9% biennial increase in both House and Senate proposals. Even more funding proposed in Governor's budget.		

**FIGURE 2
RECOMMENDATIONS BY ARTICLE, ALL FUNDS**

SENATE BILL I AS FILED (Jan. 2017)

(IN MILLIONS)

ALL FUNCTIONS	ESTIMATED/BUDGETED 2016-17	RECOMMENDED 2018-19	BIENNIAL CHANGE	PERCENTAGE CHANGE
Article I – General Government	\$7,073.8	\$5,886.6	(\$1,187.2)	(16.8%)
Article II – Health and Human Services	\$78,536.6	\$77,373.1	(\$1,163.5)	(1.5%)
Article III – Agencies of Education	\$79,140.7	\$79,303.9	\$163.3	0.2%
<i>Public Education</i>	\$58,896.4	\$59,577.1	\$680.7	1.2%
<i>Higher Education</i>	\$20,244.3	\$19,726.9	(\$517.4)	(2.6%)
Article IV – The Judiciary	\$813.3	\$800.1	(\$13.2)	(1.6%)
Article V – Public Safety and Criminal Justice	\$12,503.5	\$12,331.5	(\$172.1)	(1.4%)
Article VI – Natural Resources	\$4,577.9	\$4,321.8	(\$256.0)	(5.6%)
Article VII – Business and Economic Development	\$29,663.9	\$33,398.2	\$3,734.3	12.6%
Article VIII – Regulatory	\$957.6	\$626.5	(\$331.1)	(34.6%)
Article IX – General Provisions	\$0.0	(\$1,058.0)	(\$1,058.0)	N/A
Article X – The Legislature	\$400.9	\$387.9	(\$13.0)	(3.2%)
Total, All Articles	\$213,668.2	\$213,371.6	(\$296.5)	(0.1%)

NOTES:

- (1) May include anticipated supplemental spending adjustments.
- (2) Excludes Interagency Contracts.
- (3) Biennial change and percentage change are calculated on actual amounts before rounding. Therefore, figure totals may not sum due to rounding.

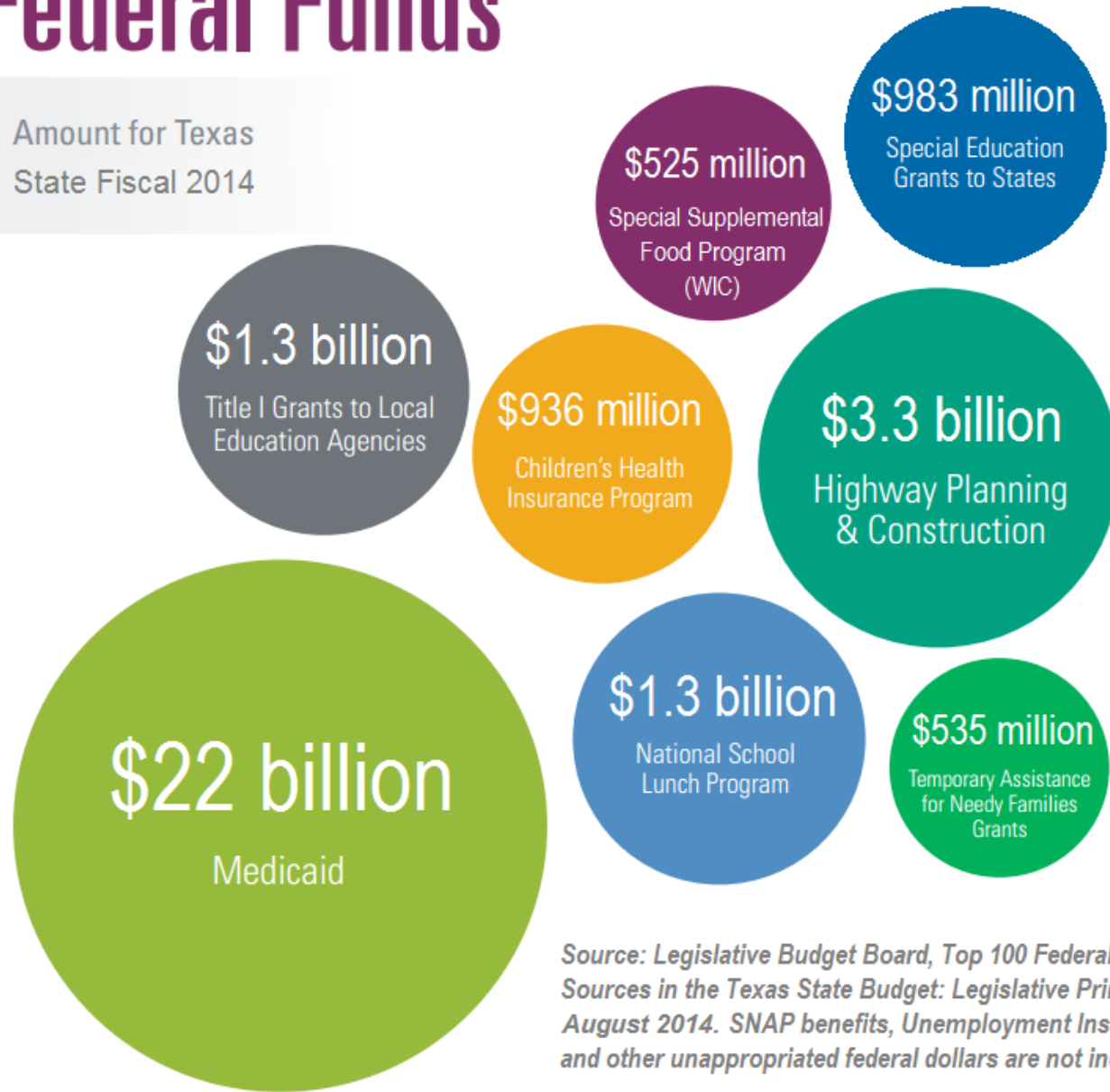
SOURCE: Legislative Budget Board.

OTHER FACTS TO KEEP IN MIND

- The 85th Legislature has less General Revenue - the part of the budget the Comptroller has to certify as balanced. But it has more revenue overall for the budget.
- More uncertainty than usual about Congressional & White House changes to federal grants to states. Some state-administered services are \approx 60 to 100 percent federally funded.

Federal Funds

Amount for Texas
State Fiscal 2014



Source: Legislative Budget Board, *Top 100 Federal Funding Sources in the Texas State Budget: Legislative Primer, August 2014*. SNAP benefits, Unemployment Insurance, and other unappropriated federal dollars are not included.

TEXAS BIENNIAL BUDGET CYCLE

--- ODD YEARS ---

JANUARY - MARCH

COMPTROLLER ISSUES REVENUE ESTIMATE

Determines how much is available to spend

HOUSE AND SENATE INTRODUCE BUDGET BILLS AND HOLD HEARINGS ON THEM

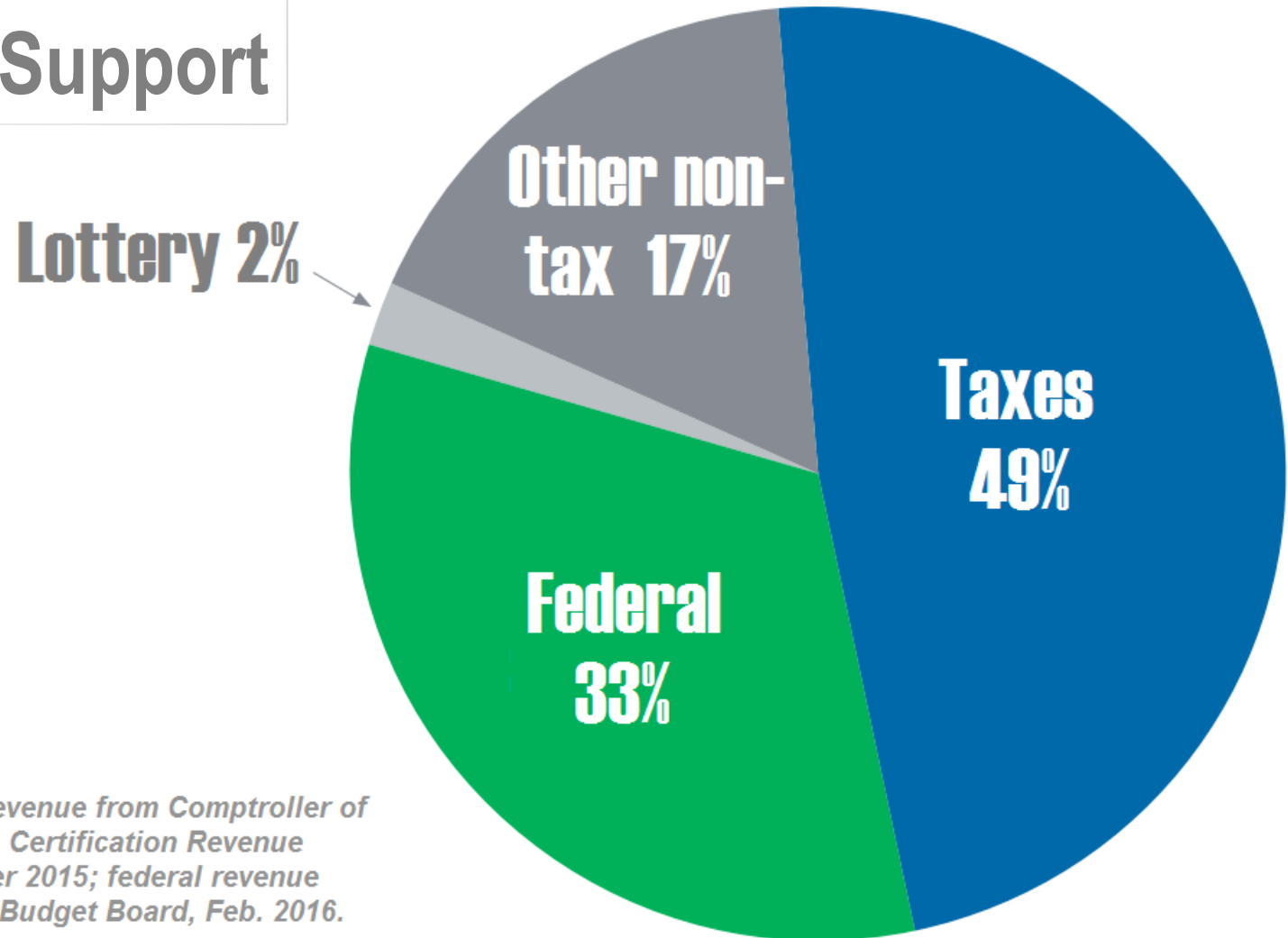


--- EVEN YEARS ---



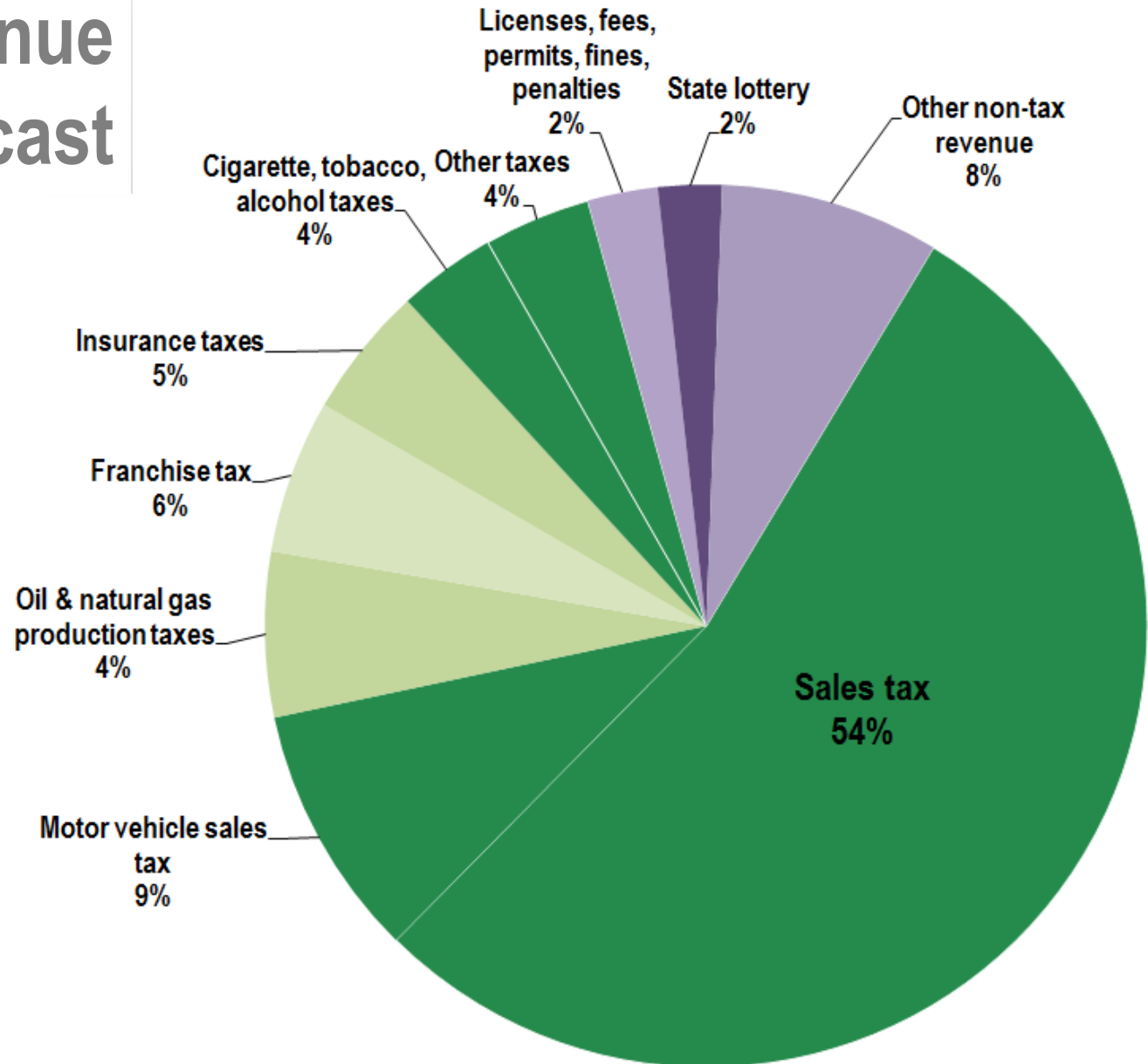
STATE REVENUE OVERVIEW

State Revenue Comes Primarily from Taxes and Federal Support



Sources: State revenue from Comptroller of Public Accounts, Certification Revenue Estimate, October 2015; federal revenue from Legislative Budget Board, Feb. 2016.

State General Revenue Sources, 2018-19 Forecast

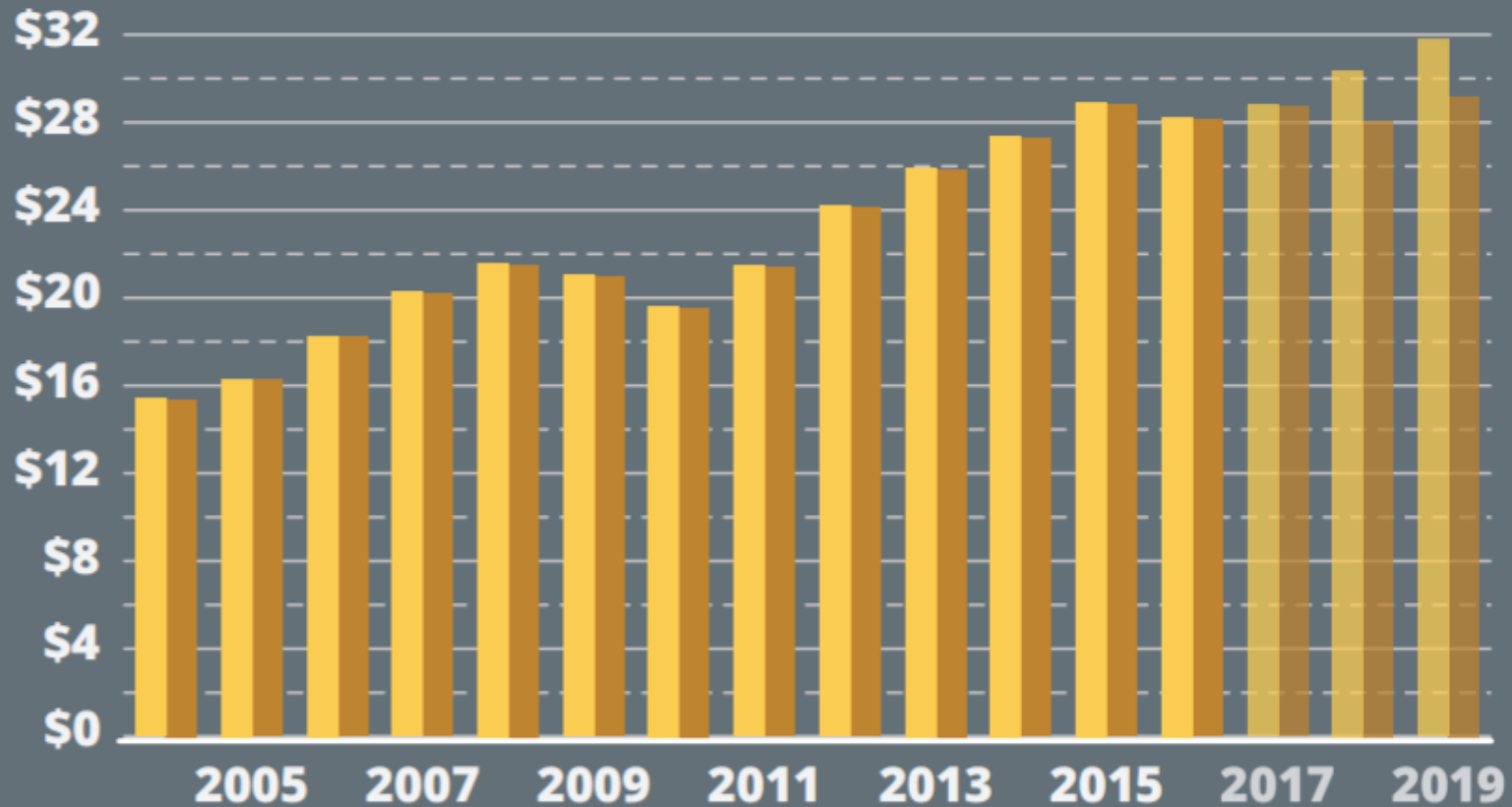


Annual Net Sales Tax Collections

In Billions of Dollars

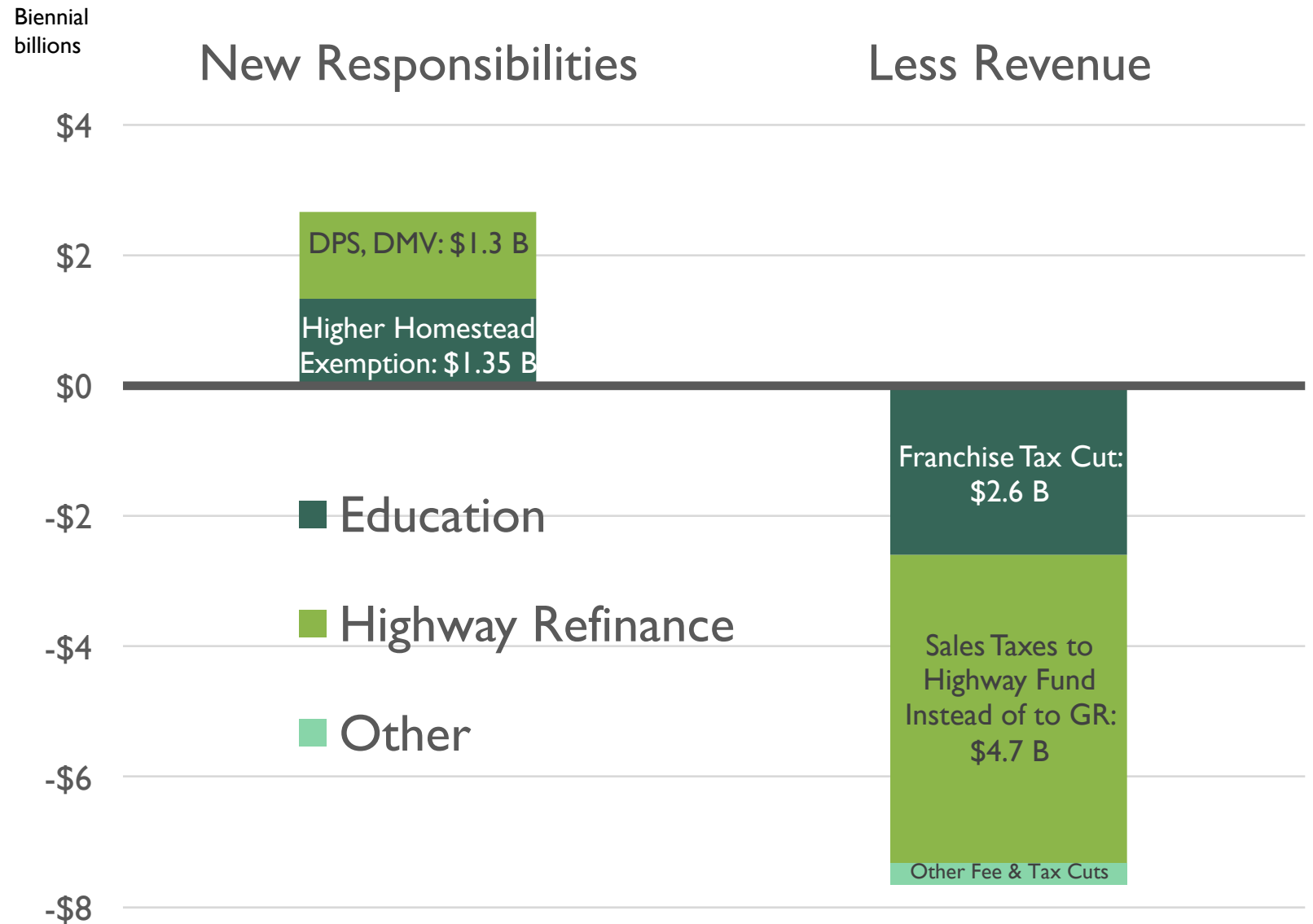
All Funds

General Revenue-Related Funds



└ Projected ┘

2015 Actions that Created Challenges for the 2018-19 General Revenue Budget



DPS = Department of Public Safety; DMV = Department of Motor Vehicles. Previously funded out of State Highway Fund, not General Revenue.

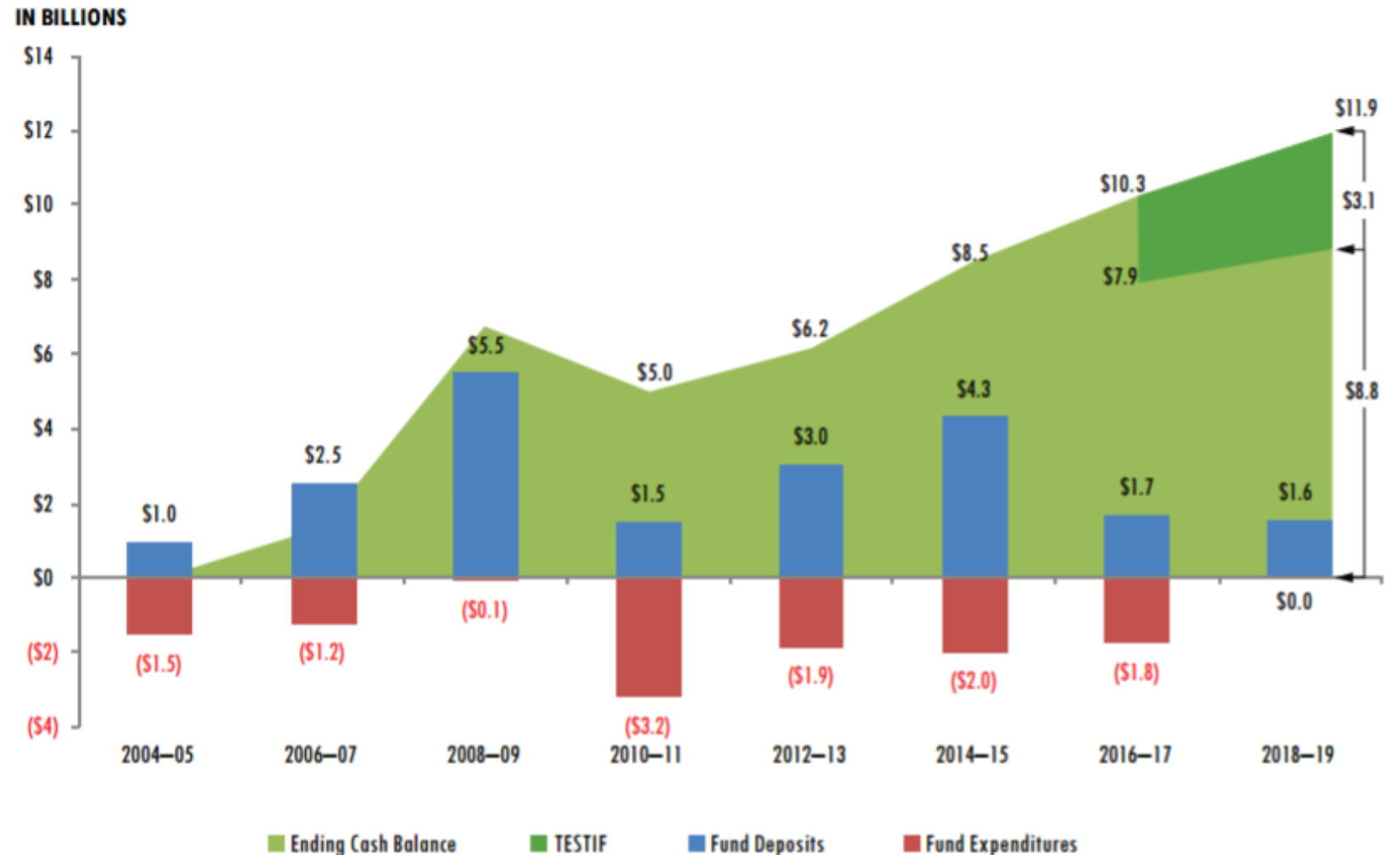
Revenue Available for General Purpose Spending

		2016-17	2018-19		
General Revenue-Related (GR-R) Revenues from Sales Taxes (Before allocation to State Highway Fund)	+	\$56.83	\$61.97	In Billions of Dollars	
Sales Taxes Allocated to State Highway Fund	-	\$0.0	\$4.71	In 2015, voters approved Proposition 7, which requires the Comptroller to direct some tax revenues to the State Highway Fund starting in fiscal 2018.	
Net GR-R Revenues from Sales Taxes	=	\$56.83	\$57.26		SUBTOTAL
Other GR-R Revenues	+	\$45.61	\$49.21		
Total GR-R Revenues	=	\$102.45	\$106.47		SUBTOTAL
Beginning Balance (Funds carried forward from 2016)	+	\$7.29	\$1.53		
Total GR-R Revenue & Fund Balances	=	\$109.73	\$108.00		SUBTOTAL
Revenue Reserved for Transfers to the Economic Stabilization and State Highway Funds	-	\$2.0	\$3.13		
Total Revenue Available for General-Purpose Spending	=	\$107.73	\$104.87	TOTAL	

-
- In addition to General Revenue: \$11.9 billion in the Economic Stabilization Fund by 2019
 - *State Highway Fund: \$14 billion*
 - *Property Tax Relief Fund: \$3.6 billion*
 - *Federal (depends on budget choices)*

Oil & Gas Severance Tax Collections Determine Transfers to Economic Stabilization Fund & State Highway Fund

FIGURE 27
ECONOMIC STABILIZATION FUND BIENNIAL DEPOSITS, EXPENDITURES, INVESTMENTS AND FUND BALANCE
2004–05 TO 2018–19 BIENNIA



NOTE: Fiscal years 2017 to 2019 are projections based on the Comptroller of Public Accounts' 2017 Biennial Revenue Estimate.
 SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

Use of the Rainy Day Fund has become a point of contention. Historically, however, the Legislature has used the fund freely.

- In 1991, \$29 million was spent on public schools.
- In 1993, \$198 million was used for criminal justice.
- The 2003 Legislature spent \$1.2 billion from the fund—almost all that legislators expected it to contain through 2005. One-third went to cover CHIP and Medicaid shortfalls for 2003; the remainder was appropriated for 2004-05, mostly to fund retired teachers' health care and to create the Texas Enterprise Fund.
- The 2005 Legislature authorized \$1.9 billion in spending: roughly half for 2005 shortfalls and half for 2006-07 budget items (including the new Emerging Technology Fund and child protective services reforms).

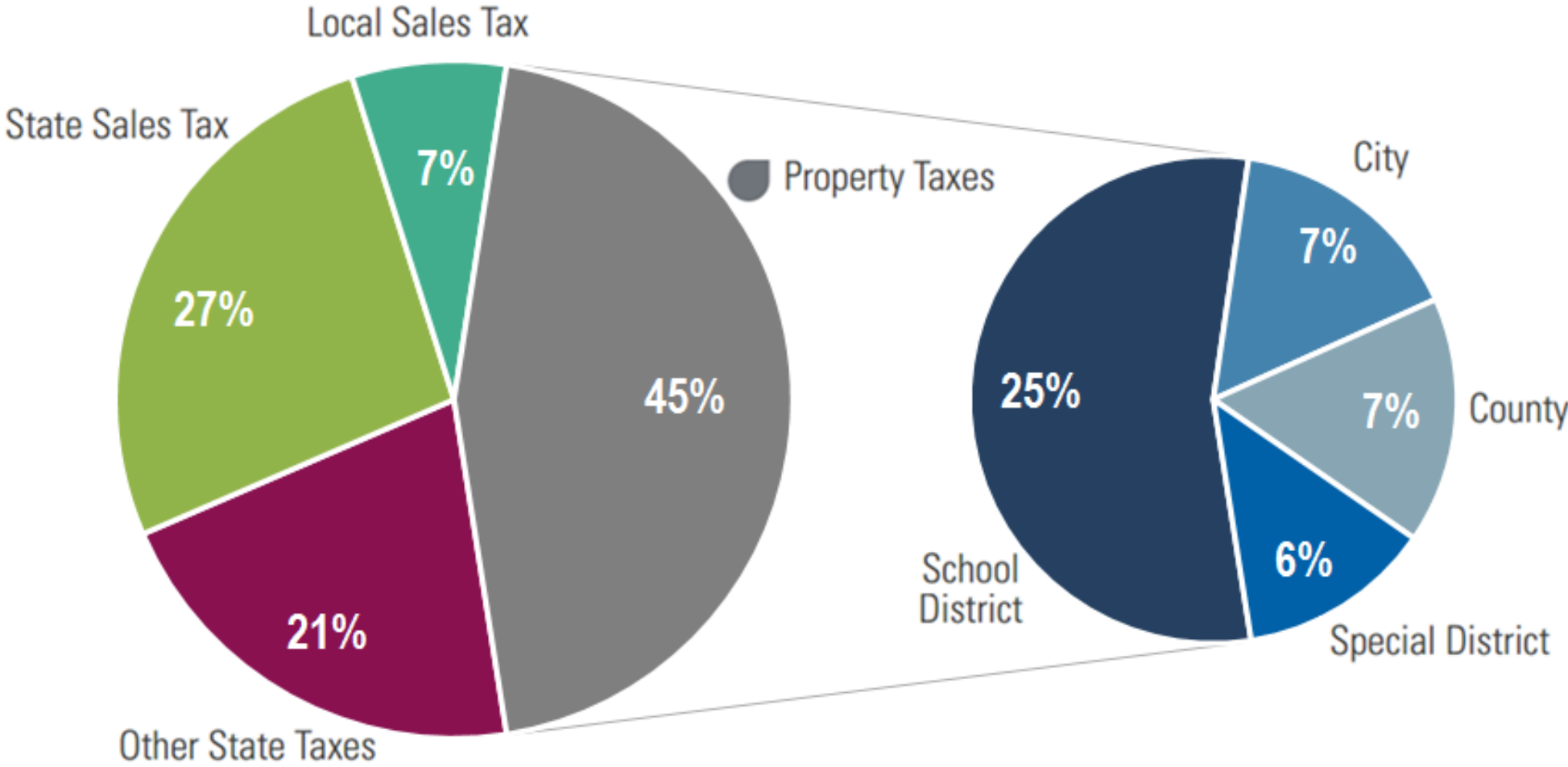
● The 2007 Legislature did not appropriate any money from the fund because General Revenue was expected to continue to grow quickly in 2008-09.

● In 2009, the federal government provided \$8 billion in stimulus aid that was used in place of General Revenue for the 2010-11 biennium, allowing legislators to leave the fund untouched.

● The 2011 Legislature used \$3.2 billion to help close the 2011 revenue shortfall, but chose to cut school funding and create a giant Medicaid "I.O.U." rather than use the Rainy Day Fund upfront for 2012-13.

● The 2013 Legislature spent \$1.9 billion for fiscal 2013 to undo a delayed school payment (\$1.75 billion) and cover wildfire or natural disaster costs (\$185 million) and a state parks shortfall (\$0.9 million). Another \$2 billion to fund the water plan received voter approval in Nov. 2013.

Texas Is a Two-Tax State: Property and Sales Taxes

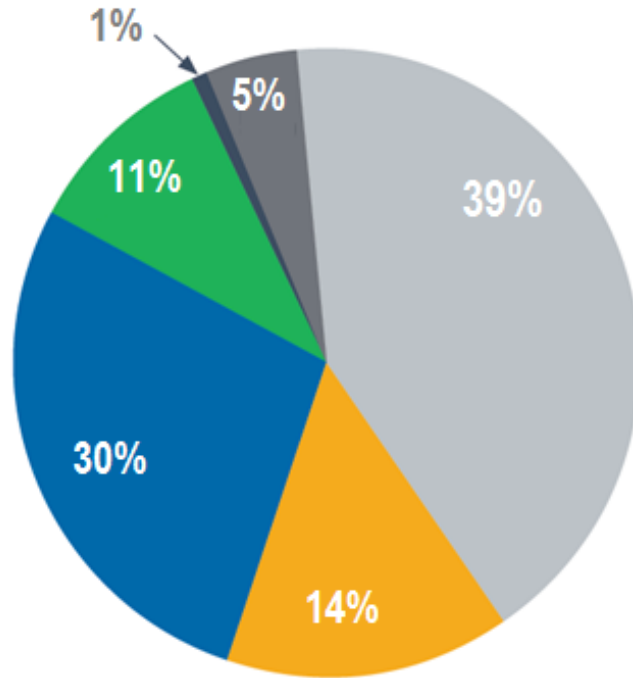
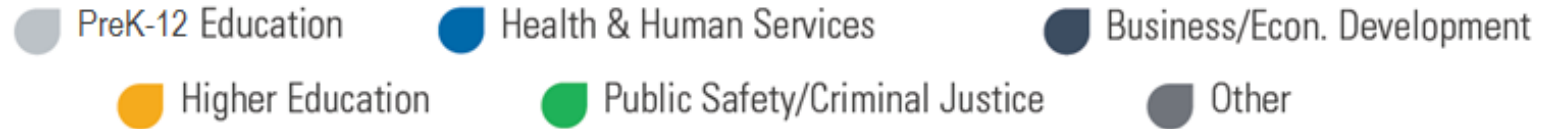


Sources: Texas Comptroller of Public Accounts

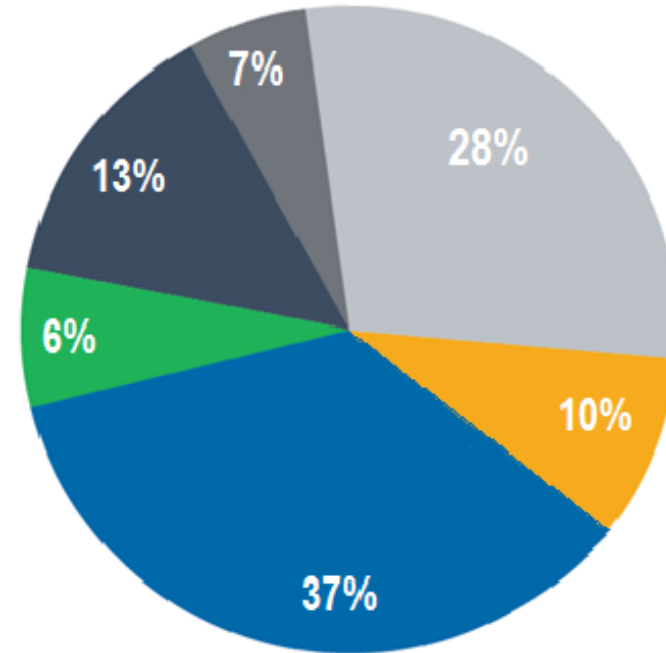


SUPPLEMENTAL NEEDS FOR 2017; 2018-19 PROPOSALS

2016-17 State Budget



General Revenue
\$106.0 Billion

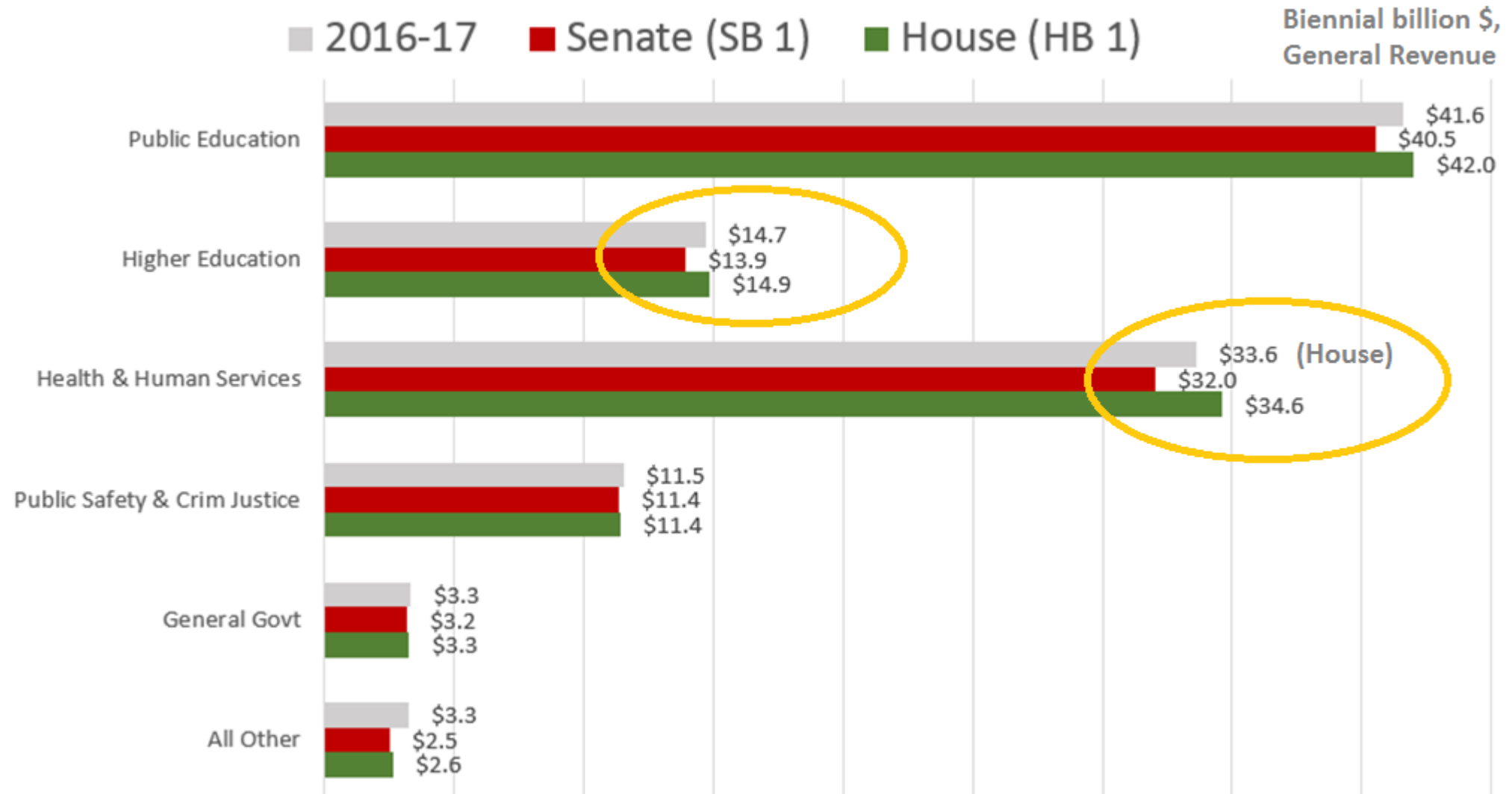


All-Funds
\$209.1 Billion

General Revenue budget for 2016-17 is now **\$108 billion** (up \$2 billion from when 2015 session ended):

- \$1.2 billion is needed for medical cost increases in Medicaid / CHIP health care.
- Senate budget does not assume the Medicaid / CHIP funding will be provided in 2017.
- Senate **does** include \$800 million in other supplemental spending for Family & Protective Services (\$81 million); education (\$236 million); state worker benefits (\$152 million); and general government (\$337 million)

Senate Budget Drastically Underfunds Higher Education and Health & Human Services




Legislative Budget *Snapshot*

The Texas Senate and House of Representatives have each released their 2018-2019 draft budgets, SB 1 and HB 1 respectively. Our analysis compares and contrasts the two budgets and highlights the impact on health care, education and other essential programs and services.

Key Takeaways

- The total amount of General Revenue spending proposed by the House is \$108.9 billion, significantly higher than the Senate's \$103.6 billion.
- Article IX in the Senate budget proposal makes across-the-board cuts of 1.5 percent in General Revenue spending, exempting only the Foundation School Program. Our chart on the back page assumes that the 1.5 percent cut is distributed equally to everything in SB 1 except for state aid to schools, but the Senate Finance Committee will make those choices in mark-up.
- Proposed General Revenue spending in both budgets is insufficient to keep up with projected population and inflation by 2019.

Economic Opportunity

 Foundation School Program			
2016-17 level	2018-19, SB 1 as filed	HB 1 as filed	CPPP insights

↑
What's the current level of state support, total and General Revenue?

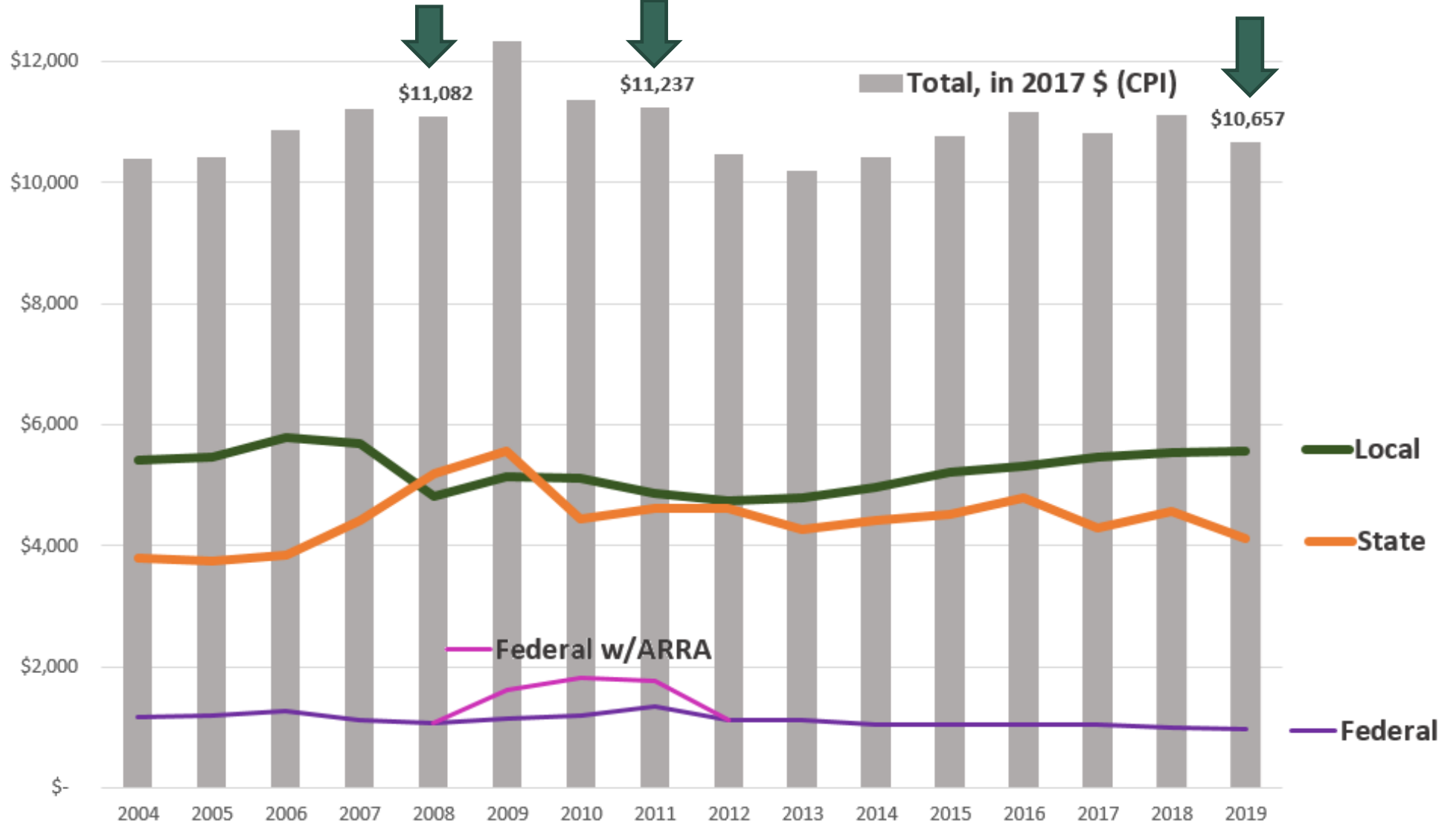
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What is the Senate proposal?

↑
What is the House proposal?

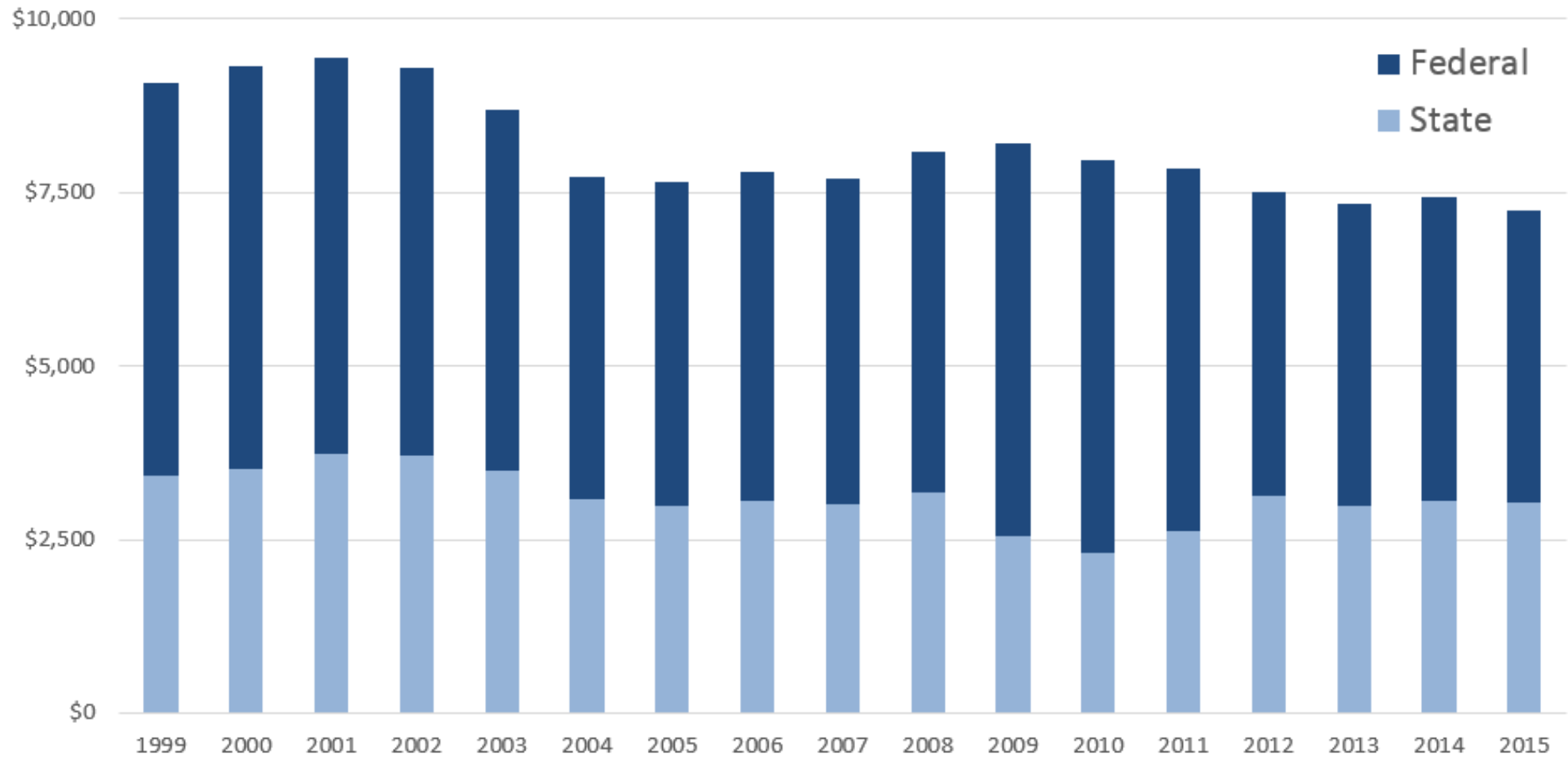
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More context for this budget area – what was originally asked for? What's needed to deal with inflation?

Pre-K-12 Public School Funding Proposed in HB 1

Local/State/Federal, adjusted for Average Daily Attendance and Inflation (CPI)



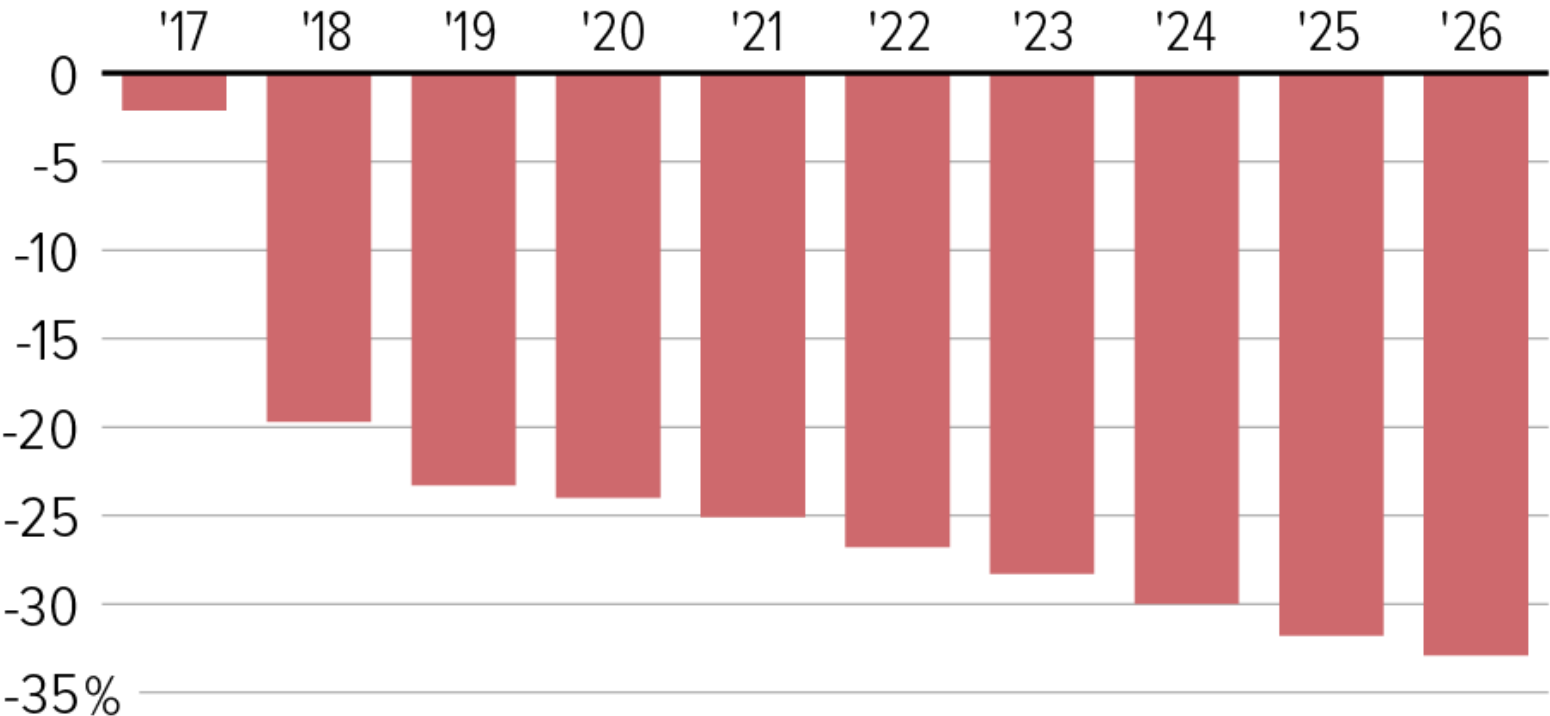
Texas State Budget Medicaid Spending Per Enrollee, Adjusted for Medical Inflation (2015 \$)



"State Budget" spending excludes DSH, UPL, UC, and DSRIP. Enrollees are average monthly clients enrolled in fee-for-service or managed care. Medical inflation is US City Average, Medical Care series, CPI Chained Index, Annual Average.

Medicaid Cuts Would Grow Over Time Under House Budget Committee Block Grant or Cap

Percent cut in federal Medicaid funds, relative to current law



Source: CBPP analysis using Jan. 2016 Congressional Budget Office Medicaid baseline and House Budget Committee documents.

“The Budget” isn’t just the supplemental or general appropriations bills. Other bills we’re watching that affect state and local government services:

- Voucher proposals
- Senate Bill 4, “sanctuary cities,” has local fiscal impacts on cities, counties, community colleges
- Public higher education is affected by tuition caps and tuition set-asides
- Senate Bill 2, property tax caps on cities, counties, community colleges, hospital districts
- Medicaid block grant bills
- Senate Bill 9 would tighten constitutional limit on state spending growth



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Medicaid, CHIP (Children's Health Insurance Program)

Kinship care; Food & nutrition programs

Women's health programs; Private insurance

Behavioral health and substance abuse services

Need-based financial aid & other higher education

College savings accounts

Public school finance

CPPP EXPERTS ON VARIOUS AREAS OF THE STATE BUDGET