EVERY TEXAN

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Testimony: State Budget Use of Federal COVID-19 Relief Funds Provided Under the CARES Act, ESSER and Enhanced FMAP

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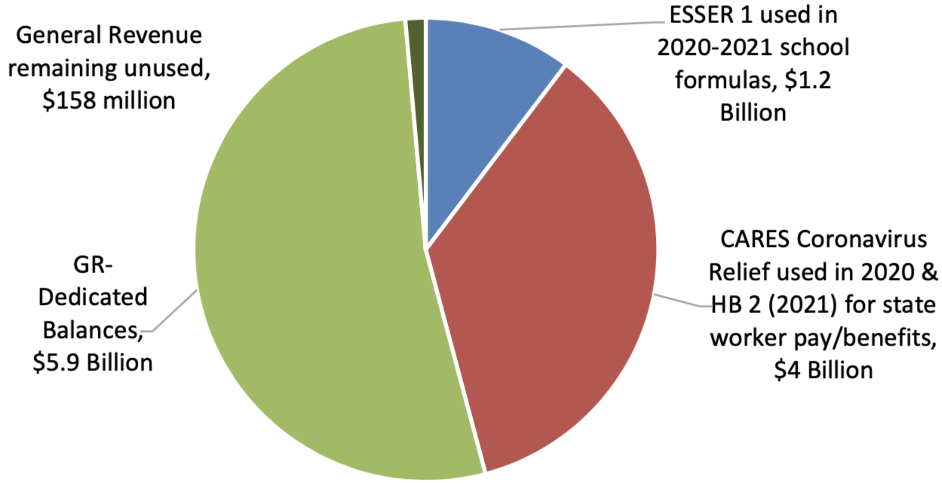
Every Texan believes that Texas needs a budget and revenue system that is fair, adequate, and responsive to our state's growing population and needs. Texans' access to PreK-12 and higher education, health care, infrastructure, and other public services that build a more prosperous future for all of us usually relies for the most part on how well our state and local taxes can support those services.

In times of national economic crisis, though, such as the Great Recession of the late 2000's and the spring 2020 shutdowns triggered by the COVID-19 pandemic, Congress has acted to support state and local governments, families, and businesses to spur economic recovery. According to USASpending.gov, Texas alone has received over $200 billion in COVID-19 federal aid, including $79 billion to state agencies. Federal aid has not only helped support our schools, colleges, health care providers, nursing homes and child care providers; it has provided direct economic stimulus through payments to families, unemployment benefits, SNAP nutrition, and housing and rental assistance (to name just a few), all of which kept consumer spending and state consumption-based revenues from cratering. Whereas in July 2020, the Comptroller projected a $5 billion shortfall by the end of the 2020-21 budget, last fall he announced that more than $11 billion in General Revenue remained unused. Federal aid was a key part.

What created the $11.2 billion GR balance when the 2020-21 budget cycle wrapped up?



Sources: Comptroller of Public Accounts, Report on Use of General Revenue Dedicated Accounts [87th Legislature, 2021], July 2020 and November 2021 Certification Revenue Estimates; Legislative Budget Board, Highlights of Senate Committee Substitute for House Bill 2, May 2021.

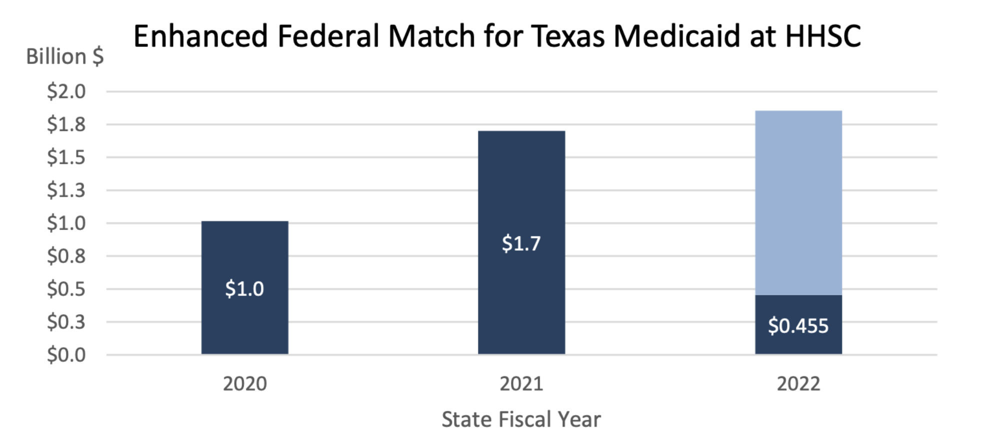
If the economy continues to improve, so will the state revenue outlook. Senate and House budget writers may soon hear that a $16 billion General Revenue balance will accrue by the end of fiscal 2022, in addition to over $13 billion in the Economic Stabilization Fund. We urge Senate Finance Committee members to keep in mind that a major reason the General Revenue balance exists is because

- the 2020-2021 budget used $1.2 billion from the first round of federal Elementary and Secondary School Emergency Relief (ESSER) Funds to replace General Revenue in the Foundation School Program formulas, and
- another $4 billion in CARES Act Coronavirus Relief Funds took the place of General Revenue previously budgeted for state agency health and public safety workers' salaries and benefits.

In addition, the Families First Coronavirus Response Act's 6.2 percentage point enhancement to the federal share of Medicaid completely eliminated any need in the 2020-2021 budget for a supplemental General Revenue appropriation for this critically important program serving more than 5 million Texans. Unfortunately, in 2023, the legislature will once again face the usual need for a Medicaid supplement, potentially $3 billion or more. (This has not been factored into the Comptroller's GR balance forecasts.)

The COVID-19 public health emergency declaration that triggers the enhanced federal Medicaid match rate is expected to end this fall, after which Texas will resume paying roughly 40% of the program's costs, rather than the 33% share it currently covers. Though some will describe this as a "less favorable" match rate that requires Texas to put "more" state money into Medicaid, it is in fact a return to the pre-pandemic share of support that the Texas budget provided.

In closing, Every Texan believes that maintaining and improving access to health care, quality preK-12 schools and affordable college; improving housing affordability; and providing other essential social services should take priority for any remaining funds made available through the federal American Rescue Plan Act. As for General Revenue that may actually come from a significantly improved economy, rather than from one-time federal aid, the legislature should prioritize ongoing investments, such as an increase in the Basic Allotment, or a one-time cost such as a pre-funded Teacher Retirement System pension cost-of-living increase, over additional state or local tax cuts.



Sources: Health and Human Services Commission, Fiscal 2022 Operating Budget, 4.B Federal Funds Supporting Schedule, 93.778.119 COVID19 Medical Assistance Program Budgeted as of December 2021; Monthly Financial Report, April 2022.