

Building Texas:

The 2010-2011 State Budget

June 2009



Center for Public Policy Priorities

Building Texas

Texas needs to make significant public investments in infrastructure and services to ensure our future prosperity. As we explained last year in *Building Texas: The 2008 Tax and Budget Primer*,* Texas faces many challenges, most important, educating our very young population. Increasingly Texas children grow up in economically disadvantaged families. The state needs to invest in quality pre-kindergarten, strengthen public education, and improve access to higher education. With the highest rate among the states of residents without health insurance, Texas must also invest in health care.

Unfortunately, Texas is a low-tax state with a structural deficit. Our state's major tax, the sales tax, is primarily a tax on goods, but increasingly Texas businesses sell services. Consequently, even when our economy grows, Texas nonetheless struggles to fund an inadequate budget.

In 2006, the state made its structural deficit worse by pledging to pay for a local school property tax cut. While the state increased other tax revenue to offset the cost, the anticipated revenue was only expected to cover about 60 percent of the cost, and in reality ended up covering less than 40 percent. The "hole" or uncovered cost is now almost \$10 billion per biennium.

To add to the state's woes, before the legislative session began in 2009, the country went into a severe economic recession that substantially reduced state tax revenues. The state comptroller projected that the state's general revenue for 2010-2011 would be about 11 percent lower (\$9 billion) than in 2008-2009.

The state did have a Rainy Day Fund which the Comptroller said would contain \$9 billion by 2011. But state leaders wanted to save that money to close the \$10 billion gap of the property tax cut in 2012-2013. Fortunately, the federal government stepped in with Recovery Act funding, which allowed Texas to write a budget without spending the Rainy Day Fund.

Even so, many important projects and programs were left unfunded or inadequately funded. Yet, the legislature cut taxes again, albeit modestly, with a \$172 million temporary cut in the franchise tax, offset partially by a tax increase on smokeless tobacco.

This report, *Building Texas: The 2010-2011 State Budget*, analyzes the 81st Legislature's appropriations bills, focusing on areas that are especially important to low- and moderate-income Texans. The report looks at both "General Revenue" spending (the revenue that is primarily from state taxes) and "All Funds" spending (which also includes federal revenue, general revenue that is statutorily dedicated to a specific program, and "Other" legally earmarked revenue such as State Highway or Property Tax Relief funds).

If you get lost in the details, just look at the big picture: Texas must increase taxes to make critical public investments. Our present course cannot ensure our prosperity.

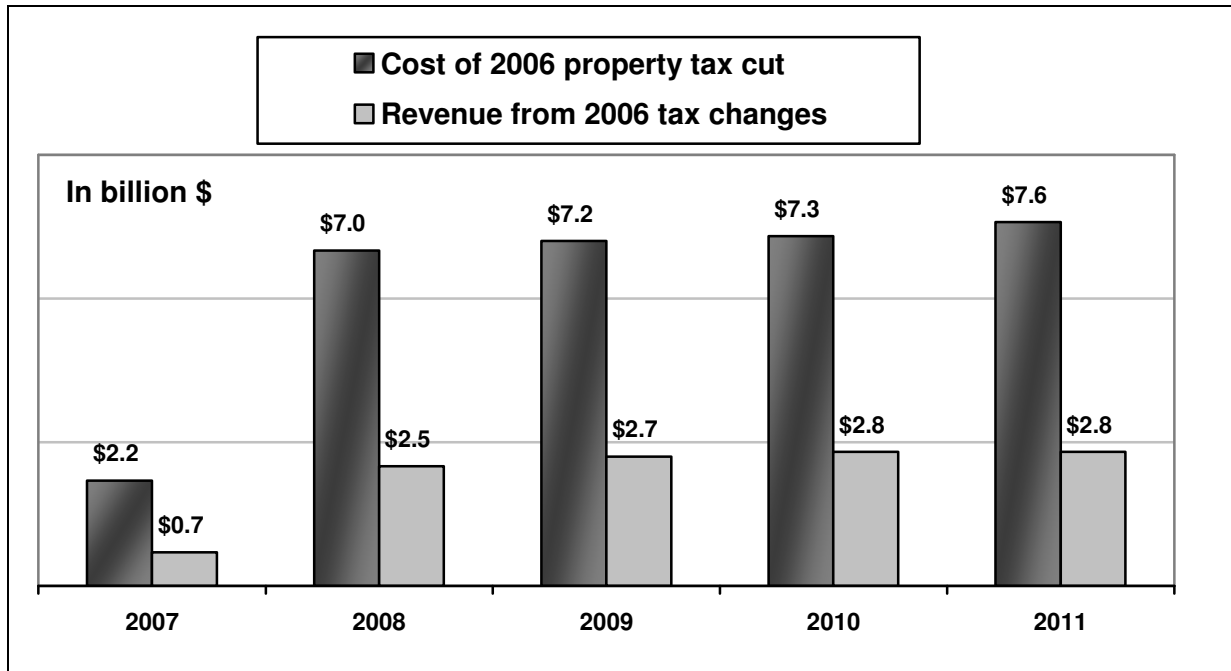
*See www.cppp.org/research.php?aid=763&cid=6

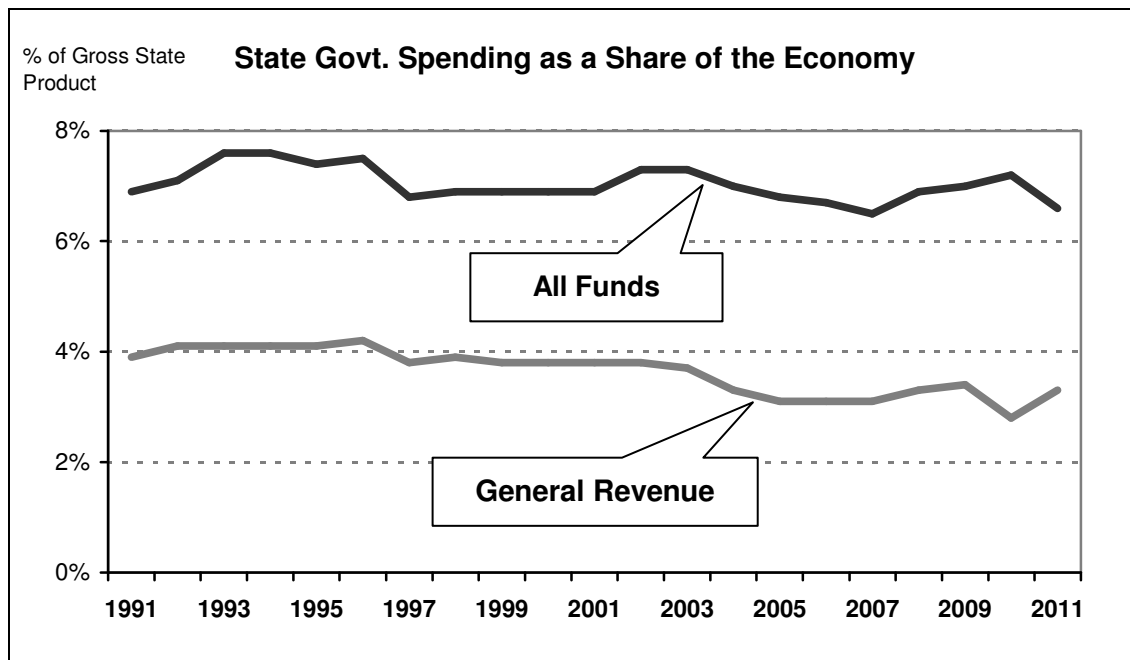
Indicators of Need for Public Services in the Lone Star State

	Texas	U.S. Average	Texas rank
Under-65 population with no health insurance	27.6 %	17.1 %	1 st
Share of population under age 18	27.7 %	24.5 %	2 nd
Adults aged 25 or over without a high school diploma	20.9 %	15.5 %	2 nd
Child poverty rate	23.2 %	18.0 %	7 th
Elderly poverty rate	12.0 %	9.5 %	9 th
Income disparity: how many dollars a family in the top 20% has per dollar for a family in the bottom 20%, 2004-06	\$7.90	\$7.30	9 th
Median family income	\$55,742	\$61,173	36 th

SOURCES: U.S. Census Bureau, American Community Survey; Economic Policy Institute/Center on Budget and Policy Priorities. Statistics are for 2007 unless otherwise indicated; rankings do not include Washington, D.C.

2006 School Property Tax Cut: Net Cost to the 2010-11 Budget of \$9.4 Billion





All-Funds Budget

2008-2009 All Funds spent: \$169.8 billion

2010-2011 All Funds budgeted: \$182.5 billion

Funding Change: \$12.7 billion more (a 7.5% increase)

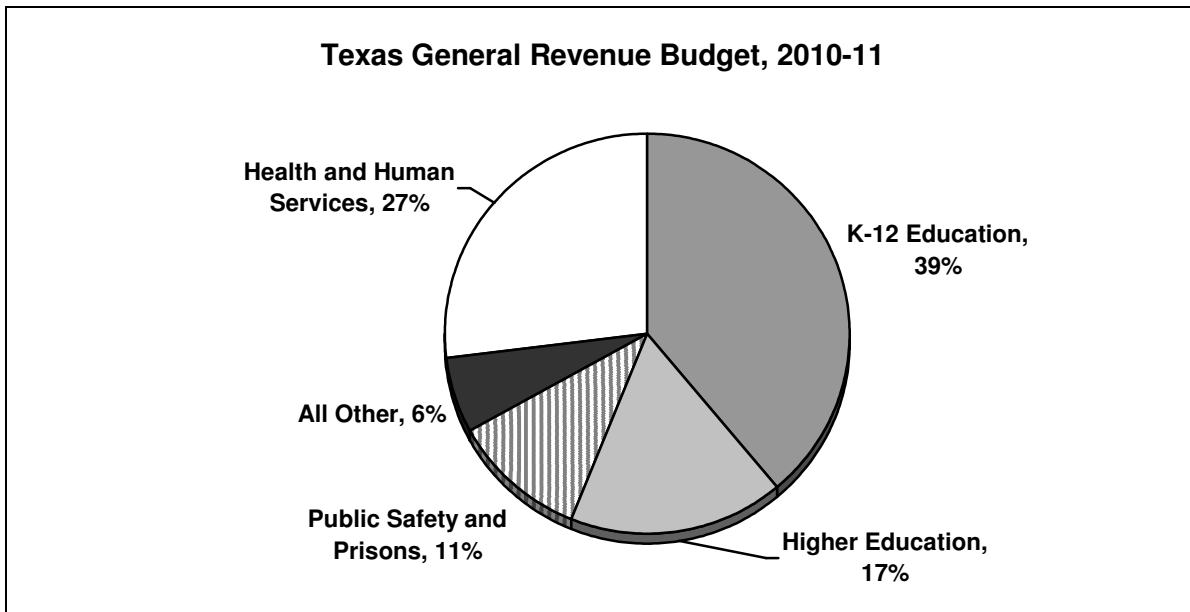
Why the State Budget is Growing:

Texas is a rapidly growing, young state with a high birth rate. Its population increases annually by about 2 percent—1 million additional residents every two years, with 174,000 more students enrolled in public elementary and secondary schools. Add inflation (also about 2 percent annually), and the necessary increase just to maintain current services is at least 8 percent every two years, the time period covered by the Texas state budget.

How is state spending shrinking? S.B. 1, the General Appropriations Act, and H.B. 4586, the supplemental appropriations bill, propose All-Funds spending for 2010 and 2011 only 7.5 percent higher than 2008-09 spending. This means state government spending will be lower in the next two years, once population and inflation are taken into account. All Funds spending will also be lower compared to expected growth in the state economy, as measured by Gross State Product. In 2010, state spending will be 7.2 percent of GSP, boosted temporarily by \$12 billion (0.9 percent of GSP) in federal American Recovery and Reinvestment Act funds. By 2011, All Funds spending will drop to 6.6 percent, down one full percentage point from the 7.6 percent peak reached in 1993-94.

General Revenue spending will be only 3.3 percent of the Texas economy by 2011, almost one percentage point down from the 1992-1995 level of 4.1 percent.

H.B. 4586, the supplemental spending bill for 2009 to cover health and human services shortfalls and damages from natural disasters, was also approved by the 81st Legislature. The net effect of H.B. 4586 was to reduce General Revenue spending by \$113 million. The supplemental bill spent \$2.4 billion in federal funds, mostly Recovery Act money for Medicaid (\$1.6 billion) and highway construction (\$662 million.)



General Revenue Budget

2008-2009 General Revenue spent: \$82.3 billion
 2010-2011 General Revenue budgeted: \$80.7 billion
 Funding Change: \$1.6 billion less (a 2% reduction)

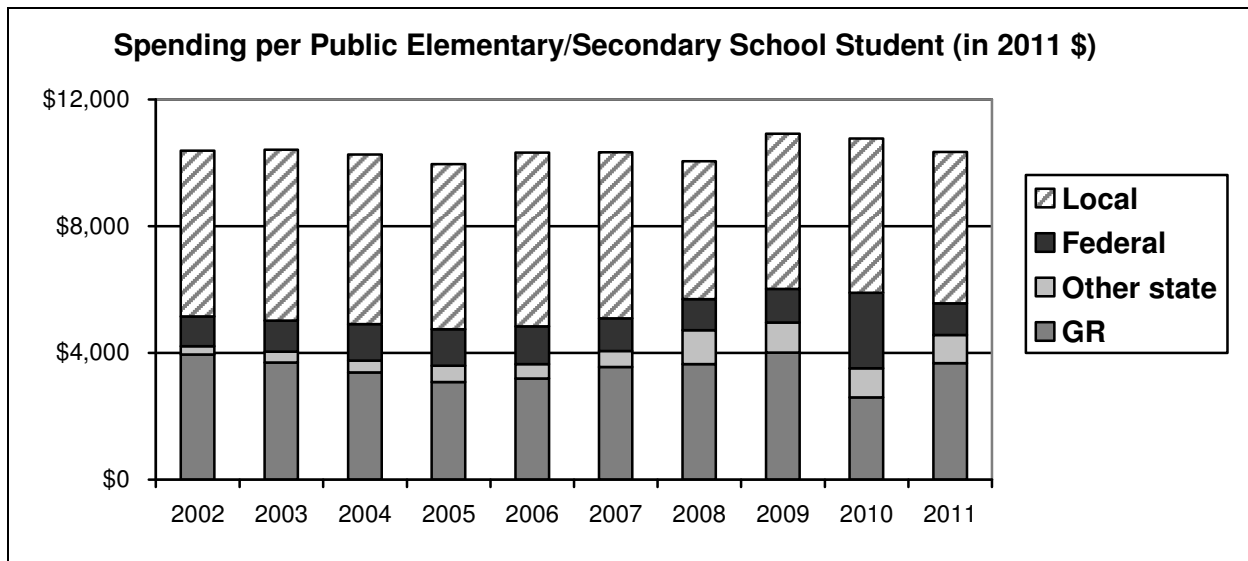
Why Less General Revenue is Budgeted:

Revenue drop: The General Revenue part of the budget must be certified by the Comptroller because of a state constitutional “pay as you go” provision. This means that appropriations requiring General Revenue cannot exceed the amount of General Revenue that the state will have through the end of that budget cycle. The Comptroller’s revenue estimate for 2010-2011 informed legislators they had \$9 billion (11 percent) less to spend out of General Revenue. Other funds available included \$9 billion in the Rainy Day Fund and \$8.5 billion in the Property Tax Relief Fund (of which \$3 billion was GR put there in 2007). Legislators could have used Rainy Day Fund dollars as General Revenue but in the end chose to save all of the Rainy Day Fund to help deal with a budget shortfall expected in 2012-13.

Recovery Act: In mid-February legislators found out that the American Recovery and Reinvestment Act (ARRA) included significant fiscal relief for states, including increases in the federal share of Medicaid and general aid through fiscal stabilization funds. Legislators used about \$6.3 billion in federal ARRA to replace GR for Medicaid and education in 2010-11.

The next legislature will face the challenge of replacing \$6.3 billion in one-time ARRA money, continuing school property tax cuts (at least a \$9 billion gap), funding a 2011 supplemental bill for Medicaid, and finding additional GR for “current services” growth in 2012-13.

The allocation of General Revenue in 2010-11 is mostly unchanged from historical spending: 56 percent of GR is for K-12 and higher education; 27 percent is for health and human services; 11 percent is for public safety and criminal justice; and 6 percent is for all other areas combined—general government, judiciary, natural resources, business and economic development, regulatory agencies, the legislature, and general provisions.



PreK-12 Education

2008-2009 General Revenue spent: \$35.7 billion
 2010-2011 General Revenue budgeted: \$31.9 billion
 Funding Change: \$3.9 billion less (an 11% reduction)

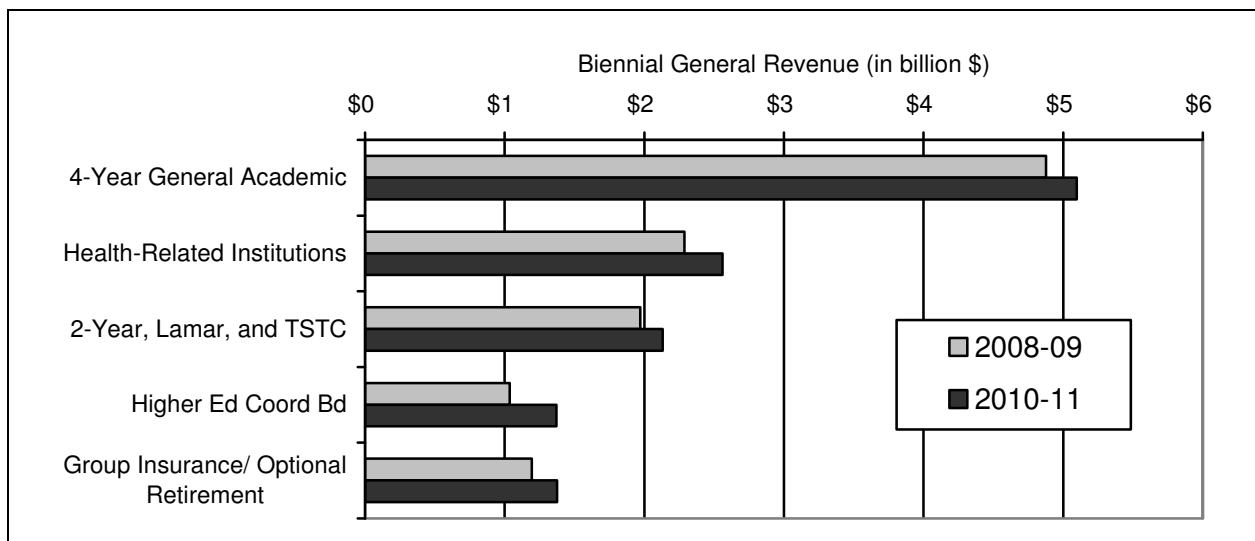
Why Less General Revenue is Budgeted:

Foundation School Program: The legislature appropriated less GR to the Foundation School Program—the primary way that state money is sent to local school districts and charter schools—because 1) \$1.5 billion in the 2008-09 budget for a “25th month” to undo a prior budget-balancing deferral was not needed in 2010-11; 2) \$3.25 billion in state aid will instead be funded with federal Recovery Act Education Stabilization Funds, including \$1.4 billion to make up for an Available School Fund revenue shortfall; and 3) \$300 million less in GR was needed due to revised state cost estimates regarding local property taxes and enrollment.

School Textbooks: Funding for new textbooks, other instructional materials, and the Technology Allotment totals almost \$1.1 billion All Funds in 2010-11, a 43 percent increase compared to 2008-09. However, the nonfederal portion of this budget item actually decreases by \$39 million (a 5 percent drop), after adjusting for a provision in Article XII that substitutes \$362 million in federal Recovery Act funds for GR.

Other Programs: S.B. 1 has additional GR for facilities (Existing Debt Allotment and Instructional Facilities Allotment; Pre-K Grants; science lab grants; Educator Incentive Pay; the Virtual School Network; Adult Basic Education; the Windham School District; Teach for American; criminal background checks for educators; special education; and Humanities Texas.

After adjusting for enrollment and inflation, public school spending will be lower in 2011 than in 2009, even with a large influx of federal funds and increases in local property taxes.



Higher Education

2008-2009 General Revenue spent: \$12.4 billion
 2010-2011 General Revenue budgeted: \$13.4 billion
 Funding Change: \$1 billion more (an 8.1% increase)

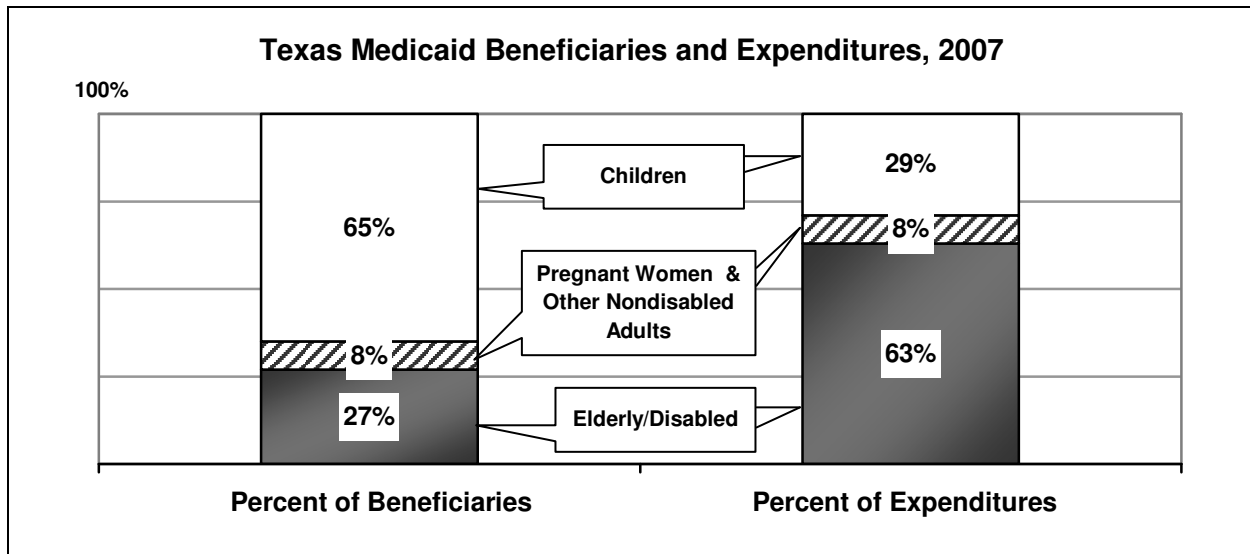
General Revenue Increases:

S.B. 1 increases General Revenue support for all major areas of higher education spending. Some areas will see a much larger increase than the 8.1 percent overall average: health related institutions will get 12 percent more GR support; higher education group insurance will see a 15 percent GR increase; and the Higher Education Coordinating Board will get 32 percent more GR. But even with these increases, public higher education will continue to have unmet needs.

Financial aid: Most of the Coordinating Board’s increase is for financial aid programs, which will get \$260 million more in All Funds in 2010-11. The largest boost is for Texas Grants, which will receive \$186 million (44 percent) more in GR in the coming biennium—enough to reach 68,643 undergraduates in 2011, compared to 53,467 in 2008. While an improvement, funding levels in S.B. 1 will allow Texas Grants to reach only about 60 percent of eligible students. The Texas Education Opportunity Grant for students at two-year public colleges receives a \$10 million (71 percent) increase in S.B. 1, and the Texas B-On-Time student loan program gets \$35 million more (or 45 percent), compared to 2008-09.

Tuition increases: The legislature increased financial aid partly because of the continued rising costs of attending Texas public universities. Average in-state tuition and mandatory fees have gone up 86 percent since tuition deregulation was approved by the legislature in response to the state’s 2003 revenue shortfall. In the 2009 session, the Senate passed a bill to restrict the tuition-setting power of university governing boards. The House did not act on the Senate bill or other tuition freeze or reregulation measures, but did pass a non-binding resolution asking university regents to keep tuition hikes below 3.95 percent a year.

“Tier One” university incentives: S.B. 1 also includes appropriations of \$50 million in GR for the Higher Education Coordinating Board to implement H.B. 51, authorizing several new funding incentives to create more tier-one, or flagship, public universities in Texas. Texas has only two such institutions—the University of Texas at Austin and Texas A&M University—along with one private tier-one institution, Rice University.



HHS: Medicaid

2008-2009 General Revenue spent: \$15.0 billion
 2010-2011 General Revenue budgeted: \$16.1 billion
 Funding Change: \$1.1 billion more (a 7.3% increase)

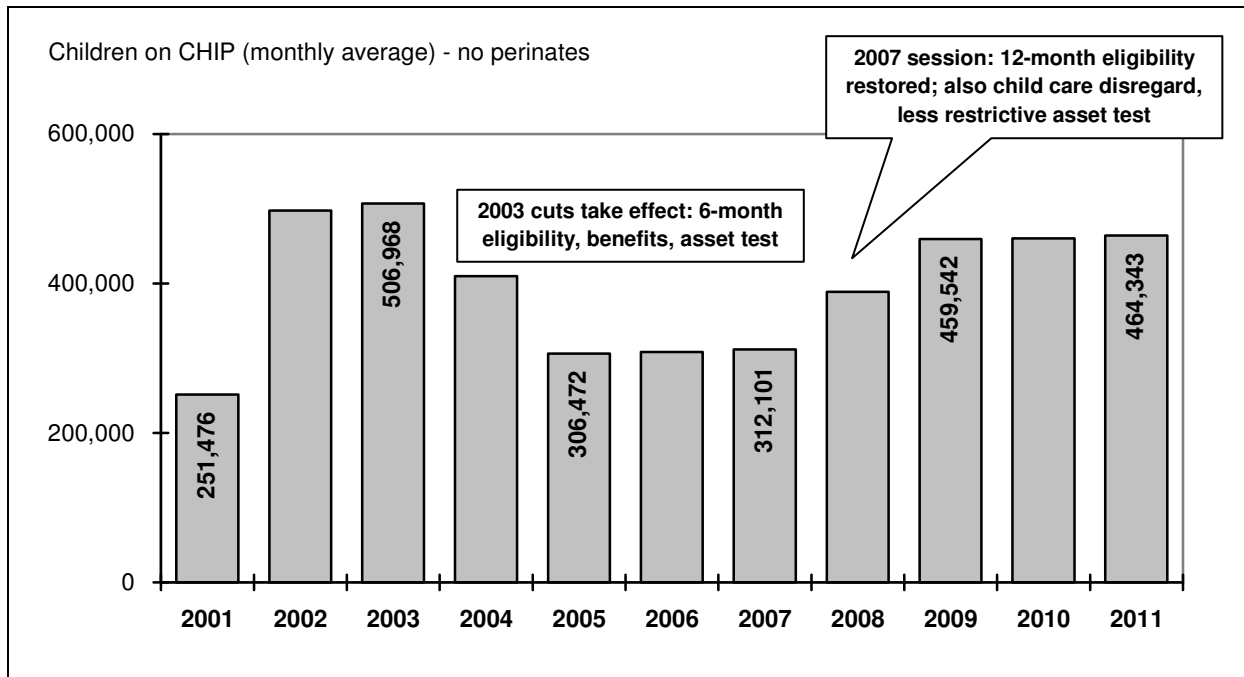
Why More General Revenue is Budgeted:

Medicaid is a critical state-federal program that funds health care for low-income children, pregnant women, elders, and people with a disability. Before the 2009 legislative session began, the Health and Human Services Commission (HHSC) estimated that a \$7 billion All Funds increase (\$3.7 billion in additional GR) was needed for Medicaid current services caseload and cost growth in 2010-11. The All Funds amount for Medicaid in S.B. 1 falls about \$2.5 billion short of this amount—well below current services levels—even though the legislature approved the creation of a buy-in program for children with disabilities; coverage of comprehensive substance abuse treatment services for certain adults 21 and over; and increases in community attendant wages and selected health care provider rates.

Actual cuts to Medicaid for 2010-11 were avoided primarily because of the temporarily higher match rate in the Recovery Act and because of “lowball” assumptions about caseloads and costs that will undoubtedly require a supplemental appropriation for Medicaid before the end of fiscal 2011, possibly \$1 billion in GR. For fiscal 2009, Texas received \$1.6 billion in federal ARRA Medicaid funds that helped address a 2009 shortfall; for 2010-11, another \$2.5 billion in ARRA Medicaid funds was used instead of GR that would have been needed for Medicaid.

The system that determines eligibility for Medicaid, Food Stamps, and other HHS programs received a \$100 million All Funds increase to maintain August 2009 staffing and pay levels. The legislature also gave the Health and Human Services Commission (Rider 61) transfer authority to address eligibility services staffing and workloads.

Caseloads Budgeted in S.B. 1: In 2009, a monthly average of 2.975 million Texans receive Medicaid acute care services; more than 2 million are children. By 2011, Medicaid acute care programs are budgeted to reach 3.168 million Texans, 6.5 percent more than in 2009.



HHS: CHIP

2008-2009 General Revenue spent: \$643 million
 2010-2011 General Revenue budgeted: \$624 million
 Funding Change: \$19 million less (a 3.0% reduction)

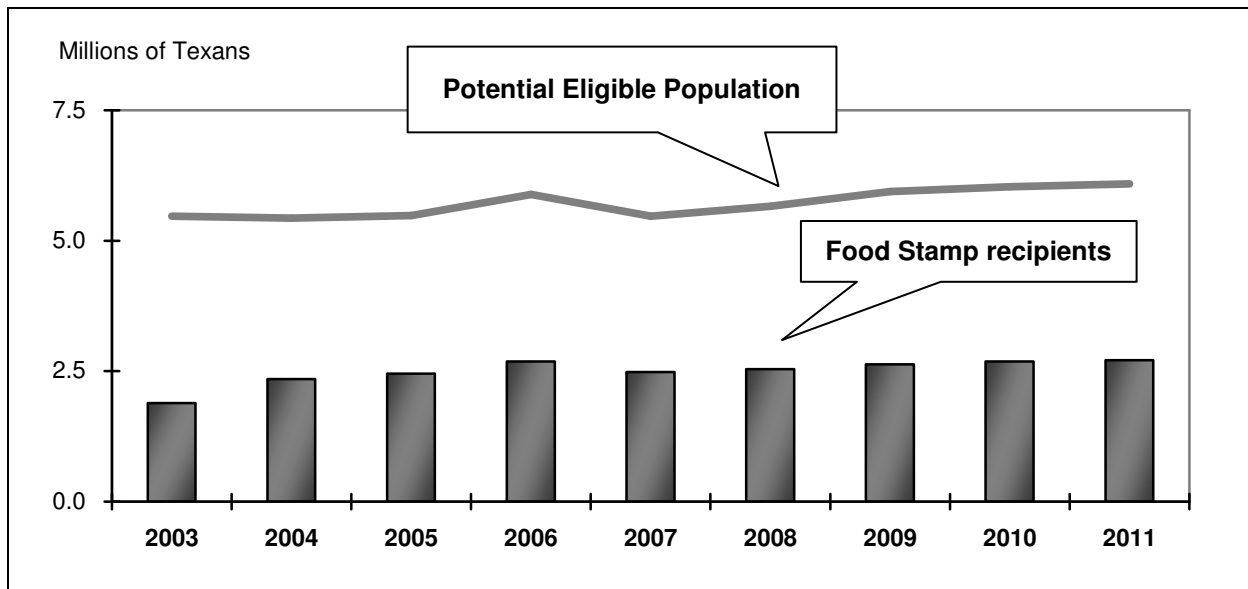
Why Less General Revenue is Budgeted:

CHIPRA 2009, the federal law that reauthorized CHIP, contains provisions that reduce the amount of GR needed to fund services for legal immigrant children and allow the use of federal matching funds instead.

GR Increases: S.B. 1 increased General Revenue for CHIP to cover caseload growth (\$74 million more for traditional and perinatal caseload increases); \$20 million to make up for a less-favorable federal match rate; and \$2.1 million for a federally mandated rate increase for federally qualified health centers and rural health center CHIP providers. The state budget assumes that the federal share of CHIP will drop to 71.11 percent in federal fiscal year 2010 and 70.80 percent in 2011, from the 2009 share of 71.61 percent.

Caseloads Budgeted in S.B. 1: In the first nine months of state fiscal 2009, an average of 459,542 children were covered by “traditional” CHIP—excluding perinates covered by the CHIP program. By 2011, the state budget forecasts that average monthly traditional CHIP enrollment will increase to 464,343 children, or 1 percent more than the 2009 figure.

For every \$1.00 in General Revenue that Texas spends on CHIP, the federal government invests an additional \$2.42.



HHS: Food Stamps/SNAP Administration

2008-2009 General Revenue spent: \$275 million

2010-2011 General Revenue budgeted: \$315 million

Funding Change: \$40 million more (a 15% increase)

General Revenue and Federal Increases:

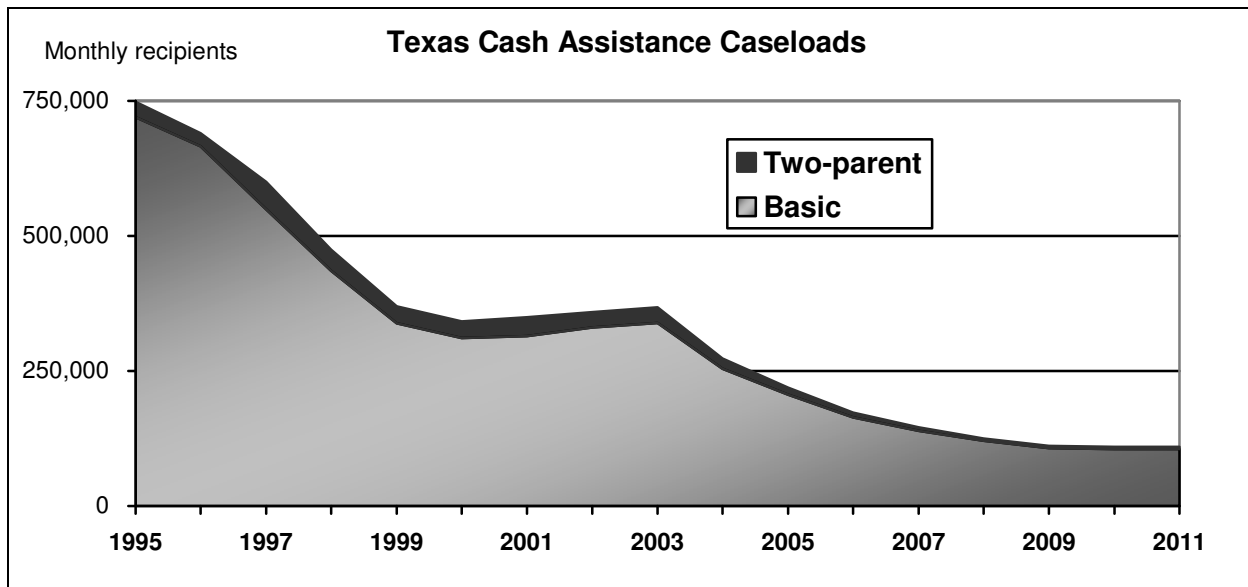
Food Stamp Recipients: Between 2009 and 2011, Food Stamp—now the Supplemental Nutritional Assistance Program—caseloads are budgeted to rise by 82,000 individuals. This means that 2.7 million Texans will receive 100 percent federally funded benefits that allow them to purchase food, rather than relying solely on food pantries and other emergency providers.

The Health and Human Services Commission estimates that almost 45 percent of Texans who are potentially eligible will be reached by the Food Stamp program in 2011, a dramatic improvement over the 31 percent reached in 2000. However, this is still below the 48 percent peak achieved in 2006, before the HHSC eligibility system's staffing shortages and a failed privatization attempt caused delays and inappropriate denials of Food Stamps and other benefits.

Economic Value of Benefits: Local grocery stores will benefit because Food Stamp recipients will be able to buy \$2.7 billion worth of food in 2011, an increase of \$44 million compared to the benefits redeemed by Texans in 2008. The average Texas Food Stamp household of three people received a monthly benefit of \$316 in June 2009.

The Recovery Act increased the maximum monthly Food Stamp benefit by 13.6 percent, starting in April 2009. Food Stamp benefits themselves are not appropriated by the legislature; only the administration of the program is affected by the state budget.

Even with higher need, Texas Food Stamp caseloads have not yet recovered to the pre-welfare-reform peak of 2.8 million participants in 1994, partly because of an understaffed eligibility system that cannot process applications and renewals on time and correctly.



HHS: TANF Cash Assistance

2008-2009 General Revenue spent: \$131 million
 2010-2011 General Revenue budgeted: \$131 million
 Funding Change: \$0.1 million more (a 0.1% increase)

Why Less All-Funds Revenue is Budgeted:

Because cash assistance can be provided with federal Temporary Assistance for Needy Families dollars, state maintenance of effort TANF spending, or both, the total funding—state and federal—for cash assistance is the number that matters. In the 2008-09 biennium, \$211 million in federal and state funds was spent on cash assistance for Texas’ neediest families. For 2010-11, the budget for TANF cash assistance is only \$200 million, a 5.4 percent biennial drop.

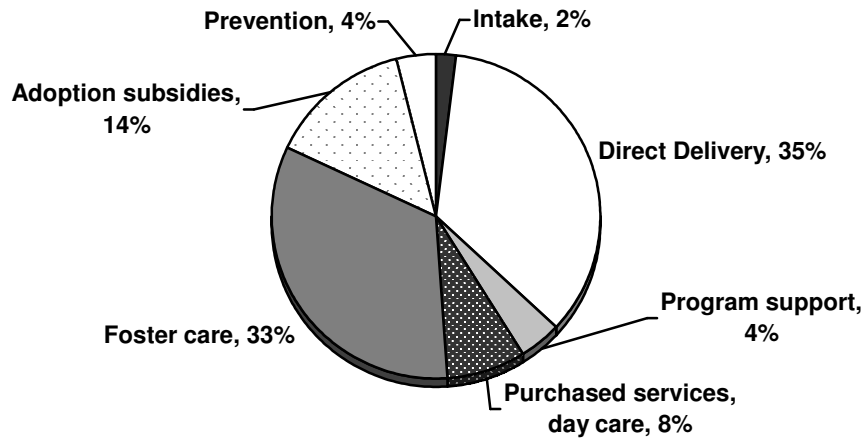
Caseloads Budgeted in S.B. 1: In 2009, only 111,599 Texans (the vast majority of them children) received cash assistance through TANF. The state budget assumes a monthly average TANF caseload of 109,862 by 2011—a drop of 1.6 percent from fiscal 2009 levels—as harsh penalties continue to force parents and their children off TANF rolls.

Monthly Grant: Per recipient, the TANF cash assistance monthly grant will rise from an average of \$68.47 in fiscal 2009, to \$72.66 in fiscal 2011. This is because of a rider in the state budget that says the maximum cash grant must be at least 17 percent of the federal poverty line.

In addition, children on TANF in 2009 and 2010 will receive \$105 in a one-time payment on August 1, up from the current \$30 per-child intended to help families with back to school costs. This increase was funded with federal Recovery Act funds.

TANF, which reached about 1 out of 5 poor Texans before welfare “reform” in 1996, will reach barely 1 out of 30 poor Texans in 2010-2011.

All-Funds Child Protective Services Budget for 2010-11: \$2.3 billion



HHS: Child Protective Services

2008-2009 General Revenue spent: \$851 million
2010-2011 General Revenue budgeted: \$928 million
Funding Change: \$78 million more (a 9.1% increase)

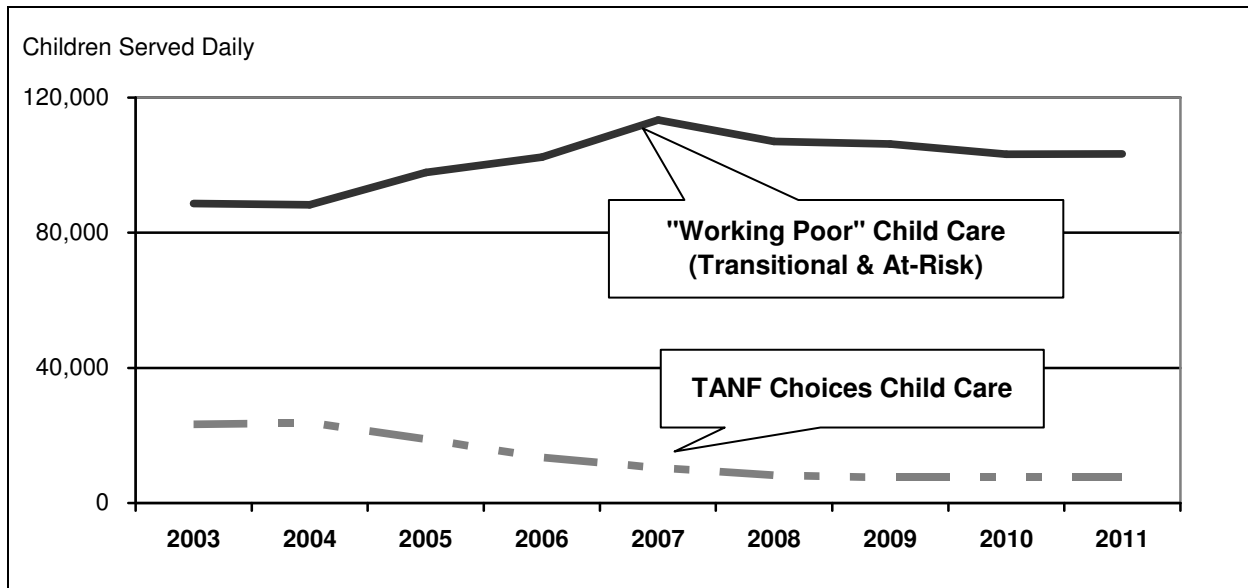
General Revenue and Federal Increases:

Both S.B. 1 and H.B. 4586 appropriate funds to the Department of Family and Protective Services in 2010 and 2011 to administer child and adult protective services; neglect and abuse prevention programs, and child care regulation. Along with increased General Revenue, additional federal TANF and Child Care Development Fund dollars will allow for the hiring of 270 new staff in child welfare programs at DFPS, address caseload growth, and improve or expand services to children and families in the CPS system.

CPS Staffing: Family-Based Safety Services staff will increase by 119 full-time positions by 2011 to comply with federal standards on monthly face-to-face visits with children and parents. The legislature also approved 34 new direct delivery staff to keep hold times from growing for people calling to report abuse or neglect to the Statewide Intake system; 39 workers to implement the federal Fostering Connections Act; 39 workers to strengthen services to youth transitioning out of foster care; and 36 new Family Group Decision Making staff to strengthen CPS services to families.

Foster care: S.B. 1 includes \$32.2 million All Funds (\$20.8 million General Revenue) to increase rates paid to foster care homes and private child placing agencies that supervise them. DFPS-paid foster care caseloads are budgeted at 14,590 children by 2011, down from 17,109 in 2008—a decline of 15 percent.

Average daily caseloads for CPS investigation workers are budgeted at 22.4 cases in 2011, up slightly from 21.9 in 2008. Family-Based Safety Services caseloads are projected to drop from 20.3 in 2008 to 18.7 in 2011. Substitute Care caseloads will drop from 37.3 in 2008 to 31.3 in 2011. These caseloads exceed national averages and recommended best practices.



NOTE: Chart does not show the additional children who will be served in 2010 because of a temporary increase in federal child care funding (American Recovery and Reinvestment Act).

Business and Economic Development: Child Care Subsidies

2008-2009 General Revenue spent: \$141 million
 2010-2011 General Revenue budgeted: \$141 million
 Funding Change: no General Revenue change

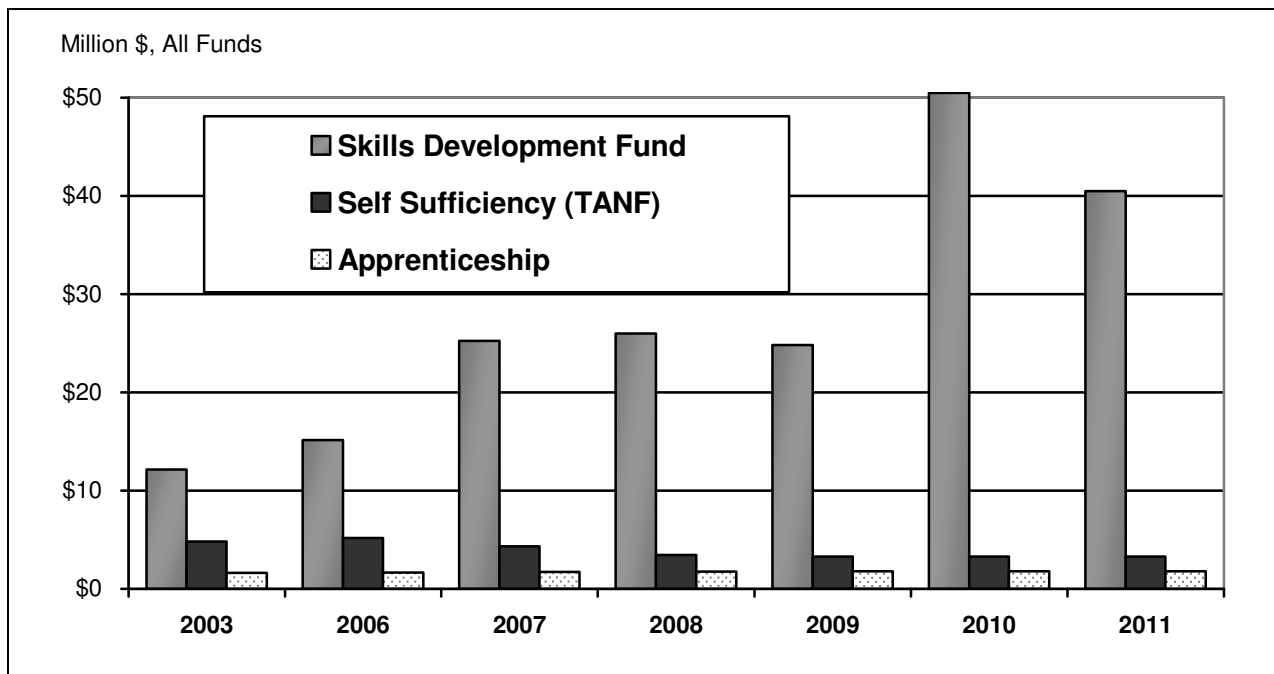
Federal Increases:

Subsidized child care programs are administered by local workforce development boards so that low-income parents can work or to allow welfare recipients to participate in job training or employment programs. As in the case of cash assistance, subsidized child care is another part of the budget best judged by looking at the total state and federal funding available.

For 2010-2011, child care funding for TANF Choices, Transitional, and At-Risk programs at the Texas Workforce Commission is budgeted at \$1.161 billion, up from the \$929 million budgeted for 2008-2009. This is an increase of \$232 million, or 25 percent, for the biennium. Most of the increase (\$198.5 million) is a temporary boost in federal Child Care and Development Block Grant funds through the American Recovery and Reinvestment Act.

Caseloads Budgeted in S.B. 1: By 2011, a monthly average of 103,300 children will be served by the state's Transitional and At-Risk subsidy programs. This is a reduction of 3,743 "working poor" child care slots from 2008 levels, or 3.5 percent fewer slots. TANF Choices child care for welfare recipients is budgeted at 7,544 slots in 2011, down 721 (8.7 percent) from 2008.

The waiting list for low-income child care is expected to have 27,700 children on it in fiscal 2010 and 2011. Fewer than 10 percent of Texas children who are federally eligible for child care are reached by the state's subsidy program.



Business and Economic Development: State-Funded Job Training Programs

2008-2009 General Revenue spent: \$54.2 million

2010-2011 General Revenue budgeted: \$84.3 million

Funding Change: \$30.2 million more (a 55.6% increase)

General Revenue and Federal Increases:

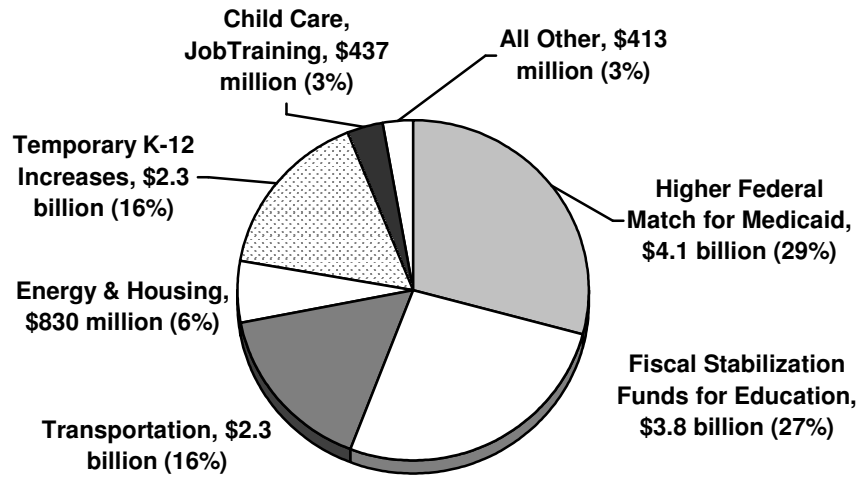
Along with federal job training and employment services provided through local workforce boards—mostly Workforce Investment Act (WIA) programs—the Texas Workforce Commission administers several state-funded customized and other job training programs.

The largest of these is the Skills Development Fund, which in the past has been entirely supported by state General Revenue. For 2010-11, the Skills Development Fund will receive \$81 million in GR, up almost 60 percent from \$51 million budgeted for 2008-09. In addition, \$10 million in WIA Recovery Act funding is appropriated for the Skills Development Fund in Article XII of the budget.

TWC's apprenticeship program for skilled trade and craft workers will get the same amount of funding in the coming biennium—\$3.6 million All Funds (93 percent of it GR). Finally, the budget for the Self Sufficiency Fund, which pays for customized training for Texans on cash assistance or Food Stamps, will decline slightly, to \$6.5 million (federal TANF funds).

Trainees Budgeted in S.B. 1: The Skills Development Fund will serve almost 27,300 Texans in 2011, up considerably from 20,289 in 2008. In contrast, apprenticeship programs will have only 3,600 customers, down from 3,850 in 2008. The Self Sufficiency Fund will also reach fewer trainees with the funding levels in the budget: 2,148 in 2011, down from 2,515 in 2008.

\$14.4 billion in ARRA Federal Funds in the Texas State Budget for 2009 and 2010



American Recovery and Reinvestment Act

2009 Federal Funds budgeted: \$2.3 billion
2010 Federal Funds budgeted: \$12.1 billion

The American Recovery and Reinvestment Act (ARRA) is making a vital difference in Texas. Potentially injecting as much as \$38 billion into the Texas economy, ARRA temporarily increases grants to federal, state, or local government agencies, along with making tax cuts or tax credits available to families and businesses. About \$16 billion of Texas' Recovery Act funding had to be appropriated by the legislature through the state budget or required the legislature to change state law—for example, \$555 million that was contingent on modernizing the state's Unemployment Insurance system.

In the end, Texas legislators appropriated \$14.4 billion of federal ARRA funds through the 2009 supplemental spending bill (H.B. 4586) and the general appropriations act for 2010-11 (S.B. 1, Article XII). Of this \$14.4 billion, 56 percent will be used for Medicaid and public education to avoid or reduce cuts by taking the place of General Revenue that would otherwise have been needed for those areas. The other 44 percent, or \$6.3 billion, will pay for highways, child care, Workforce Investment Act services (or additional job training), energy programs, housing, water/wastewater projects, and other improvements. Some of these, particularly job training, energy conservation, and housing, are areas of the budget in which Texas has not traditionally invested much General Revenue, and the higher funding levels for these areas will not be continued once ARRA funds are exhausted. Most of the ARRA funds will be distributed to state agencies—and in some cases to local governments such as school districts, cities, and counties—through existing formulas.

Without ARRA funds to the states, Texas would probably have used some of its Rainy Day Fund to cover some of the General Revenue lost to the economic recession, but not all of it. Instead, without ARRA funds, the Texas budget would have made larger cuts to Medicaid and education than it did, and things like the teacher pay raise would not have been funded.

Sources used for this analysis: Texas Legislative Budget Board, *Conference Committee Report on SB 1* and *Summary of Conference Committee Report on SB 1* (see www.lbb.state.tx.us) *Fiscal Size-Up for 2008-09 Biennium*, www.lbb.state.tx.us/Fiscal_Size-up/Fiscal%20Size-up%202008-09.pdf; the Texas Budget Source, <http://tbs.lbb.state.tx.us/>; and agency budget requests for 2010-11 (www.lbb.state.tx.us/External_Links/Agency_LAR_Listing_0808.htm)

Please contact Eva DeLuna Castro, Senior Budget Analyst, with any questions you may have about the information in this document.

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CPPP is a nonpartisan, nonprofit policy institute committed to improving public policies to better the economic and social conditions of low- and moderate-income Texans.

CPPP pursues this goal through independent research, policy analysis and development, public education, advocacy, coalition building, and technical assistance.

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