

Summary of Legislative Budget Estimates

For the 2004–2005 Biennium

Submitted to the 78th Legislature

January 2003

LEGISLATIVE BUDGET BOARD

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INTRODUCTION

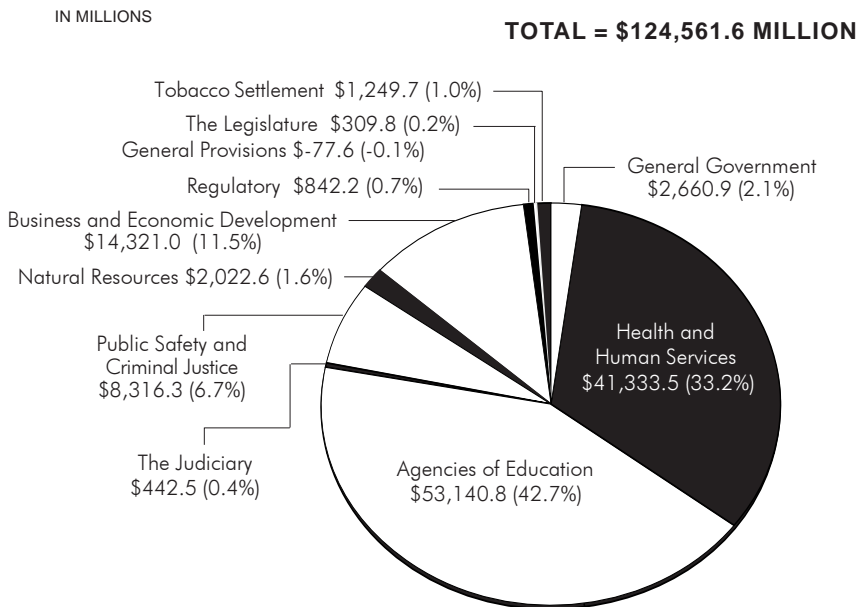
The Legislative Budget Board's (LBB) recommended baseline appropriations for state government operations for the 2004–05 biennium total \$124.6 billion from all fund sources. The recommendations provide a \$7.4 billion, or 6.3 percent, increase from the 2002–03 biennial level.

General Revenue funding, including funds dedicated within the General Revenue Fund, totals \$69.7 billion for the 2004–05 biennium, an increase of \$3.0 billion, or 4.5 percent, over the anticipated 2002–03 biennial spending level. Figures 1 and 2 show the 2004–05 recommendations by government function.

The LBB recommended baseline appropriations for the 2004–05 biennium were prepared prior to the release of the Comptroller's revenue forecast in January 2003. The LBB recommendations include \$64.6 billion in “pure” General Revenue Funds (see Page 4 and Table 2).

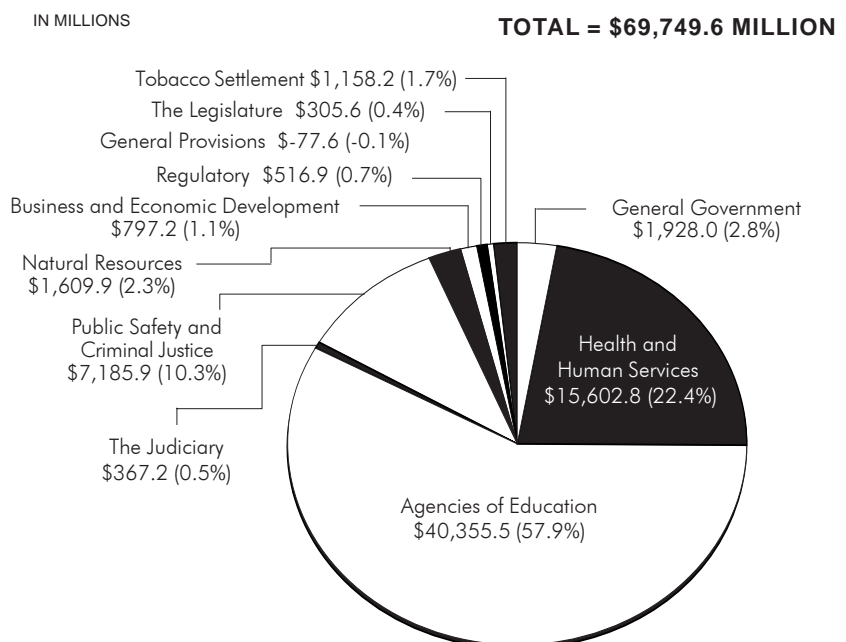
2004–05 BIENNIAL RECOMMENDATIONS

**FIGURE 1
ALL FUNDS**



NOTES: Excludes interagency contracts.
Totals may not add because of rounding.

**FIGURE 2
GENERAL REVENUE AND
GENERAL REVENUE–DEDICATED FUNDS**



Note: Totals may not add because of rounding.

HIGHLIGHTS OF THE RECOMMENDATIONS

THE LEGISLATIVE Budget Board's recommendations include increased General Revenue funding from the 2002–03 biennial level for the following key budget items:

EDUCATION

- ♦ Funding for the Foundation School Program is sufficient to address equity within the school finance system;
- ♦ a \$95 million General Revenue Funds increase for new instructional materials;
- ♦ a \$910.5 million increase in Federal Funds at the Texas Education Agency for implementation of the Federal No Child Left Behind Act and for expected growth in the School Breakfast and Lunch Programs, and Special Education Grants;
- ♦ a \$297.9 million General Revenue Funds increase for contributions to the Teacher Retirement System to account for payroll growth in public and higher education;
- ♦ a \$566.2 million General Revenue Funds increase for increased enrollment and some medical cost increases in the group insurance program (TRS-Care) for retired teachers;
- ♦ a \$624 million General Revenue Funds increase to fund the School District Employee Health Insurance Program;
- ♦ a \$157.1 million General Revenue Funds increase for the Toward EXcellence, Access, and Success (TEXAS) Programs; and

- ♦ a \$395.5 million General Revenue Funds increase to fund higher education enrollment growth experienced in the current biennium.

HEALTH AND HUMAN SERVICES

Most of the increase in health and human services agencies are related to growth in the Medicaid program. Growth in the Medicaid program noted below includes funds in Article XII, Tobacco Settlement Receipts.

- ♦ a \$2.8 billion increase in All Funds and a \$1.3 billion increase in General Revenue Funds to address caseload growth and continue fiscal year 2003 cost levels for Medicaid acute care services at the Health and Human Services Commission and the Department of Health. The caseload growth is primarily in children's groups. Enrollment growth is projected to result in 2.9 million clients in fiscal year 2005 (compared to 2.4 million clients anticipated in fiscal year 2003).
- ♦ a \$512.2 million increase in All Funds and a \$203.8 million increase in General Revenue Funds to address a deferred twenty-fifth month of Medicaid payments for acute care premiums and nursing facilities. Twenty-three months were appropriated in 2000–01 and 24 months in 2002–03.
- ♦ a \$251.2 million increase in All Funds and a \$93.5 million increase in General Revenue

Funds for caseload growth and to maintain fiscal year 2003 average costs in community care programs at the Department of Human Services.

EMPLOYER COSTS

- ♦ a \$569.8 million increase in All Funds (\$425.8 million in General Revenue Funds) for premium increases and enrollment adjustments for employee group insurance.

BOND DEBT SERVICE

- ♦ a \$148.7 million increase in All Funds (\$165.3 million in General Revenue and General Revenue–Dedicated Funds) for appropriated debt service payments for general obligation bonds, revenue bonds at state agencies, and tuition revenue bonds at institutions of higher education.

CHANGES BY METHOD OF FINANCING AND FUNCTION

THE LEGISLATIVE Budget Board's recommendations for the 2004–05 biennium include the following funding changes from the 2002–03 biennium:

GENERAL REVENUE FUNDS

- ♦ a \$3.1 billion, or 5 percent, increase in General Revenue Funds. As depicted in Figure 3, General Revenue Funds make up 51.9 percent of the recommended budget;

GENERAL REVENUE–DEDICATED FUNDS

- ♦ an \$86.9 million, or 1.7 percent, decrease in General Revenue–Dedicated Funds. General Revenue–Dedicated Funds make up 4.1 percent of the recommended budget;

FEDERAL FUNDS

- ♦ a \$3 billion, or 8.2 percent, increase in Federal Funds. Federal Funds make up 32.1 percent of the recommended budget; and

OTHER FUNDS

- ♦ a \$1.4 billion, or 10.4 percent, increase in Other Funds. Other Funds make up 11.9 percent of the recommended budget.

The recommendations result in major funding changes for the following functions:

PUBLIC EDUCATION

- ♦ a \$269.1 million, or 1 percent, increase in General Revenue and General Revenue–Dedicated Funds; a \$904.9 million, or 16 percent, increase in Federal Funds; and a

\$1 billion, or 71.8 percent, increase in Other Funds;

HIGHER EDUCATION

- ♦ a \$1.1 billion, or 8.1 percent, increase in General Revenue and General Revenue–Dedicated Funds;

HEALTH AND HUMAN SERVICES

- ♦ a \$1.4 billion, or 9.8 percent, increase in General Revenue and General Revenue–Dedicated Funds; and a \$2.2 billion, or 9.9 percent, increase in Federal Funds;

PUBLIC SAFETY

AND CRIMINAL JUSTICE

- ♦ a \$62.6 million, or 0.9 percent, increase in General Revenue and General Revenue–Dedicated Funds;

BUSINESS AND

ECONOMIC DEVELOPMENT

- ♦ a \$7.5 million, or 0.9 percent, increase in General Revenue and General Revenue–Dedicated Funds; a \$53.8 million, or 0.8 percent, increase in Federal Funds; and a \$309.1 million, or 5 percent, increase in Other Funds;

REGULATORY

- ♦ a \$32.3 million, or 6.7 percent, increase in General Revenue and General Revenue–Dedicated Funds; and a \$93.8 million, or 41.5 percent, increase in Other Funds; and

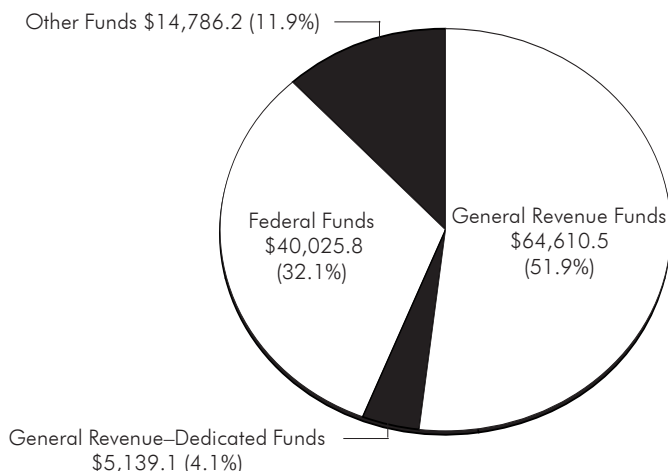
TOBACCO SETTLEMENT RECEIPTS

- ♦ a \$195.2 million, or 20.3 percent, increase in General Revenue and General Revenue–Dedicated from Tobacco Settlement receipts, primarily for the Acute Care Medicaid program.

**FIGURE 3
BIENNIAL RECOMMENDATIONS FOR 2004–05
BY FUND SOURCE**

IN MILLIONS

TOTAL = \$124,561.6 MILLION



NOTES: Excludes interagency contracts.
Totals may not add because of rounding.

RECOMMENDATIONS BY METHOD OF FINANCING

TABLES 1 THROUGH 6 compare the recommendations for the 2004–05 biennium with estimated 2002–03 expended/budgeted levels.

The tables show the budgets by government function for All Funds, General Revenue Funds, General Revenue–Dedicated Funds, General Revenue and General Revenue–Dedicated Funds, Federal Funds, and Other Funds.

For definitional purposes, the term “General Revenue Funds” includes primarily the nondedicated portion of the General Revenue Fund and three education funds—the Available School Fund, the State Textbook Fund and the Foundation School Fund.

General Revenue Funds also include the dedicated portions of some taxes that have historically counted as General Revenue.

The term “General Revenue–Dedicated Funds” includes those funds that were rededicated under House Bill 3050, Seventy-fourth Legislature, 1995; House Bill 2948, Seventy-fifth Legislature, 1997; House Bill 3084, Seventy-sixth Legislature, 1999; House Bill 3088, Seventy-seventh Legislature, 2001; and all other dedicated accounts within the General Revenue Fund.

2004–05 BIENNIAL RECOMMENDATIONS

**TABLE 1
ALL FUNDS**

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002–03*	RECOMMENDED 2004–05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Article I - General Government	\$2,663.4	\$2,660.9	\$(2.5)	(0.1)%
Article II - Health and Human Services	37,806.0	41,333.5	3,527.5	9.3
Article III - Agencies of Education	49,561.9	53,140.8	3,578.9	7.2
Public Education	33,287.6	35,507.8	2,220.2	6.7
Higher Education	16,274.2	17,633.0	1,358.7	8.3
Article IV - The Judiciary	428.8	442.5	13.7	3.2
Article V - Public Safety and Criminal Justice	8,470.8	8,316.3	(154.5)	(1.8)
Article VI - Natural Resources	2,190.7	2,022.6	(168.1)	(7.7)
Article VII - Business and Economic Development	13,950.7	14,321.0	370.4	2.7
Article VIII - Regulatory	717.6	842.2	124.6	17.4
Article IX - General Provisions	0.0	(77.6)	(77.6)	NA
Article X - The Legislature	306.4	309.8	3.5	1.1
Total	\$116,096.1	\$123,311.9	\$7,215.9	6.2
Article XII - Tobacco Settlement	\$1,075.8	\$1,249.7	\$174.0	16.2
Grand Total	\$117,171.8	\$124,561.6	\$7,389.8	6.3%
*Includes \$1,192.1 million (\$469.1 million in General Revenue Funds) for anticipated demands for supplemental appropriations which does not reflect transfers from existing appropriations. Any transfers of existing appropriation would decrease the overall expenditures for the 2002–03 biennium.				
NOTES: Excludes interagency contracts.				
Totals may not add because of rounding.				
Biennial change and percentage change calculated on actual amounts before rounding.				

RECOMMENDATIONS BY METHOD OF FINANCING

2004-05 BIENNIAL RECOMMENDATIONS

TABLE 2
GENERAL REVENUE FUNDS

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002-03*	RECOMMENDED 2004-05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Article I - General Government	\$1,510.5	\$1,544.6	\$34.1	2.3%
Article II - Health and Human Services	13,576.8	15,001.1	1,424.3	10.5
Article III - Agencies of Education	36,494.5	37,840.6	1,346.1	3.7
Public Education	25,916.2	26,310.9	394.7	1.5
Higher Education	10,578.2	11,529.7	951.4	9.0
Article IV - The Judiciary	338.7	340.7	2.0	0.6
Article V - Public Safety and Criminal Justice	7,014.1	7,082.1	68.0	1.0
Article VI - Natural Resources	601.8	615.8	14.0	2.3
Article VII - Business and Economic Development	395.4	402.2	6.7	1.7
Article VIII - Regulatory	386.2	410.1	24.0	6.2
Article IX - General Provisions	0.0	(47.7)	(47.7)	NA
Article X - The Legislature	303.0	305.6	2.7	0.9
Total	\$60,621.0	\$63,495.1	\$2,874.1	4.7
Article XII - Tobacco Settlement	925.3	1,115.4	190.1	20.5
Grand Total	\$61,546.3	\$64,610.5	\$3,064.2	5.0%

*Includes \$469.1 million in General Revenue Funds for anticipated demands for supplemental appropriations which does not reflect transfers from existing appropriations. Any transfers of existing appropriation would decrease the overall expenditures for the 2002-03 biennium.
NOTES: Totals may not add because of rounding.
Biennial change and percentage change calculated on actual amounts before rounding.

TABLE 3
GENERAL REVENUE-DEDICATED FUNDS

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002-03	RECOMMENDED 2004-05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Article I - General Government	\$390.4	\$383.4	\$ (7.0)	(1.8)%
Article II - Health and Human Services	630.3	601.7	(28.6)	(4.5)
Article III - Agencies of Education	2,544.9	2,514.9	(29.9)	(1.2)
Public Education	253.0	127.4	(125.6)	(49.7)
Higher Education	2,291.8	2,387.6	95.7	4.2
Article IV - The Judiciary	22.7	26.5	3.8	16.5
Article V - Public Safety and Criminal Justice	109.2	103.8	(5.4)	(4.9)
Article VI - Natural Resources	998.1	994.2	(3.9)	(0.4)
Article VII - Business and Economic Development	394.3	395.1	0.8	0.2
Article VIII - Regulatory	98.5	106.8	8.3	8.4
Article IX - General Provisions	0.0	(29.9)	(29.9)	NA
Total	\$5,188.4	\$5,096.4	\$(92.0)	(1.8)
Article XII - Tobacco Settlement	\$37.6	\$42.8	\$5.1	13.6
Grand Total	\$5,226.0	\$5,139.1	\$(86.9)	(1.7)

NOTES: Totals may not add because of rounding.
Biennial change and percentage change calculated on actual amounts before rounding.

RECOMMENDATIONS BY METHOD OF FINANCING

2004-05 BIENNIAL RECOMMENDATIONS

TABLE 4
GENERAL REVENUE AND GENERAL REVENUE-DEDICATED FUNDS

IN MILLIONS	EXPENDED/ BUDGETED 2002-03*	RECOMMENDED 2004-05	BIENNIAL CHANGE	PERCENTAGE CHANGE
FUNCTION				
Article I - General Government	\$1,900.9	\$1,928.0	\$27.1	1.4%
Article II - Health and Human Services	14,207.1	15,602.8	1,395.6	9.8
Article III - Agencies of Education	39,039.4	40,355.5	1,316.2	3.4
Public Education	26,169.3	26,438.3	269.1	1.0
Higher Education	12,870.1	13,917.2	1,047.1	8.1
Article IV - The Judiciary	361.4	367.2	5.8	1.6
Article V - Public Safety and Criminal Justice	7,123.3	7,185.9	62.6	0.9
Article VI - Natural Resources	1,599.9	1,609.9	10.0	0.6
Article VII - Business and Economic Development	789.8	797.2	7.5	0.9
Article VIII - Regulatory	484.7	516.9	32.3	6.7
Article IX - General Provisions	0.0	(77.6)	(77.6)	NA
Article X - The Legislature	303.0	305.6	2.7	0.9
Total	\$65,809.4	\$68,591.5	\$2,782.1	4.2
Article XII - Tobacco Settlement	\$962.9	\$1,158.2	\$195.2	20.3
Grand Total	\$66,772.3	\$69,749.6	\$2,977.3	4.5%

*Includes \$469.1 million in General Revenue Funds for anticipated demands for supplemental appropriations which does not reflect transfers from existing appropriations. Any transfers of existing appropriation would decrease the overall expenditures for the 2002-03 biennium.
 NOTES: Totals may not add because of rounding.
 Biennial change and percentage change calculated on actual amounts before rounding.

TABLE 5
FEDERAL FUNDS

IN MILLIONS	EXPENDED/ BUDGETED 2002-03*	RECOMMENDED 2004-05	BIENNIAL CHANGE	PERCENTAGE CHANGE
FUNCTION				
Article I - General Government	\$653.0	\$647.8	\$(5.2)	(0.8)%
Article II - Health and Human Services	22,733.1	24,973.4	2,240.3	9.9
Article III - Agencies of Education	5,928.6	6,839.3	910.7	15.4
Public Education	5,661.2	6,566.1	904.9	16.0
Higher Education	267.4	273.1	5.7	2.1
Article IV - The Judiciary	<0.1	<0.1	<0.1	8.7
Article V - Public Safety and Criminal Justice	388.9	245.8	(143.1)	(36.8)**
Article VI - Natural Resources	285.4	254.2	(31.2)	(10.9)
Article VII - Business and Economic Development	7,006.1	7,059.9	53.8	0.8
Article VIII - Regulatory	6.9	5.5	(1.4)	(20.9)
Grand Total	\$37,002.0	\$40,025.8	\$3,023.8	8.2%

*Includes \$723 million in Federal Funds for anticipated demands for supplemental appropriations which does not reflect transfers from existing appropriations. Any transfers of existing appropriation would decrease the overall expenditures for the 2002-03 biennium.
 **Decrease from the 2002-03 level primarily attributable to receipt of one-time federal disaster assistance funds.
 NOTES: Totals may not add because of rounding.
 Biennial change and percentage change calculated on actual amounts before rounding.

RECOMMENDATIONS BY METHOD OF FINANCING

2004-05 BIENNIAL RECOMMENDATIONS

**TABLE 6
OTHER FUNDS**

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002-03	RECOMMENDED 2004-05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Article I - General Government	\$109.4	\$85.1	\$(24.3)	(22.2)%
Article II - Health and Human Services	865.8	757.3	(108.4)	(12.5)
Article III - Agencies of Education	4,593.9	5,946.0	1,352.1	29.4
Public Education	1,457.2	2,503.3	1,046.2	71.8
Higher Education	3,136.8	3,442.6	305.9	9.8
Article IV - The Judiciary	67.4	75.3	8.0	11.8
Article V - Public Safety and Criminal Justice	958.5	884.5	(74.0)	(7.7)
Article VI - Natural Resources	305.4	158.4	(147.0)	(48.1)
Article VII - Business and Economic Development	6,154.8	6,463.9	309.1	5.0
Article VIII - Regulatory	226.0	319.8	93.8	41.5
Article X - The Legislature	3.4	4.2	0.8	23.5
Total	\$13,284.6	\$14,694.6	\$1,410.0	10.6
Article XII - Tobacco Settlement	\$112.8	\$91.6	\$(21.3)	(18.8)
Grand Total	\$13,397.5	\$14,786.2	\$1,388.7	10.4%
NOTES: Excludes interagency contracts. Totals may not add because of rounding. Biennial change and percentage change calculated on actual amounts before rounding.				

SIGNIFICANT FUNDING ELEMENTS AND COSTS

IN ADDITION to growth in Education and Health and Human Services, there are a number of other areas that have a significant impact on the 2004–05 budget recommendations.

The elements of cost for debt service and employee benefits/employer costs are described below. These costs are distributed to the various functions of government (Education, Public Safety and Criminal Justice, etc.) to reflect the total cost of each function.

DEBT SERVICE

Debt service costs included in the recommendations total \$561.0 million in 2004 and \$568.3 million in 2005. Table 7 shows expended/budgeted and recommended general

obligation and revenue bond debt service costs by agency and method of financing for the 2002–03 and 2004–05 biennia. The recommendations include a biennial increase of \$159.3 million in General Revenue Funds for debt service from the 2002–03 level.

EMPLOYEE BENEFITS/ PAYROLL EXPENSE

The Employees Retirement System (ERS) state contribution rate for retirement is continued at the current level of 6.0 percent, resulting in an increase of \$24.4 million in All Funds (\$14.6 million in General Revenue Funds) to account for payroll growth.

The Teacher Retirement System (TRS) and Optional Retirement Program state contribution rates also are continued at 6 percent, resulting in increases of \$298.2 million and \$23.3 million in All Funds (\$298.2 and \$15.4 in General Revenue Funds) respectively, to cover payroll growth.

HEALTH INSURANCE

Recommendations relating to state contributions for health insurance for state, higher education, and retired public school employees provide for increases per member above the 2003 contributions of 7.5 percent in fiscal year 2004 and an additional 7.5 percent in fiscal year 2005 to cover anticipated increases in claims and healthcare inflation.

**TABLE 7
DEBT SERVICE PAYMENTS
BY AGENCY AND FUND SOURCE**

IN MILLIONS	EXPENDED/ BUDGETED 2002–03	RECOMMENDED 2004–05	BIENNIAL CHANGE	PERCENTAGE CHANGE
AGENCY / FUND SOURCE				
Public Finance Authority	\$493.7	\$541.9	\$48.2	9.8%
Water Development Board—Water Bonds	43.6	57.5	13.8	31.7
Building and Procurement Commission Lease Payments	90.9	94.7	3.8	4.2
Preservation Board/History Museum Lease Payments	13.6	13.3	(0.3)	(1.9)
Department of Health Lease Payments	6.3	6.3	0.0	0.0
Department of Human Services Lease Payments	0.0	4.2	4.2	NA
Tuition Revenue Bonds	275.6	358.1	82.5	29.9
Adjutant General/Military Facilities Commission	8.6	4.5	(4.2)	(48.4)
Department of Criminal Justice Private Prison Lease/Purchase	37.6	37.7	0.0	0.0
Parks and Wildlife Department Lease Payments	10.7	11.3	0.6	5.2
Total, Debt Service Payments	\$980.6	\$1,129.3	\$148.7	15.2
METHOD OF FINANCING				
General Revenue Funds	\$935.0	\$1,094.3	\$159.3	17.0
General Revenue—Dedicated Funds	6.3	12.3	6.0	95.1
Other Funds	39.3	22.7	(16.6)	(42.3)
Total, All Funds	\$980.6	\$1,129.3	\$148.7	15.2
NOTES: Totals may not add because of rounding. Biennial change and percentage change calculated on actual amounts before rounding.				

SIGNIFICANT FUNDING ELEMENTS AND COSTS

This increase does not cover the total increases in healthcare costs above 2002–03 levels anticipated by ERS and TRS. Benefit design changes and cost shifts to members will be required to keep health insurance costs within recommended funding levels.

- ♦ a \$364.7 million increase in All Funds (\$220.7 million in General Revenue Funds) in group insurance contributions at ERS primarily to provide for the increase in premiums.
- ♦ a \$205.1 million increase, or 22.5 percent above the 2002–03 levels, in General Revenue funding for Higher Education Group Insurance because of increases in premium rates and the need to cover current employee enrollment.
- ♦ a \$566.2 million increase, or 87 percent, in General Revenue funding for public school retirees' health insurance. Included in the recommendations is \$995.7 million (a \$543.5 million increase over 2002–03) in supplemental appropriations to cover anticipated costs above the contributions based on public school employee payroll.

SOCIAL SECURITY CONTRIBUTIONS AND

BENEFIT REPLACEMENT PAY

- ♦ a \$68.8 million increase in All Funds (\$59.1 million in General Revenue Funds) for Social Security caused by payroll growth. Of this increase \$38.1 million is attributable to institutions of higher education.

- ♦ a \$17.1 million decrease in All Funds (\$10.9 million in General Revenue Funds) for Benefit Replacement Pay resulting from employee turnover. (Only employees hired before September 1, 1995 receive Benefit Replacement Pay.)

TOBACCO SETTLEMENT RECEIPTS

Appropriations of Tobacco Settlement receipts and the earnings of permanent funds and endowments are made in Article XII. The \$1.1 billion biennial appropriation of Tobacco Settlement receipts includes funding for the Children's Health Insurance Program (CHIP), (including funding for the State Kids

Insurance Program, \$411.3 million); Medicaid Acute Care at the Health and Human Services Commission (\$401.8 million); New Generation mental health medications (\$30.5 million); other health care services (\$261.8 million); and distributions from funds and endowments (\$134.3 million). The increase in appropriations from 2002–03 is primarily for the Acute Care Medicaid program. Anticipated revenue from Tobacco Settlement receipts for the 2004–05 biennium is estimated to be \$554.2 million in fiscal year 2004 and \$551.2 million in fiscal year 2005.

**TABLE 8
SELECTED EMPLOYEE BENEFITS
ALL FUNDS**

IN MILLIONS				
AGENCY / FUND SOURCE	EXPENDED/ BUDGETED 2002–03	RECOMMENDED 2004–05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Employees Retirement System				
Retirement Contributions	\$603.2	\$627.5	\$24.4	4.0
Group Insurance	1,737.8	2,102.6	364.7	21.0
Social Security	1,173.5	1,242.3	68.8	5.9
Benefit Replacement Pay				
State Agency Employees	156.8	139.7	(17.1)	(10.9)
Teacher Retirement System				
Retirement Contributions	2,575.4	2,873.6	298.2	11.6
Retirees' Health Insurance	648.1	1,214.3	566.2	87.4
Optional Retirement Program	226.9	250.1	23.3	10.2
Higher Education Group Insurance	911.4	1,116.4	205.1	22.5
Total, Selected Employee Benefits	\$8,033.0	\$9,566.5	\$1,533.5	19.1
METHOD OF FINANCING				
General Revenue Funds	\$6,438.3	\$7,767.2	\$1,329.8	20.7
General Revenue—Dedicated Funds	367.6	413.9	46.3	12.6
Federal Funds	662.0	744.9	82.9	12.5
Other Funds	565.1	639.6	74.4	13.2
Total, All Funds	\$8,033.0	\$9,566.5	\$1,533.5	19.1
NOTES: Totals may not add because of rounding. Biennial change and percentage change calculated on actual amounts before rounding.				

FULL-TIME-EQUIVALENT POSITIONS

RECOMMENDATIONS provide for 231,077 full-time-equivalent (FTE) positions in 2004 and 230,972 in 2005. As shown in Figure 4, the 2005 amount represents an increase of 152 FTE positions from the 2003 budgeted level.

The General Appropriations Act (GAA) for the 2002–03 biennium established FTE limitations, or “caps,” for all agencies.

For fiscal year 2003, the statewide number of budgeted positions exceeds the total cap for all agencies by 870 FTEs, (see Table 9) primarily because of increases in higher education staff and faculty.

FIGURE 4
FULL-TIME-EQUIVALENT POSITIONS

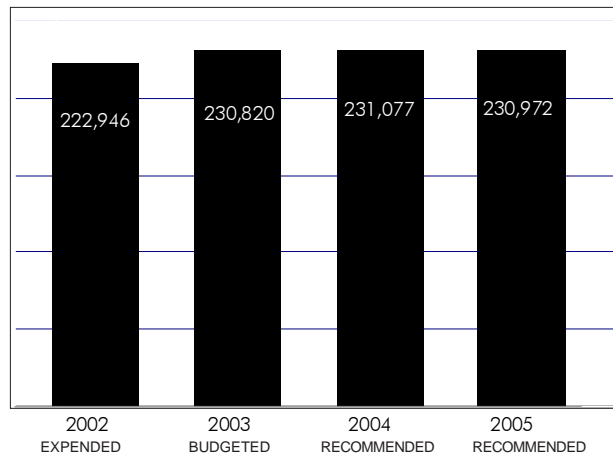


TABLE 9
FULL-TIME-EQUIVALENT POSITIONS

IN MILLIONS				
FUNCTION	EXPENDED 2002	BUDGETED 2003	RECOMMENDED 2004	RECOMMENDED 2005
Article I - General Government	8,966	9,260	9,275	9,273
Article II - Health and Human Services	49,435	49,552	49,228	49,115
Article III - Agencies of Education	79,061	82,985	82,827	82,828
Article IV - The Judiciary	1,297	1,337	1,339	1,339
Article V - Public Safety and Criminal Justice	52,956	55,963	56,747	56,789
Article VI - Natural Resources	8,367	8,601	8,631	8,623
Article VII - Business and Economic Development	19,398	19,500	19,238	19,208
Article VIII - Regulatory	3,467	3,623	3,792	3,797
Total, All Articles	222,946	230,820	231,077	230,972
FTE Cap	229,627	229,950	231,077	230,972
Difference (total minus cap)	(6,681)	870	NA	NA

NOTES: Totals may not add because of rounding.

PERFORMANCE MEASURES AND TARGETS

THERE ARE FOUR TYPES of performance measures used in the appropriations process: outcome, output, efficiency, and explanatory. Each type of measure serves a different purpose:

- ♦ outcome measures are used to assess an agency's effectiveness in serving its key customers and in achieving its mission, goals, and objectives. They also are used to direct resources to strategies with the greatest effect on the most-valued outcomes;
- ♦ output measures are used to assess workload and the agency's efforts to address those demands;
- ♦ efficiency measures are used to assess the cost efficiency, productivity, and timeliness of agency operations; and
- ♦ explanatory measures are used to define the agency's operating

environment and to explain factors that are relevant to the interpretation of other agency measures.

Performance measures contained in the General Appropriations Act are designated as key measures. For key outcome, output, efficiency and explanatory performance measures, a target is established for each year of the biennium for which funds are appropriated.

As shown in Table 10, the recommended appropriations for the 2004–05 biennium contain 2,155 key performance measures, which represents a 4.4 percent increase in the total number of key performance measures from the 2002–03 biennial level and a 0.2 percent increase from the 2000–01 biennial level.

Performance measures that have been developed for state agency use but that are not contained in the General Appropriations Act are designated as non-key measures. Although targets are not established, agencies annually submit performance information related to these measures to the Legislative Budget Board.

Table 10 provides a summary of the number of key and non-key measures used by agencies since the 1998–99 biennium.

TABLE 10
PERFORMANCE MEASURES, BY TYPE

TYPE OF MEASURE	NUMBER OF MEASURES			
	APPROPRIATED 1998–99	APPROPRIATED 2000–01	APPROPRIATED 2002–03	RECOMMENDED 2004–05
KEY				
Outcome (results/impact)	1,012	902	830	901
Output (volume)	1,123	828	819	824
Efficiency	491	300	291	295
Explanatory	143	121	125	135
Total	2,769	2,151	2,065	2,155
NON-KEY				
Outcome (results/impact)	1,640	1,985	1,355	1,414
Output (volume)	1,794	1,634	1,538	1,455
Efficiency	751	807	863	831
Explanatory	1,137	1,045	1,056	1,084
Total	5,322	5,471	4,812	4,784

APPROPRIATED AND EXPENDED/BUDGETED FUNDS COMPARISON

A COMPARISON of the amount of appropriations for the 2002–03 biennium, which totaled \$114.1 billion, as shown in the 2002–03 *Fiscal Size-up*, with the expended 2002 and budgeted 2003 amounts shown in the *Legislative Budget Estimates for the Seventy-eighth Legislature*, which total \$117.2 billion, identifies a difference of \$3.1 billion. The net increase of \$3.1 billion shown in the *Legislative Budget Estimates*, which is comprised of Federal Funds and Other Funds, is explained by the following items:

- ♦ an anticipated supplemental increase of \$1.2 billion in expenditures for Medicaid programs to cover increased costs for prescription drugs, greater-than-anticipated caseloads, and higher utilization of services. Of this amount, \$0.7 billion is in Federal Funds, \$0.5 billion is in General Revenue Funds;
- ♦ an increase of \$0.8 billion in Medicaid revenues including a) \$0.1 billion in one-time revenues generated by premium credits (Other Funds) and \$0.2 billion in matching Federal Funds; and b) \$0.2 billion in intergovernmental transfers (Other Funds) from hospitals to maintain and increase hospitals reimbursement rates and \$0.3 billion in matching Federal Funds;
- ♦ an increase of \$0.3 billion in Federal Funds for various health-related programs including Women, Infants, and Children; HIV grants; and bioterrorism;

- ♦ an increase of \$0.3 billion in Other Funds (i.e., patient income) for health-related institutions;
- ♦ an increase of \$0.2 billion in Federal Funds for the No Child Left Behind program;
- ♦ an increase of \$0.2 billion in Federal Funds for state emergency responses;
- ♦ an increase of \$0.2 billion in Other Educational and General Income (i.e., tuition) at institutions of higher education;

- ♦ an increase of \$0.1 billion for Texas Retirement System contributions;
- ♦ an increase of \$0.1 billion for Workers' Compensation Payments;
- ♦ an increase of \$0.1 billion in Federal Funds for housing-related programs;
- ♦ a decrease of \$0.1 billion in higher education grants; and
- ♦ a decrease of \$0.3 billion in General Revenue–Dedicated Funds for the Texas Emissions Reduction Program.

TABLE 11
RECONCILIATION OF 2002–03 APPROPRIATIONS
TO 2002–03 EXPENDED/BUDGETED AMOUNTS
ALL FUNDS

IN BILLIONS		
BUDGET ADJUSTMENTS	ADJUSTMENT AMOUNT	2004–05 BIENNIUM
2002–03 APPROPRIATIONS AS PUBLISHED IN FISCAL SIZE-UP		\$114.1
Major Budget Adjustments		
Medicaid expenditures	\$1.2	
Medicaid revenues	0.8	
Other health-related program funding	0.3	
Higher education patient income	0.3	
No Child Left Behind program funding	0.2	
Federal emergency response funding	0.2	
Higher education tuition revenue and indirect cost recovery	0.2	
Teacher Retirement System contributions	0.1	
Workers' Compensation Payments	0.1	
Housing-related program funding	0.1	
Reduction in higher education grants	(0.1)	
Reduction in TERP funding	(0.3)	
Subtotal, Adjustments		3.1
TOTAL, EXPENDED / BUDGETED FOR 2002–03		\$117.2
NOTES: 2002–03 appropriations include anticipated supplemental spending needs. Totals may not add because of rounding.		

MAJOR BUDGET REDUCTIONS

THE RECOMMENDATIONS for the 2004–05 biennium include a number of budget reductions from the 2002–03 biennium.

Table 12 identifies reductions of approximately \$231.5 million in General Revenue and General Revenue–Dedicated Funds.

TABLE 12
SELECTED REDUCTIONS TO THE 2004–05 BUDGET
GENERAL REVENUE AND
GENERAL REVENUE–DEDICATED FUNDS

IN MILLIONS	
AGENCY / AREA OF REDUCTION	AMOUNT
MULTIPLE AGENCIES	
Across-the-board reduction to capital budgets	\$77.6
Benefit Replacement Pay savings	10.9
DEPARTMENT OF CRIMINAL JUSTICE	
Eliminate funding for temporary contracted capacity at county jails	58.1
TEXAS EDUCATION AGENCY	
Allocation of federal funding for professional development and reading and math initiatives	48.5
DEPARTMENT OF PROTECTIVE AND REGULATORY SERVICES	
Removal of unallowable costs in payments to foster care facilities	36.4

FACTORS AFFECTING THE STATE BUDGET

THE MOST significant factors affecting the cost of state government include public and higher education enrollment, prison incarceration, and certain health and human service programs. The following are the major growth indicators for the period 1992 to 2002:

- ♦ average daily attendance in public schools has grown 21.4 percent;
- ♦ higher education enrollment in general academic institutions has increased by 11.1 percent;
- ♦ community college enrollment has grown by 24.9 percent;

- ♦ average monthly caseload for nursing home clients has decreased by 5.1 percent;
- ♦ average monthly caseload for Medicaid clients (Acute Care Premium Groups) has grown by 22.7 percent;
- ♦ average inmate population in the Department of Criminal Justice has grown by 289 percent;
- ♦ average residential population at the Youth Commission has increased by 259 percent; and

- ♦ the Children's Health Insurance Program—Phase II served 488,315 children in fiscal year 2002.

These factors do not totally explain the growth in the budget. Other cost-related factors, such as medical inflation, can have an equal or greater effect on growth.

Table 13 compares the major budget growth indicators for fiscal years 1992 and 2002.

**TABLE 13
MAJOR BUDGET INDICATORS
1992 AND 2002**

INDICATORS	ACTUAL 1992	ACTUAL 2002	PERCENTAGE CHANGE
Average Daily Attendance—Public Schools	3,172,921	3,852,088	21.4%
Fall Headcount Enrollment—General Academic Institutions	410,706	456,209*	11.1
Fall Headcount Enrollment—Community/Junior College	407,536	509,201*	24.9
Average Monthly Caseload—Nursing Home Clients (excludes Hospice)	64,161	60,882	(5.1)
Average Monthly Caseload—Medicaid Clients (Acute Care Premium Groups)**	1,716,745	2,106,201	22.7
Average Inmate Population—Department of Criminal Justice	50,900	147,157	189.1
Average Residential Population—Youth Commission	2,085	5,392	158.6
Average Monthly Caseload—Children's Health Insurance Program (CHIP)	0	488,315	100.0
*Preliminary.			
**Includes Health and Human Services and Department of Human Services premium caseloads.			

REVENUE OUTLOOK FOR THE 2004–05 BIENNIUM

THE COMPTROLLER’S certification estimate of October 2001 projected that the amount of revenue available in General Revenue Funds for the 2002–03 biennium would be \$61.6 billion. The state’s fiscal outlook for the current biennium has worsened since the Comptroller’s 2001 estimate was released:

- ♦ Overall revenue collections in the General Revenue Fund matched the October 2001 estimate in fiscal year 2002; however,
- ♦ Sales tax collections were weak in fiscal year 2002; and
- ♦ Sales tax and motor vehicle sales tax collections have been weak in the first four months of fiscal year 2003.

CONSTITUTIONAL SPENDING LIMITS

Texas has four constitutional limits on spending: the “pay-as-you-go,” or balanced budget limit; the limit on the rate of growth of appropriations from certain state taxes; the limit on welfare spending; and a limit on tax-supported debt.

ARTICLE III, SECTION 49A, “PAY-AS-YOU-GO” LIMIT

Article III, §49a, Texas Constitution, is the “pay-as-you-go” limit. It requires that bills making appropriations be sent to the Comptroller for certification that the appropriations are within available revenue.

Recommended appropriations from the General Revenue Fund for the 2004–05 biennium total \$64.6 billion.

ARTICLE VIII, §22, LIMIT ON THE GROWTH OF CERTAIN APPROPRIATIONS

Article VIII, §22, Texas Constitution states: “In no biennium shall the rate of growth of appropriations from state tax revenue not dedicated by this Constitution exceed the estimated rate of growth of the state’s economy.” Under Government Code, §316, the Legislative Budget Board is required to adopt the items of information establishing the Article VIII limit. The Board met on November 25, 2002, and adopted the following items:

- ♦ The level of appropriations from state tax revenue not dedicated by the Constitution for the 2002–03 biennium of \$49,171,222,525 subject to adjustments resulting from revenue forecast revisions or subsequent appropriations certified by the Comptroller of Public Accounts;
- ♦ The estimated rate of growth of the Texas economy from the 2002–03 biennium to the 2004–05 biennium of 11.83 percent; and therefore,
- ♦ The 2004–05 limit on appropriations from state tax revenue not dedicated by the Constitution of \$54,988,178,150 subject to adjustments to 2002–03 biennial appropriations referenced above.

The exact relationship between the LBB-recommended 2004–05 appropriations and the Article VIII limit will depend on the contents of the Comptroller’s revised revenue

estimate and supplemental appropriations that may be enacted by the Legislature.

ARTICLE III, §51-A, WELFARE SPENDING LIMIT

Article III, §51-a, of the Texas Constitution provides that the amount that may be paid out of state funds for assistance grants to or on behalf of needy dependent children and their caretakers shall not exceed 1 percent of the state budget in any biennium.

In accordance with Human Resources Code, §31.053, the following items of information pertaining to the limit are provided:

- ♦ The 2004–05 biennial budget defined in Human Resources Code, §31.051, is \$124,561.6 million, based on the General Appropriations Bill prepared under the direction of the Legislative Budget Board;
- ♦ The maximum biennial amount of 1 percent of the state budget is \$1,245.6 million; and
- ♦ The biennial amount included in the General Appropriations Bill prepared under the direction of the Legislative Budget Board that is subject to the limit on state dollars paid out in Temporary Assistance for Needy Families grants is \$236.5 million. This amount is \$1,009.1 million less than the 1 percent limit.

REVENUE OUTLOOK FOR THE 2004–05 BIENNIUM

ARTICLE III, §49 (J), DEBT LIMIT

Article III, §49(j) of the Constitution provides that the Legislature may not authorize additional state debt, if in any fiscal year, the resulting maximum annual debt service payable from the General Revenue Fund, excluding revenues constitutionally dedicated for purposes other than payment of state debt, exceeds 5 percent of the average annual unrestricted general revenue for the previous three years.

The following information is provided pursuant to the debt-limit provision:

- ♦ Preliminary estimates by the Legislative Budget Board indicate that, based on the constitutional provision, the average unrestricted general revenues for the three years immediately preceding fiscal year 2004 will be \$26,160,892,000;
- ♦ The maximum annual amount of 5 percent of the average unrestricted general revenue for the three years preceding fiscal year 2004 is estimated at \$1,308,045,000;
- ♦ General Revenue bond debt service costs applicable to the bond debt limit under Article III, §49(j), Texas Constitution including the amount included in the Legislative Budget Board's recommended appropriations for the 2004–05 biennium; debt service amounts for the Higher Education Coordinating Board bonds receiving constitutional

appropriation; Building and Procurement Commission leases with option-to-purchase payments; and Master Lease Purchase Program payments total \$371,531,000 for fiscal year 2004; and

- ♦ The debt service on outstanding debt as a percentage of unrestricted general revenue is estimated at 1.4 percent for fiscal year 2004.
- ♦ If authorized but unissued (as of August 31, 2002) non-self-supporting bonds payable from the General Revenue Fund were issued, debt service for these bonds would total \$208,481,000. Debt service for these authorized but unissued bonds as a percentage of unrestricted general revenue is estimated at 0.8 percent.
- ♦ Hence, the maximum debt service on authorized non-self-supporting bonds payable from the General Revenue Fund is estimated at 2.2 percent of unrestricted general revenue, or 2.8 percent below the constitutional limit.

ECONOMIC STABILIZATION FUND (RAINY DAY FUND)

The Economic Stabilization Fund, frequently referred to as the Rainy Day Fund, ended fiscal year 2002 with a balance of \$903.9 million. As a result of natural gas tax collections in fiscal year 2002 exceeding 1987 levels, the fund received a transfer of

\$83.6 million from the General Revenue Fund in November 2002. The November transfer plus interest earnings brought the Economic Stabilization Fund balance to \$995.2 million as of January 1, 2003. If the current trend in natural gas tax collections were to continue, there would be another transfer to the Economic Stabilization Fund in November 2003.

GENERAL GOVERNMENT

ALL FUNDS recommendations for General Government total \$2.7 billion for the 2004–05 biennium, which is a decrease of \$2.5 million, or 0.1 percent, from the 2002–03 biennium (Table 14).

For General Revenue and General Revenue–Dedicated Funds, the recommendations total \$1.9 billion, which is an increase of \$27.1 million, or 1.4 percent, from the 2002–03 biennium (Table 15).

Selected performance measures for agencies in the General Government function are depicted in Table 16.

**TABLE 14
ALL FUNDS**

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002–03	RECOMMENDED 2004–05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Aircraft Pooling Board	\$8.7	\$8.7	\$(0.0)	(0.2)%
Commission on the Arts	15.2	14.1	(1.0)	(6.7)
Office of the Attorney General	818.7	806.2	(12.5)	(1.5)
Bond Review Board	1.2	1.1	(0.1)	(5.1)
Building and Procurement Commission	132.5	107.9	(24.6)	(18.6)
Comptroller of Public Accounts	374.0	373.0	(1.1)	(0.3)
Fiscal Programs - Comptroller of Public Accounts	395.6	444.4	48.8	12.3
Commission on State Emergency Communications	87.1	93.4	6.3	7.2
Employees Retirement System	25.5	24.0	(1.5)	(5.8)
Texas Ethics Commission	4.1	4.0	(0.0)	(0.6)
Public Finance Authority	1.6	1.6	0.1	4.4
Fire Fighters' Pension Commissioner	0.9	1.0	0.0	4.7
Office of the Governor	18.2	19.2	1.0	5.6
Trusted Programs within the Office of the Governor	322.8	286.6	(36.2)	(11.2)
Historical Commission	69.2	68.7	(0.4)	(0.6)
Commission on Human Rights	5.1	4.5	(0.6)	(11.4)
Texas Incentive and Productivity Commission	0.5	0.5	0.0	0.4
Department of Information Resources	173.2	177.1	4.0	2.3
Library and Archives Commission	77.3	56.9	(20.4)	(26.4)
Pension Review Board	0.6	0.6	0.0	1.6
Preservation Board	37.6	27.8	(9.9)	(26.2)
State Office of Risk Management	13.5	13.5	(0.1)	(0.5)
Workers' Compensation Payments	142.7	142.7	0.0	0.0
Secretary of State	43.5	43.2	(0.2)	(0.5)
Office of State-Federal Relations	2.2	2.2	0.0	0.0
Veterans Commission	6.9	6.9	(0.0)	0.0
Subtotal, General Government	\$2,778.6	\$2,730.3	\$(48.3)	(1.7)
Retirement and Group Insurance	\$134.3	\$154.3	\$20.0	14.9
Social Security and Benefit Replacement Pay	65.5	66.6	1.1	1.7
Subtotal, Employee Benefits	\$199.8	\$221.0	\$21.1	10.6
Lease Payments	\$39.0	\$40.9	\$1.9	4.9
Bond Debt Service Payment	0.7	3.1	2.5	364.4
Subtotal, Debt Service	\$39.7	\$44.0	\$4.4	11.0
Less Interagency Contracts	\$354.7	\$334.4	\$(20.3)	(5.7)
Total, Article I - General Government	\$2,663.4	\$2,660.9	\$(2.5)	(0.1)%
NOTES: Totals may not add because of rounding.				
Biennial change and percentage change calculated on actual amounts before rounding.				

GENERAL GOVERNMENT

2004-05 BIENNIAL RECOMMENDATIONS

TABLE 15
GENERAL REVENUE AND GENERAL REVENUE-DEDICATED FUNDS

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002-03	RECOMMENDED 2004-05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Aircraft Pooling Board	\$1.5	\$1.4	\$ (0.1)	(3.6)%
Commission on the Arts	11.0	10.4	(0.7)	(6.1)
Office of the Attorney General	397.9	388.7	(9.3)	(2.3)
Bond Review Board	1.2	1.1	(0.1)	(5.1)
Building and Procurement Commission	77.8	71.9	(5.9)	(7.6)
Comptroller of Public Accounts	373.5	372.4	(1.1)	(0.3)
Fiscal Programs - Comptroller of Public Accounts	393.3	442.6	49.2	12.5
Commission on State Emergency Communications	87.1	93.4	6.3	7.2
Employees Retirement System	25.5	24.0	(1.5)	(5.8)
Texas Ethics Commission	4.0	4.0	0.0	0.0
Public Finance Authority	1.2	1.2	0.0	0.0
Fire Fighters' Pension Commissioner	0.2	0.2	0.0	0.0
Office of the Governor	18.1	18.2	0.1	0.6
Trusted Programs within the Office of the Governor	112.1	84.4	(27.7)	(24.7)
Historical Commission	62.7	62.3	(0.4)	(0.6)
Commission on Human Rights	1.7	1.6	(0.1)	(5.5)
Texas Incentive and Productivity Commission	0.5	0.5	0.0	0.5
Department of Information Resources	10.2	12.8	2.7	26.1
Library and Archives Commission	33.4	30.5	(2.9)	(8.6)
Pension Review Board	0.5	0.5	0.0	0.4
Preservation Board	31.2	27.7	(3.5)	(11.1)
State Office of Risk Management	10.1	9.6	(0.4)	(4.5)
Workers' Compensation Payments	0.0	0.0	0.0	0.0
Secretary of State	36.1	36.2	0.0	0.0
Office of State-Federal Relations	2.1	2.1	0.0	0.0
Veterans Commission	6.9	6.9	0.0	0.0
Subtotal, General Government	\$1,699.7	\$1,704.5	\$ 4.8	0.3
Retirement and Group Insurance	\$108.0	\$123.4	\$15.4	14.3
Social Security and Benefit Replacement Pay	54.9	56.0	1.1	2.0
Subtotal, Employee Benefits	\$162.9	\$179.4	\$16.5	10.1
Bond Debt Service Payment	\$0.7	\$3.1	\$2.5	364.4
Lease Payments	37.6	40.9	3.3	8.7
Subtotal, Debt Service	\$38.3	\$44.0	\$ 5.7	15.0
Total, Article I - General Government	\$1,900.9	\$1,928.0	\$27.1	1.4%
NOTES: Totals may not add because of rounding.				
Biennial change and percentage change calculated on actual amounts before rounding.				

GENERAL GOVERNMENT

2004-05 BIENNIAL RECOMMENDATIONS

TABLE 16
SELECTED PERFORMANCE MEASURES

MEASURE	ACTUAL 2002	BUDGETED 2003	RECOMMENDED 2004	RECOMMENDED 2005
OFFICE OF THE ATTORNEY GENERAL				
Amount of Title IV-D Child Support Collected (in millions)	\$1,409.0	\$1,501.6	\$1,628.6	\$1,755.3
TEXAS BUILDING AND PROCUREMENT COMMISSION				
Average Cost per Square Foot of All Building Maintenance	\$1.32	\$1.38	\$1.38	\$1.38
COMPTROLLER OF PUBLIC ACCOUNTS				
Percent Accuracy Rate of Reported Amounts on Original Audits	97%	98%	98%	98%
EMPLOYEES RETIREMENT SYSTEM				
Percent of ERS Retirees Expressing Satisfaction with Benefit Services	97%	97%	97%	97%
DEPARTMENT OF INFORMATION RESOURCES				
Total Savings and Cost Avoidance through Utilization of Cooperative Services (in millions)	\$54	\$33	\$60	\$60
STATE OFFICE OF RISK MANAGEMENT				
Incident Rate of Injuries and Illnesses per 100 Covered Full-time State Employees	4.8	4.9	4.9	4.9
SECRETARY OF STATE				
Percent of Business, Commercial, and Public Filings and Information Requests Completed in Three Days	86.7%	85%	90%	90%
OFFICE OF STATE-FEDERAL RELATIONS				
Texas' Proportionate Share of Federal Funding	6.3%	6.5%	6.5%	6.5%
VETERANS COMMISSION				
Amount of Department of Veterans Affairs Awards (in millions) Paid Because of Commission Advocacy in Claims Representation of Veterans with Service Connected Disabilities	\$594	\$540	\$540	\$540

BUDGET ISSUES AND RECOMMENDATIONS

THE RECOMMENDATIONS address a number of major budget issues affecting agencies in the General Government function including:

- ♦ \$186.1 million for crime victims services, a net increase of \$5.1 million from the 2002–03 level for direct compensation to victims of crime, services for crime victims, and funding for the Crime Victims Institute;
- ♦ \$497.1 million for child support enforcement, a decrease of \$8.3 from the 2002–03 level. Approximately 61 percent of the amounts appropriated are used for enforcement activities such as establishing paternity and child support obligations, enforcing child support obligations and distributing child support monies. The remaining amounts are appropriated for the State Disbursement Unit of the Attorney General's Office;
- ♦ \$42.4 million for deferred maintenance projects (\$19.4 million decrease from the 2002–03 level) for the Building and Procurement Commission; \$5.9 million for building design and construction projects (\$18.7 decrease from the 2002–03 level); and \$3.1 million for asbestos abatement (\$3.0 million increase from the 2002–03 level).
- ♦ \$130 million for the unclaimed property program for Fiscal Programs–Comptroller of Public Accounts, an increase of \$25 million from the 2002–03 level. Increased media support, public

outreach programs and availability of an automated on-line property search system resulted in increased requests for claims for property;

- ♦ \$185 million for the Mixed Beverage Tax in the Comptroller Fiscal Programs for the 2004–05 biennium, an increase of \$27.6 million from the 2002–03 level due to a projected 5.5 percent growth rate in Mixed Beverage Tax collections. Counties and cities receive approximately 10.7 percent of these collections; and
- ♦ \$7.0 million in disaster assistance funds for Trusteed Programs within the Office of the Governor, a decrease of \$16.5 million from the 2002–03 level. During the 2002–03 biennium, funds were used for claims related to winter ice storms and the Central Texas and Houston floods.

Significant budget recommendations for agencies in the General Government function include:

AIRCRAFT POOLING BOARD

- ♦ continuation of \$1.4 million in General Revenue Funds for aircraft acquisition or replacement.

COMMISSION ON THE ARTS

- ♦ continuation of \$2 million in General Revenue Funds for the Cultural Endowment Fund; and
- ♦ a \$0.95 million decrease in General Revenue–Dedicated

funds due to a decline in anticipated revenue from the sale of State of the Arts license plates.

OFFICE OF THE ATTORNEY GENERAL

- ♦ an \$8.2 million decrease in General Revenue Funds due to reduced funding for the Elephant Butte litigation issue (\$4.0 million) and a one-time capital expenditure reduction in the Child Support Enforcement Program (\$4.2 million);
- ♦ a \$1.1 million decrease in General Revenue–Dedicated Funds primarily due to a reduction in the level of funding for Internet crimes previously funded by the Governor's Office;
- ♦ a \$0.5 million decrease in Federal Funds due to a one-time capital expenditure reduction in the Child Support Enforcement Program;
- ♦ a \$3.8 million decrease in inter-agency contracts due to an anticipated decline in other state agencies contracting with the Office of the Attorney General for legal services; and
- ♦ a \$1.1 million increase in appropriated receipts due to increased court costs, attorney fees and investigative costs.

BOND REVIEW BOARD

- ♦ a \$60,000 decrease in General Revenue Funds for the one-time cost of replacing the agency's computer system. The agency was provided \$60,000 in the 2002–03

BUDGET ISSUES AND RECOMMENDATIONS

appropriations bill to convert from a Macintosh-based to a PC-based computer network.

BUILDING AND PROCUREMENT COMMISSION

- ◆ an \$8.5 million decrease in General Revenue Funds due to a reduction in unexpended balances for deferred maintenance projects;
- ◆ a \$0.6 million decrease in General Revenue Funds related to the one-time expenditure of funds for the construction management system;
- ◆ a \$2.9 million increase in General Revenue Funds due to unexpended balances carried forward for asbestos abatement;
- ◆ a \$0.1 million increase in General Revenue Funds due to annualized funding of across-the-board salary increases;
- ◆ a \$0.1 million increase in the Capitol Complex Area Fund No. 007 due to available unexpended balances for construction;
- ◆ a \$4.8 million decrease in appropriated receipts due to spend-down of asbestos proceeds;
- ◆ a \$2.4 million decrease in interagency contracts due to elimination of the business machine repair program;
- ◆ a \$4 million decrease in bond proceeds-general obligation bonds due to shifting of deferred maintenance from General

Revenue as well as unexpended balances being transferred to the 2004–05 biennium;

- ◆ a \$7.5 million decrease in bond proceeds-revenue bonds due to spending down construction projects (primarily from the Reagan Building and the Department of Health Lab); and
- ◆ continuation of funding for the Texas State Cemetery primarily for operations and maintenance including constructing and furnishing facilities, and developing and maintaining a master plan for the cemetery.

COMPTROLLER OF PUBLIC ACCOUNTS

- ◆ a \$1 million decrease in General Revenue Funds for administrative functions related to the Texas Emission Reduction Plan (TERP), including non-recurring expenditures for computer programming costs and a revenue shortfall in the Texas Emissions Reduction Plan Account No. 5071.

FISCAL PROGRAMS - COMPTROLLER OF PUBLIC ACCOUNTS

- ◆ a \$27.6 million increase in General Revenue Funds due to an increase in available revenue from Mixed Beverage Tax collections;
- ◆ a \$25 million increase in General Revenue Funds due to higher claim projections for Unclaimed Property payments;

- ◆ a \$1.3 million decrease in General Revenue Funds resulting from one-time costs associated with Advanced Tax Compliance and Debt Collections;
- ◆ a \$1 million decrease in General Revenue Funds from miscellaneous claims;
- ◆ a \$0.5 million decrease in General Revenue Funds associated with voter registration due to less claims filed by counties;
- ◆ a \$0.8 million net decrease in General Revenue–Dedicated accounts mainly consisting of an increase in funding for the Texas Emissions Reduction Plan incentive payments (\$1.6 million); a decrease in Oil Overcharge funding due to a decline in available balances (\$1.8 million); and a decrease associated with tort claims for settlements and judgments against state agencies (\$0.6 million);
- ◆ a \$0.07 million decrease in Federal Funds due to tort claims and legislative claims associated with House Bill 2852, Seventy-seventh Legislature, 2001; and
- ◆ a \$0.3 million decrease in Other Funds due to reduced funding for tort claims, miscellaneous claims, and legislative claims.

COMMISSION ON STATE EMERGENCY COMMUNICATIONS

- ◆ a \$6.3 million increase in the General Revenue–Dedicated Funds 911 Service Fees Account

BUDGET ISSUES AND RECOMMENDATIONS

No. 5050 to replace depleted local funds to maintain local 9-1-1 services at existing levels.

TEXAS ETHICS COMMISSION

- ♦ a \$0.02 million reduction in appropriated receipts related to a decrease in the number of requests for campaign reports.

OFFICE OF THE GOVERNOR

- ♦ a \$1 million increase in General Revenue Funds due to continuation of unexpended balance authority between biennia;
- ♦ a \$1 million decrease in Earned Federal Funds to reflect the transfer of appropriations from the Trusteed Programs within the Office of the Governor; and
- ♦ a \$0.9 million increase in inter-agency contracts reflecting receipt of Earned Federal Funds from the Trusteed Programs within the Office of the Governor for general agency appropriations.

TRUSTEED PROGRAMS WITHIN THE OFFICE OF THE GOVERNOR

- ♦ a \$16.5 million net decrease in General Revenue Funds related to decreases in disaster assistance funds due to the expenditures of \$13 million in accumulated balances in fiscal year 2003;
- ♦ a \$0.2 million net decrease in Earned Federal Funds due to the transfer of the Head Start Program to the UT Health Science Center in Houston;

- ♦ a \$8.2 million decrease in the Criminal Justice Planning Account No. 421 for expenditures of accumulated balances in fiscal year 2002;

- ♦ a \$0.8 million decrease in the General Revenue–Dedicated Crime Stoppers Assistance Account No. 5012;

- ♦ a \$1.9 million decrease in the General Revenue–Dedicated Disaster Contingency Account No. 453;

- ♦ a \$6.3 million decrease in Federal Funds associated with Juvenile Accountability Grants;

- ♦ a \$1.3 million decrease in Federal Funds associated with the Violence against Women Fund;

- ♦ a \$0.9 million decrease in Federal Funds associated with Juvenile Justice and Delinquency Grants;

- ♦ a \$0.2 million decrease in Federal Funds associated with Local Law Enforcement Block Grants;

- ♦ a \$0.5 million decrease in Federal Funds for the Byrne Formula Grant and the Residential Substance Abuse Programs; and

- ♦ a \$0.5 million increase in Federal Funds associated with Safe and Drug-free Schools Programs.

HISTORICAL COMMISSION

- ♦ continuation of \$2.5 million in General Revenue Funds for the Preservation Trust Fund, which will allow the agency to award an

estimated 70 historic preservation grants over the biennium;

- ♦ continuation of \$1.3 million in General Revenue Funds for Juneteenth Commission;

- ♦ continuation of \$50 million General Revenue Funds for the Texas Historic Courthouse Preservation Program, which provides financial and technical assistance to critical courthouse projects statewide; and

- ♦ a \$0.5 million decrease in General Revenue Funds due to a one-time expenditure for the Pearce Civil War Collection at Navarro College.

COMMISSION ON HUMAN RIGHTS

- ♦ a \$0.5 million decrease in Federal Funds to comply with the state provision requiring the payment of salaries and benefits to be proportionate by fund.

DEPARTMENT OF INFORMATION RESOURCES

- ♦ a \$2.7 million increase in General Revenue Funds due to the carry forward of unexpended balances from the Telecommunications Revolving Fund transferred from Building and Procurement Commission as provided by Senate Bill 311, Seventy-seventh Legislature, 2001;

- ♦ a \$0.2 million decrease in Federal Funds due to completion of the United States Geological Survey Orthoimagery Program; and

BUDGET ISSUES AND RECOMMENDATIONS

- ♦ a \$1.5 million increase in appropriated receipts and interagency contracts for services associated with the Capital Complex Telephone System and the Tex-An Network transferred from Building and Procurement Commission.

LIBRARY AND ARCHIVES COMMISSION

- ♦ a \$2.9 million decrease in General Revenue–Dedicated Funds and a \$17.4 million decrease in interagency contracts due to decreased funding from the Telecommunication Infrastructure Fund (TIF);
- ♦ a \$0.3 million decrease in interagency contracts because of reduced contracts for imaging services;
- ♦ a \$0.2 million decrease in appropriated receipts due to a one-time grant from the Bill Gates Foundation for technology training; and
- ♦ a \$0.1 million increase in Federal Funds due to an overall increase in funding for state library services based on population growth and a National Historic Publications and Records Commission grant.

STATE PRESERVATION BOARD

- ♦ a \$6.5 million reduction in General Revenue Funds due to available unexpended balances appropriated by House Bill 1333, Seventy-seventh Legislature, 2001, relating to supplemental appropriations;

- ♦ a \$3.0 million increase in General Revenue Funds to continue the contingency appropriation in the event of a revenue shortfall in the Bob Bullock Texas State History Museum proceeds;
- ♦ a \$2.5 million reduction in appropriated receipts for the sale of the Pease Mansion;
- ♦ a \$3.7 million reduction in revenue bond proceeds due to completion of construction of the Bob Bullock Texas State History Museum; and
- ♦ a \$0.6 million increase in General Revenue Funds for 10 museum maintenance FTEs previously funded by the museum's operating proceeds during the 2002–03 biennium.

STATE OFFICE OF RISK MANAGEMENT

- ♦ a \$0.4 million decrease in General Revenue Funds due to a shift of funding for risk management functions to interagency contracts and a reduction in operating costs for staff training and travel associated with training; and
- ♦ a \$0.4 million increase in interagency contracts due to the shift of risk management functions.

WORKERS' COMPENSATION PAYMENTS

- ♦ \$142.7 million in Other Funds for payment of workers' compensation claims, which reflects no

increase from the 2002–03 expenditure level. The Seventy-seventh Legislature, 2001, amended the workers' compensation system through provisions of House Bill 2976, which established a state risk pool. Under this system, the State Office of Risk Management determines annual assessments for state agencies based on each agency's payroll, number of FTEs and claims history. State agencies pay the assessed amounts into the risk pool from which all workers' compensation claims are paid.

HEALTH AND HUMAN SERVICES

ALL FUNDS recommendations for Health and Human Services total \$41.3 billion for the 2004–05 biennium, which is an increase of \$3.5 billion, or 9.3 percent, from the 2002–03 biennium (Table 17).

For General Revenue and General Revenue–Dedicated Funds, the recommendations total \$15.6 billion, which is an increase of \$1.4 billion, or 9.8 percent, from the 2002–03 biennium (Table 18).

Selected performance measures for agencies in the Health and Human Services function are depicted in Table 19.

**TABLE 17
ALL FUNDS**

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002–03	RECOMMENDED 2004–05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Department on Aging	\$144.8	\$151.4	\$6.6	4.5%
Commission on Alcohol and Drug Abuse	330.9	332.7	1.9	0.6
Commission for the Blind	97.1	100.9	3.9	4.0
Cancer Council	8.5	8.1	(0.3)	(4.1)
Commission for the Deaf and Hard of Hearing	4.8	5.2	0.4	9.1
Interagency Council on Early Childhood Intervention	218.4	229.4	10.9	5.0
Department of Health	3,248.1	3,496.1	248.0	7.6
Health and Human Services Commission	17,392.6	20,248.7	2,856.1	16.4
Department of Human Services	9,233.3	9,520.8	287.5	3.1
Department of Mental Health and Mental Retardation	3,955.6	3,952.0	(3.6)	(0.1)
Department of Protective and Regulatory Services	1,707.5	1,663.5	(44.0)	(2.6)
Rehabilitation Commission	576.6	590.7	14.2	2.5
Subtotal, Health and Human Services	\$36,918.1	\$40,299.5	\$3,381.4	9.2
Retirement and Group Insurance	\$751.9	\$875.8	\$123.9	16.5
Social Security and Benefit Replacement Pay	281.5	285.1	3.5	1.2
Subtotal, Employee Benefits	\$1,033.5	\$1,160.9	\$127.4	12.3
Bond Debt Service Payments	\$34.7	\$36.5	\$1.8	5.3
Lease Payments	14.1	15.0	0.8	6.0
Subtotal, Debt Service	\$48.8	\$51.5	\$2.7	5.5
Less Interagency Contracts	194.3	178.3	(16.0)	(8.2)
Total, Article II - Health and Human Services	\$37,806.0	\$41,333.5	\$3,527.5	9.3%
NOTES: Totals may not add because of rounding.				
Biennial change and percentage change calculated on actual amounts before rounding.				
Totals include \$1,192.1 million in assumed All Funds supplemental funding for the 2002–03 biennium. This amount could be reduced by transfers of available lapsing funds.				

HEALTH AND HUMAN SERVICES

2004-05 BIENNIAL RECOMMENDATIONS

TABLE 18
GENERAL REVENUE AND GENERAL REVENUE-DEDICATED FUNDS

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002-03	RECOMMENDED 2004-05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Department on Aging	\$15.5	\$15.5	\$(0.1)	(0.3)%
Commission on Alcohol and Drug Abuse	54.8	54.8	0.0	0.0
Commission for the Blind	27.4	26.9	(0.4)	(1.6)
Cancer Council	8.1	8.1	0.0	0.5
Commission for the Deaf and Hard of Hearing	2.3	2.4	0.1	2.2
Interagency Council on Early Childhood Intervention	71.4	71.4	0.0	0.0
Department of Health	1,353.4	1,410.4	56.9	4.2
Health and Human Services Commission	5,803.4	6,965.9	1,162.5	20.0
Department of Human Services	3,374.5	3,485.5	111.0	3.3
Department of Mental Health and Mental Retardation	2,239.3	2,245.1	5.8	0.3
Department of Protective and Regulatory Services	564.7	554.3	(10.4)	(1.8)
Rehabilitation Commission	108.6	108.6	(0.0)	0.0
Subtotal, Health and Human Services	\$13,623.4	\$14,948.9	\$1,325.4	9.7
Retirement and Group Insurance	400.0	462.5	62.5	15.6
Social Security and Benefit Replacement Pay	142.2	145.5	3.3	2.3
Subtotal, Employee Benefits	\$542.2	\$608.1	\$65.8	12.1
Bond Debt Service Payments	\$27.3	\$30.8	\$3.5	12.9
Lease Payments	14.1	15.0	0.8	6.0
Subtotal, Debt Service	\$41.4	\$45.8	\$4.4	10.6
Total, Article II - Health and Human Services	\$14,207.1	\$15,602.8	\$1,395.6	9.8%
NOTES: Totals may not add because of rounding.				
Biennial change and percentage change calculated on actual amounts before rounding.				
Totals include \$469.1 million in assumed General Revenue Funds supplemental funding for the 2002-03 biennium.				
This amount could be reduced by transfers of available lapsing funds.				

HEALTH AND HUMAN SERVICES

2004-05 BIENNIAL RECOMMENDATIONS

TABLE 19
SELECTED PERFORMANCE MEASURES

MEASURE	ACTUAL 2002	BUDGETED 2003	RECOMMENDED 2004	RECOMMENDED 2005
Medicaid Caseload (Premium Services), Average Number of Recipient Months Per Month*	2,106,201	2,397,306	2,654,753	2,878,100
Average CHIP Programs Recipient Months Per Month	497,688	514,035	514,035	514,035
Total Medicaid Prescriptions Incurred	30,126,823	33,859,671	37,684,094	40,257,515
Total Number of CHIP Prescriptions (Includes Immigrant Health Insurance and School Employees Children)	1,035,128	2,168,355	2,249,417	2,249,417
Average Monthly Medicaid Caseload in DHS Community Care	122,332	132,100	137,456	144,144
Average Monthly Caseload, Nursing Facility Clients (Medicaid and Medicare Copay)	65,221	64,286	64,869	64,938
Percentage of Long-term Care Clients Served in Community Settings	68.2%	70.1%	70.8%	71.7%
Number of TANF Recipients Per Month	330,420	328,887	329,900	312,050
Number of TANF-State Recipients Per Month	28,322	31,244	29,926	29,152
Number of Adults and Youth Served in Substance Abuse Treatment	43,328	47,837	43,049	43,514
Average Monthly Number of Consumers Receiving Medicaid Waiver Services (MR)	6,380	6,823	6,823	6,823
Average Monthly Number of MR Campus (State School) Residents	5,133	4,962	5,122	5,122
Average Daily Census of State Mental Health Facilities	2,281	2,309	2,309	2,319
Number of WIC Participants Receiving Nutritious Food Supplements Per Month	798,789	817,393	837,828	837,828
Number of Equipment/Service Vouchers Issued: Specialized Telecommunication Program	8,129	12,500	12,500	12,500
Number of Consumers Served in Vocational Rehabilitation Program (TCB)	11,022	10,533	11,027	11,092
Number of Eligible Clients Provided Vocational Rehabilitation Services (TRC)	124,070	118,583	119,133	119,128
Number of Children in DPRS Conservatorship Who Are Adopted	2,248	2,199	2,292	2,292
Number of Confirmed Cases of Child Abuse/Neglect	30,899	31,651	32,398	33,145
Average Number of Days Per Month for Foster Care, All Levels	428,782	467,892	471,449	489,954
Average Number of Children Provided Adoption Subsidy Per Month	13,732	15,369	16,451	17,560
Number of Completed Adult Abuse/Neglect/ Exploitation Investigations	56,906	57,866	58,429	58,902
Number of Medicaid Transportation Recipient One-way Trips (TDH)	2,850,892	3,220,715	3,162,924	3,334,988
*Includes Health and Human Services Commission and Department of Human Services premium caseloads.				

BUDGET ISSUES AND RECOMMENDATIONS

THE RECOMMENDATIONS address a number of major budget issues affecting agencies in the Health and Human Services function. These issues are listed below.

The Medicaid program makes up a large portion of the expenditures in Health and Human Services. Approximately 75 percent of the total expenditures in health and human services agencies and related Article XII, Tobacco Settlement Receipts expenditures, are made in the Medicaid program. The recommendations for the Medicaid program total \$31.0 billion in All Funds and \$11.9 billion in General Revenue Funds for the 2004–05 biennium, an increase of \$3.8 billion in All Funds and \$1.7 billion in General Revenue Funds, including Tobacco Settlement receipts appropriated in Article XII.

The Federal Medical Assistance Percentage (FMAP), assumed in the recommendations for the 2004–05 biennium is slightly more favorable than the matching rates for the 2002–03 biennium. For 2004 and 2005 the assumed federal matching ratio on a federal fiscal year basis is 60.22 percent. The 2003 federal matching ratio was 59.99 percent on a federal fiscal year basis.

Highlights of Medicaid funding include:

- ◆ increases of \$2.8 billion in All Funds and \$1.3 billion in General Revenue Funds to address caseload growth and continue fiscal year 2003 cost levels for Medicaid acute care services at the

Health and Human Services Commission (HHSC) and the Department of Health (TDH). The caseload growth is primarily in children's groups. Enrollment growth is projected to result in 2.9 million clients in fiscal year 2005 (compared to 2.4 million clients served in fiscal year 2003);

- ◆ increases of \$512.2 million in All Funds and \$203.8 million in General Revenue Funds to address a deferred 25th month of Medicaid payments for acute care premiums and nursing facilities. Twenty-three months were appropriated in 2000–01 and 24 months in 2002–03; and
- ◆ increases of \$251.2 million in All Funds and \$93.5 million in General Revenue Funds for caseload growth and to maintain fiscal year 2003 average costs in community care programs at the Department of Human Services.

Several Legislative Budget Board evaluations contained in the *Staff Performance Report to the 78th Legislature* focus on health care costs. An evaluation of prescription drug expenditures across state agencies produced the following recommendations:

- ◆ the Legislature should consider authorizing state agencies to implement a statewide preferred drug list with a prior authorization program and supplemental rebates to achieve cost-savings in drug expenditures;

- ◆ state agencies that contract with a pharmacy benefit manager should require disclosure of rebate information to enable accurate monitoring of drug prices, rebates and fees;
- ◆ state agencies should consider expanding the use of federal public health drug pricing (340B); and
- ◆ the Legislature should consider memorializing Congress to allow public health service pricing for psychiatric hospitals and inpatient drugs.

An evaluation of Medicaid hospital reimbursement produced the following recommendations:

- ◆ the Legislature should petition Congress to keep the methodology for computing state allocations of federal Disproportionate Share Hospital funds the same as in fiscal year 2002;
- ◆ the Legislature should consider directing HHSC to increase the Disproportionate Share Hospital payments to state-owned public hospitals to 175 percent of the cost of uncompensated care for state fiscal years 2004 and 2005 to generate \$186.2 million in General Revenue; and
- ◆ the Legislature should consider restructuring the use of Multicategorical Teaching Hospital Account funds and tertiary care funds to maximize federal funds.

BUDGET ISSUES AND RECOMMENDATIONS

An evaluation of benefit and coverage options under Medicaid and the Children's Health Insurance Program (CHIP) produced the following recommendations:

- ♦ the Legislature should examine optional benefits and the scope of benefits in Medicaid and CHIP, as well as cost sharing in CHIP, when making budget decisions;
- ♦ HHSC should consider the use of a federal waiver to restructure healthcare packages for appropriate groups and use employer-sponsored insurance to avoid costs in Medicaid and CHIP; and
- ♦ HHSC should expand the Health Insurance Premium Payment Program in Medicaid and CHIP by establishing a less stringent, uniform cost-effectiveness test.

An evaluation of durable medical equipment (DME) costs across state agencies produced the following recommendations:

- ♦ HHSC should continue to work with community stakeholders and the medical equipment and supply industry to implement rules and policies for improving benefit management for DME and supplies;
- ♦ TDH, in conjunction with state agencies that purchase DME and supplies, should establish a centralized price-tracking database and a preferred product list;
- ♦ HHSC should amend Medicaid program rules to include stan-

dards of practice and/or certification requirements for providers of DME and supplies.

An evaluation of the Medicaid School Health and Related Services (SHARS) program produced the following recommendations:

- ♦ the Texas Education Agency (TEA) should provide technical assistance to school districts in high poverty areas that are not enrolled in the Medicaid School Health and Related Services program and examine the reasons some school districts are enrolled as Medicaid providers but are not billing for services; and
- ♦ TEA and HHSC should revise the memorandum of understanding between the agencies to include specific roles and responsibilities regarding monitoring, reporting, contracting and rate-setting functions.

Supplemental funding in the 2002–03 biennium is assumed for three health and human services agencies. TDH assumes \$26.9 million in All Funds and \$10.8 million in General Revenue Funds and HHSC assumes \$1.1 billion in All Funds and \$448.7 million in General Revenue Funds for projected shortfalls largely related to unanticipated growth in Medicaid caseloads, particularly for children's groups. In addition, the Department of Protective and Regulatory Services assumes \$47.8 million in All Funds, including \$9.6 million in General Revenue Funds, \$37.2 million in federal Temporary Assistance for

Needy Families (TANF) funds, and \$1.0 million in other Federal Funds for projected shortfalls in fiscal year 2003 related to caseload growth and rate increases in the foster care and adoption subsidy programs.

Recommendations for TANF funding total \$1.2 billion for the 2004–05 biennium, approximately the same level as the 2002–03 biennium, including TANF funding outside of Article II health and human services agencies. An estimated \$134.4 million in TANF funds will be carried forward into the 2004–05 biennium. The TANF balance at the end of the 2004–05 biennium based on recommended funding levels is projected to be \$58.9 million. This estimate assumes fiscal years 2004 and 2005 TANF awards at the 2002 basic funding level, plus supplemental funding for high growth/low benefit states both years of the 2004–05 biennium.

A Legislative Budget Board evaluation focusing on federal reauthorization of TANF and related funding issues, contained in the *Staff Performance Report to the 78th Legislature*, produced the following recommendations:

- ♦ the Legislature should amend the current appropriation rider addressing TANF Contingency Funds to allow TANF appropriated to agencies within Article II to be transferred to the Texas Workforce Commission; and
- ♦ the Legislature should consider petitioning Congress to maintain the flexibility provided in the

BUDGET ISSUES AND RECOMMENDATIONS

existing federal welfare program, reinstate TANF Supplemental Funds as designed in the original legislation, increase federal child-care funding, and restore Social Services Block Grant Funds to fiscal year 1995 funding levels.

CHIP is approximately funded at fiscal year 2003 levels, with \$1.0 billion All Funds, including \$10.1 million General Revenue Funds, \$968.6 million Federal Funds, and \$39.6 million Other Funds. This represents a \$5.4 million All Funds increase, including a \$1.3 million General Revenue Funds decrease, a \$2.7 million Federal Funds increase, and a \$4.0 million Other Funds increase. Tobacco Settlement receipts constitute most of the General Revenue funding for CHIP and related programs. Recommended Tobacco Settlement receipts funding for these programs totals \$411.3 million. This represents a \$2.8 million decrease compared to 2002–03 spending. The projected number of children served in CHIP-related programs, including School Employee Insurance and Immigrant Health Insurance is 514,035 for fiscal years 2004 and 2005, a continuation of the projected fiscal year 2003 levels.

Funding for the Department of Protective and Regulatory Services is recommended at levels below the previous biennium, for an All Funds decrease of \$54.1 million for Foster Care Payments. Increases of \$16.9 million in General Revenue Funds and \$28.1 million in Federal Funds

for caseload growth are offset by decreases of \$36.4 million in General Revenue Funds and \$62.7 million in Federal Funds due to the exclusion of most federally unallowable costs from provider reimbursement rates.

Significant budget recommendations for agencies in the Health and Human Services function include:

DEPARTMENT ON AGING

- ◆ \$151.4 million in All Funds and \$15.5 million in General Revenue and General Revenue–Dedicated Funds for the 2004–05 biennium, an increase of \$6.6 million in All Funds. Federal grants to the agency are expected to increase \$6.6 million over 2002–03 levels.

COMMISSION ON ALCOHOL AND DRUG ABUSE

- ◆ \$332.7 million in All Funds and \$54.8 million in General Revenue Funds for the biennium, an overall \$1.9 million increase in All Funds with no increase in General Revenue Funds over the previous biennium. Significant changes from funding in the previous biennium include:
 - a) a \$1.6 million increase in Substance Abuse Prevention and Treatment Block Grant Federal funding available from carry forward of fiscal year 2003 balances; and
 - b) a \$0.2 million increase in Other Funds related to interagency contracts and

appropriated receipts.

The transfer of \$6.5 million for the biennium to the Department of Criminal Justice for the Treatment Alternative to Incarceration Program is continued for fiscal years 2004 and 2005.

COMMISSION FOR THE BLIND

- ◆ \$100.9 million in All Funds and \$26.9 million in General Revenue and General Revenue–Dedicated Funds, an All Funds increase of \$3.9 million and a General Revenue Funds decrease of \$0.4 million compared to 2002–03. Significant changes from funding in the previous biennium include:
 - a) a \$0.4 million decrease in General Revenue Funds due to an agency-estimated decrease in donations to the Blindness Education, Screening, and Treatment program. These revenues are generated from a \$1 donation on driver's license renewal forms. There are now competing programs;
 - b) a \$4.5 million increase in Federal Funds. This includes an estimated increase of \$4.3 million in the Vocational Rehabilitation (VR) grant and a decrease of \$1.1 million in Social Security Administration VR reimbursements; and
 - c) a \$0.2 million decrease in appropriated receipts (Other Funds) due to lower estimates of donations and adjustments in the way insurance is paid

BUDGET ISSUES AND RECOMMENDATIONS

for by the Business Enterprises of Texas program.

CANCER COUNCIL

- ♦ \$8.1 million in All Funds (all General Revenue Funds), a decrease of \$0.3 million from the previous biennium due to a decrease in interagency contracts.

COMMISSION FOR THE DEAF AND HARD OF HEARING

- ♦ \$5.2 million in All Funds and \$2.4 million in General Revenue Funds, an increase of \$0.4 million in All Funds. This includes an estimated increase of \$50,000 in General Revenue Funds from the sale of specialized license plates. Other significant changes from the 2002–03 biennium include:
 - a) an increase in Universal Service Funds for telecommunications assistance (Other Funds) totalling \$0.1 million for the biennium. This increase is related to an increase in administrative costs and an assumed 8 percent increase in the amount of outreach contracts;
 - b) an increase in interagency contracts (Other Funds) totalling \$0.1 million. Through these contracts, the agency will provide interpreter services to state agencies; and
 - c) a \$0.2 million increase in Other Funds due to unexpended balances from 2003 in Camp Sign and interagency contract administrative fees.

INTERAGENCY COUNCIL ON EARLY CHILDHOOD INTERVENTION

- ♦ \$229.4 million in All Funds and \$71.4 million in General Revenue Funds, an increase of \$10.9 million in All Funds from the 2002–03 biennium.
 - a) an increase of \$12.9 million in Foundation School Program Funds through interagency contract with the Texas Education Agency to fund eligibility determination services for projected increases in enrollment growth; and
 - b) a decrease of \$2 million in Federal Funds (\$5 million in projected Medicaid reimbursement revenue partially offset a \$7 million decrease due to a one-time appropriation in 2002–03 of federal Maternal and Child Health Block Grant funds).

In addition, \$1 million is provided for the biennium in Tobacco Settlement receipts that are appropriated in Article XII to continue funding for respite care for ECI families.

A Legislative Budget Board evaluation focusing on early childhood intervention services, contained in the *Staff Performance Report to the 78th Legislature*, produced the following recommendations:

- ♦ to promote a seamless system of services for children from birth to 21 years of age and maximize federal funding streams, the Legislature should consider

amending state statute to move the administration of the Individuals with Disabilities Education Act (IDEA), Infants and Toddlers program, to TEA;

- ♦ the Office of State and Federal Relations should promote increases in federal funding for the IDEA, Infants and Toddlers Grant, and relief from federal mandates related to natural environments, cost-sharing, third party insurance and application for Medicaid benefits;
- ♦ ECI should consider more selective criteria for measuring developmental delay in children to address agency budget shortfalls;
- ♦ ECI and HHSC should consider establishing a Medicaid reimbursement rate for in-home therapies for children from birth to three years of age, with ECI providing the state share of Medicaid reimbursement;
- ♦ ECI should examine less expensive alternatives to delivering all services in the home;
- ♦ the Legislature should consider changing state statute to allow for a system of payments related to early childhood intervention services; and
- ♦ ECI should maintain policy and procedures that ensure that all personnel providing services are certified in the agency's competency demonstration system.

BUDGET ISSUES AND RECOMMENDATIONS

DEPARTMENT OF HEALTH

- ◆ \$3.5 billion in All Funds and \$1.4 billion in General Revenue and General Revenue–Dedicated Funds, an overall increase of \$248.0 million in All Funds and a \$56.9 million decrease in General Revenue and General Revenue–Dedicated Funds from the previous biennium.

In addition to the amounts noted above, a total of \$41.8 million in Tobacco Settlement receipts is provided through Article XII including \$31.6 million for Medicaid Acute Care Services, \$5.4 million for immunizations, \$3.5 million for bond debt service associated with the construction projects at the Texas Center for Infectious Disease and the South Texas Health Care System, and \$1.2 million for newborn hearing screening.

Also, in addition to the amounts noted above, a total of \$38.3 million in interest earnings from endowments (General Revenue–Dedicated Funds) is funded through Article XII with Tobacco Settlement receipts including \$18 million for Tobacco Education and Enforcement, \$9.0 million for Children and Public Health, \$9.0 million for Emergency Medical Services and Trauma Care, and \$2.3 million for Small Urban Hospitals.

It is assumed that the agency will receive \$26.9 million in All Funds and \$10.7 million in General Revenue Funds in supplemental funding in 2003 to address a projected shortfall

related to the Texas Health Steps Program due to growth in children's Medicaid caseloads.

Specific program recommendations for the agency include:

MEDICAID PROGRAM

- ◆ a \$95.5 million increase in General Revenue match and \$158.1 million increase in Federal Funds for Medicaid to maintain fiscal year 2003 rates and allow for projected caseload growth. Medicaid programs residing at the Department of Health include Medical Transportation, Texas Health Steps (EPSDT) Medical and Dental, and Family Planning; and
- ◆ a more favorable FMAP of 60.22 percent resulted in a decreased need for \$0.9 million in General Revenue Funds.

PUBLIC HEALTH PROGRAMS

- ◆ generally funded at the 2002–03 levels, with a few exceptions due to a decrease in available Federal Funds totalling approximately \$24.1 million. A decrease in Federal Funds of \$8.0 million in the Human Immunodeficiency Virus and Sexually Transmitted Disease program and \$12.3 million in preventive health grants is due primarily to receipt of additional one-time Federal Funds in the 2002–03 biennium that are not anticipated in the 2004–05 biennium;
- ◆ a \$35.9 reduction in General Revenue for lower projected revenues from Unclaimed Lottery Proceeds in the Tertiary Care

Program; a \$0.4 million reduction in the Oyster Sales Account and \$0.6 million in the Public Health Services Account for lower projected revenues in those accounts;

- ◆ a \$34.4 million increase in Federal Funds for bioterrorism; approximately \$0.8 million in General Revenue Funds used to match Federal Funds for bioterrorism in fiscal year 2002 will not be available; and
- ◆ an increase of \$21.8 million in general obligation bond proceeds, relating to unexpended balances from the current biennium for the state healthcare facilities.

HEALTH AND HUMAN SERVICES COMMISSION

- ◆ \$20.2 billion in All Funds, including \$7.0 billion in General Revenue Funds, \$12.7 billion in Federal Funds, and \$539.9 million in Other Funds. (In addition, \$813.1 million in Tobacco Settlement receipts are allocated for the Health and Human Services Commission to help fund the Children's Health Insurance Program (CHIP) and the Acute Care Medicaid program.)

Recommended funding represents a \$2.9 billion All Funds increase, including a \$1.2 billion General Revenue Funds increase, from the 2002–03 biennial level.

- ◆ the 2002–03 funding level assumes a supplemental appro-

BUDGET ISSUES AND RECOMMENDATIONS

priation for the Medicaid and CHIP programs totaling \$1.1 billion All Funds, including \$448.7 million General Revenue and \$668.6 Federal Funds; and

- ♦ specific changes in method of financing include a \$1.2 billion General Revenue Funds increase; a \$27.4 million General Revenue—Dedicated Funds decrease; a \$1.8 billion Federal Funds increase; and a \$133.5 million Other Funds decrease.

Additionally, recommended Tobacco Settlement receipts funding represents a \$185.4 million increase from the 2002–03 biennial level.

Recommended funding levels address projected caseload growth (primarily in children’s groups) in the Acute Care Medicaid program, and maintain CHIP (and related programs) caseloads at projected fiscal year 2003 levels. In total, these programs are projected to serve an average of 2.8 million children in fiscal year 2005. Specific funding recommendations follow:

IMPROVE SERVICE DELIVERY

- ♦ \$27.7 million in All Funds, including \$3.6 million General Revenue Funds, a decrease of \$21.7 million in General Revenue—Dedicated Funds for one-time expenditures occurring in the 2002–03 biennium. HHSC uses funding for this goal to coordinate and improve the delivery of health and human services.

ACUTE CARE MEDICAID

The Acute Care Medicaid program provides health insurance services, medically-necessary prescription drugs, and other medical services to low income children and adults. Enrollment growth (primarily in children’s groups) is projected to result in 2.9 million clients in fiscal year 2005 (compared to 2.4 million clients served in fiscal year 2003). A net increase of \$1.4 billion in General Revenue Funds (including Tobacco Settlement receipts) is recommended to address caseload growth and to maintain fiscal year 2003 reimbursement rates.

- ♦ \$19.2 billion in All Funds, including \$6.9 billion in General Revenue Funds, \$11.8 billion in Federal Funds, and \$478.7 million in Other Funds. This represents an increase of \$2.9 billion in All Funds, including a \$1.2 billion General Revenue Funds increase, a \$1.8 billion Federal Funds increase, and a \$140.3 million Other Funds decrease. Specific funding adjustments include:
 - a) an increase of \$2.1 billion in All Funds for premium strategies, including \$750.2 million in General Revenue Funds, to address projected caseload growth and maintain negotiated rates for fiscal year 2003;
 - b) strong growth in the number of enrolled children is associated with eligibility simplifications enacted by the Seventy-seventh Legislature,

2001, outreach efforts, and economic conditions. Children are projected to make up approximately 81 percent of the total Acute Care Medicaid caseload by fiscal year 2005;

- c) an increase of \$371.5 million in All Funds, including \$147.8 million in General Revenue Funds, will allow for an additional Medicaid premium payment (25 in total) during the 2004–05 biennium;
- d) an increase of \$127.4 million in General Revenue Funds is recommended to offset one-time revenues derived from premium credits (Other Funds);
- e) an increase of \$387.0 million in All Funds, including \$190.8 million in General Revenue Funds, addresses projected caseload growth in other Medicaid services, including insured services for Medicare/Medicaid clients, comprehensive care services for children, and cost-reimbursed services;
- f) a \$19.2 million reduction in General Revenue Funds is associated with consolidating funding for the NorthSTAR program at the Department of Mental Health and Mental Retardation; and
- g) an estimated cost avoidance of \$19.1 million in General Revenue Funds is made possible by an equal Federal

BUDGET ISSUES AND RECOMMENDATIONS

Funds increase. The FMAP is projected to be more favorable for Texas in 2004–05 (60.22 percent).

Additionally, Tobacco Settlement receipts funding recommended for the HHSC Acute Care Medicaid program totals \$401.8 million, a \$188.2 million increase over 2002–03 funding.

CHILDREN'S HEALTH INSURANCE PROGRAM AND RELATED PROGRAMS

Goal B, Insure Children, includes the following programs: CHIP, Immigrant Health Insurance, State Employee Children Insurance, School Employee Children Insurance, and CHIP Vendor Drug Program. All programs provide health insurance and related medical services for children who are ineligible for Medicaid coverage due to family income, family employment status, or immigration status.

CHIP and related programs are projected to serve an average of 514,035 children in fiscal year 2003. Recommended funding will allow this number of children to be served in both fiscal year 2004 and 2005. Recommended funding assumes maintenance of projected fiscal year 2003 reimbursement rates.

- ◆ \$1.0 billion in All Funds for Goal B including \$10.1 million in General Revenue Funds, \$968.6 million in Federal Funds, and \$39.6 million in Other Funds. This represents a \$5.4 million All Funds increase, including a \$1.3

million General Revenue Funds decrease, a \$2.7 million Federal Funds increase, and a \$4.0 million Other Funds increase. Specific funding adjustments follow:

- a) a \$5.2 million increase in General Revenue Funds associated with funding the School Employee Children Insurance program for two years. The program, which provides health insurance coverage to the children of certain public school employees, began in fiscal year 2003;
- b) a \$35.6 million increase in All Funds represents a new source of funding for the CHIP Vendor Drug Program. Appropriation of an anticipated \$11.4 million in rebates to be collected from drug manufacturers (Other Funds) will draw down \$24.2 million in matching Federal Funds;
- c) a \$5.7 million reduction in General Revenue–Dedicated Funds represents a one-time revenue source from the Texas Healthy Kids Corporation Successor Account in the 2002–03 biennium;
- d) a \$25.9 million decrease in All Funds, including \$7.3 million in Other Funds and \$18.6 million in Federal Funds, is associated with one-time spending in the 2002–03 biennium. HHSC used \$6.7 million in intergovernmental transfers from public hospi-

tals and \$17.2 in matching Federal Funds to provide supplemental funding to health plans participating in CHIP in order to offset high initial expenditures. Also, HHSC used \$0.6 million in donated funds and \$1.4 in matching Federal Funds to provide infant car seats to certain CHIP families; and

- e) an estimated cost avoidance of \$1.0 million in General Revenue Funds is made possible by an equal Federal Funds increase. The Enhanced Federal Medical Assistance Percentage (EFMAP) is projected to be more favorable for Texas in 2004–05.

Tobacco Settlement receipts constitute most of the General Revenue Funds used for CHIP and related programs. Recommended Tobacco Settlement receipts funding for these programs totals \$411.3 million, a \$2.8 million decrease compared to the 2002–03 biennial level.

DEPARTMENT OF HUMAN SERVICES

- ◆ \$9.5 billion in All Funds and \$3.5 billion in General Revenue and General Revenue–Dedicated Funds, an overall increase of \$287.5 million in All Funds and an increase of \$111.4 million in General Revenue and General Revenue–Dedicated Funds from the 2002–03 biennium.

BUDGET ISSUES AND RECOMMENDATIONS

Included in the changes listed below is \$8.5 million in General Revenue Funds that are available due to a more favorable FMAP matching rate (60.22 percent) and used to offset some caseload growth.

LONG-TERM CARE SERVICES (LTC)

Recommendations for the Community Care–Waiver strategy noted below do not include an additional \$146.1 in Tobacco Settlement receipts for the biennium recommended in Article XII.

The recommendations divide the former Community Care strategy into three strategies: Community Care–Entitlement, Community Care–Waivers, and Community Care–State.

- ♦ a \$203.3 million increase in All Funds and a \$79.2 million increase in General Revenue Funds for Community Care–Entitlement to allow for growth in Medicaid nonwaiver caseloads and allows for maintenance of 2003 costs. (Community Care–Entitlement strategy includes Primary Home Care, Primary Home Care–Frail Elderly and Day Activity and Health Services);
- ♦ a \$47.9 million increase in All Funds and a \$14.3 million increase in General Revenue Funds increase for Community Care–Waivers to allow for growth in caseloads, annualization of Community Living Assistance and Support Services (CLASS) and Community-based Alternatives (CBA) waivers and to maintain projected 2003 costs. (Community

Care–Waivers strategy includes CBA, CLASS, Deaf-blind with Multiple Disabilities, and the Medically Dependent Children Program (MDCP);

- ♦ maintain 2002–03 biennial level of \$167.7 million in All Funds and \$27.3 million in General Revenue Funds for Community Care–State programs. (Community Care–State strategy includes Family Care, Home-delivered Meals, Emergency Response Services, and other services for people with disabilities);
- ♦ a \$140.7 million increase in All Funds and a \$56.0 million increase in General Revenue Funds for the Nursing Facility and Hospice Payments for the fiscal year 2005 August nursing facility payment (25th month);
- ♦ a \$23.8 million increase in All Funds and a \$10.1 million increase in General Revenue Funds for Integrated Managed Care Systems due to projected caseload increases and to hold costs at fiscal year 2003 levels for the STAR+PLUS Medicaid waiver;
- ♦ a \$2.5 million increase in All Funds and a \$0.7 million increase in General Revenue Funds for LTC Quality Outreach to maintain the strategy at the original agency requested levels;
- ♦ a \$1.3 million increase in All Funds and a \$0.9 million decrease in General Revenue Funds for

LTC Facility Regulation due to an increase in federal funds available for facility regulation;

- ♦ a \$0.7 million decrease in All Funds and a \$1.7 million decrease in General Revenue Funds for the Nursing Facility and Hospice Payments due to slight decreases in caseload, FMAP adjustments (60.22 percent), and to hold costs at fiscal year 2003 levels;
- ♦ a \$1.8 million decrease in General Revenue Funds for In-home and Family Support to maintain the strategy at the agency requested level; and
- ♦ a \$0.3 million increase All Funds and a \$1.9 million decrease in General Revenue Funds for LTC Eligibility and Service Planning due to reductions in other operating expenses.

ENCOURAGE SELF-SUFFICIENCY AND INDEPENDENCE

- ♦ a \$8.6 million increase in All Funds for TANF Grants due to caseload growth;
- ♦ a \$2.5 million increase in General Revenue Maintenance of Effort (MOE) Funds compared to 2002–03 due to reallocation of MOE between Client Self-Support (CSS) and TANF grant strategies (the increase maintains the maximum monthly grant for a family of three at 17 percent of the federal poverty level and maintains a program providing once-a-year grants to TANF-eligible children);

BUDGET ISSUES AND RECOMMENDATIONS

- ♦ a \$12.8 million decrease in All Funds and a \$1.5 million increase in General Revenue Funds for continued development of the Texas Integrated Eligibility Redesign System project;
- ♦ a \$35.6 million increase in Federal Funds for Nutrition and a \$1.7 million decrease in General Revenue Funds due to expenditure of one-time enhanced funding (Earned Federal Funds) for outreach activities;
- ♦ a \$47.2 million decrease in All Funds and a \$16.0 million decrease in General Revenue Funds in CSS Eligibility and Issuance Services to account for reduced fiscal year 2003 FTE levels and for Food Stamp simplification at the federal level including \$19.1 million in TANF Federal Funds;
- ♦ a \$108.0 million decrease in All Funds and \$25.9 million decrease in General Revenue Funds related to Disaster Assistance expenditures in 2002–03;
- ♦ a \$5.2 million All Funds increase for Refugee Assistance to reflect an anticipated increase in the Federal Refugee Entrant Assistance Grant; and
- ♦ a \$3.6 million decrease in Crime Victim Compensation grant funds (General Revenue–Dedicated Funds) in the Family Violence strategy from the Office of the Attorney General and a slight

increase in Federal Family Violence Prevention funds.

ADMINISTRATIVE/OTHER

- ♦ staffing levels for the Department of Human Services are 530.9 FTEs lower than the fiscal year 2003 budgeted levels for 2004–05 due to Medicaid and Food Stamp Simplification at the state and federal levels; and
- ♦ an \$8.4 million reduction in All Funds and a \$3.3 million reduction in General Revenue Funds reduction due to reductions in full-time-equivalent positions and other operating expenses to restore indirect administration to appropriated levels.

A Legislative Budget Board evaluation focusing on Texas’ experience with funding sources and disaster assistance payments, contained in the *Staff Performance Report to the 78th Legislature*, produced the following recommendations:

- ♦ in the General Appropriations Act, the Legislature should clarify funding availability from state agencies in the event of a federally declared natural disaster;
- ♦ if the disaster occurs in the second year of the biennium and after the Legislature has met, the Legislature should clarify the appropriation mechanism that will allow expenditures to be made without calling a special legislative session or other extraordinary session; and

- ♦ the Legislature should include a rider in the General Appropriations Act that would allow for transfers between agencies in the event that a disaster is declared.

DEPARTMENT OF MENTAL HEALTH AND MENTAL RETARDATION

- ♦ \$4.0 billion in All Funds and \$2.3 billion in General Revenue and General Revenue–Dedicated Funds, an overall decrease of \$3.7 million in All Funds and an increase of \$5.8 million in General Revenue Funds from the previous biennium; and
- ♦ a reduction of 56.6 full-time-equivalent positions from the 2003 budgeted level and an additional reduction of 70.7 FTE positions in the second year of the 2004–05 biennium; these FTEs were not restored because the agency has historically reported FTE levels well below the cap.

TOBACCO SETTLEMENT RECEIPTS

In addition to the amounts shown below, the recommendations continue the same level of funding as in fiscal years 2002–03 for TDMHMR programs in Article XII, Tobacco Settlement Receipts. The amounts include \$30.5 million for New Generation Medications, \$15 million for Children’s Mental Health Services, \$28.5 million for MR Medicaid Waiver services, \$0.6 million for Medicaid Simplification and \$28.8 million for MHMR Community Centers.

BUDGET ISSUES AND RECOMMENDATIONS

Specific program recommendations include:

CAMPUS AND COMMUNITY-BASED MENTAL HEALTH SERVICES

- ◆ a \$7.5 million increase in All Funds, a \$19.6 million increase in General Revenue Funds, a \$4.3 million increase in Federal Funds, and a \$16.4 million decrease in Other Funds, primarily to align expenditures with appropriations in the NorthSTAR Behavioral Health waiver, which resulted in a swap of Other Funds for General Revenue at TDMHMR and an equal reduction of General Revenue at the Health and Human Services Commission. The effects of the change in FMAP (60.22 percent) and higher caseload projections are also reflected;
- ◆ a \$4.5 million increase in All Funds, a \$2.9 million increase in General Revenue Funds, and a \$1.6 million increase in Federal Funds for Adult Mental Health Community Services, due primarily to a shift of mental health block grant funds from the Community Hospitals strategy to maintain outpatient services at El Paso Psychiatric Center and higher Medicaid projections. Community services include, but are not limited to, Assertive Community Treatment, Supported Employment, Supported Housing and New Generation Medications;
- ◆ a \$1.8 million increase in All Funds, a \$6.8 million increase in

General Revenue Funds, a \$0.9 million increase in Federal Funds, and a \$5.9 million decrease in Other Funds for Mental Health State Hospital Services, due to the transfer of El Paso Psychiatric Center to state hospital status, reductions for Article II, Special Provisions, Sec. 21 Business Process Study, and a decrease in projected third-party revenues;

- ◆ a \$0.8 million decrease in All Funds, a \$1.3 million decrease in General Revenue Funds, and a \$0.5 million increase in Federal Funds for Children's Mental Health Services, due primarily to the change in FMAP and agency-requested movement of mental health block grant funds;
- ◆ a \$2.3 million decrease in All Funds, a \$0.7 million increase in General Revenue Funds, and a \$3.0 million decrease in Federal Funds for Assessment and Service Coordination due to an increase in projected caseload combined with a decrease in mental health block grant funds that are being utilized in the 2002–03 biennium to develop a mental health benefit design data repository and will not continue in 2004–05; and
- ◆ a \$10.7 million decrease in General Revenue Funds for Community Hospitals due to the transition of El Paso Psychiatric Center to state hospital status.

CAMPUS AND COMMUNITY-BASED MENTAL RETARDATION SERVICE

- ◆ an \$18.1 million increase in All

Funds, a \$4.8 million increase in General Revenue Funds, and a \$13.3 million increase in Federal Funds for Medicaid Waiver Services, to annualize caseload growth at fiscal year 2003 levels and reflect the more favorable FMAP (60.22 percent);

- ◆ a \$7.1 million increase in All Funds, a \$7.3 million increase in General Revenue Funds, and a \$0.2 million decrease in Federal Funds for Mental Retardation Community Services due to a projected increase in caseload and decreases in certain Federal Funds;
- ◆ a \$5.1 million increase in All Funds, a \$2.5 million decrease in General Revenue, a \$1.9 million decrease in Federal Funds, and a \$9.5 million increase in Other Funds for MR Specialized Services (State Schools), due to addition of MHMR Revolving Fund Receipts (which have historically been 'off-budget'), reductions for Article II, Special Provisions, Sec. 21 Business Process Study, and a reduction for Mexia State School beds which are projected to no longer be used as decertified from Medicaid;
- ◆ a \$3.7 million decrease in General Revenue Funds for Non-Medicaid Community Residential Services to reflect agency-requested shift of funds into Mental Retardation Community Services strategy;
- ◆ a \$4.0 million decrease in All Funds, a \$3.1 million decrease in

BUDGET ISSUES AND RECOMMENDATIONS

General Revenue Funds, and a \$0.9 million decrease in Federal Funds for Assessment and Service Coordination due to a decrease in caseload projections and a reduction of funds budgeted for increased litigation costs; and

- ♦ an \$18.3 million decrease in All Funds, a \$7.7 million decrease in General Revenue Funds, and a \$10.6 million decrease in Federal Funds for Intermediate Care Facilities for the Mentally Retarded (ICF-MR) to reflect agency-requested shift of funds to MR Medicaid Waiver strategy and closure of three private ICF-MR facilities in fiscal year 2001.

ADMINISTRATION

- ♦ a \$0.6 million decrease in All Funds, a \$0.7 million increase in General Revenue Funds, a \$0.8 million decrease in Federal Funds, and a \$0.5 million decrease in Other Funds for Indirect Administration because of decreased revenue projections and an increase in quality management staffing, per State Auditor recommendation.

CAPITAL CONSTRUCTION

- ♦ a \$7.4 million decrease in All Funds, a \$8.0 million decrease in General Revenue Funds, and a \$0.6 million increase in Other Funds, due to the use during 2002–03 of \$8.0 million in unexpended balances of General Revenue and General Revenue-Dedicated Funds as well as an increase in 2004–05 in General Obligation Bond Funds.

DEPARTMENT OF PROTECTIVE AND REGULATORY SERVICES

- ♦ \$1.7 billion in All Funds and \$554.3 million in General Revenue and General Revenue-Dedicated Funds, an overall decrease of \$44.0 million in All Funds, including \$10.4 million in General Revenue Funds, \$30.6 million in Federal Funds, and \$3.0 million in Other Funds from the previous biennium;
- ♦ the number of FTE positions is maintained at the fiscal year 2003 budgeted level which is 185.7 positions above fiscal year 2002; and
- ♦ it is assumed that the agency will receive \$47.8 million in supplemental funding for foster care and adoption subsidy caseload growth and rate increases in fiscal year 2003. This includes \$9.6 million in General Revenue Funds, \$37.2 million in TANF Federal Funds, and \$1.0 million in other matching Federal Funds.

Specific program recommendations include:

CHILD PROTECTIVE SERVICES (CPS)

- ♦ a \$30.4 million increase in All Funds for Adoption Subsidy Payments, including increases of \$16.0 million in General Revenue Funds and \$14.4 million in Federal Funds from Title IV-E Adoption Assistance Program entitlement revenues;
- ♦ a \$1.9 million increase in All Funds for Child and Family Services, including increases of

\$2.2 million in General Revenue Funds, \$0.4 million in General Revenue-Dedicated Funds, and \$0.3 million in Federal Funds that are offset by a decrease of \$1.0 million in Other Funds;

- ♦ a \$3.6 million decrease in All Funds for CPS Purchased Client Services, including decreases of \$3.5 million in General Revenue Funds and \$2.0 million in Other Funds that are offset by an increase of \$1.9 million in Federal Funds; and
- ♦ a \$54.1 million decrease in All Funds for Foster Care Payments. Increases of \$16.9 million in General Revenue Funds and \$28.1 million in Federal Funds for caseload growth are offset by decreases of \$36.4 million in General Revenue Funds and \$62.7 million in Federal Funds due to the exclusion of most federally unallowable costs from provider reimbursement. A more favorable FMAP (60.22 percent) also results in a \$0.3 million decrease in General Revenue Funds that is offset by a corresponding increase in Federal Funds.

PREVENTION SERVICES

- ♦ a \$1.1 million increase in All Funds for At-Risk Prevention Services, including an increase of \$4.8 million in General Revenue Funds that is offset by a decrease of \$3.7 million in Federal Funds; and
- ♦ a \$0.4 million decrease in General Revenue-Dedicated Funds for the

BUDGET ISSUES AND RECOMMENDATIONS

Children's Trust Fund. These funds are used in CPS Child and Family Services to finance child fatality review team activities.

ADULT PROTECTIVE SERVICES

- ♦ Adult Protective Services was refinanced using \$0.9 million in General Revenue Funds in lieu of Federal Funds; and
- ♦ TDMHMR Investigations was also refinanced using \$0.1 million in General Revenue Funds in lieu of Federal Funds.

CHILD CARE REGULATION

- ♦ a \$6.0 decrease in All Funds, including \$0.8 million in General Revenue Funds and \$5.2 million in Federal Funds, primarily due to completion of the Child Care Licensing and Support System (CLASS).

INDIRECT ADMINISTRATION AND CAPS MAINTENANCE

- ♦ a \$13.4 million decrease in All Funds, including \$10.4 million in General Revenue Funds and \$3.0 million in Federal Funds, primarily due to completion of several information technology projects.

REHABILITATION COMMISSION

- ♦ \$590.7 million in All Funds and \$108.6 million in General Revenue and General Revenue–Dedicated Funds, an overall increase of \$14.2 million in All Funds from the 2002–03 biennium, including a net decrease of \$35,733 in General Revenue Funds;
- ♦ a net increase of \$0.3 million in

Federal Funds for the VR program (program totals \$328.3 million in All Funds for the 2004–05 biennium). This includes an increase of \$1.1 million in the VR grant funds allocated to this strategy and a decrease of \$0.7 million in expected Social Security Administration VR Reimbursements. A decrease in General Revenue Funds totalling \$0.1 million is offset by an increase of \$0.1 million in subrogation receipts (Other Funds);

- ♦ a \$13.2 million increase in Federal Funds for Disability Determination Services (program totals \$174.7 million for the 2004–05 biennium);
- ♦ a \$1.1 million increase in Federal Funds for the Texas Council on Developmental Disabilities (program totals \$9.3 million for the 2004–05 biennium); and
- ♦ a \$0.5 million net decrease in All Funds for Information Resources, including a decrease of \$0.5 million in Federal Funds from decreased capital expenditures and operating costs in the 2004–05 biennium.

AGENCIES OF EDUCATION

ALL FUNDS recommendations for Agencies of Education total \$53.1 billion for the 2004–05 biennium, which is an increase of \$3.6 billion, or 7.2 percent, from the 2002–03 biennium (Table 20).

For General Revenue and General Revenue–Dedicated Funds, the recommendations total \$40.4 billion, which is an increase of \$1.3 billion, or 3.4 percent, from the 2002–03 biennium (Tables 21 and 22).

Selected performance measures for agencies in the Education function are depicted in Table 23.

**TABLE 20
ALL FUNDS**

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002–03	RECOMMENDED 2004–05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Public Schools				
Texas Education Agency	\$29,365.6	\$30,256.4	\$890.8	3.0%
State Board for Educator Certification	40.0	32.6	(7.4)	(18.5)
School for the Blind and Visually Impaired	38.1	33.9	(4.2)	(11.1)
School for the Deaf	47.4	41.9	(5.4)	(11.5)
Subtotal, Public Schools	\$29,491.1	\$30,364.8	\$ 873.8	3.0
Telecommunications Infrastructure Fund Board	\$399.8	\$219.6	\$(180.2)	(45.1)
Public Higher Education				
General Academic Institutions	5,088.8	5,458.4	369.6	7.3
Health-related Institutions	4,510.5	4,921.0	410.5	9.1
A&M Service Agencies	676.2	695.6	19.4	2.9
Higher Education Fund	415.0	415.0	0.0	0.0
Available University Fund	731.4	713.9	(17.5)	(2.4)
Texas Excellence Fund	33.8	33.8	0.0	0.0
University Research Fund	33.8	33.8	0.0	0.0
Other Higher Education	896.6	1,059.6	163.0	18.2
Two-year Institutions				
Public Community/Junior Colleges	1,578.1	1,744.4	166.2	10.5
Lamar Lower-level Institutions	62.7	65.2	2.5	4.1
Texas State Technical College	152.6	139.0	(13.6)	(8.9)
Subtotal, Two-year Institutions	\$1,793.4	\$1,948.6	\$155.2	8.7
Subtotal, Higher Education	\$14,179.3	\$15,280.7	\$1,100.3	7.8
Teacher Retirement System	\$4,013.1	\$5,479.5	\$1,466.4	36.5
Optional Retirement Program	226.9	250.1	23.3	10.2
Higher Education Employees				
Group Insurance Contributions	911.4	1,116.4	205.1	22.5
Retirement and Group Insurance	41.9	48.6	6.8	16.2
Social Security and Benefit Replacement Pay	430.8	469.2	38.4	8.9
Subtotal, Employee Benefits	\$ 5,624.0	\$7,363.9	\$1,739.9	30.9
Bond Debt Service Payments	\$0.4	\$1.8	\$1.4	394.3
Lease Payments	16.2	16.6	0.4	2.3
Subtotal, Debt Service	16.6	18.4	1.8	11.0
Less Interagency Contracts	\$148.9	\$106.4	\$(42.5)	(28.5)
Article III, Special Provisions	0.0	0.8	0.8	NA
Total, Article III - Agencies of Education	\$49,561.9	\$53,140.8	\$3,578.9	7.2%
NOTES: Totals may not add because of rounding.				
Biennial change and percentage change calculated on actual amounts before rounding.				

AGENCIES OF EDUCATION

2004-05 BIENNIAL RECOMMENDATIONS

TABLE 21
GENERAL REVENUE FUNDS

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002-03	RECOMMENDED 2004-05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Public Schools				
Texas Education Agency	\$22,279.4	\$21,260.2	\$(1,019.1)	(4.6)%
State Board for Educator Certification	31.7	32.6	0.9	2.8
School for the Blind and Visually Impaired	26.2	27.2	1.0	4.0
School for the Deaf	33.1	34.4	1.3	3.8
Subtotal, Public Schools	\$22,370.4	\$21,354.4	\$(1,015.9)	(4.5)
Telecommunications Infrastructure Fund Board	\$0.0	\$0.0	\$0.0	0.0
Public Higher Education				
General Academic Institutions	3,658.9	3,923.4	264.5	7.2
Health-related Institutions	1,867.1	1,920.7	53.6	2.9
A&M Service Agencies	295.4	293.9	(1.4)	(0.5)
Higher Education Fund	415.0	415.0	0.0	0.0
Available University Fund	0.0	0.0	0.0	0.0
Texas Excellence Fund	33.8	33.8	0.0	0.0
University Research Fund	33.8	33.8	0.0	0.0
Other Higher Education	743.3	899.0	155.7	20.9
Two-year Institutions				
Public Community/Junior Colleges	1,578.1	1,744.4	166.2	10.5
Lamar Lower-level Institutions	49.9	51.9	2.0	4.1
Texas State Technical College	127.0	115.1	(12.0)	(9.4)
Subtotal, Two-year Institutions	\$1,755.1	\$1,911.3	\$156.3	8.9
Subtotal, Higher Education	\$8,802	\$9,431	\$628.7	7.1
Teacher Retirement System	\$3,820.4	\$5,294.2	\$1,473.8	38.6
Optional Retirement Program	188.7	204.1	15.4	8.2
Higher Education Employees				
Group Insurance Contributions	911.4	1,116.4	205.1	22.5
Retirement and Group Insurance	35.8	41.8	5.9	16.6
Social Security and Benefit Replacement Pay	\$348.9	\$380.2	\$31.3	9.0
Subtotal, Employee Benefits	\$5,305.3	\$7,036.8	\$1,731.5	32.6
Bond Debt Service Payments	\$0.4	\$1.8	\$1.4	394.3
Lease Payments	16.2	16.6	0.4	2.3
Subtotal, Debt Service	\$16.6	\$18.4	\$1.8	11.0
Total, Article III - Agencies of Education	\$36,494.5	\$37,840.6	\$1,346.1	3.7%
NOTES: Totals may not add because of rounding.				
Biennial change and percentage change calculated on actual amounts before rounding.				

AGENCIES OF EDUCATION

2004-05 BIENNIAL RECOMMENDATIONS

TABLE 22
GENERAL REVENUE-DEDICATED FUNDS

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002-03	RECOMMENDED 2004-05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Public Schools				
Texas Education Agency	\$38.8	\$15.0	\$(23.8)	(61.4)%
State Board for Educator Certification	1.1	0.0	(1.1)	(100.0)
School for the Blind and Visually Impaired	0.0	0.0	0.0	0.0
School for the Deaf	0.0	0.0	0.0	0.0
Subtotal, Public Schools	\$40.0	\$15.0	\$(25.0)	(62.5)
Telecommunications Infrastructure Fund Board	\$399.8	\$219.6	\$(180.2)	(45.1)
Public Higher Education				
General Academic Institutions	1,417.1	1,529.4	112.3	7.9
Health-related Institutions	405.3	422.2	16.9	4.2
A&M Service Agencies	36.2	52.0	15.7	43.4
Higher Education Fund	0.0	0.0	0.0	0.0
Available University Fund	0.0	0.0	0.0	0.0
Texas Excellence Fund	0.0	0.0	0.0	0.0
University Research Fund	0.0	0.0	0.0	0.0
Other Higher Education	7.0	9.2	2.2	31.4
Two-year Institutions				
Public Community/Junior Colleges	0.0	0.0	0.0	0.0
Lamar Lower-level Institutions	12.8	13.3	0.5	4.1
Texas State Technical College	25.5	24.0	(1.6)	(6.2)
Subtotal, Two-year Institutions	\$38.3	\$37.3	\$(1.0)	(2.7)
Subtotal, Higher Education	\$1,904.0	\$2,050.0	\$146.1	7.7
Teacher Retirement System	\$96.0	\$110.4	\$14.4	15.0
Optional Retirement Program	38.1	46.0	7.9	20.6
Higher Education Employees				
Group Insurance Contributions	0.0	0.0	0.0	0.0
Retirement and Group Insurance	0.2	0.3	0.0	18.4
Social Security and Benefit Replacement Pay	66.8	72.9	6.1	9.2
Subtotal, Employee Benefits	\$201.1	\$229.5	\$28.4	14.1
Bond Debt Service Payments	\$0.0	\$0.0	\$0.0	0.0
Lease Payments	0.0	0.0	0.0	0.0
Subtotal, Debt Service	0.0	0.0	0.0	0.0
Total, Article III - Agencies of Education	\$2,544.9	\$2,514.9	\$(29.9)	(1.2)%
NOTES: Totals may not add because of rounding. Biennial change and percentage change calculated on actual amounts before rounding.				

AGENCIES OF EDUCATION

2004-05 BIENNIAL RECOMMENDATIONS

**TABLE 23
SELECTED PERFORMANCE MEASURES**

MEASURE	ACTUAL 2002	BUDGETED 2003	RECOMMENDED 2004	RECOMMENDED 2005
PUBLIC EDUCATION				
Total Average Daily Attendance (ADA)	3,852,088	3,931,592	4,006,188	4,083,394
Percent of Equalized Revenue in the Foundation School Program	97.5%	97.9%	98.0%	98.0%
Percent of Students in Districts with Substantially Equally Access to Revenues	88.0%	87.6%	85.0%	85.0%
Percent of Students Passing All Tests Taken	84.9%	74.0%	76.0%	78.0%
Percent of African-American Students Passing All Tests Taken	76.3%	65.0%	68.0%	71.0%
Percent of Hispanic Students Passing All Tests Taken	79.5%	65.0%	68.0%	71.0%
Percent of Economically Disadvantaged Students Passing All Tests Taken	77.9%	65.0%	68.0%	71.0%
Percent of Districts Rated Exemplary or Recognized	54.6%	54.6%	6.0%	14.0%
Percent of Students Who Drop Out Between Grades 7 and 12	6.2%	6.2%	6.3%	6.3%
PUBLIC HIGHER EDUCATION				
Percentage of University Students Graduating within Six Years	51.4%	51.8%	52.4%	53.0%
Retention Rate of Students Completing Required Developmental Education	83.0%	83.0%	83.0%	83.0%
Percentage of Students Enrolled in Colleges Who are African-American or Hispanic	36.8%	37.5%	37.8%	38.1%
Amount of Grant and Scholarship Funds Distributed (in millions)	\$212.5	\$271.5	\$271.5	\$271.5
Percent of Family Practice Residency Program Graduates Practicing in Texas	86%	86%	84%	84%

BUDGET ISSUES AND RECOMMENDATIONS

THE MAJOR BUDGET RECOMMENDATIONS for public schools and retired teachers:

- ♦ provide sufficient General Revenue Funds to fund the current law obligation for the Foundation School Program, including the obligations incurred in the Instructional Facilities Allotment;
- ♦ provide sufficient funds to address the equity of the school finance system;
- ♦ allocate sufficient funds from the Textbook Fund to fund new textbook adoptions;
- ♦ provide funding for the state's costs to provide pension and insurance benefits to retired school district employees; and
- ♦ result in appropriations to the Texas Education Agency supporting 35.4 percent of the state and local funding for the Foundation School Program in 2005 and 36.9 percent of state and local funding for the Foundation School Program when including the portion of school district employee health insurance funded in the Teacher Retirement System.

THE MAJOR BUDGET RECOMMENDATIONS for public higher education:

- ♦ provide additional funding for enrollment growth at four-year, two-year, and health-related institutions;
- ♦ provide increases in General Revenue Funds for new debt service requirements for the four-

year, health-related, and technical institutions;

- ♦ project increases in Other Educational and General Income (i.e., General Revenue–Dedicated) for all general academic and health-related institutions;
- ♦ provide increases in General Revenue Funds for higher education group insurance to meet current employment levels and increases in premiums;
- ♦ provide increases in General Revenue Funds to maintain the level of awards for TEXAS (Texas Excellence, Access, and Success) grant program;
- ♦ reallocate the Texas A&M Veterinary Medicine Program Special item, Capital Equity and Excellence Hold Harmless, and savings in Workers' and Unemployment Insurance Compensation strategies into the funding formulas; and
- ♦ allow health-related institutions to retain patient income increases locally.

Significant budget recommendations for agencies and institutions in the Education function include:

TEXAS EDUCATION AGENCY

- ♦ \$21.6 billion to support the Foundation School Program;
- ♦ a \$80.7 million General Revenue Funds increase for new textbook adoptions;

- ♦ a funding level that meets the obligation incurred by the state in 2002–03 in the Instructional Facilities Allotment;
- ♦ a \$4 million General Revenue Funds decrease to the Master Reading/Mater Math Teacher Program, due to the lower than anticipated program participation;
- ♦ a \$911 million Federal Funds increase, including a \$262 million increase to Title I for low-income students, a \$290 million increase for special education, a \$120 million increase in funding for teacher quality, a \$116 million increase to the School Breakfast Program and School Lunch Program, and a \$95 million increase for a reading program for students in grades K-3;
- ♦ anticipation of a \$1.1 billion increase in recapture from property wealthy school districts for redistribution through the Foundation School Program;
- ♦ a \$35 million decrease in the System Benefit Fund (SBF); the SBF was used in the 2002–03 biennium to replace lost tax collections by school districts due to property value declines associated with electric utility deregulation. No SBF distribution is expected for the 2004–05 biennium;
- ♦ a \$12.8 million increase in the set-aside from the Compensatory Education allotment for transfer to the Interagency Council on

BUDGET ISSUES AND RECOMMENDATIONS

Early Childhood Intervention to fund additional anticipated eligibility determination costs; and

- ♦ a \$41 million General Revenue Funds decrease in funding for Regional Education Service Centers (ESCs); new Federal Funds for professional development will be available to return ESCs to their 2002–03 base level of All Funds funding.

LBB evaluations contained in the *Staff Performance Report to the 78th Legislature*, produced the following recommendations:

- ♦ the Texas Education Agency should revise its dropout calculation to include those students who left school with declared intent to enroll in another public school in Texas, but who could not be found in enrollment in any Texas school district;
- ♦ districts that report unusually high numbers of these student leavers should automatically be flagged for an internal agency review; the independent auditors whom districts now are required to hire to examine dropout data should be trained to pay special attention to this and other school leaver codes vulnerable to misuse;
- ♦ the Texas Education Agency State Waiver Unit should collect class-size data from all school districts applying for class-size waivers. The Waiver Unit should report data at the class level rather than

using only campus and district level data; and

- ♦ the Bilingual Education Program study found that the way cost data are structured in the Public Education Information Management System (PEIMS), the central reporting system maintained by the Texas Education Agency, does not allow the user to identify the cost areas that can be funded by the bilingual education allotment. As a result, the study could not determine whether the bilingual education allotment generates sufficient revenue to cover relevant bilingual education costs. The study recommends a detailed analysis of school district cost data to both assess the allotment's adequacy and to improve bilingual education cost reporting in PEIMS.

STATE BOARD FOR EDUCATOR CERTIFICATION

- ♦ \$0.9 million increase in General Revenue Funds associated with additional educator certification test administration fee revenue.

LBB evaluations contained in the *Staff Performance Report to the 78th Legislature*, produced the following findings:

- ♦ an initial review of the Texas Beginning Educator Support System determined that, while the program has proven to be effective at retaining beginning teachers through mentoring and other support services, several

education service centers experienced difficulty in promoting participation in the program among their school districts. The report recommends that the State Board for Educator Certification identify models for successful mentors programs, and make information about these models available on its website; and

- ♦ a review of teacher certification testing found that Texas is among 15 states that require teachers to pass both a teacher skills test (pedagogy) and a subject matter test to become fully certified; Texas is among an even smaller number of states (nine) that require teachers to take custom-developed tests that reflect the education priorities of the state; and that the \$72 per test fee charged by SBEC is quite reasonable compared to the test fees charged by other custom-test states (total cost range: \$140 to \$200 among the states the custom test states that require both the pedagogy and subject matter test; Texas: \$144).

SCHOOL FOR THE DEAF AND SCHOOL FOR THE BLIND AND VISUALLY IMPAIRED

- ♦ in recognition of anticipated increases to teacher salaries at these two agencies, the estimated increase in General Revenue Funds to the School for the Deaf from the 2002–03 biennial level is \$1.3 million and to the School for

BUDGET ISSUES AND RECOMMENDATIONS

the Blind and Visually Impaired is \$1.0 million.

TELECOMMUNICATIONS INFRASTRUCTURE FUND BOARD

- ♦ a \$180.2 million decrease in General Revenue–Dedicated Fund appropriations from the Telecommunications Infrastructure Fund (TIF). With the \$219.6 million appropriation to the TIF Board for grants and administration and the \$18.3 million in TIF appropriations to other state agencies, the TIF will have collected its statutory limit of \$1.5 billion.

LBB evaluations contained in the *Staff Performance Report to the 78th Legislature*, produced the following findings:

- ♦ a review of the agency's public school grants from 1997 to 2001 found that school districts with low property wealth per student and/or high percentages of at-risk students were not prioritized for funding, as mandated by statute. Rural districts, on the other hand, did receive priority consideration for grant funds during this period, in accordance with statute.

TEACHER RETIREMENT SYSTEM

- ♦ a \$566.2 million increase in General Revenue Funds for the retired group insurance program (TRS-Care). Of that amount, a \$543.5 million increase would be allocated to maintain the solvency of TRS-Care insurance fund. The

total amount recommended for the solvency supplement is \$995.7 million, based on an assumed health cost growth trend of 7.5 percent, and a retiree participation growth trend of 15 percent; and

- ♦ a \$624 million increase in General Revenue Funds for the various school district employee insurance-related allocations authorized by House Bill 3343, Seventy-seventh Legislature, 2001.

OPTIONAL RETIREMENT PROGRAM

- ♦ a \$15.4 million increase in General Revenue Funds and a \$7.9 million increase in General Revenue–Dedicated Funds to account for payroll growth among participating higher education employees.

HIGHER EDUCATION GROUP INSURANCE

- ♦ an increase of \$151.9 million in General Revenue Funds to fund 4.7 percent enrollment growth, and a 7.5 percent premium rate increase in fiscal year 2004 and an additional 7.5 percent increase in fiscal year 2005; and
- ♦ an increase of \$53.2 million in General Revenue Funds to fund continuation of the 2003 base rate into both years of the 2004–05 biennium.

Contained in the *Staff Performance Report to the 78th Legislature* is a comparison of the benefits packages provided by the following health insurance systems: the Uniform

Group Insurance Program (UGIP) administered by the Employees Retirement System, the University of Texas System Employee Group Insurance Program (UT) and the Texas A&M University System Employee Group Insurance Program (A&M). The comparison identified the following:

- ♦ the average portion of the total premium for dependent coverage paid by each of the three systems in plan year 2002 ranged from 50 percent to 84 percent, with A&M providing 84 percent, UT 55 percent and UGIP 50 percent;
- ♦ 90 percent of state employees insured through UGIP, 64 percent of UT employees and 59 percent of A&M employees were enrolled in a self-funded plan in 2002 (self-funded plans are generally more costly to the state and enrollee than fully funded HMOs.); and
- ♦ while covering a larger portion of dependent costs and being less expensive for the participant overall than the UGIP self-funded plans, the UT and A&M self-funded plans offer their enrollees somewhat lower overall benefits. This is especially the case for deductibles and out-of-pocket maximums.

HIGHER EDUCATION COORDINATING BOARD

- ♦ an increase of \$157.1 million in General Revenue Funds for the Toward Excellence, Access, and Success (TEXAS) Grant Program,

BUDGET ISSUES AND RECOMMENDATIONS

which includes \$84 million in unexpended balances from fiscal year 2003;

- ♦ combine strategies for New Campuses at Community Colleges and Two-year Institutions' Enrollment Growth and fund at 2002–03 expended levels (\$8.3 million); increasing the eligibility thresholds for the two tiers of dramatic growth to 15 percent and 8 percent per year in order to limit dramatic enrollment growth funding to the fastest growing institutions, based on current rates of growth;
- ♦ provide authority to spend \$2 million in unexpended balances in General Revenue–Dedicated Fund 106, Scholarship Fund for Fifth-year Accounting Students; and
- ♦ provide Nursing Enrollment Growth funding at 2002–03 levels in a single strategy for all higher education entities.

TEXAS EXCELLENCE FUND AND UNIVERSITY RESEARCH FUND

- ♦ maintain 2002–03 base level of \$33.8 million each for the 2004–05 biennium.

GENERAL ACADEMICS INSTITUTIONS AND SYSTEM OFFICES

- ♦ a \$264.4 million increase in General Revenue Funds, which includes net increases over the base of (1) \$224.9 million for formula funding; and (2) \$39.4 million for non-formula funding. General Revenue Funds recom-

mended for 2004–05 total \$3.9 billion;

- ♦ a \$112.3 million increase in General Revenue–Dedicated Other Educational and General Income, primarily due to projected increases in tuition revenue and indirect cost recovery. Other Educational and General Income, General Revenue–Dedicated Funds recommended for 2004–05 total \$1.5 billion;
- ♦ a \$7.2 million decrease in Other Funds primarily due to decreases in interagency contracts. Other Funds total \$5.6 million;
- ♦ \$4.1 billion in All Funds for formula strategies including \$3.0 billion in General Revenue Funds and \$1.1 billion in General Revenue–Dedicated Other Educational and General Income;
- ♦ a \$224.9 million net increase in General Revenue Funds for General Academics formula funding is based on (1) \$202.3 million increase for enrollment growth of 9.7 percent in weighted semester credit hours; (2) \$20.1 million converted from non-formula to formula funding (\$3.0 million for Texas A&M University College of Veterinary Medicine Special Item, \$12.5 million Capital Equity and Excellence Hold Harmless and \$4.6 million in savings from the Workers' and Unemployment Insurance Compensation strategies rolled into formula funding); (3) \$4.4

million increase based on a corresponding decrease in formula funding for Texas State Technical Colleges and two-year Lamar institutions; and (4) \$1.9 million decrease associated with benefit replacement pay;

- ♦ formula funding maintains the teaching experience supplement weight at 10 percent for lower division and upper division semester credit hours taught by tenured and tenure-track faculty;
- ♦ formula funding includes a redistribution of \$23.5 million in General Revenue Funds appropriated in 2002–03 for formula hold harmless;
- ♦ formula funding includes \$44.1 million in General Revenue Funds for faculty and non-faculty salary increases added by the Seventy-seventh Legislature, 2001, \$0.8 million for salary increases for the system offices remains in non-formula funding;
- ♦ \$1.4 billion in All Funds for non-formula strategies including \$904.7 million in General Revenue Funds and \$462.1 million in General Revenue–Dedicated Other Educational and General Income;
- ♦ \$39.4 million net increase in General Revenue Funds for non-formula funding is based on (1) \$52.7 million increase in tuition revenue debt service primarily due to new debt service requirements for tuition revenue bonds autho-

BUDGET ISSUES AND RECOMMENDATIONS

alized by House Bill 658, Seventy-seventh Legislature, 2001 (total debt service requirements for tuition revenue bonds amount to \$281.7 million in General Revenue Funds for the General Academics.); (2) \$10.5 million increase related to unexpended balances at Prairie View A&M University for the Texas Commitment-Office of Civil Rights Priority Plan; (3) \$20.1 million decrease related to funding converted to formula funding (discussed above); and (4) \$3.7 million reduction in Special Items; and

- ♦ non-formula funding maintains the 2002–03 level of Excellence (formerly Capital Equity and Excellence) funding at \$78.6 million in General Revenue Funds and maintains the distribution methodology used for fiscal year 2003.

HEALTH-RELATED INSTITUTIONS

- ♦ a \$53.6 million increase in General Revenue Funds, including (1) \$34.6 million for formula funding; and (2) \$19.1 million for non-formula funding. General Revenue Funds recommended for 2004–05 total \$1.9 billion;
- ♦ a \$16.9 million increase in Other Educational and General Income, considered General Revenue–Dedicated Funds, primarily due to an increase in indirect cost recovery. General Revenue–Dedicated Funds recommended for 2004–05 total \$422.2 million;
- ♦ a \$340.1 million increase in Other Funds primarily due to an

increase in hospital income at The University of Texas M. D. Anderson Cancer Center. Other Funds recommended for 2004–05 total \$2.6 billion;

- ♦ fund formula strategies at \$1.3 billion in All Funds. The related \$34.6 million General Revenue Funds increase in formula funding is based on a \$35.3 million increase to fund enrollment growth of 10.4 percent; and a \$0.7 million savings associated with benefit replacement pay; and
- ♦ fund non-formula strategies at \$3.6 billion in All Funds. The \$19.1 million General Revenue Funds increase in non-formula funding is based on (1) a \$25.8 million increase primarily due to new debt service requirements for tuition revenue bonds authorized by House Bill 658, Seventy-seventh Legislature, 2001. (Total debt service requirements for tuition revenue bonds amount to \$69.9 million in General Revenue Funds for the Health-related Institutions.); (2) a \$5.6 million decrease in formula hold harmless; and (3) \$1.1 million decrease for reductions associated with Unemployment Insurance and Special Items.

An LBB evaluation focusing on the accounting of clinical partners' research expenditures at health-related institutions, contained in the *Staff Performance Report to the 78th Legislature*, produced the following recommendations:

- ♦ the Legislature should continue the current accounting concept of allowing health-related institutions to only include research expenditures of the institution's component units for formula calculations for the Research Enhancement and Educational & General Space Support strategies; and
- ♦ the Legislature should consider amending the rider for Texas A&M University System Health Science Center related to the inclusion of research expenditures conducted by the institution's faculty under contract with its primary clinical partner for formula calculations the Research Enhancement and Educational & General Space Support strategies. The rider should only allow the institution to include research expenditures for formula calculations if the primary clinical partner and the institution agree to cost share expenses and the cost shared expenditures are accounted for in the institution's financial system.

TWO-YEAR INSTITUTIONS

- ♦ a \$157.9 million increase in General Revenue Funds for 9.4 percent enrollment growth at two year institutions, including the Lamar State Colleges and Texas State Technical College components;
- ♦ a \$9.5 million decrease in General Revenue Funds for Texas State Technical College's portion of the two-year institutions' formula due

BUDGET ISSUES AND RECOMMENDATIONS

to a 10.9 percent reduction in contact hours from the 2002–03 base period to the 2004–05 base period;

- a decrease in General Revenue Funds for the infrastructure formula at Texas State Technical College components (\$4.2 million) and the Lamar State Colleges (\$0.5 million);
- a \$4.2 million increase in General Revenue Funds for new debt service requirements at Texas State Technical Colleges (\$1.6 million) and at Lamar State Colleges (\$2.6 million) for tuition revenue bonds authorized by the Seventy-seventh Legislature, 2001; and
- maintain 2002–03 spending levels for the Southwest Collegiate Institute for the Deaf, reappropriating one-time Student Union Building funds provided in fiscal years 2002–03 for a Technology Workforce Training Center.

A&M SERVICE AGENCIES

- a \$14.7 million increase in General Revenue–Dedicated Funds at the Texas Forest Service for volunteer fire departments (per House Bill 2604 and House Bill 2667, Seventy-seventh Legislature, 2001, which authorized the collection of related revenue);
- a \$0.7 million decrease in General Revenue Funds at the Texas Forest Service for removing a one-time appropriation to relocate the West Texas Nursery;

- a \$0.7 million increase in General Revenue Funds at the Texas Cooperative Extension to continue the 5 percent salary increase at the fiscal year 2003 level for both years of the 2004–05 biennium;
- a \$0.8 million decrease in General Revenue Funds at the Texas Veterinary Medical Diagnostic Laboratory for removing a one-time appropriation for infrastructure; and
- a \$2.0 million increase in Federal Funds at the Texas Engineering Experiment Station to reflect increased federal support for several of the agency’s research programs.

ARTICLE XII TOBACCO APPROPRIATIONS TO HIGHER EDUCATION

Article XII of the 2004–05 General Appropriations Bill contains \$91.4 million in Other Funds in Tobacco Settlement receipts for higher education institutions and agencies.

Article XII appropriations are not included in the All Funds total listed at the beginning of this chapter.

Appropriations from the Tobacco Settlement receipts include:

- \$6.3 million in interest earnings from Tobacco Settlement receipts for the Higher Education Coordinating Board; and
- \$85.1 million in interest earnings from Tobacco Settlement receipts for institutions of higher educa-

tion (including Baylor College of Medicine).

Tobacco funds are used to support health research, education, and treatment programs at higher education institutions and agencies.

In January 2003, the LBB *Financing Higher Education in Texas Legislative Primer* will be released which will present the different ways that public institutions and agencies of higher education generate state appropriations, and highlight the flexibility in which these appropriations may be expended.

THE JUDICIARY

ALL FUNDS recommendations for The Judiciary total \$442.5 million for the 2004–05 biennium, which is an increase of \$13.7 million, or 3.2 percent, from the 2002–03 biennium (Table 24).

For General Revenue and General Revenue–Dedicated Funds, the recommendations total \$367.2 million, which is an increase of \$5.8 million, or 1.6 percent, from the 2002–03 biennium (Table 25).

Selected performance measures for courts and agencies in The Judiciary function are depicted in Table 26.

**TABLE 24
ALL FUNDS**

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002–03	RECOMMENDED 2004–05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Supreme Court of Texas	\$19.2	\$18.4	\$(0.7)	(3.9)
Court of Criminal Appeals	27.9	26.8	(1.1)	(3.8)
First Court of Appeals District, Houston	5.5	5.3	(0.2)	(3.2)
Second Court of Appeals District, Fort Worth	4.5	4.4	(0.2)	(3.4)
Third Court of Appeals District, Austin	4.2	3.9	(0.3)	(6.8)
Fourth Court of Appeals District, San Antonio	4.4	4.2	(0.2)	(3.5)
Fifth Court of Appeals District, Dallas	7.7	7.6	(0.1)	(0.8)
Sixth Court of Appeals District, Texarkana	2.3	2.2	(0.1)	(3.5)
Seventh Court of Appeals District, Amarillo	3.1	2.9	(0.2)	(7.4)
Eighth Court of Appeals District, El Paso	3.1	2.8	(0.3)	(8.6)
Ninth Court of Appeals District, Beaumont	2.3	2.2	(0.1)	(2.9)
Tenth Court of Appeals District, Waco	2.5	2.2	(0.3)	(13.2)
Eleventh Court of Appeals District, Eastland	2.2	2.2	(0.1)	(2.5)
Twelfth Court of Appeals District, Tyler	2.3	2.3	(0.0)	(1.1)
Thirteenth Court of Appeals District, Corpus Christi	4.2	3.9	(0.2)	(5.4)
Fourteenth Court of Appeals District, Houston	5.6	5.3	(0.3)	(5.3)
Office of Court Administration, Texas Judicial Council	46.6	51.0	4.4	9.5
Office of the State Prosecuting Attorney	0.7	0.7	0.0	0.0
State Law Library	1.9	1.9	(0.0)	(0.6)
Court Reporters Certification Board	0.3	0.4	0.0	3.0
State Commission on Judicial Conduct	1.9	1.8	(0.1)	(3.1)
Judiciary Section, Comptroller's Department	188.2	188.5	0.3	0.2
Subtotal, The Judiciary	\$340.5	\$341.0	\$0.4	0.1
Retirement and Group Insurance	\$83.2	\$90.1	\$6.9	8.3
Social Security and Benefit Replacement Pay	16.5	16.9	0.4	2.5
Subtotal, Employee Benefits	\$99.7	\$106.9	\$7.3	7.3
Lease Payments	\$4.5	\$4.9	\$0.5	10.2
Article IV, Special Provisions	0.0	1.4	1.4	NA
Less Interagency Contracts	15.9	11.7	(4.1)	(26.1)
Total, Article IV - The Judiciary	\$428.8	\$442.5	\$13.7	3.2%
NOTES: Totals may not add because of rounding. Biennial change and percentage change calculated on actual amounts before rounding.				

TABLE 25
GENERAL REVENUE AND GENERAL REVENUE-DEDICATED FUNDS

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002-03	RECOMMENDED 2004-05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Supreme Court of Texas	\$8.4	\$8.2	\$(0.2)	(2.1)%
Court of Criminal Appeals	9.3	9.4	0.1	1.4
First Court of Appeals District, Houston	5.5	5.3	(0.1)	(2.1)
Second Court of Appeals District, Fort Worth	4.4	4.4	(0.0)	(0.5)
Third Court of Appeals District, Austin	4.1	3.9	(0.2)	(4.6)
Fourth Court of Appeals District, San Antonio	4.3	4.2	(0.0)	(0.8)
Fifth Court of Appeals District, Dallas	7.6	7.6	(0.0)	0.0
Sixth Court of Appeals District, Texarkana	2.2	2.2	(0.1)	(2.4)
Seventh Court of Appeals District, Amarillo	3.1	2.9	(0.2)	(6.5)
Eighth Court of Appeals District, El Paso	3.0	2.8	(0.2)	(6.6)
Ninth Court of Appeals District, Beaumont	2.3	2.2	(0.0)	(2.1)
Tenth Court of Appeals District, Waco	2.5	2.2	(0.3)	(12.7)
Eleventh Court of Appeals District, Eastland	2.2	2.2	(0.0)	(2.1)
Twelfth Court of Appeals District, Tyler	2.3	2.3	(0.0)	(0.7)
Thirteenth Court of Appeals District, Corpus Christi	4.1	3.9	(0.1)	(3.5)
Fourteenth Court of Appeals District, Houston	5.5	5.3	(0.2)	(3.1)
Office of Court Administration, Texas Judicial Council	35.2	38.9	3.7	10.6
Office of the State Prosecuting Attorney	0.7	0.7	0.0	0.0
State Law Library	1.8	1.8	(0.0)	(0.7)
Court Reporters Certification Board	0.3	0.4	0.0	3.2
State Commission on Judicial Conduct	1.9	1.8	(0.1)	(3.1)
Judiciary Section, Comptroller's Department	151.4	145.4	(6.0)	(4.0)
Subtotal, The Judiciary	\$262.1	\$258.2	\$(3.9)	(1.5)
Retirement and Group Insurance	\$79.5	\$87.0	\$7.5	9.4
Social Security and Benefit Replacement Pay	15.3	15.7	0.4	2.5
Subtotal, Employee Benefits	\$94.8	\$102.7	\$7.9	8.3
Lease Payments	\$4.5	\$4.9	\$0.5	10.2
Article IV, Special Provisions	\$0.0	\$1.4	\$1.4	NA
Total, Article IV - The Judiciary	\$361.4	\$367.2	\$5.8	1.6%
NOTES: Totals may not add because of rounding.				
Biennial change and percentage change calculated on actual amounts before rounding.				

**TABLE 26
SELECTED PERFORMANCE MEASURES**

MEASURE	ACTUAL 2002	BUDGETED 2003	RECOMMENDED 2004	RECOMMENDED 2005
APPELLATE COURTS				
Supreme Court of Texas Disposition Rate	101%	107%	110%	110%
COURT OF CRIMINAL APPEALS				
Disposition Rate for Petitions for Discretionary Review Which Are Granted	53%	53%	53%	53%
FOURTEEN COURTS OF APPEALS: CLEARANCE RATE				
First Court of Appeals District, Houston	101%	100%	100%	100%
Second Court of Appeals District, Fort Worth	102%	100%	100%	100%
Third Court of Appeals District, Austin	103%	103%	100%	100%
Fourth Court of Appeals District, San Antonio	100%	100%	100%	100%
Fifth Court of Appeals District, Dallas	109%	100%	100%	100%
Sixth Court of Appeals District, Texarkana	92%	100%	100%	100%
Seventh Court of Appeals District, Amarillo	106%	100%	100%	100%
Eighth Court of Appeals District, El Paso	100%	100%	100%	100%
Ninth Court of Appeals District, Beaumont	100%	100%	100%	100%
Tenth Court of Appeals District, Waco	102%	100%	100%	100%
Eleventh Court of Appeals District, Eastland	101%	100%	100%	100%
Twelfth Court of Appeals District, Tyler	103%	100%	100%	100%
Thirteenth Court of Appeals District, Corpus Christi	105%	100%	100%	100%
Fourteenth Court of Appeals District, Houston	106%	100%	100%	100%
OFFICE OF COURT ADMINISTRATION, TEXAS JUDICIAL COUNCIL				
Number of New Collections Programs Implemented or Existing Programs Expanded	6	6	6	6
Title IV-D Case Disposition Rate	91%	100%	100%	100%
STATE COMMISSION ON JUDICIAL CONDUCT				
Percentage of Cases Disposed	79%	85%	100%	100%
COURT REPORTERS CERTIFICATION BOARD				
Number of New Licenses Issued to Individuals	79	100	100	100
Percentage of Licensees with No Recent Violations	99.9%	99%	99%	99%
OFFICE OF THE STATE PROSECUTING ATTORNEY				
Petitions for Discretionary Review Granted by the Court of Criminal Appeals	36	23	23	23
STATE LAW LIBRARY				
Percentage of Positive Evaluations of Library Service by Library Users	91%	90%	92%	92%

BUDGET ISSUES AND RECOMMENDATIONS

THE RECOMMENDATIONS address a number of major budget issues affecting courts and agencies in The Judiciary function including:

- ♦ annualizing the costs of the Indigent Defense Program for the Office of Court Administration to provide legal services for indigent criminal defendants;
- ♦ annualizing funding for the expanded Foster Care Courts Program for new courts created in the 2002–03 biennium; and
- ♦ annualizing funding for the Death Penalty Habeas Representation Program administered by the Comptroller’s Department, Judiciary Section to provide compensation for appointed counsel.

Significant budget recommendations for courts and agencies in The Judiciary function include:

- ♦ \$51.4 million for court operations for the 14 Courts of Appeals, a \$2.4 million decrease in All Funds including a General Revenue Funds decrease of \$1.5 million in accordance with Article IV, Special Provisions, Sec. 8 (General Appropriations Act, 2002–03 biennium) which provides that unexpended balances carried forward from fiscal year 2001 to the 2002–03 biennium may not be included in baseline requests for the 2004–05 biennium; a General Revenue Funds decrease of \$0.1 million for the Tenth Court of

Appeals to reflect one-time expenditures for courthouse renovations that were planned in 2002–03; and an Other Funds decrease of \$0.8 million for reductions in appropriated receipts and interagency contracts;

- ♦ \$4.0 million for the Death Penalty Habeas Representation Program, a \$1.5 million increase in General Revenue Funds to annualize appropriations for compensation of appointed counsel administered by the Judiciary Section, Comptroller’s Department;
- ♦ \$24.2 million for the Indigent Defense Program, a \$3.3 million increase in General Revenue–Dedicated Funds from the Fair Defense Account to annualize costs of the Indigent Defense Program that began operation in 2002–03 and to provide unexpended balance authority between biennia for the program;
- ♦ \$4.1 million for Foster Care Courts Programs, a \$0.4 million increase in General Revenue–Dedicated Funds from the Compensation to Victims of Crime Fund to annualize operations of new foster care courts that began operation in 2002–03;
- ♦ \$11.6 million for the Title IV-D Masters and Assistants Program for child support, a \$1.1 million increase in Other Funds (interagency contracts) from the Office of the Attorney General in connection with an expanded

federal Title IV-D program; and

- ♦ \$17.9 million for the Judicial Education Program, a \$1.0 million reduction in Other Funds from the Judicial and Court Personnel Training Fund to reflect 2004–05 estimated decreases in refunds of unexpended balances from training organizations in the Judicial Education Program.

PUBLIC SAFETY AND CRIMINAL JUSTICE

ALL FUNDS recommendations for Public Safety and Criminal Justice total \$8.3 billion for the 2004–05 biennium, which is a decrease of \$154.5 million, or 1.8 percent, from the 2002–03 biennium (Table 27).

For General Revenue and General Revenue–Dedicated Funds, the recommendations total \$7.2 billion, which is an increase of \$62.6 million, or 0.9 percent, from the 2002–03 biennium (Table 28).

Selected performance measures for agencies in the Public Safety and Criminal Justice function are depicted in Table 29.

**TABLE 27
ALL FUNDS**

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002–03	RECOMMENDED 2004–05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Adjutant General's Department	\$77.2	\$70.8	\$(6.4)	(8.3)%
Alcoholic Beverage Commission	54.1	53.8	(0.3)	(0.5)
Department of Criminal Justice	5,157.2	5,047.1	(110.1)	(2.1)
Criminal Justice Policy Council	3.4	2.9	(0.5)	(14.9)
Commission on Fire Protection	6.5	6.4	(0.1)	(1.8)
Commission on Jail Standards	2.0	2.0	(0.0)	(0.1)
Juvenile Probation Commission	274.9	276.0	1.2	0.4
Commission on Law Enforcement Officer Standards and Education	7.6	5.4	(2.2)	(28.5)
Texas Military Facilities Commission	53.0	17.5	(35.5)	(67.0)
Texas Commission on Private Security*		6.0		NA
Department of Public Safety	925.1	763.9	(161.2)	(17.4)
Youth Commission	538.1	545.4	7.3	1.4
Subtotal, Public Safety and Criminal Justice	\$7,099.2	\$6,797.4	\$(301.8)	(4.3)
Retirement and Group Insurance	\$775.7	\$885.7	\$110.0	14.2
Social Security and Benefit Replacement Pay	301.4	306.1	4.7	1.6
Subtotal, Employee Benefits	\$1,077.1	\$1,191.8	\$114.7	10.6
Bond Debt Service Payments	\$443.4	\$469.3	\$25.9	5.8
Lease Payments	3.7	4.1	0.3	8.9
Subtotal, Debt Service	\$447.1	\$473.4	\$26.3	5.9
Less Interagency Contracts	152.7	146.3	(6.4)	(4.2)
Total, Article V - Public Safety and Criminal Justice	\$8,470.8	\$8,316.3	\$(154.5)	(1.8)%
*Historical expenditures and budgeted fiscal year 2003 currently under review. NOTES: Totals may not add because of rounding. Biennial change and percentage change calculated on actual amounts before rounding.				

PUBLIC SAFETY AND CRIMINAL JUSTICE

2004-05 BIENNIAL RECOMMENDATIONS

TABLE 28
GENERAL REVENUE AND GENERAL REVENUE-DEDICATED FUNDS

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002-03	RECOMMENDED 2004-05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Adjutant General's Department	\$27.0	\$22.5	\$(4.5)	(16.8)%
Alcoholic Beverage Commission	53.2	52.9	(0.3)	(0.5)
Department of Criminal Justice	4,864.2	4,782.8	(81.4)	(1.7)
Criminal Justice Policy Council	2.6	2.8	0.2	7.1
Commission on Fire Protection	6.5	6.4	(0.1)	(1.5)
Commission on Jail Standards	1.9	1.9	0.0	0.0
Juvenile Probation Commission	195.2	194.9	(0.4)	(0.2)
Commission on Law Enforcement Officer Standards and Education	5.2	5.2	0.0	0.0
Texas Military Facilities Commission	3.6	3.6	0.0	0.0
Texas Commission on Private Security*		3.8		NA
Department of Public Safety	136.7	134.5	(2.2)	(1.6)
Youth Commission	472.1	482.1	9.9	2.1
Subtotal, Public Safety and Criminal Justice	\$5,768.3	\$5,693.4	\$(74.9)	(1.3)
Retirement and Group Insurance	\$666.0	\$759.0	\$92.9	14.0
Social Security and Benefit Replacement Pay	256.5	260.7	4.2	1.6
Subtotal, Employee Benefits	\$922.5	\$1,019.7	\$ 97.1	10.5
Bond Debt Service Payments	\$428.8	\$468.8	\$40.0	9.3
Lease Payments	3.7	4.1	0.3	8.9
Subtotal, Debt Service	\$432.5	\$472.9	\$40.3	9.3
Total, Article V - Public Safety and Criminal Justice	\$7,123.3	\$7,185.9	\$62.6	0.9%
*Historical expenditures and budgeted fiscal year 2003 currently under review.				
NOTES: Totals may not add because of rounding.				
Biennial change and percentage change calculated on actual amounts before rounding.				

PUBLIC SAFETY AND CRIMINAL JUSTICE

2004-05 BIENNIAL RECOMMENDATIONS

TABLE 29
SELECTED PERFORMANCE MEASURES

MEASURE	ACTUAL 2002	BUDGETED 2003	RECOMMENDED 2004	RECOMMENDED 2005
ALCOHOLIC BEVERAGE COMMISSION				
Number of Inspections Made	109,632	106,000	106,000	106,000
Average Cost Per Inspection	\$142.09	\$147.16	\$153.61	\$153.61
Number of Alcoholic Beverage Containers and Cigarette Packages Stamped	5,084,960	4,969,929	5,019,136	5,119,518
DEPARTMENT OF CRIMINAL JUSTICE				
Average Number of Offenders Incarcerated	134,015	132,926	134,358	136,091
Average Number of Offenders in Contract Prisons and Privately Operated State Jails	11,225	11,147	11,172	11,172
Average Number of Inmates in Contractual Correctional Bed Capacity	1,917	0	0	0
Number of Parole Cases Processed	38,306	38,147	38,147	38,147
Average Number of Felony Offenders Under Direct Supervision (Adult Probationers)	159,358	159,488	159,008	159,363
Medical Care Cost per Inmate Day	\$6.19	\$6.13	\$5.89	\$5.82
JUVENILE PROBATION COMMISSION				
Rate of Successful Completion of Court-Ordered Probation	86%	87%	87%	87%
Average Daily Population of Youth Supervised Under Court-Ordered Probation	25,576	25,479	25,861	26,455
Average Daily Population of Youth Supervised Under Intensive Supervision Probation	3,106	3,020	3,065	3,135
COMMISSION ON LAW ENFORCEMENT OFFICER STANDARDS AND EDUCATION				
Number of New Licenses Issued to Individuals	17,681	11,500	12,000	11,500
Number of On-Site Academy Evaluations Conducted	62	91	94	96
Complaints Resolved	1,643	2,161	2,140	600
DEPARTMENT OF PUBLIC SAFETY				
Traffic Law Violator Contacts	1,925,573	2,430,453	2,430,453	2,430,453
Number of Accident Reports Processed	815,498	524,155	600,000	600,000
Annual Texas Index Crime Rate	5,152.3	5,257	5,257	5,257
Number of Emergency Incidents Coordinated	2,442	2,032	2,032	2,032
YOUTH COMMISSION				
Average Daily Population: Institutional Programs	4,198	4,350	4,575	4,723
Average Daily Population: Contract Programs	986	836	820	904
Average Daily Population: Halfway House Programs	208	198	218	218
One Year Rearrest Rate (Percent)	54%	54%	54%	54%

BUDGET ISSUES AND RECOMMENDATIONS

THE RECOMMENDATIONS address a number of major budget issues affecting agencies in the Public Safety and Criminal Justice function including:

DEPARTMENT OF CRIMINAL JUSTICE

- ♦ eliminating funding for contracted temporary capacity in county jails as a result of declines in incarcerated populations; and
- ♦ including funding to address multi-year contract rate increases and to provide 24-month funding of contract prisons and privately operated state jails at fiscal year 2003 contract rates.

JUVENILE PROBATION COMMISSION

- ♦ providing funding for projected growth in juvenile supervision populations.

YOUTH COMMISSION

- ♦ providing funding for projected supervision population increases and the maintenance of the Juvenile Correctional Officer career ladder.

Significant budget recommendations for agencies in the Public Safety and Criminal Justice function include:

ADJUTANT GENERAL'S DEPARTMENT

- ♦ \$5.1 million for debt service to the Texas Military Facilities Commission, a reduction of \$4.2 million in General Revenue Funds caused by accrual of payments and refinancing; and

- ♦ \$22.4 million for facilities and equipment modernization, a reduction of \$2.0 million in Other Funds for one-time capital repair projects at Camp Mabry during 2002–03.

DEPARTMENT OF CRIMINAL JUSTICE

- ♦ \$198.6 million for basic adult community supervision (probation), a reduction of \$7.8 million in General Revenue Funds from the 2002–03 biennium for projected decreases in adult community supervision populations;
- ♦ \$579.5 million for correctional managed healthcare, a continuation of the 2002–03 biennial level except for a \$16.2 million General Revenue Funds reduction. During the 2002–03 biennium, correctional managed healthcare expended \$16.2 million in reserves held by the University of Texas Medical Branch at Galveston and Texas Tech University Health Sciences Center;
- ♦ fund contracted temporary capacity at \$0. This represents a General Revenue Funds reduction of \$58.1 million for contracted temporary capacity in county jails as a result of projected declines in incarcerated populations;
- ♦ \$264.1 million for contract prisons and privately operated state jails, an increase of \$4.7 million in General Revenue Funds to address multi-year contract rate increases and to provide 24-

month funding for contract prisons and privately operated state jails at fiscal year 2003 contract rates;

- ♦ \$165.8 million for parole supervision, a reduction of \$3.5 million in General Revenue Funds for projected decreases in parole populations; and
- ♦ \$55.4 million in general obligation bonds carried forward from 2002–03 to 2004–05 for construction and repair of facilities, a reduction of \$19.1 million in Other Funds.

A Legislative Budget Board evaluation focusing on the development of the Offender Information Management System, contained in the *Staff Performance Report to the 78th Legislature*, produced the following recommendations:

- ♦ the Texas Department of Criminal Justice (TDCJ) should demonstrate and validate that the current system (Phase III, Period I) meets the business needs of the agency and the technical capabilities, performance, and specifications identified during the development phase of the project; and
- ♦ TDCJ should provide a detailed project plan for the next phase of the project (Phase III, Period II) to the Governor and Legislature.

A Legislative Budget Board evaluation focusing on the retention of experienced correctional officers, contained in the *Staff Performance*

BUDGET ISSUES AND RECOMMENDATIONS

Report to the 78th Legislature, produced the following findings:

- ♦ after increasing in fiscal years 1999, 2000, and 2001, TDCJ's turnover rate decreased in fiscal year 2002 to 19 percent from 22 percent in 2001;
- ♦ in order to compensate for correctional officer vacancies, TDCJ has made an effort to hire former correctional officers. In fiscal year 1999, former correctional officers made up only 7 percent of the total number of hires for the fiscal year. By fiscal year 2002, former correctional officers comprised 21 percent of all correctional officers hired;
- ♦ a large number of unfilled correctional officer positions means ample opportunities for officers to work overtime. TDCJ paid \$36 million in overtime to correctional officers in fiscal year 2002. On average, 38 percent of TDCJ correctional officers worked overtime in fiscal year 2002, averaging 16 hours worked per participating correctional officer per month;
- ♦ in attempting to lower correctional officer turnover, TDCJ has changed many policies regarding transfers and the trading of shifts. TDCJ has adopted a more accommodating transfer request procedure and is experimenting with a policy which allows officers to trade shifts; and
- ♦ TDCJ has focused many correctional officer retention efforts on

first year correctional officers. Of the 5,024 employment terminations during fiscal year 2002, 43 percent (2,155 terminations) were correctional officers who worked less than one year.

JUVENILE PROBATION COMMISSION

- ♦ \$93.4 million for basic juvenile probation supervision, an increase of \$1.6 million in General Revenue Funds from the 2002–03 biennium for projected juvenile probation population increases.

TEXAS MILITARY FACILITIES COMMISSION

- ♦ \$5.1 million for construction of buildings and facilities, a reduction of \$27.5 million in All Funds for one-time appropriations in 2002–03 for the acquisition of land for a joint reserve facility in Houston and construction of an aviation support facility at Austin-Bergstrom; and
- ♦ \$6.4 million for repair and rehabilitation of buildings, a reduction of \$3.8 million in All Funds for one-time repair and rehabilitation of buildings and facilities in 2002–03.

DEPARTMENT OF PUBLIC SAFETY

- ♦ an increase of \$2.4 million in General Revenue Funds for the continued operation of the Vehicle Emissions and Maintenance Program. Appropriations for this program are limited to 80 percent of the revenue generated;

- ♦ a \$6.5 million reduction in General Revenue–Dedicated Funds for funds appropriated in 2002–03 to replace highway patrol vehicles (Fugitive Apprehension Account No. 5028);
- ♦ a \$118.1 million reduction in Federal Funds for one-time expenditures related to (1) disaster recovery from tropical storm Allison and the December 2000 ice storms, (2) driver license improvements funded through the federal Motor Carrier Safety Assistance Program, and (3) the initial phase of the Crash Records Information System; and
- ♦ a \$55.0 million reduction in Other Funds for one-time expenditures related to (1) construction of buildings and facilities, (2) replacement of equipment, (3) the initial phase of the Crash Records Information System, and (4) in-car video cameras.

YOUTH COMMISSION

- ♦ a \$3.2 million increase in All Funds related to educational services for projected increases in average daily attendance;
- ♦ a \$7.4 million increase in General Revenue Funds for projected supervision population increases;
- ♦ a \$5.0 million increase in General Revenue Funds for maintenance of the Juvenile Correctional Officer career ladder implemented by the Seventy-sixth Legislature, 1999; and

BUDGET ISSUES AND RECOMMENDATIONS

- ♦ a \$6.6 million decrease in Other Funds for the construction, repair, and rehabilitation of facilities.

A Legislative Budget Board evaluation focusing on increases in healthcare and psychiatric costs, contained in the *Staff Performance Report to the 78th Legislature*, produced the following findings:

- ♦ the Texas Youth Commission (TYC) healthcare costs have been directly affected by an increase in the number of emotionally disturbed youth and the absence of a capitation rate for psychiatric care;
- ♦ a comparison of TYC and TDCJ found that both agencies are experiencing higher correctional psychiatric and healthcare expenses due to increased costs for specialty care and pharmaceuticals; and
- ♦ nonformulary psychotropic medications and psychiatric care are covered in TDCJ contracts; whereas, they are not covered by TYC.

NATURAL RESOURCES

ALL FUNDS recommendations for Natural Resources total \$2 billion for the 2004–05 biennium, which is a decrease of \$168.1 million, or 7.7 percent, from the 2002–03 biennium (Table 30).

For General Revenue and General Revenue–Dedicated Funds, the recommendations total \$1.6 billion, which is an increase of \$10 million, or 0.6 percent, from the 2002–03 biennium (Table 31).

Selected performance measures for agencies in the Natural Resources function are depicted in Table 32.

**TABLE 30
ALL FUNDS**

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002–03	RECOMMENDED 2004–05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Department of Agriculture	\$134.9	\$117.1	\$(17.8)	(13.2)%
Animal Health Commission	25.2	25.0	(0.3)	(1.1)
Commission on Environmental Quality	774.0	768.1	(5.9)	(0.8)
Council on Environmental Technology	3.0	2.9	(0.1)	(3.8)
General Land Office and Veterans' Land Board	89.9	88.8	(1.1)	(1.2)
Trusted Programs within the General Land Office	193.8	41.6	(152.2)	(78.5)
Parks and Wildlife Department	485.3	483.4	(1.9)	(0.4)
Railroad Commission	114.4	104.7	(9.7)	(8.4)
Texas River Compact Commissions	0.8	0.8	0.0	0.0
Soil and Water Conservation Board	39.1	45.1	6.0	15.3
Water Development Board	102.4	79.4	(23.1)	(22.5)
Debt Service Payments				
Non-Self-Supporting G.O. Water Bonds	43.6	57.5	13.8	31.7
Subtotal, Natural Resources	\$2,006.5	\$1,814.3	\$(192.2)	(9.6)
Retirement and Group Insurance	\$132.5	\$153.2	\$20.7	15.6
Social Security and Benefit Replacement Pay	60.8	61.8	1.0	1.6
Subtotal, Employee Benefits	\$193.2	\$214.9	\$21.7	11.2
Bond Debt Service Payments	\$11.9	\$14.6	\$2.7	23.0
Lease Payments	2.2	2.2	0.0	0.1
Subtotal, Debt Service	\$14.0	\$16.8	\$2.7	19.4
Less Interagency Contracts	\$23.1	\$23.5	\$0.4	1.5
Total, Article VI - Natural Resources	\$2,190.7	\$2,022.6	\$(168.1)	(7.7)%
NOTES: Totals may not add because of rounding.				
Biennial change and percentage change calculated on actual amounts before rounding.				

NATURAL RESOURCES

TABLE 31
GENERAL REVENUE AND GENERAL REVENUE–DEDICATED FUNDS

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002–03	RECOMMENDED 2004–05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Department of Agriculture	\$111.7	\$108.7	\$(3.0)	(2.7)%
Animal Health Commission	19.6	19.6	0.0	0.0
Commission on Environmental Quality	676.5	677.0	0.5	0.1
Council on Environmental Technology	3.0	2.9	(0.1)	(3.8)
General Land Office and Veterans' Land Board	47.4	47.4	(0.0)	0.0
Trusted Programs within the General Land Office	17.4	15.0	(2.4)	(13.8)
Parks and Wildlife Department	341.0	338.2	(2.8)	(0.8)
Railroad Commission	99.2	89.3	(9.9)	(10.0)
Texas River Compact Commissions	0.8	0.8	0.0	0.0
Soil and Water Conservation Board	29.3	25.5	(3.8)	(13.0)
Water Development Board	46.6	43.5	(3.1)	(6.7)
Debt Service Payments				
Non-Self Supporting G.O. Water Bonds	35.9	49.2	13.3	37.1
Subtotal, Natural Resources	\$1,428.3	\$1,416.9	\$(11.5)	(0.8)
Retirement and Group Insurance	\$113.6	\$131.5	\$17.9	15.8
Social Security and Benefit Replacement Pay	52.2	53.0	0.9	1.6
Subtotal, Employee Benefits	\$165.8	\$184.6	\$18.8	11.3
Bond Debt Service Payments	\$3.6	\$6.3	\$2.7	76.1
Lease Payments	2.2	2.2	0.0	0.1
Subtotal, Debt Service	\$5.8	\$ 8.5	2.7	47.2
Total, Article VI - Natural Resources	\$1,599.9	\$1,609.9	\$10.0	0.6%
NOTES: Totals may not add because of rounding.				
Biennial change and percentage change calculated on actual amounts before rounding.				

**TABLE 32
SELECTED PERFORMANCE MEASURES**

MEASURE	ACTUAL 2002	BUDGETED 2003	RECOMMENDED 2004	RECOMMENDED 2005
DEPARTMENT OF AGRICULTURE				
Percent Increase from the 1996 Level in the Number of Marketing Opportunities for Texas Farmers, Ranchers and Agribusinesses	126.8%	89.6%	95.3%	101.1%
ANIMAL HEALTH COMMISSION				
Percent Change in Known Prevalence of Bovine Brucellosis from the 1994 Level	(98.3)%	(98.7)%	(99.6)	(100)%
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY				
Annual Percent of Stationary and Mobile Source Pollution Reductions in Nonattainment Areas	5.8%	6%	6%	6.1%
GENERAL LAND OFFICE				
Percent of Permanent School Fund Uplands Acreage Leased	82%	79%	78%	78%
TRUSTEED PROGRAMS WITHIN THE GENERAL LAND OFFICE				
Percent of Eroding Shorelines Maintained, Protected, or Restored for Gulf Beaches and Other Shorelines	12.5%	20%	20%	20%
PARKS AND WILDLIFE DEPARTMENT				
Percent of Scheduled Major Repair/Construction Projects Completed	56%	59%	56%	56%
RAILROAD COMMISSION				
Number of Wells Plugged with the Use of State Funds	1,464	1,230	665	486
SOIL AND WATER CONSERVATION BOARD				
Percent of District Financial Needs Met by Soil and Water Conservation Board Grants	24%	32%	32%	32%
WATER DEVELOPMENT BOARD				
Percent of Eligible Texas Communities and Other Entities Receiving Technical and/or Financial Assistance for Water Planning and Conservation	10.8%	10%	11%	11%

BUDGET ISSUES AND RECOMMENDATIONS

THE RECOMMENDATIONS address a number of major budget issues affecting agencies in the Natural Resources function including:

- ♦ \$41.2 million from the Texas Emissions Reductions Plan (TERP) Account No. 5071 (General Revenue–Dedicated Funds), which reflects a net reduction of \$8.4 million from the 2002–03 level because of an expected revenue shortfall. Funding out of the TERP Account is used to reduce harmful air emissions and is available to several agencies (Texas Commission on Environmental Quality, Public Utility Commission, Comptroller of Public Accounts and Fiscal Programs, Texas Engineering Experiment Station and the Texas Council on Environmental Technology) for administration and grants relating to emissions reductions, energy efficiency and technology research initiatives;
- ♦ \$20.4 million for brush control to be used on three projects in the North Concho River, Twin Buttes/Upper Colorado River and Pedernales Watersheds;
- ♦ a \$146.4 million decrease from the Truusted Programs within the General Land Office related to a one-time appropriation of \$150 million made by the Seventy-seventh Legislature, 2001, for sales and purchases of land for the Permanent School Fund;

- ♦ \$43.8 million out of bond proceeds for the Parks and Wildlife Department, reflecting a net increase of \$15.9 million from the 2002–03 level because of new general obligation bonds appropriated by the Seventy-seventh Legislature, 2001, for statewide infrastructure maintenance projects and site specific capital improvement and development projects; and
- ♦ \$57.5 million for debt service payments on general obligation water bonds, an increase of \$13.8 million from the 2002–03 level. These amounts will be spent on debt service for the Economically Distressed Areas Program (increase of \$8.5 million), the State Participation Program (increase of \$2.1 million) and the Agricultural Water Conservation Program (increase of \$3.2 million).

Significant budget recommendations for agencies in the Natural Resources function include:

DEPARTMENT OF AGRICULTURE

- ♦ a \$3.5 million decrease in General Revenue Funds due to completion of the information systems re-engineering and redesign project;
- ♦ a \$3.1 million decrease in Federal Funds associated with a one-time Specialty Crop grant;
- ♦ a \$0.3 million decrease in Federal Funds associated with a one-time Homeland Security grant;

- ♦ a \$10 million decrease in Federal Funds associated with a one-time grant for U.S.-Mexico water losses from U.S. Department of Agriculture;
- ♦ continuation of \$2.4 million in General Revenue Funds for restoration of Fair Park; and
- ♦ a \$1 million decrease in inter-agency contracts due to the completion of a one-time contract with the Water Development Board for brush control.

ANIMAL HEALTH COMMISSION

- ♦ a \$0.2 million decrease in Federal Funds due to the receipt of fiscal year 2001 funding for tuberculosis during fiscal year 2002.

COMMISSION ON ENVIRONMENTAL QUALITY

- ♦ \$57.2 million in General Revenue Funds, a decrease of \$0.1 from the 2002–03 level due to a one-time appropriation from House Bill 1333, Seventy-seventh Legislature, 2001, for low-level radioactive waste activities;
- ♦ \$160.7 million in Petroleum Storage Tank (PST) Remediation Account No. 655 Funds (General Revenue–Dedicated Funds), an increase of \$13.6 million from the 2002–03 level. The increase is due to an expected rise in the number of reimbursement claims, as applicants attempt to meet the August 31, 2003 and March 1, 2004 deadlines for the PST reimbursement program estab-

BUDGET ISSUES AND RECOMMENDATIONS

lished in House Bill 2912, Seventy-seventh Legislature, 2001;

- ♦ \$191.7 million in the Clean Air Account No. 151 (General Revenue–Dedicated Funds), an increase of \$10.2 million from the 2002–03 level. The increase consists of the following:
 - a) a \$20.7 million increase for the Low-Income Vehicle Repair Assistance, Retrofit, and Accelerated Vehicle Retirement Program and an increase of \$1.0 million for operating costs of the vehicle emissions inspection and maintenance (I & M) program. These increases result from program expansions as the number of counties participating in programs to reduce emissions in areas classified as nonattainment for air quality standards increase;
 - b) a \$10.8 million decrease, due to the completion of the pipeline grant program established by House Bill 2914, Seventy-seventh Legislature, 2001; and
 - c) a \$0.7 million decrease in operating permit fee revenues, due to improvements in compliance resulting from the implementation of Rider 19, Appropriation for Operator Permit Fees, 2002–03 General Appropriations Act.
- ♦ \$22.0 million in Solid Waste Disposal Account No. 5000 Funds (General Revenue–Dedicated Funds), a decrease of

\$9.6 million, which consists of the following adjustments:

- a) a \$7.5 million decrease for waste tire grants;
- b) a \$2.0 million decrease for grants to support the use of tire derived fuel; and
- c) a \$0.1 million decrease for grants for the disposal of solid waste.
- ♦ \$59.6 million in Hazardous and Solid Waste Remediation Fee Account No. 550 Funds (General Revenue–Dedicated Funds), a decrease of \$8.8 million due to a one-time Superfund site cost recovery settlement;
- ♦ \$29.9 million in Texas Emissions Reduction Plan (TERP) Account No. 5071 Funds (General Revenue–Dedicated Funds), a decrease of \$7.8 million from the 2002–03 level due to a revenue shortfall in the account and the proportional allocations provided in Chapter 386, Health and Safety Code;
- ♦ \$92.3 million in Waste Management Account No. 549 Funds (General Revenue–Dedicated Funds), an increase of \$2.5 million from the 2002–03 level, due to increased PST administration resulting from an increase in the number of reimbursement claims processed;
- ♦ \$2.9 million in Occupational Licensing Account No. 468 Funds (General Revenue–Dedicated Funds), an increase of \$0.7 million from the 2002–03 level.

The increase is a result of provisions of House Bill 3111, Seventy-seventh Legislature, 2001, requiring the agency to charge fees sufficient to cover the cost of the Occupational Licensing program;

- ♦ \$50.1 million in Water Resource Management Account No. 153 Funds (General Revenue–Dedicated Funds), a decrease of \$0.3 million, due to increased revenue in the Occupational Licensing Account No. 468;
- ♦ \$0.2 million in Low-Level Waste Account No. 088 Funds (General Revenue–Dedicated Funds), an increase of \$0.1 million compared to the 2002–03 level. The increase reflects one-time General Revenue Funds appropriation for low-level radioactive waste activities provided by House Bill 1333, Seventy-seventh Legislature, 2001;
- ♦ \$8.2 million in interagency contracts, an increase of \$1.0 million, reflecting an expected increase in the agency's State Revolving Fund contract with the Texas Water Development Board; and
- ♦ \$82.5 million in Federal Funds, a decrease of \$5.4 million from the 2002–03 level consisting mainly of the following:
 - a) a \$4.8 million increase for remediation activities at two additional Superfund sites;
 - b) a \$2.5 million increase in discretionary grants for operators of small water systems;

BUDGET ISSUES AND RECOMMENDATIONS

- c) a \$7.5 million decrease in discretionary funds for surveys, studies and investigations;
- d) a \$1.7 million decrease in nonpoint source implementation grants;
- e) a \$1.2 million decrease in special projects for water pollution control; and
- f) a \$1.0 million decrease in unexpended balances for Performance Partnership Grants.

An LBB evaluation contained in the *Staff Performance Report to the 78th Legislature*, focusing on increased coordination of state expenditures on emissions reductions, produced the following significant recommendations:

- ♦ The Texas Emissions Reduction Plan (TERP) Advisory Board should examine state agency spending directed toward improved air quality to determine whether such expenditures are achieving quantifiable reductions in the release of ozone-forming pollutants that can be used in the Statewide Implementation Plans.
- ♦ The Commission on Environmental Quality (TCEQ) in conjunction with the Department of Transportation (TxDOT), should play a role in setting criteria for evaluating Congestion Mitigation/Air Quality (CMAQ) projects selected for funding by local Metropolitan Planning Organizations.

- ♦ Cost-effectiveness criteria should be applied to both TERP and non-TERP expenditures made using state and state-controlled federal funds, such as CMAQ, for improving air quality, promoting alternative fuels, or reducing energy consumption.
- ♦ Performance measures should be added to the General Appropriations Act for TxDOT and TCEQ capturing the number of tons of nitrous oxides (NO_x) reduced through CMAQ and TERP projects and the average cost of achieving a one-ton reduction of NO_x through such programs.

COUNCIL ON ENVIRONMENTAL TECHNOLOGY

- ♦ \$2.9 million in the Texas Emissions Reduction Plan (TERP) Account No. 5071 (General Revenue–Dedicated Funds), a decrease of \$0.1 million from the 2002–03 level, for grants and administration of the TERP program.

GENERAL LAND OFFICE

- ♦ a \$3.7 million decrease in Federal Funds due to reductions in coastal management grants;
- ♦ a \$1.9 million increase in Federal Funds due to continued appropriation of unexpended balances of Veterans Cemeteries grants;
- ♦ a \$0.6 million increase in Other Funds due to continued appropriation of unexpended balances for defense of title and prosecution

tion of mineral lease claims and cases; and

- ♦ a \$0.4 million decrease in Other Funds due to the completion of a project with the Department of Transportation and the direct receipt of Federal Funds for a mineral management services contract that was previously listed as interagency contracts in the 2002–03 biennium.

TRUSTEED PROGRAMS WITHIN THE GENERAL LAND OFFICE

- ♦ a \$2.4 million decrease in the Coastal Protection Account No. 027 Funds (General Revenue–Dedicated Funds) due to a decline in available unexpended balances;
- ♦ a \$3.4 million decrease in Federal Funds due to the discontinuation of the Coastal Impact Assistance Program grant; and
- ♦ a \$146.4 million decrease in Other Funds related to sales and purchases of land for the Permanent School Fund.

PARKS AND WILDLIFE DEPARTMENT

- ♦ a \$0.2 million increase in General Revenue Funds primarily because of the floating cabins clean-up program authorized by the Seventy-seventh Legislature, 2001, which is funded by permit fees;
- ♦ a \$3.0 million net decrease in General Revenue–Dedicated Funds consisting of:
 - a) a \$1.1 million decrease in the State Parks Account No. 64

BUDGET ISSUES AND RECOMMENDATIONS

Funds (General Revenue—Dedicated Funds) primarily because of a one-time environmental damage assessment;

- b) a \$1.1 million decrease in the Game, Fish and Water Safety Account No. 9 Funds (General Revenue—Dedicated Funds) due to deletion of a rider authorizing the agency to spend revenues that exceed appropriations (\$4.4 million decrease), one-time donations for fish and wildlife projects and activities (\$1.4 million decrease), unexpended balances in construction projects (\$3.1 million increase), and receipts for prior environmental damage to agency holdings (\$1.7 million increase);
- c) a \$0.4 million decrease in the Park and Wildlife Capital Account No. 5004 Funds (General Revenue—Dedicated Funds) due to completion of construction projects; and
- d) a \$0.3 million decrease in Other Funds due mainly to a decline in donations to the Artificial Reef Account No. 679.
- a \$9.3 million decrease in Federal Funds primarily because of a pass-through grant of \$16.2 million to Travis County to purchase habitat for the black-capped vireo during the 2002–03 biennium; an increase of \$5.5 million in grants from the National Park Service

for local and state outdoor recreation acquisitions; and a decrease of \$0.5 million in funds for coastal wetland conservation projects; and

- a \$13.3 million increase in Other Funds primarily because of an increase of \$20.9 million related to unexpended balances in bonds authorized by House Joint Resolution 97 and appropriated by the Seventy-seventh Legislature, 2001; a decrease of \$4.9 million in bond funds as bond programs approved by prior legislatures near completion; and a decrease of \$2.6 million in appropriated receipts resulting from a one-time matching grant from the City of San Antonio for the acquisition of additional land for Government Canyon State Natural Area.

RAILROAD COMMISSION

- a \$0.5 million increase in General Revenue Funds, due to the appropriation of available Liquefied Propane Gas/Compressed Natural Gas/Liquefied Natural Gas fee revenues;
- a \$9.8 million decrease in Oil Field Cleanup Account No. 145 Funds (General Revenue—Dedicated Funds), due to decreased revenues from changes to fees, an expected increase in the use of electronic filing and a decline in oil and gas production;
- a \$0.6 million decrease in the Alternative Fuels Research and

Education Account No. 101

Funds (General Revenue—Dedicated Funds) due to declining fund balances available to support agency programs;

- a \$0.6 million decrease in inter-agency contracts, due to the completion of a well plugging contract with the Commission on Environmental Quality.
- a \$0.4 million increase in Federal Funds consisting of:
 - a) a \$0.7 million increase in Land Reclamation Fund Account No. 454 balances for potential land mine reclamation program closure; and
 - b) a \$0.3 million decrease in Federal Funds due to the expected completion of a pipeline mapping contract in 2003.
- a \$0.4 million increase in appropriated receipts due to a contract with the Propane Education and Research Council.

SOIL AND WATER CONSERVATION BOARD

- continuation of a direct appropriation of \$9.2 million in General Revenue Funds for the Brush Control Program;
- a \$2.7 million decrease in unexpended balances from the General Revenue Fund for brush control projects;
- a \$1.1 million decrease in General Revenue Funds related to the Manure Transportation Reimbursement Incentive;

BUDGET ISSUES AND RECOMMENDATIONS

- ♦ a \$2.3 million increase in Federal Funds from Clean Water Act funds. The agency received additional funds during the 2002–03 biennium for total maximum daily load grants; and
- ♦ a \$7.5 million increase in inter-agency contracts for unexpended balances of \$11.25 million in brush control projects. The original contract with the Water Development Board was for \$15.0 million in bond funds.

WATER DEVELOPMENT BOARD

- ♦ a \$3.0 million decrease in General Revenue Funds, including
 - a) a \$1.9 million decrease resulting from the completion of capital improvements to wastewater systems in the North Bosque River watershed;
 - b) a \$1.0 million decrease due to the completion of the Hueco-Bolson Desalination project; and
 - c) a \$0.1 million decrease due to reduced administrative costs associated with the Economically Distressed Areas Program.
- ♦ a \$0.2 million decrease in Earned Federal Funds, due to a decrease in salaries paid out of Federal Funds for the Colonia Wastewater Treatment Assistance Program, since the program is nearing completion;
- ♦ a \$0.4 million increase in Federal Funds, including:
 - a) a \$0.7 million increase in

- funds for the Stratmap program;
- b) a \$0.7 million increase in Drinking Water State Revolving Fund program;
- c) a \$0.8 million decrease in funds for the Colonia Wastewater Treatment Assistance Program; and
- d) a \$0.1 million decrease in flood mitigation assistance.
- ♦ a \$16 million decrease from Agricultural Water Conservation Account No. 358 due to bonds issued in fiscal year 2003 for a brush control project at the Soil and Water Conservation Board and a saltcedar eradication program at the Department of Agriculture;
- ♦ an \$8.2 million increase in appropriated receipts, including:
 - a) a \$6.2 million increase in available Texas Water Resources Finance Authority balances and revenues;
 - b) a \$1.6 million increase in available Clean Water State Revolving Fund fee proceeds; and
 - c) a \$0.4 million increase in available Drinking Water State Revolving Fund fee proceeds.
- ♦ a \$7.8 million decrease in the Water Assistance Fund due to declining balances available in the account;
- ♦ a \$3.8 million decrease in inter-agency contracts due to the completion of a canal lining project

which received funding from the Oil Overcharge Program; and

- ♦ a \$0.3 million decrease due to declining balances available in the Groundwater District Loan Assistance Fund No. 363.

DEBT SERVICE PAYMENTS – NON-SELF-SUPPORTING G.O. WATER BONDS

- ♦ \$35.9 million for the Economically Distressed Areas Program (EDAP), an increase of \$8.5 million (\$8.4 million in General Revenue Funds and \$0.1 million in Other Funds), for debt service on \$50 million in EDAP bonds issued during the 2002–03 biennium;
- ♦ \$15.4 million for the State Participation Program, an increase of \$2.1 million (\$1.7 in General Revenue Funds and \$0.4 million in Other Funds) for debt service on \$35 million in bonds issued during the 2002–03 biennium; and
- ♦ \$6.2 million for the Agricultural Water Conservation Program, an increase of \$3.2 million in General Revenue Funds.

BUSINESS AND ECONOMIC DEVELOPMENT

ALL FUNDS recommendations for Business and Economic Development total \$14.3 billion for the 2004–05 biennium, which is an increase of \$370.4 million, or 2.7 percent, from the 2002–03 biennium (Table 33).

For General Revenue and General Revenue–Dedicated Funds, the recommendations total \$797.2 million, which is an increase of \$7.5 million, or 0.9 percent, from the 2002–03 biennium (Table 34).

Selected performance measures for agencies in the Business and Economic Development function are depicted in Table 35.

**TABLE 33
ALL FUNDS**

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002–03	RECOMMENDED 2004–05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Texas Aerospace Commission	\$2.0	\$0.5	\$(1.6)	(77.1)%
Texas Department of Economic Development	68.4	66.1	(2.4)	(3.5)
Department of Housing and Community Affairs	363.6	332.0	(31.6)	(8.7)
Texas Lottery Commission	392.2	394.4	2.3	0.6
Office of Rural Community Affairs	187.1	187.0	(0.1)	0.0
Department of Transportation	10,333.8	10,666.7	332.9	3.2
Texas Workforce Commission	2,112.7	2,096.2	(16.4)	(0.8)
Reimbursements to the Unemployment Compensation Benefit Account	27.8	27.8	0.0	0.0
Subtotal, Business and Economic Development	\$13,487.5	\$13,770.7	\$283.2	2.1
Retirement and Group Insurance	\$379.2	\$449.0	\$69.9	18.4
Social Security and Benefit Replacement Pay	134.1	135.8	1.8	1.3
Subtotal, Employee Benefits	\$513.2	\$584.9	\$71.7	14.0
Bond Debt Service Payments	\$2.3	\$13.0	\$10.7	462.9
Lease Payments	0.3	0.3	0.0	0.4
Subtotal, Debt Service	\$2.6	\$13.3	\$10.7	405.8
Less Interagency Contracts	\$52.7	\$47.9	\$(4.8)	(9.1)
Total, Article VII				
Business and Economic Development	\$13,950.7	\$14,321.0	\$370.4	2.7%

NOTES: Totals may not add because of rounding.
Biennial change and percentage change calculated on actual amounts before rounding.

BUSINESS AND ECONOMIC DEVELOPMENT

2004-05 BIENNIAL RECOMMENDATIONS

TABLE 34
GENERAL REVENUE AND GENERAL REVENUE-DEDICATED FUNDS

IN MILLIONS				
FUNCTION	EXPENDED/ BUDGETED 2002-03	RECOMMENDED 2004-05	BIENNIAL CHANGE	PERCENTAGE CHANGE
Texas Aerospace Commission	\$2.0	\$0.5	(1.6)	(77.1)%
Texas Department of Economic Development	50.8	50.8	(0.0)	0.0
Department of Housing and Community Affairs	21.0	20.5	(0.5)	(2.2)
Texas Lottery Commission	392.2	394.4	2.3	0.6
Office of Rural Community Affairs	8.6	8.2	(0.3)	(3.8)
Department of Transportation	53.7	53.7	(0.1)	(0.1)
Texas Workforce Commission	227.5	221.4	(6.1)	(2.7)
Reimbursements to the Unemployment Compensation Benefit Account	10.0	10.0	0.0	0.0
Subtotal, Business and Economic Development	765.8	759.5	(6.3)	(0.8)
Retirement and Group Insurance	\$14.7	\$17.6	\$2.9	19.8
Social Security and Benefit Replacement Pay	6.6	6.7	0.1	1.6
Subtotal, Employee Benefits	\$21.3	\$24.3	\$3.0	14.2
Bond Debt Service Payments	\$2.3	\$13.0	\$10.7	462.9
Lease Payments	0.3	0.3	0.0	0.4
Subtotal, Debt Service	\$2.6	\$13.3	\$10.7	405.8
Total, Article VII Business and Economic Development	\$ 789.8	\$797.2	\$7.5	0.9%
NOTES: Totals may not add because of rounding. Biennial change and percentage change calculated on actual amounts before rounding.				

BUSINESS AND ECONOMIC DEVELOPMENT

2004-05 BIENNIAL RECOMMENDATIONS

**TABLE 35
SELECTED PERFORMANCE MEASURES**

MEASURE	ACTUAL 2002	BUDGETED 2003	RECOMMENDED 2004	RECOMMENDED 2005
TEXAS DEPARTMENT OF ECONOMIC DEVELOPMENT				
Number of Job Opportunities Announced by Businesses Receiving Assistance	11,979	14,772	15,235	15,287
DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS				
Percent of Households/Individuals of Very Low, Low, and Moderate Income Needing Affordable Housing that Subsequently Receive Such Housing or Housing Related Assistance	1.56%	1.00%	1.37%	1.37%
TEXAS LOTTERY COMMISSION				
Number of Lottery Retailer Business Locations Licensed	16,599	18,000	16,800	16,800
DEPARTMENT OF TRANSPORTATION				
Percent of State Highway System Mainlane Pavement Mileage Rated Good or Better Based on the Pavement Management Information System Condition Score	84.6%	85.5%	86.0%	86.0%
TEXAS WORKFORCE COMMISSION				
Entered Employment Rate	53.3%	56.0%	62.5%	62.5%
Choices Participation Rate for 2-parent Families	38.6%	25.6%	30.26%	33.43%
Choices Participation Rate for Single-Parent Families	32.7%	25.6%	30.45%	33.61%
Average Number of Children Served per Day, Transitional and At-Risk Services	85,498	76,910	82,083	87,100
Percent of Skills Development Trainees Securing Employment with Participating Businesses	104.5%	98%	100%	100%

BUDGET ISSUES AND RECOMMENDATIONS

THE RECOMMENDATIONS address a number of major budget issues affecting agencies in the Business and Economic Development function including:

- ♦ an increase of \$320.7 million in All Funds (\$88.4 million in Federal Funds, \$211.4 million in State Highway Funds, and \$20.9 million in general obligation bonds) for a total recommendation of \$9.8 billion to acquire right-of-way, research, plan, design, manage, construct, and maintain state highway projects and ferry systems;
- ♦ an increase of \$29.2 million in federal Child Care and Development Funds in the \$889.4 million program to provide child care for qualified clients; and
- ♦ a reduction of \$37.8 million in Federal Funds for the \$81.5 million HOME program that provides housing loans and grants to very low and low-income families.

Significant budget recommendations for agencies in the Business and Economic function include:

TEXAS DEPARTMENT OF ECONOMIC DEVELOPMENT

- ♦ continuation of the General Revenue-Hotel Occupancy Tax Deposits funding for promoting tourism in Texas at \$40.5 million for the 2004–05 biennium;
- ♦ continuation of federal funding for the Empowerment Zone

program (designed to help revitalize distressed communities) at \$9.2 million; and

- ♦ a reduction of \$2.4 million in Other Funds due to the expiration of the Smart Jobs Program (\$5.1 million), an increase in the Texas Leverage Fund Program of \$2.8 million related to business development and an agency requested reduction of \$79,225 in appropriated receipts.

DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

- ♦ a \$37.8 million reduction in Federal Funds for the \$81.5 million HOME program that provides housing loans and grants to very low and low-income families; and
- ♦ a \$1.6 million net increase in Other Funds for energy efficiency programs (funded mainly through the System Benefit Trust Fund) totaling \$21.4 million for the biennium.

During fiscal year 2002, the Community Development Program and the Local Government service programs and associated funding were transferred to the newly created Office of Rural Community Affairs.

TEXAS LOTTERY COMMISSION

- ♦ continuation of lottery operations at the 2002–03 level of \$363.5 million from the General Revenue–Dedicated Lottery Account 5025. Total costs for Lottery Operations (including employee

benefits) as a percentage of estimated sales is below the statutory limit of 7 percent; and

- ♦ \$30.9 million in General Revenue Funds for the regulation of bingo, which includes \$25 million for the allocation of bingo prize fees to local jurisdictions. Due to an anticipated increase in the collection of bingo prize fees, the recommendation reflects an increase of \$2.3 million for this allocation to counties and municipalities.

OFFICE OF RURAL COMMUNITY AFFAIRS

The Office of Rural Community Affairs (ORCA) was established pursuant to the enactment of House Bill 7, Seventy-seventh Legislature, 2001. The agency received \$4.1 million in General Revenue Funds and \$177.1 million in Federal Funds for the 2002–03 biennium to administer the Community Development Program and Local Government services programs transferred from the Texas Department of Housing and Community Affairs. The agency also received the Center for Rural Health Initiatives and \$3.3 million in General Revenue Funds, \$1.1 million in Federal Funds, and \$180,000 in Other Funds from the Department of Health to administer the center. In addition, ORCA also received an additional \$1.0 million in General Revenue Funds for the 2002–03 biennium for administration. The recommendation for the 2004–05

BUDGET ISSUES AND RECOMMENDATIONS

biennium maintains the 2002–03 funding level with adjustments for the following:

- ♦ a \$324,000 decrease in General Revenue Funds because of the savings from the agency moving from leased space to a state owned building; and
- ♦ a net increase of \$263,195 in Federal Funds that includes a \$304,298 increase in Community Development Block Grants and a reduction of \$41,103 in Grants to States for Operations of Offices and State Rural Hospital Funds.

DEPARTMENT OF TRANSPORTATION

- ♦ a \$320.7 million increase in All Funds (\$88.4 million in Federal Funds, \$211.4 million in State Highway Funds, and \$20.9 million in general obligation bonds) for a total recommended expenditure level of \$9.8 billion to acquire right-of-way, research, plan, design, manage, construct, and maintain state highway projects and ferry systems;
- ♦ a \$23.6 million increase in All Funds (\$21.6 million in State Highway Funds and \$2.0 million in Federal Funds) for a total recommended expenditure level of \$124.0 million to support and promote general aviation;
- ♦ a \$3.0 million increase in State Highway Funding for a total recommended expenditure level of \$39.0 million to support travel information efforts;

- ♦ a \$6.3 million requested decrease in State Highway Funds resulting in a recommended expenditure level of \$130.3 million to support the vehicle registration and titling program;
- ♦ a requested net decrease of \$4.5 million in Federal Funds resulting in a recommended expenditure level of \$52.1 million to support traffic safety programs; and
- ♦ a decrease of \$4.3 million in anticipated Federal Funds and Oil Overcharge funds that are no longer available resulting in a recommended expenditure level of \$103.0 million to support public transportation.

TEXAS WORKFORCE COMMISSION

- ♦ an increase of \$29.2 million in federal Child Care and Development Funds in the \$889.4 million program to provide child care for qualified clients;
- ♦ a \$6.1 million reduction in General Revenue Funds due to a one-time Nine West Settlement and General Revenue matching funds for the expired federal Welfare-to-Work program;
- ♦ a \$17.9 million reduction in Federal Funds for Workforce Investment Act funds for the \$469.1 million program to provide employment and training service to adults, dislocated worker, and certain youth populations; and
- ♦ a reduction of \$16.9 million in Federal Funds due to the expira-

tion of the federal Welfare-to-Work and Schools-to-Careers programs.

REIMBURSEMENT TO THE UNEMPLOYMENT COMPENSATION BENEFIT ACCOUNT

- ♦ \$27.8 million for the Reimbursements to the Unemployment Compensation Benefit Account approximates the 2002–03 payout requirements; and
- ♦ continuation of the requirement that agencies receiving General Revenue Funds and special fund agencies pay half of their unemployment insurance claims out of appropriated funds.

REGULATORY

ALL FUNDS recommendations for Regulatory total \$842.2 million for the 2004–05 biennium, which is an increase of \$124.6 million, or 17.4 percent, from the 2002–03 biennium (Table 36).

For General Revenue and General Revenue–Dedicated Funds, the recommendations total \$516.9 million, which is an increase of \$32.3 million, or 6.7 percent, from the 2002–03 biennium (Table 37).

Selected performance measures for agencies in the Regulatory function are depicted in Table 38.

TABLE 36
ALL FUNDS

IN MILLIONS	EXPENDED/ BUDGETED 2002–03	RECOMMENDED 2004–05	BIENNIAL CHANGE	PERCENTAGE CHANGE
FUNCTION				
Board of Public Accountancy	\$1.5	\$6.4	\$5.0	333.0%
State Office of Administrative Hearings	14.2	13.8	(0.4)	(2.5)
Board of Architectural Examiners	0.7	3.7	2.9	403.3
Board of Barber Examiners	1.3	1.3	0.0	3.7
Board of Chiropractic Examiners	0.7	0.7	0.0	1.8
Cosmetology Commission	5.0	5.0	-	0.0
Credit Union Department	3.1	3.5	0.4	13.2
Texas State Board of Dental Examiners	3.2	3.3	0.0	0.7
Board of Professional Engineers	0.8	3.7	2.9	387.0
Department of Banking	21.5	30.0	8.4	9.2
Office of Consumer Credit Commissioner	6.3	6.3	0.0	0.0
Savings and Loan Department	3.5	4.8	1.3	35.2
Funeral Service Commission	1.6	1.3	(0.3)	(19.3)
Board of Professional Geoscientists	0.2	1.0	0.8	NA
Department of Insurance	104.0	103.4	(0.6)	(0.6)
Office of Public Insurance Counsel	2.4	2.3	(0.1)	(4.1)
Board of Professional Land Surveying	0.8	0.8	0.0	4.3
Department of Licensing and Regulation	17.0	16.0	(1.0)	(5.8)
Board of Medical Examiners	11.7	11.5	(0.2)	(1.7)
Board of Nurse Examiners	6.7	6.8	0.1	1.7
Board of Vocational Nurse Examiners	2.9	2.8	(0.1)	(2.4)
Optometry Board	0.8	0.8	(0.0)	(0.9)
Structural Pest Control Board	3.1	2.7	(0.4)	(12.9)
Board of Pharmacy	6.6	6.7	0.1	1.3
Executive Council of Physical Therapy and Occupational Therapy Examiners	1.8	1.8	(0.0)	(0.6)
Board of Plumbing Examiners	3.5	3.4	(0.0)	(1.2)
Board of Podiatric Medical Examiners	0.5	0.5	-	0.0
Board of Examiners of Psychologists	1.6	1.5	(0.1)	(6.1)
Racing Commission	21.3	25.1	3.8	17.8
Real Estate Commission	9.9	10.1	0.2	2.1
Securities Board	8.1	8.1	(0.0)	0.0
Board of Tax Professional Examiners	0.3	0.4	0.0	7.2
Public Utility Commission of Texas	238.6	331.5	92.9	38.9
Office of Public Utility Counsel	3.9	3.8	(0.1)	(1.3)
Board of Veterinary Medical Examiners	1.3	1.3	0.0	1.0
Workers' Compensation Commission	105.8	103.7	(2.1)	(2.0)
Research and Oversight Council on Workers' Compensation	2.0	2.0	0.0	0.0
Subtotal, Regulatory	\$618.0	\$731.6	\$113.6	18.4
Retirement and Group Insurance	\$66.9	\$77.4	\$10.6	15.8
Social Security and Benefit Replacement Pay	25.4	25.9	0.4	1.7
Subtotal, Employee Benefits	\$92.3	\$103.3	\$11.0	11.9
Lease Payments	\$10.8	\$10.8	\$(0.1)	(0.6)
Less Interagency Contracts	3.5	3.5	(0.0)	(1.0)
Total, Article VIII - Regulatory	\$717.6	\$842.2	\$124.6	17.4%

NOTES: Totals may not add because of rounding.
Biennial change and percentage change calculated on actual amounts before rounding.

REGULATORY

2004-05 BIENNIAL RECOMMENDATIONS

TABLE 37
GENERAL REVENUE AND GENERAL REVENUE-DEDICATED FUNDS

IN MILLIONS	EXPENDED/ BUDGETED 2002-03	RECOMMENDED 2004-05	BIENNIAL CHANGE	PERCENTAGE CHANGE
FUNCTION				
Board of Public Accountancy	\$1.5	\$6.3	\$4.8	325.6%
State Office of Administrative Hearings	5.1	4.9	(0.3)	(4.9)
Board of Architectural Examiners	0.7	3.7	2.9	401.4
Board of Barber Examiners	1.2	1.3	0.0	3.7
Board of Chiropractic Examiners	0.7	0.7	0.0	1.9
Cosmetology Commission	4.3	4.3	0.0	0.0
Credit Union Department	3.1	3.5	0.4	13.2
Texas State Board of Dental Examiners	2.8	2.9	0.1	2.1
Board of Professional Engineers	0.8	3.6	2.9	384.7
Department of Banking	21.4	29.8	8.4	39.5
Office of Consumer Credit Commissioner	6.3	6.3	0.0	0.0
Savings and Loan Department	3.5	4.8	1.3	35.3
Funeral Service Commission	1.5	1.2	(0.3)	(19.3)
Board of Professional Geoscientists	0.0	1.0	1.0	NA
Department of Insurance	102.2	102.5	0.3	0.3
Office of Public Insurance Counsel	2.3	2.3	(0.0)	0.0
Board of Professional Land Surveying	0.8	0.8	0.0	4.3
Department of Licensing and Regulation	16.6	15.7	(0.9)	(5.2)
Board of Medical Examiners	11.3	11.2	(0.1)	(0.5)
Board of Nurse Examiners	5.4	5.4	0.0	0.8
Board of Vocational Nurse Examiners	2.8	2.8	(0.1)	(2.3)
Optometry Board	0.7	0.7	(0.0)	(1.0)
Structural Pest Control Board	2.7	2.4	(0.2)	(8.8)
Board of Pharmacy	6.3	6.4	0.1	1.4
Executive Council of Physical Therapy and Occupational Therapy Examiners	1.7	1.7	0.0	0.0
Board of Plumbing Examiners	3.4	3.4	(0.0)	(0.6)
Board of Podiatric Medical Examiners	0.5	0.5	0.0	0.0
Board of Examiners of Psychologists	1.4	1.3	(0.1)	(6.7)
Racing Commission	21.3	25.1	3.8	17.8
Real Estate Commission	9.5	9.7	0.2	2.2
Securities Board	8.1	8.1	0.0	0.0
Board of Tax Professional Examiners	0.3	0.4	0.0	7.2
Public Utility Commission of Texas	28.0	26.7	(1.3)	(4.7)
Office of Public Utility Counsel	3.3	3.3	(0.0)	(0.3)
Board of Veterinary Medical Examiners	1.3	1.3	0.0	1.0
Workers' Compensation Commission	98.8	97.1	(1.7)	(1.7)
Research and Oversight Council on Workers' Compensation	2.0	2.0	0.0	0.0
Subtotal, Regulatory	\$383.8	\$405.3	\$21.5	5.6
Retirement and Group Insurance	\$65.3	\$75.8	\$10.4	15.9
Social Security and Benefit Replacement Pay	24.7	25.1	0.4	1.8
Subtotal, Employee Benefits	\$90.0	\$100.9	\$10.8	12.0
Lease Payments	\$10.8	\$10.8	\$(0.1)	(0.6)
Total, Article VIII - Regulatory	\$484.7	\$516.9	\$32.3	6.7%
NOTES: Totals may not add because of rounding. Biennial change and percentage change calculated on actual amounts before rounding.				

TABLE 38
SELECTED PERFORMANCE MEASURES

MEASURE	ACTUAL 2002	BUDGETED 2003	RECOMMENDED 2004	RECOMMENDED 2005
Total Number of New Licenses Issued to Individuals	83,448	66,368	76,394	75,332
DEPARTMENT OF INSURANCE				
Number of Complaints Resolved	38,960	30,750	31,750	32,750
PUBLIC UTILITY COMMISSION OF TEXAS				
Average Annual Residential Telephone Bill in Texas as a Percentage of the National Average	66.2%	71.5%	76.4%	76.6%
Average Annual Residential Electric Bill from Competitive Suppliers as a Percentage of the National Average	151.8%	151.2%	149.9%	149.9%
Average Price of Electricity per kWh in Texas for Residential Customers from Competitive Suppliers as a Percentage of the National Residential Average	103.8%	101.9%	99.5%	98.0%
Percent of Texas Cities Served by Three or More Certified Telecommunication Providers	83%	84%	66%	67%
WORKERS' COMPENSATION COMMISSION				
Number of Inspections, Consultations, and Investigations Provided to Employees	3,861	3,750	3,888	3,888
Percentage of Benefit Dispute Cases Resolved by the Commission's Informal Dispute Resolution System	89.3%	88.0%	90.0%	90.0%
Percentage of Medical Dispute Cases Resolved by Initial Administrative Review Decisions	91.9%	80.0%	95.0%	95.0%
Average Number of Days to Resolve Benefit Dispute	37	40	31.5	31.5

BUDGET ISSUES AND RECOMMENDATIONS

THE RECOMMENDATIONS address a number of major budget issues affecting agencies in the Regulatory function including:

An increase of \$94.1 million in Other Funds from the System Benefit Trust Fund. Total recommended funding for programs supported by the System Benefit Trust Fund at the Public Utility Commission is \$304.8 for the 2004–05 biennium.

Significant budget recommendations for agencies in the Regulatory function include:

BOARD OF PROFESSIONAL GEOSCIENTISTS

- ♦ \$1.0 million in fee-generated General Revenue Funds and five full-time-equivalent positions for this new regulatory agency created pursuant to Senate Bill 405, Seventy-seventh Legislature, 2001, to regulate the persons engaged in the practice of geoscience.

DEPARTMENT OF INSURANCE

- ♦ a \$0.9 million decrease in Federal Funds in the Department of Insurance's \$51.0 million annual budget related to the expiration of the Federal Health Resources and Services Administration state planning grant program.

DEPARTMENT OF LICENSING AND REGULATION

- ♦ a \$0.9 million decrease in fee-generated General Revenue Funds due to a reduction in capital budget expenditures. The

recommendation includes a total of \$16.0 million (\$15.6 million in General Revenue Funds) to fund agency operations for the biennium.

BOARD OF MEDICAL EXAMINERS

- ♦ a \$0.2 million decrease in Other Funds for a one-time Governor's grant to resolve medical malpractice claims at the Board of Medical Examiners. All Funds total \$11.5 million (\$10.9 million in General Revenue Funds) to regulate the medical profession in Texas.

STRUCTURAL PEST CONTROL BOARD

- ♦ a \$0.4 million decrease in All Funds as a result of relocating to a state-owned building, a one-time capital purchase, and an agency requested reduction in Appropriated Receipts and Federal Funds.

RACING COMMISSION

- ♦ a \$3.8 million increase in General Revenue–Dedicated Funds to regulate horse and dog racing, (Program funding, which is fee-generated, totals \$25.1 million). The increase includes \$2.0 million for the reimbursement of expenses relating hosting of the Breeder's Cup event at Lone Star Park in 2005, \$1.2 in funding and up to 14 additional FTEs contingent on two new racetracks becoming operational in the 2004–05 biennium, and funds to annualize the regulation of Saddle Brook Park.

PUBLIC UTILITY COMMISSION OF TEXAS

- ♦ a \$94.1 million increase in Other Funds from the System Benefit Trust Fund. Recommended funding for programs supported by the System Benefit Trust Fund at the Public Utility Commission total \$304.2 million for the 2004–05 biennium; and
- ♦ \$3.4 million in General Revenue–Dedicated Funds for the Texas Emissions Reduction Plan, which represents a reduction of \$1.2 million from the 2002–03 level.

WORKERS' COMPENSATION COMMISSION

- ♦ a \$1.7 million decrease in General Revenue Funds because of lower rent expenses at a new location. An increase of \$0.2 million in General Revenue Funds to move the agency to a new location; and
- ♦ for fiscal year 2003, the agency set the annual Maintenance Tax of gross workers' compensation premiums at 1.51 percent, which is a reduction of 0.16 percent from 1.67 percent in fiscal year 2002.

SELF-DIRECTED-SEMI-INDEPENDENT PROJECT

- ♦ Senate Bill 736, Seventy-seventh Legislature, 2001, allows the State Board of Accountancy, the Board of Professional Engineers and the Board of Architectural Examiners to participate in the Self-Directed-Semi-Independent pilot project. This program (authorized by the

BUDGET ISSUES AND RECOMMENDATIONS

Seventy-sixth Legislature, 1999) allows the participating agencies to be removed from the legislative budgeting process and generally operate outside the provisions of the 2002–03 General Appropriations Act. The recommendation for 2004–05 includes \$13 million in fee-generated General Revenue Funds, contingency appropriations and 89 full-time-equivalent (FTE) positions for these three agencies should the pilot project not be continued by the Seventy-eighth Legislature in 2003.

TEXASONLINE

- ♦ \$3 million in General Revenue Funds for the TexasOnline program. TexasOnline enables the public to renew a number of occupational licenses over the Internet. Portions of the fees are then distributed to the appropriate agency to pay for the license and help fund the system.