



## LEGISLATIVE BUDGET BOARD

# **SUMMARY OF HOUSE BILL 1**

*Budget Recommendations for the 2018-19 Biennium*

**URSULA PARKS, LEGISLATIVE BUDGET BOARD**

**February 13, 2017**

# The Big Picture

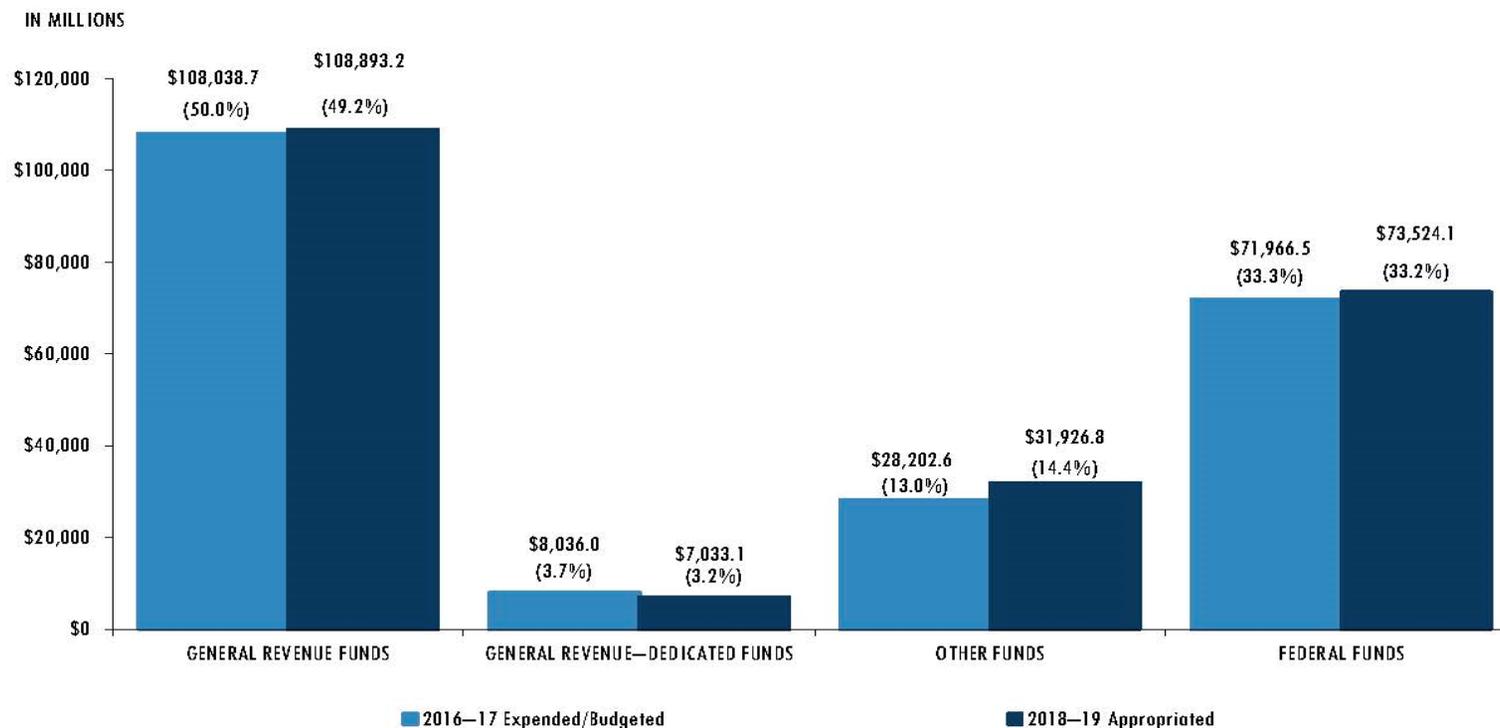
---

## Summary of Recommendations *In Billions*

	<b>2016-17 Appropriations</b>	<b>2016-17 Adjusted Base</b>	<b>2018-19 House Introduced Bill</b>	<b>Biennial Increase</b>	<b>Percent Change</b>
All Funds	\$209.1	\$216.2	\$221.4	\$5.1	2.4%
General Revenue	\$106.0	\$108.0	\$108.9	\$0.9	0.8%

# Summary of Budget Recommendations

- House Bill 1 Recommendations total \$221.4 billion in All Funds. This is \$5.1 billion, or 2.4%, above 2016-17 anticipated spending levels.
- GR amounts total \$108.9 billion. This is \$0.9 billion, or 0.8%, over 2016-17 spending levels.



# 2016-17 Base Adjustments

---

## 2016-17 Adjustments *In Millions*

2016-17 GR Appropriations	\$106,007.5
2016-17 GR Expended/Budgeted	\$108,038.7
Net Biennial Increase	\$2,031.2

The net increase includes estimated Medicaid and Department of Family and Protective Services supplemental costs, increases in Medicaid and CHIP drug rebates, employee benefits, and other estimated appropriations.

Not all of the adjustments to the base require legislative action, and some are assumed in the *2017 Biennial Revenue Estimate*.

# Constitutional Limitations

---

The General Revenue Funds recommendations are above the Article III, Section 49A pay-as-you-go limit, based on the *2017 Biennial Revenue Estimate (BRE)*. There is remaining spending capacity under the Article VIII, Section 22 Spending Limit.

<b>Remaining General Revenue Spending Authority <i>In Billions</i></b>		
<b>Pay-as-you-go Limit</b>		<b>(\$4.0)</b>
<b>Spending Limit</b>		<b>\$7.7</b>

# Pay-as-You-Go Limit

---

## **Texas Constitution, Article III, Section 49a**

- Requires that all appropriations are within available revenue in the fund from which the appropriations are made; and
- Requires the Comptroller of Public Accounts to certify whether appropriations are within available revenue.
- Approved by voters on November 3<sup>rd</sup>, 1942

# Spending Limit: Constitution and Statute

---

## Texas Constitution, Article VIII, Section 22

- Limits the rate of growth from one biennium to the next.
- Approved by voters November 7th, 1978:

***(a) In no biennium shall the rate of growth of appropriations from state tax revenues not dedicated by this constitution exceed the estimated rate of growth of the state's economy. The legislature shall provide by general law procedures to implement this section.***

## Government Code Chapter 316

- Provides the general law referenced in the Constitution, and directs the LBB to establish:
  - Estimated rate of growth in the state's economy from one biennium to the next;
  - The current biennium's level of appropriations subject to the limit; and
  - The subsequent biennium's limit on appropriations subject to the limit.
- It also requires that the rate of growth be defined as the growth in personal income.

# Available Revenue Comparison

All GR supplemental appropriations must be paid from the 2017 beginning balance of \$1.5 billion; any remaining amount will be available for 2018-19.

If the entire \$1.5 billion is appropriated in the supplemental appropriations bill, 2018-19 available GR revenue will be \$103.4 billion.

## Available Revenue Comparison 2016-17 to 2018-19 Biennia In Billions

2015 Beginning Balance	2016-17 Total Available Revenue	2017 Beginning Balance	2018-19 Total Available Revenue	Difference in Balance	Difference in Total Available Revenue	Total Available Revenue Percent Change
\$7.3	\$107.7	\$1.5	\$104.9	(\$5.8)	(\$2.8)	(2.6%)

Source: 2017 Biennial Revenue Estimate, Table 1

Note that the 2015 Biennial Revenue Estimate, used for appropriations purposes last session, included \$113 billion in available revenue. The table above shows the decrease in the balance amount as a result not only of 2016-17 appropriations decisions but also due to the slowing of economic activity in the current biennium.

# Sources of Available Revenue

---

**General Revenue Funds:** General revenue may refer both to the sum total of dedicated and undedicated General revenue funds within the Treasury and also more narrowly to the non-dedicated portion of GR. In the GAA, “General Revenue” includes the non-dedicated portions: General Revenue Fund 1 (the state’s main operating fund, with no limitations in terms of allowable use); and three funds supporting public education: the Available School Fund; the Instructional Materials Fund, and the Foundation School Fund (the primary funding source for the Foundation School Program).

**General Revenue-Dedicated:** These funds include approximately 200 accounts within the General Revenue Fund that are dedicated for specific purposes. If left unappropriated, they act as a balance within General Revenue. Those balances grew significantly over time, and in the last two sessions legislation and appropriations actions have reduced the extent to which those balances are used to support other appropriations.

**Federal Funds:** These include grants, allocations, payments and reimbursements from the Federal government to the state. The purpose for which each individual Federal fund may be used is generally very specific. Federal Funds also may not be used to supplant General Revenue. Many Federal Funds have maintenance of effort or matching requirements.

**Other Funds:** These include the State Highway Fund, the Texas Mobility Fund, the Property Tax Relief Fund (dedicated to the Foundation School Program) and the Economic Stabilization Fund.

# Foundation School Program: HB 1

---

- \$43.9 billion in All Funds and \$35.6 billion in General Revenue;
- Fully funds current law obligations, including estimated growth in student enrollment of over 82,000 students annually (1.6%);
- Increases funding by \$1.5 billion over what is estimated to be required to fund current law entitlement, contingent upon enactment of legislation to reform the school finance system; and
- Maintains the increase in state funds from the 2016-17 biennium associated with the homestead exemption and franchise tax reduction tax relief provisions enacted by the 84<sup>th</sup> Legislature.

# Health and Human Services: HB 1

---

## Article II, Health and Human Services

HB 1 funding across the three agencies, Health and Human Services Commission, Department of Family and Protective Services, and Department of State Health Services increased by a total of \$736 million in All Funds in 2018-19. Allocations among the agencies represent significant changes due to agency consolidation directed by the 84<sup>th</sup> Legislature.

## Budget Structure

- Senate Bill 200, 84<sup>th</sup> Legislature, Regular Session, reorganized and consolidated the five legacy agencies into three agencies:
  - Health and Human Services Commission (HHSC)
  - Department of Family and Protective Services (DFPS)
  - Department of State Health Services (DSHS)

# Health and Human Services: HB 1 *continued*

---

- Client services, institutional, regulatory, and administrative functions are consolidated at HHSC, with public health services remaining at DSHS and protective and prevention services residing at DFPS.
- Transferred programs can be seen across the five fiscal years by looking at the relevant legacy strategy and at the current strategy in the bill pattern.
  - For example, Mental Health State Hospitals will be in both DSHS Strategy F.1.14 for fiscal years 2015-2017 and HHSC Strategy G.2.1 for fiscal years 2018-2019.
- The historical expenditures for agencies that were abolished, the Department of Aging and Disability Services and the Department of Assistive and Rehabilitative Services, are shown in Goal N strategies at HHSC.
  - In general, recommended funding levels for the 2018-19 biennium will be in a corresponding strategy in HHSC Goals A - M.
  - For example, Early Childhood Intervention Services will be in Strategy N.2.1 for fiscal years 2015-16 and Strategy D.1.3 for fiscal year 2017-19.

# Medicaid: HB 1

---

- \$65.5 billion in All Funds, including \$26.8 billion in GR and \$0.2 billion in GR-Dedicated.
- Net increase of \$1.8 billion in All Funds in Medicaid client services offset by decreases of \$0.6 billion in All Funds for administrative funding and \$0.2 billion in All Funds for other programs supported by Medicaid funding.
- Funding for client services supports caseload growth and maintains FY 2017 average costs for most services.
- Net more favorable Federal Medical Assistance Percentage results in a higher proportion of the program being funded with Federal Funds.
- Funding also includes restoration of approximately one-half of the reductions made to reimbursement rates for acute care therapy services made in 2016-17.

# Child Protective Services: HB 1

---

- \$3.2 billion in All Funds, \$1.9 billion in GR, includes the following:
  - 828.8 full-time-equivalent positions and an increase of \$331.8 million to maintain funding provided in FY 2017 for critical needs and improve agency performance and retention; and
  - \$1.4 billion in All Funds, \$0.6 billion in GR, for entitlement programs such as foster care, adoption subsidies and permanency care assistance, and the relative caregiver program.
- This is a total increase of \$260.1 million in All Funds and \$310.6 million in GR over the 2016-17 base, which includes the FY 2017 critical needs funding.

# Behavioral Health: HB 1

---

- \$3.5 billion in All Funds, including \$2.8 billion in GR and GR-D, for non-Medicaid/CHIP behavioral health services at 18 agencies across six articles, including:
  - \$95.6 million in GR, contingent on passage of legislation produced by the House Select Committee on Mental Health; and
  - \$62.6 million in GR to address current and projected waitlists for community mental health services for adults and children.
- Total behavioral health-related funding, including estimated Medicaid and CHIP expenditures, is estimated to be \$7.2 billion in All Funds.

# Transportation: HB 1

---

\$28.2 billion in All Funds includes the following:

- Estimated \$5.0 billion from Proposition 7, 2015;
- \$2.2 billion from Proposition 1, 2014;
- All available State Highway Fund from traditional transportation tax and fee revenue sources; and
- Other Fund 6, Mobility Fund, Federal Funds and debt service-related allocations.

# Border Security: HB 1

---

- \$663.2 million in All Funds is provided across various agencies.
- \$595.8 million is provided in border funding at the Department of Public Safety.
  - Funding at DPS maintains support for DPS personnel at FY 2017 full deployment levels and eliminates funding for one-time and transitional items.

# Retirement and Health Benefits: HB 1

---

- Teacher Retirement System:
  - \$4.0 billion in All Funds, including \$3.9 billion GR, for the state contribution to retirement benefits; and
  - \$647.6 million in GR for retiree health insurance funding.
- Employee Retirement System:
  - \$1.3 billion in All Funds, including \$976.7 million in GR and GR-D, for the state contribution to retirement benefits; and
  - \$4.2 billion in All Funds, \$3.1 billion in GR and GR-D, for group insurance benefits for state employees, retirees, and their dependents.

# Other Funding Highlights

---

- **Higher Education** is provided is \$20.5 billion in All Funds. Overall, this represents a 1.3% increase in All Funds and includes the following:
  - \$7.2 billion in GR for higher education formulas, a GR decrease of \$33.5 million;
  - \$1.0 billion in GR for special items, a decrease of \$99.7 million;
  - \$82.8 million in All Funds for Graduate Medical Education Expansion, an increase of \$29.8 million; and
  - \$1.0 billion in tuition revenue bond debt service, an increase of \$203.6 million in GR.
- **Adult Criminal Justice** is provided \$6.8 billion in All Funds at the Texas Department of Criminal Justice.
- **Debt Service** totals \$4.3 billion in All Funds, which fully funds the state's obligation. This is a \$280.1 million decrease from the 2016-17 biennium.

# LBB Staff

---

- Support committee deliberations
- Provide budget and program analysis
- Assist the committee with state fiscal analysis

---

# Legislative Budget Board

Ursula Parks, Director

[Ursula.Parks@lbb.state.tx.us](mailto:Ursula.Parks@lbb.state.tx.us)

Sarah Keyton, Assistant Director

[Sarah.Keyton@lbb.state.tx.us](mailto:Sarah.Keyton@lbb.state.tx.us)

512-463-1200