HOUSE RESEARCH ORGANIZATION
Texas House of Representatives

State Finance Report No. 83-3 April 1, 2013

CSSB 1:

The House Appropriations Committee's Proposed Budget for Fiscal 2014-15

The House Appropriations Committee reported CSSB 1 by Williams (Pitts), the general appropriations bill for fiscal 2014-15, on March 21, 2013 by the following vote:

27 ayes – Pitts, Sylvester Turner, Ashby, Bell, G. Bonnen, Carter, Crownover, Darby , S. Davis, Dukes, Giddings, Gonzales, Howard, Hughes, S. King, Longoria, Márquez, McClendon, Muñoz, Orr, Otto, Patrick, Perry, Price, Raney, Ratliff, Zerwas

0 nays

The proposed state budget would appropriate $193.8 billion in all funds, an increase of 2.1 percent from the amount currently estimated to be spent in fiscal 2012-13. The general revenue and general revenue dedicated portion, $99.9 billion, would be about 6.5 percent more than in fiscal 2012-13.

This report presents an overview of the proposed state budget and of each article of CSSB 1. It highlights significant budget issues, including different proposals for funding individual agencies and programs. For further background on the state budget, see HRO State Finance Report 83-2, *Writing the State Budget: 83rd Legislature*, February 8, 2013, and State Finance Report 83-1, *State Budget: Restrictions on Spending*, January 31, 2013.

Fiscal 2014-15 Budget Overview

CSSB 1, the House Appropriations Committee version of the fiscal 2014-15 budget, would authorize total spending of $193.8 billion, an increase of 2.1 percent from fiscal 2012-13. General revenue and general revenue dedicated spending would be $99.9 billion, an increase of $6.1 billion, or 6.5 percent, from the anticipated spending in fiscal 2012-13. This includes $93.5 billion of undedicated general revenue.

The table below details overall spending in CSSB 1 by type of funds and the amounts estimated/budgeted for fiscal 2012-13, the amounts recommended for fiscal 2014-15 in CSSB 1, and the change the recommendation would represent from fiscal 2012-13.

The Senate-passed budget proposal would spend $195.5 billion in all funds, a 2.9 percent increase from fiscal 2012-13. The Senate proposal would spend $100.5 billion in general revenue and general revenue dedicated funds, an increase of $6.7 billion, or 7.2 percent, from fiscal 2012-13. It would spend $94.1 billion in undedicated general revenue.

General revenue dedicated accounts

Both CSSB 1 and the Senate proposal would remain within 1 percent of fiscal 2012-13 spending of general revenue dedicated funds, which are funds collected for a specific purpose designated in state law. Both proposals would appropriate a total of about $6.4 billion in general

Biennial spending comparisons
(millions of dollars)

Type of funds	Estimated/ budgeted fiscal 2012-13	Recommended fiscal 2014-15 CSSB 1	Biennial change	Percent change	Senate proposal
General revenue	$87,394.7	$93,481.7	$6,087.0	7.0%	$94,082.4
GR dedicated	6,397.5	6,380.8	(16.7)	(0.3%)	6,420.4
Federal	64,683.0	67,586.0	2,903.0	4.5%	68,622.3
Other	31,412.8	26,371.4	(5,041.4)	(16.0%)	26,343.1
All funds	189,888.0	193,820.0	3,932.0	2.1%	195,468.3

Source: Legislative Budget Board, Summary of Committee Substitute for Senate Bill 1; Summary of House Committee Substitute for Senate Bill 1, March 2013 revenue dedicated funds for fiscal 2014-15, but CSSB 1 would reduce such appropriations by $16.7 million and the Senate increase them by $22.9 million.

Both CSSB 1 and the Senate proposal would increase appropriations of certain general revenue dedicated funds over fiscal 2012-13 levels. In CSSB 1, this would include increases of $78.2 million for the PUC's Low-Income Discount Program, $86.3 million in general obligation (GO) bond debt service, $28.2 million for the Physician's Education Loan Repayment program, and $24.7 million for fish and wildlife programs, among others. The increases would be offset largely by decreases in spending from other general revenue dedicated funds. The Senate proposal would increase appropriations by $51.2 million for the Texas Emissions Reduction Plan and by $41.7 million for 9-1-1 system equipment and technology.

The System Benefit Fund, which helps low-income Texans pay their electricity bills, has the largest unappropriated balance ($851 million) among dedicated funds for fiscal 2012-13. Both budget proposals include a provision that would require the amount of revenue collected from utility fees that go into the System Benefit Fund to equal appropriations made from the fund. This self-leveling measure would allow the Public Utility Commission to reduce fees that utility customers pay into the fund once sufficient revenues were collected to cover appropriations (see System Benefit Fund, page 63).

The chart on page 5 summarizes general revenue dedicated revenue and appropriations in CSSB 1 and the Senate proposal. It includes the general revenue dedicated funds with the highest balances available for certification for fiscal 2012-13.

Other bills under consideration this session could change how the Legislature appropriates and manages general revenue dedicated funds. HB 6 by Otto, as introduced, would implement certain Legislative Budget Board (LBB) recommendations by placing a cap of $4.8 billion on general revenue dedicated funds that may be used toward certification and abolishing all dedicated funds that were not specifically exempted in the bill. The introduced version of HB 7 by Darby, et al. would implement other recommendations for reducing reliance on general revenue dedicated funds by requiring the comptroller to deposit interest earned on dedicated accounts to the general revenue fund.

Employee compensation

CSSB 1 would appropriate $131.5 million in all funds, with $78 million coming from general revenue and general revenue dedicated funds, to state agencies in each year of fiscal 2014-15 for merit salary increases. Each fiscal year of the biennium, agencies would receive 1 percent of the total amount of their agency salaries and would have the flexibility to determine the amount of salary increases for selected employees. Those employees who received targeted increases under CSSB 1 and employees of higher education institutions, except for those at a Texas A&M service agency, would be excluded from the 1 percent merit increases.

CSSB 1 would give targeted salary increases to employees at specific agencies using mainly general revenue funds. About $59.1 million in general revenue and general revenue dedicated funds would go to Schedule C employees – law enforcement officers at the Department of Public Safety, Texas Department of Criminal Justice, Texas Alcoholic Beverage Commission, and game wardens at the Texas Parks and Wildlife Department. The raise would apply to officers with at least four years of service and would be an increase of more than 10 percent for most officers.

Other targeted raises would go to employees at three human services agencies – direct-care staff at state supported living centers at the Department of Aging and Disability Services, direct-care staff at state hospitals at the Department of State Health Services, and direct-delivery staff at the Department of Family and Protective Services. Adult and juvenile correctional officers would receive targeted raises of 5 percent. Additional targeted raises using general revenue would go to certain counsels, attorneys, and clerks of the Supreme Court, Court of Criminal Appeals, and the 14 courts of appeal. Certain oil and gas staff at the Texas Railroad Commission would receive raises funded by general revenue dedicated funds.

General revenue dedicated revenues and appropriations in House and Senate budget proposals

(millions of dollars)

	Estimated revenues, 2014-15 BRE	House appropriations	Senate appropriations
5100 System Benefit	$300.7*	$245.5	$169.4
5071 Emission Reduction Plan	201.9	129.8	182.4
5111 Designated Trauma Facility & EMS	231.6	119.5	119.5
5050 9-1-1 Service Fees	130.4	88.5	116.2
0655 Petroleum Storage Tank Remediation	47.2	44.0	44.0
0151 Clean Air	209.3	107.5	103.2
5000 Solid Waste Disposal Fees	35.3	11.0	11.0
5103 TX B-On-Time Student Loan	115.7	80.6	80.6
0009 GR Acct. - Game, Fish, Water Safety	259.9	206.6	210.1
5064 GR Acct. - Volunteer Fire Dept. Asst.	60.3	37.0	36.0

* The 2014-15 BRE revenue projection would change significantly if the Legislature adopted a provision limiting revenue collections to proposed appropriations

Source: Legislative Budget Board

The Senate proposal would provide state employees a 3 percent across-the-board pay increase, with a $75 per-month minimum, starting in fiscal 2014 by appropriating $302 million in all funds, including $181.4 million in general revenue and general revenue dedicated funds. Certain state employees would be excluded from the across-the-board increase, including exempt employees, those receiving a targeted pay raise, and higher education employees, except those at a Texas A&M service agency.

The Senate proposal also would give some targeted salary increases, including one to Schedule C employees. Increases for these law enforcement officers would total about $118.3 million in all funds to pay for an equity adjustment to the officer salary schedule starting in fiscal 2014, resulting in raises ranging from 10 percent to 23 percent. Other targeted salary increases would go to employees at certain human service agencies, adult and youth and corrections officers, certain legal and non-legal staff of the judiciary, and specific staff of the Railroad Commission.

In Article 11, the Senate proposal would provide a 1 percent across-the-board state employee pay raise, with a $35 per-month minimum, in fiscal 2015.

Bond debt

Both CSSB 1 and the Senate proposal would appropriate $2.1 billion in Proposition 12 (2007) GO bond spending for highway improvement projects. They also would effectively exhaust the remaining $146 million in GO bond authority of the $1 billion granted by Proposition 4 (2007). The House proposal would spend all but $4 million of that amount and the Senate proposal would appropriate it entirely. The bond proceeds would fund deferred maintenance projects and capital improvement projects in various state agencies. In addition, CSSB 1 would appropriate $594.1 million in GO bond proceeds for CPRIT, contingent upon the enactment of HB 951 or similar legislation related to the administration of that agency.

The state's authorized non self-supporting GO bond capacity significantly exceeds its outstanding debt. As of the end of fiscal 2012, Texas had $4.1 billion in outstanding, previously issued GO bond debt and $7.8 billion in authorized but unissued GO bond capacity. In addition to the currently authorized but unissued debt, the LBB estimates the Legislature could approve up to $6.6 billion in new non self-supported GO bond debt and other general revenue-supported debt before exceeding the constitutional debt cap of 5 percent.

Spending in the House and Senate proposals remains below the constitutionally mandated debt cap, which limits debt service for bonds to 5 percent of non-dedicated general revenue averaged over the past three fiscal years. The state remains below the cap, with currently authorized state debt at 3.48 percent of unrestricted general revenue, including 1.34 percent debt service for issued bonds and 2.14 percent for authorized but unissued bonds. The debt service percentage of unrestricted general revenue has declined in recent years, falling from highs of 4.10 percent in 2010 and 3.70 percent in 2011.

Article 11

CSSB 1 includes an Article 11 list, sometimes referred to as a "wish list." It is an informational listing of the House Appropriations Committee's priorities for spending beyond what is in the proposed budget. Both budget proposals include an Article 11 list, which will be considered by the conference committee and could result in the funding of some items. The Article 11 list in CSSB 1 totals $7.6 billion, and the Article 11 list in the Senate proposal totals $2.8 billion.

Rainy Day Fund

CSSB 1 would not make any appropriations from the Economic Stabilization Fund ("Rainy Day Fund"). The fund is expected to reach $11.8 billion by the end of fiscal 2015, according to the comptroller's January 2013 *Biennial Revenue Estimate*.

The Rainy Day Fund primarily is funded by receipt of 75 percent of any oil or natural gas production tax revenue that exceeds the amount collected in fiscal 1987. The Rainy Day Fund has grown rapidly in recent years because of increased collections of these taxes. Transfers of excess natural gas and oil production tax collections to the Rainy Day Fund are projected to be $3.4 billion during fiscal 2014-15.

HB 11 by Ritter would authorize a one-time $2 billion transfer from the Rainy Day Fund as the initial capitalization for the State Water Implementation Fund for Texas (SWIFT).

Teacher retiree health care

Health care for retired teachers is provided through TRS-Care. CSSB 1 and the Senate proposal would appropriate $495.1 million for TRS-Care in fiscal 2014-15, a 33.3 percent increase above fiscal 2012-13 spending.

This funding level would meet a statutorily required state contribution to TRS-Care of 1.0 percent of public education payroll. The 82nd Legislature in 2011 enacted legislation to reduce this contribution to 0.5 percent for fiscal 2013 and directed the Teacher Retirement System (TRS) to conduct a study of the program's sustainability. The September 2012 TRS report projected the fund would be solvent through fiscal 2014-15 but would experience a shortfall of about $1.2 billion for the 2016-17 biennium.

General Government — Article 1

The 21 agencies in Article 1 perform many of the core operations of state government. They include:

- offices of the governor, secretary of state, attorney general, and comptroller;
- agencies charged with general operations of state office buildings and bond issues; and
- agencies that administer state employee benefits, pensions, and workers' compensation programs.

For Article 1 agencies, CSSB 1 would spend $4 billion in all funds for fiscal 2014-15, a decrease of $875.4 million, or 17.9 percent, from fiscal 2012-13. The Senate proposal would appropriate $4.5 billion.

The table below details overall spending for Article 1 by type of funds and the amounts estimated/budgeted for fiscal 2012-13, the amounts recommended for fiscal 2014-15 in CSSB 1, and the change the recommendation represents from fiscal 2012-13.

A large portion of the decrease in Article 1 funding is due to a moratorium on new grants for the Cancer Prevention and Research Institute of Texas, which is being investigated over the handling of several grants.

Article 1 spending comparisons

(millions of dollars)

Type of funds	Estimated/budgeted Fiscal 2012-13	Recommended CSSB 1	Biennial change	Percent change
General revenue	$2,195.1	$2,352.0	$156.9	7.1%
GR dedicated	798.6	668.7	(129.9)	(16.3%)
Federal	866.0	647.6	(218.4)	(25.2%)
Other	1,021.4	337.3	(684.0)	(67.0%)
All funds	4,881.1	4,005.7	(875.4)	(17.9%)

Source: Legislative Budget Board, Summary of House Committee Substitute for Senate Bill 1, March 2013

Cancer research grant funding

Cancer Prevention and Research Institute of Texas

- **CSSB 1 – $10.3 million in general obligation (GO) bond funds to cover ongoing grant obligations, a decrease of $577.9 million from fiscal 2012-13 spending; (contingency rider in Article 9 for $594.1 million in GO bond proceeds and $9.1 million in GR if agency restructuring legislation enacted)**

- **Senate – $10.4 million in GO bond funds; ($589.7 in GO bond funds and $9.1 million in GR for consideration in Article 11)**

- **Agency request – $589.7 million in GO bond funds and $9.1 million in debt service from GR dedicated accounts related to tobacco settlement funds**

The Cancer Prevention and Research Institute of Texas (CPRIT) was authorized in a constitutional amendment approved by voters in 2007 as a 10-year, $3 billion bond program to fund cancer research and prevention programs. To date, it has awarded 499 grants totaling $836 million to 72 academic institutions, nonprofits, and public companies and has drawn 44 cancer researchers to the state.

In 2012, the resignation of the executive director, chief scientific officer, and a number of science peer reviewers raised concerns about the grant review process. In November 2012, the agency disclosed that an $11 million award did not receive required commercial or scientific reviews. On December 18, 2012, the governor, lieutenant governor and House speaker called for a moratorium on future CPRIT grants until governance reforms are enacted. A January 2013 report by the State Auditor's Office concluded that CPRIT should significantly improve the transparency and accountability of its grant award and monitoring processes. The Travis County district attorney is conducting a criminal investigation.

Supporters say appropriations for additional CPRIT funding should be withheld until concerns about the institute's grant review process are addressed through legislation to restructure CPRIT. Taxpayers need assurance that the agency is awarding grants based solely on merit. CPRIT should focus on funding research instead of commercial endeavors primarily designed to bring products to market.

Critics say important medical advances and recruitment of out-of-state researchers could be jeopardized by further delays in grant funding. The state auditor's report identified problems in only three grants, and CPRIT has committed to implementing all of the state auditor's recommendations, including new rules concerning ethics and conflicts of interest. With an interim executive director and a new scientific officer in place, CPRIT is identifying potential candidates for key peer review positions so the agency could move quickly if allowed to proceed with grant proposals.

Economic development programs

Trusteed programs of the governor

- **CSSB 1 – $120 million in GR dedicated unexpended balances for Texas Enterprise Fund; $7.2 million in GR dedicated unexpended balances for Emerging Technology Fund**

- **Senate – same**

- **Governor's request – No new appropriations request for Texas Enterprise Fund; $132 million for Emerging Technology Fund**

The Texas Enterprise Fund (TEF) and the Emerging Technology Fund (ETF) are the state's two main economic development funds and are administered by the governor's office. Both funds were allowed to roll over their unexpended balances for use in fiscal 2012-13, during which biennium the TEF had $181.2 million available and the ETF had $90.3 million available. Neither budget proposal would make new appropriations to either fund.

Supporters say the TEF has sufficient unexpended funds to continue efforts to attract jobs and business investment to the state. The ETF should not receive additional funds because its decision-making processes lack transparency, according to a 2011 state auditor's report, making it difficult to determine how decisions to invest in a company are made.

Critics say that both the TEF and the ETF help Texas remain at the top of national surveys for business relocations and expansions. Texas could lose out to other states on major projects, such as a planned commercial spaceport, if there were insufficient funds for incentives. Many ETF investment proposals involve trade secrets, and the state is statutorily prohibited from publicly disclosing those projects until they are finally approved.

State contributions to state employee retirement fund

Employees Retirement System of Texas

- **CSSB 1 – $762.2 million in all funds for state contributions to ERS retirement fund, an increase of $50.9 million from fiscal 2012-13 appropriations**

- **Senate – $816.4 million in all funds**

- **Agency request – $749.8 million to fund the state retirement contribution at 6.5 percent plus $400 million to increase the state contribution to 10 percent**

Under CSSB 1, the rate for the state contribution to the ERS retirement fund would increase from 6.5 percent of an employee's salary to 6.6 percent. The Senate proposal would fund a 6.5 percent state contribution rate for fiscal 2014 and 7.65 percent in fiscal 2015. The agency requested $749.8 million to fund the state retirement contribution at 6.5 percent for the biennium, plus $400 million to increase the state contribution to the constitutional maximum funding of 10 percent.

Supporters of CSSB 1 say that recent reports by both ERS and the comptroller concluded that the state's main retirement fund is in relatively good shape, particularly when compared to similar plans in other states. The small increase in state contributions, combined with impressive gains on trust fund investments, should keep the plan sustainable in the near future.

Critics say the 6.6 percent contribution still falls short of the 6.95 percent rate that was in effect before reductions made by the 82nd Legislature in 2011. Without action, the fund faces long-term challenges in meeting its future pension obligations. Modest increases in the state contribution rate, such as in the Senate proposal, could reduce the unfunded liabilities. Until the fund is actuarially sound, the state is prohibited from giving retirees a cost-of-living increase or "13th check."

Health and Human Services — Article 2

Article 2 covers the state's health and human services (HHS) system, which includes five agencies: the Health and Human Services Commission (HHSC), Department of Aging and Disability Services (DADS), the Department of State Health Services (DSHS), the Department of Family and Protective Services (DFPS), and the Department of Assistive and Rehabilitative Services (DARS). The table below details overall spending for Article 2 by type of funds and the amounts estimated/budgeted for fiscal 2012-13, the amounts recommended for fiscal 2014-15 in CSSB 1, and the change the recommendation represents from the previous biennium.

Medicaid expansion

Health and Human Services Commission

- **CSSB 1 – No provision for Medicaid expansion**
- **Senate – No provision for Medicaid expansion; a provision requiring LBB approval before modifying Medicaid eligibility**

The federal Affordable Care Act (ACA) of 2010 required states to expand Medicaid eligibility to individuals under 65 and at or below 133 percent of the Federal Poverty Level (FPL). The U.S. Supreme Court, after reviewing and upholding the constitutionality of the ACA as a whole, held that the expansion requirement could not be mandated as a condition of receiving funds for existing Medicaid programs, in effect making proposed expansions optional.

Article 2 spending comparisons
(millions of dollars)

Type of funds	Estimated/budgeted Fiscal 2012-13	Recommended CSSB 1	Biennial change	Percent change
General revenue	$27,621.8	$29,328.5	$1,706.7	6.2%
GR dedicated	868.7	864.3	(4.4)	(0.5%)
Federal	39,504.0	41,313.0	1,809.0	4.6%
Other	637.8	639.3	1.6	0.2%
All funds	68,632.3	72,145.2	3,513.0	5.1%

Source: Legislative Budget Board, Summary of House Committee Substitute for Senate Bill 1, March 2013

To implement Medicaid expansion for individuals at or below 133 FPL (138 percent with a 5 percent income disregard), the Legislature would need to enact a law authorizing the expansion and amend the appropriations bill to account for the resulting increase in caseloads. Neither budget proposal provides for Medicaid expansion. The Senate proposal includes a provision prohibiting the modification of Medicaid eligibility without an LBB-approved plan to create more efficient health care coverage options for all existing and newly eligible populations. The LBB could only approve a plan that met certain criteria.

According to HHSC, the federal government would cover the full cost of newly eligible adults for the first three years for any state participating in the Medicaid expansion. The federal share of Medicaid expenses would decrease from 95 to 90 percent between 2017 and 2020.

In its *Government Effectiveness and Efficiency Report*, the LBB recommended amending current statutes to authorize intergovernmental transfers from counties to finance Medicaid expansion. Under this scenario, the state would amend the Medicaid State Plan to expand coverage to low-income adults with local funds. HHSC reported that it has received verbal guidance from the federal Centers for Medicare and Medicaid Services (CMS) that a county-based expansion would be considered a partial expansion, which is prohibited under federal guidelines.

Supporters of not expanding Medicaid say it is a broken and unsustainable program that would be unable to provide effective healthcare for a surge of new enrollees. Medicaid spending already consumes one out of every four dollars of the state's general revenue, and if the state opted for expansion, this number likely would increase over time to one in three dollars. This would require the state to make painful spending cuts to other areas of the budget, such as public education, transportation, and natural resources, or to raise taxes to cover the additional obligations.

Although the federal government's payment match for Medicaid expansion is relatively high, it still would impose increased funding obligations upon the state. For example, the federal match for acute-care costs does not apply to administrative costs, which are covered at only 50 percent, and Texas would pay 10 percent of acute-care costs starting in 2020. Given the current federal budget crisis, it is unrealistic to think the federal government would be able to continue paying its share of the enhanced match rate indefinitely. Even if it could, difficult budgetary decisions must be made even during times of economic growth, and Texas cannot afford to cut spending for other public programs to finance Medicaid.

Expanding Medicaid also would worsen existing problems of access to primary care. Currently, fewer than one-third of physicians polled accept all new Medicaid patients. The ACA's increase in Medicaid provider rates in 2013 and 2014 will not eliminate this shortage, resulting in both new and established Medicaid patients continuing to use the emergency room for routine care. Contrary to critics' claims, Medicaid expansion likely would increase uncompensated care costs by funneling the influx of Medicaid enrollees into the only place they can be sure of receiving reliable service — a hospital emergency room.

Experiences in other states are instructive in demonstrating the pitfalls of expansion. Arizona, for instance, opted to expand Medicaid in 2008 with disastrous results. Actual costs exceeded forecasts by up to four times, and the percent of non-elderly adults without insurance actually increased at the same time the percentage of Arizonans with private insurance dropped. Other states that have overseen Medicaid expansion, such as Delaware, Maine, and Oregon, have met with similar outcomes — a decline in the share of individuals with private insurance coupled with little change in the percent of those without insurance.

Texas would be better off rejecting Medicaid expansion under the current terms and continuing to pressure the federal government to allow block grant funding for the state's Medicaid program, which would provide more flexibility and control to design a program tailored to Texas.

Others who oppose Medicaid expansion say that, whatever the drawbacks of the Affordable Care Act, it should succeed in reducing the percent of uninsured Texans by moving many of them onto private insurance. The reductions in the uninsured rate brought about by expansion would be much less significant than those attained through the ACA's health-care marketplaces (exchanges). HHSC has projected that without Medicaid expansion the state's uninsured rate will drop from 24 percent to as low as 15 percent. With Medicaid expansion, this rate would only drop an additional 3 percent to 12 percent. In other words, the billions of federal and state dollars needed to fund expansion would achieve only a modest decrease in the portion of uninsured.

In addition, the 3 percent of uninsured that would be covered under Medicaid expansion should soon have more options available for health services. Under the 1115 Medicaid waiver that Texas received from CMS in 2011, $29 billion will be available over the next four years for a variety of purposes, including for more than 200 projects, some of which would expand community health centers. Increased funding for community health centers would help provide more options for medical services for low-income, uninsured Texans.

Critics say failing to expand Medicaid would be a rejection of the state's best option for reducing the number of Texans without health insurance. Although estimates vary, several analyses have projected that more than 1 million Texans would gain health insurance coverage through expansion. This would reduce Texas' uninsured rate — the highest in the nation at 24 percent — by 4 to 6 percent and have positive financial and health benefits to the state and its residents.

Far from overwhelming the state's budget, expanding Medicaid would be a cost-effective investment in economic growth for Texas. By spending $3.1 billion in general revenue funds on Medicaid expansion between 2014 and 2017, Texas would receive $27.2 billion in federal matching funds for the state's health care system. Several studies, including a report by former deputy comptroller Billy Hamilton, show these funds would provide a significant boost to the state's economy, producing an estimated 231,000 jobs and $67.9 billion in economic output during fiscal 2014-17, and would generate more state tax revenue than the state's portion of Medicaid expansion expenditures. Like other states, Texas could negotiate its ability to change its contribution to or withdraw from the expansion should the federal government reduce its level of matching funds.

Expanding Medicaid also would reduce uncompensated care costs borne by hospitals and local governments. These entities spend about $2.5 billion on indigent care, inpatient hospital care for those in jail, and charity care. Local hospitals take on an additional $1.8 billion in unreimbursed charity costs. Uncompensated care costs are ultimately distributed to all Texans through higher local taxes and health insurance premiums. Expanding Medicaid would cover many of these costs by providing compensation at the hospital level.

The state's shortage of physicians who accept Medicaid is already being partially addressed by federally funded increases in Medicaid provider reimbursement rates, and HHSC's projection for the 10-year costs of the expansion includes increases in provider payments. CSSB 1 also includes $44 million in general revenue that would maintain a 2 percent rate increase for primary care providers through August 2015 and expand higher primary care provider rates to OB/GYNs.

Those who oppose the expansion of Medicaid overestimate the coverage gains that would result from alternate approaches. While in some places the 1115 waiver will fund community health centers, most of it will go toward reimbursing hospitals' uncompensated care costs and improving quality of care, not to improving access to medical care. Expanding Medicaid would be the most economical and effective way to provide health care to low-income Texans and could be done in tandem with other efforts to expand health care access. A block grant for Medicaid is years away from being a political possibility, and an expanded Medicaid program likely would provide the state with more funding and flexibility should a block grant ever be granted.

Medicaid cost growth

Health and Human Services Commission

- **CSSB 1 – $843.7 million in GR funds for increased acute-care Medicaid caseloads; no funds for projected Medicaid cost growth**
- **Senate – $843.7 million in GR funds for increased acute-care Medicaid caseloads; $912.7 million for increases in Medicaid cost growth**
- **Agency request – $1.6 billion in GR funds to maintain Medicaid current services**

Acute-care Medicaid caseloads are anticipated to increase from 3,689,607 in fiscal 2013 to 4,058,167 in fiscal 2015. Some of this caseload growth comes from transferring into Medicaid some Children's Health insurance Program (CHIP) recipients, as required by the ACA.

CSSB 1 would appropriate $843.7 million in general revenue funds for LBB estimates of increased Medicaid caseloads, but it would not fund projected cost growth stemming from higher patient acuity, service use, and medical cost inflation for fiscal 2014-15. The Senate proposal also would fund projected increases in Medicaid caseloads and would provide an additional $912.7 million for increases in Medicaid cost growth. CSSB 1 would appropriate a total of $22.7 billion in general revenue funds for Medicaid, an increase of 4.9 percent from fiscal 2012-13. The Senate proposal would appropriate to Medicaid overall about $840 million more in general revenue than would the House.

Neither CSSB 1 nor the Senate proposal would allocate funds for an HHSC request for certain ACA provisions that increase Medicaid caseloads and associated costs. The agency requested $738.9 million in general revenue funds and $1.8 billion in all funds to pay for a 12-month recertification process, caseload growth among children who are currently eligible but not enrolled, and Medicaid coverage of former foster care children up to age 26.

Supporters say appropriating money for caseload growth but not cost growth in Medicaid and CHIP reflects a prudent approach to budgeting that would provide sufficient funding for the state to operate until better cost estimates were available. It would account for the range of variables that can affect cost. For instance, the continuing economic recovery could reduce the number of people eligible for Medicaid and CHIP, but provisions of the ACA could increase participation. Medicaid is an entitlement program, so everyone eligible for Texas Medicaid services will receive the services they need regardless of the amount of funding appropriated. If the LBB's projections of Medicaid caseload and cost growth turn out to be lower than actual growth figures, the 84th Legislature could compensate for this shortfall through supplemental appropriations at the end of fiscal 2015. Appropriating later to cover a shortfall would be preferable to appropriating more funds than the program requires because excess appropriations could tie up funding needed for other purposes.

Critics say it would be more fiscally responsible to appropriate funds sufficient for the state's full two-year budget, rather than placing the burden of making the appropriation on the next legislature. Health care costs, like those for most goods and services, increase each year due to inflation and are likely to increase in fiscal 2014-15 due to additional factors, such as changes required by the ACA, population growth, technological advancements, and increased prevalence of chronic diseases. As an entitlement program — and now also due to provisions in the ACA — Texas cannot limit eligibility for Medicaid. Failing to fund cost growth adequately requires the Legislature to make supplemental appropriations to HHS agencies each session, which reduces budget certainty and underrepresents the true costs of the Medicaid program.

Women's health services

Department of State Health Services

- **CSSB 1 – $100 million increase in the Primary Health Care Program; $71.3 million for the Women's Health Program; $43.2 million for family planning services**

- **Senate – same**

CSSB 1 and the Senate proposal would appropriate an increase of $100 million in general revenue funds for expanded health care services for women through the Primary Health Care Program (PHC). The PHC serves low-income women, children, and men who are unable to access comparable care through other means. Participants may be charged a copay not to exceed 25 percent of the total cost of services delivered, including diagnosis and treatment, emergency services, family planning services, preventive health services, health education, and other diagnostic services. Funding for the PHC program could go only to providers eligible to participate in the Texas Women's Health Program (WHP).

Both budget proposals also include $71.3 million in general revenue funds for the WHP, maintaining the all-funds level in the fiscal 2012-13 budget. Both proposals also include $43.2 million for family planning services administered through DSHS. CSSB 1 includes a contingency appropriation of about $32 million in general revenue funds for family planning, which would be available only if DSHS did not receive federal funds from Title X of the Public Health Service Act. On March 25, the federal government announced it would award a portion of the Title X grants to an independent organization instead of DSHS.

Supporters say additional funds for PHC are necessary following recent steep cuts sustained by women's health programs in Texas. The 82nd Legislature cut funds to the DSHS Family Planning Program by about two-thirds. In addition, the WHP, which is administered by HHSC, lost $30 million in federal funds when the U.S. Department of Health and Human Services ruled that a Texas ban on the participation of affiliates of abortion providers ran counter to a Medicaid guarantee that participants could see any qualified provider. Increasing funds to the PHC program for women would help increase the number of eligible providers participating in the women's health programs and shore up clinics that are operating on the brink of financial insolvency.

Without additional funding, many low-income women will continue to have limited access to health services, including well-woman examinations, breast and cervical cancer screenings, and contraception. Inadequate access to these services could have numerous public health consequences, including undetected breast and cervical cancer, undetected diabetes and high blood pressure, and unplanned pregnancies — outcomes that tend to be vastly more expensive than preventive measures.

Those who oppose the inclusion of emergency contraceptives have mischaracterized these drugs as abortifacient, when in fact they only prevent pregnancy. Emergency contraceptives are essentially no different than other contraceptives commonly offered through state programs. They prevent unplanned and unwanted pregnancies that are more costly to state taxpayers down the line.

Critics say the additional funding for women's health services inappropriately would use taxpayer money to fund family planning services that many Texas health care providers find morally objectionable. The absence of a specific provision in Texas law allowing doctors or pharmacists to refuse to dispense prescriptions and sterilization services to which they are morally opposed creates an ethical dilemma for some medical providers. Currently, 13 states allow providers to refuse to fill prescriptions for contraceptives and 18 states have a similar exception for sterilization services. Texas should embrace stronger laws that allow medical providers to refuse to provide these services before expanding programs that use taxpayer funds to finance family planning services.

The proposal to appropriate additional funds to the PHC also should include restrictions on the provision of emergency contraception, such as the "morning-after pill," the use of which some say is tantamount to abortion. Such prescriptions should not be funded at the taxpayer's expense.

Other critics say that the additional appropriation to the PHC program would not make up for cuts made to family planning and WHP since 2011. While the proposed additional funding represents a step in the right direction, it would not completely restore the levels of health services available for low-income women in fiscal 2010-11. Even if Texas restored the levels of women's health and family planning services it provided in 2011 at a cost of roughly $20 million in additional general revenue, demand for services still would significantly outweigh supply.

Children's safety initiatives

Department of Family and Protective Services

- **CSSB 1 – an increase of $24.9 million in GR and $81.8 million in all funds from fiscal 2012-13 for children's safety initiatives**

- **Senate – an increase of $33.7 million in GR and $92.3 million in all funds from fiscal 2012-13 for children's safety initiatives**

CSSB 1 would appropriate an additional $24.9 million in general revenue and $81.8 million in all funds to DFPS to reduce the number of delinquent Child Protective Services (CPS) investigations, reduce the CPS conservatorship caseload to the fiscal 2009 level, and investigate illegal day care operations. The Senate proposal would increase appropriations for these same purposes by $33.7 million in general revenue funds and $92.3 million in all funds.

Supporters say that a growing population has placed increasing demands on DFPS services but the agency has not received the additional funds necessary to meet the growing needs. The pressure to meet increasing demands with fixed resources has contributed to an alarming turnover rate as high as 38 percent among CPS caseworkers and investigators.

The increase in CPS appropriations would include sufficient funds to hire a total of 783 FTEs, including an additional 374 FTEs to reduce average daily conservatorship caseloads to the 2009 level of 28.4 from their current level of 32.6. The agency reports 11 percent growth since 2009 in the monthly average number of children in conservatorship without an attendant increase in the number of caseworker positions. Funds to reduce delinquent investigations — those that remain open for longer than 60 days — would help pay for about 365 new FTE positions to shrink the number of delinquent cases to 15 percent of the total.

The additional funds in CSSB 1 also would pay for about 45 new staff to investigate illegal day care operations. There were 943 reports of illegal operations investigated in fiscal 2012, but with current resources DFPS is confined to investigating reported offenders only. Both budget proposals would allow DFPS to enable its child care licensing division to proactively find illegal day care operations and take appropriate action.

Critics say that while these funding increases might be for worthy purposes, many pressing state funding priorities have not received full funding. CSSB 1 for instance, would not fund projected Medicaid cost growth for fiscal 2014-15. It would not be responsible fiscal practice to increase funding for nonessential expenditures while delaying funding of unavoidable expenses.

In addition, CSSB 1 would fund the hiring of an additional 783 FTEs, a massive infusion of new personnel that could be hard for the agency to absorb organizationally. With such high turnover rates among new employees already, an unwieldy group of new FTEs might not be the most effective way to reduce conservatorship caseloads and delinquency.

Mental health services

Department of State Health Services

- **CSSB 1 – increase of $186.7 million in GR funds and $45.6 million in federal funds to expand mental health services**

- **Senate – increase of $172.7 million in GR funds and $45.6 million in federal funds to expand mental health services**

Both budget proposals would fund increases of more than $200 million in all funds to DSHS to expand mental health services and reduce mental health waiting lists for adults and children. Of this, both proposals would include appropriations to fully fund services for adults ($54.1 million in general revenue) and children ($3.1 million in general revenue) on mental health waiting lists as of May 2012.

Supporters say the additional funding in CSSB 1 is needed because Texas ranks at the bottom of the list in terms of mental health spending per capita among states. Recent national tragedies have highlighted the importance of providing access to mental health services, and adequately funding these services could reduce costs in other areas of the state budget, such as criminal justice. Increasing funding for mental health services would help reduce reliance on emergency rooms and county jails as mental health treatment centers. ERs may be able to temporarily stabilize an individual, but they are costly and cannot provide necessary long-term treatment. Imprisonment, moreover, often worsens mental illness and damages prospects for future employment and gainful living among those incarcerated.

Additional funding for mental health waiting lists would provide access to critical services for 6,242 adults and 286 children per year. Adult mental health waiting lists increased by 85 percent from the first quarter of fiscal 2009 to the third quarter of fiscal 2012. CSSB 1 would take a decisive step in reversing this trend and providing health services to those who are currently waiting.

Critics say it might be premature to commit general revenue to funding for mental health services when federal assistance to programs that include such services could become available in the next several years. A five-year 1115 waiver Texas received from CMS in 2011 allows hospitals and other providers to earn up to $11.4 billion for Delivery System Reform Incentive Payment (DSRIP) projects. HHSC has allocated no less than 10 percent of these funds to community mental health centers that serve mentally ill, indigent, and Medicaid patients. HHSC has received 297 project proposals for 38 community mental health centers, which it is hoped will go a long way toward addressing mental health needs without tying up state general revenue.

Public Education — Article 3

The public education agencies in Article 3 oversee the state's public education system. They set curriculum standards, approve instructional materials, certify educators, provide school district employee health care, and manage the teacher retirement pension fund.

Most public education funding is appropriated to the Texas Education Agency (TEA), which will serve a projected 5.2 million students in fiscal 2014-15. Article 3 public education funding also is appropriated to the Texas School for the Deaf, the Texas School for the Blind and Visually Impaired, and the Teacher Retirement System (TRS).

The table below details overall spending for Article 3 by type of funds and the amounts estimated/budgeted for fiscal 2012-13, the amounts recommended for fiscal 2014-15 in CSSB 1, and the change the recommendation would represent from fiscal 2012-13.

The federal Budget Control Act's across-the-board reductions, commonly referred to as sequestration, could reduce federal funds to TEA by $167.7 million in fiscal 2014. Much of this funding goes to school districts with high numbers or high percentages of students from low-income families and for special education. TEA's estimated reduction is the most significant among agencies facing funding cuts due to sequestration.

Public education spending comparisons
(millions of dollars)

Type of funds	Estimated/budgeted Fiscal 2012-13	Recommended CSSB 1	Biennial change	Percent change
General revenue	$34,728.5	$36,702.3	$1,973.8	5.7%
GR dedicated	0.7	0.7	0.1	10.0%
Federal	9,884.8	10,480.9	596.1	6.0%
Other	7,775.5	8,035.0	259.5	3.3%
All funds	52,389.5	55,218.9	2,829.4	5.4%

Source: Legislative Budget Board, Summary of House Committee Substitute for Senate Bill 1, March 2013

Foundation School Program

Texas Education Agency

- **CSSB 1 – $40.7 billion in all funds, including $32.8 billion in GR to FSP**
- **Senate – $39.6 billion in all funds, including $31.8 billion in GR**
- **Agency request – $39.8 billion in all funds**

Foundation School Program (FSP) money flows to all school districts for operations and to some districts for facilities. The 82nd Legislature in 2011 reduced FSP funding by $4 billion in SB 1, first called session, through changes in target revenue and the school finance formulas.

The all-funds increase for the FSP in CSSB 1 would be $2.8 billion greater than 2012-13 spending, and the general revenue increase would be $2.5 billion. The all-funds increase for the FSP in the Senate proposal would be $1.7 billion greater than fiscal 2012-13 spending, and the general revenue increase would be $1.5 billion.

CSSB 1 would fully fund enrollment growth estimates of 85,000 to 87,000 additional students each year of fiscal 2014-15. The bill would add $2.5 billion to the school finance formulas and would increase the basic allotment for each year of the biennium. The basic allotment is the base funding level that is adjusted to reflect variations in costs of educating certain students. Under CSSB 1, it would be $4,890 per student in fiscal 2014 and $4,975 per student in fiscal 2015, both of which are increases from the $4,765 basic allotment per student for both years in the introduced bill. The Senate proposal would add $1.4 billion to the school finance formulas and set the basic allotment at $4,799 per student in fiscal 2014 and $4,874 per student in fiscal 2015.

Supporters say CSSB 1 would fully fund enrollment growth for the biennium and restore more than half of the $4 billion in FSP funding that was cut by the 82nd Legislature. The additional money would be distributed to all school districts, but those with lower property wealth would receive larger amounts in an important step toward improving funding equity.

School districts implemented cost-savings in 2011 and should be in a position to operate during the next biennium without additional layoffs and program cuts. The Legislature should wait until the Texas Supreme Court rules on an ongoing school finance lawsuit before making major changes to public education funding.

Critics say the reductions in 2011 were based on revenue projections that proved to be wrong and the state now has funds to restore school funding to pre-reduction levels. According to a recent survey by a national teachers group, Texas spends $3,000 less per pupil than the national average, ranking 49th among the 50 states and the District of Columbia. A state district judge has ruled that the Legislature has failed to provide suitable funds for public schools in violation of the Texas Constitution. The Legislature can begin to improve funding immediately without waiting for a ruling from the Texas Supreme Court.

Prekindergarten programs

Texas Education Agency

- **CSSB 1 – $7 million in all funds for Early Childhood School Readiness Program grants, a level equal to fiscal 2012-13 spending**
- **Senate – $7 million in all funds for school readiness grants, plus $40 million in general revenue for supplemental pre-K funding**
- **Agency request – same as CSSB 1**

Texas requires that each school district with at least 15 eligible students offer a free, half-day prekindergarten program. These programs target children whose families earn below 195 percent of federal poverty guidelines, English language learners, children who are homeless or in foster care, and those with parents on active military duty. In 2011, half-day pre-K programs served 224,306 children. CSSB 1 would spend about $1.5 billion through the FSP to fund half-day pre-K programs at local school districts.

The Early Childhood School Readiness Program distributes funds on a competitive grant basis to support preschool programs, including public prekindergarten.

Supporters say proposed levels of pre-K supplemental funding in CSSB 1 are sufficient. The state should not spend more to fund full-day programs, which may be inappropriate for many children age 4 and under. Districts that wish to provide full-day pre-K programs could use their fund balances or seek other funding sources for discretionary programs of this type.

Critics say the 82nd Legislature in 2011 cut more than $200 million in supplemental pre-K funding, prompting many districts to eliminate full-day programs. CSSB 1 should follow the Senate proposal and restore some funding. Quality early childhood programs particularly help students from low-income and non-English-speaking families get ready for school. Investing in these programs would save the state money by helping students succeed in the primary grades and stay on track to graduate.

Other critics say the state should eliminate pre-K grants and follow the model in the Senate proposal of distributing supplemental funding through the school finance formulas.

Student assessments

Texas Education Agency

- **CSSB 1 – $91.9 million in all funds, a reduction of $73.8 million from fiscal 2012-13**
- **Senate – $165.3 million in all funds**
- **Agency request – same as Senate proposal**

TEA is transitioning to a new assessment system called the State of Texas Assessments of Academic Readiness, or STAAR, which was first implemented in the 2011-12 school year. The STAAR tests students in grades 3 through 8 in mathematics, reading, science, and social studies and includes 15 end-of-course tests for high school students in the four core subject areas – English language arts, mathematics, science, and social studies.

A contingency rider in the Senate proposal would reduce appropriations required to administer state assessments, as determined by TEA, if legislation were enacted to reduce the number of STAAR exams. The House on March 27 passed HB 5, which would reduce the number of high school end-of-course exams to five.

Supporters say that reduced funding for STAAR is appropriate as the 83rd Legislature responds to calls from parent groups and about 880 school districts to lessen the emphasis on testing. Texas is spending $468 million over four years with its testing contractor, far more than other states. It would be better to use the money to hire more teachers and improve classroom instruction than to continue the state's excessive focus on assessment and test preparation.

Critics say the state assessments are a critical component of holding schools accountable for ensuring that state curriculum standards are taught. Scaling back the assessment program would reduce academic rigor and lower expectations for Texas students at a time when too many high school graduates are not ready for college-level courses or the highly technical jobs of the future. Complaints about too much time spent on testing are largely due to local school policies that require benchmark and other practice tests.

Student Success Initiative

Texas Education Agency

- **CSSB 1 – $36.5 million in general revenue for Student Success Initiative, a level equal to fiscal 2012-13 spending**
- **Senate – $50.5 million in GR**
- **Agency request – $41 million**

The Student Success Initiative (SSI) was created by the 76th Legislature in 1999 as part of the state policy against social promotion in public schools. SSI provides tutoring and other interventions designed to help students perform at grade level on state assessments. Under state law, students are required to perform satisfactorily on the STAAR reading and mathematics assessments administered in grades 5 and 8 as a condition for promotion to the next grade. Retest opportunities are available to students who fail the assessments, and school districts are required to provide accelerated instruction to these students between test administrations.

SSI funds traditionally have been allocated through grants to school districts based on the number of students failing the exams. The program's funding has decreased steadily since fiscal 2006-07, when the state appropriated $292 million for this purpose. The commissioner of education did not make a determination of certification for SSI grant funding last year because SSI grade-retention requirements were suspended for the 2011-12 school year to accommodate the transition to the new testing program.

Supporters say SSI funding in CSSB 1 is sufficient until the Legislature can determine whether these grants are being used effectively to help students struggling to pass state assessments. A more cost-effective way to deliver these services would be through computer-based and online tutoring programs.

Critics say CSSB 1 should follow the Senate proposal and restore some of the funding that was reduced to this important grant program in fiscal 2012-13. At a time when more students are struggling to pass the new STAAR tests, the Legislature should put more resources behind efforts to help them succeed. SSI funding for accelerated instruction is particularly important for low-income families who cannot afford to hire tutors to help their children perform better on state assessments, particularly when promotion to the next grade hangs in the balance.

Other critics say the state should eliminate this grant program and instead appropriate sufficient funding through the school finance formulas for districts to provide additional instruction for students who have to retake state exams.

TRS pension fund

Teacher Retirement System

- **CSSB 1 – $3.3 billion in all funds, an increase of $193.2 million from fiscal 2012-13 spending**
- **Senate proposal – $3.2 billion in all funds**
- **Agency request – $3.6 billion in all funds**

The TRS pension fund provides retirement benefits to public education and certain higher education employees. Spending on the fund is determined by the number of current employees and the total amount of payroll for those employees, as well as by the state's contribution rate as a percentage of an employee's salary.

To ensure the long-term viability of the trust fund, the TRS board requests funding to increase the state's contribution to 6.9 percent in fiscal year 2014 and 7.4 percent in fiscal year 2015. The rate employees pay into the fund is 6.4 percent of their salaries, which has not changed in more than 20 years.

CSSB 1 would increase the state contribution rate from 6.4 percent in fiscal 2013 to 6.6 percent in fiscal 2014-15. The Senate proposal would keep the state's contribution rate at 6.4 percent for fiscal 2014, raising it to 6.7 percent in fiscal 2015.

Supporters say increasing the state's contribution rates would be a step in the right direction after the Legislature's decision to drop state contributions to 6 percent in fiscal 2012. There is no need for a dramatic increase in the state's contribution rate because the fund can meet its liabilities through 2065 at current contribution levels. A December 2012 study by the comptroller said TRS in 2011 had a funded ratio of 82.7 percent, a substantial improvement over the funded ratio of 74.4 percent in 2008.

Critics say the pension fund faces long-term challenges because of persistent underfunding of employer and employee contributions. The comptroller's report said that the fund has an infinite amortization period, meaning that the unfunded liabilities cannot be eliminated with current contributions to the plan. State contributions are well below the high of 8.5 percent in the early 1980s. Until the fund is actuarially sound, TRS cannot provide increased retirement pay to help offset inflation. Strengthening the fund is especially important because 95 percent of Texas teachers do not participate in Social Security.

Higher Education — Article 3

Article 3, Higher Education, covers agencies responsible for higher learning in Texas. These include the Texas Higher Education Coordinating Board, the 38 general academic institutions, 50 community and junior college districts, nine health-related institutions, and certain state agencies attached to the Texas A&M System, such the Forest Service and Engineering Extension Service.

The table below details overall spending for Article 3, Higher Education, by type of funds and the amounts estimated/budgeted for fiscal 2012-13, the amounts recommended for fiscal 2014-15 in CSSB 1, and the change the recommendation represents from fiscal 2012-13.

The $5.9 billion decrease in all funds is due to a proposal to move patient income at health-related institutions from the main appropriations pattern to an information rider. The health-related institutions would still receive this funding.

Formula funding

Public higher education institutions

- **CSSB 1 – $4.3 billion in GR**
- **Senate proposal – $4.4 billion in GR**

CSSB 1 would appropriate $4.3 billion in general revenue to be distributed through the formulas used to find higher education institutions — the instruction and operations (I&O)

Higher education spending comparisons
(millions of dollars)

Type of funds	Estimated/budgeted Fiscal 2012-13	Recommended CSSB 1	Biennial change	Percent change
General revenue	$12,459.9	$12,604.7	$144.8	1.2%
GR dedicated	2,616.9	2,701.0	84.1	3.2%
Federal	322.0	268.9	(53.1)	(16.5%)
Other	7,889.5	1,862.0	(6,027.5)	(76.4%)
All funds	23,288.4	17,436.6	(5,851.8)	(25.1%)

Source: Legislative Budget Board, Summary of House Committee Substitute for Senate Bill 1, March 2013

formula and the infrastructure formula — while the Senate proposal would appropriate $4.4 billion in general revenue for this purpose. These formulas received $4.2 billion in general revenue in fiscal 2012-13.

The main sources of funding for public higher education institutions are state appropriations and tuition and fees charged to students. State appropriations include funds based on formulas that take into account the numbers and kinds of students attending an institution and the instructional costs associated with the courses provided.

Supporters say increasing the funds available for distribution through the I&O formula would go a long way toward restoring the disproportionately large cuts made to institutions of higher education in previous years. CSSB 1 would provide a blanket increase of 3 percent to general academic institutions while appropriately directing more funding to schools that had an increase in student enrollment. Unlike institutions with stable enrollments, growing schools need more money to hire additional faculty and provide services to an expanding student population. Other potential costs to growing institutions, such as infrastructure costs, are met through other funding mechanisms, such as tuition revenue bonds.

Critics say the funding levels proposed in CSSB 1 would not go far enough to undo the damage made by cuts in previous years. The cuts have led to dramatic increases in tuition and fees, and the Legislature should do more to protect Texas residents from sharp increases in the cost of higher education.

Other critics say the approach in CSSB 1 would unfairly disadvantage the University of Texas at Austin and Texas A&M University. The proposed increases to the I&O formula funding would not benefit them as much as it would benefit universities with growing enrollments. UT and Texas A&M have capped enrollments. Even though these universities are not experiencing dramatic increases in enrollment, their costs are still rising, especially as these tier-one research institutions invest heavily in research and faculty.

Graduate medical education

Public higher education institutions

- **CSSB 1 – $85.9 million in GR**
- **Senate – $92.5 million in GR**

Funding for graduate medical education (GME) helps defray the costs hospitals and other health providers incur for training and supervising doctors who have completed their undergraduate medical education and are now completing their graduate residency programs.

CSSB 1 would appropriate $85.9 million in general revenue for graduate medical education funding, an increase from the $62.6 million spending level in fiscal 2012-13.

Of the $85.9 million total appropriation in CSSB 1, $50.6 million in general revenue would be appropriated as part of a formula to defray the costs of GME in public health-related institutions and $11.2 million would be appropriated for the same purposes to the Baylor College of Medicine. The Senate proposal would appropriate $69.5 million in general revenue.

CSSB 1 also would appropriate $10 million in general revenue for resident physician expansion grants, which are used to establish residency programs in underserved areas of the state and to support rural and public health rotations. The Senate proposal would spend $10 million in general revenue. THECB requested $11.5 million to support 766 family practice residents. The governor's proposed budget would provide $15 million for these expansion efforts.

CSSB 1 also would appropriate $14.1 million for the family practice residency program, which would change the distribution of family physicians throughout Texas. The program also would support rural and public health rotations. The Senate proposal would appropriate $11.5 million for this purpose. THECB requested $10 million.

Supporters say increased GME funding would result in more doctors practicing in Texas. Although the state invests a great deal in training for future doctors, not enough medical residency positions are available in the state to meet the needs of recent graduates. This leads many to conduct their residency training outside of Texas. Because most doctors practice where they completed their residencies, if the state wishes to retain more of the doctors it pays to train it should increase funding to existing GME slots and increase the total number of slots. It is appropriate for the state to subsidize GME slots, especially those in the less lucrative fields of primary care that attract fewer doctors, because it is expensive for health-related institutions to both train and supervise residents.

Critics say it is not necessary to increase GME funding because doctors want to practice in Texas due to its growing patient population and friendly business climate. Health-related institutions will provide GME slots regardless of state funding because it allows them to employ residents who can provide care at a fraction of the cost of paying a fully licensed physician.

Student financial aid

Texas Higher Education Coordinating Board

- **CSSB 1 – $1.28 billion in all funds**
- **Senate – $1.08 billion in all funds**
- **Agency request – $1.09 billion in all funds**

Texas has several major grant programs for student financial aid that are entrusted to the Texas Higher Education Coordinating Board. Four programs make up the bulk of this assistance. Proposed spending levels for these programs are detailed in the chart below.

The largest of the four programs, TEXAS Grants, is designed to help financially needy high school graduates who completed either the recommended or advanced high school program and enrolled in an undergraduate degree or certificate program. B-On-Time Grants provide zero-interest loans to eligible students, which are forgiven to those who graduate with at least a B average within a certain period of time. The Texas Equal Opportunity Grants program is for needy students attending public community, technical, or state colleges. Tuition equalization grants are for needy students attending independent nonprofit institutions in Texas.

CSSB 1 would increase funding for all student financial aid programs to $1.28 billion in all funds for fiscal 2014-15. This would be an increase of $162.9 million in all funds above the $879.5 million spent in fiscal 2012-13.

Proposed student financial aid spending by major grant type
(millions of dollars)

Budget proposal	TEXAS Grants	B-On-Time Grants	Tuition Equalization Grants	Texas Education Opportunity Grants
CSSB 1	$709.6*	$31.4+	$183.8	$29.0
Senate	679.2*	31.4+	168.8	24.0
THECB request	744.5*	80.6+	168.9	65.3

All numbers are general revenue except:
** includes $15 million in donations*
+ includes general revenue and general-revenue dedicated

Source: Legislative Budget Board

Supporters say increasing financial aid to college students would promote the state's future economic competitiveness by helping to secure a highly trained, well educated work force. While Texas is an attractive venue, businesses will not locate here unless they can find qualified employees.

CSSB 1 would target this aid to needy students who might not otherwise be able to attend college. Such students often cannot rely on family resources to help pay for an education. Increased funding to TEXAS Grants means that 87 percent of eligible students or 149,400 students could receive a grant under the program. The funding in CSSB 1 would allow more deserving, high-achieving students to earn a college degree and contribute to the state's economy and society.

Critics say the B-On-Time program is ineffective and should be reexamined before it receives additional funding. The program does not achieve the goal of graduating students on time. Since its inception in fiscal 2004, only 38 percent of participants have met the program's forgiveness requirements.

Further, general revenue dedicated funds are raised for the B-On-Time program with tuition set asides from each college student. Many universities complain that after remitting these funds to the higher education coordinating board, they do not receive their fair share back in the form of students attending their institutions through B-On-Time loans. This arbitrary and inequitable distribution of funds is not fair to the institutions nor to the students whose tuition dollars are spent at other schools.

Community college funding

Texas Higher Education Coordinating Board

- **CSSB 1 – $1.6 billion in GR, a $39.6 million decrease from fiscal 2012-13 spending**
- **Senate – $1.8 billion in GR, a $57.8 million increase from fiscal 2012-13 spending**
- **Community colleges' request – $1.7 billion in GR; same as fiscal 2012-13 spending**

Community colleges are funded by state appropriations, tuition and fees, and local tax revenue. State appropriations include funds based on formulas that take into account the numbers and kinds of students attending an institution and the instructional costs associated with the courses provided.

In fiscal 2012-13, the Legislature appropriated $1.7 billion in general revenue funds for community college formula funding. Based on declining community college enrollment, CSSB 1 would decrease appropriations for community college formula funding by $39.7 million from the previous biennium.

The Senate proposal would increase general revenue and general revenue dedicated funding for community colleges by $57.8 million from fiscal 2012-13 spending levels. From Senate proposal's total appropriation of $1.8 billion, each of the state's 50 community college districts would receive $1 million. Of the remaining funds, 90 percent would be distributed through traditional formula funding, while 10 percent would flow to community colleges based on the extent to which they met performance measures such as the number of associates' degrees awarded and the number of students who transferred to a four-year institution.

Supporters say the funding in CSSB 1 would help community colleges weather a current decline in student enrollment by providing more money than they normally would receive under the formula funding system for the number of students they serve. As the economy has started to recover, fewer students are enrolling in Texas community colleges. The additional funding would help community colleges avoid deep budget cuts that could damage their core programs

Under the existing formula, community colleges would receive $88.9 million less in the next biennium than in fiscal 2014-15. By making up $49.3 million of this funding, CSSB 1 would help the community colleges absorb the loss in tuition, fees, and state formula funding assistance.

Critics of the plan in CSSB 1 say it would not go far enough in helping community colleges adjust to the loss in funds that will occur because of declining enrollment. The House proposal should continue funding at the fiscal 2012-13 level.

Other critics say the budget should incorporate the Senate's proposal to give community colleges more funding than in fiscal 2012-13 and restructure how the funding is distributed. The Senate's proposal would increase general revenue and general revenue dedicated funding to community colleges by $58 million over fiscal 2012-13 levels, while incorporating performance measures that would encourage colleges to strive for greater student success.

Funding to fight wildfires

Texas A&M Forest Service and Texas A&M Engineering Experiment Station

- **CSSB 1 – $70.3 million to Texas A&M Forest Service, a $18.7 million increase from fiscal 2012-13 initial appropriations**

- **Senate – $87.5 million to Texas A&M Forest Service, a $35.9 million increase from fiscal 2012-13 initial appropriations**

CSSB 1 would increase funding for the wildfire and emergency program run by the Texas A&M Forest Service by $18.7 million over fiscal 2012-13 initial appropriations.

Among other changes, including certain decreases to the strategy, CSSB 1 would increase appropriations by $10 million in general revenue dedicated funds to the rural volunteer fire department assistance program, which aids volunteer fire departments with equipment and training needs. CSSB 1 also would appropriate $10 million in general revenue for wildfire protection plan operations, which would position additional firefighters around the state and provide assistance to local, state, and federal fire response efforts.

In addition to appropriations for the wildfire and emergency program, CSSB 1 would appropriate $4 million in general revenue for the Texas A&M engineering experiment station for a large-scale pilot demonstration project that would alert utilities and firefighters of the impending failure of a transformer or power line that could lead to a wildfire.

The Senate proposal would appropriate $9 million in general revenue dedicated funds for the rural volunteer fire department assistance program, $1 million in general revenue for wildfire protection plan operations, and $2 million in general revenue for a pilot program to prevent wildfires started by power line failures.

The agencies' request includes $32.5 million in general revenue dedicated funds for the rural volunteer fire department assistance program, $27.2 million in general revenue for wildfire protection plan operations, and $4 million in general revenue for a pilot program to prevent wildfires started by power line failures.

Supporters say CSSB 1 adequately would fund necessary programs to fight wildfires in Texas. The additional grants and funds would restore some of the revenue cut during the last legislative session and would help local fire departments with training and equipment needs.

The pilot program to prevent wildfires caused by power lines would test technology successfully deployed in other states in high-risk areas in Texas. The advance notice provided by such a system could allow responders to contain wildfires at a very early stage, preventing large uncontrolled fires from ravaging the state.

Critics say CSSB 1 would not fully restore funding cuts made to firefighting and prevention programs by the 82nd Legislature and that substantially more money is needed to provide new engines, equipment, and training for volunteer firefighter departments across the state.

Judiciary — Article 4

Article 4 covers the judicial system of Texas. It includes two high courts, 14 intermediate appellate courts, 456 state district courts, and 2,249 county, municipal, and justice-of-the-peace courts, as well as other state-funded judiciary functions. The table below details overall spending for Article 4 by type of funds and the amounts estimated/budgeted for fiscal 2012-13, the amounts recommended for fiscal 2014-15 in CSSB 1, and the change the recommendation represents from fiscal 2012-13.

Basic civil legal services

Supreme Court of Texas

- **CSSB 1 – $49.9 million in total state funding from all funds for basic civil legal services, maintaining GR funding at the fiscal 2012-13 level**
- **Senate – same**

The $49.9 million in total state funding for basic civil legal services in CSSB 1 would include $17.6 million in general revenue, $27.3 million from Judicial Fund 573, and $5 million from the Crime Victims Compensation Fund.

Texas appropriates funds to the Texas Supreme Court for the basic civil legal services (BCLS) program, which provides legal services to low-income Texans. BCLS funds are administered by

Article 4 spending comparisons
(millions of dollars)

Type of funds	Estimated/budgeted Fiscal 2012-13	Recommended CSSB 1	Biennial change	Percent change
General revenue	$378.1	$395.0	$16.9	4.5%
GR dedicated	81.4	99.5	18.1	22.3%
Federal	4.4	3.6	(0.8)	(18.9%)
Other	184.2	175.7	(8.5)	(4.6%)
All funds	648.2	673.8	25.7	4.0%

Source: Legislative Budget Board, Summary of House Committee Substitute for Senate Bill 1, March 2013

the Texas Access to Justice Foundation, which is overseen by the Supreme Court. Civil legal aid is provided through nonprofit organizations that receive funding from the foundation.

BCLS funds can provide aid for cases involving a wide range of issues, including:

- family issues, such as domestic violence;
- veterans' benefits;
- housing;
- consumer issues, such as fraud and bankruptcy;
- food stamps;
- Social Security;
- unemployment insurance; and
- children's issues, such as access to special education services.

BCLS funds come from sources that include general revenue, Judicial Fund 573, the Crime Victims' Compensation Fund, Interest on Lawyers' Trust Accounts (IOLTA), federal funds, donations, and grants. By the end of fiscal 2012-13, BCLS will have received about $17.6 million in general revenue funds.

Supporters of CSSB 1 say the funding in the bill would provide an adequate, secure level of support for BCLS in fiscal 2014-15 by maintaining general revenue funding for the program at its fiscal 2012-13 level. By restoring $4.6 million in general revenue that was cut from the fiscal 2012-13 funding level in the original House proposal and using a realistic estimate of revenue from Judicial Fund 573, CSSB 1 would ensure that the program provided adequate services. Under Agency Rider 2 in CSSB 1, if Fund 573 received more revenue than estimated in fiscal 2014-15, the additional revenue would go to the BCLS program to meet its growing needs.

In fiscal 2012-13, BCLS received two one-time sources of funding totaling $13.8 million: $10 million from a lawsuit settlement that is not available for fiscal 2014-15 and an unexpended balance of $3.8 million brought forward from fiscal 2010-11. These sources should be regarded as windfalls and not figured into higher base spending for the program.

Critics of CSSB 1 say funding for BCLS should be increased by $13.8 million beyond the amount in CSSB 1 to meet the growing need of low-income Texans for access to justice. These funds were essential to the program in fiscal 2012-13 and would be needed in the coming biennium. In fiscal 2011, BCLS funds were used in about 100,000 cases but met only part of the need for legal services among low-income Texans. That need is increasing with the weak economy.

Continuing total funding at fiscal 2012-13 levels is important because some sources of legal aid funding have declined steadily in recent years. Under the IOLTA program, for example, attorneys in Texas remit to BCLS the short-term interest on funds held on behalf of clients. Due to low interest rates, this amount dropped from about $20 million in 2007 to roughly $4.4 million in 2012. In addition, Texas legal aid providers lost about $3.1 million in federal funds from fiscal 2011 to fiscal 2012 due to cuts from the Legal Services Corporation.

Other critics say the Legislature should explore ways to increase revenue for the BCLS. For example, as proposed in HB 1445 by Thompson, et al., the state could increase the current $10 million cap on the amount the attorney general provides for BCLS from certain civil penalties recovered by the state and could expand those funds to include certain types of civil restitution.

Salaries for state court judges

Supreme Court, Court of Criminal Appeals, Courts of Appeal, Judiciary Section of the Comptroller

- **CSSB 1 – no increase in salaries of state court judges; (about $29 million for 10 percent increase for consideration in Article 11)**

- **Senate – no increase in salaries of state court judges; ($65.7 million in GR and GR dedicated funds for 21.5 percent pay increase for consideration in Article 11)**

The general appropriations act sets state court judicial salaries based on certain statutory minimums. Government Code, sec. 659.012 establishes minimum salaries for state judges and specifies pay differentials among judges at the three court levels: district courts, intermediate courts of appeals, and the highest appellate courts. District court judges are entitled to an annual salary from the state of at least $125,000. Justices of the court of appeals are entitled to receive 110 percent of a district judge's salary, while judges and justices on the two highest appellate courts are entitled to 120 percent of a district judge's salary. Government Code, secs. 31.001 and 32.001 authorize counties to supplement salaries of court of appeals justices and district court judges.

Supporters of CSSB 1 say it may not be necessary at this time to increase compensation for state court judges, whose salaries are higher than those for most occupations, including some in the legal profession. Individuals are attracted to the bench not only for the salary but also out of a desire to serve the public.

Article 11 of CSSB 1 includes a 10 percent raise for state court judges, and the Senate proposal contains a provision in Article 11 for a 21.5 percent increase. Either proposal would allow lawmakers to consider an appropriate increase if funding were available during the budget process after the state's obligations had been met.

Critics of CSSB 1 say Texas should increase the salaries of state court judges to implement the November 2012 recommendations of the state's Judicial Compensation Commission. It recommended increasing state court judges' salaries about 21.5 percent, which would increase district judges' minimum annual state salaries from $125,000 to $151,909. The judges on the 14 courts of appeal would see their annual state salaries increase from $137,500 to $167,100 and justices on the Court of Criminal Appeals and Supreme Court from $150,000 to $182,291. These increases are necessary and overdue. The commission reported that judicial salaries have not increased since 2005 and are lower than salaries in 1990 when adjusted for inflation.

A pay raise is necessary to maintain a high-quality judiciary. Because judges can make significantly more money in the private sector, the current salary discourages them from remaining on the bench. The learning curve for a judge is steep, and a high turnover rate leads to an inefficient, inexperienced judiciary that diminishes the quality of the Texas judicial system.

Criminal Justice — Article 5

Article 5 covers agencies responsible for criminal justice and public safety. These include the Texas Department of Criminal Justice (TDCJ), which operates the adult correctional system, the Department of Public Safety (DPS), and the Texas Juvenile Justice Department (TJJD), which the 82nd Legislature created by merging two state agencies that previously were responsible for juvenile justice.

The table below details overall spending for Article 5 by type of funds and the amounts estimated/budgeted for fiscal 2012-13, the amounts recommended for fiscal 2014-15 in CSSB 1, and the change the recommendation represents from fiscal 2012-13.

State correctional capacity

Texas Department of Criminal Justice

- **CSSB 1 – no closure of adult correctional facilities; (unspecified amount for purchase of Jones County Detention Center for consideration in Article 11)**

- **Senate – eliminate funding to house offenders in two privately operated facilities; ($19.5 million in GR and GR dedicated funds to buy Jones County Detention Center for consideration in Article 11)**

The "operational capacity" of TDCJ is calculated as 96 percent of bed capacity and accounts for the need to house inmates appropriately and to have flexibility in moving them. A rider in the Senate proposal directs TDCJ to use incarceration beds above its operational capacity to the fullest extent possible.

Article 5 spending comparisons

(millions of dollars)

Type of funds	Estimated/budgeted Fiscal 2012-13	Recommended CSSB 1	Biennial change	Percent change
General revenue	$8,273.4	8,846.3	572.9	6.9%
GR dedicated	160.4	23.9	(136.5)	(85.1%)
Federal	1,778.4	1,334.8	(443.6)	(24.9%)
Other	1,530.6	1,463.3	(67.2)	(4.4%)
All funds	11,742.8	11,668.3	(74.5)	(0.6%)

Source: Legislative Budget Board, Summary of House Committee Substitute for Senate Bill 1, March 2013

In January 2013, the LBB estimated that the number of offenders incarcerated by the state will remain relatively flat in fiscal 2013 and 2014. LBB projects that under current laws, policies, and practices, TDCJ's capacity will exceed the number of offenders incarcerated by about 3,000 to 4,500 for fiscal 2014-15. State capacity will be 156,942 during that period.

Supporters of CSSB 1 say it would fund enough prison capacity to handle the state's offender population while allowing TDCJ the flexibility to close facilities or decline to renew contracts with private vendors, if appropriate. The bill would allow lawmakers to assess and review issues at state and privately operated TDCJ facilities that threatened the health and safety of inmates and increased the agency's liability. These issues and others can be considered along with TDCJ capacity as the budget process continues.

CSSB 1 would continue recent legislative efforts to keep the state from having to build new prisons by funding the treatment and diversion programs established in 2007 that successfully have kept the inmate population from growing while protecting the public's safety.

Critics of CSSB 1 say the bill should close two state correctional facilities to better match the state's capacity with the LBB's adult offender population projections for fiscal 2014-15. The most appropriate way to do this would be to eliminate funding for two suboptimal facilities operated by a private vendor whose contacts are expiring in August 2013 – the Mineral Wells Pre-Parole Transfer Facility and the Dawson State Jail. Offenders at these two facilities could easily be moved to available beds in other units.

Mineral Wells is an older, inefficient facility that if closed would save the state about $54 million in fiscal 2014-15. Because it originally was built as a military barracks, not a correctional facility, it is difficult to staff and to keep secure and free of contraband.

The Dawson State Jail, in downtown Dallas, has experienced staffing issues, and questions have been raised about whether it provides adequate inmate medical care. Closing the facility has community support and would save the state about $43 million in fiscal 2014-15. The state owns the Dawson unit and could realize even more revenue if it sold the land and the facility.

To meet future correctional needs, the Legislature should consider the riders in Article 11 of both proposals to purchase the Jones County Detention Center. This 1,100-bed unit was built to house state prisoners but was never used for that purpose. It quickly could be put into service if another facility needed to be replaced or if the adult offender population increased as projected during the next five years. While neither proposal includes funds to operate the facility, TDCJ could ask LBB for additional funds or for approval to use existing funds if it were necessary to open the facility during the next interim.

Prison health care

Texas Department of Criminal Justice

- **CSSB 1 – $47.4 million increase in GR over fiscal 2012-13 appropriations**
- **Senate – $61.7 million increase in GR over fiscal 2012-13 appropriations**
- **Agency request – $102.4 million more in GR than fiscal 2012-13 appropriations**

Supporters of CSSB 1 say it would increase funding for correctional managed health care, allowing the state to continue providing a constitutional level of care to offenders in state custody and to adequately compensate health care providers. The $47.4 million increase in funding over fiscal 2012-13 appropriations of an estimated $902.3 million would be necessary to meet the expenses providers expect to incur in the coming biennium and would account for the rising cost of health care. Although CSSB 1 would not fund the health care providers' entire request for more funding, it would address some of the most critical needs.

CSSB1 would continue to fund the staff of the CMHCC, allowing them to monitor access to and quality of inmate care, handle complaints, and ensure public input. An entity one step removed from TDCJ is best to coordinate and manage these efforts. Defunding the CMHCC would not eliminate this need but merely shift the cost to TDCJ.

Critics of CSSB 1 say the state should fund CMHCC's entire request for an additional $102.4 million to ensure continued access to quality care and to protect the state from potential costly litigation by maintaining a constitutional prison health care system.

While CSSB 1 would fund $47.4 million of the exceptional item request, $32 million more would be needed to adjust salaries to market levels because of increasing difficulties in recruiting and retaining staff to deliver health care at correctional facilities. Another $10 million could replace x-ray, dental, and other capital equipment, along with vehicles used to transport sick offenders. Additional funds also would be necessary to restore key staff, such as nurses, at certain units, which would cost $13 million.

Other critics say CSSB 1 should take the approach of the Senate proposal by increasing funding in each of the areas requested at a cost of about $30.6 million to meet estimated fiscal 2014-15 expenses. Senate funding also would include $5.4 million for equipment and vehicles, $9.7 million to restore some health care staff positions, and $16 million to increase salaries to reflect the market for certain health care workers. All areas would have some of their needs addressed.

In addition to these increases, the Senate proposal would allow a reduction in health care funding of $917,000 by prohibiting TDCJ from paying the salaries of CMHCC's three-person staff. Their duties could be absorbed by TDCJ, which already has assumed the task of contracting with care providers.

State capacity for juvenile offenders

Texas Juvenile Justice Department

- **CSSB 1 – $151 million in all funds for fiscal 2014-15 for state-operated secure operations**
- **Senate – $166.7 million in all funds for fiscal 2014-15 for state-operated secure operations**

CSSB 1 would limit TJJD to 1,356 institutional beds beginning September 1, 2013, excluding halfway houses. This would be a reduction from the current limit of 1,600 beds. The Senate's proposal, in addition to imposing the 1,356-bed cap, would limit TJJD to operating a maximum of five institutional facilities as of January 2014, down from six current facilities.

Supporters of CSSB 1 say the proposal to limit TJJD's capacity would be another step toward revamping the state's juvenile justice system after the 82nd Legislature created the TJJD and abolished the Texas Youth Commission and Texas Juvenile Probation Commission.

CSSB 1 would continue efforts to reduce the population of youths in state custody and would match the agency's capacity and budget to its estimated population for fiscal 2014-15. It would be best to limit the number of beds and let the agency decide which facilities were most appropriate to close, given populations and the availability of services. The bill would support this downsizing by continuing an appropriation to TJJD of $39 million, which is sent to local probation departments to divert youths from state custody.

The funding in CSSB 1 for secure operations, at an average cost per day of about $204 in fiscal 2014 and $193 in fiscal 2015, would provide enough for the agency to meet the needs of its smaller population and to fund a 5 percent raise for juvenile corrections officers, provide more officers to handle aggressive youths, and maintain a 12-to-1 ratio of correctional officers to youths.

A contingency account is not needed to respond to variations from predicted numbers of youths sent to the state or kept under supervision of local probation departments. Since TJJD handles both secure confinement and juvenile probation, it could use its authority to move funds between probation and confinement budget strategies, if this occurred.

Critics of CSSB 1 say per-day average daily funding for youths in state custody should be at the higher level in the Senate proposal, approximately $227 in fiscal 2014 and $212 in fiscal 2015. While the number of youths in state custody has been declining, those committed to the agency are the most serious offenders with the greatest needs, and the higher level of funding is needed to keep facilities safe, secure, and properly staffed.

The House should fund an agency request for an additional $23.9 million to create a contingency account to divert youth from state custody. The fund would reimburse counties that sent fewer youths to state custody than targeted and would provide funding to the agency if more youths than targeted were committed to the state. With a contingency fund, money could flow to counties on a youth-by-youth basis and could provide an incentive to counties to reduce commitments to the state. Using a contingency fund, TJJD could respond more quickly to changes in the numbers of youths committed to the state than it can using authority to move money between strategies.

Driver license improvement plan

Department of Public Safety

- **CSSB 1 – $10.3 million in general revenue to continue agency's driver license improvement plan**

- **Senate – $50 million in general revenue to continue agency's driver license improvement plan**

Supporters say the $10.3 million in general revenue in CSSB 1 for driver license services would help the Department of Public Safety (DPS) with its plan to reduce wait times for Texans obtaining and renewing driver licenses and identification cards. During 2012 and 2013, with a new appropriation of about $63 million, DPS opened six high-capacity driver license offices – two in Houston and one each in Austin, Dallas, Fort Worth, and San Antonio. The facilities use new queuing technology that allows customers to reserve a spot in line before arriving at DPS offices and to check in at self-service kiosks.

CSSB 1 would give DPS $10.3 million to open two new mega-centers in Dallas and Houston and institute a pilot project using self-service kiosks for license renewal and other tasks.

Critics say DPS needs additional funds to make significant headway in addressing the problem of unacceptably long wait times for Texans to obtain driver licenses and identification cards. While the agency revised its original request from $140.5 million to $50 million, only some of this reduced request would be funded in CSSB 1. The $50 million in the Senate proposal would allow for more kiosks, extended hours, and additional queuing technology.

Border security

Department of Public Safety and other agencies

- **CSSB 1 – $92.3 million in all funds for border security operations, including $81.8 million to the Department of Public Safety (DPS)**
- **Senate proposal – $93.8 million in all funds for border security operations, including $83.3 million to DPS**

Of the $92.3 million in all funds included in CSSB 1 for border security operations, $81. 8 million would go to DPS, with the remainder appropriated to the trusteed programs of the governor (Article 1) and the Texas Parks and Wildlife Department (TPWD) (Article 6). The appropriation to DPS would represent a reduction of $17.8 million from fiscal 2012-13. Article 11 of CSSB 1 includes an additional $18 million for border security.

Of the $93.8 million in all funds included in the Senate proposal for border security operations, $83.3 million would be appropriated to DPS, with the remainder going to the trusteed programs of the governor and TPWD. The appropriation to DPS would represent a reduction of $16.3 million from fiscal 2012-13.

Supporters say the amount in CSSB 1 would continue the state's priority to combat border-related crime. About $11.2 million of the reduction from fiscal 2012-13 would be due to one-time items such as a surveillance airplane, a river patrol boat, fiber optic scopes, a video downlink system, and license plate readers that were funded in the previous biennium. Another $5 million of the proposed reduction is due to a decrease in federal funds. With the state's previous investments, DPS and other agencies have equipment, vehicles, and resources to fight border-related crime, and CSSB 1 would allow these efforts to continue successfully in the upcoming biennium.

By repurposing $12.2 million of the reduction in border security funds for deferred maintenance, CSSB 1 would fund another critical agency need.

Critics say the reductions proposed in CSSB 1 would result in fewer operations and programs in the Southwest border region, including some targeting transnational criminal organizations and the threat posed by drug cartels and criminal street gangs supporting illegal narcotics and human trafficking. Reductions could impact the operations and maintenance of some of the one-time items purchased in fiscal 2012-13, including the surveillance airplane, river patrol boat, and video downlink systems. Given that federal budget cuts related to the sequester likely will reduce manpower from the Customs and Border Protection agency, these cuts could have serious consequences. The state should maintain the fiscal 2012-13 border security funding or increase it by at least some of the $18 million in Article 11 of CSSB 1. Funding for border security has been a state priority since 2007 and should not be reduced.

Natural Resources — Article 6

Article 6 agencies are entrusted with protecting, managing, and developing Texas' agricultural, wildlife, environmental, water, and oil and gas resources, as well as state parks and lands.

The table below details overall spending for Article 6 by type of funds and the amounts estimated/budgeted for fiscal 2012-13, the amounts recommended for fiscal 2014-15 in CSSB 1, and the change the recommendation represents from fiscal 2012-13.

Debt service for state water plan projects

Texas Water Development Board

- **CSSB 1 – no funding; ($78.9 million in GR for debt service on $900 million in GO bonds for consideration in Article 11)**
- **Senate – no funding**
- **Agency request – $78.9 million in GR for debt service on $900 million in GO bonds**
- **Other proposal – create loan program with one-time allocation from Rainy Day Fund**

CSSB 1 would not fund TWDB's request for $78.9 million in general revenue funds for debt service on $700 million in non-self-supporting general obligation bonds for the Water Infrastructure Fund and $200 million in non-self-supporting general obligation bonds for the State Participation Program for state water projects. It would instead place the amount requested by the agency for these purposes in Article 11.

Article 6 spending comparisons
(millions of dollars)

Type of funds	Estimated/budgeted Fiscal 2012-13	Recommended CSSB 1	Biennial change	Percent change
General revenue	$610.6	$701.1	$90.5	14.8%
GR dedicated	1,048.8	1,103.9	55.0	5.2%
Federal	2,935.8	2,562.9	(372.9)	(12.7%)
Other	339.0	316.0	(23.0)	(6.8%)
All funds	4,934.2	4,683.8	(250.4)	(5.1%)

Source: Legislative Budget Board, Summary of House Committee Substitute for Senate Bill 1, March 2013

Several introduced bills would be aimed at funding water infrastructure in the state, including HB 4 by Ritter, which passed the House on March 27. HB 4 would create a water infrastructure development fund that would essentially provide revolving low-interest loans to help local and regional entities launch projects. HB 11 by Ritter would make a one-time allocation of $2 billion from the Rainy Day Fund to capitalize the fund. Article 11 in CSSB 1 also would appropriate $4.5 million to the TWDB for administrative costs if HB 4 and HB 11 were enacted. The Senate proposal contains no equivalent provision.

Supporters of CSSB 1 say the state should not create more debt by issuing more bonds for water infrastructure and projects. Continuing to fund projects by issuing debt is the most expensive option available to the state. Rather than obligate scarce general revenue and drive up the cost of already expensive projects with interest payments, the state should have a dedicated funding source for water infrastructure that would support the anticipated future rise in public demand on the water supply.

Establishing a revolving loan program with one-time seed money from the Rainy Day Fund would be the start the state needed to implement the state water plan. The plan contains 562 water management strategies, such as new reservoir construction, water reuse facilities, and water conservation, designed to ensure adequate water supplies for Texas during a drought. Unlike other important funding decisions facing the state, this one-time investment in water would not have to be matched with new funds each legislative session. A one-time investment would protect Texans from the economic impact of drought and provide water for generations to come.

Critics say that placing the agency's request for funding for the State Water Plan in Article 11 is essentially not funding the request. If the necessary legislation to create a dedicated funding source were not to be implemented, an alternative funding source would not be available.

Debt service for water infrastructure in economically distressed areas

Texas Water Development Board (TWDB)

- **CSSB 1 – $6 million in GR for debt service on $50 million in general obligation (GO) bonds**
- **Senate – $4.1 million in GR for debt service on $25 million in GO bonds**
- **Agency request – $6 million in GR for debt service on $50 million in GO bonds**

CSSB 1 would appropriate $6 million in general revenue funds to the TWDB for debt service on $50 million in non-self-supporting GO bonds for water and wastewater projects in economically distressed areas.

Supporters of funding debt service for GO bonds for water and wastewater projects in economically distressed areas say the bonds are necessary for the TWDB to continue progress on projects that are in various stages of application, planning, acquisition or design.

Critics of funding debt service for GO bonds for water infrastructure and water projects in economically distressed areas say the state should not create additional debt by issuing more bonds for this purpose. Continuing to fund projects by issuing debt is the most expensive option available to the state.

Fisheries and wildlife management

Texas Parks and Wildlife Department

- **CSSB 1 – $19.9 million for fish and wildlife management-related functions; $8 million for capital construction and repairs**
- **Senate – $19.1 million for fish and wildlife management-related functions; $8 million for capital construction and repairs**
- **Agency request – same as CSSB 1**

Both CSSB 1 and the Senate proposal would appropriate $11.5 million in general revenue dedicated funds to fish and wildlife management for habitat management and research, enhanced hunting and wildlife-related recreation, landowner technical guidance, inland and coastal fisheries management, and hatchery operations.

CSSB 1 would provide $8.2 million in general revenue dedicated funds to fund vehicles, equipment, and information technology needed to support fish and wildlife functions of the agency and $219,000 for oyster shell recovery and replacement. The Senate proposal would include $7.4 million in general revenue dedicated funds for vehicles and equipment and $219,000 for oyster shell recovery and replacement. Unlike CSSB 1, it would not fund the agency request of $800,000 for information technology. CSSB1 also would appropriate $1.5 million in general revenue for aquatic vegetation management, while the Senate proposal would appropriate $300,000 for this purpose.

Both proposals would appropriate $8 million in general revenue-dedicated funds for capital construction and repairs at fish hatcheries, wildlife management areas, and other department sites, but the Senate proposal includes this amount in Article 9.

Supporters of increasing funding for fisheries and wildlife management say that several areas of funding for this purpose were reduced or suspended during fiscal 2012-13 and that the funding in CSSB 1 would restore operations and staff.

The Game, Fish and Water Safety Account No. 9 receives hunting and fishing license and stamp revenues to fund the administration and enforcement of game, fish, and water safety laws, wildlife management, conservation and development, and other uses provided by law. With a balance of $106.6 million, which was counted to certify the 2012-13 general appropriations bill, it is among the largest of the state's general revenue dedicated accounts. Spending this dedicated balance for authorized programs such as research, habitat enhancement, and restocking or for repairs at fish hatcheries and other department sites, would honor the intent of the fee payers who support the programs.

Critics say that wildlife management and outdoor recreation, while desirable, are not pressing needs. It would be better to retain a balance in the fund for use in certifying the fiscal 2014-15 general appropriations bill, which would free funds for higher priority budget areas, such as public education and health care.

State parks

Texas Parks and Wildlife Department

- **CSSB 1 – $20.8 million in GR for state parks operation and maintenance; $11 million in GO bonds and $3.5 million in GR for capital construction and repairs**

- **Senate – $19 million in GR for state parks operation and maintenance; $28.1 million in GO bonds and $4.1 million in GR for capital construction and repairs**

- **Agency request – $22.7 million in GR for state parks operation and maintenance; $32 million in GO bonds for capital construction and repairs**

CSSB 1 would provide an additional $20.8 million in general revenue from the sporting goods sales tax for state parks operation and maintenance and for capital vehicles and equipment. This would include $4.2 million for day-to-day maintenance and $13.6 million and 122.3 full-time equivalent positions to avoid the possible closure of up to nine park sites and one regional office during fiscal 2014-15. CSSB 1 would provide an additional $2.2 million for vehicle replacement and capital equipment, such as tractors, mowers and other items needed to maintain and operate state parks. Wildfire suppression operations, such as brush control and prescribed burns, also would receive $800,000.

CSSB 1 would appropriate $11 million in GO bonds for capital construction and repairs and $3.5 million in general revenue from the sporting goods sales tax for specific capital construction projects at Franklin Mountains State Park ($3 million) and Fort Boggy State Park ($500,000).

The Senate proposal would meet the agency request for capital construction and repairs by appropriating $28.1 million in GO bonds and $3.9 million in general revenue (Article 9). It also would appropriate $200,000 in general revenue from the sporting goods sales tax to fund capital construction and repairs at Big Spring State Park.

Supporters say increased funding for state parks is necessary to address deteriorating infrastructure and scaled-back operating hours at many parks due to years of insufficient funding, particularly in fiscal 2012-13. Through cost savings and substantial deferred spending measures, TPWD has been able to avoid park closures, but these measures are unsustainable beyond this biennium. Funding for state parks operations and maintenance must be restored to prevent park closures and further reductions in service during fiscal 2014-15. Without additional funding, TPWD anticipates closure of up to 20 park sites and one regional office. State parks, which are a reservoir of natural, historic, and cultural heritage, provide physical and mental health benefits. They also are economic engines for neighboring communities, generating revenue and jobs, and should be adequately funded.

Critics of increased funding for state parks say that outdoor recreation is desirable but not a pressing need. Declining to increase funds for state park operations and repairs for fiscal 2014-15 could free up funds for higher priority budget areas, such as public education and health care.

Local parks grants

Texas Parks and Wildlife Department

- **CSSB 1 – No funding; ($15.5 million in GR for local parks grants for consideration in Article 11)**
- **Senate – same**
- **Agency request – $15.5 million in GR for local parks grants**

CSSB 1 and the Senate proposal would not restore funding for grants to develop and acquire new local parks projects, including boating access, hike-and-bike trail development, and outreach and education grants. CSSB 1 placed the agency request in Article 11. The state would administer existing park grants and any new grants funded by federal money, estimated at $3 million for fiscal 2014-15.

Supporters say not restoring funding for local park grants could free up funds for higher priority budget areas, such as public education and health care. Funding local parks projects could be delayed for two years and restarted in the next biennium when more funding may be available. Further, Texas expects to spend about $3 million in federal money for this purpose during fiscal 2014-15.

Critics say the state can ill afford not to fund grants to develop and acquire new local parks projects. Studies show that for every dollar Texas spends on local parks, it receives a return of seven-to-one in economic development, higher property values, and tourism.

Pipeline safety personnel

Texas Railroad Commission

- **CSSB 1 – $2.6 million**
- **Senate – same**

CSSB 1 would appropriate $2.6 million to the Texas Railroad Commission for an additional 20 positions, including 14 more pipeline safety inspector positions and six engineering support positions. This amount includes $1.3 million in federal funds and $1.3 million in general revenue. The general revenue amount would be paid for by increasing the pipeline safety fee from 75 cents to $1.

Supporters say the funding in CSSB 1 is necessary to meet federal pipeline safety requirements. The state currently employs just 33 safety inspectors, who are unable to effectively monitor and ensure the safety of the 168,000 miles of pipeline in Texas. This level of staffing does not meet federal requirements, which puts at risk the state's maintenance of effort to ensure the receipt of sufficient federal funds to support the program. Through its oversight of the oil and gas industry, the Railroad Commission regulates about 20 percent of the state's economy. Funding levels to ensure pipeline safety should be commensurate with the commission's growing responsibilities.

As oil and gas production in the state continues to grow, inspectors increasingly must conduct more specialized inspections, including new construction inspections. The 2011 State Auditor's Office audit of the Pipeline Safety Program recommended an increase in the number of Priority 1 pipeline system inspections it conducts each year. Also recommended were unannounced inspections on new pipeline construction projects to determine whether operators are complying with federal and state requirements related to safe pipeline construction.

Critics say additional funding for pipeline inspectors is not a pressing need. Declining to increase funds for this purpose in fiscal 2014-15 could free up funds for higher priority budget areas, such as public education and health care.

Dam safety

Texas State Soil and Water Conservation Board

- **CSSB 1 – $10.8 million in general revenue**
- **Senate: same**

CSSB 1 would appropriate $10.8 million in general revenue in fiscal 2014-15 for Texas State Soil and Water Conservation Board (TSSWCB) grants to operate, maintain, repair, and rehabilitate about 2,000 federally designed and built flood-control dams in Texas.

Supporters say the increased funding in CSSB 1 would improve public safety by allowing the state to better regulate its high-risk dams. These dams, many of which were built in the 1960s, are an important component of the state's infrastructure because they protect lives, property, roads, and bridges by containing and releasing floodwaters in a deliberate and controlled manner. Population growth and urban expansion require that many dams be reclassified as high-hazard dams as downstream development continues.

TSSWCB estimates that $9.6 million would be required to meet operation and maintenance needs on 1,666 flood control dams, and a further $48 million would be needed to repair 157 flood control dams throughout the state. The $4 million in HB 1 as introduced would not be sufficient to address the most crucial repairs, allowing the agency to complete major structural repairs for only one flood control dam per year. The additional $10.8 million in general revenue would allow the agency to address 25 percent of the identified operation and maintenance needs and 10 percent of the identified structural repair needs in fiscal 2014-15.

Critics say major structural repairs to the state's flood control dams could be addressed under the $4 million in HB 1 as introduced. Spending on dam safety could be increased in the next biennium when more funding is expected to be available.

Economic Development — Article 7

Article 7 includes agencies that support business and economic development, transportation, and community infrastructure — including the Texas Department of Transportation (TxDOT), Texas Workforce Commission (TWC), Texas Department of Housing and Community Affairs (TDHCA), Texas Department of Motor Vehicles (TxDMV), and the Texas Lottery Commission. The table below details overall spending for Article 7 by type of funds and the amounts estimated/budgeted for fiscal 2012-13, the amounts recommended for fiscal 2014-15 in CSSB 1, and the change the recommendation represents from fiscal 2012-13.

Fund 6 appropriations to Department of Public Safety

Department of Public Safety

- **CSSB 1 – Maintain DPS' Fund 6 appropriation at fiscal 2012-13 levels; ($400 million in GR for consideration in Article 11 to replace funds from State Highway Fund 6)**

- **Senate – Maintain DPS' Fund 6 appropriation at 2012-13 levels**

- **Governor's proposal – eliminate use of Fund 6 for anything other than transportation and replace related appropriation of $1.3 billion with GR funds**

CSSB 1 would maintain the appropriation that DPS receives from State Highway Fund (Fund 6) at fiscal 2012-13 levels. In Article 11, $400 million of the funds that DPS receives from State Highway Fund 6 would be replaced with general revenue funds. This appropriation would be contingent on the enactment of certain legislation to raise transportation revenue. The contingency

Article 7 spending comparisons
(millions of dollars)

Type of funds	Estimated/budgeted Fiscal 2012-13	Recommended CSSB 1	Biennial change	Percent change
General revenue	$517.0	$784.7	$267.8	51.8%
GR dedicated	444.8	442.0	(2.9)	(0.6%)
Federal	9,379.1	10,938.9	1,559.8	16.6%
Other	11,974.9	12,903.8	928.9	7.8%
All funds	22,315.8	25,069.3	2,753.6	12.3%

Source: Legislative Budget Board, Summary of House Committee Substitute for Senate Bill 1, March 2013

legislation, HB 3664 by Darby, would raise the vehicle registration fee by $30 per passenger vehicle, with a $54 or $60 fee for heavier weight vehicles up to 80,000 pounds, in order to generate $700 million per year for paying existing debt and for construction of new, non-tolled roads.

Another bill, HB 3666 by Darby, would reduce diversions from Fund 6 by imposing a $15 public safety fee on vehicle inspections that would generate $260 million in general revenue each year. The intended purpose of this fee would be to generate a dedicated revenue stream to DPS to replace Fund 6 as a method of finance for the agency.

Supporters of retaining current Fund 6 funding for DPS say these funds should be maintained because, while the economic outlook of the state has improved, replacing those highway funds with general revenue funds for DPS would be too costly. It also would place DPS in competition with other state needs for limited resources. Both the Texas Constitution and the Transportation Code explicitly authorize using Fund 6 revenue for policing state highways. DPS enforcement activity helps ensure the safety of motorists, which is directly related to the motor fuels taxes and registration fees that provide ongoing revenue streams for Fund 6. As long as the state continues to struggle meeting existing needs in critical areas with limited general revenue, it must use other available resources to meet critical needs like funding DPS.

It is an inappropriate time to raise or impose new fees to fund transportation. Raising fees on vehicle registrations and safety inspections would fall hardest on low-income Texans and could result in an increase of un-registered and un-inspected vehicles on highways.

Critics of retaining current Fund 6 funding for DPS say the practice diverts from TxDOT funds that are collected to build and maintain the state’s roads. Fund 6 is funded largely through user fees, such as taxes on motor fuels and vehicle registrations, which should be dedicated to the purposes for which they are collected — maintaining and expanding the state’s transportation network. DPS serves critical state functions that should be funded out of general revenue. This is appropriate for an agency that serves a statewide need but does not have dedicated revenue sources sufficient to pay its costs. The state has made progress in recent years by reducing diversions of highway funds, and the Legislature should continue the transition to using Fund 6 money exclusively for its core function of highway maintenance and construction.

Critics also say the state needs to pursue additional methods of finance, such as increasing the vehicle registration fee to help end the diversion of highway funds and to help aid in funding for highway maintenance and construction. Texas is facing serious challenges with respect to transportation finance, including the historically decreasing purchasing power of highway funds, rising fuel efficiency, pressing maintenance needs for an aging system, and the uncertainty of federal funding. The vehicle registration fee and the fuel tax that make up much of Fund 6 have not kept up with the increasing cost of highway construction and maintenance. The vehicle registration fee has not been adjusted since 1985.

Energy-sector activity along state highways

Texas Department of Transportation

- **CSSB 1 – No funding ($1.6 billion in GR funds for consideration in Article 11)**
- **Senate – No funding**
- **Agency request – $1.6 billion in general revenue funds**

CSSB 1 did not fund a request from TxDOT for $400 million in general revenue funds in fiscal 2014 to repair existing infrastructure affected by increased energy-related activity along state highways. TxDOT also requested $600 million in general revenue funds in each year of the biennium to reinforce existing roads to accommodate the high level of energy-related activity.

Several filed bills are aimed at addressing this issue, including HB 563 and HJR 63 by Guillen, which together would dedicate a portion of the state's oil and gas tax revenue to the construction, repair, and expansion of county roads in counties with shale formations. HB 1336 by Keffer would create a transportation infrastructure grant program with $1.4 billion from the Rainy Day Fund to make grants for repairing damaged state or county roads in areas of increased energy production.

Supporters of not appropriating funds for roads affected by energy-sector activity say the responsibility of repairing and reinforcing roadways damaged and over-used by energy-sector activities may be more appropriately placed with the industry. While the fiscal outlook for the state is much better than it was two years ago, key areas of the budget, such as education and health care, are still not being funded at levels that meet existing need. Providing funds for energy-sector impact on roadways in fiscal 2014-15 could tie up funds needed for other state priorities. State funding to repair and reinforce roads impacted by the surge in energy-sector activity could be delayed until more funding is available. While other funding options are discussed, the industry should carry more of the responsibility of repairing and reinforcing the roads they use.

Critics of not providing funding for roads impacted by energy-sector activity say that the recent surge in the state's oil and gas production, while bringing great economic opportunities, has had a costly impact on roads. Oil and gas exploration and production activities have brought a large increase in truck traffic on roads that were not designed for such heavy use. Extensive wear and damage has been seen on these roads, making them difficult to use and causing extensive damage to vehicles of the general public as well as to energy-sector vehicles. It is estimated that, on average, $2.5 billion in additional annual operating costs will be incurred by the energy sector due to the deteriorating condition of the highway system. Without funding to repair and reinforce these roads, they will become inadequate and will serve as a barrier to the growth of the industry. Forecasts that the current oil and gas boom could last for at least another 20 or 30 years convey that this traffic will continue to steadily increase during that time.

Several industry leaders have stepped up to finance the repairs and reinforcements of some of the county roadways they use, but the problem is growing fast and the industry cannot be depended upon to finance all repairs voluntarily. The oil and gas industry makes significant contributions to state finances, so it would be sensible for the state to support needed infrastructure improvements that benefit the industry and the general public.

Funding for weatherization of low-income housing

Texas Department of Housing and Community Affairs (TDHCA)

- **CSSB 1 – No funding; ($55.7 million in GR–dedicated funds from balance of System Benefit Fund to TDHCA for consideration in Article 11)**

- **Senate – No funding**

- **Agency request – Government Effectiveness and Efficiency Report proposes $45.7 million direct appropriation and $10 million in GR–dedicated funds from balance of System Benefit Fund to TDHCA**

One of the allowable uses of the System Benefit Fund is for energy efficiency and weatherization assistance to supplement current programs at the TDHCA, but allocations from the System Benefit Fund primarily have been for the low-income discount program.

In the Government Effectiveness and Efficiency Report, the LBB recommends expanding the use of the System Benefit Fund to support energy-related projects. HB 775 by Guillen and SB 735 by Lucio contain several of these recommendations.

One of the recommendations is to include a contingency rider to appropriate $10 million in general revenue–dedicated funds from the balance of the System Benefit Fund to TDHCA to create a credit enhancement loan program to help provide low-interest loans for financing energy efficiency, weatherization, and other energy projects in low-income housing. CSSB 1 would not appropriate $10 million in general revenue–dedicated funds to implement this recommendation.

Another recommendation is to include a contingency rider to reduce System Benefit Fund appropriations to the Public Utility Commission by $45.7 million and appropriate a similar amount to TDHCA for energy efficiency and weatherization programs. CSSB 1 also would not appropriate funds for this recommendation.

Supporters of not funding energy efficiency, weatherization, and other energy projects in low-income housing say these programs have historically been funded by federal funds from the U.S. Department of Energy and the U.S. Department of Health and Human Services low-income home energy assistance program. Since there is already federal funding for this purpose, it would be best to retain state money until the budget outlook for the state is more secure.

Critics of not funding energy efficiency, weatherization, and other energy projects for low-income housing say a weatherization program could have a positive effect on low-income utility obligations in the state. Weatherization services could include weather-stripping, home energy audits, insulation, and modifications to appliances or home heating and cooling systems. According to a 2005 Department of Energy study, the benefit to each household is estimated to be $437 in annual utility cost savings, which could last for up to 15 or 20 years, depending on the type of upgrade and the condition of the dwelling. Low-income households have a disproportionate amount of their income applied for home energy costs because they typically have older homes and less efficient appliances.

Weatherization not only provides a benefit to the user but also provides a secondary public benefit in conserving energy. These programs are currently largely dependent on federal funds, so use of a dedicated revenue source would alleviate the uncertainty they face. The balance of the System Benefit Fund that was counted to certify the 2012-13 general appropriations act was $851 million, and this money needs to be used for its intended purposes.

Regulatory Government — Article 8

Article 8 includes agencies that regulate business and medical professionals, the service industries, electric utilities, telecommunications, and insurance. The table below details overall spending for Article 8 by type of funds and the amounts estimated/budgeted for fiscal 2014-15, the amounts recommended for fiscal 2014-15 in CSSB 1, and the change the recommendation represents from fiscal 2012-13.

Most of the increase in Article 8's all-funds appropriations for fiscal 2014-15 would be due to a $76.1 million increase from fiscal 2012-13 in the appropriation for the low-income discount program. Funded by the System Benefit Fund, the program provides consumer education, utility discounts, and housing weatherization programs to low-income electricity customers. A $30.9 million decrease in funding in Article 8 is due to the loss of federal funds that also the supported the Department of Insurance's Healthy Texas Program and the payments of claims applied against a one-time appropriation in the 81st Legislature.

The Senate-passed proposal would appropriate $710 million in all funds to Article 8 for the biennium. Most of the difference between the House and Senate budget proposals is due to a lower Senate allocation for the low-income discount program.

Article 8 spending comparisons
(millions of dollars)

Type of funds	Estimated/budgeted Fiscal 2012-13	Recommended CSSB 1	Biennial change	Percent change
General revenue	$261.7	$276.8	$15.1	5.8%
GR dedicated	377.2	462.4	85.2	22.6%
Federal	8.5	6.1	(2.4)	(28.5%)
Other	59.6	28.0	(31.5)	(52.9%)
All funds	707.0	773.3	66.3	9.4%

Source: Legislative Budget Board, Summary of House Committee Substitute for Senate Bill 1, March 2013

Discount for low-income electric utility customers

Public Utility Commission

- **CSSB 1 – $228.3 million in GR dedicated funds for low-income discount program**
- **Senate – $152.2 million in GR dedicated funds for low-income discount program**

CSSB 1 would appropriate $228.3 million from the System Benefit Fund, a general revenue dedicated account, to increase the electricity discount for eligible low-income rate payers from 10 percent to 15 percent from May through September of each year. This would be an increase of $76.1 million from fiscal 2012-13. CSSB 1 would leave an estimated $813.4 million balance in the System Benefit Fund at the end of fiscal 2015.

The Senate proposal would appropriate $152.2 million to maintain the current 10 percent discount for low-income electric ratepayers from May through September.

The System Benefit Fund contains revenue generated by an assessment collected from electricity ratepayers in areas open to competition. It is administered by the Public Utility Commission (PUC) to fund the operation of the agency, pay for customer education programs, and assist low-income utility customers by providing a discount on electricity bills from May through September. Historically, the Legislature has varied the amount of funding for the discount. In 2006, no funds were appropriated for the discount, but it typically has ranged from about 10 percent to 20 percent, with unexpended funds held for certification of the budget. The System Benefit Fund is expected to open fiscal year 2014-15 with a balance of about $811.3 million.

Supporters of CSSB 1 say the appropriations would help low-income electricity customers by increasing the amount of the discount from 10 percent to 15 percent during the summer months. CSSB 1 would balance a need for rate relief for low-income individuals with the need of the state to leave an appropriate System Benefit Fund balance for certification of the budget.

Critics of CSSB 1 say that more of the existing System Benefit Fund balance should be used for the purposes for which electricity customers have been told their assessments are being collected – to help low-income customers. For example, the discount rate should be raised to the full 20 percent allowable by law and instituted year round or expanded to include winter months when electric demand is high in the colder regions of the state. In addition, some of the funds should be appropriated for critical-need medical customers, for whom an interruption of electric service for overdue payments could be life-threatening.

Other critics of CSSB 1 say that the entire System Benefit Fund should be outside the appropriations process, be spent to benefit low-income individuals, and not be used to certify the state budget. HB 550 by Sylvester Turner would make the System Benefit Fund a trust fund outside the appropriations process to be administered by the PUC starting with revenue generated in fiscal 2016. HB 550 would direct the PUC to spend all System Benefit funds available for the approved purposes. The fund balance for the System Benefit Fund collected before fiscal 2016 would remain in the treasury until the funds were spent and would be available to certify the budget. HB 550 was left pending in the House State Affairs Committee on February 27.

Self-leveling the System Benefit Fund

Public Utility Commission

- **CSSB 1 – PUC riders would make the System Benefit Fund self-leveling**
- **Senate – same**

Both proposals contain riders that would self-level the System Benefit Fund. Riders 7 and 8 would result in the PUC no longer having to collect the allowable statutory maximum of 65 cents per megawatt hour and would require the PUC to collect no more in fees than the amount spent on System Benefit Fund appropriations. These changes in CSSB 1 would result in a fee reduction from 65 cents per megawatt hour to 52 cents per megawatt hour in fiscal 2014 and 53 cents per megawatt hour in fiscal 2015.

Similar appropriations riders exist in the Senate proposal. However, because the Senate would appropriate less for the low-income discount program, the fee reduction would be greater. Under the Senate bill, the System Benefit Fund fee would be 37-cents-per-megawatt hour in fiscal 2014 and 38 cents per megawatt hour in fiscal 2015.

Supporters of CSSB 1 say that reducing the fee and making the System Benefit Fund self-leveling would provide rate relief for customers without jeopardizing the low-income discount program or the use of the fund for budget certification purposes. The change from the traditional practice of letting the fund balance increase would be an important step in honoring the commitment to ratepayers to use fee-based funds for intended purposes. Both CSSB 1 and the Senate proposal reflect recommendations of the LBB as options to reduce reliance on general revenue dedicated accounts for the purposes of budget certification.

Critics of CSSB 1 say that no fees should be collected until the fund balance is significantly reduced to the point where expenditures and appropriations equal one another over a biennium, resulting in no fund balance.

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