

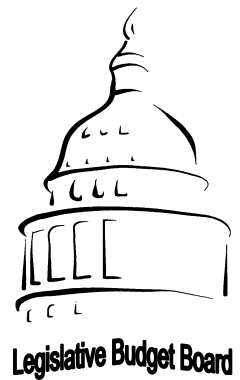
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# Summary of Legislative Budget Board Budget and Policy Recommendations for the 2010-11 Biennium

House Committee on Appropriations

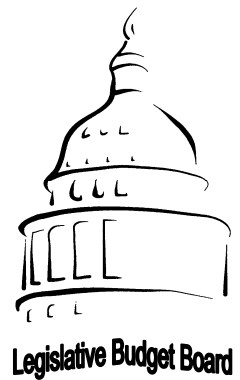
February 12, 2009

# High-level Summary



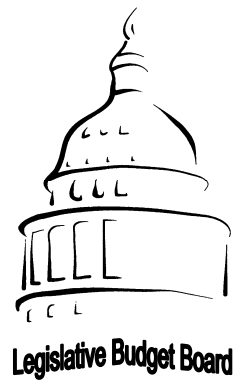
- Legislative Budget Board (LBB) recommendations total \$170.8 billion in All Funds. This represents a \$1.0 billion, or 0.6%, increase over the 2008-09 base.
- General revenue (GR) recommendations total \$83.4 billion, which represents an increase of \$1.1 billion, or 1.3%, above the 2008-09 spending level.
- The 2008-09 base is expected to come in about 1% above original appropriations primarily due to higher than expected spending in teacher retirement, health & human services, criminal justice, and transportation.

# High-level Summary (cont'd)



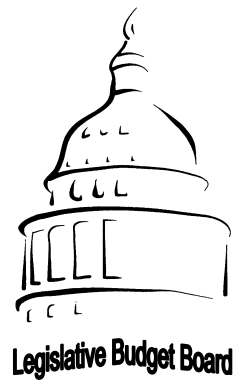
- LBB budget recommendations are within the 9.14% spending limit adopted by the LBB on 11/14/2008.
- General revenue appropriations for LBB budget recommendations exceed the amount of available revenue projected by the Comptroller in her January 2009 Biennial Revenue Estimate (BRE) by approximately \$2.3 billion. (NOTE: \$1.4 billion in recommended appropriations are contingent on a transfer from the Permanent School Fund to the Available School Fund.)
- The recommendations do not tap the Economic Stabilization Fund, which is expected to reach \$9.1 billion by 2011.

# High-level Summary (cont'd)



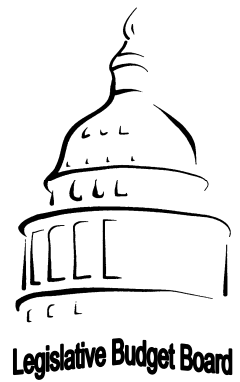
- As in the past, the LBB recommendations represent a conservative baseline budget that covers key spending demands such as growth in student enrollment, health and human service caseloads, and expected cost increases for TRS and ERS, among others. Recommendations are developed in consultation with LBB members and at the direction of the Lt. Governor, Speaker, and chairs of Senate Finance and House Appropriations.
- By design, the LBB recommendations do not cover a number of spending demands so that these needs can be brought before the Legislature, debated in committee, and balanced with competing demands for available revenue.

# What's Included in LBB Budget Recommendations?



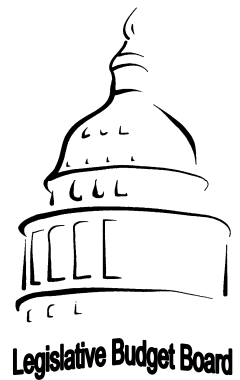
- Covering caseload growth and maintaining 2009 costs & rates for health & human services programs.
- Funding to continue HHS initiatives begun in 2008-09 (e.g., CPS Reform Continued, mental health crisis services, Frew).
- Increased state costs tied to a less-favorable federal matching rate for health and human services programs.
- Full funding for current Foundation School Program (FSP) formulas based on projected growth in enrollment, property values, and tax effort.

# What's Included in LBB Budget Recommendations? (cont'd)



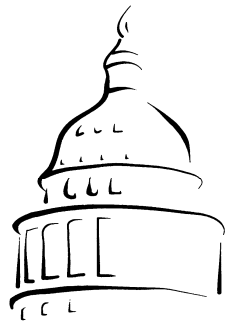
- Nearly \$1.9 billion set aside for FSP formula increases.
- Funding for textbooks and the technology allotment contingent on a transfer of funds from the Permanent School Fund to the Available School Fund.
- Funding for higher education formulas based on enrollment growth and current rates.
- Covering retirement costs (6.4% contribution) and health care costs at the Teacher Retirement System.
- Covering retirement costs (6.45%) and health care costs at the Employees Retirement System.

# What's Included in LBB Budget Recommendations? (cont'd)



- Elimination of State Highway Fund allocations for public education and health and human services transportation.
- Two years' worth of funding for the 2009 employee pay raise.
- Covering debt service on existing bonds.
- Eliminating funding for one-time expenditures in the current biennium.

# Major GR Budget Drivers in LBB Recommendations (billions)

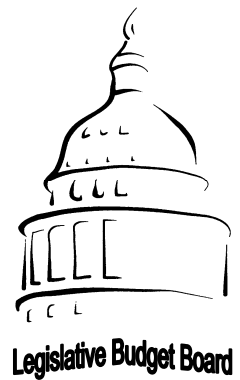


Legislative Budget Board

Medicaid, CHIP & Other HHS Programs	\$1.6
FSP August Deferral	(1.5)
Textbooks	0.4
Teacher Retirement System	0.2
Higher Education Enrollment Growth	0.2
Other Higher Education Increases	0.2
Employees Retirement System	0.2
GR/Fund 006 Swap at TxDOT	(0.3)
Other Net Changes	0.1
<b>Total</b>	<b>\$1.1</b>

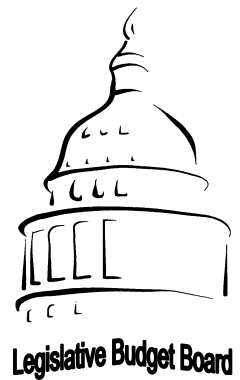


# Budget Demands on Top of LBB Recommendations



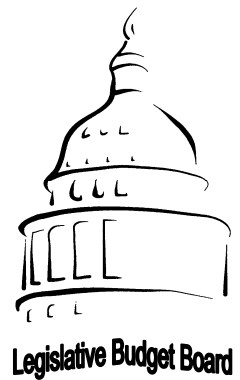
- Cost growth in health and human services programs.
- Rebasing hospital rates.
- State hospital cost growth.
- Expanding community care slots and reducing HHS waiting lists.
- Additional funding for teacher incentive pay.
- Additional public education facilities funding.
- Increases in higher education formula funding.

# Budget Demands on Top of LBB Recommendations (cont'd)



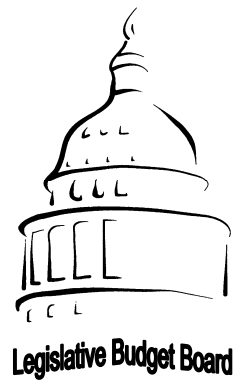
- Expanding access to student financial aid.
- Additional higher education incentive funding.
- Debt service on new tuition revenue bonds.
- Deferred maintenance and GO bond funding needs at several agencies.
- Cost increases for correctional managed health care.
- Increases in correctional/parole officer pay.

# Budget Demands on Top of LBB Recommendations (cont'd)



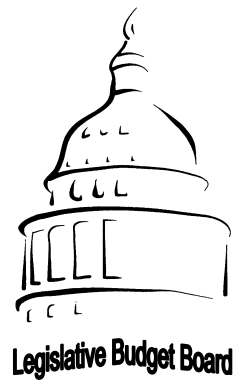
- Debt service on additional transportation bonds.
- Debt service on cancer bonds.
- State employee compensation and benefits increases.
- Additional proposals by the Governor for the Enterprise Fund and Emerging Technology Fund, film incentives, border security, infrastructure funding, and emergency/disaster reserves, among others.

# Structural Deficit Between Spending and Revenue



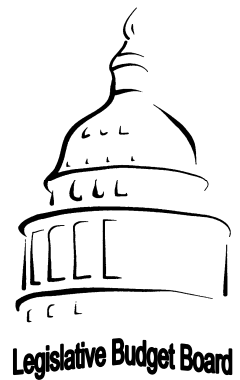
- When the 80<sup>th</sup> Legislature completed work on 2008-09 biennial appropriations, we had \$80 billion in General Revenue spending supported by \$76.2 billion in recurring revenue.
- The combination of modest spending increases in LBB recommendations and lower revenue in the BRE exacerbates this structural deficit to over \$7 billion.
- While Texas is fortunate to have a healthy Rainy Day Fund reserve, the Legislature should use caution in spending above LBB levels to both constrain the structural deficit and ensure sufficient reserves for what will likely be a tough budget session in 2011.

# 2009 Supplemental Appropriations



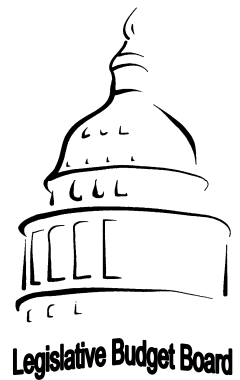
- We estimate net needs of \$1 billion.
- Health and human services needs include acute care Medicaid, long-term care, and restoration of vetoed funds for Medicare giveback, among others.
- Criminal justice needs include an operational shortfall, correctional officer pay enhancements, contraband screening equipment, and correctional managed health care, among others.
- Multiple agencies and institutions seek relief for unreimbursed expenses tied to Hurricane Ike.

# 2009 Supplemental Appropriations (cont'd)



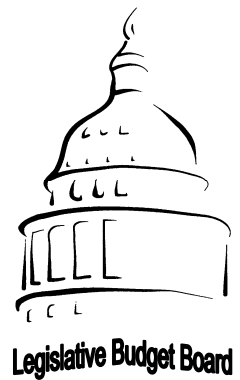
- Community colleges seek reimbursement for formula allocations to cover group insurance funding vetoed by the Governor.
- DIR and other agencies seek funding to cover higher-than-expected costs for data center consolidation.
- Expected budget savings at the Texas Education Agency will help reduce the net cost.

# Potential Federal Relief Through Economic Stimulus Package



- Components include increased funding for the following:
  - Medicaid match rate
  - Transportation infrastructure
  - Public school facilities
  - Water and energy finance programs
  - Existing education and HHS programs
  - Community Development Block Grant
  - Home energy and weatherization assistance
  - Affordable housing
  - Criminal Justice Assistance Grants
  - Unemployment compensation
  - Food stamps

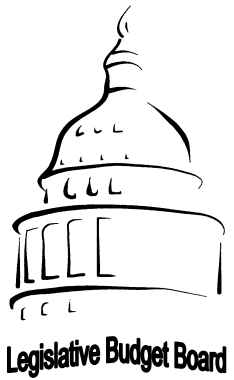
# Governmental Effectiveness and Efficiency Recommendations



- 73 reports containing 192 individual recommendations.
- 14 reports include recommendations that would result in GR revenue gain or savings of \$119 million. Savings/gains would be realized through program efficiencies, elimination of programs no longer necessary, and new revenue from improved collection of existing taxes and fees.
- 32 reports include recommendations that could be implemented with existing agency resources and would improve service delivery, transparency, and information available to help managers make informed decisions about program operations. 13 of the reports have the potential to produce long-term cost savings or avoidance.

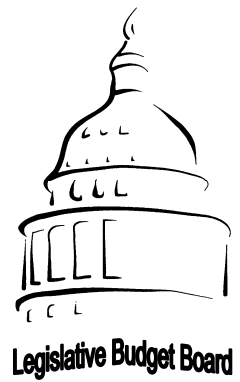


# Governmental Effectiveness and Efficiency Recommendations (cont'd)



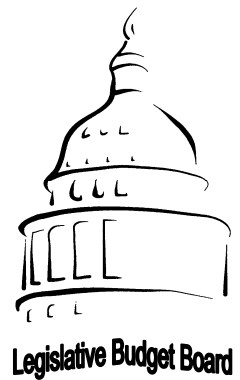
- 14 reports include recommendations that would cost \$11.2 million in GR to fund improvements in programs such as those that track hospital medical errors, screen workers in long-term care facilities, provide loans as incentives for doctors to work in underserved areas, and provide school districts with access to best practices used by other districts.
- 13 reports do not include recommendations but provide information on issues related to budget and policy decisions such as indigent health care, correctional officer staffing, federal reimbursements to state-owned teaching hospitals, and school districts' technology planning and contracting practices.

# Governmental Effectiveness and Efficiency Recommendations (cont'd)



- Of the 192 report recommendations, 96 would require statutory change. We are seeking bill sponsors.

# LBB Staff and the Appropriations Process



- We are your staff throughout the process. We answer questions, analyze proposals, assist in committee deliberations, and prepare future drafts of the appropriations bill.
- We are neither advocates nor adversaries for agency programs and needs.
- Introduction of managers and review of LBB publications.