

TEXAS
BUDGET

HIGHLIGHTS

Fiscal 2012-13

This report highlights key provisions of HB 1 by Pitts, the general appropriations act for fiscal 2012-13; HB 4 by Pitts, the supplemental appropriations act; and SB 2 by Ogden, first called session. For information on the rules, laws, and constitutional provisions governing the budget process, see House Research Organization State Finance Report Number 82-1, *Writing the State Budget*, February 3, 2011. For more information on specific budget issues, see HRO State Finance Report Number 82-2, *Fiscal 2012-13 State Budget: Background on the Issues*, February 23, 2011, and HRO State Finance Report Number 82-4, *CSHB 1: The House Appropriations Committee's Proposed Budget for Fiscal 2012-13*, March 31, 2011.

Overview	2
General government	5
Health and human services	6
Public education	8
Higher education	10
Judiciary	11
Criminal justice	12
Natural resources	13
Transportation and economic development.....	14
Regulatory agencies	15

Overview of the fiscal 2012-13 budget

The state budget for fiscal 2012-13 authorizes total spending of \$173.5 billion in all funds, a decrease of \$14 billion, or 7.5 percent, from fiscal 2010-11 spending levels, according to the Legislative Budget Board (LBB). Appropriations of general revenue and general revenue-dedicated funds total \$87.7 billion for fiscal 2012-13, a reduction of \$566.5 million, or 0.6 percent, from fiscal 2010-11.

Comparisons in this report to amounts from the previous biennium come from the LBB's calculations of appropriations for fiscal 2012-13 and of estimated/budgeted amounts for fiscal 2010-11. Estimated/budgeted amounts reflect appropriations, supplemental appropriations, and reductions to agency budgets in response to state leaders' requests for 5 percent spending cuts in January 2010 and instructions in December 2010 to cut another 2.5 percent from original general revenue and general revenue-dedicated appropriations.

All budget areas except natural resources and business and economic development saw reductions from fiscal 2010-11 spending levels in total appropriations for fiscal 2012-13. Health and human services had the largest all-funds reduction of \$10 billion but received an increase of \$1.2 billion in general revenue and general revenue-dedicated funds. General revenue and general revenue-dedicated funds appropriations for business and economic development increased slightly, less than 1 percent, with general revenue and general revenue-dedicated appropriations for all other budget areas reduced.

Fiscal 2012-13 appropriations include a decrease in federal funds of about 25 percent. The budget reduces appropriations in federal funds to the state by \$17.9 billion, largely due to a decrease in federal Recovery Act funds from fiscal 2010-11, when \$12.1 billion was appropriated.

State Spending by Government Function

(All funds in millions)

	Budgeted Fiscal 2010-11	Appropriated Fiscal 2012-13	Biennial change*	Percent change*
Art. 1 General government	\$5,026.3	\$4,469.0	(\$557.3)	(11.1)%
Art. 2 Health and human services	65,464.2	55,426.4	(10,037.8)	(15.3)
Art. 3 Education	76,416.0	72,871.3	(3,544.7)	(4.6)
Art. 4 Judiciary	672.9	643.1	(29.8)	(4.4)
Art. 5 Public safety/criminal justice	12,072.9	11,507.4	(565.5)	(4.7)
Art. 6 Natural resources	3,562.2	3,888.3	326.1	9.2
Art. 7 Business/economic development	23,196.6	23,660.8	464.2	2.0
Art. 8 Regulatory	736.1	677.8	(58.2)	(7.9)
Art. 9 General provisions	0	0	0	N/A
Art. 10 Legislature	369.2	339.9	(29.3)	(7.9)
TOTAL	\$187,516.5	\$173,484.2	(\$14,032.3)	(7.5)%

*compares *Estimated/Budgeted Fiscal 2010-11* with *Appropriated Fiscal 2012-13*

Note: Totals may vary because of rounding.

Source: Legislative Budget Board

The 82nd Legislature appropriated funds in three bills: HB 1 by Pitts, the general appropriations act, enacted during the regular session; SB 2 by Ogden, revisions to HB 1, enacted during the first called session; and HB 4 by Pitts, a supplemental appropriations bill with spending for fiscal 2011, fiscal 2012, and fiscal 2013. Spending in HB 1 was reduced by line-item vetoes by the governor, all of which eliminated contingent riders for bills that were not enacted.

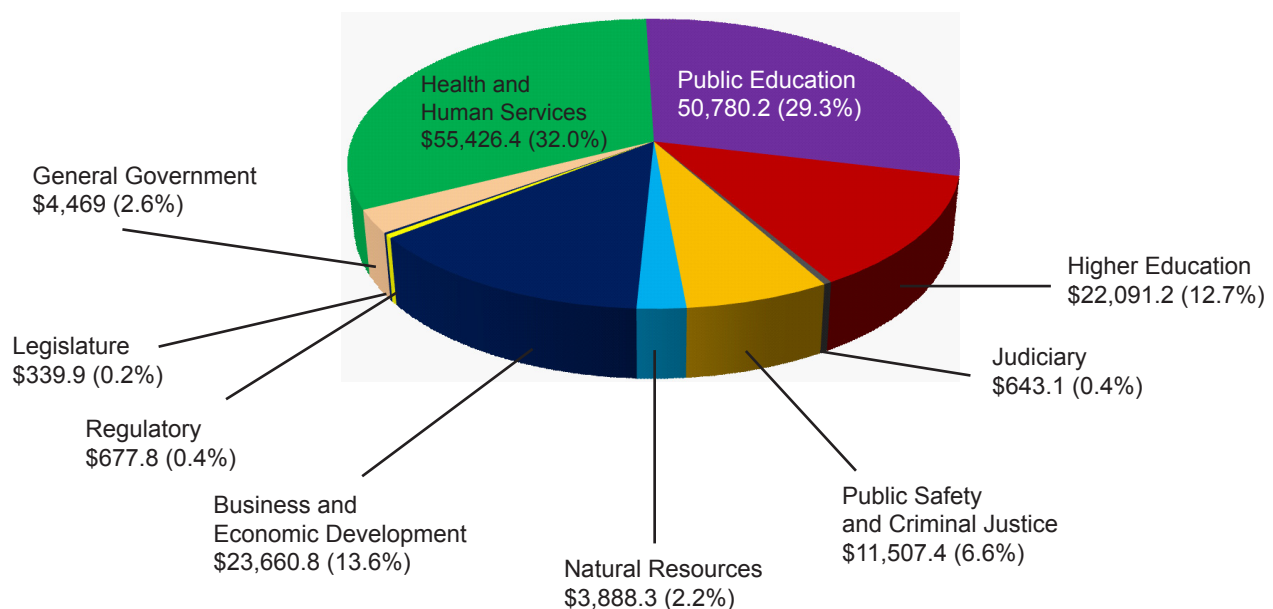
Rainy day fund. No funds from the Economic Stabilization (“rainy day”) Fund were appropriated for fiscal 2012-13, but HB 275 by Pitts appropriated \$3.2 billion from an expected \$9.4 billion in the rainy day fund to partially cover the fiscal 2010-11 shortfall. According to the Comptroller’s Office, the fund had \$6.1 billion at the end of November 2011, after constitutionally mandated transfers to the fund. The Texas Constitution and state law require that half of any unencumbered balance remaining in the General Revenue Fund at the end of a fiscal biennium and 75 percent of any oil or natural gas production tax revenue that exceeds the amount collected in fiscal

1987 be transferred to the rainy day fund. The state ended fiscal 2011 with \$2.6 billion in unspent general revenue and general revenue-dedicated funds.

Medicaid deferral. The fiscal 2012-13 budget for Medicaid includes \$40.6 billion in all funds and \$17.1 billion in general revenue and general revenue-dedicated funds. The number of people eligible for Medicaid and the costs associated with running the program are expected to rise during the biennium. The budget does not include funding to cover this growth, falling short by an estimated \$4.8 billion in general revenue of the amount expected to be needed for Medicaid (see “Health and human services,” page 6). Because Medicaid is an entitlement program that must cover all qualifying individuals, a supplemental appropriation in 2013 will be necessary to address this shortfall.

Public education funding. The fiscal 2012-13 budget appropriates \$50.8 billion in all funds to public education agencies, including the Texas Education Agency (TEA), the Teacher Retirement System (TRS), the School for the Blind and Visually

All Funds Appropriations by Function, Fiscal 2012-13
(in millions)



Impaired, and the School for the Deaf. This is a decrease of 5.6 percent, about \$3 billion, from fiscal 2010-11 spending. The decrease results largely from statutory changes to the public education funding formulas that determine the amount to which a public school or open-enrollment charter school is entitled. The decrease also results from reduced appropriations to TRS.

State employee reductions. HB 1, the general appropriations act enacted during the regular session, decreased the number of full-time equivalent (FTE) positions in state employment for fiscal 2013 by 5,727 from the 2011 budgeted levels, according to the LBB's summary of the conference committee report on HB 1, for a total of 235,135 FTEs.

Spending limits. The fiscal 2012-13 budget meets all spending limits imposed by the Texas Constitution and state law. Art. 3, sec. 49a of the Constitution limits spending to the amount of revenue that the comptroller estimates will be available

during the two-year budget period. The comptroller has certified that the state will have enough revenue to cover the appropriations approved by the 82nd Legislature.

Another constitutional spending limit, Art. 8, sec. 22, prohibits the growth of state spending from revenue not dedicated by the Constitution from exceeding the growth rate of the Texas economy, defined as the growth in statewide personal income. On November 15, 2010, the LBB adopted an estimated growth rate of 8.92 percent, which limits spending from nondedicated tax revenue in fiscal 2012-13 to \$78.1 billion, subject to the comptroller revising the revenue estimate. According to the LBB, fiscal 2012-13 spending will not exceed this limit.

Unspent dedicated account balances used for budget certification. According to the Comptroller's Office, 213 accounts contain general revenue dedicated to spending for a particular purpose. The Legislature chose not to appropriate most of the

State Spending by Government Function

(General revenue and general revenue-dedicated funds in millions)

	Budgeted Fiscal 2010-11	Appropriated Fiscal 2012-13	Biennial change*	Percent change*
Art. 1 General government	\$3,033.6	\$2,911.9	(\$121.7)	(4.0%)
Art. 2 Health and human services	22,650.7	23,867.6	1,216.9	5.4
Art. 3 Education	49,285.3	48,412.2	(873.1)	(1.8)
Art. 4 Judiciary	482.2	466.3	(15.9)	(3.3)
Art. 5 Public safety/criminal justice	8,694.8	8,374.7	(320.2)	(3.7)
Art. 6 Natural resources	2,083.1	1,685.3	(397.8)	(19.1)
Art. 7 Business/economic development	962.0	964.6	2.7	0.3
Art. 8 Regulatory	676.6	648.5	(28.1)	(4.2)
Art. 9 General provisions	0	0	0	N/A
Art. 10 Legislature	368.6	339.4	(29.2)	(7.9)
TOTAL	88,236.9	87,670.4	(566.5)	(0.6)

*compares *Estimated/Budgeted Fiscal 2010-11* with *Appropriated Fiscal 2012-13*

Note: Totals may vary because of rounding.

Source: *Legislative Budget Board*

Percent change from fiscal 2010-11 spending levels

	All funds (%)	General revenue and general revenue-dedicated funds (%)
General government	(11.1%)	(4.0%)
Health and human services	(15.3)	5.4
Education	(4.6)	(1.8)
Judiciary	(4.4)	(3.3)
Public safety and criminal justice	(4.7)	(3.7)
Natural resources	9.2	(19.1)
Business and economic development	2.0	0.3
Regulatory	(7.9)	(4.2)
Legislature	(7.9)	(7.9)
Total	(7.5)	(0.6)

Source: Legislative Budget Board

money in these general revenue-dedicated accounts, which by the end of fiscal 2012-13 will total nearly \$5 billion. Unspent balances in the general revenue-dedicated accounts range from \$1,000 in the American Legion license plate account to \$851 million in the System Benefit Fund, which is dedicated to providing assistance to certain low-income electric ratepayers (see page 15). Other accounts with sizable, unspent balances include the Emissions Reduction Plan (about \$654 million) and the Designated Trauma Facility and EMS account (about \$388 million). Leaving these funds unspent for their specified purposes made this money available for the comptroller to certify that the fiscal 2012-13 budget was balanced.

General government

The 82nd Legislature appropriated \$4.5 billion in all funds for fiscal 2012-13 for nearly two dozen agencies that perform some of the core operations of state government. This is a decrease of \$557.3 million, or 11.1 percent, from fiscal 2010-11 spending of \$5 billion. General revenue and general revenue-dedicated funds decrease by 4 percent to \$2.9 billion. The agencies to which these funds are appropriated include general administrative agencies, agencies charged with operation of state buildings and bond issues,

and agencies that administer state employee benefits, pensions, and workers' compensation payments.

Economic development funds. HB 1 appropriates \$150 million in general revenue funds for the Texas Enterprise Fund (TEF) and \$140.5 million in general revenue funds for the Emerging Technology Fund (ETF). Neither appropriation includes new funds, but HB 1 allows both the TEF and the ETF to retain and spend unused funds from fiscal 2010-11.

State employee health insurance benefits. The fiscal 2012-13 state budget appropriates \$2.7 billion in all funds for state employee group health insurance benefits, including \$1.7 billion in general revenue and general revenue-dedicated funds. This is an increase of \$236.5 million in all funds from fiscal 2010-11 spending levels and an increase of \$123.8 million in general revenue and general revenue-dedicated funds. This funding level will avoid changes to employee contributions or benefits and maintain the current benefit structure at least through fiscal 2012.

State employee retirement. The budget appropriates \$814.6 million in all funds for state contributions to state employee retirement plans, an increase from the \$806.5 million that was budgeted for fiscal 2010-11. SB 2, enacted in the 82nd Legislature's first called session, appropriates another \$7.5 million

for the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS). The fiscal 2012-13 budget reflects a lowering of the state contribution rate to state employee retirement accounts from 6.95 percent of payroll to 6 percent in fiscal 2012, the minimum contribution allowed by the Texas Constitution, and to 6.5 percent in fiscal 2013. The state employee contribution will remain at 6.5 percent for both fiscal 2012 and fiscal 2013.

Pension plan changes study. In Art. 9, sec. 18.03 of HB 1, the Legislature requires the Employees Retirement System and Teacher Retirement System each to report on the fiscal and actuarial impact of possible changes to the state-funded pension plans. Among the potential changes to be studied are changes in retirement eligibility, final average salary, and the benefit multiplier and creation of a hybrid benefit plan including both defined benefit and defined contribution features. The reports must be submitted to the LBB and the governor by September 1, 2012.

Health and human services

The five agencies comprising the Texas health and human services (HHS) system constitute Texas' second-largest source of expenditures after education. These HHS agencies are appropriated \$55.4 billion in all funds for fiscal 2012-13, a decrease of 15.3 percent from fiscal 2010-11 spending levels. The general revenue and general revenue-dedicated funds portion, \$23.9 billion, represents a 5.4 percent increase. The decrease in all funds largely is due to the loss of \$5.7 billion in one-time federal stimulus funding used to support HHS programs in fiscal 2010-11.

Medicaid, CHIP, and other funding cuts. Medicaid, the federal-state health insurance program for the poor, elderly, and disabled, is the state's largest HHS program. About two-thirds of Medicaid recipients are children. Uninsured children who do not qualify for Medicaid but whose family incomes are at or below 200 percent of the federal poverty level may receive health care through the Children's Health Insurance Program (CHIP).

The fiscal 2012-13 budget for Medicaid includes \$40.6 billion in all funds and \$17.1 billion in general revenue and general revenue-dedicated funds. This is a decrease in all funds of about \$8.8 billion, or 18 percent, from fiscal 2010-11. HB 1 maintains the 2 percent rate cuts imposed during fiscal 2010-11 on physicians, dentists, and orthodontists who accept Medicaid or CHIP and implements additional cuts of 5 percent in reimbursements to other Medicaid providers, 8 percent in reimbursements to other CHIP providers, and 8 percent for certain Medicaid hospital services.

HB 1 does not include funding for increases in Medicaid cases and costs anticipated over the biennium. The Legislative Budget Board (LBB) estimates that about 200,000 new individuals are expected to qualify for acute care Medicaid services by 2013. HB 1 falls short by about \$4.8 billion in general revenue from the amount estimated to be required to fund anticipated caseload and cost growth. Because Medicaid is an entitlement program that must cover all qualifying individuals, the next Legislature will have to fund any shortfall with a supplemental appropriation in 2013.

The fiscal 2012-13 budget also decreases funding for programs such as Temporary Assistance for Needy Families (TANF), as well as services for family planning and for children and medically needy risk groups.

Mental health funding. The budget includes \$1.9 billion in all funds to the Department of State Health Services (DSHS) for mental health services strategies. It maintains fiscal 2010-11 service levels for community mental health crisis services and increases funding for children's mental health services. Adult mental health services, which treat about 50,000 Texans per month, are cut by about 4 percent. Funding for state and community mental health hospitals is increased by about 6 percent for the biennium.

The budget directs DSHS to contract with an independent body to review the public mental health system and report recommended improvements to the LBB, the governor, and the Legislature by September 1, 2012. DSHS also must develop a request for a

proposal to privatize one state mental health hospital by September 1, 2012.

Family planning services. Funding for DSHS family planning programs is reduced by about two-thirds from fiscal 2010-11 spending levels. These programs provide low-income individuals with basic health screenings, prescription contraception, and treatment for sexually transmitted diseases. According to the LBB, the funding cuts will result in at least 300,000 people losing access to these services in fiscal 2012-13.

Rider 62 in the HHSC section of the budget requires HHSC to continue providing services under the Women's Health Program (WHP), which had been scheduled to expire September 1, 2011. The WHP provides physical examinations, health screenings, and contraceptives and family planning services to women whose income and family size place them at 185 percent of the federal poverty guidelines, the level at which they would be eligible for Medicaid if they were pregnant.

The primary difference between WHP and the DSHS family planning programs is that WHP requires recipients to be U.S. citizens, while the DSHS programs do not.

Community-based, long-term care. The budget allocates about \$9.4 billion in all funds, a 29 percent decrease from 2010-11 spending, for long-term care services and supports administered by the Department of Aging and Disability Services (DADS). Such services include the Medically Dependent Children Program, which helps families who care for medically dependent children as an alternative to nursing facilities, the Program of All-inclusive Care for the Elderly (PACE), home and community-based services, hospice, and state-supported living centers. The agency expects to continue serving the same number of people, in part because about 80,000 people in primary home care, day activity, and community-based alternative programs currently administered by DADS will be transferred to the purview of HHSC for inclusion in the STAR+PLUS managed care program. The decrease in funding

to the DADS programs also reflects the Medicaid shortfall discussed above. But because rider 44 in the DADS section of the budget and Sec. 49 in the portion entitled "Special Provisions Relating to All HHS Agencies" direct the agency to continue serving the same number of clients in Medicaid programs regardless of any shortfall, a supplemental appropriation in 2013 is expected.

Child Protective Services. HB 1 appropriates \$2.3 billion in all funds to Child Protective Services (CPS). It funds foster care, adoption subsidy, and permanence care assistance services at fiscal 2010-11 spending levels and maintains current funding levels for the relative and other designated caregiver program (Kinship Care).

The fiscal 2012-13 budget does not include funding for growth in the number of clients expected to need protective day care or relative care services during fiscal 2012-13. Protective day care services allow children to stay in their homes while abuse or neglect is addressed and prevents their placement in foster care. Relative day care services allow relatives to care for abused or neglected children as an alternative to placing the children in foster care.

The Department of Family and Protective Services (DFPS) estimates that not funding projected caseload growth for these programs will mean that the number of children not receiving protective day care services will be 1,117 per month in fiscal 2012 and 1,281 per month in fiscal 2013. The number of children not receiving relative day care services each month will be about 363 in fiscal 2012 and 565 in fiscal 2013.

Child abuse prevention. The budget decreases funding for child abuse prevention and other prevention programs administered by DFPS by about 30 percent from fiscal 2010-11. Such programs include the Services to At-Risk Youth (STAR) program and other at-risk prevention programs. According to DFPS, not funding these programs will mean that the number of families not receiving these services will be about 7,805 in fiscal 2012 and 7,781 in fiscal 2013.

Public education

Agencies overseeing the state's public education system set curriculum standards, approve instructional materials, certify educators, provide school district employee health care, and manage the retirement pension fund. The fiscal 2012-13 budget appropriates \$50.8 billion in all funds to public education agencies, including the Texas Education Agency (TEA), the Teacher Retirement System (TRS), the School for the Blind and Visually Impaired, and the School for the Deaf. Appropriations in all funds represent a decrease of about \$3 billion, or 5.6 percent, from fiscal 2010-11 spending. Of the \$50.8 billion total appropriations, \$33.7 billion is general revenue funds, a 0.2 percent decrease from fiscal 2010-11 spending, and \$600,000 is general revenue-dedicated funds, a 50 percent increase from fiscal 2010-11 spending.

Of the \$50.8 billion in all funds, \$47 billion is appropriated to TEA, a \$4.4 billion decrease from fiscal 2010-11 appropriations. The budget appropriates \$35.5 billion in all funds to the Foundation School Program, a decrease of \$1 billion from fiscal 2010-11 spending.

The fiscal 2012-13 budget appropriates \$3.8 billion to the Teacher Retirement System (TRS), an approximately \$240.8 million decrease from fiscal 2010-11 spending. The TRS pension fund is appropriated \$3.2 billion in all funds, a decrease of \$146.5 million from fiscal 2010-11 spending. The state's contribution rate will decrease from 6.644 percent to 6 percent of active employee payroll in fiscal 2012 and 6.4 percent in fiscal 2013. The school employee contribution rate will remain 6.4 percent in fiscal 2012 and fiscal 2013.

Foundation School Program. The fiscal 2012-13 budget appropriates \$35.5 billion in all funds for the Foundation School Program (FSP), the mechanism by which school districts receive most of their total state funding. The appropriation is less than the estimated \$42.6 billion public schools would have been entitled to before statutory changes made in the 82nd Legislature's first called session.

To legally permit a decrease in the state's appropriation to public schools, the 82nd Legislature

in the first called session enacted SB 1, amending the state's school finance formulas and target revenue hold-harmless provisions. In fiscal 2012-13, state aid to school districts through the public school funding formula will be reduced by \$2.5 billion. In fiscal 2013, state aid to school districts through the target revenue hold-harmless provision will be reduced by \$1.5 billion, according to the Equity Center. State aid to school districts for the 2011-12 school year is projected to be an average of 5.2 percent less for each district than its current level of funding, according to Moak, Casey & Associates. For the 2012-13 school year, the average reduction is projected to be 5.8 percent less than each district's current level of funding.

SB 1 deferred the August 2013 FSP payment to school districts until September 2013, which means that a \$2.3 billion payment that would have been made in fiscal 2012-13 instead will be made in fiscal 2014-15, which begins on September 1, 2013.

The fiscal 2012-13 state budget sets aside \$41 million of the appropriation to the FSP for the Student Success Initiative, a grant program that provides funding to schools whose students are unlikely to meet state assessment benchmarks. This is a decrease of \$263 million from fiscal 2010-11 appropriations.

Grants to school districts outside FSP. The fiscal 2012-13 budget appropriates \$1.3 billion less in general revenue funds than fiscal 2010-11 spending for public education programs funded outside the Foundation School Program (FSP). Some of the programs appropriated general revenue funds in the fiscal 2012-13 budget include:

- \$20 million to Communities in Schools, a mentoring program for students at risk of dropping out;
- \$1.3 million to the statewide steroid testing program;
- \$40 million to the District Awards for Teacher Excellence;
- \$2.5 million to Amachi, a mentoring program for at-risk students;
- \$3 million to Academic Innovation and Mentoring (AIM), a program for certain students at risk of dropping out;

- \$7 million to Early Childhood Readiness Programs
- \$8 million to the Virtual Schools Network;
- \$6 million to the Early College High School and T-STEM programs;
- \$4 million to the Online College and Career Preparation Technical Assistance program;
- \$400,000 to MATHCOUNTS, and
- \$8 million to Teach for America, to be spent on math teachers.

For fiscal 2012-13, the objectives of some of the programs that usually receive state funding outside FSP payments, such as virtual schools and prekindergarten, receive funding through FSP payments.

No appropriation was made to school districts to offset the cost of disciplinary alternative education programs or to the Texas High School Completion Success Initiative, which provides instructional support and professional development for teachers with students at risk of dropping out of school. Other major programs and initiatives not funded include:

- new instructional facilities;
- teacher mentor programs;
- certain dropout prevention programs;
- prekindergarten grants;
- the extended school day and extended school year programs;
- life skills classes for teen parents;
- science labs;
- background checks for school personnel; and
- the arts education grant.

Instructional materials. The fiscal 2012-13 budget appropriates \$608.1 million in general revenue funds to the Instructional Materials Fund, a decrease in general revenue funds of \$104.1 million from fiscal 2010-11 spending. In accordance with changes made to chapter 31 of the Texas Education Code, all instructional materials will be purchased by school districts with appropriations from the Instructional Materials Fund in an amount determined by the commissioner of education based on the school district's enrollment over the previous three years.

From the \$608.1 million, the commissioner may set aside up to \$2.5 million for the continued support and delivery of online college readiness materials in English language arts and reading, mathematics, science, and social studies.

Decreased state contribution rate to TRS-Care. The fiscal 2012-13 state budget appropriates \$401 million in general revenue funds for TRS-Care, the public education retiree health insurance program. This is a decrease of \$120 million from fiscal 2010-11 spending. The fiscal 2012-13 appropriation maintains the state's contribution rate to TRS-Care at 1 percent of public education employee payroll for fiscal 2012 but includes a decreased contribution rate of 0.5 percent for fiscal 2013.

Lowering the state's contribution rate means that more of the financial burden to meet federal maintenance-of-effort requirements may shift to school districts. The decreased appropriation could trigger an increase in health insurance premiums for retirees. The appropriations bill specifies the Legislature's intent that the Teacher Retirement System control the cost of the retiree insurance program by not providing rate increases to health care providers and pharmacy providers during fiscal 2012-13 without providing 60 days notice to the Legislative Budget Board.

Texas School for the Blind and Visually Impaired. The budget appropriates \$41.2 million in all funds for the Texas School for the Blind and Visually Impaired (TSBVI), which serves blind and visually impaired students, many of whom have multiple disabilities, including deaf-blindness. The appropriation for TSBVI is a decrease of \$52.6 million from fiscal 2010-11 spending, due largely to the scheduled December 2012 completion of campus renovations that eliminates the need for an appropriation of general obligation bond proceeds.

The appropriation to TSBVI will fulfill the legal entitlement under federal law to students with disabilities by maintaining the current scope of educational programs, preventing staff layoffs, and allowing the school to maintain current student enrollment and serve incoming students. It will fund summer school and short-term programs for students

enrolled in local school districts, as well as outreach programs that are the main source of support to local districts.

Texas School for the Deaf. HB 1 appropriates \$52.7 million in all funds to the Texas School for the Deaf (TSD), a decrease of \$800,000 from fiscal 2010-11 spending. TSD provides direct educational services to students ages 0 to 22 who are deaf or hard of hearing and who may have multiple disabilities. The appropriation should allow the school to maintain the status quo and prevent staff layoffs. It will fund current enrollment but not account for increased enrollment.

Higher education

Fiscal 2012-13 appropriations for institutions and agencies of higher education total \$22.1 billion in all funds. This is a decrease of \$555.8 million, or 2.5 percent, from fiscal 2010-11 spending. The general revenue and general revenue-dedicated funds portion is \$14.7 billion, a 5.3 percent decrease.

HB 1 decreases formula funding, which is based primarily on an institution's enrollment numbers and the types of courses offered, by \$180 million due to a 5 percent reduction to general academic institutions and a 10 percent reduction to health-related institutions. HB 1 does not provide funding for enrollment growth at any institution of higher education and reduces appropriations for higher education health insurance and retirement benefits. Special-item funding for higher education institutions, which supports specific programs or activities not paid for with formula funding, is reduced by about 25 percent, or \$215.2 million.

HB 1 also eliminates one-time, mostly hurricane-related funding of \$116.3 million and makes the following cuts: \$11.5 million from the Research Development Fund; \$51.1 million from hospital and dental clinic operations; and \$32.5 million from volunteer fire departments. It also reflects the loss of \$227 million in one-time federal stimulus funding provided by the American Recovery and Reinvestment Act (ARRA).

General academic institutions. The fiscal 2012-13 all-funds appropriation in HB 1 for general academic institutions is \$5.8 billion, a decrease of 6.9 percent from fiscal 2010-11 spending. General revenue and general revenue-dedicated funds are \$5.8 billion, a decrease of \$305.6 million, or 5 percent. Each general academic institution was "held harmless," so that no general academic institution will experience a reduction of more than 15 percent in total general revenue funds from fiscal 2010-11 spending. Tuition revenue bond debt service was excluded from this hold-harmless calculation.

Health-related institutions. HB 1 appropriates to public health-related institutions \$8 billion in all funds, an increase of 1.6 percent from fiscal 2010-11 spending. The increase is due largely to increased patient income, which is revenue earned by hospitals and clinics that conduct patient care activities, most often medical or dental activities. General revenue and general revenue-dedicated funds decreased by \$308.3 million, or 11.7 percent.

Two-year institutions. HB 1 appropriates to two-year institutions \$1.9 billion in all funds, a decrease of \$74.3 million, or 3.7 percent, from fiscal 2010-11 spending. This includes public community and junior colleges, Lamar State Colleges, and the Texas State Technical Colleges. General revenue and general revenue-dedicated funds decreased by \$53.4 million, or 2.7 percent. The state's contribution for community college employee group insurance is reduced by \$113.5 million, or 36.4 percent, from fiscal 2010-11 spending. HB 1, Art. 9, sec. 18.22 appropriates additional formula funding for community and junior colleges of \$34.6 million in general revenue funds for fiscal 2012-13.

Texas Higher Education Coordinating Board. The Texas Higher Education Coordinating Board is appropriated \$1.3 billion in all funds, a 27.5 percent reduction from fiscal 2010-11 spending. Several programs received no funding, including the Higher Education Performance Incentive Initiative, the Educational Aide Program, and college readiness grants.

Student financial aid. According to the coordinating board, student financial aid programs are funded at \$879.5 million for fiscal 2012-13, a decrease in all funds of \$150.7 million, or 15 percent. HB 1 decreases the appropriation for the TEXAS Grant program, the state's largest financial aid program, by 10 percent. This will allow a program that served 106,000 students in fiscal 2010-11 to serve about 30 percent of those eligible — 44,000 renewal students and 33,000 new students. Other reductions include a 20 percent decrease to the Tuition Equalization Grant program that serves students in the state's independent universities; a 23 percent decrease to the Top 10 Percent Scholarship program, and a 29 percent decrease to the B-on-Time loan program. Due to the 20 percent enrollment growth at the state's community colleges, the Texas Educational Opportunity Grant program and the work-study program were not reduced but were funded at fiscal 2010-11 spending levels.

Other reductions. Other decreases include \$17.9 million from college readiness programs; \$17.1 million from the Professional Nursing Shortage Reduction Program; \$15.1 million from the Advanced Research Program; \$14.6 million from the Family Residency Program; \$11.9 million from the Texas Research Incentive Program; \$10.5 million from the Teach for Texas Loan Repayment Program; and \$17.7 million from the Physician Education Loan Program. The remaining \$65.1 million decrease in general revenue and general revenue-dedicated funds results from reductions to or elimination of other programs.

Higher Education Employees Group

Insurance (HEGI). Funding for HEGI totals \$969 million in all funds for fiscal 2012-13, a decrease of \$99.3 million, or 9.3 percent. The reduction mainly reflects reduced premium contribution rates from the state for higher education employees. This funding will cover 86 percent of employee premium costs for higher education employees who participate in the state group benefits program through the Employee Retirement System and 83 percent of premium costs for University of Texas and Texas A&M University System employees. It will cover 42 percent of the premium costs for community college employees.

Supplemental appropriations. SB 2, enacted during the first called session, appropriates additional funding for various higher education institutions for fiscal 2012-13, the largest amount being \$40 million in fiscal 2012 for the Texas Forest Service, an agency of the Texas A&M University System, for combating wildfires.

SB 2 also appropriates \$5.4 million to the Texas Higher Education Coordinating Board for the Texas Armed Services Scholarship Program and \$1.6 million for Texas State University System operations.

SB 2 also directs the Department of State Health Services to spend \$2,250,000 per year to support SB 7 (82nd Legislature, first called session), which creates the Texas Emergency and Trauma Care Education Partnership Program for administration by the coordinating board. The coordinating board is required to make grants to emergency and trauma education partnerships to assist them in offering one-year or two-year residency fellowships to students enrolled in graduate professional nursing or graduate medical education programs.

Judiciary

Total funding for the judiciary in fiscal 2012-13 is \$643.1 million, a decrease of \$29.8 million, or 4.4 percent from fiscal 2010-11 spending. Appropriations from general revenue and general revenue-dedicated funds decrease by \$15.9 million, or 3.3 percent, from fiscal 2010-11 to \$466.3 million in fiscal 2012-13.

Article 4 appropriations support the Texas Supreme Court and the Court of Criminal Appeals, pay the salaries of appellate and district court judges, and fund the Office of Court Administration, the State Law Library, and other judicial agencies and functions.

Civil legal aid. The fiscal 2012-13 budget includes \$17.6 million in general revenue, added by SB 2, enacted during the first called session, for civil legal aid, which provides emergency legal services to Texans who fall below 125 percent of the poverty line. Family law issues make up about half the civil legal aid caseload. Civil legal aid normally is funded

by the Interest on Lawyers' Trust Accounts (IOLTA) outside of the appropriations process through the Texas Access to Justice Foundation, overseen by the Texas Supreme Court. Attorneys in Texas turn over the short-term interest on funds held on behalf of clients to the foundation. Historically low benchmark interest rates diminished funding for the IOLTA program from \$20 million in 2007 to \$5.5 million in 2010.

In fiscal 2012-13, civil legal aid programs are projected to receive \$171.2 million from all revenue sources. This amount includes the \$17.6 million appropriation from SB 2, an anticipated \$8.8 million from the IOLTA program, \$22.2 million from other state dedicated funds, such as a fee on attorneys, \$87.6 million from federal grants, and \$35 million from grants and donations from charitable foundations.

Criminal justice

Spending from all funds on criminal justice and public safety agencies for fiscal 2012-13 decreases by about 4.7 percent from fiscal 2010-11 to \$11.5 billion. General revenue and general revenue-dedicated funding is \$8.4 billion, a 3.7 percent decrease from fiscal 2010-11.

Correctional capacity. As required by HB 1, in September 2011, the Texas Department of Criminal Justice (TDCJ) closed the Central Prison Unit in Sugar Land, which housed about 1,060 inmates. The closure reduces TDCJ's funding by \$25.2 million, and 290 positions are eliminated. The unit and its property, which could be sold, have an appraised value estimated at \$33.5 million.

TDCJ's funding for privately operated correctional beds in prisons, state jails, and residential pre-parole facilities is maintained at about the fiscal 2010-11 level, funding about 14,800 beds. The agency also receives \$15 million to contract for temporary beds if needed.

Funding for treatment, diversion, rehabilitation programs. For most of TDCJ's treatment and diversion programs established in 2007, HB 1 continues funding at the levels these programs received in fiscal 2010-11. The programs were part of an initiative by the Legislature to address a growing adult offender population by increasing the state's correctional capacity and expanding treatment and diversion programs.

HB 1 includes \$184.7 million for substance abuse felony punishment facilities (SAFP) and in-prison treatment facilities (IPTC), \$51.7 million for intermediate-sanction (ISF) facilities, and \$47.1 million for halfway house facilities. This will keep in operation 3,954 SAFP beds, 1,537 IPTC beds, 2,265 ISF beds, and 1,607 halfway house beds, according to TDCJ.

Funding for the agency's sex offender treatment program, the chaplaincy program, and reentry and transition coordinators was maintained at total fiscal 2010-11 levels of about \$38 million.

Decreased funding for prison health care. HB 1 decreases general revenue funding for health and psychiatric care for adult offenders in state custody by \$75 million, about 8 percent, from the fiscal 2010-11 base funding level of about \$929.8 million. Reductions will apply to unit-based and hospital care, mental health care, and pharmacy services.

Juvenile offender capacity. HB 1 limits Texas Youth Commission (TYC) capacity for juvenile offenders to 1,600 beds, excluding halfway houses and contract facilities, beginning January 1, 2012. Current state capacity is 2,118, according to the LBB. HB 1 also authorizes TYC to close up to three facilities and requires it to report to the LBB by October 1, 2011, its plan to reduce capacity.

This limit on capacity applies to a new state agency, the Texas Juvenile Justice Department (TJJD), which has assumed the duties of TYC and the Texas Juvenile Probation Commission (TJPC). TYC and TJPC were abolished by SB 653 by Whitmire, and as of December 1, 2011, their powers and duties were transferred to the new TJJD.

HB 1 also continues fiscal 2010-11 funding of \$39 million for local programs to divert youths from state incarceration. For fiscal 2010-11 and in HB 1, the fiscal 2012-13 general appropriations act, these funds go to the Texas Juvenile Probation Commission but were transferred to the new TJJD.

Border security. HB 1 appropriates a total of \$219.5 million for border security, an increase of \$108.5 million in all funds from spending in fiscal 2010-11, according to the LBB. The Department of Public Safety (DPS) received \$211.8 million, most of the total border security appropriation in HB 1.

HB 1 requires DPS to spend \$38.9 million for enhanced border security operations, including salaries, training, operating costs, and equipment for criminal investigations, highway patrol staff, Texas Rangers, and aircraft operations. DPS must spend \$48.8 million on local border security. The money will fund DPS troopers along the border, as well as Texas Rangers, increased patrol and investigative capacity, the Texas military forces, and operations of the Rio Grande Valley Border Security and Technology Training Center, the Border Operations Center, and the Joint Operations and Intelligence Centers.

HB 1 appropriates \$4 million to the trustee programs in the Governor's Office for border prosecutions. These funds come from the general revenue-dedicated Operators and Chauffeurs License Account 99. In addition, HB 1 appropriates \$3.8 million to the Texas Parks and Wildlife Department (TPWD) for enhanced border security. About \$1.1 million of the appropriations to TPWD will come from general revenue and the rest from the general revenue-dedicated Operators and Chauffeurs License Account 99.

SB 2, enacted in the first called session, appropriates additional funds for border security, including \$1.2 million for fiscal 2012-13 for tactical vessels, weaponry, and related operations costs. It also appropriates about \$909,000 to TPWD for border security, including for safeboats, weaponry, ammunition, and related operations costs.

Natural resources

Natural resources agencies in Texas are entrusted with protecting, managing, and developing the state's agricultural, wildlife, environmental, water, and oil and gas resources, as well as state parks and lands. These agencies include the Texas Commission on Environmental Quality (TCEQ), Texas Parks and Wildlife Department (TPWD), General Land Office (GLO), Texas Water Development Board (TWDB), Texas Railroad Commission (RRC), Texas Department of Agriculture (TDA), Texas Animal Health Commission (TAHC), Texas State Soil and Water Conservation Board (TSSWCB), and river compact commissions.

For fiscal 2012-13, appropriations from all funds for natural resources agencies total \$3.9 billion, an increase of \$326.1 million, or 9.2 percent, from fiscal 2010-11 spending levels. The general revenue and general revenue-dedicated funds portion, \$1.7 billion, is a decrease of \$397.8 million, or 19.1 percent, from fiscal 2010-11. Significant changes include decreased funding to TCEQ for emissions reductions programs, such as the Texas Emissions Reduction Program (TERP) and the Low-Income Repair Assistance Program (LIRAP). Other noteworthy changes include decreased funding to TPWD for state and local parks, elimination of funding to the TSSWCB to improve dam safety, and limited new debt service for the TWDB for water infrastructure planning.

Decreased funding for emissions reductions programs. The fiscal 2012-13 budget reduces appropriations from the Texas Emissions Reduction Program (TERP) general revenue-dedicated fund account by \$114.3 million, or 50 percent, from fiscal 2010-11 spending levels. A contingency appropriation of \$8 million per year is appropriated to the TERP if revenue exceeds the comptroller's biennial revenue estimate (BRE). The TERP provides financial incentives to eligible individuals, businesses, or local governments to reduce emissions from polluting vehicles and equipment.

HB 1 reduces funding for TCEQ's Low-Income Repair Assistance Program (LIRAP) to \$12.5 million in general revenue-dedicated funds for fiscal 2012-13. This is about an 88 percent reduction from fiscal 2010-11. LIRAP is a financial assistance and incentive program for qualified owners of vehicles that fail the emissions test or whose vehicles are at least 10 years old.

Reduced funding for state and local parks.

The fiscal 2012-13 budget will decrease funding for state and local parks by \$63.4 million in all funds. This includes a decrease in all funds to TPWD of \$23.3 million, including 103.5 full-time equivalent positions (FTEs), for park operations such as maintenance, minor repair of state parks, and parks support, including regional offices.

The budget eliminates funding for grants to develop and acquire new local parks projects, including for boating access, outreach, education, and hike-and-bike trail development. Administration costs for the grants program also are reduced by 50 percent, including 6.5 FTEs. The overall decrease to this program is \$40.1 million in all funds from fiscal 2010-11.

Rider 27 in HB 1 will provide TPWD with authority to spend \$6 million in state parks account fund 64, including for 60.3 FTEs, if the additional funds are raised and certified above the comptroller's BRE.

Elimination of funding for dam safety. The fiscal 2012-13 budget eliminates all funding 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.

Debt service for water infrastructure. The fiscal 2012-13 budget will partially fund the TWDB's request for general obligation bonds for State Water Plan projects and projects in economically distressed areas. The budget includes \$14.8 million in general revenue for debt service on additional general obligation bond authority up to \$300 million.

Transportation and economic development

The fiscal 2012-13 budget increases funding to agencies that support business and economic development, transportation, and community infrastructure by 2 percent, or \$464.2 million.

Transportation. Fiscal 2012-13 appropriations to the Texas Department of Transportation (TxDOT) total \$19.8 billion in all funds, an increase of \$3.9 billion, or about 24 percent, from fiscal 2010-11. The increase primarily stems from a \$4.1 billion appropriation of general obligation bond proceeds for highway projects and \$256.5 million for associated debt service. Fiscal 2012-13 appropriations also include an increase of \$1.3 billion from the State Highway Fund (Fund 6) and net decreases of about \$241.5 million in federal funds, \$278 million in Texas Mobility Funds, and \$396.2 million in State Highway Fund bond proceeds.

Funds appropriated for transportation are derived principally from federal reimbursements for transportation projects, state motor fuel taxes, proceeds from various bonds, and other taxes and fees assessed on motorists. Estimated federal reimbursements to TxDOT account for \$6.1 billion, or 31 percent, of total fiscal 2012-13 appropriations to the agency. Revenue from Fund 6, not including bond proceeds and toll project concession payments, accounts for \$6 billion, or 30 percent, and appropriations of Texas Mobility Fund and Fund 6 bond proceeds total about \$1.4 billion for this period. General revenue appropriations to TxDOT total \$235.2 million — about 1 percent of the department's fiscal 2012-13 appropriations — almost all of which is dedicated to paying debt service on general obligation bonds.

General obligation bonds. Just over a fifth of TxDOT's fiscal 2012-13 budget comes from \$4.1 billion in general obligation bond proceeds approved by voters through Proposition 12 in November 2007. The bond proceeds are dedicated to specific purposes that include:

- \$1.4 billion for highway rehabilitation and safety projects;

- \$1 billion to make payments on highway projects previously authorized in fiscal 2010-11;
- \$600 million for urban and metropolitan mobility projects;
- \$500 million for nine specific bridge projects;
- \$300 million to develop mobility projects in the state's four most congested regions (Dallas, Houston, San Antonio, and Austin);
- \$200 million for statewide connectivity projects as determined by the Texas Transportation Commission; and
- \$145 million in unexpended balances from fiscal 2010-11 for highway projects that already have been authorized.

Each \$1 billion of general obligation bond debt issued will require about \$65 million in debt service per year for the term of the bond, often 30 years. The budget includes \$256.5 million for debt service payments on the bonds for fiscal 2012-13.

Workforce programs. The fiscal 2012-13 budget reduces funding for certain workforce development programs. It reduces the Texas Workforce Commission's Skills Development Program to \$48.5 million from \$81 million in fiscal 2010-11. The Skills Development Program provides grants to businesses to fund workforce training. The budget also eliminates funding for the Project Reintegration of Offenders (RIO) program, which received \$21.5 million in fiscal 2010-11 to provide employment and training services to recently released offenders.

The budget also includes no direct appropriation for the Texas Back to Work program, which provides a \$2,000 incentive for businesses that hire first-time unemployment insurance claimants full time. Legislation enacted during the first called session allows, but does not require, the governor to transfer from the Texas Enterprise Fund \$10 million each for the Texas Back to Work Program and the Texas Department of Housing and Community Affairs' housing program for the homeless.

Regulatory agencies

A total of \$677.8 million in all funds is appropriated for fiscal 2012-13 to regulatory agencies, 26 agencies that regulate business professionals and service industries. This is a decrease of \$58.2 million, or 7.9 percent, from fiscal 2010-11 spending levels. Most of the decrease reflects reductions to the low-income discount program for electricity customers. General revenue and general revenue-dedicated funds for these agencies total \$648.5 million in fiscal 2012-13, a decrease of \$28.1 million, or 4.2 percent.

System Benefit Fund. The low-income discount program, accounting for most of the budget decrease, provides utility discounts to low-income electricity customers during the summer months, May through September. The program is funded by the System Benefit Fund, a general revenue-dedicated account containing fees collected from electricity ratepayers in competitive areas of the state. The fiscal 2012-13 budget includes \$167.4 million for programs funded with System Benefit Fund money, a \$90.4 million decrease from fiscal 2010-11 spending levels. The net decrease results from a 39.6 percent reduction of \$99.7 million to the discount program for low-income customers, partially offset by a \$9.3 million increase in dedicated funding for electric market oversight.

The Comptroller's Office has estimated that the System Benefit Fund will have an unspent balance of \$851 million at the end of fiscal 2012-13. These unappropriated funds were used to certify that the fiscal 2012-13 budget was balanced.

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John H. Reagan Building
Room 420
P.O. Box 2910
Austin, Texas 78768-2910

(512) 463-0752

www.hro.house.state.tx.us

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