

TEXAS  
BUDGET

# HIGHLIGHTS

Fiscal 2016-17

This report highlights key provisions of HB 1 by Otto, the general appropriations act for fiscal 2016-17 and HB 2 by Otto, the supplemental appropriations and reductions act. For information on the rules, laws, and constitutional provisions governing the budget process, see House Research Organization State Finance Report Number 84-1, [Writing the State Budget](#), February 12, 2015. For more information on specific budget issues, see HRO State Finance Report Number 84-2, [CSHB 1: The House Appropriations Committee's Proposed Budget for Fiscal 2016-17](#), March 27, 2015.

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## Overview of the fiscal 2016-17 budget

The state budget for fiscal 2016-17 authorizes total spending of \$209.1 billion in all funds, an increase of \$5.8 billion, or 2.9 percent, from fiscal 2014-15 spending levels, according to the Legislative Budget Board (LBB). Appropriations of general revenue and general revenue dedicated funds total \$113.8 billion for fiscal 2016-17, an increase of \$10.4 billion, or 10 percent, from fiscal 2014-15 spending.

Total appropriations of funds from all sources increased from fiscal 2014-15 levels for all budget articles except Natural Resources and Regulatory Agencies. For fiscal 2016-17, appropriations of general revenue and general revenue dedicated funds increased for all budget articles except Regulatory Agencies. The tables and chart on pages 2-5 show state appropriations by government function for fiscal 2016-17, as well as changes from fiscal 2014-15 spending levels.

Comparisons in this report between appropriations for the current biennium and spending for the previous biennium come mainly from fiscal 2016-17

appropriations and fiscal 2014-15 expended/budgeted amounts reported in the LBB's [Fiscal Size-up](#), published in May 2016, and other LBB documents summarizing the budget.

**State employee compensation.** The budget appropriates \$332 million in all funds for a fiscal 2016 across-the-board pay raise of 2.5 percent and related benefits for state employees who contribute to the Employees Retirement System (ERS). This raise is intended to offset an increase in the member contribution rate to ERS retirement. HB 9 by Flynn increased the member contribution to 9.5 percent of employee salary in fiscal 2016 and subsequent years. The member contribution rate was 6.9 percent in fiscal 2015.

**General revenue dedicated accounts.** Appropriations from general revenue dedicated accounts total \$7.8 billion, which is about 3.7 percent of all funds appropriated for the biennium. General revenue dedicated funds are collected for a specific purpose designated in state law. The general revenue

### State spending by government function

(All funds in millions)

	Budgeted/ spent fiscal 2014-15	Appropriated fiscal 2016-17	Biennial change*	Percent change*
<b>Art. 1</b> General government	\$5,321.5	\$6,252.6	\$931.1	17.5%
<b>Art. 2</b> Health and human services	74,751.5	77,199.8	2,448.3	3.3
<b>Art. 3</b> Education	74,724.5	78,570.1	3,845.7	5.1
<b>Art. 4</b> Judiciary	764.5	807.8	43.3	5.7
<b>Art. 5</b> Public safety/criminal justice	11,869.0	12,432.6	563.7	4.7
<b>Art. 6</b> Natural resources	6,933.5	4,367.5	(2,566.0)	(37.0)
<b>Art. 7</b> Business/economic development	27,429.5	27,762.2	332.6	1.2
<b>Art. 8</b> Regulatory agencies	1,132.6	934.2	(198.3)	(17.5)
<b>Art. 9</b> General provisions	0.0	390.2	390.2	N/A
<b>Art. 10</b> Legislature	374.0	386.1	12.0	3.2
<b>TOTAL</b>	<b>\$203,300.5</b>	<b>\$209,103.0</b>	<b>\$5,802.5</b>	<b>2.9%</b>

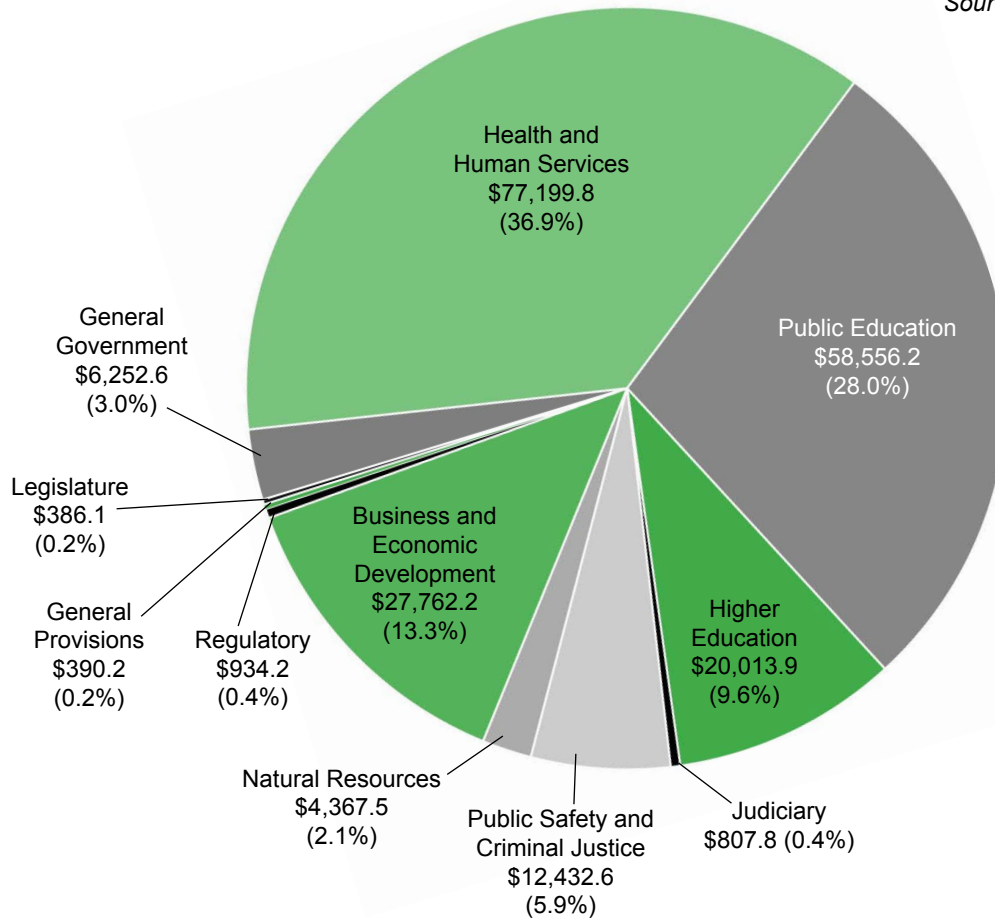
\*compares *Expended/Budgeted Fiscal 2014-15* with *Appropriated Fiscal 2016-17*

Note: Totals may vary because of rounding.

Source: Legislative Budget Board

**All funds appropriations by function, fiscal 2016-17**  
(in millions)

Source: Legislative Budget Board



dedicated funds appropriation for fiscal 2016-17 is an increase of \$422.5 million from fiscal 2014-15 spending levels.

With the appropriations in the 2016-17 budget, the balances of general revenue dedicated accounts available for certification decreased from \$4.6 billion at the end of fiscal 2015 to an estimated \$3.5 billion for fiscal 2016-17. These balances are amounts that were collected but not spent and carried over from previous biennia.

For information on budget figures for the Texas Emissions Reduction Program and the System Benefit Fund, the two general revenue dedicated accounts that had the largest balances, see pages [13](#) and [15](#).

**Rainy day fund.** The fiscal 2016-17 general appropriations act does not make any appropriations from the Economic Stabilization Fund (“rainy day fund”). The fund is expected to reach \$10.4 billion by the end of fiscal 2017, according to the comptroller.

Money from the fund may be spent for any purpose if approved by at least two-thirds of the members present in each legislative chamber. Funds also may be spent to cover an unanticipated deficit in a current budget or to offset a decline in revenue for a future budget with approval by at least three-fifths of the members present in each house. Money drawn from the rainy day fund counts toward the state’s constitutional spending limit, according to the LBB.

**Spending limits.** The fiscal 2016-17 budget meets all spending limits imposed by the Texas Constitution and state law, according to the LBB.

The budget complies with the “pay-as-you-go-limit,” with the General Revenue Fund appropriations being \$4.1 billion below the \$110.3 billion that the comptroller set as the amount of available revenue during the two-year budget period. The comptroller has certified that the state will have enough revenue to cover the appropriations approved by the 84th Legislature.

The budget also is about \$1.7 billion below the limit established on the spending of certain state tax revenue not dedicated by the Texas Constitution. It complies with the state’s limit on welfare spending and the limit on state debt.

## General government

The 84th Legislature appropriated \$6.3 billion in all funds for general government agencies and programs for fiscal 2016-17. This is an increase of \$931.1 million (17.5 percent) from fiscal 2014-15

spending levels. Appropriations include \$2.9 billion in general revenue funds, an increase of 3 percent from 2014-15 spending levels, and \$990.2 million in general revenue dedicated funds, an increase of 14.4 percent from fiscal 2014-15 spending levels.

Funds in Article 1 are appropriated to general executive and administrative agencies, including those charged with addressing bond issues, operating state buildings, and administering state employee benefits, pensions, and workers’ compensation claims.

**Increased contribution to state employee retirement fund.** The budget appropriates \$5 billion in all funds to the Employees Retirement System of Texas (ERS). This is an increase of \$953.6 million, or 23.4 percent, in all funds for the agency from fiscal 2014-15. Included in the agency’s appropriations is an increase in the state contribution to the ERS retirement plan from \$896 million in fiscal 2014-15 to \$1.2 billion in fiscal 2016-17. Funding reflects an increase in the state contribution rate to the retirement plan from 7.5 percent of an employee’s salary to 9.5 percent. In addition, state agencies continue to contribute another 0.5 percent of the total base wages and salaries for eligible employees, bringing the total

### State spending by government function (General revenue and general revenue dedicated funds in millions)

	Budgeted/ spent fiscal 2014-15	Appropriated fiscal 2016-17	Biennial change*	Percent change*
<b>Art. 1</b> General government	\$3,700.0	\$3,909.1	\$209.1	5.7%
<b>Art. 2</b> Health and human services	30,942.6	33,384.9	2,442.2	7.9
<b>Art. 3</b> Education	54,133.4	58,790.3	4,656.9	8.6
<b>Art. 4</b> Judiciary	580.8	624.0	43.2	7.4
<b>Art. 5</b> Public safety/criminal justice	9,348.5	11,538.7	2,190.2	23.4
<b>Art. 6</b> Natural resources	1,927.4	2,337.8	410.4	21.3
<b>Art. 7</b> Business/economic development	1,378.2	1,648.2	270.0	19.6
<b>Art. 8</b> Regulatory agencies	1,073.7	902.2	(171.5)	(16.0)
<b>Art. 9</b> General provisions	0.0	295.0	295.0	N/A
<b>Art. 10</b> Legislature	373.9	385.9	12.0	3.2
<b>TOTAL</b>	<b>\$103,458.6</b>	<b>\$113,815.9</b>	<b>\$10,357.4</b>	<b>10.0%</b>

\*compares *Expended/Budgeted Fiscal 2014-15* with *Appropriated Fiscal 2016-17*

Note: Totals may vary because of rounding.

Source: Legislative Budget Board

### Percent change from fiscal 2014-15 spending levels

	All funds (%)	General revenue and general revenue dedicated funds (%)
General government	17.5%	5.7%
Health and human services	3.3	7.9
Education	5.1	8.6
Judiciary	5.7	7.4
Public safety and criminal justice	4.7	23.4
Natural resources	(37.0)	21.3
Business and economic development	1.2	19.6
Regulatory agencies	(17.5)	(16.0)
Legislature	3.2	3.2
<b>Total</b>	<b>2.9%</b>	<b>10.0%</b>

Source: Legislative Budget Board

state contribution rate to 10 percent, the maximum rate established by the Texas Constitution (Art. 16, sec. 67 (b)(3)).

The increase in the state contribution rate coincides with an increase to 9.5 percent in the employee contribution rate, established in HB 9 by Flynn as enacted by the 84th Legislature. The employee contributions originally were scheduled to be 7.2 percent in 2016 and 7.5 percent in 2017. Also included in the budget is a salary increase of 2.5 percent to employees who contribute to ERS to offset the increased employee contribution.

These changes to the state and member contribution rates to ERS moved the pension fund toward actuarial soundness. To be considered actuarially sound, the pension fund requires total contributions sufficient to fund the normal cost of the plan and to pay off the unfunded liability in no more than 31 years (Government Code, sec. 811.006). An actuarial valuation from August 2015 determined the funding period of the ERS retirement plan to be 33 years.

Under current law, the pension fund must be actuarially sound for a cost of living adjustment (COLA) to be granted and must remain sound after one is granted. At a recent hearing of a subcommittee of the Committee on Appropriations, a discussion on implementation of HB 9 and the actuarial soundness

of the pension fund included a discussion of COLAs. A COLA was last granted by the 77th Legislature in 2001.

#### Changes to economic development

**funds.** The Office of the Governor oversees certain economic development funds, which in the past have included the Texas Enterprise Fund and the Emerging Technology Fund (ETF). HB 26 by Button, enacted by the 84th Legislature in 2015, abolished the ETF. The budget authorized the ETF's remaining balance, estimated at the end of fiscal 2015 to be \$102 million, to be distributed to other programs. Forty-five million dollars of the balance was transferred to the Texas Enterprise Fund. Including this transfer, 2016-17 appropriations for the Texas Enterprise Fund totaled \$90 million in general revenue dedicated funds. The budget also authorized the transfer of \$40 million from the ETF's unencumbered balance to the Governor's University Research Initiative, a program created by HB 26. The initiative provides funding to recruit renowned faculty to Texas' public universities. The Legislature also directed \$9 million of the ETF's remaining balance to go to the Texas Research Incentive Program and \$8 million to go to the Texas Research University Fund.

**Increased funding for state buildings.** In response to concerns about the condition of state buildings, the Legislature appropriated funds to

various agencies to address deferred maintenance projects. SB 2004 by Eltife established the Joint Oversight Committee on Government Facilities to review deferred maintenance plans and receive implementation updates. The bill also created the Deferred Maintenance Account in the general revenue fund. From this account, the Legislature appropriated \$387.7 million in general revenue and general revenue dedicated funds to several agencies, including \$217.2 million for the Facilities Commission. The commission received an increase in overall funding from \$208.9 million in 2014-15 to \$1.1 billion in 2016-17. Additional funding for state agencies to address deferred maintenance projects and facilities needs appears throughout the budget.

The Joint Oversight Committee on Government Facilities met in November to adopt reporting guidelines for agencies receiving money from the deferred maintenance fund. Its most recent report on the status of projects was released in April.

## Health and human services

The 2016-17 budget appropriates \$77.2 billion in all funds for the state's health and human service agencies, an increase of \$2.4 billion from fiscal 2014-15 spending. General revenue and general revenue dedicated funds for health and human services agencies in Article 2 total \$33.4 billion, an increase of \$2.4 billion from fiscal 2014-15 spending.

As in previous biennia, funding for the state's health and human services agencies remains the second-largest appropriation in the 2016-17 budget, following public and higher education. Appropriations for fiscal 2016-17 reflect the September 1, 2016, transfer of certain programs from the Department of Assistive and Rehabilitative Services in Article 2 to the Texas Workforce Commission in Article 7. The appropriations also provide funding for certain Medicaid programs transferred from the Department of Aging and Disability Services (DADS) to the Health and Human Services Commission (HHSC).

**Medicaid.** For fiscal 2016-17, the Texas Medicaid program received appropriations of \$61.2 billion in all funds, including \$25.1 billion in general revenue and

general revenue dedicated funds, an increase of \$1.9 billion from fiscal 2014-15. The increase is due to cost growth, projected growth in the number of Medicaid recipients, new funding for hospital-based care, new investments in long-term care, and other items. The LBB projects the average monthly Medicaid acute care caseload will increase by about 100,000 cases from fiscal 2015 to 2017.

*Medicaid cost containment and rate reductions.* Fiscal 2016-17 funding levels for the Texas Medicaid program assume that the HHSC will reduce Medicaid costs by \$869.6 million in all funds, including \$373 million in general revenue, through various initiatives. An HHSC budget rider summarizes these measures, including:

- savings of \$100 million in general revenue during the biennium through reimbursement rate reductions for Medicaid physical, occupational, and speech therapists; and
- \$50 million in general revenue savings during fiscal 2016-17 through policy changes related to Medicaid-reimbursed therapy.

Examples of cost-containment policy changes include specifying that interns, aides, and others are not eligible to bill Texas Medicaid for services, requiring referrals for initial therapy evaluations, and verifying medical necessity for therapy services based on nationally recognized standards of care.

*Medicaid community-based program worker wage increases and provider rate increases.* The fiscal 2016-17 budget increases the wage of community attendant care workers to \$8 per hour, at a cost of \$68.3 million in all funds, including \$28.4 million in general revenue. These workers provide Medicaid-covered, in-home personal care services to Medicaid recipients who otherwise would receive services in an institution or nursing home. A proposal requested by disability rights advocates but not adopted would have raised the wage to \$10 per hour.

The fiscal 2016-17 budget also increases reimbursement rates for health care providers in Medicaid community-based programs by \$9.4 million in all funds, including \$4 million in general revenue funds.

**Long-term services and supports.** DADS received a total appropriation of \$8.5 billion for fiscal 2016-17 for long-term services and supports, which are Medicaid and non-Medicaid programs that assist older people and those with disabilities with activities of daily living. The appropriation for DADS is a decrease of \$5.1 billion from fiscal 2014-15 and reflects the transfer of certain services and funding from a Medicaid fee-for-service arrangement under DADS to Medicaid managed care at HHSC. Funding for clients who will receive long-term care services now provided by HHSC increased by \$3.9 billion in all funds, including \$1.7 billion in general revenue, compared to fiscal 2014-15.

**CHIP.** All-funds appropriations for the Children's Health Insurance Program (CHIP) totaled \$1.8 billion in fiscal 2016-17, a decrease of \$201.4 million in all funds, including a \$424.9 million decrease in general revenue, from fiscal 2014-15. This reduction reflects the transfer of children to Medicaid from CHIP due to an increase in Medicaid income eligibility for children ages 6 to 18 mandated by the federal Affordable Care Act. CHIP is not a Medicaid program, but both CHIP and Medicaid are jointly funded by a combination of state and federal matching dollars. CHIP insures children whose family income is too high to qualify for Children's Medicaid and, unlike Medicaid, charges copays and an enrollment fee.

**Mental health.** The fiscal 2016-17 budget increases appropriations for non-Medicaid mental health, behavioral health, and substance abuse services by \$192.7 million in all funds across several budget articles, totaling \$3.6 billion in all funds. The state's health and human services agencies received \$2.9 billion in all funds for these services, an increase of \$143.7 million in all funds from fiscal 2014-15. The expanded funding provides for increased inpatient and outpatient client services, including more community hospital beds, technology improvements, funding adjustments for local mental health authorities, and funding services for those on the adult mental health wait list, among other items.

**Women's health and family planning.** The 2016-17 budget appropriates \$260.9 million in all funds, including \$257.1 million in general revenue, for women's health and family planning. Total funding for women's health includes \$50 million during the

biennium to serve additional clients through the expanded primary health care program at HHSC.

**Child Protective Services.** Appropriations for Child Protective Services (CPS) at the Department of Family and Protective Services (DFPS) total \$2.8 billion, an increase of \$315.7 million. The increased appropriation includes funding for additional CPS direct delivery staff, as well as funding for entitlement caseload growth in foster care, adoption subsidies, permanency care assistance, rate increases for certain foster care providers, and the expansion of foster care redesign to a new area in northwest Texas.

CPS direct delivery staff are responsible for investigating reports of suspected abuse or neglect of children and acting to protect abused and neglected children from further harm, including finding them safe places to live. The increased funding for CPS will provide 165 more direct delivery staff positions in fiscal 2016 and 255 positions in fiscal 2017 to address rising caseloads. Increased staffing also is designed to help the agency implement various recommendations from reviews of DFPS by the Sunset Advisory Commission and other organizations.

The 2016-17 budget also increases funding for prevention and early intervention programs by \$32.5 million from fiscal 2014-15, for a total appropriation of \$121.4 million in all funds, including \$100.5 million in general revenue and general revenue dedicated funds. These programs, directed by DFPS, operate in local communities to prevent child abuse and neglect, juvenile delinquency, runaway youth, and truancy.

## Public education

Public education agencies, including the Texas Education Agency and the Teacher Retirement System of Texas, were appropriated \$58.6 billion in all funds for fiscal 2016-17, including \$41.3 billion in general revenue funds. This is an increase from fiscal 2014-15 spending of \$2.4 billion in all funds and \$3.1 billion, or 8.2 percent, in general revenue.

Duties of public education agencies include distributing state funding to districts and charter schools, setting curriculum standards, overseeing state testing and accountability, certifying educators,

providing health care for school district employees and retired teachers, and managing the teachers' pension fund.

### **Increased funding for Foundation School**

**Program.** School districts receive most of their state revenue through Foundation School Program (FSP) formulas that account for the varying costs of educating different types of students and for varying levels of school district property wealth. Enrollment in Texas public schools is about 5.2 million students, up from 4.4 million in the 2004-05 school year, according to the Texas Education Agency.

The Legislature appropriated \$42.3 billion in all funds, including \$35.5 billion in general revenue funds, to the FSP. This is an increase of \$2.7 billion, or 6.8 percent, in all funds and \$3.9 billion, or 12.2 percent, in general revenue funds from fiscal 2014-15 spending. The general revenue funds amount includes \$3.8 billion to hold districts harmless for lost revenue resulting from the following tax legislation:

- \$1.2 billion related to SB 1 by Nelson and SJR 1 by Nelson, which increased the mandatory homestead exemption for school district property taxes from \$15,000 to \$25,000; and
- \$2.6 billion related to HB 32 by D. Bonnen, which reduced the franchise tax rate by 25 percent and lowered the rate for businesses using E-Z computation.

The budget increased FSP funding by \$1.5 billion in excess of amounts estimated for enrollment growth. Of the additional \$1.5 billion:

- \$1.2 billion funds the increase in the per-student basic allotment from \$5,040 to \$5,140;
- \$200 million equalizes school finance formula funding for certain districts with compressed tax rates below \$1.00;
- \$55.5 million, distributed through the instructional facilities allotment, provides tax relief for property-poor districts issuing bonds for facilities; and
- \$47.5 million, distributed through the new instructional facilities allotment, provides start-up funds for new district and charter school campuses.

Both state and local revenue contribute to the FSP, and it is projected that the state's share will decrease by about \$4.25 billion in fiscal 2016-17 due to growth in local property values.

### **Increase in instructional materials funding.**

General revenue funding for instructional materials grew in fiscal 2016-17 to \$1.06 billion, a \$102.9 million increase from fiscal 2014-15 spending. Districts may use their funds to buy textbooks, other instructional materials, and certain technology products. The appropriation includes \$10 million for development of open-source instructional materials.

**High-quality pre-K grant funding.** The state provides funding for half-day prekindergarten for eligible students through the FSP. That funding is estimated to be \$1.6 billion in fiscal 2016-17. In addition, the 84th Legislature established a high-quality prekindergarten grant program by enacting HB 4 by Huberty. The grant program was appropriated \$118 million in general revenue funds for fiscal 2016-17.

**Teacher Retirement System.** The Teacher Retirement System of Texas (TRS) administers benefits for teachers and retired teachers, including the pension fund for retired teachers and health care programs for active and retired teachers. TRS was appropriated \$4.3 billion in all funds for fiscal 2016-17, a \$587.4 million, or 11.9 percent, decrease from 2014-15 spending. The decrease is attributable primarily to a fiscal 2015 supplemental appropriation of \$768.1 million to cover a shortfall in TRS-Care, the health insurance program for retired teachers, which also is estimating a shortfall of \$1.7 billion in fiscal 2018-19. Appropriations include a state contribution rate of 6.8 percent of active member payroll for the pension fund and 1 percent for retiree health insurance. The employee contribution rate is 7.2 percent in fiscal 2016 and 7.7 percent in fiscal 2017.

## **Higher education**

Higher education entities and programs received appropriations for fiscal 2016-17 of \$20 billion in all funds, including \$14.7 billion in general revenue funding, an increase of \$1.4 billion, or 10.6 percent. The higher education system includes 37 general academic institutions, 12 health-related institutions, several lower division and technical colleges, and 50



community and junior college districts. The Higher Education Coordinating Board establishes a master plan for Texas higher education and administers student financial aid and several university research funding programs.

**Increase in formula funding.** Formula funds are the largest single funding stream of state support for higher education. Other sources of institutional income include tuition, fees, and investment returns.

*General academic institutions.* Formula funding for general academic institutions totals \$4.7 billion in all funds and \$3.4 billion in general revenue funds. This is an increase of \$329 million in all funds, or 7.6 percent, from fiscal 2014-15 funding levels. The funding covers enrollment growth and an increase in the Instruction and Operations (I&O) formula from \$54.86 to \$55.39 per semester credit hour.

*Health-related institutions.* Formula funding for health-related institutions totals \$2 billion in all funds, an increase of \$155.2 million, or 8.4 percent, from fiscal 2014-15 funding levels. These totals include amounts appropriated to the coordinating board for the Baylor College of Medicine. The funding covers enrollment growth and an increase in I&O formula funding from \$9,527 to \$9,829 per full-time student equivalent.

*Graduate medical education.* The graduate medical education formula funds residency programs at most health-related institutions. GME formula funding appropriations total \$70.2 million in general revenue funds, an increase of \$16.5 million from 2014-15 funding levels. The formula funding was increased from \$5,122 to \$6,266 per medical resident. In addition, the budget appropriates \$15.6 million in general revenue funds to Baylor College of Medicine through the coordinating board.

The Legislature also appropriated \$53 million in general revenue funds to the coordinating board for graduate medical education expansion to fill vacant residency positions and/or increase the number of residency positions. This is an increase of \$38.8 million from fiscal 2014-15 spending in this area. In addition, the coordinating board was appropriated \$16.8 million for the family practice residency program. This amount includes \$4 million from general revenue funds

and \$12.8 million out of the general revenue dedicated trauma and EMS account.

**Increase in research funding.** Funding for research totals \$400 million in general revenue funds, an increase of \$131.7 million from fiscal 2014-15 spending. The Texas Research Incentive Program (TRIP), which matches gifts at eight emerging research universities, was appropriated \$138.1 million in all funds, an increase of \$101.5 million from fiscal 2014-15 spending. The emerging research universities also are eligible for Core Research Support, a new fund created by HB 1000 by Zerwas. Core Research Support received \$117.1 million in general revenue funds appropriated directly to the emerging research universities.

The new Texas Research University Fund (TRUF) provides support for faculty at the University of Texas at Austin and Texas A&M University. For fiscal 2016-17, TRUF received \$147.1 million in all funds, including \$8 million from the balance of the general revenue dedicated Emerging Technology Fund, which was abolished. The Comprehensive Research Fund received \$14.3 million in general revenue funds to support research at institutions not eligible for Core Research Support or TRUF.

**Financial aid restructuring.** The 84th Legislature appropriated \$1.2 billion to student financial aid programs. The largest program, TEXAS grants, was appropriated \$715 million, an increase of \$62.7 million in general revenue funds from fiscal 2014-15 spending. The Texas Educational Opportunity Grants program, which awards grants to students attending community and state technical colleges, was appropriated \$94 million in general revenue funds, an increase of \$28.9 million from fiscal 2014-15 spending. Tuition Equalization Grants provide assistance to financially needy students who enroll at independent institutions in Texas. The program was appropriated \$192.3 million in general revenue funds, an increase of \$12.2 million from fiscal 2014-15 spending.

The Legislature eliminated some financial aid programs and decreased appropriations to support only renewal awards for those programs. These include the B-On-Time program, which allows public and private universities to offer students interest-free loans that are forgiven if the student graduates with at least a

B average within a certain period of time. HB 700 by Giddings phases out the program by September 1, 2020. The 84th Legislature appropriated \$128.8 million in all funds to the B-On-Time public program for fiscal 2016-17, with \$63.4 million to support renewal awards and \$65.3 million in designated tuition set-aside balance that will be returned to the public institutions. The B-On-Time program for students attending private institutions received \$19.2 million in general revenue funds to support renewals.

#### **New funding for tuition revenue bonds.**

The budget includes \$240 million in general revenue funds in fiscal 2017 for debt service on new tuition revenue bonds (TRBs) for various construction projects at multiple higher education campuses. HB 100 by Zerwas authorized \$3.1 billion in new projects, the first major statewide TRB authorization since 2006.

Appropriations also include \$397.6 million in general revenue funds for previously authorized TRB debt service at general academic institutions.

**Increase in Higher Education Fund appropriations.** The Higher Education Fund (HEF) provides funding for capital improvement projects and debt service at certain public higher education institutions. It is a counterpart to the Permanent University Fund and Available University Fund, which provide similar funding to the University of Texas System and many institutions in the Texas A&M University System. In 2015, the 84th Legislature reallocated funds in the HEF, as required every 10 years by the Texas Constitution. SB 1191 by Seliger increased appropriations to the HEF by \$131.3 million for fiscal 2017 for total biennial appropriations of \$656.3 million in general revenue, a 25 percent increase from fiscal 2014-15 spending.

## **Judiciary**

Total funding for the judiciary in fiscal 2016-17 is \$807.8 million, an increase of \$43.3 million, or 5.7 percent, from fiscal 2014-15 spending. General revenue and general revenue dedicated funds increased by \$43.2 million, or 7.4 percent, for a total of \$624 million in fiscal 2016-17.

**Public Integrity Unit.** The fiscal 2016-17 budget does not fund the Public Integrity Unit, a division of the Travis County District Attorney's office that prosecuted crimes related to state government. The unit previously received state funding, but in 2013, Gov. Rick Perry vetoed the unit's full budget of \$7.6 million for fiscal 2014-15.

The 84th Legislature revised the way offenses against public administration are handled, moving that authority from Travis County's Public Integrity Unit. HB 1690 by P. King established procedures for investigating and prosecuting these offenses, giving authority for initial investigations to the Texas Rangers who then may refer cases to local prosecutors where the defendant resided at the time of the offense. The budget appropriates \$500,000 in general revenue for fiscal 2016-17 to the judiciary section of the Comptroller's Office for certain cases prosecuted under these new provisions. The funds may be spent on investigator expenses and travel expenses for prosecutors and witnesses under certain circumstances.

While Travis County's Public Integrity Unit receives no state funding, it continues to investigate and prosecute major fraud against state programs, crimes committed by state employees that are related to their employment, and local public integrity offenses.

**Grants to counties for indigent defense services.** The fiscal 2016-17 budget decreases appropriations to the Texas Indigent Defense Commission (TIDC), most of which are distributed as grants to counties to provide legal representation for indigent people accused of crimes. Total appropriations of \$71.1 million to the TIDC are a decrease of about \$13.9 million from 2014-15 levels.

The total appropriation includes \$7.5 million in new general revenue and \$63.6 million in general revenue dedicated funds. The general revenue dedicated funds come from court costs, a fee on surety bonds, and a fee on State Bar membership dues, all of which are deposited into the Fair Defense Account. The fiscal 2016-17 appropriation from the Fair Defense Account is a \$21.4 million decrease from fiscal 2014-15 when the unexpended balance in the account was appropriated.

The general revenue appropriation includes \$2.6 million for the Regional Public Defender Office for Capital Cases and \$500,000 for capital public defender services in Cameron and Hidalgo Counties.

The Legislature did not fund a request from the TIDC for an additional \$189.3 million in general revenue for grants to counties. The proposed funds were intended to offset indigent defense costs that have increased from \$91 million in 2001 when the Fair Defense Act was enacted to \$230 million in 2014, according to the TIDC.

**Funding for court e-filing.** The budget appropriates about \$45.5 million to implement the state's electronic filing system for court documents in appellate, district, county-level, and statutory probate courts.

E-filing for Texas civil courts began to be phased in starting January 2014 and was fully implemented statewide in September 2015, ahead of the July 2016 deadline. The appropriation for fiscal 2016-17 is an increase of \$17 million from fiscal 2014-15 amounts and comes from a fee imposed on court filings. The fee was increased from \$20 to \$30 during the 2015 legislative session in SB 1139 by Huffman.

Funding for e-filing is appropriated to the Office of Court Administration and is paid to a vendor that manages and operates the system. A request for one-time grants to less populous counties to purchase hardware and meet other needs to implement the system was not funded.

**Child protection courts.** The budget includes an increase of \$1.8 million in funding for child protection courts, bringing the total for these courts to \$8.7 million. These courts, mostly in rural areas, are dedicated to hearing child abuse and neglect cases in an attempt to resolve them quickly and ensure appropriate placement of children. The 2016-17 budget adds four child protection courts, for a total of 24 serving 130 counties. In fiscal 2015, these courts served about 14,500 children, according to the Office of Court Administration.

## Criminal justice

The fiscal 2016-17 budget appropriates \$11.5 billion in general revenue and general revenue dedicated funds to criminal justice and public safety agencies in Article 5, an increase of \$2.2 billion from fiscal 2014-15. General revenue and general revenue dedicated appropriations make up about 93 percent of funds budgeted for agencies in Article 5.

**Border security.** The budget increases appropriations for border security, establishes a definition of border security, and requires state agencies to report twice a year to the LBB on border security spending.

Total state funding for border security for fiscal 2016-17 is \$800 million, according to the LBB. The funds are appropriated to six state agencies: the Department of Public Safety (DPS); Trusted Programs within the Office of the Governor; Texas Parks and Wildlife Department; Texas Alcoholic Beverage Commission; Texas Commission on Law Enforcement; and Texas Department of Criminal Justice (TDCJ). The all-funds total for border security, which includes federal funds, is \$839.6 million.

DPS receives \$749.8 million of the state funding. About two-thirds of the DPS' border security funding is appropriated through a new agency goal, Goal B, Secure Texas. These funds go toward routine border security operations as well as new initiatives and equipment. The statewide increase of \$318.9 million in state funds includes \$142.6 million for overtime to pay all troopers for a 50-hour workweek and \$107 million to recruit, train, and equip 250 additional troopers and 110 support staff.

For the first time, the general appropriations act defines border security (Article 9, sec. 7.11). It is defined as activities associated with deterring crimes and enforcing state laws related to specific offenses in specified counties near the Texas-Mexico border. The crimes include those eligible for prosecution under the border crime grant program detailed in Government Code, sec. 772.0071. State agencies are required to report twice annually to the LBB on spending and performance related to border security.

DPS is required to transfer sufficient funds to the Texas Military Department to deploy the Texas National Guard to the border for security operations until such a deployment is no longer necessary.

**Pay raise for correctional and parole officers.** The fiscal 2016-17 budget includes \$188 million in general revenue to TDCJ for an 8 percent salary increase for adult correctional and parole officers, along with related personnel, such as supervisory correctional and parole officers and correctional laundry and food service managers. These employees also received a 2.5 percent pay increase given to all state employees who contribute to the ERS retirement plan (*see page 2 of this report*), bringing the total raise for TDCJ employees to 10.5 percent.

The average 10.5 percent pay increase funded in the budget raised the starting salary of correctional officers from \$29,220 to \$32,347. The maximum salary after 7.5 years will increase from \$38,888 to \$43,049. Parole officer starting salaries will increase from \$35,879 to \$39,718, and maximum salaries after 10 years will increase from \$40,344 to \$44,661. TDCJ is authorized to hire 25,971 correctional officers, but about 2,400 of these jobs were unfilled as of the end of April 2016.

**Prison health care.** The current budget increases by \$89.9 million the general revenue funding for health and psychiatric care for adult offenders, for a total of \$1.1 billion. The increase includes \$84.9 million to meet the projected expenses for providers during the biennium. The increase also will be spent to increase to market level the salaries of staff delivering health care to offenders.

TDCJ and the university providers had requested an increase of \$174.8 million in general revenue from the fiscal 2014-15 estimated/budgeted amount.

**Reentry coordinators.** The fiscal 2016-17 budget includes \$15.4 million for re-entry coordinators for TDCJ. This includes an increase of \$4 million from the previous biennium to allow for 50 new coordinators to join the 139 funded in fiscal 2014-15.

Reentry coordinators help offenders reenter society after incarceration. Before fiscal 2016-17, most worked in correctional facilities, helping offenders

develop plans to return to the community, including helping them request Social Security cards, birth certificates, and state identification cards. Forty of the new positions funded in the fiscal 2016-17 budget are to provide reentry services to offenders outside of correctional facilities, including those in halfway houses. The remaining 10 positions are for special needs coordinators to help ensure continuity of care for offenders with mental health needs, who often require additional services to reenter society successfully.

**Texas Juvenile Justice Department funding.** The budget reduces overall funding to the Texas Juvenile Justice Department (TJJD) to reflect a declining population being handled by the agency and changes designed to keep youths closer to their homes rather than send them to state secure facilities. TJJD is appropriated \$634.9 million in all funds, a decrease of \$14.4 million from fiscal 2014-15. About \$591 million of the appropriation comes from general revenue funds.

The fiscal 2016-17 budget includes a new funding strategy and \$9.6 million to create and implement a regionalization plan to keep youth in the juvenile justice system closer to home. Under requirements established by the 84th Legislature in SB 1630 by Whitmire, TJJD, working with local probation departments around the state, must identify local post-adjudication facilities that may be used to support regionalization. The plan must establish regions of the state to be served at facilities operated by juvenile probation departments, counties, halfway houses, or private operators. Regions must have defined, appropriate, research-based programs for youth. The regionalization plan must divert at least 30 juveniles from TJJD commitment in fiscal 2016 and 150 in fiscal 2017.

The all-funds appropriation for TJJD is about 2.2 percent less than fiscal 2014-15 funding, with the reduction related to a declining juvenile population handled by the agency. The funding estimates the agency will handle 1,264 youths in fiscal 2016 and 1,237 in fiscal 2017 in secure facilities, halfway houses, and beds under contract. In fiscal 2015, the average daily population was 1,253.

SB 1630 also gives the agency's Office of Independent Ombudsman authority over post-adjudication facilities for juvenile offenders and allows

the ombudsman to investigate complaints alleging that the rights of youths committed to post-adjudication facilities for juvenile offenders were being violated. Appropriations for the ombudsman's office are increased by about \$1 million for the expanded duties.

The department also received \$4.3 million for a 2.5 percent pay raise each fiscal year for juvenile correctional and parole officers.

## Natural resources

Fiscal 2016-17 appropriations for natural resources agencies total \$4.4 billion in all funds, a decrease of \$2.6 billion, or 37 percent, from fiscal 2014-15 spending levels. 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.

**Full allocation of sporting goods sales tax for state and local parks.** Under Texas law, 94 percent of the tax revenue generated by the sale or use of sporting goods is allocated to various funds within the Texas Parks and Wildlife Department (TPWD) for the operation and upkeep of state and local parks. Money raised by the sporting goods sales tax (SGST) is required to be deposited in Parks and Wildlife accounts for this purpose, although those funds have been appropriated by the Legislature in the past for other purposes. The 84th Legislature enacted HB 158 by Larson, requiring that money credited to Parks and Wildlife accounts be appropriated only for the intended purpose. The fiscal 2016-17 budget appropriates to the department the full 94 percent allocation, \$261.1 million, of the estimated SGST revenue for state and local parks. According to the department, this amount is an increase of \$129.4 million, or about 98 percent, from fiscal 2014-15 appropriations.

In addition to ensuring that money allocated to support state and local parks is used for its intended purpose, the enactment of SB 1366 by Kolkhorst in 2015 removed the statutory allocation percentages to each TPWD fund receiving SGST receipts, granting the Legislature discretion in how best to spend those funds. This allowed for \$58.8 million in unallocated SGST

receipts — \$11.2 million of which had been statutorily dedicated to state parks and \$47.6 million of which had been dedicated to local park grants before the enactment of SB 1366 — to be reallocated as follows:

- \$4.6 million for state park operations (state park staffing and operations for management and upkeep of state parks);
- \$38.4 million for state parks capital construction and repairs; and
- \$15.8 million for local park grants.

**Increased funding for emissions reductions programs.** The current budget increases general revenue dedicated funding to the Texas Commission on Environmental Quality (TCEQ) for the Texas Emissions Reduction Program (TERP) and the Low-Income Vehicle Repair Assistance, Retrofit, and Accelerated Vehicle Retirement Program (LIRAP).

TERP appropriations were increased by \$81 million, to a total of \$236.3 million, to provide grant funding to eligible individuals, businesses, and local governments to upgrade or replace high-polluting vehicles or equipment with alternatives that create less pollution, as well as cover costs related to administering the grants.

Appropriations for the LIRAP total \$96.6 million, an increase of \$81.3 million, to provide grants and local initiatives funding to participating counties. This increases these appropriations to a level equivalent to annual collections of the applicable auto emissions inspection fees in participating counties. Of the total appropriation for LIRAP, \$86.9 million is for low-income individuals in participating counties to receive vouchers to replace or repair older, more polluting vehicles. The remaining \$9.7 million is available for participating counties to develop and implement local projects aimed at improving air quality.

**Increased funding for the Alamo.** In 2011, the Legislature transferred care of the Alamo to the General Land Office (GLO). The GLO, the city of San Antonio, and the nonprofit Alamo Endowment entered into a cooperative agreement to develop a joint master plan for the redevelopment of the Alamo Historic District and Alamo Complex.

The budget increases general revenue funds to the GLO by \$30 million from fiscal 2014–15 spending levels for capital improvements and repairs, master planning, and a needs assessment of the Alamo and the Alamo Complex. Of that amount, \$25 million is for the implementation of the joint master plan, with another \$5 million for restoration and preservation of the Alamo Complex.

## Business and economic development

Appropriations in the fiscal 2016-17 budget for business and economic development activities total \$27.8 billion in all funds, an increase of 1.2 percent from spending in fiscal 2014-15. Of all funds in Article 7, \$23.1 billion, or 83 percent, are appropriated to the Texas Department of Transportation (TxDOT).

**Increase in highway fund appropriations to TxDOT.** The fiscal 2016-17 budget directs to TxDOT \$1.3 billion from the State Highway Fund that had been appropriated to other agencies in past budgets. In fiscal 2014-15, TxDOT received about 90 percent of all appropriations from the State Highway Fund, excluding employee benefits. Most of the remaining 10 percent was appropriated to the Department of Public Safety (DPS) for policing highways, but the enactment of HB 20 by Simmons in 2015 eliminated the statutory authority for this appropriation.

**Oil and natural gas tax revenue for highway funding.** Proposition 1, approved by voters in 2014, amended the Texas Constitution to direct 37.5 percent of oil and gas severance tax revenue to the State Highway Fund. Before the approval of Proposition 1, this money would have gone to the rainy day fund. Based on the comptroller's biennial revenue estimate, the budget appropriates \$2.4 billion for these transfers, about 10 percent of TxDOT's budget and an increase of \$700 million from fiscal 2014-15. However, due to reduced oil and natural gas production, the comptroller's certification revenue estimate suggests that only \$1.7 billion will be available for the agency to spend.

Rider 44 in TxDOT's fiscal 2016-17 budget modified the distribution of these proceeds from the severance tax, increasing the proportion of funds for road construction projects along strategic corridors and in urban areas and reducing the proportion of funds for maintenance and for areas affected by oil and gas exploration.

**Reduced transportation bond proceeds.** The fiscal 2016-17 budget reflects a \$1.1 billion reduction in bond proceeds used for highway planning and construction. This includes a reduction of \$800 million in Texas Mobility Fund bond proceeds following the enactment in 2015 of HB 122 by Pickett, which eliminated the department's authority to issue new money debt secured by the Texas Mobility Fund. As of November 2015, the department had \$2.1 billion in remaining debt authorization between general obligation (Proposition 12) bonds and bonds backed by the State Highway Fund (Proposition 14).

**Transfer of functions to the Texas Workforce Commission.** The budget appropriates \$2.6 billion in all funds to the Texas Workforce Commission (TWC), an increase of 11.3 percent from the agency's 2014-15 spending levels. This includes a \$309.1 million increase in fiscal 2017 for the transfer of functions previously performed by the Department of Assistive and Rehabilitative Services (DARS). This transfer followed a Sunset recommendation in SB 208 by Campbell, enacted in 2015, and provides for the transfer of the following programs from DARS to TWC:

- vocational rehabilitation for individuals with visual impairments and for individuals with other disabilities;
- Older Blind Independent Living Services;
- Criss Cole Rehabilitation Center; and
- Business Enterprises of Texas.

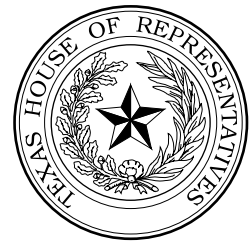
The current budget provides for another 1,860.9 FTEs due to the DARS transition and a reduction of 122 FTEs for the unemployment insurance program due to an anticipated decline in unemployment claims.

## Regulatory agencies

Appropriations for agencies that regulate business professionals and service industries decreased in the fiscal 2016-17 budget by \$198.3 million, or 17.5 percent, to \$934.2 million in all funds. Most of the decrease can be attributed to previous spending of the balance in the System Benefit Fund (SBF), which resulted in a decrease in general revenue dedicated appropriations of \$236.5 million to the Public Utility Commission (PUC) from fiscal 2014-15 spending levels.

**Eliminating the SBF.** The 84th Legislature in 2015 eliminated the SBF, which provided funding to the PUC for a utility discount of up to 20 percent to low-income electricity customers during the summer months. The enactment in 2015 of HB 7 by Darby and HB 1101 by Sylvester Turner allows the PUC to set a rate for the low-income discount sufficient to use the remaining SBF balance by the end of fiscal 2017. The Legislature appropriated the estimated \$334.2 million balance of general revenue dedicated funds in the SBF to the PUC. This appropriation provides funding for the low-income discount program of \$325.5 million, as well as \$8.7 million to cover administrative functions previously funded through the SBF.

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John H. Reagan Building  
 Room 420  
 P.O. Box 2910  
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