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State Finance Report No. 84-2 March 27, 2015

CSHB 1:

The House Appropriations Committee's Proposed Budget for Fiscal 2016-17

The House Appropriations Committee reported CSHB 1 by Otto, the general appropriations bill for fiscal 2016-17, on March 24, 2015 by the following vote:

24 ayes – Otto, Sylvester Turner, Ashby, Bell, G. Bonnen, Burkett, Capriglione, Giddings, Gonzales, Howard, Hughes, Koop, Longoria, Márquez, Miles, R. Miller, Muñoz, Phelan, Price, Raney, J. Rodriguez, Sheffield, VanDeaver, Walle

0 nays

3 absent – S. Davis, Dukes, McClendon

The proposed state budget would appropriate $209.8 billion in all funds, an increase of 3.8 percent from the amount currently estimated to be spent in fiscal 2014-15.

This report presents an overview of the proposed state budget and of each article of CSHB 1. It highlights significant budget issues, including different proposals for funding individual agencies and programs. For further background on the state budget, see HRO State Finance Report 84-1, *Writing the State Budget: 84th Legislature*, February 12, 2015.

Fiscal 2016-17 Budget Overview

CSHB 1, the House Appropriations Committee version of the fiscal 2016-17 budget, would authorize total spending of $209.8 billion, an increase of 3.8 percent from fiscal 2014-15. General revenue spending would total $104.6 billion, an increase of $9.3 billion, or 9.9 percent, from the anticipated general revenue spending in fiscal 2014-15. Appropriations of general revenue dedicated funds would be $7.3 billion, a decrease of $41.4 million from fiscal 2014-15 spending levels.

The table below details overall spending in CSHB 1 by type of funds and the amounts estimated/budgeted for fiscal 2014-15, the amounts recommended for fiscal 2016-17 in CSHB 1, and the change the recommendation would represent from fiscal 2014-15.

General revenue dedicated accounts

CSHB 1 would appropriate $7.3 billion in general revenue dedicated funds, which are funds collected for a specific purpose designated in state law. This would be a decrease of $41.4 million from fiscal 2014-15 appropriations of these funds. The fiscal 2016-17 appropriations include $773 million in general revenue dedicated fund balances.

Many of the state's general revenue dedicated funds have balances carried over from previous biennia that have been unspent but counted toward budget certification. The Legislative Budget Board's (LBB's) summary of CSHB 1 reports that the general revenue dedicated balances

Biennial spending comparisons
(millions of dollars)

Type of funds	Estimated/ budgeted fiscal 2014-15	Recommended fiscal 2016-17 CSHB 1	Biennial change	Percent change
General revenue	$95,164.5	$104,554.6	$9,390.1	9.9%
GR dedicated	7,353.5	7,312.1	(41.4)	(0.6%)
Federal	68,451.4	69,061.2	609.8	0.9%
Other	31,113.8	28,857.3	(2,256.5)	(7.3%)
All funds	202,083.1	209,785.1	7,702.0	3.8%

Source: Legislative Budget Board, Summary of Committee Substitute for House Bill 1, March 2015 available for certification at the end of fiscal 2015 would be $4.4 billion and an estimated $4.7 billion by 2017. Under CSHB 1 appropriations, the balance available for certification would decrease to an estimated $4 billion, according to the LBB.

For information on appropriations in CSHB 1 from the Texas Emissions Reduction Program and the System Benefit Fund, the two general revenue dedicated accounts with the largest balances, see pages 49 and 57, respectively.

Spending limits

CSHB 1 would comply with the four constitutional limits on spending, according to the LBB. The bill would be about $8.4 billion below the $113 billion in general revenue funds that the comptroller estimated in January 2015 would be available for general purpose spending during fiscal 2016-17, often called the "pay-as-you-go" limit. It also would be $2 billion below the limit established on the spending of certain state tax revenue not dedicated by the Texas Constitution. The bill would comply with the state's limit on welfare spending and the limit on state debt as well.

Article 11

CSHB 1 includes an Article 11 list, sometimes referred to as a "wish list." It is an informational listing of the House Appropriations Committee's priorities for spending beyond what is in the proposed budget. The Article 11 list will be considered by the House and the conference committee and could result in the funding of some items. The Article 11 list totals $34.5 billion.

Rainy Day Fund

CSHB 1 would not make any appropriations from the Economic Stabilization Fund ("rainy day fund"). The fund is expected to reach $11.1 billion by the end of fiscal 2017, according to the comptroller's January 2015 *Biennial Revenue Estimate*.

Any amount from the fund may be spent for any purpose if approved by at least two-thirds of the members present in each house. Funds also can be spent to cover an unanticipated deficit in a current budget or to offset a decline in revenue for a future budget following 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.

Employee compensation

CSHB 1 would appropriate $390.2 million in all funds for an across-the-board pay raise of 2.5 percent and related benefits for state employees who contribute to the Employees Retirement System (ERS), contingent on passage of HB 9 by Flynn or similar legislation. HB 9 by Flynn would raise the employee contribution to ERS to 9.5 percent in fiscal 2016-17, which otherwise is set to be 7.2 percent in fiscal 2016 and 7.5 percent in fiscal 2017. CSHB 1 also would raise the state's contribution to ERS from 7.5 percent to 9.5 percent. See page 8 for more information on ERS in the House's proposed budget.

CSHB 1 also would appropriate $276.5 million for a targeted 10 percent salary increase and related benefits for correctional and parole officers at the Texas Department of Criminal Justice.

General Government — Article 1

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

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

For Article 1 agencies, CSHB 1 would spend $5.2 billion in all funds for fiscal 2016-17, a decrease of $41.5 million, or 0.8 percent, from fiscal 2014-15.

The table below details overall spending for Article 1 by type of funds and the amounts estimated/budgeted for fiscal 2014-15, the amounts recommended for fiscal 2016-17 in CSHB 1, and the change the recommendation represents from fiscal 2014-15.

CSHB 1 would decrease funding for the Trusteed Programs within the Office of the Governor by $423.3 million from funds estimated/budgeted for fiscal 2014-15. Proposed reductions in Article 1 also include those for the Historical Commission and the Secretary of State.

Article 1 spending comparisons
(millions of dollars)

Type of funds	Estimated/ budgeted fiscal 2014-15	Recommended fiscal 2016-17 CSHB 1	Biennial change	Percent change
General revenue	$2,731.6	$2,938.8	$207.1	7.6%
GR dedicated	865.7	670.4	(195.3)	(22.6%)
Federal	662.8	707.8	45.0	6.8%
Other	958.7	860.3	(98.3)	(10.3%)
All funds	5,218.8	5,177.3	(41.5)	(0.8%)

Source: Legislative Budget Board, Summary of House Committee Substitute for House Bill 1, March 2015

State contribution to state employee retirement fund

Employees Retirement System of Texas

- **CSHB 1 – $1.16 billion in all funds to fund state retirement contribution at 9.5 percent; plus $390.2 million in all funds for employee salary increase of 2.5 percent and related benefits contingent on enactment of HB 9 by Flynn or similar legislation**

- **Agency request – amount equal to 11.94 percent in state contribution or adjusted funding structure to achieve actuarial soundness**

The Employees Retirement System (ERS) is a retirement benefit provided to eligible state employees and elected officials and is funded by state contributions, employee contributions, and investment earnings. CSHB 1 would increase the state contribution rate to ERS from 7.5 percent to 9.5 percent of an employee's salary. This increase in the state contribution is intended to correspond with an increase in the employee contribution rate. HB 9 by Flynn would raise the employee contribution rate to 9.5 percent, otherwise set to be 7.2 percent in 2016 and 7.5 percent in 2017. CSHB 1 would provide a salary increase of 2.5 percent to employees who contribute to ERS, contingent on passage of HB 9 or similar legislation. The agency contribution to ERS would continue to be 0.5 percent of an employee's salary, bringing the total state contribution to 10 percent.

A 2014 actuarial valuation of ERS reported that, at current contribution rates, the pension plan will not have enough money to pay all current and promised benefits. 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 – the difference between the market value of the assets and the present value of future payment obligations – in no more than 31 years (Government Code, sec. 811.006).

Supporters of CSHB 1 say that the retirement benefit has been underfunded for 19 of the past 20 years, and increasing state and employee contributions would be a step toward making ERS actuarially sound. It would be cost effective and put the state in a better credit rating position. The current ERS unfunded liability of $7.5 billion is expected to grow by $500 million each year the plan does not receive actuarially sound contributions. Under CSHB 1, the state's increased contribution to ERS would help make the fund solvent without changing employee retirement benefits. Switching from a defined-benefit plan to a defined-contribution plan, as some have suggested, would not address the current unfunded liability. Moreover, the existing pension plan incentivizes qualified individuals to work in some of the state's high-burnout, high-turnover positions.

The agency asked in its legislative appropriations request that the state's contribution rate increase from 7.5 percent to 11.94 percent, which would exceed the constitutionally permitted maximum of 10 percent. CSHB 1 would help make the fund actuarially sound within the confines of the 10 percent state contribution limit, while also providing a 2.5 percent pay raise for state employees to offset their increased contribution rate. The proposed solution would show that Texas stands by its commitment to state employees.

Critics of CSHB 1 say that making the fund solvent should not come at the expense of a real pay raise for state employees. Lawmakers should make the pension plan actuarially sound without raising employee contributions and still provide a raise to state workers, who have seen only modest increases in their pay over the past seven years. Failure to provide a real pay raise over the next biennium could lead to turnover of employees who do critical work serving Texans.

Other critics say that ERS should shift from a defined-benefit system to a defined-contribution model, similar to a 401(k), to make the program more financially sustainable. Having a financially stable retirement plan would benefit state employees and all of the state's taxpayers.

Appropriating unexpended balance of Emerging Technology Fund

Trusted Programs Within the Office of the Governor

- **CSHB 1 – $101 million unexpended balance of the Emerging Technology Fund (ETF) distributed to various programs, contingent on legislation; $80 million in all funds to the Texas Enterprise Fund (TEF), including the TEF's $53 million unexpended balance, part of which is contingent on legislation, and $27 million in general revenue**

- **Governor's proposal – half of the $101 million ETF unexpended balance to establish Governor's University Research Initiative, with the remainder of the ETF's unexpended balance to the TEF**

The TEF and the ETF, the state's main economic development funds, are administered by the Office of the Governor. Since 2003, the TEF has provided incentives for businesses to begin operation in or to relocate to the state. It last received an appropriation of general revenue in fiscal 2010-11, and its current unexpended balance is estimated to be $53 million. The ETF, established in 2005, uses grants, equity stakes, and other forms of investment to fund technology research at companies and higher education institutions with the intention of stimulating job growth and helping technology start-ups bring their products to market. It last received an appropriation of general revenue in fiscal 2014-15.

Contingent on separate legislation to eliminate the ETF, CSHB 1 would distribute the ETF's estimated $101 million unexpended balance in a one-time appropriation for fiscal 2016-17 as follows:

- $11 million to establish the Governor's University Research Initiative at the Higher Education Coordinating Board;
- $67.5 million to the Texas Research Incentive Program (TRIP), which provides emerging research institutions with matching funds based on how much an institution raises in private gifts and endowments; and

- $22.5 million to the University of Texas at Austin and Texas A&M University for the Texas Research University Fund (TRUF), which would provide funding based on each university's average research expenditures for the previous three-year period.

To the extent that the balance of the ETF is lower or higher than expected, the appropriation would be made to the programs in the proportion listed above.

In addition, CSHB 1 would appropriate to the TEF its entire $53 million unexpended balance for fiscal 2016-17 and add $27 million in general revenue for a total of $80 million during the biennium. The transfer of $30 million of this unexpended balance would be contingent on passage of legislation to improve the TEF's performance, transparency, and accountability.

Under CSHB 1, the TEF's $80 million in funding would represent a decrease of more than $46 million from the $126.5 million estimated/budgeted during fiscal 2014-15, according to the LBB.

Supporters say that with the current budget surplus, Texas could afford to increase funding both to research initiatives and to the TEF, while also meeting other obligations. Eliminating the ETF and appropriating an expected $67.5 million of its unexpended balance to the TRIP would furnish about half the amount needed to provide state matches for certain funds already promised to universities by outside investors and awaiting a match. In addition, the funds for research initiatives and funds for the TEF authorized by CSHB 1 would help maintain Texas' status as a top destination for businesses and keep the state on the cutting edge of research. Although some have expressed concerns about program oversight and compliance by TEF recipients in the early years of the program, steps are being taken to ensure the fund is transparent, accountable, and efficient. In addition, CSHB 1 would make $30 million of the TEF's funding contingent on enacting further reforms. Many other states have started business incentive programs modeled on the TEF, and Texas cannot afford to fall behind.

Critics say the state should not be in the business of using public funds to pick "winners" and "losers" and that Texas' business climate is strong enough to attract out-of-state employers without these incentives. In the past, the awarding of funds lacked transparency, and recipients often were not properly overseen and failed to comply with requirements, as shown by a recent state auditor's report. Texas should be scaling back or eliminating incentive programs, not providing them with more funds. The state has many other pressing needs it should address before allocating more taxpayer money to research initiatives and business incentives.

Other critics say that while the ETF should be discontinued, more than $11 million of its unexpended balance should be used to help Texas universities attract prestigious, nationally recognized researchers. About half of the ETF's $101 million unexpended balance could be used to establish the Governor's University Research Initiative, which, under proposed legislation filed this session, would provide matching funds to Texas colleges and universities to recruit nationally recognized researchers from out of state. The remainder of the ETF's unexpended balance could be used to fund the TEF and help prevent the state from falling behind other states in providing business incentives.

Texas Guaranteed Tuition Plan

Fiscal Programs, Comptroller of Public Accounts

- **CSHB 1, Art. 1 – $0; $593.7 million considered in Article 11**

- **Agency request – $0**

The Texas Guaranteed Tuition Plan (TGTP) allowed individuals to buy prepaid contracts that locked in future tuition costs at the rate that was current when they enrolled in the program. Between 1996 and 2003, when enrollment closed, TGTP sold more than 150,000 contracts, about 70,000 of which are still active. Obligations to contract holders are scheduled to end in 2035.

An actuarial valuation of the TGTP has reported an unfunded liability – the difference between the market value of the assets and the present value of future payment obligations – of $568.2 million as of August 31, 2014. The Comptroller's Office did not request funding to cover the unfunded liability in its legislative appropriations request, but the House Appropriations subcommittee on Articles 1, 4, and 5 proposed including $593.7 million in general revenue in the House proposal to reflect the projected unfunded liability at the close of fiscal 2015. This amount was adopted into Article 11 of CSHB 1.

Supporters of CSHB 1 say the state will have to address the deficit in the TGTP at some point, but other expensive priorities are competing for state funds at this time. Including this item in Article 11 would be appropriate because the Legislature might not be able to address the tuition fund's entire shortfall during this budget period.

Critics of CSHB 1 say the Legislature should address the deficit in the tuition fund now to save taxpayers money and fulfill the state's constitutional obligation to enrollees. Following a "pay-as-you-go" method once funds are depleted in fiscal 2020 would cost $742 million, $150 million more than paying the unfunded liability in the coming fiscal biennium. Lawmakers should maintain the confidence of Texans who depend on this program by making the fund solvent.

Health and Human Services — Article 2

Article 2 covers the state's health and human services (HHS) system, which includes five agencies: the Health and Human Services Commission (HHSC), the Department of Aging and Disability Services (DADS), the Department of State Health Services (DSHS), the Department of Family and Protective Services (DFPS), and the Department of Assistive and Rehabilitative Services (DARS).

The table below details overall spending for Article 2 by type of funds and the amounts estimated/budgeted for fiscal 2014-15, the amounts recommended for fiscal 2016-17 in CSHB 1, and the change the recommendation represents from the previous biennium.

CPS direct delivery staff

Department of Family and Protective Services

- **CSHB 1 – $1.1 billion in all funds for fiscal 2016-17, an increase of $93.4 million in all funds from the fiscal 2014-15 estimated/budgeted amount**

CSHB 1 would provide $1.1 billion for Texas Child Protective Services (CPS) direct delivery staff for fiscal 2016-17, an increase of $93.4 million from the amount spent last biennium. The proposed budget includes a rider that would allow DFPS to increase CPS caseworker compensation by up to $300 per month to mentor new employees. The bill also would fund an exceptional item to establish a worker safety office, create salary parity between two categories of child care licensing workers, and pay down the overtime balances of CPS caseworkers to 140 hours. It would use Temporary Assistance for Needy Families (TANF) funds to pay for part of this strategy.

Article 2 spending comparisons
(millions of dollars)

Type of funds	Estimated/ budgeted fiscal 2014-15	Recommended fiscal 2016-17 CSHB 1	Biennial change	Percent change
General revenue	$29,789.9	$33,063.3	$3,273.4	11.0%
GR dedicated	1,191.5	918.9	(272.5)	(22.9%)
Federal	42,858.4	44,500.6	1,642.2	3.8%
Other	673.6	628.4	(45.3)	(6.7%)
All funds	74,513.4	79,111.2	4,597.9	6.2%

Source: Legislative Budget Board, Summary of House Committee Substitute for House Bill 1, March 2015

Supporters of CSHB 1 say it would provide sufficient funding for CPS caseworkers to meet the agency's mission of protecting children from abuse, neglect, and exploitation. The bill would account for projected CPS caseload growth and reduce the average daily caseload per caseworker. According to the LBB, the increased funding would allow caseworkers to complete 25,678 more investigations and would lower a CPS caseworker's average daily investigative caseload from 18.33 cases to 16.29 cases, bringing Texas in line with best practice recommendations for average caseworker load.

The funding provided in CSHB 1 would help reduce staff turnover by compensating CPS caseworkers for mentoring new employees and paying down the overtime balances when they reach 140 hours. Mentoring is key to reducing the agency's alarmingly high rate of caseworker turnover, and paying caseworkers for accrued overtime after 140 hours, rather than the current federal standard of 240 hours, would provide a significant financial incentive for caseworkers to stay at the agency.

Increased funding in the bill also would establish a Worker Safety Office to support caseworkers who have been threatened or injured in the line of duty. This office would improve the safety, tenure, and overall experience of direct delivery staff and improve the agency's work environment, resulting in lower turnover and better outcomes for clients.

The bill creatively would use TANF funds left over from the fiscal 2014-15 TANF block grant but would not take funds from any other strategy. The agency has these funds but cannot spend them, so the budget would make use of the leftover TANF funds by shifting them to CPS direct delivery staff.

Critics of CSHB 1 say the bill would not sufficiently increase funding for caseworker salaries. Caseworker retention is key to ensuring they complete investigations quickly and protect at-risk Texas children. Even with improved mentoring and a slight increase in financial incentives, qualified candidates are not going to stay at DFPS unless they are paid a fair salary for their demanding jobs.

Mental health services

Department of State Health Services

- **CSHB 1 – $837.4 million in all funds, a $13.9 million increase from fiscal 2014-15 appropriations**

CSHB 1 would provide $837.4 million in all funds to DSHS for mental health services for both children and adults through the state's local mental health authorities (LMHAs). The funding is allocated to the LMHAs through annual performance contracts and would provide an array of services such as outpatient services, inpatient hospital services, psychiatric rehabilitative services, crisis resolution, peer training, supported housing services, and supported employment services. The bill also would provide funding for mental health services for youth involved in the juvenile justice system and youth who have serious emotional and behavioral problems. An adopted budget rider would continue the use of $30 million in general revenue during the biennium for the purpose of expanding or improving statewide community mental health services.

Supporters of CSHB 1 say increased funding for mental health services is crucial to ensuring Texans with mental illness receive the services they need. Adequately funding community mental health services would help move Texas out of the bottom rankings for per capita mental health care spending, and increased funding for mental health crisis services would save costs to the state and counties by reducing avoidable hospitalizations, incarcerations, and emergency room visits. The bill also would provide funding for vulnerable populations, such as youth involved in the juvenile justice system and youth with emotional and behavioral problems. Part of the appropriation in the bill also would fund mental health peer support, a cost-effective, evidence-based practice that improves clinical and social outcomes for individuals with mental illness.

The mental health funding in CSHB 1 would provide the flexibility for LMHAs to use community-specific approaches, and funding to LMHAs would be allocated through annual performance contracts.

Critics of CSHB 1 say increasing funding would not necessarily improve access to mental health services or the quality of services provided. Last session, the budget increased mental health funding to reduce waitlists for services at LMHAs, but funding for these entities traditionally has been non-competitive and lacked significant incentives to improve services. Any new funding for mental health services should be contingent on LMHAs improving quality, consumer choice, and access to services.

Wages for community attendant care workers

Health and Human Services Commission

- **CSHB 1 – $141.4 million in all funds, including $60 million in general revenue, for community attendant care worker wage increase and rate enhancements; $145.2 million in all funds, including $61.6 million in general revenue, under consideration in Article 11**

- **Agency request – $286.6 million in all funds, including $121.6 million in general revenue**

Community attendant care workers provide personal care, home management, and other help to eligible adults and children whose health problems cause them to be functionally limited in performing activities of daily living. CSHB 1 would fund an exceptional item and an informational rider that together would provide for a wage increase and rate enhancements for community attendant care workers at HHSC and DADS at a cost of $141 million in all funds, including $60 million in general revenue. Another $61.6 million in general revenue would be under consideration in Article 11.

Supporters of CSHB 1 say the bill would provide a needed pay raise for community attendant care workers, whose work is vital to helping people with disabilities live independently. The funding provided in the bill would help reduce employee turnover, which is higher on average at the state's health and human services agencies than at other agencies. Recruiting and retaining more of these home caregivers through higher wages would increase options for people with disabilities to move into the community, promoting independent living and potentially lowering costs to the state related to turnover and institutionalization.

Critics of CSHB 1 say the bill would not provide enough of an incentive for community attendant care workers to remain in their profession. Many attendants have to work several jobs to make ends meet. Even with a small raise, the state would not pay these workers enough for the invaluable service they provide. The bill would increase the base wage of personal attendants to just $7.97 an hour, which still is less than what many fast food restaurant employees earn.

Autism services for children

Department of Assistive and Rehabilitative Services

- **CSHB 1 – $15.3 million in general revenue, a $6.2 million increase from the fiscal 2014-15 estimated/budgeted amount**
- **Agency request – $16.8 million**

CSHB 1 would increase general revenue funding for the Department of Assistive and Rehabilitative Services (DARS) Autism Program by $6.2 million from the fiscal 2014-15 estimated/budgeted amount, according to the LBB. The appropriation would expand comprehensive and focused autism services to children with autism spectrum disorder (ASD) living in underserved areas of the state. The funding also would allow DARS to pilot treatment models and to enhance program accountability and oversight.

Supporters of CSHB 1 say the bill appropriately would increase funding to the autism program, which provides evidence-based services to children at an age when they still can overcome developmental delays. Without these services, children with autism, a common disorder, may be unable to reach the developmental level they otherwise could. Adequately funding the state's autism services is necessary to help Texas children with ASD develop skills to communicate with others and succeed in mainstream school. Evidence-based treatment is expensive, and health insurance carriers are reluctant to cover ASD treatment. Continued state funding is needed to provide services to children whose families otherwise would not be able to afford these services.

CSHB 1 appropriately would keep funding related to children's autism services with DARS, rather than moving it to the Texas Education Agency (TEA), as some have proposed. This would ensure that children continued to receive effective treatment from trained, experienced professionals. TEA already provides some autism services in coordination with DARS, but DARS is in a better position to provide intensive, one-on-one, evidence-based services efficiently and at the lowest cost to the state. Transferring autism services from DARS to TEA also could result in the program becoming an educational entitlement, which would require the state to invest more funds in the program in perpetuity. Moving the program to TEA could risk health insurers dropping autism services as a billable health expense and could make autism services less accessible to those who need them most.

Critics of CSHB 1 say autism funding should be phased out at DARS and instead managed by TEA. The agency already delivers academic services to children with special needs, so adding autism services is within its scope. This transfer would allow the state to save money while still providing these important services.

Other critics say the state should fully fund the agency's request of $16.8 million. The additional appropriation would enhance the agency's database and web portal, which would allow the DARS Autism Program to better serve Texas children and families.

Medicaid primary care physician reimbursement rate

Health and Human Services Commission

- **CSHB 1 – $1.1 billion in all funds, including $460 million in general revenue, to reduce disparity in physician reimbursement rates between Medicaid and Medicare**

The federal Affordable Care Act (ACA) provided funding to states in calendar years 2013 and 2014 to bring Medicaid reimbursement rates in line with Medicare rates for physicians providing certain primary care services to Medicaid patients. Federal funding for this purpose expired for services provided after December 31, 2014.

CSHB 1 would appropriate $460 million in general revenue – $1.1 billion in all funds – to provide increases to Medicaid reimbursement rates for primary care providers or services that were eligible for reimbursement at the Medicare level when the federal funding expired at the end of 2014.

Supporters of CSHB 1 say that increasing Medicaid reimbursement rates to primary care providers would encourage physicians to participate in the program, thereby expanding access to needed services for enrollees. Low Medicaid reimbursement rates discourage physicians from accepting Medicaid patients, which decreases access to care for low-income patients and increases the likelihood that Medicaid patients may seek costly emergency room care instead of less expensive primary care. The number of physicians accepting new Medicaid patients has decreased significantly over time, and the rate at which providers accept Medicaid patients has a significant correlation with whether Medicaid payments to providers is commensurate with reimbursements under Medicare.

The increased reimbursement levels provided for two years under the ACA will not continue unless Texas elects to raise its payment rates for primary care physicians in the Medicaid program. Raising provider reimbursement rates would allow primary care physicians to take on new Medicaid patients and ensure these individuals have timely access to cost-effective preventive care.

Critics of CSHB 1 say that while doctors should be fairly compensated for their services, spending nearly half a billion dollars to prop up Medicaid reimbursement rates is not the solution. The Medicaid program is broken, and the state should invest its resources in other approaches that provide better quality, less expensive care for low-income individuals.

Expanded primary health care for women

Department of State Health Services

- **CSHB 1 – $120 million in general revenue funds, a $20 million increase from fiscal 2014-15 appropriations**

CSHB 1 would fully fund a proposal to provide $20 million in general revenue funds for preventive and primary health care services to eligible women through the Expanded Primary Health Care Program. The program provides services such as family planning, breast and cervical cancer screenings, primary and preventive care services, and prenatal medical and dental care at participating clinic sites throughout the state to women age 18 or older and up to 200 percent of the federal poverty level.

Supporters of CSHB 1 say funding for the Expanded Primary Health Care Program would provide needed family planning and primary health care services to low-income women who otherwise would not have access to these services. Together with the Texas Women's Health Program and the DSHS Family Planning Program also funded under CSHB 1, additional funding for the Expanded Primary Health Care Program would help provide a comprehensive network of preventive health services to women in the state, even those living in areas with a shortage of health care professionals. Inadequate access to these services could result in numerous negative health consequences, including undetected breast and cervical cancer, undetected diabetes, high blood pressure, and unplanned pregnancies — outcomes that can be vastly more expensive than preventive measures. The LBB estimates that not funding expanded primary health care services would increase costs to the Medicaid program by about $17 million during fiscal 2016-17.

Critics of CSHB 1 say that while women should have access to preventive health care services, Texas should ensure that it is using taxpayer money appropriately. The increased funding in CSHB 1 for women's health services would expand the use of taxpayer money to fund certain contraceptive services that some Texas taxpayers find morally objectionable.

Other critics say the increased funding to the Expanded Primary Health Care Program would not provide sufficient access to health services for low-income women. While the proposed additional funding is a step in the right direction, more funding is needed to serve women in rural areas and restore the level of health services that was available before the Legislature enacted certain restrictions on family planning providers in 2011.

Public Education — Article 3

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

Most public education funding is appropriated to the Texas Education Agency (TEA), which will serve a projected 5.4 million students in fiscal 2016-17. Article 3 public education funding also is appropriated to the Texas School for the Deaf, the Texas School for the Blind and Visually Impaired, and the Teacher Retirement System (TRS).

The table below details overall spending for public education agencies in Article 3 by type of funds and the amounts estimated/budgeted for fiscal 2014-15, the amounts recommended for fiscal 2016-17 in CSHB 1, and the change the recommendation would represent from fiscal 2014-15.

Public education spending comparisons

(millions of dollars)

Type of funds	Estimated/ budgeted fiscal 2014-15	Recommended fiscal 2016-17 CSHB 1	Biennial change	Percent change
General revenue	$37,421.7	$37,722.1	$300.4	0.8%
GR dedicated	0.1	0.1	0.0	0.0%
Federal	9,759.1	10,172.7	413.5	4.2%
Other	8,222.9	9,565.7	1,342.8	16.3%
All funds	55,403.8	57,460.6	2,056.8	3.7%

Source: Legislative Budget Board, Summary of House Committee Substitute for House Bill 1, March 2015

Foundation School Program

Texas Education Agency

- **CSHB 1 – $41.4 billion in all funds, including $32.1 billion in general revenue**

- **Agency request – $40.6 billion in all funds**

Foundation School Program (FSP) money flows from the Texas Education Agency to school districts and public charter schools for operations and to some districts for facilities funding. CSHB 1 would increase funding for the FSP in all funds by $1.8 billion, or 4.4 percent, from fiscal 2014-15 appropriations. General revenue funding would increase by $430.8 million from the previous biennium.

CSHB 1 would continue the basic per-student allotment at the fiscal 2015 level of $5,040.

General revenue funding would increase by $2.2 billion above the funding necessary to meet projected enrollment growth of 169,000 students during fiscal 2016-17. A rider would direct the delivery of additional funding in a manner determined by the Legislature to improve equity, reduce recapture, and increase the state's share of payments into the school finance system.

Supporters say the proposed House budget would show the Legislature's commitment to increased state support for school funding. In previous sessions, the Legislature has sometimes used growth in local school property tax revenue to reduce the state's share of FSP funding. In contrast, CSHB 1 would use recent gains in school property tax receipts to increase overall education spending. Using the $2.2 billion in new spending to improve equity and adequacy would be a significant step toward addressing a state district judge's August 2014 ruling that found constitutional deficiencies in the state's school finance system. House budget writers have said they plan to add another $800 million to improve funding, which would bring new school funding to $3 billion. House budget writers have said they plan to address tax cuts in separate legislation.

Critics say school funding largely has been restored from the 2011 budget reductions and that increased revenue from rising property values first should be used to cut local school property taxes. The House should follow a Senate proposal, which includes $4 billion in tax relief "built into" the FSP. The Senate also is considering adding $1.2 billion in new funding to increase the basic per-student allotment to $5,134 in fiscal 2016 and $5,140 in fiscal 2017. This plan would provide some additional aid to school districts while legislators await the state's appeal of the district court ruling in the school finance case before making major decisions about education funding.

Other critics say the additional spending in the House bill would not meet the demands of a growing student population that also is becoming poorer and more diverse. Even if an additional $3 billion is added, that money would be spread among a projected 5.4 million children in fiscal 2017, many of whom will need extra instruction to overcome language and income barriers. The Legislature should seize the opportunity presented by robust growth in revenue to boost aid to schools, many of which are struggling with rising academic expectations and a transition to more rigorous testing. The state also should boost state spending to address the district court's school finance ruling, rather than wait for the outcome of an appeal to the Texas Supreme Court.

Supplemental prekindergarten funding

Texas Education Agency

- **CSHB 1 – $30 million in general revenue; an additional $118 million in general revenue under consideration in Article 11**
- **Agency request – same as CSHB 1**
- **Governor's proposal – $118 million in general revenue**

Education Code, sec. 29.153 requires that each school district with at least 15 eligible students offer a free, half-day prekindergarten program. Those eligible for these programs include children:

- whose families earn less than 185 percent of the amount stipulated in federal poverty guidelines;
- who are unable to speak English;
- who are homeless or in foster care; or
- whose parents are on active military duty.

Prekindergarten enrollment in Texas was 227,568 in 2013, according to the Texas Education Agency.

CSHB 1 would appropriate about $1.6 billion through the Foundation School Program to provide eligible students with half-day prekindergarten. It also would appropriate $30 million in supplemental funding that could be used by districts to add prekindergarten programs or to expand existing programs from half-day to full day. This would match the appropriations of supplemental prekindergarten funding from fiscal 2013-14.

Supporters say $30 million is a good start for what likely will be additional funding for districts that adopt high-quality pre-K programs. House budget writers say they are prepared to fund proposed legislation that, if enacted, would increase funding for eligible children enrolled in prekindergarten programs that meet certain standards for curriculum, teacher certification, parental involvement, and student progress. While some have called for full-day prekindergarten for all eligible children or for universal full-day prekindergarten, the price for those proposals is too high. Texas needs to ensure that any additional funds for prekindergarten are spent on programs that meet high standards.

Critics say Texas should invest more in high-quality, full-day prekindergarten because it would be likely to pay off in the long run with students better prepared for elementary school and more likely to graduate high school. This early investment will pay dividends as more children succeed in school and become productive workers. From fiscal 2000 through fiscal 2011, the Legislature funded a pre-K grant program that distributed $90 million to $100 million each school year to qualifying districts. When it ended, many districts cut prekindergarten programs from full-day to half-day.

Higher Education — Article 3

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

The table below details overall spending for higher education in Article 3 by type of funds and the amounts estimated/budgeted for fiscal 2014-15, the amounts recommended for fiscal 2016-17 in CSHB 1, and the change the recommendation represents from fiscal 2014-15.

Formula funding

Texas Higher Education Coordinating Board

- **CSHB 1 – $8.5 billion in all funds, including $7.1 billion in general revenue**

The main sources of funding for public higher education institutions are state appropriations and the tuition and fees charged to students. Formula funding is appropriated to institutions of higher education and is intended to provide base funding for faculty salaries, departmental operating expenses, instructional administration, research enhancement, and institutional support. Formulas take into account the numbers of students and the weights assigned to the discipline or program.

Higher education spending comparisons
(millions of dollars)

Type of funds	Estimated/ budgeted fiscal 2014-15	Recommended fiscal 2016-17 CSHB 1	Biennial change	Percent change
General revenue	$13,253.0	$14,257.4	$1,004.4	7.6%
GR dedicated	2,676.1	2,760.3	84.2	3.1%
Federal	275.0	270.0	(5.0)	(1.8%)
Other	2,334.0	2,276.4	(57.7)	(2.5%)
All funds	18,538.1	19,564.0	1,026.0	5.5%

Source: Legislative Budget Board, Summary of House Committee Substitute for House Bill 1, March 2015

CSHB 1 would appropriate $8.5 billion in all funds, including $7.1 billion in general revenue, to be distributed through the formulas used to fund higher education institutions. This would be an increase of $371.8 million in general revenue from fiscal 2014-15 appropriations. The money would be distributed by the Texas Higher Education Coordinating Board during fiscal 2016-17 to general academic institutions, health-related institutions, Lamar State Colleges, Texas State Technical Colleges, and public community and junior colleges.

Supporters say the proposed House budget would provide funding not only for enrollment growth but also for formula funding increases to most institutions. CSHB 1 would provide an increase of 8.9 percent to most institutions while appropriately directing more funding to schools that had an increase in student enrollment. Although community and junior colleges have experienced a decrease in enrollment, the proposed budget would include "hold harmless" funds for these institutions. Most college and university administrators listed increases in formula funding as their top priority. Although some have called for a return to rates before the reductions in 2011, this would be an expensive item to fund at a time when the Legislature is trying to address many state spending needs across the budget.

Critics say the formula increases in CSHB 1 still would leave higher education institutions well below funding levels before the 2011 cuts. The state's lower levels of support have resulted in tuition increases and higher student-to-faculty ratios, while making institutions less competitive in their ability to attract faculty. Returning to higher formula funding levels would help hold down tuition and student debt and allow institutions of all sizes to grow.

Tuition revenue bonds

Texas Higher Education Coordinating Board

- **CSHB 1 – $250 million in general revenue to fund debt service**
- **Other request – $960.5 million in general revenue from Texas higher education institutions to fund debt service**

CSHB 1 would appropriate $250 million in fiscal 2017 to fund debt service on an estimated $3 billion in capital projects at state institutions of higher education. The money would be appropriated to the Texas Higher Education Coordinating Board for distribution to eligible institutions.

The appropriation would be contingent upon enactment of legislation authorizing new tuition revenue bond (TRB) projects. TRB debt is backed by tuition and fees, although general revenue funds historically have been used to reimburse the institutions. TRB debt is not subject to the state's constitutional debt limit, which caps the amount of general obligation debt the state can authorize.

Various Texas higher education institutions have requested a total appropriation of about $960.5 million, which would pay for debt service on $5.6 billion in TRBs for fiscal 2016-17.

Supporters of CSHB 1 say Texas public institutions of higher education are struggling to meet the demands of a growing student population with crowded and outdated facilities. TRBs are a cost-effective way to renovate and build classrooms and labs, which can be used while the debt is being paid off. One area of need is new science and engineering facilities because it is important to train students in facilities similar to what they will find in the workplace. An investment in these facilities also can help attract top research faculty.

No new TRBs have been authorized since 2009, when the Legislature authorized $155 million, largely to repair hurricane damage at the University of Texas Medical Branch at Galveston. The last major statewide TRB authorization was in 2006, when $1.9 billion was authorized for projects at 47 institutions. Critically needed capital projects would require significant tuition increases without TRB funding.

Critics say the Legislature should consider options other than TRBs to fund the growing number of requests for construction projects at Texas colleges and universities. TRBs allow lawmakers to support many projects by paying only a portion of the costs and leaving the remaining financial commitments to future legislatures and taxpayers. Of the total $4.7 billion in TRB debt that has been authorized by the Legislature since the program began in the early 1970s, $2.2 billion was outstanding as of August 31, 2014.

TRBs can be misleading to taxpayers because the debt service is funded by general revenue, not by tuition revenue. The Legislature initially established TRBs to comply with restrictions in the Texas Constitution on the use of general revenue to finance higher education capital projects. A program of general obligation bonds for university capital needs would be more transparent as it would require voter approval.

Other critics say the proposed amount of TRB funding in CSHB 1 is too low to meet the facility needs that have accumulated over the past decade. With funding so limited, many worthwhile capital projects would remain on the drawing board.

Research funding

Texas Higher Education Coordinating Board

- **CSHB 1 – a total of $402.3 million in general revenue funds, including $138.1 million to the Texas Research Incentive Program, of which $67.5 million is contingent on distributing balances from the Emerging Technology Fund**

- **Governor's proposal – $496 million in general revenue, including $56 million transferred from the Emerging Technology Fund and $400 million for grants from the Cancer Prevention and Research Institute of Texas awarded to universities for cancer research**

Texas has several state funds that support research at Texas institutions of higher education. CSHB 1 would appropriate $402.3 million in general revenue to support research initiatives at the state's two public research universities and eight emerging research institutions.

The bill would appropriate $70.6 million to the Texas Research Incentive Program (TRIP), which provides matching funds to help the state's eight emerging research institutions leverage private gifts. An additional $67.5 million would be appropriated to the TRIP, contingent on legislation eliminating the Emerging Technology Fund. The appropriation and the Article 9 contingency funding would total $138.1 million, an increase of $102.5 million from the amount distributed in fiscal 2014-15.

The bill also would appropriate $117.1 million for core research support to the emerging research universities.

For the state's two public research universities – Texas A&M University and the University of Texas at Austin – CSHB 1 would allocate $124.6 million to a proposed Texas Research University Fund (TRUF). An additional $22.5 million would be appropriated to the TRUF, contingent on legislation eliminating the Emerging Technology Fund.

Supporters say increased funding for the TRIP would help reduce a waiting list of applications for matching funds from the eight emerging research institutions in Texas. The institutions have done a good job of attracting private donations, but the state has not appropriated sufficient funds to match the gifts. Several university presidents said that in addition to the TRIP, the Legislature should maintain core research funding that can be used to support faculty and professional research staff. They said the use of TRIP funds often is limited by conditions set by the private donors specifying how their gifts can be spent. Unlike some earlier funding proposals that could have concentrated funding on two or three schools, the research funding structure proposed by CSHB 1 would help retain consensus among the eight emerging research institutions

Critics say the state should focus its funding so that at least one of the eight emerging institutions could more quickly reach full research, or tier-one, status. Funding the TRIP at a higher level could have provided a boost to the institutions most successful in raising private donations.

Other critics say Texas should do much more to help more universities reach tier-one status. The state has fewer tier-one schools than California, Massachusetts, or New York. Adding to the number of research universities would draw additional federal research funds and venture capital to the state. Texas students will continue to seek admission to the already burdened UT-Austin and Texas A&M until institutions of similar quality are available around the state. The governor's budget would create a new $56 million grant program at the Higher Education Coordinating Board that would be available to all public colleges and universities to provide matching funds to Nobel laureates and other nationally recognized researchers.

Major student financial aid programs

Texas Higher Education Coordinating Board

- **CSHB 1 – $1.1 billion in all funds to four programs as follows: $690 million to TEXAS Grants; $74.4 million to B-On-Time; $192.3 million to Texas Tuition Equalization Grants; $106.2 million to Texas Educational Opportunity Grants**

- **Agency request – $790 million to increase TEXAS Grants from $5,000 to $5,300**

Texas has nine programs for student financial aid administered by the Texas Higher Education Coordinating Board. Four programs make up the bulk of this assistance.

The largest of the four programs, *TEXAS Grants*, provides assistance to financially needy high school graduates who enroll at Texas public universities and maintain at least a 2.5 grade point average (GPA). The 83rd Legislature in 2013 made the program a university-only program beginning in fall 2014. CSHB 1 would appropriate $690 million in general revenue funds for TEXAS Grants, an increase of $37.7 million from the fiscal 2014-15 estimated/budgeted amount.

The *B-On-Time Program* allows Texas public and private universities to offer interest-free loans to students, which are forgiven if the student graduates with at least a B average within a certain period of time. B-On-Time loans to public university students are funded through a 5 percent designated tuition set-aside collected by institutions. Loans to students at private institutions are funded through general revenue. CSHB 1 would appropriate $74.4 million in general revenue and general revenue dedicated funds to renew existing loans only. This would be a decrease of $37.8 million from the fiscal 2014-15 estimated/budgeted amount.

Tuition Equalization Grants provide assistance to financially needy students who enroll at independent institutions in Texas and maintain at least a 2.5 GPA. CSHB 1 would appropriate $192.3 million in general revenue for this program, an increase of $12.2 million from the fiscal 2014-15 estimated/budgeted amount.

Texas Educational Opportunity Grants are awarded to students attending public community, technical, or state colleges. Priority is given to students with the greatest financial need, and students must maintain a 2.5 GPA. The House budget proposal would appropriate $106.2 million in general revenue for these grants, an increase of $41.1 million from the fiscal 2014-15 estimated/budgeted amount.

Supporters say increasing need-based student financial aid is critical at a time when Texas ranks below the national average in the percentage of high school graduates going to college. Making college more accessible and affordable is particularly critical at a time when more economically disadvantaged students are attending public school in grades K-12.

The B-On-Time Program, while helpful for certain students, has not always been fully utilized, partly because of federal restrictions on universities advertising the program. As a result, the state has collected tuition dollars that are unspent on B-On-Time and could be returned to the institutions of higher education that collected the tuition. CSHB 1 would continue the program for current enrollees only.

Critics say B-On-Time is the major state program providing financial aid to students from middle-class families. The rising cost of college tuition creates a burden on these students, many of whom do not qualify for the state's need-based financial aid programs. B-On-Time provides a strong financial incentive for students who are well prepared academically to study hard and graduate on time. The state's higher education commissioner has said the program did not reach as many students as expected in its first seven years but has gained momentum in the past few years.

Other critics say the Legislature should allocate additional funds to need-based grant programs so that more eligible students receive financial aid. For example, the higher education commissioner has called for TEXAS Grants to be increased from $5,000 to $5,300 per student to help students pay for tuition increases, which would add $100 million to the TEXAS Grants appropriation in CSHB 1.

Tuition exemptions for veterans and their families

Texas Veterans Commission and other entities

- **CSHB 1 – $30 million in general revenue to reimburse public institutions of higher education for costs associated with the Hazlewood Legacy Program, plus $781,200 in general revenue for administration of the program (Article 1, Veterans Commission); $23.5 million in other funds from the Permanent Fund Supporting Military and Veterans Exemptions to reimburse institutions (Article 3)**

- **Governor's proposal – $532 million to reimburse higher education institutions for Hazlewood costs**

Eligible veterans are exempt from paying tuition and certain fees at public institutions of higher education in Texas as provided by Texas Education Code, sec. 54.341, commonly known as the Hazlewood Act. In some cases, spouses and dependents of veterans are eligible for the exemption, and since 2009, the Hazlewood Legacy Program has allowed veterans to pass unused credit hours to their children.

The 83rd Legislature moved oversight of the Hazlewood program from the Higher Education coordinating board to the Veterans Commission. CSHB 1 would allocate $30 million, funding previously appropriated to the coordinating board, to the Veterans Commission to partially reimburse higher education institutions for costs associated with the Hazlewood Legacy Program. Proceeds from the Permanent Fund Supporting Military and Veterans Exemptions, administered by the Texas Treasury Safekeeping Trust Company, also are used to reimburse institutions for some costs resulting from the program.

A recent court ruling deemed unconstitutional a statutory requirement that veterans must have been Texas residents when they joined the military to qualify for the exemption.

Supporters of CSHB 1 say the bill would continue to reimburse institutions for some costs of the Hazlewood exemption while options are considered to address the program's sustainability. The Legislature cannot incorporate funding for the Hazlewood exemption into the funding formula for higher education institutions because each school is affected differently. Moreover, making Hazlewood a full state appropriation, rather than an exemption, could mean that the program would have to compete with other state needs each biennium.

The state is appealing the court ruling that would broaden eligibility for the benefit. If the state loses its appeal, lawmakers could adjust the fixed-point residency requirement or consider other legislation to allow the exemption program to continue. Even if the state wins the appeal, costs from Hazlewood are an escalating problem. To make the program sustainable, lawmakers could add a financial need provision to the Legacy program or reduce the number of hours veterans could pass on to their children.

Critics say the Legislature should fully or at least fairly reimburse universities for costs resulting from the Hazlewood Act and should not push the costs from this unfunded mandate to the state's public universities. According to the Legislative Budget Board, Hazlewood exemptions cost Texas higher education institutions $169.1 million in fiscal 2014 and are expected to exceed $379.1 million in 2019. The high price tag of the exemption is absorbed by institutions and passed indirectly to other students. If tuition is re-regulated, as some bills filed this session aim to do, institutions would have to find other ways to offset Hazlewood costs.

Veterans deserve the benefits of this exemption for their sacrifices, but the program is not financially sustainable. The recent court ruling, which could increase eligibility for the exemption and eventually cost nearly $2 billion, escalates the need to address the program's costs and the burden it places on public universities.

Graduate medical education

Texas Higher Education Coordinating Board

- **CSHB 1 – $128.2 million in general revenue and general revenue dedicated funds, including $48 million for coordinating board grant programs and $80.2 million for graduate medical education formula funding**

- **Other requests – $184.7 million in general revenue funds, including $89.5 million for coordinating board grant programs and $95.2 million in graduate medical education formula funding, requested by health-related institutions**

Funding for graduate medical education (GME), also known as residency, helps defray the costs of supervised training of medical school graduates to gain clinical and practical experience in a specific field of medicine before becoming licensed doctors. To be licensed, doctors must complete at least one year of residency training. The length of residency varies by medical specialty and ranges from three to seven years.

CSHB 1 would appropriate $128.2 million in general revenue and general revenue dedicated funds to GME, an increase of $28.8 million from fiscal 2014-15 appropriations. This increase would include $48 million to grant programs administered by the Texas Higher Education Coordinating Board and $80.2 million as part of a formula to defray the costs of GME in health-related institutions.

Residency expansion. CSHB 1 would allocate about $28.6 million in general revenue funds for GME expansion, an increase of $14.4 million over 2014-15 appropriations. This would enable the coordinating board to support 165 new first-year residency slots in existing GME programs in fiscal 2016-17.

Increased formula funding. CSHB 1 would increase GME formula funding to health-related institutions by $14.5 million, which would raise the GME funding per resident by 14 percent to $5,851 per resident per year. In a change from previous budgets, $10 million of the formula funding would be appropriated out of the Designated Trauma Facility and Emergency Medical Services Account (Account No. 5111). The remaining $70.2 million in formula funds would be from general revenue.

The bill would keep funding at fiscal 2014-15 levels of appropriation for the family practice residency program ($12.8 million), primary care innovation grants ($2.1 million), and trauma care program ($4.5 million). The family practice residency program would also be funded from Trauma Account No. 5111, rather than from general revenue, for the first time.

Supporters say CSHB 1 would accomplish two needed reforms: expanding residency slots and increasing formula funding for health-related institutions.

Texas already has too few available residency seats to accommodate the state's medical students, and three new medical schools under construction will create even more demand. Many graduates of Texas medical schools must leave the state for their residencies and often remain in their new locations to practice, creating a "brain drain" and lost investment. More residency slots not only would keep graduates in the state, but also could attract top students from out of state. Texas has several geographic areas with a shortage of primary care physicians, and more residency slots could help attract medical school graduates to these underserved areas.

Increasing GME formula funding would provide some flexibility for health-related institutions to choose among several existing high-priority funding needs: creating new residency slots, supporting existing residencies, increasing resident salaries, obtaining training materials, or training faculty.

The appropriations in CSHB 1 from Trauma Account No. 5111 would be an appropriate use of funds from that dedicated account. HB 7 by Darby, enacted in 2013 by the 83rd Legislature, specifically allows the coordinating board to use appropriations from this account to fund GME programs.

Critics say any increase in GME funding should be directed toward bolstering existing residency slots, not creating new slots. In the past, schools have created more residency seats only to lose existing seats due to lack of funding to sustain the positions. Instead of creating new slots that would have to be funded by future legislatures, GME funding should be channeled toward regaining the highest level of funding previously received, or "high watermark," for existing programs before cuts in fiscal 2012-13.

The proposed increase in formula funding would be unlikely to help address primary care physician shortages in underserved areas because health-related institutions often direct funding to medical specialty slots, which can generate more revenue from patients and other funding sources. About two-thirds of existing residency slots at health-related institutions are filled by medical specialists.

Other critics say funding increases in CSHB 1 are insufficient to meet the state's GME needs for in-state residency slots, much less create enough slots to also attract and retain top out-of-state students. The GME funding formula should be increased to approximately $6,600 per resident to better help defray the approximate cost of training a resident, which is $150,000 per year. Some proponents of GME expansion advocate for almost three times the amount of money included in the proposed House budget for more comprehensive strategies to address medically underserved areas.

Funds from Trauma Account No. 5111 should not be used to pay for GME programs at a time when additional money is needed to support essential trauma-care hospitals.

Judiciary — Article 4

Article 4 covers the judicial system of Texas, which includes the courts, supporting agencies, and other state-funded judiciary functions. The state's judicial system includes two high courts, 14 intermediate appellate courts, and 458 state district courts, as well as county, municipal, and justice-of-the-peace courts.

The table below details overall spending for Article 4 by type of funds and the amounts estimated/budgeted for fiscal 2014-15, the amounts recommended for fiscal 2016-17 in CSHB 1, and the change the recommendation represents from fiscal 2014-15.

Public Integrity Unit

Judiciary Section, Comptroller's Department

- **CSHB 1 – $6.6 million in general revenue and fees related to general revenue in rider, contingent on legislation**
- **Public Integrity Unit request – $6.6 million in general revenue funds**

CSHB 1 would eliminate the strategy for the Public Integrity Unit from the budget of the Judiciary Section of the Comptroller's Department. The unit is a division of the Travis County District Attorney's office that prosecutes crimes related to state government through three divisions: general state government investigation, insurance fraud, and motor fuels tax fraud. The unit previously

Article 4 spending comparisons
(millions of dollars)

Type of funds	Estimated/ budgeted fiscal 2014-15	Recommended fiscal 2016-17 CSHB 1	Biennial change	Percent change
General revenue	$446.8	$483.7	$36.8	8.2%
GR dedicated	133.5	125.5	(7.9)	(5.9%)
Federal	3.8	3.4	(0.3)	(9.0%)
Other	179.9	180.3	0.4	0.2%
All funds	764.0	793.0	29.0	3.8%

Source: Legislative Budget Board, Summary of House Committee Substitute for House Bill 1, March 2015

received state funding, but in 2013, Gov. Rick Perry vetoed the unit's full budget of $7.6 million for fiscal 2014-15. The Travis County Commissioner's Court and the Travis County District Attorney's office provided limited funding for the office to continue operations.

CSHB 1 would include a rider that would make funding for the Public Integrity Unit contingent on enactment of legislation that would revise the system of investigating and prosecuting crimes related to state government, including insurance and tax fraud. The rider would appropriate $4.1 million from general revenue and $2.5 million from fees related to general revenue (the Insurance Companies Maintenance Tax and Insurance Department Fees).

Supporters say the Legislature is considering several options to change how prosecutions of crimes related to state government are handled, and CSHB 1 would give flexibility to lawmakers by making funding for the unit contingent on legislation. This would allow lawmakers to decide whether and how to reform the state's method of investigating and prosecuting certain crimes and where the funding would go as the state budget is crafted.

Critics of CSHB 1 say the state budget should continue to fund the Public Integrity Unit through an appropriation in the Judiciary Section of the Comptroller's Department without making funding contingent on the Legislature revising the state's system for addressing those crimes. The unit requested $6.6 million to continue its work.

Reinstating the appropriation in CSHB 1 would put funding in place for the unit whether or not the Legislature made changes to it. Making funding contingent on changes by lawmakers could raise questions about conflicts of interest because the unit handles crimes by public officials. The unit's work on fraud and general government crimes is too important for the Legislature to leave its funding contingent on reform. Funding for other agencies generally is not contingent on reform, and the Public Integrity Unit should not be handled differently.

Grants to counties for criminal indigent defense services

Texas Indigent Defense Commission

- **CSHB 1 – $60.5 million in general revenue dedicated funds from the Fair Defense Account; $8.8 million in general revenue funds for grants to counties; $6.2 million in general revenue funds to support the regional public defender office for capital cases**

- **Agency request – available general revenue dedicated funds from the Fair Defense Account; $196.8 million in general revenue for grants to counties and $6.2 million in general revenue to support the regional public defender office for capital cases**

The Texas Indigent Defense Commission, within the Office of Court Administration, distributes grants to help counties carry out the Texas Fair Defense Act, which requires counties to meet certain standards and follow guidelines in appointing attorneys for criminal defendants who cannot afford to hire their own.

Supporters say CSHB 1 would increase state spending on indigent defense grants to help counties pay for this constitutionally required duty. Indigent defense costs grew from $91 million in 2001 to $230 million in 2014, an increase of nearly 153 percent. Counties continue to shoulder the vast majority of this increase, with the state picking up only 13 percent of the total cost in fiscal 2012-13. Counties deserve more help with the underfunded mandate to provide indigent defense because counties have no control over the number of defendants who must be represented, and they must provide representation that meets state-imposed standards.

CSHB 1 would add $8.8 million in general revenue funds to the filed bill's $60.5 million in general revenue dedicated funds for grants to counties for statewide distribution. The bill would add $6.2 million for the operation of the regional public defender office operated by Lubbock County and similar services for Hidalgo and Cameron counties. With this appropriation, up to 242 counties could be eligible for these services. While CSHB 1 would not meet the full request of the agency for additional grant spending, it would increase the state's contribution for indigent defense services from 13 percent to 16 percent and provide some financial relief to counties.

Critics of CSHB 1 say the state should meet the agency request for indigent defense grants and add $188 million to the additional $8.8 million proposed in CSHB 1. This would raise the state's contribution to 59 percent of indigent defense costs, a meaningful increase from the 13 percent it paid in 2012-13 and more than the 16 percent that would be provided under CSHB 1. About half the states fully fund indigent defense services, and it is unfair to require Texas counties to bear such a large portion of the mandate to provide legal representation to indigent criminal defendants.

Funding for court e-filing and grants to counties

Office of Court Administration

- **CSHB 1 – $28.8 million in funding for e-filing contract from the general revenue dedicated Statewide Electronic Filing System Account 5157; $10.5 million in general revenue for e-filing implementation considered in Article 11**

CSHB 1 would place in Article 11 the Office of Court Administration's original exceptional item request for $10.5 million in general revenue to implement the state's e-filing system for court documents. The original request included $2 million for one-time grants to less populous counties to implement the e-filing system, as well as $8.5 million for the vendor that operates the system to cover a shortfall in 2015 and an anticipated shortfall in 2016-17. The proposed fiscal 2014-15 supplemental appropriations bill, CSHB 2 by Otto, includes $6.4 million of the office's request for funds for the vendor.

Supporters say CSHB 1 would place the request by the Office of Court Administration in Article 11 so that options for funding the e-filing contract and grants to counties could be explored as the budget process continues. Among the options available are providing general revenue funding and enacting legislation to raise the e-filing fees assessed by courts to ensure that attorneys and others who benefit from the e-filing system are supporting the program.

The office originally requested $8.5 million for the vendor contract, but $6.4 million of the request would be met in CSHB 2 by Otto, the supplemental appropriations bill for fiscal 2014-15. This would leave unmet a fiscal 2016-17 request by the agency of only $2.1 million for the contract and $2 million for grants to counties.

Critics say that CSHB 1 should fund a projected shortfall in the fees and court costs used to pay the vendor that developed and operates the e-filing system used by Texas courts. The shortfall is due to a drop in court filings. Without the funding, the state would not be able to continue the e-filing system. The phasing in of e-filing for Texas courts began in January 2014 and will be required for all civil courts by July 1, 2016.

CSHB 1 also should fund the $2 million request for one-time grants to less populous counties to help them buy computers, scanners, and other items needed to implement e-filing. Many of these counties have limited resources, and the current $2 fee they can assess on court transactions does not raise enough money to buy the equipment. Once these smaller counties have a system in place, the fee can be used to cover the ongoing costs of e-filing.

Criminal Justice — Article 5

Article 5 covers agencies responsible for criminal justice and public safety. These include the Texas Department of Criminal Justice (TDCJ), which operates the adult correctional system, the Department of Public Safety (DPS), and the Texas Juvenile Justice Department (TJJD).

The table below details overall spending for Article 5 by type of funds and the amounts estimated/budgeted for fiscal 2014-15, the amounts recommended for fiscal 2016-17 in CSHB 1, and the change the recommendation represents from fiscal 2014-15.

Border security

Department of Public Safety and other agencies

- **CSHB 1 – $565.2 million in all funds to four agencies, including $551 million to DPS**
- **DPS request – $309.9 million increase in all funds from fiscal 2014-15 funding of $401.6 million**

CSHB 1 would appropriate $551 million in all funds to DPS for border security operations. A total of $14.2 million in all funds would go to other agencies, including the Trusteed Programs Within the Office of the Governor, the Texas Parks and Wildlife Department, and the Texas Department of Criminal Justice.

Article 5 spending comparisons
(millions of dollars)

Type of funds	Estimated/ budgeted fiscal 2014-15	Recommended fiscal 2016-17 CSHB 1	Biennial change	Percent change
General revenue	$9,220.8	$10,971.7	$1,750.9	19.0%
GR dedicated	24.0	25.4	1.4	5.7%
Federal	1,120.7	743.4	(377.3)	(33.7%)
Other	1,399.7	152.5	(1,247.2)	(89.1%)
All funds	11,765.2	11,893.0	127.8	1.1%

Source: Legislative Budget Board, Summary of House Committee Substitute for House Bill 1, March 2015

More than half of DPS' border security funds, $320.4 million in all funds, would flow through a new agency goal, Goal B, Secure Border Region. These funds in Goal B would go toward routine border security operations, extraordinary border surge operations initiated in June 2014, networked intelligence, grants to local entities, and $105 million to fund 300 new troopers and 110 support personnel.

CSHB 1 would define border security in Article 9. It would require state agencies to report twice annually to the LBB on spending and performance related to border security. The requirement would apply to DPS, Texas Military Department, Texas Parks and Wildlife Department, Trusteed Programs Within the Office of the Governor, Texas Department of Criminal Justice, and any other agency requested to do so by the LBB.

Border security would be defined as activities associated with deterring certain crimes and enforcing state laws related to specified offenses in specified counties near the Texas-Mexico border. The crimes would include those eligible for prosecution under the border crime grant program (Government Code, sec. 772.0071).

The $565.2 million in all funds for border security in CSHB 1 would be an increase of $93.9 million from fiscal 2014-15 all-funds spending for all agencies. In fiscal 2014-15, DPS received about $401.6 million. The funds to DPS in fiscal 2014-15 included $70.4 million provided through the Governor's Proclamation of Emergency and the LBB's December 2014 budget execution to the Texas Military Department, DPS, and Texas Parks and Wildlife Department.

Supporters say CSHB 1 would fund a sustained effort to secure the Texas border, helping make all of Texas safer. While DPS would receive the bulk of the funding, other agencies would be appropriated amounts comparable to what they received in previous years.

Border operations. DPS' new border security goal includes funding for "extraordinary operations" to allow DPS to continue its surge in Operation Strong Safety II, which began in June 2014. CSHB 1 would continue these efforts to address transnational crime, including activity by drug cartels, in the border region. The funds to continue Operation Strong Safety II would be used for overtime, travel, operation of aircraft and other equipment, and deployment of 4,000 cameras to monitor the area, which eventually could replace monitoring being done by the Texas National Guard.

Additional troopers. CSHB 1 includes $105 million in general revenue funds to increase the number of DPS troopers on the border. The money would be used to fund DPS recruit schools, salaries, and equipment to add 300 new troopers, at least 250 of whom would be stationed in the border region. These additional troopers would allow DPS to sustain its efforts in the border region and avoid temporary surges. With additional troopers permanently stationed in the area, DPS could reduce the current inefficient, disruptive, and expensive practice of pulling troopers from other parts of the state and rotating them through the border region, and the Texas National Guard could be withdrawn. Keeping troopers in their home regions would help combat crime throughout the state.

CSHB 1 would help ensure that the trooper expansion did not come through unfairly competing with local law enforcement agencies. Agency rider 51 states that the $105 million for additional troopers in CSHB 1 would be intended for 23-week recruit schools graduating entry-level troopers. In addition, DPS rider 50 would prohibit any of the funds appropriated in CSHB 1 from being used for training or recruit schools of fewer than 23 weeks and would require that those graduating from 23-week recruit schools be compensated as entry level troopers. These measures would help protect the security of local communities by limiting DPS' ability to hire away experienced officers from local police and sheriff departments.

New border security definition, goal. CSHB 1 would help the state measure the success of law enforcement efforts in the border region by placing a definition of border security in sec. 7.11 of Article 9 of CSHB 1. By creating a new goal for border security in the DPS bill pattern, CSHB 1 would allow the state to track border security funding and would lead to more transparent budgeting.

Critics say the Legislature should be cautious about spending nearly half a billion dollars for border security without agreement on the definition of the term "border security" and while the mission for the agencies receiving the funding remains unclear. The effectiveness of past and current operations should be analyzed and clear goals and measurements of success developed. Inefficiencies in operations should be addressed before manpower and resources are increased in the border region. Texans might be helped more by increasing resources for education, infrastructure, health care, or other needs than they would by expanding law enforcement operations in the border area.

Other critics say CSHB 1 would not go far enough to increase spending for border security. The agency requested $309.9 million to sustain continuous and intensified border operations, which would pay for equipment, technology, and additional troopers and other personnel. The agency request also included a 10-hour workday for all commissioned law enforcement officers across the state. This would multiply the overall DPS workforce by 654 FTEs, an efficient way to increase law enforcement efforts throughout the state. Article 11 of CSHB 1 includes $171.5 million for the 10-hour workday proposal, an item that should be funded in the bill.

Another approach discussed by the Senate would fund border security at around $810 million across all agencies, with DPS receiving the bulk of those funds. This would allow for funding the training and fielding of about 250 entry-level troopers and 80 troopers with law enforcement experience, a 10-hour workday for all troopers, a stipend for those participating in Operation Strong Safety II, the purchase of property for a new training facility, acquisition of a new aircraft, funds to reimburse the Texas Military Department for some of its border security efforts, and more. These items are necessary to put in place a comprehensive security plan for the state and to help secure the border.

The governor's budget also advocates for increased border security spending, including 250 troopers in fiscal 2016-17 and 250 in fiscal 2018-19.

Still others say CSHB 1 should not restrict DPS from spending money to train and hire experienced troopers at higher salaries than entry-level troopers. Hiring experienced law enforcement officers allows DPS to recruit troopers with the skills necessary to meet the department's increasing responsibilities along the border. It is an efficient way to meet the needs of Texas and put skilled officers on the ground quickly. This option may be needed in the next budget period because the state is anticipating more trooper retirements than usual during the time DPS would be adding hundreds of troopers under CSHB 1. The state could couple this strategy with grants to local law enforcement agencies to recruit or compensate its officers.

Pay raise for correctional and parole officers

Texas Department of Criminal Justice

- **CSHB 1 – $235 million in general revenue funds**
- **Agency request – same as CSHB 1**

CSHB 1 would appropriate $235 million to fund a 10 percent pay raise for adult correctional and parole officers. Related personnel, such as supervisory correctional and parole officers and correctional laundry and food service managers, would be included in the increase.

Supporters say a 10 percent pay raise for correctional officers is needed to recruit and retain staff. They have demanding jobs that are crucial to ensuring public safety by operating safe and secure prisons and supervising offenders released on parole. Correctional and parole officers also play important roles in rehabilitating offenders, which can improve public safety and save the state money.

Thousands of correctional and parole officer positions are unfilled, and the turnover rates are high. TDCJ is authorized to hire 26,000 correctional officers, but about 3,560 of these jobs were unfilled as of January 31, 2015, according to the agency, which reports that the annual turnover rate for corrections officers recently was 25 percent. The agency has 1,423 parole officer positions, which have been turning over at about 17 percent, an increase from 9.6 percent two years ago.

The average 10 percent pay increase funded by CSHB 1 would raise the starting salary of correctional officers from $29,220 to $32,142. The maximum salary after 7.5 years would increase from $38,888 to $42,777. Parole officer starting salaries would increase from $35,879 to $39,467, and maximum salaries after 10 years would increase from $40,344 to $44,378. These increases could help reduce turnover and reliance on overtime. It also could make Texas prisons safer by retaining experienced staff.

Critics say the state should go further in raising correctional and parole officer salaries to fully address recruitment and retention issues. Correctional and parole officers work in demanding environments, and higher salaries would reflect the importance and difficulty of these jobs.

Prison health care

Texas Department of Criminal Justice

- **CSHB 1 – $1 billion in general revenue, an increase of $84.9 million from fiscal 2014-15 estimated/budgeted amount of $963.1 million**
- **University providers request – an increase of $174.8 million in general revenue from fiscal 2014-15 estimated/budgeted amount**

CSHB 1 would appropriate $1 billion in general revenue for correctional managed health care, which covers medical and psychiatric care for offenders in state custody and is delivered by providers from the Texas Tech University Health Sciences Center and the University of Texas Medical Branch. This would be an increase of $84.9 million from the fiscal 2014-15 estimated/budgeted amount.

Supporters of CSHB 1 say it would increase funding for correctional managed health care, allowing the state to meet its obligation to provide a constitutionally required level of care to offenders in state custody and to compensate health care providers adequately. The increase is needed to meet the projected expenses for providers during the coming biennium due to the rising cost of health care. Although the House proposal would not fund the university providers' entire request for more funding, it would address some of the most critical needs.

Critics of CSHB 1 say the state should fund the entire request of the university providers. An additional $89.9 million above the $1 billion in CSHB 1 is needed to ensure continued access to quality care and to maintain a constitutional prison health care system and protect the state from potential costly litigation.

Of the $89.9 million, nearly $60 million is needed to adjust salaries to market levels because of difficulties in recruiting and retaining staff to deliver health care at correctional facilities. In addition, $23.8 million would allow correctional facilities to hire more nursing and other health care staff, and $6.7 million would fund critical capital needs at TDCJ facilities, including X-ray, dental, and dialysis equipment.

Reentry coordinators

Texas Department of Criminal Justice

- **CSHB 1 – $15.4 million in general revenue funds**

- **Agency request – same as CSHB 1**

Reentry coordinators work to help offenders reenter society after incarceration. CSHB 1 would appropriate to the Texas Department of Criminal Justice (TDCJ) $15.4 million in general revenue funds, which would include an increase of $4 million from the $11.4 million provided in the filed version of HB 1. The increase in funding would allow for 50 additional reentry coordinators.

Supporters say CSHB 1 would allow TDCJ to continue expanding efforts to help offenders successfully return to society after being incarcerated. In 2009, the agency first received funding for 64 reentry coordinators and in 2013 received appropriations for another 75. Providing funding for 50 additional coordinators would allow the reentry program to expand its services within correctional facilities and in the community.

Most of the current reentry coordinators work in correctional facilities helping offenders develop plans to return to the community. In fiscal 2014, these coordinators requested almost 55,000 Social Security cards, 44,000 birth certificates, and 13,000 identification cards for offenders.

Forty of the new positions funded by CSHB 1 would provide reentry services to offenders outside of correctional facilities, including those in halfway houses. These coordinators would work in communities and help parolees find employment, housing, and other resources. They also would teach them skills such as interviewing for jobs and preparing a resume.

The remaining 10 positions would work as special needs reentry coordinators. These coordinators would provide reentry services and help to ensure continuity of care for offenders with mental health needs, who often require additional services to successfully reenter society.

Texas Juvenile Justice Department funding

Texas Juvenile Justice Department

- **CSHB 1 – $619.4 million in all funds to the Texas Juvenile Justice Department through block funding rider**

The majority of the total CSHB 1 appropriation of $619.4 million to the Texas Juvenile Justice Department (TJJD) would be general revenue funding. No funds to TJJD would be allocated in agency goals, strategies, or objectives. Under agency rider 1, the final allocation of funds and FTEs would be contingent on the Legislature taking action in statute or in the general appropriations act to address fundamental issues in the state's juvenile justice policies and operations, including:

- the number, size, and location of state facilities for juvenile offenders;
- the use of contractor-operated facilities;
- the agency's authority to transfer appropriations between residential settings;
- the safety and security of youth and staff; and
- measures designed to ensure a transparent, responsive, and adaptable agency.

The all-funds appropriation for TJJD would be about 4.6 percent less than fiscal 2014-15 funding, with the reduction related to a declining juvenile population handled by the agency.

Supporters say CSHB 1 would provide maximum flexibility for the Legislature to make needed changes to the TJJD without being constrained by its current budget. In the years since the Legislature created the agency in 2011 by merging the Texas Youth Commission and the Texas Juvenile Probation Commission, TJJD has faced many challenges in administration and operations. Some have expressed concerns about the structure of the agency, including the number and size of its facilities and the security of youth and staff. By appropriating a lump sum in a rider and specifying issues to be addressed, CSHB 1 would ensure that legislators deal with fundamental issues facing the TJJD.

Critics say that CSHB 1 should allocate funding for the TJJD through a standard bill pattern and not through a lump-sum appropriation in a rider that would make allocations contingent on the Legislature addressing certain issues. A standard bill pattern with goals, objectives, and strategies would set the stage for the distribution of funds if the Legislature chose not to act on the issues in agency rider 1 and could be crafted to allow for funding adjustments if changes were made to the agency as the budget process continued.

Natural Resources — Article 6

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

The table below details overall spending for Article 6 by type of funds and the amounts estimated/budgeted for fiscal 2014-15, the amounts recommended for fiscal 2016-17 in CSHB 1, and the change the recommendation represents from fiscal 2014-15.

Full allocation of sporting goods sales tax for state and local parks

Texas Parks and Wildlife Department

- **CSHB 1 – $213.5 million in general revenue dedicated funds from sporting goods sales tax (SGST) receipts, including $11.2 million for state parks; another $47.7 million from SGST receipts to state parks and local parks grant funding, contingent on enactment of HB 300**

Under Texas law, 94 percent of the revenue generated by the sale or use of sporting goods is dedicated to various funds within the Texas Parks and Wildlife Department (TPWD) for the operation and upkeep of state and local parks. After the appropriation of $202.3 million in general revenue dedicated funds from SGST receipts for state and local parks in the House's proposed budget, about $58.9 million in SGST receipts remains unallocated. Of this, $11.2 million is statutorily dedicated to state parks, and $47.7 million is dedicated to local park grants.

Article 6 spending comparisons
(millions of dollars)

Type of funds	Estimated/ budgeted fiscal 2014-15	Recommended fiscal 2016-17 CSHB 1	Biennial change	Percent change
General revenue	$714.8	$813.7	$98.9	13.8%
GR dedicated	1,210.1	1,243.8	33.8	2.8%
Federal	2,656.2	1,744.1	(912.1)	(34.3%)
Other	2,350.0	284.6	(2,065.4)	(87.9%)
All funds	6,931.1	4,086.2	(2,844.9)	(41.0%)

Source: Legislative Budget Board, Summary of House Committee Substitute for House Bill 1, March 2015

CSHB 1 would provide to state parks the remaining $11.2 million in statutorily dedicated SGST allocations as follows:

- $4.6 million that would provide for 6 FTEs for state park staffing and operations for management and upkeep of state parks;
- $3.5 million for the planning, development, and construction of a visitors center at Franklin Mountains State Park;
- $500,000 for capital construction and major repairs at Fort Boggy State Park; and
- $2.6 million to address statewide construction and repair needs.

Contingency appropriation. The $47.7 million in unallocated SGST receipts currently is statutorily dedicated to local parks grants. HB 300 by Gonzales would remove the statutory allocation percentages to each TPWD fund receiving SGST receipts and would instead allow the Legislature to distribute this money among state and local parks as it deemed appropriate. Contingent on the enactment of HB 300, the $47.7 million currently dedicated to local park grants would be reallocated as follows:

- $24 million in SGST receipts for state park staffing and operations for management and upkeep of state parks;
- $9.6 million in SGST receipts to address statewide construction and repair needs at state parks; and
- $14.1 million in SGST receipts for local parks grants to support the outdoor/indoor recreational needs of local governments.

Supporters of CSHB 1 say funding state parks is a major priority this budgetary cycle, and House and Senate leadership have committed to fully allocate the SGST receipts available to state and local parks. CSHB 1 would appropriate the full amount of unallocated sales tax revenue currently dedicated to state parks while providing a contingency appropriation to state and local parks from the remaining $47.7 million currently dedicated to local park grants. Much of the local parks money could be better spent to address deferred maintenance and health and safety concerns at state parks. Enactment of HB 300 would allow the Legislature to reallocate $33.6 million of the remaining $47.7 million toward state park needs. The rest would be used to make whole local parks grant funding after the budget cuts in 2011.

Critics of CSHB 1 say the local parks grant program needs $14.1 million to be made whole from the budget cuts in 2011. This need should be addressed directly in CSHB 1, rather than being contingent upon the enactment of legislation. Unallocated SGST funds could be directed to state parks without jeopardizing the local parks grants funding.

Giving the Legislature discretion on how to spend SGST revenues on state and local parks could make funding for this purpose subject to the whim of any future legislature. A more prescriptive approach would be more appropriate. SB 1347 by Huffines, for example, would reapportion the statutory allocation percentages to give more funding to state parks to pay for deferred maintenance, while still dedicating money to address the needs of local parks.

Other critics say that while CSHB 1 would make an effort to fully allocate the SGST, it would fall short of what the agency requested and needs. For example, TPWD is requesting an increase from fiscal 2014-15 appropriations of $51 million in all funds for capital projects related to state parks, the majority of which would fund repairs that address health and safety and deferred maintenance concerns. CSHB 1 would provide only $2.6 million in SGST money, with another $9.6 million contingent on the enactment of legislation.

Funding for emissions reductions programs

Texas Commission on Environmental Quality

- **CSHB 1 – $155.3 million in general revenue dedicated funds for TERP; plus another $81 million for TERP in Article 9, contingent on enactment of HB 7; $15.3 million in general revenue dedicated funds for LIRAP; plus another $81.2 million for LIRAP in Article 9, contingent on the enactment of HB 7**

CSHB 1 would maintain appropriations at fiscal 2014-15 funding levels for the Texas Emissions Reduction Plan (TERP) with $155.3 million and the Low-Income Vehicle Repair Assistance, Retrofit, and Accelerated Vehicle Retirement Program (LIRAP) with $15.3 million.

In February 2015, the Legislative Budget Board (LBB) issued a report on reducing reliance on general revenue dedicated accounts for budget certification. The LBB recommended appropriating $81 million from the TERP account in fiscal 2016-17, an amount equal to the transfer from Fund 6 of certain fee revenues collected in counties designated as severe nonattainment areas under federal air quality standards. The LBB also recommended increasing appropriations for LIRAP to a level equivalent to annual collections of the auto emissions inspection on-board diagnostic fee in participating counties, an estimated $81.2 million for fiscal 2016-17.

The amounts recommended by the LBB for TERP and LIRAP are in Article 9, contingent on the enactment of HB 7 by Darby making changes to the availability and use of certain general revenue dedicated funds.

Supporters of CSHB 1 say the bill would maintain appropriations for TERP and LIRAP at fiscal 2014-15 levels. A contingency appropriation would provide additional funding for both programs to help the state meet federal air quality standards, while helping to ensure that state revenues were used transparently and in a manner consistent with the purpose for which the revenue was collected.

The LBB recommendation for TERP would help protect industry along the Houston ship channel, a severe nonattainment area, from having to pay additional federal air quality penalties. Aligning appropriations for LIRAP with the amount collected in on-board diagnostic fees would ensure that counties participating in LIRAP received a benefit from the program commensurate with how much they contributed.

Critics of CSHB 1 say the House proposal merely would maintain current funding levels for the TERP and the LIRAP when more of the revenue collected for these programs should be appropriated for the intended purpose of improving air quality by reducing emissions. The comptroller estimates that the TERP account balance will exceed $1 billion by the end of fiscal 2015 – the largest amount in any general revenue dedicated account. The estimated fund balance in the Clean Air Account for LIRAP is expected to reach $224.9 million by August 31, according to the TCEQ. More funding for both programs would be appropriated only following the enactment of HB 7.

Other critics say that CSHB 1 would not go far enough even if it incorporated the LBB's recommendations on TERP and LIRAP appropriations. For example, the LBB's recommendation for TERP would not tap the full revenue being generated for the program, leaving millions of dollars unspent in an account that should be used to address a pressing state need. CSHB 1 should fully appropriate the funds to match the revenue currently being collected from Texans for TERP, which amounts to roughly $451 million per fiscal biennium. This approach, compared to the House budget proposal, would provide more funding to help the state meet federal air quality standards, while making a stronger statement about the need to use state funds transparently and for the purpose for which they were collected.

Oil and gas well, pipeline safety inspectors

Texas Railroad Commission

- **CSHB 1 – $17.6 million in all funds for pipeline safety, including an increase of $2.3 million from fiscal 2014-15 appropriations for 20 more specialized pipeline inspectors; $3.6 million in all funds for 33.8 more oil and gas well inspectors for consideration in Article 11**

- **Agency request – an increase of $5.1 million in all funds from fiscal 2014-15 appropriations for 44.5 more specialized pipeline inspectors; $3.6 million in all funds for 33.8 more oil and gas well inspectors**

Supporters of CSHB 1 say the $2.3 million increase from fiscal 2014-15 appropriations in CSHB 1 would allow the Railroad Commission to place about two specialized inspectors in each of the state's seven pipeline safety districts, as well as provide management and support staff, which would allow the agency to respond quickly to accidents and complaints while reducing travel costs.

The federal government requires that the Railroad Commission conduct specialized safety evaluations of pipeline operators once every five years. While this federal requirement was not strictly enforced in the past, recent pipeline accidents in other states have shown the need for stronger oversight of Texas pipeline safety programs.

CSHB 1 would strike a balance between helping the Railroad Commission meet safety requirements and freeing up funds for higher priority budget issues, such as public education and health care. This balance would take into account the production decline in the oil and gas sector due to lower oil prices, which could make the need for gas well inspectors less pressing than it otherwise would be. CSHB 1 would maintain 2014-15 funding levels for oil and gas well inspectors, with funding for the agency's request for more inspectors under consideration in Article 11.

Critics of CSHB 1 say the bill would not provide the Railroad Commission with enough personnel to comply with safety requirements, which could result in the loss of federal funds. The Railroad Commission is required to conduct specialized safety evaluations of the state's 869 pipeline operators every five years, which requires teams of at least two inspectors. CSHB 1 would provide funding for only about seven teams of specialized inspectors, about one in each pipeline safety district, which would not be sufficient to effectively monitor hundreds of pipeline operators and ensure the safety of the 216,299 miles of pipeline in Texas.

CSHB 1 also would not fund the agency request for additional oil and gas well inspectors, which is necessary to maintain the current frequency of inspection for an increased number of wells and associated facilities, especially with the expanded use of horizontal drilling and hydraulic fracturing operations. The Railroad Commission's oil and gas division staffing level has not increased since 2011. Funding the agency's request would help ensure proper monitoring and oversight of industry activities that are necessary to properly protect the surface and subsurface waters of the state. In the past, lower oil prices have led to increased problems with compliance, with bad actors cutting corners to save costs or abandoning their wells.

Economic Development — Article 7

Article 7 includes agencies that support business and economic development, transportation, and community infrastructure — including the Texas Department of Transportation (TxDOT), Texas Workforce Commission (TWC), Texas Department of Housing and Community Affairs (TDHCA), Texas Department of Motor Vehicles (TxDMV), and the Texas Lottery Commission. The table below details overall spending for Article 7 by type of funds and the amounts estimated/budgeted for fiscal 2014-15, the amounts recommended for fiscal 2016-17 in CSHB 1, and the change the recommendation represents from fiscal 2014-15.

Funding for transportation infrastructure

Texas Department of Transportation

- **CSHB 1 – $24.8 billion in all funds, an increase of about 17 percent from fiscal 2014-15 appropriations, including $1.3 billion in Fund 6 revenue that formerly would have been received by other agencies, $2.4 billion in oil and gas revenue to Fund 6 following the adoption of Proposition 1, and a contingency appropriation of $1.5 billion in general revenue**

- **Agency request – $10 billion increase in all funds from 2014-15 appropriations for construction, maintenance and preservation activities, and acquiring rights-of-way under consideration in Article 11**

The State Highway Fund (Fund 6) is the state's primary highway funding mechanism. It collects revenue from federal reimbursements, state motor fuels taxes, motor vehicle registrations, toll revenue and concessions payments, and various fees.

Article 7 spending comparisons
(millions of dollars)

Type of funds	Estimated/ budgeted fiscal 2014-15	Recommended fiscal 2016-17 CSHB 1	Biennial change	Percent change
General revenue	$932.9	$2,941.7	$2,008.8	215.3%
GR dedicated	463.4	478.4	15.0	3.2%
Federal	11,102.3	10,848.4	(253.9)	(2.3%)
Other	14,949.1	14,846.6	(102.4)	(0.7%)
All funds	27,447.6	29,115.1	1,667.5	6.1%

Source: Legislative Budget Board, Summary of House Committee Substitute for House Bill 1, March 2015

Proposition 1, approved by voters in the November 2014 general election, amended the Texas Constitution to allow for the allocation to Fund 6 of a portion of general revenue from oil and gas production that previously went to the rainy day fund.

CSHB 1 would include $24.8 billion in all funds for the Texas Department of Transportation (TxDOT), a 17 percent increase from fiscal 2014-15 appropriations. The main drivers of this overall increase are the allocation in fiscal 2016-17 of all Fund 6 revenue to TxDOT, including $1.3 billion in revenue that formerly would have been received by other agencies, and the allocation of $2.4 billion in oil and gas revenue to Fund 6 following the adoption of Proposition 1.

Contingency appropriation. CSHB 1 also would include $1.5 billion in general revenue appropriations to TxDOT for fiscal 2016–17, contingent on the enactment of HB 20 by Simmons. The appropriation would be used for non-tolled public roadways to address urban congestion, regional connectivity along strategic corridors in rural areas of the state, preventive maintenance and rehabilitation projects, and roadway safety and maintenance needs in areas of the state impacted by increased oil and gas production.

Supporters say that paying cash for roads, rather than borrowing for this purpose, is a major priority this budgetary cycle. House and Senate leadership have committed to finding options to increase revenue available for transportation infrastructure, including putting an end to the diversion of money from Fund 6 to law enforcement and other needs not directly related to highway construction and maintenance. The filed versions of both the House and Senate budget bills included an additional $1.3 billion in Fund 6 appropriations that formerly went to other agencies, as well as an additional $2.4 billion in Proposition 1 funding.

CSHB 1 would make transportation a priority by also including a contingency appropriation that would provide an additional $1.5 billion in available general revenue for roads. While use of available general revenue would not provide a stable, dedicated source of funding, it would be a more responsible solution than imposing a new fee or tax or redirecting to transportation certain revenue that traditionally has been deposited in the general fund. Redirecting revenue would disrupt the state's annual cash flow needs by creating a hole in the general fund that would have to be filled with revenue from another source.

Critics of CSHB 1 say that population growth, increased miles traveled, economic activities, and increased freight all contribute to the deterioration of existing transportation infrastructure. The three main bond programs that have provided money to TxDOT in the past are effectively exhausted, and Texas has less money to spend on transportation because of the decreasing purchasing power of the motor fuels tax and other transportation funding sources. The agency estimates the annual transportation infrastructure funding gap is about $5 billion. However, even closing this gap would be sufficient only to maintain the highway network at 2010 levels of congestion and maintenance, rather than at today's higher levels.

While CSHB 1 would provide some funding relief with new money from Fund 6 appropriations that formerly went to other agencies, Proposition 1 funding, and the contingency appropriation of $1.5 billion in available general revenue, it would meet only about half of the actual need for the next fiscal biennium. Further, the additional $1.5 billion in available general revenue would be a one-time cash infusion for the upcoming biennium rather than a stable, long-term financing source.

Accelerate TEXAS program

Texas Workforce Commission

- **CSHB 1 – $4 million in general revenue for Accelerate TEXAS program; $16 million in general revenue for Accelerate TEXAS program under consideration in Article 11**

- **Agency request – $20 million in general revenue for Accelerate TEXAS program**

CSHB 1 would appropriate $4 million in general revenue in fiscal 2016-17 to expand the Texas Workforce Commission's adult education and literacy program to include Accelerate TEXAS, a new initiative that would integrate literacy and numeracy education with current employment skills. Article 11 contains an additional $16 million in general revenue, which would meet the agency's request for $20 million if the Legislature included the Article 11 amount in the final budget.

Supporters of CSHB 1 say the Accelerate TEXAS adult education model would help equip individuals for employment by integrating industry-aligned, high-demand occupational skills training with adult literacy and numeracy education. CSHB 1 would fund only a portion of the agency request because this new program has not yet proved successful. The initial $4 million in funding would serve 1,120 students. The Texas Workforce Commission would identify high-demand occupations in regions throughout the state and partner with industry to supply an educated and skilled workforce.

Critics of CSHB 1 say Texas is experiencing a skills gap in which industry is unable to fill high-demand jobs because of an unskilled workforce. If the Workforce Commission received its full request of $20 million for the Accelerate TEXAS program, it could help 5,600 students develop the skills necessary for success in these critical, high-demand jobs.

Regulatory Government — Article 8

Article 8 includes agencies that regulate business and medical professionals, the service industries, electric utilities, telecommunications, and insurance. The table below details overall spending for Article 8 by type of funds, as well as the amounts estimated/budgeted for fiscal 2014-15, the amounts recommended for fiscal 2016-17 in CSHB 1, and the change the recommendation represents from fiscal 2014-15.

Eliminating the System Benefit Fund balance

Public Utility Commission

- **CSHB 1 – $107.2 million in general revenue dedicated funds in fiscal 2016; contingency appropriation of an estimated $227 million unexpended balance in fiscal 2017**

The System Benefit Fund (SBF) is administered by the Public Utility Commission to fund the operation of the agency, pay for customer education programs, and provide a utility rate discount to eligible low-income utility customers during the warm-weather months of May through September. The SBF receives its revenue through a per-megawatt-hour fee collected from electricity ratepayers in areas open to competition. During recent years, revenue collected for the SBF has exceeded appropriations, and the fund ended fiscal 2013 with a balance of $811.3 million.

Article 8 spending comparisons
(millions of dollars)

Type of funds	Estimated/ budgeted fiscal 2014-15	Recommended fiscal 2016-17 CSHB 1	Biennial change	Percent change
General revenue	$279.2	$315.7	$36.5	13.1%
GR dedicated	789.2	567.4	(221.8)	(28.1%)
Federal	13.2	9.5	(3.6)	(27.4%)
Other	45.7	22.5	(23.2)	(50.8%)
All funds	1,127.3	915.1	(212.1)	(18.8%)

Source: Legislative Budget Board, Summary of House Committee Substitute for House Bill 1, March 2015

HB 7 by Darby, enacted by the 83rd Legislature in 2013, requires the PUC to spend down the available balance in the SBF. It eliminates the fee deposited to the fund beginning in fiscal 2014, sets the end of fiscal 2016 as the fund's expiration date, and in fiscal 2014 made a one-time appropriation of $500 million for the low-income electric discount program. Due to lower-than-expected enrollment in the discount program, combined with a mild summer, the PUC estimates that the SBF will have an unexpended balance of $227 million at the end of fiscal 2016.

At least two bills have been filed in the 84th regular session that would change the expiration date of the program and the fund and increase the discount rate for eligible customers. HB 7 by Darby and HB 1101 by Sylvester Turner would extend the expiration date of the program and the fund from 2016 to 2017. HB 7 would increase the discount rate from 15 percent to 33 percent in 2016 and 2017. HB 1101 would increase the discount rate the same amount in 2016 and remove the cap on the discount rate for 2017.

If legislation does not pass and the SBF expires as scheduled, the balance would be transferred to the general revenue fund. CSHB 1 contains a rider that would require that if the money were transferred to general revenue, the balance be appropriated to the PUC's energy assistance strategy.

Supporters of CSHB 1 say that the contingency appropriation for the estimated $227 million in unexpended balances would extend the life of the low-income discount program by one more year and help eligible low-income utility customers cover the increased cost of cooling their homes during the summer months. The House proposal also would provide a safeguard to ensure that the balance still was used for its intended purpose if transferred to general revenue.

Critics say that while the low-income discount program is helpful, it is limited to the summer months. Expanding the discount to include winter months, when electricity demand is high in colder regions, also would be an appropriate use of the balance and would ensure that the remaining balance was spent as required by law. Some of the funds also should be appropriated for critical-need medical customers, for whom an interruption of electricity service for overdue payments could be life-threatening.

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