Truth and Consequences

The State Budget for 2004-2005 and its Impact on Texans

July 2004

Center *for* Public Policy Priorities

Center *for* Public Policy Priorities

The Center for Public Policy Priorities is a non-partisan, non-profit 501(c)(3) policy research organization committed to improving public policies and private practices to better the economic and social conditions of low- and moderate-income Texans. The Center pursues this goal through independent research, policy analysis and development, public education, and technical assistance.

900 Lydia Street
Austin, Texas 78702
512.320.0222 (ph)
512.320.0227 (fax)
www.cppp.org

Truth and Consequences

The State Budget for 2004-2005 and its Impact on Texans

A report by the Center *for* Public Policy Priorities

July 2004

Principal Authors

Patrick Bresette, *Associate Director*
Eva De Luna Castro, *Senior Budget Analyst*
Anne Dunkelberg, *Senior Policy Analyst*
Celia Hagert, *Senior Policy Analyst*

Contributing Authors

F. Scott McCown, *Executive Director*
Dick Lavine, *Senior Fiscal Analyst*

ACKNOWLEDGMENTS

This report has been made possible through the support of our generous funders and donors. In particular we would like to thank the Annie E. Casey Foundation for its specific underwriting of this report; the Ford Foundation and the Brown Foundation for their ongoing support of our fiscal analysis; the Rockefeller, Swalm, and Rockwell Foundations for their general support of our budget and policy analyses; and *Fostering Results,* which is supported by a grant from The Pew Charitable Trusts, for its support of our analysis of child protective services.

TABLE OF CONTENTS

Summary 1
Where Texas Stood Before the 2003 Session 5
The Cause of the 2003 Budget Problem 6
The 2004-05 Budget Changes and Their Impact on Texans 13
Public K-12 Education 15
Higher Education 19
Health and Human Services 21
Medicaid and CHIP 21
Children's Health Insurance Program (CHIP) 29
Mental Health and Mental Retardation System 34
Public Health Program Funding 36
Temporary Assistance for Needy Families (TANF) 39
Food Stamps and the Child Nutrition Programs 43
Child Protective Services and Other Child Welfare Programs 45
Child Care 49
Job Training 52
State Worker Reductions 53
Staffing Cuts in Health & Human Services 54
Epilogue 57
Appendix A: Strategy Level Funding Changes 59
Appendix B: Local Budget Impact 71
Appendix C: The Texas Children's Budget 85
Appendix D. Glossary of Acronyms and Terms 89

Truth and Consequences

The State Budget for 2004-2005 and its Impact on Texans

SUMMARY

Like many other states, Texas began its 2003 legislative session facing a budget shortfall of unprecedented magnitude. The national economic downturn played out in Texas with business activity slowdowns, job losses, and a severe decline in state revenues. Texas' heavy reliance on sales taxes exacerbated the situation. Sales tax revenues had been declining since 2001. Franchise tax revenues, the fourth-largest state tax source in Texas, had been falling every year since 1999. In the months leading up to the session, revenue reports were more and more alarming, with immediate budget shortfalls recognized for fiscal 2003 and major gaps projected for fiscal 2004 and 2005. In January 2003, the comptroller reported a two-year gap of $7.4 billion between General Revenue available for spending in 2004-05 and 2002-03 spending levels. A CPPP estimate of current-services needs showed an even larger gap of almost $16 billion.

In 2003, Texas ranked 49th in state spending per capita, with average state government spending nationwide 46 percent higher than in Texas.

Unlike other states, Texas entered this fiscal crisis already near the bottom nationally in both revenue and spending. In 2003, Texas ranked 49th in state spending per capita, with average state government spending nationwide 46 percent higher than in Texas. In tax effort, Texas also ranked at the bottom. Per resident, according to the Census Bureau, state taxes in Texas amounted to $1,316 in 2003, ranking Texas 50th among the states. These circumstances left Texas with less room to cut and limited options to address the budget shortfall: budget writers could find new revenue to fill the gap, or devastate already anemic state services.

Despite widespread calls from the public, many policymakers, and most major editorial boards for a balanced approach that would slow the decline in tax revenue and make reasonable budget reductions, the legislature was at first determined to wield the budget ax alone. The leadership stuck to its "no new taxes" pledge and restarted the budget process at zero, forcing every agency and program to justify its requests for General Revenue from the bottom up.

In the end, the budget could not be balanced by cuts alone, and lawmakers were forced to drain the Rainy Day Fund, use accounting gimmicks to shift costs to the next biennium, increase various fees and university tuition, and depend on last-minute and limited federal fiscal relief.

In the aftermath of the 78th Legislative Session's budget battle some state officials claimed they had dealt with the budget challenge in a way that "meets the basic needs of Texans" and had done so without raising taxes. In reality, services for many of the most vulnerable Texans have been devastated, major costs have been shifted to local communities, students are bearing higher burdens in fees and tuition, billions of federal dollars that should have come to Texas will stay in Washington, and accounting gimmicks will only postpone costs, not eliminate them.

Services for many of the most vulnerable Texans have been devastated, and major costs have been shifted to local communities.

This report provides an overview of the major fiscal decisions included in the state budget for 2004 and 2005 and the impact of those decisions on services for low-income Texans. CPPP believes that many of the budget decisions were unwise and are leaving many low- and middle-income families without access to essential services and benefits that could help them in crises, meet their most basic human needs, and offer pathways to economic opportunity.

Particularly troubling are the effects of these budget reductions on low-income children. From cuts in Medicaid and CHIP to reduced resources in education, the state budget for 2004-05 shortchanges these children and, in doing so, jeopardizes the state's future. It is essential that all Texans, policymakers, and the public understand the human cost of a budget that was balanced without sufficient revenue. As the economy rebounds and revenues begin to grow again, restoration of the many basic services that were cut should be a top priority. If new revenue is needed to repair the damage that has been done, then this, too, should be considered.

The months ahead will be awash in change, with many risks and opportunities. If another special session on school finance is called, it would have the potential to ensure not only adequate and equitable funding for public education, but also a state tax system that can meet *all* of the state's needs. Or, another short-sighted fix could make an already regressive tax system worse, reduce local school property taxes just enough to quell the noisiest complaints, and leave public education and other public services starved of adequate funding.

Federal Medicaid funding that Texas received for fiscal relief has been used to partially mitigate Medicaid cuts; still, hundreds of millions in unappropriated General Revenue remain in the state treasury, with no plan from the legislative leadership to restore more of the deep cuts made to Medicaid and other critical health and human service programs.

Meanwhile, marching ahead is the sweeping reorganization and consolidation of state health and human services agencies, which includes a complete redesign of the eligibility determination system, the replacement of significant numbers of local eligibility offices and staff with telephone call centers, and the privatization of many HHS functions. If not done carefully and thoughtfully, this reorganization has the potential to further reduce access to services by making it more difficult for clients to enroll in the health and human services programs for which they are eligible. Throughout all of these changes it will be important not to lose sight of the underlying impact of the 2004-05 budget cuts.

This report analyzes the state budget for 2004-05, discusses the impact of the fiscal and policy decisions that were made, and serves as a roadmap to the service restorations that must be considered as the economy and state revenues rebound.

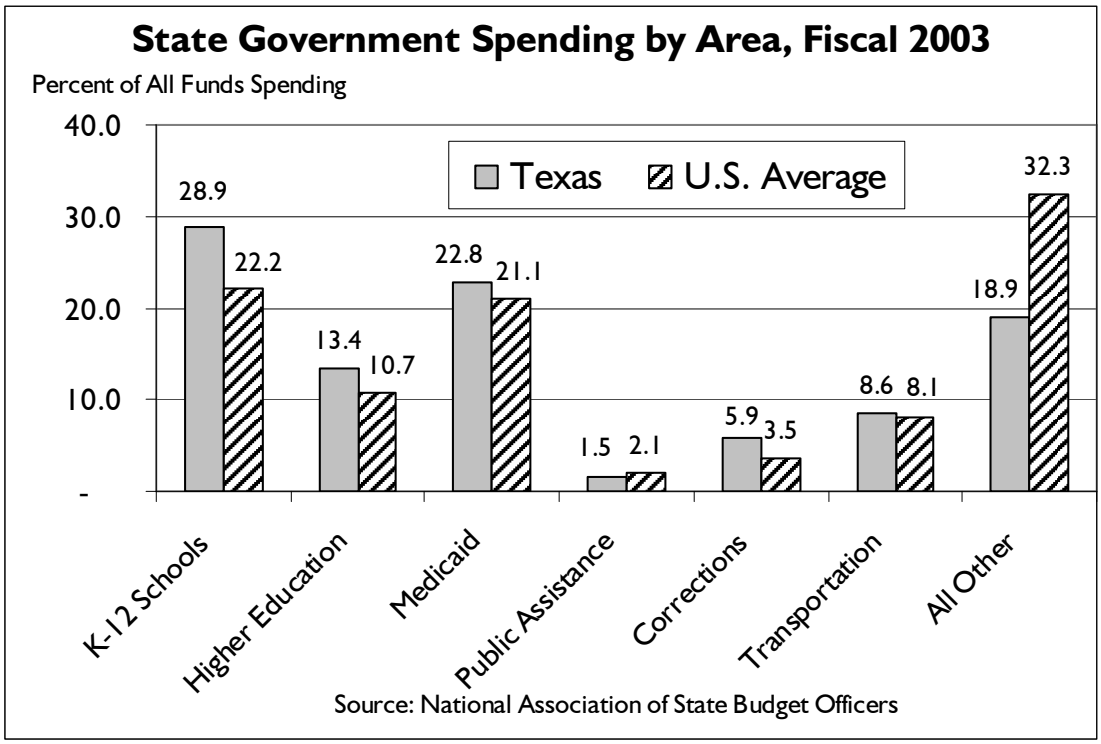
In addition to the analysis of budget and policy changes in the body of the report, we have included useful information in the appendices. Appendix A provides more detailed (i.e., "strategy," or program-level) information about funding changes between 2002-03 and 2004-05. Appendix B focuses on the community-level impact of the state budget, with information about CPPP's ongoing effort to collect budget impact stories and a list of representative media stories about the local impact of budget cuts. Appendix C offers a view of the state budget's impact on children. This "Children's Budget" estimates the funding levels and changes for state programs that serve children.

We hope you find this report useful. For more information contact:

Patrick Bresette (TANF, workforce and child care), bresette@cppp.org
Eva DeLuna Castro (general budget information), deluna.castro@cppp.org
Anne Dunkelberg (health care programs [Medicaid and CHIP]), dunkelberg@cppp.org
Celia Hagert (food and nutrition programs and HHS reorganization), hagert@cppp.org
Dick Lavine (school finance and taxes), lavine@cppp.org

Sources used for this analysis:

- House Bill 1, 78th Regular Legislative Session
- House Bill 2292, 78th Regular Legislative Session
- Legislative Budget Board, Legislative Budget Estimates and *Fiscal Size-Up, 2004-05 Biennium*
- State agency legislative appropriations requests and operating budgets
- State agency annual reports
- Senate Finance Committee, House Appropriations Committee, and state agency documents from the budget process, 78th Regular Legislative Session
- State agency websites



WHERE TEXAS STOOD BEFORE THE 2003 SESSION

Despite notable expansions in health care for local school district employees and children that had been approved in prior legislative sessions, in 2003 the Texas state budget was still small enough to rank the state near the bottom nationally in per-capita terms. "All Funds" spending (state and federal) in fiscal 2002-03 per Texan averaged $2,636, of which $1,383—a little over half—was undedicated state dollars, also known as General Revenue (GR). Comparable data from the National Association of State Budget Officers show Texas ranking 49th in state government spending per capita in 2003; only Nevada spent less. Nationally, per-resident spending by state governments averaged $3,907 in 2003—46 percent more than Texas, at $2,670.[1]

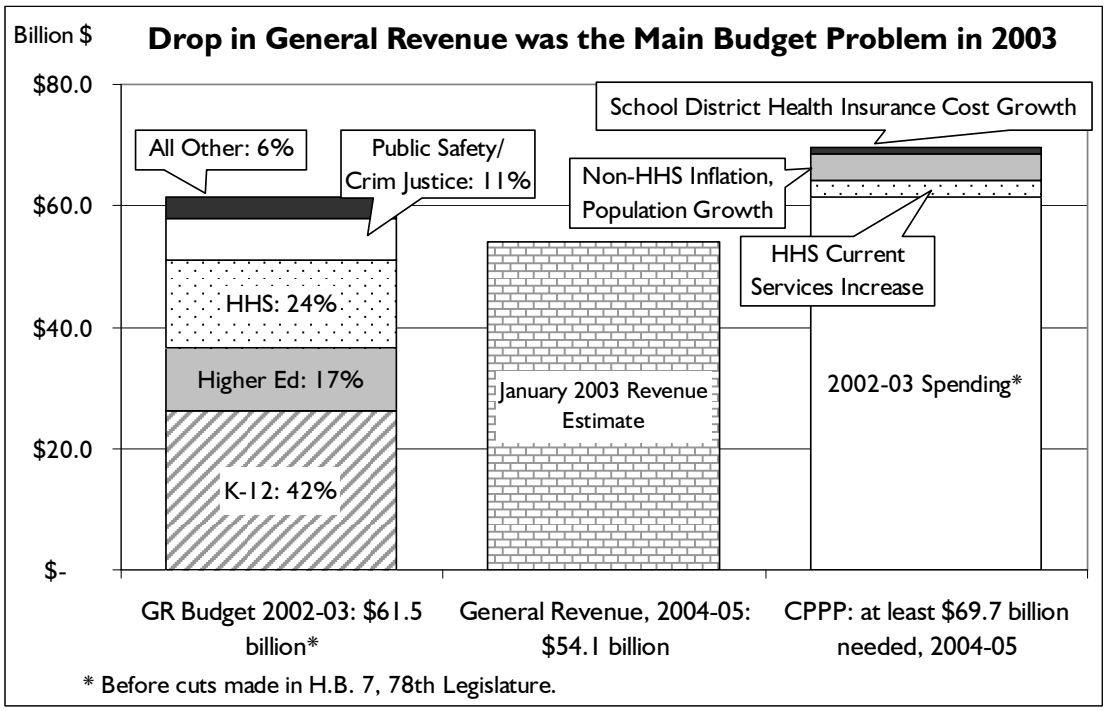
Texas' spending priorities are similar to other states, as seen in the figure above. However, Texas' spending is more concentrated in what most would consider "critical" state services: public K-12 and higher education, Medicaid, corrections, and transportation. Less than one-fifth of state spending fell into the "Other" category in fiscal 2003, compared to almost a third of state spending nationwide.

Per resident, state taxes in Texas amounted to $1,316 in 2003, the lowest tax bill in the nation.

On the revenue side of the picture, Texas ranked near the bottom of states in terms of overall tax effort, whether measured per capita or as a share of personal income—a

[1] National Association of State Budget Officers, Estimated Fiscal 2003 Total Expenditures, Capital Inclusive, from *2002 State Expenditure Report*, November 2003.

common measure of a state's economy. Per resident, state taxes in Texas amounted to $1,316 in 2003, the lowest tax bill in the nation. The U.S. average was $1,884, about 43 percent more than the Texas average.[2]



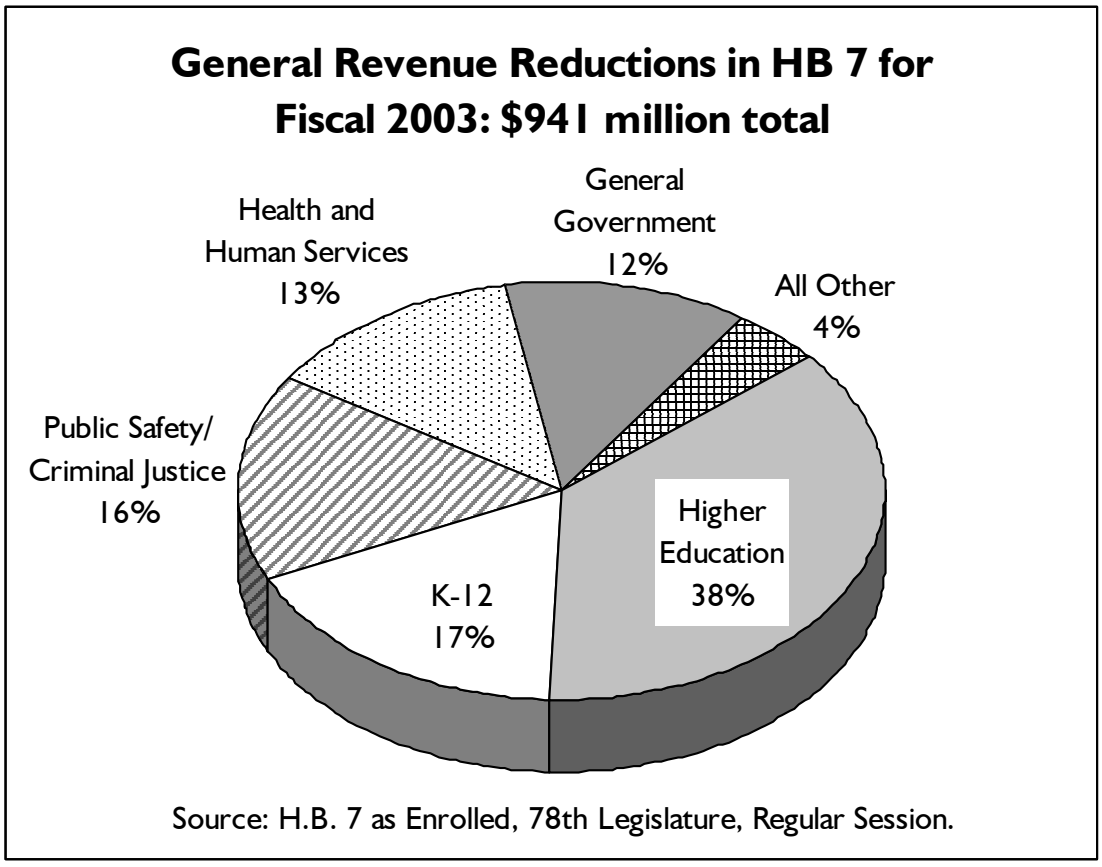
THE CAUSE OF THE 2003 BUDGET PROBLEM

The primary challenge facing state budget writers in 2003 was a drastic drop in the amount of General Revenue that the state expected to receive in 2004-05. The Comptroller's revenue estimate, released in January 2003, projected a $7.4 billion biennial revenue drop—about 12 percent less than the $61.5 billion in General Revenue spending budgeted at the time for 2002-03. The main cause of the decrease in revenue was the same as that plaguing other states: the national economic recession. In Texas' case, tax collections had fallen since 2001 because of lower sales (general and motor vehicle) and franchise tax revenues.

The 78th Legislature also had to deal with a $1.8 billion General Revenue shortfall in fiscal 2003, caused mostly by higher-than-budgeted spending needs in Medicaid and the Children's Health Insurance Program. House Bill 7 made supplemental appropriations from the so-called "Rainy Day Fund" to these programs for 2003, as well as to the Teacher Retirement System for retired teacher health insurance and to the Governor's office for the new Texas Enterprise Fund (state economic development incentives) in 2004-05. But it also cut spending for the rest of fiscal 2003 by $1.4 billion in General Revenue and GR-Dedicated funds, based on plans submitted by state agencies indicating how they could reduce their General Revenue spending by 7 percent. Only the

[2] U.S. Census Bureau, "States Ranked by Total Taxes and Per Capita Amount: 2003," Government Finances Division, http://www.census.gov/govs/statetax/03staxrank.html

Foundation School Program, Medicaid acute care services, and the Children's Health Insurance Program were exempt from these cuts. By function, the agencies receiving the largest General Revenue cuts because of HB 7 were higher education; K-12; public safety and criminal justice; and health and human services agencies.



Many state officials initially insisted that the budget could be written entirely within the $54.1 billion in General Revenue that was originally estimated as available for 2004 and 2005. But in the end, the magnitude of cuts that would have been required was too drastic for legislators to stomach. As it stands, legislators appear to have cut at least $7.5 billion in General Revenue spending out of the state budget, based on CPPP's estimate of "current services" needs and population and inflation-driven growth for 2004-05. (Using the LBB's originally recommended levels of base General Revenue funding, cuts totaled at least $5.7 billion.)[3]

But legislators also found $4.4 billion in additional revenue (from the Rainy Day Fund, federal fiscal relief, and revenue bills) to end up with a 2004-05 spending level of $58.9 billion in General Revenue, about $1.8 billion less than the GR appropriated for 2002-03. Budget writers also resorted to mechanisms such as pushing large payments into the next (2006-07) budget cycle, shifting the costs of state health care programs onto the beneficiaries (mainly state employees and teachers), and "deregulating" public university

[3] This is based on the $64.6 billion in General Revenue spending that the Legislative Budget Board had recommended in January 2003's *Legislative Budget Estimates*, based on state agency budget requests.

tuition to lessen the immediate impact of inadequate General Revenue. (See sidebar for more details.)

In the third called session (September-October 2003), the 78th Legislature approved $405 million in new General Revenue spending, offset by several revenue and savings mechanisms so that the *net* increased spending of General Revenue was only $74 million. Among the increases was $97 million for the Department of Health's new fund for trauma and emergency medical services. Legislators also made several transfers and other method of finance changes during the third called session that increased the amount of money available for allocation under Section 11.28, Article IX, HB 1. This "state fiscal relief" appropriations provision allows the Governor and Legislative Budget Board to develop a plan for spending certain funds unallocated by the 78th Legislature.

HOW THE 2004-05 BUDGET WAS "BALANCED"

Over $7.5 billion in General Revenue cuts to "current" state services: HB 2292 alone made more than $900 million in General Revenue cuts to Medicaid, CHIP, and other health and human services. This $7.5 billion estimate of GR cuts is based on CPPP's January 2003 "current services" estimate of a $15.6 billion General Revenue shortfall for the 2004-05 biennium.

$1.8 billion from various revenue measures: These include extending the Telecommunications Infrastructure Fund to raise another $250 million; a tax amnesty program that had raised $379 million as of May 2004; and $102 million for K-12 schools from the state's entry into a multi-state lottery.

$1.4 billion from fiscal 2003 cuts: HB 7 made $941 million in General Revenue reductions and about $500 million in net GR-dedicated funding cuts for fiscal 2003. HB 7 also includes various method of finance changes to "free up" General Revenue.

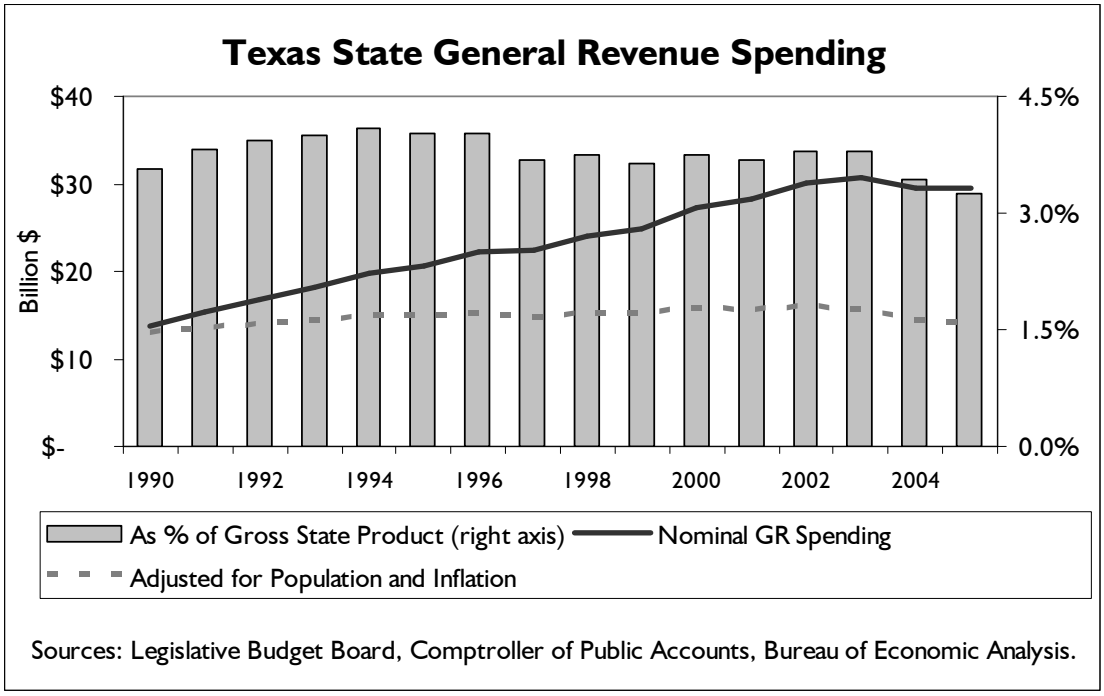
Up to $1.3 billion in federal fiscal relief: In May 2003, Congress passed the Jobs and Growth Tax Reconciliation Act of 2003, which included $20 billion in federal fiscal relief through higher Medicaid match rates (a 2.95 percent boost, in effect from April 2003 to June 2004) and flexible grants to state governments. Of Texas' $1.3 billion share, about $840 million was used to balance the budget and to make HHS restorations (primarily to HHS provider rates and to community care).

$1.3 billion from the Rainy Day Fund: Almost $450 million was used to address the fiscal 2003 shortfall in Medicaid, CHIP, and other state programs. Another $811 million was used for retired teachers' health insurance and to create the $295-million Texas Enterprise Fund for state economic development incentives.

At least $1.2 billion in postponed payments and other accounting mechanisms: These include shifting a Foundation School Program payment of $800 million into the next (2006-07) budget cycle; deferrals of payments to the Employees Retirement System and Teacher Retirement System (TRS); converting Medicaid acute care services to a cash method of accounting; and a one-month deferral of MHMR payments to community centers.

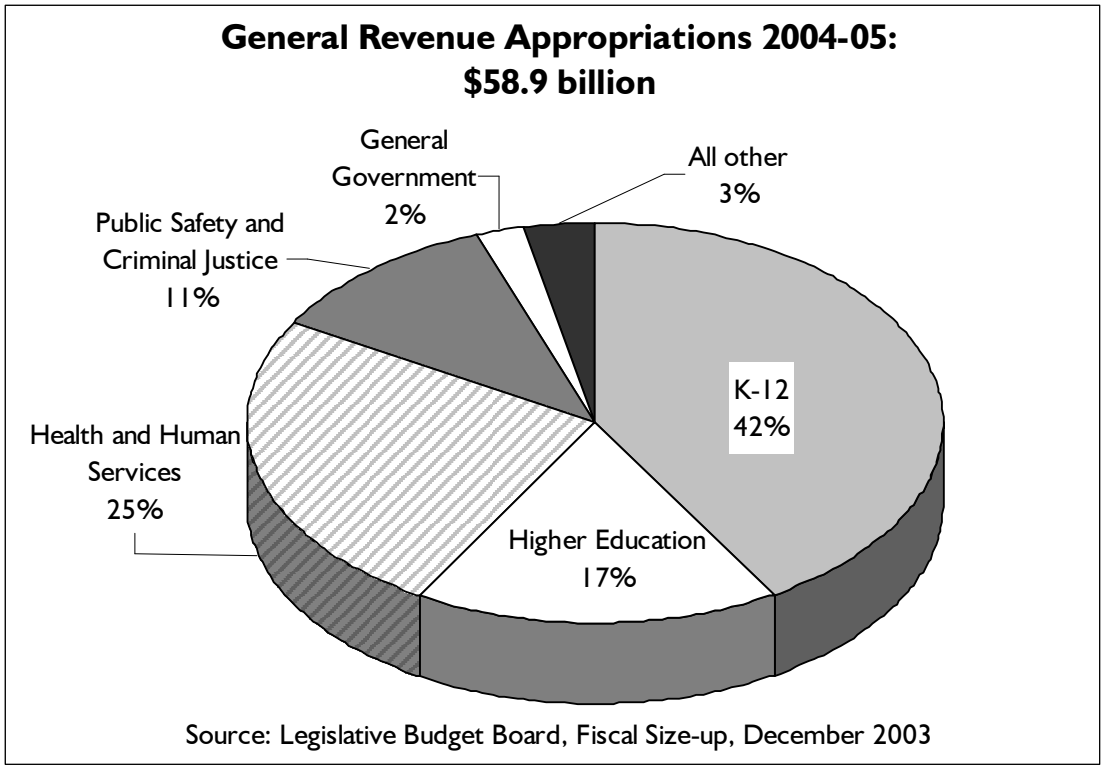
At least $1 billion in cost-shifting to program beneficiaries or other levels of government: Examples include $790 million in new co-pays, premiums, and other out-of-pocket costs for people covered by state-subsidized health insurance; $203 million that local school districts will have to pay in to TRS for retiree insurance.

As calculated by the Legislative Budget Board, total General Revenue spending will decrease by 4.0 percent in 2004 and then increase slightly, by 0.1 percent, in 2005. Adjusting for population and inflation changes expected in the biennium (see the dotted line in the following chart), the real effect will be a 7.3 percent drop in General Revenue spending in 2004, followed by another drop of 3.7 percent in 2005. Per capita, state spending is slated to decrease in every area of state government between 2003 and 2005.



Sources: Legislative Budget Board, Comptroller of Public Accounts, Bureau of Economic Analysis.

By function of government, the distribution of General Revenue spending will remain more or less unchanged. K-12 education—most of which is appropriations to the Texas Education Agency, but also the Teacher Retirement System, the State Board for Educator Certification, the School for the Deaf, and the School for the Blind and Visually Impaired—is budgeted to receive 43 percent of all General Revenue in 2004-05, up slightly from 42 percent in 2002-03. Health and human services agencies' share of General Revenue will also increase slightly, from 24 percent to 25 percent. Higher education's share will remain the same (16 percent), as will public safety/criminal justice's share (11 percent), general government's (2 percent), and all other (3 percent). ("All Other" includes the judiciary; natural resources; business/economic development; regulatory; and legislative agencies.)



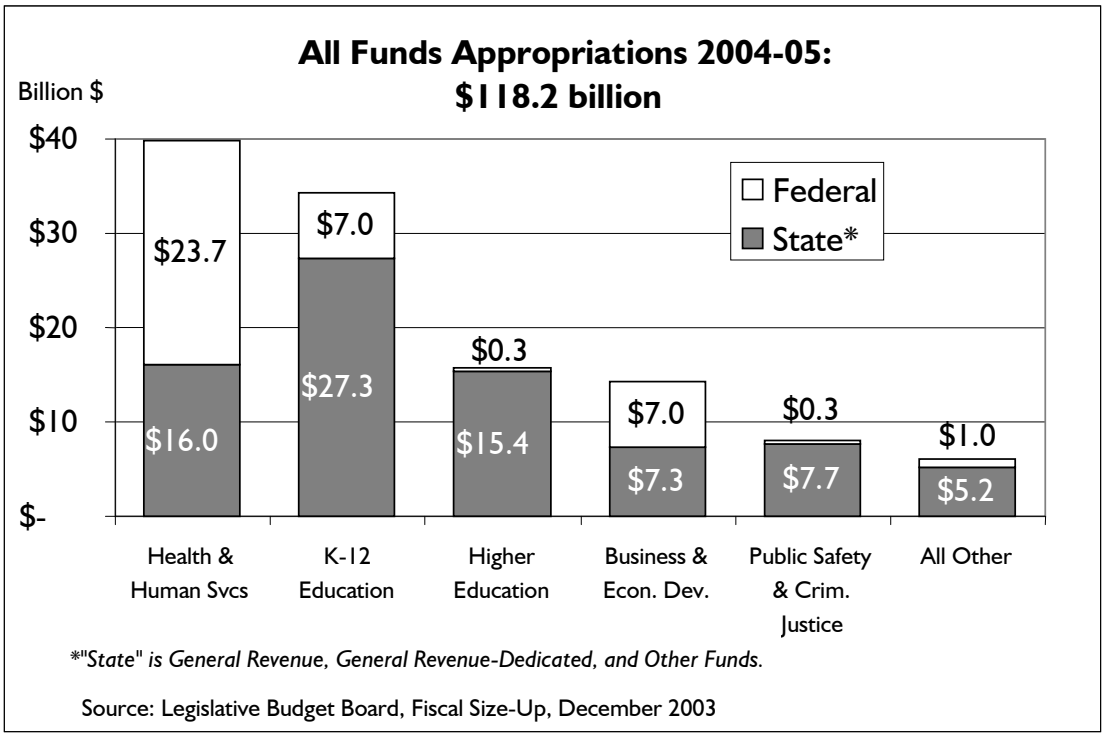
While General Revenue appropriations for 2004-05 were $1.8 billion lower than 2002-03 spending, appropriations in the category of funds known as "General Revenue – Dedicated" increased by $558 million for 2004-05. There are about 200 dedicated accounts imbedded in the state budget; examples include the State Parks account and accounts which receive college tuition revenues. Revenues that are dedicated under state law for a specified purpose can in most cases be appropriated by the Legislature only for that purpose.

Appropriations of "other" funds for 2004-05 were increased by $1.5 billion compared to 2002-03, so that total non-federal spending (General Revenue, General Revenue – Dedicated, and Other) grew slightly by $284 million for a net 0.4 percent increase in non-federal state budget appropriations (unadjusted for inflation or population growth). In contrast, federal fund appropriations for 2004-05 were $2.24 billion greater than for 2002-03, a six percent increase that accounted for 89 percent of the All Funds increase in state appropriations for 2004-05.

When all funds (General Revenue, General Revenue-Dedicated, Federal, and Other, such as Fund 6, for state highways) are taken into account, the state's budget priorities look a little different than the GR-only analysis. Health and human services becomes the single largest function of state government, as significant amounts of federal matching funds are drawn down by the General Revenue dollars spent on these programs. For most of federal fiscal year 2004, Texas' Medicaid services will be 63.17 percent federally funded due to a temporary increase in the federal share (leaving 36.83 percent for the state's share). Another way to look at this: each state dollar spent on Medicaid draws down $1.71 in federal funds. CHIP's match rate during 2004 is 72.15 percent federal;

each state dollar spent on CHIP draws down $2.59 in federal funds. For federal fiscal 2005, the federal share of most Texas Medicaid costs will drop to 60.87 percent; for CHIP, it will rise to 72.61 percent. Because of the large federal matching contribution to Medicaid and CHIP, Article II appropriations account for nearly $1 billion of the total increase in federal funding in the 2004-05 budget.

In other functions of state government, federal funds also play a prominent part. But the largest federal revenue sources in these areas often do not require a state match: for example, funding for lunch and breakfast programs for low-income students, special education, and Title I in K-12 schools is based on the number of eligible or participating children. Federal highway funding and job training and employment services in business and economic development are also formula-driven; some of the federal child care funds also require a match.



*"*State*" *is General Revenue, General Revenue-Dedicated, and Other Funds.*

Source: Legislative Budget Board, Fiscal Size-Up, December 2003

THE 2004-05 BUDGET CHANGES AND THEIR IMPACT ON TEXANS

The following sections of this report detail some of the most notable changes in General Revenue and federal spending in the Texas state budget, and the impact of these changes on low-income Texans. The areas selected for detailed analysis represent the major divisions of the state budget, and also contain programs and services with special importance to low-and moderate income Texans.

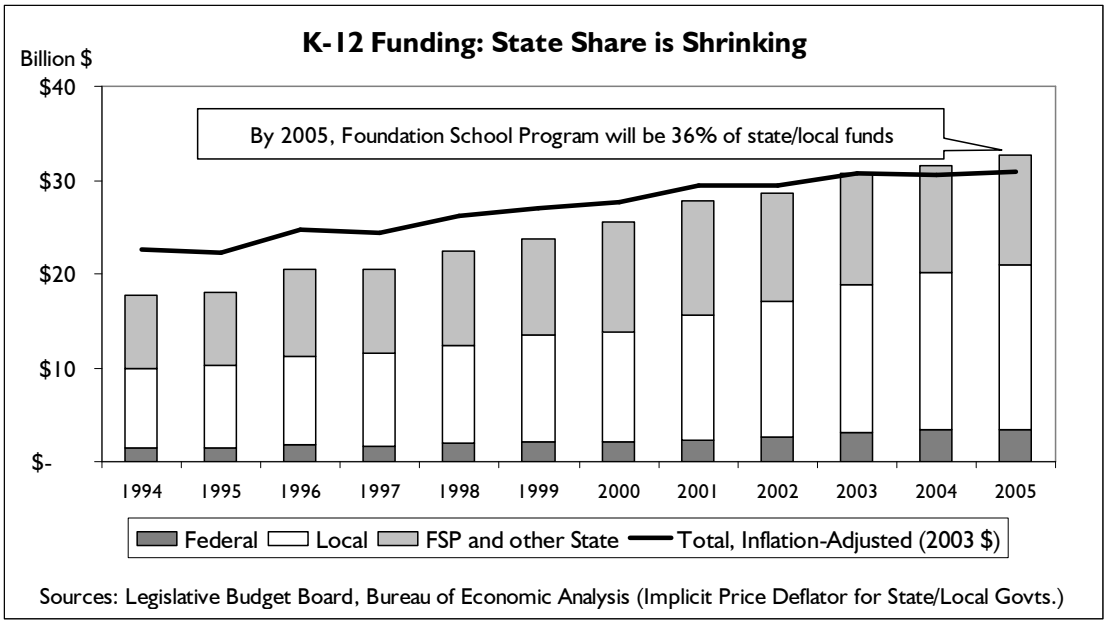
Sections:

Public K-12 Education
Higher Education
Health and Human Services and Selected Workforce Development Programs

- *Medicaid and Children's Health Insurance Program (CHIP) Overview*
- *Medicaid Details*
- *CHIP Details*
- *Other Medicaid and CHIP Cost-Containment Measures*
- *Mental Health and Mental Retardation System Cuts*
- *Public Health Program Funding*
- *Temporary Assistance for Needy Families (TANF)*
- *Food Stamps and Child Nutrition Programs*
- *Child Protective Services and Other Child Welfare Programs*

Child Care
Job Training
State Worker Layoffs

- *Staffing Cuts from HHS Reorganization and Consolidation*



PUBLIC K-12 EDUCATION

2002-2003 General Revenue spent: $25.7 billion
2004-2005 General Revenue budgeted: $24.4 billion
Funding Change: $1 billion less (a 4% reduction)

The 2004-05 state budget allocates $24.4 billion in General Revenue to K-12 education: the Texas Education Agency (TEA), the Teacher Retirement System (TRS), the State Board for Educator Certification, the School for the Blind and Visually Impaired, and the School for the Deaf. This is roughly $1.1 billion less than the amount of General Revenue that was spent by these agencies in the 2002-03 budget cycle—a 4.2 percent reduction in General Revenue support. However, the actual level of spending will not drop by that amount because much of the difference is due to an $800 million deferral of state aid that will go to school districts a few weeks later than usual, at the beginning of the 2006-07 budget cycle.

Appropriations to TEA and TRS make up 99.6 percent of General Revenue spending on public education, and it is in these two agencies that most of the General Revenue reductions were made. TEA appropriations include the Foundation School Program, the main vehicle through which state aid flows to over 4 million public school students (about 52 percent of whom are economically disadvantaged) enrolled in 1,041 school districts and more than 180 charter schools. TRS provides health insurance, pensions, and other benefits to almost 847,000 active members and 201,000 retirees; the lion's share of TRS membership is local school district employees and retirees, with the rest employed by higher education institutions or TEA.

TEA's General Revenue budget cuts include the following:

- Layoffs of 94 employees (11 percent of TEA staff).

- New textbook funding that will be at least $121 million lower than in 2002-03.[4] This means that at least $219 million worth of textbook purchases will have to be delayed until fiscal 2006 or later, for classes such as English as a Second Language, career and technology education, and technology applications. In May 2004, legislators were informed that $75 million in estimated new funding for textbook purchases would actually turn out to be as low as $8 million, resulting in a $67 million shortfall affecting mostly the purchase of high school biology textbooks and ESL textbooks for elementary school students.
- Reductions for the Student Success Initiative teacher training (a $65 million cut to this program that had been created in response to concerns about school children being "socially promoted"); Disciplinary Alternative Education ($26 million cut); After-School Initiative (General Revenue for this was totally eliminated—$25 million); and Kindergarten and Pre-K Grants ($15 million cut). The Reading/Math/Science Initiative experienced a $15 million All-Funds reduction.
- The weight that is used to determine how much school districts will receive for Career and Technology education (what many people refer to as "Voc Ed") was lowered from 1.37 to 1.35. Also, fewer classes will be designated as eligible for the weight.

Telecommunications Infrastructure Fund: Another public education funding change made by legislators in response to General Revenue shortfalls involves the use of the Telecommunications Infrastructure Fund (TIF). The TIF, which was scheduled to expire once it had raised $1.5 billion, was originally created to provide $150 million annually in grants and loans to K-12 schools, institutions of higher education, libraries, and hospitals to improve distance learning, Internet connectivity and other related technology. The 2003 legislature extended the TIF so that it could generate another $250 million, and changed the allowable uses of the TIF so that it could fund the $30-per-student Technology Allotment to school districts for the purchase of electronic textbooks and other electronic instructional materials.

Lottery: The state lottery, which is estimated to raise $842 million for public schools in 2004 and $846 million in 2005 (less than 3 percent, or one school week's worth, of state/local K-12 spending), will expand somewhat due to the 2003 legislature's approval of Texas' entry into a multi-state game (Mega Millions). This change is expected to generate about $102 million for the biennium in funding for K-12 schools.

Local school district health insurance benefits: In 2001, the legislature passed HB 3343, which had several features aimed at improving the health care benefits available to school teachers and other employees of local school districts. Prior to HB 3343, health benefits varied widely by district, with some able to offer subsidized dependent coverage that included vision and dental care, while others barely covered the employee's own health insurance premium. HB 3343 was designed to make health insurance more available to school employees statewide, particularly those employed in small or rural districts.

[4] HB 1 also authorizes the purchase of state textbooks through the Master Lease Purchase Program, if this is needed to manage cash flow in fiscal 2004. This would reduce state cash outlays by $200 million.

Known as TRS-Active Care, the new benefits included:

- A monthly allotment for health insurance of $75 per participating employee paid for out of the Foundation School Program;
- A mandatory school district contribution of at least $150 per month for each participating employee's health insurance coverage; and
- A $1,000 "pass-through," or supplemental payment, that would go to eligible school district employees to help pay for health care.

HB 3343 was designed to phase in the new health benefits over several years so that small districts would be covered by TRS Active Care first, with larger districts joining later. However, when the magnitude of the state's 2003 budget shortfall started to become apparent, serious doubts emerged about whether TRS Active Care could be implemented as originally designed.

In the end, the 2003 legislature decided to make several changes to reduce the 2004-05 costs of HB 3343. First and foremost, the $1,000 pass-through was slashed to $500 for full-time employees and to $250 for part-time staff. Second, some local school district employees were made ineligible for the pass-through. In some cases, school districts made up for the reduced pass-through by continuing to pay for it out of local funds; in other areas, school employees basically took a cut in pay.

The 2003 legislature also had to figure out how to keep TRS-Care, the health insurance program for school district retirees, solvent for another two years. Part of the solution was the use of $516 million from the "Rainy Day" fund for TRS-Care costs and more restrictive standards and a waiting period for TRS-Care eligibility. Legislators also enacted various other finance changes, such as raising the state contribution rate from 0.5 to 1.0 percent; raising active employees' contribution rate from 0.25 to 0.5 percent; requiring a new 30 percent co-pay from retirees; and, for the first time, requiring school districts to contribute an amount ranging from 0.25 to 0.75 percent of their payroll for TRS-Care costs.

What is "Robin Hood"?

School districts in Texas vary widely in their ability to raise revenue because of the vast disparity in local property wealth among districts. The state helps reduce the effect of this disparity by guaranteeing that each district will receive a certain minimum amount per student for each penny of local tax effort. Districts that cannot raise this amount from property taxes receive state aid. Districts that generate significantly more must share the excess revenue with the state or with lower-wealth districts.

Without Robin Hood, 88 percent of the students would be supported by 74 percent of the property wealth, while 12 percent of the students would be supported by 26 percent of the property wealth. Robin Hood does not totally equalize resources, but it does improve the distribution.

Unresolved: how to "reform" Texas school finance? With more and more local school districts approaching the legal cap on property taxes, the 78th Legislature felt pressured to come up with a way to increase the state's share of public school funding, or at the very least, to do away with the "Robin Hood" system of property tax revenue recapture. However, the lack of General Revenue meant that the state's most pressing budgetary issue—how to adequately and equitably pay for public schools—could not be resolved

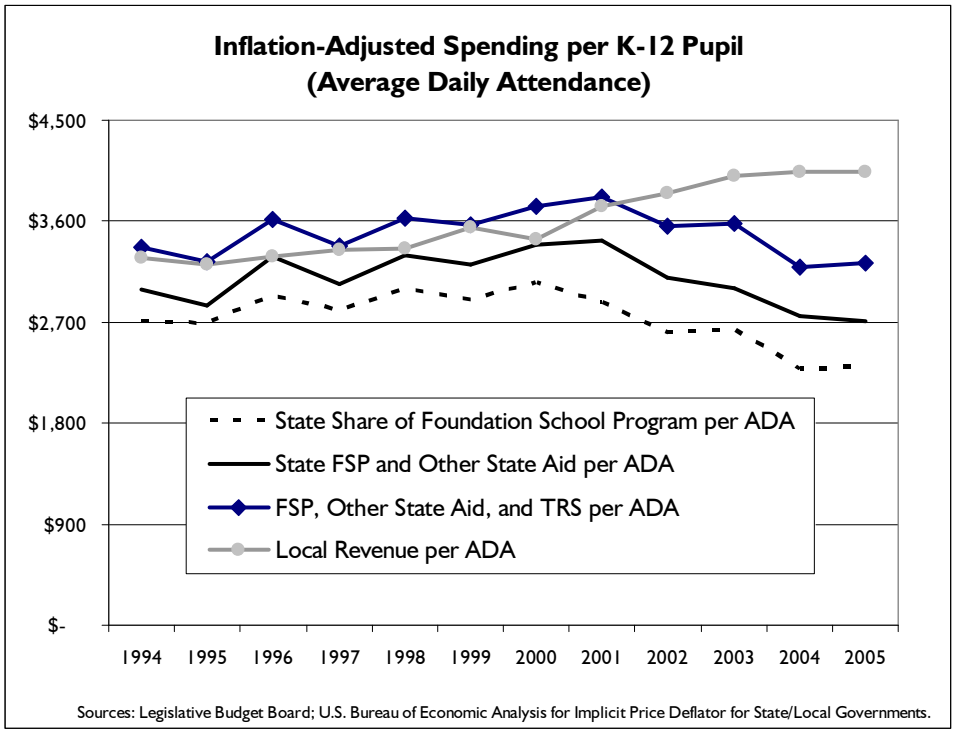
without also tackling major state tax reform. Unwilling to take this step, the 78th Legislature instead approved legislation that would repeal the existing school finance system on September 1, 2004, if a special session on school finance created a new way for state aid to be distributed to school districts.[5]

The legislature also found some short-term ways to provide additional funding to school districts: as part of the 2004-05 budget, all school districts will receive $110 more per student, based on weighted average daily attendance. The total state cost of this is $1.2 billion, but $800 million of this is being paid in fiscal 2006, as noted earlier.

The lack of General Revenue meant that the state's most pressing budgetary issue—how to adequately and equitably pay for public schools—could not be resolved without also tackling major state tax reform.

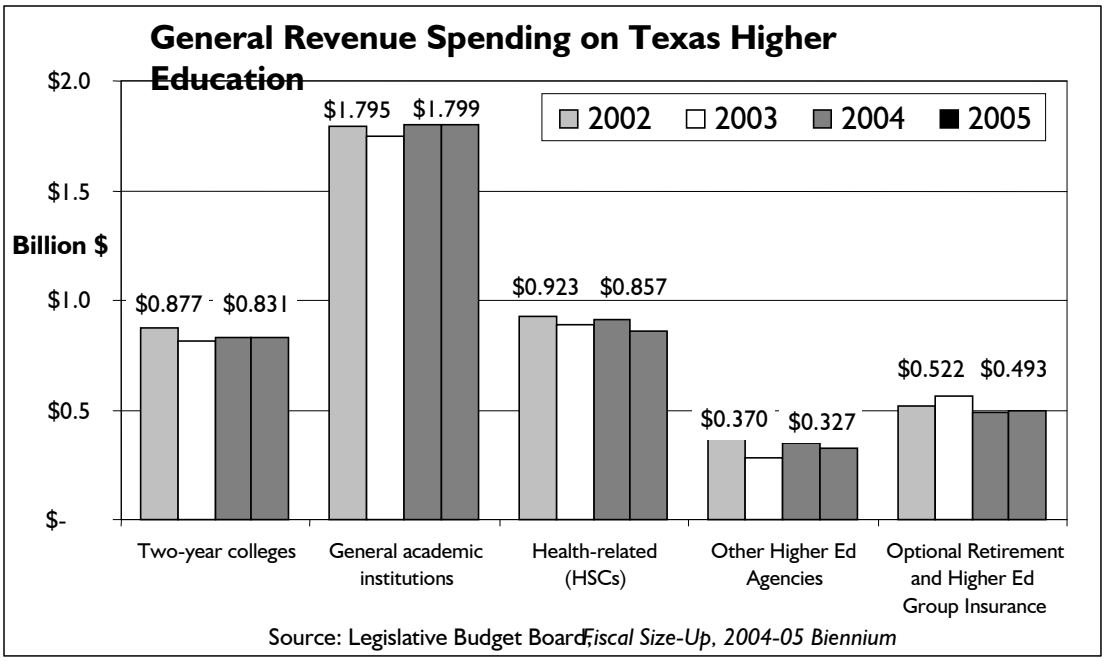
K-12 funding overall (All Funds) will increase 3.4 percent due to new federal funds for No Child Left Behind and special education, and increased "recapture" from property-rich school districts (budgeted at $999.8 million in 2004, and $1.141 billion in 2005). The long-term trend of increased K-12 reliance on local and federal funding can be seen in the graph below.

As this report was being finished, legislators had met for one unsuccessful special session on school finance (April 20-May 17, 2004), and the governor was considering calling for another school finance session later in the summer or fall of 2004. The epilogue to this report includes some detail about the outcome of the school finance session and other recent budget actions.



Sources: Legislative Budget Board; U.S. Bureau of Economic Analysis for Implicit Price Deflator for State/Local Governments.

[5] See HB 3459, 78th Regular Session.



Source: Legislative Budget Board, *Fiscal Size-Up, 2004-05 Biennium*

HIGHER EDUCATION

2002-2003 General Revenue spent: $10.0 billion
2004-2005 General Revenue budgeted: $9.98 billion
Funding Change: $259 million less (a 2.5% reduction)

Higher education overall was appropriated $9.975 billion in General Revenue for 2004-05—about $259 million, or 2.5 percent less, than General Revenue spent in 2002-03. This decrease is smaller than the biennial General Revenue reductions in Natural Resources agencies (16.2 percent), the Legislature (9.7 percent), the Judiciary (4.5 percent), K-12 education (4.2 percent), Public Safety and Criminal Justice (4.2 percent), and General Government (3.5 percent).

But, because of the need to make cuts to 2003 spending (the fiscal year that was in progress when the 78th Legislature met), and the decision to exclude K-12, Medicaid, and CHIP from these cuts, many institutions of higher education felt the impact of state budget cuts much earlier than other state-supported programs. In particular, public community and junior colleges, four-year institutions, health related institutions, and other higher-education-related agencies had to act immediately to reduce General Revenue spending in the Spring and Summer 2003 semesters, which resulted in hiring freezes, cancellation of summer school classes and capital spending plans, and other cost-cutting measures.

For 2004-05, much of the General Revenue reductions in higher education will take the form of cuts to health insurance benefits for university and college employees. Eligibility for state-funded health insurance for active and retired employees was made more restrictive. State support for health insurance coverage was trimmed: new employees now have a 90-day waiting period before coverage takes effect; employees and retirees have

higher co-pays and deductibles; and the state's contribution for part-time employees has been reduced.

Tuition Deregulation: To make up for inadequate General Revenue at the same time that enrollment continues to rise—by 4 percent for state universities and 1.6 percent for community colleges—public universities' governing boards were given the authority by the 78th Legislature to raise tuition, with tuition rates differing based on program and course level. A certain percentage of revenue raised from tuition hikes must be set aside for financial aid. About 40 percent of universities have already approved tuition increases. For example, tuition at the University of Texas at Austin is going up 13 percent in the Spring 2004 semester and an additional 13 percent in Fall 2004; University of Houston tuition has increased by 12.3 percent in Spring 2004; and Texas A&M approved a 21 percent increase for the Fall 2004 semester.

For 2004-05, much of the General Revenue reductions in higher education will take the form of cuts to health insurance benefits for university and college employees.

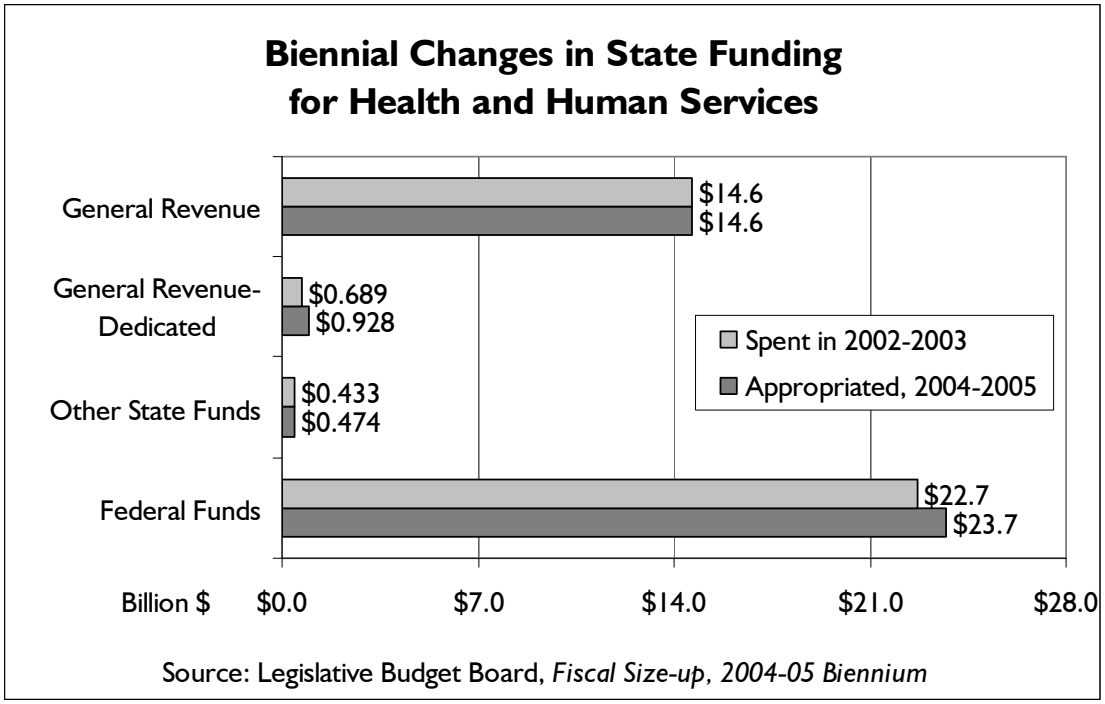
Community College Funding

The legislature appropriated $1.59 billion through community and technical college formula funding for the 2004-05 biennium, a decrease of $67.9 million from the previous biennium. At the same time contact[6] hours are projected to grow 13.6 percent and enrollment growth for the last biennium was 5.7 percent. Compared to 2002-03 when community colleges received $7.71 per contact hour, the 2004-05 level of $6.43 per contact hour is a 16.6 percent decrease.

Selected Community College Appropriations
(in million $)

Source	2002-03	2004-05	Diff.	Percent Change
Formula Funds	$1,569.2	$1,501.3	-$67.9	-4.3%
Non-Formula Items	10.3	9.8	-0.5	-4.5
Enrollment Growth & New Campuses	11.9	18.0	6.1	51.2
Group Insurance	253.4	220.8	-32.6	-12.9

[6] Contact hours reflect actual "seat time" or class hours by students as opposed to credit hours



Source: Legislative Budget Board, *Fiscal Size-up, 2004-05 Biennium*

HEALTH AND HUMAN SERVICES

2002-2003 General Revenue spent: $14.6 billion
2004-2005 General Revenue budgeted: $14.6 billion
Funding Change: $6.8 million less (a reduction of less than 0.1%)

Medicaid and CHIP

For 2004 and 2005, legislators appropriated $29.4 billion in total funds for the Texas Medicaid program, including $11.3 billion in General Revenue (almost 80 percent of all HHS General Revenue funding). Appropriated General Revenue for all Medicaid-funded services is only $434 million higher (about 4 percent) for the biennium, compared to 2002-03 General Revenue spending on Medicaid. In contrast, the National Association of State Budget Officers estimates that nationwide, state governments' non-federal spending for Medicaid will increase by 4.6 percent in 2004 alone. For 2005, the increase in non-federal funds for Medicaid could average 12 percent, based on states' budget recommendations compiled by NASBO.[7]

CHIP funding for 2004-05 is $808 million in total, or $287 million in General Revenue. This is a General Revenue decrease of $214 million, or 43 percent, compared to 2002-03.[8]

[7] National Association of State Budget Officers, *The Fiscal Survey of States: April 2004*, p. 5.
[8] Total and General Revenue funding amounts for Medicaid and CHIP are from the Legislative Budget Board, *Fiscal Size-Up, 2004-05 Biennium*, p. 121.

Several significant policy changes to Texas Medicaid and CHIP were initiated by the legislative committees (Senate Finance and House Appropriations) who wrote Texas' state budget for 2004 and 2005. This was a departure from the usual process; historically, laws enacting major health and human services policy changes have originated in the committees with jurisdiction over those policy areas. In the 78th Legislature, budget committees first identified the program cuts they wished to enact to reduce appropriations, and then incorporated all changes in statute needed to make these cuts into an omnibus bill, HB 2292, which also reorganized state health and human service agencies.

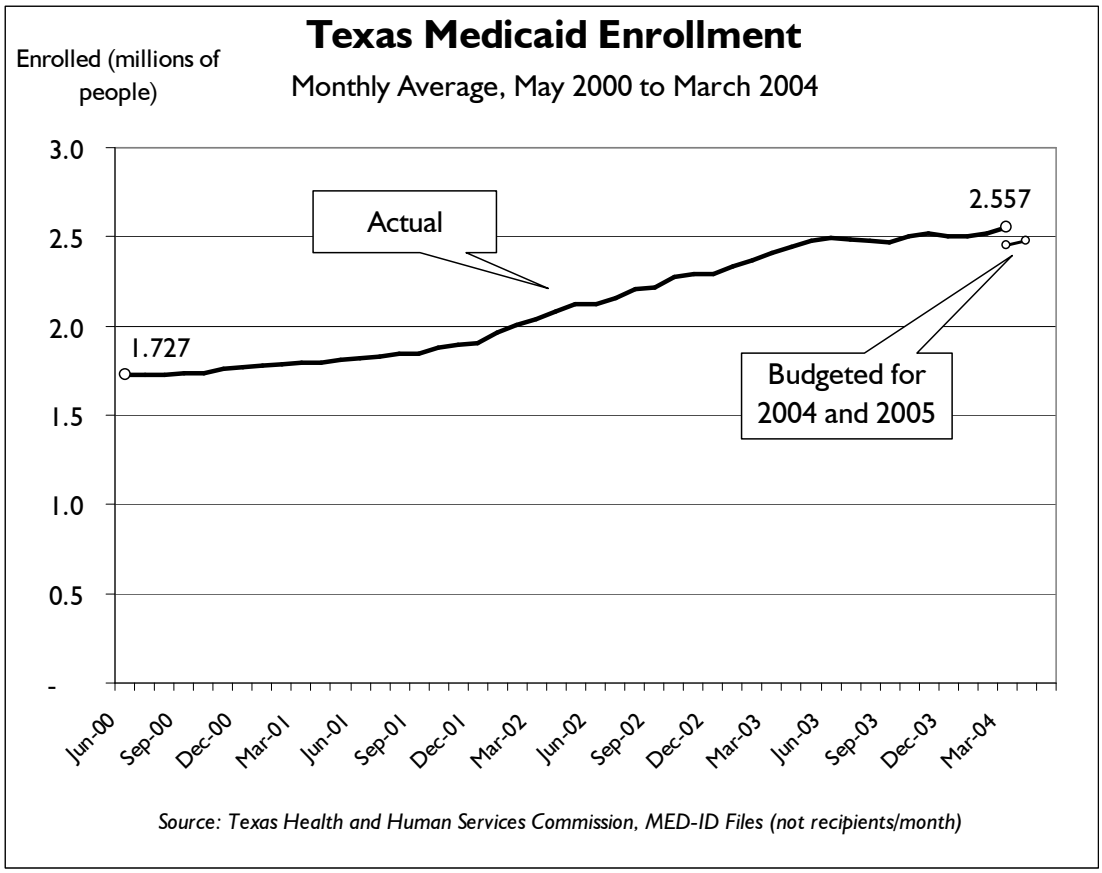
The make-up of the final cuts is related in part to how state agencies presented their revised, "building block" budget proposals, which had to reflect a 12.5 percent reduction in state General Revenue spending compared to 2002-03. After several incremental restorations made since the budget was adopted, the major cuts to Medicaid and CHIP eligibility, benefits, and rates are projected to reduce total spending for the biennium by about $1.6 billion ($620 million General Revenue). For Medicaid and CHIP, agency officials presented most of the options for reducing Medicaid spending that are allowed under federal law.[9] In drafting the final budget lawmakers rejected certain cuts completely (e.g., cutting off community care and nursing home care for tens of thousands of elderly or disabled Texans; eliminating prescription drug coverage for all Medicaid aged, disabled, and adult clients) but approved other cuts, in some cases without public analysis or discussion of the implications. Major Medicaid and CHIP program cuts and other changes resulting from the state budget and HB 2292 are described below.

House budget writers dramatically lowered caseload assumptions to reduce Medicaid state General Revenue funding by $524 million.

Medicaid Caseload Assumptions

When state Medicaid officials presented their budget requests for 2004 and 2005 to the budget committees in February 2003, they projected that without cuts, program caseloads would grow by 10.8 percent in 2004 and 6.9 percent in 2005, growing from over 2.4 million in 2003 to 2.95 million in 2005. However, in April 2003, House budget writers dramatically lowered caseload assumptions to reduce Medicaid state General Revenue funding by $524 million (funds which were then allocated to public education). These lower caseload assumptions were adopted by the conference committee on HB 1 when writing the final version of the budget bill.

[9] Services of Intermediate Care Facilities for the mentally retarded (ICF-MRs) are optional under federal Medicaid law, but were never proposed for elimination.



The final caseload assumptions project an average 2004 caseload that is lower than actual Medicaid enrollment in fiscal 2003, and only a 1.1 percent increase from 2004 to 2005. However, by October 2003 caseloads already exceeded the projected average for the 2004 fiscal year by more than 50,000 clients (budgeted enrollment in HB 1 is 2.45 million, compared to actual enrollment of more than 2.5 million).

Part of the rationale for the sharply reduced caseload growth assumptions can be found in the changes made to children's Medicaid policies, described below. However, the budgeted caseloads assume a deeper caseload growth reduction for children than was projected for these policy changes, as well as extremely low growth in adult caseloads. State officials have indicated they have not approved the use of about $500 million in available state funds—most of which is federal Medicaid fiscal relief to states enacted in May 2003—to undo some of the cuts to Medicaid primarily due to their concerns that the budget caseloads assumptions for 2004 and 2005 will prove too low, and the funds will be needed to support the actual, higher caseloads.

Medicaid Eligibility Cuts

Medicaid maternity coverage for low-income women: Medicaid maternity benefits cover prenatal care, delivery, and postpartum care for 60 days after delivery. Before the cuts made by the 2003 Legislature, Texas covered women up to 185 percent of the federal poverty level (FPL), about $23,110 in annual income for a family of two in

2004.[10] In February 2003 the Texas Health and Human Services Commission (HHSC) projected that a total monthly average of 113,326 women would have been covered in 2005 using the income limit of 185 percent of poverty.

The 2004-2005 budget reduced Medicaid maternity coverage to 158 percent of the poverty level (about $19,730 in annual income for two people), which was projected to reduce enrollment by about 8,144 women per month. However, because maternity coverage is for less than a full year, the total number of affected women in a year will actually be higher than this number. A loss of about $110 million in reimbursement for Texas health care providers over the two-year budget was expected.[11]

The 2004-2005 budget reduced Medicaid maternity coverage to 158 percent of the poverty level (about $19,730 in annual income for two people), which was projected to reduce enrollment by about 8,144 women per month.

These numbers (both caseload and dollar loss) do not include the impact that these reductions in coverage will have on women served by "Emergency Medicaid," which covers the deliveries of legal and undocumented immigrant women who are not eligible for full-service Medicaid. Because the income limits for full-service Medicaid also serve as the income limits for maternity coverage in Emergency Medicaid, many more women will be affected and more uncompensated care created for health care providers than the numbers above indicate.

As this report went to print, HHSC had proposed restoring maternity coverage to 185 percent of the poverty line in fiscal 2005, allocating $20 million in General Revenues for that purpose.

Medically Needy "spend-down" program (temporary coverage for families with high medical bills): The Medically Needy "spend-down" program gives full Medicaid benefits on a month-to-month basis to certain families with large medical bills. Prior to fiscal 2004, Texas' program included individuals in certain families with dependent children—families which had large medical bills that, when subtracted from earnings, reduced their income to 22 to 31 percent of the poverty level ($395 per month in 2003 for a working parent with two children, or $275 per month for a non-working parent of two).

The budget eliminated this coverage for adults with dependent children (retaining the coverage for the children themselves and for pregnant women), resulting in no coverage by 2005 for a monthly average of 9,328 "Medically Needy" adults. Like maternity benefits, Medically Needy is temporary month-to-month coverage, so the total number of individuals affected by the program cut in a year will be much larger than the monthly average. Also, as in the case of maternity benefits, these numbers do not include the additional impact on coverage under "Emergency Medicaid." The elimination of spend-down in full-service Medicaid is mirrored in emergency coverage, so there is no longer a

[10] References to the poverty line specifically mean the "2004 HHS Poverty Guidelines: 48 Contiguous States and D.C." as printed in the *Federal Register*, vol. 69, no. 30, February 13, 2004, pp. 7336-7338, unless otherwise noted.

[11] All estimates of cuts are from the Texas Health and Human Services Commission, House Appropriations Committee, or Senate Finance Committee unless otherwise noted.

spend-down for emergency services provided to legal and undocumented immigrant parents; thus, more individuals will be affected and more uncompensated care created for health care providers than is reflected in the HHSC estimates. This program cut is projected to reduce Medicaid payments by over $115 million in 2004-05.

Loss of TANF parents' Medicaid under new work sanctions: On September 1, 2003, 19,484 adults and 41,011 children in TANF families—15 percent of the entire caseload—lost all of their cash assistance benefits as a result of a new full-family sanction policy. Most of the adults in these families (17,105 parents) also lost their Medicaid coverage. Disputed Texas Workforce Commission (TWC) rules could terminate Medicaid benefits to another 2,000 or so adults (a federal court recently issued a final order striking down these sanctions, and TWC has appealed the ruling.)[12] The impact the new sanctions will have on Medicaid caseloads over the long term is not clear, since parents in theory should be able to come into compliance with program rules or otherwise regain Medicaid coverage within a month or two. While HHSC has not provided either a projection of the impact of the sanctions on Medicaid spending or monthly updates on the numbers of adults losing Medicaid, a monthly reduction of 17,100 clients throughout the biennium would reduce Medicaid spending by $92.8 million in state and federal funds.

On September 1, 2003, 19,484 adults and 41,011 children in TANF families—15 percent of the entire caseload—lost all of their cash assistance benefits as a result of a new full-family sanction policy.

Medicaid Service and Benefit Cuts

Medicaid Community Care services for elderly and disabled adults: State budget writers initially agreed to cut the hours of support services (such as assistance in getting out of bed, dressing, bathing, using the toilet) for about 100,000 elderly or disabled Texans who were being provided help to remain at home rather than live in a nursing home. Under HB 1, almost all clients—all but about 1,800 of the fiscal 2003 enrollment of 101,500—would have had hours of service cut by 15 percent. This policy change would have affected enrollees in three Medicaid-funded programs: Frail Elderly (re-named the Community Attendant Services Program in HB 2292), Primary Home Care, and Day Activities and Health Services (adult day care). However, state leaders announced in August 2003 that $36.4 million in General Revenue would be used to avoid reducing the hours of community care in 2004 only. No funding was allocated at that time to maintain service levels in fiscal 2005.

The funding appropriated in HB 1 for these Medicaid community care entitlement programs in 2005 was apparently inadequate to support services even at the lower 85 percent level. As this report went to press, HHSC officials announced that a $141.5 million shortfall was projected for community care for fiscal 2005. HHSC has proposed eliminating most of the shortfall with $138.4 million in transferred or newly allocated state dollars; the remainder would come from implementing a functional assessment score for the Day Activity Health Services program (reducing costs by $1.5 million) and

[12] The TANF section of this report provides more information on the new TANF sanction policies. For more details about the disputed rules being proposed by TWC see *Policy Page* #203, http://www.cppp.org/products/policypages/191-210/html/PP203.html

establishing a service planning guide for the Community Based Alternatives waiver (reducing costs by $1.6 million).[13]

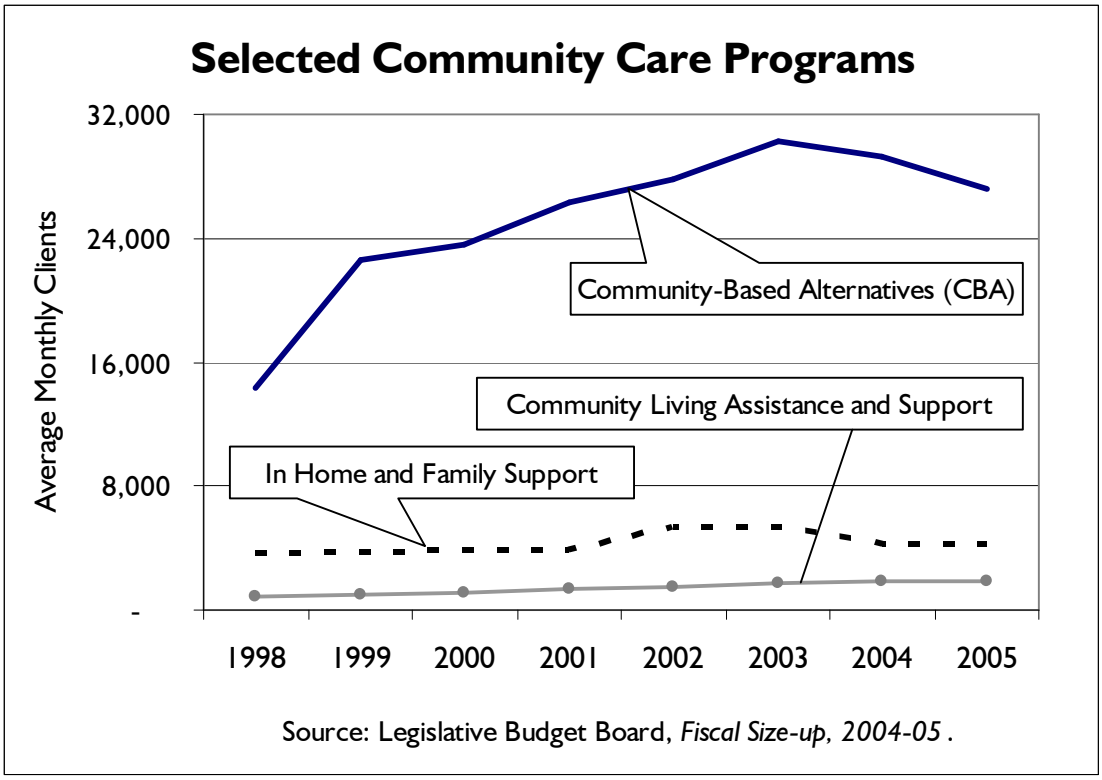
Medicaid community and long term care "waiver" cuts: These special programs that help elderly and disabled Texans remain in their homes are "frozen": only people wishing to leave an institution are allowed to join, until enrollment drops down to a lower level.

The budget will reduce through attrition the number of Community Based Alternative Medicaid waiver enrollees to a specified cap, reducing the number of persons served by at least 3,100. Enrollment in CBA was 30,336 in 2003; the 2004-05 budget reduces that level to 27,211 by 2005 (a 10 percent drop). The waiting (or "interest") list for CBA waivers is expected to grow to over 67,300 people in 2004, up from 39,200 in 2002. The waiting list for the Medicaid Dependent Children's Program Waiver will more than double, from about 3,100 in 2002 to 6,500 in 2004.[14]

In non-Medicaid community care programs, funds for the Department of Human Services' In-Home and Family Support program (2003 enrollment of 4,573 clients) were reduced by about 55 percent, and the stipend per client was cut from $3,600 to $1,200 to allow continued service to the same number of clients. The waiting list per quarter for IHFS will grow from 9,435 persons in 2002 to 22,366 in 2004.

State-funded Community Care will be reduced by at least 1,800 clients (non-Medicaid 2003 enrollment of 14,539 clients, versus 12,728 for fiscal 2004). Almost 400 people will be added to the waiting list for non-Medicaid community care, which will climb from 8,279 in 2003 to 8,656 in 2004.[15]

[13] Texas Health and Human Services Commission, "Presentation to the Senate Finance Committee: Health and Human Services System Issues," May 24-25, 2004.
[14] Texas Department of Human Services, Operating Budget for Fiscal 2004.
[15] Texas Department of Human Services, Operating Budget for Fiscal 2004.



Elimination of Medicaid benefits for aged, disabled, and adult TANF recipients: State budget writers opted to terminate coverage of several benefits for adult Medicaid enrollees. (Federal law prohibits the reduction of benefits for children under age 19 in Medicaid.) The eliminated benefits are all "optional" for adults under federal law. As of September 1, 2003, services of licensed professional counselors, social workers, psychologists, licensed marriage and family therapists, podiatrists, and chiropractors are not covered, nor are eyeglasses or hearing aids.

The great majority of clients affected by cuts to Medicaid benefits and services live on less than $584 per month and are unlikely to be able to replace these services or buy eyeglasses or hearing aids, now that the legislature has cut off these benefits.

In Texas about 843,400 adults were covered by Medicaid in March 2004, and three-fourths of these were aged or disabled individuals. HHSC has estimated the cost to restore the benefits coverage for the biennium to be $42.8 million in General Revenue.

Concerns about the need for mental health counseling and therapy services have been raised by a wide variety of social service agencies whose clients have associated behavioral health needs. Mental health services are needed by clients in nursing homes, clients with mental retardation in residential care, elder abuse survivors, parents in child abuse and neglect cases, sexual assault survivors, domestic violence survivors, crime victims, and chronically mentally ill clients. Podiatry is critical for persons with diabetes and with other circulatory and mobility impairments. The great majority of the affected clients lives on less than $584 per month (the Supplemental Security Income [SSI] cap, with the $20 earned income deduction) and are unlikely to

be able to replace these services or buy eyeglasses or hearing aids, now that the legislature has cut off these benefits.

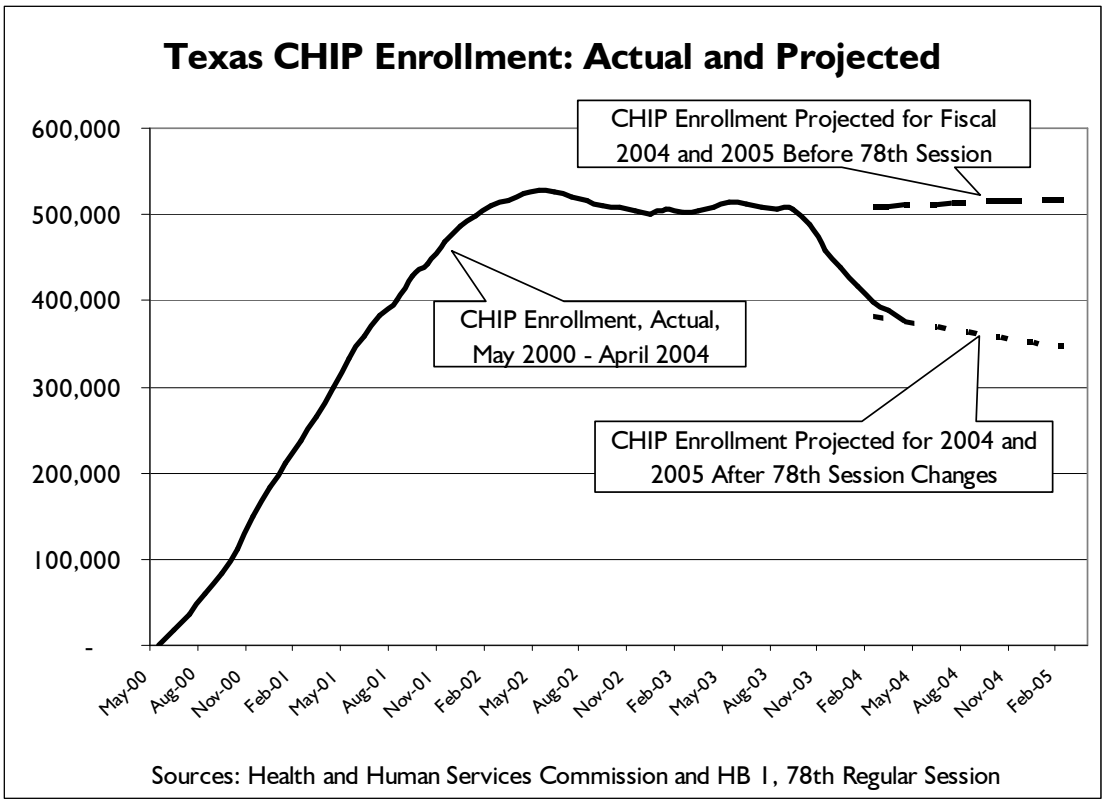
In the budget development process, the HHSC proposal to cut these "optional" Medicaid benefits for adults, though identified in budget documents from the very beginning, never received any detailed discussion, analysis, or a public hearing in either the House or Senate. As a result, no consideration was given to the devastating and far-reaching consequences that elimination of these services would have on low-income Texans.

Medicaid provider rate cuts: Final appropriations for Medicaid and CHIP assumed rate cuts for most Medicaid and CHIP providers.[16] In August 2003, state leaders announced that $130.5 million in federal Medicaid relief funds would be used to reduce the size of the planned cuts by 50 percent for fiscal 2004. As a result, hospitals' and doctors' rates were cut by 2.5 percent instead of 5 percent; nursing homes by 1.75 percent instead of 3.5 percent, and community care providers by 1.1 percent instead of 2.2 percent. These less severe rate cuts were funded for fiscal year 2004 only, and no decision was made at that time regarding fiscal 2005.

In total (state and federal) dollars, the rate cuts were originally projected to reduce payments to providers by $1.05 billion over fiscal 2004 and 2005. HHSC announced in May 2004 that about $60 million in General Revenue will be allocated to avoid making the deeper cuts in 2005. With the partial restorations of provider rates for 2004 and 2005, the total projected reduction in Medicaid and CHIP payments for the biennium falls to about $599 million.

Reduction in personal needs allowance of Medicaid nursing home residents: This change reduces the personal needs allowance from $60 to $45. The personal needs allowance is the monthly amount that Medicaid nursing home residents get to keep from their SSI, Social Security, or other pension income; the rest of their income goes to the nursing facility, with Medicaid making up the rest of the nursing home payment. This personal needs allowance must cover all of the client's personal hygiene needs (including adult diapers beyond the number allotted by the home per day), clothing, and any other needs or wants. To illustrate, nursing home residents will have to save this allowance in order to buy a pair of glasses or a hearing aid, unless the legislature restores those benefits. Because the "savings" to the Medicaid program from retaining an additional $15 per month from each nursing home resident are shared by the state and federal budgets, elimination of $25.1 million in personal needs allowances will only yield the state a $13 million General Revenue spending reduction.

[16] Medicaid providers who receive "cost-based" reimbursement (e.g., children's hospitals, federally qualified health centers) were exempted from the cuts.



Children's Health Insurance Program (CHIP)

CHIP Eligibility Policy Changes

Budget writers maintained the CHIP upper income limit at 200 percent of the poverty line ($31,340 annually for a family of three), but assumed five distinct CHIP eligibility policy changes. HHSC projected that these changes will reduce CHIP enrollment to 32 percent below the number enrolled in 2003.

Two of these policy changes actually *terminate* CHIP coverage for children who were previously enrolled, by imposing an asset limit and eliminating deductions for child care and child support. The rest of the policy changes were designed to *reduce continued or new coverage* through more frequent renewals, waiting periods, and higher premiums and co-pays. The two policy changes that terminate CHIP eligibility for enrolled children were not part of HHSC-recommended changes proposed at the beginning of the appropriations process, but instead were introduced in the final hours of conference committee budget negotiations. As such, they were not publicly debated, and there was no opportunity for public input or any meaningful deliberation about the merits of making these changes or the impact they would have on low-income families.

Elimination of deductions: This policy change eliminated income deductions (e.g., for child support paid out, child care costs, etc.) so that *gross*, rather than *net*, income determines CHIP eligibility. This change, which took effect September 1, 2003, actually terminated coverage for currently enrolled children in the upper income range for CHIP.

The impact of this cut became evident in the November 2003 CHIP enrollment figures; about 16,800 children lost CHIP coverage due to this change.

New asset test: This policy imposes an "asset limit" as part of the eligibility rules for children in families with incomes at or above 150 percent of the federal poverty line ($23,505 annually for a family of three). This limit, modeled on the Texas Food Stamp policy, will be $5,000, and will include any money in checking or savings, plus the "countable" value of vehicles. This vehicle policy is actually more restrictive than for children's Medicaid. Because little data exist on the assets of Texas families at this income level (the U.S. Census Bureau collects no state-level data on assets), it is impossible to predict accurately the enrollment impact of this change.[17] This policy was scheduled for implementation in May 2004, but a firm date was not known at press time.

90-day waiting period: With this change, children who are certified to be eligible for CHIP will have to wait 90 days before their coverage takes effect. This change reduces CHIP spending primarily through a one-time shift of costs into the future; for example, new enrollees in September 2003 did not actually get their benefits until December 2003. The delay may also reduce CHIP premiums over time, because parents who do not enroll their children until they are ill or injured will not have coverage for the first several months of medical bills. However, health care providers predict that other policy changes (dropping to 6-month continuous eligibility, cost sharing increases) will result in *higher* per capita costs during months when coverage is in effect, which could offset the impact of the delay and potentially lead to higher premiums.

Shorter, 6-month, coverage period: Until fiscal 2004 children were eligible for CHIP for 12 months before their families were required to renew their benefits. This change reduces CHIP enrollment by speeding up the transfer of children to the Medicaid program when their family income falls low enough (which will cost the state more), or dropping children completely (removing them to the ranks of the uninsured or to private coverage) should their family income rise above 200 percent of poverty. Enrollment is also expected to fall as a result of the inevitable percentage of parents failing to renew even though their children remain eligible, an effect that is compounded by requiring renewal more often.

Increased premiums and cost-sharing: This change reduces CHIP enrollment because some parents will not or cannot pay the higher premiums. Of particular concern is how this policy will affect families between 100 and 150 percent of the poverty line, as premium costs for these families have increased from $15 per year to $180 per year.

Reductions in CHIP Benefits

Budget writers assumed a lower per capita CHIP cost based on eliminating several covered services: dental care; hospice care; skilled nursing; tobacco cessation; vision care and eyeglasses; all mental heath therapeutic or counseling services; psychiatric hospital

[17] See "CPPP Comments on Proposed CHIP State Plan," http://www.cppp.org/products/policyanalysis/com8-04-03.html, or "Comments on CHIP-Related Proposed Rules and Policy Changes," http://www.cppp.org/products/policyanalysis/com7-22-03b.html, for a more detailed explanation.

services; and substance abuse services. Though legislation did not specifically abolish these benefits, the 78th Legislature repealed the state law that directed that CHIP benefits be as generous as those provided to state employees.

Based on these legislative directives, HHSC requested approval in July 2003 from federal CHIP authorities to eliminate the benefits listed above. Under the proposed state plan, mental health coverage would have been severely limited, to one outpatient diagnostic visit per enrollment period, six medication management visits per enrollment period, and consultation in an inpatient or emergency setting after stabilization of an emergency condition. With this policy, Texas would have been the only state failing to provide mental health coverage in CHIP. However, this "bare-bones" package apparently failed to meet the requirements in federal CHIP law and rules for "appropriate coverage" for the population of targeted low-income children, as well as the "Secretary-Approved Coverage" of CHIP benefits. All prior use of the "Secretary-Approved Coverage" option in CHIP has been for benefit packages that are *more* generous than federal law benchmarks for CHIP coverage, but Texas was requesting the Secretary's approval for *less* generous coverage.

Federal authorities submitted a formal inquiry to HHSC in late August 2003 regarding these concerns. In October 2003 the governor announced that CHIP mental health benefits would be partially restored. The partially restored coverage is about 50 percent (or less) of the CHIP mental health benefit in place in 2003 before the legislature's cuts. Access to these services was not fully restored until February 2004. Because the state and CHIP health plans had terminated virtually all mental health contracts prior to the governor's announcement, the state was not able to create a system to pay retroactive claims for mental health services provided between September 2003 and February 2004 until that time.

Children's Health Insurance Program (CHIP) Cuts	
Impact of 78th Legislature's Changes on CHIP Enrollment: (HHSC Estimates and Actual Counts)	**Monthly Average**
Projected average enrollment in fiscal 2005, before **HB 2292 and HB 1**	516,113
Projected average enrollment in fiscal 2005, after **HB 2292 and HB 1**	346,818
Difference	169,295 (32.8%)
September 2003 actual enrollment	507,259
May 2004 actual enrollment	365,731
Source: All numbers are from HHSC historical enrollment data and enrollment projections. HB 1 is the state General Appropriations Act for 2004-2005; HB 2292 included several program cuts to achieve the budget levels in HB 1.	

Other Medicaid and CHIP Cost-Containment Initiatives

Medicaid managed care statewide expansion: Medicaid enrollees in poor families[18] are already required to enroll in managed care programs in the largest metro areas; in October 2003 about 1 million out of 2.5 million Medicaid enrollees were in managed care plans. New law directs HHSC to expand managed care implementation statewide if it is found to be "cost-effective." The statute allows for managed care models to include HMOs (including acute care portions of StarPlus, which now provides managed long-term care services for persons in the community), primary care case management (PCCM), pre-paid health plans, exclusive provider organizations, and "others." HHSC hired a consultant to develop a methodology for determining the cost effectiveness of expanding managed care in a locality, and, early in 2004, released that report and a proposed framework for the expansion of managed care.

The HHSC proposal would implement HMO-based managed care in one new urban area (Nueces County), eliminate the PCCM option in all urban HMO areas, implement STAR+Plus managed care in all urban HMO managed care areas, and convert the rest of the state to PCCM coverage. Public hearings in March 2004 revealed several objections to the proposal. Among these were opposition to the elimination of urban PCCM options; concerns about the track record of STAR+Plus; evidence that many Texas counties lack enough primary care providers to support a meaningful medical home for each Medicaid enrollee; and complaints about HHSC oversight of and compliance by HMOs with their contracts. HHSC has also acknowledged that implementing Medicaid managed care in new areas would require up-front expenditures that may not be feasible in the near term due to budget constrains; that is, premium payments to HMOs require up-front cash outlays that are not required in a traditional fee-for-service claims payment system.

Several provisions of the proposal that raise concerns for the well-being and equitable treatment of all Medicaid enrollees are related to the disparity between the HMO and PCCM models as currently proposed. HHSC has proposed that adults in PCCM—i.e., all adult Medicaid recipients in rural Texas and smaller cities—will not have access to unlimited prescription drugs (which are available to all adults in the urban HMO coverage), but will remain subject to Texas' 3-prescription per month limit. In PCCM, neither the state nor its contractor (ACS) is obligated to ensure a sufficient network of primary and specialty care providers, while HMO contractors are obligated to do so. HMO coverage has stricter responsibilities than PCCM. The current PCCM model has weaker requirements regarding the primary care provider's responsibility to coordinate with behavioral health specialists on a member's care; HMOs have much stronger obligations for care coordination. HHSC has also said that urban STAR+Plus enrollees would have preferential access to the Community-Based Alternative waiver. These policies effectively institutionalize more generous benefits and better access to care for urban Medicaid enrollees compared to rural Texans. While provider availability in rural Texas is not a problem Medicaid alone can fix, the urban-rural inequity in access to prescription drugs and the CBA waiver can and should be eliminated.

[18] Seniors and disabled persons who are dually eligible for Medicaid and Medicare are generally excluded from managed care, while persons with disabilities who do NOT receive Medicare can choose to enroll in managed care, where available.

Medicaid cost-sharing: HB 2292 mandates that Texas Medicaid impose cost sharing "to the extent allowed under federal law." Options for cost sharing are listed, including enrollment fees (not currently allowed or even "waivable" under federal law), deductibles, coinsurance, and premium sharing. (There are no references to co-payments.)

Earlier proposals submitted to federal Medicaid authorities in 2001 requested (1) application of co-payments to all enrollees including children and pregnant women; (2) enrollment fees for all Medicaid enrollees; and (3) co-payments for all emergency room visits (not just non-emergency visits as required by federal law). Centers for Medicaid and Medicare Services (CMS) officials indicated that the policies requested at that time were not allowed under federal law, even under waiver authority. State Medicaid officials then proposed rules in 2002 which would have limited co-payments to the adult groups allowed under federal law, imposing co-payments for prescription drugs and non-emergency use of the Emergency Room, with slightly higher costs for adults above 100 percent of the poverty line. The 2002 rules were never implemented due to a legal challenge by the pharmacy industry. HHSC is expected to propose Medicaid co-payments similar to these unimplemented rules during the 2004-05 biennium, but no official implementation timeline has been announced.

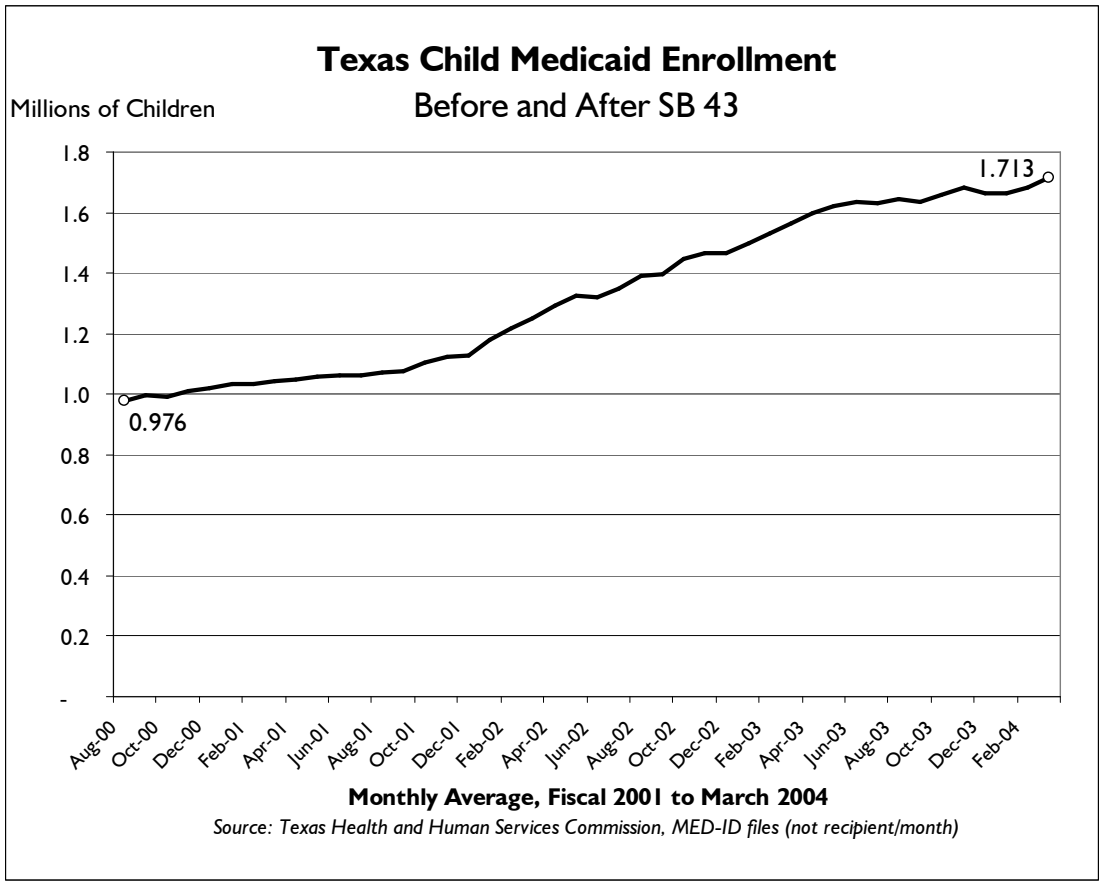
Medicaid prescription drug benefits: The state budget assumes at least $150 million in General Revenue savings from the implementation of supplemental rebates, a preferred drug list, and prior authorization requirements. Supplemental rebates are being negotiated with drug manufacturers for drugs purchased under Medicaid, CHIP, and other state health programs. With the advice of a new Pharmaceutical and Therapeutics Committee, HHSC has begun phasing in a Preferred Drug List (PDL) for Medicaid and CHIP, and requiring prior authorization for drugs not on the list.

The state budget assumes at least $150 million in General Revenue savings from the implementation of supplemental rebates, a preferred drug list, and prior authorization requirements.

Use of the preferred drug list began in February 2004. Early reports indicate confusion about new policies and procedures persisting among providers, pharmacists, and clients. (Medicaid and CHIP clients were not informed of the implementation in advance.) There are also indications that the savings projected for the biennium are now not expected to be achieved.

Changes to children's Medicaid eligibility simplification policies adopted in 2001: The 2001 legislature simplified children's Medicaid eligibility by adopting a 6-month continuous coverage policy, scheduled to be increased eventually to 12 months, and eliminating required in-person interviews in favor of mail and telephone applications. Under budget pressures, the 2003 legislature rolled back some of these positive changes. The state budget for 2004-05: (1) maintains the current 6-month continuous coverage rather than phasing in a 12-month continuous coverage period; (2) requires more verification of asset information; and (3) maintains access to mail and telephone application and renewal for most children, but gives eligibility workers the discretion to request an in-person interview in selected cases.

HHSC originally estimated that these policy changes would reduce projected Medicaid enrollment growth by 332,198 children from 2003 to 2005. However, it appears that the initial caseload growth assumptions upon which this number is based may have been too high. Actual enrollment data for fiscal 2004 show that growth in children's enrollment has slowed considerably; child enrollment from September 2003 to March 2004 grew by less than half the amount in the same period of the previous year.



Note: SB 43 (simplification of children's Medicaid eligibility) was implemented beginning in January 2002.

Mental Health and Mental Retardation System

The Texas Department of Mental Health and Mental Retardation's (MHMR) General Revenue funding for 2004-05 totals $2.086 billion, a decrease of $189 million (8.3 percent) in funding compared to 2002-03. Furthermore, MHMR is one of only three HHS agencies (the other two are the Commission on Alcohol and Drug Abuse and the Department of Human Services) slated for an all-funds decrease in its budget in HB 1, as well as a General Revenue decrease. On an all-funds basis, MHMR is budgeted to spend $36 million less than in 2002-03, a decrease of 0.9 percent.

MHMR community service reductions: Apart from the mental health benefits cut in Medicaid and CHIP, direct funding of community MHMR services for non-Medicaid clients was cut in several ways.

- Community Mental Health funding was frozen at 2002-03 client service levels, and funds were not allocated for population growth or inflation. Funding for adult mental health community services is 5.5 percent below levels requested to maintain 2003 client levels, and 1.8 percent below the current services request for children's mental health community services (apart from the reduction in CHIP mental health benefits). Research and training funds were eliminated from community mental health hospitals and state hospitals.
- The In-Home and Family Support program for mental health is completely eliminated, and 2,946 clients (based on 2003 levels) will not receive services.
- Community Services for Mental Retardation are reduced. An 11 percent reduction will result in 2,570 fewer clients being served than in 2003 (leaving 20,797 who will be served).
- Funding for In-Home and Family Support for Mental Retardation was cut by 61 percent. Due to the funding cut, MHMR has reduced each individual's maximum stipend from $3,600 to $2,500. Even with the reduced stipend, the program is projected to serve only 1,710 clients in fiscal 2004, down from about 4,800 in 2002.

On an all-funds basis, MHMR is budgeted to spend $36 million less than in 2002-03, a decrease of 0.9 percent.

As noted, because of the Medicaid mental health benefit cuts for adults, MHMR Centers (as well as providers of family violence services, sexual assault survival services, child protective agencies, and others) will no longer receive Medicaid reimbursement for the services they provide to many of their clients.

Reduction of Community Mental Health priority population to three disorders: New state law re-defines the "priority population" for local mental health authorities, implementing a "disease management" service delivery model that includes only persons with schizophrenia, bipolar disorder, and/or major depression. A pilot phase of the model is scheduled for fiscal 2004, to go statewide in fiscal 2005. Local mental health authorities also must implement jail diversion strategies in community mental health centers' disease management programs for adults with these three major psychiatric disorders, and for children with serious emotional illness.

The rationale for this change was to focus the inadequate "pot" of state dollars for the severely mentally ill on the population with the highest need and the greatest likelihood of being institutionalized or incarcerated without adequate treatment. However, proponents of this new priority population concept never intended that Medicaid adult clients with other psychiatric diagnoses such as psychosis, non-suicidal depression, anxiety, autism, or personality disorders—newly excluded from access to community MHMR systems by this change—would also lose access to mental health care from other community-based agencies or private practitioners as a result of the Medicaid benefit cuts. According to the Mental Health Association in Texas, diagnoses such as these accounted for over 12 percent of community center services in 2002, or services for over 16,890 persons out of about 139,000 served.

Privatization of MHMR services and institutions: New state law declares that local mental health and mental retardation authorities (MHMRAs) may only provide direct residential care services for the mentally retarded as a "last resort," if the MHMRA has been unable to locate sufficient willing private providers with which to contract for services. Subsequent discussion has elicited the consensus that authors of this provision did not intend to require the MHMRAs to privatize community mental health services, and legislation clarifying this point is anticipated. In March 2004, MHMR issued a Request for Information from providers of mental retardation services wishing to contract with the state to serve these clients, and the analysis of the responses is scheduled to be finished by July 2004. After that, the timeline for private procurement calls for privatization in fiscal 2005 "where feasible," with an emphasis on working toward privatization of ICF-MR and waiver services in fiscal 2006.

Other sections of the new law authorize privatizing a state school (for persons with mental retardation) and a state hospital (for persons with mental illness) after August 31, 2004, and by September 1, 2005, only if a contractor makes an acceptable proposal that is at least 25 percent below the cost to MHMR to operate that facility. In mid-February 2004, state officials reported that only one bid on operating the state school had been submitted by a private firm, and that bid had not been deemed acceptable. No bids had been submitted from any private firm interested in operating a state hospital.

Public Health Program Funding

The Texas Department of Health, which oversees most of the state's public health initiatives, is one of only two HHS agencies (the other being the Health and Human Services Commission) that did not have its General Revenue budget cut. In total, TDH will receive $984 million in General Revenue in 2004-05, a $105 million (12 percent) increase compared to 2002-03. On an all-funds basis, TDH will see a biennial increase of $432 million, or 13 percent.[19] About $156 million of the new funding available to TDH is federal dollars for new programs to improve Texas' preparedness for bioterrorism, outbreaks of infectious diseases, and other public health emergencies. Many other programs at TDH were funded either below 2002-03 levels, or simply at the same level, with no allowance for population growth or for inflation.

The **Kidney Health** program, which provides care for Texans with end stage renal disease, was funded at the 2002-03 level. The agency projected that client services for 2004-05 would have required $58 million, but appropriations for those services are just $33.9 million. To reduce costs, the program will implement new prescription drug co-payments and will no longer provide prescription drugs to Medicaid enrollees (who have drug benefits, although the benefits are limited for some adults). Coverage of some previously covered drugs has also been suspended. It appears that TDH will make service reductions but maintain service to the same number of clients.

The **County Indigent Health Care** program was allocated $11.2 million for state assistance to counties. In 2002-03, the program paid out $14.9 million to counties;

[19] These General Revenue and All Funds totals include $97 million in General Revenue appropriated in the Third Called Session, 2003.

therefore, it seems certain that appropriated funds will not meet county demand for the entire 2004-05 biennium. A county is eligible to receive state funds through the County Indigent Health Care program once it has spent 8 percent of its tax revenue to serve uninsured Texans below 21 percent of the federal poverty level. In 2002-03, 28 counties received state funding; payments ranged from less than $1,000 (Runnels County) to $6.6 million for the biennium (Hidalgo County). When state funds are exhausted, counties are no longer obligated to provide care under state law; thus the anticipated depletion of funds in fiscal 2005 could result in some counties closing their programs for the rest of that fiscal year. As this report went to press, HHSC had just proposed the transfer of $1.3 million to the County Indigent Health Care program.[20]

The County Indigent Health Care program was allocated $2.7 million less than was paid out in 2002-03, virtually ensuring that the appropriated funds will not meet county demand for the entire 2004-05 biennium.

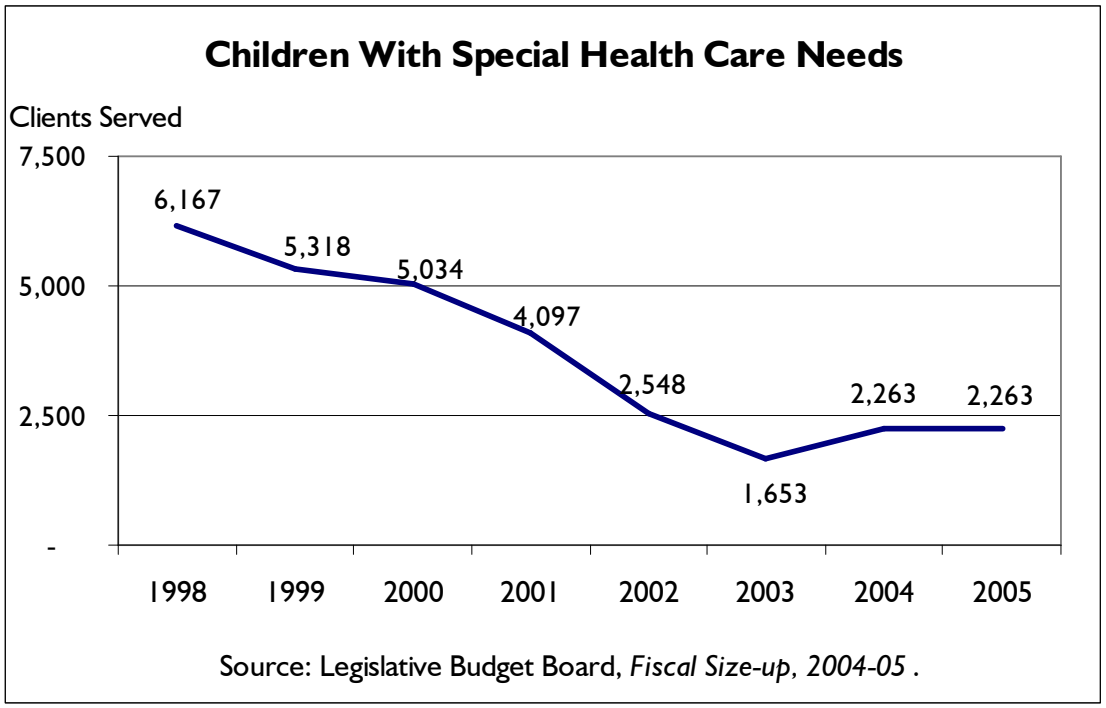
HIV medication funding for 2004-05 at $24.1 million is well below the $44 million level TDH requested to maintain the program at current service levels. However, the Texas HIV Medication Program (THMP) has identified close to $4 million in savings and local government support which will help mitigate any shortfall. For 2004, the program has a budget that will allow 14,189 clients to receive HIV medications, up from 12,317 in 2003. However, the number of person that will receive social and medical services after a diagnosis of HIV will drop to 22,665, from 24,896 in 2003 (a 9 percent drop). The number of HIV prevention counseling sessions is also lower in 2004: the budget is enough for 162,807 counseling sessions, down from 173,483 in 2002 (a 6 percent drop).[21]

HIV medication program rules remain unchanged to date, but a provision has been added that will allow THMP to make changes if and when program officials determine that cost containment is needed to keep the program operating. A sequence of four policy changes has been identified if needed to respond to a shortfall; none of these policies has been implemented to date. The first step in response to a shortfall would be moving from a simple HIV-positive eligibility criterion to a threshold based on CD-4 counts and viral load, consistent with federal HIV treatment guidelines. The other steps would be undertaken only if the new clinical standards did not slow new client intake enough to operate within the budgeted funds.

The **Women and Children's Health services** strategy will receive $95 million for the biennium in state and federal funds. This is a biennial increase of almost $11 million, or 13 percent. However, the number of clients provided services through the Maternal and Child Health program will continue to fall. The number of women served in fiscal 1999 was about 93,000; this will drop to about 69,540 (a 25 percent decrease) in 2004 and 2005. Almost 91,400 children were served in fiscal 1998; in 2004 and 2005, the number of children served will be only 45,366, or 50 percent lower than in 1998.[22]

[20] Texas Health and Human Services Commission, "Presentation to the Senate Finance Committee: Health and Human Services System Issues, May 24-25, 2004."
[21] Texas Department of Health, Operating Budget for Fiscal 2004.
[22] Legislative Budget Board, *Fiscal Size-Up, 2004-05 Biennium*, p. 140.

Children with Special Health Care Needs program funding for 2004-05 increased to $75 million from $72.9 million in 2002-03. State funding for the program actually dropped by over $4 million, but this was offset by an increase in federal funding. CSHCN program funding in 2002-03 fell short of need due to budget cuts, including legislative assumptions that CHIP coverage would reduce CSHCN costs for basic medical care for substantial numbers of eligible children, and the program established waiting lists for medical and family support services that persist to the present. The Department of Health requested an additional $56 million in General Revenue (above 2002-03 funding) for 2004-05 in order to eliminate the waiting list for care. In October 2003, TDH was able to remove 347 children from the list, but 992 children remained on the waiting list at the end of November.



Source: Legislative Budget Board, *Fiscal Size-up, 2004-05* .

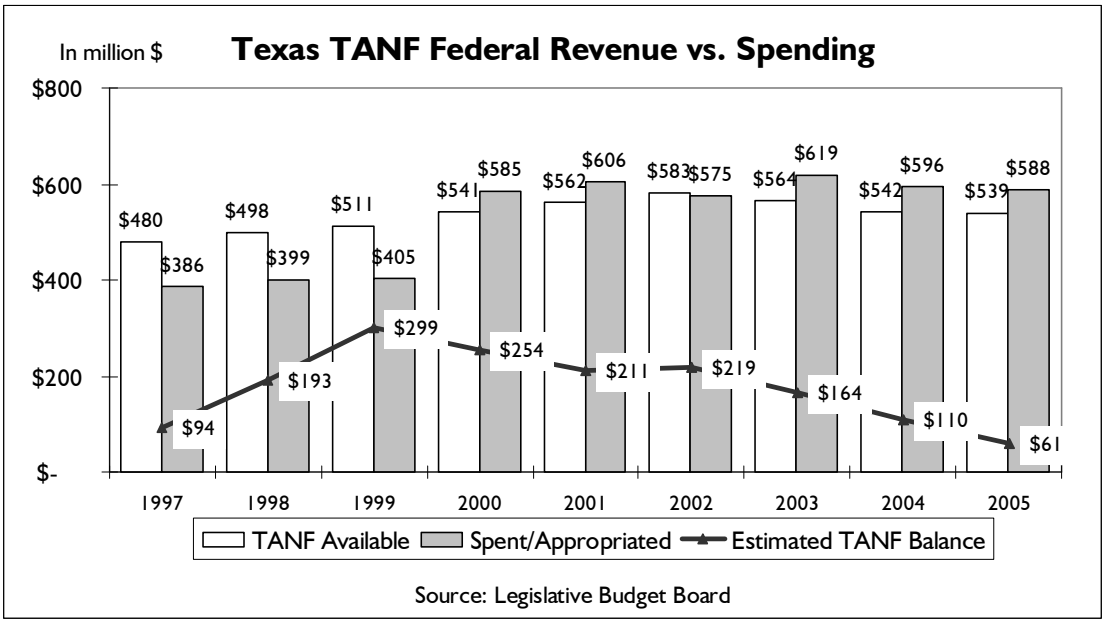
As much as $10 million of the $26 million appropriated for **Primary Health Care** services will be re-directed to fund the start-up and expansion of Federally Qualified Health Centers, making those funds unavailable for direct services.[23] The FQHC grants program was authorized by SB 610 of the regular 2003 session. In September 2003, 36 FQHCs were serving almost half a million Texans at 140 sites in 43 counties, mostly along the U.S.-Mexico border or in South or East Texas. About 60 percent of FQHC clients are uninsured, while others have coverage through Medicaid, CHIP, or Medicare.

Finally, in the area of emergency health care, the 78th Legislature authorized new revenue sources to fund certain trauma facilities, county and regional EMS, and trauma care systems. HB 3588 of the regular session creates a driver responsibility program to levy increased fines on intoxicated drivers and others convicted of certain traffic offenses. About half of the revenue raised from these new fines will fund trauma care and EMS;

[23] Legislative Budget Board, *Fiscal Size-Up, 2004-05 Biennium*, p. 141.

the other half will go into the Texas Mobility Fund for transportation projects. SB 1131 of the regular session imposes an additional $100 court fee on certain drunk drivers; 90 percent of the court fees, plus any interest they earn, will go to fund trauma care systems and facilities and EMS systems. (Counties would get to keep 10 percent of the fees.) The fiscal note for SB 1131 estimated that almost $5 million annually would be raised for trauma care and EMS by the new penalty. In the third called session, legislators also approved the appropriation of $97 million in General Revenue to the Department of Health for trauma care.[24]

Temporary Assistance for Needy Families (TANF)



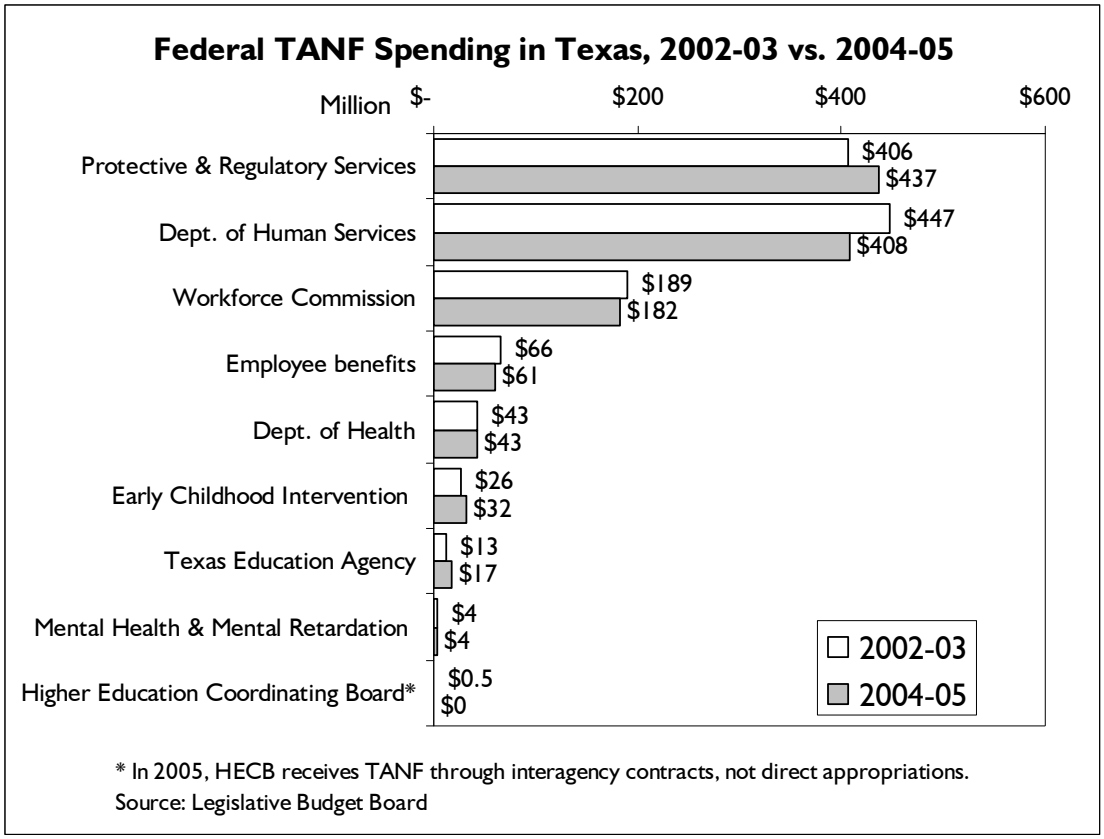
The budget shortfall facing lawmakers in January 2003 forced a review not only of general revenue spending but also of the use of federal funds such as the Temporary Assistance for Needy Families (TANF) block grant. In 1996, the TANF block grant replaced Aid to Families with Dependent Children (AFDC), which was primarily a cash assistance program for very low-income families. Since its creation, TANF has become an important source of funding in Texas for several state agencies. In 2002-2003, federal TANF funds went to eight state agencies, supporting everything from job training to foster care, with about one-fourth spent on cash assistance.

In January 2003, as lawmakers began writing the budget, it was clear that cuts in TANF spending were going to be necessary to avoid a TANF shortfall in 2004-2005.

As the 78th Session began, TANF funding for the 2004-05 biennium faced a number of pressures. Because TANF is a relatively flexible federal block grant, some legislators were interested in using these federal funds to take the place of, or "supplant," state General Revenue spending. But doing so was not possible without making cuts to programs

[24] Legislative Budget Board, *Fiscal Size-Up, 2004-05 Biennium*, p. 143.

receiving TANF. Moreover, since fiscal 2000 Texas had been spending down large TANF fund balances at a rate that was unsustainable into the 2004-05 biennium. These balances had increased to several hundred million dollars in the late 1990s due to dramatic declines in cash assistance caseloads. In 1999 and 2001, state budget writers used these balances to supplant more than $300 million in General Revenue spending and to fund programs at various agencies—particularly child protective services and foster care. In January 2003, as lawmakers began writing the budget, it was clear that cuts in TANF spending were going to be necessary to avoid a TANF shortfall in 2004-2005. Adding to these pressures were policy proposals to scale back some TANF-funded initiatives from previous years, tighten already restrictive cash assistance eligibility criteria, and stiffen TANF sanction policies.



In three consecutive budget sessions, TANF funding for the Department of Protective and Regulatory Services (PRS) had grown to the point that federal TANF funds now account for about 25 percent of the agency's budget. This growing dependence by PRS on TANF posed a difficulty for lawmakers interested in reducing TANF spending across the board. Initial proposals to reduce TANF funding for PRS would have required major cutbacks in child protective services, foster care, and prevention programs. Lawmakers were loath to approve TANF cuts for CPS and foster care, as General Revenue would have been required to replace the TANF funds. In the end, PRS received $437 million in TANF, a 7.6 percent increase over the $406 million in TANF received in 2002-03. Most of the TANF reductions instead occurred at the Department of Human Services, where

funding for cash assistance was cut 8.7 percent, from $447 million in 2002-03 to $408 million in 2004-05.

The allocation of TANF for 2004-05 will significantly affect services for very low-income Texans and particularly for very poor children, who make up about three-fourths of cash assistance recipients. The funding cuts were achieved through major policy changes to the cash assistance program, including a more restrictive asset limit and more punitive sanction policies. As a result, fewer benefits will be provided to Texas' poorest families. DHS estimates that only 16.7 percent of Texas children in poverty will receive TANF in 2004, down from 18.3 percent in 2002.[25]

Lower asset limits: Despite a House committee interim study to identify ways that state policies could *improve* asset-building among low-income families, HB 1 actually imposed stricter asset policies in the cash assistance program, rolling back the asset limits to pre-1995 levels. As part of major state welfare reform legislation in 1995,[26] the amount of liquid ("spendable") assets a family could have and still be eligible for TANF cash assistance had been increased to match the Food Stamp Program. These asset limits were set at $2,000, or $3,000 for families with an elderly or disabled family member. (The 2001 legislature subsequently increased the Food Stamp asset limit to $5,000.) In recent years many states and even federal policies have sought to increase asset limits even further to support efforts by low-income families to save. Recent research makes it very clear that many poor families stay poor because they are unable to save any money for emergencies or for things that could improve their circumstances such as housing, education, or training. Studies show that state benefit programs exacerbate this situation by making low-income families ineligible for many programs if they have any savings or other assets.

For 2004-05 the TANF asset limits are reduced to $1,000. This change is estimated to make nearly 700 clients ineligible for assistance and deny assistance to an estimated 2,388 clients over the biennium, for a savings of $3.3 million.

Despite a House committee interim study to identify ways that state policies could improve asset-building among low-income families, HB 1 actually imposed stricter asset policies in the TANF program, rolling back the asset limits to pre-1995 levels.

Another change to asset-related policies was the reduction in allowable vehicle values in the TANF cash assistance program. If a TANF recipient owns a car, every dollar over these vehicle value limits is counted against the asset limits discussed above. In 2001, the legislature had raised the vehicle value limit for two-parent TANF families to $15,000, which was designed to match the Food Stamp vehicle policy and support ownership of a reliable car—often needed to get to work. For 2004-05 this policy has been changed, and the vehicle limit for all TANF families is reduced to $4,650, a level set in 1995. DHS budget documents estimate that 233 current clients will lose TANF assistance due to this change, and 2,590 applicants who otherwise would have been eligible for TANF will be denied assistance.

[25] Texas Department of Human Services, Operating Budget for Fiscal 2004.
[26] HB 1863, 74th Legislature.

Benefit levels: In 1999 the legislature reinstated a $60 annual supplemental payment for each child in a family that receives cash assistance (a policy that had been discontinued in 1995). The 2004-05 budget retains this supplemental payment but cuts it in half to $30 per child. This change will affect about 220,000 children in 2004-05.

In a positive step, a new disregard policy was approved under the rubric of supporting marriage in the cash assistance program. The income of the new spouse of a TANF recipient will now be disregarded for six months. An estimated 745 clients will benefit from this new policy.

Full-family sanctions: Texas now uses a "full-family sanction" in its cash assistance program. In HB 2292 this sanction process is described as "payment of assistance after performance," but it is in fact a relatively straightforward termination of TANF to adults and children for any program infraction by the adult. Sanctions are now being imposed immediately for non-cooperation with any element of the Personal Responsibility Agreement (PRA). In addition, Medicaid benefits are being taken away from any non-pregnant *adult* who does not cooperate with the work and child support cooperation requirements of the PRA. Children's Medicaid may not be terminated, according to federal law.[27]

The new sanction policy took effect September 1, 2003. On that day, 60,495 TANF recipients—19,484 adults and 41,011 children—had their cash assistance terminated because of one or more program infractions, and 17,105 adults also lost their Medicaid coverage. The new sanction policies, together with aggressive work requirements and more pressure than ever to move recipients quickly off the rolls, are having a severe effect on caseloads. Between August 2003 and February 2004, the number of TANF recipients dropped by more than 112,000 people, from 401,028 to 288,856. The caseload decline does not reflect a parallel decline in poverty in Texas, but rather the fact that TANF reaches fewer and fewer of the poor. In 1996 cash assistance (then known as AFDC) reached 22 percent of the 3.2 million poor persons in Texas, by 2002 only 11 percent of the state's 3.4 million poor were receiving TANF.

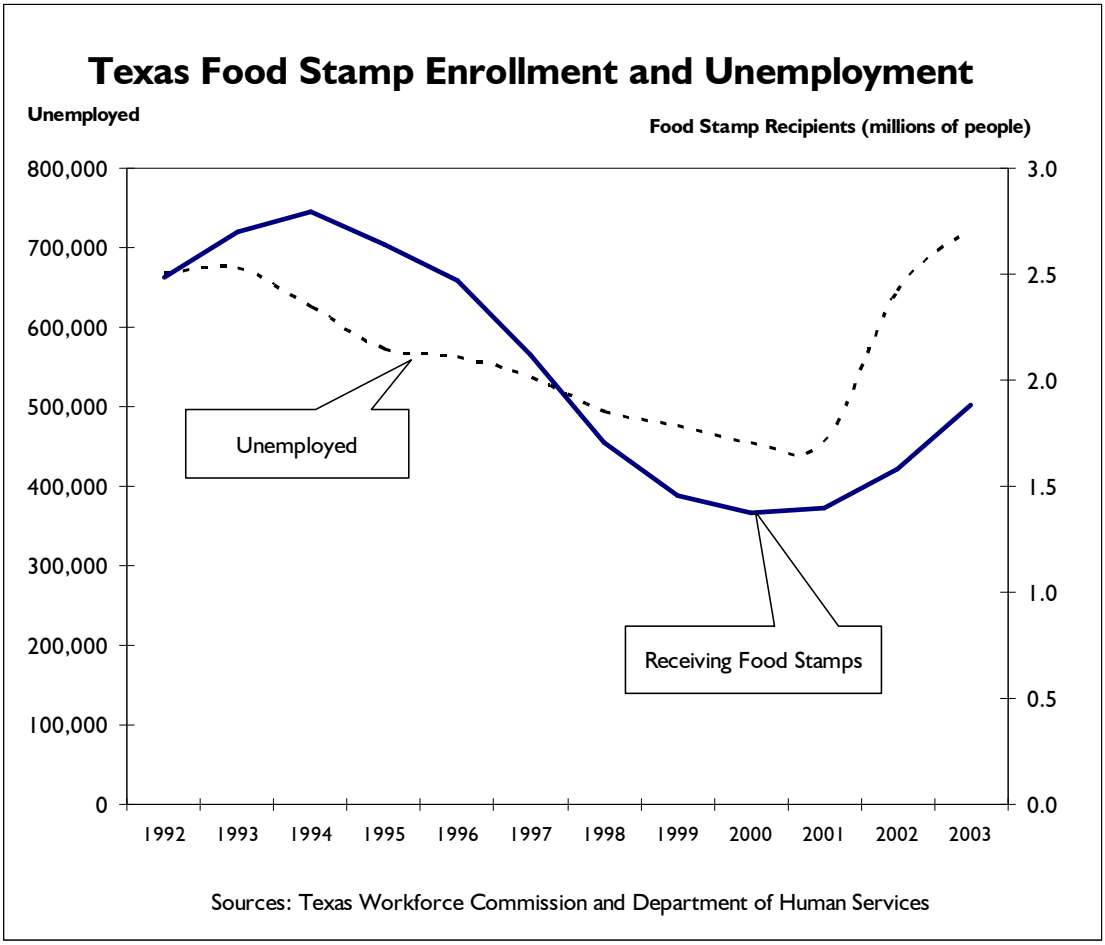
Texas is now using a "full-family sanction" in its TANF cash assistance program which terminates all assistance to both children and parents for any program infraction.

Another significant change to sanction policies affects adults who do not receive any TANF assistance for themselves, but are caretakers of children receiving TANF. These are known as "child only" or "payee" cases. The caretakers are typically grandparents, other adult relatives, or parents who have hit their state TANF time limits. These "payees" must now sign a limited version of the Personal Responsibility Agreement (PRA) requiring them to cooperate with child support enforcement; keep children up to date with health screens and immunizations; not abuse drugs or alcohol; and meet school attendance requirements for themselves and/or the children in their care. With this change, "payee" cases are also subject to the new sanction policies, and TANF assistance

[27] For more detail on these new policies, see CPPP Policy Page 195, http://www.cppp.org/products/policypages/191-210/html/PP195.html

to the children in their care will be terminated if the adult does not comply with the PRA.[28]

Food Stamps and the Child Nutrition Programs



As federal nutrition program benefits are 100 percent federally funded, these programs for the most part escaped the budget ax in 2003. However, HB 2292's reorganization of health and human service agencies (see below), and the proposed use of call centers to determine eligibility for Food Stamps and other safety net benefits that resulted from this legislation, could negatively affect access to the programs, which do use some state funds to pay for their staff and other administrative costs.

Food Stamps: Food Stamp enrollment has recovered significantly since the dramatic and unexpected decline that followed welfare reform. By October 2003, the number of Texas Food Stamp recipients had grown to over 2.2 million, a 57 percent increase over the average monthly caseload in fiscal 2001. Despite this growth, the Department of Human Services estimates that only 36 percent of eligible Texans receive Food Stamps, down from 54 percent in 1996. Food Stamp caseloads still remain far below 1994 levels, when

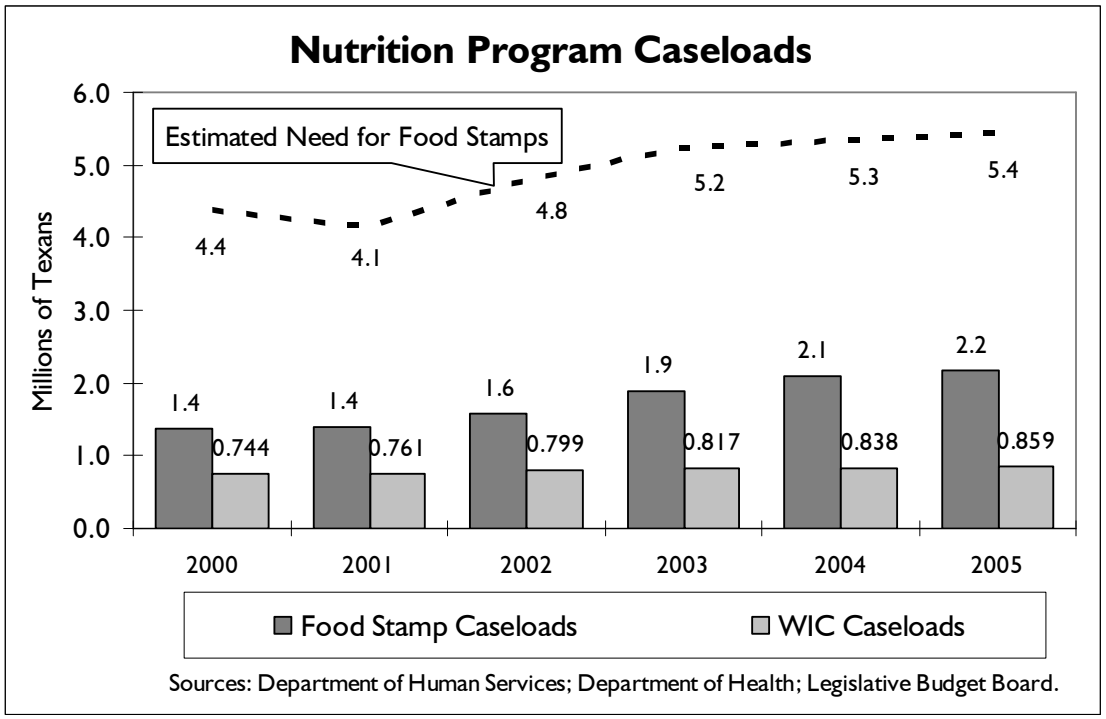
[28] For more background on TANF in Texas see http://www.cppp.org/policy/tanf/index.html#TANF and http://www.dhs.state.tx.us/programs/TexasWorks/TANF.html

caseloads peaked at 2.7 million recipients, even though unemployment was much lower then than it is now. Since 2001, the gap between the number of unemployed and the number of Food Stamp recipients has grown significantly.

Food Stamp benefits—over $1.8 billion in fiscal 2003—go directly into the state's local economies when clients buy groceries. When Food Stamp caseload declines outpace economic gains, as they did during the mid- to late 1990s, low-income communities and families suffer. The steep decline in Food Stamp enrollment from 1996 to 2002 resulted in a cumulative loss statewide of over $4.5 billion in federal funds, with losses as high as $1 billion in Harris County, $547 million in Dallas County, and $387 million in Bexar County. When eligible families don't receive Food Stamps, they not only decrease spending on food, but also on other goods such as housing, clothing, and health care, which in turn affects economic output in those sectors. Each federal Food Stamp dollar generates an estimated $1.84 in state economic activity.

Food Stamp benefits—over $1.8 billion in fiscal 2003—go directly into the state's local economies when clients buy groceries. When Food Stamp caseload declines outpace economic gains, as they did during the mid- to late 1990s, low-income communities and families suffer.

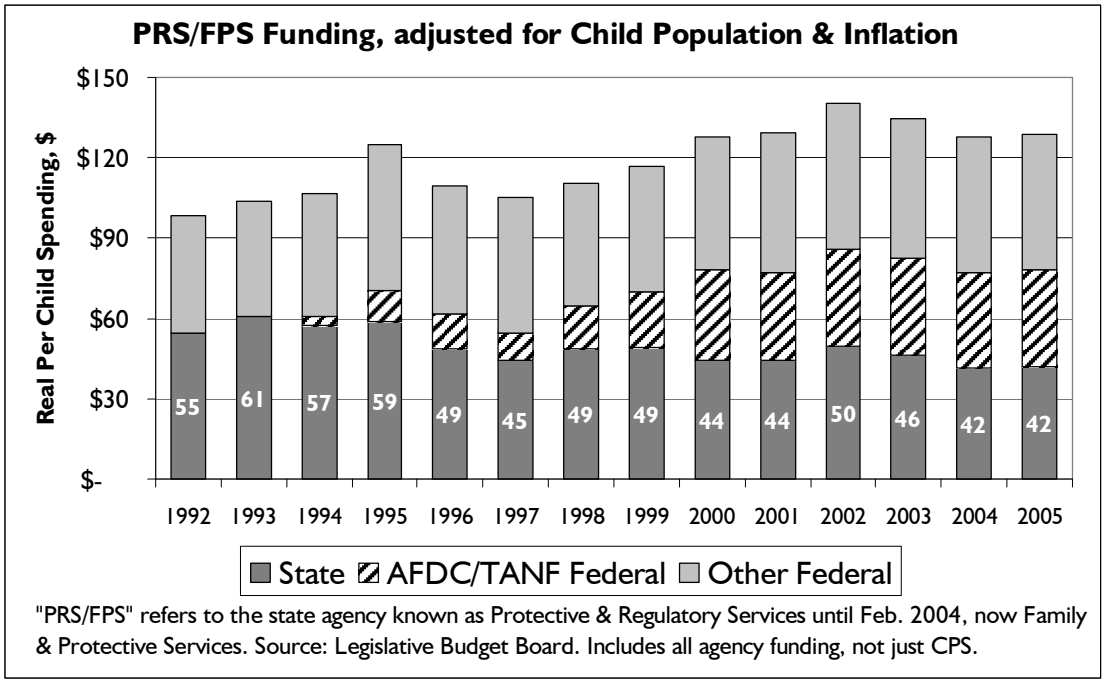
In the current economic slump Food Stamps are more important than ever—particularly in Texas, a state with limited unemployment benefits. Over 5 million Texans were eligible for Food Stamps in 2003, yet fewer than 1.9 million received these benefits. If Texas had reached at least 54 percent of those eligible for Food Stamps in 2003 (the 1996 participation rate), the increase in participation would have drawn down $2.5 billion more in federal Food Stamp benefit revenue.



Sources: Department of Human Services; Department of Health; Legislative Budget Board.

Nutrition programs outreach: The 2004-05 budget retains the provision that allows the Department of Human Services to spend money on outreach for the Food Stamp and Summer Food Service Program (SFSP). SFSP is the federal nutrition program that provides meals and snacks to low-income children when school is out and children no longer have access to the school meals program. The legislature first approved funding for these initiatives in 1993, but funding was not available until 1999, when DHS received a $19 million federal bonus for excellence in Food Stamp program administration. Since then, DHS has received annual performance bonuses and dedicated a portion of them to nutrition programs outreach. DHS spends roughly $350,000 per biennium on Food Stamp outreach, which is matched by federal funds. DHS also uses these funds to operate a summer food outreach program and offer a small supplemental per meal reimbursement to program sponsors. In 2002, Congress changed the performance measurement system in the Food Stamp Program, which greatly reduced the amount of bonus money states could receive. It is unclear whether DHS will have enough money in its budget in fiscal 2005 to continue its outreach program.

Child Protective Services and Other Child Welfare Programs



"PRS/FPS" refers to the state agency known as Protective & Regulatory Services until Feb. 2004, now Family & Protective Services. Source: Legislative Budget Board. Includes all agency funding, not just CPS.

On February 1, 2004, the Department of Protective and Regulatory Services was transformed into the Department of Family and Protective Services (FPS). The renamed agency, which oversees state adult and child protective services (CPS), foster and adoption payments, child care licensing, and prevention programs for at-risk and neglected youth, is funded at $483 million in General Revenue for 2004-05, a 6.7 percent reduction from 2002-03. However, the loss of General Revenue was offset by increased federal and other funds (primarily state Crime Victims Compensation), for an all-funds biennial budget increase of 4.8 percent.

Funding for child protective services is one of the few bright spots in the 2004-05 health and human services budget: HB 1 authorizes the hiring of new CPS staff to keep the caseloads per child abuse investigator from getting heavier. HB 1 allows 356 staff to be added at FPS in the next two years (178 in 2004, followed by another 178 in 2005). At-risk Prevention Services, which in HB 1 appear to be funded at almost $50 million annually, are actually receiving about $33 million per year once the transfer of Communities in Schools to the Texas Education Agency is taken into account. This translates to a biennial reduction of more than 20 percent. Among the prevention programs formerly overseen by FPS, Communities in Schools fared the best, with a recommended funding level that will allow for a small increase in the number of students served—from 58,973 in 2002 to 59,577 in 2005.

Funding for child protective services is one of the few bright spots in the 2004-05 health and human services budget: HB 1 authorizes the hiring of new CPS staff to keep the caseloads of child abuse investigators from growing to even more untenable levels.

Cuts in programs that prevent child abuse: Most other prevention programs saw cuts or complete elimination of state support. Two child abuse prevention programs at FPS lost all state funding in the next biennium, and one will see a funding reduction. The two programs that were zero-funded in 2004 are: (1) Healthy Families, which served 1,768 families in 19 communities in 2003; and (2) Family Outreach, which had 30 centers operating locally with a clientele of 997 families. A third category of programs, Tertiary Prevention of Child Abuse, served up to 320 families in 2003 and will receive up to $120,000 annually in FPS funding. The STAR program (Services to At-Risk Youth), which served 6,390 youth in 2003, is funded at a lower level (at $18.6 million annually, or 11 percent less than fiscal 2003 funding). This reduced funding will allow STAR to reach only 5,367 youth annually in 2004-05—a drop of 1,023 clients.

Cuts in programs that prevent delinquency: One program aimed at preventing juvenile delinquency is no longer receiving state funds in the coming biennium: At-Risk Mentoring (Big Brothers/Big Sisters), which served more than 2,400 youth in 2003 at an annual cost of $1.3 million.

Legislators authorized FPS to spend up to $250,000 annually (a 9 percent annual increase from 2003 funding levels) on the Buffalo Soldiers Heritage Program, which reaches almost 300 minority and at-risk youth in five Texas counties.

One delinquency prevention program, the Community Youth Development (CYD) grants, was cut by 16 percent for the biennium, reducing funding to $7.1 million annually. At this lower funding level, CYD will serve 5,772 youth, down from 6,871 in 2003.

Cuts in programs that support academic success: In this category, three programs are no longer receiving funding through FPS: (1) the **HIPPY program** (Home Instruction Program for Preschool Youngsters), which provided services for 393 families and their 403 children in fiscal 2003; (2) **Second Chance**, which reached 763 teen parents and

their 839 children in Bexar, Dallas, Harris, and Hidalgo counties; and (3) the **Parents as Teachers** program, which served 413 parents and their children aged 5 or under through five sites in Texas. (Note: many other Parents as Teachers sites do not receive funding through PRS contracts and are not affected by state budget cuts.) Eliminating these three programs cut almost $2 million annually out of the FPS budget.

Other cuts: The Texas Families: Together and Safe program provides family support services such as case management, counseling, parenting education, adult education, and job readiness classes. Its budget was reduced 3 percent between 2003 and 2004.

Most prevention programs saw cuts or complete elimination of state support.

The Family Outreach program had consisted of 27 state-employed case managers who worked with local centers staffed by trained community volunteers who helped at-risk families. The program no longer has state funding, reducing the state budget by $1.4 million annually.

Facility Based Youth Enrichment was a program that funded various gang activity prevention programs. Like Family Outreach, it is now zero-funded.

The Children's Trust Fund no longer has any staff of its own; instead, money raised through the trust fund goes to prevention programs in the FPS budget.

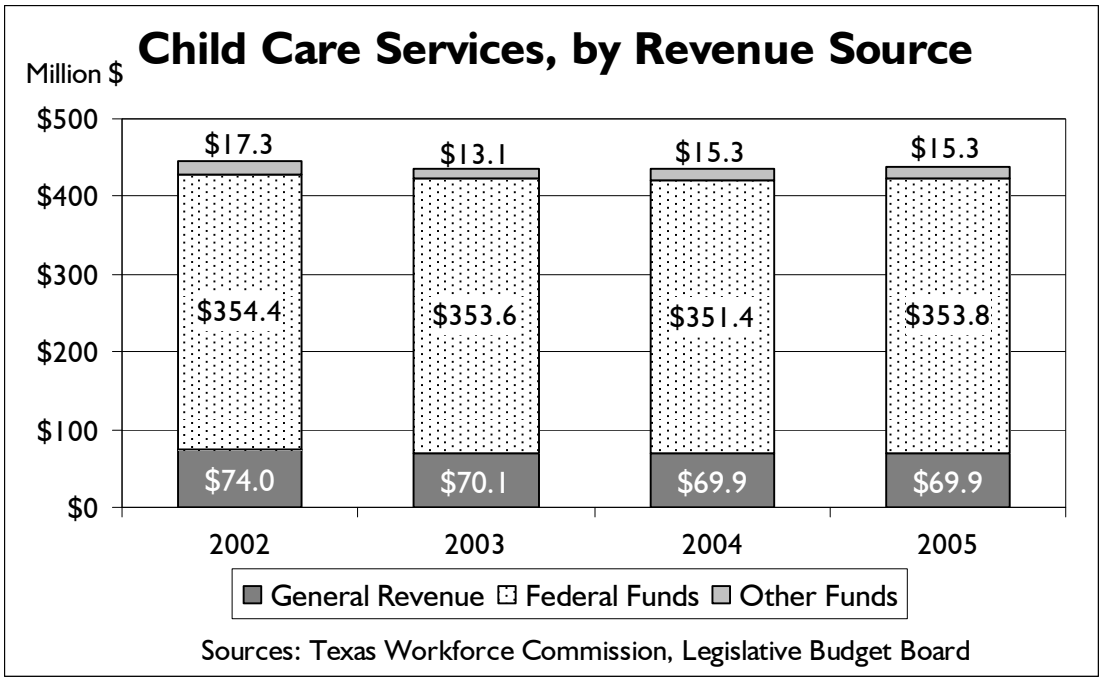
The impact of the FPS cuts on the Runaway Hotline thus far is a 19 percent reduction in total funding between 2003 and 2004.

Foster care payments and adoption subsidies: These budget items received all-funds increases of 15 percent and almost 16 percent, respectively, to handle growing caseloads. But among the many social services provider rate cuts in the 2004-05 budget is a 3 percent reduction ($17 million cut in General Revenue) in foster care payments. These cuts will only increase the current scarcity of foster and adoptive homes. Already caseworkers have trouble finding a good foster home for each child; 3,500 children are now eligible, but waiting, for an adoptive home.

General Revenue funding reductions were made to foster care and adoption subsidy payments as a result of changes in the Level of Care system; administrative cuts; and a new tiered plan for adoption subsidies. The new foster care rates went into effect October 1, 2003. The new tiered payment schedule for adoption subsidies applies only to children placed after September 1, 2003.

Cuts in purchased services provided to families: Services such as counseling, substance abuse treatment, protective and foster day care, parenting classes, anger management, and skills training, are provided to certain children and their families in the CPS system. This budget strategy was cut 4.3 percent by the 2003 legislature overall, but in General Revenue terms, the cut was much greater (22.4 percent). (Originally, PRS had sought a 30 percent increase in funding for client services.) In addition, clients will find it harder to receive some types of mental health counseling, due to Medicaid cuts in this area for all adults. The damage to the CPS system of some of these cuts could be offset in other

parts of the budget: the Commission on Alcohol and Drug Abuse, for example, is directed in the budget to use $2.1 million in federal substance abuse funds to serve clients referred by FPS. But reductions in services are still taking place, making it more difficult for families to get the help they need.



CHILD CARE

The child care programs managed by the Texas Workforce Commission (TWC) and local workforce boards provide subsidized child care for low-income working parents, for welfare recipients who are preparing for and entering employment, and for a small number of children in foster care and protective services. Child care funding is the largest single component of TWC's budget. For 2004-2005, TWC's total budget is $2.1 billion, with child care services slated to receive $876 million, or 42 percent of the overall budget. The lion's share of TWC child care funding—almost 83 percent, or $724 million, for the biennium—comes from the federal Child Care and Development Fund (CCDF). State funds are needed to draw down some of the CCDF dollars: the state CCDF match is $84.3 million in General Revenue for 2004-05. Another $55.5 million in General Revenue for the biennium will be used in the TWC child care budget to help meet maintenance of effort (MOE) requirements for TANF. ("Maintenance of Effort" refers to a state's obligation to spend state funds to receive TANF federal funds.) TWC is also budgeted $25.6 million in interagency contracts to provide child care for children in foster care and protective services, and $5 million in receipts as part of the local funds it uses as additional match for CCDF (see more details below).

Child care funding is the largest single component of TWC's budget. For 2004-2005, TWC's total budget is $2.1 billion, with child care services slated to receive $876 million, or 42 percent of the overall budget.

Because of TWC's heavy reliance on federal funds (88 percent of its total budget), the agency's programs did not see the kind of budget cuts experienced by other programs getting significant amounts of General Revenue. Moreover, much of the General Revenue appropriated to the agency is needed to draw down federal funds. Nonetheless,

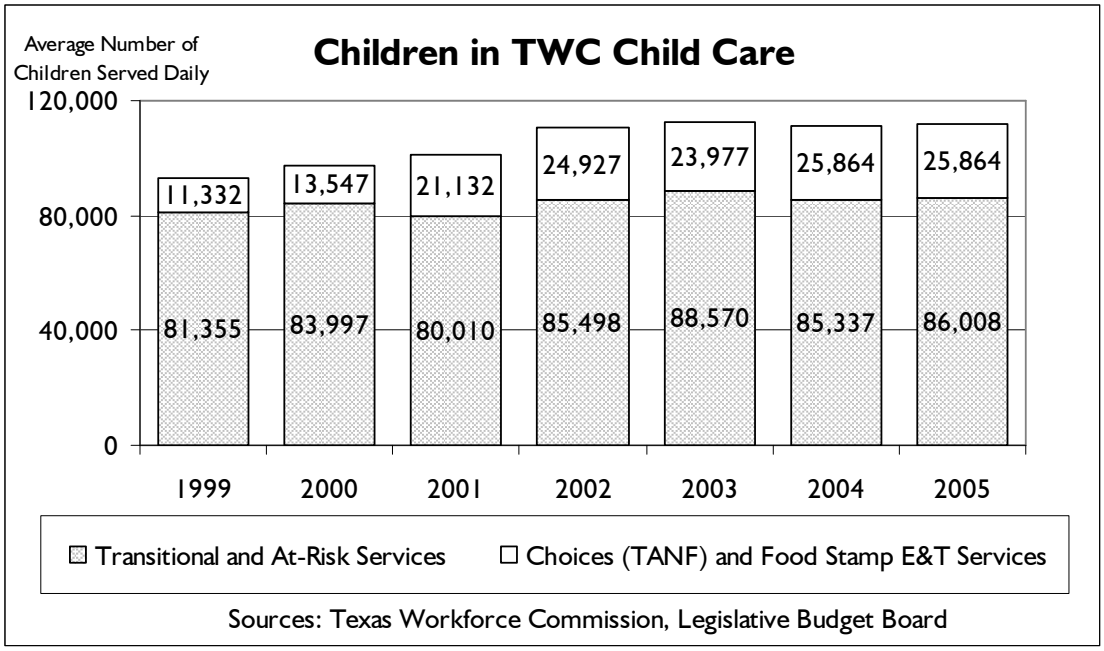
growth in demand for various programs and services combined with stagnant funding has resulted in pressures on certain programs and an increased reliance on local child care match dollars.

Child Care Services, by Eligibility Category				
	2002 (million $)	**2003** (million $)	**2004** (million $)	**Percent Change, 2002 to 2004**
Choices/E&T Child Care	$113.2	$115.1	$117.4	4%
Transitional Child Care	80.6	109.2	108.6	35%
At-Risk Child Care	240.2	201.6	198.4	-16%
Foster Care Child Care	11.6	11.0	12.8	10%
Total	$ 445.60	$ 436.90	$ 437.20	
Sources: Texas Workforce Commission, Legislative Budget Board				

The biennial funding level of $876 million for TWC child care services represents a decrease of $6.8 million from the $882.5 million spent on child care in 2002-03. At this funding level TWC anticipates serving an average of 111,201 children per day in 2004 and 111,872 children per day in 2005. These numbers include: (1) children whose parents or caretakers are TANF recipients and enrolled in the Choices employment services program; and, (2) children whose parents are eligible for Transitional or At-Risk Services. TANF recipients enrolled in Choices are automatically eligible for child care assistance if they need it. Transitional child care is provided for 12 months to welfare recipients who have found a job and are no longer eligible for TANF assistance. At-Risk child care services are available—to the extent that funding permits—to low-income, or "working poor," families. Income eligibility limits for At-Risk child care services are set by local workforce development boards but cannot exceed 85 percent of the state median income (about $48,000 in annual income for a family of four). Most boards have set the income limit much lower—at 150 percent of the federal poverty guidelines, or about $28,275 annually for a family of four. Families receiving At-Risk child care services are charged a co-payment on a sliding scale (also set by the local boards), which generally ranges from 9 to 11 percent of the family's gross monthly income.

The demand for At-Risk services is much greater than available funding can meet. An estimated monthly average of 36,400 children is expected to be on child care waiting lists in fiscal 2004. Fewer than 10 percent of Texas children who are federally eligible for child care are reached by the TWC subsidy programs. Additional pressure on the At-Risk program has been mounting in recent years. As welfare reform policies have required more and more TANF recipients to prepare for and enter employment, more child care dollars have shifted to the Choices and Transitional child care services. This trend is expected to continue in response to the likely congressional reauthorization of TANF during the 2004-05 biennium. Early assessments by the Department of Human Services and TWC suggest that the proposed increases in federal work requirements could create

a need in Texas for more than $300 million over five years in additional Choices and child care services. If no new federal child care funds accompany these changes, the state may have to shift even more child care slots away from the At-Risk program, which will lengthen waiting lists and leave even more low-income working families without the child care they depend on to go to work.



Impact of state funding decisions on local communities: Static funding and increased demand has had other effects on the child care system. One has been the growing reliance on local matching funds to draw down the matching portion of federal child care funding. The chart below shows the expected local matching funds assumed in child care appropriations from the 2000-01 biennium through the 2004-05 biennium. It also shows the actual funds collected. Clearly, local communities have responded well to the increased fiscal challenge, raising more money when additional federal funds became available between biennial sessions. However, the target for local matching funds for 2004-05 is $39.6 million, $16 million above the targets for 2002-03 and $4.4 million above what has been collected. These increased expectations come at a time when cities and counties, non-profits, and other local match donors are struggling with their own budget problems. Another concern about the increased reliance on local funds is the potential for the communities most in need of child care subsidies to be the same communities unable to meet the increased local matching fund expectations, while wealthier communities draw more child care dollars because of their fiscal capacity.

The target for local matching funds for 2004-05 is $39.6 million, $16 million above the targets for 2002-03 and $4.4 million above what has been collected.

Local Matching Funds in the Child Care Program *(million $)*			
	2000-01	2002-03	2004-05
Initial Local Match Target for Federal Matching Funds	$11.5	$23.5	$39.6
Local Match Target for Additional Federal Funds That Became Available	10.8	16.2	NA
Total Local Matching Target for All Unmatched Federal Matching Funds Available	22.3	39.7	39.6
Total Local Matching Funds Received	$18.9	$35.2	$3.6
Note: collections for fiscal 2003 are still outstanding and funds are just coming in for fiscal year 2004 Source: Texas Workforce Commission			

Impact of state funding decisions on child care quality: Another negative effect of funding pressures in the child care program has been the significant reduction of support for efforts to improve the quality of child care services. Federal law requires that at least 4 percent of the CCDF be set aside for quality activities. In past years this minimum spending threshold was passed on by the state to local workforce boards that, in turn, had to develop or fund quality improvement activities such as training caregivers, offering developmental resources to child care centers, and supporting special projects. Starting in the 2002-03 biennium the state started to count state spending on child care licensing and monitoring towards this federal requirement and removed the pass-through requirement to local boards. While some state-level quality initiatives are still supported, very few local initiatives have survived as the pressure to fund child care slots over quality activities has mounted. One indication of this dramatic change can be found in one of the state budget's performance measures, "Number of Caregivers Trained through TWC Child Care Training Programs." The number of caregivers trained was 79,888 in 2003 but is projected to fall to 10,000 by 2004.

JOB TRAINING

Two training programs at TWC that benefit low-income job seekers escaped budget cuts this past session. The Skills Development Fund is supported entirely by General Revenue and will remain at $12.4 million per year for 2004-05. The Self-Sufficiency Fund, which is entirely funded by federal TANF dollars and is supposed to target current and former TANF recipients, will remain at nearly $3 million per year.

Staffing Changes by Government Function			
	2002 staffing	2005 staffing	Percent Change
Texas Education Agency	861	737	-14.4%
Higher Ed. and other Education Agencies	82,125	81,342	-1.0
Public Safety/Criminal Justice	55,916	54,649	-2.3
Health and Human Services	49,544	46,822	-5.5
Business and Economic Development	19,500	19,181	-1.6
General Government	9,268	9,562	3.2
Natural Resources	8,601	8,580	-0.2
Regulatory	3,623	3,715	2.5
Judiciary	1,337	1,321	-1.2
Total	**230,774**	**225,908**	**-2.1%**

Source: Legislative Budget Board

STATE WORKER REDUCTIONS

Overall, HB 1 authorizes a staffing level of 225,908 full-time equivalent (FTE) employees by fiscal 2005. This represents a decrease of about 4,900 state workers, or a 2.1 percent cut, compared to fiscal 2003 staffing levels. The decreases become even more significant when examined more closely, by government function. The most severe reductions in staffing are at the Texas Education Agency (14.4 percent reduction in FTEs), health and human services agencies (5.5 percent reduction), and public safety and criminal justice (2.3 percent reduction).

In state government staffing levels, as in state spending overall, Texas already ranked near the bottom even before the cuts made in 2003. According to the Census Bureau, in 2002, Texas had only 124 state government FTE workers per 10,000 state residents compared to a national average of 147 workers, ranking Texas 44th nationwide. The only major area in which Texas had significantly more state workers per capita was in prisons: Texas had 21 corrections employees per 10,000 state residents, compared to a national average of 16 corrections employees per 10,000 residents.[29]

[29] Employment information is from the U.S. Census Bureau, *State Government Employment and Payroll: March 2002*, at http://www.census.gov/govs/www/apesst02.html. Population estimates for 2002 are from the Census Bureau.

Health benefits cuts: The Uniform Group Insurance Program (UGIP) is how most state government employees in Texas get their health insurance benefits. In 2003, UGIP provided health coverage to more than half a million Texans, or an estimated 526,000 state employees, retirees, and their dependents.[30]

At the start of the regular session, the Employees Retirement System (ERS) informed legislators that a $716 million *increase* in total funding would be needed for UGIP to maintain health insurance for state workers and retirees at the 2002-03 level without cuts in benefits. Instead, HB 1 *reduced* funding for UGIP by about $12 million in total funds, or $24 million in General Revenue. This means that almost $730 million was cut from UGIP, compared to current services levels in effect during 2002-03. Benefit design changes alone resulted in almost $300 million in General Revenue reductions.[31] Some of the spending cuts took the form of reduced coverage (such as a new 90-day waiting period before health insurance takes effect for some retirees and for newly hired state employees); the remainder was mostly higher co-pays and other out-of-pocket expenses for UGIP participants. ERS estimates that the amount of cost-shifting from the state to beneficiaries in the 2004-05 budget amounts to $900 annually per state employee or retiree.[32] ERS implemented those cuts to state worker health insurance that did not require changes to state law in May 2003; the other cuts were authorized by SB 1370 of the regular 2003 session.

Staffing Cuts from Health & Human Services Reorganization and Consolidation

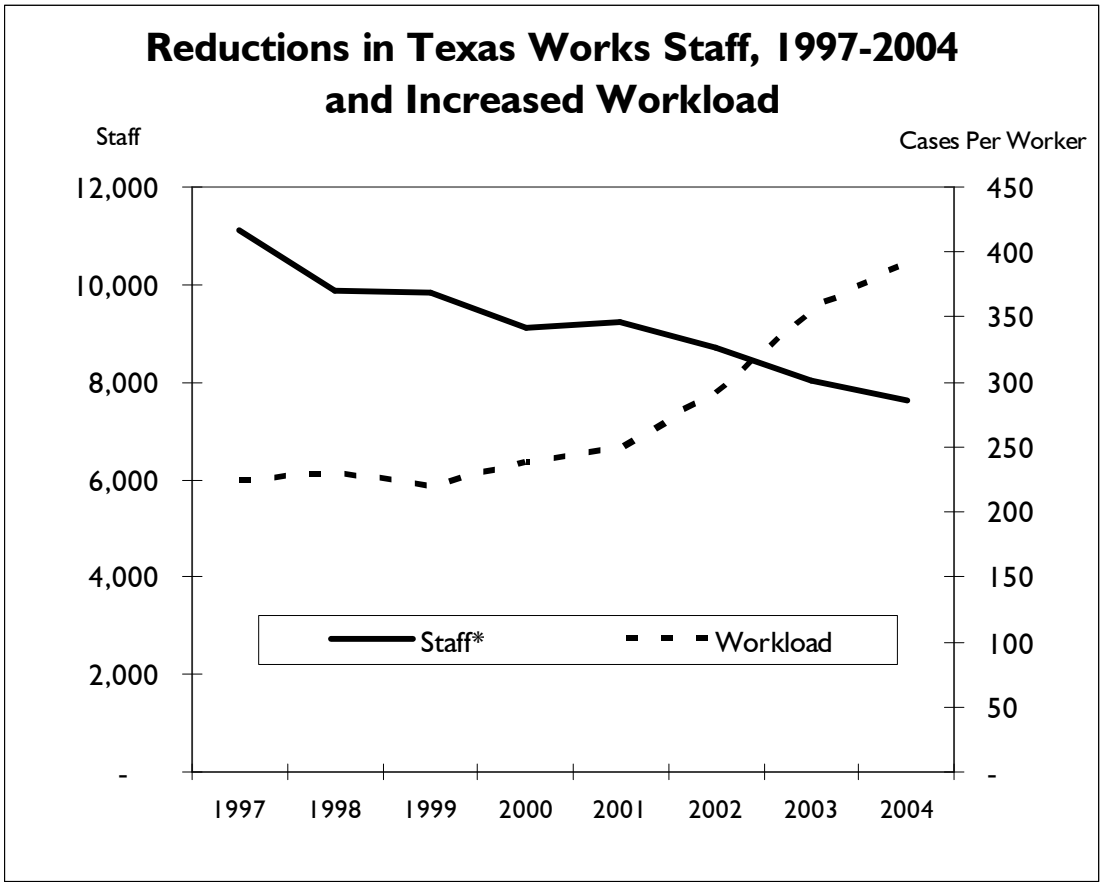
Article 1 of HB 2292 abolished eleven HHS agencies and consolidated their functions into four new agencies: the Department of State Health Services, the Department of Aging and Disability Services, the Department of Assistive and Rehabilitative Services, and the Department of Family and Protective Services. These four agencies are placed under the authority of the Health and Human Services Commission, with administrative support services and policymaking responsibility for all HHS agencies centralized at HHSC.

HB 2292 also transferred the responsibility for all eligibility determination services from DHS to HHSC and directed HHSC to determine whether call centers offer a cost-effective way to determine eligibility for, and enroll people in TANF, Food Stamps, Medicaid, CHIP, Supplemental Security Income, and community-based and long-term care programs, and whether to outsource the operation and functions of the call centers to private companies. Up to four call centers could be established statewide under this provision. Although HHSC is required to maintain a local network of offices to assist clients who need a personal interview, the legislation does not specify how many offices must be kept open or where they should be located.

The fiscal note for HB 2292 projected a net reduction of 2,312.5 state workers by 2005. The total General Revenue savings assumed as a result of these changes is $79.2 million

[30] Legislative Budget Board, *Fiscal Size-Up, 2004-05 Biennium*, p. 86.
[31] HB 1, Article I, Employees Retirement System, Rider 5, p. I-44.
[32] Legislative Budget Board, *Fiscal Size-Up, 2004-05 Biennium*, p. 87.

for the fiscal 2004-05 biennium, with $19.5 million of these savings attributable to call centers. The projected staff reductions are a combined result of (1) the consolidation of HHS agencies and administrative functions (HB 2292 consolidated 12 HHS agencies into five and centralized all administrative functions for these agencies at HHSC), (2) moving eligibility services to HHSC, and (3) call centers.



Sources: Department of Human Services, Legislative Appropriations Requests and Fiscal 2004 Operating Budget.

* These numbers do **not** reflect staff reductions resulting from the use of call centers or HHSC consolidations. Staff levels and workload projections for 2005 are not yet available. Local hospital-based workers are included.

Call centers: In March 2004 HHSC presented a plan for call centers to legislators. The plan calls for a 57 percent reduction in DHS eligibility offices and staff—4,487 workers—and the replacement of these offices and workers with three call centers. HHSC estimates a savings of $389 million in state and federal funds over five years under the proposal, with roughly $32 million in savings in 2004-05. (Only $15 million of the money saved in 2004-05 would be state General Revenue.) The proposal includes the creation of an online application for benefits, as well as the use of community-based organizations and their volunteers to assist clients in entering and navigating the automated system.

While the model contains some interesting elements, HHSC makes questionable assumptions to justify such drastic staff reductions and office closures, which raise the concern that the proposed system could be less accessible by clients, particularly seniors, persons with disabilities, rural residents, and persons with language barriers. For example, HHSC assumes that 15 percent of applications for benefits will be made over the Internet with clients able to use computers at local libraries and schools, after hours and on the weekends. Yet, HHSC offers no research to support this conclusion, and computers may not be as widely available to poor people as assumed in the proposal. The proposed model also appears to rely heavily on community-based organizations and volunteers to assume some of the functions now done by state workers, which raises the concern that a significant responsibility and cost is being shifted from the state to local communities, the same communities and organizations that are already reeling from health care and other service cuts in 2004-05.

Most notably absent in HHSC's analyses of how call centers would work is any analysis of whether current eligibility staffing levels are adequate to manage applications for and caseloads in these programs under the current system—despite obvious indicators that they are not.

For example, the number of authorized Texas Works caseworkers (Food Stamps, TANF, family Medicaid) was reduced 28 percent between 1997 and 2003, with a cumulative cut of 31 percent projected by fiscal 2004. At the same time, Medicaid enrollment has grown from 1.8 million in 1997 to 2.5 million in 2004, and current food stamp enrollment is at 2.1 million, the same level it was in fiscal year 1997. As a result, workload (measured in terms of the number of cases managed per worker) increased 30 percent between 1997 and 2003, and is expected to increase even more by the end of fiscal 2005 as a result of HB 2292 and other staff reductions in 2004-05. Inadequate staff levels at DHS eligibility offices have led to poor customer service, lawsuits, and, most recently, disruptions in services to Medicaid clients as a result of a backlog in the processing of renewals.

HHSC also has proposed outsourcing the call centers to private companies, if cost-effective, and issued a draft Request for Proposal to businesses in June 2004. Implementation of the system is planned to begin in September 2004 and be complete by August 2005, with all staff reductions and office closures done by 2006.

EPILOGUE

As this report goes to press, the 78th Texas Legislature has ended its 4th Called Special Session, and it is possible that additional sessions may still be called to overhaul the current school finance system. Nearly all options open to elected officials will require that the overall revenue system be altered and new sources of state revenue considered. The revenue choices made by lawmakers in any future session will not merely shape how Texas supports public education, but will also determine the revenue available for all other areas of state government. Whenever this debate resumes, the state will face a critical decision point. The outcome will establish—for the foreseeable future—whether or not Texas will have a revenue system that raises enough to support all of the state's growing needs. As this report has detailed, Texas is already leaving too many of its residents and communities in the wake of budget cuts, reduced services, and inadequate investments. As the looming school finance debate goes, so goes the state.

Several possible outcomes of a school finance session could result in a revenue structure that would be even worse than the status quo. For example, a new revenue structure may not provide any new revenue for health and human services, prisons, parks, higher education, environment, or general government; leaving all these state services starved after an already devastating set of budget reductions. One recent proposal would also restrict local governments from raising their own taxes, making it difficult for them to meet new or growing local needs, or to make up for state budget cuts. Another proposed change would commit one-third of all new state revenues to be used to reduce local property taxes, replacing local school funding, but with no net increase in overall funding for schools. In this scenario, even if the restructured tax system produced more revenue than the current system, future revenue increases would have to be much larger than what is needed for growth, because one-third would always be set aside to supplant local funds, keeping Texas "running in place" as its population and needs soared. Applied to our current anemic tax system, such a formula would virtually guarantee even greater state budget cut-backs than we have already seen. Finally, if school finance legislation provides new revenue only for public education, but not for any other function of state

government, the legislature will be hard-pressed to subsequently find new tax revenue for all the other state services. Again, the likely result will be even greater state budget cut-backs than Texas has already seen. For this reason, it is essential that the overhaul of school funding be considered together with all other revenue demands.

CPPP has offered numerous recommendations about how to meet the state's budget challenges. During the last session, as lawmakers weighed the sweeping budget cuts being proposed we recommended that an increase in tobacco taxes be used to avoid the worst Medicaid, CHIP, and other health and human services program cuts. Unfortunately, this option was not chosen and cuts that could have been avoided ultimately transpired. To make matters worse a tobacco tax is now being floated as one source of new revenue in the school finance overhaul. We strongly believe that a tobacco tax should be reserved to restore health and human services program cuts and not diverted for public school finance. A tobacco tax increase of $1.00 per cigarette pack would (in the near term) provide sufficient new revenue to restore the Medicaid and CHIP cuts by the 78th Legislature, as well as support growth in health and human service caseloads. Restoring these budget cuts must be a top priority. Texas communities are bearing the burden of recent state fiscal decisions and local health care systems cannot absorb the higher burden of uncompensated care and the enormous loss of federal funding that has resulted from these cuts indefinitely.

But, a tobacco tax targeted at restorations will not solve Texas' larger fiscal challenge. This report has detailed the most recent results of a decade of legislative action and inaction that has shaped the state's revenue system. Texas is limping along on an inadequate tax system and systematically undercutting its future economic security. The fiscal choices of the past have yielded a persistent structural revenue deficit which, if unresolved, will continue to force painful cut-backs in services to Texas' most needy and vulnerable citizens, and will inevitably erode the quality of basic government functions important to every Texan. In turn, the ability of the state to build a competitive workforce, lure high-wage businesses, improve quality of life and support economic growth will be terminally hobbled. Only with a modernized revenue system will our state be able to achieve stable funding for an acceptable standard of state services for all Texans. It is unfortunate that the painful service and program cuts outlined in this report have had to occur to perhaps turn some attention to these larger challenges.

Appendix A: Strategy Level Funding Changes

The information in the table below shows All-Funds appropriations at the budget strategy level for 2004-2005 in millions of dollars, and how that compares to the amount spent on that strategy in 2002-2003. General Revenue spending or appropriations (also in millions of dollars) is shown for the entire agency only.

Staffing indicates the level of full-time employees budgeted or appropriated in the second year of the biennium, unless otherwise indicated.

If the amount budgeted by an agency in 2004 for a particular strategy is significantly different from the appropriated level for that strategy, the budgeted amount is shown in a footnote.

As of February 1, 2004, the Department of Protective and Regulatory Services became the Department of Family and Protective Services. On March 1, 2004, the following became part of the new Department of Assistive and Rehabilitative Services: the Commission for the Blind; Commission for the Deaf and Hard of Hearing; Interagency Council on Early Childhood Intervention; and the Rehabilitation Commission.

The sweeping reorganization and consolidation changes to state health and human services agencies contained in HB 2292 will alter many of the agency and strategy details included in this Appendix. For more information about the planned changes see the section of the HHSC website dedicated to the consolidation changes at:

http://www.hhsc.state.tx.us/Consolidation/Consl_home.html
and an organizational chart at:
http://www.hhsc.state.tx.us/Consolidation/post78/HB2292_OrgChart_color.pdf.

Strategy Level Funding Changes Comparing Appropriations for 2004-05 to Spending for 2003-03

	Spent in 2002-03 (million $)	Appropriated for 2004-05 (million $)	Total change (million $)	Percent change (%)
Department on **Aging**				
Services and Opportunities	137.9	144.0	6.0	4.4
Direct/Indirect Administration	6.9	6.1	-0.8	-11.2
TOTAL FUNDING	$144.8	$150.1	$5.3	3.6
General Revenue	$15.5	$13.6	- $1.9	-12.5
Staffing	35.0	35.0	-	-

	Spent in 2002-03 (million $)	Appropriated for 2004-05 (million $)	Total change (million $)	Percent change (%)
Commission on **Alcohol & Drug Abuse**				
Prevention Services	57.2	54.3	-2.9	-5.0
Intervention Services	68.4	60.7	-7.7	-11.2
Treatment Services	167.7	167.1	-0.6	-0.4
Criminal Justice Treatment Services	6.5	-	-6.5	-100.0
Compulsive Gambling	0.8	-	-0.8	-100.0
Compliance	7.5	9.7	2.2	29.3
Performance Management	5.0	6.3	1.3	26.0
Indirect Administration	7.4	8.3	0.9	12.9
TOTAL FUNDING	$320.5	$306.5	-$14.0	-4.4
General Revenue	$ 45.2	$ 44.4	- $ 0.7	-1.6
Staffing	178.0	187.8	9.8	5.5
Attorney General				
Child Support Enforcement	428.6	413.6	-15.0	-3.5
State Disbursement Unit	66.8	75.2	8.3	12.5
General Revenue for above strategies	$ 156.6	$ 143.4	-$13.1	-8.4
Staffing for CSE (for 2003 and 2004-05)	2,666.3	2,753.1	86.8	3.3
Commission for the **Blind**				
Independent Living Skills	3.7	5.0	1.3	35.7
Habilitative Services for Children	6.7	5.2	-1.5	-22.5
Blindness Education	2.1	1.2	-0.9	-42.3
Vocational Rehabilitation	66.3	71.8	5.5	8.2
Business Enterprises of Texas	3.5	4.3	0.8	23.6
Business Enterprises Trust Fund	0.9	0.8	-0.1	-6.9
Indirect Administration	8.5	9.3	0.9	10.0
TOTAL FUNDING	$ 91.8	$ 97.8	$ 6.0	6.5
General Revenue	$ 23.1	$ 21.2	-$ 1.9	-8.2
Staffing	607.3	617.5	10.2	1.7

	Spent in 2002-03 (million $)	Appropriated for 2004-05 (million $)	Total change (million $)	Percent change (%)
Cancer Council				
Enhance Cancer Services	7.1	6.1	-1.0	-14.5
Direct and Indirect Administration	0.9	0.9	-0.04	-4.0
TOTAL FUNDING	$ 8.1	$ 7.0	- $ 1.1	-13.3
General Revenue	$ 7.6	$ 7.0	- $ 0.7	-8.9
Staffing	8.0	8.0	-	-
Department of **Criminal Justice**				
Basic Supervision	207.8	203.3	-4.6	-2.2
Diversion Programs	128.6	122.6	-6.0	-4.7
Community Corrections	87.6	85.1	-2.5	-2.8
Special Needs Projects	27.7	30.9	3.2	11.4
Security/Classification	1,853.3	1,867.1	13.9	0.7
Institutional Goods and Services	851.4	817.9	-33.6	-3.9
Psychiatric Care	92.5	87.3	-5.2	-5.7
Managed Health Care	585.9	574.8	-11.1	-1.9
Contracted Temporary Capacity	27.9	-	-27.9	-100.0
Correctional Industries	136.7	142.4	5.7	4.2
Academic/Vocational Training	14.1	12.4	-1.7	-11.9
Treatment Services for Special Needs	31.4	28.3	-3.1	-9.8
Substance Abuse Treatment	122.2	105.5	-16.7	-13.7
Contract Prisons/Private Jails	258.2	264.1	5.9	2.3
Facilities Construction	59.0	71.9	12.9	21.9
Lease-Purchase of Facilities	37.6	37.7	0.03	0.1
Board of Pardons and Paroles	18.5	18.3	-0.2	-0.9
Parole Selection	29.5	28.3	-1.1	-3.8
Parole Supervision	167.0	158.7	-8.3	-5.0
Residential Parole	119.4	128.7	9.3	7.8
Indirect Administration	157.6	126.8	-30.7	-19.5
TOTAL FUNDING	$5,044.6	$4,909.3	-$135.3	-2.7
General Revenue	$4,745.1	$4,576.0	-$169.1	-3.6
Staffing	40,134.2	40,841.9	707.7	1.8

	Spent in 2002-03 (million $)	Appropriated for 2004-05 (million $)	Total change (million $)	Percent change (%)
Commission for the **Deaf and Hard of Hearing**				
Contract Services	2.1	2.0	-0.1	-4.7
Training and Education	0.8	1.0	0.3	33.9
Telephone Assistance	0.8	1.2	0.3	39.9
Interpreters Certification	0.5	0.4	-0.04	-8.1
Indirect Administration	0.4	0.4	-0.01	-1.5
TOTAL FUNDING	$ 4.6	$ 5.0	$ 0.5	10.0
General Revenue	$ 2.1	$ 2.1	$ 0.03	1.6
Staffing	17.0	17.0	-	-
Interagency Council on **Early Childhood Intervention**				
ECI Eligibility Awareness	0.9	0.8	-0.1	-8.2
Administer System of Services *(now includes Eligibility Determination)*	209.0	242.1	33.1	15.8
Ensure Quality Services	2.2	3.0	0.8	37.1
Respite Care	1.9	0.8	-1.1	-56.9
Indirect Administration	2.5	2.6	0.1	5.8
TOTAL FUNDING	$ 216.4	$ 249.3	$ 32.9	15.2
General Revenue	$ 69.2	$ 64.9	- $ 4.4	-6.3
Staffing	66.0	66.0	-	-
Texas **Education** Agency				
Foundation School Program – Equalized Operations	19,296.7	19,947.6	650.9	3.4
Foundation School Program – Equalized Facilities	1,649.3	1,495.0	-154.3	-9.4
Academic Excellence	379.8	396.5	16.7	4.4
Student Success	467.6	637.8	170.1	36.4
Achievement of Students at Risk	1,712.5	2,111.3	398.7	23.3
Students with Disabilities	1,192.1	1,596.8	404.6	33.9
School Improvement & Support	278.6	221.1	-57.5	-20.7

Texas **Education** Agency *(continued)*	Spent in 2002-03 (million $)	Appropriated for 2004-05 (million $)	Total change (million $)	Percent change (%)
Adult Education and Family Literacy	136.4	141.8	5.4	3.9
Assessment & Accountability System	105.3	86.2 [2]	-19.1	-18.2
Textbooks/Instructional Materials	785.5	635.7	-149.7	-19.1
Educational Technology	73.3	108.8	35.5	48.5
Safe Schools	121.4	127.5 [3]	6.0	5.0
Child Nutrition (School Meals)	1,759.7	1,782.8	23.1	1.3
Windham School District	142.0	115.1	-26.9	-18.9
Teaching Excellence & Support	456.6	562.8	106.2	23.3
Agency Operations	141.3	80.1	-61.1	-43.3
Central Administration	27.3	21.9	(5.4	-19.7
Information Systems - Technology	46.0	24.3	-21.7	-47.2
TOTAL FUNDING	$28,771.4	$30,093.0	$1,321.6	4.6
General Revenue	$21,892.0	$20,725.2	-$1,166.8	-5.3
Staffing	835.8	736.5	-99.3	-11.9
Department of **Health**				
Border Health and Colonias	2.6	2.6	-0.1	-2.5
Food (Meat) and Drug Safety	34.5	36.4	1.9	5.5
Environmental Health	12.7	13.6	0.8	6.6
Radiation Control	14.0	15.5	1.5	10.6
WIC (Women, Infants, and Children) Food and Nutrition Program	1,170.7	1,175.7	5.0	0.4
HIV & Sexually Transmitted Disease Education and Services	254.3	271.0	16.7	6.6
Immunizations	83.0	83.5	0.5	0.7
Preventable Diseases	114.4	92.6	-21.7	-19.0

[2] HB 1 appropriation is $43.1 million for 2004; TEA's operating budget for 2004 has $62.7 million for this strategy.
[3] HB 1 appropriation is $63.6 million for 2004; TEA's operating budget for 2004 has $51.8 million for this strategy.

Department of **Health** *(continued)*	Spent in 2002-03 (million $)	Appropriated for 2004-05 (million $)	Total change (million $)	Percent change (%)
Chronic Disease Services	52.0	53.1	1.1	2.2
Tobacco Education and Prevention	26.8	14.8	-12.0	-44.8
Public Health Preparedness	52.4	84.5 [4]	32.1	61.3
Medical Transportation	108.0	156.0	48.0	44.4
Texas Health Steps (EPSDT) Medical	196.4	234.9	38.5	19.6
Texas Health Steps (EPSDT) Dental	455.1	513.4	58.3	12.8
Health Care Standards	21.3	21.6	0.3	1.4
Laboratory	42.7	41.7	-1.0	-2.4
Laboratory - Bond Debt Service	6.3	6.3	0.0	0.0
Women & Children's Health Services	83.8	94.7	10.9	13.0
Family Planning	140.9	159.5	18.6	13.2
Special Needs Children	60.1	75.0	14.9	24.8
Abstinence Education	14.1	10.6	-3.5	-24.8
Community Health Services	31.9	37.0	5.0	15.7
Vital Statistics System	9.5	9.9	0.4	4.7
Health Data and Policy	4.1	4.1	-0.03	-0.7
Health Care and Outcomes	2.7	2.0	-0.7	-25.4
Support of Local Governments' Indigent Health Services	36.6	11.2	-25.4	-69.4
Regionalized Emergency Health Care Systems	15.7	11.9	-3.8	-24.0
Health Care Facilities	43.0	64.0	21.0	48.8
Public Health Services	24.0	20.5	-3.4	-14.4
Indigent Health Reimbursement/Multi-categorical Teaching Hospital Account	40.0	20.0	-20.0	-50.0
Indirect Administration	75.5	81.6	6.2	8.2
TOTAL FUNDING**	$3,258.3	$3,593.1	$334.8	10.3
General Revenue**	$ 879.1	$ 887.0	$ 7.9	0.9
Staffing	4,850.2	4,858.1	7.9	0.2

[4] HB 1 appropriation is $42 million for 2004; the TDH operating budget for 2004 has $99 million for this strategy (all additional funding is federal).

Health & Human Services Commission	Spent in 2002-03 (million $)	Appropriated for 2004-05 (million $)	Total change (million $)	Percent change (%)
System Integration	76.2	29.9	-46.2	-60.7
State Medicaid Office	3.8	1.2	-2.6	-68.7
Investigations and Enforcement	22.8	21.4	-1.4	-6.2
Medicaid Rate Setting	3.4	4.5	1.1	30.9
Informal Dispute Resolution	1.3	1.3	0.02	1.4
Medicaid: Aged & Disabled	3,394.3	4,040.1	645.8	19.0
Medicaid: TANF-Related Adults & Children	1,418.1	1,425.6	7.5	0.5
Medicaid: Pregnant Women	1,212.4	1,629.4	417.0	34.4
Medicaid: Children/Medically Needy	4,323.7	5,297.1	973.4	22.5
Medicare Payments	1,037.8	1,314.8	277.1	26.7
EPSDT-Comprehensive Care	477.1	417.3	-59.9	-12.5
Cost-Reimbursed Services	1,172.0	1,118.0	-54.0	-4.6
Medicaid Vendor Drugs	3,477.8	3,247.8	-230.0	-6.6
CHIP (Children's Health Insurance Program)	1,192.2	671.1	-521.1	-43.7
Immigrant Child Health Insurance	25.7	20.1	-5.6	-21.9
State Employee Children Ins. (SKIP)	-	19.0	19.0	NA
School Employee Children Insurance	7.6	12.7	5.1	66.1
CHIP Vendor Drug Program	131.1	85.0	-46.1	-35.2
Indirect Administration	6.3	11.4	5.1	79.9
TOTAL FUNDING	$17,983.8	$19,367.7	$1,383.9	7.7
General Revenue	$ 6,680.6	$ 7,419.3	$ 738.8	11.1
Staffing	625.1	555.5	-69.6	-11.1
Department of **Human Services**				
Community Care - Entitlement	1,299.9	1,225.3 [5]	-74.6	-5.7
Community Care - Waivers	1,009.3	1,001.9	-7.4	-0.7
Community Care - State	169.0	149.3	-19.6	-11.6

[5] HB 1 appropriation is $655.6 million for 2004; DHS' 2004 operating budget has $756.5 million for this strategy.

Department of **Human Services** *(continued)*	Spent in 2002-03 (million $)	Appropriated for 2004-05 (million $)	Total change (million $)	Percent change (%)
In-Home and Family Support	17.0	8.0	-9.0	-52.9
Long-Term Care Eligibility/Svc. Planning	223.4	207.7	-15.7	-7.0
Nursing Facility & Hospice Payments	3,843.0	3,775.6 [6]	-67.3	-1.8
Integrated Managed Care Systems	515.4	523.5 [7]	8.1	1.6
Long-Term Care Facility Regulation	86.7	90.5	3.8	4.4
Long-Term Care Credentialing	2.0	1.9	-0.1	-5.0
Home/Comm. Support Svcs. Licensing	10.4	13.1	2.7	26.2
Long-Term Care Quality Outreach	7.2	10.5	3.2	44.4
TANF Grants	572.7	510.0	-62.7	-11.0
Client-Self Support Eligibility & Issuance	929.8	899.5	-30.2	-3.3
Nutrition Assistance	399.8	428.0	28.1	7.0
Refugee Assistance	32.3	37.6	5.2	16.1
Disaster Assistance	139.1	-	-139.1	-100.0
Family Violence Services	43.7	44.0	0.3	0.8
Indirect Administration	203.7	199.1	-4.6	-2.3
TOTAL FUNDING	$ 9,504.3	$ 9,125.4	- $378.9	-4.0
General Revenue	$ 3,486.6	$ 3,301.7	- $184.9	-5.3
Staffing[8]	13,241.7	13,555.9	314.2	2.4
Juvenile Probation Commission				
Basic Probation	90.5	92.5	2.0	2.2
Community Corrections	100.8	88.9	-11.9	-11.8
Probation Assistance	55.2	64.3	9.1	16.4

[6] HB 1 continues a one-month deferral of payments for nursing facility care and Medicaid acute care.
[7] Appropriation in HB 1 is $268.8 million for 2004; the DHS operating budget for 2004 has $326.6 million for this strategy.
[8] When legislators were writing HB 1, DHS' budgeted staffing level for 2003 was 13,802.6 (this includes locally funded workers). DHS' operating budget for 2004 shows an actual staffing level of 13,241.7 for 2003, and only 12,599.6 FTEs budgeted for 2004.

Juvenile Probation Commission *(continued)*	Spent in 2002-03 (million $)	Appropriated for 2004-05 (million $)	Total change (million $)	Percent change (%)
Juvenile Justice Alternative Education Program	13.7	15.0	1.3	9.5
Direct and Indirect Administration	2.0	2.2	0.2	8.1
TOTAL FUNDING	$ 271.6	$ 262.9	- $ 8.7	-3.2
General Revenue	$ 193.2	$ 185.9	- $ 7.3	-3.8
Staffing	62.0	62.0	-	-
Department of **Mental Health and Mental Retardation**				
Mental Health (MH) Community Services for Adults	588.5	551.4	-37.1	-6.3
Children's MH Community Services	123.9	122.0	-1.9	-1.5
MH In-Home and Family Support	10.9	-	-10.9	-100.0
MH Community Hospitals	62.5	40.3	-22.1	-35.4
NorthStar Behavioral Health Waiver	179.1	182.6	3.5	2.0
MH State Hospital Services	546.4	547.6	1.2	0.2
Mental Retardation (MR) Community Services	364.5	302.6	-61.9	-17.0
MR In-Home and Family Support	*24.9*	*10.0*	*-14.9*	-59.8
MR Medicaid Waiver Services	564.1	584.6	20.4	3.6
MR Intermediate Care Facilities	767.3	762.4	-4.9	-0.6
MR Community Residential Services	20.8	9.1	-11.6	-56.0
MR State School Services	750.1	785.1	35.0	4.7
Capital Construction	39.8	52.8[9]	13.0	32.7
Indirect Administration	60.9	55.5	-5.4	-8.9
TOTAL FUNDING	$4,103.5	$4,006.0	- $ 97.5	-2.4

[9] Appropriation in HB 1 is $19.6 million for 2004; MHMR's 2004 operating budget has $4.5 million for this strategy. HB 1 also implements a one-month deferral of payments by MHMR for mental retardation services provided by community centers. The totals in this table thus overstate the actual budget reductions.

Department of **Mental Health and Mental Retardation** *(continued)*	Spent in 2002-03 (million $)	Appropriated for 2004-05 (million $)	Total change (million $)	Percent change (%)
General Revenue	$2,274.6	$2,085.9	- $ 188.7	-8.3
Staffing	19,252.1	19,504.6	252.5	1.3
Protective & Regulatory Services				
Child Protective Services (CPS) Intake	15.1	14.8	-0.4	-2.3
Child and Family Services	421.2	432.6	11.4	2.7
CPS Purchased Client Services	97.1	92.9	-4.2	-4.3
Intensified Family Preservation	32.8	32.1	-0.6	-2.0
Foster Care Payments	620.6	714.8	94.1	15.2
Adoption Subsidy Payments	175.3	204.4	29.1	16.6
At-Risk Prevention Services	125.7	99.9 [10]	-25.8	-20.5
Adult Protective Services	60.5	60.1	-0.5	-0.7
MHMR Investigations	11.4	8.6	-2.8	-24.7
Child Care Regulation	46.9	38.0	-8.9	-18.9
Maintain Automated System	29.7	17.5	-12.2	-41.2
Indirect Administration	45.1	53.8	8.7	19.3
TOTAL FUNDING	$ 1,688.0	$ 1,769.4	$ 81.4	4.8
General Revenue	$ 517.7	$ 483.0	- $ 34.8	-6.7
Staffing	6,722.5	6,993.9	271.4	4.0
Rehabilitation Commission				
Rehabilitation Services	337.0	341.2	4.2	1.3
Independent Living Centers	2.9	2.9	-	-
Independent Living Services	6.2	5.1	-1.1	-17.6
Comprehensive Rehabilitation	19.7	20.1	0.4	2.3
DDS Determination	157.9	174.7	16.8	10.6
Promote Independence	8.5	9.3	0.7	8.7
Indirect Administration	36.5	38.0	1.5	4.2
TOTAL FUNDING	$ 568.8	$ 591.4	$ 22.6	4.0
General Revenue	$ 87.1	$ 81.1	- $ 6.0	-6.9
Staffing	2,451.2	2,602.5	151.3	6.2

[10] Appropriation in HB 1 is $50 million for 2004; PRS operating budget for 2004 has $32.5 million for this strategy, reflecting the transfer of Communities in Schools to the Texas Education Agency.

State Employee/Retiree Benefits[11]				
Retirement and Group Insurance	2,380.6	2,367.4	-13.2	-0.6
Social Security/Benefit Replacement Pay	1,330.3	1,311.0	-19.3	-1.5
TOTAL FUNDING	$ 3,711.0	$ 3,678.4	- $ 32.6	-0.9
General Revenue	$ 2,247.4	$ 2,184.6	- $ 62.7	-2.8
Teacher Retirement System				
Public Education Retirement	2,145.3	2,317.2	171.9	8.0
Higher Education Retirement	439.0	469.4	30.4	6.9
Administrative Operations	63.1	87.8	24.7	39.2
Retiree Health	654.0	758.6	104.6	16.0
Active Employee Health	633.2	521.2	-111.9	-17.7
TOTAL FUNDING	$ 3,934.6	$ 4,154.3	$ 219.7	5.6
General Revenue	$ 3,745.4	$ 3,851.7	$ 106.3	2.8
Texas **Workforce** Commission				
Child Care Services	882.5	875.7	-6.8	-0.8
Workforce Investment Act	496.7	469.1	-27.6	-5.6
TANF Choices Program	152.0	156.6	4.7	3.1
Food Stamp Employment & Training	31.5	28.5	-2.9	-9.3
Welfare-to-Work	16.3	-	-16.3	-100.0
Unemployment Insurance	181.7	204.1	22.4	12.3
Workforce Services	201.3	187.2	-14.1	-7.0
Skills Development Fund	24.6	24.7	0.1	0.3
Self-Sufficiency Fund	6.1	6.0	-0.1	-1.4
Technical Assistance & State-Level Support for Local Workforce Boards	69.6	69.6	0.04	0.1
Contract Monitoring	5.7	6.0	0.3	5.3
Enforcement and Certification	13.9	14.0	0.1	0.7
Labor Market and Career Information	11.0	10.2	-0.8	-6.9

[11] Health and life insurance and retirement benefits are administered by the Employees Retirement System, but the appropriations for these programs and for Social Security are made in each article of the state budget.

Texas Workforce Commission *(continued)*	Spent in 2002-03 (million $)	Appropriated for 2004-05 (million $)	Total change (million $)	Percent change (%)
Indirect Administration	32.2	36.8	4.6	14.2
TOTAL FUNDING	$2,125.0	$2,088.6	- $ 36.4	-1.7
General Revenue	$ 209.5	$ 194.2	- $ 15.4	-7.3
Staffing	3,770.7	3,610.8	-159.9	-4.2
Youth Commission				
Assessment & Orientation	9.1	9.3	0.2	2.4
Institutional Services	243.8	240.9	-2.9	-1.2
Contracted Capacity	64.2	49.0	-15.2	-23.7
Halfway House Services	13.7	14.9	1.2	8.8
Health Care Services	25.3	24.3	-0.9	-3.7
Psychiatric Services	2.5	3.1	0.6	23.6
Construct and Renovate Facilities	16.9	9.0	-8.0	-47.0
Education and Workforce Programs	58.5	57.5	-1.0	-1.6
Correctional Treatment	31.9	31.7	-0.1	-0.4
Specialized Treatment	11.7	11.8	0.0	0.3
Parole Services	19.4	20.0	0.6	3.0
Interstate Agreement	0.4	0.5	0.0	9.5
Indirect Administration	22.6	22.3	-0.3	-1.3
TOTAL FUNDING	$ 526.3	$ 493.0	- $ 33.3	-6.3
General Revenue	$ 460.3	$ 432.6	- $ 27.8	-6.0
Staffing	4,919.9	5,030.3	110.4	2.2

Sources: HB 1, General Appropriations Act, 78th Regular Session, is the source of information for strategy-level appropriations for 2004-5 and for staffing levels.

The Legislative Budget Board's *Fiscal Size-Up, 2004-05 Biennium*, is the source of information on total and General Revenue funding for 2002 through 2005. Strategy-level spending for 2002-03 is from agency operating budgets for 2004.

Similar information for agencies and strategies not listed is available on-line from the Legislative Budget Board's *Texas Budget Source*, at http://www.lbb.state.tx.us/Texas_Budget_Source/Introduction.htm.

Appendix B: Local Budget Impact

The Center for Public Policy Priorities is involved in a project to document the effect of the budget cuts, focusing on the detailed, real-life stories of those most affected by the 2004-05 state budget and changes to state programs and services. We want to hear about the impact of budget and policy decisions at all levels, from individuals to agencies to units of government. Social service agencies; advocacy organizations; schools; hospitals, clinics, and other health care providers; school teachers; agency caseworkers; Medicaid, CHIP, TANF, or Food Stamp recipients; government officials and non-profit leaders; city or county governments; and any other affected individual or group are all encouraged to participate.

Stories of budget impact are being collected through an online form at
http://www.cppp.org/stories.html

Why we need your stories:

In public education and advocacy, a real-life story is often worth a thousand statistics. Your stories will be compiled and published in the second part of the *Truth and Consequences* series. Part two will be released later in the 2004-05 budget cycle and will examine the quantitative budget effects as seen in caseload trends, patterns of well-being, economic conditions, and other variables. Your stories will help us to put a face on these budget cuts as we document their impact on Texans and Texas.

How we will use your stories:

With your consent, we foresee using the stories we collect in the following ways:

- Stories will be posted on our web site in a searchable format, so that visitors to our site can read them. **Your personal contact information will not be searchable.**
- CPPP will use the information provided in these stories in a report that will illustrate the impact of budget cuts and program changes.
- CPPP will connect members of the media with people who are willing to share their stories to help the media illustrate the impact of the budget cuts and program changes.

How you can use the stories:

You can use the stories we collect and post on our web site to connect and collaborate with other people or groups affected by the budget cuts. You can also use this information to support your research, advocacy, and requests for funding.

Stories are being collected through an online form at
http://www.cppp.org/stories.html

Media Coverage

Following is a representative sample of the hundreds of stories in the Texas media that have appeared since the end of the 78th Legislature's regular session in 2003. It is by no means a comprehensive list, but is merely intended to give readers a sense of what various media outlets in communities around the state have reported on the impact of state budget cuts.

Amarillo / Lubbock

Sebastian Kitchen, "Budget cuts sap MHMR resources: Center forced to scale back services to clients," *Lubbock Avalanche-Journal*, August 19, 2003

"MHMR Resources," Editorial, *Lubbock Avalanche Journal*, September 2, 2003

Cheryl Berzanskis, "State moves closer to group home privatization," *Amarillo Globe-News*, August 4, 2003

"TPMHMR [Texas Panhandle Mental Health Mental Retardation] announces position cuts," *Amarillo Globe-News*, August 29, 2003

Darcy Tucker, "Budget Cuts Force MHMR Layoffs," Amarillo KAMR TV News, September 2, 2003

Cheryl Berzanskis, "Mental health agency to target most needy: Funding cuts force reduced treatment of less-serious illnesses," *Amarillo Globe-News*, September 24, 2003

Laurabree Austin, "Abstinence Funding Taken Away," KAMR TV Channel 4, Amarillo, October 1, 2003

Jessica Raynor, "Small schools suffer from lack of TIF money," *Amarillo Globe News*, March 1, 2004

Associated Press, "Health, children advocates want cuts reversed," *Lubbock Avalanche Journal*, April 2, 2004

Austin / Central Texas

Andrea Ball, "With cuts go hopes of health for mentally ill," *Austin American-Statesman*, July 22, 2003

Andrea Ball, "Budget cuts threaten mental health center's services," *Austin American-Statesman*, July 23, 2003

Andrea Ball, "See a need to commit your child? See a judge: To save money, Texas puts courts between mentally ill kids, care," *Austin American-Statesman*, August 9, 2003

Bryan Kirk, "Schools face cutbacks in wake of budget," *Seguin Gazette*, August 10, 2003

Bryan Kirk, "TxDOT to benefit from state budget," *Seguin Gazette*, August 12, 2003

Bryan Kirk, "Medical coverage ailing after budget cuts," *Seguin Gazette*, August 13, 2003

Bryan Kirk, "State budget cuts put aid to needy at risk," *Seguin Gazette*, August 14, 2003

Bryan Kirk, "Law enforcement looks to grants for help," *Seguin Gazette*, August 15, 2003

Bryan Kirk, "State grant reduction causes concern," *Seguin Gazette,* August 21, 2003

Bryan Kirk, "Local charities seeing lack of funding," *Seguin Gazette*, August 24, 2003

University of Texas at Austin Press Release, "University assessing expenditure options limited by tight budget," August 28, 2003

Andrea Ball, "City may cut money to nonprofits: Council debating 10% cut for agencies, meaning less help as more people need it," *Austin American-Statesman,* August 28, 2003

Ken Herman, "State pulling plug on gambling hot line: One lawmaker aims to resurrect it; others say it's a waste of money," *Austin American-Statesman*, August 30, 2003

Gary Susswein, "State worker exodus just days away: More than 3,000 employees will retire Tuesday; many more will be given pink slips," *Austin American-Statesman*, August 30, 2003

Gary Susswein, "State changes its retirement rules: Law adds five years to workers' insurance eligibility threshold," *Austin American-Statesman*, August 30, 2003

"Budget Cuts Hit Mental Health Services," KXAN TV, Austin, September 8, 2003

Eileen E. Flynn, "Prison chaplains aren't sacred in state budget cutbacks: Inmates, advocates alarmed by loss of spiritual advisers; more volunteers to be used," *Austin American-Statesman*, September 8, 2003

"Seton takes over mental health residency program," *Austin Business Journal*, September 8, 2003

Mandy Spikes, "County [extension] agents weigh options," Central Texas Edition, *Country World*, September 4, 2003

Glenda Taylor, "Money woes bedevil shelter," *Kerrville Daily Times*, October 2, 2003

Sharon Jayson, "UT looks at sharp tuition increase: Price of 12 hours of classes would climb 65 percent by fall of 2004," *Austin American-Statesman*, October 8, 2003

Associated Press, "Jamail donates $1 million/state budget cuts," November 14, 2003

Ben Wear, "State cuts may hurt parties in primaries: Officials fear fewer polling places because of less cash, higher wages," *Austin American-Statesman*, November 15, 2003

Sharon Jayson, "UT Regents adopt tuition increases: Fall increase pushed back so Legislature can review plan," *Austin American-Statesman*, November 19, 2003

Robert Elder, Jr., "Gap grows at TRS: Teacher retirement system may need to ask Legislature for more money," *Austin American-Statesman*, November 22, 2003

"Dip In Admission Numbers At UT," KXAN-TV 36, Austin, December 8, 2003

Robert Elder Jr., "State employees' pension fund falls short: Consultant expects deficit for Employees Retirement System to soar during the next five years," *Austin American-Statesman*, December 11, 2003

Gary Susswein, "A snapshot of struggles: In a region that reflects the impact of budget cuts statewide, rich and poor

Texans are feeling the sting from reduced services," *Austin American-Statesman*, December 14, 2003

"Rural Communities Facing Healthcare Crisis," KXAN News, Channel 36, Austin, January 20, 2004

Eric Allen and additional reporting from Associated Press, "Legislative leaders hear about budget, sales tax base," www.news8austin.com, February 9, 2004

"Hearing Set on Children's Health Insurance Program Changes," KXAN Channel 36 News, Austin, March 15, 2004

Mike Ward, "Budget pinch may reshape prison policy: Lawmakers want to explore focusing on alternatives such as probation, rehabilitation," *Austin American-Statesman*, March 18, 2004

Editorial Board, "Now is the time to add children's insurance to legislative agenda," *Austin American-Statesman*, April 24, 2004

Andrea Ball, "A lost life: One woman tries—and fails—to navigate Texas' shrinking mental health system," *Austin American-Statesman*, May 23, 2004

Andrea Ball, "Mental health-Transforming the future: The future of Texas' mental health system looks very different than it does now—is that good or bad?" *Austin American-Statesman*, May 24, 2004

Andrea Ball, "Therapy cuts sink in: Georgetown woman one of thousands who lost access to most Medicaid-funded therapy sessions," *Austin American-Statesman*, June 1, 2004

Dallas / Fort Worth

Matt Stiles, "Criminal Justice Department cutting 1,100 jobs—so far," *Dallas Morning News*, June 25, 2003

Kim Horner, "State's budget cuts threaten prevention programs' future," *Dallas Morning News*, July 23, 2003

Jessamy Brown, "Costs keep some teens out of academy," *Fort Worth Star-Telegram*, July 23, 2003

Associated Press, "Texas A&M officials raise tuition by 20%," *Fort Worth Star-Telegram*, July 27, 2003

J. Taylor Rushing, "Mental health services to be cut," *Fort Worth Star-Telegram*, August 4, 2003

Diane Jennings, "Prison chaplains facing cuts: Ranks to shrink by 40 percent under new Texas budget," *Dallas Morning News*, August 10, 2003

Karen Brooks, "Texas failing to find aid for its disintegrating beaches: Officials say state should be more vocal to save its beaches," *Fort Worth Star-Telegram*, August 19, 2003

Farrah Crouch, "Celina ISD raises taxes," *McKinney Courier-Gazette*, August 26, 2003

Associated Press, "Drivers rush to finalize DWIs before license fees soar with law," *Dallas Morning News*, August 29, 2003

Toya Lynn Stewart, "Colleges struggle with tuition hikes: UTD officials explain rationale to students amid budget challenges," *Dallas Morning News*, August 29, 2003

Jessamy Brown, "TWU tuition to go up 16%," *Fort Worth Star-Telegram*, August 30, 2003

Christy Hoppe, "New state laws bring hefty load: Additional fines, fees, restrictions will leave few Texans untouched," *Dallas Morning News*, August 31, 2003

Robert T. Garrett, "Mental health benefits altered: Very ill get more help, but 150,000 lose aid as budget kicks in today," *Dallas Morning News*, August 31, 2003

R.A. Dyer, "New laws to cut insurance funds," *Fort Worth Star-Telegram*, August 31, 2003

"Letting the CHIPs fall," Editorial, *Fort Worth Star-Telegram*, September 2, 2003

Martha Deller "Bridging the Gap: School districts shift funds to replace specific grants," *Fort Worth Star-Telegram*, September 2, 2003

Stephen Willis, "Budget cuts bite into CHIP," *McKinney Courier-Gazette*, September 2, 2003

Cindy Brown, "Tuition on the rise: Administration develops plans to reduce ill-effects on students," *North Texas Daily*, Sept. 2, 2003

Domingo Ramirez Jr., "Auto theft task force losing officers," *Fort Worth Star-Telegram*, September 3, 2003

Duane R. Bidwell, "Counseling gets short shrift in state budget," *Fort Worth Star-Telegram*, September 14, 2003

Patrick McGee, "UTA plans big tuition increase," *Fort Worth Star-Telegram*, October 1, 2003

Maria M. Perotin, "Indigent-care crisis looms at hospitals," *Fort Worth Star-Telegram*, October 5, 2003

Nicole Bywater, "Volunteers put money where mouths are," *Lewisville Leader*, October 6, 2003

Linda K. Wertheimer, "State grant program withers: Fewer college students expected to receive aid from state source," *Dallas Morning News*, October 11, 2003

Robert T. Garrett, "Kids' mental health coverage restored: Federal officials had questioned state's end of benefits for needy," *Dallas Morning News*, October 20, 2003

Linda K. Wertheimer, "Texas students paying more for less: Tuition increases, school budget cuts 'a tough pill to swallow'," *Dallas Morning News*, October 31, 2003

Associated Press, "UT tuition hikes to share the wealth: 28% of every dollar from increases to aid lower-income students," *Dallas Morning News*, November 20, 2003

Associated Press, "Five [state lottery] claim centers closing amid budget cuts," *Fort Worth Star-Telegram*, November 21, 2003

Brad Watson, "Block schedules may fall to budget cuts," WFAA-TV, News 8, Dallas-Fort Worth, December 1, 2003

Bob Ray Sanders, "We must find ways to save successful programs," *Fort Worth Star-Telegram*, December 7, 2003

Patrick McGee, "Standard process sought for setting university budget," *Fort Worth Star-Telegram*, January 22, 2004

Robert T. Garrett, "State to delay asset test for child health program: Insurance plan covering 100,000 fewer youths since rules were made," *Dallas Morning News*, January 29, 2004

Patrick McGee, "State aid is outpaced by rising college costs," *Fort Worth Star-Telegram*, February 2, 2004

Jeri Field, "Budget cuts affect public transport," *Azle News Online*, March 4, 2004

Robert T. Garrett, "Kids risk loss of health coverage: Thousands fall behind on premiums in low-income program," *Dallas Morning News,* March 25, 2004

Associated Press, "A&M regents approve 21 percent tuition increase," *Dallas Morning News*, March 27, 2004

Jessamy Brown, "UNT raises tuition by 24%," *Fort Worth Star-Telegram*, March 27, 2004

"Perry urged to restore CHIP cuts with federal funds: Local governments can't ensure children's health, advocates say," *Dallas Morning News*, April 1, 2004

Jan Jarvis and John Moritz, "Campaign urges repeal of CHIP cuts," *Fort Worth Star-Telegram*, April 2, 2004

Robert T. Garrett, "CHIP rules to tighten: Health program to bar kids from families with over $5,000 in assets," *Dallas Morning News*, April 23, 2004

Mitch Mitchell, "State to look into area elder care," *Fort Worth Star-Telegram*, May 24, 2004

Robert T. Garrett, "Democrats criticize plan to streamline aid for needy: State considers closing offices, firing workers, using new call centers," *Dallas Morning News*, May 24, 2004

John Moritz, "Agency that helps needy plans cutbacks," *Fort Worth Star-Telegram*, May 27, 2004

Lee Hancock, "Judge, lawyer fight elderly neglect: Cases show agency did little to fix elderly's deplorable conditions," *Dallas Morning News*, June 13, 2004

Kelly Melhart, "Some students might not get schoolbooks," *Fort Worth Star-Telegram*, June 11, 2004

East Texas

Marvin Ellis, "2 More Health District Employees Laid Off," *Tyler Morning Telegraph*, August 19, 2003

Ashley Gardner, "Texas takes chunk out of CHIP program: Tight budget trims vision, dental care from health service," *Texarkana Gazette*, August 20, 2003

Associated Press, "State: Texas schools hurting for updated textbooks," *Longview News Journal*, September 2, 2003

Art Lawler, "Enough is enough [unfunded mandates on counties]," *Athens Review Online*, December 9, 2003

"Clinics Cope with Budget Cuts," Nacogdoches/ KTRE (Channel 9), December 24, 2003

Glenn Evans, "Longview shelter for youth closes after funding cut," *Longview News-Journal*, March 13, 2004

"State budget cuts make Texas less safe," *Lufkin Daily News*, April 25, 2004

Robin Y. Richardson, "Opposition to TDH[S] change believes it will create unnecessary burdens," *Marshall News Messenger*, May 18, 2004

Editorial, "Texas, on the cheap," *Lufkin Daily News*, May 23, 2004

Glenn Evans, "Gregg County expected to raise taxes," *Longview News-Journal*, June 6, 2004

El Paso

Tammy Fonce-Olivas, "Budget cuts might hurt drug court," *El Paso Times*, July 30, 2003

Darren Meritz, "Hearings will review tuition rise," *El Paso Times*, July 30, 2003

Gary Scharrer, "Legislators: New laws won't help El Pasoans," *El Paso Times*, August 31, 2003

Darren Meritz, "UTEP may raise tuition," *El Paso Times*, September 4, 2003

Diana Washington Valdez, "Medicaid cuts eye care: Hearing aids, other services also eliminated," *El Paso Times*, September 8, 2003

Darren Meritz, "UTEP calls tuition rise a necessity at meeting," *El Paso Times*, September 17, 2003

Diana Washington Valdez, "Nonrenewals harm CHIP more than state budget cuts," *El Paso Times*, September 30, 2003

Darren Meritz, "UTEP tuition to soar: University seeks 2 increases totaling 26% over 2 years," *El Paso Times*, November 4, 2003

Chris Huffman, "El Paso's Only Detox Center Re-opens: After four months without a drug and alcohol detoxification center, El Pasoans finally have a place to safely get rid of the chemicals in their body from their drug and alcohol addictions," KTSM News Channel 9, El Paso, January 11, 2004

Gary Scharrer, "Since cuts, 3,000 fewer El Pasoans use CHIP," *El Paso Times*, January 19, 2004

Gary Scharrer, "State asked to stop CHIP 'assets test'," *El Paso Times*, March 16, 2004

Diana Washington Valdez, "El Pasoans raise voices against cuts in CHIP," *El Paso Times,* April 2, 2004

Gary Scharrer, "El Paso, state CHIP enrollment continues to fall," *El Paso Times,* April 27, 2004

Gary Scharrer, "APS leader calls for resources," *El Paso Times*, May 26, 2004

Gary Scharrer, "Voters help determine who loses health care benefits," *El Paso Times*, May 29, 2004

Houston / Gulf Coast Area

Polly Ross Hughes, "State budget crisis puts kids' adoptions in limbo," *Houston Chronicl*e, July 27, 2003

Polly Ross Hughes, "Layoff letters sent to 80 state health workers," *Houston Chronicle*, July 28, 2003

Todd Ackerman, "UH regents get tuition hike plan: 21% increase to $111 an hour proposed to offset budget cuts," *Houston Chronicle*, August 5, 2003

Polly Ross Hughes, "HIV patients' aid may be cut by new state rules," *Houston Chronicle,* August 7, 2003

Todd Ackerman, "Over 500,000 Texas children to lose health care benefits: Cuts likely will worsen state's record on insured kids," *Houston Chronicle*, August 30, 2003

Eric Hanson, "State guts school, library tech funds: No new grants to be approved by TIF," *Houston Chronicle*, September 9, 2003

Melissa Blasius, "Prison rehabilitation programs suffer from state budget cuts," www.news24houston.com, October 6, 2003

"Mental health: Promised state funds only cushion larger cuts' blow," *Houston Chronicle*, Editorial, October 22, 2003

Clay Robison, "Strayhorn blasts governor over cuts to college funding," *Houston Chronicle,* October 27, 2003

Polly Ross Hughes, "54,000 children off insurance rolls: Advocates blame rule changes," *Houston Chronicle*, November 12, 2003

R.G. Ratcliffe, "County may pay a heftier tab for primaries," *Houston Chronicle*, Nov. 14, 2003

"Tuition and Fees: The public also must invest in higher education," Editorial, *Houston Chronicle,* November 15, 2003

Polly Ross Hughes, "Thousands of local kids lose Medicaid: 14,000 dropped, but enrollments see increase statewide," *Houston Chronicle*, November 19, 2003

Carolyn Mungo, "Uninsured children cheated by state budget cuts," KHOU Channel 11 News, Houston, December 5, 2003

Polly Ross Hughes, "Experts warn privatization could affect mental care," *Houston Chronicle*, December 22, 2003

Marcus Tantillo, "State budget shortages forced [school] districts to make changes in 2003," *The Pasadena Citizen*, January 4, 2004

Todd Ackerman, "A&M seeking tuition jump: Regents to consider 21% increase for fall '04," *Houston Chronicle*, January 29, 2004

Lucas Wall, "Plan allows toll lanes on any Texas highway," *Houston Chronicle*, January 30, 2004

Polly Ross Hughes, "State's preferred drug list denounced: Access to life-saving medications could be blocked, critics contend," *Houston Chronicle*, February 9, 2004

R.G. Ratcliffe, "Higher tuitions prompt state audit at UT, A&M," *Houston Chronicle*, February 10, 2004

Jo Ann Zuñiga and Cindy Horswell, "HISD to cut jobs to meet budget," *Houston Chronicle*, February 11, 2004

Polly Ross Hughes, "165 counties adopt steps to protest state mandates: Complaints of health care cost burden grow," *Houston Chronicle*, February 16, 2004

L.M. Sixel, "State budget cuts promote crime over education," *Houston Chronicle*, February 28, 2004

Robert Eckels and Bill White, "Unhappy fourth birthday for CHIP in Texas," *Houston Chronicle*, March 31, 2004

Todd Ackerman, "UH weighs heftier tuition increase," *Houston Chronicle*, April 1, 2004

Melanie Markley, "Advocates, parents call for restoration of CHIP funding," *Houston Chronicle*, April 1, 2004

Ken Fountain, "Lee College regents up tuition, fee," *Baytown Sun*, April 16, 2004

Polly Ross Hughes, "Health program's drug spending outpaces budget," *Houston Chronicle*, April 20, 2004

Jamie Reid, "DHS employees protest cuts," *The Beaumont Enterprise*, April 20, 2004

Polly Ross Hughes, "Democrats lobby for health funding: 2 file bills to reverse spending cuts," *Houston Chronicle*, April 26, 2004

Cortney Martin, "Budget cuts force closure of center for mentally handicapped," *Pasadena Citizen*, May 2, 2004

Michael Wright, "Workers protest office closures," Brazoria County *Facts*, May 14, 2004

Editorial by State Representative Craig Eiland, "How not to dig a deeper budget hole in Texas," *Houston Chronicle*, May 18, 2004

Polly Ross Hughes, "Services for the elderly in a 'total breakdown': Review calls for total overhaul of system," *Houston Chronicle*, May 20, 2004

Janet Elliott, "New law leaves schools in lurch: Texas falls short by $67 million for ESL, biology texts," *Houston Chronicle*, May 21, 2004

Janet Elliott, "Perry vows to find cash for textbooks: Shortfall threatens districts," *Houston Chronicle*, May 21, 2004

S.K. Bardwell, "Legal quirk boosts county sex offender numbers: Convicts from across state placed at local halfway house," *Houston Chronicle*, May 22, 2004

Matt Schwartz, "County's doctors, hospitals unattainable for thousands: Community leaders join to tackle worsening care crisis," *Houston Chronicle*, May 23, 2004

Loren Steffy, "Numbers tell the health care story, and they're ailing," *Houston Chronicle*, June 2, 2004

Midland / Odessa / San Angelo

Melissa Williams Perner, "State hospital change: Adolescent program to be moved to other facilities," *San Angelo Standard Times*, July 30, 2003

Jessica Chang, "State budget woes mean cutbacks, layoffs at psychiatric hospital," NewsWest 9/*Midland Reporter-Telegram*, September 3, 2003

Raechal Leone, "OC [Odessa College], UTPB battled budget cuts, offered new programs in 2003," *Odessa American*, December 29, 2003

Cliff Hamilton, "United Way opposed to budget cuts," *Odessa American*, May 3, 2004

Elise Rambaud, "Safe Place reducing overhead after state, federal funding cuts," *Midland Reporter-Telegram*, May 23, 2004

San Antonio

Tom Bower, "Bexar balks at raising health system tax rate," *San Antonio Express-News*, August 6, 2003

Marti Maguire, "Less state funding means fewer teachers and staff as students return," *San Antonio Express-News*, August 14, 2003

Marina Pisano, "There are no winners when the only way to get treatment for mentally ill kids is to relinquish them to the state," *San Antonio Express-N*ews, August 31, 2003

"It's unfair and unacceptable some parents have to turn their mentally ill kids over to the state so they can get treatment," Editorial, *San Antonio Express-News*, August 31, 2003

W. Gardner Selby, "State health cuts go into effect today," *San Antonio Express-News*, Sept. 1, 2003

Mc Nelly Torres, "Schools feel squeeze of tight time, money," *San Antonio Express-News*, September 14, 2003

Matt Flores, "Tuition at UTSA may soar by 20%," *San Antonio Express-News*, Oct. 23, 2003

Roger Croteau, "4-county drug task force disbands," *San Antonio Express-News*, November 12, 2003

Tom Bower, "Health system budget eyed," *San Antonio Express-News*, December 2, 2003

Patrick Driscoll, "Leaders say roads need state aid," *San Antonio Express-News*, January 30, 2004

Scott Huddleston, "Medicaid estate recovery plan hit," *San Antonio Express-News*, February 10, 2004

W. Gardner Selby, "Activists urge Perry to restore CHIP," *San Antonio Express-News*, February 14, 2004

W. Gardner Selby, "Further cuts to CHIP blasted," *San Antonio Express-News*, March 16, 2004

W. Gardner Selby, "Budget doesn't allow photographing in child abuse cases, committee told," *San Antonio Express-News*, March 18, 2004

W. Gardner Selby, "Advocates call for CHIP funding after 118,000-child decrease," *San Antonio Express-News*, March 31, 2004

Bonnie Pfister, "Worker retraining funds run out," *San Antonio Express-News*, April 23, 2004

"Labor Department approves $9.6 million in work force funds," *San Antonio Business Journal*, May 14, 2004

Tom Bower, "Social services changes booed," *San Antonio Express-News*, May 16, 2004

W. Gardner Selby, "Governor says pregnancy fund cuts necessary," *San Antonio Express-News*, May 21, 2004

Lisa Marie Gómez, "Witness fund cut may delay trials," *San Antonio Express-News*, May 21, 2004

W. Gardner Selby, "State worker turnover prompts call for raises," *San Antonio Express-News*, May 22, 2004

Carlos Guerra, "Will savings come from frustrating the weakest Texans?" *San Antonio Express-News*, May 23, 2004

W. Gardner Selby, "CHIP cuts outreach to families," *San Antonio Express-News*, June 1, 2004

Jeorge Zarazua and Zeke MacCormack, "[Atascosa County] Indigent care fund empty," *San Antonio Express-News*, June 3, 2004

David Michael Cohen, "Legislators may cut UTHSC funding," *San Antonio Express-News*, June 12, 2004

W. Gardner Selby, "100,000 Texas kids may lose health insurance," *San Antonio Express-News*, June 16, 2004

Karen Adler, "Textbooks funded at the last minute," *San Antonio Express-News*, June 17, 2004

South Texas / Valley

Mel Huff, "County health funding to be cut," *Brownsville Herald*, July 19, 2003

Rachel Williamson, "Bill slashes Medicaid mental health funds," *McAllen Monitor*, July 21, 2003

Laura Martinez, "Cutbacks opposed: Protesters seek continued funding for counseling," *Valley Morning Star*, July 22, 2003

Laura B. Martinez, "Special session is final chance," *Valley Morning Star*, July 29, 2003

Beth Cross, "Cuts will hurt those who need counseling: Children, adults may soon not have someone to talk to," *Corpus Christi Caller-Times*, August 17, 2003

Laura B. Martinez, "Budget cuts result in loss of dental care," *Valley Morning Star*, September 13, 2003

Rachel Williamson, "Perry restores CHIP—Letters key to rescuing partial benefits," *McAllen Monitor*, October 21, 2003

Rachel Williamson, "Concerns still loom over mental health benefits," *McAllen Monitor*, October 25, 2003

Rachel Williamson, "Falling Through the Cracks," *McAllen Monitor*, November 1, 2003

Allen Essex, "Education funding cuts could hurt Valley: Sen. Lucio says school district leaders need to mobilize to help him shape a new state finance program," *Valley Morning Star*, November 3, 2003

Mel Huff, "State to restore some CHIP benefits," *Brownsville Herald*, January 27, 2004

Sarah Ovaska, "Texas Rural Legal Aid takes big funding hit," *McAllen Monitor*, February 9, 2004

Ofelia Garcia Hunter and Jaime Powell, "Pre-K funding gap: State ranks low in a study of efforts toward preschoolers," *Corpus Christi Caller-Times*, February 29, 2004

Lynn Brezosky, "Strayhorn says budget cuts hurt border," Associated Press, in *Fort Worth Star-Telegram*, March 3, 2004

Icess Fernandez, "Tuition at A&M-CC to rise 34%: Board of regents also approve 15% increase for Kingsville campus," *Corpus Christi Caller-Times*, March 30, 2004

Leanne Libby, "Protesters attack health-care law: Effects in Coastal Bend not yet known; changes phased in within 5 years," *Corpus Christi Caller-Times,* April 22, 2004

Jesse Bogan, "Funds cut for *colonia* programs," *San Antonio Express-News*, May 16, 2004

Tim Eaton, "Parents fighting facility's closure: Mentally disabled residence may get less state funding," *Corpus Christi Caller-Times*, May 17, 2004

Elizabeth Pierson, "Plan to consolidate human services groups criticized: Democratic senators say head of project is unprepared, unrealistic," *Valley Morning Star*, May 25, 2004

W. Gardner Selby, "Pharmacy school in limbo as budget woes take precedence," *San Antonio Express-News*, June 2, 2004

Ildefonso Ortiz, "State agency shares information on CHIP coverage," *Brownsville Herald*, June 6, 2004

Other

Brian Lacy, "100 people lose [state prison] jobs in facilities division cutbacks," *The Huntsville Item*, August 1, 2003

Pat Hathcock, "Budget cuts result in waiting list at Gulf Bend," *Victoria Advocate*, August 13, 2003

Joyce Godwin, "MHMRST board still struggles with impending budget cuts," *Sherman Denison Herald Democrat*, September 1, 2003

Justin Smith, "Gates: Tuition may continue to rise," *The [Texas A&M] Battalion*, September 9, 2003

"Budget Cuts Hurt Mentally Ill Children," KAUZ TV, Wichita Falls/Lawton, October 6, 2003

Stephanie Davis, "Texas A&M budget cuts free up faculty positions, drive long-range plans," *DVM Newsmagazine* (Newsmagazine of Veterinary Medicine), November 1, 2003

Cindy V. Culp, "CHIP cutbacks may bring statewide health crisis," *Waco Tribune-Herald*, November 2, 2003

Tommy Witherspoon, "Judges find burden of justice increasingly heavy [court backlogs]," *Waco Tribune-Herald*, November 18, 2003

"Friends of The Hillsboro City Library Begin Membership Drive," *The Hillsboro Reporter*, December 8, 2003

Thomas Jenkins, "Commissioners send message to Austin: no unfunded mandates," *Big Spring Herald*, December 9, 2003

Larry Wheeler, Robert Benincasa, contributions by Sergio Bustos, "Tight state budgets squeeze health care for kids," Gannett News Service, www.USAToday.com, December 18, 2003

John LeBas, "Budget woes kicked off '03 at A&M," *Bryan-College Station Eagle*, Jan. 1, 2004

Monica Wolfson, "No company bids on privatizing any state hospital," Scripps Howard Austin Bureau, February 14, 2004

"Texas Leaves Lilly's Zyprexa Off 'Preferred' List," *Dow Jones Business News*, March 1, 2004

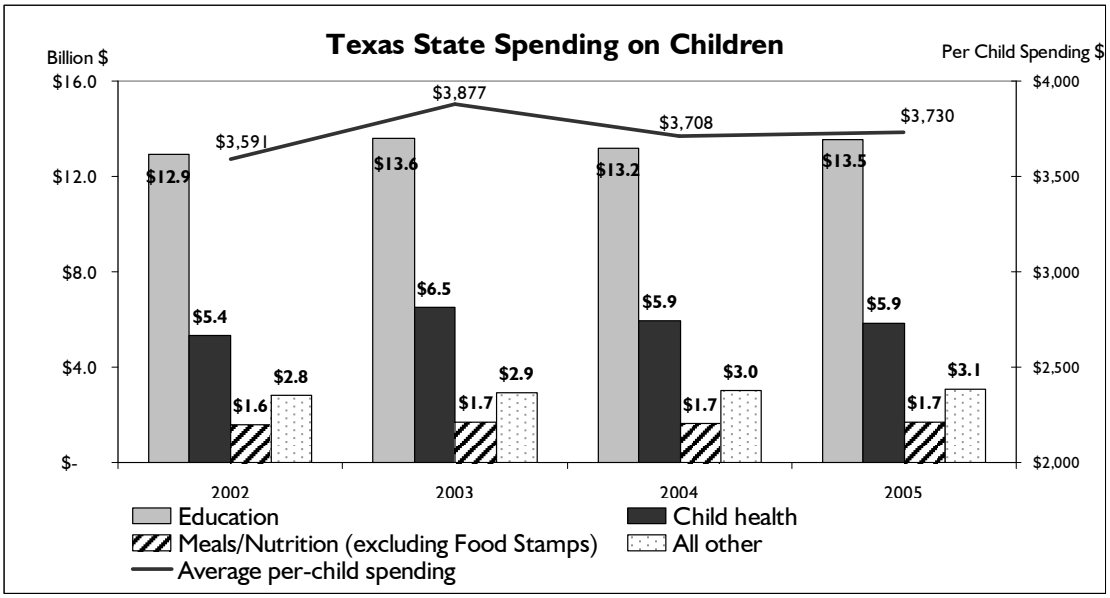
Richard A. Sherer, "A Prescription for Disaster: Cutbacks on Mental Health Programs Curb Access to Care," *Psychiatric Times*, April 2004, Vol. XXI, Issue 4

Michael Hines, "State orders changes in MHMR care," [Wichita Falls] *Times Record News*, April 19, 2004

Monica Wolfson, "Trimming of system a concern for many," [Wichita Falls] *Times Record News*, June 1, 2004

Monica Wolfson, "Regional universities talk money: MSU, university officials look to offset declining state funding," [Wichita Falls] *Times Record News*, June 9, 2004

Appendix C: The Texas Children's Budget



A question often posed to CPPP is: "How much does the state spend on children?" Because there is no report issued by any state agency that answers this question, the Center developed a methodology to estimate the amount of total and General Revenue spending on programs targeting children. In some cases the amount of spending on children is not possible to identify in state budget documents for 2004-05, such as state spending on state government employee dependent care, children's mental retardation services, or higher education programs serving Texans under 18. The figures in the chart above and following also exclude functions of government that benefit all Texans, such as highways, parks and environmental protection, regulatory functions, and other general government responsibilities.

With those caveats in mind, CPPP estimates that a total of $23.8 billion in 2004 and $24.1 billion in 2005 was appropriated by the legislature for children's education, health, meals/nutrition, special needs services, income support, child welfare, and juvenile justice programs. This works out to about 41 percent of the $118 billion that the state budgeted for 2004 and 2005. General Revenue appropriations for children's services are estimated at $13.2 billion in 2004 and $13.4 billion in 2005. This is about 45 percent of all state General Revenue spending appropriated for the biennium.

Funding for children's services will be lower in 2004 and 2005 than it was in 2003 for the major areas of education and health care, as seen in the chart above. Nutrition programs will show slight gains, especially when the value of Food Stamps benefiting children (estimated at almost $1.2 billion in 2004 and $1.3 billion in 2005) is included. When adjusted for the number of children, state spending on children will be about 3.8 percent lower in 2005 than it was in 2003.

The following table provides more detail about the broad categories shown in the chart above. The "Other" category includes income support, special needs, child welfare, and juvenile justice.

Appropriations for Programs Primarily Benefiting Texas Children

Amounts indicate state and federal funding, in million $

For programs shown in italics, CPPP estimated the amount of total appropriations that will serve children, not all clients.

	2004	2005
Income support		
TANF cash assistance	$194.0	184.4
Child support enforcement & disbursement	244.7	244.0
Workforce Investment Act – Youth	77.6	77.6
Child care subsidies	436.6	439.0
Child care worker loan repayment	0.02	0.02
Regulation of child care	19.0	19.0
Meals/Nutrition		
Public school lunch/breakfast programs in K-12	878.9	903.9
Private School Breakfast*	5.9	6.0
Private School Lunch*	12.7	13.6
Milk program*	0.1	0.1
*Child care food programs**	147.2	147.8
Summer food service program*	28.7	30.4
*Food Stamps***	1,189.1	1,261.4
WIC (Women, Infants, and Children) Services	588.2	587.5
Health care		
Medicaid premiums: TANF Adults & Children	457.4	412.2
Medicaid premiums: Pregnant Women	846.0	783.4
Medicaid Premiums: Children/Medically Needy	2,219.2	2,283.4
Immunizations	41.8	41.8
Tobacco education/prevention	7.4	7.4
Medical transportation	47.7	55.3
Medicaid cost-reimbursed services	410.9	427.6
Medicaid vendor drugs	776.2	669.0
CHIP and related programs	404.0	404.0
EPSDT Comprehensive	197.0	220.3
Texas Health Steps Medical	115.3	119.6
Texas Health Steps Dental	249.8	263.6
Women and Children's Health Services	47.4	47.4

* Until fiscal 2003, these programs were administered by the Department of Human Services.; they will be moving to the Department of Agriculture in 2004-05.

** The value of Food Stamp benefits is not appropriated in the state budget.

(continued)

Special needs	**2004** (million $)	**2005** (million $)
Medically Dependent Children Waiver	17.4	16.4
Special Needs Children (formerly CIDC)	37.5	37.5
Abstinence education	5.3	5.3
Substance abuse prevention	20.6	19.8
Substance abuse intervention	18.8	18.7
Substance abuse treatment	21.3	20.8
Children's mental health community services	61.0	61.0
School for the Blind	15.3	15.0
School for the Deaf	18.8	18.8
K-12 students with disabilities (special education)	796.6	800.2
Habilitative services for children (Comm. for the Blind)	2.6	2.6
Education		
K-12 education	$13,038.7	$13,395.4
Early Childhood Intervention	120.1	129.2
Teach for Texas Conditional Grants	5.0	5.0
Centers for Teacher Education	3.0	3.0
Early High School Graduation Scholarship	2.3	2.3
Teacher Quality Grants Program	4.3	4.3
Child Welfare		
Family violence services	22.0	22.0
Child protective services	282.2	290.2
Foster care/adoption payments	444.0	475.2
At-risk youth programs[***]	50.0	50.0
Juvenile justice		
Juvenile probation	131.5	131.5
Texas Youth Commission	251.1	241.9
TOTAL *(excluding Food Stamps)*	$23,822.7	$24,154.3
As a percent of all state appropriations	40.2%	41.0%

SOURCES: HB 1, General Appropriations Act, 78th Regular Session; Legislative Budget Board, Fiscal Size-Up, 2004-05 Biennium; state agency operating budgets and legislative appropriations requests; and federal funds estimates.

[***] Only includes funding for Department of Family and Protective Services prevention programs and for Communities in Schools.

Appendix D: Glossary of Acronyms and Terms

Term	Acronym	Definition
Aid to Families with Dependent Children	AFDC	The cash assistance entitlement program, also known as "welfare," which was replaced by Temporary Assistance for Needy Families in 1996 under federal welfare reform.
All Funds	AF	State (General Revenue, General Revenue-Dedicated, and Other) and Federal funds combined.
appropriation		Legislative approval of funding for a state agency and its programs ("strategies")
article		A major division of the General Appropriations Act (the biennial state budget) that groups agencies into similar functions; for example, Article II is the appropriations to health and human services agencies.
asset test		An eligibility test used in certain means-tested programs to determine if a person's resources are low enough to qualify them for benefits. Also referred to as a resource test. Asset limits vary by program.
biennium		Refers to Texas' two-year budget cycle.
block grant		Lump sum of federal money given to a state or local government to be spent in specified areas. Purposes are broadly defined, and few restrictions are mandated by the federal government. State or local government recipients may impose their own restrictions.
Centers for Medicare and Medicaid Services	CMS	The federal agency within the U.S. Department of Health and Human Services charged with implementing Medicare, Medicaid, and CHIP law and policy.
Child Care and Development Fund	CCDF	A federal grant to states that is the primary funding source for low-income child care subsidies. Also known as the Child Care and Development Block Grant (CCDBG).
Children's Health Insurance Program	CHIP	The joint federal-state health insurance program for low-income children whose families earn too much money to qualify them for Medicaid.
Choices		Employment services for recipients of cash assistance (TANF) in Texas.
community care		Services that enable seniors and people with disabilities to be cared for in their own homes. Includes Medicaid-funded and non-Medicaid-funded community care.

Term	Acronym	Definition
County Indigent Health Care Program	CIHC	In Texas law, most smaller counties must provide care to certain very poor residents (below 21% of the poverty line) who do not qualify for Medicaid. Urban counties such as El Paso mostly have hospital districts instead of a CIHC program.
eligibility worker		Staff who determine eligibility for public benefits, usually in field offices. Also referred to as caseworkers, or Texas Works Advisors (at the Department of Human Services).
Emergency Medicaid		Federal law requires Medicaid to pay health care providers for emergency medical care (including labor and delivery) provided to individuals who would qualify for Medicaid in every respect EXCEPT for their immigration status. Applies to both undocumented and legal immigrants who cannot get "regular" Medicaid.
federal poverty level	FPL	The official standard used to measure poverty that is determined annually by the U.S. Department of Health and Human Services. Also referred to as the "poverty line." See http://aspe.hhs.gov/poverty/index.shtml for the guidelines and background on the poverty measure.
Federally Qualified Health Centers	FQHC	Health centers that have been approved by the government for a program to give low-cost health care funded under Section 330 of the Public Health Service Act. FQHCs include community health centers, tribal health clinics, migrant health services, and health centers for the homeless.
fiscal year	FY	The state accounting period of September 1 through August 31. Example: Fiscal 2004 started September 1, 2003 and ends August 31, 2004.
Food Stamp Program	FSP	The federal nutrition program that helps low-income people buy food. Texans receive benefits (in 2004, an average of $279 monthly for a family of three) through the Lone Star card, a debit card used at grocery stores and other participating retailers.
Foundation School Program	FSP	The system of funding formulas used to determine state aid for public schools.
full-time equivalent	FTE	A unit of measure that represents the average number of state staff working 40 hours per week.
General Revenue	GR	Undedicated state funds, most of which is tax revenue.

Term	Acronym	Definition
HB 2292		The omnibus health and human services legislation passed by the 78th Legislature (2003) that made sweeping changes and cuts to HHS programs and consolidated HHS agencies.
Health and Human Services	HHS	A generic term that encompasses most health and human services programs in Texas. (Exception: In the Texas budget, child care subsidies are part of business and economic development, not health and human services.)
income deduction		Money that is deducted from a person's income prior to calculating eligibility for a specific program. Income deductions vary by program.
income disregard		New income that is not counted against a recipient of cash assistance for the purpose of maintaining that person's eligibility for benefits for a specified time.
legislative appropriations request	LAR	A two-year budget request submitted by state agencies to the Legislative Budget Board and Governor's budget office before each regular legislative session.
Legislative Budget Board	LBB	A permanent joint committee of the Texas legislature that develops recommendations for legislative appropriations for state agencies and provides budget information to the legislature. Also refers to the agency that staffs the LBB.
Local Workforce Development Board	LWDB	A governing board made up of business, economic development, education, labor, community organizations, and government representatives that coordinates the local provision of certain publicly funded workforce and child care services.
matching funds		Funds the federal (or state) government requires the state (or local) government to provide in order to receive allocations for specific purposes. This might be a fixed dollar amount or a percentage of the total cost of a particular program.
Medicaid		The joint federal-state health care program for certain low-income and disabled persons. Also known as Title XIX of the Social Security Act.
Medicare		The federal program providing health insurance for most persons over 65 and certain disabled adults.

Term	Acronym	Definition
Mental Health and Mental Retardation	MHMR	Refers to the state's mental health and mental retardation system. Also the acronym for the Department of Mental Health and Mental Retardation, the state agency that, until the 2003 reorganization of state HHS agencies, administered programs and services for Texans with mental retardation or mental illness.
Mental Health and Mental Retardation Authority	MHMRA	Regional governmental entities responsible for overseeing the provision of certain MHMR services.
method of finance	MOF	Identifies the source of funds for a state agency or a "strategy" (program or service).
Personal Responsibility Agreement	PRA	An agreement that an adult TANF cash assistance recipient in Texas must sign to receive benefits. Noncompliance with the PRA results in sanctions, or loss of benefits.
Personal Responsibility and Work Opportunity Reconciliation Act of 1996	PRWORA	The federal law that replaced Aid to Families with Dependent Children (an entitlement program) with Temporary Assistance for Needy Families (a capped block grant).
preferred drug list	PDL	Drugs on this list do not require prior authorization to be dispensed by Medicaid or CHIP.
Rainy Day Fund	RDF	Officially called the Economic Stabilization Fund, the Rainy Day Fund was constitutionally adopted in 1988 to set aside certain revenue that cannot be appropriated in the regular budget process. This money, which mainly comes from increases in tax revenue from natural gas production, can be used only with supermajority votes in both chambers of the legislature.
regular session		The convening of the Texas legislature in odd-numbered years, for 140 days (starting on the second Tuesday in January), to enact the state budget and other legislation.
"Robin Hood"		Name given to an element of Texas' system of school finance which "recaptures" tax revenue from property-rich school districts and distributes it to property-poor districts to equalize the ability of school districts to generate revenue, regardless of local property wealth.

Term	Acronym	Definition
sanction		In government assistance programs, a financial penalty or benefit termination imposed on a recipient who does not comply with program requirements.
Secretary-approved coverage		Discretion given to the secretary of the U.S. Dept. of Health and Human Services to approve a state's CHIP benefits package if it falls outside the parameters of federal law.
Social Security	SS	Federal retirement benefits paid by the Social Security Administration (SSA) to qualified persons who reach "full retirement age" (starting in 2003, this age will increase, from 65 currently to 67 by 2027). Reduced SS benefits can be paid to qualified retirees who are at least 62.
Special Supplemental Nutrition Program for Women, Infants and Children	WIC	The federal nutrition program that provides low-income women and children with food coupons and nutritional health services.
strategy		A term that describes a specific area, program or function of a state agency's budget; for example, "Nutrition Assistance" and "TANF grants" in the Department of Human Services' budget, or "Family Planning" in the Department of Health budget.
Supplemental Security Income	SSI	The federal program for poor seniors and disabled adults that ensures a minimum $552 per month income (in 2003) and Medicaid coverage.
Temporary Assistance for Needy Families	TANF	The federal block grant to states that provides cash benefits to low-income families and funds a variety of programs that promote job preparation, work, marriage, the formation of two-parent families, and fewer out-of-wedlock pregnancies. Also known as welfare or cash assistance.
welfare		The cash benefits provided to low-income families (in 2004, an average of $198 monthly for a family of three). Also referred to as cash assistance or TANF.
welfare reform		Most recently refers to the federal Personal Responsibility and Work Opportunity Reconciliation Act passed by Congress in 1996. Also referred to as the "welfare act."