



Legislative Study Group

Texas House of Representatives

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Bill Analysis for the Conference Committee Report on House Bill 1

Author: Rep. Jim Pitts Committee: Appropriations

Recommendation: Unfavorable

HB 1 Evaluated By: Jasie Boyd

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INTRODUCTION

Texas entered the 82nd legislative session with a shortfall estimated to be approximately \$27 billion. Through a series of cuts in the supplemental bill (HB 4) and the decision to use \$3.2 billion from the Rainy Day Fund (HB 275), plus the additional revenue of \$1.2 billion anticipated by the comptroller, the remaining shortfall has been lowered to about \$22.2 billion for the coming biennium. This shortfall is partly the result of the national economic recession, but that is not the sole contributing factor to the state's fiscal woes. Texas has a structural shortfall of \$10 billion every biennium, the result of the combination of property tax decreases and a dysfunctional margins tax system implemented in 2006.

To address the drastic revenue shortfall, Governor Perry has directed the legislature to follow a “cuts only” approach. To that end, HB 1 delivers a devastating blow to Texas agencies, and the pain of those cuts will be felt by every Texan: young children, college students, the elderly, the poor, people with disabilities, and the workforce. In the wake of a recession, this budget will deliver an economic blow that costs Texas hundreds of thousands of jobs. With job reductions and a struggling economy, disposable income levels will decrease, which will in turn lead to a decrease in sales tax revenues. The accounting gimmicks used to balance the budget and the structural shortfall guarantee a multibillion dollar shortfall next session. In addition, the devastating cuts in HB 1 set off a cycle that is guaranteed to leave Texas in even worse shape when the 83rd Legislature convenes in 2013. What is needed is an approach that uses cuts in conjunction with closed loopholes and use of the Rainy Day Fund in order to deliver Texans a truly balanced budget.

Some notes on the numbers that follow

- The FY 2010-11 base numbers are drawn from the LBB Budget Estimates produced at the beginning of the session. The supplemental bill, HB 4, will create changes that are not reflected in the charts in this document. In the FY 2010-11 base number that is used, the 5% portion of the cuts taken in 2010 are factored in, but **not the 2.5% cut taken in 2011 or additional cuts realized in HB 4.**
- Comparisons made below are to the FY 2010-11 base, not to the agencies’ requested amounts. The reductions therefore are compared to current levels only, and do NOT account for cost increases or caseload growth, even though Texas has one of the fastest growing populations in the nation.
- Stimulus funding received during the last biennium has not been replaced in the current budget.
- Representative Otto and the Comptroller have worked together to create a time-limited Tax Amnesty Program that is expected to capture about \$75 million. In the House version of the budget there were a number of riders specifying the way that these funds were to be appropriated. The conference version, however, simply adds the anticipated revenue to the amount available to certify expenditures without specific directives for appropriation.

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About the Texas Legislative Study Group

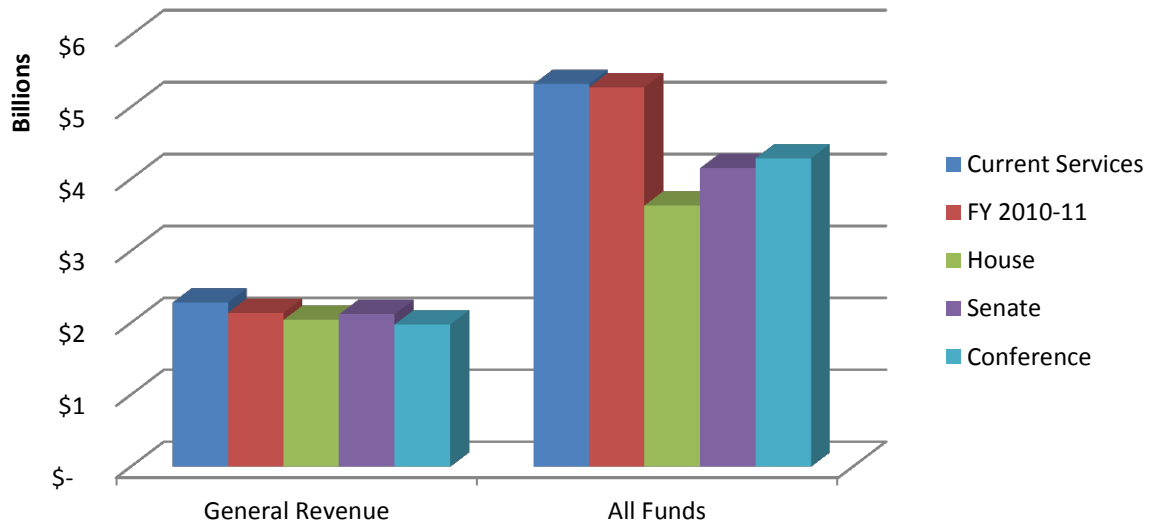
The Legislative Study Group is dedicated to advancing mainstream public policy ideals and ensuring that all LSG caucus members have the necessary information to make informed decisions, leading to the best public policy for all Texans. Since the 73rd Legislative Session, LSG staff has provided accurate and detailed bill evaluations for all of its members. In addition, LSG floor reports have proved to be an invaluable tool for dissecting legislation and preparing for floor debates.

By arming members with accurate information LSG has proved to be a vital part of many legislative battles including protecting key teacher's rights to benefits, protecting and strengthening our public schools by helping to defeat the sending of tax dollars to private schools, and leading the effort to stop the crippling cuts to the CHIP program. In recent sessions, LSG reports on top tier universities and abuse at Texas' state schools have led to substantial policy improvements in Texas.

LSG serves as a primary conduit for the flow of information to legislators on the House floor, during the legislative session. Full time, expert staff focused on key policy areas provide detailed analysis of bills which fall into one of five areas of interest: education, environment, budget, health and human services, and worker and consumer issues. Each area of interest has a specific LSG staff member assigned to track and analyze legislation.

If you have any questions about this report or the Legislative Study Group, you may email us at Info@TexasLSG.org or call LSG Executive Director Joe Madden or LSG Policy Director Phillip Martin at 512-827-8756.

ARTICLE I - GENERAL GOVERNMENT



Agency	FY10-11	FY12-13	Difference	% Change
Commission on the Arts	\$15,947,885	\$7,541,544	(\$8,406,341)	(52.71%)
Office of the Attorney General	\$1,117,412,897	\$1,043,397,525	(\$74,015,372)	(6.62%)
Bond Review Board	\$1,163,827	\$973,935	(\$189,892)	(16.32%)
Cancer Prevention and Research Institute of TX	\$227,632,700	\$600,052,000	\$372,419,300	163.61%
Comptroller of Public Accounts	\$505,342,078	\$412,090,385	(\$93,251,693)	(18.45%)
Fiscal Programs - Comptroller	\$1,091,256,529	\$801,770,072	(\$289,486,457)	(26.53%)
Comm. on State Emergency Communications	\$139,423,971	\$115,008,442	(\$24,415,529)	(17.51%)
Employees Retirement System	\$3,431,818,844	\$3,523,195,778	\$91,376,934	2.66%
Texas Ethics Commission	\$3,955,706	\$3,490,444	(\$465,262)	(11.76%)
Facilities Commission	\$166,886,049	\$101,627,585	(\$65,258,464)	(39.10%)
Public Finance Authority	\$6,639,842	\$4,907,832	(\$1,732,010)	(26.09%)
Fire Fighters' Pension Commissioner	\$1,479,746	\$1,654,339	\$174,593	11.80%
Office of the Governor	\$23,974,249	\$19,549,960	(\$4,424,289)	(18.45%)
Trusted Programs - Office of the Governor	\$870,092,440	\$507,136,183	(\$362,956,257)	(41.71%)
Historical Commission	\$104,903,279	\$32,357,757	(\$72,545,522)	(69.15%)
Department of Information Resources	\$643,088,856	\$567,563,958	(\$75,524,898)	(11.74%)
Library & Archives Commission	\$77,745,846	\$40,991,890	(\$36,753,956)	(47.27%)
Pension Review Board	\$1,389,139	\$1,405,003	\$15,864	1.14%
Preservation Board	\$35,417,317	\$28,157,074	(\$7,260,243)	(20.50%)
State Office of Risk Management	\$17,567,409	\$18,106,155	\$538,746	3.07%
Workers' Compensation Payments	\$90,242,322	\$96,242,322	\$6,000,000	6.65%
Secretary of State	\$72,520,290	\$89,975,120	\$17,454,830	24.07%
Veterans Commission	\$47,298,894	\$55,200,261	\$7,901,367	16.71%
	\$8,693,200,115	\$8,072,395,564	(\$620,804,551)	(7.14%)

Commission on the Arts - (52.7%) – (\$8,406,341)

The Commission on the Arts will lose one third of its staff, resulting in less efficient administration and additional duties imposed on the remaining staff. The majority of the loss is in the provision of grants for the arts, which is reduced by 54%, due in part to the loss of \$2 million in funding from interagency contracts with TxDOT and TEA. Currently, the Commission on the Arts offers about 1,500 grants annually to non-profits such as libraries, art institutions, and to programs for art education. The entire goal of promoting participation in art and cultural events, which has been dedicated to attracting cultural tourism to the state, has been eliminated.

Office of the Attorney General – (6.6%) – (\$74,015,372)

The areas of loss in the Office of the Attorney General are in the strategies related to child support enforcement (17%), which includes delaying the implementation of systems that would allow the agency to increase efficiency and reduce costs associated with paper handling and form/report generation. The budget also includes new fee revenue from a \$25 annual service fee for non-TANF cases, and a \$3 monthly processing fee on child support payments processed through the State Disbursement Unit. There is also a method of finance swap for Victims Assistance Grants, in which a dedicated account is used rather than GR. Using this dedicated account instead of GR will decrease the ending balance substantially, which will have implications for future survivors eligible for these grants.

Bond Review Board – (16.3%) - (\$189,892)

Most of the funding loss is represented by the elimination of 1.5 financial analyst FTEs (from 9.5 total), which could cause a backlog in required annual and biannual analyses on state debt.

Cancer Prevention and Research Institute of Texas – 163.61% - \$372,419,300

In the House version of the budget, section 18.06 of Article IX is a contingency rider that would allow the Cancer Prevention and Research Institute to issue bonds of up to \$300 million. The conference budget appropriates the \$300 million per year in bond proceeds directly, fully funding the program.

Comptroller of Public Accounts – (18.5%) – (\$93,251,693)

The majority of reductions to the Comptroller's Office are made out of the agency-submitted 10% reductions. These include reductions in the CAPPs software system and in hiring freezes. Public outreach, publications, and local government assistance programs are eliminated.

Fiscal Programs – Comptroller of Public Accounts – (26.5%) - (\$289,486,457)

Cuts to fiscal programs eliminate:

- Local continuing education grants
- Underage tobacco program
- Jobs and Education for Texans grant program
- Major Events trust fund.

Commission on State Emergency Communications – (17.5%) – (\$24,415,529)

No funding for routine replacement for 9-1-1 equipment is included in the budget, with only \$300 million retained for equipment emergencies. This could lead to problems with the system, as much of the equipment is aging. Currently there is a 50 cent surcharge on all Texas monthly wireless bills; this fee is intended to support 9-1-1 services. However, the fund is not being fully utilized for that purpose, it is instead being used to certify the budget.

There is also a 16% reduction of funding for poison control services.

Employees Retirement System (ERS)

ERS remains fully funded. The House version reduced the state contribution rates to 6% for the biennium, but the conference report raises them back to 6.5% in FY 2013, which is .05% higher than the current contribution rate.

Texas Ethics Commission – (11.8%) – (\$465,262)

The reduction includes the elimination of the Ethics Education Program. Statute requires that state employees are provided ethics training, a burden that will now be shifted to other agencies that will have to take on the responsibility of providing ethics related materials to their employees without additional appropriations for that purpose.

Facilities Commission – (39.1%) - (\$65,258,464)

\$4 million of the reduction to the Facilities Commission is in surplus property services transferred to the Comptroller's Office, which is currently responsible for other unclaimed properties. The bulk of the remaining cuts are in the facilities operation strategy, which is primarily due to a reduction in GO bond proceeds.

Public Finance Authority (TPFA) – (26.1%) - (1,732,010)

The TPFA had an atypical GR-D appropriation in FY 2011, and therefore the reductions appear larger than they actually are. Funding is in keeping with requested levels, and should not result in decreased operational effectiveness.

Firefighter's Pension Commissioner – 11.8% - \$174,593

In H.B. 1 as introduced, the FFPC was eliminated as a stand-alone agency. However, in the committee substitute it was determined that it would remain as a stand-alone, and funding was restored to a point higher than in the FY 2010-11 base.

Office of the Governor – (18.5%) – (\$4,424,389)

The budget of the Governor was reduced to FY 2008-09 levels, with \$3.7 million of the decrease to items such as support with budget oversight, policy review, and legislative issues.

Trusted Programs Within the Office of the Governor – (41.7%) – (362,956,257)

Programs Eliminated:

- Emergency and Deficiency Grants to state agencies with insufficient operational funds or special needs due to unforeseen circumstances
- County Essential Services Grants to local governments faced with unexpected criminal justice expenses
- Disaster funds to local agencies when the Governor determines that they insufficient to respond to a disaster

Programs Substantially Reduced:

- Criminal Justice programs and research – (55.8%) – (\$178,101,231)
- Film and Music Marketing – (52.1%) – (34,791,431)
- Economic Development and Tourism – (75.8%) – (112,710,308)
- Military Preparedness – (92.6%) – (\$10,000,000) – Eliminates grant funding to defense dependent communities

Historical Commission – (69.2%) – (\$72,545,522)

Funding in the Historical Commission is limited largely to programs required by state and federal law. Programs eliminated include grants, history programs, and community heritage programs (including Heritage Trails). Localities currently receiving courthouse preservation and development assistance funds will continue to do so, but no new awards will be given. FTEs are reduced by 23.4%, and the marketing and communications divisions are eliminated.

Department of Information Resources – (11.8%) – (\$75,524,898)

DIR's reduction includes a decrease of over \$50 million related to the decrease in appropriations for data center service in agencies that DIR serves. Other reductions include salaries, travel expenses and other administrative costs.

Library and Archives Commission – (47.3%) – (\$36,753,956)

The massive reductions to the LAC will have an extraordinary impact on Texans' access to information. The program that provides reference materials in online databases to K-12 students has been eliminated, as have programs that aid local libraries such as Lone Star grants (which provide computers and internet access) and Texas Reads grants (which fund initiatives to promote literacy in communities). GR funding is also eliminated for the TexShare database, and local libraries will be asked to pay increased fees to maintain this valuable service. Because of the cuts present in HB 1, Texas will lose over \$8 million in federal funding for failing to meet maintenance of effort requirements.

Pension Review Board – 1.1% - \$15,864

The Pension Review Board is fully funded in the conference version of the budget.

Preservation Board (20.5%) – (\$7,260,243)

One-time federal funds for \$11 million make up almost the entirety of the reduction to the Preservation Board seen in HB 1. Those funds were expended for the restoration of the Governor's Mansion.

State Office of Risk Management – 3.1% - \$538,746

SORM is funded entirely by interagency contracts, and the increase in operational budget will not impact GR.

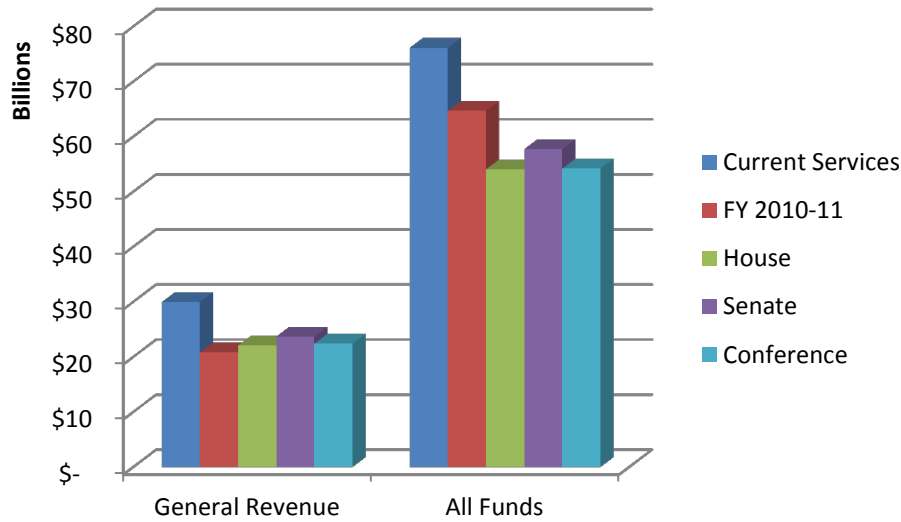
Secretary of State – 24.1% - \$17,454,830

The increase in the budget of the Secretary of State is due to a 213% increase in federal monies from unexpended HAVA funds received during the 2010-11 biennium; funding out of general revenue has decreased by 12%.

Veteran's Commission – 16.7% – \$7,901,367

In HB 1 the Veteran's Commission has moderate reductions primarily in claims representation and counseling, outreach and marketing, and veteran's employment services, but funding for the agency overall exceeds FY 2010-11 levels.

ARTICLE II – HEALTH AND HUMAN SERVICES



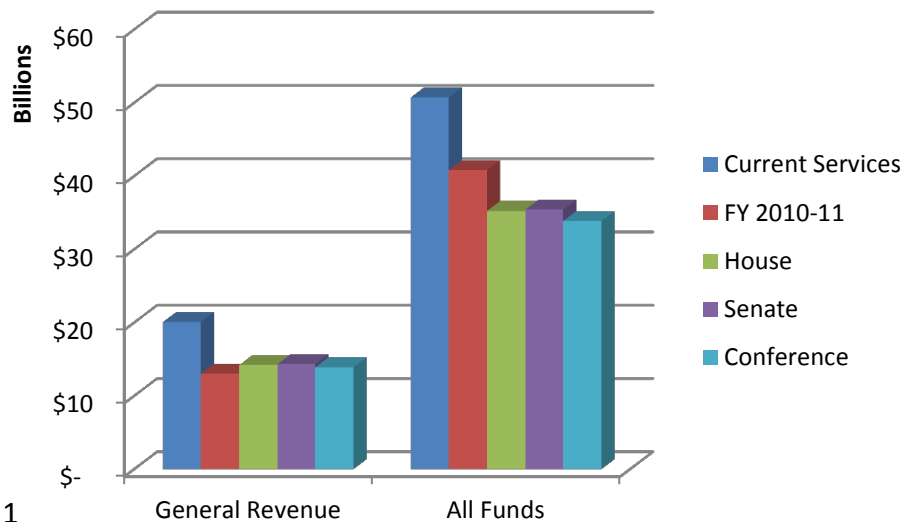
Agency	2010-11 Base	2012-13	Difference	% Change
Department of Aging & Disability Services	\$13,641,741,218	\$9,675,532,756	(\$3,966,208,462)	(29.07%)
Department of Assistive and Rehabilitative Services	\$1,348,849,904	\$1,251,603,300	(\$97,246,604)	(7.21%)
Department of Family and Protective Services	\$2,740,323,715	\$2,747,970,292	\$7,646,577	0.28%
Department of State Health Services	\$6,140,158,720	\$5,760,122,163	(\$380,036,557)	(6.19%)
Health and Human Services Commission	\$40,782,618,434	\$33,869,403,857	(\$6,913,214,577)	(16.95%)
	\$64,653,691,991	\$53,304,632,368	(\$11,349,059,623)	(17.55%)

Health and Human Services Commission – (16.95%) – (\$6,913,214,577)

In addition to overseeing the other HHS agencies, HHSC administers the Medicaid program in Texas, as well as CHIP, TANF and other services. The \$6.9 billion cut to this agency will be devastating to millions of Texas residents.

Medicaid

Medicaid is by far the largest health care program in the state, accounting for over 25% of the Texas budget. In 2010, enrollment increased by 10%, with growth expected to continue. HB 1 cuts funding for Medicaid by \$6.3 billion from FY 2010-11 levels, and is \$15.3 billion shy of requested funding to account for enrollment growth and cost increases. The spending is heavily front loaded, with \$18.2 billion spent into FY 2012 and only \$10.7 billion in FY 2013. This funding level will leave Texas with billions to pay in an emergency appropriations bill that will come due in 2013. Because of the nature of the cuts throughout the budget and the increased long-term costs that many ensure, Texas will likely be in an even worse position to handle these costs despite a recovering economy.



In Medicaid all eligible participants are guaranteed services. By not adequately funding Medicaid, Texas is choosing to operate at a deficit, and will face a large supplemental appropriations bill or additional deep health care cuts when the 83rd Legislative session convenes.

Currently, Texas ranks 49th in per capita spending on Medicaid, offering only basic services to those eligible; the “optional” services that Texas provides include prescription drugs, rehabilitation, and hearing aids. There is a \$45 million reduction to optional services assumed in HB 1, but the exact program(s) it will impact are unknown. The reductions to the Medicaid system are realized in a number of ways:

- No replacement of stimulus funding
- No funding for caseload growth
- No funding for increased health care costs
- No funding for changes to the eligibility system necessary to prepare for provisions required by the federal Affordable Care Act that is effective on January 1, 2014
- Cuts to some provider rates in addition to previous rate reductions in the current biennium
- Savings from expanding Medicaid Managed Care
- Loss of the enhanced stimulus FMAP rate
- Elimination of UPL to Children’s hospitals, which are funded solely from GR
- Reduce the vendor drug rebates for Medicaid and Chip

The proposed 10% across the board in provider rate cuts that was part of the House version of HB 1 was abandoned in light of the massive nursing home closures and provider drop-outs anticipated in the Medicaid program. During the current biennium, nursing homes have already taken a 3% reimbursement cut. They will face additional reductions due to a lowered FMAP and the loss of stimulus funding. Some home and community based services will also have a 1% rate cut, and there will be a 10.5% rate cut for durable equipment like wheelchairs, as well as lab services.

Providers and hospitals that accept Medicaid patients receive a reimbursement rate that is only about 60% of their cost. Provider rates to hospitals are cut by 8% (in addition to a 2% cut already taken) in HB 1. Rural and children’s hospitals will not be subject to the additional 8% cut. Hospitals currently account for about 50% of all Medicaid acute care expenditures.

Managed care expansion to South Texas and statewide is expected to produce a savings of over \$543 million (despite not historically proving to provide cost savings). This expansion could cause the loss of hospital supplemental upper payment limit (UPL) reimbursements made from local and federal coffers. These UPL payments mitigate the difference between Medicaid and Medicare reimbursement rates to hospitals that operate under a fee-for-service model, which they will no longer be eligible for under managed care. A CMS waiver that would provide financial protection to hospitals is being sought from the federal government, and riders 76 and 77 ensure that if it is not approved the STAR expansion will not continue so that hospitals are able to continue to receive the UPL payments that help ensure sufficient funding for services.

UPL payments are eliminated entirely for private stand-alone Children’s Hospitals. These UPL payments are funded entirely by GR, as these hospitals do not draw on local taxes to meet the federal draw down requirements. Rider 60 allows for up to \$5 million to be appropriated out of other HHSC strategies upon determination of a critical need, and will likely apply only to Driscoll Children’s Hospital in Corpus Christi. However, given the steep cuts across HHSC, it is difficult to imagine a strategy from which the funds could be appropriated without harming another service.

HB 1 also produces a savings by proposing lower reimbursement rates for emergency room care for non-emergent cases. Hospital emergency rooms are required to treat every patient that comes in, and other provisions of the budget increase the likelihood that more patients will do so for both mental and physical health issues. While it is important to incentivize proper utilization of both primary care and emergency room services, the confluence of provisions in HB 1 place an undue penalty on hospitals that have no direct control over who enters the doors.

Children’s Health Insurance Program (CHIP)

Due to population growth, the transition of SKIP into CHIP, and more children being eligible for the program, enrollment growth is anticipated in FY 2012-13. The federal government has a higher FMAP rate for CHIP than Medicaid, and has recently expanded the populations for which it will pay this rate. The number one priority for HHSC is to maintain health care access for these children.

Supplemental Nutrition Assistance Program (SNAP)

SNAP, previously called Food Stamps, is 100% federally funded, and the program itself will not be impacted by the budget. However, the state is responsible for determining eligibility and enrolling participants, and must cover 50% of associated costs. Underfunding eligibility and enrollment will hinder the ability of HHSC to process enrollment applications in a timely manner. They are in need of a greater number of staff as well as new technologies to maintain gains achieved since the 2009 lawsuit filed because of extraordinarily long wait times for benefits.

Department of State Health Services – (6.2%) –(\$380,036,557)

DSHS operates a broad range of programs: from hospitals and trauma centers, community health centers, and food and drug safety programs to the Texas Center for Infectious Disease. All of these programs will be negatively impacted by HB 1.

Mental Health Services

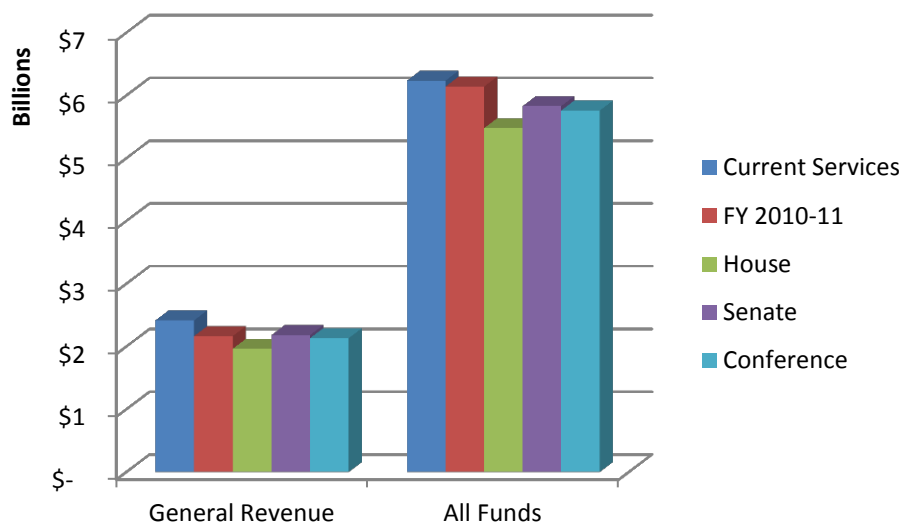
Texas spends less on mental health services per capita than any other state in the nation. Funding for mental health services in the conference

committee report are greater than those in the House

version, but the continued underfunding in HB 1 will have disastrous effects in a state in which funding is already minimal at best. **During conference negotiations, appropriations for mental health services exceeded FY 2010-11 levels, but remain short of needed funding by about \$65.5 million.** Over 4.3 million Texans have a diagnosable mental health disorder, 1.2 million of whom are children. Following cuts made in 2003, there are already insufficient community based mental health services available; DSHS estimates that almost 10,000 people were on wait lists during the last quarter of 2010, with up to a full year of wait time. The long wait times result in many people entering a crisis mode and either going to an emergency room or to jail. To compare: the average cost per day of mental health services in a community based setting is \$12, whereas in a prison/jail it is between \$137-285, and an emergency room visit for a non-elderly, non-insured person is between \$980-1200. Crisis stabilization services cost an average of \$537 per day.

About half of the total mental health funding in Texas is spent on forensic purposes. In fact, the largest mental health facility in Texas is the Harris County Jail. It is estimated that it is about 60% more expensive to incarcerate a person with mental illness than a typical inmate. Because of the large number of people who are untreated and enter crisis, law enforcement increasingly functions as the front line in mental health response. ***In 2010, Houston police officers detained and filed an Emergency Detention Order on a person in a mental health crisis every two hours, on average.*** This type of activity places an enormous burden on the time and resources of local law enforcement and the court system, and requires skills that not every officer possesses.

The populations at State Hospitals, which serve mental health patients, is increasingly made up of forensic commitments, with the goal of restoring competency to defendants. A bed at a state hospital currently costs Texas about \$400/day. By statute, the maximum length of stay is 120 days, which is fully utilized in over 60% of cases. If an extension is given, the average length of stay in FY 2009 was 267 days for 252 defendants. These defendants alone cost the state \$30 million. In the event that a defendant is still not found competent, s/he may be civilly committed with pending criminal charges, in which case the average length of stay in 2009 increased to 1,470 days at a cost of \$71 million. Ultimately, Texas will pay for mental health services. It is much more cost-effective, not to mention humane, to do so on the front end with community services rather than on the back end, in hospitals and the criminal justice system.



Other Notable Budget Cuts

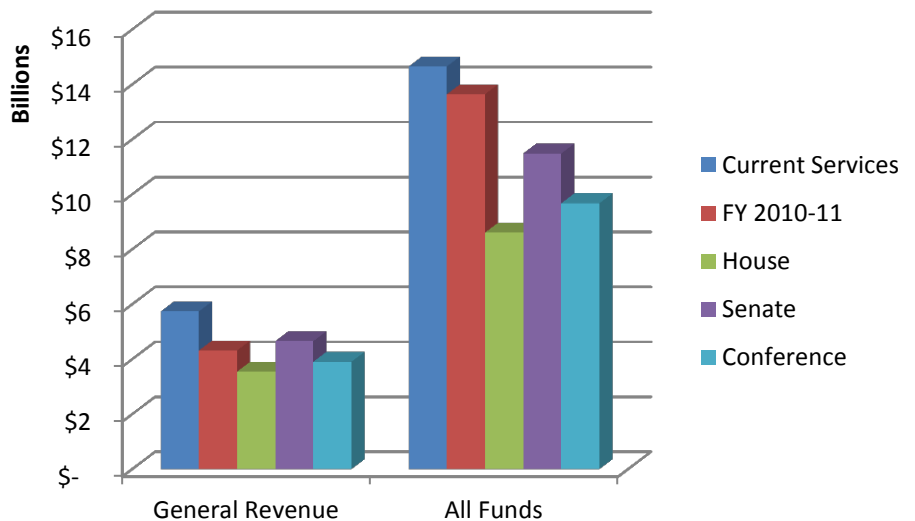
- **Family planning services** are reduced by \$73.6 million (66%). These drastic cuts, passed under the guise of reducing abortion, will likely actually increase the number of abortions as more women are unable to access contraceptive medications as nearly 200,000 women are left without services each year. Abortion is and has been explicitly excluded in Texas budgets, and the programs that will be impacted by these cuts are those that provide critical health services such as STD treatment, well women exams, and cancer screenings for low income women. Abstinence programs, which some studies indicate are ineffective, had over \$1 million restored, however.
- **Chronic disease prevention** programs are cut by 47%. These programs include services for people with diabetes and other chronic health problems like epilepsy, as well as the obesity prevention program
- **Substance abuse prevention and treatment** programs are cut by 11%
- **Trauma care** is cut by over 18%, which will have an adverse impact to trauma centers which already carry a cost of about \$225 million a year in uncompensated care. Direct reimbursement for uncompensated care is reduced by \$25 million
- Health care reimbursements for **treatment of the indigent** is reduced by 53% to county hospitals and 38% for services at UTMB
- Funding is eliminated entirely for the **Federally Qualified Health Care** grants program, which helps health centers attain FQHC status, as it is not statutorily required. FQHC programs receive enhanced Medicare and Medicaid reimbursement rates and access to other national programs like Vaccines for Children
- **HIV/STD prevention** programs are cut by \$28.5 million (8%)

Maintenance of Effort for Federal Funding

Reductions to mental health in HB 1 fail to meet the maintenance of effort requirements to receive the Community Mental Health block grant from the federal government, at a biennial loss of \$63.7 million.

Department of Aging and Disability Services (DADS)– (29%) – (\$3,966,208,462)

DADS funds many essential state programs including adult foster care, community based services, hospice, MR services, residential care, and many others for elderly and Texans with intellectual/developmental disabilities. Most of these services will face drastic cuts under HB 1, leaving many of our most vulnerable citizens without the care they need.



Nursing Homes

Nursing homes in Texas offer crucial services for elderly Texans and Texans with disabilities. Over half of the 1,100 nursing homes in Texas rely on Medicaid for 70% or more of their income. Currently, Texas ranks 49th in Medicaid funding, and this underfunding leaves many nursing homes operating with a slight 3-5% margin. During the current biennium, nursing homes have already taken a 3% reimbursement cut. They will face additional reductions due to a lowered FMAP and the loss of stimulus funding. **As with all Medicaid services, nursing homes are significantly front loaded during FY 2012 with the expectation of a large supplemental appropriation or deep cuts when the funds run out in FY 2013.**

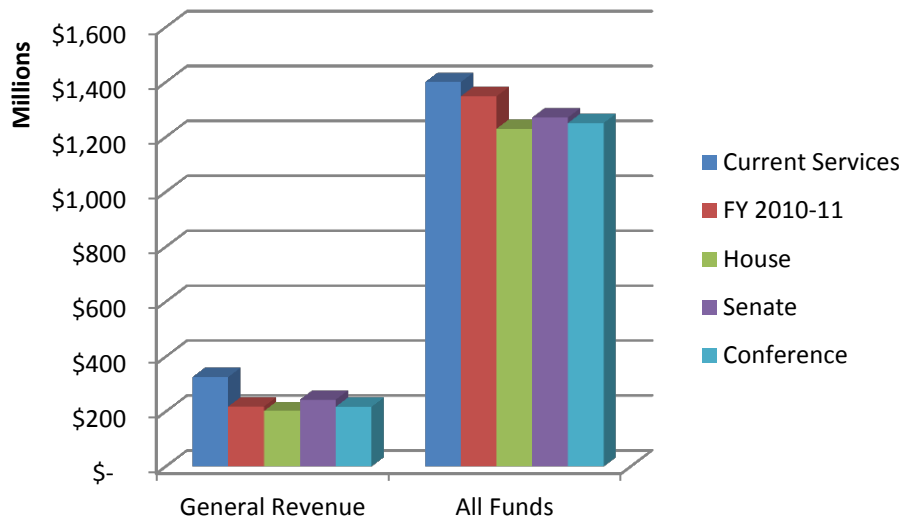
Department Of Assistive And Rehabilitative Services – (7.2%) – (\$97,246,604)

As with other agencies, DARS reduced their administrative budget by 10%, and funding decreased across the board. The largest issues for DARS in HB 1 include:

Maintenance of Effort for Federal Funding

State funding for DARS in HB 1 does not meet the maintenance of effort requirements of the federal government. This could result in the loss of the entire Federal Special Education Grant for Infants and Toddlers

(IDEA), which amounts to \$39.7 million annually, as well as the Federal Vocational Rehabilitation (VR) funding, which could result in a loss of approximately \$2 million annually. A waiver can be requested from the Secretary of Education for these items.



Early Childhood Intervention Program (ECI)

Funding for ECI is funded at a level \$51 million below FY 2010-11 and \$107 million below requested levels to maintain current services. ECI serves children from birth to age 3 with developmental disabilities. 32,000 children a month are currently served; under HB 1 that number would be reduced to 27,784 a month. To meet budgetary requirements, eligibility for the program would become more stringent. Eligibility is determined based on developmental delay. Currently, children delayed by 15% are eligible for services; HB 1 would increase the delay required for eligibility. For example, a 24-month old child with a 15% delay would be at a 20-month developmental level, whereas with a 33% delay he would be at a 16-month developmental level. It is unclear whether or not the federal government will accept the new eligibility requirement. There will be approximately 4,300 fewer children served in the program over the biennium. In addition, the outcomes are much better with earlier treatment, and this would in all likelihood delay the onset of services. Children are only served in ECI until they are 3 years old, and this could significantly shorten the treatment window and impact outcomes.

Another issue facing ECI is the inability to fund adequate hours per month with program participants. The average recommended time is 4 hours per month; under HB 1, DARS would continue to only be able to spend 2 hours per month with each child. This is insufficient to achieve maximum gains for these children.

Vocational Rehabilitation Program (VR)

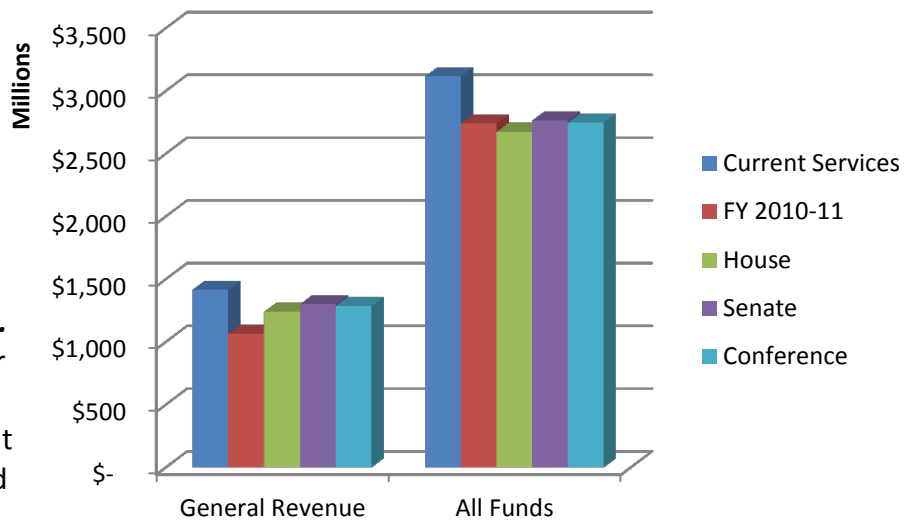
The VR program at DARS helps people with mental or physical disabilities prepare for and find employment, promoting independent living. Under HB 1, the number of people served would decrease by over 6,000.

Blind Children’s Program

Specialized staff work with blind children to decrease the impact of their vision loss. Through this program, they receive aid that public schools are not equipped to offer, and because of their highly specialized nature, these services are not available on the open market. HB 1 funding would result in narrowing eligibility and serving fewer clients.

Department of Family and Protective Services – 0.3% - \$7,646,577

In this budget, DFPS is not receiving funding for caseload growth or cost increases. ***It is important to note that any savings realized in this agency, especially those that impact children, are only short term. Over time underfunding will lead to exponentially greater costs to Texas.*** More children will be placed in foster care and other, more expensive, alternatives will be needed to combat known negative outcomes associated with the foster care system, such as entry into the criminal justice system, indigency, and early pregnancy.



Child Protective Services

CPS received some funding restoration in the conference version of HB 1, with relative caregiver payments – which were originally zeroed out – funded to FY 2010-11 levels. These payments allow children to stay with appropriate relatives rather than enter the system and live with a stranger. Additional monies were also put back into relative day care and direct delivery staff. While these restorations are a step in the right direction, CPS is still facing cuts that will make it difficult to fulfill their core obligations to protect the children of Texas.

Direct Delivery Staff Reductions

The primary concern for CPS is reductions to direct delivery staff. Increased instances of abuse combined with population growth continue to lead to rising caseloads. HB 1 provides inadequate staff to meet these needs. CPS caseworkers are already under enormous pressure, with Family Based Safety Services (FBSS) caseworkers working with an average of 65 children and conservatorship caseworkers averaging 27.7. CPS, in their Program Improvement Plan following a recent federal Child and Family Services Review, pledged to increase the number of children being visited on a regular basis. If they fail to meet this goal, they will be subject to a monetary penalty. HB 1 funding levels will make it difficult, if not impossible, for CPS to achieve this goal. It also feeds into the vicious cycle of underfunding: decreased staff → increased caseloads → increased turnover → decreased staff.

Just last month a class action lawsuit was filed alleging that DFPS violates the constitutional rights of children by failing to reunite families or find permanency within a reasonable time. There are over 12,000 foster children in long-term foster care, some of whom have been in the system for over 10 years. Budget reductions to CPS will make it increasingly difficult for caseworkers to find the long-term solutions for children that provide them safe passage through the childhood they deserve.

Foster Care Redesign (Rider 28)

HB 1 begins the transition to funding foster care and related services in a way that incentivizes positive outcomes for children. Some of the goals of foster care redesign are improved mental and physical health outcomes, placements with siblings, placements in which personal and family connections are maintained, and more rapid permanency. Foster care redesign is anticipated to save the state money both directly and indirectly (ex: prevention of entry into the criminal justice system, fewer early pregnancies, etc.) as it is being implemented over time.

Prevention and Early Intervention Programs

All of the DFPS prevention programs took a significant cut, notably Services to At-Risk Youth (STAR), Community Development Programs, and Texas Families: Together and Safe. These programs are incredibly cost effective and produce stellar outcomes. For example, ***it costs \$663 annually to serve a child in the STAR program, \$39,878 to serve that child in foster care, and \$141,717 to serve that child at TYC.***

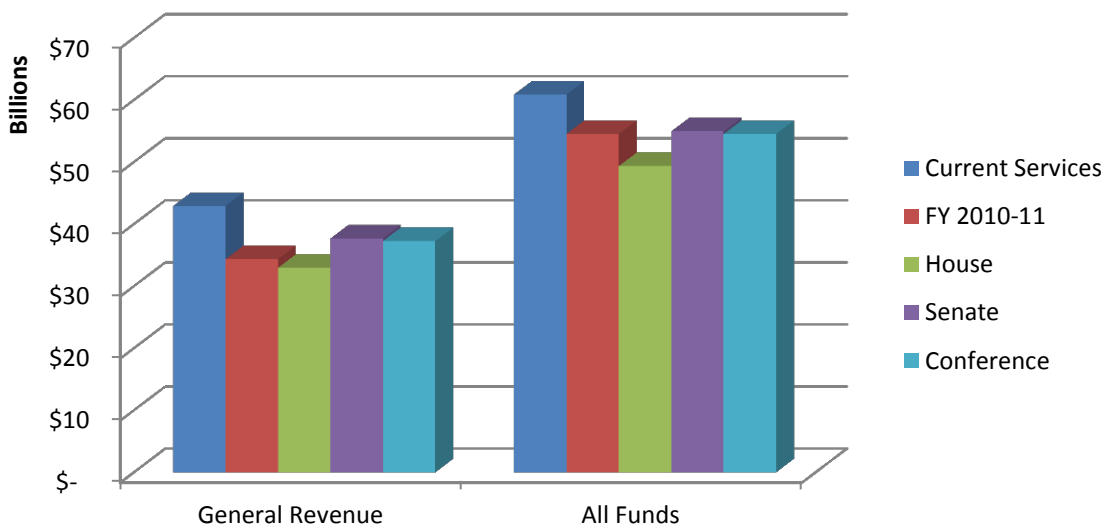
Adult Protective Services

APS already operates on a minimal budget, working closely with local communities to find resources to keep the elderly population safe. Because caseload continues to rise and there will be fewer APS workers, this budget will leave over 1,700 elderly people with disabilities without emergency client services, which can lead to further maltreatment taking place.

Child Care Regulation

There are two main issues for child care regulation. One is that there is insufficient staff to properly regulate day care providers, leading to potentially dangerous situations for children. Currently each licensed state day care is visited annually; under HB 1 that would likely decrease to once every two years. The other is that there is a backlog of over 2,000 cases of child-care workers who have abused or neglected children. DFPS estimates that they will need 17 additional attorneys to clear out the backlog by 2013 and provide timely due process. HB 1 does not provide sufficient funding to remedy either of these issues.

ARTICLE III – PUBLIC EDUCATION



Agency	2010-11 Base	2012-13	Difference	% Change
Texas Education Agency	\$50,051,293,360	\$50,385,627,458	\$334,334,098	0.67%
School for the Blind & Visually Impaired	\$93,772,368	\$41,245,345	(\$52,527,023)	(56.02%)
School for the Deaf	\$53,523,487	\$52,695,245	(\$828,242)	(1.55%)
Teacher Retirement System	\$4,038,146,148	\$3,797,393,090	(\$240,753,058)	(5.96%)
Optional Retirement System	\$294,169,521	\$247,905,975	(\$46,263,546)	(15.73%)
	\$54,530,904,884	\$54,524,867,113	(\$6,037,771)	(0.01%)

Texas Education Agency – .67% – \$334,334,098

Texas currently ranks 47th in the nation for the amount of state aid we provide our students. In this budget, funding for the Foundation School Program, which is the primary way that public school districts receive funding, is \$4 billion below the amount currently required by statute. HB 1 appropriations will necessitate a change in the statutory funding formulas. Yesterday an agreement was reached between the two chambers regarding school finance: during FY 2012 school districts will face an across the board 6% funding reduction as proposed by Rep. Eissler, and then in FY 2013 the formula will change as laid out by Senator Shapiro in SB 22. These changes will be attached to the catch-all fiscal matters bill, SB 1811, and presented for a vote in the House on Sunday.

While at first glance it appears that HB 1 actually exceeds FY 2010-11 funding, in all funds TEA is receiving over \$5 billion less than was requested. There are estimated to be over 85,000 new students each year that are not funded in this budget. Already over 12,300 jobs have been eliminated in local school districts in anticipation of the budget cuts. This also opens the state up to lawsuits for failing to provide equitable funding for education.

In addition to such practical matters as population growth, the number above does not reflect some accounting “magic” embedded in HB 1 that is required for the budget to offer at least the appearance of balancing. One such trick is the payment deferral to school districts in the 2012-13 school year. By postponing payments from August until September 2013, the state can push billions forward into the next biennium without finding revenue now to pay those bills. Additionally, assumptions about property tax collections and property values are exceedingly optimistic relative to what is actually occurring statewide. This allows approximately \$800 million of assumed local school funding to replace what would otherwise be a necessary appropriation to the Foundation School Program.

In addition to the general cuts across districts, there are several programs that are particularly impacted by HB 1.

Programs Eliminated

- Pre-Kindergarten Early Start and Early Childhood School Readiness grants – It is important to note that half day Pre-K is funded out of the Foundation School Program; the optional full day grant programs are being cut. Pre-K offers opportunities for children to develop emotionally, socially and intellectually. The positive outcomes of Pre-K, particularly for ethnic minority and economically disadvantaged youth, cannot be overstated.
- Texas Reading, Math and Science Initiatives
- Tuition Credit Program
- Arts Education
- Life Skills Program for Student Parents
- Science Lab Funding
- Science and Math Outreach
- Library Resources
- Extended Year Programs
- School Based Prevention Services
- Middle School PE and Fitness Programs
- Rural School Technology
- Virtual School Network
- Best Buddies
- Mentoring
- School Leadership Pilot
- Humanities in Texas
- One Community One Child
- Disciplinary Alternative Education Programs

Programs Significantly Reduced

- Advanced Placement Incentive Program
- Juvenile Justice Alternative Education
- Student Success Initiative
- Educational Services at Texas Youth Commission
- Communities in Schools
- Amachi – mentoring children with incarcerated parents
- Teach for America –with math teachers given priority
- Educator Excellence Awards Program

Instructional Materials

Funding in HB 1 provides for continuing contracts for instructional materials and Proclamation 2011, which includes language arts and reading materials, but excludes pre-kindergarten items.

Supplemental science materials, the technology allotment, and a rural technology pilot remain unfunded. New TEKS requirements and a new STAAR test are planned to be implemented in the 2011-12 school year. Both are significantly more challenging than current standards. While conference negotiations yielded a better funding outlook for schools, it is important to note that without sufficient instructional materials to match the new requirements, it will be exceedingly difficult for teachers to prepare students to meet the expectations that have been set.

Public schools are tasked with the job of educating our students and ensuring that they are college-ready upon graduation. Even with recent funding, about 40% of Texas students need remediation in their first year of college. Texas is ranked 45th in scores on national standardized exams like the SAT. In short, Texas already lags behind other states in educational attainment, and HB 1 promises to widen the gaps rather than close them.

Windham School District

The Windham School District, which offers college degrees to prison inmates, currently receives funding of approximately \$128 million from TEA. HB 1 would reduce the funding by 25%, to \$95 million. The intention is that upon release the inmate will pay back the state for education expenditures. However, this rarely occurs. In the 10 years Windham schools have been in place, the state has spent \$26.9 million on the program, of which only \$4.7 million has been reimbursed. However, because of the link between educational attainment and decreased recidivism, it is possible there are unaccounted for savings to the system in the program.

School for the Blind and Visually Impaired – (56%) – (\$52,527,023)

Funding was largely restored to the School for the Blind and Visually Impaired in HB 1. The bulk of the remaining decrease is due to the completion of campus renovations that require no additional funding.

School for the Deaf – (1.6%) – (\$828,242)

Funding was largely restored to the School for the Deaf from HB 1. Remaining decreases are attributed primarily to the loss of stimulus funding.

Retirement Programs

Teacher Retirement System (TRS) and Optional Retirement Program (ORP) cuts come from altering the state contribution for public and higher education teachers from 6.4% to 6%, and lowering the contribution to TRS-Care (group health insurance for retired employees) from 1% to .5%. Both of these changes required a change in statute, contained in SB 1811, as the law currently requires the higher rate. In addition, payroll growth assumptions were decreased by 1% in HB 1, which results in a decreased appropriation of GR funds.

Teacher Retirement System (TRS)

Benefits have not been able to grow with the rate of inflation; retirees have not received a benefit increase in 10 years. HB 1 reduces the state contribution to 6% in FY 2012 and then raises it back to 6.4% in FY 2013.

TRS-Care

Because TRS-Care is a small fund, any funding cut will have a significant impact in the short-term, unlike in the larger TRS program. Funding cuts will almost certainly result in an increase of premiums, which would be cost prohibitive for many retirees. HB 1 maintains a 1% state contribution in FY 2012, dropping to .5% in FY 2013.

Optional Retirement Program (ORP)

In addition to the rate decrease, there is a limitation in GR contributions to retirement for community college staff paid from funds other than GR, resulting in a savings of over \$28 million.

ARTICLE III - HIGHER EDUCATION



Agency	2010-11 Base	2012-13	Difference	% Change
Higher Ed Employees Group Insurance Contributions	\$1,068,285,620	\$968,961,950	(\$99,323,670)	(9.30%)
Higher Education Coordinating Board	\$1,782,541,214	\$1,291,993,138	(\$490,548,076)	(27.52%)
Higher Education Fund	\$525,000,000	\$525,000,000	\$0	0.00%
General Academic Institutions	\$7,575,812,033	\$7,127,673,041	(\$448,138,992)	(5.92%)
Health Related Institutions	\$7,829,430,658	\$ 7,956,245,574	\$126,814,916	1.62%
Public Community / Junior Colleges	\$1,768,935,999	\$1,714,737,163	(\$54,198,836)	(3.06%)
Texas A&M System Agencies	\$930,862,008	\$889,713,714	(\$41,148,294)	(4.42%)
	\$21,480,867,532	\$20,474,324,580	(\$1,006,542,952)	(4.69%)

Higher Education Group Insurance Contributions – (9.3%) – (\$99,323,670)

Funding for higher education group insurance increased during conference committee negotiations, with the bulk of the increase occurring for community colleges, which were funded at only \$29.3 million per annum in the House version of the budget. The conference budget increased the state contribution to about \$97 million per annum. No provisions are made for growth in staff at any institutions of higher education.

Texas Higher Education Coordinating Board – (27.5%) – (\$490,548,076)

The THECB is responsible for all state financial aid programs and other activities related to the Closing the Gaps objectives for education in Texas. Most of the reduction in this agency is due to eliminating new grant funding for students, leaving only enough in the budget to cover the cost of funding continuing participants.

TEXAS grants, which were eliminated for new students in the House version of the budget, were spared during conference committee negotiations. About 33,100 new students will now receive financial aid through the program, which, though it will still serve about 30,000 fewer students than it does now, is at least a step in a better direction than zero. Current students receiving TEXAS grants will continue to have those obligations honored as long as they remain eligible. The net results of the cuts, however, were summed up by Senator Ogden, who noted that in the FY 2012-13 budget “it’s just going to be harder for poor kids to go to college.”

Programs Eliminated

Over 20 programs were completely eliminated. They include the following:

- Grant Programs
 - TANF Scholarship Program¹
 - College Readiness Grants
 - Texas Career Opportunity Grants
 - Hospital-Based Nursing Education Grants
- Early High School Graduation Program¹
- Educational Aide Program¹
- Loan Repayment Programs
 - Dental Education
 - Children's Medicaid
- Engineering Recruitment Program
- Texas Research Incentive Program
- Doctoral Incentive Program
- Combat Tuition Reimbursement Program
- Developmental Education Program
- Hospital-Based Nursing Education Grants
- Alzheimer's Disease Centers

¹ Historically funded by transfer from TEA, which had GR reduced

Other Student Financial Aid

A number of student financial aid programs in addition to the ones listed above are continued at a rate that covers only renewing students. No new students will be eligible for aid for:

- B-On-Time
- Top 10% Scholarships
- Texas Armed Services Scholarship Program
- Texas Educational Opportunity Program

Programs Substantially Reduced

- Texas College Work Study
- Tuition Equalization Programs
- License Plate Scholarship Programs
- Baylor College of Medicine
- Joint Admission Medical Programs

Texas Grants Donations (Rider 43)

Texas Guaranteed Loan Corporation (TGLC) is a non-profit established to administer federal student loans to Texas students. Because of the establishment of Direct Loan, in which all federal loans are centrally administered, TGLC no longer administers new loans, and solely service out the loans already in place. They have a large portfolio, and any donations they give to THECB will be used to fund the TEXAS grant program.

Higher Education Fund

This fund remains unchanged, as a Constitutional provision prevents a reduction.

General Academic Institutions (GAI) - (5.92%) - (\$448,138,992)

Texas (in a tie with Mississippi) currently has the highest percentage of workers earning minimum wage or lower than any other state in the country. To remain competitive in a world that is increasingly driven by knowledge and for which upper – and even middle – income jobs require a college degree, it is imperative that Texas continues to invest in education and ensure that in addition to increasing graduation rates, the quality of education is excellent. Currently Texas only has two public Tier 1 universities, Texas A&M and the University of Texas. To compare, California has nine. Because of this, the demand to attend these universities is incredibly high, and in a state the size of Texas it is important that we have more universities at this level to meet the needs of students. University of Houston is closest to achieving this status, having been named Tier 1 by the Carnegie Foundation. The

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funding reductions to higher education in HB 1 will certainly not help Texas gain more recognized universities of outstanding quality, and will more than likely be detrimental to that effort.

Cuts to general academic institutions (including Lamar State Colleges and Texas State Technical Colleges) include a 10% reduction to the instruction, operations, and infrastructure formula funding. With no funding included to cover anticipated enrollment growth, this leaves GAIs struggling to meet student needs. Many schools are no longer able to afford adjunct professors and other faculty to teach courses, must reduce other support staff, and valuable technologies and resources are unable to be maintained or replaced. In addition, these cuts are likely to lead to tuition growth in most schools at a time when financial aid is already being cut and students are unable to afford to attend. Most university representatives during the hearings emphasized the importance of grant funding to allow students to continue to attend and graduate from their institutions. Combined, HB 1 will dramatically hinder efforts to achieve goals in the Closing the Gaps initiative to bring Texas to parity with other states in higher education.

During conference negotiations, the inclusion of 10% of funding based on graduation rate was removed. The weighted funding rate was also increased and simplified to \$53.71 for all classes offered, rather than giving a lower rate for undergraduate vs. higher level courses in the House version of the budget.

In the riders for higher education, using appropriated funds for establishing and maintaining museums, travel for student recruitment outside Texas, or for acquiring or operating television stations is prohibited.

Health Related Institutions - 1.6% - \$126,814,916

Changes for health related institutions include decreases in formula funding, increases in tuition, fees and other income, and a decrease in debt service on existing bonds.

While it appears that there has been an increase since the last biennium, this is somewhat misleading; MD Anderson Cancer Center experienced an increase of \$444 million in patient income and for that reason has experienced a unique revenue growth. The other institutions all experience a loss ranging from \$285,000 at UT Tyler HSC to \$64 million at UTMB –Galveston. These reductions will make it virtually impossible for health related institutions to purchase new technology that keeps them up to date with medical science, support student growth, and pursue vital research opportunities.

Public Community / Junior Colleges – (3.1%) – (\$54,198,836)

No community colleges are planned to be closed in the conference committee version of HB 1, a change from the introduced version in which four were targeted for closure. Because those planned closures were avoided, each of the community colleges in the system will face further reductions even as contact hours reach all-time highs. The Higher Education Coordinating Board anticipates a record 18% growth from the base period, which is unfunded in HB 1.

Rider 20 directs community colleges to offer non-semester length developmental education courses to achieve more efficient positive outcomes and reduce costs to the state.

Texas A&M System Agencies

The Texas A&M System Agencies include the Texas Forest Service, Texas Veterinary Diagnostic Lab, Texas AgriLife Research, Texas AgriLife Extension Service, Texas Transportation Institute, Texas Engineering Experiment Station, and Texas Engineering Extension Service.

Each of these agencies had their funding formula revised based on the percentage of GR change for the Operations and Instruction formula for GAIs. This resulted in a reduction of 10% of GR funding. The Texas Forest Service, Texas AgriLife Research, and Texas AgriLife Extension Service rely heavily on GR, and will experience significant funding loss.

- Texas Forest Service – Funding: (31%) – (\$33,858,020) / FTEs: (19.2%) – (90)

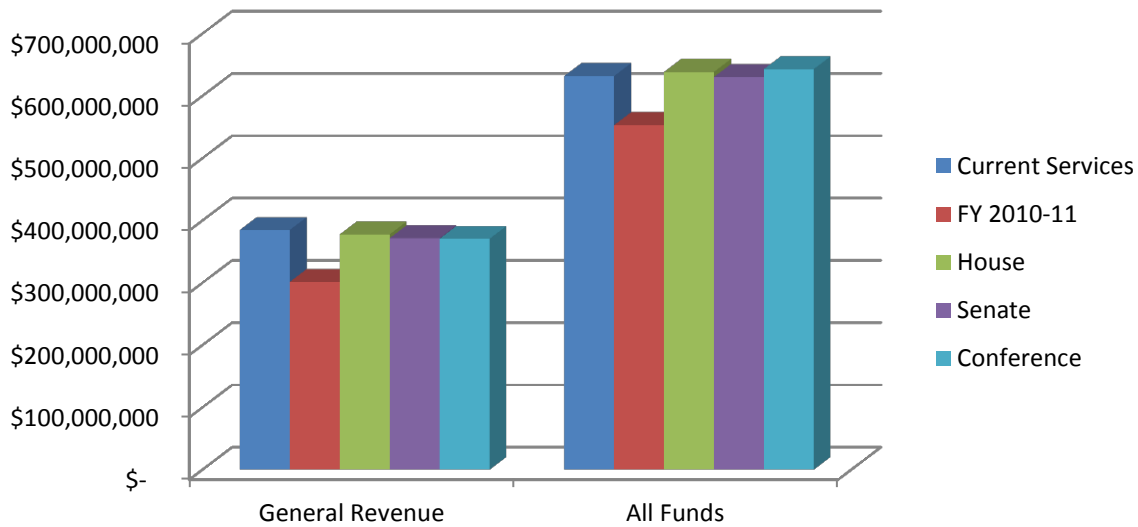
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\$30 million of the reduction is in grant money that is used to provide volunteer fire departments with training and equipment

- Texas AgriLife Research – Funding: (7%) – (\$9,843,647) / FTEs: (9.6%) – (104.5)
- Texas AgriLife Extension Service – Funding: (7.8%) – (\$10,8385,338) / FTEs: (10%) – (113.9)

The Texas Transportation Institute, Texas Veterinary Diagnostic Lab, Texas Engineering Extension Service, Texas Engineering Experiment Station are primarily funded by non-GR sources, including service fees and federal grants. Because they are not as heavily GR dependent as the other agencies, they are experiencing a much smaller revenue loss and will be able to maintain services at or very near current levels.

ARTICLE IV – THE JUDICIARY



Agency	FY10-11	FY12-13	Difference	% Change
Supreme Court of Texas	\$61,532,756	\$56,876,412	(\$4,656,344)	(7.57%)
Court of Criminal Appeals	\$30,166,568	\$27,053,018	(\$3,113,550)	(10.32%)
14 Courts of Appeal	\$67,747,101	\$66,730,455	(\$1,016,646)	(1.50%)
Office of Court Administration	\$97,409,017	\$90,958,369	(\$6,450,648)	(6.62%)
Office of Capital Writs	\$991,262	\$1,784,271	\$793,009	80.00%
Office of the State Prosecuting Attorney	\$877,354	\$763,454	(\$113,900)	(12.98%)
State Law Library	\$2,186,408	\$1,713,146	(\$473,262)	(21.65%)
State Commission on Judicial Conduct	\$1,912,339	\$1,896,339	(\$16,000)	(0.84%)
Judiciary Section, Comptroller's Department	\$290,647,846	\$285,743,586	(\$4,904,260)	(1.69%)
	\$553,470,651	\$533,519,050	(\$19,951,601)	(3.60%)

Supreme Court of Texas – (7.6%) – (\$4,656,344)

The Supreme Court made the case for restoration of funding for basic civil legal services (at \$20 million), saying that they would live with the other cuts. The legislature granted their request, and while there is still a substantial cut, it should not cause a burden that significantly impacts core functioning.

Court of Criminal Appeals- (10.3%) – (\$3,113,550)

The Texas Court of Criminal Appeals is one of the busiest in the nation, and it will be difficult to keep up with their caseload and adequately provide the Constitutional right to a speedy trial with a reduction in staff. Caseload is anticipated to increase with recent changes to law that will result in a

greater number of filings. In addition, to be consistent with other Judiciary reductions, judicial education grants are reduced by 15%, or \$2.9 million.

The 14 Courts of Appeals Districts – (1.5%) – (\$1,016,646)

The 14 Courts of Appeals will achieve reductions by reducing staff and reversing salary increases implemented after the award of a \$3.8 million block grant by the 81st legislature. Reductions to staff may create a case backlog.

Office of Court Administration – (6.6%) – (\$6,450,648)

The Office of Court Administration is a crucial component in Texas' judicial system. They provide resources and support to the courts, including information technology and funding for indigent defense. Cuts to OCA will have a detrimental impact on the entire judicial system. While HB 1 only reflects a 6.6% cut from FY 2010-11 levels, it is 44% below the requested levels to keep up to date technology and staff to maintain efficient functioning.

Office of Capital Writs – 80% - \$793,009

The Office of Capital Writs began operating in 2010 for the purpose of providing qualified legal assistance to people who have received the death penalty in Texas. They have received a 10% decrease in funding; the 80% increase in the above table is due to no funding in FY 2010, prior to the start of operations.

Office of the State Prosecuting Attorney –(13%) – (\$113,900)

HB 1, as introduced, consolidated this agency into the Office of Court Administration. HB 1 leaves it as a stand-alone agency, and has restored the majority of funding.

State Law Library – (12.7%) – (\$473,262)

In HB 1, as introduced, the State Law Library was completely defunded. The conference version of HB 1 re-funds it; while other University Law Libraries have similar materials, they do not offer expertise and resources to the general public. The State Law Library has trained staff who answer the questions of Texas residents.

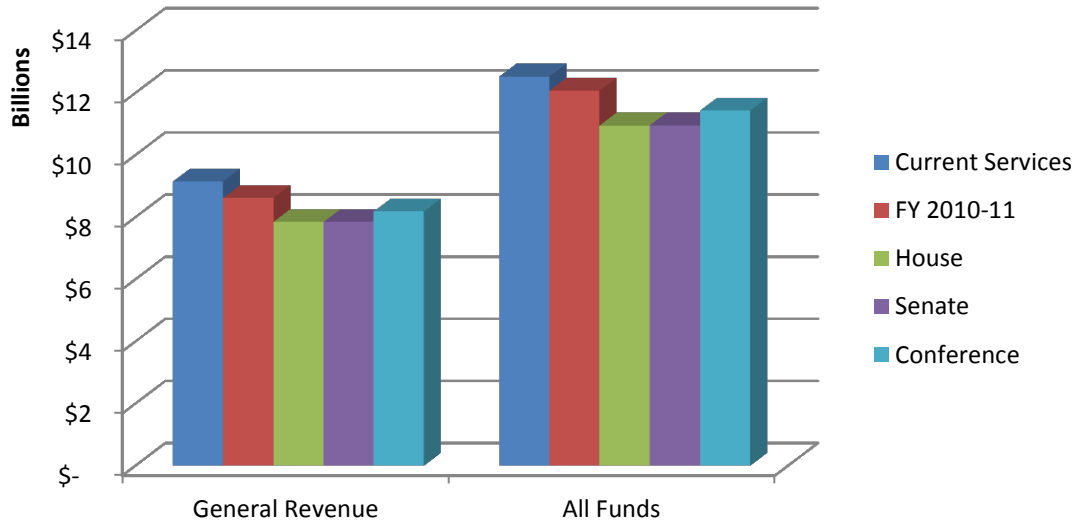
State Commission on Judicial Conduct – (0.8%) – (\$16,000)

The State Commission on Judicial Conduct is a small agency, with only 14 FTEs. In addition to administrative reductions, a large portion of the reduction will be realized by moving away from printing and shipping large amounts of material to commissioners, instead scanning and sending the materials as PDFs.

Judiciary Section, Comptroller's Department – (1.7%) – (\$4,904,260)

Though funded at a lower level than requested, the Judiciary Section of the Comptroller's Department remains largely at FY 2010-11 levels. The primary purpose of these monies is to pay the salaries of judges and attorneys, as well as provide juror pay and witness expenses for cases.

ARTICLE V – PUBLIC SAFETY AND CRIMINAL JUSTICE



Agency	FY10-11	FY12-13	Difference	% Change
Adjutant General's Department	\$212,793,365	\$124,100,748	(\$88,692,617)	(41.68%)
Alcoholic Beverage Commission	\$86,446,243	\$84,911,127	(\$1,535,116)	(1.78%)
Department of Criminal Justice	\$6,194,041,091	\$6,092,943,299	(\$101,097,792)	(1.63%)
Commission on Fire Protection	\$4,515,581	\$3,889,658	(\$625,923)	(13.86%)
Commission on Jail Standards	\$2,049,012	\$1,850,111	(\$198,901)	(9.71%)
Juvenile Probation Commission	\$332,401,686	\$325,397,166	(\$7,004,520)	(2.11%)
Comm. on Law Enforcement Standards & Expectations	\$6,501,851	\$5,590,448	(\$911,403)	(14.02%)
Department of Public Safety	\$2,988,648,519	\$2,783,194,659	(\$205,453,860)	(6.87%)
Youth Commission	\$455,886,230	\$339,019,687	(\$116,866,543)	(25.64%)
	\$10,283,283,578	\$9,760,896,903	(\$522,386,675)	(5.08%)

Adjutant General's Department – (41.7%) – (\$88,692,617)

Tuition assistance is the primary recruitment tool used by the State Guard, which is the first responder in times of emergency. HB 1 decreases this funding by close to half. Youth education programs such as the Youth Challenge program are funded at nearly \$3 million more than in the House version of the budget. This program offers training and education to high school dropouts and has excellent outcomes – 75% of youth who go through the program leave with their high school diploma or GED – and a hefty federal 3:1 match.

Alcoholic Beverage Commission – (1.8%) – (\$1,535,116)

TABC will lose 54.5 FTEs as a result of HB 1. These positions are currently vacant, and the agency is not expecting additional layoffs. As a result of the decreased staff, fewer annual inspections will occur, which may result in a reduction in voluntary compliance among TABC license and permit holders. The agency does not anticipate a measurable negative impact; however, with less enforcement the risks of things such as sales to minors and intoxication offenses will increase.

Department of Criminal Justice – (1.6%) – (\$101,097,792)

In 2010, Texas housed 155,022 prisoners, giving Texas the 9th highest incarceration rate in the nation. There are currently 156,673 available prison beds. However, prison population growth is anticipated to outstrip capacity by over 4,000 by the end of FY 2013. This number could actually be low; due to cuts in HB 1 to mental health care, education, and diversionary programs some estimates place the bed shortfall closer to 8,000.

Alternatives to Incarceration

Incarceration is about four times as expensive as treatment programs; in nearly every single circumstance paying for treatment on the front end is less expensive than paying for consequences on the back end. Funding for programs intended to keep people out of the prison system was cut by \$41 million (7.3%) in the House budget, but during conference negotiations most of the funding was restored, with \$3.1 million in cuts remaining.

Incarceration

Overall funding for incarceration in the TDCJ budget was reduced by \$292.6 million (5.9%) in the House budget, with restoration of all but \$26.7 million in the conference committee. This will decrease the risks in significant staffing cuts, lowered institutional security, and hindered provision of appropriate physical and mental health care, but is still \$350 million short of requested funding to continue at current levels with an increased population.

Funding is eliminated entirely for Project RIO (Reintegration of Incarcerated Offenders) and significantly reduced for postsecondary education and vocational programs that give inmates the tools they will need to succeed upon release. Living wage employment is a key factor in decreasing recidivism.

The Windham School District, which offers college degrees to prison inmates, currently receives funding of approximately \$128 million from TEA. HB 1 would reduce the funding by 25%, to \$95 million. Windham is funded through TEA, and the intention is that upon release the inmate will pay back the state for education expenditures. However, this rarely occurs. In the 10 years Windham schools have been in place the state has spent \$26.9 million on the program, of which only \$4.7 million has been reimbursed. However, because of the link between educational attainment and decreased recidivism, it is possible there are unaccounted for savings to the system in the program.

Facility Closure

HB 1 assumes the closure of the Central Unit in Sugarland by September 1, which is anticipated to generate \$31.1 million. However, this will lower the state's correctional capacity by 1,060 beds. In addition, 250 correctional jobs will be lost. Area officials and residents support the closure, and it is estimated that redevelopment of the site could result in 2,400 new jobs and produce millions in new revenue for the state and the city.

SB 653, authored by Senator Whitmire and sponsored by Rep. Madden was signed by Governor Perry on May 19, 2011. This legislation merges the Texas Youth Commission and the Texas Juvenile Commission into a new Texas Juvenile Justice Department. The merger is anticipated to save the state approximately \$3.3 million over the biennium. A broad overview of HB 1 impacts to these agencies is included below, but as a large structural change is occurring concurrently with a tight budget, it is difficult to predict outcomes.

Juvenile Probation Commission – (2.1%) – (\$7,004,520)

Reductions in TJPC are due primarily to reductions in community corrections services, probation training, and the juvenile justice alternative education program.

Youth Commission – (25.6%) – (\$116,866,543)

The cuts to TYC are substantial, and will result in the loss of about 500 FTEs. Closures of up to 3 facilities are assumed in the savings, as is a reduced daily rate for youth in program services. Combined, TJPC and TYC are estimated to spend a total of \$788 million during FY 2010-11. With the new merger of TYC and TJPC, the projected cost in FY 2012-13 is around \$664 million. This will save the state upwards of \$123 million.

Commission on Fire Protection – (13.9%) – (\$625,923)

CFP is a small agency, and most of the cuts were made in administrative functions. In HB 1 as introduced the educational programs were zero-funded, but in HB 1 were restored to approximately FY 2010-11 levels.

Commission on Jail Standards - (9.7%) – (\$198,901)

A great deal of funding for the Commission on Jail Standards was restored during budget negotiations. Remaining reductions are due primarily to cuts to funding and FTEs in management and indirect administration costs.

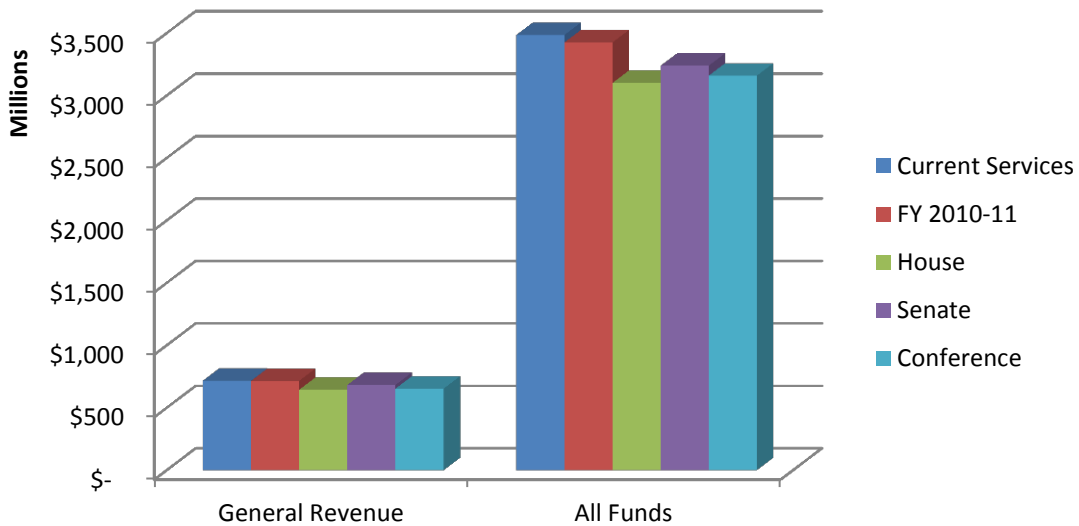
Commission on Law Enforcement Officer Standards & Education – (14%) – (\$911,403)

Most of the savings realized for CLEOSE are from instituting a \$6.25 fee for each credit taken by distance learning to complete required continuing education courses.

Department of Public Safety - (6.9%) – (\$205,453,860)

The bulk of the reduction to DPS includes large one-time capital expenditures in FY 2010-11 including a helicopter and crime lab expenses. Many strategies were dramatically increased during conference negotiations. Most notably, an increase of \$28.2 million for border security initiatives. Nearly every portion of the DPS budget was improved, and the agency will leave the budget process in a much better situation than it entered it.

ARTICLE VI – NATURAL RESOURCES



Agency	FY10-11	FY12-13	Difference	% Change
Department of Agriculture	\$915,589,274	\$987,763,757	\$72,174,483	7.88%
Animal Health Commission	\$29,940,178	\$30,120,449	\$180,271	0.60%
Commission on Environmental Quality	\$997,705,219	\$696,323,804	(\$301,381,415)	(30.21%)
General Land Office and Veterans' Land Board	\$222,444,275	\$157,359,979	(\$65,084,296)	(29.26%)
Parks and Wildlife Department	\$716,761,450	\$516,577,300	(\$200,184,150)	(27.93%)
Railroad Commission	\$155,127,086	\$133,568,558	(\$21,558,528)	(13.90%)
Soil and Water Conservation Board	\$55,576,836	\$40,085,693	(\$15,491,143)	(27.87%)
Water Development Board	\$147,484,929	\$125,679,799	(\$21,805,130)	(14.78%)
Debt Service Payments - G.O. Bonds	\$182,858,424	\$213,275,672	\$30,417,248	16.63%
	\$3,423,487,671	\$2,900,755,011	(\$522,732,660)	(15.27%)

Department of Agriculture – 7.9% - \$72,174,483

Though the overall budget of the Department of Agriculture is higher than FY 2010-11 levels, reductions remain to various strategies, including many services in rural areas that are crucial to the economy of the state. These include reducing appropriations for pest management practices and agricultural production development.

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Animal Health Commission – 0.6% – \$180,271

Rider 10, which requires fees to be collected from livestock producers and other agricultural producers that utilize the animal disease testing and inspection services to cover GR appropriations, FTEs and other direct and indirect cost, accounts for the small increase to the AHC budget. This contingency rider generates a savings to GR despite the increased operating budget.

Commission on Environmental Quality - (30.2%) – (\$301,381,415)

The bulk of the reductions are to items in the Air Quality Assessment and Planning strategy (\$231 million), including a 50% reduction to the Texas Emissions Reduction Plan, the elimination of the Low-Income Vehicle program (LIRAP), and other air quality programs. Other programs impacted are Hazardous Materials Cleanup (25.7%), grants to local governments for solid waste planning (50%), and pollution prevention/recycling programs (50%).

TCEQ has also cut 10% in administrative costs, and a loss of over 200 FTEs.

Parks and Wildlife Department (TPWD) - (27.9%) – (\$200,184,150)

Reduced funding to TPWD means, in addition to other cuts, a reduction of over \$51 million in funding to conserve our natural resources, \$73 million to improve access to state and local parks, and \$65 million in capital program management. HB 1 includes the transfer of 7 state parks to local control—a group that does not have the funds to take over the parks. Because the operations of TPWD are mainly conducted in the field, a large staff is necessary to perform the work. These cuts would eliminate 302.6 FTEs in the next biennium.

Railroad Commission – (13.9%) – (\$21,558,528)

Reductions to the RRC are grouped into 3 main areas:

1. Alternative energy programs
2. Limited permitting, monitoring and inspection of programs and oil producers
3. A delay in RRC's response to clean ups, due to fewer staff who will be taking on enormous workloads.

Promotion of Alternative Energy Resources has the highest reduction of 72.6%, and reflects a 50% decrease in the marketing and education programs. The Surface Mining Monitoring and Inspections program currently receives federal funding (50%) including match dollars, some of which will be lost.

Besides financial losses, there will be significant delays in crucial services. Oil and gas clean-up and well-plugging will be delayed an average of 6 months. There will be a 90-day delay for the Gas Services Market Oversight activities, Surface Mining permit processing and enforcement, and Field Operations and Enforcement Programs, including the Operator Clean-Up Assistance Program, which is operator initiated corrections at well sites. The estimated average number of wells monitored per analyst will increase by 5% to 34,000/analyst. The number of rebate and incentive applications handled will decline, the number of oil and gas environmental permit applications and reports processed will decrease, as will the number of orphaned wells plugged with state funds (20%). The Pipeline Safety Programs have the fewest reductions (0.8%) because of the potential health and safety threats.

Soil and Water Conservation Board - (27.9%) – (\$15,491,143)

The two areas of largest concern to the TSSWCB are the 50% reductions to Water Conservation and Enhancement (WCE) and the delayed funding for the Flood Control Dam Grant Program (FCDGP) until the following biennium.

WCE

It is estimated that 3.5 trillion gallons of water are used in the brush region of Texas where a majority of the WCE programs are focused. The metric of water measurement is the gallon yield, making the 50% decrease in funding for water conservation literally result in a 50% water yield reduction from the WCE programs. In the last 60 years, there have been over 2,000 floodwater dams constructed.

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FCDGP

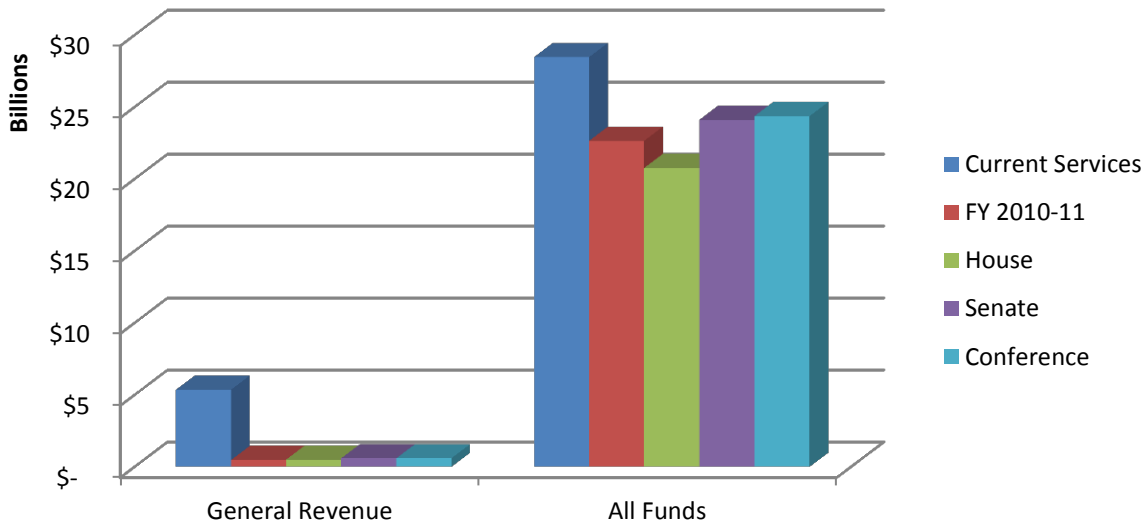
The FCDGP was created to repair dams across the state, starting with structures that are a high hazard, meaning there is great possibility of the structure failing and resulting in property damage and potential loss of life. Under HB 1, this grant is zeroed out until the next biennium; those highly hazardous structures will have to wait to be repaired.

Another program being zeroed out is the Poultry Water Quality Management Program, which has the strongest impact in the high poultry-producing Shelby and Nacogdoches counties.

Water Development Board – (14.8%) – (\$21,805,130)

In general, TWDB reductions move the agency back to 2008-09 funding levels, impacting both the outreach and technical assistance programs. The 43% reductions to science and research delay groundwater availability models that support the state water projects by 3 years and influence the number of groundwater permits issued. Two programs are eliminated entirely: research for increasing recharge and groundwater resources in the Ogallala Aquifer in North Texas, and the Brackish Seawater Desalination Grants. Other program reductions of importance are those for Economically Disadvantaged Areas (19%), which significantly affect the Colonia Self-Help Program (\$0.5 million) and the National Floodplain Insurance Program (7%).

ARTICLE VII – BUSINESS AND ECONOMIC DEVELOPMENT



* Note that the graph shows a large jump in GR required to continue current services. This is because TxDOT requested billions in addition to current services, the only agency to do so.

Agency	FY10-11	FY12-13	Difference	% Change
Department of Housing & Community Affairs	\$2,756,811,283	\$379,524,911	(\$2,377,286,372)	(86.23%)
Texas Lottery Commission	\$450,836,221	\$379,127,998	(\$71,708,223)	(15.91%)
Department of Motor Vehicles	\$281,939,643	\$280,579,146	(\$1,360,497)	(0.48%)
Department of Rural Affairs	\$839,031,509	\$675,241,589	(\$163,789,920)	(19.52%)
Department of Transportation	\$15,924,881,942	\$19,812,159,662	\$3,887,277,720	24.41%
Texas Workforce Commission	\$2,402,783,192	\$2,212,673,448	(\$190,109,744)	(7.91%)
	\$22,656,283,790	\$23,739,306,754	\$1,083,022,964	4.78%

Department of Housing and Community Affairs - (86.2%) – (\$2,377,286,372)

The Department of Housing and Community Affairs only receives 4% of its budget from GR, with the remainder coming from federal programs. Because of a \$2.3 billion decrease in federal funds (primarily stimulus and hurricane relief) coupled with losing two thirds of GR appropriations from FY10-11 levels, the agency is facing cuts totaling 86.2% of all funds. Included in these cuts are the suspension of funding for a program that provides homeless housing and services, and an 80% reduction in energy assistance programs, which will go from serving over 200,000 households in 2010 to less than 50,000 in 2012.

Texas Lottery Commission – (15.9%) – (\$71,708,223)

The Texas Lottery Commission is largely a self-sustaining program, using less than \$30 million in GR funds for the biennium. Funding cuts are made primarily due to lower lottery operator contract costs and an 81.7% reduction to retailer incentives.

Department of Motor Vehicles – (0.5%) – (\$1,360,497)

The DMV is a new agency, established during the 81st Legislature, taking over functions such as vehicle registration and titling from TxDOT. This biennium the DMV is funded almost entirely through the state highway fund rather than GR.

There is a large reduction in the budget for one-time costs in FY 2010-11 including a legal settlement and software licenses.

Department of Rural Affairs – (19.5%) – (\$163,789,920)

By far the largest component, \$157 million, of the reduction is from disaster related federal funds, for which we still have nearly \$500 million.

The following programs are eliminated entirely:

- Outstanding Rural Scholar Loan Forgiveness Program
- Small Rural Hospital Health Information Technology Program
- Medically Underserved Community State Match Incentive Program
- Physician Assistant Loan Repayment Program
- Texas Health Service Corps Program
- Emergency Services District Assistance Program
- Renewable Energy Grant Program

Department of Transportation – 24.4% - \$3,887,277,720

TxDOT is one of the few agencies that has an overall increase in funding from the previous biennium. From the House version to the budget produced by the conference committee, funding increased by billions, the vast majority of which is due to GO bond proceeds (up \$3.2 billion over the process). However, they are still facing a decrease in funding for staff, and the FTE cap is lowered by 300. Most of the funds decreased are for new contracts, with funding preserved for ongoing projects.

Texas Workforce Commission – (7.9%) – (\$190,109,744)

TWC administers a large variety of services for both employers and job seekers to provide support for the Texas workforce and economy. Many of these services will suffer as a result of the cuts in HB 1, preventing the agency from offering full services in an economy with higher than average numbers of unemployed people in need of workforce solutions.

- Project RIO – eliminated (corresponds to TDCJ reduction) – To help parolees transition into employment
- Employment and Community Services – (59%) – Provides funding for private-public partnerships to move Texans off of public benefits
- Senior Employment Services – (17.1%) – Provides training and employment services to low-income job seekers over the age of 55
- Skills Development – (43.1%) – Job training programs
- Labor Market and Career Information – (20.1%) – Provides information to the public

In addition to programs, there are also administrative cuts and a reduction to funding for technology, which will result in the delay of computer infrastructure projects.

ARTICLE VIII – REGULATORY

Agency	FY10-11	FY12-13	Difference	% Change
State Office of Administrative Hearings	\$18,654,179	\$20,475,396	\$1,821,217	9.76%
Board of Chiropractic Examiners	\$1,228,622	\$1,223,078	(\$5,544)	(0.45%)
Texas State Board of Dental Examiners	\$4,901,373	\$4,398,913	(\$502,460)	(10.25%)
Funeral Service Commission	\$1,524,273	\$1,466,427	(\$57,846)	(3.79%)
Board of Professional Geoscientists	\$1,301,778	\$1,168,663	(\$133,115)	(10.23%)
Health Professions Council	\$3,282,441	\$1,718,831	(\$1,563,610)	(47.64%)
Office of Injured Employee Council	\$15,539,084	\$15,539,084	\$0	0.00%
Department of Insurance	\$251,269,253	\$226,107,917	(\$25,161,336)	(10.01%)
Office of Public Insurance Counsel	\$2,136,176	\$2,066,176	(\$70,000)	(3.28%)
Board of Professional Land Surveying	\$894,999	\$893,986	(\$1,013)	(0.11%)
Department of Licensing and Regulation	\$48,630,954	\$46,860,633	(\$1,770,321)	(3.64%)
Texas Medical Board	\$22,309,268	\$22,680,657	\$371,389	1.66%
Texas Board of Nursing	\$18,619,107	\$18,591,094	(\$28,013)	(0.15%)
Optometry Board	\$955,252	\$928,085	(\$27,167)	(2.84%)
Board of Pharmacy	\$10,849,730	\$10,340,283	(\$509,447)	(4.70%)
Exec. Council of Physical & Occupational Therapy Examiners	\$2,055,781	\$2,246,745	\$190,964	9.29%
Board of Plumbing Examiners	\$4,603,154	\$4,342,070	(\$261,084)	(5.67%)
Board of Podiatric Medical Examiners	\$463,687	\$479,487	\$15,800	3.41%
Board of Examiners of Psychologists	\$1,785,837	\$1,608,760	(\$177,077)	(9.92%)
Racing Commission	\$17,246,951	\$18,595,467	\$1,348,516	7.82%
Real Estate Commission	\$15,463,351	\$14,548,662	(\$914,689)	(5.92%)
Securities Board	\$13,068,759	\$13,679,568	\$610,809	4.67%
Public Utility Commission of Texas	\$248,728,901	\$178,850,888	(\$69,878,013)	(28.09%)
Office of Public Utility Counsel	\$3,341,562	\$3,007,406	(\$334,156)	(10.00%)
Board of Veterinary Medical Examiners	\$1,916,855	\$1,938,299	\$21,444	1.12%
	\$710,771,327	\$613,756,575	(\$97,014,752)	(13.65%)

Most regulatory agencies took a cut of 10% or less based on agency-determined reductions required by the legislature in 2011. A few items of note in article VIII are:

Public Utility Commission – (28.1%) – (\$69,878,013)

PUC has a 74% reduction in System Benefit funding, which provides elderly and low-income Texans with an electricity discount during the summer months. HB 4, which was voted on yesterday, decreased the System Benefit Account by \$86.7 million; this amount is \$23.3 million higher than that proposed by the House, and was increased through a senate amendment. HB 1 provides that eligible low income Texans will receive a discount of up to 20% (it is currently 17%, and has been proposed to drop as low as 11.5%) from May through September. This will cause economic hardship and possibly physical danger for some of our most vulnerable citizens during a hot Texas summer.

Health Professions Council

The 48% drop seen in funding for the Health Professions Council is due to the fact that the agency had a large amount of one-time costs, such as new technology, during FY 2010-11.