

Reading the 2020-2021 Texas Budget Tea Leaves

By Eva DeLuna Castro

And they're off! On June 22, the lengthy and critically important process for crafting the 2020-2021 state budget officially launched with the release of budget [instructions](#) to the leaders of Texas public agencies and higher education institutions. Those of us wondering about implications for education, health care, and other critical public services should focus on the key parts of the instructions dealing with the General Revenue "baseline."

What is the baseline?

The baseline essentially becomes the starting point for legislative budget deliberations in 2019. You can think of the baseline like the base price of a new car – especially when it doesn't include air conditioning, floor mats or other features that drivers want.

Once the 2019 legislative session begins in January, House and Senate budget-writers will determine the amount of federal and constitutionally dedicated funds that state services will receive through the 2020-2021 budget. But the budget instructions have the most immediate impact on the half of the budget paid for with General Revenue taxes, fees, and other sources.

For the 2020-2021 [budget cycle](#), the starting-point baseline for almost one-third of the General Revenue budget will be the same as what those services have budgeted for 2018 and 2019. This near-third of the budget goes mostly to higher education, adult and juvenile prisons, state parks, courts, environmental protection, and regulatory or general government agencies.

According to the budget instructions, for example, if child support enforcement at the Attorney General's Office receives \$313 million in General Revenue support in the current budget, then that's what its baseline will be for 2020-2021 – the same dollar amount. Note that it's the same amount of money even if more children and families are expected to request those legal services, or if those services cost more.

This is an unrealistic starting point, since it excludes both population-driven needs and higher costs per person served – basic elements of what's called a "current services" proposal.

Believe it or not, the unchanged baseline proposed for 2020-2021 is actually an improvement over the budget instructions issued two years ago, when the baseline in the budget instructions required many agencies to cut four percent from their existing General Revenue spending.

This year's budget instructions mention a "positive" state economic landscape and growing treasury balances – presumably, the reasons that across-the-board cuts weren't proposed for the baseline. But agencies will still be required to describe, in a "supplemental schedule," the impact that 10 percent General-Revenue-related cuts would have on the services they provide.

Exemptions and exceptions

The budget instructions always identify some state services that are exempt from baseline limits and potential across-the-board cuts or treated differently in some other way. This budget cycle the exceptions go to the same areas as last budget cycle, specifically:

- maintaining funding for the Foundation School Program, the state-local finance framework for public schools, under current law;
- maintaining “public safety resources” like state troopers in the Texas-Mexico border region, something the Legislature moved to the General Revenue budget starting in 2016;
- paying existing debt service for bond authorizations, such as to cover state hospital building repairs and construction;
- maintaining funding for state worker pension systems and group health insurance;
- maintaining funding for Child Protective Services;
- maintaining funding for behavioral health care – for example, mental health crisis services; and
- maintaining current benefits and eligibility in Medicaid, the Children’s Health Insurance Program (CHIP), and payments for foster care, adoption subsidies and permanency care assistance.

You might read these exceptions and think that, at least for these major areas of the budget, baseline proposals will give legislators a more accurate and complete starting point. Instead of an unchanged baseline for Medicaid and CHIP, for example, the Health and Human Services Commission can request more General Revenue to cover expected increases in enrollment, even with no changes to eligibility rules.

But any *per-client* cost increases – such as higher prescription drug prices, managed care premium hikes, or more frequent use of a health care or community care service – can’t go in the baseline funding. Instead, the needed revenue is an “exceptional item” in the budget request. To repeat, funding the true cost of maintaining the same level of services would require a special exception, which has to be approved by the Legislature. But too often, the Legislature does not fund exceptional items.

The implications are staggering of this “structural deficit” in which the budget routinely fails to keep up with the true cost of providing services for Texans. Even when the budget process allows for more revenue to offset enrollment increases, if the costs per person go up, then the total funding could be insufficient. This inadequate funding leads to overcrowded classrooms in public schools, or dangerously low foster home or medical care provider availability. Agencies are then forced to make up for those cuts by reducing oversight or paying too little to guarantee medical care, like we have seen with Medicaid managed care.

Also, including caseload growth in a baseline budget proposal doesn’t guarantee that money will make it into the adopted state budget itself. Budget writers could leave both caseload and cost growth unfunded or underfunded between 2019 and 2021, when lawmakers can approve a supplemental budget bill.

Education in the state budget

The Foundation School Program makes up a significant 30 percent of the total General Revenue-related budget. When the budget instructions say “maintain funding for the Foundation School Program under current law,” that sounds like public education funding will remain intact, or perhaps that state support for schools will remain at the same total dollar amount. But that’s not how current law actually works.

The formula funding provided per student (known as the “Basic Allotment”) would remain at \$5,140, the same level it has been since 2016, and local property taxes would once again be the primary source to pay for schools. Two years ago, the current-law proposal meant that state General Revenue support for preK-12 schools could *decrease* from one budget cycle to the next, by more than nine percent. It was property taxpayers who provided any new revenue to cover enrollment growth. Inflation-driven increases go unfunded by “current law,” since keeping the Basic Allotment at \$5,140 for another two years means that its purchasing power erodes by [at least \\$240 per student](#) (nearly five percent).

What about Hurricane Harvey?

This year, the Texas Education Agency has been regularly updating legislative committees on the need for supplemental state aid in 2019 to make up for schools and property value damaged by Hurricane Harvey. But a forecast of school property tax increases for 2020-2021 won’t be available until the TEA budget request is submitted – the [deadline](#) is August 24, 2018. Once this biggest piece of the 2020-2021 budget puzzle falls into place, we’ll know the bare minimum of potential state support for public schools. The next big questions will be: what will the [Texas Public School Finance Commission](#) recommend to lawmakers by December 31, and what will the Comptroller say in January is available for schools, health care, and other competing demands?

Public input into the Texas budget cycle

Months before the budget instructions, CPPP Health and Wellness experts were already making [recommendations](#) to the state agencies overseeing Medicaid, women’s health, kinship care, and substance abuse services. This fall, budget hearings at the Capitol will give CPPP and other concerned Texans a chance to testify about those recommendations and more ways that state services could be improved. Check back with us for updates on the budget [process](#) and we’ll keep you informed and engaged.