Senate Finance Committee

Interim Report

November 2016

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SENATE FINANCE COMMITTEE

84th Legislature

November 14, 2016

The Honorable Dan Patrick
Lieutenant Governor of the State of Texas
Capitol Building, Room 2E.13
Austin, Texas 78701

The Senate Finance Committee submits this report in response to the interim charges you have assigned to this Committee.

This report examines several topics, including franchise taxes, sales tax holidays, and ways to incentivize savings for taxpayers. In addition, budgeting formats and the spending limit are examined, along with ways to reduce state debt liabilities. Finally, this report provides ways to improve statewide coordination of behavioral health services and expenditures in Texas.

We appreciate the leadership you have displayed in asking this Committee to examine these issues, and we trust the recommendations offered in this report will serve to improve the lives of Texans.

Respectfully submitted,

Senator Jane Nelson, Chair

Senator Juan "Chuy" Hinojosa, Vice-Chair

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Senator Kel Seliger

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Interim Charges

1. ***Franchise Tax*** **-** Study the benefits, including the dynamic effects, of continuing to phase out the franchise tax. Consider alternate approaches to funding the Property Tax Relief Fund.

2. ***Spending Limit*** - Examine options and make recommendations for strengthening restriction on appropriations established in Article VIII Section 22 of the state constitution, including related procedures defined in statute. Consider options for ensuring available revenues above spending limit are reserved for tax relief.

3. ***Fiscal Responsibility*** - Review the budgeting format of other states, such as whether they use strategy-based budgeting, program-based budgeting, or some other approach and discuss the level of transparency with each approach. Review and make recommendations to reduce state debt liabilities, including state pension liability. Consider how to incentivize state agencies, boards, and commissions to identify and realize savings to taxpayers.

4. ***Coordinating Behavioral Health Services and Expenditures*** - Monitor the state's progress in coordinating behavioral health services and expenditures across state government, pursuant to Article IX Sec. 10.04. Identify ways state agencies that provide mental health services are collaborating and taking steps to eliminate redundancy, create efficiency, utilize best practices, ensure optimal service delivery, and demonstrate expenditures are coordinated and in furtherance of a behavioral health statewide strategic plan. Identify barriers that prevent the coordination of behavioral health services. Make recommendations to maximize use of state funding for mental health.

5. ***Sales Tax Holiday*** - Review the state's current sales tax holiday structure and determine its economic benefit to the state. Evaluate and consider the merits of any potential expansion of the tax holiday either in the application of the sales tax exemption or the timing of the holiday.

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Interim Charge #1 - Franchise Tax

Interim Charge Language: *Study the benefits, including the dynamic effects, of continuing to phase out the franchise tax. Consider alternate approaches to funding the Property Tax Relief Fund.*

Hearing Information

The Senate Finance Committee held a hearing on March 30, 2016 to discuss Interim Charge #1 related to the franchise tax. Representatives from the Texas Comptroller of Public Accounts, Legislative Budget Board, Texas Taxpayers and Research Association, Texas Public Policy Foundation, Center for Public Policy Priorities, and the National Federation of Independent Business provided invited testimony. All witness testimony and information can be found http://www.senate.texas.gov/75r/senate/commit/c540/c540.htm.

Introduction and Background

The franchise tax was first enacted in 1907 but was changed in 2006 to tax an entity's margin instead of its capital.[1] In 2006, the Legislature overhauled the tax as part of a school finance reform plan.[2] The Legislature lowered the rate but expanded the number of businesses covered by the tax in order to replace lost revenue from a reduction in school property tax rates, which the Supreme Court had deemed an unconstitutional statewide property tax.[3]

While the state relies on the franchise tax to support school finance, the Property Tax Relief Fund, and the General Revenue Fund, many advocates and legislators have expressed concern that the franchise tax has underperformed as a revenue source, created undue burdens for Texas businesses, and failed to yield meaningful property tax relief. In response, several legislative efforts have been undertaken to reduce the burden on businesses, including:

- 81st Legislative Session - HB 4765 (Oliveira; Senate Sponsor Patrick) provided that a business with total revenue of $1 million or less would owe no franchise tax.
- 83rd Legislative Session - HB 500 (Hilderbran; Senate Sponsor Hegar) made several adjustments to the franchise tax but most notably provided for 2.5 percent and 5 percent temporary franchise tax rate reductions in tax years 2014 and 2015, respectively.[4] These rate reductions were made contingent on the Comptroller certifying that the state had enough funds to cover the tax relief.[5]
- 84th Legislative Session - HB 32 (Bonnen, D; Senate Sponsor Nelson) provided a permanent 25 percent franchise tax rate reduction. In addition, HB 32 increased the availability of the E-Z computation to businesses with revenue up to $20 million from the previous $10 million limitation and reduced the E-Z computation tax rate by over 40 percent.

Calculating the Franchise Tax

The Texas franchise tax is based on a taxable entity's margin and is computed in one of four ways.[6] Businesses calculate their franchise tax liability by either using a percentage of total revenue or by subtracting costs of goods sold, employee compensation, or $1 million from total revenue.[7] Businesses with less than $20 million in revenue may also use the E-Z computation method to determine their franchise tax liability.[8] The E-Z computation determines franchise tax liability by taking a business's revenue and multiplying it by a reduced tax rate.[9]

Franchise Tax Revenue

Franchise tax revenue has totaled over $9 billion for the past two biennia (fiscal years 2012-2013 and 2014-2015).[10] The Comptroller estimated franchise tax revenue of approximately $7 billion in fiscal years (FY) 2016-2017.[11] However, actual FY 2016 franchise tax revenue was approximately $350 million higher than estimated.[12] The net amount of actual FY 2016 franchise tax revenue and estimated FY 2017 franchise tax revenue is a revenue reduction of $1.65 billion from the previous biennium.[13]

Franchise Tax Funding the Property Tax Relief Fund

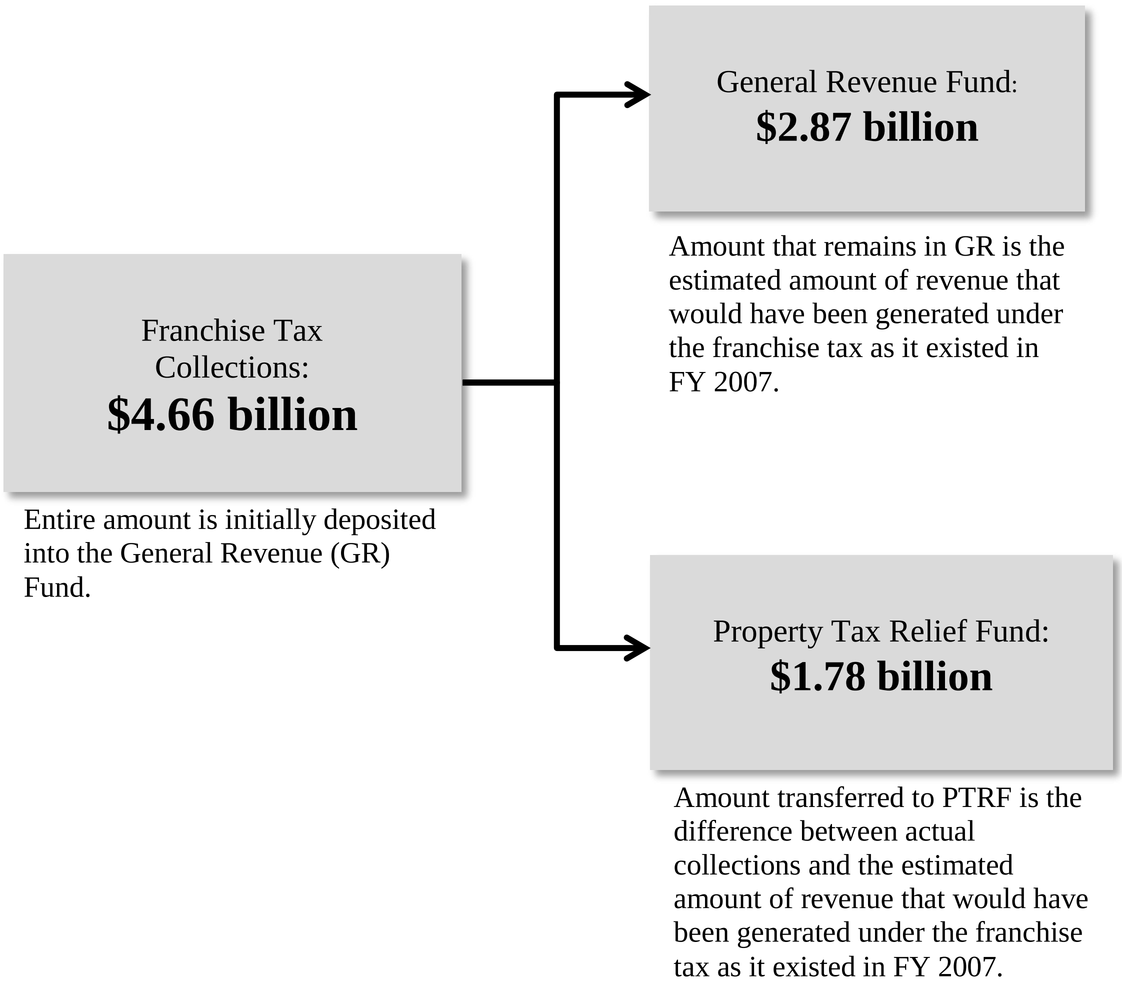
The Property Tax Relief Fund (PTRF) was created in 2006 with the purpose of reducing property tax rates.[14] Accordingly, all funds deposited into the PTRF flow into the Foundation School Program (FSP) system.[15] The PTRF receives funds from a variety of sources, with close to half of its funds coming from franchise tax revenue.[16] The remainder of the PTRF funds come from portions of the cigarette and tobacco products tax and the motor vehicle sales and use tax, along with interest on state deposits and investments.[17]

Not only does franchise tax revenue flow into the PTRF as discussed above, but it is also deposited into the General Revenue Fund.[18] In fact, franchise tax revenue is first deposited into the General Revenue Fund, and then any amount over what the Comptroller estimates would have been collected in 2006 (prior to the franchise tax law changes) is deposited into the PTRF, as shown in Figure 1 below.[19] Figure 2 below shows how reductions of franchise tax revenue first affect the PTRF due to how it flows into the General Revenue Fund and the PTRF.[20]

This current method of funding the PTRF creates a unique scenario in which reducing franchise tax rates results in increased spending of General Revenue funds. This occurs because a reduction in franchise tax revenue, as a result of decreased franchise tax rates, reduces the amount of franchise tax revenue flowing into the PTRF. Because the PTRF is one of the funds that provides revenue to the FSP system, less money from the PTRF results in less money going into the FSP system. Therefore, General Revenue funds must be used to make up for any shortfall in the FSP system.

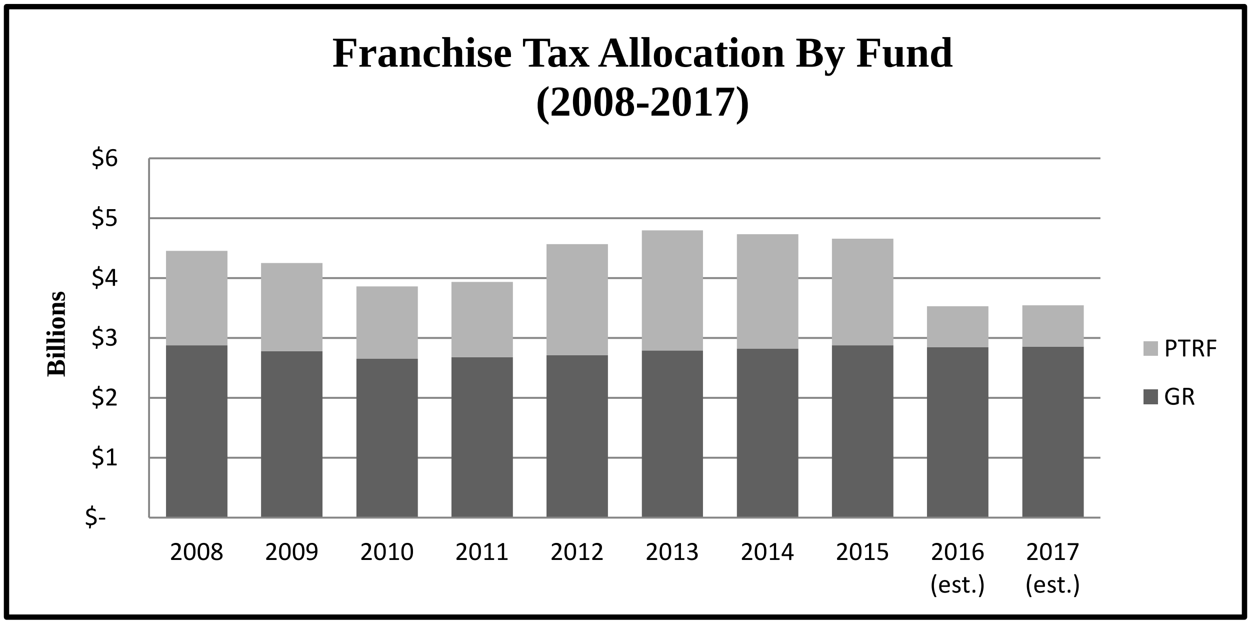
Understanding how the PTRF works with the General Revenue Fund will help in determining the effectiveness of the PTRF fund and whether it is meeting its intended purpose. Additionally, more transparency of how the PTRF works with the General Revenue Fund will help in the analysis of the effectiveness of the PTRF.

Figure 1: Franchise Tax Allocation by Fund (FY 2015)



Note: Totals may not sum because of rounding.

Figure 2: Franchise Tax Allocation



FY	2008	2009	2010	2011	2012	2013	2014	2015	2016 (est.)	2017 (est.)
Total	$4.453	$4.252	$3.860	$3.935	$4.567	$4.799	$4.732	$4.656	$3.529	$3.548
GR	*$2.876*	*$2.780*	*$2.652*	*$2.680*	*$2.710*	*$2.794*	*$2.825*	*$2.874*	*$2.845*	*$2.855*
PTRF	*$1.577*	*$1.473*	*$1.208*	*$1.255*	*$1.857*	*$2.005*	*$1.907*	*$1.782*	*$0.683*	*$0.693*

Note: Totals may not sum because of rounding.

Dynamic Effect

The interim charge directed this Committee to study the dynamic effects of continuing to phase out the franchise tax. A dynamic effect analysis estimates the economic and budgetary outcomes of a particular proposal.[21] In addition, a dynamic effect analysis shows how specified proposals compare in relation to categories such as employment, gross state product, and personal income. Many different categories may be measured, and the dynamic effect analyses conducted for this report include some of the most common categories used when measuring proposals. The dynamic effect analyses included in this report come from a Texas-specific model developed by Regional Economic Models, Inc. (REMI), a leading firm used to provide economic forecast software.[22]

In addition to listening to testimony, compiling data from the Comptroller and reviewing data submitted by nonprofit entities, the Committee requested that the Legislative Budget Board (LBB) run several dynamic effect analyses to obtain a broad spectrum of the effects of phasing out or repealing the franchise tax. One scenario includes an immediate repeal, another continues the tax relief provided in the 84th Legislative Session, and the others extend the phase out over more years. Each of the dynamic effect analyses conducted by the LBB compared current franchise tax law (as passed in the 84th Legislature) to the different phase out or elimination scenarios. The four dynamic analyses conducted were:

- Franchise tax repeal on 1/1/2018;
- Franchise tax phase out over five years (20 percent a year);
- Franchise tax phase out over eight years (12.5 percent a year); and
- Franchise tax phase out over 20 years (5 percent a year).

All four analyses are shown below. A more detailed explanation of the five year franchise tax dynamic effect analysis is included as an example for how all of the dynamic effect analyses may be read.

Franchise Tax Phase Out Over Five Years

The REMI dynamic analysis below compares current franchise tax law to a phase out over five years. The dynamic analysis shows both economic results and budget results. The economic results are divided by category, shown in the far left column, with the unit measurement next, along with the percentage change year over year. The changes may be measured cumulatively or non-cumulatively, depending on the category. Each category within the economic and budget results is explained in more detail below:

5 Year Franchise Tax Phase Out						
Compared to Baseline Scenario - Differences						
TEXAS ECONOMIC RESULTS						
Category	Units	2018	2019	2020	2021	2022
Total Employment	Thousands (Jobs)	8.8	17.3	27.1	37.8	46.9
	% change	*0.05%*	*0.10%*	*0.16%*	*0.22%*	*0.27%*
Private Non-Farm Employment	Thousands (Jobs)	8.4	16.4	25.5	35.3	43.6
	% change	*0.06%*	*0.11%*	*0.17%*	*0.24%*	*0.29%*
Total Government Employment	Thousands (Jobs)	0.4	0.9	1.6	2.5	3.3
	% change	*0.02%*	*0.05%*	*0.08%*	*0.12%*	*0.16%*
Gross Domestic Product	Billions of Fixed (2009) Dollars	0.8	1.7	2.7	3.9	5.0
	% change	*0.05%*	*0.10%*	*0.15%*	*0.21%*	*0.26%*
Personal Income	Billions of Current Dollars	0.6	1.2	2.1	3.1	4.1
	% change	*0.04%*	*0.08%*	*0.12%*	*0.17%*	*0.22%*
Disposable Personal Income	Billions of Current Dollars	0.5	1.1	1.8	2.7	3.6
	% change	*0.04%*	*0.08%*	*0.12%*	*0.17%*	*0.22%*
PCE-Price Index	2009=100 (Nation)	0.0	-0.1	-0.1	-0.1	-0.2
	% change	*-0.04%*	*-0.07%*	*-0.10%*	*-0.13%*	*-0.14%*
Personal Consumption Expenditures	Billions of Fixed (2009) Dollars	0.8	1.5	2.2	3.1	3.8
	% change	*0.08%*	*0.15%*	*0.22%*	*0.30%*	*0.36%*
Population	Thousands	4.2	10.0	18.2	28.7	40.5
	% change	*0.01%*	*0.03%*	*0.06%*	*0.10%*	*0.14%*

TEXAS BUDGET RESULTS						
Static Franchise Tax Reduction	Thousands of Current $	(741,874)	(1,544,992)	(2,411,817)	(3,352,851)	(4,376,138)
Dynamic Franchise Tax Reduction	Thousands of Current $	(734,686)	(1,529,936)	(2,387,714)	(3,318,504)	N/A
Dynamic All Other Revenue Gain	Thousands of Current $	20,778	59,214	111,789	177,759	252,533
Net Revenue Change: Dynamic vs. Static	Thousands of Current $	27,966	74,270	135,892	212,106	252,533
Net Dynamic Revenue Loss	Thousands of Current $	(713,908)	(1,470,722)	(2,275,925)	(3,140,745)	

Total Employment, Private Non-Farm Employment, and Total Government Employment:

- Employment figures come from the United States Bureau of Economic Analysis (BEA) and include wage and salary jobs, sole proprietorships, and general partners.
- Total employment includes private non-farm jobs and government jobs.
- For total employment in 2018, 8,800 or 0.05 percent more jobs are projected to be created than what is predicted with current legislation.
- For private non-farm employment in 2018, 8,400 or 0.06 percent more jobs are projected to be created than what is predicted with current legislation.
- For total government employment in 2018, 400 or 0.02 percent more jobs are projected to be created than what is predicted with current legislation.
- The measurements are cumulative, so for example, in 2019, the 17,300 more total employment jobs includes the 8,800 more jobs created in 2018, and for 2020, the amounts include both 2018 and 2019 amounts.

Gross Domestic Product (GDP):

- GDP is a measurement from the BEA that includes the value of goods and services produced in Texas, adjusted for inflation and based on national prices of those goods and services.
- This measurement uses 2009 dollars because the United States National Income and Product Accounts, which is a set of accounts used by the BEA for statistical information, underwent a comprehensive revision in 2009.
- In 2018, GDP is expected to increase $800 million or 0.05 percent more than what is projected to occur if current legislation is in place.
- The measurements are cumulative, so for example, in 2019, the $1.7 billion more in GDP includes the $800 million increase in 2018.

Personal Income:

- Personal income is a measurement from the BEA that uses current dollars and includes income received by Texans from all sources, including wages, employer contributions for pensions and insurance, production income from sole proprietorships and partnerships, property and dividend income, and government retirement and medical benefits.
- In 2018, personal income is estimated to increase $600 million or 0.04 percent more than what would have occurred had current legislation been in place.
- The measurements are cumulative, so for example, in 2019, the $1.2 billion more in personal income includes the $600 million increase in 2018.

Disposable Personal Income:

- Disposable personal income is a measurement from the BEA that uses current dollars and generally differs from personal income by removing income that would go toward taxes.
- In 2018, disposable personal income is estimated to increase $500 million or 0.04 percent more than what would have occurred had current legislation been in place.
- The measurements are cumulative, so for example, in 2019, the $1.1 billion more in personal income includes the $500 million increase in 2018.

PCE-Price Index

- Personal Consumption Expenditure-Price Index is the BEA measurement for inflation of personal consumption expenditures.
- Personal consumptions expenditures is designed to be a comprehensive measurement of the types of goods and services purchased by households and includes items such as food, clothing, healthcare, recreational items, education, and financial services, to name just a few.
- In 2018, the phase out scenario will decrease the inflation rate by 0.04 percent from what is estimated to be inflation for that year under current legislation.
- The measurements are not cumulative.

Personal Consumption Expenditures

- This measurement from the BEA uses 2009 dollars and includes items purchased by households as previously explained.
- In 2018, personal consumption expenditures are estimated to increase $800 million or 0.08 percent more than what would have occurred had current legislation been in place.
- The measurements are cumulative, so for example, in 2019, the $1.5 billion more in personal consumption expenditures includes the $800 million increase in 2018.

Population

- This measurement shows population would increase by 4,200 or 0.01 percent more people than what would have occurred had the current legislation been in place.
- The measurements are cumulative, so for example, in 2019, the 10,000 more people includes the 4,200 person increase from 2018.

Static Franchise Tax Reduction:

- This measurement shows the reduction in franchise tax revenue each year as a result of the five year phase out compared to the revenue that would have been received under current law.

- For instance, in 2018 the state is estimated to receive $741,874,000 less than what it would have received under current law and in 2019 the state is estimated to receive $1,544,992,000 less than what it would have received under current law.

Dynamic Franchise Tax Reduction

- This measurement shows the reduction in franchise tax revenue each year as a result of the five year phase out as compared to the revenue that would have been received under current law, but also takes into consideration any franchise tax revenue changes (in this instance gains) because of a reduced tax rate.
- Reasons for gains, or reduced losses, in franchise tax revenue can include business growth or expansion from reduced taxes.
- In 2018, the state is estimated to receive $734,686,000 less in revenue than it would have under current law, taking into consideration gains in revenue from reduced franchise taxes.
- This loss in revenue is less than the Static Franchise Tax Reduction loss in revenue by $7,188,000.

Dynamic All Other Revenue Gain

- This measurement shows the estimated gains in revenue from areas other than franchise tax compared to the revenue that would have been received under current law.
- In 2018, the state is estimated to receive $20,778,000 more than it would have received under current law.
- This increase in revenue can include increased sales and use tax collections or other taxes or fees.

Net Revenue Change: Dynamic vs. Static

- This measurement adds the difference between the Static Franchise Tax Reduction and Dynamic Franchise Tax Reduction to the dynamic all other revenue gain.
- In 2018, this calculation amounts to $27,966,000.
- This measurement shows the gain in revenue from both additional franchise taxes and other revenue sources as a result of the franchise tax rate reduction compared to what would have been collected under current law.

Net Dynamic Revenue Loss

- This measurement adds the loss in revenue from the franchise tax phase out to the increase in franchise tax and all other sources (net revenue change) to get a net loss for each year.
- This measurement estimates the overall benefit of reducing the franchise tax over five years while also taking into consideration the loss in revenue from the reduced franchise tax.
- In 2018, the state is estimated to receive a total of $713,908,000 less than what it would have received under current law, taking into consideration all benefits from the tax rate reduction.

Immediate Franchise Tax Repeal (1/1/2018) Compared to Baseline Scenario - Differences						
TEXAS ECONOMIC RESULTS						
Category	Units	2018	2019	2020	2021	2022
Total Employment	Thousands (Jobs)	33.7	42.8	49.3	53.7	56.7
	% change	*0.20%*	*0.25%*	*0.29%*	*0.31%*	*0.33%*
Private Non-Farm Employment	Thousands (Jobs)	32.1	40.1	45.8	49.5	51.9
	% change	*0.22%*	*0.27%*	*0.31%*	*0.33%*	*0.35%*
Total Government Employment	Thousands (Jobs)	1.7	2.7	3.5	4.2	4.7
	% change	*0.08%*	*0.13%*	*0.17%*	*0.20%*	*0.23%*
Gross Domestic Product	Billions of Fixed (2009) Dollars	3.2	4.2	5.0	5.6	6.1
	% change	*0.18%*	*0.24%*	*0.28%*	*0.31%*	*0.33%*
Personal Income	Billions of Current Dollars	2.2	3.1	3.9	4.6	5.2
	% change	*0.15%*	*0.20%*	*0.24%*	*0.26%*	*0.28%*
Disposable Personal Income	Billions of Current Dollars	1.9	2.7	3.4	4.1	4.6
	% change	*0.14%*	*0.19%*	*0.23%*	*0.26%*	*0.28%*
PCE-Price Index	2009=100 (Nation)	-0.2	-0.2	-0.2	-0.2	-0.2
	% change	*-0.16%*	*-0.15%*	*-0.14%*	*-0.13%*	*-0.13%*
Personal Consumption Expenditures	Billions of Fixed (2009) Dollars	2.9	3.4	3.8	4.1	4.3
	% change	*0.30%*	*0.34%*	*0.37%*	*0.39%*	*0.41%*
Population	Thousands	16.8	28.9	40.7	51.9	62.5
	% change	*0.06%*	*0.10%*	*0.14%*	*0.18%*	*0.21%*
TEXAS BUDGET RESULTS						
Static Franchise Tax Reduction	Thousands of Current $	(3,708,090)	(3,858,622)	(4,015,926)	(4,187,653)	(4,373,083)
Dynamic Franchise Tax Reduction	Thousands of Current $	N/A	N/A	N/A	N/A	N/A
Dynamic All Other Revenue Gain	Thousands of Current $	87,440	188,732	252,826	310,441	362,323
Net Change: Dynamic vs. Static	Thousands of Current $	87,440	188,732	252,826	310,441	362,323
Net Dynamic Revenue Loss	Thousands of Current $	(3,620,650)	(3,669,890)	(3,763,100)	(3,877,212)	(4,010,760)

8 Year Franchise Tax Phase Out Compared to Baseline Scenario - Differences									
TEXAS ECONOMIC RESULTS									
Category	Units	2018	2019	2020	2021	2022	2023	2024	2025
Total Employment	Thousands (Jobs)	5.5	10.8	16.9	23.6	30.5	37.8	45.3	51.5
	% change	*0.03%*	*0.06%*	*0.10%*	*0.14%*	*0.18%*	*0.22%*	*0.26%*	*0.30%*
Private Non-Farm Employment	Thousands (Jobs)	5.2	10.2	15.9	22.0	28.4	35.1	41.8	47.4
	% change	*0.04%*	*0.07%*	*0.11%*	*0.15%*	*0.19%*	*0.23%*	*0.28%*	*0.31%*
Total Government Employment	Thousands (Jobs)	0.3	0.6	1.0	1.5	2.1	2.8	3.5	4.1
	% change	*0.01%*	*0.03%*	*0.05%*	*0.07%*	*0.10%*	*0.13%*	*0.17%*	*0.20%*
Gross Domestic Product	Billions of Fixed (2009) Dollars	0.5	1.0	1.7	2.4	3.2	4.1	5.1	5.9
	% change	*0.03%*	*0.06%*	*0.09%*	*0.13%*	*0.17%*	*0.21%*	*0.26%*	*0.29%*
Personal Income	Billions of Current Dollars	0.4	0.8	1.3	1.9	2.6	3.5	4.4	5.3
	% change	*0.02%*	*0.05%*	*0.08%*	*0.11%*	*0.14%*	*0.18%*	*0.22%*	*0.25%*
Disposable Personal Income	Billions of Current Dollars	0.3	0.7	1.1	1.7	2.3	3.0	3.8	4.6
	% change	*0.02%*	*0.05%*	*0.08%*	*0.11%*	*0.14%*	*0.18%*	*0.21%*	*0.25%*
PCE-Price Index	2009=100 (Nation)	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
	% change	*-0.03%*	*-0.04%*	*-0.06%*	*-0.08%*	*-0.10%*	*-0.11%*	*-0.13%*	*-0.14%*
Personal Consumption Expenditures	Billions of Fixed (2009) Dollars	0.5	0.9	1.4	1.9	2.5	3.1	3.8	4.3
	% change	*0.05%*	*0.09%*	*0.14%*	*0.19%*	*0.24%*	*0.29%*	*0.34%*	*0.38%*
Population	Thousands	2.6	6.3	11.4	17.9	25.8	35.0	45.4	56.4
	% change	*0.01%*	*0.02%*	*0.04%*	*0.06%*	*0.09%*	*0.12%*	*0.15%*	*0.18%*
TEXAS BUDGET RESULTS									
Static Franchise Tax Reduction	Thousands of Current $	(463,511)	(964,656)	(1,505,972)	(2,093,826)	(2,733,177)	(3,427,244)	(4,176,853)	(4,987,423)
Dynamic Franchise Tax Reduction	Thousands of Current $	(459,021)	(955,255)	(1,490,921)	(2,072,377)	(2,704,573)	(3,390,728)	(4,131,682)	N/A
Dynamic All Other Revenue Gain	Thousands of Current $	12,976	36,965	69,766	110,920	159,916	216,604	281,297	350,916
Net Change: Dynamic vs. Static	Thousands of Current $	17,467	46,365	84,818	132,369	188,520	253,120	326,468	350,916
Net Dynamic Revenue Loss	Thousands of Current $	(446,044)	(918,290)	(1,421,154)	(1,961,458)	(2,544,657)	(3,174,123)	(3,850,385)	(4,636,507)

20 Year Franchise Tax Phase Out Compared to Baseline Scenario - Differences											
TEXAS ECONOMIC RESULTS											
Category	Units	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total Employment	Thousands (Jobs)	2.2	4.3	6.8	9.4	12.2	15.1	18.1	21.1	24.1	27.1
	% change	*0.01%*	*0.03%*	*0.04%*	*0.05%*	*0.07%*	*0.09%*	*0.10%*	*0.12%*	*0.14%*	*0.15%*
Private Non-Farm Employment	Thousands (Jobs)	2.1	4.1	6.3	8.8	11.4	14.0	16.7	19.4	22.1	24.9
	% change	*0.01%*	*0.03%*	*0.04%*	*0.06%*	*0.08%*	*0.09%*	*0.11%*	*0.13%*	*0.15%*	*0.16%*
Total Government Employment	Thousands (Jobs)	0.1	0.2	0.4	0.6	0.9	1.1	1.4	1.7	2.0	2.3
	% change	*0.01%*	*0.01%*	*0.02%*	*0.03%*	*0.04%*	*0.05%*	*0.07%*	*0.08%*	*0.09%*	*0.11%*
Gross Domestic Product	Billions of Fixed (2009) Dollars	0.2	0.4	0.7	1.0	1.3	1.6	2.0	2.4	2.8	3.3
	% change	*0.01%*	*0.02%*	*0.04%*	*0.05%*	*0.07%*	*0.09%*	*0.10%*	*0.12%*	*0.14%*	*0.16%*
Personal Income	Billions of Current Dollars	0.1	0.3	0.5	0.8	1.1	1.4	1.8	2.2	2.6	3.1
	% change	*0.01%*	*0.02%*	*0.03%*	*0.04%*	*0.06%*	*0.07%*	*0.09%*	*0.10%*	*0.12%*	*0.13%*
Disposable Personal Income	Billions of Current Dollars	0.1	0.3	0.4	0.7	0.9	1.2	1.5	1.9	2.3	2.7
	% change	*0.01%*	*0.02%*	*0.03%*	*0.04%*	*0.06%*	*0.07%*	*0.09%*	*0.10%*	*0.11%*	*0.13%*
PCE-Price Index	2009=100 (Nation)	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
	% change	*-0.01%*	*-0.02%*	*-0.02%*	*-0.03%*	*-0.04%*	*-0.04%*	*-0.05%*	*-0.06%*	*-0.06%*	*-0.07%*
Personal Consumption Expenditures	Billions of Fixed (2009) Dollars	0.2	0.4	0.6	0.8	1.0	1.2	1.5	1.8	2.0	2.3
	% change	*0.02%*	*0.04%*	*0.05%*	*0.07%*	*0.09%*	*0.11%*	*0.14%*	*0.16%*	*0.18%*	*0.20%*
Population	Thousands	1.1	2.5	4.6	7.2	10.3	14.0	18.1	22.7	27.8	33.2
	% change	*0.00%*	*0.01%*	*0.02%*	*0.02%*	*0.03%*	*0.05%*	*0.06%*	*0.07%*	*0.09%*	*0.11%*
TEXAS BUDGET RESULTS											
Static Franchise Tax Reduction	Thousands of Current $	(185,404)	(385,862)	(602,389)	(837,531)	(1,093,271)	(1,370,898)	(1,670,741)	(1,994,969)	(2,341,781)	(2,710,840)
Dynamic Franchise Tax Reduction	Thousands of Current $	(183,608)	(382,102)	(596,368)	(828,951)	(1,081,829)	(1,356,291)	(1,652,673)	(1,973,130)	(2,315,889)	(2,680,610)
Dynamic All Other Revenue Gain	Thousands of Current $	5,189	14,780	27,891	44,334	63,904	86,537	112,355	141,168	172,801	207,538
Net Change: Dynamic vs. Static	Thousands of Current $	6,986	18,540	33,912	52,914	75,345	101,143	130,424	163,007	198,693	237,767
Net Dynamic Revenue Loss	Thousands of Current $	(178,419)	(367,322)	(568,477)	(784,617)	(1,017,925)	(1,269,754)	(1,540,317)	(1,831,962)	(2,143,088)	(2,473,073)

20 Year Franchise Tax Phase Out (cont.) Compared to Baseline Scenario - Differences TEXAS ECONOMIC RESULTS											
Category	Units	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
Total Employment	Thousands (Jobs)	30.2	33.3	36.5	39.9	43.4	46.9	50.5	54.2	58.0	61.8
	% change	*0.17%*	*0.19%*	*0.21%*	*0.23%*	*0.24%*	*0.26%*	*0.28%*	*0.30%*	*0.32%*	*0.34%*
Private Non-Farm Employment	Thousands (Jobs)	27.6	30.4	33.2	36.3	39.4	42.6	45.8	49.2	52.6	56.1
	% change	*0.18%*	*0.20%*	*0.22%*	*0.23%*	*0.25%*	*0.27%*	*0.29%*	*0.31%*	*0.33%*	*0.35%*
Total Government Employment	Thousands (Jobs)	2.6	2.9	3.3	3.6	4.0	4.3	4.7	5.0	5.4	5.7
	% change	*0.13%*	*0.14%*	*0.16%*	*0.18%*	*0.19%*	*0.21%*	*0.23%*	*0.25%*	*0.27%*	*0.28%*
Gross Domestic Product	Billions of Fixed (2009) Dollars	3.7	4.2	4.7	5.2	5.8	6.4	6.9	7.5	8.2	8.8
	% change	*0.17%*	*0.19%*	*0.21%*	*0.23%*	*0.25%*	*0.27%*	*0.29%*	*0.31%*	*0.33%*	*0.35%*
Personal Income	Billions of Current Dollars	3.6	4.2	4.8	5.4	6.1	6.9	7.6	8.5	9.4	10.3
	% change	*0.15%*	*0.16%*	*0.18%*	*0.20%*	*0.21%*	*0.23%*	*0.25%*	*0.27%*	*0.29%*	*0.30%*
Disposable Personal Income	Billions of Current Dollars	3.2	3.7	4.2	4.8	5.4	6.0	6.7	7.4	8.2	9.0
	% change	*0.15%*	*0.16%*	*0.18%*	*0.20%*	*0.21%*	*0.23%*	*0.25%*	*0.26%*	*0.28%*	*0.30%*
PCE-Price Index	2009=100 (Nation)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
	% change	*-0.08%*	*-0.08%*	*-0.09%*	*-0.10%*	*-0.10%*	*-0.11%*	*-0.11%*	*-0.12%*	*-0.13%*	*-0.13%*
Personal Consumption Expenditures	Billions of Fixed (2009) Dollars	2.6	3.0	3.3	3.6	4.0	4.4	4.7	5.1	5.5	6.0
	% change	*0.22%*	*0.25%*	*0.27%*	*0.29%*	*0.32%*	*0.34%*	*0.37%*	*0.39%*	*0.42%*	*0.44%*
Population	Thousands	39.0	45.2	51.6	58.5	65.6	73.0	80.7	88.7	96.9	105.4
	% change	*0.12%*	*0.14%*	*0.16%*	*0.18%*	*0.20%*	*0.22%*	*0.24%*	*0.27%*	*0.29%*	*0.31%*
TEXAS BUDGET RESULTS											
Static Franchise Tax Reduction	Thousands of Current $	(3,105,428)	(3,527,983)	(3,976,923)	(4,450,208)	(4,945,811)	(5,472,876)	(6,036,226)	(6,632,391)	(7,263,915)	(7,932,916)
Dynamic Franchise Tax Reduction	Thousands of Current $	(3,070,538)	(3,488,086)	(3,931,691)	(4,399,335)	(4,889,021)	(5,409,777)	(5,966,377)	(6,555,388)	(7,179,321)	N/A
Dynamic All Other Revenue Gain	Thousands of Current $	245,619	287,170	332,369	381,032	432,988	488,807	548,544	612,643	681,285	754,788
Net Change: Dynamic vs. Static	Thousands of Current $	280,509	327,066	377,601	431,905	489,778	551,906	618,393	689,647	765,879	754,788
Net Dynamic Revenue Loss	Thousands of Current $	(2,824,920)	(3,200,916)	(3,599,322)	(4,018,302)	(4,456,033)	(4,920,970)	(5,417,833)	(5,942,745)	(6,498,036)	(7,178,128)

Conclusion

Texas has been consistently recognized for maintaining a friendly business climate and for keeping taxes low. Our studies confirm that reductions to the franchise tax yield significant benefits to the Texas economy, including job creation, personal income growth, an increased gross domestic product and other positive results. However, phasing out the franchise tax would create a significant impact on the state budget, both in the short term and longer term. Decisions about additional tax relief must be weighed against the budget decisions that are always necessary if there is a loss of state revenue. The Legislature should continue to look for ways to provide additional tax relief, while also making sure the growing needs of this state are met.

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[1] Texas Comptroller Sources of Revenue, Pg. 102 (January 2015).
[2] HB 3 (Keffer), 79th Leg. (3rd Special) Bill Analysis, Pg. 1.
[3] *Id*.
[4] Texas Comptroller Presentation, Franchise Tax Interim Charge hearing, Pg. 4.
[5] House Bill 500, 83rd Legislative Session.
[6] Texas Comptroller Presentation, Franchise Tax Interim Charge hearing, Pg. 2.
[7] *Id*.
[8] *Id*.
[9] *Id*.
[10] *Id.* at Pg. 9.
[11] *Id*.
[12] Texas Comptroller State Revenue Watch, FY 2016.
[13] Texas Comptroller Presentation, Franchise Tax Interim Charge hearing, Pg. 9.
[14] HB 2 (Pitts), 79th Leg. (3rd Special) Bill Analysis, Pg. 1.
[15] Government Code Section 403.109.
[16] Texas Comptroller's 2016-2017 Certification Revenue Estimate at Pg. 20.
[17] *Id*.
[18] Texas Comptroller Presentation, Franchise Tax Interim Charge hearing, Pg. 8.
[19] *Id*.
[20] *Id*. at Pg. 9.
[21] Legislative Budget Board Presentation, Franchise Tax Interim Charge hearing, Pg. 2.
[22] *Id*. at Pg. 3.

<u>Interim Charge #2 - Spending Limit</u>

Interim Charge Language: *Examine options and make recommendations for strengthening restriction on appropriations established in Article VIII Section 22 of the state constitution, including related procedures defined in statute. Consider options for ensuring available revenues above spending limit are reserved for tax relief.*

Hearing Information

The Senate Finance Committee held a hearing on May 17, 2016 to discuss Interim Charge #2 related to the spending limit. Representatives from the Legislative Budget Board, Texas Comptroller of Public Accounts, Texas Taxpayers and Research Association, Perryman Group, Texas Public Policy Foundation, and Center for Public Policy Priorities provided invited testimony. All witness testimony and written information can be found at http://www.senate.texas.gov/75r/senate/commit/c540/c540.htm.

Introduction and Background

The constitutional spending limit[1] is designed to limit the growth in state spending.[2] It was enacted in 1978 as part of a tax relief package of seven constitutional amendments proposed to address rising property taxes and to limit future government spending.[3] Six of the seven amendments addressed property taxes, while one of the amendments was the proposal to limit state spending.[4] Voters approved the proposed constitutional amendments on November 7, 1978, with approximately 85 percent of the vote.[5] Accordingly, the Legislative Budget Board (LBB), as required by statute, holds a public hearing and adopts a spending limit before each legislative session.[6]

<u>Elements of the Spending Limit</u>

There are three elements of the spending limit:

- Spending limit base;
- Rate of growth of the economy; and
- Timeframe.[7]

The Constitution specifies that the growth of appropriations from *state tax revenue not constitutionally dedicated* may not exceed the estimated *rate of growth of the economy*.[8] The two italicized phrases emphasize two of the three elements of the spending limit: the base (state tax revenue not constitutionally dedicated) and the rate of growth of the economy. The third element of the spending limit is the timeframe that is used when measuring the rate of growth of the economy.[9]

<u>Spending Limit Base *(State Tax Revenue Not Constitutionally Dedicated)*</u>

The spending limit base refers to appropriations from state tax revenue not dedicated by the constitution.[10] This results in certain appropriations being limited by the spending limit, while others are not.

Appropriations funded with tax revenue that do fall under the spending limit include, but are not limited to:

- sales tax;
- motor vehicle sales tax;
- franchise tax; and
- cigarette and tobacco tax.[11]

Appropriations funded with revenue that do not fall under the spending limit because they are from tax revenue that is constitutionally dedicated or are funded with non-tax revenue include, but are not limited to:

- motor fuels taxes;
- 25 percent of oil and natural gas production taxes; and
- fees, fines, penalties, lottery proceeds, and interest and investment income.[12]

The discrepancies between types of revenue and appropriations included or excluded from the spending limit base have led to calls for spending limit reform. These reforms include recommendations to:

- Adjust the spending limit base by removing funds tied to spending pursuant to Federal law.
  - Texas is required to spend state funds on certain programs pursuant to Federal law.
  - Currently, general revenue funds tied to certain programs, such as Medicaid, are included in the spending limit base.
  - Federal law affects the amount the state must spend for many of these programs.
  - Removing these funds from the spending limit base ensures the spending limit base only contains funds the Legislature can control.
- Change the spending limit base to funds easily identified in the state budget.
  - The current spending limit base is not aligned with any of the types of funds as articulated in the budget. For example, the budget identifies funds as general revenue, general revenue-dedicated, other, and federal.
  - This lack of consistency makes it difficult to determine which funds are subject to the spending limit.
  - Changing the spending limit base to match types of funds as identified in the state budget would allow for easier analysis of the spending limit.

Rate of Growth of the Economy

The second element of the spending limit, the "rate of growth of the state's economy," has historically been measured using the rate of growth of Texans' personal income, as directed in statute.[13] Over the last several biennia, the LBB has reviewed estimates of the rate of growth of Texans' personal income from a variety of sources when adopting the spending limit, including the Texas Comptroller, Moody's, and IHS Global Insight, among several others.[14]

Each of the entities submitting personal income growth forecasts uses their own econometric models in calculating Texan's personal income growth.[15] These forecasts submitted by each of the entities vary due to their own interpretation and statistical testing of their economic models.[16]

However, these forecasts also share characteristics, such as utilizing United States economic variables and making certain assumptions about the structure of the Texas economy.[17]

Texans' personal income growth is the required measure for the rate of growth of the state's economy, absent legislative change or unless a more comprehensive definition of the rate of growth is approved by a committee made up of the Governor, Lieutenant Governor, Speaker of the House, and Comptroller.[18] As a result, there have been legislative proposals to use different measurements in determining the rate of growth of the state's economy.

Proposals include calculating the rate of growth of the economy by compounding population and inflation growth rates, or in other words population *times* inflation. This measures the rate of growth of people moving to Texas and the increase of what both current and new residents pay for a basket of goods. A compounded population and inflation measurement ensures the effect of inflation is measured on both the current and the new population of the state.

There are a variety of inflation rates that may be used in the population times inflation equation. For instance, the Bureau of Labor and Statistics' consumer price index is a common source for inflation rates. The consumer price index measures inflation for consumers in their day-to-day living expenses, such as food and beverage, housing, medical care, and other typical expenditures.[19] However, inflation rates specific to categories of items purchased by the government may also be used.

If the LBB does not adopt a spending limit, then the rate of growth of the state's economy will be considered to be zero, meaning there may not be any increase in overall state appropriations from state tax revenue not constitutionally dedicated in the next biennium.[20]

Timeframe

The third element of the spending limit is the timeframe that is used to calculate the rate of growth of the state's economy, which is currently a prospective estimate from the current biennium to the next biennium.[21] This requires forecasting what the rate of growth of the state's economy will be over the next two years. For example, in December 2014 the LBB adopted a spending limit for the FY 16-17 budget using estimates for the rate of growth of the economy over fiscal years 2016 and 2017.

The current method may be adjusted in a few ways. Instead of a prospective estimate, the rate of growth of the current or past biennia may be used. Under this scenario, when the LBB adopted the spending limit in December 2014 for the FY 16-17 budget, they would have used the rate of growth for fiscal years 2014 and 2015. Additionally, a combination or average of the timeframes could be used. Under this scenario, the LBB would have used a combination of the prospective rate of growth for fiscal years 2016 and 2017 and the current fiscal years 2014 and 2015 when adopting the spending limit for the FY 16-17 budget in December 2014.

Recent Legislative History

In the 84th Legislature, both the Senate and the House passed legislation to reform the spending limit, but neither was enacted into law. Below is a summary of each version.

Senate Bill 9 (Hancock/Otto)

Senate Version

The Senate made adjustments to the three categories of the current spending limit discussed above: spending limit base, rate of growth, and timeframe.

- Spending Limit Base
  - Current: State tax revenue not constitutionally dedicated.
  - Proposed Change: General revenue and general revenue-dedicated funds.
- Rate of Growth
  - Current: Texans' personal income.
  - Proposed Change: Population times inflation.
- Timeframe
  - Current: Prospective estimate of next biennium.
  - Proposed Change: An average of the current biennium and the next biennium.

House Version

The House made adjustments to two of the three categories discussed above: spending limit base and rate of growth. The timeframe of the spending limit remained a prospective growth measurement.

- Spending Limit Base
  - Current: State tax revenue not constitutionally dedicated.
  - Proposed Change: All non-federal funds.
- Rate of Growth
  - Current: Texans' personal income growth.
  - Proposed Change: Population of people served in specified spending categories times the inflation of items within those specified spending categories.

Ensuring Revenue for Tax Relief

The current structure of the spending limit creates a scenario in which providing tax relief to taxpayers counts as increased spending pursuant to the spending limit. Although the spending limit was designed to limit the growth in government spending, it discourages providing tax relief under its current form. The Senate has proposed legislation aimed at incentivizing tax relief by removing it from the funds subject to the limit.[22] The Senate will continue to review ways to ensure revenue above the spending limit are reserved for tax relief.

Conclusion and Recommendations

A strong spending limit is an essential tool to limit the growth in government. The Legislature should consider ways to strengthen the spending limit in a manner that truly reflects the growth of our economy while allowing Texas to meet the needs of its growing population.

[1] Texas Constitution, Article VIII, Section 22.
[2] *See* House Joint Resolution No. 1 Analysis, 65th Leg., 2nd Called Session.
[3] *Id*.
[4] *Id*.
[5] *See* Texas Legislative Council, Amendments to the Texas Constitution Since 1876, February 2016.
[6] Texas Government Code, Chapter 316, Subchapter A.
[7] *See* LBB Presentation, Spending Limit Interim Charge hearing, Pg. 13.
[8] Texas Constitution, Article VIII, Section 22 (emphasis added).
[9] *See* LBB Presentation, Spending Limit Interim Charge hearing, Pg. 13.
[10] Texas Constitution, Article VIII, Section 22.
[11] LBB Presentation, Spending Limit Interim Charge hearing, Pg. 8.
[12] *Id*.
[13] Texas Government Code, § 316.002(b).
[14] *See* LBB Technical Memorandum on Spending Limit, November 18, 2014.
[15] *Id*. at Pg. 3.
[16] *Id*.
[17] *Id*.
[18] Texas Government Code, Section 316.002.
[19] http://www.bls.gov/bls/faqs.htm
[20] Texas Government Code, Section 316.002(e).
[21] Texas Government Code, Section 316.001, et al.
[22] Senate Joint Resolution No. 3 (Nelson, Eltife, Hinojosa), 84th Leg.

Interim Charge #3 - Fiscal Responsibility

Interim Charge Language: *Review the budgeting format of other states, such as whether they use strategy-based budgeting, program-based budgeting, or some other approach and discuss the level of transparency with each approach. Review and make recommendations to reduce state debt liabilities, including state pension liability. Consider how to incentivize state agencies, boards, and commissions to identify and realize savings to taxpayers.*

Hearing Information

The Senate Finance Committee held a hearing on March 30, 2016 to discuss Interim Charge #3 related to fiscal responsibility. This interim charge is split into three separate discussions, Part A related to budget transparency, Part B related to state debt, and Part C related to incentivizing tax savings.

The portion of the hearing related to budget transparency (Part A) had representatives from the Legislative Budget Board (LBB) and the Texas Conservative Coalition Research Institute provide invited testimony. The portion of the hearing related to state debt (Part B) had representatives from LBB, Texas Comptroller of Public Accounts, Employees Retirement System, and Teacher Retirement System provide invited testimony. The portion of the hearing related to incentivizing tax savings (Part C) had representatives from the LBB testify. All witness testimony and written information can be found at http://www.senate.texas.gov/75r/senate/commit/c540/c540.htm.

Part A - Budget Transparency

Introduction and Background

Strategy-Based and Program-Based Budgeting

States' budget formats provide information in a variety of ways, with many states using a strategy-based or a program-based budget. Within these budget formats, there are variations of the level of detail provided for the strategy or program. Texas uses a strategy-based budget which sets forth goals a state agency seeks to achieve and the strategies to be taken by the agency to achieve those goals.[1] Funding is identified at the strategy level.

A program-based budget provides funding information based on programs instead of a strategy or goal. This budget format shows how much money is spent on particular programs or groups of programs. Some states group several programs together within the budget document, while other states' program-based budgets will list more specific programs with less grouping.[2] The level of funding detail varies depending on how each state approaches its budget.

Texas Approach to Strategy-Based Budgeting

Texas' current budget structure originated in 1991 as part of a statewide strategic planning and performance-based budgeting initiative.[3] The goals of the initiative were to improve outcomes and accountability, while allowing flexibility for agencies to carry out their missions and address challenges arising over the course of a 2-year budget.[4] The 72nd Legislature attempted to accomplish these goals by grouping programs together by how they further the agency's mission.[5] This format, which has evolved over time, is a strategy-based budget format that lists goals and strategies within each state agency. Figure 1 below is an example of the budget format before the changes in 1991 and Figure 2 is an example from the most recently adopted budget.[6]

Figure 1

Budgeting Format, 1990-91 GAA

Texas Parks and Wildlife Department

	For the Years Ending August 31, 1990	August 31, 1991
1. Executive		
a. Executive Office	713,911	713,911
b. Aircraft Operations	237,814	237,982 & U.B.
Total, Executive	$ 951,725	$ 951,893
2. Administrative Services	$ 12,061,599	$ 11,985,954
3. Enforcement	25,972,553	26,328,174
4. Wildlife		
a. Research and Management	7,313,458	7,345,558
b. Payment in Lieu of Taxes	350,000	350,000
c. Mule Deer Relocation Project	250,000	U.B.
d. Elk Habitat Project	175,000	U.B.
Total, Wildlife	$ 8,088,458	$ 7,695,558
12. Coastal Beach Services	680,000	680,000
GRAND TOTAL, PARKS AND WILDLIFE DEPARTMENT	$ 102,309,257	$ 103,043,894

Figure 2

Budgeting Format, 2016-17 GAA

Texas Parks and Wildlife Department

A. Goal: CONSERVE NATURAL RESOURCES Conserve Fish, Wildlife, and Natural Resources.		
A.1.1. Strategy: WILDLIFE CONSERVATION Wildlife Conservation, Habitat Management, and Research.	$ 22,516,720	$ 22,502,913
A.1.2. Strategy: TECHNICAL GUIDANCE Technical Guidance to Private Landowners and the General Public.	$ 2,577,236	$ 2,577,236
A.1.3. Strategy: HUNTING AND WILDLIFE RECREATION Enhanced Hunting and Wildlife-related Recreational Opportunities.	$ 2,636,717	$ 2,636,717
A.2.1. Strategy: INLAND FISHERIES MANAGEMENT Inland Fisheries Management, Habitat Conservation, and Research.	$ 13,771,729	$ 13,504,729
A.2.2. Strategy: INLAND HATCHERIES OPERATIONS	$ 5,564,733	$ 5,715,733
A.2.3. Strategy: COASTAL FISHERIES MANAGEMENT Coastal Fisheries Management, Habitat Conservation and Research.	$ 12,038,252	$ 11,647,631
A.2.4. Strategy: COASTAL HATCHERIES OPERATIONS	$ 3,028,560	$ 3,028,560
Total, Goal A: CONSERVE NATURAL RESOURCES	$ 62,133,947	$ 61,613,519
Outcome (Results/Impact): Percent of Total Land Acreage in Texas Managed to Enhance Wildlife through TPWD Approved Wildlife Management Plans	18.84%	19.44%

These examples show the differences between the budget format before and after the changes in 1991. By way of example, Figure 2, from Texas' most recent budget, shows one of the Texas Parks and Wildlife Department's goals of Conserving Natural Resources. Within this goal several strategies are listed, such as Wildlife Conservation and Technical Guidance. Each of these strategies include at least one program. The analysis in Figure 3 below shows how the entire Texas budget distributes programs across agency strategies.

Figure 3

Analysis of Program Distribution Across Agency Strategies in the 2016-17 General Appropriations Act

Strategies by Number of Programs within the Strategy

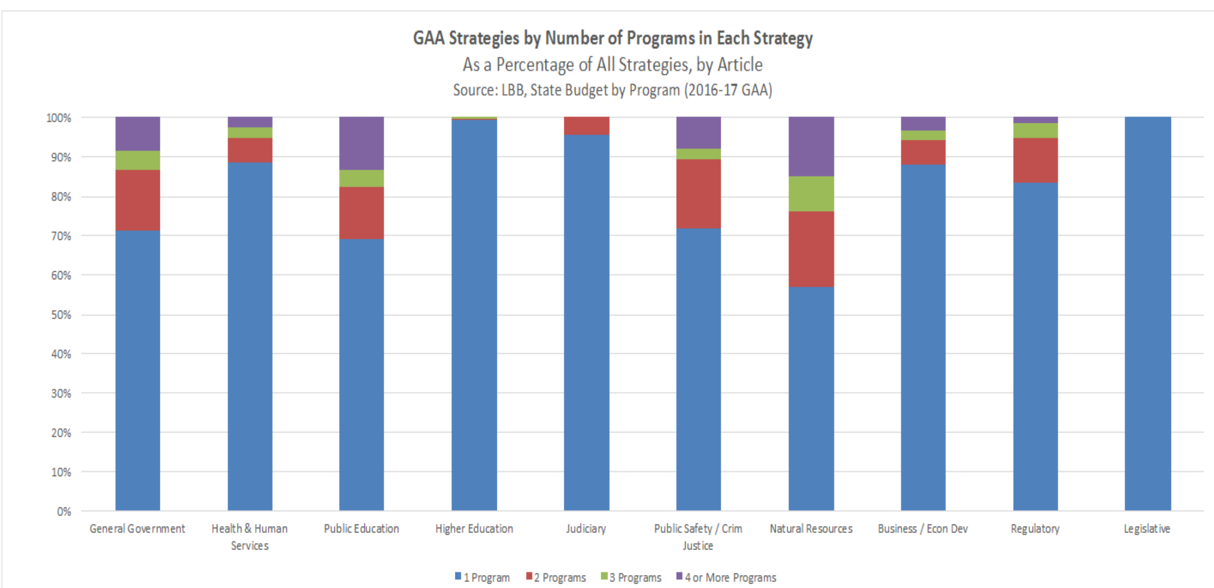
ARTICLE	1 Program	2	3	4	5	6	7 or More Programs	Total Strategies
General Government	111	24	8	5	3	2	3	156
Health & Human Services	136	10	4	0	0	1	3	154
Public Education	31	6	2	0	0	2	4	45
Higher Education	1,276	4	5	0	0	0	0	1,285
Judiciary	64	3	0	0	0	0	0	67
Public Safety / Crim Justice	99	24	4	3	4	2	2	138
Natural Resources	71	24	11	10	4	1	4	125
Business / Econ Dev	105	7	3	2	0	0	2	119
Regulatory	127	17	6	2	0	0	0	152
Legislative	12	0	0	0	0	0	0	12
Total # of Strategies	2,032	119	43	22	11	8	18	2,253

Strategies by Number of Programs within the Strategy

As a Percentage of All Strategies

	1 Program	2 Programs	3 Programs	4 or More Programs
General Government	71%	15%	5%	8%
Health & Human Services	88%	6%	3%	3%
Public Education	69%	13%	4%	13%
Higher Education	99%	0%	0%	0%
Judiciary	96%	4%	0%	0%
Public Safety / Crim Justice	72%	17%	3%	8%
Natural Resources	57%	19%	9%	15%
Business / Econ Dev	88%	6%	3%	3%
Regulatory	84%	11%	4%	1%
Legislative	100%	0%	0%	0%
ALL ARTICLES	**90%**	**5%**	**2%**	**2%**

Source: LBB, State Budget by Program, 2016-17 GAA



Texas' 2016-17 budget, also referred to as the General Appropriations Act (GAA), contains a total of 2,253 strategies. Of this total, 2,032 of the strategies, about 90 percent, contain just one program. An additional 119 strategies, or 5%, contain 2 programs. The remaining 5% of strategies contain 3 or more programs. Figure 3 also includes a breakdown of the number of programs within each strategy by article. The information provided in Figure 3 is an update to information the LBB previously provided in its presentation to the Committee.

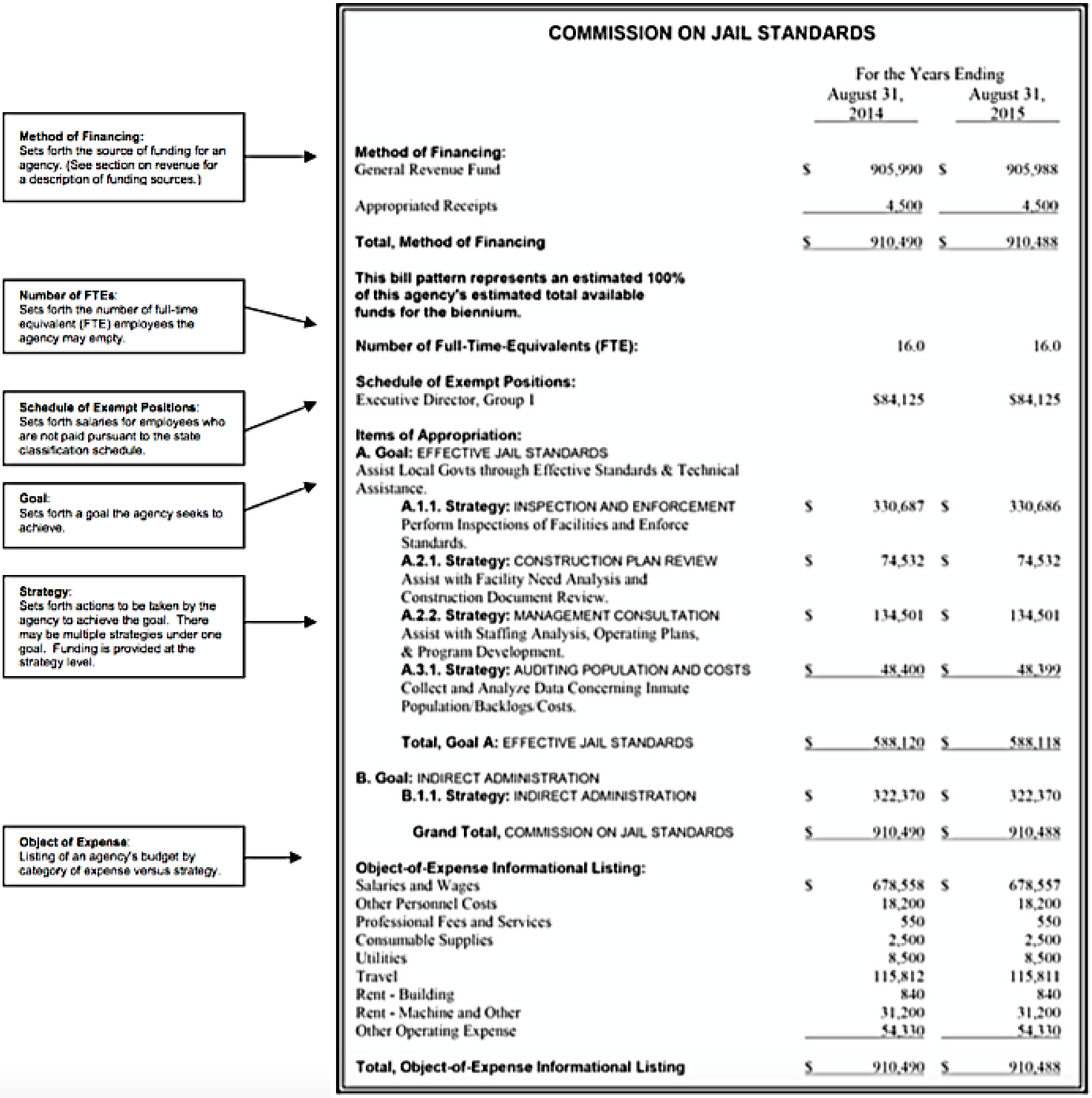
Additional Information Provided in the General Appropriations Act

In addition to strategy-based information, the Texas budget includes further details aimed at increasing transparency within the budget process, including:

- **Method of finance** - explains the type of funds used for the appropriation, such as general revenue, general revenue-dedicated, or federal funds;
- **Object-of-expense** - provides information on the types of categories the money is being spent on, such as salaries or travel;
- **Number of full-time employees**;
- **Performance measures** - provides a tool to determine the effectiveness of appropriations; and
- **Riders** - provides further direction on how funds within strategies shall be spent.

Figure 4 below, from the Senate Research Center, shows how these details are formatted within the GAA document.

Figure 4



COMMISSION ON JAIL STANDARDS

	For the Years Ending August 31, 2014	August 31, 2015
Method of Financing:		
General Revenue Fund	$ 905,990	$ 905,988
Appropriated Receipts	4,500	4,500
Total, Method of Financing	$ 910,490	$ 910,488
This bill pattern represents an estimated 100% of this agency's estimated total available funds for the biennium.		
Number of Full-Time-Equivalents (FTE):	16.0	16.0
Schedule of Exempt Positions:		
Executive Director, Group 1	$84,125	$84,125
Items of Appropriation:		
A. Goal: EFFECTIVE JAIL STANDARDS Assist Local Govts through Effective Standards & Technical Assistance.		
A.1.1. Strategy: INSPECTION AND ENFORCEMENT Perform Inspections of Facilities and Enforce Standards.	$ 330,687	$ 330,686
A.2.1. Strategy: CONSTRUCTION PLAN REVIEW Assist with Facility Need Analysis and Construction Document Review.	$ 74,532	$ 74,532
A.2.2. Strategy: MANAGEMENT CONSULTATION Assist with Staffing Analysis, Operating Plans, & Program Development.	$ 134,501	$ 134,501
A.3.1. Strategy: AUDITING POPULATION AND COSTS Collect and Analyze Data Concerning Inmate Population/Backlogs/Costs.	$ 48,400	$ 48,399
Total, Goal A: EFFECTIVE JAIL STANDARDS	$ 588,120	$ 588,118
B. Goal: INDIRECT ADMINISTRATION		
B.1.1. Strategy: INDIRECT ADMINISTRATION	$ 322,370	$ 322,370
Grand Total, COMMISSION ON JAIL STANDARDS	$ 910,490	$ 910,488
Object-of-Expense Informational Listing:		
Salaries and Wages	$ 678,558	$ 678,557
Other Personnel Costs	18,200	18,200
Professional Fees and Services	550	550
Consumable Supplies	2,500	2,500
Utilities	8,500	8,500
Travel	115,812	115,811
Rent - Building	840	840
Rent - Machine and Other	31,200	31,200
Other Operating Expense	54,330	54,330
Total, Object-of-Expense Informational Listing	$ 910,490	$ 910,488

Figure 4

Riders:
Sets forth specific instructions regarding the expenditure or collection of funds by an agency.

Performance Measure Targets:
Sets forth a measurable target to be used in meeting a goal/strategy.

COMMISSION ON JAIL STANDARDS
(Continued)

Estimated Allocations for Employee Benefits and Debt Service Appropriations Made Elsewhere in this Act:

Employee Benefits				
Retirement	$	43,615	$	50,325
Group Insurance		144,841		157,880
Social Security		52,491		52,491
Benefits Replacement		1,981		1,853
Subtotal, Employee Benefits	$	242,928	$	262,549
Debt Service				
Lease Payments	$	50,480	$	1
Total, Estimated Allocations for Employee Benefits and Debt Service Appropriations Made Elsewhere in this Act	$	293,408	$	262,550

1. **Performance Measure Targets.** The following is a listing of the key performance target levels for the Commission on Jail Standards. It is the intent of the Legislature that appropriations made by this Act be utilized in the most efficient and effective manner possible to achieve the intended mission of the Commission on Jail Standards. In order to achieve the objectives and service standards established by this Act, the Commission on Jail Standards shall make every effort to attain the following designated key performance target levels associated with each item of appropriation.

	2014	2015
A. Goal: EFFECTIVE JAIL STANDARDS		
Outcome (Results/Impact):		
Number of Jails Achieving Compliance with Standards	233	232
Percent of Jails with Management-related Deficiencies	3.69%	4.1%
A.1.1. Strategy: INSPECTION AND ENFORCEMENT		
Output (Volume):		
Number of Annual Inspections Conducted	244	244
A.2.1. Strategy: CONSTRUCTION PLAN REVIEW		
Output (Volume):		
Number of On-site Planning and Construction Consultations with Jail Representatives	120	120
A.2.2. Strategy: MANAGEMENT CONSULTATION		
Output (Volume):		
Number of On-site Operation and Management Consultations with Jail Representatives	270	270
A.3.1. Strategy: AUDITING POPULATION AND COSTS		
Output (Volume):		
Number of Paper-ready Reports Analyzed	6,600	6,600

2. **Appropriation: Inspection Fees.** The Commission on Jail Standards is hereby appropriated in Strategy A.1.1, Inspection and Enforcement, fees collected to pay only the cost incurred by the commission in performing inspections pursuant to Government Code, §511.0091 (estimated to be $13,000 in fiscal year 2014 and $13,000 in fiscal year 2015 from the General Revenue Fund and included in the amounts appropriated above).

Supplemental Budget Documents

In addition to the information provided in the GAA, the LBB produces several supplemental documents that support and enhance the overall transparency of the budget process. These supplemental documents include the State Budget by Program, Summary of Recommendations, and other reports based on specific agency policy and budget issues.[7]

The State Budget by Program document provides a listing of all programs by strategy for every state agency.[8] Therefore, although the GAA lists appropriations by strategy, this supplemental document articulates exactly which programs are included in each strategy. This document also provides further details on each program within the budget, including a program's method of finance and statutory basis.[9]

Historically, the LBB produces the State Budget by Program *after* session has ended and the budget has passed the Legislature. Therefore, although this document provides transparency as to what the finalized budget contains, it is not a useful tool for members of the Legislature during the Legislative process. To maximize the impact of this information, the LBB should also produce a supplemental document at the *beginning* of the Legislative process that provides programmatic information by strategy of the base budget bill as filed.

Other States' Budget Formats

The Committee studied several different states' budgets and found varied approaches to Texas' appropriations format. Appendix A shows budget formats from eight states, including Texas. Each of these states lists appropriations differently. For example, Texas lists funding by strategy, however others, such as Ohio, list funding by program. These examples help show the differences between strategy-based and program-based budgets.

The Committee also noted differences among the states' budgets in the level of detail provided for the same category of information. For example, both Ohio and Idaho provide program level funding information, but Ohio's budget lists specific programs while Idaho's budget contains less detailed high-level programs. Idaho's budget, on the other hand, provides detailed information for methods of finance, showing specific funds used for each appropriation, while South Dakota's budget provides method of finance information using more generalized fund types.

The states' budget formats also differ in the types of information included in the budget. For example, Illinois' budget provides information using object-of-expense detail, however other states' budgets, such as Alabama, do not include any object-of-expense information. Another example is outcome targets and other performance measures, which only a small minority of states include in their budget. Texas and New Mexico are two of only three states which include performance measures in the state budget, although most states reference performance measures in supporting budget documents.[10]

Each of these state's budgets reflect the importance placed on certain types of information within the respective state. A state budget bill is tailored to the organization, interests, traditions, and legislative budget process of its particular state.[11] The chart in Figure 5 below, provided by the LBB, shows the types of information contained in each of the budgets in Appendix A.

Figure 5

	Budget Format Examples (See Supplemental Packet)	State
1	Agency Division / Item of Expenditure	**Illinois**
2	High-level Program (No OOE)	**Alabama**
3	High-level Program (OOE detail, MOF columns)	**South Dakota**
4	High-level Program (MOF detail, OOE columns)	**Idaho**
5	Specific Program List (by MOF, no OOE)	**Ohio**
6	Program with description, with Performance Measures	**New Mexico**
7	OOE and Program Hybrid, with Incremental Detail	**North Dakota**
8	Strategy, Agency MOF & OOE, with Performance Measures	**Texas**

Strategy-Based Budgeting vs. Program-Based Budgeting

The level of transparency provided by both strategy-based budgeting and program-based budgeting depends in part on the size and complexity of the strategy or program. For example, Medicaid is a single program within the Texas budget, but its appropriations span across several strategies. Within the Health and Human Services bill pattern, Medicaid is listed as the goal. The Medicaid goal includes 12 strategies, including strategies such as aged and Medicare-related, pregnant women, children, prescription drugs and medical transportation. Further, the Medicaid program spans additional strategies within other agency bill patterns, such as the Department of Aging and Disability Services. If Texas switched to a program based budget, Medicaid would instead be listed as a single line-item program, which would result in less transparency than the current strategy-based approach.[12]

On the other hand, certain strategies within the Texas budget contain several programs, which can impede transparency in a strategy-based approach. For example, the Texas Education Agency is appropriated funds for a strategy entitled Statewide Educational Programs that contains 19 programs.[13] Program-based budgeting for this strategy would provide greater transparency than the current strategy-based budget.

Additionally, when evaluating the transparency of strategy-based vs. program-based, it is important to consider all other information provided through the budget document and supplemental materials. A strategy-based vs. program-based comparison is one factor in determination of transparency, but it is the totality of the information provided through the budget and supplemental documents that provides the best understating of a budget's transparency.

CONCLUSION

Texas' strategy-based budget has most of the benefits of both program-based and strategy-based budgets, since 90% of Texas' strategies contain only one program. In addition, Texas provides detailed program-based information through the supplemental document, State Budget by Program. Furthermore, Texas provides method of finance and object-of-expense detail, along with performance measures within the GAA.

Texas' current budget format, when combined with supplemental documents, provides one of the highest levels of transparency in state budgeting. The Legislature must continue to look for ways to ensure Texas' budget is as transparent as possible so the public is able to understand how their tax dollars are being spent. The Legislature should consider practices in other states that could be incorporated to improve the transparency of Texas' budget.

RECOMMENDATIONS

The LBB should produce a supplemental document at the beginning of the Legislative process that provides programmatic information by strategy of the base budget bill as filed.

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[1] Senate Research Center, Budget 101, January 2015, Pgs. 18 - 19.
[2] *See* Appendix A.
[3] LBB Presentation, Fiscal Responsibility Interim Charge hearing, Pg. 2.
[4] *Id*.
[5] *Id*.
[6] *Id*. at Pgs. 3 - 4.
[7] LBB Presentation, Fiscal Responsibility Interim Charge hearing, Pg. 6.
[8] *Id*. at Pg. 7.
[9] *Id*.
[10] LBB Presentation, Fiscal Responsibility Interim Charge hearing, Pgs. 9-10.
[11] *Id*. at Pg. 11.
[12] *See* General Appropriations Act, 2016-17 Biennium, Article II Pgs. 1 - 143.
[13] *See* State Budget by Program, Texas Education Agency, Strategy A.2.1.

1. Agency Division / Item of Expenditure – ILLINOIS

Makes appropriations for the ordinary and contingent expenses of the Department of Natural Resources for the fiscal year beginning July 1, 2016, as follows:

General Revenue Fund	$ 44,000,000
Other State Funds	$193,827,275
Federal Funds	$ 26,407,407

GENERAL OFFICE

Payable from the State Boating Act Fund:

For Personal Services 0

For State Contributions to State Employees' Retirement System 0

For State Contributions to Social Security 0

For Group Insurance 0

For Contractual Services 74,000

Payable from the State Parks Fund:

For Contractual Services 50,000

Payable from the Wildlife and Fish Fund:

For Personal Services 260,000

For State Contributions to State Employees' Retirement System 116,000

For State Contributions to Social Security 19,900

For Group Insurance 70,000

For Contractual Services 350,000

For Travel 5,000

For Equipment 1,000

Payable from Plugging and Restoration Fund:

For Contractual Services 32,800

OFFICE OF LAW ENFORCEMENT

Payable from the General Revenue Fund:

For Alcohol Enforcement 20,000

Payable from State Boating Act Fund:

For Personal Services 1,524,200

For State Contributions to State Employees' Retirement System 677,000

For State Contributions to Social Security 24,800

For Group Insurance 468,300

For Contractual Services 508,500

For Travel 63,700

For Commodities 225,200

For Equipment 170,700

For Telecommunications 186,300

For Operation of Auto Equipment 337,100

For Expenses of DUI/OUI Equipment 20,000

For Operational Expenses of the Snowmobile Program 35,000

Payable from State Parks Fund:

2. High-Level Program, No OOE, MOF Detail - ALABAMA

	General Fund	Earmarked Funds	Appropriation Total
SOURCE OF FUNDS:			
(1) Choctawhatchee, Pea and Yellow Rivers Fund		10,000	
Total Choctawhatchee, Pea and Yellow Rivers Watershed Management Authority.............		10,000	10,000
24. Commerce, Department of:			
(a) Industrial Development Program......................	5,010,544	350,000	5,360,544
Of the above appropriation, $75,000 shall be expended for the Robotics Technology Park.			
(b) Skills Enhancement and Employment Opportunities Program......................	759,456	41,686,938	42,446,394
SOURCE OF FUNDS:			
(1) State General Fund	5,770,000		
(2) Departmental Receipts		350,000	
(3) Federal and Local Funds ...		41,686,938	
Total Commerce, Department of .	5,770,000	42,036,938	47,806,938
25. Conservation and Natural Resources, Department of:			
(a) State Land Management Program.........................		20,049,291	20,049,291
(b) Outdoor Recreation Sites and Services Program		47,786,138	47,786,138
(c) Game and Fish Program		41,291,473	41,291,473
(d) Marine Resources Program ..		8,673,605	8,673,605
(e) Administrative Services Program......................		10,176,596	10,176,596
(f) Capital Outlay Program		12,475,263	12,475,263
The appropriation to the Department of Conservation and Natural Resources shall include Alabama's pro rata share of the Gulf States Marine Fisheries Commission's operating expenses. The appropriation to the Department of Con-			

	General Fund	Earmarked Funds	Appropriation Total
servation and Natural Resources includes funds for the maintenance, staff and repair of the Governor's official beach mansion.			
SOURCE OF FUNDS:			
(1) Administrative Fund		10,161,596	
(2) BP Oil Funds.		9,854,335	
(3) Forever Wild Trust Fund-Transfer................		600,000	
The funds hereinabove appropriated shall be payable as provided in Sections 9-2-1 et seq., Code of Alabama 1975.			
(4) GOMESA, Estimated		900,000	
(5) Game and Fish Fund-Licenses, Fines, Fees, Interest Income and Other Departmental Receipts		42,700,736	
(6) Game and Fish Fund-Use Tax		60,000	
(7) Marine Resources Fund-Licenses, Taxes, Fines and Other Departmental Receipts......................		8,171,549	
(8) Marine Resources Fund-Use Tax........................		2,056	
Pursuant to Section 40-23-77, Code of Alabama 1975.			
(9) Parks Revolving Fund, Estimated.....................		37,781,138	
(10) State Lands Fund		19,215,956	
(11) State Lands Fund-Coastal.................		1,000,000	
Pursuant to Section 40-23-77, Code of Alabama 1975.			
(12) State Parks Fund		1,055,000	
(13) State Parks Fund, Estimated.......................		5,000,000	
Pursuant to Section 40-23-35,			

3. High-level Program – OOE Detail, MOF Columns – SOUTH DAKOTA

	GENERAL FUNDS	FEDERAL FUNDS	OTHER FUNDS	TOTAL FUNDS
(3) History				
Personal Services	$866,483	$364,131	$1,185,378	$2,415,992
Operating Expenses	$1,001,274	$541,557	$1,490,882	$3,033,713
Total	$1,867,757	$905,688	$2,676,260	$5,449,705
F.T.E.				44.0
(4) DEPARTMENT TOTAL, TOURISM				
Personal Services	$866,483	$364,131	$2,956,249	$4,186,863
Operating Expenses	$1,001,274	$1,419,557	$14,087,440	$16,508,271
TOTAL	$1,867,757	$1,783,688	$17,043,689	$20,695,134
F.T.E.				72.0
SECTION 6. DEPARTMENT OF GAME, FISH AND PARKS				
(1) Administration, Secretary of Game, Fish and Parks				
Personal Services	$103,087	$0	$1,736,948	$1,840,035
Operating Expenses	$825,202	$0	$1,556,413	$2,381,615
Total	$928,289	$0	$3,293,361	$4,221,650
F.T.E.				25.1
(2) Wildlife--Informational				
Personal Services	$0	$3,548,403	$13,043,042	$16,591,445
Operating Expenses	$0	$12,316,779	$14,360,318	$26,677,097
Total	$0	$15,865,182	$27,403,360	$43,268,542
F.T.E.				290.0
(3) Wildlife, Development and Improvement--Informational				
Personal Services	$0	$0	$0	$0
Operating Expenses	$0	$1,093,750	$418,250	$1,512,000
Total	$0	$1,093,750	$418,250	$1,512,000
F.T.E.				0.0
(4) State Parks and Recreation				
Personal Services	$2,390,553	$840,721	$6,242,169	$9,473,443
Operating Expenses	$1,465,789	$2,418,035	$7,381,816	$11,265,640
Total	$3,856,342	$3,258,756	$13,623,985	$20,739,083
F.T.E.				243.2
(5) State Parks and Recreation, Development and Improvement				
Personal Services	$0	$0	$0	$0
Operating Expenses	$0	$2,829,750	$3,956,450	$6,786,200
Total	$0	$2,829,750	$3,956,450	$6,786,200
F.T.E.				0.0

4. High-level Program – MOF Detail, OOE Columns – IDAHO

SECTION 1. There is hereby appropriated to the Department of Parks and Recreation, the following amounts to be expended according to the designated programs and expense classes, from the listed funds for the period July 1, 2016, through June 30, 2017:

	FOR PERSONNEL COSTS	FOR OPERATING EXPENDITURES	FOR CAPITAL OUTLAY	FOR TRUSTEE AND BENEFIT PAYMENTS	TOTAL
I. MANAGEMENT SERVICES:					
FROM:					
General Fund	$380,200	$260,900			$641,100
Indirect Cost Recovery Fund	243,100	197,200			440,300
Parks and Recreation Fund	1,396,800	1,027,500		$290,000	2,714,300
Recreational Fuels Fund	632,300	87,500	$105,400	2,221,800	3,047,000
Parks and Recreation Registration Fund	324,100	145,100		7,401,200	7,870,400
Miscellaneous Revenue Fund		15,600			15,600
Federal Grant Fund	0	2,600	0	1,997,100	1,999,700
TOTAL	$2,976,500	$1,736,400	$105,400	$11,910,100	$16,728,400
II. PARK OPERATIONS:					
FROM:					
General Fund	$2,094,900	$600,700			$2,695,600
Indirect Cost Recovery Fund		2,400			2,400
Parks and Recreation Fund	4,324,200	1,395,800	$130,000		5,850,000
Recreational Fuels Fund	141,800	244,600	810,500		1,196,900
Parks and Recreation Registration Fund	841,500	801,300	100,000	$200,000	1,942,800
Miscellaneous Revenue Fund	49,400	76,500			125,900

5. Specific Program List, by MOF, No OOE - OHIO

SECTION 337.10. DNR DEPARTMENT OF NATURAL RESOURCES

General Revenue Fund

GRF	725401	Division of Wildlife-Operating Subsidy	$	1,800,000	$	1,800,000
GRF	725413	Parks and Recreational Facilities Lease Rental Bond Payments	$	23,239,600	$	24,655,600
GRF	725456	Canal Lands	$	135,000	$	135,000
GRF	725502	Soil and Water Districts	$	3,250,000	$	0
GRF	725505	Healthy Lake Erie Program	$	1,000,000	$	1,000,000
GRF	725507	Coal and Mine Safety Program	$	2,600,000	$	2,700,000
GRF	725512	Portage County Stormwater	$	150,000	$	150,000
GRF	725903	Natural Resources General Obligation Bond Debt Service	$	27,079,900	$	26,074,400
GRF	727321	Division of Forestry	$	4,467,001	$	4,542,001
GRF	729321	Office of Information Technology	$	177,405	$	177,405
GRF	730321	Division of Parks and Recreation	$	30,000,000	$	30,000,000
GRF	736321	Division of Engineering	$	2,324,736	$	2,324,736
GRF	737321	Division of Soil and Water Resources	$	2,899,952	$	1,013,652

GRF	738321	Division of Real Estate and Land Management	$	670,342	$	670,342
GRF	741321	Division of Natural Areas and Preserves	$	1,200,000	$	1,200,000
TOTAL GRF General Revenue Fund			$	100,993,936	$	96,443,136
Dedicated Purpose Fund Group						
2270	725406	Parks Projects Personnel	$	685,098	$	696,995
4300	725671	Canal Lands	$	883,879	$	883,879
4J20	725628	Injection Well Review	$	128,466	$	128,466
4M70	725686	Wildfire Suppression	$	100,000	$	100,000
4S90	725622	NatureWorks Personnel	$	818,618	$	833,076
4U60	725668	Scenic Rivers Protection	$	100,000	$	100,000
5090	725602	State Forest	$	6,879,410	$	6,880,148
5110	725646	Ohio Geological Mapping	$	1,400,000	$	1,800,000
5120	725605	State Parks Operations	$	31,471,044	$	31,471,044
5140	725606	Lake Erie Shoreline	$	1,559,583	$	1,559,583
5160	725620	Water Management	$	2,559,291	$	2,559,291
5180	725643	Oil and Gas Regulation and Safety	$	19,193,271	$	19,444,876
5180	725677	Oil and Gas Well Plugging	$	3,000,000	$	3,000,000
5210	725627	Off-Road Vehicle Trails	$	143,490	$	143,490
5220	725656	Natural Areas and Preserves	$	546,639	$	546,639
5260	725610	Strip Mining Administration Fee	$	2,977,956	$	2,977,955
5270	725637	Surface Mining Administration	$	1,681,153	$	1,681,154
5290	725639	Unreclaimed Lands	$	1,804,180	$	1,804,180
5310	725648	Reclamation Forfeiture	$	500,000	$	500,000
5B30	725674	Mining Regulation	$	28,135	$	28,135
5BV0	725658	Heidelberg Water Quality Lab	$	125,000	$	0
5BV0	725683	Soil and Water Districts	$	4,000,000	$	0
5EL0	725612	Wildlife Law Enforcement	$	12,000	$	12,000
5EM0	725613	Park Law Enforcement	$	34,000	$	34,000
5EN0	725614	Watercraft Law Enforcement	$	7,500	$	7,500
5HK0	725625	Ohio Nature Preserves	$	1,000	$	1,000
5MF0	725635	Ohio Geology License Plate	$	2,520	$	2,520
5MW0	725604	Natural Resources Special Purposes	$	6,000,000	$	6,000,000
5P20	725634	Wildlife Boater Angler Administration	$	3,000,000	$	3,000,000
5SA1	725609	Mentor Stormwater Project	$	350,000	$	0
6150	725661	Dam Safety	$	943,517	$	943,517
6970	725670	Submerged Lands	$	869,145	$	869,145
7015	740401	Division of Wildlife Conservation	$	56,325,976	$	59,997,307
7086	725414	Waterways Improvement	$	6,193,671	$	6,193,671
7086	725418	Buoy Placement	$	60,000	$	60,000
7086	725501	Waterway Safety Grants	$	120,000	$	120,000
7086	725506	Watercraft Marine Patrol	$	576,153	$	576,153
7086	725513	Watercraft Educational Grants	$	400,000	$	400,000
7086	739401	Division of Watercraft	$	21,271,870	$	21,071,870
8150	725636	Cooperative Management	$	649,000	$	456,000

		Projects				
8160	725649	Wetlands Habitat	$	966,885	$	966,885
8170	725655	Wildlife Conservation Checkoff	$	2,000,000	$	2,000,000
8180	725629	Cooperative Fisheries Research	$	1,500,000	$	1,500,000
8190	725685	Ohio River Management	$	203,584	$	203,584
81B0	725688	Wildlife Habitats	$	1,200,000	$	1,200,000
TOTAL DPF Dedicated Purpose Fund Group			$	183,272,034	$	182,754,063
Internal Service Activity Fund Group						
1550	725601	Departmental Projects	$	2,444,457	$	1,805,807
1570	725651	Central Support Indirect	$	5,176,611	$	5,351,233
2040	725687	Information Services	$	5,633,426	$	5,633,426
2050	725696	Human Resource Direct Service	$	2,634,135	$	2,696,052
2070	725690	Real Estate Services	$	34,291	$	34,834
2230	725665	Law Enforcement Administration	$	2,553,054	$	2,609,277
4X80	725662	Water Resources Council	$	138,005	$	138,005
5100	725631	Maintenance - State-owned Residences	$	249,611	$	249,611
6350	725664	Fountain Square Facilities Management	$	3,457,486	$	3,469,467
TOTAL ISA Internal Service Activity Fund Group			$	22,321,076	$	21,987,712
Capital Projects Fund Group						
7061	725405	Clean Ohio Trail Operating	$	300,775	$	300,775
TOTAL CPF Capital Projects Fund Group			$	300,775	$	300,775
Fiduciary Fund Group						
4M80	725675	FOP Contract	$	20,219	$	20,219
TOTAL FID Fiduciary Fund Group			$	20,219	$	20,219
Holding Account Fund Group						
R017	725659	Performance Cash Bond Refunds	$	528,993	$	528,993
R043	725624	Forestry	$	2,100,000	$	2,100,000
TOTAL HLD Holding Account Fund Group			$	2,628,993	$	2,628,993
Federal Fund Group						
3320	725669	Federal Mine Safety Grant	$	265,000	$	265,000
3B30	725640	Federal Forest Pass-Thru	$	500,000	$	500,000
3B40	725641	Federal Flood Pass-Thru	$	500,000	$	500,000
3B50	725645	Federal Abandoned Mine Lands	$	11,851,759	$	11,851,759
3B60	725653	Federal Land and Water Conservation Grants	$	950,000	$	950,000
3B70	725654	Reclamation - Regulatory	$	2,977,956	$	2,977,955
3P10	725632	Geological Survey - Federal	$	160,000	$	160,000
3P20	725642	Oil and Gas - Federal	$	234,509	$	234,509
3P30	725650	Coastal Management - Federal	$	1,746,000	$	1,746,000
3P40	725660	Federal - Soil and Water Resources	$	4,165,738	$	1,195,738

3R50 725673	Acid Mine Drainage Abatement/Treatment	$	4,342,280	$	4,342,280
3Z50 725657	Federal Recreation and Trails	$	1,600,000	$	1,600,000
TOTAL FED Federal Fund Group		$	29,293,242	$	26,323,241
TOTAL ALL BUDGET FUND GROUPS		$	338,830,275	$	330,458,139

SECTION 337.20. CENTRAL SUPPORT INDIRECT

The Department of Natural Resources, with approval of the Director of Budget and Management, shall utilize a methodology for determining each division's payments into the Central Support Indirect Fund (Fund 1570). The methodology used shall contain the characteristics of administrative ease and uniform application in compliance with federal grant requirements. It may include direct cost charges for specific services provided. Payments to Fund 1570 shall be made using an intrastate transfer voucher. The foregoing appropriation item 725401, Division of Wildlife-Operating Subsidy, shall be used to pay the direct and indirect costs of the Division of Wildlife.

SECTION 337.30. PARKS AND RECREATIONAL FACILITIES LEASE RENTAL BOND PAYMENTS

The foregoing appropriation item 725413, Parks and Recreational Facilities Lease Rental Bond Payments, shall be used to meet all payments during the period from July 1, 2015, through June 30, 2017, by the Department of Natural Resources pursuant to leases and agreements made under section 154.22 of the Revised Code. These appropriations are the source of funds pledged for bond service charges on related obligations issued under Chapter 154. of the Revised Code.

CANAL LANDS

The foregoing appropriation item 725456, Canal Lands, shall be used to provide operating expenses for the State Canal Lands Program.

SOIL AND WATER CONSERVATION DISTRICTS

Of the foregoing appropriation item 725502, Soil and Water Conservation Districts, $350,000 in fiscal year 2016 shall be used by the Chief of the Division of Soil and Water Resources for a program to support soil and water conservation districts in the Western Lake Erie Basin comply with provisions of Sub. S.B. 1 of the 131st General Assembly. The Chief shall approve a soil and water district's application for funding under the program if the application demonstrates that funding will be used for, but not limited to, providing technical assistance, developing applicable nutrient or manure management plans, hiring and training of soil and water conservation district staff on best conservation practices, or other activities

6. Program w/ description, & Performance Measures – NEW MEXICO

Item	General Fund	Other State Funds	Intrnl Svc Funds/Inter-Agency Trnsf	Federal Funds	Total/Target
NEW MEXICO LIVESTOCK BOARD:					
(1) Livestock inspection:					
The purpose of the livestock inspection program is to protect the livestock industry from loss of livestock by theft or straying and to help control the spread of dangerous livestock diseases.					
Appropriations:					
(a) Personal services and employee benefits	1,194.9	3,344.9			4,539.8
(b) Contractual services		283.1			283.1
(c) Other	206.0	1,197.8			1,403.8
Performance measures:					
(a) Output: Number of road stops per month					80
(b) Outcome: Number of livestock determined to be stolen per one thousand head inspected					0.01
(c) Outcome: Number of disease cases per one thousand head inspected					0.1
Subtotal					6,226.7
DEPARTMENT OF GAME AND FISH:					
(1) Field operations:					
The purpose of the field operations program is to promote and assist the implementation of law enforcement, habitat and public outreach programs throughout the state.					
Appropriations:					
(a) Personal services and employee benefits		6,390.7		213.1	6,603.8
(b) Contractual services		72.8			72.8
(c) Other		1,575.0			1,575.0
Performance measures:					

Item		General Fund	Other State Funds	Intrnl Svc Funds/Inter-Agency Trnsf	Federal Funds	Total/Target
(a) Output:	Number of conservation officer hours spent in the field checking for compliance					33,000
(b) Output:	Number of hunter and conservation education programs delivered by field staff					350
(c) Output:	Number of special field operations to deter, detect and apprehend off-highway vehicle and game and fish violators					145

(2) Conservation services:

The purpose of the conservation services program is to provide information and technical guidance to any person wishing to conserve and enhance wildlife habitat and recover indigenous species of threatened and endangered wildlife.

Appropriations:

Item	General Fund	Other State Funds	Intrnl Svc Funds/Inter-Agency Trnsf	Federal Funds	Total/Target
(a) Personal services and employee benefits		3,800.0		6,119.6	9,919.6
(b) Contractual services		1,226.6		1,831.2	3,057.8
(c) Other		3,164.3		5,055.0	8,219.3
(d) Other financing uses		1,471.0		323.3	1,794.3

The other state funds appropriation to the conservation services program of the department of game and fish in the other financing uses category includes five hundred thousand dollars ($500,000) from the game protection fund to support hunting, fishing and trapping activities and wildlife conservation measures on state park properties, five hundred thousand dollars ($500,000) from the trail safety fund for transfer to the state parks program of the energy, mineral and natural resources department ~~and two hundred ninety seven thousand dollars ($297,000) from the game protection fund for transfer to the office of the state engineer for the silvery minnow refugium~~.

Performance measures:

(a) Outcome: Number of days of elk hunting opportunity provided to New

7. OOE/Program Hybrid, with Incremental Detail - NORTH DAKOTA

SECTION 1. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys in the game and fish fund in the state treasury, not otherwise appropriated, and from special funds derived from federal funds and other income, to the game and fish department for the purpose of defraying the expenses of the game and fish department, for the biennium beginning July 1, 2015, and ending June 30, 2017, as follows:

	Base Level	Adjustments or Enhancements	Appropriation
Salaries and wages	$25,899,606	$3,770,636	$29,670,242
Operating expenses	12,956,728	712,216	13,668,944
Capital assets	3,885,061	1,612,935	5,497,996
Grants	7,122,500	211,912	7,334,412
Land habitat and deer depredation	12,707,403	4,215,278	16,922,681
Noxious weed control	650,000	50,000	700,000
Missouri River enforcement	275,939	6,601	282,540
Grants, gifts, and donations	800,000	27,519	827,519
Nongame wildlife conservation	120,000	0	120,000
Lonetree reservoir	1,935,636	(112,631)	1,823,005
Wildlife services	384,400	0	384,400
Accrued leave payments	816,366	(816,366)	0
Total special funds	$67,553,639	$9,678,100	$77,231,739
Full-time equivalent positions	158.00	5.00	163.00

SECTION 2. GRANTS, GIFTS, AND DONATIONS LINE. The grants, gifts, and donations line item in section 1 of this Act includes up to $400,000 received by the game and fish department for surface damage, easements, or reclamation on department owned or managed properties as a result of mineral exploration and extraction activities.

SECTION 3. A new section to chapter 20.1-08 of the North Dakota Century Code is created and enacted as follows:

Governor's proclamation concerning the hunting of elk - Annie's house at Bottineau winter park raffle.

The governor may by proclamation provide for a season to hunt elk in a manner, number, places, and times as the governor prescribes. Licenses to hunt elk must be issued by lottery, except as provided under subsection 7 of section 20.1-03-11, with only residents eligible to apply; however, the governor may by proclamation make available to Annie's house at Bottineau winter park a license to hunt elk in a manner, places, and times as the governor prescribes. Annie's house at Bottineau winter park shall hold a raffle under rules adopted by the director with residents and nonresidents eligible to participate. No more than ten percent of the gross proceeds of the raffle may be used to promote the raffle and all remaining net proceeds must be used to support the operations of Annie's house at

8. TEXAS

PARKS AND WILDLIFE DEPARTMENT

		For the Years Ending August 31, 2016		August 31, 2017
Method of Financing:				
General Revenue Fund				
General Revenue Fund[1, 2, 3]	$	18,485,278	$	6,402,028
Sporting Goods Sales Tax - Transfer to:				
State Parks Account No. 64[2, 4]		59,745,244		62,364,975
Texas Recreation and Parks Account No. 467		9,234,835		9,376,197
Sporting Goods Sales Tax - Transfer to Parks and Wildlife Conservation and Capital Account No. 5004[2]		1,290,000		1,322,000
Large County and Municipality Recreation and Parks Account No. 5150		7,924,531		6,268,773
Unclaimed Refunds of Motorboat Fuel Tax		9,366,917		9,111,916
Subtotal, General Revenue Fund	$	106,046,805	$	94,845,889
General Revenue Fund - Dedicated				
Game, Fish and Water Safety Account No. 009[1, 2]		113,129,884		112,170,288
State Parks Account No. 064		41,529,173		41,903,849
Non-Game and Endangered Species Conservation Account No. 506		42,981		42,981
Lifetime License Endowment Account No. 544		125,000		125,000
Deferred Maintenance Account No. 5166[1, 2, 4]		62,605,094		28,394,906
Subtotal, General Revenue Fund - Dedicated	$	217,432,132	$	182,637,024
Federal Funds		37,908,196		35,961,359
Other Funds				
Appropriated Receipts		3,900,953		3,547,845
Interagency Contracts		225,000		225,000
Bond Proceeds - General Obligation Bonds		16,066,796		0
License Plate Trust Fund Account No. 0802		768,110		728,900
Subtotal, Other Funds	$	20,960,859	$	4,501,745
Total, Method of Financing	$	382,347,992	$	317,946,017
This bill pattern represents an estimated 99.9% of this agency's estimated total available funds for the biennium.				
Number of Full-Time-Equivalents (FTE):[3]		3,143.2		3,143.2
Schedule of Exempt Positions:				
Executive Director, Group 5[5]		$200,643		$200,643
Items of Appropriation:				
A. Goal: CONSERVE NATURAL RESOURCES				
Conserve Fish, Wildlife, and Natural Resources.				
A.1.1. Strategy: WILDLIFE CONSERVATION Wildlife Conservation, Habitat Management, and Research.	$	22,516,720	$	22,502,913
A.1.2. Strategy: TECHNICAL GUIDANCE Technical Guidance to Private Landowners and the General Public.	$	2,577,236	$	2,577,236
A.1.3. Strategy: HUNTING AND WILDLIFE RECREATION Enhanced Hunting and Wildlife-related Recreational Opportunities.	$	2,636,717	$	2,636,717
A.2.1. Strategy: INLAND FISHERIES MANAGEMENT Inland Fisheries Management, Habitat Conservation, and Research.	$	13,771,729	$	13,504,729
A.2.2. Strategy: INLAND HATCHERIES OPERATIONS	$	5,564,733	$	5,715,733
A.2.3. Strategy: COASTAL FISHERIES MANAGEMENT Coastal Fisheries Management, Habitat Conservation and Research.	$	12,038,252	$	11,647,631
A.2.4. Strategy: COASTAL HATCHERIES OPERATIONS	$	3,028,560	$	3,028,560
Total, Goal A: CONSERVE NATURAL RESOURCES	$	62,133,947	$	61,613,519
B. Goal: ACCESS TO STATE AND LOCAL PARKS				
B.1.1. Strategy: STATE PARK OPERATIONS State Parks, Historic Sites and State Natural Area Operations.	$	75,664,466	$	78,453,779
B.1.2. Strategy: PARKS MINOR REPAIR PROGRAM	$	4,945,315	$	4,945,315

B.1.3. Strategy: PARKS SUPPORT	$	4,251,445	$	4,251,444
B.2.1. Strategy: LOCAL PARK GRANTS Provide Local Park Grants.	$	17,379,159	$	14,590,763
B.2.2. Strategy: BOATING ACCESS AND OTHER GRANTS Provide Boating Access, Trails and Other Grants.	$	15,315,941	$	6,339,941
Total, Goal B: ACCESS TO STATE AND LOCAL PARKS	$	117,556,326	$	108,581,242
C. Goal: INCREASE AWARENESS AND COMPLIANCE				
C.1.1. Strategy: ENFORCEMENT PROGRAMS[1] Wildlife, Fisheries and Water Safety Enforcement.	$	55,707,719	$	55,707,720
C.1.2. Strategy: TEXAS GAME WARDEN TRAINING CENTER	$	1,369,733	$	1,369,733
C.1.3. Strategy: LAW ENFORCEMENT SUPPORT Provide Law Enforcement Oversight, Management and Support.	$	2,580,303	$	2,580,303
C.2.1. Strategy: OUTREACH AND EDUCATION Provide Outreach and Education Programs.	$	2,467,534	$	2,467,534
C.2.2. Strategy: PROMOTE TPWD EFFORTS Promote TPWD Efforts and Provide Communication Products and Services.	$	5,100,025	$	5,100,026
C.3.1. Strategy: LICENSE ISSUANCE Hunting and Fishing License Issuance.	$	7,718,323	$	7,718,323
C.3.2. Strategy: BOAT REGISTRATION AND TITLING	$	1,330,802	$	1,330,802
Total, Goal C: INCREASE AWARENESS AND COMPLIANCE	$	76,274,439	$	76,274,441
D. Goal: MANAGE CAPITAL PROGRAMS				
D.1.1. Strategy: IMPROVEMENTS AND MAJOR REPAIRS[4] Implement Capital Improvements and Major Repairs.	$	91,427,103	$	38,945,404
D.1.2. Strategy: LAND ACQUISITION[3]	$	2,198,031	$	422,701
D.1.3. Strategy: INFRASTRUCTURE ADMINISTRATION Infrastructure Program Administration.	$	3,765,517	$	3,765,517
D.1.4. Strategy: DEBT SERVICE Meet Debt Service Requirements.	$	3,127,441	$	3,069,521
Total, Goal D: MANAGE CAPITAL PROGRAMS	$	100,518,092	$	46,203,143
E. Goal: INDIRECT ADMINISTRATION				
E.1.1. Strategy: CENTRAL ADMINISTRATION	$	9,585,187	$	9,585,187
E.1.2. Strategy: INFORMATION RESOURCES	$	13,442,441	$	12,850,925
E.1.3. Strategy: OTHER SUPPORT SERVICES	$	2,837,560	$	2,837,560
Total, Goal E: INDIRECT ADMINISTRATION	$	25,865,188	$	25,273,672
Grand Total, PARKS AND WILDLIFE DEPARTMENT	$	382,347,992	$	317,946,017
Object-of-Expense Informational Listing:				
Salaries and Wages	$	155,885,870	$	156,614,602
Other Personnel Costs		5,289,406		5,360,042
Professional Fees and Services		11,560,820		11,015,528
Fuels and Lubricants		5,415,631		4,839,790
Consumable Supplies		3,006,293		3,006,293
Utilities		9,912,980		9,623,375
Travel		2,994,086		2,982,086
Rent - Building		2,156,381		2,156,381
Rent - Machine and Other		1,859,644		1,859,644
Debt Service		3,127,441		3,069,521
Other Operating Expense		42,850,608		45,236,767
Food for Persons - Wards of State		4,684		4,684
Grants		37,504,211		25,739,815
Capital Expenditures		100,779,937		46,437,489
Total, Object-of-Expense Informational Listing	$	382,347,992	$	317,946,017

Estimated Allocations for Employee Benefits and Debt Service Appropriations Made Elsewhere in this Act:

Employee Benefits		
Retirement	$ 13,899,121	$ 13,950,818
Group Insurance	39,095,726	42,727,446
Social Security	10,902,572	10,956,980
Benefits Replacement	474,083	429,045
Subtotal, Employee Benefits	$ 64,371,502	$ 68,064,289
Debt Service		
TPFA GO Bond Debt Service	$ 19,142,093	$ 18,838,389
Lease Payments	53,812	54,527
Subtotal, Debt Service	$ 19,195,905	$ 18,892,916
Total, Estimated Allocations for Employee Benefits and Debt Service Appropriations Made Elsewhere in this Act	$ 83,567,407	$ 86,957,205

1. **Performance Measure Targets.** The following is a listing of the key performance target levels for the Parks and Wildlife Department. It is the intent of the Legislature that appropriations made by this Act be utilized in the most efficient and effective manner possible to achieve the intended mission of the Parks and Wildlife Department. In order to achieve the objectives and service standards established by this Act, the Parks and Wildlife Department shall make every effort to attain the following designated key performance target levels associated with each item of appropriation.

	2016	2017
A. Goal: CONSERVE NATURAL RESOURCES		
Outcome (Results/Impact):		
Percent of Total Land Acreage in Texas Managed to Enhance Wildlife through TPWD Approved Wildlife Management Plans	18.84%	19.44%
Percent of Fish and Wildlife Kills or Pollution Cases Resolved Successfully	75%	75%
A.1.1. Strategy: WILDLIFE CONSERVATION		
Output (Volume):		
Number of Wildlife Population Surveys Conducted	4,238	4,238
A.1.2. Strategy: TECHNICAL GUIDANCE		
Output (Volume):		
Number of Active TPWD-Approved Wildlife Management Plans with Private Landowners	9,055	9,455
A.2.1. Strategy: INLAND FISHERIES MANAGEMENT		
Output (Volume):		
Number of Hours Spent Managing, Treating, Surveying or Providing Public Education on Aquatic Invasive Species	15,000	15,000
A.2.2. Strategy: INLAND HATCHERIES OPERATIONS		
Output (Volume):		
Number of Fingerlings Stocked - Inland Fisheries (in millions)	16	16
A.2.3. Strategy: COASTAL FISHERIES MANAGEMENT		
Output (Volume):		
Number of Commercial Fishing Licenses Bought Back	10	10
A.2.4. Strategy: COASTAL HATCHERIES OPERATIONS		
Output (Volume):		
Number of Fingerlings Stocked - Coastal Fisheries (in millions)	24	24
B. Goal: ACCESS TO STATE AND LOCAL PARKS		
Outcome (Results/Impact):		
Percent of Funded State Park Minor Repair Projects Completed	75%	75%
B.1.1. Strategy: STATE PARK OPERATIONS		
Output (Volume):		
Number of State Parks in Operation	91	91
B.2.1. Strategy: LOCAL PARK GRANTS		
Output (Volume):		
Number of Grant Assisted Projects Completed	20	23

C. Goal: INCREASE AWARENESS AND COMPLIANCE		
Outcome (Results/Impact):		
Percent of Public Compliance with Agency Rules and Regulations	97.5%	97.5%
C.1.1. Strategy: ENFORCEMENT PROGRAMS		
Output (Volume):		
Miles Patrolled in Vehicles (in millions)	10.88	10.03
Hours Patrolled in Boats	136,905	126,338
C.2.1. Strategy: OUTREACH AND EDUCATION		
Output (Volume):		
Number of Students Trained in Hunter Education	45,000	45,000
Number of Students Trained in Boater Education	12,000	12,000
C.3.1. Strategy: LICENSE ISSUANCE		
Output (Volume):		
Number of Combination Licenses Sold	590,000	595,000
D. Goal: MANAGE CAPITAL PROGRAMS		
Outcome (Results/Impact):		
Percent of Major Repair/Construction Projects Completed	71.96%	71.96%
D.1.1. Strategy: IMPROVEMENTS AND MAJOR REPAIRS		
Output (Volume):		
Number of Major Repair/Construction Projects Completed	44	41

2. **Capital Budget.**[2, 3, 4] None of the funds appropriated above may be expended for capital budget items except as listed below. The amount shown below shall be expended only for the purposes shown and are not available for expenditure for other purposes. Amounts appropriated above and identified in this provision as appropriations either for "Lease Payments to the Master Lease Purchase" or for other items with an "(MLPP)" notation shall be expended only for the purpose o making lease-purchase payments to the Texas Public Finance Authority pursuant to the provision of Government Code § 1232.103.

	2016	2017
a. Construction of Buildings and Facilities		
(1) Statewide Park Construction and Major Repairs	$ 73,666,794	$ 33,216,906
(2) Wildlife, Fisheries, and Law Enforcement Construction and Major Repairs	15,614,199	5,092,000
(3) Headquarters Construction and Major Repairs	909,057	0
Total, Construction of Buildings and Facilities	$ 90,190,050	$ 38,308,906
b. Repair or Rehabilitation of Buildings and Facilities		
(1) Parks Minor Repair	4,281,000	4,281,000
c. Acquisition of Information Resource Technologies		
(1) IT Resources	1,878,537	1,324,030
(2) Replacement of Computers and Laptops	695,344	448,134
Total, Acquisition of Information Resource Technologies	$ 2,573,881	$ 1,772,164
d. Transportation Items		
(1) Transportation Items	6,280,999	5,680,999
e. Acquisition of Capital Equipment and Items		
(1) Parks Capital Equipment	749,089	749,089
(2) Wildlife, Fisheries, and Law Enforcement Capital Equipment	1,289,838	970,838
(3) Communications Division Equipment	20,000	20,000
Total, Acquisition of Capital Equipment and Items	$ 2,058,927	$ 1,739,927
f. Other Lease Payments to the Master Lease Purchase Program (MLPP)		
(1) MLPP	72,131	71,577

g. Data Center Consolidation		
(1) Data Center Services (DCS)	4,686,437	4,597,646
h. Acquisition of Land and Other Real Property		
(1) Land Acquisition	1,760,910	0
Total, Capital Budget	$ 111,904,335	$ 56,452,219
Method of Financing (Capital Budget):		
General Revenue Fund		
General Revenue Fund	$ 2,050,390	$ 289,480
Sporting Goods Sales Tax - Transfer to State Parks Account No. 64	2,449,089	5,449,089
Sporting Goods Sales Tax - Transfer to Parks and Wildlife Conservation and Capital Account No. 5004	1,290,000	1,322,000
Unclaimed Refunds of Motorboat Fuel Tax	600,080	345,080
Subtotal, General Revenue Fund	$ 6,389,559	$ 7,405,649
General Revenue Fund - Dedicated		
Game, Fish and Water Safety Account No. 009	13,919,947	13,087,897
State Parks Account No. 064	10,341,994	7,282,767
Deferred Maintenance Account No. 5166	62,605,094	28,394,906
Subtotal, General Revenue Fund - Dedicated	$ 86,867,035	$ 48,765,570
Federal Funds	1,946,837	0
Other Funds		
Appropriated Receipts	634,108	281,000
Bond Proceeds - General Obligation Bonds	16,066,796	0
Subtotal, Other Funds	$ 16,700,904	$ 281,000
Total, Method of Financing	$ 111,904,335	$ 56,452,219

3. **Authorization: Purchase of Evidence.** From the amounts appropriated above, the Texas Parks and Wildlife Department is hereby authorized to establish a cash fund, for the purchase of evidence and/or information and surveillance deemed necessary by the department for enforcement of laws under the Parks and Wildlife Code, the Water Code and other statutes enforced by the department.

4. **Appropriation: Unexpended Balance for Construction Projects.** Included in amounts appropriated above in strategy D.1.1, Improvements and Major Repairs, are unexpended balances from appropriations made for construction, repair, acquisition, and renovation projects and listed in the capital budget riders of House Bill No. 1, Acts of the Eighty-second Legislature, Regular Session and Senate Bill 1, Acts of the Eighty-third Legislature, Regular Session. These unexpended balances are estimated to be $19,352,057 out of the following funds as of August 31, 2015:

	2016	2017
General Revenue-Dedicated Accounts		
Game, Fish, and Water Safety Account No. 9	$ 985,316	$ 0
Federal Funds	$ 1,946,837	$ 0
Other Funds		
Appropriated Receipts	$ 353,108	$ 0
Bond Proceeds - General Obligation Bonds	$ 16,066,796	$ 0
Total	$ 19,352,057	$ 0

Part B - Debt

Hearing Information

The Senate Finance Committee held a hearing on March 30, 2016 to discuss Interim Charge #3 related to the fiscal responsibility charge. The Committee was asked to review and make recommendations to reduce state debt liabilities, including pension liability.

Introduction and Background

Texas has the second lowest *state* bond debt per capita among the 10 most populous states. Conversely, Texas has the second highest *local* bond debt per capita among the 10 most populous states, only behind New York and slightly above California. Therefore, although the *state* has managed to keep debt relatively low, the Legislature should continue efforts to minimize debt obligations as it is a burden placed on future generations.

Additionally, when evaluating state debt, it is important to recognize that there are obligations of the state that act very similar to bond debt, but have not typically been discussed as debt -- such as unfunded pension liability and obligations within our Texas Tomorrow Fund.

State Debt

The State of Texas currently has $41 billion in outstanding bond debt. State debt is issued by state agencies and universities and is an obligation of the state. Of the $41 billion, $19 billion in state debt receives a direct appropriation for its debt service, which is called Not Self-Supporting debt. The remaining $22 billion is Self-Supporting debt and is expected to be repaid with a revenue stream other than General Revenue.[1]

There are two main types of debt that the state uses, General Obligation (GO) debt and Non-General Obligation (Non-GO) debt.

- GO debt is legally secured by a constitutional pledge of the first monies coming into the state treasury that are not constitutionally dedicated for another purpose. For the state to incur any GO debt, it must be approved by a two-thirds vote of both houses of the Legislature and by a majority of the voters.
- Non-GO debt is legally secured by a specific revenue source and does not require voter approval.[2]

Some examples of what state debt is issued for include but are not limited to:

- repair and construction projects;
- transportation projects;
- tuition revenue bonds;
- veterans' housing;
- parks funding; and
- cancer prevention.[3]

Figure 1 below shows the amount and type of state debt outstanding for Texas.

Figure 1
Total State Debt Outstanding ($ in millions) - GO/Non-GO[4]

General Obligation Debt		
	Self-Supporting	$11,395
	Not Self-Supporting	$5,917
	GO Subtotal	**$17,312**
Non-General Obligation Debt		
	Self-Supporting	$23,529
	Not Self-Supporting	$130
	Non-GO Subtotal	**$23,659**
Total		**$40,971**

When evaluating state debt, there are many considerations that have to be factored into whether it is advantageous to pay off existing debt authorizations. The two main factors are: is the debt callable (eligible for early payoff) and if so, are the interest rates too low for any real savings by paying up front instead of amortizing over the life of the bond. When funding is available, the Bond Review Board will advise whether it is more efficient to finance new projects with available GR instead of issuing new bonds or paying off existing bonds. [5]

Unfunded Liabilities:
The definition of an unfunded liability in the recommendations includes the following criteria:

1. Liabilities that are considered long-term, as the obligation extends beyond the two-year budget cycle;
2. Obligations that require Texas to pay due to legal responsibility or because non-payment may significantly affect the credit of the state because of the perceived responsibility of the state to guarantee payment; and
3. Obligations without a secured funding source outside of state appropriations.[6]

During the hearing, two main types of unfunded liabilities were discussed: pension liability and the Texas Guaranteed Tuition Plan. While both operate with unfunded liabilities, how those liabilities are managed are significantly different.

Pension liability
Texas has four major public pension plans, the Employees Retirement System (ERS), the Teacher Retirement System (TRS), the Law Enforcement Custodial Officers Supplemental (LECOS) Retirement Fund, and the Judicial Retirement System Plan Two (JRS II). The ERS and TRS pension plans make up 99 percent of the unfunded liability of the four plans.[7] It is important to note that for both ERS and TRS plans, there are constitutional requirements. Employees are required to pay at least 6 percent of their salary. The state is constitutionally required to contribute between 6 percent and 10 percent of an employee's salary and would need an emergency declaration from the Governor to drop below or exceed those limits.

The four major pension plans in Texas are defined benefit plans. For example, ERS's retirement benefits are calculated through a combination of the number of years of the employee's service to the state combined with a portion of the employee's highest 36 (or 48 for employees hired after September 1, 2009 and 60 for employees hired after September 1, 2013) months of salary. A defined benefit plan typically receives contributions from both the employee and the employer and is dependent on consistent and adequate funding from both parties.

There are three revenue streams that contribute to the assets for the major pension plans: state/employer contributions, member/employee contributions, and investment returns on current assets. The assets of the plan are used to pay normal costs of the plan and any unfunded liability. In order to be actuarially sound, a plan has to be able to pay off all normal costs and unfunded liabilities within 31 years. Normal cost is the amount that it would cost if a pension plan was started with no outstanding debts/liabilities. Unfunded liability is the normal cost plus any incurred debt above that amount. The higher the unfunded liability, the higher annual payments need to be in order to pay off the debt within 31 years. These are payments including, and above, the normal cost of the pension plan.

Figure 2 is a good example of the type of savings that can be realized when a high interest debt or obligation is paid off early. For example, if the state appropriated $1 billion, the return on investment would be a savings of $8.3 billion.

Figure 2

ERS Pension Contribution Projections and Savings with Lump Sum (2016-2048)*				
$ Amounts (in millions)	**Current/ Baseline**	**Lump Sum Contribution on 9/1/17****		
		$1 B	**$4 B**	**$8 B**
Total Contributions Towards Unfunded Liability	$29,050.6	$20,742.9	$11,567.3	$9,467.3
Interest Savings	$0.0	$8,307.7	$17,483.3	$19,583.3
Full Funding Achieved by (Fiscal Year)	2048	2041	2028	2018

**Based on actuarial value of assets (AVA)*

***Hypothetical date; lump sum amounts in billions* [8]

Texas Guaranteed Tuition Plan

The Texas Guaranteed Tuition Plan is a prepaid college investment program, which is guaranteed with the full faith and credit of the State of Texas. The fund was closed to further enrollment in 2003, due to the instability of the plan created by the spike in tuition rates after the passage of tuition deregulation. Since the closure of the plan, while tuition rates have continued to increase, the amount contributed by participants in the plan are still at the rate of investment based on tuition at the time of enrollment in the plan, which was much lower. This has created a funding gap in which the state is constitutionally required to pay. Payouts from the Texas Guaranteed Tuition Plan have come from the corpus of the assets from when the plan was in existence.

According to the 2015 Actuarial Report, there is $978 million left in that fund.[9] A large portion of the assets for the Texas Guaranteed Tuition Plan are invested in short term investments. This is because the balance of the corpus is low, and short term investment can be liquidated quickly in order to pay obligations. Once the remaining assets are depleted, the Comptroller is required to transfer the first available funds not already appropriated by the Constitution, to the amount necessary, to pay the tuition and required fees of the institution.[10]

As of August 2015, there was a total of $41.9 billion in obligations of the state in pension liability and in the Guaranteed Tuition Plan. Figure 3 below breaks out the amounts related to the unfunded liability, funded ratio, funded period, Fiscal Year (FY) 2016-17 contribution rate, and the future contribution rate needed to be actuarially sound.[11]

Figure 3: Retirement Plans Unfunded Liability ($ in millions)[12]

Texas Retirement Plans and TX Guaranteed Tuition Plan	Unfunded Liability	Funded Ratio	Funded Period	2016-17 State Contribution*,**	State Contribution Needed in FY16*
Employees Retirement System	$8,017.8	76.3%	33 years	10%	10.12%
Teachers Retirement System	$32,967.7	80.2%	33.3 years	6.8%	7.02%
Law Enforcement Custodial Officers Supplemental	$353.1	72.0%	Infinite	0.5%	1.31%
Judicial Retirement System Plan Two	$31.4	92.2%	Infinite	15.663%	16.63%
TX Emergency Services Retirement System	$26.1	76.9%	30	$1.6	NA
TX Guaranteed Tuition Plan	$535.5	NA	NA	$87.8	NA

* The percentage amounts for the 2016-17 State Contribution used are based on of a percentage of payroll for employees
** The dollar amounts for the 2016-17 State Contribution are a fixed appropriated amount

Legislative History:
During the 84th Legislative Session, Senate Joint Resolution 25 by Senator Nelson and House Joint Resolution 8 by Representative Otto would have dedicated any excess funds over the constitutional limit for the Economic Stabilization Fund to the payment of state debt. These bills, however, did not pass.

Also last session, House Bill 1 and House Bill 9 increased the state's contribution for ERS to the constitutionally maximum amount of 10 percent (9.5 percent state and 0.5 percent agency), increased the member contribution to 9.5 percent (with a salary increase to cover the increase for affected employees), and repealed the 90-day waiting period for new hires and the state to contribute.[13]

In the 83rd Legislative Session, Senate Bill 1458 by Senator Duncan increased the state contribution rate for TRS from 6.4 to 6.8 percent, stair stepped member contribution from 6.4 to 7.7 percent by FY17, and directed school districts to contribute 1.5 percent of the minimum salary schedule for employers whose employees are not participating in Social Security.[14] Prior to this bill, school districts did not contribute.

The Constitutional Debt Limit

The Constitutional Debt Limit (CDL) restricts the authorization of new state debt to an amount that ensures debt service payments from General Revenue do not exceed five percent of the three-year average of unrestricted General Revenue funds.[15] Figure 4 shows the factors and CDL percentage for FY15.[16] Since FY13 to the most recent figure of FY15, Texas has reduced its Outstanding and Authorized but Unissued Debt from 3.04 percent to 2.65 percent respectively. It is important to note that Texas is currently well within the CDL.

Figure 4: Fiscal Year 2015 Constitutional Debt Limit[17]

	Unrestricted GR	Debt Service	Percentage
Outstanding	$47,460,202,554	$653,399,900	1.38%
Authorized but Unissued	$47,460,202,554	$603,062,345	1.27%
Total - Outstanding and Authorized but Unissued	$47,460,202,554	$1,256,462,245	2.65%

Comparing State Bond Debt to Unfunded Liabilities

As discussed above, both state bond debt and unfunded liabilities create long-term obligations that the state must pay over time. Additionally, both obligations have the potential to provide cost savings to the state when paid off early. However, due to the complexity of the obligations, it is difficult to determine which of these obligation yields the highest level of cost savings.

Therefore, during the Senate Finance Committee's hearing on March 30, 2016, Senator Nelson tasked the Legislative Budget Board, the Comptroller's Office, Texas Public Finance Authority and Bond Review Board to collaborate and evaluate the various obligations of the state. Based on that evaluation, the group was tasked with creating a framework to aid the Legislature in determining which obligations would create the most cost savings to taxpayers when paid off early. The recommended framework can be found in Appendix B.

Conclusion

Although the actions of the Legislature have kept the state debt relatively low compared to similarly populated states and the constitutional debt limit, Texas must continue to be vigilant to ensure current obligations do not put undue burden on our children and grandchildren.

When additional resources are available to pay down state debt, the Legislature should consider applying those resources to paying off unfunded liabilities, particularly when that payment would maximize savings to taxpayers. Additionally, the Legislature should consider using the framework provided in Appendix B when making those decisions.

Appendix A
Local Debt:
Local governments within Texas have $212.44 billion in local debt obligations, as of August 2015. Local debt is issued by local governments and is not an obligation of the state. Figure 5 shows a breakdown of the amount of local debt that is held by each type of issuer.

Figure 5: Texas Local Government Debt Outstanding as of August, 31,2015[18]
($ in millions)

Type of Issuer	Tax Supported	Revenue	Total Debt
Cities, Towns Villages	$29,528.0	$40,371.0	$69,899.0
Public School Districts	$72,013.5	$337.2	$72,350.7
Water Districts & Authorities	$12,039.5	$19,434.7	$31,474.2
Other Special Districts & Authorities	$194.2	$15,748.5	$15,942.6
Counties	$11,268.2	$3,031.8	$14,300.1
Community & Junior Colleges	$3,612.4	$1,396.5	$5,008.9
Health/Hospital Districts & Authorities	$2,375.7	$1,092.4	$3,468.1
Total	$131,031.4	$81,412.0	$212,443.5

Some examples of what local debt is issued for include but are not limited to:
- construction and renovation of schools;
- city halls; and
- county courthouses.[19]

Appendix B: Prepared by the LBB
State Liabilities Analysis

Introduction

At the request of the Senate Finance Committee, the Legislative Budget Board analyzed the outstanding liabilities of the state. This analysis highlights current state liabilities and compares various scenarios for paying off those obligations. For the purpose of this analysis, our office considered that many outstanding liabilities look like state debt and can be more practical to pay down than the bond debt that is traditionally considered "state debt." To complete our analysis, the LBB met with staff from the Comptroller's Office and the Bond Review Board regarding the outstanding liabilities of the state and will continue to have conversations related to the long-term challenges presented by the outstanding liabilities of Texas.

Definition of Outstanding Liabilities

In order to present the most complete picture of the state's obligations, the LBB considered a broad selection of liabilities, beyond state bond debt, for analysis.

- Liabilities that are considered long-term, as the obligation extends beyond the two-year budget cycle;
- Obligations that require Texas to pay due to legal responsibility or because non-payment may significantly affect the credit of the state because of the perceived responsibility of the state to guarantee payment; and
- Obligations without a secured funding source outside of state appropriations.

Current Obligations to Consider

All outstanding obligations do not offer equal opportunities for early payoff. Many liabilities have constitutional, statutory, or contractual restrictions that may prevent the full payoff of the obligation on a shorter timetable than was initially established. The risks associated with outstanding obligations are also highly variable. The following selection represents obligations that warrant consideration if funding is available to address outstanding obligations.

Pension Obligations are included due to the constitutional obligations associated with the state's pensions. The state's unfunded pension liabilities include: Teacher Retirement System (TRS), Texas Emergency Services Retirement System (TESRS), the Employees Retirement System plans for ERS, Judicial Retirement System Plan II (JRS II) and Law Enforcement and Custodial Officers Service (LECOS). Although TESRS is currently actuarially sound, its inclusion is due to potential fluctuations in actuarial soundness related to changes in various assumptions, such as investment returns. Texas has made great strides in addressing the unfunded liabilities of the pension obligations through funding and structure changes, but opportunities still exist to further stabilize the plans and achieve future savings. Decreasing the amortization period for pension obligations provides additional investment earning potential, and can translate into lower annual pension contributions for both the state and system members.

Outstanding Not Self-Supporting Debt held by Texas Public Finance Authority (TPFA), Texas Department of Transportation (TxDOT), and the Texas Water Development Board (TWDB) is considered long-term debt that primarily includes general obligation bonds with a constitutional funding guarantee and lease revenue bonds. The debt is not backed by a revenue stream outside of the appropriations bill and totaled approximately $6.0 billion in debt principal as of August 31, 2015. However, finding debt eligible for early retirement is difficult because most state debt is not callable (eligible for early payoff) for 10 years after issuance, and most state issuers regularly refund eligible outstanding debt to achieve lower interest rates. Due to these limitations, the Bond Review Board staff indicates it may be more cost-efficient to finance new state expenditures with cash thus avoiding new issuances rather than paying off existing authorizations.

- TPFA outstanding not self-supporting debt includes General Obligation Prop 4 and Prop 8 Bonds, Cancer Prevention and Research Institute of Texas (CPRIT) Bonds, Revenue Bonds, Master Lease Purchase Program, Park Development Bonds, Texas Military Facilities Bonds, and Parks and Wildlife Improvement Bonds;
- TxDOT outstanding not self-supporting debt includes Highway Improvement General Obligation Bonds; and
- TWDB outstanding not self-supporting debt includes Water Infrastructure Fund (WIF) and Economically Distressed Areas Program (EDAP) Bonds.

Guaranteed Tuition Plan has a constitutional funding guarantee, similar to a general obligation bond pledge. As of August 31, 2015, the plan's actuary projected that the plan will have depleted all cash and investments available to pay contract benefits by 2021 and the unfunded liability of $568.7 million will continue to grow if not addressed.

Additional Outstanding Obligations

The following obligations are long-term obligations of the state but were excluded from consideration for a variety of reasons, as detailed for each liability below. The self-supporting obligations below include general obligation liabilities that are backed by the full faith and credit of the state including: Veterans' Land and Housing Bonds, Economic Development Bank Bonds, Farm and Ranch Loan Bonds, College Student Loan Bonds, Higher Education Constitutional Bonds, the Texas Military Value Revolving Loan Fund, Texas Mobility Fund Bonds, and general obligation Water Development Bonds. Also included are revenue-backed self-supporting liabilities, including: Economic Development program bonds, Mortgage Revenue Bonds, Permanent University Fund Bonds, College and University Revenue Bonds, Texas Workforce Commission Unemployment Compensation Bonds, Central Texas Turnpike System Revenue Bonds, State Highway Fund Revenue Bonds, and WDB Revenue State Revolving Fund.

Outstanding Self-Supporting Debt from any issuer is not included primarily due to debt service being secured from sources outside of General Revenue. This includes all outstanding debt issued by the Governor's Office, the Veterans' Land Board, Department of Housing and Community Affairs (TDHCA), Texas Agriculture Finance Authority (TAFA), Institutions of Higher Education (IHE), and the self-supporting portion of the outstanding debt issued by TPFA, TxDOT, and the WDB.

- The Governor's Office outstanding self-supporting debt includes Economic Development program bonds;
- The Veterans' Land Board outstanding self-supporting debt includes Veterans' Land and Housing Bonds;
- TDHCA outstanding self-supporting debt includes Mortgage Revenue Bonds;

- TAFA outstanding self-supporting debt includes Farm and Ranch Loan Bonds;
- IHE outstanding self-supporting debt includes College Student Loan Bonds, Higher Education Constitutional Bonds, Permanent University Fund Bonds, and College and University Revenue Bonds;
- TPFA outstanding self-supporting debt includes the Texas Military Value Revolving Loan Fund and Texas Workforce Commission Unemployment Compensation Bonds;
- TxDOT outstanding self-supporting debt includes Texas Mobility Fund, Central Texas Turnpike System Revenue Bonds, and State Highway Fund Revenue Bonds; and
- WDB outstanding self-supporting debt includes general obligation Water Development Bonds and Revenue State Revolving Fund.

Tuition Revenue Bonds (TRB) are not included as the bonds are not general obligations of the state, although the Legislature has historically appropriated General Revenue to reimburse institutions for the tuition used to pay the debt service on TRBs.

Other Post-Employment Benefits (OPEB), which primarily refers to retiree health insurance, is not included based on the pay-as-you-go funding mechanism that is historically funded each legislative session. The benefit and contribution provisions are authorized by state law but may be amended by the Texas Legislature. Beginning in 2017, however, changes by the Government Accounting Standards Board (GASB), will require governments to recognize the assets and liabilities attributable to OPEB more clearly in their financial statements.
TRS Care is not included due to reforms currently proposed by TRS to address the financial soundness of the cost and affordability of the plan and the liability is not solely a state obligation.

Hazlewood Exemption and all tuition exemptions are not included due to nature of exemptions as lost revenue, not a liability that can be paid off.

Deferred Maintenance and IT Modernization are not included as the ongoing deferred maintenance and IT modernization costs are not contractual obligations of the state and due to the difficulty of predicting the long-term growth of the costs.

Prioritization Analysis

The legislature may consider paying off an outstanding liability for variety of reasons, including: to remove the obligation from the state's books; to save money or avoid costs over time through initial investments; or to improve or maintain the state's credit rating. The criteria used to select the liabilities will depend upon the purpose behind the liability payoff, as detailed below:

Eliminate the Obligation
If the goal of paying off a liability is to remove the liability from the state's balance sheet, then the important criteria may include:

- *Outstanding Liability Amount* – the total outstanding amount of the liability;
- *People Impacted* – the number of people impacted if the liability is unfunded; and
- *Variability of Liability* – the likelihood that the payoff amount of a liability will fluctuate over time and the stability of an investment in a liability.

Save Money/Avoid Costs Over Time

If the goal of paying off a liability is to save money or avoid costs over time through initial investments, then the important criteria may include:

- *Potential Savings* – the amount or percentage of savings that would be realized if the liability were funded;
- *Return on Investment* – a ratio of the estimated savings to the amount invested in paying off a liability;
- *Amount to Eliminate/Stabilize Liability* – the amount required to pay off or make a liability actuarially sound; and
- *Funding Period* – the time period that planned investments will pay for a liability without additional contributions.

Improve or Maintain Credit Rating

If the goal of paying off a liability is to improve or maintain the state's credit rating, then the methodology of the credit rating agencies should be considered. All rating agencies take multiple factors into account beyond debt and other long term liabilities, such as the economy, governance, and finances. For debt and other long term liabilities, some criteria considered by rating agencies include:

- *Moody's Investors Service* measures net tax-supported debt as a percent of total government fund revenues, and unfunded pension liabilities (UAAL) averaged over three years as a percent of total government fund revenues.
- *Fitch Ratings* evaluates debt by reviewing trends in the amount of debt issued and outstanding in relation to resources, including net tax supported debt measured against personal income, and debt service as a percentage of general government spending. Fitch also considers debt structure, such as types of debt and repayment rates, uses of bond funds, and future needs for debt. Pension liabilities analysis focuses on if there have been actions to reduce unfunded liabilities and the state's commitment to funding the actuarially calculated annual required contributions (ARCs).
- *S&P Global Ratings* look at a variety of ratios such as tax-supported debt per capita, tax-supported debt as a percentage of personal income, tax-supported debt as a percentage of expenditures, tax-supported debt as a percentage of gross state product, and debt amortization schedules. Pension liabilities are reviewed related to funding progress and a commitment to funding annual contributions that address long-term liabilities.

In general, the rating agencies analyze if the state is showing progress through oversight and management of debts and long term liabilities. Eliminating a small liability from the balance sheet may show that the state is dealing with its obligations in a responsible manner.

<u>Conclusion</u>

In considering paying down state obligations, all liabilities, not just state bond debt, may be regarded as long-term liabilities of the state. The goal behind funding an outstanding liability will impact the prioritization analysis of which liability should be addressed. Beyond additional funding, some liabilities could be addressed through structural changes or other legislative decisions. These options provide broad flexibility to the Legislature in choosing how to address the outstanding obligations of the state.

	Outstanding Liability Amount	Available Payoff %	Potential Payoff Savings	Return on Investment	Funding Period	# of People Impacted	Variability of Investment	Unweighted Score
Weight	x1	x1	x1	x1	x1	x1	x1	
ERS	$8,000.0	1.6%	$10.5	8.0%	33 years	242400	Medium	**0**
LECOS	$353.1	66.0%	$18.6	8.0%	Infinite	49400	Medium	**2**
JRS II	$31.4	41.4%	$1.0	8.0%	Infinite	885	Medium	**-1**
TESRS	$24.5	100.0%	$1.9	8.0%	30 years	8900	Medium	**-2**
TRS	$38,200.0	16.8%	$512.0	8.0%	34 years	1459243	Medium	**2**
GTP	$568.6	100.0%	$80.0	14.1%	Infinite	66000	Medium	**2**
TPFA	$3,019.4	15.7%	$62.8	13.3%	20 years	N/A	Low	**0**
TxDOT	$5,885.0	0.0%	$0	0.0%	30 years	N/A	Low	**-3**
TWDB	$939.9	27.0%	$69.7	27.4%	20 years	N/A	Low	**1**

Variable	Description	1	0	-1
Outstanding Liability Amount	Total outstanding liability amount.	Unscored		
Available Payoff Percentage	Amount available for payoff in 2018-19 biennium divided by total outstanding liability amount.	> 50%	10% – 50%	< 10%
Potential Savings	Amount saved over liability's life cycle.	> $100,000,000	$10,000,000 – $100,000,000	< $10,000,000
Return on Investment	Estimated saving over the liability's life cycle divided by amount available for payoff in 2018-19 biennium.	> 25%	5% – 25%	< 5%
Funding Period	Total length of time to pay off liability.	35 Years – Infinite	31 – 35 Years	< 31 Years
# of People Impacted	Number of people directly impacted by the program associated with the liability.	> 100,000	10,000 – 100,000	< 10,000
Variability of Liability	Impact of factors that influence amount of liability owed or the variability of the investment in the liability.	Low: Amount owed is unlikely to change	Medium: Amount owed may change over time	High: Amount owed is likely to change significantly over time
Unweighted Score	Variables can be assigned different weights and the rating scale adjusted depending on prioritization criteria and payoff goals.	Results		

Appendix C: Additional Detail on Certain Liabilities

Liability	Employees Retirement System Pension Obligations				
Agency	Employees Retirement System (ERS)				
Legal Authority	Texas Constitution, Art. XVI, Section 67(b)(2); Government Code §§811-815				
Total Liability	$8,000,000,000	**As Of**	8/31/2015	**Paid Off**	9/1/2048
Allowed to Pay Total in 2018-19?		No		**Potential Savings**	N/A
One-Time Payment Option		$131,000,000*		**Potential Savings**	Assume 8% annual return on every dollar invested toward early payoff
Limitations to Liability Payoff		This amount is projected to make the fund actuarially sound (funding period of 31 years); Not constitutionally allowed as Texas Constitution limits the state contribution to no less than 6% and no more than 10% of covered salary			
Potential for Changes in Liability Affecting Payoff Amount		Investment yield; Benefit design changes; More people retiring than expected; Insufficient contributions due to change in statute			
Positive Impact of Payoff		Potential for lower employee contribution rates or retiree COLA; Positive progress for rating agencies of the state's oversight and management of liabilities; Long-term budget flexibility for alternate uses of funds; Additional investments earn additional returns			
Negative Impact of Payoff		Short-term requirement for large cash commitment			
Participants		242,400 Members			

* Constitutionally Restricted

Liability	Law Enforcement and Custodial Officers Service (LECOS) Pension Obligations				
Agency	Employees Retirement System (ERS)				
Legal Authority	Government Code §815.317				
Total Liability	$353,100, 000	**As Of**	8/31/2015	**Paid Off**	Infinite
Allowed to Pay Total in 2018-19?		No		**Potential Savings**	N/A
One-Time Payment Option		$233,000,000*		**Potential Savings**	Assume 8% annual return on every dollar invested toward early payoff
Limitations to Liability Payoff		This amount is projected to make the fund actuarially sound (funding period of 31 years)			
Potential for Changes in Liability Affecting Payoff Amount		Investment yield; Benefit design changes; More people retiring than expected; Insufficient contributions due to change in statute			
Positive Impact of Payoff		Potential for lower employee contribution rates; Positive progress for rating agencies of the state's oversight and management of liabilities; Long-term budget flexibility for alternate uses of funds; Additional investments earn additional returns			
Negative Impact of Payoff		Short-term requirement for large cash commitment			
Participants		49,400 Members			

Liability	Judicial Retirement System Plan II (JRS II) Pension Obligations				
Agency	Employees Retirement System (ERS)				
Legal Authority	Texas Constitution, Art. XVI, Section 67(d); Government Code §§836-840				
Total Liability	$31,400,000	**As Of**	8/31/2015	**Paid Off**	Infinite
Allowed to Pay Total in 2018-19?		No		**Potential Savings**	N/A
One-Time Payment Option		$13,000,000*		**Potential Savings**	Assume 8% annual return on every dollar invested toward early payoff
Limitations to Liability Payoff		This amount is projected to make the fund actuarially sound (funding period of 31 years)			
Potential for Changes in Liability Affecting Payoff Amount		Investment yield; Benefit design changes; More people retiring than expected; Insufficient contributions due to change in statute			
Positive Impact of Payoff		Potential for lower employee contribution rates; Positive progress for rating agencies of the state's oversight and management of liabilities; Long-term budget flexibility for alternate uses of funds; Additional investments earn additional returns			
Negative Impact of Payoff		Short-term requirement for large cash commitment			
Participants		885 Members			

Liability	Texas Emergency Services Retirement System Pension Obligations				
Agency	Texas Emergency Services Retirement System (TESRS)				
Legal Authority	Government Code §§861-865				
Total Liability	$24,500,000	**As Of**	9/1/2014	**Paid Off**	9/1/2044
Allowed to Pay Total in 2018-19?		Yes		**Potential Savings**	Fully Funded
One-Time Payment Option		N/A		**Potential Savings**	Assume 8% annual return on every dollar invested toward early payoff
Limitations to Liability Payoff		Fund is actuarially sound and not in need of partial payoff; State funding may not exceed one third of member department contributions			
Potential for Changes in Liability Affecting Payoff Amount		Investment yield			
Positive Impact of Payoff		Positive progress for rating agencies of the state's oversight and management of liabilities; Long-term budget flexibility for alternate uses of funds; Additional investments earn additional returns; Local Governments no longer have to contribute extra; Potential increase in participating departments			
Negative Impact of Payoff		Short-term requirement for large cash commitment			
Participants		8,900 Members			

Liability	Teacher Retirement System Pension Obligations				
Agency	Teacher Retirement System (TRS)				
Legal Authority	Texas Constitution, Art. XVI, Section 67; Government Code §821-825				
Total Liability	$38,200,000,000*	**As Of**	8/31/2015	**Paid Off**	9/1/2049
Allowed to Pay Total in 2018-19?		No		**Potential Savings**	N/A
One-Time Payment Option		$6,400,000,000**		**Potential Savings**	Assume 8% annual return on every dollar invested toward early payoff
Limitations to Liability Payoff		This amount is projected to make the fund actuarially sound (funding period of 31 years): Texas Constitution limits the state contribution to no less than 6% and no more than 10% of covered salary			
Potential for Changes in Liability Affecting Payoff Amount		Investment yield; Benefit design changes; Changes in membership or salaries; Insufficient contributions due to change in statute			
Positive Impact of Payoff		Potential for lower employee contribution rates or retiree COLA; Positive progress for rating agencies of the state's oversight and management of liabilities; Long-term budget flexibility for alternate uses of funds; Additional investments earn additional returns			
Negative Impact of Payoff		Short-term requirement for large cash commitment			
Participants		1,459,250 Members			

* Includes $4.9 billion in deferred investment losses

** Constitutionally Restricted

Liability	Guaranteed Tuition Plan (GTP) (Texas Tomorrow Fund)				
Agency	Comptroller of Public Accounts (CPA)				
Legal Authority	Texas Constitution, Art. VII, Section 19				
Total Liability	$568,681,614	**As Of**	9/1/2017	**Paid Off**	9/1/2035*
Allowed to Pay Total in 2018-19?		Yes		**Potential Savings**	$80,716,363
One-Time Payment Option		$100,000,000		**Potential Savings**	$8,599,742
Limitations to Liability Payoff		Approximates the $87.7 million appropriation in FY 2015			
Potential for Changes in Liability Affecting Payoff Amount		Estimated to become Pay as You Go status in March 2020; Investment yield; Tuition increases; Withdrawal rates; Administrative expenses			
Positive Impact of Payoff		Positive progress for rating agencies of the state's oversight and management of liabilities; Long-term budget flexibility for alternate uses of funds			
Negative Impact of Payoff		Short-term requirement for large cash commitment			
Participants		66,000 Members			

*Paid of date could be extended due to transferability of plan benefits.

Liability	Not Self-Supporting Outstanding Debt				
Agency	Texas Public Finance Authority (TPFA)				
Legal Authority	Texas Constitution, Article III, Section 50-f, 50-g, 67				
Total Liability	$3,019,433,105*	**As Of**	8/10/2016	**Paid Off**	10/1/2035
Able to Pay Total off in 2018-19?		No		**Potential Savings**	N/A
One-Time Payment Option		$473,757,380		**Potential Savings**	$62,817,042
Limitations to Liability Payoff		Limited number of bonds are callable in 2018-19 biennium; $293.5 million of bonds are non-callable to maturity			
Potential for Changes in Liability Affecting Payoff Amount		Fixed interest rates; Authority for additional issuances that increase outstanding debt amount; Amount paid in interest declines in level principal debt issuances			
Positive Impact of Payoff		Reduces interest paid once bonds are callable for cost avoidance in the future; Create capacity for additional issuances			
Negative Impact of Payoff		Potential opportunity cost of using funds for bond payoff rather than other projects; Current low interest rates provide financial flexibility on fixed repayment schedule			

*Outstanding PAR and interest

Liability	Not Self-Supporting Outstanding Debt – Highway Improvement GO Bonds				
Agency	Texas Department of Transportation (TxDOT)				
Legal Authority	Texas Constitution, Article III, Section 49-p				
Total Liability	$5,885,000,000*	**As Of**	8/1/2016	**Paid Off**	4/1/2046
Able to Pay Total off in 2018-19?		No		**Potential Savings**	N/A
One-Time Payment Option		No		**Potential Savings**	N/A
Limitations to Liability Payoff		No callable bonds until 2022; $815 million in Build America Bonds have make whole provision; $97 million of bonds are non-callable to maturity			
Potential for Changes in Liability Affecting Payoff Amount		Fixed interest rates; Authority for additional issuances that increase outstanding debt amount			
Positive Impact of Payoff		Reduces interest paid once bonds are callable for cost avoidance in the future			
Negative Impact of Payoff		Potential opportunity cost of using funds for bond payoff rather than transportation projects; Current low interest rates provide financial flexibility on fixed repayment schedule			

*Outstanding PAR and interest

Liability	Not Self-Supporting Outstanding Debt - Water Infrastructure Fund (WIF) and Economically Distressed Areas Program (EDAP) Bonds				
Agency	Texas Water Development Board (TWDB)				
Legal Authority	Texas Constitution, Article III, Section 49-d				
Total Liability	$939,913,333	**As Of**	8/31/2015	**Paid Off**	8/1/2035
Able to Pay Total off in 2018-19?		No		**Potential Savings**	N/A
One-Time Payment Option		$254,195,000		**Potential Savings**	$69,720,256*
Limitations to Liability Payoff		Limited number of bonds are callable in 2018-19 biennium			
Potential for Changes in Liability Affecting Payoff Amount		Fixed interest rates			
Positive Impact of Payoff		Reduces interest paid once bonds are callable for cost avoidance in the future			
Negative Impact of Payoff		Potential opportunity cost of using funds for bond payoff rather than other projects; Current low interest rates provide financial flexibility on fixed repayment schedule			

*PV at 2.5%

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[1] LBB Presentations SFC Hearing 3/30/16, pg. 2.
[2] http://www.lbb.state.tx.us/Documents/Publications/Policy_Report/Debt%20Affordability%20Study%202009.pdf pg 3.
[3] http://www.lbb.state.tx.us/Documents/SFC_Summary_Recs/84R/debt_service_presentation.pdf
[4] Bond Review Board, http://www.brb.state.tx.us/pub/bfo/AR/AR2015.pdf pg.25.
[5] Appendix B
[6] *Id*.
[7] LBB Presentations SFC Hearing 3/30/16, pg.9, 10.
[8] http://www.ers.state.tx.us/Presentation-04202016/ pg. 10.
[9] http://www.tgtp.org/docs/tgtpannualreport2015.pdf
[10] Texas Constitution, Article 7, Section 19.
[11] LBB Presentations SFC Hearing 3/30/16, pg.9.
[12] *Id*. at Pgs. 9, 10.
[13] *Id*. at Pg. 11.
[14] *Id*.
[15] Bond Review Board, http://www.brb.state.tx.us/pub/bfo/AR/AR2015.pdf pg.6.
[16] Memo LBB Debt and Other Liabilities 4/11/16.
[17] *Id*.
[18] http://www.brb.state.tx.us/pub/lgs/fy2015/2015LocalARFinal.pdf pg 2.
[19] LBB Presentations SFC Hearing 3/30/16, pg.2.

Part C - Incentivizing Tax Savings

Interim Charge Language: *Consider how to incentivize state agencies, boards, and commissions to identify and realize savings to taxpayers.*

Introduction and Background

Incentivizing Tax Savings

The Committee was asked to consider how to incentivize state agencies to identify savings to taxpayers. Agencies are in the best position to know what programs are working and what programs need improvement, or even need to be eliminated. This knowledge is helpful to identify where savings and efficiencies can be found. Providing the incentives or tools for agencies to find these savings is important to ensure our government maximizes its effectiveness.

Legislative History

In 2003, the Legislature added a savings incentive program for state agencies.[1] This program provides that an agency may retain 25 percent of its unspent general revenue that is identified by the agency and confirmed by the Comptroller.[2] The 25 percent savings retained by the agency may not, however, exceed one percent of the general revenue appropriation to the agency and may not be used on an activity that creates new or expanded services or requires funding at a later date.[3] This savings incentive program has not been utilized by state agencies.[4]

In the 84th Legislature, the Senate passed a bill that amended this savings incentive program by increasing the amount an agency may retain in savings from 25 to 50 percent of the unspent general revenue and removing the one percent limitation.[5] The bill required agencies to use 50 percent of any savings to pay down general obligation debt.[6] If there is no outstanding debt, the agency may provide non-executive employee bonuses meeting certain criteria.[7] However, this bill was not passed out of the House.

Incentivizing Programs

Savings incentive measures have been implemented through requirements in the Legislative Appropriation Request process and a biennial Strategic Fiscal Review. For the 2018-19 biennial budget, state agencies have been asked to propose a 10 percent biennial base reduction to their baseline request for funding.[8] In addition, for the 2018-19 Texas budget agencies are required to reduce their 2018-19 base appropriation request by four percent compared to the previous biennium.[9] Each of these requirements are designed to identify and realize efficiencies resulting in savings to the taxpayer.

For the second straight session, the Legislature is also using Strategic Fiscal Review to help identify opportunities for savings. Last session 17 agencies underwent this review, with an additional 16 agencies on the list in the current appropriations cycle. This review, which incorporates principles of zero-based budgeting, scrutinizes an agency's base budget. It also provides detailed program-level data, options for alternative funding levels and methods, and an analysis of a program's relationship to the function of the agency and its legislative priorities.[10] One of the purposes of the Strategic Fiscal Review is to identify where agency programs can be more efficient and effective, allowing for an increase in savings to taxpayers.[11]

Additional savings mechanisms include budget monitoring and review of agency unexpended balance carry-forwards and prior year lapses.[12] Each of these may be used to identify and realize savings to taxpayers

Conclusion

The Legislature has various tools to identify and realize savings to taxpayers. The Legislature should examine which tools achieve the intended goal of incentivizing savings, look for new ways to incentivize savings, and continue to use the tools which are effective at incentivizing savings.

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[1] Texas Government Code, Chapter 2108.
[2] *Id*.
[3] Government Code Section 2108.103.
[4] LBB Presentation, Fiscal Responsibility Interim Charge hearing, Pg. 12.
[5] Senate Bill 677 (Creighton/Bettencourt).
[6] *Id*.
[7] *Id*.
[8] *See* 2018-19 Legislative Appropriation Request Instructions, June 2016.
[9] *Id*.
[10] LBB Presentation, Strategic Fiscal Review: Process and Products, February 2015, Pg. 2.
[11] *See* LBB Presentation, Strategic Fiscal Review: Process and Products, February 2015.
[12] LBB Presentation, Fiscal Responsibility Interim Charge hearing, Pg. 12.

Interim Charge #4 - Coordinating Behavioral Health Services and Expenditures

Interim Charge Language: *Monitor the state's progress in coordinating behavioral health services and expenditures across state government, pursuant to Article IX Sec. 10.04. Identify ways state agencies that provide mental health services are collaborating and taking steps to eliminate redundancy, create efficiency, utilize best practices, ensure optimal service delivery, and demonstrate expenditures are coordinated and in furtherance of a behavioral health statewide strategic plan. Identify barriers that prevent the coordination of behavioral health services. Make recommendations to maximize use of state funding for mental health.*

Hearing Information

The Senate Finance Committee held a hearing on January 26, 2016 to discuss Interim Charge #4 related to the coordination of behavioral health services and expenditures. Representatives from the Legislative Budget Board (LBB), Health and Human Services Commission (HHSC), Texas Department of Criminal Justice (TDCJ), Texas Juvenile Justice Department (TJJD), Texas Veterans Commission (TVC), The Meadows Mental Health Policy Institute, Texas Council of Community Centers, and the Hogg Foundation for Mental Health provided invited testimony. Information regarding witness and testimony can be found at http://www.senate.texas.gov/75r/senate/commit/c540/c540.htm.

Introduction

Over the last two legislative sessions, the Texas Legislature provided unprecedented funding for behavioral health services, increasing state funding for non-Medicaid behavioral health services by $500 million in the Article II budget alone. However, behavioral health services are provided across state government. In order to better measure comprehensive behavioral health spending, the Senate Finance Committee requested that all agencies providing behavioral health services quantify funding dedicated to helping individuals with mental illness or substance abuse disorders. As a result, the Fiscal Year (FY) 2016-2017 budget identified $3.6 billion in behavioral health appropriations[1], though that amount did not include behavioral health spending in Medicaid due to that information being unavailable at the time. This Committee directed HHSC to produce behavioral health spending in the Medicaid program during its hearing on January 26, 2016.

Once the Medicaid number was provided, this Committee confirmed at its March 30, 2016 hearing that the current state budget projects to spend $6.7 billion on behavioral health services across 18 state agencies, $3.1 billion in Medicaid alone.[2] This represents an increase of $483 million over the previous biennium. Figure 1 below shows state behavioral health funding for FY 2016-2017 by state agency and method of finance.

Figure 1
Behavioral Health and Substance Abuse Services Appropriations[3]

Agencies Identified as Receiving Behavioral Health Funding in the FY 2016-2017 Budget Article IX, Section 10.04(a)	**FY 2016-2017 Fiscal Size Up (in Millions)**	
	GR-Related	**All Funds**
Trusteed Programs, Office of the Governor	$ 1.5	$ 10.6
Veterans Commission	$ -	$ 4.0
Article I Total	**$ 1.5**	**$ 14.6**
Department of Aging and Disability Services	$ 18.3	$ 18.6
Department of Family and Protective Services	$ 26.7	$ 52.5
Department of State Health Services	$ 1,983.4	$ 2,738.1
Health and Human Services Commission	$ 28.4	$ 78.4
Texas Civil Commitment Office	$ 0.3	$ 0.3
Article II Total	**$ 2,057.3**	**$ 2,887.9**
University of Texas- Health Science Center Tyler	$ 8.0	$ 8.0
University of Texas- Health Science Center Houston	$ 12.0	$ 12.0
Article III Total	**$ 20.0**	**$ 20.0**
Department of Criminal Justice	$ 490.7	$ 495.8
Juvenile Justice Department	$ 155.8	$ 169.0
Military Department	$ 1.3	$ 1.3
Article V Total	**$ 647.8**	**$ 666.0**
Board of Dental Examiners	$ 0.2	$ 0.2
Board of Pharmacy	$ 0.5	$ 0.5
Board of Veterinary Medical Examiners	$ 0.1	$ 0.1
Optometry Board	$ 0.1	$ 0.1
Texas Board of Nursing	$ 1.7	$ 1.7
Texas Medical Board	$ 1.1	$ 1.1
Article VIII Total	**$ 3.7**	**$ 3.7**
Behavioral Health Funding Identified in FY 2016-17 Budget	**$ 2,730.2**	**$ 3,592.2**
Medicaid Behavioral Health Services	**$ 1,341.4**	**$ 3,098.9**
TOTAL: Behavioral Health Funding in FY 2016-2017 Budget	**$ 4,071.6**	**$ 6,691.1**

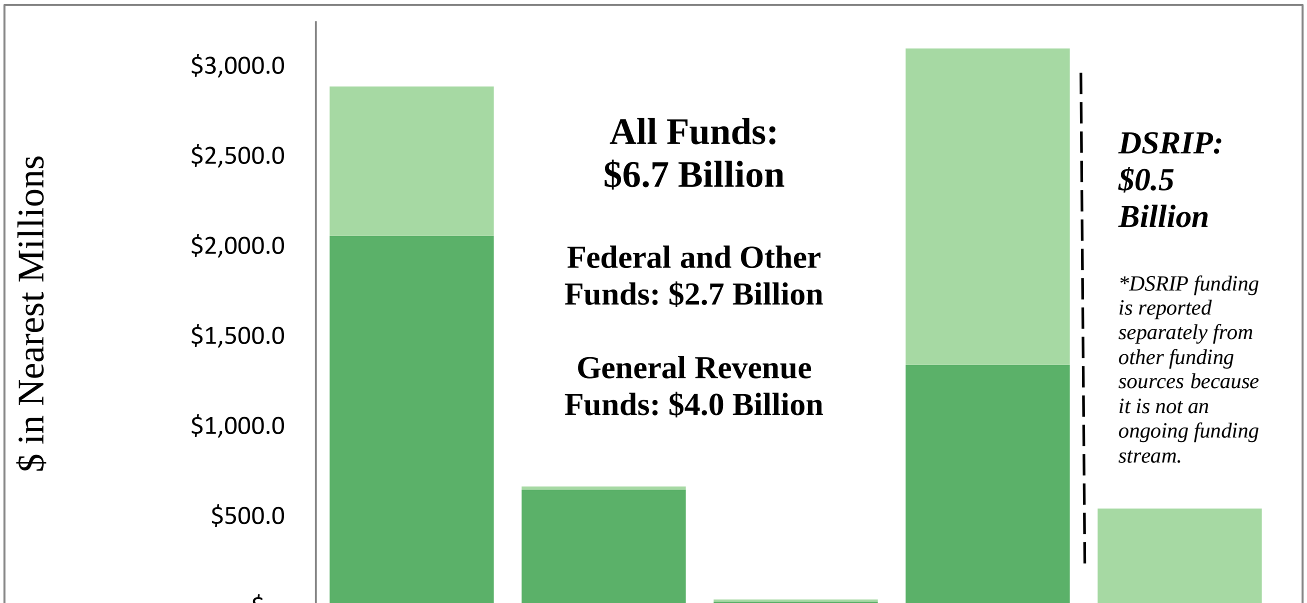
Notes: (1) Medicaid behavioral health services are estimated by HHSC based on the agency's forecast and behavioral health claims from prior years. These amounts assume a supplemental appropriation for FY 2016-2017. (2) HHSC calculated GR-Related amounts for Medicaid behavioral health services based on the Federal Medical Assistance Percentage for 2016-2017. The actual amount of GR-R is likely slightly lower due to some clients being eligible for enhanced match. (3) Additional funding for behavioral health Delivery System Reform Incentive Payment (DSRIP) projects is not included as discussed below.

DSRIP

In addition to the $6.7 billion in behavioral health funding shown in Figure 1, there are other funding streams outside the state budget for behavioral health services. For example, significant local and federal funding flows to Texas for behavioral health services through the five-year 1115 Texas Healthcare Transformation and Quality Improvement Wavier ("1115 Waiver"). The Delivery System Reform Incentive Payment ("DSRIP") program, part of the 1115 Waiver, provides incentive payments to providers for healthcare innovation and quality improvements. Currently, more than 400 behavioral health-related projects have been supported by DSRIP funding and have earned over $1.8 billion in incentive payments as of September 2016.[4] These projects have the potential to earn an additional $800 billion by the end of October 2017.[5]

Figure 2 shows behavioral health funding for FY 2016-2017 by program area.

Figure 2
Behavioral Health Funding for Fiscal Years 2016-2017 by Program[6]



	Health and Human Services (Non-Medicaid)	Criminal Justice, Military Department	Higher Education, General Government, Regulatory Agencies	Medicaid	DSRIP
All Funds	$2,887.9	$666.0	$38.3	$3,098.9	$542.7
Federal/Other Funds	$830.6	$18.2	$13.1	$1,757.5	$542.7
GR Funds	$2,057.3	$647.8	$25.2	$1,341.4	$-

Notes: (1) Medicaid expenditures include all claims with a primary diagnosis code that represents a behavioral health condition. (2) Estimated FY 2016 and FY 2017 Medicaid expenditures are proportioned from prior year's mental health costs to total costs, and applied to forecasted costs. NorthSTAR costs are included with the Department of State Health Services (DSHS) in FY 2016 and four months of FY 2017 as appropriated. (3) DSRIP is funded at the federal matching assistance percentage, which varies each year and is approximately 58%. The non-federal share of DSRIP payments (about 42%) comes from intergovernmental transfers from local and state public entities. The DSRIP figures shown here represent the federal funds share of the payments only to avoid possibly double counting the non-federal share of the payments, which may already be counted in other expenditure figures, such as those provided by DSHS.

Statewide Behavioral Health Coordination

Often times, when an individual seeks behavioral health services from the state, their needs are not limited to one state agency. Many in this population float from the criminal justice system to our health agencies. Others have specific needs that span multiple agencies. Behavioral health services dispersed across multiple agencies could be a cause of confusion for clients, providers and others navigating the state's behavioral health system. Further, mental health funding flows to multiple state agencies without guarantee that state dollars are being spent in the most efficient and effective manner. It is important for agencies to consistently use best practices, avoid duplicating services, address gaps in services, leverage expertise of other agencies, and work toward similar outcomes. With that in mind, over the last two sessions the Legislature considered ways to promote a *system-wide* approach to mental health and substance abuse, ensuring that no matter which agency an individual enters, they are getting the care they need in the most efficient and effective manner.

The 83rd Legislature created a new position for a Statewide Mental Health Coordinator, who is charged with consulting and coordinating with state agencies and local governments to ensure a strategic statewide approach to mental health.[7] The position was established at an executive level within HHSC in order to give the coordinator broad authority to bring together agencies for effective coordination.

The 84th Legislature further strengthened coordination by creating a more formal entity to carry out coordination efforts and by tying FY 2017 funding to certain requirements. Last session, the Legislature established a Statewide Behavioral Health Coordinating Council, charged with developing a coordinated strategic plan and expenditure proposal for the delivery of behavioral health services in Texas.[8]

<u>Statewide Behavioral Health Coordinating Council Membership</u>

The Statewide Behavioral Health Coordinating Council ("Council") is chaired by the Statewide Mental Health Coordinator at HHSC and includes representatives from the following state agencies:

- The Office of the Governor
- Veterans Commission (TVC)
- Health and Human Services Commission (HHSC)
- Department of Aging and Disability Services (DADS)
- Department of Family and Protective Services (DFPS)
- Department of State Health Services (DSHS)
- Texas Civil Commitment Office (TCCO)
- The University of Texas Health Science Center at Houston (UTHSC—Houston)
- The University of Texas Health Science Center at Tyler (UTHSC—Tyler)
- Department of Criminal Justice (TDCJ)
- Juvenile Justice Department (TJJD)
- Military Department
- Health Professions Council (represents the Medical Board, Board of Pharmacy, Board of Dental Examiners, Board of Nursing, Optometry Board, and Board of Veterinary Medical Examiners)

- Texas Education Agency (TEA) (voluntary member)

Membership of the Council was determined based on state agencies that receive General Revenue funding for behavioral health services. This methodology was a first step to identifying agencies that are most critical in the delivery of mental health services in Texas and was not intended to be an exhaustive list of entities that interface with Texans with behavioral health needs. There may be opportunities for additional state agencies to provide expertise to the Council to help address gaps in the behavioral health system. For example, one of the biggest issues facing individuals with mental illness is access to affordable, supportive housing. The addition of the Texas Department of Housing and Community Affairs to the Council would provide expertise about ways to address housing needs for those with mental illness. Other agencies or entities that would provide value to the Council are the Texas Workforce Commission, to assist with workforce-related issues for individuals with mental illness, and additional university systems that have a focus on behavioral health issues.

Conversely, there may be agencies currently serving on the Council that should not be required participants. For example, after initial Council meetings, it was determined that the Texas Health Professions Council (HPC), representing agencies such as the Texas Board of Dental Examiners, Texas Optometry Board, and the Texas Board of Veterinary Medical Examiners, should not be required to participate as ongoing members of the Council because the work of the HPC fell outside the scope of the Council's focus. The HPC does not provide behavioral health services as part of its mission, rather its role is to coordinate regulatory efforts among the various health care licensing boards it represents.

Strategic Plan

The Council was charged with developing a five-year Statewide Behavioral Health Strategic Plan ("Strategic Plan") for the time period 2017 through 2021. The Strategic Plan is required to include:

- an inventory of behavioral health programs and services currently offered by state agencies and institutions of higher education;
- a report on the number of persons served with mental illness and/or substance abuse by each agency; and
- a detailed plan to coordinate these programs and services in order to eliminate redundancy, utilize best practices, perpetuate identified, successful models for mental health and substance abuse treatment, ensure optimal service delivery, and identify and collect comparable data on results and effectiveness.[9]

In developing the Strategic Plan, the Council met numerous times during a seven month period from November 2015 to May 2016. The Council sought input from a number of stakeholder groups, including: behavioral health providers, consumers, family members, Behavioral Health Advisory Committee members, think tanks, and local and state agency representatives.[10] Based on stakeholder input, the Council developed 15 major gaps and challenges related to coordination, access, and service provision within the behavioral health system. The Council then developed draft goals and objectives and asked stakeholders to prioritize and rank objectives under each goal through a statewide online survey.

The final Strategic Plan includes the following five major goals:

- **Goal 1: Program and Service Coordination –** Promote and support behavioral health program and service coordination to ensure continuity of services and access points across state agencies.
- **Goal 2: Program and Service Delivery –** Ensure optimal service delivery to maximize resources in order to effectively meet the diverse needs of people and communities.
- **Goal 3: Prevention and Early Intervention Services –** Maximize behavioral health prevention and early intervention services across state agencies.
- **Goal 4: Financial Alignment –** Ensure that the financial alignment of behavioral health funding best meets the needs across Texas.
- **Goal 5: Statewide Data Collaboration –** Compare statewide data across state agencies on results and effectiveness.[11]

Each of these goals have objectives with corresponding strategies to achieve that objective. Additionally, each strategy is linked to any of the 15 major gaps and challenges identified by the Council and stakeholders. On May 1, 2016, the HHSC Executive Commissioner approved the Strategic Plan and notified the LBB of the approval, as directed by the Legislature.[12]

The Strategic Plan can be found at http://www.hhsc.state.tx.us/reports/2016/050216-statewide-behavioral-health-strategic-plan.pdf.

<u>Expenditure Proposal</u>

The Council is also required to develop a Coordinated Statewide Behavioral Health Expenditure Proposal ("Expenditure Proposal") for each agency.[13] One of the primary purposes of the Expenditure Proposal is to ensure that state dollars appropriated for mental health purposes are being spent towards the same common goals in a coordinated manner. The Legislature, therefore, made FY 2017 behavioral health funding contingent upon the Council producing an Expenditure Proposal that demonstrates how their FY 2017 appropriations will be spent in accordance with, and to further the goals of, the Strategic Plan.[14]

On June 1, the HHSC Executive Commissioner approved the Council's Expenditure Proposal and submitted the proposal to the LBB, as directed by the Legislature.[15] As required, the Expenditure Proposal links FY 2017 appropriations to the goals, objectives and strategies developed in the Strategic Plan.[16]

The Expenditure Proposal was approved by the LBB on August 1, 2016. The Expenditure Proposal can be found at http://www.hhsc.state.tx.us/news/presentations/2016/fy-2017-csbh-expenditure-proposal.pdf.

Defining Behavioral Health Spending

Over the past two years, our state has made significant progress both in directing resources to behavioral health and measuring behavioral health spending across state government. For the first time, the state can point to a single number for how much behavioral health funding runs through the budget ($6.7 billion All Funds). Since developing the budget, periodic adjustments have been made as agencies continue to look more closely at their appropriations and/or adjust for items not initially known. As a result, behavioral health-related appropriations produced in the Council's Expenditure Proposal vary slightly from amounts identified in the FY 2016-2017 budget. For example, in the Expenditure Proposal, TDCJ reported an increase of $2.9 million in behavioral health-related appropriations over the amount included in the budget due to additional funding in strategies not originally identified as behavioral health funding.[17] Conversely, updated projections and revisions made in the HHSC budget for items unknown at the time the budget was finalized results in a $1.9 million decrease.[18] Behavioral health spending will continue to be nominally adjusted as agencies fine-tune what constitutes behavioral health spending. The LBB should receive regular updates as further modifications are made.

Additionally, efforts are needed to improve the quality of data collected by each agency in order to better identify behavioral health spending. For example, TEA is a voluntary Council member but was not included in the Expenditure Proposal because while TEA receives appropriations for behavioral health services, it does not yet have the ability to separate behavioral health funding from other funding. Similarly, DFPS provides funding to Residential Treatment Centers (RTCs) to provide a variety of services to children in the foster care system, including behavioral health services. However, DFPS is unable to disaggregate behavioral health funding from other funding to RTCs. These examples demonstrate the extent to which mental health is embedded in the array of services the state delivers. Agencies need to develop a methodology to more precisely identify and track behavioral health expenditures.

Conclusion

The creation of the Council was intended to facilitate better coordination and collaboration among our state agencies in order to create a more efficient and effective behavioral health system. Although the services an individual receives will vary by state agency, the ultimate goal is to create a comprehensive statewide behavioral health system so that regardless of which agency a person goes to for help, they are getting the critical care they need. The Legislature's creation of the Statewide Mental Health Coordinator and the Statewide Behavioral Health Coordinating Council were significant steps toward that goal. However, the most important work lies ahead - as the focus of the Council should now turn to putting its Strategic Plan into action.

Recommendations

1. **Continue the work of the Statewide Behavioral Health Coordinating Council.**

2. **The Council should develop an implementation plan for the Strategic Plan.**

   The Council should enlist assistance from various agencies and stakeholders to help develop the implementation plan.

   The implementation plan should include:
   - A detailed roadmap to execute the Council's goals, objectives, and strategies identified in the Strategic Plan.
   - A timeline for implementation.

- A clear delegation of tasks and responsibilities across Council agencies.
- Metrics to determine whether the implementation of various goals, objectives, and strategies is achieving its intended purposes.
- A process to monitor implementation.

3. **The Council may recommend modifying its membership in order to better meet the needs of Texans with behavioral health needs.**

4. **The Council should work collectively to develop common statewide outcome measures.**

5. **Council agencies should work to better identify behavioral health spending within their budgets, and develop better methodologies to track this spending when necessary.**

6. **The Council should provide LBB with updated expenditure documents and inventory documents regarding behavioral health programs on a regular basis.**

7. **The Council should evaluate every behavioral health-related Exceptional Item in agencies' FY 2018-2019 Legislative Appropriations Requests to ensure each request is aligned with the goals, objectives and strategies outlined in the Strategic Plan.**

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[1] 2016-17 General Appropriations Act, H.B. 1, 84th Legislature, Regular Session, 2015 (Article IX, Section 10.04).
[2] Senate Finance Committee hearing, March 30, 2016.
[3] Legislative Budget Board and affected agencies. A similar chart was included in the FY 2016-2017 budget. Adjustments were made to reflect the final version of the bill and Governor's vetoes. Medicaid funding for behavioral health services, although included in the Health and Human Services Commission (HHSC) budget, is listed separately because it was acquired at a later date.
[4] Email from HHSC on October 31, 2016.
[5] *Id.*
[6] *Id.* at 15, altered by HHSC for the purposes of this report.
[7] 2014-15 General Appropriations Act, S.B. 1, 83rd Legislature, Regular Session, 2013 (HHSC Rider 82).
[8] 2016-17 General Appropriations Act, H.B. 1, 84th Legislature, Regular Session, 2015 (Article IX, Section 10.04).
[9] *Id.*
[10] Texas Statewide Behavioral Health Strategic Plan, Statewide Behavioral Health Coordination Council, pg. 2.
[11] *Id.* at 30.
[12] 2016-17 General Appropriations Act, H.B. 1, 84th Legislature, Regular Session, 2015 (Article IX, Section 10.04).
[13] *Id.*
[14] *Id.*
[15] *Id.*
[16] Coordinated Statewide Behavioral Health Expenditure Proposal, Statewide Behavioral Health Coordinating Council, June 2016.
[17] Email from the Legislative Budget Board, July 13, 2016.
[18] *Id*.

Interim Charge #5 - Sales Tax Holiday

Interim Charge Language: *Review the state's current sales tax holiday structure and determine its economic benefit to the state. Evaluate and consider the merits of any potential expansion of the tax holiday either in the application of the sales tax exemption or the timing of the holiday.*

Hearing Information

The Senate Finance Committee held a hearing on March 30, 2016 to discuss Interim Charge #5 related to sales tax holidays. Representatives from the Texas Comptroller of Public Accounts, Legislative Budget Board, Texas Retailers Association, and Center for Public Policy Priorities provided invited testimony. All witness testimony and information can be found http://www.senate.texas.gov/75r/senate/commit/c540/c540.htm.

Introduction and Background

Current Sales Tax Holiday Structure

- Texas currently has sales tax holiday weekends for four types of items.[1] Included in the sales tax holiday weekends are:
- clothing, shoes and school supplies;
- energy-efficient products;
- emergency preparation supplies; and
- water-efficient products.[2]

The chart below from the Comptroller describes the types of items included in each sales tax holiday weekend, the related tax code provision, the schedule for each weekend, and includes the Comptroller's projected tax savings associated with each weekend.

Name	Tax Code Section	Exempt Items	2016 Dates	Total Estimated Tax Savings
Clothing and Footwear; School Supplies and Backpacks	Sec. 151.326 and Sec. 151.327	Extensive list: See Rule 3.365 and CPA website for details. Generally, articles of clothing, all footwear not specifically designed to be worn only for athletic activity, backpacks, and school supplies, all w/sales price less than $100.	Friday, August 5 – Sunday, August 7	2016 = $91.9 million 2017 = $97.86 million 2018 = $103.31 million 2019 = $109.07 million 2020 = $115.43 million
ENERGY STAR Sales Tax Holiday (Energy-Efficient Products)	Sec. 151.333	Products designated as Energy Star under the joint EPA/Dept. of Energy program. Includes air conditioners w/sales price of $6,000 or less, clothes washer, ceiling fan, dehumidifier, dishwasher, incandescent/fluorescent lightbulb, programmable thermostat, and refrigerator w/sales price of $2,000 or less. Also see Rule 3.369.	Saturday, May 28 – Monday, May 30	2016 = $3.97 million 2017 = $4.1 million 2018 = $4.23 million 2019 = $4.36 million 2020 = $4.48 million
Emergency Preparation Supplies	Sec. 151.3565	Statute restricts to: portable generator w/sales price less than $3,000; storm protection device designed to prevent damage to glazed or non-glazed opening or a rescue ladder all w/sales price less than $300; reusable or artificial ice, portable/self-powered light source, gasoline container, batteries other than car or boat batteries, nonelectric cooler, tarp, tie-down kit, cell phone battery or charger, portable radio, fire extinguisher, smoke detector, or carbon monoxide detector, hatchet or axe, first aid kit, or a nonelectric can opener all w/sales price less than $75. Also see Rule 3.353.	Saturday, April 23 – Monday, April 25	2016 = $1.41 million 2017 = $1.47 million 2018 = $1.54 million 2019 = $1.6 million 2020 = $1.66 million
Water-Efficient Products	Sec. 151.3335	Proposed Rule 3.369 published in Texas Register for public comment. Statue restricts to tangible personal property used on private residential property (not for business) that may result in water conservation or groundwater retention, water table recharge, or a limiting of water evaporation. This includes a soaker or drip-irrigation hose, a moisture control for a sprinkler or irrigation system, mulch, a rain barrel or rain collection system, or permeable ground cover surface.	Saturday, May 28 – Monday, May 30	2016 = $4.79 million 2017 = $5.13 million 2018 = $5.34 million 2019 = $5.63 million 2020 = $5.81 million

Recent Legislative History

Prior to the 84th Legislative session, two sales tax holiday weekends were in effect, one for clothing, shoes and school supplies, and one for energy-efficient products. Although the clothing, shoes and school supply sales tax holiday weekend is generally thought of as one holiday, the items included in this exemption are in two separate statutes. One statute includes clothing and footwear, while the other statute includes school supplies and backpacks.

During the 84th Legislative session, at least 23 sales tax holiday bills were filed.[3] Two sales tax holiday bills filed in the 84th Legislative session became law, Senate Bill 904 (Hinojosa), exempting emergency preparation supplies, and Senate Bill 1356 (Hinojosa) exempting water-efficient products, highlighted below.[4] Senate Bill 228 (Creighton), exempting firearms and hunting supplies, was the only other sales tax holiday bill to pass out of the Senate.[5]

Bill Number	Author	Caption	Status
HB 1737	Fallon	Relating to an exemption from the sales tax for firearms and hunting supplies for a limited period.	Referred to Ways and Means
HB 206	Leach	Relating to an exemption from the sales tax for firearms and hunting supplies for a limited period.	H. Committee Action Pending
HB 712	Springer	Relating to an exemption from the sales tax for firearms and firearm supplies for a limited period.	H. Committee Action Pending
HB 849	Paddie	Relating to an exemption from the sales tax for firearms and hunting supplies for a limited period.	Referred to Finance
SB 228	Creighton	Relating to an exemption from the sales tax for firearms and hunting supplies for a limited period.	H. Removed from Hearing
HB 2603	D. Bonnen	Relating to a sales and use tax exemption for gun safety devices for a limited period.	Referred to Ways and Means
HB 491	Hernandez	Relating to exempting textbooks purchased, used, or consumed by university and college students from the sales and use tax for limited periods.	Referred to Ways and Means
HB 641	Canales	Relating to exempting textbooks purchased, used, or consumed by university and college students from the sales and use tax for limited periods.	Referred to Ways and Means
HB 728	Lucio	Relating to exempting books purchased, used, or consumed by university and college students from the sales and use tax for a limited period.	Referred to Ways and Means
SB 157	Zaffirini	Relating to exempting books purchased, used, or consumed by university and college students from the sales and use tax for a limited periods.	S. Removed from Hearing
SB 232	Schwertner	Relating to exempting textbooks purchased, used, or consumed by university and college students from the sales and use tax for limited periods.	Referred to Finance
HB 351	Giddings	Relating to the exemption from the sales tax for certain school art supplies during limited periods.	H. Committee Action Pending
SB 1249	West	Relating to a sales and use exemption for ink cartridges for a limited period.	Referred to Finance
HB 2492	Darby	Relating to exemption from the sales tax for certain water-efficient products for a limited period.	Set on House Calendar
HB 3719	T. King	Relating to an exemption from the sales tax for certain water-conserving products for a limited period.	H. Committee Action Pending
SB 1356	Hinojosa	Relating to exemption from the sales tax for certain water-efficient products for a limited period.	Effective
HB 2693	Paul	Relating to exemptions from the sales tax. [Emergency preparation supplies.]	Referred to Ways and Means
SB 904	Hinojosa	Relating to exempting emergency preparation supplies from the sales and use tax for a limited period.	Effective
HB 1625	Faircloth	Relating to an exemption from the sales and use tax for certain lightbulbs for a limited period.	Referred to Finance
HB 2694	Button	Relating to an exemption from the sales tax for certain items sold by small businesses in this state during a limited period.	H. Committee Action Pending
HB 1087	Bohac	Relating to a sales tax exemption for certain items sold during a limited period.	Referred to Ways and Means
SB 1688	Huffines	Relating to the Memorial Day weekend sales tax exemption period.	Referred to Finance
SB 426	Ellis	Relating to a sales tax exemption for certain items sold during a limited period.	Referred to Finance

Sales Tax Holidays' Tax Incidence

A tax incidence analysis estimates how the imposition of a tax affects the distribution of income on each household income quintile.[6] When analyzing a tax exemption, such as sales tax holidays, a tax incidence analysis will show how much taxes are reduced for each household income quintile.[7] In addition, the tax incidence analysis shows the effective tax rate by household income quintile and the amount of tax paid or saved by out of state residents.[8]

The charts below provided by the Legislative Budget Board are tax incidence analyses for the sales tax holidays related to clothing and footwear, school supplies and backpacks, and energy-efficient products.[9] These tax incidence analyses were conducted prior to the enactment of the emergency preparation supplies and water-efficient products sales tax holiday weekends, so analyses for these items have not yet been conducted.

Sales Tax Holidays: Clothing & Footwear

Final Incidence of Clothing & Footwear Holiday -- FY 2017

Quintile	Household Income	Amount (millions)	Percent of Total Tax Exemption	Tax as a Percent of Total Income
1	Less than $34,161	$6.4	9.1%	0.0220%
2	$34,161 - 61,955	$8.4	12.0%	0.0111%
3	$61,955 - 94,319	$11.9	17.0%	0.0098%
4	$94,319 - 147,411	$16.5	23.6%	0.0085%
5	$147,411 and higher	$25.8	37.0%	0.0047%
Residents		$68.9	98.7%	
Exported		$0.9	1.3%	
TOTAL		$69.8	100.0%	

Sales Tax Holidays: School Supplies & Backpacks

Final Incidence of School Supplies & School Backpacks Holiday -- FY 2017

Quintile	Household Income	Amount (millions)	Percent of Total Tax Exemption	Tax as a Percent of Total Income
1	Less than $34,161	$0.4	6.1%	0.0014%
2	$34,161 - 61,955	$0.5	8.0%	0.0007%
3	$61,955 - 94,319	$1.1	16.3%	0.0009%
4	$94,319 - 147,411	$1.6	24.9%	0.0009%
5	$147,411 and higher	$2.9	43.6%	0.0005%
Residents		$6.52	98.8%	
Exported		$0.08	1.2%	
TOTAL		**$6.6**	**100.0%**	

Sales Tax Holidays: Energy Efficient Products

Final Incidence of Energy Efficient Products Holiday -- FY 2017

Quintile	Household Income	Amount (millions)	Percent of Total Tax Exemption	Tax as a Percent of Total Income
1	Less than $34,161	$0.3	10.0%	0.0011%
2	$34,161 - 61,955	$0.4	11.9%	0.0005%
3	$61,955 - 94,319	$0.5	16.7%	0.0004%
4	$94,319 - 147,411	$0.7	23.2%	0.0004%
5	$147,411 and higher	$1.2	36.9%	0.0002%
Residents		$3.16	98.6%	
Exported		$0.04	1.4%	
TOTAL		**$3.2**	**100.0%**	

Other States Sales Tax Holidays

Nineteen states provide sales tax holidays, covering a wide range of items, most commonly including clothing and school supplies, computer equipment, and energy-efficient products.[10] The chart below lists other states' sales tax holidays, with their dates and the items included in each holiday.[11]

Sales Tax Holidays: Other States

Features of State Sales Tax Holidays, 2015

State	Dates	Clothing	School Supplies	Computers	Energy Star	Miscellaneous
Alabama	February 20-22					Generators $1,000; Hurricane supplies $60
Alabama	August 7-9	$100	$50	$750		Books - $30
Arkansas	August 1-2	$100	No Cap			Clothing accessories $50
Connecticut	August 16-22	$100				
Florida	August 1-3	$100	$15	$750		
Georgia	July 31-August 1	$100	$20	$1,000		
Georgia	October 2-4				$1,500	
Iowa	August 7-8	$100				
Louisiana	May 30-31					Hurricane supplies $1,500
Louisiana	August 7-8					All purchases of tangible personal property up to $2,500
Louisiana	September 4-6					Firearms, ammunition, and hunting supplies (no cap)
Maryland	February 14-16				No Cap	
Maryland	August 9-15	$100				
Massachusetts	August 15-16					All purchases of tangible personal property up to $2,500
Mississippi	July 31-August 1	$100				
Mississippi	September 4-6					Firearms, ammunition, and hunting supplies (no cap)
Missouri	April 19-25				$1,500	
Missouri	August 7-9	$100	$50	$3,500		Computer software: $350
New Mexico	August 7-9	$100	$30	$1,000		Other Computer Hardware: $500
New Mexico	November 1-3				No Cap	
Ohio	August 7-9	$75	$20			School instructional material up to $20
Oklahoma	August 7-9	$100				
South Carolina	August 7-9	No Cap	No Cap	No Cap		Towels and Bedding - No Cap
Tennessee	August 7-9	$100	$100	$1,500		
Texas	May 23-25				$6k - AC $2k - fridge	
Texas	August 7-9	$100	$100			
Virginia	August 7-9	$100	$20		$2,500	Generators $1,000; Hurricane supplies $60

Conclusion

Testimony and documents submitted show sales tax holidays provide economic benefits in varying measures. Sales tax holidays are estimated to have provided over $90 million in tax savings in 2015 and are projected to provide almost $130 million by 2020.[12] The vast majority of these tax savings are associated with the sales tax holidays for clothing, shoes and school supplies, which are projected to be $91.9 million in 2016 alone.[13]

The sales tax incidence analyses included in this report show that individuals in the quintile with the lowest level of household income save the most in taxes, when comparing tax savings as a percent of total household income. However, households in the highest quintile of household income have the greatest amount of dollars saved. This knowledge of how sales tax holidays affect different household incomes will be helpful in examining how any adjustments to sales tax holidays could be beneficial.

Although this committee has discussed the economic benefit sales tax holidays provide, it is also important to note that economic benefit is not always the sole purpose behind sales tax holidays. For example, there are sales tax holidays designed to promote the purchase of items or encourage certain behaviors. The sales tax holiday enacted last session for emergency supplies and hurricane-proofing materials is designed to encourage Texans to be better prepared for weather related emergencies.[14] Other sales tax holidays are designed to provide a competitive advantage for a state's businesses and citizens, such as Senate Bill 228 (Creighton), which attempted to preempt neighboring states' sales tax holidays.[15] To fully understand a sales tax holiday's benefit, it must also be examined within the context of its purpose.

Sales tax holiday legislation will likely be filed next session, and when evaluating these bills, it is important to consider both the economic benefit and the purpose of the bill, and whether it will achieve the intended goals.

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[1] Texas Comptroller Presentation, Sales Tax Holiday Interim Charge hearing, Pg. 1.
[2] *Id*.
[3] Texas Comptroller Presentation, Sales Tax Holiday Interim Charge hearing, Pg. 2.
[4] *Id*.
[5] *Id*.
[6] Legislative Budget Board, Sales Tax Holiday Interim Charge hearing, Pg. 5.
[7] *Id*.
[8] *Id*.
[9] *Id*. at Pg. 7, 8, 9.
[10] Legislative Budget Board, Sales Tax Holiday Interim Charge hearing, Pg. 2.
[11] *Id*. at Pg. 3 and 4.
[12] Texas Comptroller Presentation, Sales Tax Holiday Interim Charge hearing, Pg. 1 and Texas Comptroller's estimates.
[13] Texas Comptroller estimates.
[14] SB 904 (Hinojosa), 84th Leg. Bill Analysis, Pg. 1.
[15] SB 228 (Creighton), 84th Leg. Bill Analysis, Pg. 1.