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ANALYSIS

1990-1991 Spending Budget Balanced With No New Taxes

Despite some predictions to the contrary when the session began, the members of the 71st Legislature, much to their relief, were able to balance another record level appropriations bill without the need to pass any new taxes. The \$47.3 billion all funds budget for the 1990-1991 biennium represents an 11.6% increase (nearly \$5 billion) over the current biennial operating level.

Several key strategies were used to balance the budget. Although no new taxes were enacted, over \$1.1 billion in additional tax revenues resulted from legislation which resolved several legal challenges to existing taxes and enhanced tax administration. The use of bonds for prison and other construction freed up hundreds of millions for operating expenditures. By far the most noteworthy and creative element of the legislature's budget balancing game plan was approval of a set of accounting transactions which enabled the Comptroller to certify more than \$1.1 billion in additional revenue. Most of this added "income" results from a **one-day only transfer** of the balances in hundreds of special funds into the general revenue fund on the last day of the biennium.

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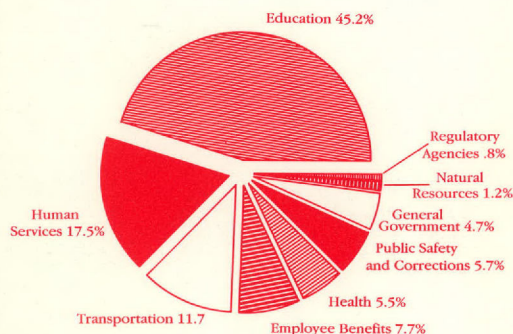
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SPENDING PATTERNS CHANGE

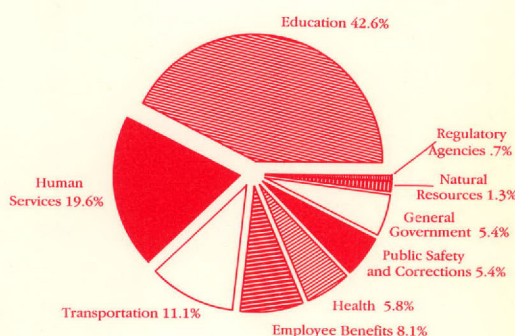
The two charts below compare the current spending pattern with that anticipated for 1990-1991, and show some significant shifts.

Despite an increase of more than \$910 million, the share of state spending allocated to education programs declined from 45.2% of current spending to 42.6% in the new budget. By far the biggest gain came in human services which increased its budget share from a current level of 17.5% to 19.6%, due to a spending hike of \$1.8 billion. For the most part the proportional share in other areas changed only modestly.

1989 Biennial Operating Level



1990-1991 Appropriations



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Biennial Appropriations 1989 Operating Level and 1990-1991 Appropriations (Thousands of Dollars)

	1989 Biennial Operating Level	1990-1991 Appropriations Bill	Governor Vetoed	1990-1991 Appropriations	Increase/(Decrease) Amount Percent	
EDUCATION						
-Public Schools	\$12,145,420	\$12,875,964	\$	\$12,875,964	\$ 730,545	6.0%
-Universities	3,606,785	3,462,676		3,462,676	-144,109	-4.0
-Medical and Dental	1,893,532	1,879,356		1,879,356	-14,176	-0.7
-Junior Colleges	822,093	1,022,439		1,022,439	200,346	24.4
-Other	693,286	832,760	1,100	831,660	138,374	20.0
Total Education	\$19,161,117	\$20,073,196	\$ 1,100	\$20,072,096	\$ 910,980	4.8%
HUMAN SERVICES						
-Dept. of Human Services	\$ 6,553,514	\$ 8,293,447	\$	\$ 8,293,447	\$ 1,739,933	26.5%
-Employment	307,859	335,979	500	335,479	27,620	9.0
-Rehabilitation	305,418	313,593		313,593	8,175	2.7
-Other	256,694	275,941		275,941	19,248	7.5
Total Human Services	\$ 7,423,485	\$ 9,218,961	\$ 500	\$ 9,218,461	\$ 1,794,976	24.2%
TRANSPORTATION						
-Highways & Public Transit	\$ 4,953,458	\$ 5,194,263	\$	\$ 5,194,263	\$ 240,805	4.9%
-Other	18,322	18,355	2,755	15,600	-2,722	-14.9
Total Transportation	\$ 4,971,781	\$ 5,212,619	\$ 2,755	\$ 5,209,863	\$ 238,083	4.8%
EMPLOYEE BENEFITS						
-Retirement & Insurance	\$ 2,374,284	\$ 2,866,036		\$ 2,866,036	\$ 491,752	20.7%
-Social Security	890,929	965,158		965,158	74,229	8.3
-Other	840	957		957	117	13.9
Total Employee Benefits	\$ 3,266,053	\$ 3,832,151		\$ 3,832,151	\$ 566,098	17.3%
HEALTH						
-Mental Health & Mental Retardation	\$ 1,501,684	\$ 1,770,806		\$ 1,770,806	\$ 269,122	17.9%
-Dept. of Health	700,099	757,806		757,806	57,707	8.2
-Other	133,338	188,153		188,153	54,815	41.1
Total Health	\$ 2,335,121	\$ 2,716,765		\$ 2,716,765	\$ 381,644	16.3%
PUBLIC SAFETY & CORRECTIONS						
-Prison System	\$ 1,659,305	\$ 1,452,520	\$	\$ 1,452,520	\$ -206,785	-12.5%
-Public Safety	322,781	421,068		421,068	98,288	30.5
-Other	434,653	659,887	2,485	657,402	222,749	51.2
Total	\$ 2,416,739	\$ 2,533,475	\$ 2,485	\$ 2,530,991	\$ 114,251	4.7%
GENERAL GOVERNMENT						
-General Services	\$ 1,232,717	\$ 1,615,501	\$ 49	\$ 1,615,452	\$ 382,735	31.0%
-Economic Development and Intergovernmental Agencies	770,965	929,474	965	928,509	157,544	20.4
Total	\$ 2,003,682	\$ 2,544,975	\$ 1,013	\$ 2,543,961	\$ 540,279	27.0%
NATURAL RESOURCES						
Total	\$ 528,498	\$ 607,928	\$ 3,258	\$ 604,669	\$ 76,171	14.4%
REGULATORY AGENCIES						
Total	\$ 317,005	\$ 345,401		\$ 345,401	\$ 28,396	9.0%
TOTAL						
Salary Increase	\$42,423,480	\$47,085,471	\$ 11,112	\$47,074,359	\$ 4,650,878	11.0%
250,000		250,000		250,000		
TOTAL APPROPRIATIONS	\$42,423,480	\$47,335,471	\$ 11,112	\$47,324,359	\$ 4,900,878	11.6%

Compared to What? ... The Search for an Appropriations Benchmark

The table on the opposite page compares 1990-1991 appropriations for all funds to 1989 biennial operating level spending. Although this is perhaps the most convenient and frequently used basis for comparison, it is by no means the only one possible. In fact, one of the first tasks in analyzing a new biennial appropriations bill is to decide what measure, or benchmark, of spending for the current biennium is the most appropriate for purposes of comparison; and this job is not nearly as easy as it might seem. Several critical choices have to be made.

The first choice involves whether to compare spending for all funds or only for general revenue-related funds which comprise about 60% of the total budget. Each option has its advantages.

Obviously, using anything short of all funds does not give a complete picture of state spending. However, the general revenue-related funds receive the bulk of state taxes and their appropriation most directly impacts the need for additional taxes.

General revenue-related appropriations for 1990-1991 amount to \$28.3 billion out of the \$47.3 billion all funds budget. This represents a 14.7% increase over the current biennial operating level of \$24.7 billion. This compares to an increase of 11.6%, or \$4.9 billion, for all funds.

By far the largest source of non-general revenue monies is federal funds which amount to \$11.3 billion, or almost one-fourth of the total budget. Another major source of non-general revenue funds is the dedicated revenues, primarily gasoline taxes, which flow into the state highway fund, totalling \$3.9 billion.

Several options are available for quantifying the spending level approved for the current 1988-1989 biennium. First are the totals included in the 1988-1989 appropriations bill at the time of its adoption. This all funds total for 1988-1989 was \$38.2 billion.

Another option is actual expenditures for FY 1988 combined with budgeted spending for FY 1989. These numbers are submitted to the legislature at the beginning of each session by the Legislative Budget Board (LBB) as part of the board's budget recommendations. This expended 1988/budgeted 1989 total was \$41.2 billion for all funds.

A third option is the "current services," or 1989 X 2, measure of current spending. As implied, a biennial spending total is obtained by simply doubling approved expenditures for the second year of the current biennium. This results in somewhat higher spending totals because appropriations for the second year of a biennium are greater than for the first due to a number of factors such as caseload and

school enrollment increases. For example, expenditures for FY 1988 totalled \$20 billion, and \$21.2 billion was budgeted for FY 1989.

This current services, or current operating level, approach is presently the most widely used option since it is the benchmark now employed by the LBB for comparative purposes during the budget process. This is an attempt to show the amount of funding required to finance current activities for a two-year period. Using this measure, current biennial spending for all funds equals \$42.4 billion.

Much of the difficulty in choosing a basis for comparing appropriations from one biennium to the next stems from the fact that almost one-half of the total, 48% of the 1990-1991 budget, is comprised of estimated-to-be appropriations. Often additional spending above the estimated amounts is specifically authorized if higher than anticipated revenues are received during the biennium. Federal funds, the best example, are almost all appropriated on an estimated basis with authority to spend whatever funds are received. Basically, these same principles also apply to appropriations of several important state funds such as the available school and available university funds which together account for almost \$2.5 billion.

It should be emphasized that the reverse is not usually the case, and spending above actual revenues generally is not authorized by an estimated-to-be appropriation. If anticipated revenues are not realized, spending is reduced accordingly and a potential fiscal crisis is thereby avoided. It also should be stressed that most general revenue-related funds are appropriated on a sum certain basis only.

Naturally there are some exceptions to this general rule. For example, most of the \$3.5 billion, or about 13%, of general revenue which is **appropriated** at estimated-to-be amounts is used to fund the state's share of state employee and teacher retirement and insurance programs. Whatever spending results from mandated contribution rates must be met, even if a budget deficit is the result. Retiring any deficit is the first budget responsibility of the next legislature. For a number of reasons, not the least of which is the use of sophisticated and fiscally conservative budget estimates, the chances of incurring such deficits are remote.

However, it is a good bet that actual expenditures for 1990-1991 will exceed the \$47.3 billion appropriations bill total. In many respects this total should be viewed more as a minimum rather than a maximum spending authorization.

PUBLIC EDUCATION LEGISLATION



Two years of legislative, judicial, and public attention and five months of haggling in various committees resulted in agreements to continue the Texas Education Agency, and to alter the local school financing formula. Legislation concerning dropouts was approved, as were numerous pilot programs, requested studies and advisory groups.

Education proponents in both the House and Senate had proposed massive six-year funding increases that would have required a tax hike this year and probably others in the future. The Senate approved an increase, but House members balked at the proposal.

What did result in the final minutes of the session was a bill to increase the already-approved \$12.3 billion education appropriation by another \$450 million, with \$360 million of that amount for equalization payments to property-poor districts. The extra funds brought the state's contribution for public education to \$12.7 billion, up 7.2% over the current biennium. More than 20% (\$175 million) of the total \$859 million increase was automatically triggered by the effect of enrollment growth on funding formulas.

Basic Program. The first tier of the foundation school program (FSP) received minor adjustment. The basic allotment per student was raised from \$1,350 to \$1,477 in 1989-90, and to \$1,500 thereafter; the regional price variations index was revalued for this biennium and will be revamped for the next, and minimum teacher salaries at each step were upped \$180 per month. (Most teachers are paid at levels above the minimum and may not be affected by this change.) The current statutory weights associated with students in extra cost programs (such as vocational, special, and bilingual education) will remain the same during 1990-1991, but thereafter can be set by State Board of Education rules with legislative approval.

Local school districts' share of the basic program is unchanged at 33.3% of the total cost (or an average tax rate of 33.3¢) apportioned based on local property values. Districts are required for the first time to raise their local share in order to qualify for FSP funds. (This is largely a symbolic move because all districts are above that tax level.) Starting in the 1990-91 school year, districts must levy a 70¢ tax rate before they can receive funds under the small/sparse and regional price variations components.

Local Effort Considered. The current finance formula distributes \$1 billion for the biennium in enrichment equalization aid to districts below 110%

of average property wealth. (In 1988, the average statewide property value per student was \$198,732). The poorer the district, the more aid it receives per weighted student.

The new equalization formula retains the concept of graduated assistance based on property wealth per student, but adds an important change. Only those districts that tax at a rate higher than that needed to raise the locally-assigned portion of the basic program cost will share in the nearly \$1.4 billion in state aid. Each penny of excess tax effort up to 36¢ is guaranteed to bring \$18.25 per **weighted student** in state and local funds.

Facilities Help. Texas is one of only 10 states that does not help fund school facilities, even though school debt here is the highest in the nation. In some districts, high debt service tax rates prevent spending more on program enrichment. As a first step toward possible state assistance in facilities funding, the legislature directed that an inventory be made of the use, condition and replacement cost of school facilities.

Voters will be asked in November to approve a constitutional amendment to permit issuance of up to \$750 million in revenue bonds with proceeds used to make loans to districts or to purchase school bonds. Pooled sales (backed by the Permanent School Fund (PSF) corpus) of small bond issues from more than one district are expected to reduce bond interest costs. Loan repayment is assured by the ability to withhold state school aid from delinquent districts. This program is similar to a 1983 constitutional amendment that authorized the use of the PSF to guarantee school bonds.

The Sun Did Not Set on TEA. Also approved on the last day of the session was legislation continuing the Texas Education Agency following its sunset review. In addition to instituting routine audit and personnel policies, the act addressed areas of concern to the Sunset Commission, including special education programs, proprietary school supervision and monitoring, the accreditation process, and textbook selection procedures.

The Texas Education Agency's 1990-1991 appropriation for overseeing the state's public school programs was set at \$85.5 million, up 8.9% over the

current biennium.

Other Policy Changes. Other legislative changes require students to be in attendance 80 days per semester; lowers the age for compulsory school attendance from seven to six; allows schools to be open year-round; requires a more liberal alternative

TRANSPORTATION-RELATED LEGISLATION

Starting with what didn't happen during the regular session -- the Texas Aeronautics Commission (TAC) was not funded. More accurately, the governor vetoed the legislation, saying that TAC "in its present form and funding levels cannot adequately service the needs of the aviation community in Texas."

Funding had been getting progressively more problematic for TAC for some time. In FYs 1984-1985, it spent \$8.8 million, but since then TAC has fought hard just to keep its shrinking appropriations. For 1990-1991 the legislature had reduced the TAC budget to \$2.8 million, down 23% from the current biennium.

TAC was down but not out. The governor added the suggested merger of TAC into the Department of Highways and Public Transportation (DHPT) to the special session agenda.

In the special session, House support coalesced for TAC's continued independence and for a new name for the agency, Department of Transportation. The House bill added \$4.7 million for airport service and facilities development grants to the \$2.8 million previously approved, and gave the agency responsibility for distributing federal aviation funds to general aviation airports that are not relievers. The Senate agreed to all but the name, suggesting "Department of Aviation." The added funding and the new agency name were approved by the governor.

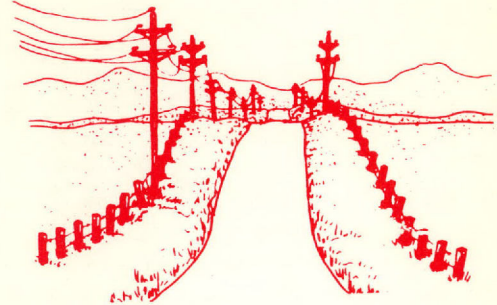
DHPT Holds its Own, Almost. The \$5.2 billion budgeted for DHPT is a 5% increase. Highway construction will account for \$3.6 billion or 69% of DHPT's budget, down 4%. Nearly \$3 billion is devoted to contractual work, with lesser amounts for pre-construction engineering and right-of-way acquisition.

Roadway maintenance will consume another \$1.2 billion or 23% of departmental spending. While maintenance work performed by agency crews accounts for the majority, a 13% increase for contractual work continues the privatization trend. Administration and support will receive 5% of the budget or \$262 million.

The \$138 million set aside for auxiliary operations

teacher certification process; and, starting in 1991, exempts districts from paying state motor fuel taxes.

Schools that show significant performance gains will be rewarded through the Governor's Educational Excellence Program, and more pilot projects will be aimed at students with problems.



is the biggest percentage gain (47.2%). The motor vehicle registration system will modernize its computer system, with funding to increase around 60% to \$87 million. The Intracoastal Waterway and off-system railroad grade protection appropriations were doubled to about \$1.5 million each.

The \$34.4 million earmarked for public transportation will be subject to a new distribution formula. The previous formulas favored larger metropolitan areas; now because of taxing abilities of transit authorities and departments, less populous urban and rural areas will be eligible for a greater percentage of the state's public transportation funds.

Federal funds are expected to support \$2 billion of DHPT's appropriation; the remaining \$3.2 billion comes, not from general revenues, but from the highway fund's motor fuel tax and vehicle registration fee receipts.

Highway Fund Gets Refund, Then Raided. In 1988-1989, the highway fund was tapped for a \$280 million interest free loan to the general revenue fund. So far, \$130 million has been repaid, but highway proponents were concerned that the remainder might be lost. To their relief, a bill authorizing the remaining repayment was passed and signed by the governor.

Originally the highway fund only paid for DHPT-developed roadways; then Department of Public Safety troopers policing state highways were added; now other transportation-related uses have been included as well. The troopers' share will jump from \$244.7 million to more than \$332 million. Another \$260 million will be used to fund programs only indirectly related to highways, such as roads at state MHMR and corrections institutions, diesel tax fraud investigations, and agricultural test check-

points. DHPT programs for public transportation and the Gulf Intracoastal Waterway also will be paid for out of the highway fund.

Etcetera. Soon your vehicle can help promote your alma mater and fund scholarships there. Or, if you prefer, it can support restoration of the state capitol building. Promotional license plates can be purchased for the modest additional sum of \$30, with \$25 going for your chosen cause.

The sole transportation-related tax bite to come out of the 70th session is an increase from \$5 to \$10 of the optional county motor vehicle registration fee (except in Harris County). So far, 206 counties have taken advantage of the previous law and adopted the \$5 county road and bridge fee option.

Persons with commercial drivers licenses face retesting under toughened federal standards, and they will pay for the privilege with higher fees.

Decreasing air pollution is the purpose of a bill applicable to certain state and local governments and agencies. School districts with over 50 buses, state agencies with 15 or more vehicles, and mass transit departments and authorities will be required

to purchase only vehicles that can run on compressed natural gas or other alternative fuels starting next biennium. By 1993, 30% of these respective fleets must be converted, and by 1996, 50%. The effectiveness of the program will be evaluated in 1996, with extension of the requirement possible. Some exemptions are granted.

Fast Track. Texas will soon have a High Speed Rail Authority. With a \$1 million rider appropriation, the authority will thoroughly analyze the financial and physical prospects of 150+ mph rail service between Houston and Dallas. The project will be a private development with a 50-year state franchise and eminent domain powers through DHPT.

The Authority's nine board members face a fast-paced work schedule. By January 1990 the authority will adopt rules, regulations and criteria and may solicit letters of intent. Proposals from prospective franchisees are due a month later, and full applications with nonrefundable \$500,000 application fees are to be filed three months after that. The board will evaluate the applications and award the franchise two months later.

FEDERAL MANDATES INFLATE HUMAN SERVICES BUDGET

Human Services. The real eye-catcher among 1990-1991 appropriations to state health and human service agencies is the \$1.7 billion increase in the Texas Department of Human Services budget, an increase of 27%. The good news is that \$1.5 billion of this increase is federal dollars; the biennial increase in **general revenues** is actually about 26%. Most of the increase comes in response to recent federal laws requiring all states to provide health benefits under Medicaid to additional pregnant women, infants, and the elderly poor. Higher federal standards for nursing home care will also result in much higher costs to states for Medicaid-covered nursing home recipients: almost 20% of the increase in TDHS' budget will be spent on nursing home care. Funds were also appropriated for new state laws that will increase the **number** of nursing home residents covered by Medicaid, restore a portion of 1986 cuts in rates paid by Medicaid to doctors and hospitals, and increase supplemental Medicaid payments to hospitals serving large proportions of indigent patients.

MHMR. Most of the \$269 million funding increase for the Department of Mental Health and Mental Retardation is devoted to compliance with



conditions of settlement agreements in federal court suits. Funds will be used to improve the staffing levels and quality of care in state hospitals and state schools, and to improve community-based services for mental health and mental retardation. Capital outlays of \$58.5 million (not included in the figure above) will go to renovation, repairs and construction of state and community facilities; \$48.5 million will be paid for with bond proceeds.

Health. Funding for the Department of Health is increased by a relatively modest \$58 million, half of which will come from federal funds. The two programs receiving the largest increases are Communicable Disease Control -- where AIDS prevention and education programs are centered -- and a special food program for mothers, infants and children. Only \$18.4 million is specifically earmarked for AIDS programs: the department had requested \$49.2 million. Much smaller increases

will help the department to meet increased licensure and certification costs resulting from federal nursing home reforms, and to perform all state-mandated inspections for water, milk, sanitation, occupational safety and industrial health, radiation control and solid waste.

Other Human Service Agencies. In the "all other" group of agencies, increases in funding from the last biennium range from 1.6% (Cancer Council) to 185% (Health and Human Services Coordinating Council). The Commission on Alcohol and Drug Abuse -- historically a conduit for **federal dollars** -- will see an overall increase of about 79%, but in a move towards a more active role for the state the increase in state general revenues will be just over 250%. In contrast, general revenues for the Health and Human Services Coordinating Council will be replaced entirely by interagency contracts. Most of the large increase noted above will be funding the creation of a central computer node designed to allow 17 state agencies to exchange information. The Interagency Council on Early Childhood Intervention will receive \$14 million more -- mostly state dollars -- than in the previous biennium; this will keep the state in compliance with federal law and prevent a loss of \$10 million in federal funds. No significant increases are allotted to the Texas Rehabilitation Commission or to the Cancer Council. An increase of \$17 million for the Texas Youth Commission will be applied across a number of agency functions. The Commission for the Blind will have about 8% more (\$4.7 million) to work with in 1990 and 1991; most of the new funds will be devoted to vocational rehabilitation programs. Finally, the Commission for the Deaf will receive an 11% increase -- only about \$166,000 -- largely for funding and regulation of interpreter services.

Other Legislative Action. This session saw the

ADULT CORRECTIONS OVERHAUL

The 71st Legislature passed a comprehensive criminal justice reform and prison expansion package to alleviate prison and jail overcrowding in the Texas adult corrections system. The systemwide approach to adult corrections management is a direct response to a worsening adult corrections situation.

State prison and county officials have been at loggerheads with each other over the housing of prison-bound felons in county jails. The Texas Prison Management Act (TPMA, 1983) restricts the prison population to 95% of capacity and, when the

passage of many health and human service related bills. Some of the most significant were:

- Laws that will extend **Medicaid coverage** to infants and pregnant women up to 130% of the poverty level (this is virtually certain to be mandated by federal law soon), to children up to age six under 100% of poverty, and to nursing home residents with incomes up to the current federal income cap of \$1104/month.
- Legislation providing for funding of **basic water supply and sewer services** for economically depressed areas of the state, primarily along the Texas-Mexico border.
- A package of **family law** bills, many related to prevention of and intervention in child abuse.
- **AIDS laws** regarding model workplace guidelines and AIDS education for state employees, funding of community organizations, guidelines for AIDS education, guidelines and standards for testing and counseling, and standards for criminal justice and corrections.
- An **Omnibus Health Care Rescue Act** including several rural health initiatives and providing limited state indemnity for health professionals who treat a large percentage of indigent patients.
- Laws that tighten up state oversight of community mental health and mental retardation centers.
- An act passed in the first called session requires large urban hospital districts to transfer 1% of ad valorem tax revenues to a fund dedicated to Medicaid hospital payments. Three U.T. system hospitals will also participate. The funds (about \$7 million) will be used to draw federal matching dollars (about \$10 million), which will in turn allow the state to reimburse the public hospitals at a more generous rate.



ratio is reached, no additional inmates are admitted. The state prison gates have closed 38 times in the past six years.

According to a Texas Jail Standards Commission monthly survey, county jails are housing over 11,000 convicted felons. The expense to Texas counties, at

an average cost of \$38 a day per felon, totals over \$152 million annually.

A major cause of the increased demand for prison space is the state's parole and probation components. Two out of every three admissions to TDC are parole and probation revocations -- convicted felons who violated a condition of their parole or probation and were returned to prison. Clearly, the Texas criminal justice system needs an overhaul.

New Dimensions in Adult Corrections. The Criminal Justice Reform Bill is a broadly collaborative approach to combat overcrowding and to forge an effective criminal justice policy.

The new legislation consolidates the three adult corrections agencies into one agency, authorizes new punishment and sentencing alternatives to incarceration, and seeks bond authority to continue funding new prison construction.

The Texas Department of Criminal Justice. A new Texas Department of Criminal Justice (TDCJ) combines the Department of Corrections, the Board of Pardons and Paroles, and the Adult Probation Commission into a new agency. A Texas Board of Criminal Justice (nine members appointed by the governor with the senate's advice and consent) will govern the new combined agency. The Board of Pardons and Paroles -- increased from 6 to 18 -- is retained to review pardon and parole applications, but will not be involved in developing agency policy.

Legislative Criminal Justice Board. Legislative scrutiny will be provided by the new Legislative Criminal Justice Board (LCJB) composed of 10 members: the Lt. Governor, the Speaker of the House, the Chairs of the House Corrections and Appropriations Committees, the Chairs of the Senate Criminal Justice and Finance Committees, and two additional members from each house.

The LCJB's duties include oversight and review of legislative criminal justice policy implementation by the new agency, annual review of community corrections programs, and prison bed allocations. Staff for the LCJB will be provided by the Criminal Justice Policy Council, the Legislative Budget Board, and the Legislative Council.

During the consolidation period, the LCJB has unique budget transfer authority to redirect funds within the new agency's divisions when circumstances require. Normally, transfer of appropriated funds is authorized in the appropriations bill, by the Legislative Budget Board, or through budget execution authority. However, a budget execution order cannot decrease an agency's budget more than 10%, or increase it more than 5% from the amount set by the legislature for that fiscal year. For maximum budget flexibility during the reorganization, the LCJB is given unlimited budget transfer authority until January 31, 1991.

Record Appropriations. Prison operations and

the probation and parole systems will be funded at record levels in 1990-1991. The increased fiscal resources and additional legal authority to develop new programs and to expand existing programs indicate the legislature's resolve to deal with the adult corrections crisis.

Prison Operations. Funding for prison operations exceeds \$1 billion for the first time with all components of prison operations receiving substantial increases. Of the \$287.8 million increase, the major budget items include:

- a 22% increase (\$109 million) for security and correctional operations;
- a 46% increase (\$66 million) for health services;
- a 240% increase (\$47.6 million) for contracted capacity (the private prisons); and
- a 109% increase (\$30.8 million) for the operation of additional capacity.

Prison Construction. The primary objective of the governor's prison construction plan is "to increase prison capacity sufficiently to meet projected growth so that other criminal justice policies can be designed and implemented". The legislature concurred in the need for additional prison beds and, after considerable debate over the method of financing, recommended seeking additional bonding authority to fund prison construction.

The legislature appropriated \$138.5 million from the proceeds of prison construction general obligation bonds authorized for the first time in the 1987 legislative session. The bond proceeds will pay for the construction of two maximum security prisons and one psychiatric facility -- a total of 5,000 new beds.

Authority to issue an additional \$400 million of bonds for continued prison construction is the subject of a constitutional amendment facing the voters in November. If the amendment is approved, general obligation bonds totaling \$170 million will be issued to finance the construction of one maximum security prison, three regional integration centers, one psychiatric facility, and a dormitory for geriatrics -- a total of 5,809 beds. The remaining bonds will be issued only if additional prison beds are needed.

Even though almost 11,000 new beds are funded for the 1990-1991 biennium, the appropriated amount appears as a 50% decrease from the current biennium. This is due to the change in funding source from state general revenue to general obligation bonds.

Increased Use of General Obligation Bonds. Only \$12.4 million of the \$205.1 million construction appropriation is from general revenue or other state funds. The remaining amount -- almost \$193 million -- will be paid from the proceeds of general obligation bonds.

Funding prison construction through bonds is an expensive proposition. The Legislative Budget Board estimates the total payout for the \$400 million bond issue going to the voters in November will exceed \$800 million by the year 2010. If the voters approve the bond issue, the state will have received authority to issue \$900 million in general obligation bonds for "constructing, or equipping new corrections institutions, mental health and mental retardation institutions...". Next year alone the state faces debt service costs of \$35 million for prison construction bonds already issued.

Alternatives to Incarceration. State officials estimate that 13,300 prison beds will come on line shortly. However, with the prisons accepting 750 felons per week (the scheduled admissions rate), once the county jail backlog is cleared, the state will have only three weeks of breathing space before a backlog begins anew.

Clearly, building new prisons every biennium is not a realistic answer for the future; alternatives to prison incarceration are essential. Recognizing that fact, the legislature increased funding to the parole and probation systems and provided an array of alternatives aimed at improving supervision, providing treatment, and making available alternative sanctions for parolees and probationers.

Parole System. The Board of Pardons and Paroles (BPP) reports that the parole caseload has increased 65% in the last five years. Compounding the problem, the BPP also estimates that almost one-half of the releasees have alcohol or drug problems. Biennial funding to BPP increased by 70% to \$191 million. Specifically, funding is available:

- to provide 2,000 placements in intermediate sanction facilities ,
- to fund 2,400 halfway house and pre-parole beds,
- to add 150 new parole officers, and
- to make available treatment of mentally-ill and drug abuse parolees and to increase job training and placement capabilities.

The objective of such measures is to reduce prison and jail overcrowding by diverting parole violators from prison and allowing certain felons awaiting transfer to prison to be maintained in a community residential facility.

Probation System. The largest percentage increase in adult corrections funding is to expand community corrections programs for probationers. Excluding \$5 million for computer software and equipment acquisition, the legislature boosted funding for the adult probation system 111% to \$222 million.

The increased appropriation funds a smorgasbord of community corrections programs.

- An additional 250 supervision officers are provided to reduce high caseloads.

- Four additional court residential treatment centers, four restitution centers, and 1,000 halfway house placements would be added.
- Electronic monitoring slots, originally funded through a budget execution transfer in August 1988, would increase from 275 to 400 statewide.
- In 1991, \$50 million is available to fund community corrections programs developed at the local level. Initial estimates place the number of beds that may result from implementation of the programs at 4,500 to 5,000 per year.
- Finally, to extend the range of "non-prison" sanctions available to a district judge, the Criminal Justice Reform Bill reserves to the probation system 1,000 trusty beds in the TDC/Institutional Division. These beds will be used for incarceration therapy in lieu of probation revocation -- a form of "shock probation" where a probationer is processed into a prison setting and remains there for a specified period not to exceed 90 days.

Other sentencing alternatives authorized include home confinement, garnishment of pay for restitution, county jail work release, and electronic monitoring and community service in lieu of jail.

Implementation of the community corrections programs will take time -- as will increasing the prison capacity. In the meantime, the Board of Criminal Justice must develop and adopt a prison allocation formula by February 1, 1990. The purpose of the formula will be to equitably and fairly allocate the number of prison admissions from the counties until sufficient prison capacity is achieved.

By providing a series of alternatives to incarceration, the legislature has responded to the jail and prison overcrowding issues, and has also shown a commitment to respond seriously to repeat violators. Now, instead of a stark probation or prison decision, judges have a wider choice of sanctions. Local control will be increased through the variety of sentencing options available. Moreover, through the prison allocation formula, a functional link will be established between the potential prison population and the capacity of the system.

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NATURAL RESOURCES SPENDING TO RISE



Expenditures for natural resources will increase 14.4% during the upcoming biennium; rising from \$528 million to \$605 million in 1990-1991. Leading the increase are sharply higher budgets for the Water Development Board (up 104%), and Texas Water Commission (up 56%).

The higher amounts for the Water Development Board include \$10 million for water projects in economically distressed areas, especially the colonias along the Rio Grande river. Lack of adequate water supply and treatment has long been a problem along the Texas-Mexico border. Additional items being funded include \$2.5 million for a sewage treatment plant in Nuevo Laredo, Mexico, and \$3.4 million for research and planning activities.

The Water Commission budget includes a \$16 million increase in the state's Superfund Program, which will rise from \$2.3 million to \$18.3 million.

Other natural resource agency budgets will sustain a modest increase, except for Parks and Wildlife (down 12%) and the General Land Office (down 4%).

Legislation. In legislative action, the Department of Agriculture was continued after undergoing sunset review. The commissioner of agriculture will remain an elected office, although the commissioner must share responsibility for pesticide regulation with an appointed board.

The legislature passed several bills to strengthen the regulation of both above- and underground storage tanks. Registration fees will fund a remediation program for the cleanup of releases from certain types of petroleum storage tanks. New legislation requires that an underground storage tank may not be installed, repaired, or removed

except by an underground storage tank contractor who is licensed by the Texas Water Commission. Existing storage tanks must meet performance standards; previously only new tanks were required to meet standards.

Other legislation passed:

- regulates hazardous waste management and imposes fees on the storage, processing, and disposal of hazardous waste;
- exempts municipal solid waste management from Air Control Board review;
- establishes reporting requirements for railroad companies transporting hazardous materials; and
- gives the Railroad Commission the power to adopt rules to ensure the safe packing and transportation of hazardous materials consistent with federal law.

Finally, the legislature approved a \$500 million water bond package subject to voter approval this November. Up to \$100 million could be used for a loan program to bring clean water and sewer and drainage service to the residents of the colonias along the Texas-Mexico border. Voters will also decide whether or not to renew authority for issuing \$200 million in agricultural water conservation bonds.

HIGHER EDUCATION BUDGETS UP 6%



Spending on higher education will rise by 6% during the 1990-1991 biennium to more than \$6.3 billion. Some of this increase is a result of legislation passed in 1987 after the report of the Select Committee on Higher Education. Public junior college spending tops the \$1 billion mark for the first time, rising by about 24%. Spending for medical and dental schools will remain about the same.

Public junior college appropriations total \$1.022 billion, an increase of \$201 million. Higher spending reflects an 8.7% increase in enrollments which are

used in formulas for determining appropriations. Enrollment increases alone accounted for more than three-fourths of the spending increase. Other factors include funding for remedial course work, a new campus in Austin, and restoration of staff group insurance premiums, vetoed after the last session.

Some other areas will also see a sharp rise in

spending. The budget for the Texas Higher Education Coordinating Board includes more than \$60 million for the Advanced Research and Advanced Technology programs, major research programs initiated by the select committee. Nearly \$20 million for remedial education programs was included in the budget to fund the Texas Academic Skills Program. This new program, also a recommendation of the select committee, administers a statewide diagnostic testing and developmental education program for entering college students in reading, writing, and mathematics. Students who fail the test are required to take remedial course work and must pass all of the exam before undertaking junior and senior level course work.

Overall spending for the state's senior colleges and universities will hold about equal to the 1988-1989 spending level. The budget includes some new or expanded programs, such as:

- an increase of \$3.4 million for scholarships,
- \$7.5 million for a new Institute of Biosciences and Technology at Texas A&M University,
- \$5.9 million in incentive funding for efficient energy management, and
- \$4.5 million to help the Texas A&M College of Veterinary Medicine regain its full accreditation status.

The appropriations bill also restores funding for the university system offices and several museums, items which were vetoed following the 1987 legislative session.

Student Financial Aid. In other action, the legislature increased student financial aid programs. A new Texas College Work-Study Program was created which will provide eligible and financially needy students with jobs, funded in part by the state. A Texas Education Opportunity Grant Program was added to provide eligible students with grants of money to help pay for the cost of their education.

Another method of financing a college education was authorized. Certain general obligation bonds may be designated as college savings bonds, subject to the approval of a College Opportunity Act committee consisting of state officials and public members. These bonds must be issued in small denominations to make them attractive to individual purchasers. Financial incentives are authorized to encourage the purchaser to hold the bond until it matures. The legislature also approved a constitutional amendment authorizing the issuance of \$75 million of college savings bonds; voters will act on the proposal in November.

South Texas Initiatives. Several initiatives passed by the legislature are designed to upgrade educational and economic opportunity in South Texas. Texas A&I University, Corpus Christi State

University, and Laredo State University will become parts of the Texas A&M University System. Pan American University will be a component of the University of Texas System, to be called the University of Texas - Pan American.

Subject to the approval of the Texas Higher Education Coordinating Board, a graduate school of International Trade will be established at Laredo State University. Centers for border economic and enterprise development will be created at the University of Texas at El Paso, the University of Texas-Pan American, and Laredo State University.

Two New Universities. Two bills passed the legislature that would expand existing schools and create a new university. The Central Texas University in Killeen, will be composed of the public junior college in Killeen and the American Technological University, a private upper-level university, provided those two institutions are dissolved or abolished before September 1, 1994. In the special session the creation of the new university was made subject to the approval of the Coordinating Board.

The University of Texas at Dallas, the University of Texas of the Permian Basin, and the University of Texas-Pan American at Brownsville were slated to become four-year institutions. (All are currently two-year institutions.) Only the expansion at UT-Permian Basin would have been made subject to Coordinating Board approval. The governor vetoed this legislation, but added the expansion of UT Dallas to the agenda of the special session, where it was approved.

Circumventing the Coordinating Board. The legislature has frequently approved new construction, institutions, or programs without the advice or consent of the Coordinating Board. In fact, between 1971 and 1986, only 36% of the square footage of facilities expansion at Texas colleges and universities was approved by the board. This is inconsistent with the role assigned to the Coordinating Board for shaping higher education planning and policies in Texas.

A further inconsistency is the merger of institutions as approved by the legislature. The select committee's report called for the creation of five university systems; this was rejected by the legislature in 1987.

The actions taken during this past session will result in larger university systems, however, these larger systems are not organized along the lines recommended by the committee. This action confirms one of the findings of a 1987 management audit of state colleges and universities by the firm of Coopers & Lybrand: "Senior institutions in Texas lack the buffers found in other states to insulate them from political pressures and constantly changing circumstances." This finding is evidently as true today as it was two years ago.

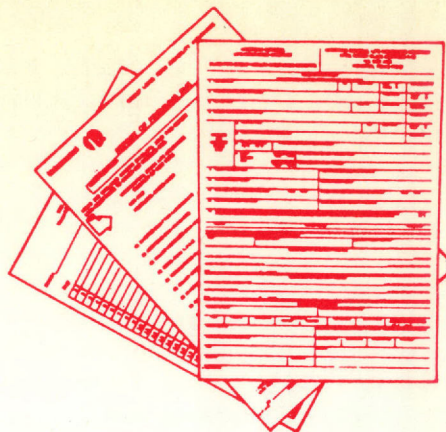
EMPLOYEE BENEFITS

The 71st Legislature enacted an across-the-board 5% salary increase for state employees with a guaranteed \$60 per month raise for those employees whose monthly salary is \$1,200 or less. The pay raise takes effect September 1, 1989. Nonfaculty employees of the state higher education system also are covered by the increase. The legislature appropriated \$256.1 million in general revenue for the salary hike -- including related benefit increases.

The overall employee benefit package will cost \$569.9 million (17.9%) more than was expended in 1988-1989. The increase can be attributed to two programs which account for more than 68% of the growth.

The Teacher Retirement System (TRS) accounts for \$187 million (32.8%) of the benefit expansion. TRS was scheduled to return to the state's statutory contribution of 8% in the next fiscal year; however, the legislature set the rate at 7.65% which kept the increase from rising at an even steeper grade.

The state employees' group insurance program



makes up \$203 million (35.6%) of the total increase. Insurance costs have accelerated for all sectors of society, and the state is no exception. In attempting to make insurance affordable for its employees, the state is picking up a larger measure of the increasing price of insurance.

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