

TEXAS
BUDGET

HIGHLIGHTS

Fiscal 2014-15

This report highlights key provisions of SB 1 by Williams, the general appropriations act for fiscal 2014-15 and HB 1025 by Pitts, the supplemental appropriations act. For information on the rules, laws, and constitutional provisions governing the budget process, see House Research Organization State Finance Report Number 83-2, *Writing the State Budget*, February 8, 2013. For more information on specific budget issues, see HRO State Finance Report Number 83-1, *Fiscal 2014-15 State Budget: Restrictions on Spending*, January 31, 2013, and HRO State Finance Report Number 83-3, *CSSB 1: The House Appropriations Committee's Proposed Budget for Fiscal 2014-15*, April 1, 2013.

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Overview of the fiscal 2014-15 budget

The state budget for fiscal 2014-15 authorizes total spending of \$200.4 billion in all funds, an increase of \$9.7 billion (5.1 percent) from fiscal 2012-13 spending levels, according to the Legislative Budget Board (LBB). Appropriations of general revenue and general revenue dedicated funds total \$102.3 billion for fiscal 2014-15, an increase of \$9.7 billion (10.5 percent) from fiscal 2012-13.

For fiscal 2014-15, appropriations of general revenue and general revenue dedicated funds increased for all budget articles from fiscal 2012-13 levels. Total appropriations of funds from all sources increased for health and human services, judiciary, natural resources, business and economic development, and regulatory budget articles, but decreased for general government, education, public safety and criminal justice. The tables and chart on pages 2-5 show state appropriations by government function and type of spending during fiscal 2014-15, as well as changes from fiscal 2012-13 spending levels.

Comparisons in this report between appropriations for the current biennium and those for the previous biennium come mainly from fiscal 2014-15 appropriations and fiscal 2012-13 expended/budgeted amounts reported in the LBB's *Fiscal Size-up*, published in February 2014, and other LBB documents summarizing the fiscal 2014-15 budget.

Medicaid. Funding for the Texas Medicaid program makes up about 28 percent of the total state budget in all funds and 23 percent of the state budget in general revenue. The fiscal 2014-15 budget appropriates \$56.2 billion in all funds for the Medicaid program, including \$22 billion in general revenue and \$100 million in general revenue dedicated funds. As in previous budget periods, Medicaid remains the largest budget item within the health and human services system in fiscal 2014-15.

State Spending by Government Function

(All funds in millions)

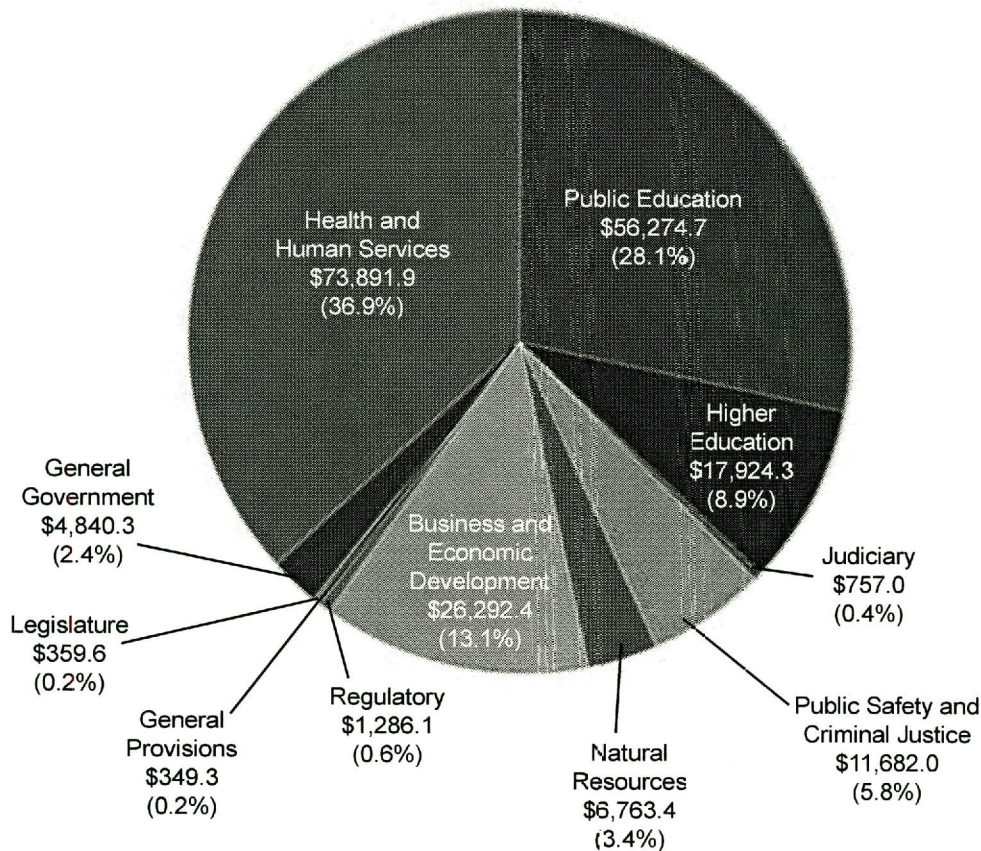
	Budgeted/ Spent Fiscal 2012-13	Appropriated Fiscal 2014-15	Biennial change*	Percent change*
Art. 1 General government	\$4,918.0	\$4,840.3	(\$77.8)	(1.6)%
Art. 2 Health and human services	68,829.6	73,891.9	5,062.3	7.4
Art. 3 Education	75,773.2	74,199.0	(1,574.2)	(2.1)
Art. 4 Judiciary	656.1	757.0	100.9	15.4
Art. 5 Public safety/criminal justice	11,709.0	11,682.0	(27.0)	(0.2)
Art. 6 Natural resources	4,957.7	6,763.4	1,805.8	36.4
Art. 7 Business/economic development	22,859.2	26,292.4	3,433.2	15.0
Art. 8 Regulatory	703.0	1,286.1	583.0	82.9
Art. 9 General provisions	0.0	349.3	349.3	N/A
Art. 10 Legislature	348.9	359.6	10.8	3.1
TOTAL	\$190,754.8	\$200,421.1	\$9,666.4	5.1%

*compares *Expended/Budgeted Fiscal 2012-13* with *Appropriated Fiscal 2014-15*

Note: Totals may vary because of rounding.

Source: Legislative Budget Board

All Funds Appropriations by Function, Fiscal 2014-15 (in millions)



The number of people eligible for Medicaid and the costs associated with running the program are expected to increase during fiscal 2014-15. Funding for Medicaid is increased by 8.2 percent from 2012-13 spending levels to account for this growth and to fund additional long-term care services and certain provider rate increases.

Public education funding. Increased funding for school districts and open-enrollment charter schools boosted general revenue appropriations to public education agencies, which received the largest general revenue increase in the budget. These agencies, which include the Texas Education Agency and the Teachers Retirement System of Texas, were appropriated \$37.7 billion in general revenue and \$56.3 billion in all funds. This is an increase of \$4.7 billion in general revenue and \$3.9 billion in all funds from fiscal 2012-13 spending.

The 83rd Legislature increased the per-student basic allotment, which creates greater funding equity between property-wealthy and lower-wealth school districts. A Travis County court, which criticized funding inequities in a preliminary ruling in 2013 that found the state's school finance system unconstitutional, heard new evidence earlier this year based on the public education funding increases in the current budget. A final ruling in the pending litigation is expected later this year.

General revenue dedicated accounts. Appropriations from general revenue dedicated accounts in the budget — funds within general revenue that are dedicated by law to specific purposes — total \$7.3 billion, an increase of 11.6 percent from fiscal 2012-13. General revenue dedicated funds account for about 3.6 percent of all funds appropriated for the biennium.

The 83rd Legislature made a number of changes to general revenue dedicated funds, many of which were enacted in HB 7 by Darby. They include:

- appropriating \$500 million in general revenue for the low-income discount program at the Public Utility Commission;
- eliminating the fee for the low-income discount program;
- setting a statutory expiration date for the System Benefit Fund in 2016;
- allowing all interest accrued from general revenue dedicated funds to be used for general purpose spending; and
- reducing various fees associated with dedicated accounts.

Rainy day fund. In HB 1025 by Pitts, a supplemental spending bill, the 83rd Legislature appropriated \$3.9 billion from the Economic Stabilization (“rainy day”) Fund. The bill appropriates \$1.9 billion from the fund for fiscal 2013 for

wildfire relief and to reverse a planned deferral of a Foundation School Program payment from August until the start of fiscal 2014.

For fiscal 2014-15, HB 1025 directed \$2 billion from the rainy day fund to the State Water Implementation Fund for Texas. As provided in SJR 1 by Williams, approved by voters in November 2013, these funds will be used for water infrastructure and conservation projects. Absent other appropriations, the comptroller estimates the rainy day fund will contain \$8.1 billion at the end of fiscal 2015.

State employee pay raises. The budget appropriates \$246.6 million in all funds, including \$167.1 million in general revenue and general revenue dedicated funds, to state agencies for across-the-board pay increases for state employees. In fiscal 2014, the increase is 1 percent, with a \$50 per month minimum. In fiscal 2015, employees will receive an additional 2 percent increase, with a \$50 per month minimum. Excluded from the across-the-board raises are those

State Spending by Government Function

(General revenue and general revenue dedicated funds in millions)

	Budgeted/ Spent Fiscal 2012-13	Appropriated Fiscal 2014-15	Biennial change*	Percent change*
Art. 1 General government	\$3,015.7	\$3,253.8	\$238.0	7.9
Art. 2 Health and human services	28,542.5	30,811.6	2,269.1	7.9
Art. 3 Education	47,988.6	53,445.5	5,456.9	11.4
Art. 4 Judiciary	467.5	573.9	106.4	22.8
Art. 5 Public safety/criminal justice	8,532.1	9,135.3	603.3	7.1
Art. 6 Natural resources	1,671.5	1,878.8	207.3	12.4
Art. 7 Business/economic development	1,370.4	1,407.1	36.7	2.7
Art. 8 Regulatory	635.1	1,241.9	606.8	95.5
Art. 9 General provisions	0.0	184.2	184.2	N/A
Art. 10 Legislature	348.5	359.4	10.9	3.1
TOTAL	92,571.9	102,291.6	9,719.6	10.5

*compares *Expended/Budgeted Fiscal 2012-13* with *Appropriated Fiscal 2014-15*

Note: Totals may vary because of rounding.

Source: Legislative Budget Board

Percent change from fiscal 2012-13 spending levels

	All funds (%)	General revenue and general revenue dedicated funds (%)
General government	(1.6%)	7.9%
Health and human services	7.4	7.9
Education	(2.1)	11.4
Judiciary	15.4	22.8
Public safety and criminal justice	(0.2)	7.1
Natural resources	36.4	12.4
Business and economic development	15.0	2.7
Regulatory	82.9	95.5
Legislature	3.1	3.1
Total	5.1	10.5

Source: Legislative Budget Board

employees who receive targeted pay increases under SB 1, exempt employees, certain judiciary employees, and higher education employees, except for those at a Texas A&M service agency.

An additional \$102.8 million in all funds, including \$17.2 million in general revenue and general revenue dedicated funds, has been appropriated for targeted raises for law enforcement officers at the Department of Public Safety, Texas Department of Criminal Justice, Texas Alcoholic Beverage Commission and Texas Parks and Wildlife Department.

Beginning in fiscal 2014, adult and juvenile correctional officers also will receive targeted raises of 5 percent. These increases will cost \$105.2 million for officers at the Texas Department of Criminal Justice and \$5.6 million for officers working with juveniles, excluding benefits.

Other targeted raises go to employees at three human service agencies — direct-care staff at state supported living centers at the Department of Aging and Disability Services, psychiatric nursing assistants at state hospitals at the Department of State Health Services, and a Department of Family and Protective Services career ladder for certain staff. In fiscal 2014-

15, these raises total \$68.2 million in all funds, including \$46.9 million in general revenue and general revenue dedicated funds.

Targeted raises of 12 percent will go to state court judges and to those whose salaries are linked to those of district judges; certain counsel, attorneys, and clerks of the Supreme Court, Court of Criminal Appeals, and 14 courts of appeal; and certain oil and gas staff at the Texas Railroad Commission.

Spending limits. The fiscal 2014-15 budget meets all spending limits imposed by the Texas Constitution and state law. Art. 3, sec. 49a of the Constitution limits spending to the amount of revenue that the comptroller estimates will be available during the two-year budget period. The comptroller has certified that the state will have enough revenue to cover the appropriations approved by the 83rd Legislature.

Another constitutional spending limit — Art. 8, sec. 22 — prohibits the growth of state spending from revenue not dedicated by the Constitution from exceeding the estimated growth rate of the Texas economy, defined as the growth in statewide personal income.

On November 15, 2012, the LBB adopted a projected state personal income growth rate of 10.71 percent from fiscal 2012-13 to fiscal 2014-15. The LBB reports that the adjusted biennial limit on spending from non-dedicated tax revenue in fiscal 2014-15 is \$85.2 billion and that appropriations subject to the limit total \$85 billion.

General government

The 83rd Legislature appropriated \$4.8 billion in all funds for general government agencies and programs for fiscal 2014-15. This is a decrease of \$77.8 million (1.6 percent) from fiscal 2012-13 spending levels. General revenue and general revenue dedicated appropriations rose to \$3.3 billion, an increase of \$238 million (7.9 percent) from fiscal 2012-13 spending levels.

Funds in Article 1 are appropriated to general executive and administrative agencies, including those charged with addressing bond issues, operating state buildings, and administering state employee benefits, pensions, and workers' compensation claims.

Increase in cancer research grant funding. The budget authorizes \$594.1 million all funds for the Cancer Prevention and Research Institute of Texas (CPRIT). This is 1 percent more than the \$588 million in all funds spent in fiscal 2012-13. Voters approved a constitutional amendment authorizing these bonds in 2007.

Issuance of the new general obligation bonds was authorized by the enactment in 2013 of SB 149 by Nelson, which restructures CPRIT following a moratorium on new grants amid concerns about how the agency was awarding funds.

Economic development funds. The Legislature did not make new appropriations to the Texas Enterprise Fund (TEF) but reappropriated to the fund its unexpended balances of \$120 million from fiscal 2012-13. The Emerging Technology Fund (ETF) is authorized to spend \$57.2 million in general revenue dedicated funds. In fiscal 2012-13, the TEF received \$150 million and the ETF \$140.5 million in general revenue dedicated funds.

Increase in contributions to state employee retirement fund. The budget contains \$818.6 million in all funds for the state's contributions to the Employees Retirement System of Texas (ERS), which provides health insurance benefits to about a half million Texans, or 2 percent of the state's population. This is an increase of \$107.2 million in all funds, or 15.1 percent, from fiscal 2012-13. This amount in the budget, in conjunction with the enactment of SB 1459 by Duncan, enables an increase in the state's contribution to the retirement plan from 6.5 percent of employee salary in fiscal 2013 to 7.5 percent in fiscal 2014 and fiscal 2015.

Beginning September 1, 2013, state agencies make contributions equal to 0.5 percent of their total payroll. State employees also contribute to ERS, and under the budget and SB 1459 their contribution will increase from 6.5 percent of salary in fiscal 2013 to 6.6 percent in 2014 and to 6.9 percent in 2015. In addition to state and employee contributions, state agencies now will contribute to the retirement fund from their operating budgets.

Increase in contributions to state employee health benefits. The budget appropriates \$3.1 billion in all funds for state employee and retiree health insurance and benefits administered by ERS. This is an increase of \$533.2 million in all funds from fiscal 2012-13. The Legislature increased general revenue and general revenue dedicated appropriations by \$364.3 million from fiscal 2012-13. This increase will fund an expected 7 percent growth in insurance premiums in each fiscal year of the 2014-15 biennium.

Health and human services

The five agencies comprising the Texas health and human services (HHS) system account for the second-largest share of appropriations in fiscal 2014-15, just after public and higher education. All funds for HHS agencies total \$73.9 billion in fiscal 2014-15, an increase of \$5.1 billion (7.4 percent) from fiscal 2012-13 spending levels. The 2014-15 budget appropriates \$29.7 billion in general revenue and \$1.2 billion in general revenue dedicated funds for HHS, an increase

of \$6.8 billion in general revenue and \$192 million in general revenue dedicated funds from fiscal 2012-13 appropriations.

Increase in Medicaid funding. The 83rd Legislature appropriated \$56.2 billion in all funds for the Texas Medicaid program, an increase of \$4.2 billion in all funds from fiscal 2012-13 spending. The increase accounts for projected Medicaid caseload growth, anticipated cost growth, rate increases for nursing facility providers, an increase in the hourly wage for certain attendant workers, rate increases for providers in Medicaid community-based programs, and increased funding for the rate enhancement program for Medicaid community-based programs. The LBB projects the average monthly Medicaid caseload will increase by 447,515 recipients by fiscal 2015 due to the transfer of children from the Children's Health Insurance Program (CHIP) to Medicaid and new requirements under the federal Affordable Care Act (ACA).

Reduction in CHIP. The 2014-15 budget decreases appropriations for CHIP services by \$605.5 million in all funds from fiscal 2012-13, for a total, all-funds appropriation of \$2 billion. This reduction is expected to be offset by a provision in the ACA that, beginning in 2014, allows many children who were eligible for CHIP in 2013 to become eligible for Medicaid. This applies to all states, including Texas and other states that opted not to expand Medicaid to cover adults as allowed under the ACA. The LBB estimates that the average number of CHIP recipients per month will be fewer in fiscal 2015 than in fiscal 2012 as more children become eligible for Medicaid.

Increase in mental health and substance abuse funding. The fiscal 2014-15 budget increases mental health and substance abuse services funding across all budget articles by an estimated \$368.3 million in all funds from 2012-13 spending. This expansion includes mental health funding for the Health and Human Services Commission (HHSC), the Department of State Health Services (DSHS), the Texas Department of Criminal Justice, the Texas Juvenile Justice Department, and the Texas Military Department.

The budget increases mental health appropriations at HHS agencies by \$312.4 million in all funds and \$263.4 million in general revenue. This funding is

designed to eliminate the waiting list for community-based mental health services and supportive housing programs, create a public awareness campaign, assist Texas veterans, expand the youth empowerment services waiver statewide, establish a jail-diversion pilot program in Harris County, create a grant program for local collaborative projects, and support other mental health services in the state.

Adult and child mental health services. Funding for adult mental health services at DSHS increases to a total of \$665 million in all funds in fiscal 2014-15. This is an increase of \$108.8 million (20 percent) from fiscal 2012-13 spending levels. Funding for child mental health services increases by \$74.8 million (59.3 percent) in all funds from fiscal 2012-13 spending levels. A budget rider directs DSHS to distribute certain funds for child mental health services to the education of school staff and community members on mental health risk factors associated with mental illness in children and options for intervention.

Community mental health crisis services. The fiscal 2014-15 budget increases total funding for community mental health crisis services to \$221.2 million. This is an increase from fiscal 2012-13 spending of \$52.6 million or 31.2 percent. DSHS allocates these funds to local communities to ensure availability and consistency of crisis mental health services throughout the state. Communities may use this funding to implement local plans to address mental health and substance abuse crises and avoid unnecessary state hospitalization for children and adults. A budget rider directs the use of \$25 million of these funds to finance Healthy Community Collaboratives grants to serve people who are homeless and mentally ill in major Texas cities.

Mental health hospitals. The fiscal 2014-15 budget increases appropriations for state and community mental health hospitals for a combined, total appropriation of \$990.1 million in all funds. State mental health hospitals provide specialized inpatient services focused on reintegrating people into their communities as quickly as feasible. Community mental health hospitals provide inpatient services such as assessment, crisis stabilization, skills training, and medication management. Community facilities include hospitals as well as crisis stabilization units, which are not operated by DSHS.

A DSHS rider directs the agency to develop a 10-year plan to provide psychiatric inpatient hospitalization services. The plan must consider the state hospital system's operational needs, infrastructure needs, and capacity, as well as access to patient care in the least restrictive setting, best practices in psychiatric inpatient care, opportunities for patients to receive care closer to their homes, and efficient use of state resources.

Increase in family planning funding. The new budget increases appropriations for family planning services in Texas. It appropriates \$114.4 million for family planning services and \$100 million for expanded women's primary health care, some of which will fund family planning services. The funds are split between DSHS and the newly created Texas Women's Health Program housed within HHSC. By comparison, Texas spent about \$108 million in state and federal funds on family planning in fiscal 2012-13, according to the LBB.

The budget appropriates \$71.3 million in fiscal 2014-15 for the Texas Women's Health Program, which provides low-income women with family planning services and related health screenings. In November 2012, this program, run solely with state funds, replaced the Medicaid Women's Health Program, which operated with 90 percent federal funds. The change occurred when the federal government stopped funding the program after determining that a 2011 Texas ban on participation in the program by abortion providers ran counter to a federal Medicaid guarantee that participants could see any qualified provider.

The budget appropriates \$43.2 million in all funds to DSHS specifically for direct family planning services for low-income women and men, continuing the program at its fiscal 2012-13 spending level, according to the LBB. A new budget rider appropriates an additional \$100 million to DSHS for expanded primary health care services for women. The agency estimates that \$60 million of the \$100 million will be spent on family planning services, including contraception. A budget rider states that the Legislature intends that the remainder be used to fund preventive health screenings, perinatal services, and dental services, but the funds are not limited to these uses.

The federal government in fiscal 2013 awarded \$13.7 million in Title X family planning funds that previously had gone to DSHS to a private coalition of Texas women's health providers. From funds earmarked for DSHS family planning services formerly funded with federal Title X family planning funds, a rider in the fiscal 2014-15 budget allocates for DSHS family planning services \$32.1 million in general revenue for the biennium. If DSHS were to receive Title X family planning funds in fiscal 2015, it would transfer general revenue to the HHSC in an amount equal to the Title X federal funds received to fund Medicaid services for pregnant women.

Increase to long-term services and supports. The budget increases appropriations for long-term services and supports at the Department of Aging and Disability Services (DADS) by about \$1.1 billion for a total of \$13.5 billion in all funds in fiscal 2014-15. This increase includes \$790.1 million in all funds for expansion of community-based long-term care. Funds for long-term services and supports help pay for Medicaid home- and community-based services, nursing services, and intermediate care to older Texans and individuals with disabilities.

The LBB estimates fiscal 2015 average monthly caseloads in long-term community-based care will increase 20.7 percent from fiscal 2013. As of February 2014, more than 111,000 Texans with disabilities were waiting on interest lists for DADS and STAR+PLUS Medicaid managed care community-based programs.

Increase in child protective services. The budget increases funding for Child Protective Services (CPS) at the Department of Family and Protective Services (DFPS) by \$264.3 million in all funds, for a total appropriation of \$2.5 billion in fiscal 2014-15. The increase accounts for caseload growth, more staff to lower the caseload per caseworker, and career incentives for caseworkers. The LBB estimates the budget increase will fund 996.9 additional CPS direct-delivery staff positions (FTEs) in fiscal 2015 than in fiscal 2013.

The budget increases funding for child abuse prevention and other prevention and early intervention programs by \$22.1 million, or 33 percent, for a total appropriation of \$88.9 million in all funds in fiscal

2014-15. From these funds, DFPS will serve an additional 395 youths per month through the Services to At-Risk Youth program in fiscal 2015 than were served in fiscal 2012, according to the LBB.

Public education

Public education agencies, including the Texas Education Agency (TEA) and the Teacher Retirement System of Texas (TRS), were appropriated \$56.3 billion in all funds for fiscal 2014-15, including \$37.7 billion in general revenue funds. This is an increase from fiscal 2012-13 spending of \$3.9 billion in all funds and \$4.7 billion in general revenue, the largest general revenue increase for any article in the budget.

Duties of public education agencies include setting curriculum standards, overseeing state testing and accountability, certifying educators, providing school district employee health care, and managing the teachers' retirement pension fund.

Increased funding for the Foundation School Program. School districts receive most of their state revenue through Foundation School Program (FSP) formulas that account for the varying costs of educating different types of students and for varying levels of school district property wealth. Average daily attendance in Texas public schools is estimated to be 4.8 million in fiscal 2014 and 4.9 million in fiscal 2015, up from 4.7 million in fiscal 2013.

The Legislature appropriated \$40.4 billion in all funds, including \$32.4 billion in general revenue to the FSP, representing the largest single appropriation item in the fiscal 2014-15 budget. This includes \$3.4 billion in funding increases to school districts in addition to about \$2.2 billion for expected enrollment increases of 172,000 students.

HB 1025 by Pitts, a supplemental appropriations bill, adds \$201.7 million in general revenue to the FSP for fiscal 2014-15. The bill also appropriates \$1.8 billion from the Economic Stabilization Fund to reverse a planned deferral of an FSP payment from August until September 2013.

Together, the fiscal 2014-15 budget and HB 1025 increase the basic allotment to \$4,950 per student in 2014 and to \$5,040 in 2015. The budget flows increased funding through the basic allotment formula and continues the statutory phase-out of Additional State Aid for Tax Reduction (or "hold harmless") funding to achieve more equal funding between property-wealthy and lower-wealth districts. Funding equity is a key issue in a state district court's preliminary ruling that the state's school finance system is unconstitutional. Earlier in 2014, the court heard new evidence about the fiscal 2014-15 public education budget. A final ruling in the pending school finance litigation is expected later this year.

Increase in student assessment funding. Appropriations for the STAAR program of student assessment and accountability were \$171.2 million in all funds, including \$104.3 million in general revenue and \$66.9 million in federal funds. Despite the enactment of HB 5 by Aycock, which decreases the number of end-of-course exams for high school students, the cost of assessments increases by \$5.9 million in general revenue from 2012-13 spending due to increases in student population.

Increases in spending for certain grant programs. The budget appropriates additional funding for certain school district grant programs that were reduced in fiscal 2012-13.

Student Success Initiative. The budget contains \$50.5 million in general revenue to this instructional intervention program, which is designed to help students meet certain state assessment benchmarks. The Legislature also appropriated an additional \$10 million in fiscal 2013 through the enactment of HB 1025 by Pitts. Funding remains less than the \$263.3 million spent in fiscal 2010-11.

Communities in Schools. The Legislature appropriated \$38.7 million in all funds to this mentoring program for students at risk of dropping out, an increase of 43 percent from the \$27.1 million spent on the program in fiscal 2012-13.

Pre-K. The budget provides supplemental funding of \$30 million in general revenue that districts may use to expand pre-kindergarten from half-day to full-day programs.

While supplemental funding for pre-kindergarten expansion did not appear in the fiscal 2012-13 budget, the increase in the current budget remains below the \$208.6 million budgeted for this purpose in fiscal 2010-11.

Increased funding for instructional materials.

General revenue funding for instructional materials grew in fiscal 2014-15 to \$838.7 million, an increase of \$230.5 million (38 percent) from fiscal 2012-13 spending.

The instructional materials allotment was created by the enactment of SB 6 by Shapiro in 2011 to provide each school district and charter school with funding to purchase textbooks, other instructional materials, and certain technology. The instructional materials allotment is based on average daily attendance and funded with 50 percent of the distribution from the Permanent School Fund to the Available School Fund.

Increase in state contributions to teacher pension fund. The current budget increases state contributions to TRS, which provides retirement benefits for certain public school and higher education employees. The Legislature appropriated \$3.2 billion in all funds and \$3 billion in general revenue for the state contribution toward TRS retirement benefits. This is an increase of \$150 million in all funds from fiscal 2012-13 spending.

This appropriation, along with revenue derived from fiscal 2013 funds reappropriated through a TRS budget rider, reflects a state retirement contribution rate of 6.8 percent of payroll in fiscal 2014 and 2015. The contribution rate was 6 percent in fiscal 2012 and 6.4 percent in fiscal 2013. Individual members' contribution rates will increase from 6.4 percent to 6.7 percent in fiscal 2015.

Under the budget, and through the enactment of SB 1458 by Duncan in 2013, TRS members who retired on or before August 31, 2004, received a 3 percent cost-of-living adjustment in their September 2013 annuity checks. The adjustment cannot exceed \$100 per month.

In addition, funding to TEA includes \$330 million in fiscal 2015 as one-time transition aid to school districts for newly required retirement contributions. Under SB 1458, beginning in fiscal 2015, school districts that do not contribute to Social Security for their employees will make monthly TRS contributions equal to 1.5 percent of members' compensation.

Increase in funding for retiree health care.

Funding for retiree health insurance increased by \$32.7 million (6.6 percent) to \$495.1 million in fiscal 2014-15. This funding level provides for a statutorily required state contribution to TRS-Care of 1 percent of public education payroll, an increase from the 0.5 percent contribution level in fiscal 2013. More than 233,000 retirees and their dependents participate in the TRS-Care health insurance program, according to TRS.

Higher education

Higher education entities and programs, including funding for benefits, received appropriations for fiscal 2014-15 of \$17.9 billion in all funds and \$13.1 billion in general revenue. Overall funding decreased by \$5.4 billion from appropriations in fiscal 2012-13. Part of the decrease results from health-related institutions receiving \$6.1 billion in income directly from patients through an informational budget rider, rather than through the appropriations process.

Formula funding increases. The fiscal 2014-15 budget appropriates \$4.6 billion in all funds for formula funding to general academic institutions. This is an increase of \$318 million from fiscal 2012-13 spending. The budget also includes \$1.8 billion in all funds for formula funding to the state's health-related institutions. This is an increase of \$221.9 million from fiscal 2012-13 spending.

Formula funds, the largest single funding stream of state support for higher education, are distributed based on specific factors, particularly student contact hours. Other sources of institutional income include tuition, fees, and investment returns.

The main funding formula — instruction and operations — supports faculty salaries, administration, student services, and other needs. Physical plants and utilities are funded through the infrastructure support formula. Other formulas provide tailored support to specialized programs, such as those at health-related institutions.

Increasing graduate medical education funds.

The new budget appropriates \$65.7 million in general revenue for graduate medical education (GME) formula funds. This is an increase of 15 percent from the \$56.9 million spent in fiscal 2012-13. GME formula funds help defray the costs that hospitals and other health care providers incur from training and supervising doctors who have completed their medical education and are now conducting graduate residency programs.

The budget also contains a new appropriation of \$9.3 million in general revenue for grants to develop GME within Texas by helping institutions establish new GME programs. For institutions with existing programs, the grants are designed to help them fill vacant GME positions or create new positions.

The fiscal 2014-15 budget appropriates \$5 million in general revenue for family practice residency programs. These programs also received \$7.8 million in general revenue for fiscal 2013 through a supplemental spending bill, HB 1025 by Pitts, which includes authority to carry forward the unexpended balance into fiscal 2014-15. This supplemental appropriation is an increase from the \$5.6 million initially appropriated for fiscal 2012-13.

Increasing student financial aid. The fiscal 2014-15 budget contains \$1.1 billion in all funds for student financial aid, an increase of 18 percent in all funds from fiscal 2012-13 spending. The four largest

grant programs receiving the funds are TEXAS grants, B-On-Time grants, Texas Educational Opportunity grants, and Texas Equalization Grants.

TEXAS grants. The largest student financial aid program, TEXAS grants receives \$724.6 million in all funds, an increase of 25 percent from fiscal 2012-13 spending. Each eligible student attending university may receive \$5,000 in grants, while those enrolled in community college may receive \$1,325.

B-On-Time Loan Program grants. The B-On-Time program receives \$112 million in all funds, a 6 percent increase over fiscal 2012-13 appropriations. B-On-Time grants are no-interest loans that are forgiven if the recipient meets certain graduation timelines and academic standards.

Texas Educational Opportunity grants. The Texas Educational Opportunity grant program receives \$27.8 million in all funds, a 20 percent increase from the \$23.2 million appropriated in fiscal 2012-13. These grants support students attending community college.

Texas Equalization grants. The Texas Equalization grant program receives \$180.1 million, an increase of 7 percent from fiscal 2012-13 funding levels. These grants are for students with financial needs attending private, non-profit colleges and universities in Texas.

Increasing community college funding. The budget contains \$1.8 billion in general revenue for community college instructional funding formulas, an increase of \$33.4 million from the formula funding for community colleges spent in 2012-13. These appropriations are based on formulas that take into account the numbers and kinds of students attending an institution, the instructional costs associated with the courses provided, and various measures of student success, such as graduation rates. Community colleges also receive funding through tuition and fees charged to students and through local tax revenue.

The new budget changes how formula funding is structured for community colleges, with each community college district receiving a flat \$500,000 per year from available formula funds to fund core operations. Of the remaining balance, 10 percent is allocated among community colleges based on their relative performance on student success metrics and 90 percent is allocated based on contact-hour enrollment.

Increased funding for community college health care and retirement. The enactment of SB 1812 by Duncan in 2013 requires the state to pay 50 percent of the health benefits for eligible community college employees. The 2014-15 budget contains \$282.6 million in general revenue for group health insurance payments, an increase of \$87.3 million in general revenue from fiscal 2012-13 spending.

SB 1812 also requires that the state fund 50 percent of community colleges' retirement obligations for eligible employees. This obligation amounts to \$82 million in general revenue.

Funding to fight wildfires. The fiscal 2014-15 budget allocates \$90 million in general revenue and general revenue dedicated funds to the Texas Forest Service, which is attached to the Texas A&M System, for wildfire prevention, detection, and suppression and emergency response programs. This is a decrease of 48 percent from the \$172.6 million allocated in fiscal 2012-13. Funds for this purpose are passed through to local firefighting entities to help cover expenditures incurred fighting past fires. The appropriation is reduced for fiscal 2014-15 because recent fires have been fewer in number and less damaging than in previous biennia.

As part of the budget strategy, the Legislature also appropriated \$10 million in general revenue dedicated funds for volunteer firefighter assistance grants, which help volunteer fire departments cover equipment and training costs.

The budget also appropriates \$3 million in new funding for the Texas A&M Engineering Experiment Station for a large-scale pilot demonstration project

that would alert utilities and firefighters to the impending failure of a transformer or power line that could lead to a wildfire.

Judiciary

Total funding for the judiciary in fiscal 2014-15 is \$757 million, an increase of \$101 million, or 15.4 percent, from fiscal 2012-13 spending. Appropriations from general revenue and general revenue dedicated funds increased by \$106.4 million, or 22.8 percent, for a total of \$573.9 million in fiscal 2014-15.

Salary increases for state court judges. The budget includes \$34.8 million in general revenue for a 12 percent pay increase for state court judges and others, including district attorneys, whose salaries are tied to those of district judges. It also includes \$1.2 million to fund similar increases for visiting judges.

The annual state salary of a district judge will increase from \$125,000 to \$140,000. State judicial salaries had not increased since 2005, according to the Judicial Compensation Commission.

Decrease in civil legal aid. State funding for the basic civil legal services (BCLS) program, which provides legal services to low-income Texans, totals \$49.9 million. This total includes \$17.6 million in general revenue, \$27.3 million from Judicial Fund 573, and \$5 million from the Crime Victims' Compensation Fund. The Legislature restored \$4.6 million in general revenue that had been cut earlier in the budget-making process but did not fund a request by the Texas Supreme Court to continue \$13.8 million in certain one-time funding sources. Overall, state funding for BCLS decreased about \$9.4 million from fiscal 2012-13.

The state contributes a portion of the BCLS program's funding, with the remainder coming from the Interest on Lawyers' Trust Accounts program, federal funds, donations, and grants. Funds from some of these sources have declined in recent years and may continue doing so in fiscal 2014-15. Funding

from all sources for the program in fiscal 2012-13 was about \$185.2 million, according to the Legislative Budget Board.

While the 83rd Legislature did not meet a request by the Texas Supreme Court for \$13.8 million to maintain funding the court received in fiscal 2012-13 from two one-time funding sources, it did enact legislation that could allow for future increased funds. HB 1445 by S. Thompson raised from \$10 million to \$50 million the cap on the amount the attorney general may provide to the BCLS program from civil penalties recovered by the state and allowed those funds to include certain types of civil restitution.

Increased funding for county indigent defense grants. The fiscal 2014-15 budget increases state grant funds distributed to counties by the Texas Indigent Defense Commission (TIDC) to provide legal representation for indigent people accused of crimes. The grant funds total about \$76.5 million for the biennium, an increase of \$16.7 million. The new budget restores to the commission all funds statutorily dedicated for indigent defense and reinstates the commission's unexpended balance authority.

The Legislature did not fund a request from the commission for an additional \$135.5 million for grants to counties. The funds would have offset indigent defense costs that have increased since the enactment of the Fair Defense Act in 2001 and that exceed the amount counties receive in state grants. According to the TIDC, total indigent defense expenditures in fiscal 2012 were about \$208 million, with counties paying about 86 percent of that cost and state grants covering the remaining 14 percent.

Criminal justice

The fiscal 2014-15 budget appropriates \$9.1 billion in general revenue and general revenue dedicated funds to criminal justice and public safety agencies, an increase of \$603.3 million, or 7.1 percent, from fiscal 2012-13 appropriations. General revenue and general revenue dedicated appropriations make up about three-quarters of funds budgeted for agencies in Article 5.

All-funds appropriations for criminal justice and public safety total \$11.7 billion. This is a decrease of \$27 million, or 0.2 percent, from total fiscal 2012-13 spending.

Reduction in state prison capacity. The current budget decreases general revenue funding for Texas prisons by \$97.3 million and directs the Texas Department of Criminal Justice (TDCJ) to decrease the number of adult correctional beds to correspond to this reduction. The agency met this requirement in August 2013 by closing two facilities, the Mineral Wells Pre-Parole Transfer Facility and the Dawson State Jail in downtown Dallas, reducing state capacity by about 4,300 beds. Both facilities were operated by a single, private vendor whose contracts expired in August 2013.

At the end of March 2014, TDCJ reported a total correctional capacity of 156,812. Operational capacity, which is an adjusted number that gives TDCJ flexibility in moving and housing inmates, is reported at 150,540. In January 2013, the LBB estimated that the incarcerated population in fiscal 2014 would average 152,289 and that the fiscal 2015 population would average 153,474. Actual figures for the end of February 2014 were below projections at 150,573.

The 83rd Legislature also eliminated \$15 million the agency received in fiscal 2012-13 to contract for temporary beds when needed. The budget continues funding to operate the treatment and diversion programs established in 2007 at their 2012-13 levels.

Increased funding for prison health care. The current budget increases by \$60.8 million state appropriations for health and psychiatric care for adult offenders from \$902.3 million in fiscal 2012-13. The increase includes \$30.6 million to meet fiscal 2014-15 expenses, \$16 million to increase salaries for certain health care workers, \$9.7 million to restore some unit-based health care staff positions, and \$5.4 million for equipment. TDCJ and the university providers had asked for an increase of \$102.4 million.

Along with these increases, the Legislature cut about \$900,000 from TDCJ's budget by eliminating funding for the three-person staff of the Correctional

Managed Health Care Committee. TDCJ has assumed the duties of the staff while the committee itself continues to operate.

Reduction in state juvenile offender capacity. The fiscal 2014-15 budget reduces all-funds appropriations to the Texas Juvenile Justice Department (TJJD) by about \$22.9 million, reflecting a reduction in the number of juveniles to be supervised and incarcerated in state facilities, according to the LBB. With the reduction, all-funds appropriations to the agency total \$651.4 million.

An agency budget rider limits TJJD to 1,356 institutional beds, excluding halfway houses, beginning September 1, 2013, a reduction from about 1,600 beds in the fiscal 2012-13 budget. As of September 2013, the agency had about 1,100 youths in its institutional facilities, according to the LBB.

In addition, the budget limits TJJD to operating a maximum of five institutional facilities as of January 2014, down from six facilities. The agency recommended closing its Corsicana facility and is awaiting the LBB's response to the recommendation. This follows the closing of three facilities during fiscal 2012-13, shortly after the TJJD was created by the merger of the Texas Youth Commission and the Texas Juvenile Probation Commission.

The fiscal 2014-15 downsizing is accompanied by the continuation of an appropriation to TJJD of \$39.7 million in general revenue for use by local probation departments in diverting youths from state custody. A total of \$327.3 million in all funds is appropriated for local probation services.

Border security. Total funding for border security in fiscal 2014-15 is \$343.2 million, according to the LBB. Two DPS budget line items totaling \$82.7 million are designated specifically for border security. In fiscal 2012-13, these two budget items totaled \$85.2 million. In addition, appropriations to two other agencies are designated for border security: \$6.8 million to the Trusteed Programs Within the Office of the Governor (Article 1) and \$5.3 million to the Texas Parks and Wildlife Department (Article 6).

According to the LBB, additional appropriations outside of dedicated border security strategies bring the state's total budget for border security to \$343.2 million, of which DPS receives \$331.2 million. This compares to total appropriations of \$221.6 million for border security in fiscal 2012-13, of which DPS received \$212.9 million.

Items added by the 83rd Legislature to DPS' baseline border security budget include funding for patrol vehicles and fuel, recruit schools, DNA testing, crime lab funding, and a portion of a pay increase for troopers, according to the LBB. Reductions in the current budget reflect \$12.2 million for one-time expenditures in 2012-13, including a surveillance airplane, a river patrol boat, fiber optic scopes, a video downlink system, and license plate readers.

Increased funding for driver license improvement plan. The fiscal 2014-15 budget increases DPS appropriations by \$30.9 million in general revenue for driver license services related to the agency's plan to reduce wait times for Texans obtaining and renewing driver licenses and identification cards. This funding will be used for two new offices — one each in Dallas and Houston — about 325 self-service kiosks for license renewal, queuing systems in about 59 offices, and other capital and technology projects. After originally requesting an increase of \$140.5 million for the driver license improvement plan, the agency later revised that request to \$50 million.

Natural resources

Fiscal 2014-15 appropriations from all sources for natural resources agencies total \$6.8 billion, an increase of \$1.8 billion, or 36.4 percent, from fiscal 2012-13 spending levels. The appropriation of \$1.9 billion in general revenue and general revenue dedicated funds is an increase of \$207.3 million, or 12.4 percent, from fiscal 2012-13 spending levels.

Natural resources agencies in Texas are entrusted with protecting, managing, and developing the state's agricultural, wildlife, environmental, water, and oil and gas resources, as well as state parks and lands.

Financing state water plan projects. The 83rd Legislature approved a proposed constitutional amendment, SJR 1 by Williams, which creates a mechanism for the Texas Water Development Board to finance water projects through two new accounts outside the general revenue fund — the State Water Implementation Fund for Texas (SWIFT) and the State Water Implementation Revenue Fund for Texas (SWIRFT). Voter approval of SJR 1 at the election held November 5, 2013, triggered the appropriation of \$2 billion from the rainy day fund to capitalize the SWIFT, as required by HB 1025 by Pitts, a supplemental appropriations bill enacted by the 83rd Legislature.

Increased funding for emissions reductions programs. The budget increases general revenue dedicated funding to the Texas Commission on Environmental Quality (TCEQ) for Texas Emissions Reduction Program (TERP) grants, which provide money to eligible individuals, businesses, and local governments to upgrade or replace high-polluting vehicles or equipment with alternatives that create less pollution. The budget increases funding for the grants by \$24.9 million from fiscal 2012-13 spending levels, bringing the total in fiscal 2014-15 to \$155.2 million.

Increased funding for state and local parks. State revenue generated by the sales tax on sporting goods is statutorily allocated to the Texas Parks and Wildlife Department (TPWD) to fund state park operations, facilities and equipment, and local park grants. The budget increases by \$44.6 million the appropriation to TPWD from the sporting goods sales tax general revenue dedicated fund, which brings total appropriations from the tax for state parks in fiscal 2014-15 to \$80.4 million.

Of the \$44.6 million increase, \$29.1 million is appropriated to state parks for operations, maintenance, minor repairs and support. Of this appropriation, \$11.2 million goes to maintaining operations of an estimated 20 state park sites and one regional office, plus \$3.1 million for maintenance, \$800,000 for wildfire suppression, and about \$400,000 for park police. Also included is \$500,000 for

improvements and repairs to Fort Boggy State Park, \$200,000 for improvements and repairs to Big Spring State Park, and additional funding for transportation and capital equipment needs across the entire state parks system.

The remaining \$15.5 million of the increase to state and local parks restores funding for local park grants that was eliminated in fiscal 2012-13. TPWD uses the funds for matching grants to local governments to acquire and develop new parks.

Increased funding for wildlife and fisheries operations. The new budget increases funding to TPWD by \$29 million from fiscal 2012-13 appropriations for wildlife and fishery operations, according to the department. The increase comes from the general revenue dedicated game, fish, and water safety account, bringing TPWD's total appropriation to \$208 million. This includes \$8 million for repairs and improvements at freshwater fish hatcheries and wildlife facilities, as well as increased funding for transportation and capital equipment needs.

Increased funding for dam safety. The budget appropriates \$14.8 million in general revenue to the Texas State Soil and Water Conservation Board (TSSWCB) for dam safety. This is an increase of \$10.8 million from fiscal 2012-13 appropriations. The agency will use the funds to repair a high-hazard flood control dam in Ellis County in 2014 and at least three high-hazard flood control dams in other parts of Texas in 2015.

The TSSWCB uses these funds for grants to the sponsors of 2,041 federally designed and built flood control dams in Texas. The grants may be used for operation, maintenance, structural repair, and rehabilitation. Based on the population, property, roads, and bridges that the dams were built to protect, TCEQ classifies the dams as high hazard, significant hazard, or low hazard. According to the agency, of 2,041 flood control dams across the state, 1,666 are reported to need maintenance assistance, while 194 require structural repairs. Of the dams needing structural repairs, 47 are classified as high hazard.

Business and economic development

Appropriations in the 2014-15 budget for business and economic development activities totaled \$26.3 billion in all funds, an increase of 15 percent from spending in fiscal 2012-13. About 86 percent of all funds in Article 7 are appropriated to the Texas Department of Transportation (TxDOT).

Increase in overall transportation spending.

The budget appropriates \$22.1 billion in all funds to TxDOT, an increase of 17.2 percent from the agency's 2012-13 spending levels. Funds appropriated for transportation are derived principally from federal reimbursements for transportation projects, state motor fuel taxes, proceeds from various bonds, and other taxes and fees assessed on motorists. Federal reimbursements to TxDOT account for an estimated \$8.6 billion, or 39 percent, of total fiscal 2014-15 appropriations to the agency.

At roughly \$9 billion, the State Highway Fund (Fund 6) makes up about 41 percent of TxDOT's fiscal 2014-15 budget appropriations. About 1.7 percent of appropriations to TxDOT comes from general revenue appropriations, with almost all of that going to pay debt service on Prop. 12 general obligation bonds approved by voters in November 2007. Most of the remaining funds come from bond proceeds.

Decrease in Fund 6 appropriations for agencies other than TxDOT. The budget reduces the amount of Fund 6 money appropriated to agencies not directly involved with developing and maintaining roads. As the state's primary highway funding mechanism, Fund 6 collects the vast majority of highway-related revenue from state motor fuels taxes, motor vehicle registrations, federal reimbursements, and various fees.

Aside from TxDOT, the largest share of appropriations from Fund 6 in recent years has gone to DPS. After a fiscal 2012-13 appropriation to the department of \$926.8 million from Fund 6, funding to

DPS from this source is reduced by \$114.2 million, or 12.3 percent, in the current budget. This decrease is offset partially by an appropriation of \$85.6 million from Fund 6 for DPS law enforcement officers' salary increases in fiscal 2014-15.

The budget also reduces appropriations to other agencies that received Fund 6 money in fiscal 2012-13, including the Department of Motor Vehicles, the Office of the Comptroller, and the Public Integrity Unit. Overall, about 90 percent of all Fund 6 money appropriated by the 83rd Legislature, not including employee benefits, went to TxDOT, an increase of roughly 5 percent from fiscal 2012-13 appropriations.

Funds for roads impacted by energy sector activities and for other purposes. The 83rd Legislature appropriated \$450 million in general revenue funds to TxDOT for transportation projects through a supplemental spending measure, HB 1025 by Pitts. The appropriation was contingent on the enactment of two bills during the 83rd Legislature, HB 2741 by Phillips and SB 1747 by Uresti. These bills revise fees and county regulations of motor vehicles, allow counties to designate county energy transportation reinvestment zones to promote road projects in areas affected by oil and gas exploration and production activities, and establish the Transportation Infrastructure Fund as a dedicated fund in the treasury outside of general revenue.

Of the total supplemental appropriation for transportation projects, half is for maintenance and safety projects, including repairs to roads and bridges damaged by oversized vehicles used in energy development and production. The remaining \$225 million is transferred to the Transportation Infrastructure Fund.

Rainy day funds for roads. In its third called session, the 83rd Legislature approved SJR 1 by Nichols, a proposed constitutional amendment that would dedicate to transportation projects certain funds otherwise destined for the state's rainy day fund. If voters approve the measure in November 2014, an estimated additional \$878.6 million could be available for developing public, non-tolled roadways

in fiscal 2015, according to the LBB. The additional revenue is contingent upon the rainy day fund having a “sufficient balance” as determined by processes established in companion legislation (HB 1 by Pickett, third called session).

Additional revenue available for transportation projects through SJR 1 could be available during fiscal 2014-15, although no funds specifically were appropriated for this purpose in the state budget or in the enabling legislation. TxDOT Rider 18 in the 2014-15 budget prohibits spending additional state highway funds above the estimated appropriation amounts identified in the budget as Fund 6 revenue unless TxDOT receives written approval from the LBB and the governor to spend the funds as proposed.

Bond proceeds and increase in appropriations for debt service. The budget appropriates the remaining borrowing authority for three bond programs for road construction — Texas Mobility Fund bonds, State Highway Fund (Prop. 14) bonds, and general obligation (Prop. 12) bonds. Appropriations from these bond programs total \$3.4 billion, which is 15.5 percent of all funds appropriated to TxDOT. The department reports that the appropriations of bond proceeds already are committed to financing the development of ongoing highway projects and that no bond proceeds will be available to initiate new road projects.

The Legislature also appropriated \$2.4 billion for debt service on previously issued bonds and on bonds to be issued in fiscal 2014-15. The appropriations for bond debt service make up 11.5 percent of TxDOT’s total budget. This is an increase from the fiscal 2012-13 debt service appropriation, which totaled about \$1.7 billion.

Regulatory agencies

According to the LBB, general revenue and general revenue dedicated appropriations for agencies that regulate business professionals and service industries increase in the fiscal 2014-15 budget by \$606.8

million, or 95.5 percent, to \$1.2 billion. The majority of the increase, about \$578 million, can be attributed to an increase in System Benefit Fund general revenue dedicated appropriations to the Public Utility Commission (PUC).

Increased appropriations and other changes to the System Benefit Fund. The 83rd Legislature increased appropriations from and made significant changes to the System Benefit Fund, which provides funding to the PUC for a utility discount of up to 20 percent to low-income electricity customers during the summer months. The System Benefit Fund, which ended fiscal 2013 with a balance of \$811.3 million, has the largest balance of estimated available revenue among general revenue dedicated accounts.

The 83rd Legislature appropriated a total of \$745.5 million from the System Benefit Fund to the PUC for fiscal 2014-15, which is roughly 4.5 times the amount appropriated from the fund during fiscal 2012-13. Of that amount, \$728.3 million funds the PUC’s low-income discount program. The remainder is earmarked for programs related to electric utility restructuring, including consumer education, and market oversight.

Of the \$745.5 million appropriated to the PUC from the System Benefit Fund, \$245.5 million is appropriated through SB 1, the general appropriations act, with \$228.3 million of that funding the PUC’s low-income discount program, a 50 percent increase from fiscal 2012-13. The Legislature further increased the appropriation for the low-income discount program to \$728.3 million by enacting HB 7 by Darby, which appropriated \$500 million from the account to the PUC to:

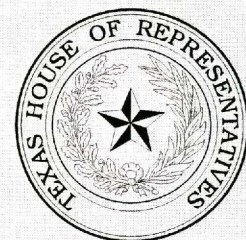
- assist low-income electricity customers during fiscal 2014 by providing electricity rate reductions of up to 82 percent during certain summer months;
- assist low-income electricity customers during fiscal 2015 and 2016 by providing electricity rate reductions of up to 15 percent for certain summer months; and

- fund customer education programs and administrative expenses incurred by the PUC in implementing and administering electric utility statutes.

The new law also eliminates the fee on utility bills that funded the System Benefit Fund and sets a statutory expiration date of September 1, 2016, for the fund.

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