



WHAT DO 5 PERCENT BUDGET CUTS LOOK LIKE?

Concerned that there won't be enough revenue to fund state services in 2012-13 and cover a \$9-billion-plus school finance budget "hole" created in 2006, top state officials have instructed Texas agencies to propose ways to reduce General Revenue (GR) spending by 5 percent in their 2010-2011 budgets. If these cuts can actually be implemented, the need to use the state's \$9.6 billion "Rainy Day Fund" would be reduced, as would the need to find other sources of ongoing revenue. [Exemptions](#) were made to minimize the impact of 5 percent cuts on key budget areas, such as the Foundation School Program for public education; foster care; and benefits and client eligibility levels in Medicaid and CHIP. However, even with some parts of the budget spared, the \$1.7 billion in total potential cuts includes many harmful proposals. This *Policy Page* analyzes some of the proposed cuts in health and human services, workforce and economic development, and higher education. **The Center for Public Policy Priorities (CPPPP) recommends a balanced approach that uses the Rainy Day Fund and new sources of state revenue—not just budget cuts alone—to balance the state budget without needless human suffering.**

- **With Medicaid and CHIP benefits and client eligibility levels exempt from cuts, the only other major area of possible HHSC reductions is payments to health care providers.**
- **Proposed Medicaid and CHIP provider rate cuts would reduce state General Revenue (GR) layouts for the current budget by \$99 million, but also give up \$176 million in federal dollars for health care providers and local communities.**
- **Health care provider rate cuts hurt the economy, shift costs to local governments, and reduce the number of doctors, dentists, and other health providers willing to take Medicaid and CHIP patients.**

HHSC Eligibility Staff Spared

In a wise move, state officials prohibited the Health and Human Services Commission (HHSC) from proposing any cuts to eligibility determination staffing levels. Since 2006, staffing shortages in the state enrollment system for the Supplemental Nutrition Assistance Program (SNAP) food benefits, Medicaid, and Temporary Assistance for Needy Families (TANF) cash assistance have caused serious delays in application processing and prevented Texas from meeting federal timeliness standards.

In August 2009, a federal lawsuit was filed against HHSC related to SNAP delays. In separate action, the federal government demanded corrective action to eliminate backlogs and delays in SNAP application processing. As part of its corrective action, HHSC has added 700 eligibility staff since September 2009. This staffing increase has helped HHSC to eliminate the SNAP backlog, but the enrollment system continues to struggle to provide timely services to needy Texans. The system still has about 1,000 fewer staff than it did 10 years ago, yet serves roughly 1 million additional clients.

For 2010-11, HHSC projects that it will need \$81 million more in GR than was appropriated to maintain eligibility staff and operations. The 82nd Legislature will likely need to provide more resources for staff and technology to improve the performance of the HHSC enrollment system and restore access to critical services.

HHS Cuts

With Medicaid and CHIP benefits and eligibility levels exempt from cuts, the only other major area of possible reductions is the rates paid to health care providers. CPPPP key observations related to Medicaid/CHIP and access to care by low-income Texans are summarized below.

Loss of Federal Funds Is Nearly Twice the State GR “Saved” by Provider Rate Cuts. Medicaid and CHIP reimbursement cuts proposed would reduce state-dollar layouts for the current budget by \$99 million, but also give up \$176 million in federal dollars for our health care providers and local communities. Overall, the HHS reduction proposals would lead to a loss of \$304 million in federal funds in the 2010-11 state budget.

Medicaid Reimbursement Cuts are a Losing Proposition. Economists have noted that Medicaid cuts are penny-wise and pound-foolish, not only because of the immediate federal dollars lost to Texas, but also because of the shift of costs and loss of economic activity to local communities. Dr. Ray Perryman described the cascade of fiscal losses for Texas resulting from Medicaid and CHIP cuts in his 2009 testimony to the Texas Legislature.

After Texas reduced funding for such programs in the 2003 legislative session (thus foregoing federal matching funds at an attractive rate), my firm performed an analysis of the incremental effects of that decision. In short, every dollar in decreased funding resulted in \$3.67 of additional costs, mainly through higher insurance premiums (\$1.59), increases in local taxes and decreases in revenue (\$0.58), and out-of-pocket and other costs (\$1.50). Additionally, the short-term multiplier for health care in the state is about 3.25.¹

Inadequate Rates Hurt Low-income Seniors, Children, People with Disabilities, and Pregnant Women. Texas does not automatically update Medicaid fees paid to doctors and other health care professionals, which means that these rates lose buying power. The legislature has also let many years go by without any rate increases. In fact, rate cuts in 2003 reduced most fees below 1993 levels. Provider rate cuts were the largest health care budget cuts made by the legislature in 2003—even larger than the CHIP cuts.

Many doctors, dentists and other health providers take very few Medicaid and CHIP patients, or do not serve them at all, because they are paid Medicaid fees that are well below Medicare and private insurance payment rates, and sometimes do not even cover their costs.

The Texas Medical Association (TMA) has tracked physicians serving Medicaid patients for several years and reports that doctors in our state taking new Medicaid patients dropped from 75 percent in 1996 to 39 percent in 2006. In 2007, new investments were made in Medicaid doctors’ fees for children, and some additional smaller increases have been made across the board. The TMA survey for 2008 shows a reversal of the decline seen over the previous decade. In 2009, no increases were adopted by the legislature to prevent the further erosion of those rates. Cutting rates at this time would represent a tremendous step backward in attempts to improve Medicaid participation by doctors and access to care for our most vulnerable citizens.

CSHCN, Mental Health Hospitals, Attendant Care. Reductions in services to children with special health care needs, cutting psychiatric hospital beds, and reducing personal attendant care hours are all moves that are likely to simply shift costs to local governments and exacerbate some illnesses and disabilities.

• Foster care and adoption subsidies, which are a federal entitlement and a very large part of child protective services (CPS) spending, were not included in the budget reduction proposals.

Child Protective Services (CPS)

The directive from the top state officials excluded foster care, which is an entitlement under federal law, similar to Medicaid. Although not explicitly included in the “exempt” category by state leadership, adoption subsidies were treated as entitlements in the same vein as foster care and spared from the proposed cuts. All HHS agencies proposed temporary hiring freezes or not filling vacancies in central headquarters

- **DFPS did propose a \$6.3 million, or 14 percent, reduction to other parts of the child protective services budget. The proposals would affect the “Strengthening Families Through Enhanced In-Home Support” (SFI) program.**
- **Other DFPS programs would see a GR reduction of \$8.4 million if the proposals are implemented.**
- **General Revenue reductions to the state’s budget for child support enforcement account for more than 80 percent of the total cuts proposed by the Attorney General’s office.**
- **At the Workforce Commission, the Skills Development Fund would have its budget reduced by \$14 million, or 18 percent, if the cuts are implemented. The customized job training program would be unable to serve 7,214 clients who would have been trained for in-demand occupations.**
- **The Higher Education Coordinating Board proposed cuts to financial aid and other critical services for students at the state’s community and four-year colleges and universities.**

staff, but tried to exclude direct delivery staff from the cuts. From CPS general revenue budget items other than foster care, adoption subsidies, and direct delivery staff, the Department of Family and Protective Services proposed cutting \$6.3 million, or 14 percent. (DFPS also proposed a total of \$8.4 million in other GR reductions, for a total of \$14.7 million.)

The CPS cut is composed of savings from the “Strengthening Families Through Enhanced In-Home Support” (SFI) program. For 2010, DFPS proposed cutting \$1.5 million based on underutilization of the program. For 2011, DFPS proposed cutting the program entirely, saving \$4.8 million.

The 80th Legislature enacted and funded the SFI program in 2007. The program was designed to keep children in the CPS system at home with their parents or, when removal was necessary, to speed the child’s return home. The program was supposed to help remediate a family’s poverty issues through direct cash assistance or by purchasing needed goods or services, primarily to address a family’s acute needs (e.g., paying the electricity bill). Overall, however, the program has had mixed results.²

As poverty is a consistent predictor of abuse and neglect, CPS should not give up on its attempts to address a family’s poverty problem. But it should focus any future programs on transforming a family’s mindset so that they can change their circumstances and move themselves into a better financial position rather than simply addressing acute needs.

Child Support Enforcement

The Attorney General’s office proposed to reduce 5 percent of its GR spending by a total of \$18 million. About \$10 million in spending for child support enforcement could be reduced without negatively affecting the families who use those services, because GR dollars would be replaced with federal American Recovery and Reinvestment Act (ARRA) dollars and federal incentive awards. Another \$4.7 million in child support enforcement GR spending could be cut from budgets for contracted services, travel, and central office staff, but this GR reduction would also cost the program \$9.1 million in lost federal matched funds.

Workforce and Economic Development

The proposed budget cut by the Texas Workforce Commission would largely be in the Skills Development Fund program (SDF), which would experience a reduction of \$14.4 million. Proposed cuts for fiscal 2010-11 would amount to 7,214 fewer trainees for in-demand occupations. While of direct benefit to the employer, the participants in this customized job training program are either new hires or existing hires who gain additional skills for higher wages. This budget cut would reduce opportunity for workers to upgrade their skills while depriving dozens of employers

the ability to train their workers for upgraded skills and equipment. Given the urgent need to train and retrain workers who have been out of work several months, this proposed budget reduction will eliminate the creation of over 1,300 new jobs for Texas, while depriving 7,214 workers the ability to upgrade their skills and earn higher wages. In fiscal 2009, SDF trainees, after completing their training, earned over \$24 per hour.

Access to Higher Education

Despite being unable to fulfill grants for all qualified students, the Texas Higher Education Coordinating Board (THECB) has proposed cuts that will erect additional barriers for achieving many of the [*Closing the Gaps*](#) goals for participation and affordability. In addition to proposed cuts in financial aid, other critical services for higher education would be eliminated. Among other reductions, the proposed budget plan would:

- Cut funding for new community college campuses;
- Eliminate scholarships for students in career and technical fields in career colleges and schools (Texas Career Opportunity Grant Program);
- Reduce funding for the Physician Education Loan Repayment Program, meaning that 51 new doctors locating in underserved areas will not receive loan repayments;
- Eliminate projects to increase participation in adult basic education, meaning that about 1,000 fewer students would be served by community and technical colleges; and
- Scale back developmental education pilot projects that would have served 400 to 500 students.

The largest portion of the THECB budget is designated for financial aid programs, including the TEXAS Grant, Texas Educational Opportunity Grant, Tuition Equalization Grant, B-on-Time program, and the Work Study program. Currently, slightly more than \$1 billion is devoted to student financial aid programs. Total financial aid cuts would amount to \$47.5 million, along with \$2.5 million in proposed cuts for Top 10 Percent scholarships. These reductions would result in 3,659 fewer students receiving Texas B-on-Time student loans and nearly 8,000 fewer students receiving financial aid from the TEXAS Grants and other programs. These reductions would have a negative effect by restricting economic opportunity in Texas to pursue higher education.

Texas community colleges and universities proposed various measures to scale back their budgets in 2010-2011, such as hiring freezes, increases in class size and reductions in course offerings. Most institutions proposed some type of hiring freeze, mostly of non-faculty positions or those positions non-essential to providing student services. Despite these efforts, several colleges indicated that the cuts would reduce efficiencies and contribute to increased turnover in the long term due to increased workload and consolidation of duties. The University of Houston proposed a cut of 83 staff positions totaling nearly \$4 million over the 2010-11 biennium.

Budget cuts involving reductions in course offerings and increasing class size are among the cuts that will have the greatest impact on student services. Texas A&M University, Alamo College, and Collin County and Tarrant County Community Colleges are among the institutions indicating the need to limit course offerings and expand class sizes to reduce costs.

Other notable cuts affecting direct services to students include proposed developmental education reductions at Collin County Community College, increased tuition rates at El Paso Community College and scaling back of instructional and student support services at Laredo Community College.

Next Steps

The proposed cuts are currently being reviewed by state leadership, who will inform state agencies which cuts will be implemented in fiscal 2010. Cuts for fiscal 2011 would be made in a supplemental appropriations bill enacted by legislators in the 2011 regular session. (Any cuts requiring a change in state law might also require other enabling legislation.) Leadership's goal is to find enough cuts from the 5 percent proposals to eliminate any budget deficit for 2010-11, currently estimated at \$1.7 billion in general revenue. Most of this (\$1.3 billion) is due to higher-than-budgeted Medicaid caseloads, but shortfalls are also expected in state employee health care (\$142 million All Funds); prison health care (\$88 million); the Children's Health Insurance Program (\$72 million); and TANF cash assistance (\$30 million). The 2010-11 shortfall amount does not include additional budget deficits that may arise if local property value and tax collections are less than what was assumed in school finance formulas.

A Balanced Approach

The 2003 Legislature faced a budget situation similar to that expected for the 2011 legislative session, with state revenues hurt by a recession. Although many vital services were cut from the state budget that session, legislators relied on various revenue measures that eliminated almost half of the over \$15 billion projected budget shortfall. For example, all of the anticipated balance in the Rainy Day Fund was appropriated; the Telecommunications Infrastructure Fee was extended and redirected to fund K-12 education; and payments to the Foundation School Program were postponed. The Legislature will have to take a similar balanced approach to balancing the 2012-13 budget to avoid unnecessary cutbacks in state services and to maintain investments in education and social services that can ensure future prosperity.

¹ Invited Testimony of M. Ray Perryman, PhD, Regarding the American Recovery and Reinvestment Act Before the Select Committee on Federal Economic Stabilization Funding of the Texas House of Representatives, March 12, 2009, http://rxstimulusfund.com/userfiles/file/Perryman_Invited_Testimony_House_Select_Committee_3-12-09.pdf, p. 16.

² Texas Department of Family and Protective Services. *Strengthening Families Through Enhanced In-Home Support in Child Protective Services: Status Update*. December 2009.

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