



Texas House of Representatives Committee on Appropriations: Selected Presentations and Discussion, February 22 & 23, 2021



The House Appropriations Committee met **February 22nd** to hear testimony on several budget-related matters. The presentations that are presented here include:

- 2022-2023 Biennial Revenue Estimate
- Economic Stabilization Fund
- Spending Limits
- House Budget Recommendations

The House Appropriations Committee met **February 23rd** to continue hearing information on budget matters. The presentations covered by this report include:

- Health and Human Services
- Behavioral health

The Chair stated that last week subcommittees were named and appear below. Please follow the link for membership and other information about the subcommittees.

[Appropriations - S/C on Article II](#)

[Appropriations - S/C on Article III](#)

[Appropriations - S/C on Articles I, IV & V](#)

[Appropriations - S/C on Articles VI, VII & VIII](#)

[Appropriations. - S/C on Strategic Fiscal Rev. & Fed. Relief Funds](#)

Sec. 2. APPROPRIATIONS. (a) The committee shall have 27 members, with jurisdiction over:

- (1) all bills and resolutions appropriating money from the state treasury;
- (2) all bills and resolutions containing provisions resulting in automatic allocation of funds from the state treasury;
- (3) all bills and resolutions diverting funds from the state treasury or preventing funds from going in that otherwise would be placed in the state treasury; and
- (4) all matters pertaining to claims and accounts filed with the legislature against the state unless jurisdiction over those bills and resolutions is specifically granted by these rules to some other standing committee.

(b) The appropriations committee may comment upon any bill or resolution containing a provision resulting in an automatic allocation of funds.

Texas Comptroller of Public Accounts.

BIENNIAL REVENUE ESTIMATE				
January 2021				
<p>Before each regular legislative session, the Texas Comptroller issues the Biennial Revenue Estimate (BRE) to inform lawmakers of the funds available to spend on state programs through the next two-year budget period. Due to the economic effects of the COVID-19 pandemic, lawmakers can expect a negative beginning balance as they begin writing the 2022-23 state budget.</p>				
Revenue Available for General-Purpose Spending				
In Billions of Dollars				
		2020-21	2022-23	CHANGE
General Revenue-Related (GR-R) Tax Collections	+	\$97.41	\$103.93	\$6.52
Other GR-R Revenue	+	\$15.03	\$15.65	\$0.62
Total GR-R Revenue	=	\$112.44	\$119.58 SUBTOTAL	\$7.14
Beginning Balance	+	\$4.84	-\$0.95	-\$5.79
Total GR-R Revenue & Fund Balances	=	\$117.28	\$118.63 SUBTOTAL	\$1.35
Revenue Reserved for Transfers to the Economic Stabilization and State Highway Funds	-	\$4.32	\$5.83	\$1.51
Amount Needed for Transfer to the Texas Tomorrow Fund*	-	N/A	\$0.27	\$0.27
Total Revenue Available for General-Purpose Spending	=	\$112.96	\$112.53 TOTAL	-\$0.44

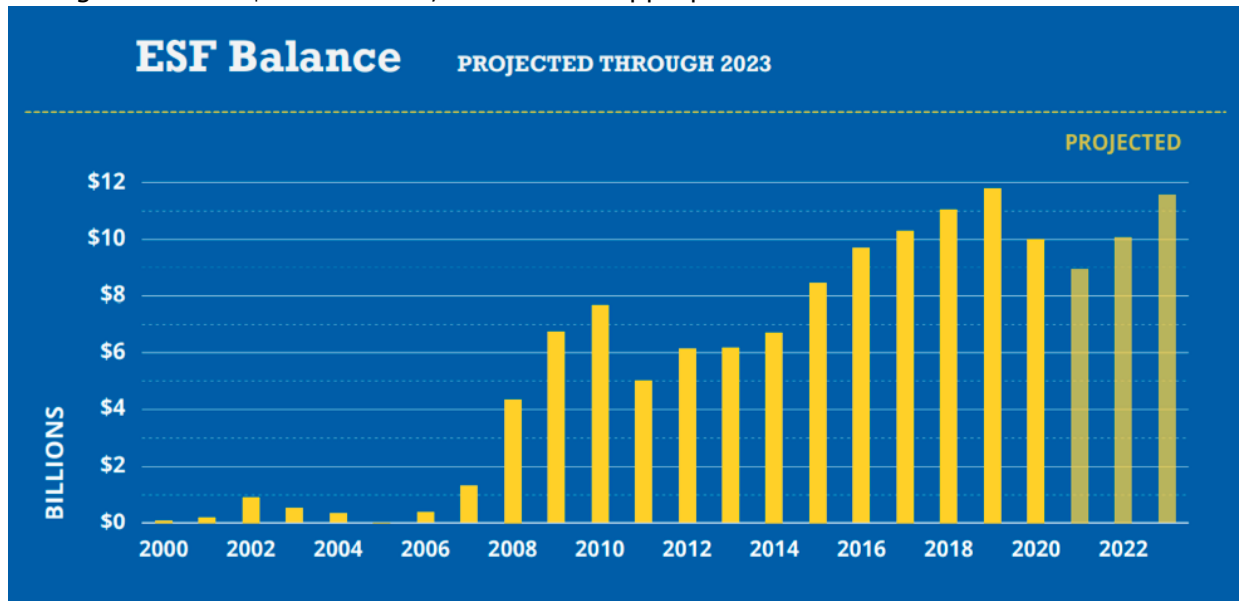
* The original, constitutionally guaranteed prepaid tuition program is projected to have a cash shortfall of \$271 million in the 2022-23 biennium. The BRE assumes the shortfall will be paid from general revenue.

The Comptroller spoke from the first slide above. \$112.53 billion is available for general spending for the 2022-23 biennium, a slight decrease from the amount available with the current biennium. This drop in General Revenue (GR) funds is not due to a drop in projected revenue collections. We expect revenue collections to grow in the next biennium, with GR-Related (GR-R) tax collections increasing by \$6.5 billion, and the total GR-R collections growing by \$7.1 billion from this biennium to the next. The reason the available GR-R drops from this biennium to the next is because we started this biennium with \$4.84 billion beginning balance, whereas this estimate projects a \$946 million deficit at the beginning of next biennium. After subtracting the projected ending shortfall from estimated revenue collections, we then have to deduct \$5.83 billion in severance tax revenue that must be reserved for transfers to the Economic Stabilization Fund (ESF or "Rainy Day Fund") and the State Highway Fund (SHF). We must also set aside \$271 million in GR to cover a projected shortfall in the Texas Tomorrow Fund. This estimate does not include possible savings from the five-percent reductions agencies were instructed to make. Those spending reductions, if realized, could substantially reduce the projected ending shortfall. However, any new GR appropriations needed in a supplemental appropriations bill for this biennium would increase the projected deficit. The assumptions are based on positive economic growth but can be

impacted by Pandemic spending. This is an unknown. Texas is well-positioned to recover economically from the pandemic but there is great uncertainty in the state revenue situation.

The Comptroller commented on the storm event. There will be a decrease in sales tax from last week and then there will be a surge because of the need to repair homes.

Early in each fiscal year, the Economic Stabilization Fund (ESF or “Rainy Day Fund”) receives a distribution from the prior fiscal year’s severance tax collections. In fiscal 2021, \$1.13 billion was transferred to the fund. The Comptroller projects transfers of \$1.03 billion and \$1.35 billion in fiscal years 2022 and 2023, respectively. After accounting for outstanding appropriations and interest and investment earnings, the Comptroller expects a Fiscal 2023 ending balance of \$11.55 billion, absent new appropriations from the fund.



Questions/Answers/Comments

Representative Dean inquired about cost of gas. The Comptroller stated that the West Texas Intermediate (WTI) is higher than in the estimate. Natural gas is about \$275 and then \$265 for the next year.

Representative Schaefer inquired about agency budget cuts. The Comptroller stated that each agency is different. They have stopped new hires and the cuts are for the current biennium and not the next. The Representative stated he hears a lot about hiring freezes and the need to continue them into the next biennium.

Representative Howard inquired about short term and long-term impacts of auditor hiring freezes. The Comptroller stated they did not freeze every hire. Auditor freezes impacts the



system long-term. The Representative inquired about the continuation of the 5% cuts. The Comptroller said to be recognized on paper, the Legislature will have to take action.

Representative Wu stated that the 5% budget cuts are primarily salaries. He stated that we have to be sure we are not shooting ourselves in the foot.

Representative Sherman asked if unemployment is factored into the estimate. The Comptroller answered in the affirmative. The Representative inquired about the use of CARES Act funds and the use of those in transportation funding. The Comptroller suggested that the Representative should ask the Texas Department of Transportation (TxDOT) about this.

Representative Stucky inquired about growth in new business compared to the past and compared to other states. The number of entities moving in today are different from a year or two ago. There will be a redefining of some metropolitan areas across the nation. Texas cities remain attractive to business. We have to watch how we move forward from the pandemic.

Representative Toth commented on Texas being the ninth largest economy in the world. He asked about looking at the future. The Comptroller stated that the future is cloudy, and we are tied to the global economy. We are in uncharted territory.

Representative Schaefer stated that they spend \$119 billion in GR and that is more than the estimate has available. The Comptroller stated that we have a rough deficit of \$1 billion and commented that the supplemental bill might be required for Medicaid. This is in opposition to what the LBB told the Senate Finance Committee. There are a lot of moving pieces that can help get the proposed budget to where the revenue estimate will end up.

Representative Walle inquired about revised revenue projections and what changed. All states saw revenues hold up better than they expected. Equity in sales tax collections passed by the Legislature last year helped also.

Representative Ann Johnson inquired about pensions. The Comptroller stated he will be talking about that next week.

Legislative Budget Board

House Recommendations, by Method of Finance

Method of Finance (In Millions)	2020–21	2022–23	Biennial Change	% Change
General Revenue Funds	\$114,947.8	\$119,753.9	\$4,806.1	4.2%
General Revenue–Dedicated Funds	\$6,532.3	\$6,307.9	(\$224.4)	(3.4%)
Federal Funds	\$99,446.0	\$85,533.2	(\$13,912.8)	(14.0%)
Other Funds	\$43,878.3	\$39,882.9	(\$3,995.4)	(9.1%)
ALL FUNDS	\$264,804.4	\$251,477.9	(\$13,326.5)	(5.0%)

The base is what was submitted by the agencies in the fall. This has changed, especially COVID-related funding (about \$8 billion).

General Revenue Funds, by Article

Article	2020–21	2022–23	\$ Change	% Change
1 – General Gov't	\$3,977.4	\$4,110.1	\$132.7	3.3%
2 – Health/Human Services	\$35,914.4	\$36,668.3	\$753.9	2.1%
3 – Public Education	\$44,561.5	\$48,640.2	\$4,078.7	9.2%
3 – Higher Education	\$15,841.3	\$15,890.4	\$49.2	0.3%
4 – Judiciary	\$553.8	\$545.5	(\$8.4)	(1.5%)
5 – Public Safety/Criminal Justice	\$11,869.5	\$11,807.2	(\$62.3)	(0.5%)
6 – Natural Resources	\$933.1	\$916.9	(\$16.2)	(1.7%)
7 – Business/Econ Development	\$520.9	\$477.8	(\$43.1)	(8.3%)
8 – Regulatory	\$367.8	\$287.3	(\$80.5)	(21.9%)
10 – Legislature	\$408.1	\$410.2	\$2.1	0.5%
TOTAL, ALL ARTICLES (In Millions)	\$114,947.8	\$119,753.9	\$4,806.1	4.2%

Many decreases are related to one-time expenditures and funding swaps.



Major Funding Items

PUBLIC EDUCATION

- Recommended funding for the Foundation School Program fully funds current law and includes projected student enrollment growth and state funding related to property tax compression.
- Recommendations for the Teacher Retirement System (TRS) include an increased state contribution rate, from
- 7.5% in 2020–21 to 7.75% in FY 2022 and 8.0% in FY 2023.

HEALTH & HUMAN SERVICES

- All Funds decrease of \$3.8 billion primarily related to COVID-related federal fund expenses in 2020–21 (\$1.8 billion), \$0.6 billion in 2020–21 new construction and repair/renovation projects, as well as projected decreases in Medicaid and CHIP client services (\$1.3 billion).

TRANSPORTATION

- All Funds decrease of \$2.5 billion, primarily related to an estimated \$2.4 billion decrease in 2020–21 federal reimbursements for highway planning, right-of-way, construction and maintenance.

HIGHER EDUCATION

- Higher Education formula General Revenue appropriations for the 2022–23 biennium were maintained at the 2020–21 appropriated levels.

ADULT CORRECTIONS

- Recommended funding maintains correctional security operations, with a decrease totaling \$148 million, primarily related to recent facility closures and 2020–21 repair/renovation projects.

Constitutional Limitations

2022–23 Remaining General Revenue Spending Authority (In Billions)	
Pay-as-you-go Limit <i>Texas Constitution, Article III, Section 49a</i>	(\$7.3)
Spending Limit <i>Texas Constitution, Article VIII, Section 22</i>	\$3.2

The Texas Constitution includes limitations on state spending and the LBB addressed two of these:

- Pay-as-you-go limit
- Limit on the growth of certain appropriations (a.k.a. spending limit)

Pay-as-You-Go Limit was established in an amendment to the Texas Constitution, Article III, Section 49a which was approved by voters on November 3rd, 1942. It requires that all appropriations are within available revenue in the fund from which the appropriations are made.

The Comptroller of Public Accounts is constitutionally required to certify whether appropriations are within estimates of available revenue. However, the commonly used term “the pay-as-you-go limit” only applies to General Revenue appropriations. Revenue available to certify GR appropriations under the pay-as-you-go limit include the beginning balance in the General Revenue Fund, collections deposited to the General Revenue Fund (less GR deposits reserved for transfer to the Economic Stabilization Fund and the State Highway Fund), and as a result of funds consolidation, unappropriated General Revenue-Dedicated account balances available for certification.

Due to federal, constitutional or statutory provisions, certain accounts in General Revenue do not count against the pay-as-you-go limit. General Revenue-Dedicated appropriations reduce the overall amount of General Revenue-Dedicated balances counted towards certification. While certain Other Funds are estimated in the Biennial Revenue Estimate, as they are not General Revenue, they do not count against pay- as-you-go. Major such funds include:

- Economic Stabilization Fund
- State Highway Fund
- Mobility Fund
- Property Tax Relief Fund

Constitutional Spending Limit is established in the Texas Constitution, Article VIII, Section 22 and limits the rate of growth in appropriations from one biennium to the next. This amendment was approved by voters on November 7th, 1978.

“(a) In no biennium shall the rate of growth of appropriations from state tax revenues not dedicated by this constitution exceed the estimated rate of growth of the state’s economy. The legislature shall provide by general law procedures to implement this section.”

The LBB confirmed that no supplemental funding will be needed for Medicaid due to the maintenance of the enhanced FMAP. The mechanics of the COVID funding will impact Medicaid in late 2021, as clients who were added under the program are maintained on the program.

Economic Stabilization Fund. The 2022-23 ending balance of the Economic Stabilization Fund (ESF) is estimated by the Comptroller to be \$11.6 billion, as reflected in the Biennial Revenue Estimate. The ending balance consists of the cash balance plus the total asset value

of investments. No appropriations from the ESF are included in the LBB Recommendations. This is available for the legislature to use.

State Debt. According to the Bond Review Board (BRB), as of August 31, 2020, state and local debt totaled \$314.2 billion, of which local debt comprised \$251.8 billion, or 80.1 percent; the remaining \$62.4 billion is state debt outstanding including revenue conduit issuances. The BRB calculates two debt ratios to monitor state debt in relation to the constitutional debt limit: (1) Debt service on outstanding (issued) debt as a percentage of unrestricted General Revenue (UGR) Funds. At the end of fiscal year 2020, the BRB reported that issued debt was 1.23 percent. This reflects a 0.05 percentage point decrease from fiscal year 2019. (2) Debt service on outstanding debt and estimated debt service for authorized but unissued debt as a percentage of UGR Funds. At the end of fiscal year 2020, the issued and authorized but unissued debt was 2.67 percent. This reflects a 0.60 percentage point increase from fiscal year 2019.

Recommended funding for the 2022–23 biennium fully funds debt service and totals \$4.3 billion in All Funds. This amount is an increase of \$18.9 million from the 2020–21 biennium.

Federal Coronavirus Funding. Estimated federal funding to Texas by federal action, as of 2/12/21 and does not include direct allocations to local governments

- CPRSA Act, signed 3/6/20: \$79.6 million
- FFCR Act, signed 3/18/20: \$179.4 million
- CARES Act, signed 3/17/20: \$14.6 billion
- PPHE Act, signed 4/24/20: \$479.2 million
- Presidential Directive – Lost Wage Assistance: \$1.9 billion
- CRRSA Act, signed 12/27/20: \$7.6 billion

Total Identified Funding to date: \$24.8 billion

Questions/Answers/Comments

Representative Toth inquired about TRS funding. LBB confirmed that that is the funding for the Retirement System only and not TRS Cares.

Representative Walle inquired about the \$8 billion identified by agencies. Not all COVID funding has been awarded or expended.

Representative Howard inquired about the spending limit and the impact of the more favorable FMAP. LBB stated that the spending limit is related to GR and the federal funds can replace the need for GR; the amount of GR in the spending limit can actually grow.

Representative Schaefer inquired about unemployment insurance. He asked how we will account for the federal loans and related shortfall. LBB stated you have to find the money through tax increases or find it elsewhere. The debt is in excess of \$6 billion.

LBB—Medicaid Overview. Medicaid is a jointly funded State/Federal program providing health insurance primarily to low-income parents, non-disabled children, pregnant women, the elderly, and people with disabilities. As a requirement of participation, states must cover certain groups and have the option to cover additional groups. The Health and Human Services Commission (HHSC) is the single state agency responsible for Texas' Medicaid program, but services are administered by a variety of state agencies.

Basic Federal Requirements:

- Entitlement: any eligible person may enroll.
- Statewide: states cannot limit available services to specific geographic locations.
- Comparability: same level of services available to all clients.
- Freedom of Choice of Provider: clients may see any Medicaid health care provider who meets program standards.

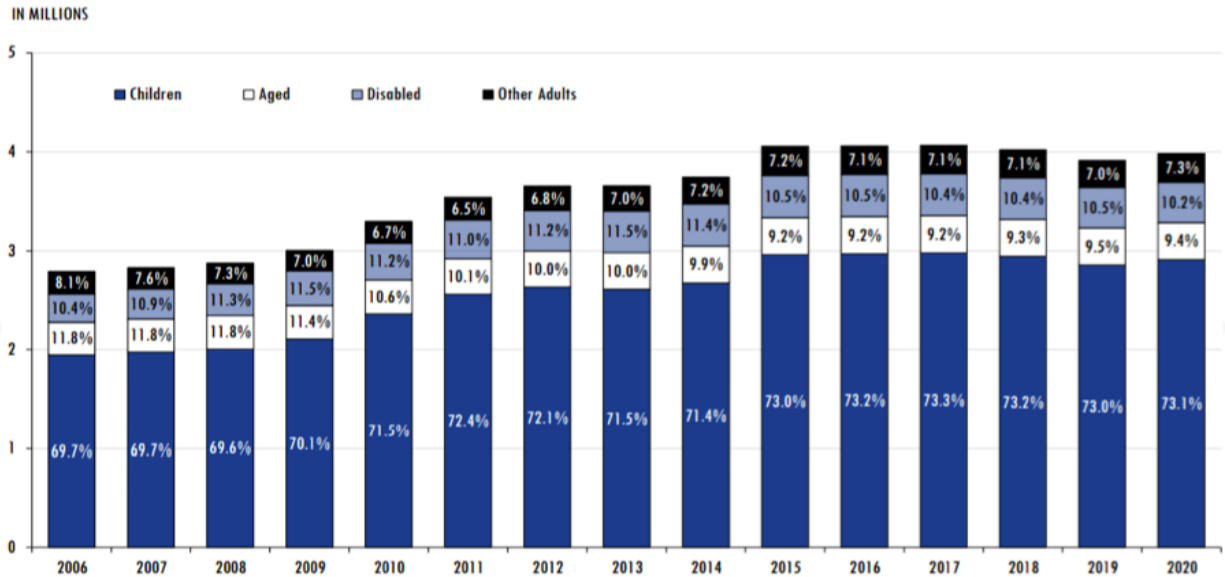
The U.S. Secretary of Health and Human Services has broad authority to waive statutory and regulatory provisions, allowing states to test new ways of delivering and paying for services. For example:

- Section 1115 demonstrations do not require statewide, comparability, or freedom of choice of provider; and
- 1915(c) waivers allow states to provide long-term-care services in home and community-based settings and may be implemented in limited geographic areas with comparability of services with non-waiver enrollees not required.

Medicaid expenditures are primarily a function of two factors: caseload and cost.

- As caseloads increase or decrease (due to factors such as population growth, the economy, or policy changes), Medicaid expenditures fluctuate.
- Medicaid expenditures also fluctuate as a result of cost growth (tied to rate changes, medical inflation, utilization, and acuity), which can be negative or positive.

Medicaid Average Monthly Full-Benefit Caseload by Enrollment Group Fiscal Years 2006 to 2020



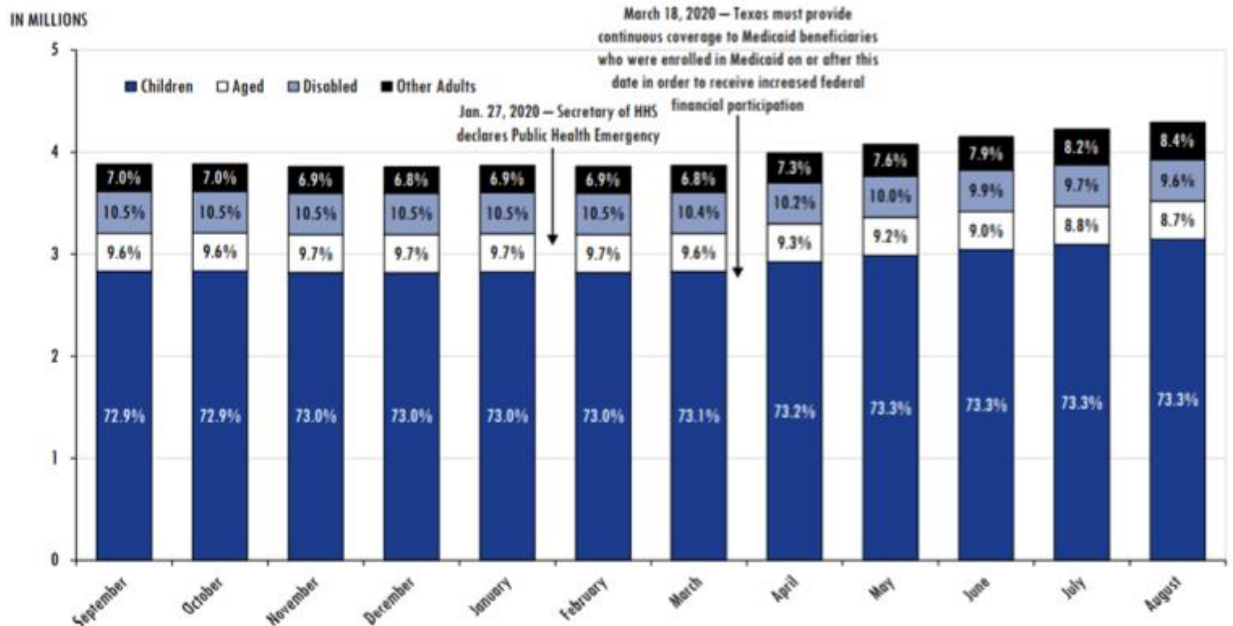
NOTES:

(1) Other adults includes TANF Adults, Pregnant Women, Medicaid for Breast and Cervical Cancer, and Medically Needy clients.

(2) Actual caseloads as reported by Health and Human Services Commission as of December 2020.

SOURCES: Legislative Budget Board; Health and Human Services Commission.

Medicaid Monthly Full-Benefit Caseload by Enrollment Group Fiscal Year 2020



NOTES:

(1) Other adults includes TANF Adults, Pregnant Women, Medicaid for Breast and Cervical Cancer, and Medically Needy clients.

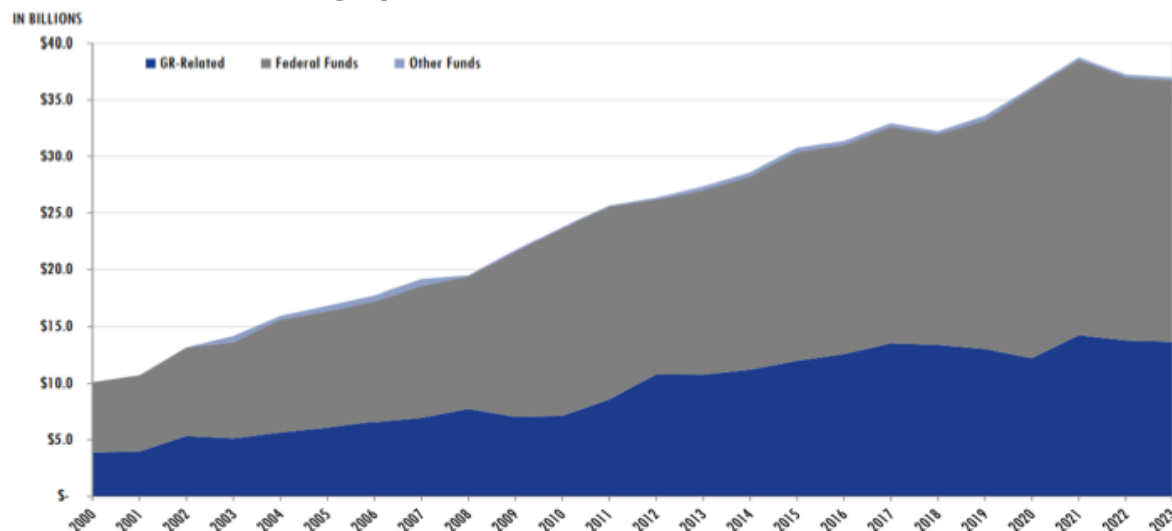
(2) Actual caseloads as reported by Health and Human Services Commission as of December 2020.

SOURCES: Legislative Budget Board; Health and Human Services Commission.

The primary factors contributing to cost growth include the following:

- Rate Changes: Adjustments to reimbursements to providers.
- Medical Inflation: Growth in costs related to how health care is delivered and what services are available.
- Technological and other medical advances.
- Increases in the cost of prescription drugs.
- Utilization: Changes in how many services are accessed.
- Acuity: Relative health of persons enrolled in the program.

Medicaid Funding by Method of Finance Fiscal Years 2000 to 2023



NOTES:
(1) Fiscal years 2000 to 2019 are expended, fiscal years 2020 through 2023 are amounts included in the Legislative Budget Estimates, House.
Source: Legislative Budget Board.

Financing of the Medicaid program is based on an array of matching rates that determine the amount of state funds (General Revenue, General Revenue-Dedicated, and Other Funds) and the amount of Federal Funds. The primary matching rate for client services is the Federal Medical Assistance Percentage (FMAP).

Each state has a different FMAP based on its per capita personal income (PCPI) relative to the nation's PCPI.

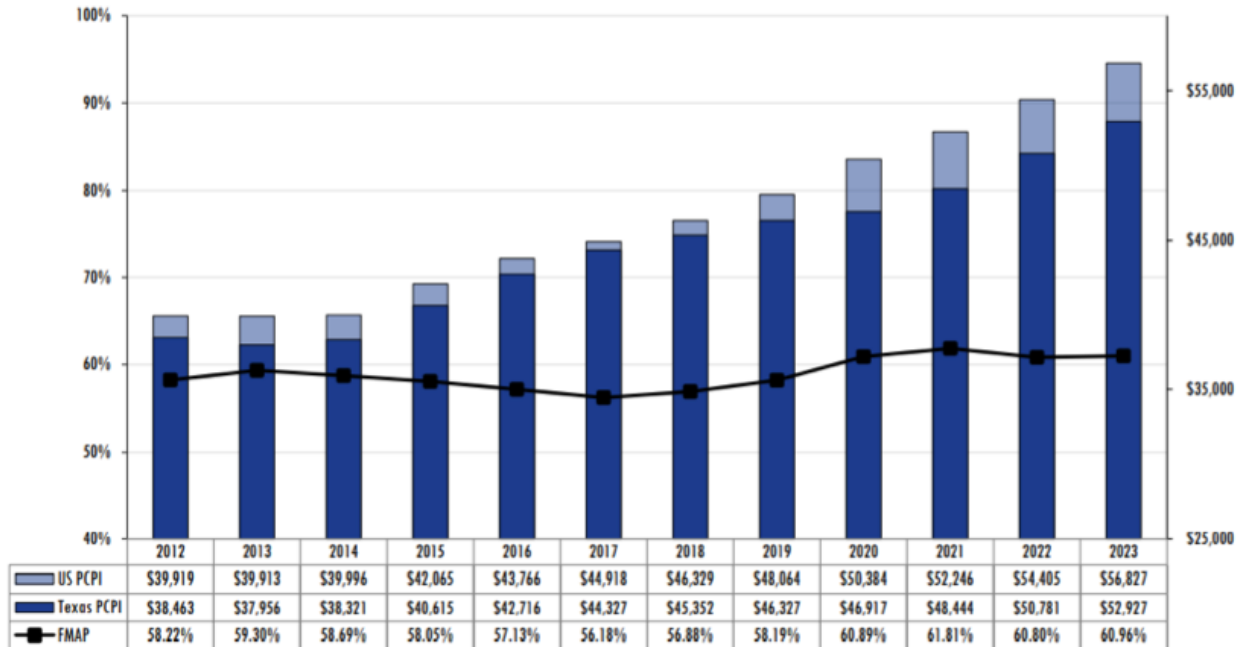
- Federal Fiscal Year (FFY) FMAP is generally announced in November of the previous FFY.
- FMAP is based on the three most recent years of income data available.
- FFY 2022 FMAP was announced in November 2020 (FFY 2021) based on PCPI data for calendar years 2017 through 2019.

State FMAPs can range from 50 to 83 percent.

- Below 55 percent: states with PCPI higher than the national average.

- Above 55 percent: states with PCPI below the national average.

FMAP and PCPI Federal Fiscal Years 2012 to 2023



NOTES:

(1) FMAPs are for federal fiscal year (FFY) and do not reflect increased FMAPs related to the Families First Coronavirus Response Act that applies from the first quarter of FFY 2021 and until the second quarter of FFY 2022 and may be extended further.

(2) FFY 2023 is projected.

SOURCES: Legislative Budget Board; U.S. Department of Health and Human Services; Bureau of Economic Analysis; U.S. Census Bureau.

Families First Coronavirus Response Act FMAP Increase. The Families First Coronavirus Response Act (FFCRA) provides for a 6.2 percentage point increase in FMAP and is available from January 1, 2020 through the last day of the federal fiscal quarter in which the public health emergency (PHE) declared by the Secretary of Health and Human Services ends. States will be provided 60 days' notice prior to termination of PHE

- Currently guaranteed from January 1, 2020 through June 30, 2021. States must provide continuous coverage, through the end of the month in which the PHE ends, to all Medicaid beneficiaries who were enrolled in Medicaid on or after March 18, 2020. Initially this results in General Revenue savings, but the cost to maintain coverage will eventually exceed any General Revenue savings.

		Without Increase	With Increase (as applicable)			
			Q1	Q2	Q3	Q4
FFY 2020	Federal Share	60.89%	60.89%	67.09%	67.09%	67.09%
	State Share	39.11%	39.11%	32.91%	32.91%	32.91%
FFY 2021	Federal Share	61.81%	68.01%	68.01%	68.01%	TBD
	State Share	38.19%	31.99%	31.99%	31.99%	TBD

Other Matching Rates

Certain Client Services

Higher matching rates are available for certain client services. Examples include:

- Enhanced FMAP (EFMAP)
 - 30 percent reduction to the state share under FMAP
 - Applies to Medicaid for Breast and Cervical Cancer
- 90/10 - Family planning services
- Community First Choice
 - 6 percentage point increase to FMAP
 - Applies to certain long-term-care services

Administration

Most administrative services are matched at 50 percent. Examples of other administrative matching rates include:

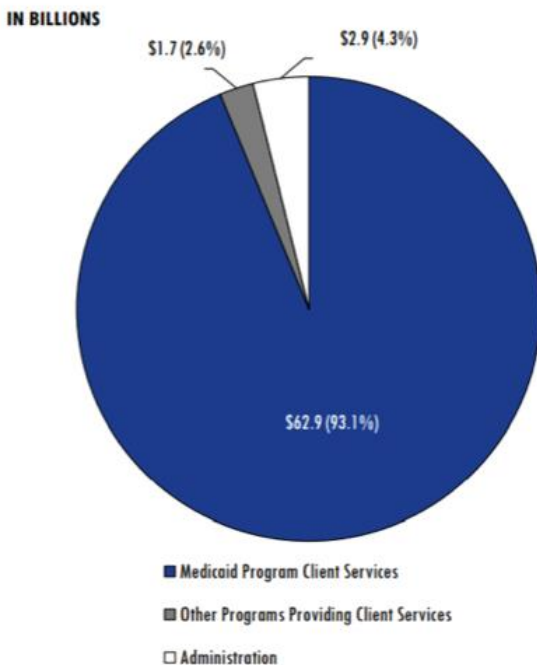
- 90/10 - Design, development, or installation of an approved Medicaid Management Information System (MMIS) for claims and information processing
- 75/25
 - Operation of an approved MMIS for claims and information processing
 - Activities conducted by skilled medical professionals
 - Certain medical and utilization review activities
 - Certain external quality review activities
 - Operation of a state Medicaid fraud control unit

Medicaid Funding

	2020-21	2022-23	Biennial Change	Percentage Change
General Revenue	\$26,387.4	\$27,352.4	\$965.0	3.7%
General Revenue-Dedicated	\$124.6	\$124.6	\$0.0	0.0%
Other Funds	\$480.2	\$534.3	\$54.2	11.3%
Federal Funds	\$47,931.5	\$46,207.8	(\$1,723.7)	(3.6%)
All Funds	\$74,923.7	\$74,219.2	(\$704.5)	(0.9%)

A less favorable FMAP results in a lower proportion of the program being funded with Federal Funds. The 2020-21 base includes \$1.8 billion in General Revenue Funds above the 2020-21 General Appropriations Act and reflects revenue adjustments, transfers, and assumed supplemental funding.

Medicaid Funding by Category 2022-23 Biennium



Medicaid funding supports three major functions.

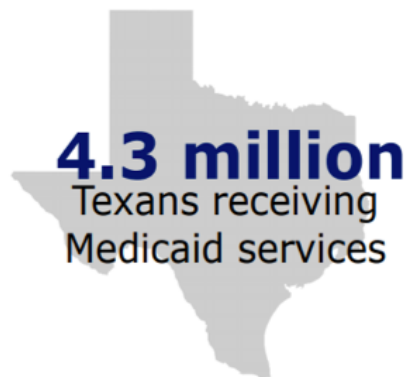
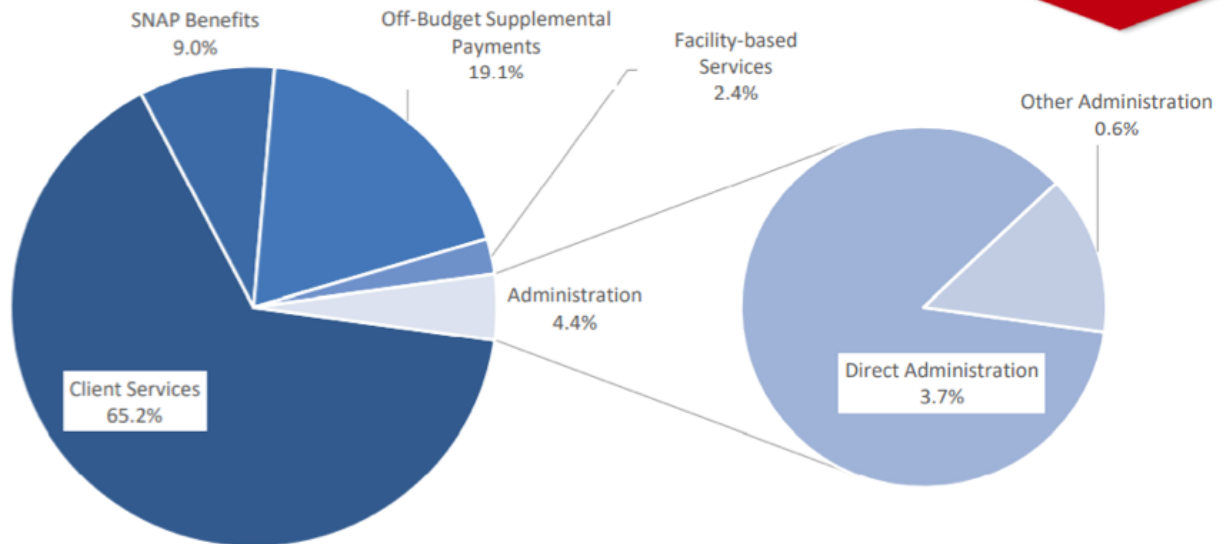
- Medicaid program client services, which are funded in Goal A at HHSC
- Other programs providing client services where Medicaid is a source of funding
 - Examples include the Healthy Texas Women (HTW) program, the Early Childhood Intervention (ECI) program and State Supported Living Centers (SSLCs)
- Administration of these programs including the following:
 - Direct administration of and contracts for the Medicaid program
 - Other administrative function where Medicaid is a source of funding

Questions/Answers/Comments

Representative Howard sought clarification on Medicaid spending. LBB stated there is Medicaid funding outside the bill pattern (\$20.5 billion is not reflected in the budget). The Representative inquired about the increased FMAP. LBB stated that it allowed the freeing up of GR in DFPS and Medicaid. There is a requirement for continuous coverage. There will be freed up GR but it will be offset by the cost of maintaining beneficiaries beginning in 2022. It is a moving target. We will not need a Medicaid Supplemental. The Representative inquired about the increased caseload. LBB stated the FMAP is tied to the crisis and will remain through the end of the calendar year. The Representative stated that because of the more favorable match for CHIP, children who are moved to CHIP will receive a more favorable FMAP. LBB concurred. The Representative asked if you could create a waiver to consolidate all these programs. The intention could be connected to the expansion of Medicaid with a 90/10 match. LBB stated that they would have to check with the agency.

Health and Human Services Commission Presentation

Health and Human Services Commission – Percentages of Estimated Total Available Funds (2020-21 Biennium). Does not include Interagency Contract Funds in Goal K, Office of Inspector General (\$11.3 million), and Goal L, System Oversight and Program Support (\$328.7 million). The Direct Administration category includes Access and Eligibility Services and Regulatory Oversight. SNAP benefits and Off-Budget Supplemental Payments are shown using fiscal year 2019 estimates.



15% of Texans covered

53% of Texas births covered by Medicaid

43% of Texas children on Medicaid or CHIP

62% of nursing home residents covered by Medicaid

Medicaid is an entitlement program. There is no cap on federal funding to provide eligible services to eligible persons

- Federal Medical Assistance Percentage (FMAP) is derived from each state's average per capita income
- The Centers for Medicare & Medicaid Services (CMS) updates the rate annually
- For federal fiscal year (FFY) 2021, Texas' Medicaid standard FMAP is 61.81 percent

- The Federal Families First Coronavirus Response Act (FFCRA) authorized a 6.2 percentage point increase in FMAP beginning in January 2020
 - The FFY is on a different calendar cycle than the state fiscal year (SFY)
 - The standard SFY 2021 FMAP rate is 61.73 percent (one month of the FFY 2020 rate of 60.89 and 11 months of FFY 2021 rate of 61.81 percent)
 - Adjusted for the FMAP increase under the FFCRA (assumed through June 2021), the SFY 2021 FMAP rate is 66.90 percent.

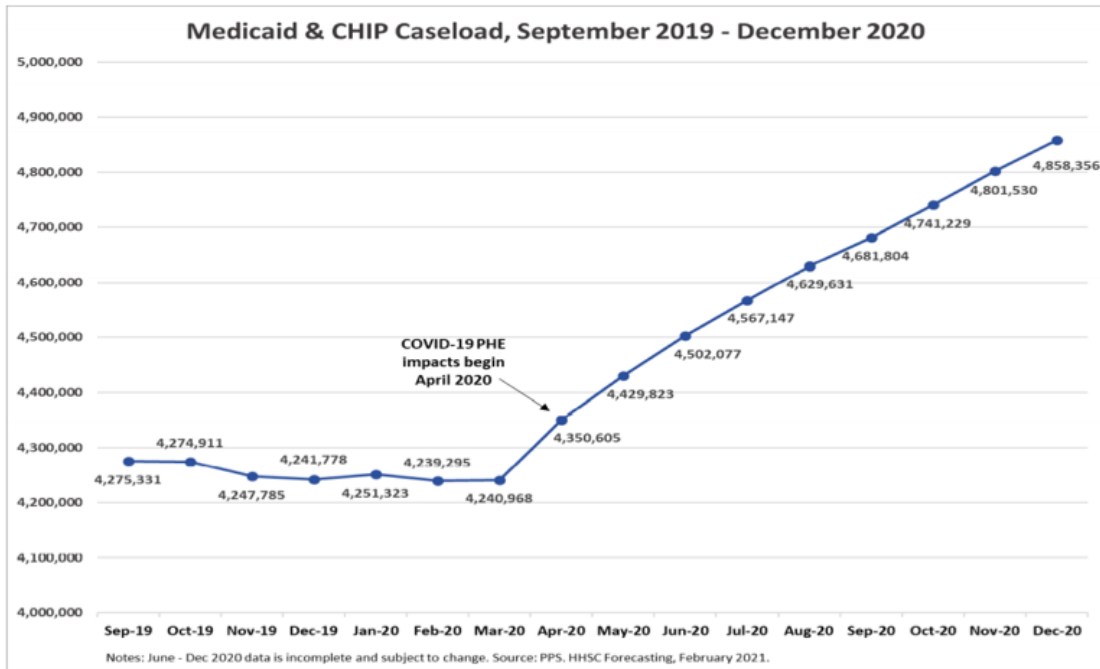
The Children's Health Insurance Program (CHIP) is not an entitlement program. Federal funds are capped – when a state's CHIP funds are spent, no more are available. Like Medicaid, the match rate is derived from each state's average per capita income and changes annually. States are allotted a portion of the total federal funds based on a formula then receive federal matching funds up to that allotment. CHIP has a more favorable match rate than Medicaid

- The FFY 2021 match rate is 73.27 percent
 - Adjusted for SFY and the FMAP increase under the FFCRA (assumed through June 2021), the SFY 2021 rate is 77.79 percent.

Key Budget Drivers. (The following assumes the Public Health Emergency (PHE) and related policies end June 2021)

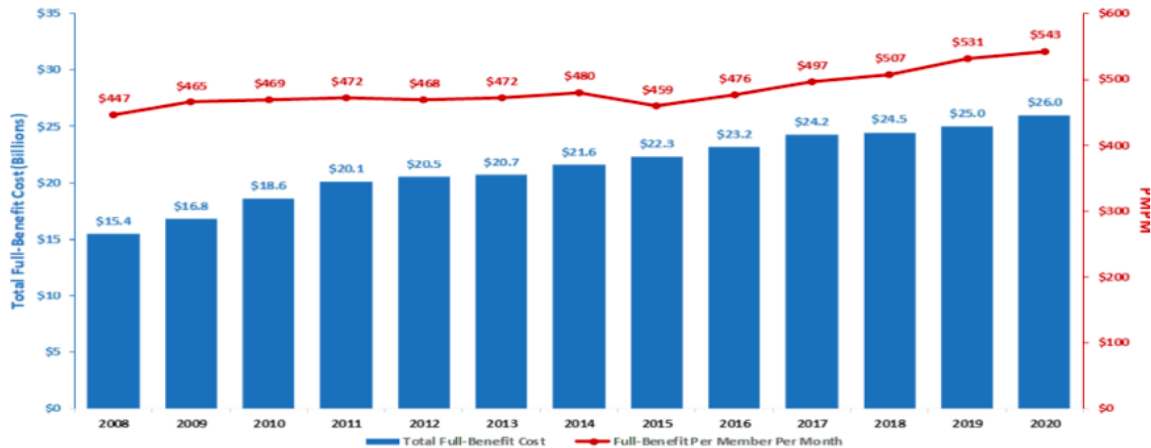
- Medicaid caseloads are projected to decrease by 8.2 percent in SFY 2022 and 4.9 percent in SFY 2023
- CHIP caseloads are expected to increase by 20.8 percent in SFY 2022 and 2.5 percent in SFY 2023
- Cost (per client) growth is projected to increase by 7 percent each year of the biennium due to changing case mix resulting from the PHE
- Total cost growth is 0.1 percent each year
- Cost growth is impacted by: Utilization trends; Case mix distribution; Benefit changes; Population acuity factors; Aging and births; Evolutionary and revolutionary advances in medicine.
- Cost growth for Texas' Medicaid program has averaged a slower rate of increase when compared to national trends

Medicaid & CHIP Caseload Growth



Medicaid Cost Growth

Texas Medicaid Acute and Long-Term Services Costs, FY 2008-2020:
Total and Per Member Per Month Full-Benefit Cost Clients



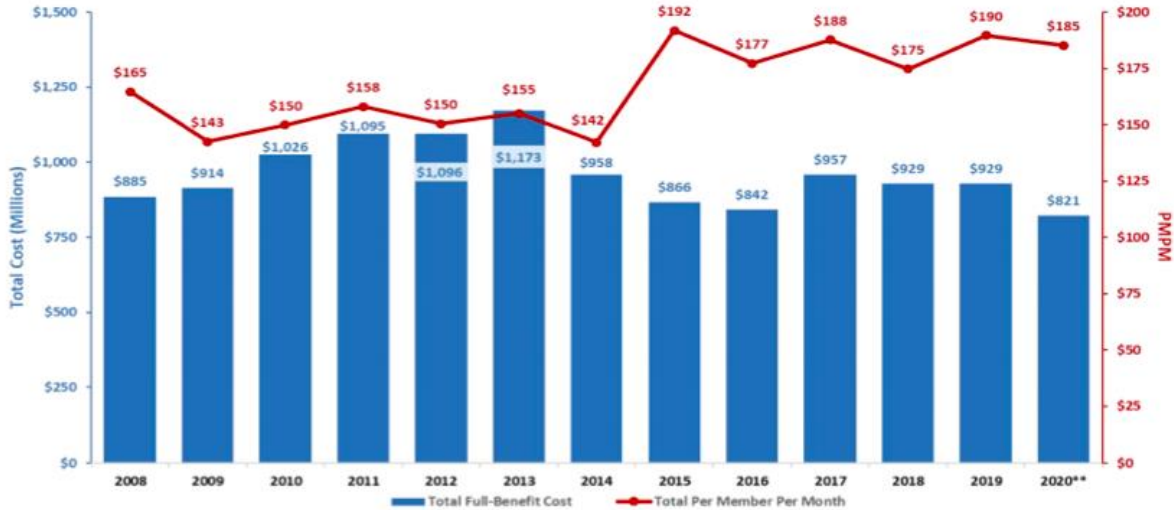
Medicaid Caseload - Recipient Months and Per Member Per Month Costs with Trends

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
RMs	2,878,126	3,005,620	3,298,099	3,543,057	3,655,930	3,658,629	3,746,124	4,056,702	4,060,564	4,067,380	4,021,686	3,915,011	3,988,580
RM Trend		4%	10%	7%	3%	0%	2%	8%	0%	-1%	-3%	2%	
PMPM	\$447	\$465	\$469	\$472	\$468	\$472	\$480	\$459	\$476	\$497	\$507	\$531	\$543
PMPM Trend		4%	1%	1%	-1%	1%	2%	-4%	4%	4%	2%	5%	2%

Notes: FY20 is not yet final. Excludes Supplemental & Directed Payment Programs, Medicare premiums, and agency admin. Source: PPS, CMS-37 Historical (FFY). HHSC Forecasting, November 2020.

CHIP Cost Growth

Texas CHIP Costs, FY 2008-2020: Total and Per Member Per Month Costs

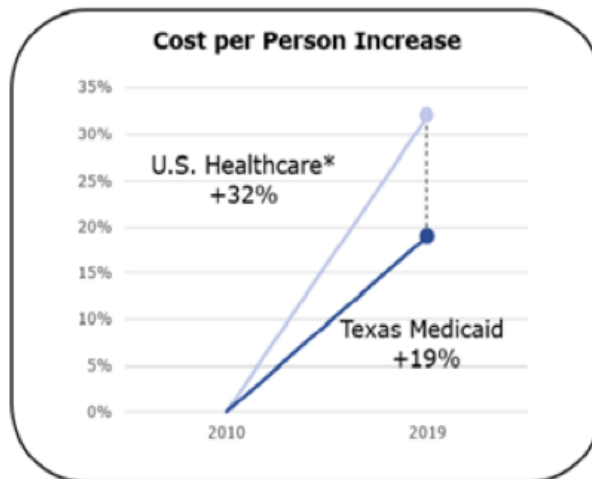


CHIP Program Caseload - Recipient Months and Per Member Per Month Costs with Trends

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
RMs	447,651	534,091	570,333	577,102	606,899	630,646	561,458	376,366	395,859	425,082	443,115	408,277	369,436
RM Trend		19%	7%	1%	5%	4%	-11%	-33%	5%	7%	4%	-8%	-10%
PMPM	\$165	\$143	\$150	\$158	\$150	\$155	\$142	\$192	\$177	\$188	\$175	\$190	\$185
Trend		-13%	5%	6%	-5%	3%	-8%	35%	-8%	6%	-7%	9%	-2%

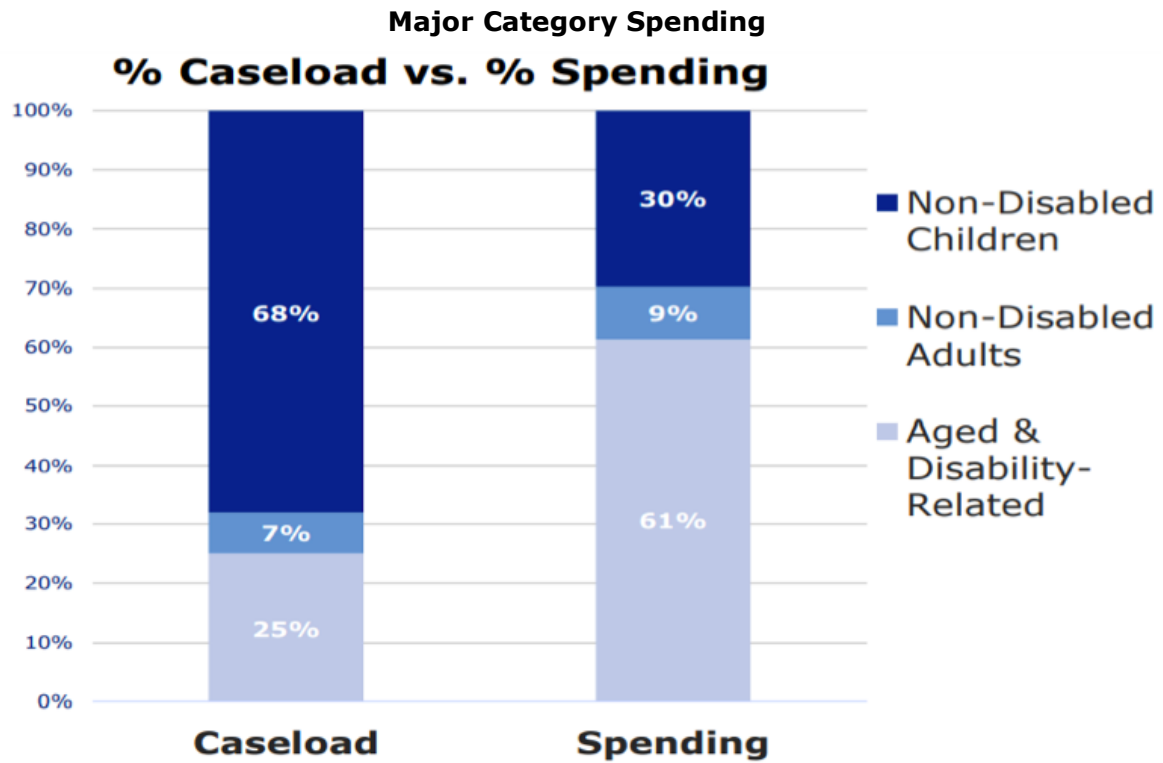
Notes: All data is final except FY 2020, which is incomplete and subject to change. Data includes CHIP Perinatal. Source: CMS-21B (FFY). HHSC Forecasting, November 2020.

Increased enrollment and improved preventative care within managed care keeps Texas Medicaid costs contained – 13 percentage points lower than the U.S. national average for healthcare



Texas Medicaid is based on full-benefit clients.

*Source: CMS, Office of the Actuary- data is for CY09-CY18



COVID-19 Fiscal Impact Summary

	SERVICE	EXPENDITURE	REVENUE	IMPACT
HHSC COVID-19 Impact	45,434,126	\$8,832,622,077	\$10,314,663,212	\$1,482,041,135
MEDICAID & CHIP	1,012,698	\$4,651,701,945	\$6,252,712,930	\$1,601,010,985
Reduce Healthcare Barriers	1,012,698	\$4,192,832,755	\$5,942,305,592	\$1,749,472,837
Suspension of Disenrollments	911,915	\$3,146,727,975	\$2,098,665,536	(\$1,048,062,439)
Suspension of CHIP Cost Share	0	\$13,125,000	\$10,755,631	(\$2,369,369)
COVID-19 Testing	0	\$665,559,525	\$447,312,452	(\$218,247,073)
Increased FFP 6.2 Percent	0	\$0	\$3,133,611,233	\$3,133,611,233
Unemployment Impact	81,511	\$311,712,958	\$210,147,979	(\$101,564,979)
In-Home Day Habilitation	0	\$50,597,227	\$38,384,415	(\$12,212,812)
Extended Leave	19,272	\$5,110,070	\$3,428,346	(\$1,681,724)
Increase Healthcare Capacity	0	\$0	\$0	\$0
Support Healthcare System	-	\$458,869,190	\$310,407,338	(\$148,461,852)
Increase Rates	-	\$458,869,190	\$310,407,338	(\$148,461,852)
NON-MEDICAID	44,420,228	\$4,086,560,067	\$4,074,755,731	(\$11,804,336)
Nutrition Services	35,404,141	\$3,982,086,045	\$3,970,281,709	(\$11,804,336)
SNAP	31,050,310	\$3,970,895,334	\$3,959,090,998	(\$11,804,336)
WIC	4,353,831	\$11,190,711	\$11,190,711	\$0
Aging Services	9,016,087	\$72,910,489	\$72,910,489	\$0
Supportive S/ics	0	\$13,504,830	\$13,504,830	\$0
Home-delivered Meals	8,123,206	\$38,502,267	\$38,502,267	\$0
Congregate Meals	892,881	\$10,115,121	\$10,115,121	\$0
Family Caregiver	?	\$6,432,408	\$6,432,408	\$0
Ombudsman	0	\$1,350,408	\$1,350,408	\$0
ADRCs	0	\$3,005,454	\$3,005,454	\$0
Mental Health Services	0	\$28,548,750	\$28,548,750	\$0
Family Violence	0	\$3,014,784	\$3,014,784	\$0
STATE-OWNED FACILITIES	0	\$53,676,497	\$10,515,383	(\$34,161,114)
State Supported Living Centers	0	\$35,822,113	\$8,141,816	(\$27,680,297)
Equipment & Supplies	0	\$35,822,113	\$0	(\$35,822,113)
Provider Relief Funds	0	\$0	\$8,141,816	\$8,141,816
State Hospitals	0	\$17,854,384	\$11,373,567	(\$6,480,817)
Equipment & Supplies	0	\$17,854,384	\$0	(\$17,854,384)
Provider Relief Funds	0	\$0	\$11,373,567	\$11,373,567
REGULATORY	1,200	\$11,837,911	\$3,600,000	(\$8,237,911)
Expand Healthcare Workforce	0	\$0	\$0	\$0
Support Healthcare System	1,200	\$11,837,911	\$3,600,000	(\$8,237,911)
Health Care Facilities	0	\$0	\$0	\$0
Long-Term Care Facilities	1,200	\$11,837,911	\$3,600,000	(\$8,237,911)
Increase Healthcare Capacity	0	\$0	\$0	\$0
ADMINISTRATION	0	\$28,845,657	\$14,079,168	(\$14,766,489)
ESS Contract Call Center	0	\$10,000,000	\$6,432,300	(\$3,567,700)
2-1-1 TIRN	0	\$1,370,157	\$589,778	(\$780,379)
Office Cleaning Services & PPE	0	\$10,573,077	\$4,229,837	(\$6,343,240)
Occupational Health Nurse	0	\$90,000	\$0	(\$90,000)
IT - Telecomm. & Infrastructure	0	\$6,812,423	\$2,827,253	(\$3,985,170)
TRANSFERS	0	\$0	\$(50,000,000)	\$(50,000,000)
Dept. State Health Svcs	0	\$0	\$(50,000,000)	\$(50,000,000)
HHSC-2020-N-628	0	\$0	\$(50,000,000)	\$(50,000,000)

*This amount represents the impact to HHSC, negative as shortage of General Revenue and positive as surplus of General Revenue.

With the public health emergency, ending caseload in Medicaid will be dropping. CHIP is expected to increase by 20%. Cost per client is expected to increase 7% each year because of the public health emergency related growth. The cost per client will grow similar to in the past as the lower cost recipients drop off the rolls due to the public health emergency proclamation not being renewed.

\$1.5 billion has been received by the state due to the public health emergency. This allowed an offset to GR.

Questions/Answers/Comments

Representative Walle commented on the loss of the FMAP. LBB stated that it is assumed that the 6.2% FMAP increase is only continuing through the end of this (calendar) year. The Representative stated that a letter came from the Biden Administration that would extend through the end of March. LBB stated that the letter was unclear about the date for the FMAP increase to end. The Representative inquired about reduction in eligibility determination and enrollment and the need to get children signed up. The Representative stated that non-expansion states would get a 5% bump in Medicaid funding. HHSC stated they are following that.

Legislative Budget Board Presentation on Behavioral Health

Funding for Behavioral Health Services.

- \$4.2 billion in All Funds (\$3.3 billion in General Revenue Funds and General Revenue-Dedicated Funds) for non-Medicaid/Children's Health Insurance Program (CHIP) behavioral health services at 24 agencies across six articles.
- Estimated behavioral health-related Medicaid and CHIP expenditures total \$3.7 billion in All Funds and \$98.9 million in All Funds, respectively.
- Total behavioral health-related funding, including Medicaid and CHIP expenditures, is estimated to be \$8.0 billion in All Funds.
- Funding at the Health and Human Services Commission (HHSC) includes:
 - \$1.4 billion in All Funds (\$1.2 billion in General Revenue Funds) for community mental health services, including:
 - \$795.7 million in All Funds for adult mental health services;
 - \$187.9 million in All Funds for children mental health services; and
 - \$145.0 million in General Revenue Funds for community mental health grant programs;
 - \$894.6 million in All Funds (\$763.1 million in General Revenue Funds) for state mental health hospital operations, including \$16.4 million in General Revenue Funds to operate expanded inpatient bed capacity at San Antonio State Hospital for a full biennium; and
 - \$520.0 million in All Funds (\$125.7 million in General Revenue Funds) for substance use services.

Funding for Behavioral Health Services (non-Medicaid/CHIP)

Agency	2020-21 Biennium Estimated / Budgeted		2022-23 Biennium House Recommendations	
	GR & GR-D	All Funds	GR & GR-D	All Funds
Office of the Governor, Trusteed Programs	\$ 17,693,638	\$ 94,213,430	\$ 17,000,000	\$ 92,779,146
Veterans Commission	\$ -	\$ 13,738,000	\$ -	\$ 13,738,000
Article I Subtotal	\$ 17,693,638	\$ 107,951,430	\$ 17,000,000	\$ 106,517,146
Health and Human Services Commission	\$ 2,397,107,389	\$ 3,664,794,255	\$ 2,421,579,916	\$ 3,214,363,124
Texas Civil Commitment Office	\$ 309,222	\$ 309,222	\$ 309,222	\$ 309,222
Department of Family and Protective Services	\$ 37,358,100	\$ 60,489,152	\$ 37,358,100	\$ 60,557,088
Department of State Health Services	\$ 5,109,011	\$ 5,617,940	\$ 1,878,984	\$ 3,478,674
Article II Subtotal	\$ 2,439,883,722	\$ 3,731,210,569	\$ 2,461,126,222	\$ 3,278,708,108
Texas Higher Education Coordinating Board	\$ 99,000,000	\$ 99,000,000	\$ 99,000,000	\$ 99,000,000
School for the Deaf	\$ -	\$ -	\$ 140,868	\$ 140,868
Texas Tech University Health Science Center	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
University of Texas - Health Science Center at Houston	\$ 16,000,000	\$ 16,000,000	\$ 16,000,000	\$ 16,000,000
University of Texas - Health Science Center at Tyler	\$ 13,460,000	\$ 13,460,000	\$ 13,460,000	\$ 13,460,000
Article III Subtotal	\$ 133,460,000	\$ 133,460,000	\$ 133,600,868	\$ 133,600,868
Supreme Court of Texas	\$ 2,500,009	\$ 2,500,009	\$ 2,500,000	\$ 2,500,000
Court of Criminal Appeals	\$ 1,137,000	\$ 1,137,000	\$ 1,137,000	\$ 1,137,000
Office of Court Administration	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Article IV Subtotal	\$ 8,637,009	\$ 8,637,009	\$ 8,637,000	\$ 8,637,000
Military Department	\$ 1,999,100	\$ 1,999,100	\$ 1,999,100	\$ 1,999,100
Commission on Jail Standards	\$ 612,689	\$ 612,689	\$ 373,866	\$ 373,866
Juvenile Justice Department	\$ 177,258,159	\$ 180,940,159	\$ 178,177,725	\$ 181,859,725
Department of Criminal Justice	\$ 520,474,663	\$ 525,563,705	\$ 520,474,663	\$ 525,563,705
Article V Subtotal	\$ 700,344,611	\$ 709,115,653	\$ 701,025,354	\$ 709,796,396
Medical Board	\$ 1,316,117	\$ 1,316,117	\$ 1,279,474	\$ 1,279,474
State Board of Dental Examiners	\$ 264,480	\$ 264,480	\$ 264,480	\$ 264,480
Board of Nursing	\$ 2,010,916	\$ 2,010,916	\$ 2,010,916	\$ 2,010,916
Optometry Board	\$ 72,000	\$ 72,000	\$ 94,000	\$ 94,000
State Board of Pharmacy	\$ 486,009	\$ 486,009	\$ 588,405	\$ 588,405
Board of Veterinary Medical Examiners	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000
Article VIII Subtotal	\$ 4,239,522	\$ 4,239,522	\$ 4,327,275	\$ 4,327,275
Cross Article Total, Excluding Medicaid and CHIP	\$ 3,304,258,502	\$ 4,694,614,183	\$ 3,325,716,719	\$ 4,241,586,793

Funding for Behavioral Health Services (Medicaid and CHIP)

Agency	2020-21 Biennium Estimated / Budgeted		2022-23 Biennium House Recommendations	
	GR & GR-D	All Funds	GR & GR-D	All Funds
Estimated Behavioral Health Related Medicaid Expenditures		\$ 3,338,053,319		\$ 3,677,116,110
Estimated Behavioral Health Related CHIP Expenditures		\$ 90,189,047		\$ 98,876,106
Medicaid and CHIP Subtotal		\$ 3,428,242,366		\$ 3,775,992,216
Cross Article Total with Medicaid and CHIP		\$ 8,122,856,549		\$ 8,017,579,009

Note: Estimated behavioral health-related Medicaid and CHIP expenditures include projected cost growth that is not funded in House recommendations.

Funding for non-Medicaid and CHIP behavioral health services is a decrease of \$453.0 million in All Funds and an increase of \$21.5 million in General Revenue and General Revenue-Dedicated Funds from the 2020-21 biennial level. The decrease is due primarily to the following decreases at HHSC:

- \$406.2 million in Other Funds for one-time construction projects and capital repair and renovation projects at state-funded inpatient mental health facilities;

- \$37.8 million in Federal Funds in community mental health and substance use services, primarily because HHSC has carried forward some federal awards into fiscal year 2020; and
- \$11.4 million in Federal Funds at the mental health state hospitals for COVID-19 pandemic response that are not assumed to continue into 2022-23.

These decreases are partially offset by other increases at HHSC in General Revenue to maintain higher fiscal year 2021 rates for substance use treatment services and fiscal year 2021 caseloads for the Youth Empowerment Services (YES) Waiver and Home and Community-Based Services – Adult Mental Health Program. Recommendations at HHSC for community mental health hospitals also include a method-of-finance swap of \$20.2 million from Other Funds 709, Public Health Medicaid Reimbursements, to General Revenue, to align with other nonbehavioral health related recommendations at HHSC for Medicaid Client Services.

Article IX Section 10.04 (2018-19 General Appropriations Act (GAA), Eighty-fifth Legislature, 2017). Article IX, Sec. 10.04, Statewide Behavioral Health Strategic Plan and Coordinated Expenditures, 2018-19 GAA:

- Provided an informational listing of funding for behavioral health and substance use services;
- Listed agencies that served on the Statewide Behavioral Health Coordinating Council;
- Required the Council to submit the Coordinated Statewide Expenditure Proposal each fiscal year of the biennium; and
- Required the Council to submit a report each fiscal year detailing progress made towards the Statewide Behavioral Health Strategic Plan. The plan, submitted by the Council in May 2016, provides the framework to address gaps and challenges in the behavioral health system and improve access to care and individual outcomes.

House Recommendations. Article IX Section 10.04 (House Recommendations, Eighty-seventh Legislature, 2021) House recommendations amend Article IX, Sec. 10.04, Statewide Behavioral Health Strategic Plan and Coordinated Expenditures, to:

- Update the informational listing of behavioral health appropriations to align with recommendations for the 2022-23 biennium;
- Continue to require the Texas Mental Health Care Consortium to designate an individual to serve on the Statewide Behavioral Health Coordinating Council; and
- Continue to require submission of an annual coordinated statewide expenditure proposal.

Construction at State Mental Health Facilities.

Eighty-fifth Legislature, 2017:

- \$300.0 million from the Economic Stabilization Funds (ESF) was appropriated at HHSC for new construction and significant repairs at state hospitals and other state-funded inpatient mental health facilities in the 2018-19 biennium;

- HHSC Rider 147, New Construction of State Hospitals, 2018-19 GAA, required HHSC to submit a comprehensive plan to expand inpatient bed capacity over the next three biennia, and required HHSC to receive approval for projects prior to expenditure of the funds;
- HHSC received approval to expend \$298.0 million from the ESF for the following projects:
 - \$125.0 million for construction of new facility in Harris County, with a minimum of 228 beds added to total state capacity;
 - \$91.5 million for construction of a 100-bed maximum security unit (MSU) and \$4.5 million for planning of a 100-bed non-MSU at Rusk State Hospital;
 - \$30.5 million for construction of a 70-bed MSU at Kerrville State Hospital;
 - \$30.0 million to begin planning efforts to replace current Austin State Hospital (\$15.5 million; 240-bed campus) and San Antonio State Hospital (\$14.5 million; 300-bed campus);
 - \$11.5 million for construction of a 40-bed unit at San Antonio State Hospital;
 - \$4.3 million to address fiber infrastructure and storm water run-off systems at the Harris County facility and Rusk State Hospital; and
 - \$0.7 million to hire 3.0 FTEs for oversight of the construction projects

Eighty-sixth Legislature, 2019:

- Senate Bill 500, Eighty-sixth Legislature, 2019, provided an additional \$445.4 million from the ESF in fiscal year 2019 for the following projects:
 - \$90.1 million for construction of a 100-bed non-MSU at Rusk State Hospital; and
 - \$355.3 million to begin construction to replace current Austin State Hospital (\$165.0 million; 240-bed campus) and San Antonio State Hospital (\$190.3 million; 300-bed campus).
- HHSC also received an additional \$15.5 million in General Revenue Funds and 378.3 FTEs in the 2020-21 General Appropriations Act to staff and operate the 40-bed unit at San Antonio and 70-bed unit at Kerrville State Hospitals for part of fiscal year 2021.

Considerations for Eighty-seventh Legislature, 2021:

- HHSC's revised Exceptional Item #11, Construction and Expanded Operations, includes the following requests:
 - \$152.4 million to complete construction at San Antonio State Hospital;
 - \$124.1 million to complete construction at Austin State Hospital;
 - \$52.1 million to staff and operate the new facility in Harris County;
 - \$29.3 million and 260.0 FTEs to staff and operate the 70-bed unit at Kerrville State Hospital; and
 - Placeholder to begin pre-planning and planning efforts for new hospitals in the Dallas area and Panhandle region, and for the replacement of North Texas Wichita Falls and Terrell State Hospitals.

Construction Projects	Eighty-fifth Legislature, 2017 ¹	Eighty-sixth Legislature, 2019 ²	Agency Requests for Eighty-seventh Legislature, 2021 ³
San Antonio State Hospital - 300-Bed Replacement	\$ 14,500,000	\$ 190,300,000	\$ 152,400,000
San Antonio State Hospital - 40-Bed Unit	\$ 11,500,000		
Austin State Hospital - 240-Bed Replacement	\$ 15,500,000	\$ 165,000,000	\$ 124,100,000
Kerrville State Hospital - 70-Bed Maximum Security Unit (MSU)	\$ 30,500,000		
Rusk State Hospital - 100-Bed MSU	\$ 91,500,000		
Rusk State Hospital - 100-Bed non-MSU	\$ 4,500,000	\$ 90,054,363	
Harris County - Minimum 228-Bed Facility	\$ 125,000,000		
Storm Water Run-off System at Rusk and Harris County Facility	\$ 3,799,500		
Fiber Infrastructure at Rusk	\$ 500,000		
Total Funding for Construction Projects	\$ 297,299,500	\$ 445,354,363	\$ 276,500,000

- 1) Does not include \$0.7 million approved for construction oversight FTEs.
- 2) Funds were appropriated in Senate Bill 500, Eighty-sixth Legislature, 2019, for a two-year period beginning in fiscal year 2019.
- 3) The Eighty-sixth Legislature provided funding to begin construction at Austin and San Antonio State Hospital. HHSC has requested the additional funding to complete construction.

Questions/Answers/Comments

Representative Howard commented that if we don't get the funds, we won't have beds for Austin as phase one tore them down. LBB concurred. The Representative inquired about making a contingency of GR available to replace any reductions that may be realized. LBB stated that GR can be used and the ESF is also available. (*If there is a contingency of GR there will be a GR cost to the bill*). The Representative stated we should be able to bake the funding into the budget and it can be covered in a supplemental.

Representative Bell asked for confirmation that the funding addresses the forensic population. He requested the aggregated budget for the projects.

This summary contains supplemental information from third-party sources where that information provides clarity to the issues being discussed. Not every comment or statement from the speakers in these summaries is an exact transcription. For the purpose of brevity, their statements are often paraphrased. These documents should not be viewed as a word-for-word account of every meeting or hearing, but a summary. Every effort has been made to ensure the accuracy of these summaries. The information contained in this publication is the property of Texas Insight and is considered confidential and may contain proprietary information. It is meant solely for the intended recipient. Access to this published information by anyone else is unauthorized unless Texas Insight grants permission. If you are not the intended recipient, any disclosure, copying, distribution or any action taken or omitted in reliance on this is prohibited. The views expressed in this publication are, unless otherwise stated, those of the author and not those of Texas Insight or its management.
