

Executive Summary

Effectiveness and Efficiency Reports



SUBMITTED TO THE 82ND TEXAS LEGISLATURE

JANUARY 2011

LEGISLATIVE BUDGET BOARD STAFF

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IMPROVE THE ADMINISTRATION OF THE TEXAS ECONOMIC DEVELOPMENT ACT

LBB RECOMMENDATIONS

1 Amend statute to realign state and school district roles and responsibilities with respect to the Act and expand current fee authority to encompass all CPA responsibilities regarding program administration.

2 Amend statute to clarify CPA's authority and responsibility to evaluate proposed project's economic impact.

3 Amend statute to separate wind energy projects from other program eligibility categories.

4 Amend statute to strengthen job creation requirements and CPA responsibilities relating to job creation monitoring and oversight.

5 Include a contingency rider appropriating funds for program administration.

Recommendations 1, 2, 3, and 4 require statutory change. The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 5.

These recommendations would not have a net fiscal impact for the 2012–13 biennium. They would provide policy makers greater assurance that the program attracts projects that are of maximum benefit to local regions and the state, and would position the state to assess the effectiveness of the program.

The 2001 Texas Economic Development Act (Act) authorizes an appraised value limitation and tax credit for eligible taxpayers upon agreement with public school districts to build or install property representing a certain amount of investment and to create jobs. As of September 2010, there are 98 active agreements in place within the program, representing agreements with proposed investments of \$47.3 billion and 6,239 new jobs in Texas.

Levy loss associated with property value limitations has little or no negative fiscal impact at the local school district level, because it is offset by the state through additional state aid or reduced recapture in school finance funding. Benefits provided through the program resulted in \$158 million in state costs through fiscal year 2009, and will cost \$1.91 billion through the life of current projects.

While an economic development benefit intended to offset the property tax burden on capital intensive projects is important to developers, several changes to the structure of the program could improve its effectiveness. There are significant challenges in measuring the net benefit to the state. Amending statute to realign the roles and responsibilities in the program and addressing key provisions, such as economic impact evaluation; treatment of eligibility categories; and job creation requirements, would provide policy makers greater assurance that the program attracts projects that are of maximum benefit to local regions and the state and better position the state to assess the effectiveness of the program.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 1.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE FUNDS	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE FUNDS	PROBABLE CHANGE IN FULL-TIME-EQUIVALENT POSITIONS FROM THE 2010–11 BIENNIUM
2012	(\$630,000)	\$630,000	6
2013	(\$630,000)	\$630,000	6
2014	(\$630,000)	\$630,000	6
2015	(\$630,000)	\$630,000	6
2016	(\$630,000)	\$630,000	6

SOURCE: Legislative Budget Board

REDUCE THE UNCLAIMED PROPERTY DORMANCY PERIOD FOR CERTAIN PROPERTY TYPES

LBB RECOMMENDATION

1 Amend statute to reduce the unclaimed property dormancy period for checking and savings accounts, matured certificates of deposits, and money orders to three years, and reduce the dormancy period to one year for utility deposits, for unclaimed property due by November 1, 2012.

This recommendation requires statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this recommendation.

This recommendation would generate \$72 million in General Revenue Funds for the 2012–13 biennium, and would increase the likelihood that abandoned property will be returned to its owners.

When an owner of personal property does not exercise an act of ownership for a certain length of time, known as a dormancy period, Texas law requires the property holder to transfer the unclaimed property to the Comptroller of Public Accounts, at which time the agency must try to locate the owner. In contrast to the conventional three year dormancy period, certain property types have longer periods. For bank accounts and matured certificates of deposits it is five years, for money orders it is seven years.

Experience with return rates to property owners for bank accounts, matured certificates of deposits, and money orders indicates locating owners is easier when their property has been abandoned for a shorter period. Reducing the dormancy period from seven years to three years for money orders, from five years to three years for bank accounts and matured certificates of deposit, and from three years to one year for utility deposits, would increase the state’s return rates and result in a significant gain in General Revenue Funds for fiscal year 2013.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 11.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE FUNDS
2012	\$0
2013	\$72,000,000
2014	\$0
2015	\$0
2016	\$0

SOURCE: Legislative Budget Board.

ELIMINATE PAPER WARRANTS BY USING DIRECT DEPOSIT OR ELECTRONIC PAY CARDS FOR CERTAIN STATE PAYMENTS

LBB RECOMMENDATION

1 Amend statute to require the CPA to pay all employees and annuitants state-issued payments via direct deposit or electronic pay card.

This recommendation requires statutory action. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this recommendation.

This recommendation would not have a direct fiscal impact for the 2012–13 biennium but could decrease administrative costs and workload at the CPA and other agencies.

Processing paper checks and warrants to pay employees and annuitants involves a substantial amount of paper, postage, storage, processing time, and personnel cost that could be reduced if direct deposit or an electronic pay card were used as payment. Texas has used direct deposit of funds as an alternative to paper warrants since 1981. Still, in fiscal year 2010, more than 5.6 million warrants, or 38.8 percent of all payments, were issued to vendors, employees, annuitants, and other recipients. During this period, approximately 45 percent of all vendor payments and 10 percent of payroll and annuity payments were paid by warrant. The Texas Council on Competitive Government reports that each warrant converted to a direct deposit or electronic pay card saves the state \$2.00. While direct deposit rates have increased in recent years, the state could realize additional benefits from making more payments electronically.

Previous Texas Legislatures addressed this issue by enacting legislation requiring employees and vendors to receive payment via direct deposit in the 1990s. However, this mandate was repealed in 1999 because it caused a hardship for some state employees and small businesses unable to open a bank account and establish a relationship with a financial institution. Since then, the Health and Human Services Commission, the Office of the Attorney General, and the Texas Workforce Commission have successfully implemented programs to increase payments made via direct deposit or electronic pay card. In fiscal year 2010, the Comptroller of Public Accounts (CPA) contracted with a bank to provide electronic payment cards to state employees who are not enrolled in a direct deposit program to receive their monthly salary. This electronic payment card program is voluntary.

The electronic payment card will allow individuals without bank accounts another option for payment. Instead of transferring funds to a bank account, payment would be deposited in an electronic pay card. The pay card would replace the warrant, and could either be cashed like a warrant or used as a debit card. Requiring state employees and annuitants to receive payment from the state via direct deposit or electronic pay cards would decrease administrative costs and increase efficiencies for CPA and other state agencies as evidenced by the success of existing electronic pay card programs used by some state agencies.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 13.

IMPLEMENT STRATEGIES TO INCREASE THE TRANSPARENCY OF THE STATE CONSTITUTIONAL DEBT LIMIT

LBB RECOMMENDATIONS

1 Amend statute to permit BRB to modify assumptions within the debt limit calculation for unissued debt.

2 BRB should develop a process for external review of the data used in the debt limit calculation on an annual basis.

3 Amend statute to require BRB to publish a document that explains how the debt limit is calculated.

4 Within each chamber's finance or appropriations committee, the Legislature should consider establishing a standing subcommittee or workgroup that reviews all debt-related requests.

5 Amend the constitution or statute, as appropriate, to repeal bond authorizations that are 10 years or older with unissued authority if projects are no longer necessary.

6 The Legislature should consider including authority expiration dates in each bill or joint resolution that includes future bond authorizations.

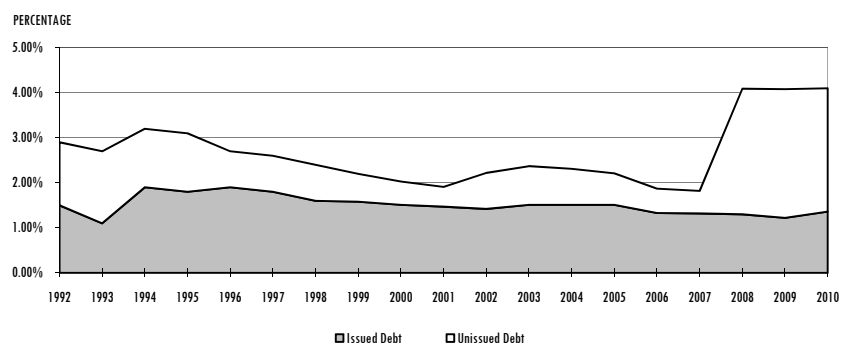
Recommendations 1 and 3 require statutory change. Recommendation 5 may require statutory or constitutional action if the Legislature wants to repeal any debt authority. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations would not have a fiscal impact for the 2012–13 biennium unless a constitutional amendment is needed under Recommendation 5. These recommendations would allow the debt limit ratio calculation to better reflect current issuing practices, increase transparency, and provide the Legislature more information regarding debt authority and appropriations.

Since 1997, Texas Constitution, Article III, Section 49(j), has limited the authorization of new General Revenue supported debt so that the annual debt service for all General Revenue supported debt does not exceed 5.00 percent of unrestricted General Revenue averaged over three years. This policy is in place to encourage prudent use of General Revenue supported debt.

After voters approved \$9.3 billion in new bond authorizations in November 2007, the debt limit ratio increased from 1.82 percent at the end of fiscal year 2007 to 4.09 percent at the end of fiscal year 2008. Prior to 2008, the debt limit ratio had never been higher than 3.20 percent. The Bond Review Board (BRB) calculates the state's debt limit ratio, which divides the total debt service payments for not self-supporting debt by the three-year average of unrestricted General Revenue Funds. At the end of fiscal year 2010, the debt service ratio was 4.10 percent for issued and authorized but unissued debt that requires General Revenue appropriations. **Figure 1** shows the trend for the issued and unissued debt portions of the debt limit ratio.

**FIGURE 1
TREND OF TEXAS' CONSTITUTIONAL DEBT LIMIT RATIO
FISCAL YEARS 1992 TO 2010**



SOURCES: Legislative Budget Board; Bond Review Board.

The constitutional debt limit calculation forms the legal standard to which the state is held for not self-supporting debt. However, the annual calculation of the debt limit does not provide a realistic picture of the state's debt burden because it uses assumptions that do not match actual issuing practice. The Office of Attorney General staff has determined that, because of the length for which methodology and assumptions have been used in calculating the debt limit, precedent has been created and BRB cannot change the calculation without legislative direction. Additionally, there is no external review of the figures BRB includes in the debt limit calculation

to ensure its accuracy. Understanding how the constitutional debt limit is calculated is difficult and BRB does not publish a detailed explanation of how the calculation is done.

Since 1985, the Texas Legislature and voters have approved \$16.2 billion in not self-supporting debt authority that is included in the constitutional debt limit ratio of debt service to unrestricted General Revenue Funds. Of this amount, \$15.4 billion was General Obligation bond authority, and \$876.8 million was revenue bond authority. When a new debt authorization is approved by the Legislature or voters, an average of 3.9 years pass before any debt is issued from that authority. For those debt authorities that have been completely exhausted, it has taken an average of 9.4 years to issue all debt authorized.

Debt authorization during the legislative session is largely decentralized, which makes it difficult for members to see the full debt burden and debt service commitments made by the state. Texas has a total of \$287.1 million in unissued not self-supporting General Obligation and revenue debt authority approved prior to 2001 that must be calculated into the debt limit despite the age of the authorization. No review of the continued need for authorizations of unissued debt is in place.

The full report provides a table that provides a step-by-step review of how the constitutional debt limit ratio is calculated.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 19.

OVERVIEW OF LOCAL GOVERNMENT DEBT TRANSPARENCY AND COST EFFECTIVENESS

LBB FACTS AND FINDINGS

- ◆ No state agency oversees local government debt issuance for cost effectiveness or affordability.
- ◆ No cost of issuance information is required to be disclosed in bond election language.
- ◆ There are multiple sources of debt issuance disclosures. The Municipal Rulemaking Securities Board requires that debt issuance disclosures be posted on its Electronic Municipal Market Access website.
- ◆ From fiscal years 2000 to 2009, local governments issued 31 percent of their debt through competitive sales compared to the national average of 20 percent.
- ◆ Capital appreciation bonds defer principal and interest payments. From fiscal years 2000 to 2009, 10 percent of local government issuances involved these bonds.
- ◆ Bond refunding is used to achieve savings, restructure debt service, or remove restrictions. From fiscal years 2000 to 2009, 25 percent of local government issuances involved a refunding.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides an overview of local government debt levels and highlights issues relating to transparency, cost effectiveness, and differences between state and local debt.

Texas local governments carry a substantial amount of debt. **Figure 1** shows that as of August 2009, local governments in Texas had a total of \$174.6 billion in local government debt outstanding. In 2009, Texas had the second highest local government debt outstanding of the 10 most populous states. Over the 10-year period from fiscal years 2000 to 2009, Texas local governments issued an average of 1,138 bonds per year. During the same period local governments issued an annual average of \$22.5 billion in debt. Local government entities that issue debt include cities, counties, school districts, community colleges, water districts, hospital districts, and other special districts. There are multiple factors related to cost transparency that local governments must address both when debt is authorized and when it is issued.

**FIGURE 1
TEXAS LOCAL GOVERNMENT DEBT OUTSTANDING BY GOVERNMENT TYPE
AUGUST 2009**

LOCAL GOVERNMENT TYPE	DEBT OUTSTANDING* (IN MILLIONS)	PERCENTAGE
Public School Districts	\$58,837.3	33.7%
Cities, Towns and Villages	58,448.5	33.5
Water Districts and Authorities	27,121.5	15.5
Other Special Districts and Authorities	12,070.3	6.9
Counties	11,925.3	6.8
Community and Junior Colleges	3,684.9	2.1
Hospital/Health Districts	2,463.6	1.4
TOTAL LOCAL GOVERNMENT DEBT	\$174,551.4	100.0%

*Totals may not sum due to rounding.

SOURCES: Legislative Budget Board; Bond Review Board.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 29.

AMERICAN RECOVERY AND REINVESTMENT ACT

FEDERAL FUNDS FOR THE STATE OF TEXAS

LBB FACTS AND FINDINGS

- ◆ Texas agencies and public institutions of higher education reported receiving more than \$21 billion in ARRA awards by September 30, 2010.
- ◆ Of all awards, \$16.2 billion are considered inside the GAA, the state's budget. Of these awards, \$10 billion have been expended.
- ◆ Awards outside the GAA totaled \$5.1 billion.
- ◆ Medicaid was the largest award reported (\$4.7 billion).

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides information about federal funding the state received under ARRA.

The American Recovery and Reinvestment Act (ARRA) was signed into federal law February 17, 2009, and included \$787 billion in Federal Funds intended to stimulate the national economy. In Texas, the Eighty-first Legislature, Regular Session, 2009 appropriated a total of \$14.4 billion in Federal Funds authorized by ARRA through House Bill 4586 and Article XII of the 2010–11 General Appropriations Act (GAA).

In addition to these appropriated awards, the state received additional ARRA awards after the GAA passed. Some of these awards are considered inside the GAA because they would have been included in the budget had the state received notice of the award before the GAA passed. Other awards, such as unemployment insurance payments, are typically excluded from the state budget, so they are considered outside the GAA.

As of September 30, 2010, Texas agencies and public institutions of higher education reported receiving \$21.3 billion of ARRA awards, of which \$16.2 billion is considered inside the GAA. Awards outside the GAA totaled \$5.1 billion.

Of awards inside the GAA, \$10 billion (62 percent) had been expended by September 30, 2010. The largest expenditure was grants (47 percent) followed by client services (34 percent).

The three largest awards inside the GAA are Medicaid (\$4.7 billion), State Fiscal Stabilization Fund-Education State Grants (\$3.3 billion), and Highway Planning and Construction (\$2.2 billion). The largest award outside the GAA is Unemployment Insurance-Direct Payments (\$3.7 billion).

A key goal of ARRA was job creation. Award recipients report job estimates to the federal government and Legislative Budget Board every quarter. During the quarter ending September 30, 2010, agencies and public institutions of higher education reported that 36,762 jobs had been created or retained due to ARRA funds.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 37.

HEALTH INFORMATION TECHNOLOGY INITIATIVES IN TEXAS

LBB FACTS AND FINDINGS

- ◆ Congress included \$19 billion in federal funding for HIT in the federal Health Information Technology for Economic and Clinical Health Act within the American Recovery and Reinvestment Act of 2009.
- ◆ HHSC received \$28.8 million in Federal Funds through the State Health Information Exchange Cooperative Agreement Program. The purpose of this program is to continuously improve and expand Health Information Exchange services to reach all healthcare providers and improve the quality and efficiency of healthcare.
- ◆ Three public institutions of higher education in Texas received a total of \$13.5 million for health information technology job training programs.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides information regarding health information technology that could increase system efficiencies and improve patient care.

Health information technology (HIT) is intended to improve the quality and safety of patient care by giving practitioners instant access to clinical decision support tools and patients' medical records. HIT can also increase system efficiency and healthcare cost savings by facilitating early intervention in disease processes, reducing medical errors, and allowing more rapid assessment of new technologies.

HIT provides a framework for the management of health information and its exchange between consumers, providers, insurers, government and quality review entities. HIT includes standardized software and hardware systems, including hand-held devices that will collect, store, retrieve, and transfer clinical; financial; and administrative information. HIT systems will maintain and communicate:

- Personal health records;
- Electronic health records;
- Electronic prescriptions and drug formularies; and
- Clinical quality review and support systems.

This report provides an overview of state and federal HIT initiatives funded under the American Recovery and Reinvestment Act (ARRA) of 2009. The report focuses on HIT initiatives being coordinated by the Health and Human Services Commission (HHSC) for Medicaid and the Children's Health Insurance Program in coordination with other state entities.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 45.

USE FEDERAL DATA TO HELP VETERANS ACCESS FEDERAL BENEFITS AND SAVE STATE FUNDS

LBB RECOMMENDATIONS

1 Include a rider directing HHSC, DADS, TVC, and TVLB to enter into an interagency contract to establish a workgroup to coordinate the use and analysis of the data received from the PARIS system and develop new strategies to use data that could generate savings for the state.

2 Include a rider transferring \$50,000 of General Revenue Funds in each fiscal year from HHSC to TVC and directing TVC to use the transferred funds and an additional \$50,000 each fiscal year from the Veterans Assistance Fund to fund two additional FTEs to assist Medicaid veterans applying for federal veteran benefits.

3 Include a rider directing HHSC to participate in the federal PARIS Veterans and Federal Files matches four times a year.

4 Include a rider directing HHSC to develop a method to calculate and track savings and costs avoided from using information received from the PARIS system.

5 Include a rider appropriating TVC 10 percent of actual General Revenue savings verified by HHSC resulting from researching information from the PARIS system.

The introduced 2012–13 General Appropriations Bill includes riders implementing these recommendations.

The fiscal impact of these recommendations cannot be determined until the program has been operational at least one biennium. Savings would be realized by veterans' access to federal benefits.

The U.S. Department of Health and Human Services' Administration for Children and Families began a project in 1997 to assist states to share eligibility information with one another from public assistance programs such as Temporary Assistance for Needy Families, Supplemental Nutrition Assistance Program, and Medicaid. The project resulted in the development of the Public Assistance Reporting Information System (PARIS) that detects and prevents fraud and improper payments in public assistance programs by comparing states' public assistance benefit recipient lists with one another. This system provides states with multiple opportunities to improve public assistance program integrity and save money on improper payments. For example, states have demonstrated savings by using system data to adjust benefits provided to clients, close cases, recover or reduce improper payments, and coordinate medical insurance benefits between state Medicaid and other federally sponsored health insurance.

Texas is not fully utilizing its access to the PARIS system, which prevents the state from maximizing its efforts to detect and deter improper or fraudulent benefit assistance payments and ensure program integrity. Specifically, the Texas Health and Human Service Commission (HHSC) and the Department of Aging and Disability Services (DADS) do not use the system to determine if Medicaid beneficiaries are also entitled to receive benefits from the U.S. Department of Veterans Affairs, thereby missing an opportunity to increase a beneficiary's access to healthcare services and decrease the cost of their healthcare to the state. Directing HHSC, DADS, the Texas Veterans Commission (TVC), and the Texas Veterans Land Board (TVLB) to work together to coordinate use of system data to ensure the coordination of benefits and increase third-party recovery efforts could result in savings to the state that would not have been realized through other strategies.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 57.

STRENGTHEN THE REGULATION OF FOOD-RELATED INDUSTRIES TO IMPROVE FOOD SAFETY IN TEXAS

LBB RECOMMENDATIONS

1 Add a rider directing DSHS to request a monthly report on food manufacturers from CPA.

2 Amend statute to transfer the regulation of bottled water to TCEQ and add a contingency rider transferring bottled water fee revenue to TCEQ.

3 Amend statute to include disease management of farm raised aquatic animals in the responsibilities for TAHC. Include a contingency rider authorizing TAHC to collect and expend fee revenue.

4 Amend statute to include a definition of “cage-free” eggs.

The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 1. Recommendations 2 and 3 require contingency riders. Recommendations 2, 3, and 4 require statutory change.

These recommendations would have a net neutral fiscal impact in General Revenue Funds for the 2012–13 biennium and would improve food safety in Texas.

The Texas Department of State Health Services (DSHS) estimates that there are 6 million illnesses, 26,000 hospitalizations, and 400 deaths in Texas each year due to food poisoning. Texas’ system for overseeing food safety is ill-equipped to address these statistics because it is fragmented into federal, state, and local systems. Texas lacks a cohesive strategy for managing food-related licenses, regulating aquaculture, monitoring food-borne pathogens, and regulating the bottled water industry.

By improving communication between DSHS, the Comptroller of Public Accounts (CPA), the Texas Commission on Environmental Quality (TCEQ), and the Texas Animal Health Commission (TAHC) and more carefully regulating food-related industries, the safety of the food supply in Texas would improve.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2010), page 65.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE FUNDS	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE FUNDS
2012	\$431,600	(\$431,600)
2013	\$298,800	(\$298,800)
2014	\$298,800	(\$298,800)
2015	\$298,800	(\$298,800)
2016	\$298,800	(\$298,800)

SOURCE: Legislative Budget Board.

CONSOLIDATE THE TEXAS REGIONAL POISON CONTROL CENTERS

LBB RECOMMENDATIONS

1 Require the Commission on State Emergency Communications to develop a statewide database listing of hospitals and their capabilities for the use of poison center call takers.

2 Amend statute to require the education subcommittee of the Poison Control Coordinating Committee to establish an objective evaluation for public education programs.

3 Amend statute to consolidate the six regional poison control centers by March 1, 2012.

4 Include a contingency rider reflecting the reduction in appropriations of \$2.3 million of General Revenue–Dedicated Funds for poison call-center operations and requiring a plan for consolidating the centers to be submitted by October 1, 2011.

These recommendations require statutory change. The introduced 2012–13 General Appropriations Bill includes a rider reflecting the budget savings from Recommendation 4.

These recommendations would save \$2.3 million in General Revenue–Dedicated Funds for the 2012–13 biennium and would improve the efficiency of poison control services provided by the state.

The Texas Poison Control Network consists of six statutorily mandated centers that provide 24-hour, toll-free telephone referral and emergency treatment information for poisonings and other toxic exposures. The centers also provide education programs on poison prevention methods to the public and healthcare professionals. Thirty-eight other states maintain a poison control center in-state and most of these states have one or two poison control centers that serve their population. Technological advances have reduced the need for multiple regionally-based poison control centers and regional differences in the type of poison exposure calls addressed at each center are minimal. Although the Texas Poison Control Network is successful in providing poison control services, the network's operations carry unnecessary administrative and indirect costs as a result of maintaining multiple regional poison control centers.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 77.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE–DEDICATED FUNDS
2012	\$760,152
2013	\$1,520,306
2014	\$1,520,306
2015	\$1,520,306
2016	\$1,520,306

SOURCE: Legislative Budget Board.

PROVIDE FOR THE COST EFFECTIVE STORAGE OF STATE RECORDS AND ARCHIVES

LBB RECOMMENDATIONS

1 Reduce General Revenue appropriations for document storage operations to require the program to operate on a full-cost recovery basis.

2 Increase the amount of archival quality document storage space available to TSLAC for the state's historical collection.

The introduced 2012–13 General Appropriations Bill contains provisions implementing Recommendation 1. Recommendation 2 would require a General Revenue appropriation.

Recommendation 1 would save \$1.6 million in General Revenue Funds for the 2012–13 biennium. Recommendation 2 would cost between \$215,000 and \$1.4 million in General Revenue Funds for the 2012–13 biennium, depending on the option selected to increase archival storage space. These recommendations would improve the preservation and availability of state documents.

The Texas State Library and Archives Commission (TSLAC) is charged with the custody of 56,000 cubic feet of archival materials, comprised of more than 250 million historical documents and artifacts related to the development of Texas society and government. The agency estimates the state's archival collection will increase by approximately 42,000 additional cubic feet of documents by 2028. TSLAC does not have the archival storage capacity needed to meet this demand. To adequately preserve documentation of the state's history and culture, TSLAC requires additional archival-quality storage space to house state documents and artifacts. Options to provide additional archival storage space include constructing a new facility, renovating existing facilities, or contracting with a private vendor.

The agency is also responsible for the management of the State and Local Government Records Management Program (program). This program operates a storage facility for non-archival, inactive government documents that have not reached an appropriate destruction date as defined by agencies' record retention schedules. The records storage program has historically been managed as a cost-recovery program but is currently recovering only half of the state's total actual cost of operation. To operate a full cost-recovery program, the state records storage program should improve its system for allocating program costs and calculating yearly program fees.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 85.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE FUNDS
2012	\$808,413
2013	\$808,413
2014	\$808,413
2015	\$808,413
2016	\$808,413

SOURCE: Legislative Budget Board.

OPTIMIZE THE USE OF STATE PARKING FACILITIES

LBB RECOMMENDATIONS

1 Amend statute to authorize TFC to lease excess parking spaces to individuals.

2 Include a contingency rider appropriating \$121,000 in General Revenue Funds to TFC to administer a leased parking program.

3 Amend statute to authorize TFC to lease underused parking facilities to other governmental entities.

4 Amend statute to charge state employees a fee to access TFC maintained parking facilities.

Recommendations 1, 3, and 4 require statutory change. The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 2.

These recommendations would generate a net gain of \$5.5 million in General Revenue Funds for the 2012–13 biennium and maximize use of the states parking facilities.

The Texas Facilities Commission maintains 17,267 parking spaces in 46 lots and garages in the Austin area, 85 percent of the agency's total parking capacity statewide. More than half of this parking capacity is located within the Capitol Complex corridor and downtown Austin, areas with limited parking options for non-state employees commuting to work and school. Daily usage rates for state parking lots and garages in central Austin range from 21 percent to 94 percent, averaging 72 percent. Given a 28 percent average vacancy level, optimizing the use of the state's parking facilities would increase revenue and improve the management and maintenance efficiency of this set of state assets.

Additionally, Texas provides access to parking facilities free of charge to state employees occupying government offices. The state expends General Revenue Funds to provide this employee benefit. Requiring employees to financially contribute to the maintenance of these facilities would enable the state to reduce the General Revenue cost of operating state facilities.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 93.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/(COST) TO GENERAL REVENUE FUNDS	PROBABLE GAIN/(LOSS) TO GENERAL REVENUE FUNDS	PROBABLE CHANGE IN FULL-TIME-EQUIVALENT POSITIONS FROM THE 2010–11 BIENNIUM
2012	(\$62,933)	\$2,833,646	1
2013	(\$57,781)	\$2,833,646	1
2014	(\$57,897)	\$2,833,646	1
2015	(\$57,897)	\$2,833,646	1
2016	(\$57,897)	\$2,833,646	1

SOURCE: Legislative Budget Board.

FEDERAL HEALTHCARE REFORM, LEGISLATIVE PRIMER

REPORT HIGHLIGHTS

- ◆ HHSC and TDI are most affected by the ACA, but DSHS, DADS, ERS, TRS, the UT System, and the Texas A&M University System are also affected.
- ◆ TDI has received \$4.8 million in federal grants to enhance health insurance rate reviews, improve consumer assistance, and for health insurance exchange planning. More federal funding will be available.
- ◆ State employee benefit systems received over \$69 million in reinsurance for high medical costs of early retirees in fiscal year 2010.
- ◆ HHSC anticipates about 2 million more people on Medicaid and CHIP from 2014 to 2023, at an estimated cost to the state of \$1.5 billion per year from 2014 to 2019. At the same time, federal funding will increase about \$12.2 billion per year.
- ◆ DSHS received \$7.4 million for its Maternal, Infant, and Early Childhood Home Visiting Program.
- ◆ Moving children of low-income state employees and teachers into CHIP could save about \$57.8 million in General Revenue Funds in the 2012–13 biennium.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides information on the provisions of the federal Affordable Care Act that could affect the state’s budget.

Two federal laws enacted in March 2010—the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act—reform the health insurance industry, expand health insurance coverage, and expand the primary healthcare workforce. Taken together, these laws are referred to as the Affordable Care Act or ACA. The ACA has diverse effects on the state and the state’s budget. The Health and Human Services Commission (HHSC) and Texas Department of Insurance (TDI) are the state agencies that will be most affected by the ACA; however, the Department of State Health Services (DSHS), Department of Aging and Disability Services (DADS), Employees Retirement System (ERS), Teacher Retirement System (TRS), UT System, and Texas A&M University System will also be affected. The Act will increase Federal Funds to the state and require the state to increase expenditures of state funds. Insurance market reforms will increase oversight and review activities at TDI, and will add costs to state benefit systems. The federal government has already established a new high risk pool in the state for persons with pre-existing conditions. In addition, the ACA provides reinsurance for high medical costs of retirees ages 55 to 65 from June 1, 2010 through December 31, 2013.

The ACA requires the establishment, by January 1, 2014, of one or more health insurance exchanges to provide convenient access to health insurance and to help individuals and small businesses purchase it in the state. The Legislature will need to decide if the state will implement the exchange or leave it to the federal government. If the exchange is to be state-operated, the Legislature will need to decide who will run it, how it will function in the insurance market, and how it will be funded. The exchange will need to coordinate with the Medicaid and Children’s Health Insurance Program (CHIP) at HHSC. HHSC will receive an enhanced federal match for modifications to Medicaid automated systems related to the exchange.

The ACA expands Medicaid to populations under 133 percent of the federal poverty level beginning January 1, 2014, and provides full federal funding for the new populations for several years. HHSC will receive an enhanced federal match for modifications to Medicaid automated systems related to the increased population and other requirements. The ACA also increases the amount of prescription drug rebates in Medicaid retained by the federal government, resulting in an estimated loss of over \$70 million in revenues to the state from 2010 through 2013.

The law reauthorizes CHIP through federal fiscal year 2015, and increases the federal share from 70 percent to 93 percent from October 1, 2015 through September 30, 2019 if CHIP is reauthorized beyond federal fiscal year 2015. It makes CHIP available to children of low-income state employees and teachers.

Starting in 2014, funding for disproportionate share hospitals will be reduced, but the amount is unknown. However, the law provides grants for healthcare-related programs and provides funding to increase the primary care workforce and federally qualified health clinics.

The full text of this report can be found in *Federal Healthcare Reform, Legislative Primer* (Legislative Budget Board, January 2011).

MAINTAIN THE PENSION SOLVENCY OF THE EMPLOYEES RETIREMENT SYSTEM AND THE TEACHER RETIREMENT SYSTEM

LBB RECOMMENDATIONS

1 Maintain solvency of ERS and TRS by implementing one of three options: (1) Fully funding both systems; (2) Maintaining the defined benefit plans while implementing benefit changes to make current funding levels sufficient to fully fund them; or (3) Creating a new hybrid plan structure.

2 Include a rider that requires ERS and TRS to perform a pension plan study that explores options for solvency.

Recommendation 1 may require statutory change, depending upon the option selected. The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 2.

The fiscal impact of the recommendations for the 2012–13 biennium would depend on the option selected. These recommendations would ensure the long-term solvency of the ERS and TRS pension plans while providing a secure benefit that the state can afford to fund.

Texas has two major public pension systems at the state level, the Employees Retirement System (ERS) for state employees and the Teacher Retirement System (TRS) for employees of public school districts and public institutions of higher education. Unlike other states, Texas' two major systems are not in a state of funding crisis, but both systems have long-term funding challenges that need to be addressed to maintain solvency. **Figure 1** shows the membership profile of ERS and TRS.

FIGURE 1
ERS AND TRS MEMBERSHIP PROFILE, AUGUST 2010

MEMBER INFORMATION	ERS	TRS
Active members	142,490	834,060
Average Annual Pay	\$41,022	\$43,916
Average Years of Service	9.2	9.7
Average Age	43.8	44.2
Retired members/Beneficiaries	79,311	296,491
Average Annual Benefit	\$18,372	\$21,354
Average Years of Service	22.5	24.6
Average Age of Current Retirees	67.7	70.2
Average Age at Retirement	58.4	59.8

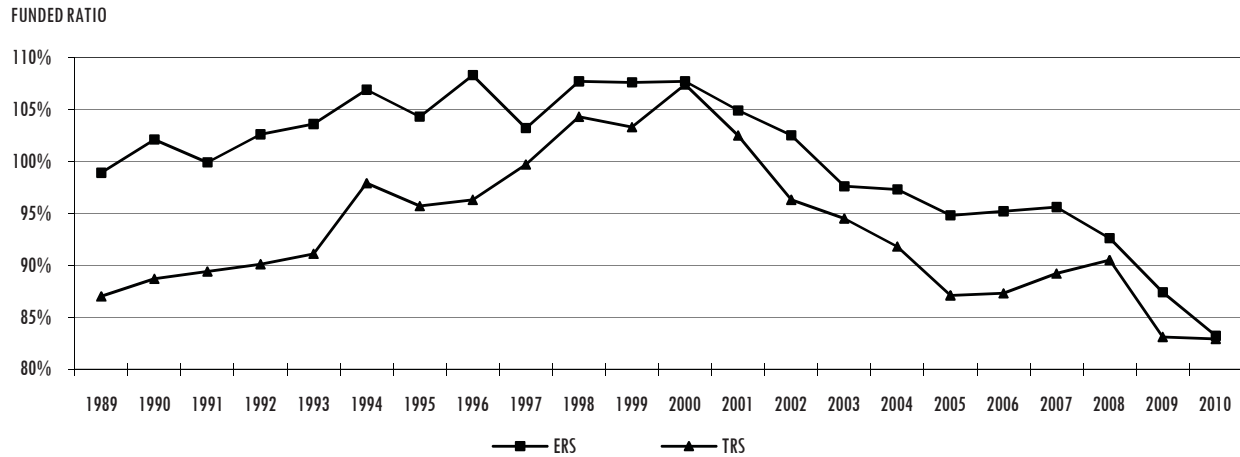
SOURCES: Legislative Budget Board; Employees Retirement System; Teacher Retirement System.

In August 2010, both ERS and TRS had a funded ratio, or ratio of assets to liabilities, greater than 80 percent, which experts generally consider an adequate level of funding for a sustainable pension system. Though the two systems meet this benchmark, each system has experienced a decline in funded ratio that began in 2001. As of August 2010, the funded ratio for ERS was 83.2 percent and for TRS it was 82.9 percent. Best practices for pension systems would be to maintain a funded ratio of 100 percent or greater to help systems weather downturns in the financial market.

Due to state constitutional requirements, Texas has made annual payments to ERS and TRS. Foregoing annual contributions due to lean budget years or boom investment returns is one reason several other state pension systems are experiencing major solvency issues. Though the state has not missed annual contributions to ERS and TRS, there have been multiple years when the systems have not received enough state and member contributions to cover normal costs, which are the costs of pension plan benefits and expenses for each year. There were also multiple years when the systems did not receive enough contributions to meet the actuarially sound contribution rate based on statutory requirements intended to provide a level of funding that meets both normal costs and reduces a portion of unfunded liabilities.

Figure 2 shows the historical end of fiscal year funded ratio of the two plans.

FIGURE 2
FUNDED RATIO TREND FOR ERS AND TRS, FISCAL YEARS 1989 TO 2010



SOURCES: Legislative Budget Board; Employees Retirement System; Teacher Retirement System.

Defined benefit retirement plans such as ERS and TRS are dependent upon investment earnings and full funding by employer and employee contributions. If either of these factors underperform, these plans incur unfunded liabilities. ERS and TRS pension plans incur more liabilities than are funded by annual contributions. As of August 2010, the unfunded liability was \$4.8 billion for ERS and \$22.9 billion for TRS, the highest the unfunded liabilities have ever been.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 97.

REDUCE THE STATE CONTRIBUTION FOR EMPLOYEE HEALTH INSURANCE TO PRESERVE BENEFITS

LBB RECOMMENDATION

1 Amend Rider 6 in ERS's bill pattern to reduce the state contribution for group insurance by up to 10 percent and require ERS to develop a waiver process for employees with a household income less than 200 percent of the federal poverty level.

The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this recommendation.

This recommendation would result in a revenue gain of \$298.1 million in All Funds reducing ERS's need for \$187.8 million in General Revenue Funds and General Revenue–Dedicated Funds for the 2012–13 biennium, and preserve benefits currently provided to state employees.

The Employees Retirement System (ERS) group insurance program healthcare expenses in fiscal year 2010 were \$2.3 billion in All Funds. ERS modified the health benefit plan member cost sharing for fiscal year 2011 to address a \$140 million gap between appropriations and expenses. The agency anticipates healthcare costs to increase 9 percent in each fiscal year of the 2012–13 biennium and requested an additional \$575.6 million in All Funds to cover cost increases.

There are two options for the state to contain cost, reduce the cost or use of healthcare services or increase the members' share of costs. Without changes to employee and dependent premiums or increased funding, ERS would be required to significantly modify benefits by: paying doctors and hospitals less; encouraging plan members to use fewer services; increasing copayments and coinsurance; establishing a medical deductible; reducing the types of services covered; or reducing the size of the healthcare provider network to achieve discounts.

In calendar year 2009, Texas was one of five states that offered a state employee health plan that paid 100 percent of all active state employees' health insurance premiums and did not require members to pay a deductible. ERS is the only Texas state employee health plan that does not require active employees to pay a premium or medical deductible. In fiscal year 2009, the average full-time, classified state employee's base salary was \$38,461 and the state paid an average of \$18,423 for each employee's benefits (i.e. health, retirement, leave). The recommendation would increase the employee's monthly premium cost by between \$41 (employee only) and \$120 (employee and family) depending on the type of coverage they select.

The full text of this report can be found in the *Governmental Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 117.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/ (COST) TO GENERAL REVENUE FUNDS	PROBABLE GAIN/ (LOSS) TO GENERAL REVENUE– DEDICATED FUNDS	PROBABLE SAVINGS/ (COST) IN FEDERAL FUNDS	PROBABLE SAVINGS/ (COST) IN OTHER FUNDS
2012	\$84,972,653	\$8,944,490	\$29,814,966	\$25,342,721
2013	\$84,972,653	\$8,944,490	\$29,814,966	\$25,342,721
2014	\$84,972,653	\$8,944,490	\$29,814,966	\$25,342,721
2015	\$84,972,653	\$8,944,490	\$29,814,966	\$25,342,721
2016	\$84,972,653	\$8,944,490	\$29,814,966	\$25,342,721

SOURCE: Legislative Budget Board.

IMPLEMENT A TOBACCO USER SURCHARGE ON EMPLOYEES RETIREMENT SYSTEM HEALTH PREMIUMS

LBB RECOMMENDATIONS

1 Amend statute to require ERS to offer a more comprehensive tobacco cessation program that includes prescription drug coverage.

2 Amend statute to require ERS to apply a monthly premium surcharge for all tobacco users covered under the state health plan.

3 Include a contingency rider setting the monthly surcharge at \$30 per tobacco user.

4 Amend statute to permit the University of Texas System, the Texas A&M University System, and the Teacher Retirement System to apply a tobacco user premium surcharge within their health plans.

Recommendations 1, 2, and 4 require statutory change. The introduced 2012–13 General Appropriations Bill includes a contingency rider implementing Recommendation 3.

These recommendations would result in a net savings of \$24.5 million in General Revenue Funds and General Revenue–Dedicated Funds for the 2012–13 biennium, and provide incentives for employees and their covered dependents to quit using tobacco, resulting in improved health.

Health insurance is a valuable benefit state employees receive as part of their compensation package. To maintain this benefit and contain costs, the state continues to look for opportunities for appropriate employee cost sharing. In recent years, private and public employers have increasingly used financial incentives to promote wellness and motivate employees to change unhealthy behaviors. Tobacco use, which is a contributing factor to many diseases, is one area where employers are applying premium surcharges, higher deductibles, and other increased costs to encourage employees to change behavior. Implementing a comprehensive tobacco cessation program with prescription drug coverage and a monthly tobacco user surcharge within the Employees Retirement System (ERS) health plan would result in a net cost savings and encourage state employees, retirees, and their dependents to stop using tobacco.

In 2010, the Centers for Disease Control and Prevention reported that an estimated 18.5 percent of Texans smoke. Applying this rate to the ERS health plan, an estimated 77,409 adults enrolled in the health plan smoke. A patchwork of tobacco cessation programs is available to state employees. Most employees can access telephone coaching or an online tool, though these programs could be more comprehensive. There are two tobacco cessation program pilots underway for state employees. Through December 2011 employees can receive eight weeks of free nicotine replacement therapy via the quitline. Employees of the health and human services agencies also have prescription drug coverage as part of a pilot tobacco cessation program through the fall of 2011.

In September 2010, nine states had financial incentives for tobacco cessation, seven of which were a monthly premium surcharge for tobacco users and one of which has a wellness surcharge that includes tobacco use. The average monthly surcharge among those states is \$36 per tobacco user, with a range of \$20 to \$80.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 121.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE FUNDS	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE–DEDICATED FUNDS	PROBABLE SAVINGS/(COST) IN FEDERAL FUNDS	PROBABLE SAVINGS/(COST) IN OTHER FUNDS
2012	\$8,872,134	\$933,909	\$3,113,029	\$2,646,075
2013	\$3,308,201	\$1,400,863	\$4,669,544	\$3,969,112
2014	\$13,308,201	\$1,400,863	\$4,669,544	\$3,969,112
2015	\$13,308,201	\$1,400,863	\$4,669,544	\$3,969,112
2016	\$13,308,201	\$1,400,863	\$4,669,544	\$3,969,112

SOURCE: Legislative Budget Board.

IMPLEMENT A TIERED COINSURANCE PLAN FOR STATE EMPLOYEES

LBB RECOMMENDATIONS

1 Include a rider requiring ERS to implement a tiered coinsurance plan for medical expenditures to reduce plan costs and increase participants' cost sharing.

2 Include a rider requiring ERS to implement a tiered coinsurance plan for pharmaceutical expenditures.

3 Include a rider requiring ERS to change the Medicare coordination of benefits so Medicare eligible retirees pay coinsurance for most medical procedures, as do other retirees and active employees.

The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 1. Recommendations 2 and 3 require riders.

These recommendations would save \$59.7 million in General Revenue Funds and General Revenue–Dedicated Funds for the 2012–13 biennium, and increase cost sharing among plan participants thereby improving the plan's cost effectiveness.

Employees currently pay 20 percent coinsurance on medical procedures up to \$10,000. Under tiered coinsurance additional tiers of coinsurance would be added at lower rates; 5 percent on expenditures between \$10,001 and \$50,000 and 2 percent on expenditures up to \$100,000. This requires cost sharing on high cost medical procedures while not overburdening employees. A small reduction in utilization for affected procedures would save much more than the direct savings of the plan change, so the plan saves more without passing all the costs on to employees. Tiered coinsurance for high cost prescription drugs would work similarly, but only apply to high cost specialty prescription drugs.

Due to the way the Employees Retirement System (ERS) coordinates benefits with Medicare, Medicare eligible retirees and dependents have no share in almost all medical costs after their deductible is met. ERS should change this coordination of benefits so these retirees participate in the costs of their care, as do active employees and other retirees. This proposal could also have a significant additional impact on plan costs due to utilization reductions.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 127.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/ (COST) IN GENERAL REVENUE FUNDS	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE– DEDICATED FUNDS	PROBABLE SAVINGS/(COST) IN FEDERAL FUNDS	PROBABLE SAVINGS/(COST) IN OTHER FUNDS
2012	\$26,470,720	\$2,105,833	\$7,124,772	\$7,893,570
2013	\$28,850,560	\$2,295,157	\$7,765,322	\$8,603,239
2014	\$32,099,029	\$2,553,583	\$8,639,669	\$9,571,932
2015	\$35,761,856	\$2,844,973	\$9,625,544	\$10,664,188
2016	\$39,895,711	\$3,173,835	\$10,738,199	\$11,896,903

SOURCE: Legislative Budget Board.

ESTABLISH PILL-SPLITTING PROGRAMS TO REDUCE OUT-OF-POCKET EXPENSES FOR STATE EMPLOYEES

LBB RECOMMENDATIONS

1 Amend statute to require that the Employees Retirement System, Teacher Retirement System, UT System and Texas A&M System each establish a voluntary pill-splitting program with a copay reduction as a participation incentive.

2 Amend statute to require that the Texas Board of Pharmacy establish an advisory committee to develop a list of medications that are appropriate for splitting and education materials for participants.

These recommendations require statutory action. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations would save \$710,190 in General Revenue Funds for the 2012–13 biennium. A 50 percent copay reduction participation incentive would result in more than \$1 million in out-of-pocket savings for state employees.

Pill splitting is a strategy for containing prescription drug costs. It allows users of a qualified medication to buy half as many pills at twice the dose and split them in half to achieve the prescribed dose. This strategy is safe and effective with medications that split easily, meet pricing criteria, and have a low risk of toxicity. These characteristics limit any pill-splitting program to a short, discrete medication formulary.

Prescription drug spending for the Texas employee health plans exceeded \$1.5 billion in All Funds for the 2007–08 biennium. Out-of-pocket costs for state employees were over \$1.1 billion. Creating an optional pill-splitting program in the state employee health plans has the potential to save approximately \$710,190 in General Revenue Funds for the 2012–13 biennium. A 50 percent copay reduction participation incentive would result in over \$1 million in out-of-pocket savings for state employees.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 133.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS, 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE FUNDS	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE-DEDICATED FUNDS	PROBABLE SAVINGS/(COST) IN FEDERAL FUNDS	PROBABLE SAVINGS/(COST) IN OTHER FUNDS	PROBABLE SAVINGS/(COST) IN LOCAL FUNDS	PROBABLE COMBINED SAVINGS/(COST) IN ALL FUNDS
2012	\$226,249	\$10,481	\$35,984	\$28,473	\$116,564	\$417,750
2013	\$452,498	\$20,962	\$71,968	\$56,946	\$233,128	\$835,501
2014	\$452,498	\$20,962	\$71,968	\$56,946	\$233,128	\$835,501
2015	\$452,498	\$20,962	\$71,968	\$56,946	\$233,128	\$835,501
2016	\$452,498	\$20,962	\$71,968	\$56,946	\$233,128	\$835,501

SOURCE: Legislative Budget Board.

REQUIRE STATE RETIREES TO PAY A GREATER SHARE OF THEIR HEALTH INSURANCE COST TO PRESERVE BENEFITS

LBB RECOMMENDATIONS

1 Amend Rider 6 in ERS's bill pattern to require retirees to pay a portion of their health insurance premium based on years of service.

2 Amend Rider 6 in ERS's bill pattern to reduce the state contribution for retirees' dependents from 50 percent to 40 percent of the premium.

The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations would result in a revenue gain of \$95.5 million in All Funds reducing ERS's need for \$60.1 million in General Revenue Funds and General Revenue–Dedicated Funds for the 2012–13 biennium and would preserve benefits currently provided to state retirees.

The cost of providing retiree health benefits continues to increase as both the cost of the program and the number of retirees increases. Monthly health insurance premiums for the Employees Retirement System (ERS) health insurance increased from \$216 to \$411 a month from fiscal years 2000 to 2011—a net increase of \$195 a month, or 90.7 percent. From fiscal years 2000 to 2010, the number of ERS retirees increased from 47,310 to approximately 78,619. Texas does not require ERS health plan members to pay a monthly premium and the state pays 50 percent of a retirees' dependent's premium.

In fiscal year 2009, retirees' healthcare claims were approximately \$402.8 million but they are not the most expensive group. According to ERS, the group with the highest claims is dependent spouses. In fiscal year 2009, the average annual claim cost for retirees' dependent spouses' age 50 to 64 was approximately \$6,400, and 26 percent of ERS health plan participants report that their dependent has access to other health coverage but enrolled in the ERS health plan instead.

The Governmental Accounting Standards Board's rules require public employers to identify and report the cost of the liability of retiree health benefits and either continue to "pay-as-you-go" or begin to prefund the costs (as they prefund costs associated with pension plans). In 2007, the Texas Legislature authorized government retiree health plans to continue to pay-as-you-go and required them to fully disclose to members that employers' are not obligated to provide insurance beyond the two year appropriation cycle.

In calendar year 2008, at least 10 states varied retiree premium contributions based on years of service. Texas can reduce its expense for retiree health benefits by reducing the state contribution for retirees' dependents and requiring retirees to contribute toward their health insurance premium based on years of service. Requiring persons who work for the state for 10 years to pay a 20 percent premium (\$82 a month), and reducing premiums as service increases until those with 30 years or more pay nothing, would reward retiree who have given the longest service to the state with the greatest benefit.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 137.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/ (COST) TO GENERAL REVENUE FUNDS	PROBABLE GAIN/(LOSS) TO GENERAL REVENUE– DEDICATED FUNDS	PROBABLE SAVINGS/(COST) IN FEDERAL FUNDS	PROBABLE SAVINGS/(COST) IN OTHER FUNDS
2012	26,808,686	2,821,967	9,406,556	7,995,573
2013	27,607,229	2,906,024	9,686,747	8,233,735
2014	28,441,707	2,993,864	9,979,546	8,482,614
2015	29,313,737	3,085,656	10,285,522	8,742,693
2016	30,225,007	3,181,580	10,605,266	9,014,476

SOURCE: Legislative Budget Board.

PROVIDE COMMUTER CHOICE INCENTIVES FOR STATE EMPLOYEES

LBB RECOMMENDATIONS

1 Amend statute to require, rather than authorize, ERS to establish a statewide Qualified Transportation Benefit Program for state employees.

2 Amend statute to require state agencies to designate an employee transportation coordinator.

3 ERS and other state agencies should attempt to negotiate employee discount options with apartments within walking and biking distance of state office buildings.

Recommendations 1 and 2 require statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations would save \$82,590 in All Funds for the 2012–13 biennium and provide state employees a tax incentive to use alternative commuting options.

Commuter benefits are an environmentally responsible way Texas could help state employees while encouraging transportation options that reduce congestion and pollution from motor vehicles. The Transit Benefit Program established by the federal government allows employers to subsidize employees’ cost of commuting to work by mass transit and allows employees to use pre-tax dollars to pay for mass transit passes. The federal government also offers a bicycle commuting reimbursement, which allows employers to reimburse employees for certain costs associated with bicycling to work and exclude these reimbursements from gross wages so they are nontaxable. Incentives can be offered to encourage employees to live near their workplace so that walking and bicycling are commuting options.

The Employee Retirement System (ERS) is statutorily authorized to offer a Qualified Transit Benefit Program but has currently chosen not to offer this benefit. As a result, state employees using alternative commuting options are unable to take advantage of federal tax incentives, the state misses out on savings realized from a reduction in payroll taxes, and the state does not incentivize state employees to consider alternative commuting options that reduce congestion and pollution. Additionally, a 2010 survey of almost 37,000 employees across all state agencies conducted by Legislative Budget Board staff found that forty-three percent of state employees would consider joining a carpool if the state were to assist with finding a matching ride. Implementing the recommendations in this report would provide an employee benefit that also reduces vehicle emissions, traffic congestion, and the state’s share of payroll taxes.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 143.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/(COST) IN ALL FUNDS
2012	\$41,295
2013	\$41,295
2014	\$41,295
2015	\$41,295
2016	\$41,295

SOURCE: Legislative Budget Board.

2011 UPDATE ON THE STREAMLINED SALES TAX

LBB FACTS AND FINDINGS

- ◆ The SSUTA was amended to allow states to use origin-base sourcing of local sales taxes for intrastate sales, removing the primary obstacle to Texas membership in the agreement.
- ◆ Amending Texas sales tax statutes to conform to the SSUTA, absent congressional action, would result in a revenue loss of \$88.3 million during the 2012–13 biennium.
- ◆ If the U.S. Congress enacts legislation authorizing states to require sellers to collect taxes on remote sales and Texas joins the SSUTA, the state could gain approximately \$500 million annually.

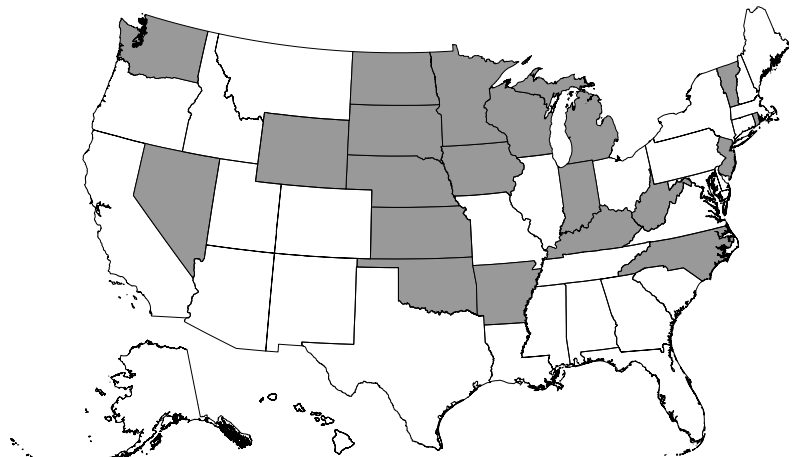
This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would have no fiscal impact for the 2012–13 biennium. It provides an update on SSUTA developments since January 2007.

Federal courts have ruled that states may not require a firm to collect state and local sales tax on interstate sales unless the firm has a physical presence in the taxing state. In response to mounting sales tax losses from the growth in Internet sales, a group of states formed the Streamlined Sales Tax Project in 2000. The purpose of the project was to establish a simplified sales tax framework with the goal of collecting sales tax on remote sales through voluntary compliance by sellers or through congressional action authorizing states to require vendors to collect taxes on remote sales. The project produced the multi-state Streamlined Sales and Use Tax Agreement (SSUTA), which took effect in October 2005.

Under the key provisions of the agreement, participating remote vendors voluntarily collect state and local sales taxes on remote sales on behalf of SSUTA member states, which are shown in **Figure 1**. Federal legislation that would ratify the agreement and mandate tax collections by remote sellers has been introduced in the U.S. Congress, but has made little progress in the federal legislative process. Texas is not a member of the Streamlined Sales and Use Tax Agreement, and Texas statutes do not conform to the agreement guidelines in several respects. Becoming a member would require Texas to take legislative action to amend the state's sales and use tax law. Amending Texas sales tax statutes to conform to the SSUTA, absent congressional action, would result in a revenue loss of \$88.3 million during the 2012–13 biennium.

FIGURE 1
STREAMLINED SALES AND USE TAX FULL MEMBER STATES, NOVEMBER 2010



SOURCE: Streamlined Sales Tax Project.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 149.

REDUCE GENERAL REVENUE LOSS FROM SALES TAX DISCOUNTS

LBB RECOMMENDATIONS

1 Amend statute to increase the timely filer discount to 0.75 percent and limit the amount a vendor can retain in the form of the timely filer discount to \$3,750 per tax year.

2 Amend statute by adjusting the prepayment discount rate to the lesser of 1.25 percent or the rate that yields an annualized rate of return of 4 percent over the prime rate.

These recommendations would require statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations would generate \$152 million in General Revenue Funds for the 2012–13 biennium and increase the sales tax discount for small businesses.

Texas allows businesses to retain a flat rate of state sales tax collections to compensate for their effort in collecting and reporting sales tax regardless of the size of business. Additionally, retailers receive a prepayment discount, an additional amount of sales tax collections for remitting estimated collections prior to their due date. Texas retailers who prepay their sales taxes earn the equivalent of approximately a 13.27 percent annual rate of return on their prepayments. This is significantly higher than the 1.57 percent interest rate the state earned on its treasury funds and higher than any interest rates available to retailers via other savings vehicles in 2009. **Figure 1** shows that these discounts are expected to cost the state more than \$200 million in each fiscal year of the 2012–13 biennium.

**FIGURE 1
PROJECTED SALES TAX DISCOUNTS
FISCAL YEARS 2009 TO 2014 (IN MILLIONS)**

DISCOUNT	2009*	2010	2011	2012	2013	2014
Timely Filer	\$94.0	\$99.1	\$108.1	\$112.4	\$116.9	\$116.9
Prepayment	\$91.4	\$91.4	\$95.2	\$99.7	\$103.7	\$107.8

*Actual discount amount.
SOURCE: Legislative Budget Board.

Unlike Texas, many states either cap the amounts businesses can retain, offer different levels of compensation to retailers based on the amount of taxable sales, or do not offer such discounts to control for the loss of General Revenue.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 155.

FIVE-YEAR FISCAL YEAR IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) TO GENERAL REVENUE FUNDS
2012	\$74,239,722
2013	\$77,736,413
2014	\$81,397,798
2015	\$85,231,634
2016	\$89,246,044

SOURCE: Legislative Budget Board.

PHASE OUT ECONOMIC DEVELOPMENT TAX REFUNDS

LBB RECOMMENDATION

1 Amend statute to phase out the Tax Refund for Economic Development Program between fiscal years 2012 to 2016.

This recommendation requires statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this recommendation.

The recommendation would save \$4.0 million in General Revenue Funds in the 2012–13 biennium and would phase out the Tax Refund for Economic Development because this program’s effectiveness is limited by its structure.

Since 1997, the State of Texas has refunded \$114.9 million through the Tax Refund for Economic Development Program. Partial refunds of sales and use and franchise tax payments reimburse participants in city and/or county property tax abatement agreements for some of the school property taxes they pay due to the state prohibition on school property tax abatements. These refunds originated as a means to compensate city and county property tax abatement agreement participants for unabated school property taxes. The refunds are intended to promote economic development, but their structure and operation hinder their efficiency and effectiveness. These factors, plus the creation of other economic development programs and state efforts to reduce school property taxes, have made the program’s incentives less meaningful. Phasing out the program would allow current participants to continue receiving some refunds and result in savings of \$4 million in General Revenue Funds for the 2012–13 biennium.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 163.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE FUNDS	PROBABLE SAVINGS/(COST) TO	
		PROPERTY TAX RELIEF FUND	PROBABLE COMBINED SAVINGS/(COST) IN ALL-FUNDS
2012	\$0	\$0	\$0
2013	\$2,685,600	\$1,314,400	\$4,000,000
2014	\$4,028,400	\$1,971,600	\$6,000,000
2015	\$5,371,200	\$2,628,800	\$8,000,000
2016	\$6,714,000	\$3,286,000	\$10,000,000

SOURCE: Legislative Budget Board.

TIE THE AUGUST SALES TAX HOLIDAY TO BUDGET CONDITIONS

LBB RECOMMENDATIONS

1 Amend statute to establish a permanent review process for the August sales tax holiday.

2 Amend statute to suspend the August holiday in fiscal years 2011 and 2012.

These recommendations require statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

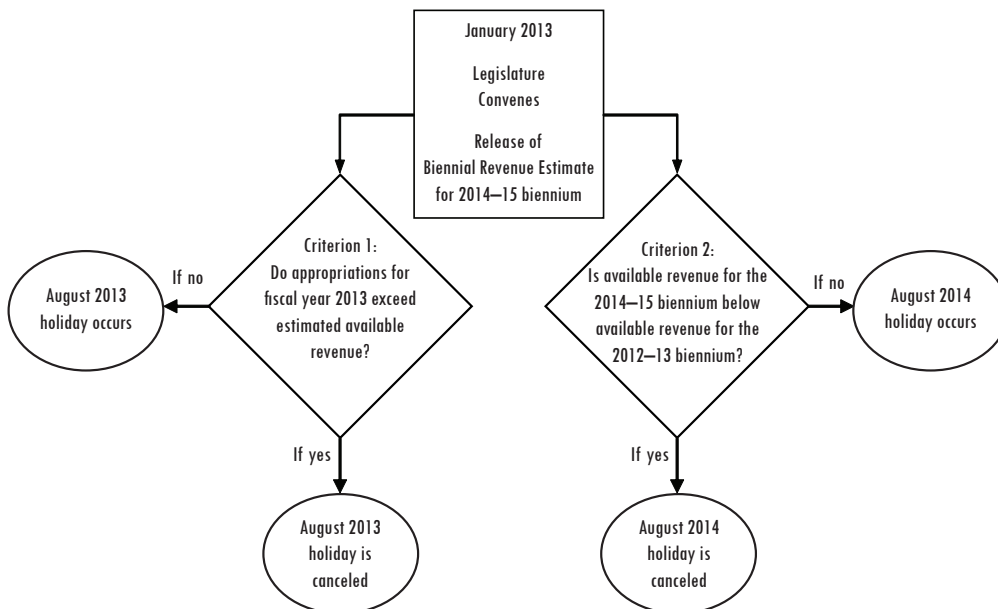
These recommendations would generate \$14.5 million in General Revenue Funds for fiscal year 2011 and \$97.3 million in General Revenue Funds for the 2012–13 biennium, and would provide the state with an objective process to be used in determining whether or not to have the sales tax holiday.

Nineteen states, including Texas, held sales tax holidays in 2010. These holidays exempted certain products, typically clothing and school supplies, from the state sales tax for a defined period. Texas statute provides for an annual sales tax holiday each August regardless of the state’s ability to afford it in a given year. Some states canceled their planned holidays in 2009 and 2010 because of budgetary and economic conditions.

Analysis indicates Texas will face budgetary shortfalls in fiscal year 2011 and the 2012–13 biennium. Amending statute to establish a permanent review process that uses budget criteria as a basis for determining whether to hold the holiday would give the state flexibility to hold the holiday in years in which the state can afford it and enable the Texas Legislature to make appropriations decisions based on the availability of additional sales tax revenue when the holiday is suspended. **Figure 1** shows the criteria recommended for making this determination. The six-year fiscal impact of these recommendations is shown on the next page.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 169.

FIGURE 1
USE OF CRITERIA IN THE DECISION-MAKING PROCESS
JANUARY 2013



SOURCE: Legislative Budget Board.

SIX-YEAR FISCAL IMPACT, FISCAL YEARS 2011 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE FUNDS
2011	\$14,549,128
2012	\$55,513,694
2013	\$41,830,179
2014	\$0
2015	\$0
2016	\$0

SOURCE: Legislative Budget Board.

STRENGTHEN SALES TAX ENFORCEMENT RELATED TO CUSTOMS BROKERS AND INCREASE THE CHARGE FOR EXPORT STAMPS

LBB RECOMMENDATIONS

- 1 Amend statute to prohibit the issuance of one export certificate for multiple receipts.
- 2 Amend statute to prohibit the issuance of export certificates not produced on the online system.
- 3 Amend statute to require customs brokers to confirm they have seen property and a receipt for that property.
- 4 Amend statute to increase the price of export stamps from \$1.60 to \$3.20 each.

These recommendations require statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations would generate \$9.2 million in General Revenue Funds for the 2012–13 biennium and safeguard against abuse of sales tax provisions related to custom brokers.

The U. S. Constitution prohibits states from taxing exports to foreign countries. Texas provides five methods for purchasers to receive an exemption from or refund of sales taxes paid on exported property. One method, documentation by a customs broker, allows a purchaser to receive a refund while taking possession of property in this country. In a 2003 report, the Comptroller of Public Accounts documented widespread abuse of the customs broker provision and recommended repealing the provision. Rather than repeal the provision, the Texas Legislature restructured the customs broker system by establishing an online system for issuance of export certificates and imposing fees on export stamps and an annual fee on each broker location. The new online system dealt with some of the abusive practices, but the customs broker statute should be clarified to further safeguard against abuse. Revenue generated by export stamp charges and broker fees has been less than initially estimated. Enacting the recommended administrative changes and increasing the stamp fee could improve administrative efficiency and generate \$9.2 million in General Revenue Funds during the 2012–13 biennium through fines, export stamp sales, and the reduction of sales tax refunds.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 177.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE FUNDS
2012	\$4,586,000
2013	\$4,586,000
2014	\$4,586,000
2015	\$4,586,000
2016	\$4,586,000

SOURCE: Legislative Budget Board.

REPEAL SUNDAY LIQUOR SALES RESTRICTIONS TO GENERATE ADDITIONAL REVENUE

LBB RECOMMENDATION

1 Amend statute to allow for Sunday sales of liquor for off-site consumption.

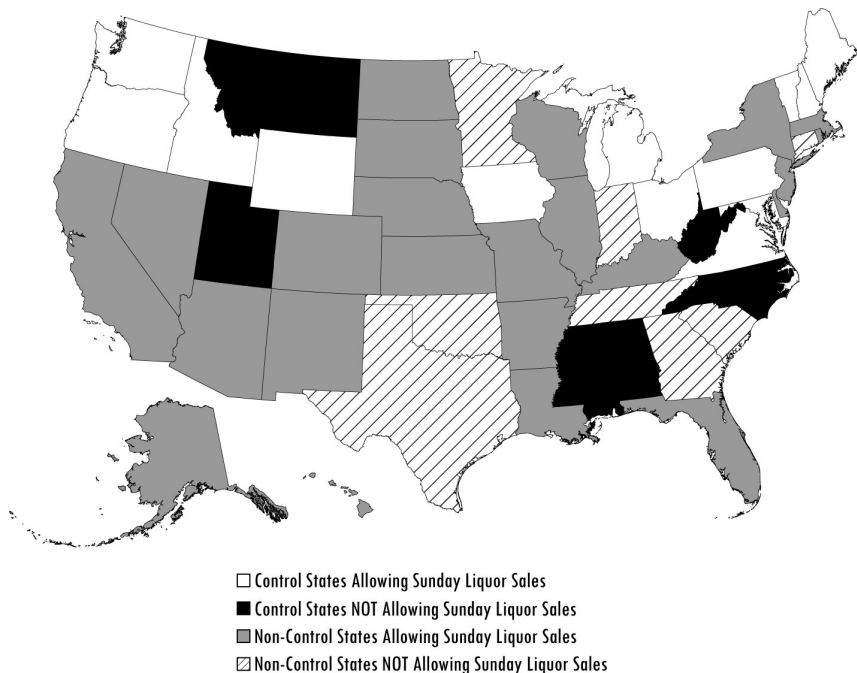
This recommendation requires statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this recommendation.

This recommendation would generate \$7.4 million in General Revenue Funds during the 2012–13 biennium and would create consistency among statutes governing the sale of all alcoholic beverages.

“Blue laws,” which limit the operation of businesses or the sale of certain items on Sundays, date back to colonial times. Economic considerations and changes in public opinion have led to the repeal of these restrictions in many states. However, Texas continues to prohibit the sale of liquor for off-site consumption on Sundays, while allowing consumers to purchase liquor in restaurants and bars. Establishments can sell beer and wine for both on and off-premise consumption on Sunday.

Figure 1 shows that Texas is one of 14 states that does not allow the sale of liquor on Sunday. Laws restricting the sale of some alcoholic beverages prevent the state from maximizing liquor and sales tax revenues, and are inconsistent with beer and wine alcoholic beverage sales laws and laws governing the sale of other consumer goods. Several states have repealed their Sunday liquor sales restrictions in the last 10 years and have realized revenue gains. The five-year fiscal impact of these recommendations is shown on the next page.

FIGURE 1
STATES THAT ALLOW SUNDAY LIQUOR SALES FOR OFF-SITE CONSUMPTION
FISCAL YEAR 2010



SOURCES: Distilled Spirits Council of the United States; National Alcohol Beverage Control Association.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 183.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) TO GENERAL REVENUE FUNDS	PROBABLE REVENUE GAIN/(LOSS) TO LOCAL GOVERNMENT
2012	\$3,622,979	\$641,575
2013	\$3,753,406	\$677,290
2014	\$3,888,529	\$714,896
2015	\$4,028,516	\$754,491
2016	\$4,173,542	\$796,177

SOURCE: Legislative Budget Board.

ELIMINATE THE HOTEL PERMANENT RESIDENT EXCEPTION

LBB RECOMMENDATION

1 Amend statute to repeal the permanent resident exception to the hotel occupancy tax.

This recommendation requires statutory action. The introduced 2012–13 General Appropriations Bill does not contain any adjustments as a result of this recommendation.

This recommendation would generate \$16.1 million in General Revenue Funds and General Revenue–Dedicated Funds during the 2012–13 biennium and would mitigate abuse of this tax exemption.

Texas levies a hotel occupancy tax on hotel guests, but persons who occupy a hotel room for 30 or more consecutive days are considered permanent residents and are exempt from the hotel tax. A “person,” as defined in the context of the law, includes individuals and businesses. Therefore, the statute authorizing the permanent resident exception extends to private businesses such as airlines, consulting firms, railroad and trucking companies, and others. In fiscal year 2010, the state collected \$330.8 million in hotel tax revenue. Based on Comptroller of Public Accounts’ quarterly data, all hotel occupancy tax exemptions, including the permanent resident exception, cost the state \$53.7 million in General Revenue Funds during fiscal year 2010. The inclusion of businesses and individuals as parties that are exempt from the hotel occupancy tax is inconsistent with other tax exemptions typically granted in Texas. Other tax exemptions to the hotel tax are allowed for non-profit organizations, government entities, and higher education institutions.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 189.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE FUNDS	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE–DEDICATED FUNDS
2012	\$7,356,473	\$677,242
2013	\$7,356,473	\$677,242
2014	\$7,356,473	\$677,242
2015	\$7,356,473	\$677,242
2016	\$7,356,473	\$677,242

SOURCE: Legislative Budget Board.

REFORM HEALTHCARE PAYMENT AND DELIVERY SYSTEMS TO REDUCE STATE EXPENDITURES

LBB RECOMMENDATIONS

1 Amend statute to create a committee to prioritize statewide healthcare cost and quality outcomes and related measurement methodologies.

2 Amend statute to authorize certain hospital-physician relationships.

3 Include a contingency rider providing \$900,000 in General Revenue to fund pilot programs to test payment and delivery system reform pilots.

Recommendations 1 and 2 require statutory change. The introduced 2012–13 General Appropriations Bill includes a contingency rider implementing Recommendation 3.

These recommendations would not have a net fiscal impact for the 2012–13 biennium. They would encourage innovation and the testing of new payment and delivery reform models that could improve healthcare quality and reduce state costs.

Cost containment and quality improvement are two of the greatest challenges confronting the U.S. healthcare system. The fee-for-service reimbursement methodology, used by Medicare; Medicaid; some private payers; and managed care organizations, contributes to these cost and quality problems. Many promising payment and delivery reform models seek to change the way healthcare is purchased and delivered in an attempt to reduce costs and improve quality, and many demonstration and pilot programs are occurring nationwide to test their effectiveness. The federal government and some states have provided leadership to encourage this experimentation.

Statewide leadership in Texas is needed to provide a vision and set priorities for improved health outcomes and eliminate barriers to private sector experimentation. Creation of the committee recommended in this report would facilitate identification of desired outcomes for reform and improve communication among state health purchasing agencies. Authorizing the formation of certain hospital-physician relationships and providing funds to test payment and delivery reform pilot programs would eliminate some of the barriers to private sector innovation.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 193.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE FUNDS—INSURANCE COMPANIES MAINTENANCE TAX AND INSURANCE DEPARTMENT FEES	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE FUNDS—INSURANCE COMPANIES MAINTENANCE TAX AND INSURANCE DEPARTMENT FEES	PROBABLE CHANGE IN FULL-TIME-EQUIVALENT POSITIONS FROM THE 2010–11 BIENNIUM
2012	\$350,000	(\$350,000)	1
2013	\$550,000	(\$550,000)	1
2014	\$0	\$0	0
2015	\$0	\$0	0
2016	\$0	\$0	0

SOURCE: Legislative Budget Board.

IMPLEMENTATION OF AN ALL-PAYER CLAIMS DATABASE IN TEXAS

LBB FACTS AND FINDINGS

- ◆ Existing healthcare data available to most states is limited.
- ◆ APCDs are a tool for states to use in understanding healthcare quality and cost issues across the state's population and in designing and monitoring healthcare reform initiatives.
- ◆ As of September 2010, eight states have state-administered APCDs in operation, four are developing them, and three have non-state administered systems.
- ◆ Texas does not have an APCD.
- ◆ The Texas Department of State Health Services collects APCD discharge data that could provide the foundation for an APCD.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. The report provides information on all-payer claims databases which would help Texas identify opportunities for cost containment and quality improvement across state health programs and support payment and delivery system reforms.

Robust data on healthcare costs, utilization, and outcomes provides the foundation necessary to implement payment and delivery system reforms that seek to contain healthcare costs and improve quality of care. One tool that states have developed to support reforms is an all-payer claims database (APCD). This database is typically established by legislative mandate, and includes health insurance claims data from medical, eligibility, provider, pharmacy, and dental files provided by public and private insurers.

Texas does not have an APCD. Access to the comprehensive data collected by an APCD would be beneficial to healthcare payers in Texas, providers, researchers, and the public.

Prior to implementation, several logistical issues would need to be addressed including securing funding and determining how to access data on populations and from sources that have not traditionally been included in other state's APCDs but potentially represent large segments of the Texas population.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 205.

REDUCE MEDICAID COSTS THROUGH BUNDLED PAYMENTS

LBB RECOMMENDATIONS

1 Include a rider requiring HHSC to implement a bundled payment initiative, including use of shared savings, with providers in the Texas Medicaid Program.

2 HHSC should apply for any federal funding that becomes available for bundling pilots during the 2012–13 biennium.

The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 1.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They would allow the state to test the feasibility of payment reform in the Medicaid program and determine whether savings could be realized.

The fee-for-service payment methodology, a predominant healthcare payment system, is an obstacle in addressing many of the cost drivers in healthcare including medical errors; preventable hospital readmissions; and chronic disease management. The methodology incentivizes increased volume of services rather than quality outcomes or care coordination. Previous experiments with cost containment and quality reforms in the Texas Medicaid Program did not overcome the underlying incentives of the fee-for-service system and have not had a significant impact on cost and quality as intended.

Bundled payments are episode-based payments that help align the interests of hospitals and physicians, and encourage the provision of services not currently compensated by the fee-for-service system. Payment reform options including bundled payments offer an opportunity to alter provider incentives and encourage efficient delivery of care. As part of a strategy to further healthcare payment and delivery system reforms in Texas, the Texas Medicaid Program should implement a bundled payment initiative that includes use of shared savings with providers assuming providers achieve quality outcome measures.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 213.

REPEAL THE PROHIBITION OF HEALTH MAINTENANCE ORGANIZATIONS IN MEDICAID IN SOUTH TEXAS

LBB RECOMMENDATION

1 Amend statute to repeal the prohibition of the use of health maintenance organizations in Medicaid in Cameron, Hidalgo, and Maverick counties.

This recommendation requires statutory change. The introduced 2012–13 General Appropriations Bill includes adjustments that are contingent upon implementation of this recommendation.

The recommendation would not have a direct fiscal impact for the 2012–13 biennium. If the prohibition is repealed and HHSC expands managed care in south Texas, the fiscal impact to the state would depend on multiple variables such as the date of implementation, the specific service delivery models implemented, the regions covered, the populations served, and the caseload and costs funded in the General Appropriations Act.

Medicaid managed care was first implemented in Texas in the early 1990s. Since then, the use of managed care and capitated service delivery has increased in Texas' Medicaid program. In fiscal year 2009, 71 percent of Texas Medicaid clients were served through some form of managed care representing 68 percent of total client service cost.

For the 2012–13 biennium, the Health and Human Services Commission has proposed further expansion of managed care. However, the use of health maintenance organizations within the Medicaid program is statutorily prohibited in Cameron, Hidalgo, and Maverick counties. Repealing the prohibition would expand the service delivery options available in these counties and make them consistent with the rest of the state. This would allow the Health and Human Services Commission to determine and implement the most cost-effective service delivery model to serve Medicaid clients in all areas of the state.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 221.

ENSURE TRANSPARENCY AND ACCOUNTABILITY FOR PROPOSED MEDICAID DENTAL MANAGED-CARE SERVICES

LBB RECOMMENDATION

1 Include a rider requiring HHSC to submit findings to the Governor and the Legislative Budget Board on the impact of providing dental services through a managed-care model on access, quality, and cost outcomes. This requirement is contingent on HHSC changing from a fee for service model to a capitated rate model for Medicaid dental services.

The introduced 2012–13 General Appropriations Bill includes a rider implementing this recommendation.

This recommendation would not have a fiscal impact for the 2012–13 biennium. It would provide data to monitor the impact of a new service delivery model on quality of dental services provided to Medicaid clients.

In fiscal year 2009, 2.4 million Medicaid clients in Texas were eligible to receive dental services on a fee-for-service basis. From fiscal years 2005 to 2009, total spending on Medicaid dental services increased by 165 percent. Based on the STAR Health managed-care experience, a program comparable to the Medicaid fee-for-service program in terms of population covered and services provided, moving Medicaid dental services to a capitated managed-care model has the potential for cost savings. The Texas Health and Human Services Commission (HHSC) estimates that the state could save \$101.6 million in General Revenue Funds for the 2012–13 biennium if dental services were provided through a capitated managed-care model. While there are potential savings associated with managed care, the impact of providing Medicaid dental services through a capitated managed-care model should be evaluated to ensure that quality care is provided and expected cost savings are achieved.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 227.

REDUCE THE NEED FOR EMERGENCY ROOM UTILIZATION IN THE MEDICAID PROGRAM

LBB RECOMMENDATIONS

1 Include a rider requiring HHSC to evaluate whether the cost of the physician incentive programs implemented by health maintenance organizations participating in the Texas Medicaid program has been offset by reduced use of the emergency room and submit a report on the evaluation findings to the Governor and the Legislative Budget Board by August 31, 2012.

2 Amend statute to require HHSC to implement a cost-effective physician incentive program throughout the Texas Medicaid program.

3 Include a rider requiring HHSC to determine the feasibility of amending the Texas Medicaid State Plan to permit freestanding urgent care centers to enroll as clinic providers and submit a report on the findings to the Governor and the Legislative Budget Board by August 31, 2012.

4 Include a rider requiring HHSC to use financial incentives and disincentives to encourage health maintenance organizations participating in the Medicaid STAR and STAR+PLUS managed care programs to reduce non-emergent use of the emergency room among their clients.

The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendations 1, 3, and 4. Recommendation 2 requires statutory change.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They could result in savings in the Texas Medicaid program by reducing non-emergent use of the emergency room.

Medicaid clients use the emergency room for conditions that could be treated in a primary care setting, such as a doctor's office or clinic. Treatment for these non-emergent conditions in the emergency room costs more than if this care is delivered in a primary care setting. Redirecting clients with non-emergent conditions from the emergency room to the primary care setting could result in potential savings of \$184.2 million in All Funds per year. In an effort to reduce Medicaid spending, the Texas Health and Human Services Commission (HHSC) should implement efforts to reduce non-emergent use of the emergency room, including implementing a cost-effective physician incentive program throughout the Texas Medicaid program, determining the feasibility of enrolling urgent care centers as Medicaid clinic providers, and encouraging health maintenance organizations in Medicaid managed care to reduce non-emergent use of the emergency room among their clients.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 233.

IMPLEMENT AN OBJECTIVE CLIENT ASSESSMENT PROCESS FOR ACUTE NURSING SERVICES IN THE TEXAS MEDICAID PROGRAM

LBB RECOMMENDATION

1 Amend statute to require HHSC to implement an objective client assessment process for acute nursing services provided to Texas Medicaid clients.

This recommendation requires statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this recommendation.

This recommendation would not have a fiscal impact for the 2012–13 biennium. It could reduce inappropriate allocation of nursing services and result in savings in the Texas Medicaid program.

The Texas Health and Human Services Commission (HHSC) lacks an objective, independent process for assessing the acute nursing needs of Texas Medicaid clients enrolled in fee-for-service or the non-capitated managed care model known as Primary Care Case Management. Specifically, the providers contracted by HHSC to assess a client’s acute nursing needs also deliver those services, resulting in a potential conflict of interest. Also, the agency requires that the client assessment conducted by providers include certain elements, such as an evaluation of the client’s health, but does not require that the providers use a standard form to assess client needs. As a result, there is potential for providers to recommend an inappropriate amount of nursing services. Furthermore, Medicaid claims administrators may not detect inappropriate service requests because the information they use to authorize the amount of nursing services is primarily supplied by providers contracted to deliver those services. Additionally, some of the health maintenance organizations participating in Medicaid managed care have not implemented an objective, independent process for assessing acute nursing needs.

Requiring HHSC to implement an objective client assessment process for acute nursing services provided to Texas Medicaid clients could help ensure that clients with acute nursing needs are allocated appropriate amounts of nursing services by removing any conflict of interest that may result from having the same entity both complete client assessments and deliver services. To the extent that implementing an objective client assessment process reduces inappropriate allocation of nursing services, there could be cost savings to the Texas Medicaid program.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 243.

INCREASE THE USE OF TELEMONTORING IN THE TEXAS MEDICAID PROGRAM TO IMPROVE PATIENT OUTCOMES

LBB RECOMMENDATIONS

1 Amend statute to require HHSC to include telemonitoring in the THMP for select diabetes patients if the current diabetes telemonitoring pilot program is cost-neutral. If it is not, then HHSC must determine the feasibility of implementing a new, cost-effective diabetes telemonitoring pilot within the THMP.

2 Amend statute to require HHSC to determine the feasibility of adding a new pilot to the TMHP for conditions other than diabetes.

3 Amend statute to require HHSC to identify successful telemonitoring strategies implemented by Medicaid HMOs and share information on them with other such providers.

4 Include a contingency rider requiring HHSC to report on their progress implementing Recommendations 1 through 3.

Recommendations 1, 2, and 3 require statutory change. The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 4.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They would allow the state to assess the potential for using telemonitoring to improve patient outcomes and reduce health care costs in the Texas Medicaid program.

“Telemonitoring” refers to the remote monitoring of patients, most often at their homes, by healthcare providers. Used effectively, telemonitoring can improve patient care and reduce the rate of costly complications from chronic illnesses or other conditions. The Texas Medicaid program does not reimburse providers for telemonitoring, and it is being used in only one Medicaid managed care organization.

While patient health benefits from telemonitoring have been somewhat consistent, the cost-effectiveness of this service depends heavily on program design. To determine the best approach for the state Medicaid program, the Texas Health and Human Services Commission (HHSC) should further pilot the use of telemonitoring within the Texas Health Management Program (THMP) and should ensure that cost-effective telemonitoring services employed by Medicaid health maintenance organizations (HMOs) are shared among all such providers. If well designed, increased use of telemonitoring could improve client outcomes and reduce Medicaid spending on more costly care.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 249.

2011 UPDATE ON A NEW SUBSTANCE ABUSE TREATMENT BENEFIT FOR ADULT MEDICAID CLIENTS

LBB FACTS AND FINDINGS

- ◆ HHSC began implementing a new Medicaid substance abuse treatment benefit on September 1, 2010, with full implementation scheduled for January 2011.
- ◆ The new benefit is available to adults enrolled in fee-for-service as well as the non-capitated Primary Care Case Management program, and the capitated STAR and partially-capitated STAR+PLUS managed care programs.
- ◆ Covered substance abuse treatment services include: assessment, outpatient detoxification, outpatient counseling, medication assisted therapy, and residential treatment services.
- ◆ For fiscal year 2011, HHSC estimates the total cost to provide Medicaid-funded substance abuse treatment services to adult clients is \$7.6 million in All Funds.
- ◆ The Legislative Budget Board is evaluating the new Medicaid substance abuse treatment benefit to determine its cost-effectiveness and will issue a report to the Eighty-third Legislature in 2013.

The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides an update on implementation of new substance abuse treatment benefits for adult Medicaid clients.

Senate Bill 1, Article IX, Section 17.15, Eighty-first Legislature, Regular Session, 2009, directed the Texas Health and Human Services Commission (HHSC) to use existing Medicaid funds to implement a comprehensive Medicaid substance abuse treatment benefit for adults beginning January 1, 2010, but allowed the agency to delay implementation pending federal approval. The legislation assumed that the cost to provide comprehensive substance abuse treatment to Medicaid adults would be offset by reductions in other Medicaid spending in the same year that treatment services are provided. These reductions are expected due to declines in the use of acute care medical services for clients receiving substance abuse treatment. This report provides an update on implementation of the new Medicaid substance abuse treatment benefit.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 255.

CONTINUE AND EXPAND THE TEXAS MEDICAID WOMEN'S HEALTH PROGRAM TO MAXIMIZE FEDERAL FUNDS AND STATE SAVINGS

LBB RECOMMENDATIONS

- 1 Amend statute to require HHSC to seek a waiver extension for the Medicaid Women's Health Program.
- 2 Amend statute to expand program eligibility.
- 3 Amend statute to require HHSC to establish an outreach campaign about the program directed at women covered by Medicaid before their post-partum coverage expires.
- 4 Include a contingency rider in the 2012–13 General Appropriations Bill that would reduce funding for strategy B.1.3, Pregnant Women, reduce funding for strategy B.1.4, Children and Medically Needy, and increase funding for strategy B.2.4, Medicaid Family Planning.

These recommendations require statutory action and an appropriation increase and decrease in the General Appropriations Bill. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations would save \$3.8 million in General Revenue Funds for the 2012–13 biennium and help contain pregnancy-related Medicaid costs.

The Texas Medicaid Women's Health Program avoids pregnancy-related Medicaid costs by providing preventative health screenings and family planning services to Texas women whose income and family size puts them below the level at which they would be eligible for Medicaid if they were pregnant. These preventative services cost much less than pregnancy services and the state pays for a smaller portion of them. The federal government pays for 90 percent of Women's Health Program services, and the state pays 10 percent.

Without an extension from the Centers for Medicaid and Medicare Services, the program will expire in December 2011. The current program eligibility threshold excludes potential clients whose income, if they were pregnant, would fall under 185 percent of the federal poverty level. Expanding program eligibility to include these potential clients would reduce the amount the state would otherwise be obligated to spend on pregnancy-related Medicaid services. Extending the program and expanding eligibility would save approximately \$3.8 million in General Revenue Funds for the 2012–13 biennium.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 259.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE FUNDS	PROBABLE SAVINGS/(COST)	
		IN GENERAL REVENUE FUNDS	IN FEDERAL FUNDS
2012	(\$216,618)	\$597,236	(\$1,949,558)
2013	(\$433,235)	\$3,896,842	(\$3,899,115)
2014	(\$438,867)	\$5,424,975	(\$3,949,803)
2015	(\$444,572)	\$4,620,024	(\$4,001,151)
2016	(\$450,352)	\$4,682,075	(\$4,053,166)

SOURCE: Legislative Budget Board.

IMPLEMENT A MEDICATION THERAPY MANAGEMENT PILOT PROGRAM IN MEDICAID

LBB RECOMMENDATIONS

1 Include a rider requiring HHSC to spend up to \$170,000 in General Revenue Funds from appropriated amounts to establish a MTM Pilot Program.

2 Include a rider requiring HHSC to conduct a study to determine the effectiveness of the MTM Pilot Program and submit a report to the Governor and the Legislative Budget Board by December 1, 2012.

The introduced 2012–13 General Appropriations Bill includes a rider implementing these recommendations.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They could result in reduced spending from adverse drug events in the Texas Medicaid Program.

The Texas Health and Human Services Commission (HHSC) estimates that the Texas Medicaid Program spent \$17.9 million on medication-related adverse events for all Medicaid clients in fiscal year 2009. Medication therapy management (MTM) is a patient-centered service that seeks to improve the quality of medication use and results among patients who are at high risk of having adverse reactions from medications. A MTM Program in the Minnesota Medicaid Program realized savings that exceeded the cost of providing services by more than 2 to 1. Implementing a MTM Program in the Texas Medicaid Program could reduce adverse drug events, overall healthcare spending, and save state funds.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 267.

A COMPARISON OF BEHAVIORAL HEALTH DATA ACROSS NORTHSTAR AND OTHER SELECTED SERVICE DELIVERY AREAS

LBB RECOMMENDATIONS

1 Include a rider requiring DSHS to improve the measurement, collection, and reporting of behavioral health client outcome data.

2 Include a rider directing DSHS to submit a report on efforts planned or implemented to improve the measurement, collection, and reporting of behavioral health client outcome data to the Governor and the Legislative Budget Board by December 1 of each year of the biennium.

3 Include a rider directing DSHS, in consultation with the Texas Health and Human Services Commission, to conduct a comparative analysis of publicly funded behavioral health systems in Texas that serve medically indigent persons and Medicaid clients, and submit a report on the study's findings to the Governor and the Legislative Budget Board by December 1, 2012.

The introduced 2012–13 General Appropriations Bill includes a rider implementing these recommendations.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They would improve the accuracy of data available to evaluate the outcomes of behavioral health services provided by NorthSTAR and other delivery models in Texas.

The Texas Department of State Health Services (DSHS) contracts with 38 local mental health authorities and more than 200 substance abuse treatment providers to ensure the provision of behavioral health services to persons in crisis, Medicaid clients, and medically indigent persons living in communities across Texas. Medicaid clients may also receive behavioral health services through other behavioral health providers contracted with the Texas Medicaid program. Medicaid clients and medically indigent persons who meet eligibility criteria residing in the seven-county service delivery area surrounding Dallas receive all behavioral health services through NorthSTAR—a publicly funded managed care program.

Behavioral health process indicators related to spending, utilization, and level and amount of care, comparing NorthSTAR to other selected service delivery areas, are mixed or unknown. Furthermore, inadequate measurement of behavioral health client outcomes prevents the state from determining NorthSTAR's overall effectiveness relative to the rest of the state. Improving the measurement and reporting of behavioral health client outcomes could help ensure that services effectively meet client needs, thus reducing spending on more expensive types of care, and improve the state's ability to monitor program performance and make system improvements.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 275.

INCREASE ACCESS TO PRIMARY CARE SERVICES BY ALLOWING ADVANCED PRACTICE REGISTERED NURSES TO PRESCRIBE

LBB RECOMMENDATIONS

1 Amend statute to include advanced assessment, diagnosing, prescribing, and ordering in the scope of practice for APRNs.

2 Amend statute to require BON to adopt rules for assigning prescriptive authorization to a qualified APRN who has completed 3,600 hours of practice in a delegated prescriptive authority arrangement and to allow BON to establish a surcharge to cover the administration of tiered prescriptive authority.

3 Include a contingency rider in the 2012–13 General Appropriations Bill to appropriate surcharge revenue to BON to administer the tiered prescriptive authority.

These recommendations require statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations have no net fiscal impact in the 2012–13 biennium. They would increase the availability of primary healthcare providers in Texas.

Both nationally and in Texas, advanced practice registered nurses (APRNs) have helped mitigate the effects of a general practice physician shortage. APRNs are registered nurses with an advanced degree who have passed a national board certification exam and practice as one of four types of healthcare providers, in most cases with a focus on a defined population. They adhere to nationally accepted scope of practice models but are licensed and regulated at the state level.

Although APRNs practice as autonomous or nearly autonomous primary care providers in 20 states and the District of Columbia, Texas limits their authority to establish a diagnosis or prescribe medication. In Texas, an APRN's ability to diagnose and prescribe is delegated by a physician. State laws govern the conditions under which a physician delegates to APRNs. These conditions vary depending on the practice site location. This inconsistency limits patient access to qualified primary care providers and is especially onerous for APRNs and physicians in rural areas. Allowing APRNs to diagnose and prescribe up to the limits of their education and certification would allow them to provide lower-cost primary care for patients within their professional scope. Recommendation 2 would require the Board of Nursing (BON) to adopt rules for assigning an autonomous prescriptive authority for APRNs who have worked in a delegated prescriptive authority arrangement for two years.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 297.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) TO GENERAL REVENUE FUNDS	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE FUNDS	CHANGE IN FULL-TIME-EQUIVALENT POSITIONS FROM THE 2010–11 BIENNIUM
2012	\$67,657	(\$67,657)	1
2013	\$60,692	(\$60,692)	1
2014	\$60,692	(\$60,692)	1
2015	\$60,692	(\$60,692)	1
2016	\$60,692	(\$60,692)	1

SOURCE: Legislative Budget Board.

INCREASE INFORMATION AVAILABLE ABOUT INTEREST LISTS FOR LONG-TERM CARE PROGRAMS

LBB RECOMMENDATIONS

1 Convert the existing performance measure on interest list size for each home and community-based waiver program from a non-key to a key performance measure.

2 Add a new key explanatory performance measure for each home and community-based waiver program with an interest list that would require DADS to report the number of persons who declined or were found to be ineligible for services offered in the past fiscal year.

3 Add a new key explanatory performance measure for each home and community-based waiver program with an interest list that would require DADS to report the average monthly number of persons on the interest list receiving services from other programs offered by the agency.

4 DADs should collect information on whether persons on interest lists who are receiving other department services have unmet needs.

The introduced 2012–13 General Appropriations Bill includes performance measures implementing Recommendations 1, 2, and 3.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They would improve the information available to the Texas Legislature regarding the size of interest lists.

The Department of Aging and Disability Services (DADS) manages interest lists for several home and community-based services waiver programs. **Figure 1** shows the number of persons on each interest list, as of June 30, 2010. These lists identify persons who have expressed interest in receiving services that are currently unavailable due to limitations on the number of program participants.

FIGURE 1
INTEREST LIST BY WAIVER PROGRAM, AS OF AUGUST 31, 2010

WAIVER PROGRAM	NUMBER OF PERSONS ON INTEREST LIST
CBA	35,220
STAR+PLUS	5,288
CLASS	32,650
DB/MD	316
HCS	45,756
MDCP	18,404
Total	140,480
Unduplicated Total (without STAR+PLUS)	103,145

SOURCE: Department of Aging and Disability Services.

The agency reports the size of the interest lists to the Texas Legislature through performance measures, and this information is a primary method used by the Legislature to measure demand for community services and make appropriation decisions. However, information on the size of the interest lists is of limited use. The information does not take into account the number of persons who decline or are denied services once they become available. According to DADS, as of June 30, 2010, of the 15,902 persons released or removed from the interest lists for fiscal years 2010 and 2011, 8,878 were denied/declined (34.3 percent). In addition, current information does not reflect the number of persons who receive services from other DADS programs while they wait for waiver services. Of the 136,463 persons on the interest lists as of June 30, 2010, 30 percent (40,991) were receiving services from another DADS program.

Converting existing performance measures on the size of the interest lists to key measures and establishing new key performance measures to reflect the percentage of persons who receive services from other agency programs and the number of persons who declined or were found ineligible for services when they were offered would provide the Legislature with more complete information to use in making appropriation decisions about whether to expand the programs.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 303.

STRENGTHEN CERTIFIED NURSE AIDE TRAINING TO IMPROVE THE QUALITY OF LONG-TERM CARE

LBB RECOMMENDATIONS

1 Amend statute to increase the number of hours required for CNA certification from 75 hours to no less than 120 hours and no more than 359 hours.

2 Amend statute to require 12 hours of continuing education annually for CNA certification renewal.

3 Amend statute to require DADS to add an expiration date to each CNA certificate.

These recommendations require statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They would improve the training and knowledge of certified nurse aides.

Nurse aides are direct-care workers who provide the bulk of bedside care, such as assistance with eating, bathing, housekeeping, and observing and reporting changes in a client's condition. Federal law requires nurse aides who work in nursing homes participating in Medicare or Medicaid to be certified. To become a certified nurse aide (CNA), candidates must complete a state-approved training program, pass a competency test, and be listed in the state's nurse aide registry. The Texas Department of Aging and Disability Services (DADS) administers the certification and regulation of CNAs.

During licensing inspections of Texas nursing homes nurse aides under observation have not been able to demonstrate the proper skills to care for patients. According to DADS, this was the fourth most frequently cited health code deficiency in fiscal year 2009 and raises questions about CNAs' abilities to provide adequate care to vulnerable populations. In November 2009, DADS formed the Certified Nurse Aide Stakeholder Workgroup to generate ideas and discussion as to how the agency could improve activities related to the training and regulation of CNAs within DADS' existing authority. The workgroup consisted of representatives from nursing facilities, home health agencies, hospitals, DADS regulatory staff, as well as CNAs and nurses. The workgroup recommended that DADS raise the minimum requirement of training hours and suggested the current CNA curriculum would need to be reviewed to determine the number of additional hours that would be appropriate to accommodate new or expanded topics.

Twenty-six states require more education than the federal standard. Texas requires the federal minimum of 75 hours, with 51 hours devoted to classroom training and 24 hours for practical or clinical training. Federal regulations also require nursing facilities to offer at least 12 hours of continuing education each year to CNAs, but there is no state or federal requirement for CNAs to attend continuing education as a condition to renew their certification. Without a requirement tying continuing education to the recertification process a regulatory gap exists. Increasing nurse aide training hours and strengthening the recertification process by requiring continuing education hours would help improve the quality of long-term care.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 315.

IMPROVE ABUSE REPORTING OF LICENSED PROFESSIONALS

LBB RECOMMENDATION

1 Include a rider directing DADS and DSHS to review their processes for reporting licensed professionals employed at state facilities who have committed confirmed acts of abuse to their respective licensing board and to report on actions taken to ensure the agencies are complying with statutory requirements.

The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 1.

This recommendation would not have a fiscal impact for the 2012–13 biennium. It would improve client safety and the reporting of confirmed acts of abuse by licensed professionals employed in state facilities.

Professional licensing boards ensure licensees comply with laws and regulations regarding competence and safe practice. Reports of misconduct to professional licensing boards are investigated and disciplinary action is taken, if warranted, to ensure the safety of clients regardless of where the licensed professional is employed. Employers of certain licensed professions, like nurses, are required by state law to report misconduct to the licensing board.

Despite a statutory requirement for state agencies to report misconduct by nurses to their licensing board, confirmed acts of abuse, neglect, and exploitation by nurses employed at state facilities are not reported consistently to the Texas Board of Nursing (BON). From fiscal year 2005 to August 2010, only 24 percent of nurses employed at state supported living centers and 33 percent of nurses employed at state hospitals who had committed a confirmed act of abuse at a state facility had been reported to BON. To improve reporting to state licensing boards, the Texas Department of Aging and Disability Services (DADS) and the Texas Department of State Health Services (DSHS) should identify gaps in policies and procedures that prevent consistent notification to state licensing boards about licensees who have committed confirmed acts of abuse and report actions taken to ensure each agency's compliance with statutory requirements to the Governor and Legislative Budget Board.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 321.

REGULATE URGENT CARE CENTERS IN TEXAS TO STANDARDIZE QUALITY OF CARE

LBB RECOMMENDATIONS

1 Amend statute to require DSHS to regulate urgent care centers and the use of related terminology and impose a fee to pay for the cost of regulation.

2 Include a contingency rider appropriating fee revenue for the regulation of urgent care centers to DSHS.

Recommendation 1 requires statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report. Recommendation 2 requires a contingency rider.

These recommendations would generate \$22,618 in General Revenue Funds during the 2012–13 biennium, and would standardize the quality of care provided by urgent care centers and assist patients in selecting the appropriate provider for their medical care.

Alternative care delivery models to hospital-based emergency care and office-based primary care have emerged in Texas in recent years in response to consumer demand for increased convenience and access to care. A 2009 Legislative Budget Board report contained recommendations to regulate freestanding emergency medical centers and urgent care centers. The Eighty-first Legislature, 2009, enacted legislation to regulate freestanding emergency medical centers; however, as many as 300 urgent care centers in Texas remain unregulated and do not have to meet staffing, equipment, and facility requirements. This lack of standardization could cause patient harm because these facilities hold themselves out to the public as capable of providing varying degrees of urgent care, but may not be able to deliver the level of care patients expect. In addition, the Department of State Health Services (DSHS) receives complaints about urgent care centers, but lacks the authority to investigate them. Comprehensive complaint data regarding urgent care centers is unavailable.

Regulation of these facilities and use of related terminology by the DSHS would standardize the quality of care provided and assist patients in selecting the appropriate location to receive medical care.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 325.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE FUNDS	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE FUNDS	PROBABLE CHANGE IN FULL-TIME-EQUIVALENT POSITIONS FROM THE 2010–11 BIENNIUM
2012	\$1,372,500	(\$1,575,360)	12.75
2013	\$915,000	(\$689,523)	7.5
2014	\$915,000	(\$689,523)	7.5
2015	\$915,000	(\$689,523)	7.5
2016	\$915,000	(\$689,523)	7.5

SOURCE: Legislative Budget Board.

DECREASE THE NUMBER OF STATE SUPPORTED LIVING CENTERS TO REDUCE COSTS AND IMPROVE CARE

LBB RECOMMENDATIONS

- 1 Include a rider directing DADS to close at least one SSLC by May 31, 2013.
- 2 Include a rider requiring DADS to submit a closure plan.
- 3 Include a rider authorizing DADS to reclassify 1 full-time equivalent position to direct the closure process.
- 4 Include a rider requiring HHSC to certify and report the savings associated with the closure.
- 5 Amend statute to establish a commission on SSLC realignment.
- 6 Include a contingency rider reimbursing commission members' travel.

The introduced 2012–13 General Appropriations Bill includes riders implementing Recommendations 1, 2, 3, 4, and 6. Recommendation 5 requires statutory change.

These recommendations would save \$3.2 million to \$16.4 million in General Revenue Funds for the 2012–13 biennium, and would enable the state to concentrate resources on persons remaining in the system and redirect savings to expand community programs.

Texas' reliance on the institutional model of care for persons with intellectual and developmental disabilities persists despite 40-year nationwide trends of deinstitutionalization and expansion of community services. Texas has the largest institutionalized population with intellectual and developmental disabilities of any state and comprises a disproportionate amount of the U.S. total. Texas continues to operate 13 state supported living centers (SSLCs) for persons with intellectual and developmental disabilities, even as demand for these services has declined. Decreasing the number of residents in SSLCs instead of closing facilities has resulted in a costly arrangement of dual-funded systems of care in which funding for community and institutional services continues to increase. Closing at least one institution and establishing a process to continually review the size of Texas' system of SSLCs would enable the state to decrease the number of centers as demand changes and realize additional savings that could be redirected to the expansion of community programs.

The full text of this report can be found in *Transform State Residential Services for Persons with Intellectual and Developmental Disabilities* (Legislative Budget Board, January 2011).

TWO-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2013

	PROBABLE SAVINGS/(COST) TO GENERAL REVENUE-RELATED FUNDS		
	FISCAL YEAR 2012	FISCAL YEAR 2013	TOTAL
Abilene	\$2,529,080	\$11,449,451	\$13,978,531
Austin	\$1,979,413	\$6,937,370	\$8,916,783
Brenham	\$1,626,626	\$5,535,376	\$7,162,001
Corpus Christi	\$1,725,724	\$6,387,642	\$8,113,366
Denton	\$3,253,948	\$12,056,644	\$15,310,592
El Paso	\$661,374	\$2,259,814	\$2,921,188
Lubbock	\$1,788,461	\$7,301,963	\$9,090,424
Lufkin	\$1,675,675	\$5,119,835	\$6,795,511
Mexia	\$2,731,942	\$10,386,588	\$13,118,529
Richmond	\$2,651,822	\$10,161,569	\$12,813,392
San Angelo	\$1,539,145	\$5,782,109	\$7,321,253
San Antonio	\$1,039,517	\$2,905,674	\$3,945,191

SOURCE: Legislative Budget Board.

MODERNIZE CARE DELIVERY AT STATE SUPPORTED LIVING CENTERS

LBB RECOMMENDATIONS

1 Include a rider directing DADS to use \$250,000 of existing General Revenue Funds to hire a consultant to provide training to staff at one SSLC to implement the culture change model of care. DADS would also submit a report on the culture change process and its progress to the Governor and the legislature.

2 Include a rider directing DADS to report quarterly on non-key measures added to the Legislative Budget Board's Automated Budget and Evaluation System of Texas for each SSLC.

3 Include new key performance measures relating to DADS administration of SSLCs.

The introduced 2012–13 General Appropriations Bill includes riders implementing Recommendations 1 and 2. Key and non-key measures for SSLCs have been added to the introduced bill as a result of Recommendations 2 and 3.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They would modernize how services and supports are designed and delivered and improve resident safety and workforce quality at SSLCs.

Texas operates 13 state supported living centers (SSLCs) which provide intermediate care services for persons with intellectual or developmental disabilities. Concerns surrounding the quality of care provided to these individuals have been longstanding. The U.S. Department of Justice continues to monitor Texas' efforts to address deficiencies and prevent additional civil rights violations. The Department of Aging and Disability Services (DADS) is working to improve the intermediate care facility system; implementing changes required by the Eighty-first Legislature, Regular Session, 2009 and adopting policies aimed at reducing the incidence of resident abuse and retaining qualified staff.

Due to changes in consumer demand, the census of state supported living centers continues to decline, which leaves the state favorably positioned to implement the culture change model of care. This model focuses on the values of individuals receiving care instead of asking individuals to adapt to the institution. It also incorporates workforce and quality improvement practices. The implementation of the culture change model of care would modernize how services and supports are designed and delivered to state supported living center residents and improve workforce quality and residents' safety. First implementing the culture change model at one state supported living center would allow the state to improve care and identify lessons that may be transferable to the entire intermediate care facility system.

The full text of this report can be found in *Transform State Residential Services for Persons with Intellectual and Developmental Disabilities* (Legislative Budget Board, January 2011).

MANAGING AND FUNDING STATE MENTAL HOSPITALS IN TEXAS, LEGISLATIVE PRIMER

REPORT HIGHLIGHTS

1 The Texas Legislature appropriated \$770.3 million for SMHs for the 2010–11 biennium; including \$614.9 million in General Revenue Funds, \$35.1 million in Federal Funds, and \$117.8 million in Other Funds. The SMHs were also appropriated \$2.5 million in funds provided under the federal American Recovery and Reinvestment Act.

2 In fiscal year 2010, the total number of mental health beds at SMHs was 2,461 beds including 1,558 civil beds and 903 forensic beds.

3 Some SMHs have experienced a significant increase in the number of forensic patients they serve. As of December 2010, there are 282 persons on the waiting lists for forensic beds at SMHs.

4 The average cost per patient served increased from \$11,912 in fiscal year 2006 to \$15,325 in fiscal year 2010, an increase of 28.6 percent.

5 Other factors impacting SMHs include increasing average lengths of patient stay, increasing outside mental and dental costs, workforce shortages, and aging hospital infrastructure.

The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides information on the 10 state mental hospitals in Texas.

The Texas Department of State Health Services manages 9 state-owned mental hospitals and one state-owned inpatient residential treatment facility for adolescents. This report refers to the 10 entities as state mental hospitals or SMHs. Together the state mental hospitals are one component of the statewide mental health delivery system that includes inpatient care and community-based care. This report provides an overview of the state mental hospitals in Texas including information on who the hospitals serve, the services provided, how the hospitals are funded and factors affecting hospital operations and costs. The report also provides statistical information regarding selected performance indicators maintained by the agency.

The full text of the report can be found in *Managing and Funding State Mental Hospitals in Texas, Legislative Primer* (Legislative Budget Board, January 2011).

ESTABLISH A SUPERVISED REENTRY PROGRAM TO REDUCE COSTS AND IMPROVE EFFICIENCY

LBB RECOMMENDATIONS

1 Amend statute to establish a supervised reentry program for offenders who are eligible for release on parole and are one year from their discharge date, or have served 90 percent of their sentence.

2 Include a contingency rider directing TDCJ to reduce its prison facility inventory by a minimum of 1,700 offender beds through the closure and sale of existing prison facilities.

These recommendations would require statutory change. The introduced 2012–13 General Appropriations Bill does not contain any adjustments as a result of these recommendations. Recommendation 2 requires a contingency rider.

These recommendations would save \$3.4 million to \$33.1 million in General Revenue Funds and General Revenue–Dedicated Funds during the 2012–13 biennium, and would provide offenders with reentry support to successfully reintegrate into the community.

Most offenders released from Texas prisons are released to various supervision programs that incorporate reentry support and penalties for violations of parole supervision conditions. However, an increasing number of offenders serve their entire sentence in prison without being paroled and are discharged with no conditions or support services. In fiscal year 2010, 8,598 (20.4 percent) were discharged. Leaving these offenders to transition from prison to the community on their own can lead to increased recidivism and public safety costs. By establishing a supervised reentry program, Texas can balance criminal justice costs with the imperative of public safety.

Allowing certain parole-eligible offenders to be released to a supervised reentry program when the offender is one year from their discharge date or on the date the individual has served 90 percent of their sentence could decrease the demand for prison beds by approximately 1,800 offenders in the 2012–13 biennium as shown in **Figure 1**.

**FIGURE 1
IMPACT OF SUPERVISED REENTRY PROGRAM ON PRISON CAPACITY
FISCAL YEARS 2012 TO 2016**

FISCAL YEAR	DECREASED DEMAND FOR PRISON CAPACITY	AVERAGE NUMBER OF DAYS RELEASED EARLY	NUMBER OF OFFENDERS RELEASED
2012	1,728	119	5,320
2013	1,808	177	3,730
2014	2,043	221	3,380
2015	1,724	242	2,600
2016	1,362	267	1,860

SOURCE: Legislative Budget Board.

The decreased demand for prison capacity from this program would allow the state to address prison facility inefficiencies and realize savings by closing one or more prison units that have significant deferred maintenance and repair needs.

Estimated savings and revenue from implementing Recommendations 1 and 2 would vary depending on the units selected for closure. The fiscal impact estimate shown on the next page includes the increased cost to the Texas Department of Criminal Justice (TDCJ) Parole Division for the supervised reentry program and the savings and revenue realized from a single System I unit closure (not including those units whose closure would result in a cost for the biennium) beginning the second year of the biennium. The estimate also includes the expected revenue gain from the

sale of a single prison unit; however, the actual sales price realized would depend on the level of bond indebtedness remaining on specific units identified for closure.

FIGURE 2
FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FACILITY	FISCAL YEAR 2012 SAVINGS/(COST)	FISCAL YEAR 2013 SAVINGS/(COST)	FISCAL YEAR 2014 SAVINGS/(COST)	FISCAL YEAR 2015 SAVINGS/(COST)	FISCAL YEAR 2016 SAVINGS/(COST)
Goree	(\$8,745,713)	\$13,359,778	\$2,423,084	\$5,396,834	\$8,771,434
Vance	(\$8,745,713)	(\$805,892)	(\$11,823,453)	(\$8,849,704)	(\$5,475,103)
Byrd	(\$8,745,713)	\$7,840,871	(\$189,393)	\$2,784,357	\$6,158,957
Hilltop	(\$8,745,713)	\$8,453,881	(\$4,687,291)	(\$1,713,541)	\$1,661,059
Central	(\$8,745,713)	\$35,436,232	(\$254,462)	\$2,719,288	\$6,093,888
Mt. View	(\$8,745,713)	\$7,195,754	(\$1,483,328)	\$1,490,422	\$4,865,022
Huntsville	(\$8,745,713)	\$21,226,942	\$7,251,248	\$10,224,998	\$13,599,598
Clemens	(\$8,745,713)	\$41,837,381	\$1,146,687	\$4,120,437	\$7,495,037
Stringfellow	(\$8,745,713)	\$12,172,569	(\$17,048)	\$2,956,702	\$6,331,302
Powledge	(\$8,745,713)	\$29,105,435	(\$169,496)	\$2,804,254	\$6,178,854
Scott	(\$8,745,713)	\$20,730,326	(\$1,435,368)	\$1,538,382	\$4,912,982
Jester III	(\$8,745,713)	\$26,642,094	\$437,962	\$3,411,712	\$6,786,312
Luther	(\$8,745,713)	\$35,399,894	(\$473,513)	\$2,500,236	\$5,874,837
Terrell	(\$8,745,713)	\$27,602,530	\$4,740,192	\$7,713,942	\$11,088,542
Pack	(\$8,745,713)	\$36,594,308	\$725,226	\$3,698,975	\$7,073,576

SOURCE: Legislative Budget Board.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 333.

REDUCE PRISON POPULATION BY REDUCING PAROLE PROCESS DELAYS

LBB RECOMMENDATION

1 Include a rider directing TDCJ and the Parole Board to evaluate and identify process inefficiencies that relate to the parole review and release of offenders whose release is contingent upon successful completion of an assigned rehabilitation program.

The introduced 2012–13 General Appropriations Bill includes a rider implementing this recommendation.

This recommendation would not have a direct fiscal impact for the 2012–13 biennium. It would result in fewer delays in releasing paroled offenders thereby freeing up prison beds.

Inefficiencies in the parole release process delay the release of offenders and limit bed availability. Based on preliminary data from the Texas Department of Criminal Justice (TDCJ), of the 22,632 offenders approved for parole in fiscal year 2010, the release of 8,222 offenders was contingent upon their completion of specified rehabilitation programs. (These are offenders with FI–R parole votes.) Based on historical data, many of these offenders may encounter delays in program enrollment and in release to parole upon program completion.

The Eighty-first Legislature, Regular Session, 2009, passed legislation allowing TDCJ to release offenders who had completed rehabilitation programs within a range of dates approved by the Board of Pardons and Paroles (Parole Board). This legislation was not enacted, but to address the issue of offenders completing specified programs before their target release dates, the agency and Parole Board developed processes aimed at improving communication about offenders’ program completion status. Despite efforts to ensure offenders are not held for extended periods after completing a program required by the Parole Board as a condition for release, data shows that opportunities still exist to reduce delays in the offender parole review and release process. For example, **Figure 1** shows that offenders released between September 2009 and June 2010 that completed a three-month rehabilitation program waited an average of 57 days from the time they successfully completed their program to their release.

**FIGURE 1
AVERAGE TIME BETWEEN PROGRAM COMPLETION AND RELEASE BY PAROLE VOTE
SEPTEMBER 2009 TO JUNE 2010**

AVERAGE NUMBER OF DAYS	PAROLE VOTE REQUIRING REHABILITATION PROGRAM AS A CONDITION FOR PAROLE
57	FI–3R
31	FI–6R
56	FI–7R
115	FI–18R

NOTE: Number preceding the “R” in “FI–R” refers to the length of program in months.
SOURCE: Legislative Budget Board.

Requiring TDCJ and the Parole Board to evaluate, identify, and effectively address process inefficiencies could reduce prison populations and decrease demand for bed capacity.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 341.

ELIMINATE STATUTORY BARRIERS TO CONTAIN COSTS IN CORRECTIONAL MANAGED HEALTHCARE

LBB RECOMMENDATIONS

1 Amend statute to establish a corrections certification program for Certified Medication Aides.

2 Amend statute to provide an exception to allow UTMB and Texas Tech to use their inpatient dialysis centers to treat both inpatient and outpatient correctional managed health care clients with dialysis needs.

3 Amend statute to expand eligibility for medical parole under the Medically Recommended Intensive Supervision Program.

These recommendations require statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations could save an estimated \$1.2 million All Funds during the 2012–13 biennium, which would be retained by the correctional managed healthcare program. These recommendations would result in operational efficiency and would help address budgetary needs in the biennium.

In Texas, the annual cost to house an offender in state correctional facilities in fiscal year 2009 was \$18,082 and the cost to provide healthcare was \$3,482 per offender, or 19.3 percent of the total cost per day. The Texas Department of Criminal Justice (TDCJ) and its partners, University of Texas Medical Branch (UTMB) and the Texas Tech University Health Science Center (Texas Tech), work to ensure more than 150,000 offenders who are incarcerated receive proper medical care and mental health treatment.

Using more efficient methods to distribute prescription drugs in prisons, provide dialysis treatment, and manage sick and elderly offenders would reduce costs. Medical staff dispense an average of 155,000 medication doses per day. TDCJ offenders may have only certain prescription drugs in their possession and therefore are required to pick up their medications each day from a medical professional at clinic pill distribution windows. TDCJ requires pill windows be staffed with medical personnel, the least costly of which are medication aides. However, because there is no corrections certification for medication aides, providers have difficulty retaining these staff.

In fiscal year 2009, an average of 191 offenders required dialysis. The cost of dialysis treatments provided by UTMB was \$4.1 million in fiscal year 2009, averaging about \$21,500 per patient. UTMB-Hospital Galveston has a licensed inpatient dialysis treatment center that is under utilized. There are patients at the outpatient clinic co-located with Hospital Galveston that could benefit from having treatment while onsite. However, the treatment center is not licensed to provide outpatient treatment because current law provides for dialysis centers to be licensed either as part of the hospital or as an outpatient clinic. Therefore, UTMB cannot treat outpatients at the inpatient dialysis center without admitting them to the hospital.

The Board of Pardon and Paroles' (Board) has authority under the Medically Recommended Intensive Supervision Program to parole certain offenders who require long-term care or are terminally or seriously ill, elderly, mentally ill, or mentally disabled. The intent of the program is to parole offenders who, due to their physical condition, pose minimal public safety risk and provide their care through more cost effective settings. In fiscal year 2009, 74 offenders died while waiting for review by the Board. Expanding the definition of elderly and terminally ill would support the Board's ability to make medical parole decisions.

The full text of this report can be found in the *Governmental Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 347.

IMPROVE MANAGEMENT AND SUCCESSFUL RE-ENTRY FOR ADULT AND JUVENILE REGISTERED SEX OFFENDERS

LBB RECOMMENDATIONS

1 Amend statute to improve the usefulness of the sex offender registry and eliminate barriers to successful reentry into the community by one or all of the following options: (a) require DPS to include more detailed information on the sex offender registry; (b) require DPS to limit the public registry to compliant medium- and high-risk registrants; and (c) clarify when the court may grant a petitioner's request for early termination of a person's obligation to register.

2 Amend statute to exempt certain youthful offenders from registration for a sex offense based on consensual sexual conduct if both participants are at least 13 years old and neither participant is more than four years older than the other.

3 Amend statute to prohibit local jurisdictions from establishing additional local residency restrictions for sex offenders.

These recommendations require statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations would have no significant fiscal impact for the 2012–13 biennium. Improved sex offender management would reduce recidivism and improve public safety. The state's decision regarding implementation of the Adam Walsh Act would likely have a fiscal impact on state and local governments.

Sex offender registries were developed to improve law enforcement's ability to monitor offenders and increase public awareness of dangers in the community. In 2010, the Texas Sex Offender Registry had more than 61,000 adult and juvenile registrants. Approximately 4,800 of these registered sex offenders were between the ages of 10 and 17. The minority of registered sex offenders are violent, pedophiles, or rapists. Individuals on the sex offender registry were convicted of crimes that were sexual in nature, but the severity of the offences varied greatly.

Sex offender registration requirements and residency restrictions displace registrants and could increase recidivism. Information on the registry does not make it easy for the public to distinguish between violent and non-violent offenders. Due to misconceptions about the sex offender registry, it is difficult for low-risk registered sex offenders to reintegrate into the community. Sex offenders are less likely to reoffend when they reconnect with family and the community, find jobs, and live with a support network.

In Texas, certain youthful offenders (age 19 or younger) convicted of a sex offense based on consensual sexual contact are required to register if they and their younger partner are more than three years apart in age and the younger partner is age 13 or older. The federal law is more lenient, requiring offenders to register if the younger partner is age 13 or older and the difference in ages is more than four years. Non-violent juvenile offenders respond well to treatment and have lower recidivism rates than other categories of juvenile and adult offenders. Requiring them to register in the same manner as adults could hinder future success in the community.

Both state and federal laws play a role in establishing sex offender registration and notification requirements. In 2006, the federal government passed the Adam Walsh Act establishing comprehensive sex offender registration and notification requirements that may be costly for states to implement. Early estimates indicate it could cost Texas \$14 million a year to comply with the Act. The penalty for non-compliance in fiscal year 2010 would have been \$2.2 million.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 355.

ADULT AND JUVENILE CORRECTIONAL POPULATION PROJECTIONS, FISCAL YEARS 2011–2016

REPORT HIGHLIGHTS

- ◆ This report provides long-term adult and juvenile population projections for incarceration and supervision populations, crime and arrest rates in Texas, and related findings from focus groups with criminal and juvenile justice practitioners and officials.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It serves as a basis for biennial funding determinations.

This report provides adult and juvenile correctional population projections for fiscal years 2011 through 2016, which serve as a basis for biennial funding determinations for the Texas Department of Criminal Justice, Texas Youth Commission, and Texas Juvenile Probation Commission. Most projections utilize a discrete-event simulation modeling approach that simulates an individual's movement into, through, and out of a system based on such factors as offense type, sentence length, and time credited to current sentence. Most projections are based on historical data through fiscal year 2010. The report also includes findings from focus groups with practitioners and officials in various parts of the criminal and juvenile justice system to obtain a more in-depth understanding of factors impacting criminal and juvenile justice populations.

The full text of this report is available in *Adult and Juvenile Correctional Population Projections, Fiscal Years 2011 – 2016* (Legislative Budget Board, January 2011).

STATEWIDE CRIMINAL JUSTICE RECIDIVISM AND REVOCATION RATES, JANUARY 2011

REPORT HIGHLIGHTS

- ◆ This report provides an analysis of reincarceration and rearrest rates of offenders who were released from Texas prisons, state jails, Substance Abuse Felony Punishment Facilities (SAFPFs), the In-Prison Therapeutic Community (IPTC) Program, and Intermediate Sanction Facilities (ISFs).
- ◆ The report provides recidivism information for other areas of the adult and juvenile criminal justice system including: adult community supervision and parole, juvenile correctional institutions, and juvenile probation and parole.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides data on the success and failure of offenders in the Texas criminal justice system.

This report summarizes recidivism data currently known about Texas criminal justice populations. Recidivism is defined as a return to criminal activity after previous criminal involvement. Indicators of subsequent criminal activity that are used to calculate recidivism rates include rearrest, probation or parole revocation, and recommitment to incarceration.

For this report, various adult and juvenile criminal justice populations were monitored for a three-year period. Any offender within these populations who was reincarcerated or rearrested at least once during the three-year follow-up period was considered a recidivist. In addition, community supervision and active parole supervision populations were monitored to determine the number of probationers and parolees who had their supervision revoked, and were subsequently sentenced to imprisonment or confinement.

The full text of this report is available in *Statewide Criminal Justice Recidivism and Revocation Rates* (Legislative Budget Board, January 2011).

CRIMINAL JUSTICE UNIFORM COST REPORT, FISCAL YEARS 2008–2010

REPORT HIGHLIGHTS

- ◆ This report includes adult prison, adult parole supervision, adult probation supervision, juvenile correctional institution, and juvenile probation costs per day.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides information regarding the cost of criminal justice in Texas.

This report summarizes uniform cost information for programs, services, and facilities operated or contracted by the Texas Department of Criminal Justice (TDCJ), the Texas Youth Commission (TYC), and the Texas Juvenile Probation Commission (JPC). The report appendices detail the methodology used for data collection and cost per day calculations, provide an overview of each agency's operations and programs, and provide comparisons to other cost per day figures nationally.

The full text of this report is available in the *Criminal Justice Uniform Cost Report, Fiscal Years 2008–2010* (Legislative Budget Board, January 2011).

TEXAS AT-RISK YOUTH SERVICES PROJECT

LBB RECOMMENDATIONS

1 Include a rider directing the LBB to contract with an independent entity to review the current method of service delivery and recommend a model system to deliver at-risk youth services in Texas.

2 Amend statute to mandate increased communication and information sharing among entities that serve at-risk youth.

A rider implementing Recommendation 1 is included in the introduced 2012–13 General Appropriations Bill. Recommendation 2 requires statutory change.

These recommendations would cost approximately \$500,000 for the 2012–13 biennium and would provide a comprehensive assessment to aid the Eighty-third Legislature in enhancing and streamlining services to Texas’ at-risk youth.

The goal of the At Risk Youth Services Project (ARYSP) is to provide legislative recommendations to improve the delivery of services to at-risk youth in Texas. For purposes of this report, “at-risk youth” are defined as youth who have significant potential to enter or further penetrate the juvenile and/or criminal justice system.

The ARYSP employs a multi-faceted research methodology to gain a comprehensive view of the various services available to at-risk youth in Texas and how local, state, private, non-profit, and educational entities serve at-risk youth in their communities. The recommendations contained in this report focus primarily on prevention and intervention. Prevention of criminal behavior and intervention for risk factors correlated with crime contribute to public safety and conserve long-term state funding.

Recommendation 1 would result in a comprehensive assessment of the services currently provided to at-risk youth outside the juvenile justice system. This information would aid the Eighty-third Legislature in enhancing and streamlining at-risk youth services. Additionally, many systems addressing the needs of at-risk youth overlap in function and in the clients they serve, but the level of cross-entity communication and collaboration is inconsistent. This creates potential for missed treatment opportunities Recommendation 2 amends statute to ensure increased coordination among these entities.

The full text of this report is available in *Texas At-Risk Youth Services Project* (Legislative Budget Board, January 2011).

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE
2012	(\$500,000)
2013	\$0
2014	\$0
2015	\$0
2016	\$0

SOURCE: Legislative Budget Board.

WINDHAM SCHOOL DISTRICT EVALUATION

REPORT HIGHLIGHTS

- ◆ This evaluation of WSD describes the type of training services provided, the type of employment obtained upon release, whether employment was related to training received, the difference between earnings on the date employment is obtained and on the first anniversary of that date, and employment retention factors.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides information regarding training services provided by WSD.

The Seventy-ninth Legislature, Regular Session, 2005, enacted House Bill 2837, which added Education Code, Section 19.0041, to mandate the evaluation of training services provided by the Windham School District (WSD) to offenders housed in Texas Department of Criminal Justice facilities. WSD is to consult with the Legislative Budget Board (LBB) regarding the evaluation and analysis of the training services, and the LBB is to report the findings to the legislature. This is the fifth report being released in compliance with this requirement. This document contains a summary of the report prepared by WSD as well as the full WSD report.

The full text of this report is available in *Windham School District Evaluation* (Legislative Budget Board, January 2011).

FINANCING THE JUDICIARY IN TEXAS, LEGISLATIVE PRIMER – THIRD EDITION

REPORT HIGHLIGHTS

- ◆ The Eighty-first Legislature provided a total of \$671.8 million to support the Judiciary in the 2010–11 biennium.
- ◆ This amount represents 0.4 percent of all state appropriations.

This report does not include any recommendations. No adjustments have been made to the introduced 2012–13 General Appropriations Bill as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides reference information on state funding for the judiciary in the current biennium and the state’s court structure.

This report describes the state’s court system and reviews the different state funding and revenue sources for each area of the Judiciary, including district and appellate courts, prosecutors, juror pay, basic civil legal services, indigent defense and the judicial agencies. References to appropriated funds are based on the General Appropriation Bill for the 2010–11 biennium. This report also:

- reviews court costs and fees the judiciary is authorized to impose and how much revenue is generated from collection of these costs and fees;
- interstate comparisons of judicial salaries in the ten most populous states;
- judicial selection methods in Texas and other states; and
- district and appellate court clearance rates and performance data for the Supreme Court and Court of Criminal Appeals.

The full text of this report can be found in *Financing the Judiciary in Texas, Legislative Primer – Third Edition* (Legislative Budget Board, 2011).

IMPROVE REPORTING FOR THE COASTAL EROSION PLANNING AND RESPONSE ACT PROGRAM

LBB RECOMMENDATION

1 Add a new key performance measure requiring GLO to report the economic benefits of state funds spent on projects funded by the CEPRA Program.

The introduced 2012–13 General Appropriations Bill includes the performance measure recommended in this report.

This recommendation would not have a fiscal impact for the 2012–13 biennium. It would increase the transparency and accuracy of information provided to the Texas Legislature.

The last census found that 25 percent of Texas' population lives in coastal zone counties. The University of Texas Bureau of Economic Geology estimates that one-third of Texas' economic resources are found along the coastal zone. These resources include tourism, agricultural products, mineral production, seaports, sport fishing, and activities associated with waterfowl. Tourism and port activities alone generate almost \$6 billion in state and local tax receipts and over 1 million jobs. Coastal erosion causes an average loss of 235 acres of land per year in Texas, and erosion rates are as high as 10 feet per year in some spots.

The Seventy-sixth Legislature, Regular Session, 1999, passed the Coastal Erosion Planning and Response Act (CEPRA) to help address coastal erosion along the Texas Gulf Coast. Projects undertaken by the General Land Office (GLO) under the CEPRA Program have helped to replenish and stabilize critically-eroding areas of Texas beaches. Data shows that the CEPRA Program has helped eliminate the negative consequences of coastal erosion in Texas and has resulted in an average of \$11.69 in economic benefits to the state for every dollar the program receives. Including a new performance measure in the 2012–13 General Appropriations Bill regarding the economic benefits of CEPRA Program projects would increase transparency and ensure the Texas Legislature has complete information about the program's results when making future funding decisions for the program.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 365.

REQUIRE ALL BENEFICIARIES TO HELP FUND THE COASTAL EROSION PLANNING AND RESPONSE ACT

LBB RECOMMENDATIONS

1 Amend statute to create new sources of funding for the CEPRA Program.

2 Include a contingency rider removing the requirement for TPWD to transfer Sporting Goods Sales Tax to GLO and replacing Unclaimed Motorboat Fuels Tax Refunds redirected from TPWD with Sporting Goods Sales Tax.

3 Amend statute to limit funding for CEPRA Program projects without a match requirement.

4 Amend statute to require GLO to develop a long-range plan for the CEPRA Program.

5 Include a contingency rider appropriating funds from the Coastal Erosion Response Account to GLO for the CEPRA Program.

Recommendations 1, 3, and 4 require statutory change. The House version of the introduced 2012–13 General Appropriations Bill includes riders implementing Recommendations 2 and 5.

These recommendations would result in a net savings of \$10.1 million in General Revenue Funds and generate \$10.5 million of General Revenue–Dedicated Funds for the 2012–13 biennium, as well as ensure equitable funding for state efforts to address coastal erosion.

Coastal erosion, which is the result of natural processes and has been accelerated by human activities, affects 64 percent of the Texas Gulf Coast. The Coastal Erosion Planning and Response Act (CEPRA) was passed in 2001 and is a coordinated effort of state, federal, and local entities to address this issue.

Not all groups benefitting from the state’s efforts to address coastal erosion share in the cost of these activities. Funding for the program is currently provided from the general public through Sporting Goods Sales Tax General Revenue Funds. However, coastal residents, coastal industries, and the public all contribute to erosion and gain from erosion control projects. To fund the CEPRA Program equitably, revenue should come from all of these groups.

Establishing a nominal fee on commercial landings, reducing the amount of CEPRA funding that can be used for projects without a match, and redirecting Outer Continental Shelf Settlement Monies and Unclaimed Motorboat Fuels Tax Refunds would provide funding for the CEPRA Program from all parties who contribute to coastal erosion and benefit from state activities to address coastal erosion. These recommendations direct sources of funding to the Coastal Erosion Response Account; although they could also be statutorily dedicated through the General Revenue Fund.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 373.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE–DEDICATED FUNDS	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE FUNDS	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE FUNDS	PROBABLE GAIN/(LOSS) TO LOCAL PORT AUTHORITIES
2012	\$5,250,478	\$12,500,000	(\$2,066,835)	\$53,035
2013	\$5,250,478	\$12,500,000	(\$2,066,835)	\$53,035
2014	\$5,250,478	\$12,500,000	(\$2,066,835)	\$53,035
2015	\$6,300,574	\$12,500,000	(\$2,066,835)	\$63,642
2016	\$6,300,574	\$12,500,000	(\$2,066,835)	\$63,642

SOURCE: Legislative Budget Board.

INCLUDE A FUEL INEFFICIENCY SURCHARGE ON THE SALE OF CERTAIN NEW VEHICLES

LBB RECOMMENDATION

1 Amend statute to include a \$100 surcharge on all new vehicle purchases considered inefficient in their fuel consumption based on Corporate Average Fuel Economy standards issued by NHTSA.

This recommendation requires statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of the recommendation.

This recommendation would generate \$115.3 million in General Revenue Funds for the 2012–13 biennium and generate revenue to help fund state programs improving air quality.

Certain passenger vehicles, sport-utility vehicles, and light-duty trucks produce more emissions than the average vehicle. They are also less energy-efficient than the average vehicle. In fiscal year 2010, an estimated 565,873 new vehicles were registered in Texas that did not meet federal Corporate Average Fuel Economy standards. For every gallon of gasoline used by a vehicle, 20 pounds of carbon dioxide is produced. According to the National Highway Traffic Safety Administration (NHTSA), carbon dioxide makes up 97 percent of all greenhouse gas emissions from motor vehicles.

Three Texas cities are currently in nonattainment with federal air quality standards for ozone with additional areas of the state classified as Ozone Early Action Compact areas. Failure to achieve attainment status could result in the state losing federal highway funding and other grant funding related to air pollution, the reclassification of areas into higher nonattainment status requiring additional measures and implementations, and certain sectors of the economy being required to purchase additional offsets to conduct business in Texas.

Despite the increased costs associated with inefficient vehicles, they are exempt from the federal gas-guzzler tax and do not pay any additional state taxes. A surcharge attached to the sale of new vehicles with high emissions would compensate for the higher-than-average transportation-related costs these vehicles create. Establishing a \$100 surcharge for these vehicles would generate \$115.3 million of General Revenue Funds during the 2012–13 biennium. This revenue could fund efforts to comply with federal air quality standards and fund state programs aimed at reducing pollution.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 381.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) TO GENERAL REVENUE
2012	\$57,632,465
2013	\$57,632,465
2014	\$57,632,465
2015	\$57,632,465
2016	\$57,632,465

SOURCE: Legislative Budget Board.

STRENGTHEN COST RECOVERY FOR TEXAS DEPARTMENT OF AGRICULTURE REGULATORY AND MARKETING PROGRAMS

LBB RECOMMENDATIONS

1 Reduce appropriations of General Revenue Funds for TDA marketing programs to the projected amount that client entities will pay in fees and sponsorships for those programs during the 2012–13 biennium.

2 Eliminate appropriations of General Revenue Funds for the GO TEXAN Partnership Program for the 2012–13 biennium.

3 Include a rider requiring TDA to collect revenue from all entities benefitting from its marketing services sufficient to cover the direct and indirect costs of those services in the 2012–13 biennium.

4 Include a rider specifying that revenue must cover all direct and indirect costs including employee benefits for each regulatory program that monitors or licenses individuals, companies, or products.

The introduced 2012–13 General Appropriations Bill includes funding reductions implementing Recommendations 1 and 2 and riders implementing Recommendations 3 and 4.

These recommendations would result in a savings of \$10.3 million in General Revenue Funds and General Revenue–Dedicated Funds for the 2012–13 biennium, and would ensure that TDA regulatory and marketing programs operate on a full cost recovery basis.

Although the Texas Department of Agriculture (TDA) has well established mechanisms for collecting fee revenue to cover its direct and administrative regulatory expenditures, cost recovery would be strengthened by a General Appropriations Bill rider that ensures total appropriations, including those related to other direct and indirect costs, are limited to revenue collections. Also, state funding for marketing services in Texas is higher than most other major agricultural-producing states. Reducing appropriations for marketing services to the amounts generated from program revenue would limit the extent to which companies benefit from those services without paying for them, and generate significant savings.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 385.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE FUNDS	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE–DEDICATED FUNDS
2012	\$4,584,813	\$552,267
2013	\$4,584,813	\$552,267
2014	\$4,584,813	\$552,267
2015	\$4,584,813	\$552,267
2016	\$4,584,813	\$552,267

SOURCE: Legislative Budget Board.

INCREASE PRIVATE CONTRIBUTIONS FOR STATE PARKS

LBB RECOMMENDATIONS

1 Amend statute to expand TPWD’s fund-raising and partnership development activities.

2 Include a contingency rider appropriating all revenue raised through fund-raising and partnership development activities to TPWD for state park system operations and maintenance.

3 Amend statute to prohibit advertising in state parks, historic sites, or natural areas.

4 Amend statute to require DMV to collect a voluntary contribution for state park operations and maintenance when individuals register their vehicles.

5 Include a contingency rider appropriating donations from motor vehicle registrations.

Recommendations 1, 3, and 4 require statutory change. The introduced 2012–13 General Appropriations Bill includes contingency riders implementing Recommendations 2 and 5.

These recommendations would generate \$3.2 million in General Revenue–Dedicated Funds for the 2012–13 biennium, and would give TPWD more flexibility in its fund-raising and partnership development activities.

In addition to state appropriations, state parks benefit from private sector contributions provided by individuals, companies, state park friends groups, the Parks and Wildlife Foundation, and various non-profit organizations. However, state law limits the Texas Parks and Wildlife Department’s (TPWD) ability to expand its development of corporate partnerships and joint promotional campaigns. As a result, the agency lacks the authority to develop new, financially beneficial partnerships with private for-profit companies.

Private contributions can provide necessary funding for park infrastructure, especially if the agency has more flexibility in fund raising and a broader strategy for increasing private contributions. In the State of Washington, a voluntary \$5 donation collected with vehicle registrations generated approximately \$760,000 in fiscal year 2009 for its state park system.

Amending statutes regarding the authority of TPWD and the Department of Motor Vehicles (DMV) to fund-raise and collect donations and adding related contingency riders to the General Appropriations Act would significantly increase private contributions for the state park system.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 391.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2012

FISCAL YEAR	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE–DEDICATED FUNDS
2012	\$1,600,000
2013	\$1,600,000
2014	\$1,600,000
2015	\$1,600,000
2016	\$1,600,000

SOURCE: Legislative Budget Board.

ELIMINATE THE NEW TECHNOLOGY RESEARCH AND DEVELOPMENT PROGRAM

LBB RECOMMENDATIONS

1 Amend statute to eliminate the NTRD Program.

2 Reduce appropriations to TERP to eliminate funding for the NTRD Program.

Recommendation 1 requires statutory change. The introduced 2012–13 General Appropriations Bill implements Recommendation 2.

These recommendations would save \$18.7 million in General Revenue–Dedicated Funds in the 2012–13 biennium and would reallocate future TERP appropriations for emissions and reduction grants.

The New Technology Research and Development (NTRD) Program was established within the Texas Emissions Reduction Plan (TERP) as a grant program to encourage and accelerate the development and commercialization of technologies that aid in improving air quality by reducing pollution. These efforts are intended to assist Texas in its emissions reduction efforts in accordance with the State Implementation Plan. The program receives 9 percent of total TERP General Revenue–Dedicated Fund appropriations by statute.

The NTRD Program has not satisfactorily met either of its two program performance objectives. None of the technologies developed through the program have been adopted by any applicants seeking grant funding through TERP. In addition, only 7 percent of the technologies funded for development have been submitted to the U.S. Environmental Protection Agency or California Air Resources Board for certification or verification purposes; a key measure in confirming the validity and effectiveness of the developed technology. Eliminating funding for the program would allow for a greater portion of funds appropriated to TERP to be applied towards more proven and effective emissions reduction efforts.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 395.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE–DEDICATED FUNDS	PROBABLE CHANGE IN FULL-TIME-EQUIVALENT POSITIONS FROM THE 2010–11 BIENNIUM
2012	\$10,672,283	(3.5)
2013	\$8,008,283	(3.5)
2014	\$8,008,283	(3.5)
2015	\$8,008,283	(3.5)
2016	\$8,008,283	(3.5)

SOURCE: Legislative Budget Board.

OVERVIEW OF CARBON CAPTURE AND STORAGE IN TEXAS

LBB FACTS AND FINDINGS

- ◆ Texas is the largest emitter of carbon dioxide in the U.S. but also has vast capacity for subsurface and offshore geologic storage of carbon dioxide.
- ◆ CCS is not economically feasible without a price attached to carbon or federal incentives for this market.
- ◆ Previous Legislatures have positioned Texas to expand its CCS industry should federal legislation or rulings regulating carbon emissions occur.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides an overview of CCS, current advantages and disadvantages for market adoption, and highlights progress the state of Texas has made in becoming a potential leader in the future development of this industry.

Carbon capture and storage (CCS) is a technology for preventing carbon dioxide (CO₂) emissions from escaping into the atmosphere by capturing emissions from a large source, such as a coal-fired or natural gas power plant, and trapping it within sub-surface geologic formations for significant periods of time. The Environmental Protection Agency declared CO₂ a harmful pollutant in 2009. However, neither federal nor state governments require industries to sequester CO₂ emissions, but carbon capture and storage is a possible solution to address lowered emissions standards. Current carbon capture and storage activities in Texas include voluntary industry improvements to air quality processes and testing by academic and research entities. These activities could position the state to benefit from future carbon capture and storage business.

Texas is well positioned to be a leader in carbon capture and storage should a market for this technology develop in the future. The Texas legislature has taken significant actions to address incentive and regulatory issues in this area, primarily in regards to carbon capture and storage demonstration projects related to enhanced oil recovery efforts. Texas is ahead of regulatory initiatives in other states and offers an environment for implementing carbon capture technologies throughout a variety of industries. However, the economic viability of carbon capture would require either significant funding from the federal government or a regulated price on carbon emissions, such as that envisioned by cap and trade or carbon tax legislation. Additionally, the commercial deployment of CCS technologies, while an economic boon regionally, would likely come at a significant cost to the state's power generation industry.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 401.

STATE FUNDING FOR WATER PROGRAMS, LEGISLATIVE PRIMER

LBB FACTS AND FINDINGS

- ◆ According to the 2007 State Water Plan, by 2060, 21.6 million acre-feet of water per year will be required to meet the state's demand, but only 14.6 million acre-feet of water per year will be available.
- ◆ In fiscal years 2010–11, the State expended \$1,122.0 million, including \$339.2 million in General Revenue and General Revenue–Dedicated expenditures and \$782.8 million in General Obligation bond proceeds for water programs.

This report does not include any recommendations. No adjustments have been made to the 2012–13 General Appropriations Bill as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It describes six potential dedicated funding sources for water programs.

The purpose of this primer is to provide information regarding the major water use issues in the State of Texas and state funding for water programs. The primer is divided into a high-level overview of the demand for water in Texas; a summary of water rights issues, including groundwater and surface water rights, and the privatization of water rights; a discussion of the regional planning approach that is used to develop the State Water Plan and of the water management strategies used to implement the State Water Plan; and program descriptions and funding for the financial assistance programs for water infrastructure projects provided by the Texas Water Development Board (TWDB). Potential additional dedicated funding sources for water programs are identified, including the following options:

- Sales tax on retail sales of utility water and sewer;
- Water conservation and development fee;
- Water rights fee;
- Tap fee on retail public utilities connections;
- Sales tax on bottled water; and
- Development impact fee.

The full text of this report can be found in *State Funding for Water Programs, Legislative Primer* (Legislative Budget Board, January 2011).

FISCAL IMPACT OF DROUGHT TO STATE AGENCIES AND INSTITUTIONS OF HIGHER EDUCATION DURING THE 2008–09 BIENNIUM

LBB FACTS AND FINDINGS

- ◆ Between the fall of 2007 and the fall of 2009, Texas suffered an intense La Nina-driven drought.
- ◆ Texas state agencies and institutions incurred costs totaling \$181.1 million, including \$64.2 million from General Revenue Funds, \$0.1 million from General Revenue–Dedicated Funds, \$8.9 million from Federal Funds, \$38.8 million from Other Funds, and \$69.1 million in off-budget funds.
- ◆ \$140.3 million, or 77.5 percent of the total costs were related to fighting forest fires.

This report does not include any recommendations. No adjustments have been made to the introduced 2012–13 General Appropriations Bill as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It could be used as a tool to help plan for future droughts.

During fiscal years 2008 and 2009, Texas suffered an intense La Nina-driven drought where approximately 45 percent of the state experienced severe to exceptional drought conditions and 100 percent of the state experienced some level of drought. This paper reviews the impact of this drought on state agencies and institutions of higher education. Of the 169 state agencies and institutions of higher education surveyed, 17 reported a fiscal impact associated with the drought, identifying a total fiscal impact of \$181.1 million in fiscal years 2008 and 2009. This includes \$64.2 million in General Revenue Funds, \$0.1 million in General Revenue–Dedicated Funds, \$8.9 million in Federal Funds, \$38.8 million in Other Funds, and \$69.1 million in off-budget funds. The costs can be broken into administrative or program costs (\$175.1 million), revenue loss (\$0.3 million), and services provided (\$5.7 million).

The full text of this report can be found in *Fiscal Impact of Drought to State Agencies and Institutions of Higher Education During the 2008–09 Biennium* (Legislative Budget Board, January 2011).

MAXIMIZE THE FEDERAL FUNDS TEXAS RECEIVES FOR TRANSPORTATION

LBB RECOMMENDATIONS

- 1 Amend statute to require TxDOT to create plans allowing federal funding to be maximized for all modes of transportation in the Statewide Transportation Improvement Program.
- 2 TxDOT should coordinate with locals to identify projects eligible for Scenic Byways grants.
- 3 Include a contingency rider, requiring TxDOT, DPS, and TTI to develop a system to measure commercial vehicle traffic at Texas' ports of entry.
- 4 Amend statute to require DMV to participate in the Uniform Hazardous Material State Registration and Permit Program.
- 5 Amend statute to meet federal requirements for data collection on the race and ethnicity of passengers involved in motor vehicle stops.
- 6 Amend statute to eliminate the rail industry exemption from the motor fuels diesel tax and direct revenue to the Rail Relocation and Improvement Fund.
- 7 Include a rider requiring TxDOT, DPS, and DMV to report to the Governor and the Legislative Budget Board on efforts to identify, coordinate, and implement methods to maximize discretionary sources of federal funding.

Recommendations 1, 4, 5, and 6 require statutory change. The introduced 2012–13 General Appropriations Bill includes riders implementing Recommendations 3 and 7.

These recommendations would generate at least \$223.8 million in All Funds for the 2012–13 biennium and would better position the state to receive Federal Funds for transportation in the future.

Federal transportation funding for Texas is primarily allocated from the Federal Highway Trust Fund, which receives revenues from: federal gasoline and diesel taxes; truck, bus, and trailer taxes; tire taxes; heavy vehicle usage fees; and alternative fuel taxes. Texas is a “donor state,” meaning that more money is deposited in the Federal Highway Trust Fund from the collection of federal taxes and fees in Texas than is returned to the state in federal funding for highways and transit. Federal funding for transportation consists of guaranteed programs and discretionary programs. Funding levels for guaranteed programs are set in federal legislation—currently the Safe, Accountable, Flexible, and Efficient Transportation Equity Act. Funding for discretionary programs is determined by various federal transportation agencies which select projects based on applications received.

The state has missed opportunities to receive certain transportation-related federal funds such as those offered under the Scenic Byways Program, grant to prohibit racial profiling, and High Speed Intercity Passenger Rail grants. Additionally, the state may forgo federal funds offered for hazardous materials transportation and commercial motor vehicle enforcement in the future. This is the result of issues surrounding the state's current method of transportation planning, gaps in Texas statutes, and a need for greater coordination among the state's transportation-related agencies; including the Texas Department of Transportation (TxDOT), Department of Public Safety (DPS), Department of Motor Vehicles (DMV), and Texas Transportation Institute (TTI). Amending state statutes, improving Texas' transportation planning processes, and improving coordination among transportation-related agencies would increase the state's eligibility for additional federal funding opportunities. The five-year fiscal impact of these recommendations is shown on the next page.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 411.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) IN FEDERAL FUNDS FOR THE STATE HIGHWAY FUND	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE FUNDS
2012	\$375,000	\$104,460,224
2013	\$375,000	\$118,526,838
2014	\$375,000	\$123,156,933
2015	\$375,000	\$128,111,580
2016	\$375,000	\$133,647,629

SOURCE: Legislative Budget Board.

RESTRUCTURE THE HIGHWAY MAINTENANCE FEE TO BETTER ALIGN IT WITH THE COST OF ROAD MAINTENANCE AND REPAIRS

LBB RECOMMENDATIONS

1 Include a rider requiring the Texas Department of Transportation to evaluate the damage that oversized and overweight vehicles cause on roads, including exempt vehicles. The agency shall provide recommendations for permit fee amounts and fee structure adjustments, including the highway maintenance fee, and submit a report by December 1, 2012.

2 Amend statute to restructure the highway maintenance fee assessed to overweight vehicles so that it reflects weight and distance traveled.

The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 1. Recommendation 2 requires statutory change.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They would result in a gain of State Highway Funds if the highway maintenance fee structure is restructured to generate additional revenue.

Overweight vehicles cause more damage to Texas highways than passenger vehicles, but pay for a smaller share of the damage. The highway maintenance fee that the state charges overweight vehicles accounts only for a vehicle's weight and does not reflect the variability in each vehicle's highway use or distance traveled. Vehicle weight and distance traveled are the two factors most closely associated with roadway damage caused by vehicles. Restructuring the highway maintenance fee to account for weight and distance, and reevaluating the fee and adjusting it as necessary, would make it more equitable and proportional to the damage caused by overweight vehicles.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 423.

IMPROVE THE EFFECTIVENESS OF MOTOR VEHICLE THEFT PREVENTION PROGRAMS IN TEXAS

LBB RECOMMENDATIONS

1 Amend statute to require ABTPA to include standard measures for all grants, allocate grant funds across all program categories, and ensure grants are used to increase the recovery rate of stolen vehicles, clearance rate of vehicle thefts, and number of persons arrested for vehicle theft.

2 Amend statute to require ABTPA to distribute funds based on motor vehicle theft rates rather than geographic distribution.

3 Amend statute to require ABTPA to update their plan of operation biannually.

4 Amend statute to authorize, rather than require, the H.E.A.T. Program.

5 Include a rider requiring DPS to apply for Federal Funds to administer BATIC.

Recommendations 1, 2, 3, and 4 require statutory change. The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 5.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They would improve the operation and measure the future performance of state programs addressing motor vehicle theft.

The Automobile Burglary and Theft Prevention Authority (ABTPA) at the Texas Department of Motor Vehicles and the Texas Department of Public Safety (DPS) are involved in activities to prevent motor vehicle theft and recover stolen vehicles. Since these activities began, the rate of motor vehicle theft in Texas has decreased. However, no data conclusively indicates this decline can be attributed to the efforts of state programs.

The percentage of stolen vehicles recovered, motor vehicle thefts cleared, and number of persons arrested for motor vehicle theft in Texas has decreased, rather than increased, since 1999. Texas appropriates almost twice as much to auto theft prevention authority activities as any other state, yet is ranked second nationwide for total vehicle thefts and ninth for vehicles stolen per 100,000 residents. No standard criteria is used to measure the effectiveness of ABTPA grant programs, and the Help End Auto Theft Program (H.E.A.T.) and Texas Recovery and Identification Program do not collect information to determine if vehicles in these programs are stolen or recovered. The Border Auto Theft Information Center (BATIC), which is fully funded by Texas, has recovered more vehicles registered in California than registered in Texas and 68 percent of vehicles recovered through BATIC since 2004 have been registered outside of Texas.

Although the introduced 2012–13 General Appropriations Bill does not include appropriations for ABTPA, appropriations may be restored in future biennia. Therefore, implementing these recommendations would improve the ability of these programs to increase the recovery rate of stolen vehicles and enable the state to assess the effectiveness of its motor vehicle theft and recovery programs.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 429.

INCREASE THE STATE TRAFFIC FINE TO IMPROVE TRAFFIC SAFETY

LBB RECOMMENDATIONS

1 Amend statute to increase the state traffic fine from \$30 to \$45.

2 Include a contingency rider appropriating collections not to exceed \$5 million per fiscal year in General Revenue Funds to TxDOT to enhance traffic safety and provide additional grants to DPS and local law enforcement agencies to increase enforcement on weekend and holiday periods.

Recommendation 1 requires statutory change. The introduced 2012–13 General Appropriations Bill includes a contingency rider implementing Recommendation 2.

These recommendations would result in a net gain of \$53.4 million in General Revenue Funds and \$31.7 million in General Revenue–Dedicated Funds for the 2012–13 biennium, and would allow additional grants to be provided to local law entities for increased traffic enforcement.

Traffic safety in Texas has improved but not at the same rate as the rest of the nation. While traffic fatalities decreased 9 percent nationwide from 2007 to 2008, Texas’ fatality rate did not change during this period. Texas ranked 37th by fatality rate in the nation during this time. Fatalities from traffic crashes in Texas increase an average of 15 percent during holiday periods and 32 percent on weekends compared with weekdays. Previously enacted legislation requires a person found guilty of committing a traffic violation to pay a \$30 state traffic fine in addition to any other sentence imposed for committing the violation. The intent of the legislation that created this court cost was to encourage responsible driving as well as help fund trauma care in Texas.

The Texas Department of Transportation (TxDOT) administers a series of grants through the Traffic Safety Program to provide for safety education programs and roadway improvement projects. The Department of Public Safety (DPS) and local law enforcement entities receive grants through this program to increase patrolling and enforcement during periods of high crash and fatality rates. Increasing the state traffic fine would provide an incentive for persons to drive responsibly; increase public safety; and generate revenue to help offset the costs of traffic enforcement, educational programs, roadway improvement projects, and trauma care. Providing \$10 million in General Revenue Funds for the 2012–13 biennium to TxDOT would make additional funds available to state and local law enforcement agencies for enforcement during periods of increased crash risk.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 435.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE FUNDS	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE FUNDS	PROBABLE GAIN/(LOSS) IN GENERAL REVENUE–DEDICATED FUNDS	PROBABLE GAIN/(LOSS) TO LOCAL GOVERNMENTS
2012	\$31,536,572	(\$5,000,000)	\$15,768,286	\$2,489,729
2013	\$31,822,818	(\$5,000,000)	\$15,911,409	\$2,512,328
2014	\$32,111,663	\$0	\$16,055,831	\$2,535,131
2015	\$32,403,129	\$0	\$16,201,564	\$2,558,142
2016	\$32,697,241	\$0	\$16,348,620	\$2,581,361

NOTE: Designated Trauma Facility and Emergency Medical Services Account.
SOURCE: Legislative Budget Board.

IMPROVE TRAFFIC SAFETY BY BANNING THE USE OF WIRELESS COMMUNICATION DEVICES WHILE DRIVING

LBB RECOMMENDATIONS

1 Amend statute to prohibit use of all wireless communication devices while driving, except in cases of emergency.

2 Amend statute to make violations involving wireless communication devices an offense under the Driver Responsibility Program.

3 Include a contingency rider appropriating \$500,000 per fiscal year to TxDOT to inform drivers of the ban on wireless communication devices.

Recommendations 1 and 2 require statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations. Recommendation 3 requires a contingency rider.

These recommendations would generate \$2.3 million in General Revenue Funds and General Revenue–Dedicated Funds for the 2012–13 biennium and would improve traffic safety by reducing distracted driving.

Studies have found that drivers using wireless communication devices, such as mobile phones and personal digital assistants, are distracted to a level of impairment equal to intoxicated drivers. The prevalence of mobile phone use while driving makes it the most common cause of crashes and near-crashes related to distracted driving. In response to these concerns, various local governments in Texas have banned the use of handheld mobile phones or talking on a mobile phone while driving. Six states and the District of Columbia have banned the use of hand-held mobile phones while driving and 13 states and the District of Columbia have banned text-messaging while driving.

A statewide policy banning the use of wireless communication devices while driving could save lives, reduce the risk of accidents, reduce traffic congestion, and generate an additional \$2.3 million in General Revenue Funds and General Revenue–Dedicated Funds. Changes in driving laws intended to improve public safety, such as seat belt laws, have been found to be ineffective unless there is a strategy to inform the public of the law. Therefore, under the report’s recommendation, revenue from fines and surcharges for the 2012–13 biennium would be directed to the Texas Department of Transportation (TxDOT) to help fund an education campaign about the dangers of distracted driving.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 441.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) TO GENERAL REVENUE FUNDS	PROBABLE SAVINGS/(COST) TO GENERAL REVENUE FUNDS	PROBABLE GAIN/(LOSS) FOR GENERAL REVENUE–DEDICATED—TRAUMA/EMS FUND	PROBABLE GAIN/(LOSS) TO LOCAL GOVERNMENTS
2012	\$1,074,189	(\$500,000)	\$260,603	\$697,310
2013	\$1,275,163	(\$500,000)	\$299,397	\$836,772
2014	\$1,402,679	0	\$329,337	\$920,449
2015	\$1,681,408	0	\$381,117	\$1,115,696
2016	\$2,074,080	0	\$449,792	\$1,394,620

SOURCE: Legislative Budget Board.

TEXAS HIGHWAY FUNDING, LEGISLATIVE PRIMER

REPORT HIGHLIGHTS

- ◆ An estimated \$11 billion per year is spent on transportation in Texas by local, state, and federal governments.
- ◆ During the 2010–11 biennium, spending on highway construction and maintenance accounted for 10.2 percent of the state’s net expenditures.
- ◆ Traditional methods of financing for highway construction and maintenance include revenues from state motor fuel taxes, oversize/overweight permits, motor vehicle sales and use tax, and motor vehicle registration fees.
- ◆ New financing methods that have been used for highway construction and maintenance in Texas include the use of bond proceeds and comprehensive development agreements.

There are no recommendations in this report. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would have no fiscal impact for the 2012–13 biennium. The report provides an overview of sources of revenue deposited to the State Highway Fund and Texas Mobility Fund and expenditures from these funds for road construction in Texas.

Texas has traditionally used a pay-as-you-go financing system in which roads are built as funding becomes available. Funding for the pay-as-you-go system in Texas is generated from user fees (motor fuels tax revenues and registration fees) and Federal Funds. However, as the cost of constructing and maintaining transportation corridors has increased, Texas has begun to use additional financing mechanisms to construct roads. The Seventy-seventh, Seventy-eighth, Seventy-ninth, and Eighty-first Legislatures, gave the Texas Department of Transportation (TxDOT) the authority to issue debt and enter into public-private partnerships. The agency’s ability to use public-private partnerships was restricted by the Eightieth Legislature.

This report provides an overview of the financing mechanisms available to TxDOT to construct and maintain highways. Additionally, the constitutional and statutory requirements and historical expenditures and trends of these revenue sources are discussed. The majority of revenue sources for highway construction and maintenance are deposited into either the State Highway Fund or the Texas Mobility Fund.

The full text of this report can be found in *Texas Highway Funding, Legislative Primer* (Legislative Budget Board, January 2011).

OVERVIEW OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM IN TEXAS

LBB FACTS AND FINDINGS

- ◆ The Community Development Block Grant Program is Texas' largest and most flexible source of federal funding for developing, maintaining, and reconstructing affordable housing for individuals and families of low- and moderate-incomes.
- ◆ Since federal fiscal year 2005, Texas has received \$5.1 billion in Community Development Block Grant funds, including funds appropriated for disaster recovery after Hurricanes Katrina, Rita, Dolly, and Ike and those appropriated through the American Recovery and Reinvestment Act of 2009.
- ◆ Texas has received \$3.5 billion in federal Community Development Block Grant Disaster Recovery funds since federal fiscal year 2005. Of that amount, the state has obligated 100 percent of the funds released to date and expended 83 percent of funds awarded for Hurricanes Katrina and Rita, and 5 percent of funds awarded for Hurricane Ike.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides an overview of the Community Development Block Grant Program in Texas.

The federal Community Development Block Grant Program was established to provide states and units of local government resources to address a wide range of community development needs, particularly the housing needs of low- and moderate-income individuals. In addition to housing, grant funds may also be used for a wide variety of community development projects from housing infrastructure to community improvement projects.

The Texas Department of Rural Affairs is the state administrative agency for the Community Development Block Grant Program in Texas and has overseen the receipt of more than \$5.1 billion in Community Development Block Grant funding, including emergency funding for disaster recovery, awarded to Texas since fiscal year 2005.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 449.

OVERVIEW OF THE TEXAS WORKFORCE DEVELOPMENT SYSTEM

REPORT HIGHLIGHTS

- ◆ State and federal funding provided a total of \$1,678.0 million to support workforce development programs in Texas in fiscal year 2010, a 13.4 percent increase from fiscal year 2006. This amount includes state and federal funds directly appropriated by the legislature for these programs.
- ◆ The number of students and customers served by workforce development programs totaled 3.4 million in fiscal year 2010, an 11.0 percent increase from fiscal year 2006.
- ◆ Performance outcomes varied among these programs. The median percentage of customers or post-secondary students entering employment for fiscal year 2010 was approximately 72 percent; with 86 percent of community and technical college students who earned technical credentials, and 58 percent of Project RIO participants, entering employment in fiscal year 2010.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium but provides an overview of the services, costs, and results of the workforce development system in Texas from fiscal years 2006 to 2010.

Texas' workforce development system consists of education, training, guidance and career development programs administered by seven state agencies and many institutions of higher education. Funding for these programs comes from federal, state, local, and non-profit sources. The federal government is the primary source of funding for training programs serving adults; whereas a mix of state and federal funding sources support workforce development programs for youth.

Most workforce development programs experienced growth in customers or students served, as well as in federal and state funding between fiscal years 2006 and 2010. The federal government, however, reduced funding significantly for some programs, which reduced the number of customers served by those programs. This includes the Workforce Investment Act Programs for adults and youth.

This report summarizes the state's workforce development programs and functions, their inter-relationships with other programs, how they receive and allocate funding, and how they are held accountable for their results. It also provides five year funding, service levels, and outcome performance measure data from fiscal years 2006 to 2010.

The full text of this report can be found in *An Overview of the Texas Workforce Development System* (Legislative Budget Board, January 2011).

DEVELOP AND OPERATE A STATE HEALTH INSURANCE EXCHANGE TO COMPLY WITH FEDERAL STANDARDS

LBB RECOMMENDATIONS

1 Amend statute to establish a quasi-independent state agency to develop and operate a single health insurance exchange in Texas.

2 Amend statute to direct TDI to oversee the new agency.

3 Amend statute to allow TDI to assess a fee on health plans to provide revenues to operate the exchange.

4 Amend statute to require HHSC to work with the exchange to facilitate access by consumers to exchange services, the Medicaid program, or CHIP.

5 Amend statute to authorize the exchange to contract eligibility determination for federal subsidy programs to HHSC.

6 Include a contingency rider directing TDI to report to the legislature and Governor's Office the estimated cost to the state of maintaining any health benefits required by Texas statute or rule that the state will have to pay for in the exchange.

Recommendations 1, 2, 3, 4, and 5 require statutory change. The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 6.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They would have the potential of increasing the availability and affordability of health insurance for Texans.

Health insurance exchanges (exchanges) are marketplaces where individuals and small businesses can compare information about and purchase health insurance in one place. The federal Patient Protection and Affordable Care Act of 2010 (ACA) requires state exchanges to be operational by January 1, 2014, and the federal government will set it up if a state refuses to do so. The Texas Legislature must decide if it wants the state to create and run an exchange. If it does, the Legislature must decide who will run it, the scope of its mission, and what its structure would be. Having a quasi-independent state agency develop and operate an exchange would allow the state to develop an exchange that best meets the need of Texans, while maintaining control over the insurance market. It would also avoid the conflict inherent in having the Texas Department of Insurance (TDI) contract directly with entities that it regulates. Allowing TDI to assess a fee on health plans would provide revenues to operate the exchange.

Federal subsidies are available for low-income persons who purchase insurance through the exchange. Exchanges are responsible for determining eligibility for these subsidies. Federal law requires close coordination with the Medicaid program and the Children's Health Insurance Program (CHIP) at the Health and Human Services Commission (HHSC) to assure that federal subsidies are not paid for persons eligible for these low-income programs. Since HHSC already determines eligibility for low-income persons in its programs, the exchange should contract with HHSC to determine eligibility for the subsidies, if cost effective.

The ACA specifies a minimum set of benefits that health insurance plans within an exchange must include. The state will be responsible for paying for any additional benefits required at the state level, for persons receiving a federal subsidy. A report on the impact of benefits mandated in Texas would inform the Legislature of the merits of maintaining or eliminating those benefits.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (January 2011), page 457.

END THE USE OF GENERAL REVENUE FUNDS TO PAY FOR INSURANCE COMPANY EXAMINATIONS

LBB RECOMMENDATIONS

1 Repeal the insurance premium tax credit for examination fees and overhead assessments.

2 Include a rider appropriating funds from the General Revenue–Dedicated Texas Department of Insurance Operating Fund to the CPA for deposit to the General Revenue Fund to reimburse the General Revenue Fund for the cost of insurance premium tax credits for examination fees and overhead assessments.

Recommendation 1 requires statutory change. The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 2.

These recommendations would generate \$18.5 million in General Revenue Funds during the 2012–13 biennium and realign the cost of conducting insurance company examinations.

The Texas Department of Insurance conducts periodic examinations of insurance carriers based in the state. Insurers pay an examination fee to cover the costs of the examination and an assessment to cover the overhead costs. Insurers receive tax credits for examination fees and overhead assessments paid. Revenue from the fees and assessments is deposited to the Insurance Operating Account, but the credits are taken against the insurance premium tax, which is General Revenue Funds. In effect, General Revenue Funds are being used to pay for insurance company examinations, costing General Revenue Funds approximately \$10 million per year. Repealing the credits for examination fees and overhead assessments would increase the amount of insurance premium taxes received by approximately \$10 million each year. If the credits are repealed the rider in Recommendation 2 would have no effect because there would be no loss or premium tax revenue.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 465.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE GAIN/(LOSS) TO THE GENERAL REVENUE FUNDS	PROBABLE GAIN/(LOSS) TO THE FOUNDATION SCHOOL FUND
2012	\$7,050,000	\$2,350,000
2013	\$6,850,000	\$2,283,333
2014	\$9,060,000	\$3,020,000
2015	\$7,790,000	\$2,596,667
2016	\$7,790,000	\$2,596,667

SOURCE: Legislative Budget Board.

MONITOR OUTCOMES AND LIMIT COURSE OFFERINGS TO ENSURE DUAL CREDIT COURSE QUALITY

LBB RECOMMENDATIONS

1 Include a rider requiring THECB to compile data to analyze the fiscal and instructional impacts on student outcomes for dual credit courses.

2 Amend statute to prohibit physical education dual credit courses from being eligible for dual credit funding.

The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 1. Recommendation 2 requires statutory change.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They would ensure course quality and limit dual credit course offerings resulting in reduced time to degree and future savings to the state.

Dual credit enrollment is growing rapidly due to recent legislative emphasis. Since fiscal year 2003 both public school districts and colleges have been allowed to obtain state funding for dual credit courses. Legislation enacted in 2005 requires the state's P-16 Council to develop a College Readiness and Success Strategic Action Plan to ensure that every Texas student is college-ready when exiting high school and has the skills to successfully compete in a global economy. Statute also requires all school districts to provide students with the opportunity to earn the equivalent of 12 hours of college credit while in high school. From fall 2002 to fall 2009, dual credit enrollment increased more than 200 percent. However, it is not clear whether dual credit programs improve college-readiness for Texas high school graduates.

As the number of enrolled students and dual credit courses increases, ensuring the quality of dual credit programs becomes more critical. Colleges are responsible for overseeing the instructional quality of dual enrollment courses. A 2010 State Auditor's Office report found that 10 out of 12 community colleges reviewed needed to improve their monitoring and evaluation of dual credit teachers and courses. While some courses are applicable to some degrees, they also may be of questionable academic value for college readiness. In fiscal year 2009, more than 1,900 Texas high school students received both high school and college credit for physical education courses. Available high school credit for those courses ranged from athletics, dance, cheerleading, drill team, and marching band. In addition, physical education courses are not included as part of the 36 semester credit hour required state core curriculum, so not every community college requires them to earn an Associate's degree.

The 2010–11 General Appropriations Act requires the Texas Higher Education Coordinating Board (THECB) and Texas Education Agency to provide integrated data on certain topics relating to dual credit. Complete data will not be available until spring 2012.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 471.

STRENGTHEN FINANCIAL OVERSIGHT OF COMMUNITY COLLEGES

LBB RECOMMENDATIONS

1 Include a rider requiring THECB to provide an annual report regarding the fiscal condition of the state's community colleges based on an analysis of financial indicators.

2 Amend the Texas Internal Auditing Act to include community college districts.

3 Amend statute to require THECB to update its community college board training to include best practices in campus financial management, financial ratio analysis, and case studies using financial indicators.

The introduced 2012–13 General Appropriations Bill includes a rider implementing Recommendation 1. Recommendations 2 and 3 require statutory change.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They would ensure public resources are spent efficiently and effectively by requiring more financial accountability, enhanced oversight measures, and improved governing board training.

In January 2009, the Legislative Budget Board (LBB) published a report that included recommendations to develop a system of standard ratios to detect changes in the financial positions of the state's community colleges. Since that time, LBB staff contracted with a consulting firm to review existing higher education financial ratios and develop a set of key financial and non-financial indicators that could be used at the state and community college levels to monitor financial performance. These indicators were developed with input from the Texas Higher Education Coordinating Board (THECB) and community college presidents, chief financial officers, and board members and focus on the highest risk areas in community colleges' reserves, debt, revenue, and management.

An analysis of annual financial reports from fiscal years 2007 to 2009 using the recommended financial indicators shows six community college districts may have financial concerns. Without additional follow-up with those districts, the cause and materiality of the financial issues cannot be determined. Effective internal audit programs could help the colleges identify and correct financial and operational problems on an ongoing basis. District trustees do not always have the financial or accounting expertise to effectively monitor the fiscal strength of the district. With such a large and decentralized system, strengthened financial accountability, enhanced oversight measures, and improved governing board training would ensure that public resources are being spent efficiently and effectively.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 477.

IMPROVE ACCOUNTABILITY OF TECH PREP CONSORTIA

LBB RECOMMENDATIONS

1 Amend statute to require THECB to conduct desk evaluations and issue reports to Tech Prep consortia on an annual basis in years when agency site visits are not conducted.

2 Amend statute to require TEA to establish administrative rules that dictate a specific and clear definition and process for identifying high school students as Tech Prep participants.

3 TEA should modify its training and assistance to Education Service Centers and public independent school districts to ensure they understand and implement the new rules consistently.

Recommendations 1 and 2 require statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations would not have a fiscal impact for the 2012–13 biennium but would enhance the Texas Legislature’s and THECB’s ability to hold Tech Prep programs accountable.

Tech Prep programs combine high school career and technical education with a minimum of two years of postsecondary education. Tech Prep consortia arrange for public teacher training, facilitate local business input, and manage program relationships between public school districts and public institutions of higher education through articulation agreements.

Although the Texas Higher Education Coordinating Board (THECB) approves Tech Prep consortia grant applications and monitors their performance, it is not complying with relevant statute and lacks a thorough system for evaluating the consortia. Also, the data reported by school districts and used by the agency to evaluate Tech Prep consortia is based on data definitions and reporting procedures that diminish the accuracy of federally established performance indicators.

Amending statute to require annual Tech Prep evaluations by THECB and requiring the Texas Education Agency (TEA) to clarify data reporting requirements would provide THECB and the Texas Legislature with more useful information to gauge Tech Prep programs’ contribution to helping high school students earn college credit and prepare to enter the workforce.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 483.

IMPROVE THE EFFECTIVENESS OF THE TEXAS COMMON COURSE NUMBERING SYSTEM

LBB RECOMMENDATIONS

1 Amend statute to guarantee the transfer of all courses in the TCCNS if the receiving institution offers the equivalent course. Courses that are ineligible for transfer would no longer be included in the system's transfer matrix.

2 Amend statute to require institutions of higher education to annually provide THECB with information on TCCNS courses added or deleted to the institution's inventory.

The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations. Recommendations 1 and 2 require statutory change.

These recommendations would not have a fiscal impact in the 2012–13 biennium. They would reduce the number of credits lost through transfer and improve a transferring student's success in earning a baccalaureate degree by guarantying transferability of courses in TCCNS.

Effective state transfer policies are a key component of efficient baccalaureate degree productivity. Prolonging the time to receive a baccalaureate degree reduces the chance that students will complete college. Legislation enacted in 2003 directed the Texas Higher Education Coordinating Board (THECB) to facilitate the transfer of courses among community colleges and universities by promoting consistency in course designation and identification. In 2004, the agency designated the Texas Common Course Numbering System (TCCNS) as the approved common course numbering system for lower division courses.

The TCCNS has a limited impact in facilitating course transfer. Institutions that participate in the system are not required to accept transfer credit for all courses that are included in the system. This is true even if the receiving institution offers equivalent courses that are taught by comparable qualified faculty. In addition, because TCCNS information is only updated biannually, course information may be incorrect. Requiring courses included in the system to be transferable to institutions of higher education would reduce the number of credits lost through transfer and improve a transferring student's success in earning a baccalaureate degree.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 485.

NON-TAX REVENUE COLLECTED FROM PUBLIC HIGHER EDUCATION STUDENTS

LBB FACTS AND FINDINGS

- ◆ During fiscal year 2009, institutions of higher education collected \$4.7 billion of student revenue (two-thirds of it was tuition and one-third was student fees).
- ◆ From fiscal years 2005 to 2009, student revenue increased \$2.1 billion for a 15 percent annual rate of change. Student revenue amounts increased more at universities compared to community, technical, and state colleges but the rate of increase was higher at these institutions than universities.
- ◆ Increases in student revenue were primarily related to increased dollars per student, rather than an increased number of students.
- ◆ Increases in student revenue substantially outpaced appropriations of General Revenue Funds. Three-fourths of student revenue was not deposited into the state Treasury and was not appropriated.
- ◆ During fiscal year 2009, tuition reported as institutional funds was 66 percent of tuition revenue, up from 54 percent during fiscal year 2005.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides information to increase the transparency of the cost of higher education.

Student revenue makes up most of the non-tax collected revenue in higher education. Affordability and equity for students are ongoing policy issues, and revenues from students are increasing relative to other sources of revenue for higher education. Legislative Budget Board staff used the Non-Tax Collected Revenue Survey database to determine increases in resident tuition compared to non-resident tuition, increases in tuition compared to fees, and variance among institutions in the ratio of tuition to fees. Also, the amounts of student revenue not deposited into the state Treasury and not appropriated, and trends in tuition and fee collections and assessments were determined.

From fiscal years 2005 to 2009, resident/in-district tuition revenue increased more than non-resident/out-of-district tuition revenue at universities, but not at community, technical, and state colleges. Student fee revenue increased at higher rates compared to tuition revenue, except at universities. From fiscal years 2005 to 2009, increases in tuition revenue did not moderate increases in other student fee revenue in higher education. At universities, tuition as a percentage of student revenue was 68 percent, but varied from 56 percent to 82 percent across universities. During fiscal year 2009, \$60 million in student revenue was assessed but not collected.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 493.

PREDICTORS OF ACCESS AND SUCCESS AT GENERAL ACADEMIC INSTITUTIONS

LBB FACTS AND FINDINGS

- ◆ Five common measures of high school academic preparation, controlled for demographic factors, were used in six statistical models to predict college graduation rates.
- ◆ The percentage of freshmen applying for financial aid has increased over time, from 56.9 percent in Fall 2004 to 74.0 percent in Fall 2009. In addition to the percentage of financial aid applicants increasing, the raw number of financial aid applicants also grew substantially over the six year period.
- ◆ The single strongest financial aid predictor of success is receiving a work study award. TEXAS Grants are a significant predictor of success for students who entered higher education in 2004, however the shifting of those awards in 2005 and 2006 to needier students turned them into a proxy for low socioeconomic status and the positive effects were no longer apparent.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides information regarding the graduation rates of students receiving financial aid that the Legislature may use when making future funding decisions.

The General Appropriations Act (2010–11 Biennium), Rider 60, page III-63, directs the Legislative Budget Board (LBB) to conduct “a statistical study of the predictors of access and success in higher education.” This report fulfills that direction. The first section of the report addresses the “access” portion of this direction. The second section evaluates the predictors themselves.

Existing TEXAS Grant allocations do not correlate with TEXAS Grant-eligible populations at public, four-year institutions. The chance any individual student receives a TEXAS Grant award is determined largely by the institution they choose to attend—not their preparation in high school nor their financial need relative to other students in the state.

Setting THECB-proposed college preparation criteria as a requirement for the TEXAS Grant program would enable most institutions to fully fund grants for all identified students with an Expected Family Contribution of \$4,000 or less at their institutions and would reduce existing inter-institution disparity significantly. In addition, adjusting existing allocations would remove all inter-institutional disparity.

In six separate statistical models, five common measures of high school academic preparation predicted graduation after controlling for demographic factors. The model measured academics preparation by SAT score, class rank, completion of the Distinguished Achievement Plan, meeting Texas Success Initiative standards (exemption from developmental education), and completion of “college-level” coursework in high school.

The full text of this report is available in *Predictors of Access and Success at General Academic Institutions* (Legislative Budget Board, January 2011).

FINANCING HIGHER EDUCATION IN TEXAS, LEGISLATIVE PRIMER

REPORT HIGHLIGHTS

- ◆ The Eighty-first Legislature provided a total of \$22.8 billion to support higher education in the 2010–11 biennium.
- ◆ Public institutions serve about 90 percent of the approximately 1.2 million students enrolled in higher education in Texas.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It describes the structure of higher education financing in Texas.

Texas' system of public higher education consists of 38 general academic institutions, 50 community colleges, one technical college system, and nine health related institutions. In addition there are seven agencies that are components of the Texas A&M University System.

Funds flow to public institutions and agencies of higher education in a number of ways; direct appropriations through funding formulas, indirect appropriations to cover the costs related to staff benefits, and other sources like the Available University Fund and trustee funds at the Texas Higher Education Coordinating Board.

The *Financing Higher Education In Texas, Legislative Primer* explains in detail all of these funding mechanisms for the general academic institutions, the health related institutions, and the community colleges.

The full text of this report can be found in *Financing Higher Education In Texas, Legislative Primer* (Legislative Budget Board, January 2011).

SUMMARY OF HIGHER EDUCATION SPECIAL ITEMS

REPORT HIGHLIGHTS

- ◆ Special item funding has grown 85 percent over the past five biennia.
- ◆ Health-related institution's share of total special item funding has increased over the past five biennia.
- ◆ Twelve special items that were reported as "start up" funding by the institutions are more than six years old.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It summarizes funding for higher education special items in the 2010–11 biennium.

The Eighty-first Legislature, Regular Session, 2009, directed the Legislative Budget Board and the Higher Education Coordinating Board to study special item funding in the 2010–11 General Appropriations Act through Section 54 of the Special Provision Relating Only to State Agencies of Higher Education.

Higher Education Special Items are loosely defined as items that are not supported through formula funding and support the special mission of an institution. The number and funding level for each special item is specifically identified by the legislature for each institution.

There are 323 special items listed under the Special Item Goal in the 2010–11 General Appropriations Act totaling \$1,242.6 million. These items range from \$65.6 million for the Paul L. Foster School of Medicine at the Texas Tech University Health Sciences Center to \$45,764 for a coastal zone laboratory at Texas A&M University in Galveston.

The full text of this report can be found in *Summary of Higher Education Special Items* (Legislative Budget Board, January 2011).

LIMIT ADVANCED PLACEMENT INCENTIVE PROGRAM EXAM FEE SUBSIDIES AND END CAMPUS AWARDS

LBB RECOMMENDATIONS

1 Amend statute to end the AP exam fee subsidy currently paid on behalf of all eligible students and limit this payment to only low-income students. The limitation should maintain the current subsidy model but limit eligible recipients.

2 Include a contingency rider reducing appropriations to the exam subsidy component of the AP Incentive Program allowed by statute.

3 Eliminate appropriations to the campus award component of the AP Incentive Program allowed by statute.

Recommendation 1 requires statutory change. The introduced 2012–13 General Appropriations Bill includes an appropriation reduction relating to Recommendation 3.

These recommendations would save \$18 million in General Revenue Funds during the 2012–13 biennium and preserve AP subsidies for low-income students.

The Advanced Placement (AP) Incentive Program provides financial incentives to public high school students, teachers, and campuses as a way to increase participation and success on AP and International Baccalaureate exams. Incentives provided by the Texas Education Agency include a \$30 per test exam fee subsidy for all AP and International Baccalaureate exams taken by public school students, professional development subsidies for AP and International Baccalaureate teachers, and awards to campuses for students who succeed on these exams. The Texas Legislature appropriated \$28.4 million in General Revenue Funds to this program for both the 2008–09 and 2010–11 biennia.

These incentives corresponded with increases in the number of students taking AP and International Baccalaureate exams. However, they have not increased the success rate or percentage of exams earning a successful score. The success rate of these exams has remained stagnant while participation rates have increased. Subsidizing exam fees for all eligible public school students and providing financial awards to campuses with successful students are incentives that do not prioritize improving success rates, and these awards represent a subsidy costly to the state. **Figure 1** shows the number of students receiving exam subsidies by socio-economic status. Texas is one of few states that provides AP exam fee subsidies for all public school students regardless of financial need. The fiscal impact of the recommendations is shown in the table on the following page.

FIGURE 1
AP/IB EXAM FEE SUBSIDY EXPENDITURES
SCHOOL YEARS 2006–07 TO 2008–09

SCHOOL YEAR	EXAMS TAKEN BY LOW-INCOME STUDENTS		EXAMS TAKEN BY NON-LOW-INCOME STUDENTS		TOTAL NUMBER OF EXAMS	STATE EXPENDITURES ON EXAM FEE SUBSIDIES
	COUNT	PERCENTAGE	COUNT	PERCENTAGE		
2006–07	63,846	25%	188,029	75%	251,875	\$7,556,250
2007–08	69,977	27%	192,607	73%	262,584	\$7,877,520
2008–09	81,788	29%	198,502	71%	280,290	\$8,408,700

SOURCE: Texas Education Agency.

FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2012 TO 2016

FISCAL YEAR	PROBABLE SAVINGS/(COST) TO GENERAL REVENUE FUNDS
2012	\$8,889,718
2013	\$8,984,849
2014	\$9,070,244
2015	\$9,144,295
2016	\$9,205,220

SOURCE: Legislative Budget Board.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 509.

PUBLIC SCHOOL CAREER AND TECHNICAL EDUCATION LABOR MARKET RELEVANCE AND COURSE VARIETY

LBB FACTS AND FINDINGS

- ◆ CTE concentrators are students who choose to take a coherent sequence of two or more program courses. In school year 2009–10, these students made up 65 percent of the state’s secondary student CTE course enrollment.
- ◆ Approximately 73 percent of CTE courses delivered in school year 2009–10 related to a regional labor market need.
- ◆ School districts closer to a major metropolitan area deliver a wider variety of CTE courses. More rural school districts offer fewer courses but have a greater share of CTE courses aligned to regional labor market needs.
- ◆ CTE courses related to information technology; human services; and agriculture, food, and natural resources had the largest share of student CTE course enrollment in school year 2009–10.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium but examines the regional labor market relevance of school district CTE courses and program capacity to offer courses across a wide variety of occupations.

Public school district Career and Technical Education (CTE) programs are some of the first opportunities Texas students have to gain knowledge and skills that directly relate to a particular industry or occupation. School districts have wide discretion over which courses are offered in these programs. Increasing course variation to give students the opportunity to take courses across a greater range of occupational categories can conflict with another significant programmatic component—ensuring the courses offered relate to current and emerging occupations for which there is a regional labor market need.

While school districts residing closer to or within major metropolitan areas and which have larger student enrollment can offer more course opportunities in a greater variety of broad occupational categories, they do so at the risk of reducing the number of courses that have regional labor market relevance. Conversely, more rural school districts offer fewer occupational options, but have a greater share of total CTE courses offered within careers for which there is regional labor market demand.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 515.

OVERVIEW OF THE STATE INFRASTRUCTURE FOR SCHOOL SUPPORT SERVICES

LBB FACTS AND FINDINGS

- ◆ Technical assistance and support requirements for low-performing campuses differ between campuses that are rated Academically Unacceptable under state accountability and those that have missed Adequate Yearly Progress under federal accountability.
- ◆ State infrastructure for school support services is composed of multiple partners including TEA, external partner organizations, intermediate organizations, and professional service providers.
- ◆ Several compliance streamlining efforts have emerged due to TEA's focus on coordinating state and federal technical assistance requirements, and delivering intervention initiatives to provide assistance to campuses in need of improvement.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides information on technical assistance requirements for campuses that do not meet state and federal accountability thresholds and outlines efforts to coordinate state and federal technical assistance requirements.

Texas has developed an elaborate infrastructure for school support services which has evolved due to recent compliance streamlining measures aimed at coordinating state and federal technical assistance requirements. State and federal accountability systems require different types of technical assistance and support for campuses that fail to meet established thresholds. A similarity between the requirements of the two systems is that professional service providers, external consultants approved by the Texas Education Agency (TEA), and external partner organizations work with campuses that are rated Academically Unacceptable under state accountability or have missed Adequate Yearly Progress under federal accountability.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 521.

ENHANCE THE CAPACITY OF PROFESSIONAL SERVICE PROVIDERS

LBB RECOMMENDATIONS

1 Amend statute to clarify the extent of a campus intervention team's involvement in fulfilling the statutory obligations of the team.

2 Amend statute to require TEA to adopt a rule that campus intervention teams report the amount of time spent on campus and any miscellaneous charges to the school district for their services.

3 Amend statute to require a representative of the school district's central administration to be a member of the school community partnership team.

These recommendations require statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations would not have a fiscal impact for the 2012–13 biennium. They could enhance campus intervention team's capacity to improve low performing schools and increase understanding of costs associated with hiring consultants.

Public school campuses that fail to meet state or federal student performance standards enter into a series of staged interventions that include acquiring the services of an experienced professional service provider. These are external providers that advise and mentor campus personnel in determining the root causes of low academic performance, assist in crafting a plan to address these factors, and help oversee implementation of this plan.

Two factors reduce the ability of these external consultants to fulfill their obligations to the campuses they serve: (1) the lack of prescriptive language in statute describing the amount of their involvement on the campus intervention team in fulfilling the roles and responsibilities of that team; and (2) the lack of central administration personnel involvement in the campus improvement process. Additionally, the Texas Education Agency (TEA) cannot accurately calculate a return on investment for these services since external campus intervention team members are not required to report the amount of service time they provide to campuses.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 531.

INCREASE EFFECTIVENESS OF DISCIPLINARY ALTERNATIVE EDUCATION PROGRAMS

LBB RECOMMENDATION

1 TEA should use performance measures in monitoring and analyzing the effectiveness of disciplinary alternative education programs.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this recommendation.

This recommendation would not have a fiscal impact for the 2012–13 biennium but would improve program outcomes.

Since the inception of Disciplinary Alternative Education Programs in 1995, there have been concerns that students removed from regular classrooms and placed in disciplinary programs are not receiving adequate educational services. Until recently, there were no standards for the programs because they operate outside of the state’s accountability system. Legislation enacted by the Eightieth Legislature, 2007, required the Texas Education Agency (TEA) to adopt standards for disciplinary alternative education programs, but the agency does not monitor or enforce the standards. The agency’s monitoring of these programs is limited to examining compliance with statutory requirements regarding suspensions, expulsions, and placements. By including measures that monitor and enforce program standards, TEA would help ensure that disciplinary alternative education programs provide adequate educational services.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 537.

ENHANCE STATE PROGRAMS TO IMPROVE TEACHER RETENTION

LBB RECOMMENDATIONS

1 Amend statute to require THECB to give priority for loan repayment assistance to applicants who teach at hard-to-staff campuses.

2 Amend statute to require THECB to develop a schedule for loan repayments under the TFTLRAP that increases the amount of the loan repaid each year that a teacher remains employed at a hard-to-staff campus and remains in the program.

3 Amend statute to allow school districts to participate in the DATE Program by providing incentives to retain effective teachers at high-needs campuses regardless of their participation in the merit pay component of the program, or by using DATE funds to provide stipends for teacher retention at hard-to-staff campuses.

4 Amend statute to require that TFTLRAP and the DATE Program be evaluated by THECB and TEA in terms of their respective effect on teacher retention at hard-to-staff campuses.

These recommendations require statutory change. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of these recommendations.

These recommendations would have no fiscal impact for the 2012–13 biennium but could improve teacher retention.

A significant number of Texas public school students who are economically disadvantaged are taught by teachers who have the least experience. Analysis of school district data demonstrates that many economically disadvantaged students face significant educational challenges, yet districts with the highest percentages of economically disadvantaged students have the highest percentages of teachers with five or fewer years of experience. Within districts, campuses with high percentages of economically disadvantaged students are likely to be the most difficult to staff with experienced teachers.

While high teacher turnover in districts and campuses with high percentages of economically disadvantaged students is recognized as a significant problem by state and national research studies, Texas does not offer any programs that specifically address the teacher retention problem that hard-to-staff campuses are facing. Two programs, the Teach for Texas Loan Repayment Assistance Program (TFTLRAP) administered by the Texas Higher Education Coordinating Board (THECB) and the District Awards for Teacher Excellence (DATE) Program administered by the Texas Education Agency (TEA) could be enhanced to provide state assistance for teacher retention at hard-to-staff campuses.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 541.

TECHNOLOGY PROGRAMS AND FUNDING IN TEXAS PUBLIC SCHOOLS

LBB FACTS AND FINDINGS

- ◆ TEA uses a variety of methods to help public school districts and charter schools plan for technology.
- ◆ TEA administers technology grants and programs to provide public school districts and charter schools with opportunities for implementing technology.
- ◆ Regional education service centers provide technology services and support to public school districts and charter schools.
- ◆ In school year 2008–09, Texas public school districts and charter schools received more than \$470 million in Federal Funds and General Revenue Funds to implement technology.
- ◆ Public school districts and charter schools ultimately decide how they will implement technology on their campuses.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It discusses the technology grants and programs in Texas public schools.

The Texas Education Agency (TEA) assists school districts and charter schools in various ways to implement technology in their schools. The agency has a technology advisory committee, a long-range state plan, a campus and teacher survey instrument, and an automated planning tool to aid school districts and charter schools with technology planning. The agency administers both state and federal technology grants and programs that provide opportunities for implementing technology, and regional education service centers provide services and support in technology to school districts and charter schools.

Funding for technology is provided through the federal No Child Left Behind Act of 2001, the federal E-Rate Program, and the state Technology Allotment. All of these components contribute to the level of technology found in Texas schools. Ultimately, the school districts and charter schools must decide what types of technology to implement for their students.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 547.

SCHOOL COUNSELORS, LIBRARIANS, AND NURSES IN TEXAS PUBLIC SCHOOLS

LBB FACTS AND FINDINGS

- ◆ Texas law does not require school districts to employ a school counselor, librarian, or nurse, or dedicate funds for these positions.
- ◆ School counselors, librarians, and nurses each have staffing guidelines based on student enrollment as determined by professional standards of practice.
- ◆ Information about the availability of a school counselor, librarian, or nurse in a school district and on a campus is self-reported by school districts to the Texas Education Agency via the Public Education Information Management System.
- ◆ In school year 2008–09, 77 percent of campuses reported a full-time counselor on staff, 60 percent reported a full-time librarian on staff, and 57 percent reported a full-time nurse on staff.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides information about counselors, librarians, and nurses in Texas public schools.

School counselors, librarians, and nurses are recognized as valuable personnel in a public school district and in facilitating positive student outcomes. State law provides guidelines for the certification and classification of each position, and each has their own program guide which includes professional standards of practice. Guidelines for determining appropriate staffing levels for each of these personnel are based on student enrollment as determined by standards of practice. However, Texas school districts are not required to employ a school counselor, librarian, or nurse, and the decision to employ them rests with local school districts.

The provision of these professional support personnel varies between school districts and campuses. Some school districts and campuses meet suggested staffing guidelines, while others fall short of staffing guidelines or do not staff these personnel.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 557.

SUBSTITUTE TEACHERS IN TEXAS PUBLIC SCHOOLS

LBB FACTS AND FINDINGS

- ◆ Substitute teachers in Texas, despite being deemed “professional employees” of a school district and offering and providing instructional services in the classroom, are not required to obtain and maintain a professional certification.
- ◆ Substitute teachers in Texas are not required to undergo standardized training other than what is offered and required by local school district(s).

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides information about substitute teachers in Texas public schools and policy options related to standardized training and professional certification.

Each day approximately 4.6 million students in public school districts arrive at a campus expecting to be greeted by their regular classroom teacher. However, many students are taught by a substitute teacher. Texas is one of seven states where substitute teacher requirements are established by school districts rather than the state. Unlike some other states, Texas does not require substitute teachers to be trained or certified.

The development of a substitute teacher certification program could raise the standards and expectations of substitute teachers, who are expected to assume most of the major duties and responsibilities in a teacher’s absence. In addition, requiring all substitute teachers be trained before certification and classroom placement would help ensure that a qualified professional educator provides continuity in a safe and secure learning environment, and is aware of the many needs of diverse student populations.

The full text of this report can be found in the *Government Effectiveness and Efficiency* report (Legislative Budget Board, January 2011), page 573.

EVALUATION OF THE EARLY CHILDHOOD SCHOOL READINESS DEMONSTRATION PROJECTS AND THE SCHOOL READINESS CERTIFICATION SYSTEM

LBB RECOMMENDATION

1 Include a rider requiring TEA and the Children's Learning Institute of the UT Health Science Center at Houston to report on the status of implementing the recommendations outlined in the 2011 external evaluation.

The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This recommendation would not have a fiscal impact for the 2012–13 biennium. It would require TEA to report on areas for improvement identified in the 2011 evaluation.

The Legislative Budget Board contracted with Learning Point Associates for an external evaluation required by General Appropriations Act (2009–10 Biennium), Rider 41(d), Page III-16. The evaluation focused on four areas: (1) student performance outcomes; (2) financial management; (3) program management and implementation; and (4) operation of the School Readiness Certification System.

The evaluation outlines 16 accomplishments, 15 findings, and 16 recommendations in the four areas mentioned above and provides two additional policy options. Highlights of recommendations contained in the evaluation include:

- **Change the Texas Education Agency (TEA) data destruction policy.** TEA should modify this policy in a way that provides adequate safeguards for student privacy protection without destroying data needed to monitor important public policy programs over time.
- **Improve community-level financial reporting capabilities.** All expenditures of the program should be assigned class codes within the accounting system.
- **Increase collaboration within partnerships.** Additional efforts should be made so that more Texas Early Education Model/Texas School Ready! communities are sharing resources, such as teachers, space, and transportation.
- **Streamline the School Readiness Certification System (SRCS) process.** The SRCS application process should be streamlined based on factors that have proven important in previous certification years.

The full text of this report can be found in *Evaluation of the Early Childhood School Readiness Demonstration Projects and the School Readiness Certification System* (Legislative Budget Board, January 2011).

METHODS FOR REDUCING COSTS AND MAXIMIZING REVENUE IN PUBLIC SCHOOL DISTRICTS

REPORT HIGHLIGHTS

- ◆ Educational Service Delivery, District Organization and Management, Community Involvement, Human Resources, and Computers and Information Technology are functions within the educational/organizational category that provide the Board of Trustees and district management with methods for improvement.
- ◆ Financial Management, Asset and Risk Management, and Purchasing functions are evaluated in the financial category, which assesses the existence of internal controls and ensures the controls are operating appropriately.
- ◆ Successful operational school district services in the areas of Child Nutrition, Facilities Management, and Transportation Services are analyzed in the operational category to ensure every dollar is spent wisely.
- ◆ Methods impacting multiple functional areas of school district operations such as outsourcing some district functions or participating in shared services with other districts are discussed in the cross-functional category.

This report does not include any recommendations. The introduced 2012–13 General Appropriations Bill does not include any adjustments as a result of this report.

This report would not have a fiscal impact for the 2012–13 biennium. It provides methods identified during past school performance reviews that school districts can use to reduce costs and maximize revenue.

Established in 1990 by the Texas legislature, the Texas School Performance Review (TSPR) program, has conducted nearly 180 comprehensive and targeted reviews of Texas public school districts. TSPR is authorized by Texas Government Code, Section 322.016, to periodically review the effectiveness and efficiency of the budgets and operations of school districts and provide those districts under review with methods for improvement.

Examples of these methods are provided within the report and are grouped into four broad categories, including Educational/Organizational, Financial, Operational, and Cross-Functional, with delineation provided within each category.

The full text of this report can be found in *Methods for Reducing Costs and Maximizing Revenue in Public School Districts* (Legislative Budget Board, January 2011).