LEGISLATIVE BUDGET BOARD

Cost Drivers and Revenues
Ten-Year Trend

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COST DRIVERS AND REVENUES—TEN-YEAR TREND

House of Representatives Rider 8, 2016–17 General Appropriations Act, Eighty-fourth Legislature, requires the Legislative Budget Board staff to deliver a report to the Eighty-fifth Legislature on long-term revenue and cost drivers for the state budget. This report summarizes the General Revenue Fund impact on specific budget drivers of forecasted state economic and demographic growth for the 10 fiscal years beginning September 1, 2017, and ending August 31, 2027. As required by the rider, Legislative Budget Board staff consulted with the State Demographer and the Comptroller of Public Accounts in producing this report.

FACTS AND FINDINGS

♦ Expenditures from the General Revenue Fund and the Property Tax Relief Fund are forecast to grow to a range of $115.4 billion to $139.5 billion by the 2026–27 biennium, or growth rates from 8.8 percent to 31.6 percent, from 2016–17 appropriated amounts.

♦ General Revenue Fund and the Property Tax Relief Fund revenue scenarios range from $131.6 billion to $175.3 billion by the 2026–27 biennium, or growth rates from 23.9 percent to 65.1 percent, from the 2016–17 biennium.

♦ The range of forecasted expenditures from the General Revenue Fund and Property Tax Relief Fund is largely within the range of General Revenue Funds and Property Tax Relief Fund revenue collection scenarios.

♦ The balance of the Economic Stabilization Fund is forecast to grow by fiscal year 2027 to a range of $19.5 billion to $25.7 billion, or growth rates from 87.5 percent to 147.1 percent, from fiscal year 2017. This projection assumes no appropriations from the fund over the forecast period.

DISCUSSION

State funds appropriated for the 2016–17 biennium total $141.1 billion, 67.5 percent of all appropriated funds. The remaining 32.5 percent of the total $209.1 billion appropriated funds are estimated Federal Funds. This report individually analyzes eight large programs that are heavily influenced by economic and demographic factors. 2016–17 biennial appropriations for these programs totaled $104.7 billion, or 74.2 percent of total state funds. 2016–17 appropriations for these programs from the General Revenue Fund and the Property Tax Relief Fund total $85.7 billion, or 78.6 percent of total General Revenue Fund and Property Tax Relief Fund appropriations (see **Figure 1**).

GENERAL METHODOLOGY

Legislative Budget Board staff forecasted the budget drivers included in **Figure 1** through the 2026–27 biennium, using modeling techniques specific to each. Three forecasts are prepared, a baseline forecast that reflects historical or moderate economic and demographic assumptions, and a high and low cost forecast based on fluctuations to the baseline forecast. The high and low cost forecasts provide a range of possible forecasts.

The analyses assume that statutes and practices in place during the 2016–17 biennium do not change through the forecast period. The analyses also assume that the budget priorities established by the Eighty-fourth Legislature for the 2016–17 biennium remain in place through the forecast period. That is, programs funded in the 2016–17 biennium continue to be funded in a similar proportion to other current programs. No new programs and funding streams are established, with the exception of the deposit of certain revenue to the State Highway Fund instead of the General Revenue Fund for transportation funding that is effective for the 2018–19 biennium, as required by the Proposition 7, 2015, amendment to the Texas Constitution. Further, the scope of existing programs does not expand except to accommodate increased populations and cost of service delivery. Specific assumptions are described separately for the individual budget drivers in Appendix A.

Baseline, optimistic and pessimistic revenue scenarios are developed by the Comptroller of Public Accounts, and are published in that agency's September 2016 report required by House Bill 32, Eighty-fourth Legislature, 2015.

FIGURE 1
BUDGET DRIVERS ANALYZED IN REPORT, 2016–17 BIENNIAL APPROPRIATIONS

(IN MILLIONS)	GENERAL REVENUE FUND AND PROPERTY TAX RELIEF FUND	ALL STATE FUNDS	FEDERAL FUNDS	ALL FUNDS
All Appropriations	**$108,957.4**	**$141,101.6**	**$68,001.5**	**$209,103.0**
Foundation School Program	$38,456.5	$42,301.5	$-	$42,301.5
Medicaid	$24,970.1	$25,816.3	$35,341.8	$61,158.1
Construction and Maintenance of Highways	$-	$11,763.0	$7,848.9	$19,611.8
Adult Corrections	$6,536.2	$6,729.5	$15.9	$6,745.4
Juvenile Corrections	$591.0	$615.7	$19.2	$634.9
Higher Education Formula Funding	$7,136.0	$8,505.7	$-	$8,505.7
State Employee Benefits	$4,456.2	$5,413.5	$1,001.9	$6,415.4
Teacher Retirement and Health	$3,487.2	$3,588.2	$-	$3.588.2
Total Major Budget Drivers	**$85,663.0**	**$104,733.3**	**$44,227.7**	**$148,961.0**
All Other Programs	**$23,324.4**	**$36,368.3**	**$23,773.8**	**$60,142.0**
Share of Total				
Foundation School Program	35.3%	30.0%	0.0%	20.2%
Medicaid	23.6%	18.3%	52.0%	29.2%
Construction and Maintenance of Highways	0.0%	8.3%	11.5%	9.4%
Adult Corrections	6.2%	4.8%	0.0%	3.2%
Juvenile Corrections	0.6%	0.4%	0.0%	0.3%
Higher Education Formula Funding	6.7%	6.0%	0.0%	4.1%
State Employee Retirement and Health	4.2%	3.8%	1.5%	3.1%
Teacher Retirement and Health	3.3%	2.5%	0.0%	1.7%
Total Major Budget Drivers	**78.6%**	**74.2%**	**65.0%**	**71.2%**
All Other Programs	**21.4%**	**25.8%**	**35.0%**	**28.8%**

SOURCE: Legislative Budget Board.

EXPENDITURE FORECAST RESULTS

The baseline, high-cost and low-cost General Revenue Fund and Property Tax Relief Fund expenditure forecast results are shown in **Figure 2**. Expenditures shown for the Foundation School Program include those from the General Revenue Fund and the Property Tax Relief Fund. Only expenditures from the General Revenue Fund and Property Tax Relief Fund are shown, since all but one of the selected budget drivers are currently dependent on General Revenue Funds for their primary source of state funds. Further, it is General Revenue Fund revenues and balances that are used to certify appropriations pursuant to the Texas Constitution, Article III, Section 49a. Note that no General Revenue Funds support the construction and maintenance of highways.

REVENUE SCENARIOS

The Comptroller of Public Accounts provides three 10-year revenue scenarios in a September, 2016 report required by House Bill 32, Eighty-fourth Legislature, 2015. The revenue scenarios are based on a range of economic conditions over this period. The pessimistic scenario assumes a prolonged period of low oil and natural gas prices combined with a mild U.S. recession followed by anemic growth. The optomistic scenario assumes a significant increase in oil and natural gas prices combined with accelerating growth in the broader U.S. economy. Included in this analysis are Economic Stabilization Fund (ESF) balance estimates under each scenario. The scenarios assume no appropriation from the ESF over the forecast period. **Figure 3** shows the revenue scenarios under this range of economic conditions.

FIGURE 2
ALL EXPENDITURE FORECASTS – GENERAL REVENUE FUNDS + PROPERTY TAX RELIEF FUND

(IN MILLIONS)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Mid-Range (Baseline)										
Foundation School Program	$19,130.7	$18,828.8	$18,164.2	$17,936.4	$17,632.6	$17,271.6	$16,767.4	$16,197.6	$15,561.2	$14,853.4
Medicaid	$13,510.2	$13,988.7	$14,276.0	$14,568.7	$15,065.8	$15,682.8	$16,328.6	$17,004.6	$17,730.2	$18,490.6
Highway Funding	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Adult Corrections	$3,469.1	$3,467.7	$3,478.1	$3,466.8	$3,468.5	$3,449.4	$3,465.5	$3,446.3	$3,448.9	$3,444.3
Juvenile Corrections	$337.7	$336.8	$343.5	$348.3	$351.3	$361.4	$360.0	$359.2	$364.4	$369.1
Higher Education Formula Funding	$3,779.2	$3,782.6	$4,005.7	$4,009.3	$4,246.7	$4,250.5	$4,503.2	$4,507.3	$4,776.3	$4,780.6
State Employee Benefits	$2,511.7	$2,612.9	$2,692.1	$2,770.1	$2,846.5	$2,920.7	$2,992.0	$3,060.1	$3,130.5	$3,203.2
Teacher Retirement and Health	$2,029.5	$2,092.0	$2,165.2	$2,241.3	$2,320.6	$2,403.2	$2,489.2	$2,578.8	$2,672.1	$2,769.2
All Other	$11,335.5	$11,808.1	$12,224.1	$12,670.4	$13,197.0	$13,742.9	$14,296.4	$14,848.0	$15,396.9	$15,945.5
Total	**$56,103.6**	**$56,917.7**	**$57,348.9**	**$58,011.2**	**$59,129.0**	**$60,082.6**	**$61,202.4**	**$62,001.9**	**$63,080.4**	**$63,855.9**
Higher Cost										
Foundation School Program	$19,130.7	$18,828.8	$18,533.3	$18,552.3	$18,548.7	$18,560.4	$18,396.3	$18,217.4	$18,012.6	$17,772.9
Medicaid	$14,185.7	$14,688.2	$15,280.4	$15,896.5	$16,537.4	$17,204.2	$17,897.9	$18,619.6	$19,370.3	$20,151.3
Highway Funding	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Adult Corrections	$3,504.0	$3,502.1	$3,505.5	$3,513.6	$3,500.9	$3,493.9	$3,502.5	$3,505.2	$3,507.8	$3,507.7
Juvenile Corrections	$350.0	$353.0	$362.4	$370.2	$376.4	$385.0	$383.9	$382.5	$391.5	$389.3
Higher Education Formula Funding	$3,883.3	$3,886.8	$4,229.5	$4,233.3	$4,607.7	$4,611.9	$5,021.0	$5,025.6	$5,472.8	$5,477.8
State Employee Benefits	$2,511.7	$2,612.9	$2,726.0	$2,840.0	$2,954.3	$3,068.1	$3,180.6	$3,290.8	$3,406.0	$3,526.4
Teacher Retirement and Health	$2,070.3	$2,155.5	$2,253.8	$2,357.0	$2,465.3	$2,578.9	$2,698.3	$2,823.5	$2,955.0	$3,093.1
All Other	$11,378.8	$11,896.9	$12,359.4	$12,856.1	$13,439.3	$14,045.5	$14,663.2	$15,282.8	$15,903.2	$16,526.6
Total	**$57,014.5**	**$57,924.1**	**$59,250.2**	**$60,619.0**	**$62,430.0**	**$63,948.0**	**$65,743.7**	**$67,147.4**	**$69,019.3**	**$70,445.1**
Lower Cost										
Foundation School Program	$19,130.7	$18,828.8	$17,730.5	$17,259.2	$16,615.7	$15,906.7	$14,976.1	$13,982.3	$12,833.2	$11,528.0
Medicaid	$12,834.7	$13,289.3	$13,774.1	$14,276.6	$14,797.4	$15,337.2	$15,896.7	$16,476.6	$17,077.7	$17,700.6
Highway Funding	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Adult Corrections	$3,427.7	$3,432.5	$3,440.3	$3,428.1	$3,433.8	$3,411.1	$3,407.3	$3,403.4	$3,391.8	$3,386.9
Juvenile Corrections	$329.1	$323.5	$325.6	$323.9	$323.0	$331.1	$329.5	$326.9	$327.6	$335.0
Higher Education Formula Funding	$3,636.2	$3,639.4	$3,710.7	$3,714.0	$3,790.0	$3,793.5	$3,874.4	$3,878.0	$3,963.9	$3,967.6
State Employee Benefits	$2,511.7	$2,612.9	$2,661.0	$2,707.1	$2,750.8	$2,791.9	$2,830.0	$2,864.8	$2,900.6	$2,937.3
Teacher Retirement and Health	$1,989.0	$2,029.9	$2,079.2	$2,130.3	$2,183.2	$2,238.0	$2,294.8	$2,353.5	$2,414.2	$2,477.0
All Other	$11,284.7	$11,704.4	$12,066.1	$12,454.2	$12,916.5	$13,394.6	$13,876.4	$14,352.3	$14,822.0	$15,287.9
Total	**$55,143.8**	**$55,860.7**	**$55,787.5**	**$56,293.5**	**$56,810.6**	**$57,204.2**	**$57,485.1**	**$57,637.8**	**$57,730.8**	**$57,620.4**

SOURCE: Legislative Budget Board.

FIGURE 3
GENERAL REVENUE FUND AND PROPERTY TAX RELIEF FUND REVENUE SCENARIOS, FISCAL YEARS 2018 TO 2027

| (IN MILLIONS)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Baseline										
Taxes	$46,768.5	$49,522.6	$51,467.6	$54,293.6	$56,812.0	$59,462.0	$62,197.6	$65,101.3	$68,007.2	$71,248.2
Non-Tax Revenue	$6,529.7	$6,780.3	$7,027.0	$7,289.6	$7,540.3	$7,791.5	$8,061.7	$8,337.1	$8,616.1	$8,914.3
Total GR	$53,298.2	$56,302.9	$58,494.6	$61,583.2	$64,352.3	$67,253.5	$70,259.3	$73,438.4	$76,623.3	$80,162.5
PTRF	$1,491.1	$1,641.1	$1,530.9	$1,680.6	$1,572.3	$1,719.5	$1,610.6	$1,758.8	$1,652.2	$1,800.6
Total GR+PTRF	$54,789.3	$57,944.0	$60,025.5	$63,263.8	$65,924.6	$68,973.0	$71,869.9	$75,197.2	$78,275.5	$81,963.1
ESF/SHF Set Aside	($1,553.7)	($1,774.8)	($1,971.6)	($2,183.1)	($2,365.6)	($2,497.5)	($2,629.8)	($2,757.6)	($2,891.9)	($3,033.1)
ESF Spillover	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$3,155.5
Total GR+PTRF for Certification	**$53,235.6**	**$56,169.2**	**$58,053.9**	**$61,080.7**	**$63,559.0**	**$66,475.6**	**$69,240.0**	**$72,439.6**	**$75,383.6**	**$82,085.5**
ESF Transfer	$740.4	$776.9	$887.4	$985.8	$1,091.5	$1,182.8	$1,248.7	$1,314.9	$2,757.6	$2,891.9
Interest	$146.5	$164.0	$167.5	$195.0	$247.4	$290.1	$323.9	$346.0	$371.9	$432.1
ESF Balance	$11,164.7	$12,105.7	$13,160.5	$14,341.4	$15,680.3	$17,153.2	$18,725.8	$20,386.4	$23,515.9	$23,684.4
Optimistic										
Taxes	$48,386.9	$52,088.3	$54,671.8	$57,952.1	$61,066.2	$64,366.1	$67,824.5	$71,498.0	$75,313.2	$79,617.2
Non-Tax Revenue	$6,619.1	$6,945.6	$7,259.5	$7,564.4	$7,856.9	$8,148.6	$8,471.6	$8,801.1	$9,148.5	$9,520.3
Total GR	$55,006.0	$59,033.9	$61,931.3	$65,516.5	$68,923.1	$72,514.7	$76,296.1	$80,299.1	$84,461.7	$89,137.5
PTRF	$1,492.7	$1,650.4	$1,548.4	$1,702.4	$1,597.5	$1,751.3	$1,647.7	$1,802.6	$1,701.5	$1,857.5
Total GR+PTRF	$56,498.7	$60,684.3	$63,479.7	$67,218.9	$70,520.6	$74,266.0	$77,943.8	$82,101.7	$86,163.2	$90,995.0
ESF/SHF Set Aside	($2,193.9)	($2,480.4)	($2,799.3)	($3,040.2)	($3,265.5)	($3,471.5)	($3,672.1)	($3,871.6)	($4,083.4)	($4,312.6)
ESF Spillover	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$372.9	$1,913.6	$4,593.2
Total GR+PTRF for Certification	**$54,304.8**	**$58,203.9**	**$60,680.3**	**$64,178.8**	**$67,255.1**	**$70,794.5**	**$74,271.7**	**$78,603.0**	**$83,993.4**	**$91,275.6**
ESF Transfer	$740.4	$1,097.0	$1,240.2	$1,399.7	$1,520.1	$1,632.7	$1,735.7	$1,836.1	$3,871.6	$4,083.4
Interest	$151.4	$170.4	$182.5	$220.5	$289.0	$348.0	$397.1	$432.7	$464.0	$509.8
ESF Balance	$11,169.7	$12,437.1	$13,859.8	$15,480.0	$17,289.1	$19,269.8	$21,402.6	$23,298.2	$25,720.2	$25,720.2
Pessimistic										
Taxes	$44,211.0	$44,472.9	$44,620.7	$47,243.5	$49,396.9	$51,497.3	$53,246.2	$55,052.0	$56,861.3	$58,880.6
Non-Tax Revenue	$6,443.1	$6,498.9	$6,572.6	$6,841.1	$7,000.7	$7,164.1	$7,316.9	$7,487.6	$7,667.3	$7,851.3
Total GR	$50,654.1	$50,971.8	$51,193.3	$54,084.6	$56,397.6	$58,661.4	$60,563.1	$62,539.6	$64,528.6	$66,731.9
PTRF	$1,490.3	$1,609.0	$1,448.6	$1,614.4	$1,516.0	$1,659.9	$1,544.6	$1,684.0	$1,570.4	$1,710.4
Total GR+PTRF	$52,144.4	$52,580.8	$52,641.9	$55,699.0	$57,913.6	$60,321.3	$62,107.7	$64,223.6	$66,099.0	$68,442.3
ESF/SHF Set Aside	($743.3)	($885.9)	($995.4)	($1,075.1)	($1,166.7)	($1,231.6)	($1,294.9)	($1,355.4)	($1,417.4)	($1,482.7)
ESF Spillover	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total GR+PTRF for Certification	**$51,401.1**	**$51,695.0**	**$51,646.5**	**$54,623.9**	**$56,746.8**	**$59,089.7**	**$60,812.7**	**$62,868.2**	**$64,681.6**	**$66,959.6**
ESF Transfer	$740.4	$371.6	$442.9	$497.7	$537.5	$583.4	$615.8	$647.5	$1,355.4	$1,417.4
Interest	$139.9	$155.6	$149.3	$165.3	$199.9	$223.9	$239.8	$247.0	$257.0	$283.0
ESF Balance	$11,158.2	$11,685.4	$12,277.6	$12,940.6	$13,678.0	$14,485.3	$15,340.9	$16,235.4	$17,847.7	$19,547.9

NOTE: GR = General Revenue Fund; ESF = Economic Stabilization Fund; PTRF = Property Tax Relief Fund; SHF = State Highway Fund;
ESF Spillover = amount of reduced GR transfer to ESF due to ESF balance equaling the ESF cap.
SOURCE: Comptroller of Public Accounts, HB32 Report, September, 2016.

COMPARISON OF EXPENDITURE FORECASTS AND REVENUE SCENARIOS

The expenditure and revenue forecasts are not compared to each other. Some expenditure forecasts can be counter-cyclical with the economic conditions that would drive an optimistic or pessimistic revenue scenario. Therefore, the range of expenditure forecasts is compared to the range of revenue scenarios. **Figure 4** compares the range of General Revenue Fund and Property Tax Relief Fund expenditure forecasts through fiscal year 2027 to the range of General Revenue Fund and Property Tax Relief Fund revenue scenarios through fiscal year 2027.

FIGURE 4
RANGE OF REVENUE SCENARIOS AND EXPENDITURE FORECASTS, FISCAL YEARS 2018 TO 2027
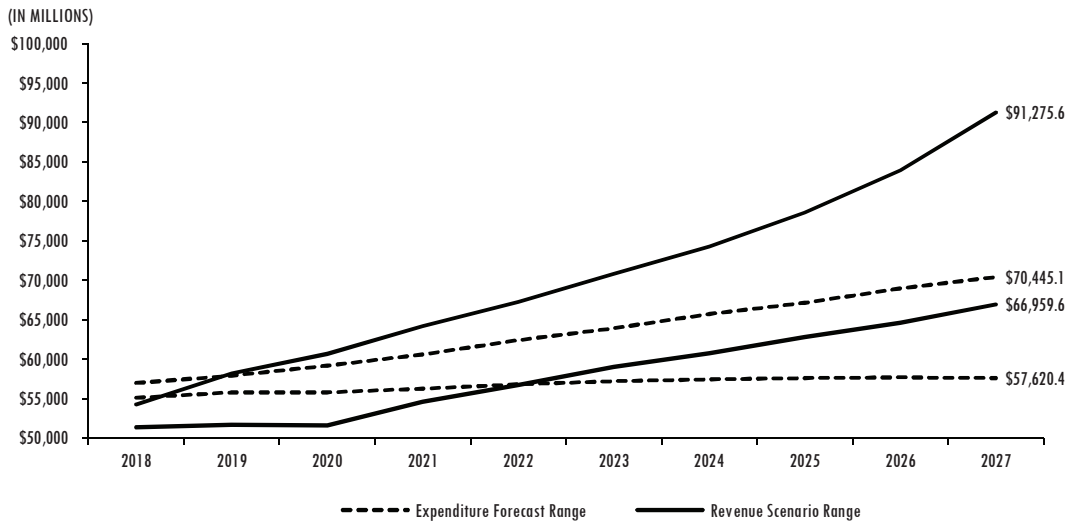
SOURCE: Legislative Budget Board.

APPENDIX A – BUDGET DRIVER DESCRIPTIONS AND METHODOLOGIES

Appendix A provides summary information on the individual budget drivers analyzed separately for this report. Included for each are a brief description of the program analyzed, the economic and demographic indicators that drive the forecast for the program, and the parameters under which the forecasts are made. Unless otherwise indicated, the parameters that guided the individual forecasts are based on current law as established by the Eighty-fourth Legislature, and current practice and scope as implemented during the 2016–17 biennium.

FOUNDATION SCHOOL PROGRAM

DESCRIPTION

The Foundation School Program (FSP) is the primary means of distributing state aid to Texas public schools. FSP entitlement for Texas public schools is funded through a combination of state aid and local property tax revenue, totaling approximately $90.0 billion for the 2016–17 biennium. The state share for the 2016–17 biennium is supported through an All Funds appropriation of $42.3 billion. The FSP distributes funding in support of public schools' ongoing operating costs and provides assistance for the repayment of locally authorized debt issued for the construction of school facilities. FSP entitlement is calculated for each school district and charter school using formulas established by the Legislature in the Texas Education Code and the General Appropriations Act. For school districts with taxing authority, the portion of entitlement that is not covered by local property tax revenue is provided as state aid. For charter schools and districts without taxing authority, entitlement is provided solely as state aid. In fiscal year 2016, 1,024 traditional school districts and 183 charter operators provided educational services to approximately 5.3 million enrolled students. Within these 1,207 entities the size of student population varied considerably, ranging from fewer than 20 students in the smallest district to more than 200,000 enrolled in the largest.

DRIVERS

The primary drivers of the state's cost for FSP entitlement are student counts, district property values (DPV), and tax rates. With the current FSP structure, growth in the student population increases state cost for the FSP. By contrast, property value growth reduces state cost. Tax rate increases also increase state cost for the FSP, although the magnitude of that impact is significantly smaller than the changes in cost driven by student counts and property values.

From fiscal years 2005 to 2015, compounded annual student growth was 1.75 percent. Compounded student growth for shorter or longer periods ranges from about 1.65 percent to 1.85 percent. Growth in student populations that generate weighted funding is generally higher than growth in the general student population. For example, for the same periods noted, compounded growth in the number of students generating funding through the FSP bilingual education allotment averaged 3.52 percent to 4.32 percent. Likewise, compounded growth ranged from 2.68 percent to 3.39 percent for economicaly disadvantaged students; 3.75 percent to 5.37 percent for students particpating in career and technical education programs; and 1.53 percent to 5.84 percent for students served in mainstream special education settings.

Compounded annual property value growth from tax year 2010 through 2015 was 4.9 percent, ranging from 3.8 percent to 6.0 percent for periods of other lengths. From tax year 2007 when the current tax rate structure was fully implemented to 2015, compounded annual growth in the weighted average school district Maintenance and Operations (M&O) tax rate was $0.00365. Compounded tax rate growth for shorter or longer periods ranges from $0.00232 to $0.00454. **Figure 5** shows the range of cost drivers used for the 10-year forecast.

FIGURE 5
COST SCENARIO ASSUMPTIONS, FOUNDATION SCHOOL PROGRAM

| STATE COST SCENARIO	ANNUAL STUDENT GROWTH	ANNUAL DPV GROWTH	ANNUAL WEIGHTED AVERAGE M&O RATE GROWTH
Higher State Cost	1.85%	3.8%	$0.00454
Mid-Range State Cost	1.75%	4.9%	$0.00365
Lower State Cost	1.65%	6.0%	$0.00232

NOTE: DPV = Distirct Property Values; M&O = Maintenance and Operations.
SOURCE: Legislative Budget Board.

PARAMETERS

Most FSP funding elements are established by statute with authority for some funding elements to be set at a higher level by the Legislature through the appropriations process. The basic allotment, the primary determinant of FSP entitlement, is set by statute at $4,765 per pupil or a greater amount determined by appropriation. The Legislature established the basic allotment and related wealth equalization at $5,140 for the 2016–17 biennium. For the purpose of this estimate, the basic allotment and other FSP funding elements are assumed at the fiscal year 2017 level. The guarantee level for the portion of Tier 2 that is statutorily linked to the yield of the Austin Independent School District is assumed for each scenario per the stated DPV and student growth assumptions applicable to that scenario. **Figure 6** graphically shows the range of forecasts for all state funding for the FSP, including funding from the General Revenue Fund and the Property Tax Relief Fund, for the 10-year period.

FORECAST RESULTS

FIGURE 6
STATE FUNDING FOR THE FOUNDATION SCHOOL PROGRAM
FISCAL YEARS 2018 TO 2027

(IN MILLIONS)
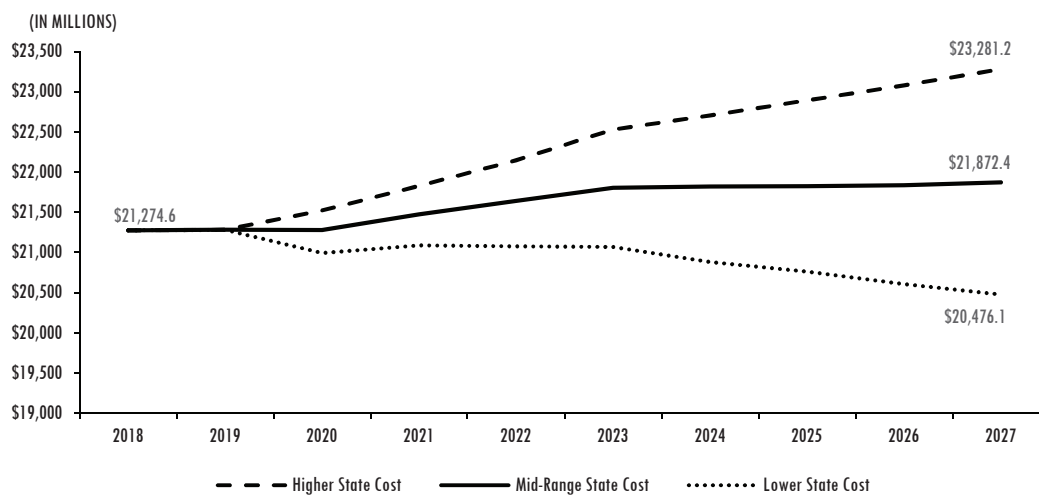
SOURCE: Legislative Budget Board.

MEDICAID

DESCRIPTION

Medicaid is an entitlement program, administered by the Health and Human Services Commission (HHSC), that provides health insurance primarily to low-income parents, non-disabled children, pregnant women, the elderly, and people with disabilities. The program is jointly funded by states and the federal government. Medicaid is primarily delivered through managed care programs, in which the state contracts with managed care organizations who are intended to assume risk to provide and manage medical care for eligible clients in exchange for a fixed, or capitated, rate. For the 2016–17 biennium, Medicaid expenditures are expected to be $64.6 billion in All Funds, including $26.1 billion in General Revenue Funds and $0.2 billion in General Revenue–Dedicated Funds. These amounts include Medicaid funding for Medicaid client services ($58.9 billion in All Funds), programs providing client services supported by Medicaid funding ($1.8 billion in All Funds), and administration of the Medicaid program and other programs supported by Medicaid funding ($3.9 billion in All Funds).

DRIVERS

Medicaid client services expenditures, which represent more than 90 percent of Medicaid expenditures, are primarily a function of two factors: caseload (number of recipients) and cost per recipient. By fiscal year 2017, the Medicaid caseload is expected to have grown by more than 40 percent in the preceding ten years and will have more than doubled since fiscal year 2001. Caseloads are expected to stabilize in 2016–17 with overall growth of less than 1 percent in each fiscal year. Changes in Medicaid caseloads can be attributed to policy changes regarding program eligibility, economic factors, and population growth. Medicaid expenditures also fluctuate as a result of changes in cost per recipient related to rate changes, medical inflation, utilization, and acuity of clients.

The state share of Medicaid expenditures is based on an array of matching rates that determine the amount of federal funding available. The primary matching rate for client services, which make up the majority of Medicaid expenditures, is the Federal Medical Assistance Percentage (FMAP), which varies by state and is based on a state's per capita personal income relative to the U.S. per capita personal income. The state share of expenditures can increase at a different rate than overall expenditures as FMAP varies. **Figure** 7 shows the range of cost drivers used for the 10-year forecast.

FIGURE 7
COST SCENARIO ASSUMPTIONS, MEDICAID

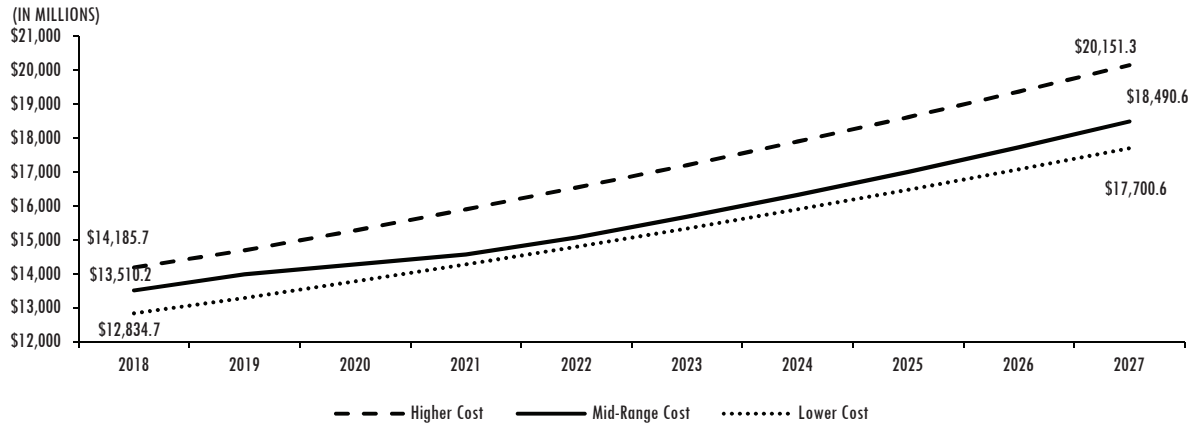| STATE COST SCENARIO	ANNUAL GROWTH
Higher State Cost	4.03%
Mid-Range State Cost	3.84%
Lower State Cost	3.65%
SOURCE: Legislative Budget Board.	

As noted above, Medicaid is primarily delivered through a managed care model, although some services remain as fee for service. The drivers described above are responsible for the overall cost of the program. However, HHSC has considerable latitude in determining the rates paid to MCOs, which need to be actuarially sound per Federal law. Actual expenditures can vary considerably depending on how the rate-setting process is managed.

PARAMETERS

For purposes of this estimate, 2018-19 expenditures were estimated based on a comprehensive caseload and cost forecast for Medicaid client services and assessment of funding needs for other programs and administration. Expenditures for fiscal years 2020 through 2027 were estimated based on average annual growth from fiscal year 2012 through 2019 (3.84 percent). Significant one-time expenditures were removed from the historical data to avoid inflating growth in future years for payments that are not expected to continue. The state share of expenditures was estimated based on FMAP projections, the historical share of expenditures that were federally funded relative to FMAP, and the expected end of some enhanced federal funding available in federal fiscal years 2016 through 2019. **Figure 8** graphically shows the range of forecasts for the 10-year period.

FORECAST RESULTS

FIGURE 8
GENERAL REVENUE FUNDING FOR MEDICAID, FISCAL YEARS 2018 TO 2027

(IN MILLIONS)

$20,151.3
$18,490.6
$17,700.6
$14,185.7
$13,510.2
$12,834.7

2018 2019 2020 2021 2022 2023 2024 2025 2026 2027

— — Higher Cost   ——— Mid-Range Cost   ········· Lower Cost

SOURCE: Legislative Budget Board.

HIGHWAY PLANNING, CONSTRUCTION AND MAINTENANCE

DESCRIPTION

The Texas Department of Transportation (TxDOT) is responsible for the planning, construction, and maintenance of the state highway system, public bridges, and other public roadways. Major functions include in-house and contracted planning and engineering, acquisition of rights-of-way, contracts for construction and preservation of highways and bridges, and routine maintenance performed by TxDOT personnel and contractors. Funding for the costs of highway planning, construction, and maintenance consist mostly of appropriations from transportation related state revenue sources (e.g., motor fuels taxes and vehicle registration fees) deposited to the State Highway Fund (SHF) and Federal Funds received as reimbursements of state expenditures for federal-aid eligible projects. Recent amendments to the Texas Constitution have provided additional dedicated highway funding sources, including oil and natural gas tax related deposits to the SHF (Proposition 1, 2014) beginning in fiscal year 2015 and state sales tax and motor vehicle sales and rental tax deposits to the SHF (Proposition 7, 2015) beginning in fiscal year 2018 (sales tax) and fiscal year 2020 (motor vehicle sales and rental tax). Other funding sources include state revenue dedicated to the Texas Mobility Fund (TMF), bond proceeds, and regional toll project revenue deposited to the SHF. Appropriations for highway planning, construction, and maintenance exclude funding for indirect administration and support.

DRIVERS

The primary drivers of the state's costs for highway planning, construction, and maintenance are estimates of the amount available of revenue and balances from dedicated state taxes and fees deposited to the SHF and TMF, federal revenue from reimbursements for state funds expenditures on federal-aid highway projects, and TxDOT's estimates of total contracting authority and progress payments from these state and federal funding sources on multi-year construction and maintenance contracts. **Figure 9** shows the range of cost drivers used for the 10-year forecast.

FIGURE 9
COST SCENARIO ASSUMPTIONS, HIGHWAY FUNDING

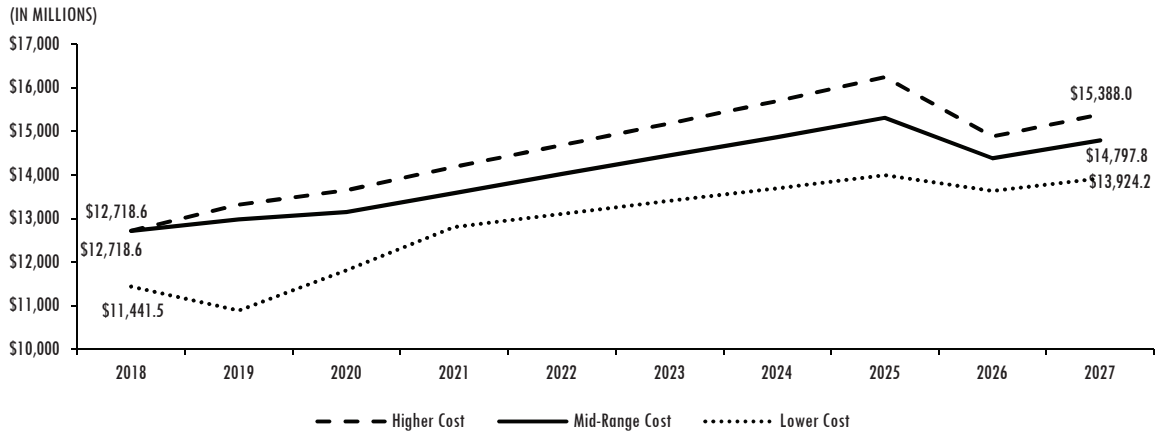| STATE COST SCENARIO	AVERAGE ANNUAL STATE POPULATION GROWTH	AVERAGE ANNUAL NHCCI	AVERAGE ANNUAL COMBINED POPULATION AND NHCCI
Higher State Cost	1.67%	1.542	2.57%
Mid-Range State Cost	1.62%	1.413	2.28%
Lower State Cost	1.57%	1.226	1.92%

NOTE: NHCCI = National Highway Construction Cost Index.
SOURCE: Legislative Budget Board.

PARAMETERS

For the purpose of this forecast, a current level of investment consistent with funding authorized by the Eighty-fourth Legislature, 2015, in the amount of $9,030.4 million from dedicated state revenues (excluding Proposition 1 and Proposition 7 deposits to the SHF) and federal revenue is established for fiscal year 2018 and adjusted for state population growth and the National Highway Construction Cost Index (NHCCI) for fiscal years 2019 to 2027, as shown in **Figure 9**. In addition, all revenue estimated to be available from Proposition 1 and Proposition 7 deposits in each fiscal year is added to establish an estimated total adjusted level of investment for each fiscal year, with Proposition 1 allocations ending in fiscal year 2025 in accordance with current law. For fiscal year 2018, the estimated amount of Proposition 1 deposits to the SHF is based on projections provided by the Comptroller of Public Accounts to the Select Committee to Determine a Sufficient Balance of the Economic Stabilization Fund in September 2016. **Figure 10** graphically shows the range of forecasts of srate funding for the 10-year period.

FORECAST RESULTS

FIGURE 10
STATE FUNDING FOR THE HIGHWAY PLANNING, CONSTRUCTION AND MAINTENANCE PROGRAM
FISCAL YEARS 2018 TO 2027

(IN MILLIONS)

Higher Cost	Mid-Range Cost .... Lower Cost

Data points shown on chart: $12,718.6 (2018), $11,441.5 (2018 lower), $15,388.0 (2027 higher), $14,797.8 (2027 mid), $13,924.2 (2027 lower)

SOURCE: Legislative Budget Board.

ADULT CORRECTIONAL POPULATION PROJECTIONS

DESCRIPTION

Adult correctional populations in Texas consist of incarcerated offenders, offenders on parole supervision, and offenders under the supervision of local community supervision and corrections, or probation departments. Incarceration and parole populations are primarily funded through General Revenue Funds. Appropriations to the Texas Department of Criminal Justice (TDCJ) support adult correctional populations incarcerated within state correctional institutions, under active parole supervision, under felony direct community supervision, and placed onto misdemeanor community supervision. The All Funds appropriation to the Department of Criminal Justice (TDCJ) for the 2016–17 biennium was $6.7 billion, including $6.6 billion in General Revenue Funds. In addition to state funds, local funds and participant fees help to support programs for those under community supervision. Based on the expenditures reported for fiscal year 2015 approximately 63 percent of the funds expended by community supervision and corrections departments are state funds.

DRIVERS

The primary drivers of the state's correctional costs are the size of the incarceration, parole, and community supervision populations respectively. With the current correctional system structure, growth in the incarcerated population increases state costs by increasing costs for TDCJ. Similarly, growth in the parole population increases state costs. Lastly, growth in the community supervision population indirectly increases costs for the state because it leads to greater demand for grants to CSCDs. The primary drivers for each of the correctional populations are the number of individuals coming into the system and the amount of time the individual stays. The rules surrounding the length of stay in the system are dictated by statute and are based on the date the individual committed the offense and the specific circumstances of the offense. From fiscal years 2011 to 2015, the incarcerated population decreased by 5.3 percent. The decrease is due in part to fewer admissions into correctional institutions and an increase in the number of people released from prison to parole supervision. The decrease in admissions is offset by a slightly longer length of stay resulting in a stable population over the projection period. From fiscal years 2011 to 2015 the adult parole population increased by 8.1 percent. During fiscal year 2012 parole and discretionary mandatory supervision (DMS) case approval rates averaged 37.0 and

58.0 percent respectively after previously averaging approximately 31.0 and 49.0 percent. While parole and DMS case approval rates have remained slightly lower than the fiscal year 2012 levels they have not returned to the average rates observed prior to fiscal year 2012. The increase in admissions coupled with a stable length of stay result in a stable population over the projection period. From fiscal years 2011 to 2015, the felony direct community supervision population decreased by 8.2 percent. In fiscal year 2015, after five years of decreases, placements began to increase and continued to increase through fiscal year 2016. The slight increase in admissions coupled with a stable length of stay result in a stable population over the projection period. From fiscal years 2011 to 2015, the misdemeanor community supervision placement population decreased by 10.3 percent. The decrease in misdemeanor placements is not new and has been observed since fiscal year 2007. The decrease in placements is likely to continue over the projection period. **Figure 11** shows the range of cost drivers used for the 10-year forecast.

FIGURE 11
**COST SCENARIO ASSUMPTIONS, ADULT CORRECTIONS**

STATE COST SCENARIO	INCARCERATION GROWTH	PAROLE GROWTH	PROBATION GROWTH
Higher State Cost	0.2%	0.3%	(0.5%)
Mid-Range State Cost	0.0%	0.1%	(0.7%)
Lower State Cost	(0.2%)	(0.2%)	(1.0%)
SOURCE: Legislative Budget Board.			

PARAMETERS

The adult correctional forecast was based on fiscal year 2017 All Funds estimated expenditure levels updated to include an assumed supplemental appropriation in fiscal year 2017 using the 10-year higher, mid-range, and lower population projections. All Funds costs per day were calculated for incarceration, parole, and probation. These cost per day calculations include supervision, programming, residential (where applicable), and administrative costs. Parole includes the costs of the Board of Pardons and Paroles. The calculations do not include benefits costs and out-year costs were not adjusted for inflation. **Figure 12** graphically shows the range of forecasts of state funding for the 10-year period.

FIGURE 12
STATE FUNDING FOR ADULT CORRECTIONAL POPULATIONS, FISCAL YEARS 2018 TO 2027

(IN MILLIONS)
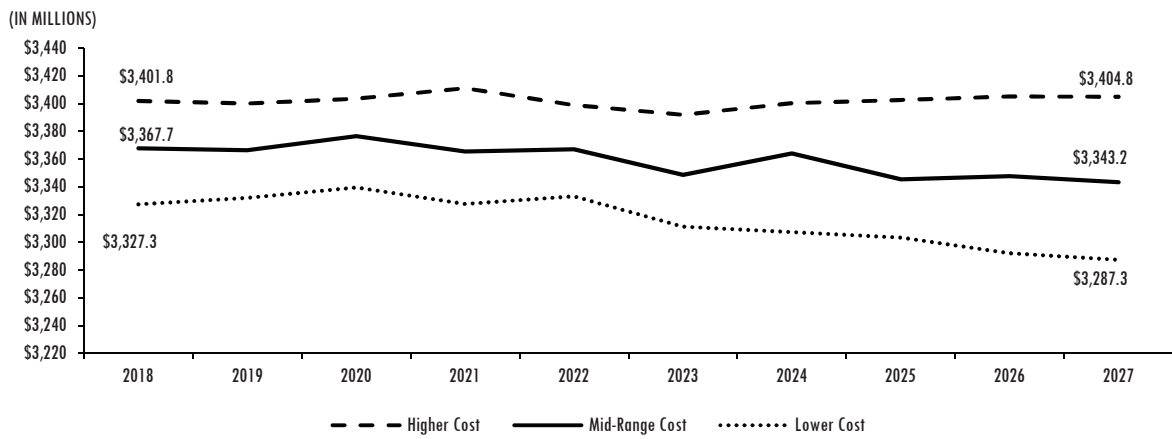
SOURCE: Legislative Budget Board.

JUVENILE CORRECTIONAL POPULATION PROJECTIONS

DESCRIPTION

Juvenile correctional populations in Texas consist of juveniles in the custody of state residential facilities, on parole supervision, and under the supervision of local juvenile probation departments. State residential facilities and parole supervision are primarily funded through General Revenue Funds. The All Funds appropriation to the Juvenile Justice Department (TJJD) for the 2016–17 biennium was $634.9 million, including $591.0 million in General Revenue Funds. In addition to state funds, local funds help to support programs for those under supervision by local juvenile probation departments. Based on the expenditures reported for fiscal year 2015 approximately 27 percent of the funds expended by local juvenile probation departments are state funds.

DRIVERS

The primary drivers of the state's juvenile correctional costs are the average daily population of the state residential, parole, and supervision populations. The average daily population is driven by the number of juveniles admitted and the length of stay for each juvenile. With the current correctional system structure, growth in these populations increases state costs by increasing costs for TJJD. From fiscal years 2011 to 2015, the average daily residential population decreased by an average of 6.9 percent per fiscal year. The declines in population have become smaller each fiscal year, and recent increases in admissions are expected to result in small increases to the average daily population. From fiscal years 2011 to 2015, the average daily population of juvenile parole decreased by an average of 20.7 percent. These declines have also become smaller every year, and recent increases in admissions to the state residential population are expected to result in small increases to the average daily population of parole. From fiscal years 2011 to 2015, the average daily population of juveniles on conditional pre-disposition, deferred prosecution, and adjudicated probation supervision decreased by an average of 5.6 percent. This population is projected to remain fairly stable. **Figure 13** shows the range of cost drivers used for the 10-year forecast.

FIGURE 13
**COST SCENARIO ASSUMPTIONS, JUVENILE CORRECTIONS**

STATE COST SCENARIO	STATE RESIDENTIAL GROWTH	PAROLE GROWTH	SUPERVISION GROWTH
Higher State Cost	2.5%	1.0%	0.7%
Mid-Range State Cost	1.9%	0.2%	0.2%
Lower State Cost	1.3%	(0.5%)	(1.2%)

SOURCE: Legislative Budget Board.

PARAMETERS

The juvenile correctional forecast was based on fiscal year 2017 All Funds estimated expenditure levels updated to include an assumed supplemental appropriation in fiscal year 2017 using the ten-year higher, mid-range, and lower population projections. All Funds costs per day were calculated for state residential, parole, and probation. These cost per day calculations include supervision, programming, residential (where applicable), and administrative costs. The calculations do not include benefits cost and out-year costs were not adjusted for inflation. **Figure 14** graphically shows the range of forecasts of state funding for the 10-year period.

FIGURE 14
STATE FUNDING FOR JUVENILE CORRECTIONAL POPULATIONS, FISCAL YEARS 2018 TO 2027

(IN MILLIONS)
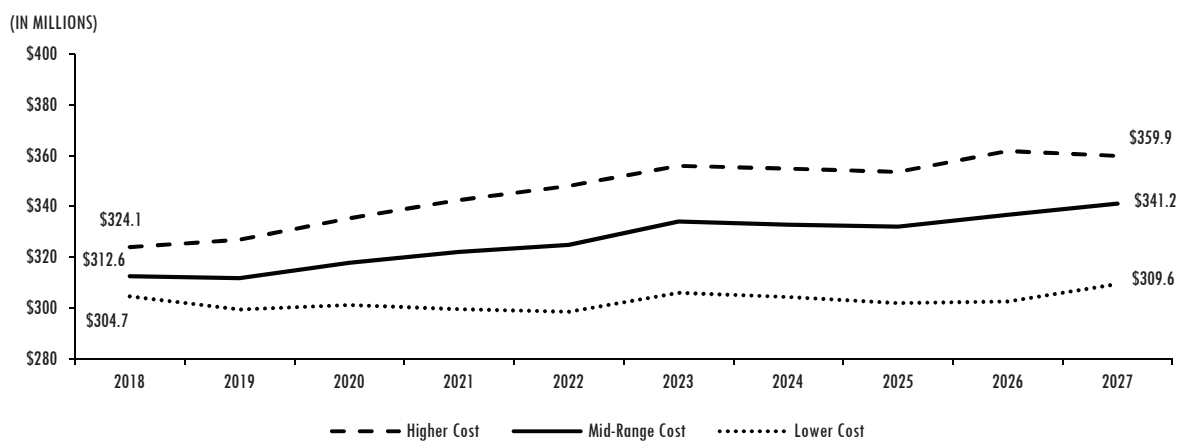
SOURCE: Legislative Budget Board.

HIGHER EDUCATION FUNDING FORMULAS

DESCRIPTION

The Legislature provides direct appropriations to public institutions of higher education through various funding formulas. These formulas are distribution, or allocation, methods for providing funding to the institutions and are not statutory or constitutional entitlements. Appropriations to the Instruction and Operations (I&O) and Infrastructure Support formulas use an All Funds methodology, meaning they include both General Revenue Funds and General Revenue–Dedicated Funds, which consists of statutory tuition and certain fee revenue. The I&O formulas are intended to provide funding for faculty salaries, administration, student services, institutional support, libraries, and departmental operating expenses. Additionally, the Infrastructure Support formulas are intended to provide funding for the institutions' physical plants and utilities. Total 2016–17 biennial appropriations for all higher education funding formulas total $7.2 billion in General Revenue Funds and $1.3 billion in General Revenue–Dedicated Funds.

DRIVERS

INSTRUCTION FORMULAS

The primary driver for the GAI Instruction and Operations formula are semester credit hours (SCH), which are a measurement of how many classes, and the number of students enrolled in those classes, an institution delivers during a certain period. SCH are weighted by discipline and by level based on a cost-based funding matrix. For the last five biennia, average growth for weighted SCH equaled 6.0 percent. The projected range for weighted SCH annual growth is 3.0 percent to 9.0 percent.

Instruction and Operations formula funding for the Health Related Institutions (HRIs) are based on Full Time Student Equivalents (FTSEs). FTSEs are also weighted by discipline. The average growth in weighted FTSE over the last five biennia has been 8.64 percent, with a projected range of 5.48 percent to 12.03 percent.

Instruction and Administration (I&A) formula funding for the Lamar State Colleges (Lamars) is based on contact hours. The average annual growth for contact hours over the last eight years has been -0.35 percent. The projected range for contact hour biennial growth is -6.6 percent to 5.9 percent.

The formula for the Texas State Technical Colleges (TSTCs) uses average student wages upon completion of nine semester credit hours or more at a TSTC compared to minimum wage to determine the additional estimated value an individual generates for Texas after attending a TSTC. Growth of this returned value is projected to remain flat, with an estimated range of -4.0 percent to 4.0 percent each biennium.

The Public Community and Junior Colleges' I&A formula includes three funding components: core operations, student success, and contact hours. After core operations are funded at $1.0 million per community college, 10 percent of the remaining funds are distributed based on student success points and 90 percent is distributed based on the number of contact hours. Over the last five biennia, the average growth in contact hours has been 4.5 percent. The projected range for growth in contact hours is -3.28 percent to 7.26 percent. Since their inception, the average biennial growth in success points has been 5.49 percent. The projected range for biennial growth in success points is 2.75 percent to 8.24 percent.

INFRASTRUCTURE FORMULAS

The Infrastructure Support formulas for the GAIs, Lamars, and TSTCs, and the HRIs provide funding based on predicted square feet needed for educational and general activities. Over the last five biennia, the average growth of predicted square feet has been 5.54 percent for the GAIs, Lamars, and TSTCs. The projected range of annual growth for predicted square feet is 2.77 percent to 8.31 percent. Over the last five biennia, the average annual growth of predicted square feet for the HRIs has been 6.88 percent, with a range of 4.0 percent to 9.15 percent.

HRI SPECIFIC FORMULAS

The HRI Research Enhancement formula funds medical and clinical research, and appropriations are distributed based on a base amount to each institution plus additional funding based on a percentage of research expenditures. Over the last five biennia, the average growth in research expenditures has been 8.83 percent. The projected range of biennial growth for research expenditures is 4.0 percent to 10.54 percent. The HRI GME formula funds the HRIs' residency programs. Funding is distributed based on the number of residents at each HRI and Baylor College of Medicine. Over the last five biennia, the average growth of residents has been 5.33 percent, with a projected range of 2.25 percent to 6.88 percent.

Cancer Center Operations formula funding for The University of Texas (UT) M.D. Anderson Cancer Center is

based on the number of Texas cancer patients served. Over the last four biennia, the average growth in this driver has been 8.83 percent. The projected range of biennial growth for Texas cancer patients served is 4.0 percent to 10.54 percent. The Chest Disease Center Operations formula appropriations for UT Health Science Center at Tyler is based on the number of chest disease patients served. Over the last four biennia, the average growth in this driver has been 6.29 percent. The projected range of biennial growth for chest disease patients served is 4.0 percent to 10.54 percent. Per the 2016–17 General Appropriations Act, funding increases in each of these formulas may not exceed the average growth in funding for health related institutions in the Instruction and Operations Support formula. **Figure 15** shows the range of cost drivers used for the 10-year forecast.

PARAMETERS

For the purpose of these estimates, it is assumed that the Legislature will maintain the structure of all of the current funding formulas. It is also assumed that the rates and weights, where applicable, for all of the funding formulas, will remain at fiscal year 2017 levels. Additionally, it is

FIGURE 15
COST SCENARIO ASSUMPTIONS, HIGHER EDUCATION FORMULAS

STATE COST SCENARIO	ANNUAL STUDENT GROWTH	ANNUAL DPV GROWTH	ANNUAL WEIGHTED AVERAGE M&O RATE GROWTH
Higher State Cost	1.85%	3.8%	0.454%
Mid-Range State Cost	1.75%	4.9%	0.365%
Lower State Cost	1.65%	6.0%	0.232%
SOURCE: Legislative Budget Board.			

assumed that the limitation that the mission specific formulas' growth cannot exceed the average growth in funding for the HRI I&O formula will remain during the forecasted years. Finally, these estimates also assume that the amount of General Revenue–Dedicated Funds in the applicable formulas will increase at the same rate as the amount of General Revenue Funds in those formulas. **Figure 16** graphically shows the range of forecasts for the 10-year period.

FORECAST RESULTS

FIGURE 16
GENERAL REVENUE FUND SUPPORT OF HIGHER EDUCATION FUNDING FORMULAS, FISCAL YEARS 2018 TO 2027
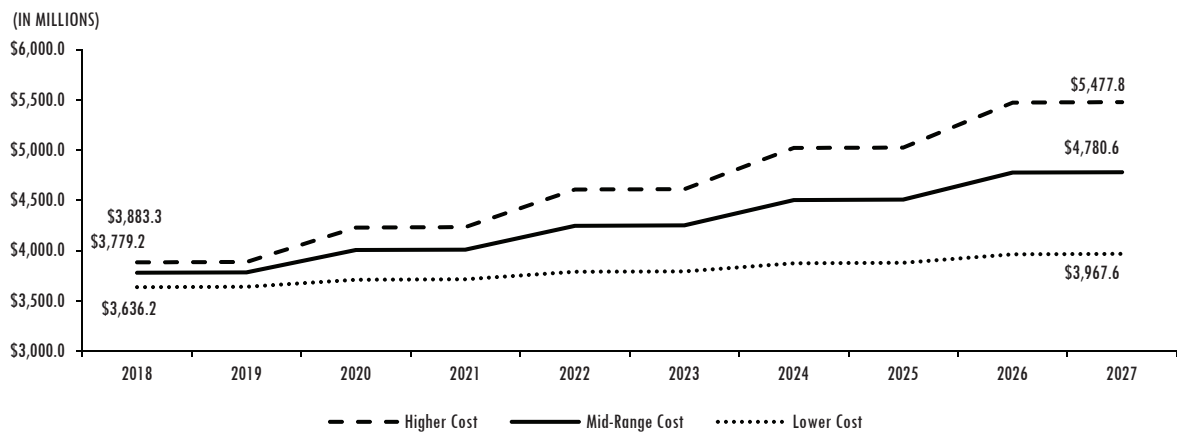
SOURCE: Legislative Budget Board.

STATE EMPLOYEE BENEFITS

DESCRIPTION

The State of Texas provides benefits to its employees and retirees. These include Retirement and Health Insurance through the Employees Retirement System (ERS) for state agency employees, and Social Security through the Comptroller of Public Accounts for both state agency employees and higher education employees. In fiscal year 2016, the state expended $633.2 million All Funds for ERS Retirement contributions, $1,792.4 million All Funds for contributions to the Group Benefits Program, and $827.4 million All Funds in contributions for Social Security and Medicare.

The state contributes 9.5 percent of a state agency employee's salary to the retirement system, which provides a defined annuity benefit upon eligibility. The state also contributes the full amount for employees to participate in the group insurance program, and half the contribution for spouses and dependents to participate. Finally, the state contributes 7.65 percent of payroll for Federal Insurance Contribution Act (FICA): 6.2 percent for Social Security and 1.45 percent for Medicare.

DRIVERS

Several factors affect the growth of employee benefits, such as the cost of a benefit, the number of employees earning the benefit, the salary upon which the benefit is calculated, and the contribution structure for the benefit. Primarily, payroll growth affects both retirement and Social Security benefits and healthcare cost growth affects health benefits.

Payroll amounts for government employees generally grow at a rate slower than those in the private sector. The lowest assumption is that salaries would remain flat, with no payroll growth, and the higher assumption allows for 1.0 percent annual salary growth for employees of state agencies and 4.14 percent for employees at higher education institutions.

Health care trend growth is a function of several factors including utilization and cost growth, which can apply differently to hospital, pharmacy, and other sectors of the healthcare industry. Healthcare cost growth is difficult to predict and can vary widely, which in turn means the annual increases to the state's per capita contribution will also vary. Furthermore, the group benefits program may also rely on funding from the contingency reserve fund, depending upon its balances, which are affected by the program's administration and member experience. As a result, while overall benefit cost

trends have been as high as 8.5 percent annually, the per capita state contribution rate increase has been as low as 4.42 percent. Healthcare cost growth rates in **Figure 1**, based upon figures provided by ERS's actuary, reflect varied levels of reliance on the reserve fund and that the growth of healthcare expenditures is anticipated to gradually decrease over the coming decade. Several factors may contribute to this decline, such as stricter eligibility rules and growing bargaining power that can affect bulk purchase agreements. In addition, the group benefits program will likely be tailored to avoid paying the excise tax, but this exercise assumes maintaining the current benefit package. **Figure 17** shows the range of cost drivers used for the 10-year forecast.

FIGURE 17
ANNUAL GROWTH ASSUMPTIONS, STATE EMPLOYEE BENEFIT FUNDING

STATE COST SCENARIO	RETIREMENT	HEALTH INSURANCE	SOCIAL SECURITY
Higher State Cost	0.90%	5.89%	1.82%
Mid-Range State Cost	0.40%	4.15%	1.00%
Lower State Cost	0.00%	2.93%	0.24%

Source: Legislative Budget Board.

PARAMETERS

For purposes of this exercise, assumptions are that the employer cost to participate in social security and retirement will remain at 7.65 percent and 9.5 percent respectively, so the only variable growth in those benefit expenditures will be that of the underlying salary. This estimate also assumes that the benefit structures for both retirement (defined benefit, current eligibility rules) and insurance (premium and out-of-pocket structure) will remain at their current status. Finally, this estimate assumes that there won't be any statewide salary increases and that the number of state employees will also remain constant. **Figure 18** graphically shows the range of forecasts for the 10-year period.

FORECAST RESULTS

FIGURE 18
GENERAL REVENUE FUNDING FOR STATE EMPLOYEE BENEFITS, FISCAL YEARS 2018 TO 2027

(IN MILLIONS)
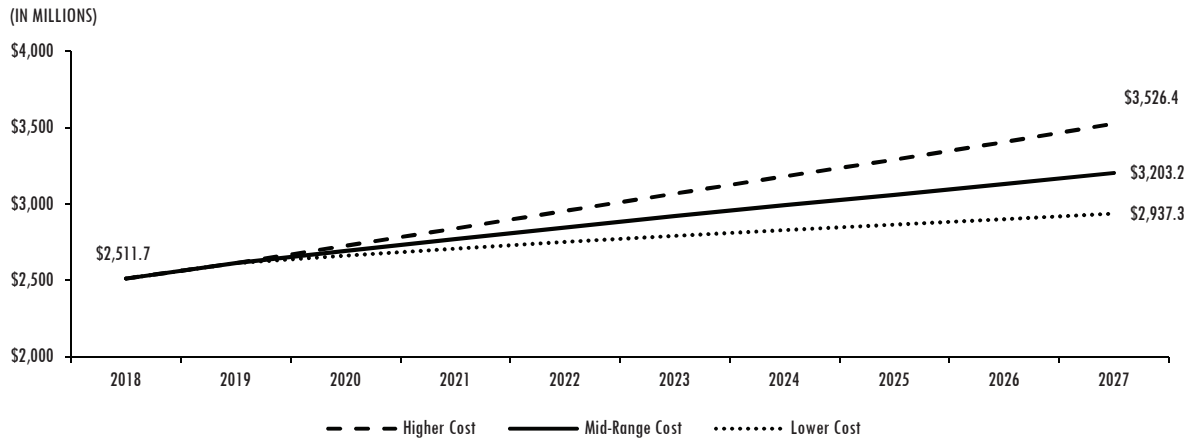
SOURCE: Legislative Budget Board.

RETIREMENT BENEFITS FOR EDUCATIONAL EMPLOYEES

DESCRIPTION

The State of Texas provides retirement benefits to public education and higher education employees and their beneficiaries through the Teacher Retirement System (TRS) and the Optional Retirement Program (ORP) at total cost to the state of approximately $4 billion in the 2016–17 biennium. TRS administers a traditional *defined benefit* retirement plan with approximately 1.5 million active and retired members in public and higher education. Benefit calculations are determined by statute and are based on a member's age and years of creditable service. Retirement benefits are financed by contributions from members, the state, and local employers, and by investment earnings of the pension trust fund. Certain eligible employees of institutions of higher education, including full-time faculty, may choose instead to participate in ORP, a *defined contribution*, 403(b) plan that offers portability of retirement benefits to other institutions outside the state. As of October 2016, ORP had approximately 37,613 participants.

DRIVERS

The primary driver of the state's costs for TRS and ORP retirement benefits is the growth of state-covered educational payroll. Payroll growth is driven by employee headcount, which roughly correlates with rising student enrollment, and employee salary levels, which have experienced incremental increases over time to offset inflation and rising costs of living. State costs are also affected by the statutory state contribution rate, although past changes have been small. From fiscal years 2006 to 2016, the compounded annual growth rate of public education payroll was 4.1 percent, with a deviation of plus or minus about one percent depending on the period measured. In higher education, state costs have been held back as employee salaries and benefits are covered increasingly by sources of funding other than the state. Based on growth trends since 2002, the state's contributions to higher education retirement are expected to grow by a compound annual weighted average of 2.2 percent over the next decade for TRS, and 1.0 percent for ORP. For both TRS and ORP Higher Education, historic growth rates vary by plus or minus about 1.5 percent depending on the period measured. **Figure 19** shows the range of cost drivers used for the 10-year forecast.

FIGURE 19
ANNUAL PAYROLL GROWTH ASSUMPTIONS
EDUCATIONAL EMPLOYEE RETIREMENT

STATE COST SCENARIO	TRS PUBLIC EDUCATION GROWTH	TRS HIGHER EDUCATION GROWTH	OPTIONAL RETIREMENT PROGRAM GROWTH
Higher State Cost	5.1%	3.7%	2.5%
Mid-Range State Cost	4.1%	2.2%	1.0%
Lower State Cost	3.1%	0.7%	(0.5%)
SOURCE: Legislative Budget Board.			

PARAMETERS

For the purpose of this estimate, state contribution rates are assumed at the fiscal year 2017 statutory levels of 6.8 percent for TRS and 6.6 percent for ORP. Weighted average growth assumptions in higher education account for state contributions from both General Revenue Funds and General Revenue–Dedicated, which are growing at different rates. **Figure 20** graphically shows the range of forecasts for the 10-year period.

FORECAST RESULTS

FIGURE 20
GENERAL REVENUE FUNDING FOR EDUCATIONAL EMPLOYEE RETIREMENT BENEFITS, FISCAL YEARS 2018 TO 2017
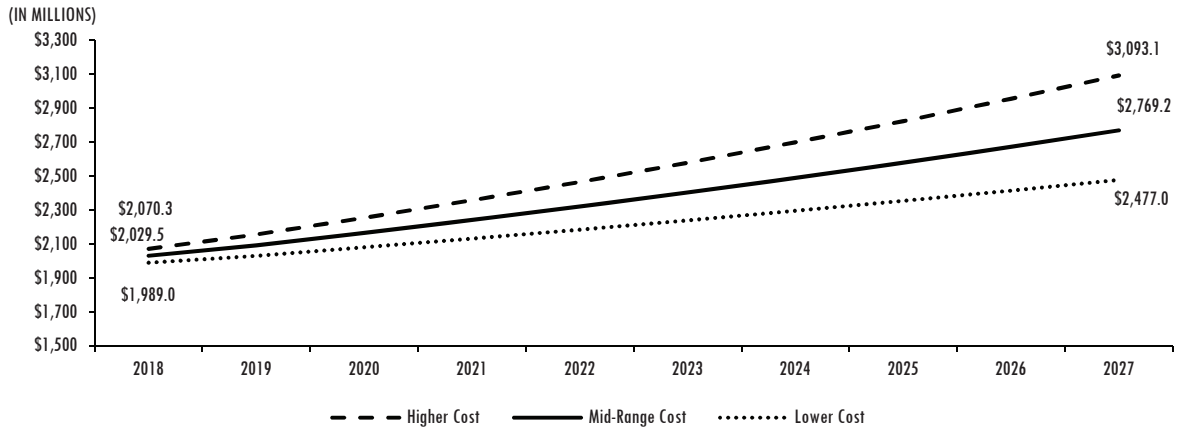
SOURCE: Legislative Budget Board.

ALL OTHER EXPENDITURES

DESCRIPTION

The remaining amount of state funding is comprised of all other programs not identified separately in this report. While some of this funding is controlled by statute or other limiting factors, the scope of these programs is largely determined each biennium by the Legislature. These programs include, but are not limited to, the funding of mental health services, adult and child protective services, state government support functions, all of the judiciary, all natural resources programs, and all state regulatory programs. Also, they include non-Foundation School Program programs at the Texas Education Agency, non-Medicaid funding at the Health and Human Services Commission, and state higher education non-formula funding. State funding for all of these expenditures totaled $35.6 billion for the 2016–17 biennium, 25.2 percent of total state funds. Appropriations of General Revenue Funds for 2016–17 totaled $22.6 billion, 21.3 percent of total General Revenue Fund appropriations.

DRIVERS

The analysis presumes that the state's cost for these programs increases by a range of future population and general inflation rate scenarios. Population times inflation is used to reflect program costs for both existing and additional populations. The Comptroller of Public Accounts has developed three hypothetical scenarios for each, among a wide range of possibilities. Average annual population growth from fiscal years 2018 to 2027 ranges from 1.58 percent to 1.68 percent. The average annual inflation rate from fiscal years 2018 to 2027 ranges from 2.21 percent to 2.56 percent. Average

annual population times inflation growth from fiscal years 2018 to 2027 therefore ranges from 3.50 percent to 4.31 percent. **Figure 21** shows the range of cost drivers used for the 10-year forecast.

FIGURE 21
COST SCENARIO ASSUMPTIONS FOR ALL OTHER PROGRAMS

STATE COST SCENARIO	AVERAGE ANNUAL POPULATION GROWTH	AVERAGE ANNUAL INFLATION RATE	AVERAGE ANNUAL POPULATION INFLATION
Higher Cost	1.68%	2.56%	4.31%
Mid-Range Cost	1.63%	2.41%	3.93%
Lower Cost	1.58%	2.21%	3.50%

SOURCE: Legislative Budget Board.

PARAMETERS

For the purpose of this estimate, the relative importance of these programs to each other, as they were budgeted for fiscal year 2017, is presumed. For example, the ratio of funding of state regulatory programs compared to funding for the judiciary for fiscal 2017 is maintained throughout the forecast period. No shifts in the legislative priority of these programs are presumed over the forecast period. **Figure 22** graphically shows the range of forecasts for the 10-year period. **Figure 23** shows the General Revenue funding forecasts for selected programs included in the analysis (growth from fiscal year 2017 appropriated amounts).

FIGURE 22
GENERAL REVENUE FUNDING FOR ALL OTHER PROGRAMS, FISCAL YEARS 2018 TO 2027
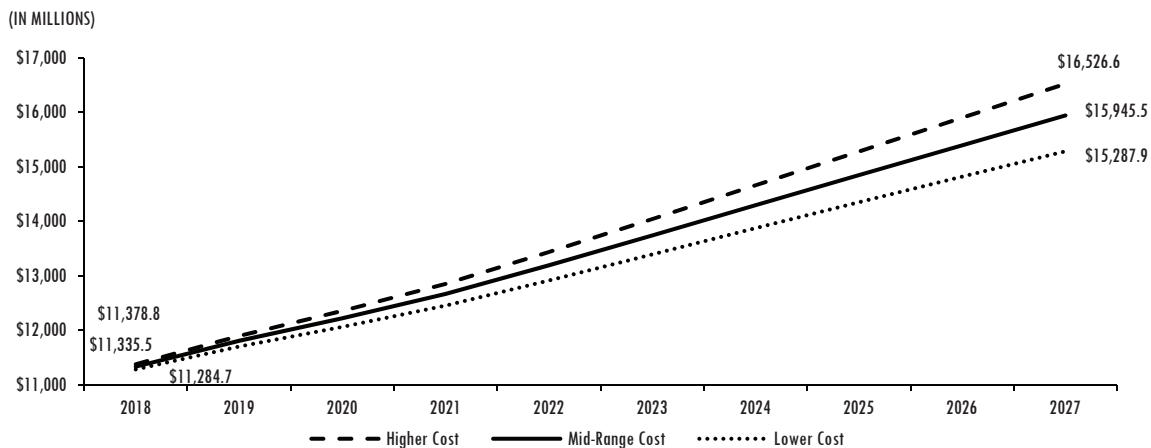
SOURCE: Legislative Budget Board.

FIGURE 23
GENERAL REVENUE FUNDING FOR SELECTED PROGRAMS
FISCAL YEARS 2017 AND 2027

(IN MILLIONS)	FISCAL YEAR 2017 APPROPRIATIONS	FISCAL YEAR 2027 LOWER COST	FISCAL YEAR 2027 MID-RANGE COST	FISCAL YEAR 2027 HIGHER COST
Judiciary (Article IV)	$239.9	$338.3	$352.8	$365.7
Natural Resources (Article VI)	$388.9	$548.4	$572.0	$592.8
Department of Family and Protective Services	$931.2	$1,313.0	$1,369.5	$1,419.4
Behavorial Health and Substance Abuse Services	$1,365.1	$1,924.7	$2,007.5	$2,080.7
Non-Foundation School Programs at the Texas Education Agency.	$435.3	$613.7	$640.1	$663.5

NOTE: Article references are to the General Appropriations Act.
SOURCE: Legislative Budget Board.

APPENDIX B – ECONOMIC AND DEMOGRAPHIC INDICATORS

ECONOMIC AND DEMOGRAPHIC ASSUMPTIONS

Appendix B provides a description of the economic and demographic indicators that influence state revenues and expenditures. Economic forecasts are provided by the Comptroller of Public Accounts, and a demographic forecast is provided by the State Demographer.

ECONOMIC ASSUMPTIONS AND FORECAST

The Comptroller of Public Accounts provides three economic forecasts in support of the 10-year revenue scenarios included in the September, 2016 report required by House Bill 32, Eighty-fourth Legislature, 2015. The forecasts provide a range of economic conditions over this time period. The range assumes at one, or pessimistic, end a prolonged period of low oil and natural gas prices combined with a mild U.S. recession followed by anemic growth, and a significant increase in oil and natural gas prices combined with accelerating growth in the broader U.S. economy at the other, or optimistic, end. **Figures 24** through **26** show selected economic indicators associated with this range of economic conditions.

FIGURE 24
BASELINE (CRE) FORECAST, FISCAL YEARS 2018 TO 2027

MEASURE	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Gross State Product (Billion 2009$)	1,617.6	1,677.9	1,733.1	1,795.3	1,845.9	1,900.8	1,960.0	2,018.7	2,081.6	2,149.9
Annual % Change	3.6	3.7	3.3	3.6	2.8	3.0	3.1	3.0	3.1	3.3
Gross State Product (Bil. Current $)	1,867.6	1,974.5	2,079.9	2,197.5	2,305.6	2,421.8	2,545.8	2,673.6	2,808.9	2,953.3
Annual % Change	5.6	5.7	5.3	5.7	4.9	5.0	5.1	5.0	5.1	5.1
Personal Income (Billion Current $)	1,478.1	1,563.2	1,648.5	1,740.9	1,830.7	1,922.2	2,022.2	2,125.8	2,232.5	2,348.4
Annual % Change	5.5	5.8	5.5	5.6	5.2	5.0	5.2	5.1	5.0	5.2
Nonfarm Employment (Thousands)	12,421.8	12,674.0	12,927.9	13,164.9	13,357.2	13,573.9	13,805.7	14,031.1	14,263.5	14,509.3
Annual % Change	1.9	2.0	2.0	1.8	1.5	1.6	1.7	1.6	1.7	1.7
Resident Population (Thousands)	28,768.8	29,253.1	29,746.9	30,245.7	30,740.6	31,222.3	31,707.8	32,210.9	32,723.4	33,242.1
Annual % Change	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6
Unemployment Rate (%)	4.7	4.6	4.6	4.5	4.7	4.7	4.7	4.6	4.6	4.6
NYMEX Oil Price ($ per Barrel)	$53.52	$56.98	$59.98	$62.98	$65.78	$68.20	$70.69	$73.28	$75.96	$78.74
NYMEX Nat. Gas Price ($ per Million BTUs)	$3.28	$3.62	$3.95	$4.24	$4.48	$4.63	$4.75	$4.88	$5.00	$5.13
U. S. ECONOMY										
Gross Domestic Product (Billion 2009$)	17,588.9	18,052.7	18,518.0	18,964.6	19,405.7	19,843.5	20,287.8	20,721.4	21,158.1	21,637.1
Annual % Change	2.6	2.6	2.6	2.4	2.3	2.3	2.2	2.1	2.1	2.3
Consumer Price Index (1982–4=100)	251.56	257.79	263.17	268.9	275.73	283.01	290.34	297.4	304.31	311.15
Annual % Change	2.6	2.5	2.1	2.2	2.5	2.6	2.6	2.4	2.3	2.2
Prime Interest Rate (%)	6.2	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3

SOURCE: Comptroller of Public Accounts, *HB 32 Report,* September 2016.

FIGURE 25
FALL 2015 ECONOMIC FORECAST, OPTIMISTIC SCENARIO, FISCAL YEARS 2019 TO 2027

MEASURE	2019	2020	2021	2022	2023	2024	2025	2026	2027
Gross State Product (Billion 2009$)	1,729.7	1,791.5	1,859.4	1,926.4	1,995.7	2,067.0	2,138.9	2,216.1	2,302.2
Annual % Change	5.3	3.6	3.8	3.6	3.6	3.6	3.5	3.6	3.9
Gross State Product (Bil. Current $)	2,045.5	2,170.3	2,307.0	2,447.7	2,597.0	2,755.4	2,920.8	3,098.9	3,297.3
Annual % Change	7.7	6.1	6.3	6.1	6.1	6.1	6.0	6.1	6.4
Personal Income (Billion Current $)	1,619.5	1,729.3	1,838.2	1,944.9	2,053.1	2,175.2	2,302.1	2,438.4	2,587.1
Annual % Change	7.4	6.8	6.3	5.8	5.6	5.9	5.8	5.9	6.1
Nonfarm Employment (Thousands)	12,859.5	13,155.3	13,418.4	13,673.4	13,905.8	14,150.5	14,393.7	14,645.1	14,919.1
Annual % Change	2.6	2.3	2.0	1.9	1.7	1.8	1.7	1.7	1.9
Resident Population (Thousands)	29,310.7	29,820.1	30,335.0	30,846.6	31,345.3	31,848.4	32,369.7	32,900.9	33,438.8
Annual % Change	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.6
Unemployment Rate (%)	3.8	3.6	3.6	3.7	3.7	3.7	3.7	3.6	3.5
NYMEX Oil Price ($ per Barrel)	$62.65	$65.95	$69.25	$72.71	$76.35	$80.17	$84.17	$88.38	$92.80
NYMEX Nat. Gas Price ($ per Million BTUs)	$5.43	$5.79	$6.11	$6.42	$6.64	$6.80	$6.98	$7.15	$7.35
U. S. ECONOMY									
Gross Domestic Product (Billion 2009$)	18,442.4	18,967.5	19,492.9	19,960.9	20,468.3	21,029.3	21,585.9	22,155.8	22,794.8
Annual % Change	3.8	2.8	2.8	2.4	2.5	2.7	2.6	2.6	2.9
Consumer Price Index (1982-4=100)	258.5	264.3	270.5	277.8	285.5	293.3	300.9	308.3	315.7
Annual % Change	2.6	2.2	2.3	2.7	2.8	2.7	2.6	2.5	2.4
Prime Interest Rate (%)	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3

SOURCE: Comptroller of Public Accounts, *HB 32 Report,* September 2016.

FIGURE 26
FALL 2015 ECONOMIC FORECAST, PESSIMISTIC SCENARIO, FISCAL YEARS 2018 TO 2027

MEASURE	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Gross State Product (Billion 2009$)	1,577.0	1,558.7	1,585.1	1,646.9	1,691.3	1,722.6	1,751.7	1,783.2	1,816.5	1,853.4
Annual % Change	1.0	-1.2	1.7	3.9	2.7	1.9	1.7	1.8	1.9	2.0
Gross State Product (Bil. Current $)	1,777.0	1,782.3	1,848.1	1,957.9	2,051.2	2,132.4	2,210.5	2,294.6	2,385.3	2,481.9
Annual % Change	0.5	0.3	3.7	5.9	4.8	4.0	3.7	3.8	4.0	4.0
Personal Income (Billion Current $)	1,449.2	1,468.0	1,493.0	1,584.5	1,639.9	1,697.3	1,751.6	1,813.0	1,878.2	1,945.8
Annual % Change	3.4	1.3	1.7	6.1	3.5	3.5	3.2	3.5	3.6	3.6
Nonfarm Employment (Thousands)	12,299.9	12,176.9	12,140.3	12,387.8	12,573.6	12,762.2	12,921.4	13,110.9	13,317.2	13,526.8
Annual % Change	0.9	(1.0)	(0.3)	2.0	1.5	1.5	1.2	1.5	1.6	1.6
Resident Population (Thousands)	28,754.6	29,224.4	29,703.0	30,186.3	30,665.1	31,130.2	31,598.8	32,084.4	32,578.8	33,078.9
Annual % Change	1.7	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.5
Unemployment Rate (%)	5.3	7.0	6.4	6.1	6.0	6.0	6.0	5.8	5.8	5.8
NYMEX Oil Price ($ per Barrel)	$36.81	$40.00	$41.00	$42.00	$43.00	$44.00	$45.00	$46.00	$47.00	$48.00
NYMEX Nat. Gas Price ($ per Million BTUs)	$2.46	$2.72	$2.96	$3.18	$3.36	$3.47	$3.56	$3.66	$3.75	$3.85
U. S. ECONOMY										
Gross Domestic Product (Billion 2009$)	17,262.7	17,436.2	17,751.5	18,112.9	18,511.0	18,804.1	19,086.9	19,387.3	19,712.3	20,090.3
Annual % Change	0.7	1.0	1.8	2.0	2.2	1.6	1.5	1.6	1.7	1.9
Consumer Price Index (1982-4=100)	251.1	256.8	261.6	266.8	273.0	279.7	286.4	292.8	299.0	305.1
Annual % Change	2.4	2.3	1.9	2.0	2.3	2.4	2.4	2.2	2.1	2.0
Prime Interest Rate (%)	6.2	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3

SOURCE: Comptroller of Public Accounts *HB 32 Report,* September 2016.

DEMOGRAPHIC ASSUMPTIONS AND FORECAST

According to the U.S. Census Bureau, between 2000 and 2015 the population of Texas increased by over 6.6 million people; an estimated growth rate of 31.7 percent for the period. The numerical change in Texas population was larger than any other state. In addition, Texas had the fourth fastest population growth rate in the nation. The aging of the Baby Boom generation added over 1.2 million persons aged 65 and over to the Texas population; an increase of 55.6 percent. The oldest Baby Boomers turned 65 in 2011, resulting in continued increases in this segment of the population beginning in 2011. According to the Texas Demographic Center (TDC) the state is adding about 1,000 people a day to the population, and an estimated 1 in 3 individuals added each day is 65 years and older.

Texas is following the population aging trend seen throughout the U.S. However, Texas remains one of the youngest states in the country due to the in-migration of younger people and relatively higher birth rates. In **Figure 27**, a comparison is made of the under 18 and 65 and older age groups for Texas and the United States from 2000 to 2015.

For a more detailed look at the under 18 and 65 and older population trends among Texas counties, or how Texas compares to the rest of the nation, go to the Legislative Budget Board's interactive graphics at www.lbb.state.tx.us/ InteractiveGraphics.aspx.

According to the Texas Demographic Center, from 2017 to 2027 the population of Texas is expected to increase by over 3.8 million people; an estimated growth rate of 13.8 percent for the period. Texas is likely to continue to age while at the same time remaining one of the youngest states in the country. Increasing numbers of relatively young migrants and their families continue to move to Texas. The migration of large numbers of young people and their children from other states will keep Texas median age low compared to the nation and the 65 and older population will continue to increase though at a lower rate than the United States.

In **Figure 28** a comparison is made of the under 18 and 65 and older age groups for Texas and the United States projected from 2017 to 2027 by the Texas Demographic Center for Texas and by the U.S. Census Bureau for the United States.

FIGURE 27
COMPARISON OF YOUNGER THAN 18 AND OLDER THAN 65 POPULATIONS IN TEXAS AND THE UNITED STATES 2000 TO 2015

	2000		2010		2015	
GROUP	POPULATION	SHARE	POPULATION	SHARE	POPULATION	SHARE
Texas	**20,851,820**		**25,145,561**		**27,469,114**	
Under 18	5,886,759	28.2	6,865,824	27.3	7,211,771	26.3
65 and Older	2,072,532	9.9	2,601,886	10.3	3,225,168	11.7
United States	**281,421,906**		**308,745,538**		**321,418,820**	
Under 18	72,293,812	25.7	74,181,467	24.0	73,645,111	22.9
65 and Older	34,991,753	12.4	40,267,984	13.0	47,760,852	14.9

SOURCE: Legislative Budget Board.

FIGURE 28
COMPARISON OF YOUNGER THAN 18 AND OLDER THAN 65 POPULATIONS IN TEXAS AND THE UNITED STATES 2017 TO 2027

	2017		2022		2027	
GROUP	POPULATION	SHARE	POPULATION	SHARE	POPULATION	SHARE
Texas	**27,686,234**		**29,576,078**		**31,512,597**	
Younger than 18	7,213,357	26.1	7,422,560	25.1	7,679,846	24.4
65 and Older	3,445,175	12.4	4,227,850	14.3	5,079,624	16.1
United States	**326,625,791**		**339,698,079**		**352,281,475**	
Younger than 18r	73,783,553	22.6	74,512,742	21.9	75,451,751	21.4
65 and Older	51,055,052	15.6	60,221,375	17.7	69,455,598	19.7

SOURCE: Legislative Budget Board.

APPENDIX C – HISTORICAL EXPENDITURES

Figures 29 to **33** show, for the eight budget drivers highlighted in the report, expenditures for the 2008–09 biennium through the 2014–15 biennium, and appropriations the 2016–17 biennium. **Figures 29** to **33** also show the share of total expenditures for each of these programs, by method of finance. The eight programs accounted for 77.5 percent of the General Revenue Funds spent in the 2008–09 biennium, and 78.0 percent of the General Revenue Fund appropriations for the 2016–17 biennium. The eight programs totaled 70.6 percent of spending from state funds in the 2008–09 biennium, and 74.2 percent of appropriations from all state funds for the 2016–17 biennium. The Foundation School Program and Medicaid account for the majority share for both the beginning and ending biennia.

FIGURE 29
BUDGET DRIVERS ANALYZED IN REPORT, 2008–09 BIENNIAL EXPENDITURES

(IN MILLIONS)	GENERAL REVENUE FUNDS	ALL STATE FUNDS	FEDERAL FUNDS	ALL FUNDS
All Expenditures	**$81,639.0**	**$117,049.1**	**$55,082.4**	**$172,131.5**
Foundation School Program	$30,352.3	$38,600.3	$0.0	$38,600.3
Medicaid	$14,719.3	$15,133.0	$26,096.5	$41,229.5
Construction and Maintenance of Highways	$3.2	$7,965.2	$5,250.7	$13,215.9
Adult Corrections	$5,668.5	$5,932.6	$40.3	$5,972.8
Juvenile Corrections	$700.4	$757.9	$40.2	$798.1
Higher Education Formula Funding	$6,259.1	$7,545.1	$0.0	$7,545.1
State Employee Benefits	$2,597.3	$3,512.5	$718.1	$4,230.7
Teacher Retirement	$2,959.6	$3,134.0	$0.0	$3,134.0
Total Major Budget Drivers	**$63,259.6**	**$82,580.6**	**$32,145.8**	**$114,726.4**
All Other Programs	**$18,379.3**	**$34,468.5**	**$22,936.6**	**$57,405.1**
Share of Total				
Foundation School Program	37.2%	33.0%	0.0%	22.4%
Medicaid	18.0%	12.9%	47.4%	24.0%
Construction and Maintenance of Highways	0.0%	6.8%	9.5%	7.7%
Adult Corrections	6.9%	5.1%	0.1%	3.5%
Juvenile Corrections	0.9%	0.6%	0.1%	0.5%
Higher Education Formula Funding	7.7%	6.4%	0.0%	4.4%
State Employee Retirement and Health	3.2%	3.0%	1.3%	2.5%
Teacher Retirement	3.6%	2.7%	0.0%	1.8%
Total Major Budget Drivers	**77.5%**	**70.6%**	**58.4%**	**66.7%**
All Other Programs	**22.5%**	**29.4%**	**41.6%**	**33.3%**

SOURCE: Legislative Budget Board.

FIGURE 30
BUDGET DRIVERS ANALYZED IN REPORT, 2010–11 BIENNIAL EXPENDITURES

(IN MILLIONS)	GENERAL REVENUE FUNDS	ALL STATE FUNDS	FEDERAL FUNDS	ALL FUNDS
All Expenditures	**$81,930.9**	**$114,943.1**	**$72,573.4**	**$187,516.5**
Foundation School Program	$28,109.7	$37,447.5	$3,246.8	$40,694.3
Medicaid	$15,678.8	$16,031.2	$33,384.1	$49,415.3
Construction and Maintenance of Highways	$1.9	$5,909.3	$5,663.6	$11,572.9
Adult Corrections	$5,918.6	$6,144.2	$22.8	$6,167.1
Juvenile Corrections	$667.3	$716.5	$36.9	$753.4
Higher Education Formula Funding	$6,448.8	$7,732.0	$0.0	$7,732.0
State Employee Benefits	$2,949.1	$3,929.3	$811.3	$4,740.6
Teacher Retirement	$3,195.0	$3,383.2	$0.0	$3,383.2
Total Major Budget Drivers	**$62,969.1**	**$81,293.2**	**$43,165.6**	**$124,458.8**
All Other Programs	**$18,961.8**	**$33,649.9**	**$29,407.8**	**$63,057.8**
Share of Total				
Foundation School Program	34.3%	32.6%	4.5%	21.7%
Medicaid	19.1%	13.9%	46.0%	26.4%
Construction and Maintenance of Highways	0.0%	5.1%	7.8%	6.2%
Adult Corrections	7.2%	5.3%	0.0%	3.3%
Juvenile Corrections	0.8%	0.6%	0.1%	0.4%
Higher Education Formula Funding	7.9%	6.7%	0.0%	4.1%
State Employee Retirement and Health	3.6%	3.4%	1.1%	2.5%
Teacher Retirement	3.9%	2.9%	0.0%	1.8%
Total Major Budget Drivers	**76.9%**	**70.7%**	**59.5%**	**66.4%**
All Other Programs	**23.1%**	**29.3%**	**40.5%**	**33.6%**

SOURCE: Legislative Budget Board.

FIGURE 31
BUDGET DRIVERS ANALYZED IN REPORT, 2012–13 BIENNIAL EXPENDITURES

(IN MILLIONS)	GENERAL REVENUE FUNDS	ALL STATE FUNDS	FEDERAL FUNDS	ALL FUNDS
All Expenditures	**$86,016.4**	**$125,932.5**	**$64,822.2**	**$190,754.8**
Foundation School Program	$28,242.6	$37,832.2	$0.0	$37,832.2
Medicaid	$21,487.4	$22,148.0	$31,544.5	$53,692.5
Construction and Maintenance of Highways	$3.4	$8,322.6	$5,409.9	$13,732.5
Adult Corrections	$5,896.3	$6,118.3	$13.8	$6,132.0
Juvenile Corrections	$593.7	$627.3	$23.0	$650.2
Higher Education Formula Funding	$6,225.2	$7,665.9	$0.0	$7,665.9
State Employee Benefits	$2,970.5	$3,961.2	$778.5	$4,739.7
Teacher Retirement	$2,838.2	$3,042.2	$0.0	$3,042.2
Total Major Budget Drivers	**$68,257.3**	**$89,717.6**	**$37,769.6**	**$127,487.2**
All Other Programs	**$17,759.2**	**$36,215.0**	**$27,052.6**	**$63,267.6**
Share of Total				
Foundation School Program	32.8%	30.0%	0.0%	19.8%
Medicaid	25.0%	17.6%	48.7%	28.1%
Construction and Maintenance of Highways	0.0%	6.6%	8.3%	7.2%
Adult Corrections	6.9%	4.9%	0.0%	3.2%
Juvenile Corrections	0.7%	0.5%	0.0%	0.3%
Higher Education Formula Funding	7.2%	6.1%	0.0%	4.0%
State Employee Retirement and Health	3.5%	3.1%	1.2%	2.5%
Teacher Retirement	3.3%	2.4%	0.0%	1.6%
Total Major Budget Drivers	**79.4%**	**71.2%**	**58.3%**	**66.8%**
All Other Programs	**20.6%**	**28.8%**	**41.7%**	**33.2%**

SOURCE: Legislative Budget Board.

FIGURE 32
BUDGET DRIVERS ANALYZED IN REPORT, 2014–15 BIENNIAL EXPENDITURES

(IN MILLIONS)	GENERAL REVENUE FUNDS	ALL STATE FUNDS	FEDERAL FUNDS	ALL FUNDS
All Expenditures	**$96,072.6**	**$134,572.9**	**$68,727.7**	**$203,300.5**
Foundation School Program	$31,686.5	$39,657.8	$0.0	$39,657.8
Medicaid	$23,087.6	$23,935.4	$35,362.0	$59,297.5
Construction and Maintenance of Highways	$0.0	$9,518.3	$7,190.1	$16,708.5
Adult Corrections	$6,180.0	$6,413.6	$20.1	$6,433.7
Juvenile Corrections	$590.1	$620.1	$13.3	$633.4
Higher Education Formula Funding	$6,744.6	$8,047.4	$0.0	$8,047.4
State Employee Benefits	$3,459.6	$4,614.5	$862.2	$5,476.7
Teacher Retirement	$3,342.5	$3,435.7	$0.0	$3,435.7
Total Major Budget Drivers	**$75,090.8**	**$96,242.9**	**$43,447.8**	**$139,690.7**
All Other Programs	**$20,981.8**	**$38,330.0**	**$25,279.9**	**$63,609.9**
Share of Total				
Foundation School Program	33.0%	29.5%	0.0%	19.5%
Medicaid	24.0%	17.8%	51.5%	29.2%
Construction and Maintenance of Highways	0.0%	7.1%	10.5%	8.2%
Adult Corrections	6.4%	4.8%	0.0%	3.2%
Juvenile Corrections	0.6%	0.5%	0.0%	0.3%
Higher Education Formula Funding	7.0%	6.0%	0.0%	4.0%
State Employee Retirement and Health	3.6%	3.4%	1.3%	2.7%
Teacher Retirement	3.5%	2.6%	0.0%	1.7%
Total Major Budget Drivers	**78.2%**	**71.5%**	**63.2%**	**68.7%**
All Other Programs	**21.8%**	**28.5%**	**36.8%**	**31.3%**

SOURCE: Legislative Budget Board.

FIGURE 33
BUDGET DRIVERS ANALYZED IN REPORT, 2016–17 BIENNIAL EXPENDITURES

(IN MILLIONS)	GENERAL REVENUE FUNDS	ALL STATE FUNDS	FEDERAL FUNDS	ALL FUNDS
All Expenditures	**$106,007.5**	**$141,101.6**	**$68,001.5**	**$209,103.0**
Foundation School Program	$35,506.6	$42,301.5	$0.0	$42,301.5
Medicaid	$24,970.1	$25,816.3	$35,341.8	$61,158.1
Construction and Maintenance of Highways	$0.0	$11,763.0	$7,848.9	$19,611.8
Adult Corrections	$6,536.2	$6,729.5	$15.9	$6,745.4
Juvenile Corrections	$591.0	$615.7	$19.2	$634.9
Higher Education Formula Funding	$7,136.0	$8,505.7	$0.0	$8,505.7
State Employee Benefits	$4,456.2	$5,413.5	$1,001.9	$6,415.4
Teacher Retirement	$3,487.2	$3,588.2	$0.0	$3,588.2
Total Major Budget Drivers	**$82,683.1**	**$104,733.3**	**$44,227.7**	**$148,961.0**
All Other Programs	**$23,324.4**	**$36,368.3**	**$23,773.8**	**$60,142.0**
Share of Total				
Foundation School Program	33.5%	30.0%	0.0%	20.2%
Medicaid	23.6%	18.3%	52.0%	29.2%
Construction and Maintenance of Highways	0.0%	8.3%	11.5%	9.4%
Adult Corrections	6.2%	4.8%	0.0%	3.2%
Juvenile Corrections	0.6%	0.4%	0.0%	0.3%
Higher Education Formula Funding	6.7%	6.0%	0.0%	4.1%
State Employee Retirement and Health	4.2%	3.8%	1.5%	3.1%
Teacher Retirement	3.3%	2.5%	0.0%	1.7%
Total Major Budget Drivers	**78.0%**	**74.2%**	**65.0%**	**71.2%**
All Other Programs	**22.0%**	**25.8%**	**35.0%**	**28.8%**

NOTE: 2016–17 biennial amounts are appropriated.
SOURCE: Legislative Budget Board.