



RECENT CONGRESSIONAL ACTIONS IMPACTING THE TEXAS BUDGET

The President has signed all 13 appropriation bills for FY 2006. He is also expected to sign the budget reconciliation bill, pending final passage by the U.S. House when it reconvenes for the second session of the 109th Congress. The Defense appropriations bill included a 1.0 percent across-the-board reduction in funding for all federal discretionary programs to partially offset costs for hurricane relief. The following table lists programs with significant increases or decreases compared to the previous year's funding level. A description follows of significant impacts to the Texas budget due to the enactment of FY 2006 appropriation bills and assuming passage of the budget reconciliation bill.

EDUCATION

No Child Left Behind (NCLB) Act.

Although Congress increased **Title I, Part A Grants to Local Educational Agencies** funding to \$12.8 billion, an increase of \$100 million over the FY 2005 funding level, states will receive a slight decrease due to the 1 percent reduction. Texas will receive an estimated \$1.2 billion for FY 2006 (a decrease of \$2.7 million compared to FY 2005).

Congress significantly reduced federal funding for several NCLB Act programs. Federal funding for the **Comprehensive School Reform** program will decrease by 96 percent in FY 2006 (a loss of \$17 million to Texas). **Even Start's** funding level was reduced by 56 percent from the previous year's funding level. Texas' estimated FY 2006 allocation for Even Start is \$8.2 million (a decrease of \$10.4 million compared to FY 2005). Federal funding for the **Innovative Education Program** will decrease by 50 percent from the FY 2005 funding level. Texas' FY 2006 allocation for the Innovative Education Program is estimated to be \$7.8 million. Congress reduced federal funding

nationally for **Educational Technology State Grants** by 45 percent or \$223.7 million for FY 2006. Texas' FY 2006 allocation for this program is estimated to be \$19.8 million below the FY 2005 funding level. The **Safe and Drug Free Schools and Communities'** allocation to Texas will also be reduced from the previous year's funding level. Texas' FY 2006 estimated allocation will be \$27.6 million (a decrease of \$7.3 million from FY 2005).

Congress included \$100 million nationally for a new program proposed by the President's 2006 Budget that addresses teacher quality. The **Teacher Incentive Fund** will award competitive grants to state educational agencies, school districts, or partnerships made up of a school district and/or state and at least one non-profit organization for the design and implementation of compensation systems for teachers and principals based primarily on measures of gains in student academic achievement for teachers and principals in high-need schools.

HEALTH AND HUMAN SERVICES

Medicaid. In the area of **long-term care**, the look-back period related to **asset transfers** for determining eligibility lengthens from 3 to 5 years prior to applying for Medicaid, and the penalty period for Medicaid ineligibility due to asset transfers begins at a later date. Persons with an **equity value of a home** in excess of \$750,000 are ineligible for Medicaid, although waivers may be granted based on hardship. States will be allowed to provide **home and community-based (HCB) services** for the elderly and disabled as an optional benefit, rather than through a waiver. States may limit the number of individuals who are eligible for these services and may allow individuals to self-direct the purchase and control of services. Competitive grants totaling \$1.7 billion for FY 2007 to

FY 2011 are available to states for **demonstration projects to improve long-term care services**. The funding will be awarded to increase the use of HCB services, rather than institutional long-term care services; to eliminate barriers that restrict the long-term care choices available to people, including providing that "**money follows the person,**" and to ensure quality improvement of HCB services. Eligible individuals must have resided in an inpatient facility for 6 months (or up to 24 months, at the state's discretion). States are required to maintain state expenditures for HCB services at the level in effect in the year prior to the start of the demonstration project, and any HCB program operating under a waiver will still have to show cost-neutrality. If Texas is awarded a grant, enhanced federal match of about 80 percent is available for services furnished during the 12-month period beginning on the date an eligible individual is discharged from an inpatient facility. Funding for the demonstration projects is available through FY 2011. States may also establish **Long-term Care Insurance Partnerships**, which would allow the value of a person's insurance policy to be used as an offset to the value of their assets when applying for Medicaid benefits.

Savings are expected from a number of changes to **prescription drug policies**, primarily related to placement of a federal upper limit on costs for multiple-source drugs where the Federal Drug Administration has rated at least two drugs as equivalent products. States are given greater **flexibility in providing benefits and applying premiums and co-payments** to certain populations. A new option for providing health coverage to families with **disabled children** (up to 300 percent of the

ESTIMATED FEDERAL ALLOCATIONS TO TEXAS FOR SELECTED GRANT PROGRAMS

(in Millions)

Programs	FY 2004	FY 2005	FY 2006	Change from FY 2005
SELECTED EDUCATION				
Title I - Grants to Local Educational Agencies	\$1,110.7	\$1,176.4	\$1,173.7	\$(2.7)
Safe and Drug-Free Schools and Communities	35.0	34.9	27.6	(7.3)
Innovative Education Program	23.5	15.7	7.8	(7.9)
Even Start Literacy Program	20.0	18.6	8.2	(10.4)
Comprehensive School Reform	19.5	17.7	0.7	(17.0)
Educational Technology State Grants	59.4	44.0	24.2	(19.8)
Total, Selected Education	\$1,268.1	\$1,307.3	\$1,242.2	\$(65.1)
SELECTED HEALTH AND HUMAN SERVICES				
Vocational Rehabilitation Grants to States	\$190.4	\$193.0	\$201.8	\$8.8
Low-Income Home Energy Assistance Program	39.8	42.0	44.1	2.1
Preventive Health and Health Services Block Grant	5.5	5.5	4.2	(1.3)
WIC Nutrition Program	480.6	502.8	499.7	(3.1)
Total, Selected Health and Human Services	\$716.3	\$743.3	\$749.8	\$6.5
SELECTED EMPLOYMENT AND SUPPORTIVE SERVICES				
Child Care Entitlement - Mandatory and Matching	\$186.6	\$184.9	\$201.2	\$16.3
Unemployment Insurance State Administration	100.5	125.3	117.5	(7.8)
Workforce Investment Act - Adult	74.5	73.8	71.0	(2.8)
Workforce Investment Act - Youth	83.0	82.3	78.5	(3.8)
Employment Services State Grants	51.3	53.2	48.8	(4.4)
Dislocated Workers	93.1	93.9	75.6	(18.3)
Total, Selected Employment and Supportive Services	\$588.9	\$613.5	\$592.7	\$(20.8)
OTHER				
State Criminal Alien Assistance Program	\$17.1	\$18.6	\$25.2	\$6.6
Justice Assistance Grant ¹	0.0	35.2	22.6	(12.6)
Community Development Block Grant	86.7	82.0	74.0	(8.0)
Total, Other	\$103.8	\$135.8	\$121.8	\$(14.0)

¹In FY 2005 Congress combined the Edward Byrne Memorial Grants and Local Law Enforcement Grants to form the Justice Assistance Grant. NOTE: Amounts listed above represent preliminary estimates of funding sources and include the FY 2006 1.0% across-the-board reduction. Estimates are not available for a number of other programs with significant increases or decreases. Numbers may not add due to rounding. SOURCES: Federal Funds Information for States, U.S. Department of Education, Bureau of Justice Assistance, and Legislative Budget Board.

Federal Poverty Level) relies on employer-sponsored insurance if family coverage is available and the employer contributes at least 50 percent of total premiums. Medicaid could continue to cover benefits not offered through the employer plan. This option is phased in from January 1, 2007 through October 1, 2009 based on the child's age.

Up to \$75 million nationally will be available in FY 2007 and FY 2008 for **Medicaid Transformation Grants**, with state allocations determined by the Secretary of the U.S. Department of Health and Human Services. Innovative projects eligible for

funding include methods for reducing patient error rates through the implementation of electronic health records, clinical decision support tools, or e-prescribing programs; methods for reducing waste, fraud and abuse; and implementation of medication risk management programs. Effective January 1, 2007, up to 10 states may establish **Health Opportunity Accounts (HOAs)**, to be used for payment of health care expenses. After meeting an annual deductible, participants have access to up to \$2,500 per adult in federal and state contributions, or up to \$1,000 per child.

Elderly, disabled, and pregnant individuals would be excluded from participation.

Starting July 1, 2006, **documentary evidence of citizenship or nationality** will be required for people to get Medicaid, unless they are getting Medicare or Supplemental Security Income (SSI). People already on Medicaid will have to provide documentation at their next redetermination. Finally, **transitional Medicaid** for certain people who leave cash assistance programs is extended through December 31, 2006.

Temporary Assistance for Needy Families (TANF). The budget

reconciliation bill reauthorizes TANF through FY 2010. Although the basic grant continues at current funding levels, Supplemental Funds, worth \$52.7 million annually to Texas, are authorized only through FY 2008. Congress eliminates high performance bonuses, as well as bonuses for reducing out-of-wedlock births. Since federal welfare reform was passed in FY 1996, Texas has received a total of \$118.2 million in bonuses. Instead, Congress provides \$100 million per year in competitive grants to promote healthy marriages and \$50 million per year to promote responsible fatherhood.

Changes in caseload reduction and participation rate calculations beginning in FY 2007 are likely to impact Texas' ability to meet federally required participation rate targets. Under existing law, states' required work participation rates are reduced by the percentage of caseload reduction since FY 1995. Because of large declines in the caseload, Texas' effective participation rate target has been zero. In the budget reconciliation bill, the base year for looking at caseload reduction moves from FY 1995 to FY 2005. Further, calculation of the caseload reduction factor and the participation rate will now include the number of families receiving cash assistance using pure state "Maintenance of Effort" (MOE) funds. Since Texas has been using MOE for two-parent families, the state will become subject to a higher two-parent participation rate target of 90 percent. The penalties for failure to achieve the participation rates are a 5 percent reduction in the TANF grant (\$24.3 million), which must be backfilled with state funds, and a 5 percent increase in MOE spending. This penalty increases with subsequent violations. A new penalty of 1 to 5 percent of the basic TANF grant is created for failure to establish or comply with new work participation verification procedures.

Child Care. Funding for entitlement child care rises to \$2.9 billion in each of FY 2006 to FY 2010, an annual increase of \$200 million over the current appropriation. Texas' share of the increase is estimated at \$16.3 million per year. This additional money requires matching funds of about \$10.5 million per year to be drawn down.

Child Support Enforcement. Effective October 1, 2007, the use of incentive payments states receive for exemplary child support performance as a match to obtain additional federal funds will not be allowed. According to the Office of the Attorney General, over three years Texas is estimated to lose over \$200 million, with a resulting \$2 billion drop in child support collections.

In addition, the federal match rate for laboratory costs incurred in determining paternity decreases from 90 percent to 66 percent, at a cost to Texas of \$2.5 million per year. Assignment of child support to the state is restricted to the period that the family receives TANF. Starting in FY 2009, states have the option to distribute more of the federal share of child support payments directly to custodial parents. Other changes include an expansion of the requirement of medical support to both parents; a requirement of states to collect an annual fee of \$25 from most families that have never received TANF assistance; and a requirement of states to review and adjust child support orders every three years for families receiving TANF.

Rehabilitative Services. Congress provided an increase to Vocational Rehabilitation State Grants. Texas will be allocated \$201.8 million (an additional \$8.8 million over the FY 2005 funding level) to provide assessments, counseling, and training to individuals with disabilities.

Foster Care. Congress made several changes to the Title IV-E Foster Care program that will impact the state budget by limiting eligibility of certain costs related to administering Foster Care programs. Reimbursement for administrative payments for Foster Care in relatives' unlicensed homes or facilities will be limited to the time a home is in the process of becoming licensed (up to 12 months maximum). In order for states to receive administrative funds for children who are not yet in Foster Care but who are considered at risk of removal from their homes, a child's Foster Care candidacy must be determined every six months. In addition, limitations established on administrative payments for children in juvenile detention centers will negatively impact Foster Care

claims made through the Juvenile Probation Commission.

Preventive Health and Health Services Block Grant. Congress decreased national funding to \$99 million in FY 2006. This amount is 24.4 percent (\$32 million) less than the FY 2005 funding level. In FY 2006, Texas will receive approximately \$4.2 million (a loss of \$1.3 million).

Refugee Assistance. Funding to support refugee assistance in the FY 2006 is \$570 million. Compared with the \$484 million in FY 2005, the FY 2006 amount is an increase of \$86 million, or 17.8 percent.

TRANSPORTATION

Although Congress authorized increased funding for transportation under the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users, the Defense appropriations bill rescinds \$1.1 billion in federal transportation funds. It is uncertain how Texas' funding levels will be impacted by this rescission, as well as the 1 percent across-the-board reduction and other cost adjustments made to the Highway Trust Fund. Legislative action preserves funding for the new **Equity Bonus Program**, which replaces the Minimum Guarantee Program and adjusts apportionments to ensure that no state's rate of return drops below a given amount.. Texas' rate of return will increase from 90.5 to 91.5 percent in FY 2007, and again to 92 percent in FY 2008 and FY 2009. As of October 2005, the Federal Highway Administration projected that the average annual increase to Texas would equal approximately \$788.1 million, a 37.4 percent increase over the previous annual funding rate. However, it is unclear at this point how recent appropriation actions by Congress affect the final amount Texas will receive.

HOMELAND SECURITY

Congress approved a formula change for the **State Homeland Security Grant Program**, which provides federal funds for emergency first responders, as well as emergency training and equipment. Each state will receive a base amount of approximately \$4.1 million, plus an additional amount, not yet allocated by the U.S. Department of Homeland Security,

based on certain risk criteria. Three metropolitan areas in Texas are eligible to receive **Urban Area Security Initiative** grants: San Antonio, Dallas/Fort Worth, and Houston.

Public Health Preparedness for Bioterrorism grants for Texas are reduced by 17.9 percent to \$39.3 million in fiscal year 2006. However, Congress approved \$350.0 million to upgrade state and local capacity related to **Pandemic Influenza Preparedness and Response** activities. Specific amounts of the federal awards to states have not been announced.

HURRICANE RELIEF

Health and Human Services. An additional \$2.1 billion is appropriated to states providing medical care to Hurricane Katrina evacuees. The funds may be used to pay for uncompensated medical care provided through January 31, 2006, and for the non-federal share of medical care and administrative costs under Medicaid and the Children's Health Insurance Program through June 30, 2006. The effect of Hurricane Katrina evacuees and their income will be disregarded in calculating the Federal Medical Assistance Percentage (FMAP) for any year after 2006.

Public Education. Congress included federal aid to states to reimburse school districts that serve children displaced by Hurricanes Katrina and Rita. States will have to distribute the funds to school districts and can only receive federal reimbursement for state payments made before enactment of the Defense appropriations bill. School districts will be reimbursed \$6,000 per student in general education, with higher reimbursement (\$7,500) provided for children receiving special education services. The federal funding will be available to cover school district costs for one year. Congress also provided federal aid to assist states in restarting school operations in Gulf States. Texas will receive \$50 million for payments to school districts for expenses incurred as they seek to reopen schools or reenroll students.

Higher Education. In addition, Congress provided some assistance for higher

education institutions that enrolled displaced students affected by the Gulf Coast hurricanes. The U.S. Department of Education will make available \$10 million nationally to these higher education institutions to cover additional costs of enrolling displaced students.

Community Development Fund. To address areas distressed by Hurricanes Katrina, Rita and Wilma, Congress appropriated \$11.5 billion for disaster relief, long-term recovery and restoration of infrastructure. Activities such as rehabilitation of buildings and installment of public works will be eligible, unless funding is available through the Federal Emergency Management Agency or the Army Corps of Engineers. Funds are to be administered through an entity or entities designated by the Governor of each state.

Transportation. Congress also increased appropriations by \$2.8 billion for the **Emergency Highway Program** to cover the cost of repairs and construction in states with damage from Hurricanes Rita, Katrina and Wilma.

Employment Services. Congress expanded the eligibility for disaster relief employment and other assistance under the Workforce Investment Act of 1998 to individuals affected by all hurricanes in the Gulf of Mexico in calendar year 2005, rather than just to those impacted by Hurricane Katrina.

Social Services Block Grant. A supplemental appropriation of \$550 million in the **Social Services Block Grant** for necessary expenses related to the consequences of hurricanes in the Gulf of Mexico in calendar year 2005 was made in the Defense appropriations bill. In addition to other uses permitted by Title XX of the Social Security Act, these funds may be used for repair, renovation and construction of health facilities, as well as for mental health services.

OTHER

Criminal Justice. National funding for the **State Criminal Alien Assistance Program (SCAAP)** increased by \$98.4 million for FY 2006. Texas is estimated to receive \$25.2

million in FY 2006 (a 35 percent increase over FY 2005). Congress reduced total funding nationally for the **Justice Assistance Grant (JAG) Program** by more than 35 percent. Texas' FY 2005 allocation for the JAG Program was \$35.2 million, compared to an estimated \$22.6 million in FY 2006.

Employment Services. Federal funding for Workforce Investment Act programs in Texas, including **Youth Activities** and **Adult Employment and Training** is reduced about 4 percent, or \$3.8 million and \$2.8 million respectively, compared to last year's funding level. The **Dislocated Workers Program's** estimated allocation to Texas is about 20 percent (\$18.3 million) less than the previous year's allocation. Employment Services Grants are reduced 8 percent (\$4.4 million in Texas), while funding for **Unemployment Insurance Administration** decreases 6 percent (\$7.8 million.)

Low Income Home Energy Assistance Program (LIHEAP). Texas will receive \$2.1 million additional federal funds for LIHEAP (a 5 percent increase) in FY 2006 (not including any distribution of emergency funds). **LIHEAP** funds are available to states and other jurisdictions to assist eligible households in paying their cooling and heating bills.

Community Development Block Grant (CDBG). Congress reduced total funding nationally for the CDBG program by 10 percent. Texas will receive \$74 million in FY 2006, a decrease of \$8 million from FY 2005. CDBG funds enable states to develop viable urban communities by providing decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low and moderate income.

The Federal Funds Analysis Team of the Legislative Budget Board conducts research on federal legislation and federal funding issues which impact the state budget.

Questions or comments may be directed to Lea Isgur at (512) 463-1200 or email at Lea.Isgur@LBB.state.tx.us