

LEGISLATIVE BUDGET BOARD

An Overview of Selected Cost Drivers in the State Budget

PRESENTED TO THE HOUSE APPROPRIATIONS COMMITTEE

LEGISLATIVE BUDGET BOARD STAFF

December 2014

Budget Drivers

Budget Drivers: Economic, demographic, or legal factors and trends that, absent intervening changes to state/federal policy or law, will influence funding increases (or decreases) to programs that comprise the state budget.

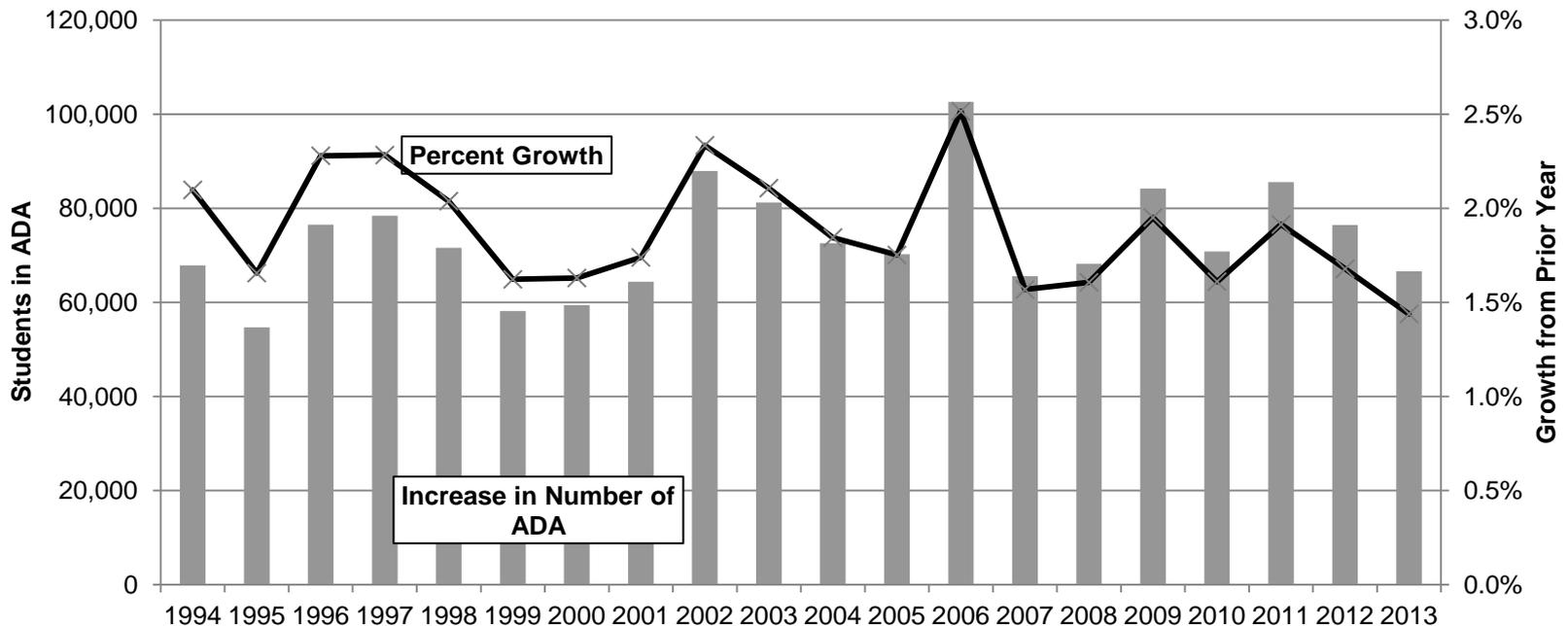
Selected Budget Drivers	2014-15 All Funds Appropriation (in billions)
Public Education (FSP)	\$40.4
Medicaid	\$56.2
Mental Health	\$3.3
<u>ERS and TRS</u>	<u>\$10.7</u>
Total, Selected Budget Drivers	\$109.5
As % of Total 14-15 All Funds Budget of \$200.4 Billion	55%

Public Education: Foundation School Program (FSP) Drivers

Student Enrollment. As student enrollment increases, overall entitlement increases, the full cost of which is borne by the state.

- ❑ 10-year average growth: just under **1.8%**, or **80,000-85,000** new students per year.
- ❑ 2014-15 Biennium: Growth assumed at **1.7%**, at a projected cost of **\$2.2 billion**.
- ❑ 2012-13 School Year: **1.4% growth**

Growth in Public School Average Daily Attendance (ADA)

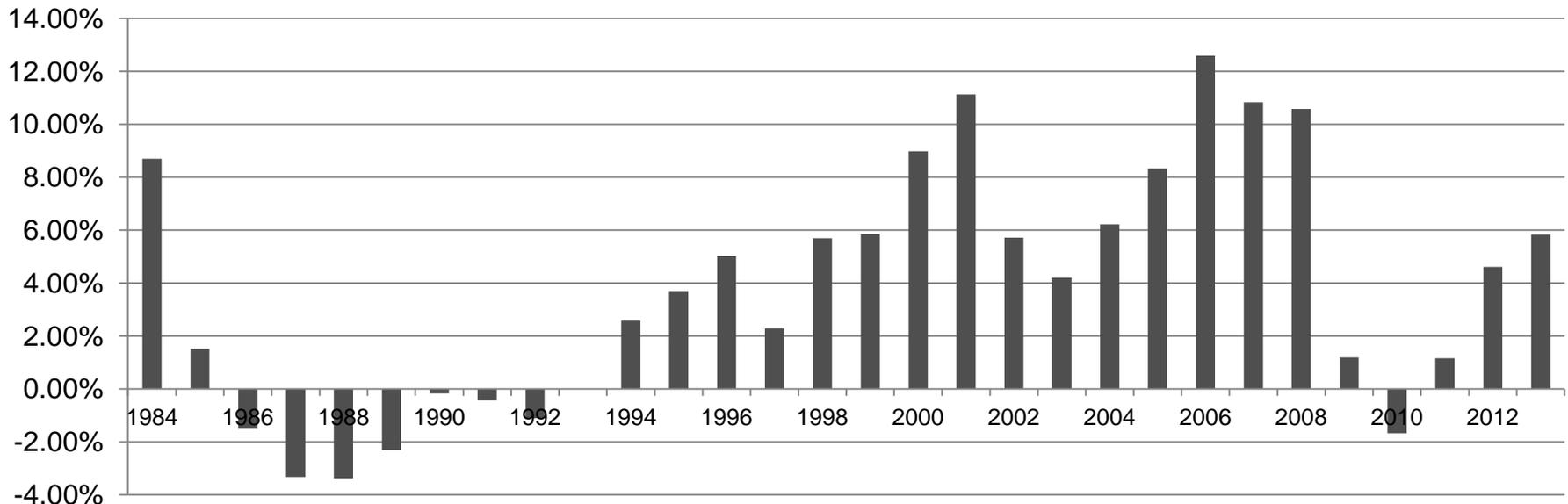


Foundation School Program (FSP) Drivers

School District Property Values (DPV). An increase in school district property value growth increases local share of the FSP entitlement and decreases the costs to the state.

- ❑ At ~\$19 billion in total M&O collections, each 1% growth in collections results in ~\$190 million in more local revenue in system, much of which will offset state FSP costs.
- ❑ 20-year average DPV change: **+5.67%**
- ❑ Tax Year 2013: **+5.83%**

School District Property Values, 1984-2013



Foundation School Program (FSP) Drivers

- **Settle-up Costs**

- Schools are paid based on estimates of student counts, local property values, and other budget drivers, and the state “settles-up” with them in the following school year.

- **Austin ISD Yield Growth**

- The first six pennies of property tax levied in the enrichment tier is guaranteed to yield the same amount of revenue per weighted student as Austin ISD. FY 2015 yield is **\$61.86** per penny per WADA, at an estimated state cost of **\$1.1 billion**.
- Austin ISD currently has a stable student population and rising property values, which leads to a higher yield in the enrichment tier for districts statewide. Higher yields increase state costs.

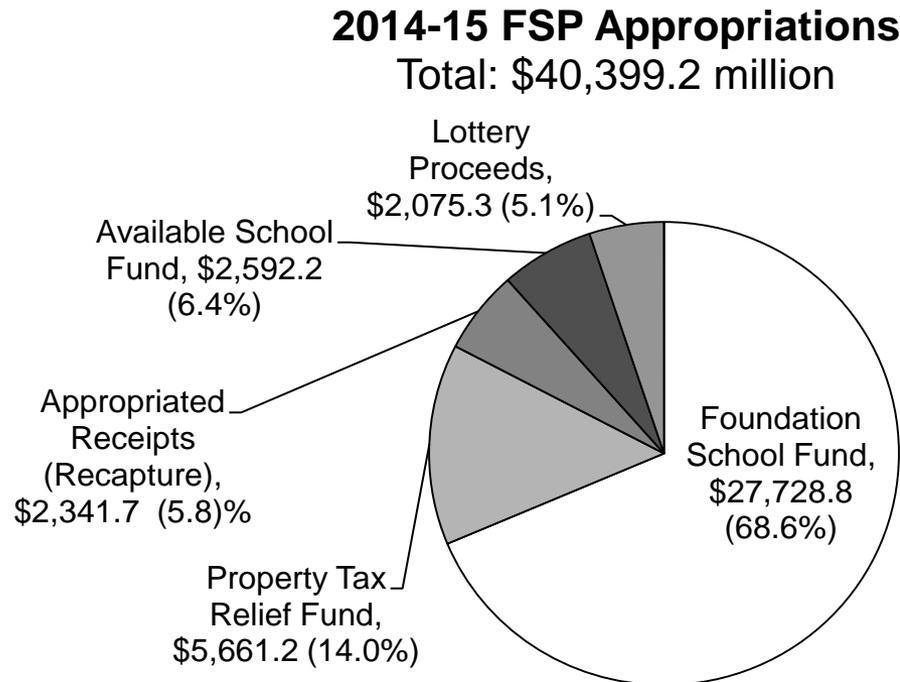
- **Other Regular Costs**

- District Tax Effort. Adds to state guaranteed yield costs in enrichment tier.
- Facilities costs. Automatic roll-forward of debt eligibility for state assistance through the Existing Debt Allotment (EDA).

FSP Methods of Finance

The FSP receives a **sum-certain All Funds appropriation** from 4 revenue streams dedicated to supporting public education and the Foundation School Fund, which draws on unrestricted General Revenue.

Each of the five methods of finance is estimated. If revenue from the dedicated resources increases, the draw on unrestricted General Revenue Funds decreases and vice versa.



FSP Budget Drivers: Outlook

Major formula levers – most set in GAA

- ❑ Basic Allotment: Statutory floor of \$4,765, but may be higher by appropriation
- ❑ Tier 1 Equalized Wealth Level (EWL): Statutorily linked to Basic Allotment
- ❑ Hold harmless reduction percentage: set in GAA, set to expire in FY2018
- ❑ Austin ISD (Golden Penny) Yield: increases with Austin ISD wealth per WADA
- ❑ Copper Penny Yield: Statutorily set at \$31.95; Tier 2 EWL at \$319,500
- ❑ Tax Rate Compression Percentage: Established by appropriation

Other Factors

Changes in student population and types of students: English-language learners, economically disadvantaged.

Reliability of FSP revenue streams: Available School Fund, Property Tax Relief Fund

School Finance Lawsuit

Medicaid

Medicaid is a jointly funded State/Federal program that provides insurance primarily to low-income families, non-disabled children, pregnant women, the elderly, and people with disabilities.

With a **\$56.2 billion All Funds appropriation** for the 2014-15 biennium, it is the largest item of appropriation in the state budget.

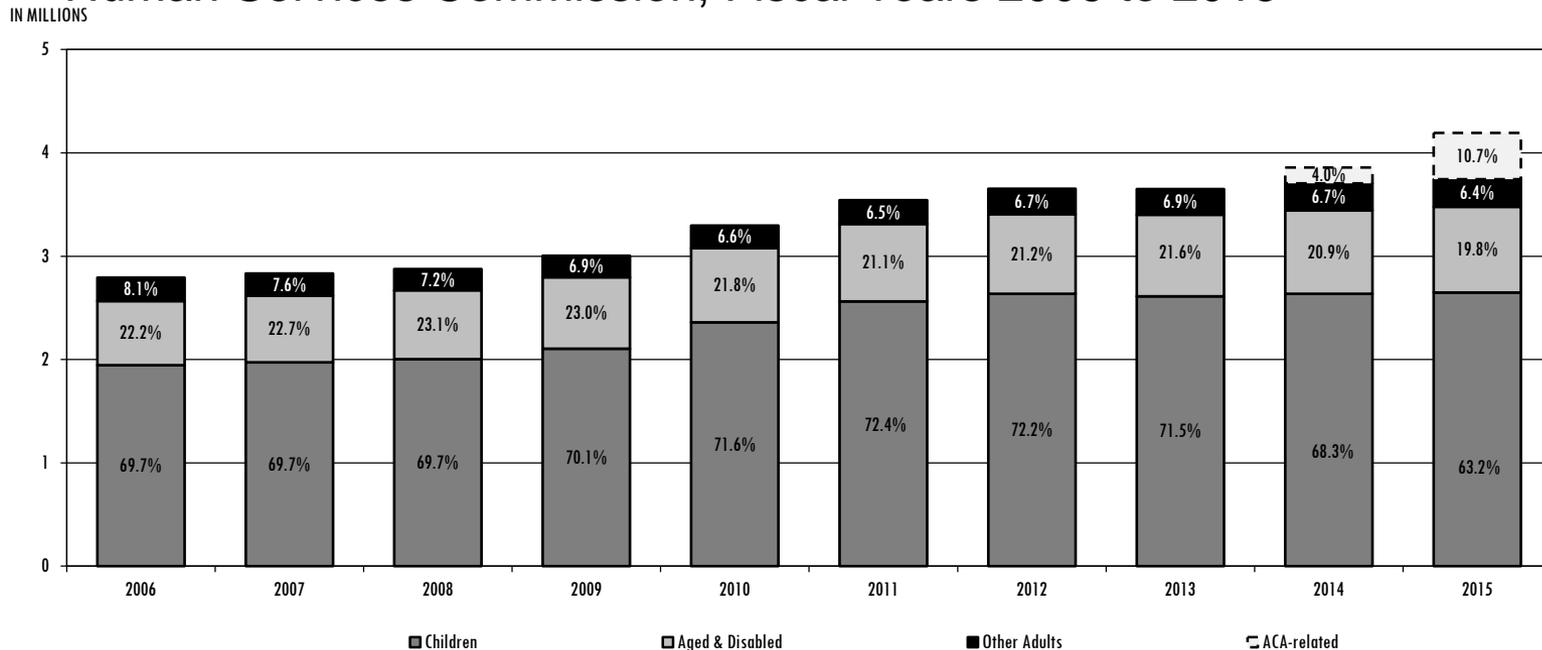
- The Health and Human Services Commission (HHSC) is the single state agency responsible for the state's Medicaid program, but services are administered by a variety of state agencies.
- The distribution between federal and state funds is primarily based on **Federal Medical Assistance Percentage (FMAP)**.
- There are other matching rates for certain services, client groups, and administrative costs ranging from 50 percent to 100 percent.

Medicaid Budget Drivers: Caseload and Cost

- Medicaid is an entitlement program: any eligible person who enrolls may receive services. As caseloads increase (due to population growth, economic factors, policy changes), Medicaid expenditures increase.
- Medicaid expenditures also increase as a result of cost growth (tied to rate changes, medical inflation, higher utilization, or increased acuity).
- The state's portion of these costs is primarily dictated by FMAP.
- A state's FMAP is based on a state's three-year average per capita income relative to the national per capita income. FMAP cannot be below 50%.
- FMAP for FFY 2014 is **58.69%**; FMAP for FFY 2015 is **58.05%**.

Medicaid Budget Drivers: Acute Care Caseloads at HHSC

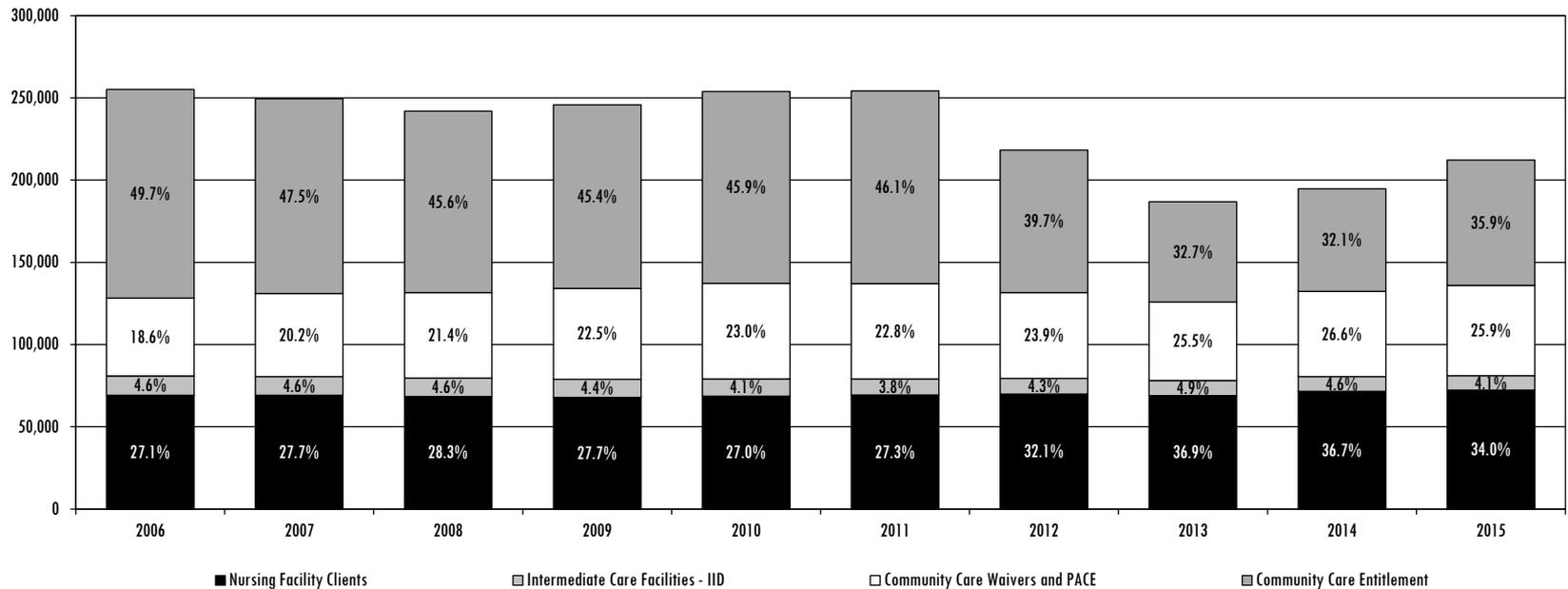
Acute Care Medicaid Average Monthly Caseload at the Health and Human Services Commission, Fiscal Years 2006 to 2015



NOTE: Represents average monthly number of clients receiving Medicaid acute care health insurance services through the Health and Human Services Commission. Aged and Disabled includes clients enrolled in STAR+PLUS. Other Adults includes TANF Adults, Pregnant Women, and Medically Needy clients. Affordable Care Act (ACA)-related includes children to be transferred from CHIP to Medicaid and additional average monthly caseload due to the extension of the eligibility recertification period to 12 months. FY 2014-15 are caseloads included in the 2014-15 GAA. SOURCES: Legislative Budget Board, Health and Human Services Commission

Medicaid Budget Drivers: LTC Caseloads at DADS

Long-Term-Care Medicaid Average Monthly Caseloads at the Department of Aging and Disability Services, Fiscal Years 2006 to 2015



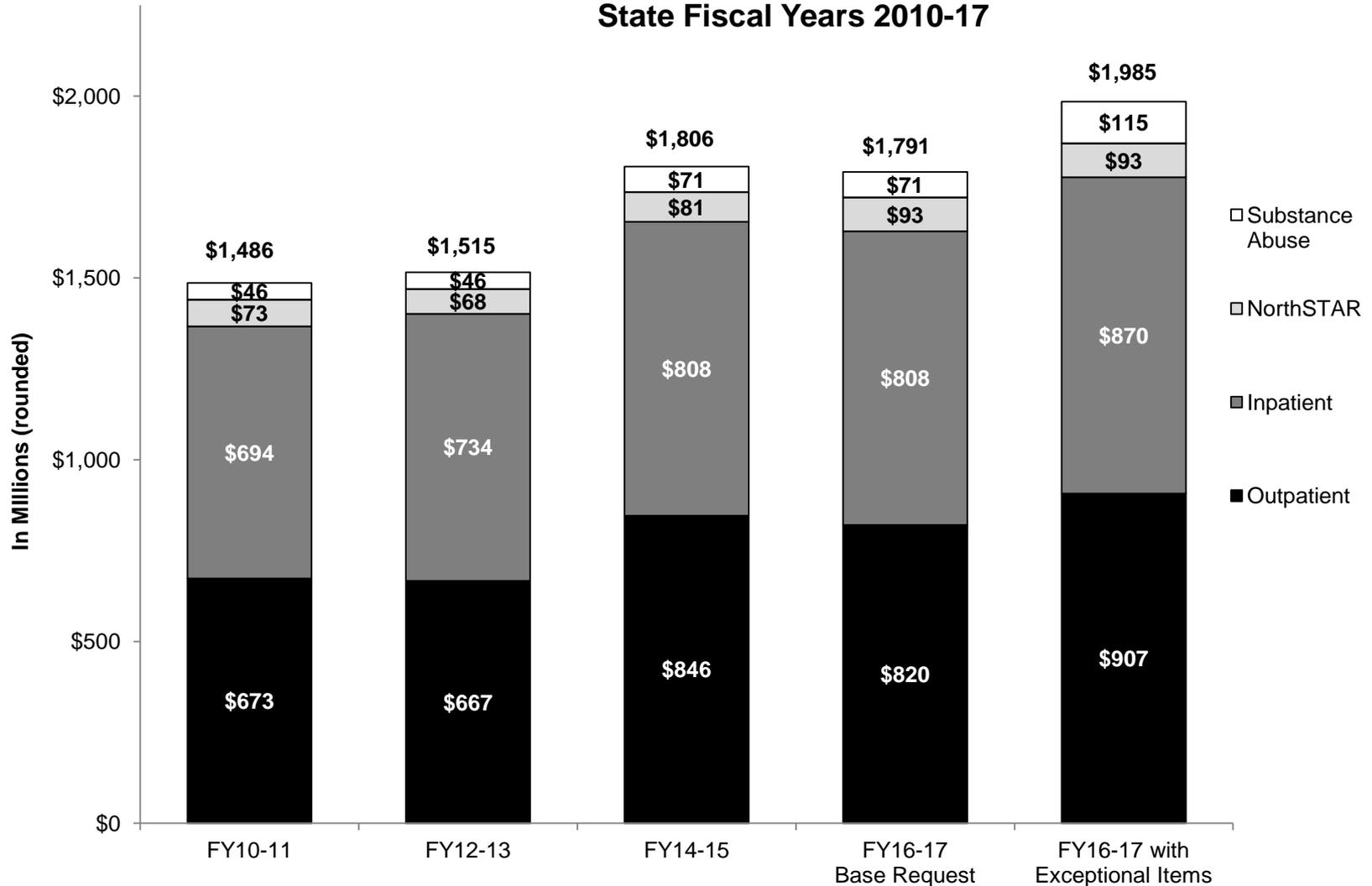
NOTE: Community Care Entitlement includes Primary Home Care, Community Attendant Services, Day Activity and Health Services, and Habilitation Services; Community Care Waivers include Community-based Alternatives, Home and Community-based Services, Community Living and Support Services, Deaf-Blind Multiple Disabilities, Medically Dependent Children Program, Consolidated, Texas Home Living, and Promoting Independence; Nursing facility includes Medicaid nursing facility, Medicaid co-payment for Medicare Skilled Nursing Facility Care, and Hospice; Intermediate Care Facilities - IID (ICFs/IID) includes private ICFs/IID and State Supported Living Centers. Not adjusted for Nursing Facility Carve-in, Habilitative Services in STAR+PLUS, or STAR+PLUS expansion, services that will be provided at HHSC in FY 2015.

SOURCES: Legislative Budget Board, Department of Aging and Disability Services

Mental Health Funds

- The 83rd Legislature appropriated \$2.6 billion in General Revenue (\$3.5 billion in All Funds) for mental health and substance abuse services to eighteen agencies across five articles, a 30 percent increase above the 2012-13 biennium expenditures.
- The Department of State Health Services (DSHS) was appropriated \$1.8 billion in General Revenue for mental health and substance abuse services, which was 70.6% of the total General Revenue Funds appropriated for this purpose.
- The 83rd Legislature funded an expansion of mental health services, including funding the wait lists.
- There is now a projected wait list for FY15 of 7 children and 360 adults for Mental Health Services for Adults or Children.

Texas Department of State Health Services (DSHS) Mental Health and Substance Abuse General Revenue Funds State Fiscal Years 2010-17



Data Source: FY2010-2012 data is from DSHS Operating Budget. FY2014-2017 is from agency responses to an LBB request for information. Note: FY2010-FY2013 are expended funds; FY2014-FY2015 are budgeted/appropriated funds. FY2016-2017 are requested funds. FY2016-2017 is also shown with the agency's requested exceptional items.

ERS Retirement

- The Employees Retirement System (ERS), as provided by the Texas Constitution, Art. XVI, Sec. 67(b)(2) and Government Code, Chapters 814 and 815, administers ERS Retirement as a defined benefit plan, meaning that the amount of a member's benefit is based on a statutory formula, not the amount of contributions made.
- Defined benefit plans rely on contributions and investment returns to cover the cost of benefits for members and plan administrative expenses.
- As of August 31, 2014, participants in ERS Retirement include:
 - ❑ 134,162 active members; and
 - ❑ 95,840 retirees.

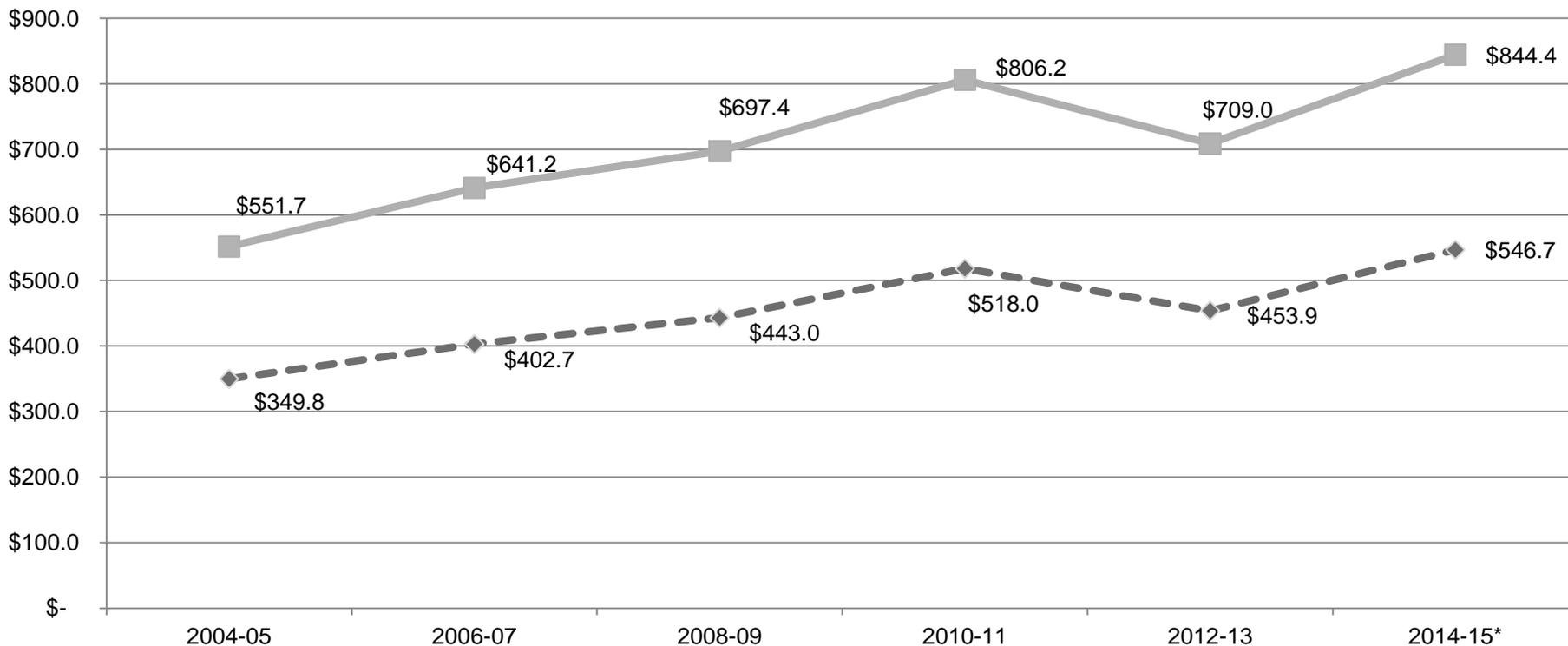
Source: Legislative Budget Board and Employees Retirement System

ERS Retirement Expenditures/Appropriations

- For the current biennium, the base state contribution is 6.5 percent of payroll in fiscal year (FY) 2014, which was increased to 7.5 percent using unexpended and unobligated balances in Retirement and Group Insurance remaining as of August 31, 2013 and 7.5 percent of payroll in FY 2015. This is combined with an agency contribution of 0.5 percent for a total state contribution of 8.0 percent in both fiscal years of the 2014-15 biennium.
- The 2014-15 biennium appropriation for these contributions totals approximately \$844.4 million in All Funds. Of this amount, approximately \$546.7 million is out of General Revenue-related funds. This is an increase of \$135.4 million in All Funds and \$92.8 million in General Revenue-related funds over the 2012-13 spending levels. The agency contribution is projected to generate approximately \$55.5 million in additional funding during the 2014-15 biennium.
- The actuarially sound contribution (ASC) rate for FY 2014 was 18.73 percent and is 18.76 percent in FY 2015. The member contribution of 6.6 percent in FY 2014 and 6.9 percent in FY 2015, when combined with the 8.0 percent state contribution was below the ASC rate by 4.13 percent in FY 2014 and is below the ASC rate by 3.86 percent in FY 2015.

ERS Retirement Expenditures/Appropriations

ERS Retirement Expended and Appropriated by Biennium (in Millions)



*Note: 2014-15 biennium reflect appropriated amounts in the 2014-15 General Appropriations Act, including the increase in UB funds from FY 2013.

Source: Legislative Budget Board

◆ General Revenue Related ■ All Fund

Employees Group Benefit Program

- The Texas Employees Group Benefits Act, Chapter 1551, Texas Insurance Code, assigns the administration of the Group Benefits Program (GBP) to the Employees Retirement System (ERS) Board of Trustees.
- As of August 31, 2014, participants of the GBP include the following:
 - 228,805 employees;
 - 104,770 retirees;
 - 206,215 dependents; and
 - 1,144 COBRA.
- Plan paid \$2.8 billion (estimated) in health care claims in FY 2014.
- Plan participants paid approximately \$500.6 million in out-of-pocket costs, such as copays and coinsurance.
- The state funds 100 percent of the monthly premium for full-time employees and 50 percent of dependent coverage, with members paying the other 50 percent of the dependent coverage.

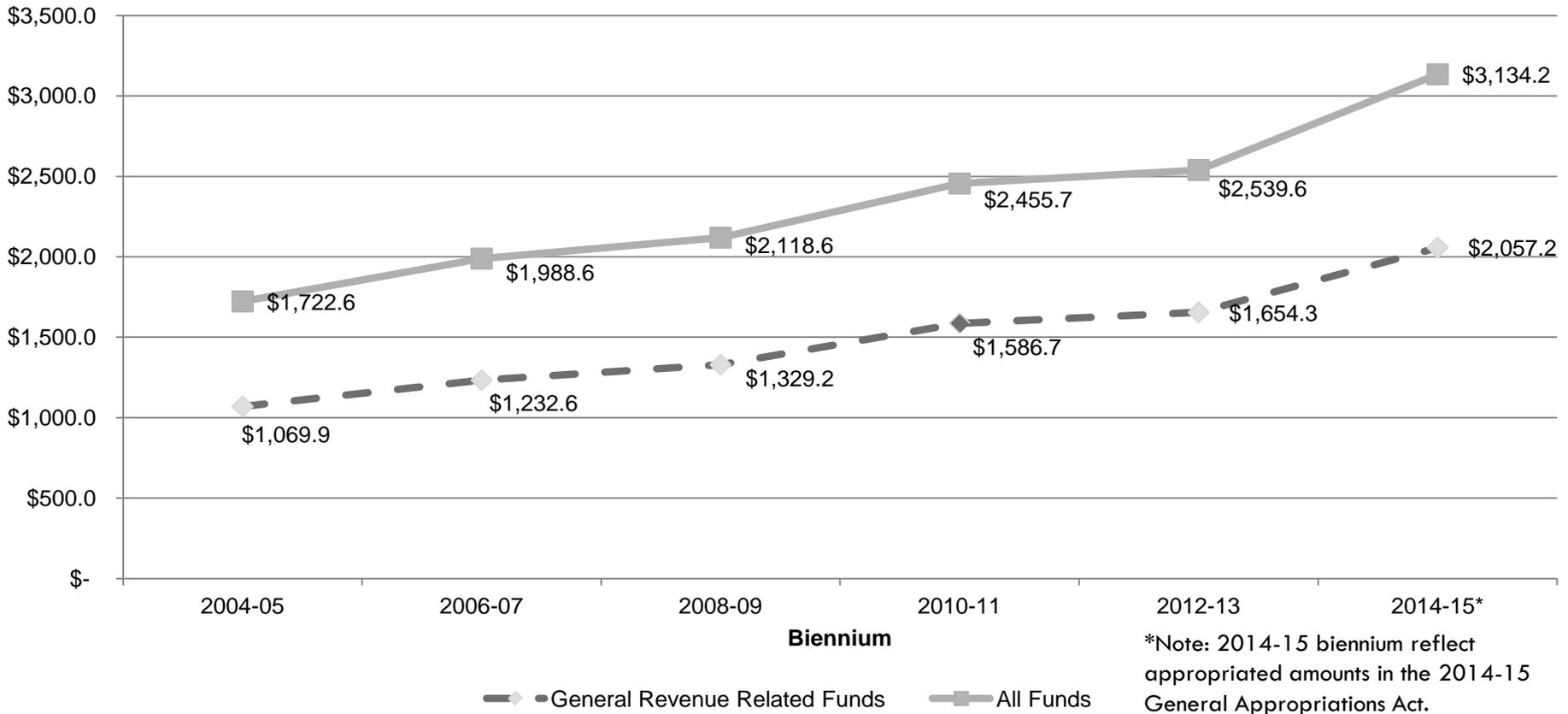
Source: Legislative Budget Board and Employees Retirement System

GBP Expenditures/Appropriations

- ERS Insurance costs included in the state budget for the 2014-15 biennium are approximately \$3,134.2 million in All Funds. Of this amount, approximately \$2,057.2 million is out of General Revenue-related funds. This is an increase of \$594.6 million in All Funds and \$402.9 in General Revenue-related funds over the 2012-13 spending levels.
- The increase is primarily due to a 7.36 percent increase in the state contribution in FY 2014 and a 7.33 percent increase in FY 2015 to fund an 8.0 percent benefit cost trend (which aligned with the trend identified in the ERS Legislative Appropriations Request). The Contingency Reserve Fund, which is authorized by Insurance Code, Sec. 1551.211 is expected to cover any additional costs.

Group Benefits Program Expenditures

Group Benefit Program Expended/Budgeted and Appropriated by Biennium (In Millions)



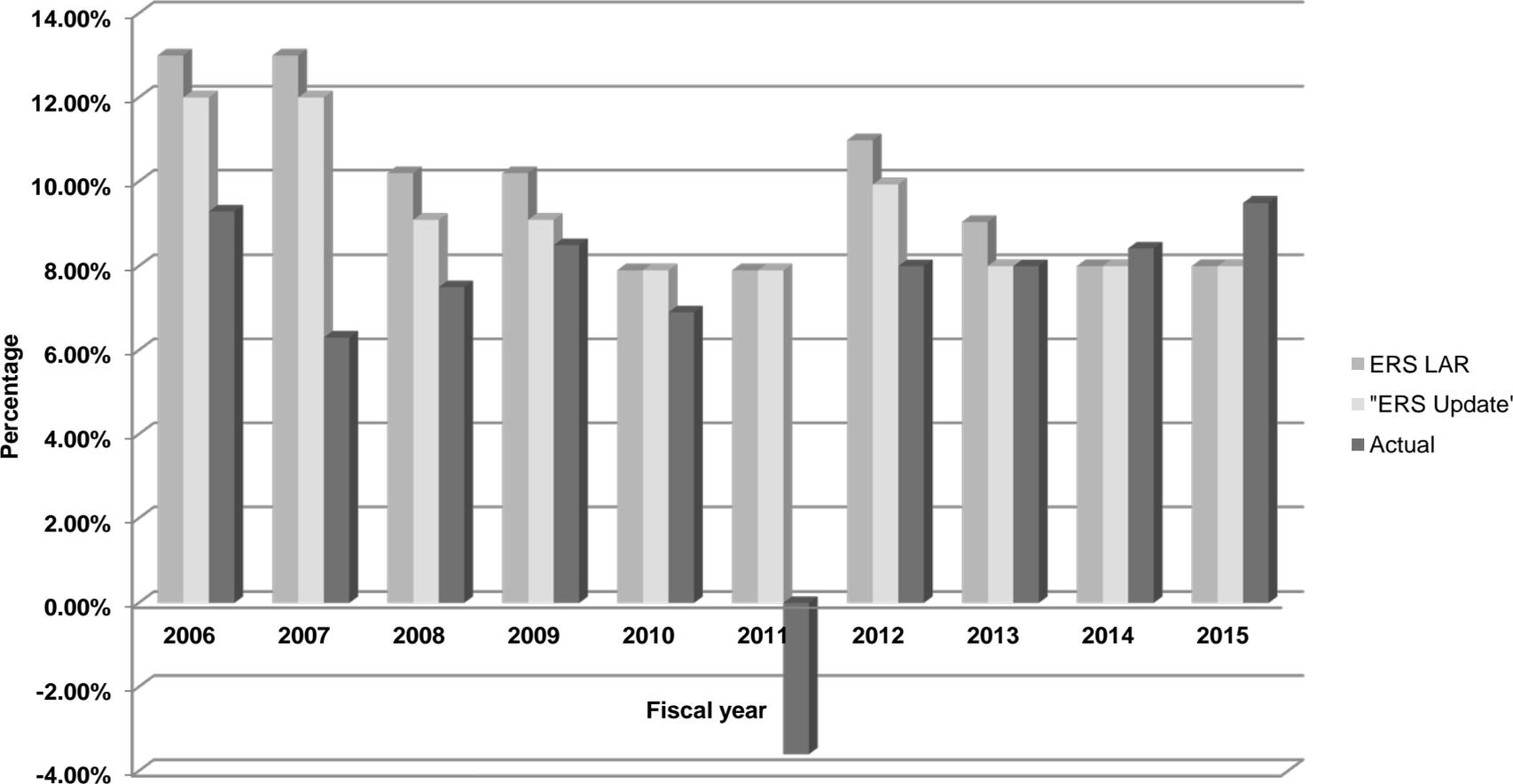
Source: Legislative Budget Board

HealthSelect Benefit Cost Trend

- The major cost driver for the GBP is the benefit cost trend.
 - ❑ The benefit cost trend is the rate at which GBP health benefits costs are increasing annually.
 - ❑ The benefit cost trend is a combination of hospital costs, prescription drug costs, and other medical expenses.

- The actual trend has averaged approximately 8.0 percent over the last 10 years.
 - ❑ The benefit cost trend was significantly reduced in FY 2011 as a result of benefit changes made by the ERS Board of Trustees due to budgetary constraints.
 - ❑ The projected cost trend in FY 2015 of 8.5 percent is primarily related to significantly increased prescription drug costs, specifically for compound drugs.

HealthSelect Benefit Cost Trend by Fiscal Year



Note FY 2015 Actual is projected

Source: Legislative Budget Board and Employees Retirement System.

TRS Retirement Budget Drivers

Retirement

1. State Contribution Rate: 6.8 percent of active member payroll in both years of 2014-15 biennium

General Revenue appropriation in 2014-15: \$3.3 billion

2. Payroll Growth

Fiscal Year 2014 actual: 4.3 percent for Public Ed and 5.4 percent for Higher Ed

Five-year average is approximately 3.98 percent and 6.93 percent

3. Other Methods of Finance

Active Employee Contribution Rate: 6.4 percent in 2014, 6.7 percent in 2015

New 1.5 percent contribution from school districts not in Social Security

TRS Retirement Overview

Created in 1937; established by the Texas Constitution

Covers all public education and higher education employees; mandatory participation (Optional Retirement Program alternative)

Defined benefit pension plan design; lifetime benefit based on years of service and average salary

Legislature determines benefit plan design, including eligibility and funding

1.4 million total membership in Fiscal Year 2014:

1. Current Members – 1,051,425

2. Annuitants – 363,182

\$8.5 Billion retirement benefits paid in Fiscal Year 2014

TRS Health Benefits Budget Drivers

Health Benefits: TRS-Care

1. State Contribution Rate: 1.0 percent of payroll in 2014-15 (statutory)

General Revenue appropriation in 2014-15: \$495.1 million

2. Health Care Costs: Projections for 2016-17 include 7.0 percent medical and 7.0 percent drug growth trend

3. Eligibility and Plan Design

4. Other Methods of Finance

Retiree contributions, varies by years of service and Medicare coverage

Active employees: 0.65 percent of payroll

District employees: 0.55 percent of payroll

Federal subsidies

TRS-Care Overview

Self-funded statewide health benefit program for public school retirees.

In 1985, the Legislature enacted the Texas Public School Retired Employees Group Benefits Act.

Third-party administration of medical and pharmaceutical benefits

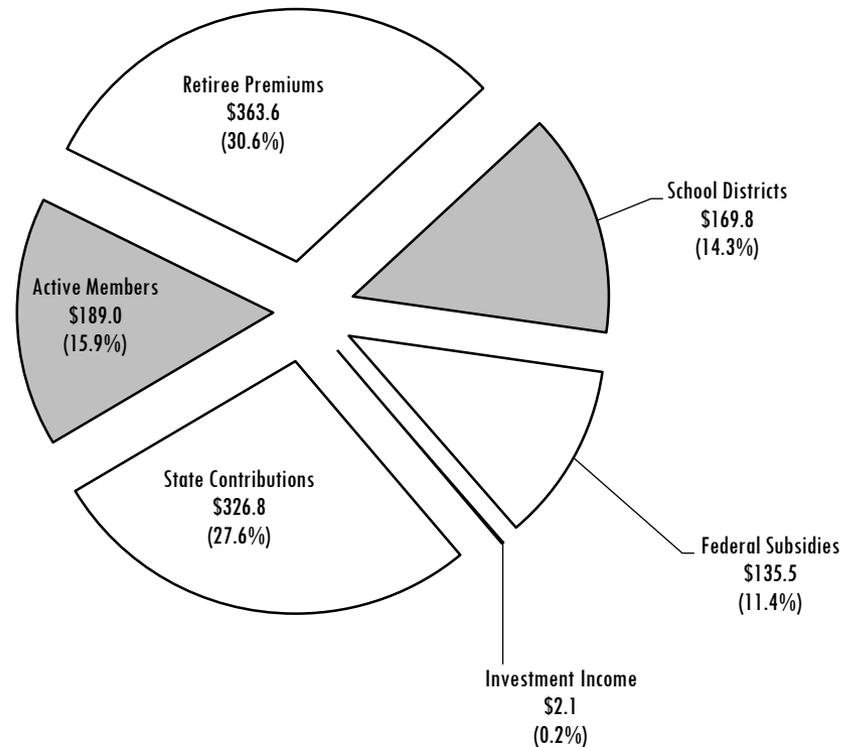
Plan design has separate plans with varying deductibles, co-pays, and premium costs.

244,784 participants as of August 2014

\$1.2 billion total plan costs paid for health benefits in Fiscal Year 2014

TRS-CARE TRUST FUND CONTRIBUTIONS
FISCAL YEAR 2014
(IN MILLIONS)

TOTAL = \$1,86.8 MILLION



Source: Teacher Retirement System.



LEGISLATIVE BUDGET BOARD

Contact the LBB

Legislative Budget Board

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