

# 85<sup>th</sup> Texas Legislature: Session Preview

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It's ALWAYS about  
Money

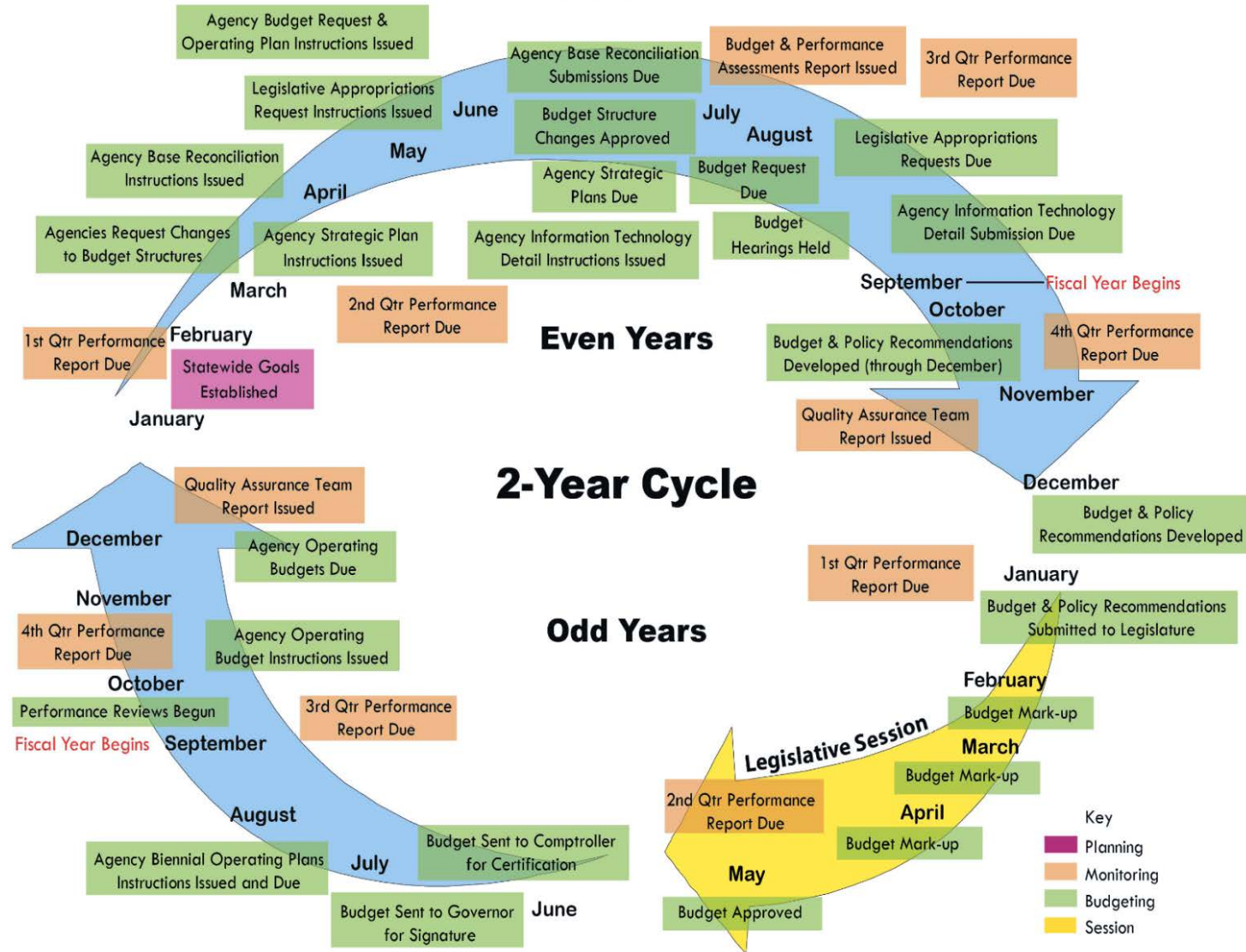
# Limitations on State Spending

The Texas Constitution includes many limitations on state spending:

- Growth of general revenue appropriations is limited to rate of growth in economy (“spending limit”) [Art.8, Sec. 22]
- “Pay-as-you-go” limit (comptroller must certify that estimated revenue will cover amount appropriated); no intentional deficit spending [Art. 3, Sec. 49a]
- Government may not borrow money, loan money, or give money away [Art. 3, Secs. 49-51]
- No state property tax [Art. 8, Sec. 1-e]
- No state income tax (effectively) [Art. 8, Sec. 24]

# Budget Process Overview

## Texas Budget Cycle



# Legislative Budgeting

- Begins with institutions filing a Legislative Appropriations Request (LAR)
- LAR is reviewed by the Legislative Budget Board (a joint committee of the two houses) and the Governor's office.
- LBB prepares the appropriations bill that the legislature will start with
- Governor may also prepare a separate bill

# LAR Instructions for 85R

- Distributed 6/30/16;  
LAR due 8/5/16
- Base limited to 96% of  
FY 17 base (not  
including TRB debt  
service)
- 10% reduction schedule
- New Schedules
  - Budget overview
  - Program level request

# New Performance Measures

5 new key performance measures for GAIs & HRIs:

- Average Cost of Resident Undergraduate Tuition and Fees for 30 SCH
- Average Student Loan Debt
- Percent of Students with Student Loan Debt
- Average Financial Aid Award per Student
- Percent of Students Receiving Financial Aid

# New (sort of) This Time: Zero Based Budgeting

- Bill traditionally starts with prior year's amounts as the base.
- Senate will start with some form of zero based budget, i.e., starting with a zero for each line instead of a dollar amount.
- Used in 1980s
- In 2003, Governor Perry's budget was all zeros.



# Return of the Line-Item Veto for Higher Ed

- KP-0048 (December 21, 2015): Validates the governor's vetoes of "informational strategies" for institutions of higher education in the general appropriations act.
- Undoes the 30 year practice of lump sum appropriations for institutions of higher education. The very purpose of lump sum appropriations in higher education was to prevent what Governor Abbott did in his purported vetoes.

# State Budget for FY 2016 – 2017

## (Where we are today)

- Legislature approved \$209.4 Billion biennial budget – representing an all funds increase of 3.6%
- Conservative Budget – spending was less than available revenue and less than spending limit; est'd \$4.2 B GR unspent
- Did not touch Rainy Day Fund
- For a supplemental appropriations bill for the current biennium:
  - \$2.1 Billion remains under the spending limit, but
  - Only \$600 million is undedicated general revenue

# State Budget Forecast for coming biennium

A very conservative legislature and a very  
conservative budget

# The Dallas Morning News

**Fiscal Hawks pounce, warn Texas lawmakers how much they can spend next year and still be 'conservative'**

28 June 2016

Austin -- A coalition of 13 fiscal hawk and anti-tax groups on Tuesday laid down a marker about next year's state budget.... The groups said that next year, Texas lawmakers must spend less than \$218.5 billion, including federal funds, for the next two-year budget to qualify as conservative... For next year's session, the maximum growth would be 4.5 percent.

# State Revenues & Budget Pressures

- Rainy Day fund expected balance of \$10.4 billion
  - lower than \$11.1 billion prediction, but
  - lege shows no willingness to spend anyway
- State Highway Fund and the Rainy Day fund bear most of lost energy tax revenue, will each receive about \$600 million less than predicted because of lower energy production.
- Largest state GR source is sales tax; at end of May, collections for 2016 are down 7.1% compared to 2015

# State Revenues & Budget Pressures

- Major lawsuit on Foster Care, possibly \$100M/year;
  - Caseload growth in Medicaid and CHIP will be \$1.6 billion without improvements to foster care
- Major lawsuit on Movie Theater franchise tax (\$6B refunds, \$1.5B/year lost revenue)
- Constitutional amendment adopted last year may divert up to \$2.5B in sales tax revenue to State Highway Fund
- Public education funding reform, despite state winning lawsuit

# Budget Good News

- State “won” lawsuit on constitutionality of public school finance system
- State won lawsuit regarding sales tax on oilfield equipment (potential \$4.4B in refunds, \$500M/year lost revenue)
- State won lawsuit on Hazlewood tuition exemption for veterans (loss would have meant any veteran who moved to Texas could claim tuition exemption)

# Higher Ed Issues Related to Money

- Tuition Regulation
  - Cap or re-regulate
  - In-state tuition for undocumented students
- Formula Funding
  - Possible outcomes-based funding for academic institutions
  - Proposed changes to space model affects infrastructure formula
- Hazlewood legacy tuition exemption
- Student financial aid, including tuition set-aside
- Research Funding
  - Governor's University Research Initiative (GURI)
  - Texas Research Incentive Program (TRIP)



# Contracting

- Possible revisions of SB 20 requirements as they apply to higher education, including conflict of interest prohibitions
- KP-0093 (May 27, 2016) determined that SB 20 provisions, prohibiting contracts with vendors in which regents or family members have 1% financial interest, prevails over Education Code provisions governing higher education

# Donation of Sick Leave

Revisit of HB 1771 from 84R allows donation of sick leave by state employees to specific individuals, which has tax consequences to the donor

# E-Verify

KP-0070 (March 17, 2016) leave open question of whether E-verify applies to contractors and subcontractors under Executive Order RP-80

# Same Sex Marriage

KP-0025 (June 28, 2015): county clerks and judges entitled to accommodation for religious objections to issuing same-sex marriage licenses or conducting same-sex wedding ceremonies

# TRS Actuarial Soundness

As of 8/31/15:

- Unfunded accrued liability of \$33 billion
- Deferred net investment losses of \$4.9 billion
- 33.3 years needed to amortize unfunded liability (31 years necessary to be actuarially sound)

# FLSA

Legislature will explore ways to reduce cost and impact of new overtime rules and expansion of white collar workers eligible for overtime pay.

# Key Dates

- General Election is Tuesday, November 8, 2016
- Bill Pre-filing Begins Monday, November 14, 2016
- 85<sup>th</sup> Legislature Convenes Tuesday, January 10, 2017
- January Activities
  - Governor delivers State of the State Address
  - Comptroller issues revenue estimate for 2018-2019
  - Lt. Governor and Speaker organize committees
  - Hearings on base appropriations bill
- Sine Die is Monday, May 29, 2017