



2016 - 2017

GOVERNOR'S BUDGET

GREG ABBOTT

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2016 - 2017



TEXAS GOVERNOR GREG ABBOTT

Presented to the 84th Texas Legislature

February 2015



GOVERNOR GREG ABBOTT

February 17, 2015

The Honorable Dan Patrick, Lieutenant Governor
The Honorable Joe Straus, Speaker of the House
Members of the Eighty-Fourth Legislature

In 2036, we will celebrate the Texas bicentennial, looking back on 200 years of accomplishments that make our state the envy of the nation. The course of action we take in adopting the 2016-17 biennial Texas budget will pave the pathway toward that bicentennial exceptionalism. It will directly affect the lives of current and future Texans by expanding our state's model of limited government and unlimited opportunity.



THE GOVERNOR'S BUDGET

Jobs. Opportunities. Prosperity.

Strategically invest in education, transportation, border security, and healthcare.

Constrain the size and growth of government.

Reduce agency spending.

Suspend, reduce, and eliminate unnecessary taxes and fees.

Ensure government supports job creation and is accountable and transparent.

While Texas' job opportunities remain robust, over the 2016-17 biennium, declining oil and gas prices may adversely affect jobs related to the state's energy industry and the revenue derived from oil and gas production. To ensure Texas remains number one in job creation, we must reduce taxes in ways that empower the private sector to create more jobs, reduce occupational licensing requirements, and constrain government growth to reduce the burden on taxpayers. We must also prioritize spending to ensure all Texans live in a state with improved schools, a better transportation system, and safer communities.

PUBLIC EDUCATION

The cornerstone of Texas' future is education. Texas is number one in the nation on so many fronts, including job creation, energy production, and exports. We should similarly strive to be number one in education. Candidly, failure to improve Texas schools could compromise the state's premiere economic standing. This budget takes a first step in that direction by outlining \$403 million in initiatives designed to improve student educational outcomes, while fully funding the current public education formulas and returning more local control to parents and teachers.

The literacy and mathematics skills children learn in prekindergarten (pre-k) through third grade form the foundation for their futures, both in school and in life. Our primary goal should be to ensure all Texas students perform at grade level by the third grade in reading and math. To begin that process, the Governor's Budget provides \$182 million in an integrated pre-k through third grade program. This new \$182 million infusion in public education includes \$118 million for implementing a high-quality pre-k program for eligible Texas pre-k students and \$64 million for providing each Texas pre-k through third grade teacher with world-class, multi-day, face-to-face professional development through Literacy and Math Achievement Academies and Reading Excellence Teams. Additionally, \$30 million in funding is provided for Reading-to-Learn Academies for fourth and fifth grade educators so they are better prepared to help their students with reading comprehension.

Texas must also begin the process of reinventing and improving its entire public education system to achieve better academic outcomes. The state must end the one-size-fits-all approach for all public school districts and campuses. Parents, teachers, and principals must be empowered to make decisions and changes within their local school system, and it is critical that genuine local control over our public schools is restored. The state must ensure that parents, students, and teachers have better access to valuable information about their school's performance. To achieve that, the state should require that each public school publish an A - F report card on its campus website. Further, to prevent students from being stuck in failing schools, the state should empower parents to petition to change campus management at underachieving schools. In addition, the state should create an Achievement School District (ASD) to provide an expedited process through which the state's lowest performing elementary schools would receive specialized attention – by being placed under management of the ASD – to improve the schools' performance.

Because technology plays an integral role across multiple sectors of Texas' economy, this budget devotes \$164 million to provide students with digital learning opportunities, especially at low-performing schools, and greater access to high-quality online courses and tools to help students succeed on high school end-of-course exams.

The state must also devote \$12 million to programs that improve the teacher pipeline by attracting more high-quality teachers – especially in shortage areas, including science, technology, engineering, and mathematics (STEM) – and provide leadership training for principals.

The state must ensure that every child who graduates from a Texas high school is college- or career-ready. By reforming the state's public education system, the state will help ensure that all high school students are equipped for postsecondary success.

HIGHER EDUCATION

Postsecondary education is the primary way many Texans can achieve greater economic freedom. Top research universities not only drive innovation, but they also foster economic development – and this creates job opportunities for hardworking Texans.

The Governor's Budget allocates an additional \$496 million for our higher education institutions for the strategic purpose of enhancing research programs and attracting nationally recognized researchers and Nobel Laureates to Texas universities. Of this amount, \$40 million is newly appropriated funds and \$56 million is transferred from unobligated, pre-existing Emerging Technology Fund balances. Additionally, the Governor's Budget provides at least \$400 million – and up to \$540 million – of the Cancer Prevention Research Institute of Texas (CPRIT) budget exclusively for institutions of higher education to help fund academic research and the recruitment of nationally recognized cancer researchers to Texas universities. In addition, this budget funds \$532 million in tuition exemptions to pay for the tuition of military veterans and their families, rather than pushing the cost of these veterans' benefits to public universities in the form of an unfunded mandate.

Finally, the state must focus on the successful transition of high school students into career paths – including the military, job training, college, or the workforce – and on higher education initiatives that make college more affordable for families and help students enter the workforce more quickly. The Governor's Budget recommends \$15 million to provide bonuses directly to high school teachers for students who have Advanced Placement (AP) and International Baccalaureate (IB) scores that qualify them for college credit. In addition, requiring institutions of higher education to accept credits earned in high school for AP test scores of three or higher will save Texas families' money and help students graduate on time.

TRANSPORTATION

A robust and reliable road system is vital to the success of the Texas economy and is demanded by Texas families. We must continue to expand and maintain our roads and bridges to ensure that both citizens and commerce can move throughout the state more efficiently. Currently, there are insufficient funds exclusively dedicated to funding our state's transportation needs. As a result, the state has been unable to adequately develop a long-term transportation plan. Consequently, we must identify additional revenue streams to support our congested and aging roadways and bridges. This budget calls for one half (1/2) of the existing motor vehicle sales tax on new and used vehicles to be constitutionally dedicated to transportation infrastructure funding. We must also end the practice of diverting significant state highway funds away from building and maintaining roads. Money intended for roads should go to roads. These efforts, combined with the recently approved constitutional amendment to dedicate a portion of the oil and gas severance tax to transportation, will ensure that approximately \$4 billion more per year in

transportation funding is available starting in Fiscal Year 2017 to build and maintain our state's transportation system.

BORDER SECURITY

Texas communities cannot prosper if they are not safe. The federal government's failure to secure the border has provided opportunities for violent criminals, drug cartels, and persons from countries with ties to terrorism to enter Texas. The Governor's Budget calls for more than doubling state spending on border security operations to \$735 million during the 2016-17 biennium. This \$735 million funding request would fully fund ongoing border security efforts and enhance current border surge operations by providing additional Department of Public Safety troopers, improved equipment for law enforcement operations, enhanced communication tools, and amplified border prosecutions. By the end of the 2018-19 biennium, this additional funding request should devote an additional 500 troopers to border security.

HEALTH CARE

To enhance the health and well-being of Texas women, the Governor's Budget devotes an additional \$50 million to the Texas women's health programs, which provide critical preventive services, family planning, cancer screening, and postpartum care.

Texas must do a better job of protecting the most vulnerable and at-risk children. The tragedies of the past are simply not acceptable. While the Governor's Office and the Legislature must work to develop comprehensive reforms to the state's broken foster care system, legislative reforms alone are insufficient – so the state must immediately improve funding for the Department of Family and Protective Services (DFPS). The Governor's Budget takes the first step in that direction by proposing a \$40 million funding increase to DFPS to help increase access to outcome-based prevention and community-based programs – and fund more robust oversight for children living in foster placements.

Medicaid is a broken, bankrupt system. It poorly serves patients, doctors, and taxpayers. The number of physicians serving the Texas Medicaid population is at an all-time low, even as Medicaid expenditures continue to grow as a percentage of general revenue spending. States need greater flexibility in providing for the health care needs of their residents, not more federal mandates. We must continue to seek flexibility waivers from the federal government so that we can provide for the unique healthcare needs of our local communities. Texas must also insist that the federal government live up to its obligation to serve our military families. This budget devotes \$21 million to address the mental health care needs of our service members and veterans.

JOBS FOR VETERANS

Our nation's military service members honor and protect our country at home and overseas. To ease the transition from military life to the civilian world, Texas must eliminate barriers to economic opportunity for veterans. This can be accomplished by removing bureaucratic requirements and providing relief from taxes

and fees, which deter veteran entrepreneurship. The Governor's Budget also provides nearly \$15 million in franchise tax relief for veteran-owned businesses, and removes economic burdens by no longer requiring military service members, veterans, and their spouses to pay fees for occupational licensing applications and examinations. Additionally, to better protect military communities from the consequences of potential Base Realignment and Closure (BRAC) actions, the Governor's Budget recommends \$30 million in Defense Economic Adjustment Assistance Grants to assist communities affected by BRAC with infrastructure and construction projects.

ECONOMIC DEVELOPMENT

To ensure that Texas continues to lead the nation in job creation and economic opportunity, Texas must more vigorously compete with other states and nations to attract jobs, new businesses, and economic development. While the successes of the past are unparalleled, many other states have since overhauled their economic development programs so that they can compete with Texas. For Texas to continue to lead the nation in job creation, we must reevaluate and revitalize our existing economic development programs. To rise to that challenge, we must not only make our economic development programs more efficient, but we must also improve accountability and transparency so that Texas taxpayers have confidence that their hard-earned dollars are being spent wisely.

With these important goals in mind, the Governor's Office is working with the Legislature to improve and revitalize the Texas Enterprise Fund (TEF). To remain competitive with other states that review and approve economic development incentives in just 60 days, we must shorten the six month period within which Texas has historically processed TEF applications. We must also enact reforms that dramatically improve transparency and accountability so that issues of concern identified by the State Auditor's Office are not repeated. And, while we must retain a reformed TEF as a "deal-closing" fund to remain competitive with other states, the time has come to abolish the Emerging Technology Fund (ETF).

The Governor's Budget allocates half of the ETF's existing balances to the Texas Enterprise Fund. The remaining half – approximately \$56 million – is allocated to the Texas Higher Education Coordinating Board to fund the Governor's University Research Initiative. This new program, which would be available to all public Texas institutions of higher education, would provide matching funds for public universities to recruit Nobel Laureates and members of the National Academies. Recruiting nationally renowned researchers would not only elevate the standing of our state's universities, it would also foster economic development by recruiting top researchers to Texas – especially those who can collaborate with the private sector.

Finally, the Governor's Budget provides for the state's event trust funds to be transferred to the Governor's Office. This proposal, which was developed in conjunction with the Texas Comptroller of Public Accounts, would improve efficiency by consolidating major economic development initiatives within the Governor's Office. Moving the events trust funds – which, like the Texas Enterprise Fund, need to be reformed to improve efficiency and accountability – would foster greater coordination within the state's major economic development programs and thus ensure the state has a strategic, focused approach to economic development.

Together, these reforms will make Texas' economic development programs more robust, more far-reaching, and more transparent.

THE GOVERNOR'S BUDGET PRINCIPLES

The best economic development incentive is a system of low taxes, fair courts, and a regulatory system that respects job creators' needs and individual liberties. Each dollar of taxes imposed on Texas businesses hampers the number of jobs they can create and sustain, as well as reduces the amount of capital those businesses can reinvest into the state's economy. Texas must remain the number one place in the nation to do business. By enacting common-sense reforms that promote free market principles, we can ensure that the entrepreneurial spirit of Texans can thrive for generations to come.

In addition to making strategic investments in education, transportation, and border security, we must constrain the size of government and reduce taxes to free the private sector to create more jobs. Texas families already prioritize their spending and live within their means, and so must the state. To ensure spending is prioritized, general revenue and general revenue-dedicated spending must not grow more than the historical growth in population plus inflation. Using this population-plus-inflation metric, the Governor's Office calculated that total general revenue spending should not grow more than 7.32 percent – and thus should not exceed more than approximately \$102 billion next biennium. In addition – with the exclusion of formula funding for schools and universities, mandatory pension obligations and amounts for federal entitlement programs – this budget requires that most state agencies find operational efficiencies to reduce general revenue spending from their 2014-15 biennial amounts by at least three percent. This reduction is offset, in part, by savings that many agencies will experience from decreasing fuel and travel costs due to the decline in oil and gas prices. After implementing the three percent reduction, general revenue spending in the Governor's Budget increases by less than five percent from \$95.2 billion in the 2014-15 biennium (estimated) to \$99.4 billion in the 2016-17 biennium.

By keeping spending levels lower than the growth in population plus inflation, we can ensure that the size of government does not grow. This allows Texas to significantly reduce tax burdens. The nearly \$4.5 billion in tax reductions in this budget include \$2 billion in reductions for employers (franchise tax), \$2.2 billion in property tax relief, and the suspension, reduction or elimination of approximately \$268 million in unnecessary statutorily dedicated taxes and fees.

To keep Texas fiscally strong, the time has come to begin reducing our debt. Debt today becomes taxes tomorrow. Debt service unnecessarily burdens the state's budget and limits the economic freedom of future generations. The Governor's Office will work with the Legislature to devise a funding structure to begin an ongoing process of paying down debt.

I look forward to working with the Texas Legislature to adopt a budget that will build a stronger Texas. Limiting the size and scope of government, while prioritizing spending on areas that are critical to the state's economy, will continue to unleash the power of entrepreneurs and innovators and secure Texans' freedom to aspire. That is the model of success for Texas, and for the nation, and it will ensure that even the future is bigger in Texas.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Abbott". The signature is written in a cursive, flowing style with a large initial "G".

Greg Abbott
Governor of Texas

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THE GOVERNOR'S BUDGET OVERVIEW

The Federal Reserve Bank of Dallas recently indicated that the Texas economy may be adversely affected by declining oil and gas prices.¹ That, of course, could impact revenues received by the state. As a result, the state must start planning today for tomorrow and make the strategic spending decisions that reflect the state's priorities. Further, Texas must be particularly vigilant to enact reforms that will constrain the size of government, reduce taxes to stimulate the private sector to create more jobs, and ensure public trust by making government spending more transparent and accountable. The state must make strategic investments to ensure that Texans born today will live in a state with better schools, better transportation, and safer communities.

BUDGET PRINCIPLES

In addition to strategically improving transportation, education, and border security, the 2016-17 budget should be built on the following core principles:

- ★ Passing a constitutional amendment to limit the growth in state spending to the historic growth in the state's population plus inflation.
- ★ Limiting the size of government by reducing most state agency general revenue expenditures by three percent.
- ★ Securing additional funding for transportation infrastructure by passing a constitutional amendment to dedicate one half (1/2) of the motor vehicle sales tax to transportation needs and ending many transportation funding diversions.
- ★ Stimulating private sector job growth by permanently decreasing the business tax (franchise tax) by \$2 billion, combined with comprehensive reforms. This includes tax reductions for veteran-owned businesses.
- ★ Providing property owners with \$2.2 billion in property tax relief.
- ★ Using any revenue that exceeds initial estimates or a portion of any surplus cash to reduce state non-self-supporting debt.
- ★ Preventing future overspending by passing a constitutional amendment ending the use of funds in statutorily dedicated accounts for budget certification; suspending, reducing, or eliminating the collection of at least \$268 million in dedicated taxes and fees.
- ★ Providing the Governor expanded line-item veto authority to ensure prudent and sensible spending reductions.

The Governor's Budget for the 2016-17 biennium focuses on expanding the Texas economic model, which is proof that limited government encourages unlimited opportunity for all.

¹ See Keith Phillips, *2015 Texas Economic Outlook: Tapping on the Brakes*, Federal Reserve Bank of Dallas, 23-29 (Jan. 13, 2015), <http://dallasfed.org/assets/documents/news/speeches/15outlook-phillips.pdf>.

AGENCY COST REDUCTIONS INCLUDED IN THE GOVERNOR'S BUDGET

With the exception of formula funding for public and higher education, amounts for pension obligations, and those appropriations required to meet federal entitlement obligations, the Governor's Budget reduces general revenue spending by three percent at most agencies. There are many potential ways for agencies to achieve this three percent reduction without eliminating essential programs, including implementing a hiring freeze. Further, agency fuel and travel costs are anticipated to decrease during the 2016-17 biennium as a result of a decline in the price of oil and gas. In addition, all state agencies have already identified potential reductions and included them in their 2016-17 Legislative Appropriations Requests. These agency cost reduction recommendations should be reviewed for implementation.

SUMMARY OF THE GOVERNOR'S BUDGET PROPOSED AMOUNTS BY ARTICLE

After implementing agency cost-saving measures, and fully funding the Governor's strategic investments, the Governor recommends total general revenue and general revenue-dedicated appropriations for the 2016-17 biennium of \$105.8 billion, including \$99.4 billion of general revenue.



SUMMARY OF ALL ARTICLES GOVERNOR'S RECOMMENDATION

(IN MILLIONS)

	GR AND GR-DEDICATED	ALL FUNDS
ARTICLE I - GENERAL GOVERNMENT	3,383.2	4,947.8
ARTICLE II - HEALTH AND HUMAN SERVICES	32,344.0	75,666.1
ARTICLE III - AGENCIES OF EDUCATION	54,526.0	77,214.5
ARTICLE IV - THE JUDICIARY	571.0	754.8
ARTICLE V - PUBLIC SAFETY AND CRIMINAL JUSTICE	10,221.3	11,527.2
ARTICLE VI - NATURAL RESOURCES	1,965.4	3,989.2
ARTICLE VII - BUSINESS AND ECONOMIC DEVELOPMENT	1,758.7	29,913.2
ARTICLE VIII - REGULATORY	619.6	649.2
ARTICLE IX - GENERAL PROVISIONS	1.7	1.7
ARTICLE X - THE LEGISLATURE	381.5	381.7
TOTAL, ALL ARTICLES	\$105,772.3	\$205,045.3

Amounts may not add due to rounding. For purposes of compliance with the Texas Government Code 401.0445-046, the Governor adopts the Legislative Budget Board, House Legislative Budget Estimates Articles I-III and IV-X, 2016-17 Biennium, for fiscal years 2013-2015, available at <http://www.lbb.state.tx.us>. For the 2016-17 biennium, the Governor submits amounts included in the table above and recommends agency-by-agency amounts consistent with the principles in this document, including a three percent general revenue reduction at most Texas agencies from 2014-15 base spending (estimated/budgeted) amounts. Reductions were not made to public and higher education formula funding, pension obligations, contribution amounts for state employee health care or amounts required to fund federal entitlement programs.

THE GOVERNOR’S BUDGET PROPOSED SPENDING LIMIT

Under the state’s current spending limit, government spending can grow much faster than the state’s growth in population and inflation. When government spending grows at such a pace, the state risks creating a situation that is untenable because Texans will be burdened with higher taxes to fund an ever-expanding government. This means less money and higher taxes for families, fewer businesses investing in Texas, and less economic prosperity for all. Consequently, the state’s spending limit must be significantly strengthened to a limit based on a historic measure of growth in the state’s population plus inflation.

In determining this more responsible spending limit, the Governor’s Budget recommends using historical data from fiscal years 2011-14 included in the Comptroller’s Biennial Revenue Estimate,² instead of less reliable, malleable future projections, and applying the limit to all general revenue and general revenue-dedicated spending. The Governor’s Budget calculates this growth rate to be 7.32 percent. The 7.32 percent used in the Governor’s Budget is less than the median of the range of population and inflation-based limits provided to the Legislative Budget Board (LBB) for the 2016-17 biennium.³



**Governor’s General Revenue (GR) and General Revenue-Dedicated (GRD)
Spending Limit for the 2016-17 Biennium**

(IN MILLIONS)

GR Spending for the 2014-15 biennium*	\$95,170.0
Population and Inflation Growth Limit	7.32%
GR Spending Limit for the 2016-17 biennium	\$102,136.4
GRD Spending for the 2014-15 biennium*	\$7,348.0
Population and Inflation Growth Limit	7.32%
GRD Spending Limit for the 2016-17 biennium	\$7,885.9
Total Recommended GR and GRD Spending Limit for the 2016-17 biennium	\$110,022.3

Amounts may not add due to rounding.

**Amount is current estimate included in Legislative Budget Board, House Summary of Legislative Budget Estimates 2016-17 Biennium, 4-5 (Jan. 2015), <http://www.lbb.state.tx.us/>. Amount is subject to change based on actions of the 84th Legislature.*

² See Texas Comptroller of Public Accounts, *Biennial Revenue Estimate 2016-17 Biennium*, 4-5 (Jan. 2015), http://www.texas Transparency.org/State_Finance/Budget_Finance/Reports/Biennial_Revenue_Estimate/2016_17/.

³ See Legislative Budget Board, *House Summary of Legislative Budget Estimates 2016-17 Biennium*, 20 (Jan. 2015), <http://www.lbb.state.tx.us/>, providing (“Population and inflation growth estimates submitted to the LBB in anticipation of the November 2014 LBB meeting ranged from 6.19 percent to 8.62 percent.”).

The total recommended general revenue and general revenue-dedicated spending limit for the 2016-17 biennium sets a maximum level, not a spending goal to be reached. Effort should be made to keep spending below the limit. By adopting a spending limit that results in fiscal restraint, the state will have resources available for tax reductions and transportation improvements that will further economic development and enhance the quality of Texans' lives. The Governor's recommended general revenue and general revenue-dedicated appropriation amounts are less than the recommended spending limits for the 2016-17 biennium by \$2.7 billion in general revenue and \$1.5 billion in general revenue-dedicated.



Amount Governor's General Revenue (GR) and General Revenue-Dedicated (GRD) Appropriations for the 2016-17 Biennium are Under the Spending Limits

(IN MILLIONS)

GR Spending Limit for the 2016-17 biennium	\$102,136.4
Governor's Recommended GR Appropriation	\$99,405.5
<hr/>	
Amount Governor's Recommended GR Appropriation is Under the Spending Limit	\$2,730.9
GRD Spending Limit for the 2016-17 biennium	\$7,885.9
Governor's Recommended GRD Appropriation	\$6,366.8
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Amount Governor's Recommended GRD Appropriation is Under the Spending Limit	\$1,519.1
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Total Amount Governor's GR and GRD Appropriations are Under the Spending Limits	\$4,250.0

Amounts may not add due to rounding.

THE GOVERNOR'S PROPOSED AMOUNTS FOR TAX REDUCTIONS

Included in the Governor's general revenue appropriation is \$2.2 billion for property tax relief, combined with comprehensive reforms. In addition, the Governor recommends \$2 billion in business tax (franchise tax) relief and suspending, reducing, or eliminating the collection of at least \$268 million in dedicated taxes and fees. The Governor's total recommendation for tax relief is nearly \$4.5 billion.



Governor's Recommended Tax and Fee Reductions for the 2016-17 Biennium

(IN MILLIONS)

Business Tax (Franchise Tax) Relief*	\$1,985.5
Business Tax (Franchise Tax) Relief for Veterans*	\$14.5
Total Business Tax (Franchise Tax) Relief	\$2,000.0
Property Tax Relief	\$2,216.2
Suspend, Reduce, or Eliminate the Collection of Dedicated Taxes and Fees	\$268.0
Total Tax Relief 2016-17 Biennium	\$4,484.2

Amounts may not add due to rounding.

*Franchise tax collections are statutorily required to be divided between amounts for property tax relief for public education and general revenue spending. Statutory changes may be required to ensure estimated franchise tax amounts included in the Comptroller's Biennial Revenue Estimate for the 2016-17 biennium for the Property Tax Relief Fund remain the same after implementing the Governor's recommended franchise tax relief to ensure there is no impact on funding for public education. See Texas Comptroller of Public Accounts, Biennial Revenue Estimate 2016-17 Biennium, 13-14 (Jan. 2015), http://www.texastransparency.org/State_Finance/Budget_Finance/Reports/Biennial_Revenue_Estimate/2016_17/, providing ("Franchise tax revenue is split between the General Revenue Fund (GR) and the Property Tax Relief Fund (PTRF). The PTRF portion is the amount by which the total revenues collected under the new tax structure exceeds the amount that would have been collected under the tax as it existed on August 31, 2007. The portion deposited to GR is the amount projected to have been collected had the former tax structure remained in place.").

THE GOVERNOR'S PROPOSED AMOUNTS FOR TRANSPORTATION

To ensure adequate funding is available for Texas' transportation system, the Governor's Budget includes a \$4 billion increase starting in Fiscal Year 2017 after constitutionally dedicating one half (½) of the Motor Vehicle Sales Tax to transportation.



Governor's Transportation Funding Plan (IN MILLIONS)

Fiscal Year	2016	2017
Constitutional amendment dedicating 1/2 of the Motor Vehicle Sales Tax to the State Highway Fund starting in 2017*		\$2,359.0
Provide the oil and gas severance tax transfers approved in Proposition 1, 2014, to the Texas Department of Transportation (TxDOT)**	\$1,308.0	\$1,267.0
Provide additional funding to TxDOT by reducing State Highway Fund diversions to other agencies***	\$400.0	\$400.0
Total	\$1,708.0	\$4,026.0

*See Texas Comptroller of Public Accounts, Biennial Revenue Estimate 2016-17 Biennium, 26 (Jan. 2015), http://www.texasparency.org/State_Finance/Budget_Finance/Reports/Biennial_Revenue_Estimate/2016_17/.

**The Governor's Budget uses estimated amounts included in Legislative Budget Board, House Legislative Budget Estimates Articles IV to X, 2016-17 Biennium, VII-15 (Jan. 2015), <http://www.lbb.state.tx.us>.

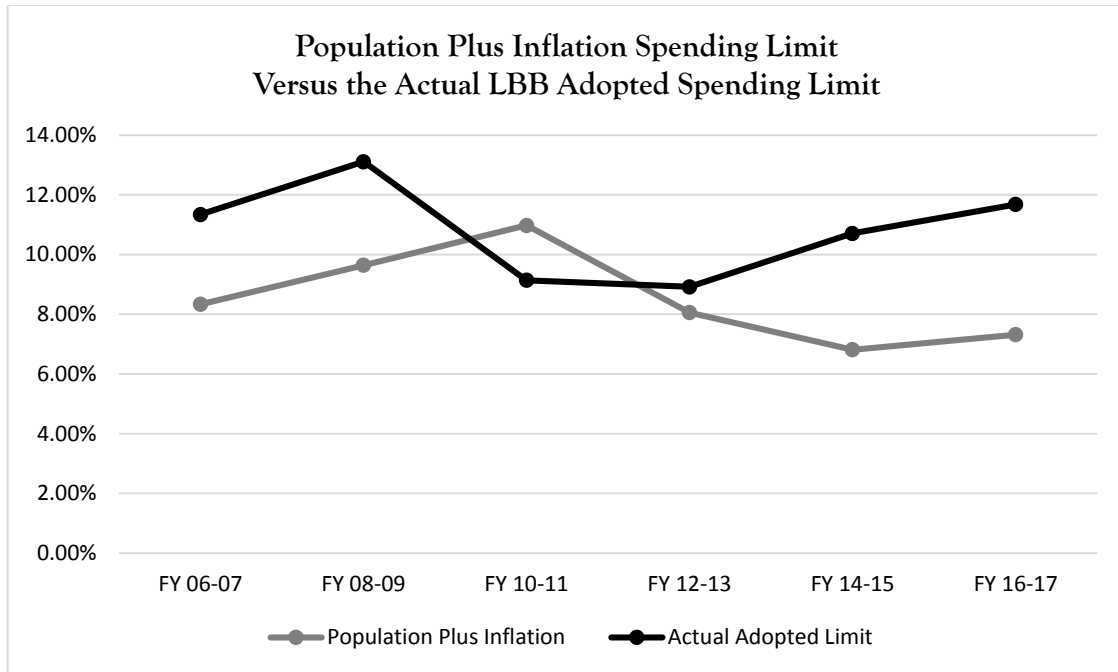
***The Governor's Budget ends many diversions that are not expressly permitted by the Texas Constitution, Section 7-a, Art. VIII. (The House and Senate budgets end the funding of policing functions that are permitted by the Texas Constitution.)

DETAILED BUDGET PRINCIPLES

BUDGET PRINCIPLE 1: PASS A CONSTITUTIONAL AMENDMENT TO LIMIT THE GROWTH IN STATE SPENDING TO HISTORIC GROWTH IN THE STATE'S POPULATION AND INFLATION

Under the state's current spending limit, Texas government can grow much faster than the state's growth in population and inflation, which means that the state can spend far more than is necessary to meet its basic obligations.

The state's spending limit should be based on population plus inflation because changes in population and inflation better reflect the state's actual needs than the current spending limit based on personal income growth. Historically, the combination of growth in population plus inflation has typically been less than the growth in personal income and will act to more responsibly grow government when state bank accounts are temporarily flush with cash. If the Governor's recommended population plus inflation-based limit were in place, it would generally allow for less spending than the Legislative Budget Board's adopted limit.



	LBB's Actual Adopted Spending Limit	Recommended Population Plus Inflation Spending Limit
FY 06-07	11.34%	8.34%
FY 08-09	13.11%	9.64%
FY 10-11	9.14%	10.98%
FY 12-13	8.92%	8.06%
FY 14-15	10.71%	6.81%
FY 16-17	11.68%	7.32%
AVERAGE	10.82%	8.52%

In determining the spending limit, the Governor's Budget relies on the empirical historic data and growth rates from Fiscal Years 2011-2014 included in the Comptroller's Biennial Revenue Estimate.⁴ Using historical data avoids reliance on malleable "forecasts" of future growth, which may vary widely and depend on accurately predicting numerous future economic variables. In addition, using a four-year average lessens the impact of short-term volatility.

The Legislature may have strong opinions on the proper methods to calculate the growth in population and inflation, and consideration of more than one calculation may be appropriate. Depending on whether the

⁴ See Texas Comptroller of Public Accounts, *Biennial Revenue Estimate 2016-17 Biennium*, 4-5 (Jan. 2015), http://www.texasparency.org/State_Finance/Budget_Finance/Reports/Biennial_Revenue_Estimate/2016_17/.

growth rates are added or compounded, the population and inflation spending limit would be either 7.32 percent or 7.45 percent, respectively, for the 2016-17 biennium. For the purposes of the Governor’s Budget, the lower of the two calculations – 7.32 percent – will be applied as the spending limit. When compared to the spending limit of 11.68 percent adopted by the Legislative Budget Board for the 2016-17 biennium, the Governor’s maximum allowable rate of growth is four percentage points lower. The 7.32 percent used in the Governor’s Budget is also less than the median of the range of population and inflation-based limits provided to the Legislative Budget Board for the 2016-17 biennium.⁵

The Governor’s 7.32 percent general revenue and general revenue-dedicated growth limit is just that – a maximum limit – not an amount that must actually be expended. Effort should be made to keep spending below the limit. By adopting a spending limit that results in fiscal restraint, the state will have resources available for tax reductions and transportation improvements that will further enhance the quality of Texans’ lives. An explanatory calculation of the Governor’s recommended population plus inflation-based spending limit calculation follows.



Governor’s General Revenue (GR) and General Revenue-Dedicated (GRD) Spending Limit for the 2016-17 Biennium

(IN MILLIONS)

GR Spending for the 2014-15 biennium*	\$95,170.0
Population and Inflation Growth Limit	7.32%
GR Spending Limit for the 2016-17 biennium	\$102,136.4
GRD Spending for the 2014-15 biennium*	\$7,348.0
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Total Recommended GR and GRD Spending Limit for the 2016-17 biennium	\$110,022.3

Amounts may not add due to rounding.

**Amount is current estimate included in Legislative Budget Board, House Summary of Legislative Budget Estimates 2016-17 Biennium, 4-5 (Jan. 2015), <http://www.lbb.state.tx.us/>. Amount is subject to change based on actions of the 84th Legislature.*

⁵ See Legislative Budget Board, *House Summary of Legislative Budget Estimates 2016-17 Biennium*, 20 (Jan. 2015), <http://www.lbb.state.tx.us/>, providing (“Population and inflation growth estimates submitted to the LBB in anticipation of the November 2014 LBB meeting ranged from 6.19 percent to 8.62 percent.”).

The Governors recommended general revenue and general revenue-dedicated appropriation amounts are less than the Governor’s Budget’s recommended spending limits for the 2016-17 biennium.



Amount Governor’s General Revenue (GR) and General Revenue-Dedicated (GRD) Appropriations for the 2016-17 Biennium are Under the Spending Limits

(IN MILLIONS)

GR Spending Limit for the 2016-17 biennium	\$102,136.4
Governor's Recommended GR Appropriation	\$99,405.5
Amount Governor’s Recommended GR Appropriation is Under the Spending Limit	\$2,730.9
GRD Spending Limit for the 2016-17 biennium	\$7,885.9
Governor’s Recommended GRD Appropriation	\$6,366.8
Amount Governor’s Recommended GRD Appropriation is Under the Spending Limit	\$1,519.1
Total Amount Governors GR and GRD Appropriations are Under the Spending Limits	\$4,250.0

BUDGET PRINCIPLE 2: REDUCE STATE AGENCY GENERAL REVENUE SPENDING BY THREE PERCENT

The Federal Reserve Bank of Dallas recently indicated that the Texas economy may be adversely affected by declining oil and gas prices.⁶ That could impact revenues received by the state. As a result, the state must start planning today for tomorrow and make the strategic spending decisions that reflect the state’s priorities. Further, Texas must be particularly vigilant to enact reforms that will constrain the size of government. Texas families must live within their means, and so must their government. That is why – with the exception of public and higher education formula amounts, pension obligations, and amounts required by the federal government for entitlement programs – the Governor’s Budget reduces general revenue spending by three percent at most agencies.

There are many potential ways for agencies to achieve a three percent reduction without eliminating essential programs. For example, Texas currently has more full-time state-supported positions per 10,000 residents (124) than several other large states, including Ohio (120), California (108), Illinois (102), and Florida (97).⁷ A cost-saving measure – which could apply across many agencies – would be to implement a

⁶ See Keith Phillips, *2015 Texas Economic Outlook: Tapping on the Brakes*, Federal Reserve Bank of Dallas, 23-29 (Jan. 13, 2015), <http://dallasfed.org/assets/documents/news/speeches/15outlook-phillips.pdf>.

⁷ See Legislative Budget Board, *Fiscal Size-up 2014-15 Biennium*, 62 (Feb. 2014), http://www.lbb.state.tx.us/Documents/Publications/Fiscal_SizeUp/Fiscal_SizeUp_2014.pdf.

hiring freeze. A hiring freeze would allow state agencies to retain current employees, but decrease expenses through natural attrition. Throughout this legislative session, state agencies should evaluate additional cost-saving measures for implementation, such as unnecessary or duplicative programs that could be eliminated.

Additionally, agency fuel and travel costs are anticipated to decrease as a result of a decline in the price of oil and gas, which will provide agencies with potential cost savings. Further, agencies have identified potential reductions in their 2016-17 Legislative Appropriations Requests, and those reductions should be reviewed for implementation.

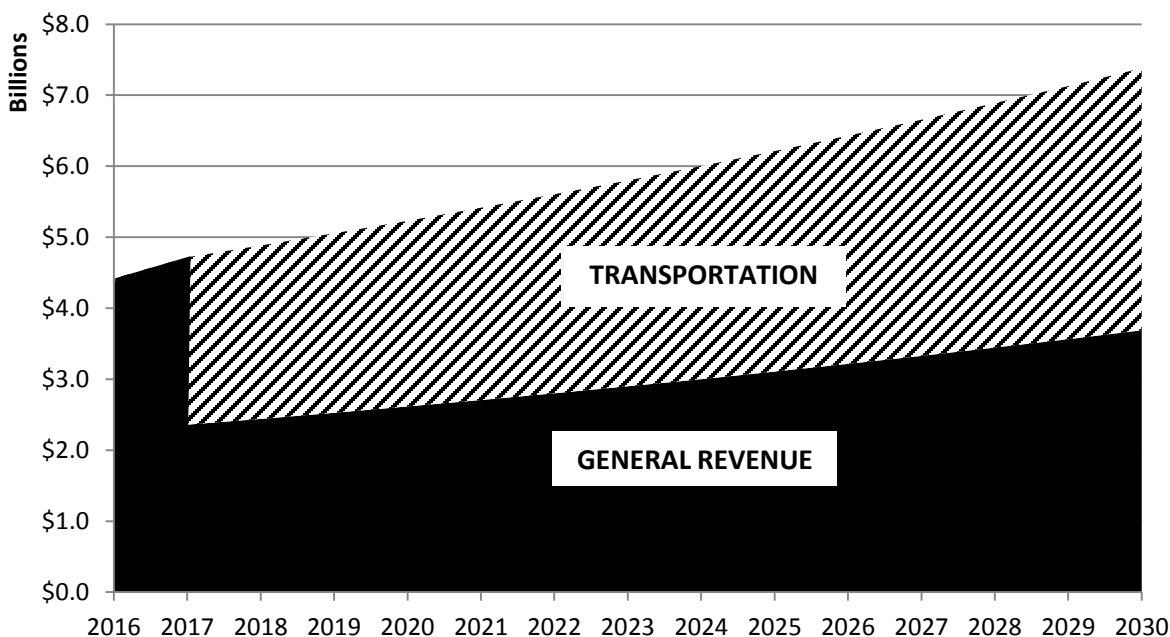
BUDGET PRINCIPLE 3: PASS A CONSTITUTIONAL AMENDMENT TO ENSURE ONE HALF (1/2) OF THE MOTOR VEHICLE SALES TAX IS DEDICATED TO TRANSPORTATION AND END MOST STATE HIGHWAY FUND DIVERSIONS

A robust and reliable transportation system is vital to the success of the Texas economy and is demanded by Texas families. We must continue to expand and maintain our roads and bridges to ensure that both citizens and commerce can move throughout the state more efficiently. The state's budget should ensure that approximately \$4 billion per year in much-needed transportation funding is ultimately available to build and maintain the state's transportation system.

As the state's population continues to grow, Texas will add millions of new vehicles to the roads in the next few years. Stable and reliable funding sources must be allocated to transportation so that the Texas Department of Transportation (TxDOT) can plan for long-term projects. The current funding sources for Texas' road system are deficient. In the past, Texas has borrowed billions of dollars to help bridge the gap between available funding and the needs of its citizens. However, debt financing is among the least desirable approaches to funding transportation. Texas has also historically relied on motor fuels taxes for transportation funding, and while they remain a robust source of revenue, those taxes alone cannot keep pace with the state's transportation needs as vehicles are becoming far more fuel efficient than in the past.

There are three major sources of funding that will ensure Texas dedicates sufficient capital to building and maintaining the state's roads. First, the state needs an additional predictable and constitutionally dedicated revenue stream for transportation. The Governor's Budget calls for a constitutional dedication of one half (1/2) of the existing motor vehicle sales tax to transportation to fund the roads on which our economy depends. The motor vehicle sales tax is a transportation-related revenue source, and as more cars are purchased, the fund will steadily increase to keep up with the cost of building and maintaining the state's roads. The dedication of a portion of the motor vehicles sales tax should begin in Fiscal Year 2017 after the voters will have had an opportunity to approve a constitutional amendment dedicating these tax revenues to transportation.

Projected Funding from Dedicating 1/2 Motor Vehicle Sales Tax to Transportation



Estimates a 3.5 percent future growth rate.

Second, the state must be more transparent in how it funds transportation infrastructure by ending the practice of diverting constitutionally dedicated State Highway Funds for agencies to use on non-transportation-related expenditures. Simply put, money intended for roads should go to roads. Progress was made toward this goal during the 83rd Legislature, but there is more work to be done. Article VII of the Governor’s Budget reflects an increase of \$800 million to TxDOT, which will further reduce the current practice of diverting transportation funds to unrelated state agencies.

Finally, as a result of the passage of a constitutional amendment in 2014, the Governor’s Budget assumes that \$1.3 billion⁸ will be available for transportation in Fiscal Years 2016 and 2017 from oil and gas severance taxes. Importantly, 80 percent of Texans who voted in the last election supported dedicating a portion of oil and gas severance taxes to transportation, and this dedication will now play a critical role in helping TxDOT address the state’s future transportation needs.

⁸ See Legislative Budget Board, *House Legislative Budget Estimates Articles IV to X 2016-17 Biennium, VII-15 (Jan. 2015)*, <http://www.lbb.state.tx.us>.

A table summarizing the Governor’s recommendation to increase transportation spending by \$4 billion per year beginning in Fiscal Year 2017 is below:



Governor’s Transportation Funding Plan
(IN MILLIONS)

Fiscal Year	2016	2017
Constitutional amendment dedicating 1/2 of the Motor Vehicle Sales Tax to the State Highway Fund starting in 2017*		\$2,359.0
Provide the oil and gas severance tax transfers approved in Proposition 1, 2014 to the Texas Department of Transportation (TxDOT)**	\$1,308.0	\$1,267.0
Provide additional funding to TxDOT by reducing State Highway Fund diversions to other agencies***	\$400.0	\$400.0
Total	\$1,708.0	\$4,026.0

Amounts may not add due to rounding.

**See Texas Comptroller of Public Accounts, Biennial Revenue Estimate 2016-17 Biennium, 26 (Jan. 2015),*

http://www.texastransparency.org/State_Finance/Budget_Finance/Reports/Biennial_Revenue_Estimate/2016_17/.

***The Governor’s Budget uses estimated amounts included in Legislative Budget Board, House Legislative Budget Estimates Articles IV to X, 2016-17 Biennium, VII-15 (Jan. 2015), <http://www.lbb.state.tx.us>.*

****The Governor’s Budget ends many diversions that are not expressly permitted by the Texas Constitution, Section 7-a, Art. VIII. (The House and Senate budgets end the funding of policing functions that are permitted by the Texas Constitution.)*

BUDGET PRINCIPLE 4: PROVIDE PROPERTY OWNERS WITH \$2.2 BILLION IN PROPERTY TAX RELIEF

Rapidly increasing property taxes can hinder economic growth, as more of each homeowner’s income must be used to pay property tax bills. During the 2016-17 biennium, higher property values are anticipated to contribute to significant growth in the amount of local property taxes levied. To relieve property tax burdens on local homeowners, the Governor’s Budget recommends providing \$2.2 billion in school district property tax relief and providing school districts with the same amount of funding to hold them harmless for the loss of local tax revenue. This will ensure that – with the additional funding provided in the Governor’s Budget – the total amount of general revenue provided for public education during the 2016-17 biennium will increase by nearly \$100 million when compared to the 2014-15 biennium, and that the state’s public education formulas are fully funded based on current obligations.

While there are many potential ways to reduce property taxes, reductions should be combined with comprehensive structural and policy reforms to prevent excessive property taxes to help ensure that taxpayers experience genuine property tax relief well beyond the 2016-17 biennium.

BUDGET PRINCIPLE 5: PERMANENTLY DECREASE THE BUSINESS TAX AND USE EXCESS REVENUE FOR TAX OR DEBT REDUCTIONS

Tax reform and reduction is a key stimulus for a growing economy. Texas must promote smarter tax policies that energize the Texas economy by driving down the cost of doing business. These savings will then be passed on to consumers in the form of lower prices and to employees in new jobs and higher wages. A study by the Beacon Hill Institute at Suffolk University projected the economic effects of repealing the Texas franchise tax would be 41,500 new jobs, \$3.4 billion in new net investment, \$9.8 billion in new personal disposable income, and \$209 in real disposable income per capita in 2017.⁹

The state can begin the process of significantly reducing the business franchise tax by providing at least \$2 billion in reductions during the 2016-17 biennium. Included in this amount is \$14.5 million to encourage entrepreneurship among veterans by exempting newly-created, veteran-owned businesses from the franchise tax for the first five years of operation.

This reduction in the franchise tax will allow Texas businesses to keep more of their hard-earned dollars and reinvest it to grow their businesses and hire more Texans. Importantly, if the Comptroller increases the revenue estimate during the course of the legislative session, the additional revenue could go to reducing the state's debt.



Governor's Recommended Franchise Tax Relief for the 2016-17 Biennium

(IN MILLIONS)

Business Tax (Franchise Tax) Relief*	\$1,985.5
Business Tax (Franchise Tax) Relief for Veterans*	\$14.5
Total Business Tax (Franchise Tax) Relief	\$2,000.0

Amounts may not add due to rounding.

*Franchise tax collections are statutorily required to be divided between amounts for property tax relief for public education and general revenue spending. Statutory changes may be required to ensure estimated franchise tax amounts included in the Comptroller's Biennial Revenue Estimate for the 2016-17 biennium for the Property Tax Relief Fund remain the same after implementing the Governor's recommended franchise tax relief to ensure there is no impact on funding for public education. See Texas Comptroller of Public Accounts, Biennial Revenue Estimate 2016-17 Biennium, 13-14 (Jan. 2015), http://www.texasparency.org/State_Finance/Budget_Finance/Reports/Biennial_Revenue_Estimate/2016_17/, providing ("Franchise tax revenue is split between the General Revenue Fund (GR) and the Property Tax Relief Fund (PTRF). The PTRF portion is the amount by which the total revenues collected under the new tax structure exceeds the amount that would have been collected under the tax as it existed on August 31, 2007. The portion deposited to GR is the amount projected to have been collected had the former tax structure remained in place.").


⁹ Beacon Hill Institute at Suffolk University, *Tax Reform in Texas: Lowering Business Costs, Expanding the Economy* (Nov. 2012).

BUDGET PRINCIPLE 6: SUSPEND, REDUCE, OR ELIMINATE THE COLLECTION OF DEDICATED TAXES AND FEES AND USE EXCESS CASH FOR DEBT REDUCTION

General revenue-dedicated funds are generated primarily from taxes and fees that were intended to be spent only on a defined purpose. They are held in accounts in the state's treasury until the Legislature appropriates them for use. Through a process called funds consolidation, any cash in the state treasury's general revenue-dedicated accounts at the end of a given biennium is automatically included as general revenue available to spend in the next biennium. For example, the Texas Comptroller of Public Accounts estimates that there will be \$4.4 billion in cash in general revenue-dedicated fund accounts, along with \$3.3 billion in surplus cash, at the end of Fiscal Year 2015 and included these balances in the \$113 billion in general revenue funds estimated to be available for the 2016-17 biennium.¹⁰

Using \$4.4 billion in accumulated cash in general revenue-dedicated accounts to increase the amount of general revenue available to spend has created an incentive for the Legislature to let large cash balances accrue in general revenue-dedicated accounts, while continuing to collect excess taxes and fees. Further, including cash balances in general revenue-dedicated accounts as available revenue for purposes of budget certification allows the Legislature to appropriate more money from the general revenue fund than would otherwise be allowable.

The table below illustrates the cash balances in general revenue-dedicated accounts used to increase general revenue spending.



**Growth in Cash Balances Accumulated
in General Revenue-Dedicated Accounts**

(in billions)

Year End Cash Balance FY 1991	\$0.54
Year End Cash Balance FY 2001	\$1.63
Year End Cash Balance FY 2011	\$4.95
Year End Cash Balance FY 2013	\$4.17
Year End Cash Balance FY 2015*	\$4.40

*Amount is estimated.¹¹

To reduce the reliance on cash in general revenue-dedicated accounts, beginning with the 2016-2017 biennial budget, the Governor's Budget recommends that the state should reduce, suspend, return, or eliminate approximately \$268 million in taxes and fees supporting general revenue-dedicated accounts where excess cash is accumulating. By reducing the collection of unnecessary taxes and fees and no longer relying on them for certification of the Texas budget, the state can greatly reduce its dependence on the use of dedicated funds for purposes for which they were not intended and ensure the Texas budget is more transparent.

¹⁰ See Legislative Budget Board, *House Summary of Legislative Budget Estimates 2016-17 Biennium*, 11 & 24 (Jan. 2015), <http://www.lbb.state.tx.us/>.

¹¹ *Id.*

The state should also adopt a constitutional amendment expressly prohibiting the use of statutorily dedicated accounts for budget certification. This amendment is a critical reform that will restore truth in budgeting and ensure dedicated accounts are used only for their intended purpose. In addition, some of the \$3.3 billion in surplus cash that is currently estimated to be available at the start of Fiscal Year 2016 should be used to retire the state's debt obligations.

BUDGET PRINCIPLE 7: PROVIDE THE GOVERNOR EXPANDED LINE-ITEM VETO AUTHORITY TO MAKE PRUDENT AND SENSIBLE SPENDING REDUCTIONS

Some states have a more flexible line-item veto than Texas, granting their governor a “reduction” line-item authority, by which a specific appropriation may be approved, but reduced in amount. Passing a constitutional amendment granting “reduction” line-item veto authority to the Texas Governor would give a fiscally responsible governor a useful tool to reduce spending without having to remove entire appropriations. The “reduction” power is a flexible tool that could help constrain the growth of government. Importantly, pursuant to Article IV, Section 14 of the Texas Constitution, the Legislature could override a line-item “reduction” veto via a two-thirds vote.

THE GOVERNOR'S BUDGET RECOMMENDATIONS

Texans have created the nation's strongest economy. Today, Texas is number one in job creation, exports, and energy production, among other categories. Much, however, remains to be accomplished. To maintain our position as a leader and to strengthen the foundation of our communities, we must work to create an even better Texas for future generations.

The Governor recommends the following appropriation amounts for the 2016-17 Texas budget:



SUMMARY OF ALL ARTICLES GOVERNOR'S RECOMMENDATION

(IN MILLIONS)

	GR AND GR-DEDICATED	ALL FUNDS
ARTICLE I - GENERAL GOVERNMENT	3,383.2	4,947.8
ARTICLE II - HEALTH AND HUMAN SERVICES	32,344.0	75,666.1
ARTICLE III - AGENCIES OF EDUCATION	54,526.0	77,214.5
ARTICLE IV - THE JUDICIARY	571.0	754.8
ARTICLE V - PUBLIC SAFETY AND CRIMINAL JUSTICE	10,221.3	11,527.2
ARTICLE VI - NATURAL RESOURCES	1,965.4	3,989.2
ARTICLE VII - BUSINESS AND ECONOMIC DEVELOPMENT	1,758.7	29,913.2
ARTICLE VIII - REGULATORY	619.6	649.2
ARTICLE IX - GENERAL PROVISIONS	1.7	1.7
ARTICLE X - THE LEGISLATURE	381.5	381.7
TOTAL, ALL ARTICLES	\$105,772.3	\$205,045.3

Amounts may not add due to rounding.

For purposes of compliance with the Texas Government Code 401.0445-046, the Governor adopts the Legislative Budget Board, House Legislative Budget Estimates Articles I-III and IV-X, 2016-17 Biennium, for fiscal years 2013-2015, available at <http://www.lbb.state.tx.us>. For the 2016-17 biennium, the Governor submits amounts included in the table above and recommends agency-by-agency amounts consistent with the principles in this document, including a three percent general revenue reduction at most Texas agencies from 2014-15 base spending (estimated/budgeted) amounts. Reductions were not made to public and higher education formula funding, pension obligations, contribution amounts for state employee health care or amounts required to fund federal entitlement programs.

ARTICLE I: GENERAL GOVERNMENT

BUDGET RECOMMENDATIONS

Economic Development

To maintain top rankings in economic growth and job creation, Texas must continue to increase our competitive advantage, both nationally and globally, through our economic development efforts. A successful economic development program leverages private and public investments to provide the highest economic return.

The Governor's Budget recommends continued funding for the Texas Enterprise Fund (TEF) as a "deal-closing" fund that can be used to attract and retain quality employers and more jobs for Texas. However, the Governor's Office is also working with the Legislature to enact reforms that will make the TEF more transparent, accountable, and efficient. For the TEF to succeed, it must be reformed during the legislative session. The Governor's Budget also recommends moving the Major Events Trust Fund, the Events Trust Fund, the Motor Sports Racing Trust Fund, and the Special Events Trust Fund from the Comptroller's Office to the Governor's Office to increase the coordination of statewide economic development efforts. The Governor's proposal to transfer the events trust funds was developed in conjunction with the Texas Comptroller of Public Accounts, who supports the transfer. To ensure funds operate effectively to attract jobs, the Legislature should ensure the Governor's Office has continuous access to fund balances, if available, in fund accounts.

As explained in the Article III summary, the Governor's Budget also recommends discontinuing the Emerging Technology Fund and dividing remaining fund balances equally between the Texas Enterprise Fund and newly-proposed Governor's University Research Initiative at the Texas Higher Education Coordinating Board. The Governor's University Research Initiative is designed to increase the competitiveness of public universities in recruiting Nobel Laureates and members of the National Academies.

Public Safety

The state's foremost responsibility is to keep Texans safe. To better protect crime victims and hold criminals accountable for their conduct, and ensure justice to their perpetrators, Texas must provide additional funding for the testing of sexual assault evidence and develop innovative ways to protect victims of domestic violence and child sex trafficking. In addition, to specifically protect Texas school children, active shooter scenario training must be enhanced and available to law enforcement, school faculty, staff, and administrators. With an estimated 2,500 gangs – and over 100,000 gang members – in Texas, it is also vital that the state expand the Texas Anti-Gang Tactical Operations Center. These proposals will enhance the safety of Texans by ensuring the rights of victims are protected, that criminals are deterred, and wrongdoers are brought to justice.

The Governor's Budget also includes \$3 million to fund the existing border prosecution grant program to better assist border communities in prosecuting criminals and \$30 million to help the state strategically

plan for the next round of Base Realignment and Closure (BRAC) that may affect the state’s military communities.



ARTICLE I - GENERAL GOVERNMENT

GOVERNOR’S RECOMMENDATION

(IN MILLIONS)

	GR AND GR-DEDICATED	ALL FUNDS
ARTICLE I - GENERAL GOVERNMENT	\$3,383.2	\$4,947.8



Governor’s Strategic Requests

ARTICLE I

	GR 2016-17 BIENNIUM TOTAL <i>(in millions)</i>
Sexual Assault Nurse Examiners (SANEs) provide critical support to victims and recover evidence so that offenders can be prosecuted. The Governor’s Budget includes \$500,000 to allow the Office of the Attorney General (OAG) to increase by 100 the number of newly-certified SANEs.	0.5
Law enforcement and victim advocates must work together to protect extremely vulnerable domestic violence victims and curb domestic homicides. The Governor’s Budget includes \$4 million for the creation of local Domestic Violence High Risk Teams (DVHRT), which unite law enforcement, medical professionals and victim advocates at the local level to identify, monitor, and contain the most dangerous perpetrators. A DVHRT grant program would be administered by OAG.	4.0
Domestic violence victims are often forced to live in the shadows. Monitoring perpetrators with Global Positioning Systems (GPS) after arrest is a tool courts can use to keep victims safe. The Governor’s Budget includes \$2 million to fund a new grant program within the Criminal Justice Division of the Office of the Governor dedicated to compensating county courts for utilizing GPS technology to monitor domestic violence perpetrators who pose a severe threat to their victims.	2.0
Underage sex trafficking victims endure intense trauma and need comprehensive victim services including medical care, police protection, food, and shelter. The Governor’s Budget includes \$4 million for OAG to provide a program to ensure these victims receive comprehensive, wrap-around care.	4.0
School administrators and teachers must be prepared to respond to an active shooter incident. The Governor’s Budget includes \$500,000 to create an additional training program within OAG to educate faculty, staff, and administrators on school shooter scenarios.	0.5
The Governor’s Budget includes \$20 million to directly challenge the threat posed by gangs by replicating the existing successful Texas Anti-Gang Task Force through the Office of the Governor Criminal Justice Division in Houston to more Texas cities, including Dallas, Fort Worth, Austin, San Antonio, El Paso, Corpus Christi, and Weslaco.	20.0
Often, counties lack funding to retain prosecutors with sufficient expertise to deal with sophisticated legal defense teams hired by cartel and gang leaders. The Governor’s Budget includes \$3 million to fund the Office of the Governor’s existing border prosecution grant program to better assist border communities in addressing difficult cases arising from spillover crime.	3.0
Texas military bases could be considered for closure when the federal Base Realignment and Closure (BRAC) Commission makes its next recommendations. The Governor’s Budget includes \$30 million for the Texas Military Preparedness Commission (TMPC) within the Office of the Governor to administer Defense Economic Adjustment Assistance Grants to assist communities with infrastructure and construction projects that meet grant specifications. Within that funding, the TMPC will appoint a full-time, knowledgeable military advisor and ensure follow-through on strategic planning initiatives.	30.0
Total	\$64.0

ARTICLE II: HEALTH AND HUMAN SERVICES

BUDGET RECOMMENDATIONS

A healthy Texas is in the best interest of our citizens and state economy. Medicaid is broken and on a path to bankruptcy, which is why Texas cannot expand Medicaid coverage under Obamacare. For instance, the number of physicians willing to serve Texas Medicaid clients is at an all-time low,¹² even as Medicaid expenditures by the state continue to take a greater share of general revenue spending.¹³ States need greater flexibility in meeting the health needs of their residents. Texas must seek to remove federal mandates so the state can provide for the unique healthcare needs of Texas families by continuing to seek flexibility waivers from the federal government. The state must also insist that the federal government live up to its obligations to serve our military veterans in their unmet health care needs. The Governor's Budget recommends \$21 million to address the mental healthcare needs of our service members and veterans.

Texas must be a leader in controlling the costs of health care. While many of these costs are required by federal law, the state needs to ensure there is no unnecessary spending by conducting detailed program reviews and identifying inefficiencies. In addition, the state must ensure all state contracting requirements are fully satisfied and should enact contracting reforms that would improve transparency and accountability. The Governor's Budget assumes cost savings from strengthening accountability in public contracting, cost containment, and reducing administrative expenses to ensure that Medicaid funds are being spent appropriately and effectively.

Texas must use its own current initiatives to expand access so more Texans can be assured of the ability to obtain quality health care. To achieve this goal, the Governor's Budget provides \$50 million for women's health – without funding abortion providers – and programs and services for persons with disabilities, mental health programs, and child safety.



ARTICLE II - HEALTH AND HUMAN SERVICES GOVERNOR'S RECOMMENDATION

(IN MILLIONS)

	GR AND GR-DEDICATED	ALL FUNDS
ARTICLE II - HEALTH AND HUMAN SERVICES	\$32,344.0	\$75,666.1

¹² See Texas Medical Association, *TMA 2014 Physician Survey*, (2014), available at <http://www.texmed.org/Template.aspx?id=31960>.

¹³ See Legislative Budget Board, *Fiscal Size-up 2014-15 Biennium*, 14 (Feb. 2014), http://www.lbb.state.tx.us/Documents/Publications/Fiscal_SizeUp/Fiscal_SizeUp_2014.pdf.



Governor's Strategic Requests

ARTICLE II

GR 2016-17
BIENNIUM TOTAL
(in millions)

To meet future physician demands, Texas must promote opportunities for the graduates of Texas' medical schools to obtain their residency training within the state. The Governor's Budget includes \$15 million to add approximately 250 new first-year residency positions in Texas for medical school graduates, thereby improving access to care for all Texans.	15.0
Veterans and service members often fail to pursue mental health assistance through the U.S. Department of Veterans Affairs (VA) due to the sometimes misplaced social stigma attached to mental health needs. Backlogs at the VA also contribute to those most in need failing to receive timely assistance. The Governor's Budget includes \$1 million to provide designated mental health screening days for veterans and service members through partnerships with qualified mental health providers near major military installations and \$20 million for effective veterans community mental health grants.	21.0
Depression is the leading cause of disability among women in the United States. To reduce risks to women, children and families, the Governor's Budget includes \$1.3 million to add optional screening and treatment for postpartum depression to women's health services for low-income pregnant women.	1.3
To address a shortage of mental health providers in Texas and to ensure access for all Texans to quality mental health providers, the Governor's Budget includes \$1.2 million to extend loan repayment programs to mental health professionals (such as licensed professional counselors, clinical social workers and credentialed psychologists) who practice in underserved areas of the state.	1.2
The state must ensure access and critical preventive services, well-woman care, cancer screening, and postpartum care to women eligible and enrolled to participate in Texas women's health programs. The Governor's Budget includes \$50 million so that Texas may increase the breadth and depth of services available to women, improving health outcomes, decreasing treatment costs, and saving the lives of Texas women.	50.0
Home and community care is a growing and critical need for the state's aging population and people with disabilities. The Governor's Budget includes \$105.3 million to recruit and retain personal attendants and provide increased opportunities for independent home- and community-based living options.	105.3
Children and families at risk of higher rates of abuse and neglect require greater interventions and resources. To better ensure the safety of Texas children, the Governor's Budget includes \$40 million for children and families at risk and foster children by increasing access to outcome-based prevention, child safety placement oversight, and community-based family safety services.	40.0
Total	\$233.8

ARTICLE III: AGENCIES OF EDUCATION

BUDGET RECOMMENDATIONS

Public Education

Today's students are tomorrow's workforce. Future generations must be equipped with both the technical and critical thinking skills necessary to compete in a competitive job market. Texas is number one in jobs, energy production, and exports. The time has come for Texas to aim to become number one in education.

The literacy and mathematics skills learned in prekindergarten (pre-k) through third grade form the foundation for the rest of a child's future, both in school and in life. It is during this critically important period that educational gaps are either solidified or eliminated. According to the most recent National Assessment of Educational Progress, 65 percent of Texas fourth graders are basic or below in reading skills. Texas must improve.

To ensure all students are performing at grade level by the third grade in reading and math, it is imperative that the state provide an integrated and comprehensive pre-k through third grade educational program. Specifically, the Governor's Budget provides \$118 million – an additional \$1,500 more per currently eligible 4-year-old pre-k student – to school districts willing to offer the Governor's proposed high-quality, accountable, gold standard pre-k program. In addition, the Governor's Budget includes \$2 million for research-based professional development for the state's pre-k teachers that incorporates the Texas Prekindergarten Guidelines. The budget also devotes \$60 million for intensive, face-to-face, multi-day professional development for kindergarten through third grade teachers through first-class Literacy and Math Achievement Academies. Additionally, funding is provided for Reading-to-Learn Academies for fourth and fifth grade educators to improve student reading comprehension.

Texas must also begin the process of reinventing and improving its entire public education system to achieve better academic outcomes. The state must end the one-size-fits-all approach for all public school districts and campuses. Parents, teachers, and principals must be empowered to make decisions and changes within their local school system, and it is critical that genuine local control over our public schools is restored. The state must ensure parents, students, and teachers are informed of their school's performance by publishing a campus report card on each campus website that includes the campus' 'A' through 'F' and financial efficiency ratings. The state must also empower parents to petition to change campus management. In addition, underachieving elementary schools should be considered for placement in a high-performing Achievement School District.

Because technology plays an integral role across multiple sectors of Texas' economy, the state must provide students greater access to digital learning, especially at low-performing schools. The state must also incentivize better performance on Advanced Placement (AP) and International Baccalaureate (IB) exams, improve the teacher pipeline – especially in shortage areas, including science, technology, engineering, and mathematics (STEM) – and provide leadership training for principals.

Every child who graduates from a Texas high school must be college- or career-ready. The Governor's Budget ensures that the \$2.2 billion of recommended property tax relief does not diminish public school funding. Texas schools will remain fully funded through the current public education formulas, including amounts necessary for anticipated enrollment growth in student populations. By reforming the state's public education system, the state will help ensure that all high school students are equipped for postsecondary success.

Higher Education

Postsecondary education is the primary way by which many Texans climb the economic ladder and achieve the American Dream. To be effective, the state's higher education system must be more affordable for families, and universities must be focused on getting more students to graduation ceremonies in a shorter amount of time. Currently, Texas is not producing enough college graduates to fill jobs in many critical industries. The state must make strategic investments in its higher education system to help colleges and universities to produce the intellectual capital needed for the state to advance in Texas' 21st century economy.

Top research institutions are vital to the state. They attract talent within the education community and drive innovation that boosts the state's already thriving economy. Texas is the nation's second largest state, yet it is home to only three Tier One universities, compared with nine in California and six in New York. To accommodate its population growth and prevent the loss of top students to universities in other states, increasing the number and quality of Texas' top universities should be a priority.

As mentioned in Article I, the Governor's Budget recommends the creation of a new \$56 million grant program at the Texas Higher Education Coordinating Board dedicated to attracting nationally recognized researchers to Texas universities. A grant from the Governor's University Research Initiative would be available to all public colleges and universities in Texas willing to provide matching funds to recruit Nobel Laureates and members of the National Academy (or equivalent) and would fund one-time, start-up costs associated with recruiting nationally renowned researchers.

The Governor's Budget also provides at least \$400 million – and up to \$540 million – of the Cancer Prevention Research Institute of Texas (CPRIT) budget exclusively for institutions of higher education to help fund academic research and the recruitment of nationally-recognized cancer researchers to Texas universities. In addition, this budget funds \$532 million in tuition exemptions to pay for the tuition of military veterans and their families, rather than pushing the cost of these veterans' benefits to public universities in the form of an unfunded mandate.

In addition, there are some common-sense changes that will make higher education more affordable for Texans and improve graduation rates. Community colleges should implement block scheduling – ensuring students' classes are either all in the afternoon or all in the morning – to accommodate students who are working full or part-time while attending classes. Requiring institutions of higher education to accept credits earned in high school for AP test scores of three or higher will save families money and help students graduate on time. Finally, the state must also encourage its colleges and universities to ensure their students are successful by allocating a portion of their state funding based on student results.



ARTICLE III - AGENCIES OF EDUCATION

GOVERNOR'S RECOMMENDATION

(IN MILLIONS)

	GR AND GR-DEDICATED	ALL FUNDS
ARTICLE III - AGENCIES OF EDUCATION	\$54,526.0	\$77,214.5



Governor's Strategic Requests

ARTICLE III

GR 2016-17
BIENNIUM TOTAL
(in millions)

PROPERTY TAX RELIEF

Provide local homeowners with a property tax reduction while ensuring public education formulas are fully funded.	2,216.2
Total: Property Tax Relief	\$2,216.2

PRE-KINDERGARTEN THROUGH THIRD GRADE

High quality pre-k programs help ensure students start kindergarten ready for school. The state currently funds half-day pre-k for certain at-risk students. However, it is unclear whether these pre-k programs are uniformly high quality. The Governor's Budget includes \$118 million to provide an additional \$1,500 in flexible funding per eligible 4-year-old student to schools willing to adopt a rigorous, high quality pre-k program.	118.0
The Governor's Budget includes \$2 million to develop and deliver three-day-long training seminars for pre-k teachers so that they may effectively use the Texas Prekindergarten Guidelines.	2.0
The Governor's Budget includes \$2 million to establish a pilot program for Reading Excellence Teams. These teams — groups of well-trained, specialist literacy professionals — will be available on an optional basis to schools with low reading scores.	2.0
Recently, 65 percent of Texas fourth graders scored basic or below in reading. It is critically important that all students are reading at grade level by third grade. The Governor's Budget includes \$30 million in highly professional, research-based, four-day Literacy Achievement Academies for kindergarten through third grade teachers with a curriculum focused on how to teach core reading and writing skills.	30.0
Recently, 59 percent of Texas fourth graders scored basic or below in math. It is critically important that all students are performing math at grade level by third grade. The Governor's Budget includes \$30 million to create highly professional, research-based, four-day Math Achievement Academies for teachers of kindergarten through third grade, utilizing a curriculum focused on how to teach core numeracy skills.	30.0
Total: Pre-k through Third Grade	\$182.0

SCHOOL GOVERNANCE

Recently, 65 percent of Texas fourth graders scored basic or below in reading. Teachers in the fourth and fifth grades must have skills to assist students with reading comprehension across all subjects. The Governor's Budget includes \$30 million in Reading-to-Learn Academies, which will deliver Texas curriculum-focused teaching strategies to improve student comprehension across all subjects, to fourth and fifth grade teachers.	30.0
AP and IB courses and programs are rigorous and help students prepare for postsecondary success. AP exam results can be utilized for college credit, thereby lowering the expense of post-secondary education for many students. The Governor's Budget includes \$14.6 million to incentivize better performance on AP and IB exams by providing bonuses directly to teachers for each student who scores a three or higher on an AP exam or four or higher on an IB exam.	14.6
Texas currently faces a teacher shortage in the subject areas of science, technology, engineering, and mathematics (STEM). The UTeach program, and other similar programs, prepare talented math and science majors for teaching careers. The Governor's Budget includes \$4 million for the purpose of recruiting and preparing STEM majors for the teaching profession.	4.0
Teach for America recruits high-achieving college graduates to teach at underserved schools. The Governor's Budget includes \$3 million to support Teach for America.	3.0
Principal preparation programs are designed to ensure aspiring school principals develop the knowledge, skills, and dispositions for success. The Governor's Budget includes \$5 million to create a principal leadership program.	5.0
Total: School Governance	\$56.60

DIGITAL LEARNING

Students in low performing "D" or "F" rated campuses need immediate access to high-quality digital technology. The Governor's Budget includes \$100 million for a technology grant program that will help with telecommunications infrastructure at these campuses. Grant funding at low-performing campuses may be used to enter into public-private partnerships to improve access to high-quality digital learning options through necessary upgrades to content, devices, and access.	100.0
The Texas Virtual School Network (TxVSN) provides students access to high-quality online courses. However, students can be denied access to a particular online course and districts are only required to pay for three online courses per student, per year. The Governor's Budget includes an additional \$25.8 million to ensure better access to more high-quality digital courses.	25.8
Currently, high school students in Texas are required to pass four end-of-course (EOC) exams. The Governor's Budget includes \$7.6 million to ensure teachers and students have access to free, voluntary tutoring courses, materials, and online tools through the TxVSN for each course that requires an EOC for high school graduation.	7.6
Blended learning typically involves a student using an online or computer-based instructional program while working at his or her own pace. The Governor's Budget includes \$16 million to create an "innovation grant" program to encourage school districts to develop or implement blended online education models that have proven effective in the classroom.	16.0
The Governor's Budget includes \$15 million to provide professional development for teachers at schools wanting to implement blended learning classes to effectively engage students in a digital learning environment.	15.0
Total: Digital Learning	\$164.4

HIGHER EDUCATION

The Governor’s Budget includes \$531.8 million to ensure the state’s colleges and universities are reimbursed for the cost of tuition exemptions provided to our military families.	531.8
Texas needs to recruit intellectual talent from around the country to ensure more of Texas’ universities achieve Tier One status. The Governor’s Budget repurposes \$56.1 million, currently in the Emerging Technology Fund, to the Higher Education Coordinating Board to establish a program to help universities recruit intellectual talent, including Nobel Laureates.	56.1
Advancing our research at public institutions of higher education in Texas is vital to attracting talent and driving innovation. The Governor’s Budget includes \$40 million in new funding to support research and emerging research universities.	40.0
Total: Higher Education	\$627.9

ARTICLE IV: THE JUDICIARY

BUDGET RECOMMENDATIONS



ARTICLE IV - THE JUDICIARY

GOVERNOR’S RECOMMENDATION

(IN MILLIONS)

	GR AND GR-DEDICATED	ALL FUNDS
ARTICLE IV - THE JUDICIARY	\$571.0	\$754.8

ARTICLE V: PUBLIC SAFETY AND CRIMINAL JUSTICE

BUDGET RECOMMENDATIONS

The state’s first and foremost responsibility is public safety. The Governor’s Budget reflects that responsibility by funding the state law enforcement initiatives that will keep Texans safe and fill the border security gaps left by the federal government.

Texas’ decade-long border security efforts were strengthened in the summer of 2014 when the state initiated a law enforcement border security surge in the Rio Grande Valley. This ongoing, multi-agency surge is successfully responding to the sharp increase in illegal immigration by acting as a deterrent and combating the criminal elements taking advantage of overwhelmed local and federal law enforcement resources along the state’s porous southern border.

For the 2016-17 biennium, the Governor’s Budget recommends \$735 million for border security. Included in the Governor’s Budget in the Article V proposal is \$184 million in funding to permanently sustain the Texas Department of Public Safety’s (DPS) border security initiatives. Further, the Governor’s Budget includes additional funding for the Texas National Guard. In addition, \$92 million is provided to enhance DPS’ border security initiatives by adding 250 additional DPS troopers during the 2016-17 biennium. Going forward, the Governor proposes to add an additional 250 troopers during the 2018-19 biennium, for a total increase of 500 new troopers by FY 2020. The Governor’s Budget also funds \$87 million for new equipment and technology that will further improve the state’s border security efforts. The budget also provides funding to help local law enforcement respond to the border security challenges.



ARTICLE V - PUBLIC SAFETY AND CRIMINAL JUSTICE

GOVERNOR’S RECOMMENDATION

(IN MILLIONS)

	GR AND GR-DEDICATED	ALL FUNDS
ARTICLE V - PUBLIC SAFETY AND CRIMINAL JUSTICE	\$10,221.3	\$11,527.2



Governor's Strategic Requests

ARTICLE V

	GR 2016-17 BIENNIUM TOTAL <i>(in millions)</i>
To continue to fund border security efforts at DPS and with the National Guard, the Governor's Budget includes \$183.8 million in funding for overtime, fuel, travel, supplies, repairs, and aviation resources necessary to sustain the current surge through the 2016-17 biennium.	183.8
Ensuring state and national security requires not only sustaining Texas' current border security efforts on the border, but enhancing it. The Governor's Budget includes \$91.8 million to allow DPS to hire and deploy at least 250 new Texas state troopers during the 2016-17 biennium, with a goal of adding another 250 during the 2018-19 biennium (500 new troopers over four years).	91.8
To train the additional troopers hired to enhance DPS' current border security efforts, the Governor's Budget includes \$6 million for Department of Public Safety Recruit Schools.	6.0
To effectively respond to border activity, the Texas DPS must have properly working vehicles. The Governor's Budget includes \$24.2 million to provide additional fully-equipped vehicles.	24.2
Local law enforcement agencies in the border region play a major role in securing the state by responding to border crime and corruption, but local funds are not sufficient. The Governor's Budget includes \$10 million to provide local law enforcement agencies with the tools to increase their effectiveness with more staff and resources.	10.0
Corruption among local law enforcement has recently included drug trafficking and money laundering on the border. The Governor's Budget includes \$8 million to allow for 20 additional Texas Rangers and supervisors, and for other operating expenses, to combat local corruption.	8.0
Seven major Mexican cartels are currently operating in Texas to enlist transnational and statewide gangs to support their criminal activities. The Governor's Budget includes \$8 million for the DPS Criminal Investigations Division to add 20 new agents and fund their operations.	8.0
Texas' border with Mexico is about two thirds of the entire U.S.-Mexico border, requiring a heavy reliance on technology to monitor and respond to situations in the region. The Governor's Budget includes \$8.4 million to allow DPS to acquire a new high-altitude airplane equipped with surveillance cameras and staff.	8.4
Since the recent creation of DPS's Tactical Marine Unit (TMU), a fleet of shallow-water interceptor boats, the state has increased its deterrence of criminal activity on the Rio Grande. The Governor's Budget includes \$6.6 million to provide four additional boats, fuel, equipment, and associated staffing.	6.6
Coordinated communication is critical to combat illegal cross-border activity. The Governor's Budget includes \$15.8 million to improve radio interoperability for DPS.	15.8
The most commonly cited obstacle to analyzing the evidence collected from the victims of sexual assault is the cost associated with testing. The Governor's Budget includes \$10.8 million for DPS and local crime labs to timely analyze evidence for more efficient and effective prosecutorial assistance.	10.8
School security officers must be prepared for rapidly unfolding active shooter incidents. The Governor's Budget includes \$4 million for the Texas Commission on Law Enforcement to provide active shooter response training for free to school marshals and higher education, school district, and charter school police departments.	4.0
Total: Public Safety	\$377.4

ARTICLE VI: NATURAL RESOURCES

BUDGET RECOMMENDATIONS

Water is a vital and precious natural resource. The state must ensure there are sufficient water supplies to maintain Texas’ position as the best place in the country to start a business and raise a family. It is imperative that the state speed up its water permitting processes and reduce unnecessary regulations that impair water infrastructure development.

In 2013, Texas voters made a critical investment in the state’s future by dedicating \$2 billion of state funds to address critical water needs. Starting in fiscal year 2015, the Texas Water Development Board will begin providing financial assistance to local communities to implement strategies included in the State Water Plan to develop and conserve their water supplies. Specifically, under the “SWIFT” program, the state will make available \$800 million in financial assistance, with the goal of providing \$8 billion in assistance over the first 10 years. With the state as a partner, local communities can proactively build needed infrastructure while maximizing savings to the taxpayers.

The Governor’s Budget also provides \$3 million to the Texas Water Development Board to continue to fund water conservation demonstration projects. These historic efforts, coupled with prudent water conservation programs, will help ensure Texas has an adequate water supply to meet future growth.

In addition, amounts are included to ensure DPS’ border security efforts are fully funded at the Texas Parks and Wildlife Department. The Governor’s Budget provides funding for carrizo cane removal along the Rio Grande. Carrizo cane is an invasive, non-native species that provides cover to drug traffickers seeking to move narcotics into Texas. Removing the cane will make smuggling more difficult and help protect law enforcement officers in border security operations.



ARTICLE VI - NATURAL RESOURCES

GOVERNOR’S RECOMMENDATION

(IN MILLIONS)

	GR AND GR-DEDICATED	ALL FUNDS
ARTICLE VI - NATURAL RESOURCES	\$1,965.4	\$3,989.2



Governor's Strategic Requests

ARTICLE VI

	GR 2016-17 BIENNIUM TOTAL <i>(in millions)</i>
To continue to fully fund the state's border security efforts at the Texas Parks and Wildlife Department, the Governor's Budget includes \$13.4 million in funding and resources.	13.4
Carrizo cane — a very large, non-native, invasive plant along the banks of the Rio Grande — impedes and conceals the detection of criminal actors and restricts enforcement officers' access to riverbanks, thereby placing law enforcement officers' lives at risk. The Governor's Budget includes \$9.8 million for carrizo cane removal within the Texas State Soil and Water Conservation Board.	9.8
Water is a vital resource, and Texas must invest in the creation of new water supplies and innovative storage approaches. To fund the construction of water reuse, aquifer storage, and recovery projects, the Governor's Budget includes \$3 million in grants for conservation demonstration projects.	3.0
Total: Natural Resources	\$26.2

ARTICLE VII: BUSINESS AND ECONOMIC DEVELOPMENT

BUDGET RECOMMENDATIONS

To ensure adequate funding for the transportation system, during the 2016-17 biennium the Governor's Budget reflects a \$5.7 billion increase in transportation funding, including \$800 million in funding resulting from further reducing the current practice of diverting transportation funds to state agencies other than the Texas Department of Transportation.



ARTICLE VII - BUSINESS AND ECONOMIC DEVELOPMENT

GOVERNOR'S RECOMMENDATION

(IN MILLIONS)

	GR AND GR-DEDICATED	ALL FUNDS
ARTICLE VII - BUSINESS AND ECONOMIC DEVELOPMENT	\$1,758.7	\$29,913.2

ARTICLE VIII: REGULATORY

BUDGET RECOMMENDATIONS

Texas is the nation’s leading energy producer. The electric industry, which is regulated in part by the Public Utility Commission, must be prepared to reliably serve the citizens of Texas. Texas is a national leader in electric energy – including renewable sources, such as wind and, increasingly, solar energy. Electric reliability is imperative to maintain an economic and regulatory environment in Texas that will help employers in this critical industry continue to grow, create jobs, and increase prosperity for future generations.

Over the last several years, Texas has become a national leader in clean energy by increasing use of renewable resources like wind and solar energies and decreasing nitric oxide and carbon dioxide emissions.



ARTICLE VIII - REGULATORY

GOVERNOR’S RECOMMENDATION

(IN MILLIONS)

	GR AND GR-DEDICATED	ALL FUNDS
ARTICLE VIII - REGULATORY	\$619.6	\$649.2

BUDGET REFORMS FOCUSED ON ASSISTING VETERANS

The nation’s military service members honor their country with their selfless contributions to the national defense at home and overseas. These men and women exhibit qualities that our nation greatly values in the civilian workforce as well – loyalty, dedication, and honesty among them. Even so, the transition from military life to the civilian world can be difficult, and one of the greatest difficulties veterans face can be finding a job. Texas must ease this transition by improving economic opportunities for the state’s veterans. Too many barriers exist for veterans attempting to thrive in Texas’ economic climate by starting their own businesses or those transitioning back into the civilian workforce. These barriers can be lowered by removing bureaucratic requirements, offering relief from certain taxes and fees that deter entrepreneurship, and ensuring the state’s military infrastructure is protected.

Veterans represent a large sector of the Texas workforce. According to the federal Bureau of Labor Statistics (BLS), in 2013, Texas had 897,000 employed veterans.¹⁴ But nearly 9 percent of veterans in Texas who have returned home since the September 2001 terrorist attacks were unemployed in 2013, up from 8.3 percent in 2012.¹⁵ Those who have recently served our country are unemployed at a rate much higher than the state and national averages.

Texas must do better for veterans who have placed their lives on the line in service to their country. The state's efforts to help assist veterans should include:

Facilitate employment of skilled veterans by waiving examination and fee requirements for veterans obtaining licenses issued by state agencies.

One unnecessary burden to the reentry of service members into the workforce is that Texas occupations requiring licensure frequently require an examination and payment of certain fees to receive appropriate certification from the state. Often, these licensure requirements are unnecessary because veterans have already been trained and authorized by the U.S. military to conduct the occupational tasks for which they are seeking the license. The Governor's Budget recommends waiving fees for occupational licensing application and examination fees for qualified military service members, veterans, and their spouses to ensure the removal of this economic burden.

To increase employment of veterans, allow for a local option property tax exemption for each newly hired veteran by a commercial property owner.

Current Texas law provides for a range of property tax exemptions, some of which may be adopted by local taxing jurisdictions. The Governor's Budget recommends that local cities, counties, and junior college districts be authorized to adopt local-option property tax exemptions for commercial property owners who employ honorably discharged veterans. The exemption would be adopted locally by either the taxing unit's governing body, or by the citizens of the taxing entity by petition and election. The proposal would incentivize business owners to employ honorably discharged veterans.

Implement strategic planning to address base closures in Texas during the next phase of the Base Realignment and Closure (BRAC) process.

Texas military bases could be considered for closure when the federal BRAC process makes its next recommendations. The Governor's Budget includes \$30 million for the Texas Military Preparedness Commission (TMPC) within the Office of the Governor to administer Defense Economic Adjustment Assistance Grants. Within that funding, the TMPC will appoint a full-time, knowledgeable military advisor and ensure follow-through on strategic planning initiatives related to BRAC. In addition, grants will be used to assist communities affected by BRAC with infrastructure and construction projects.

¹⁴ U.S. Department of Labor, Bureau of Labor and Statistics, *Employment Status of Veterans 18 Years and Over by State, 2013 Annual Averages*, <http://www.bls.gov/news.release/vet.t06A.htm>.

¹⁵ See Sheryl Jean, *Veterans Unemployment Rises in Texas, Falls Nationally*, Dallas Morning News, (March 20, 2014), <http://www.dallasnews.com/business/headlines/20140320-veterans-unemployment-rises-in-texas-falls-nationally.ece>.

To increase entrepreneurship among veterans, exempt newly created, veteran-owned businesses from the Texas Business Tax (Franchise Tax) for the first five years that the business is in operation.

The state should also encourage entrepreneurship among veterans by exempting newly created, veteran-owned businesses from the business tax (franchise tax) for the first five years of operation. The Governor's Budget assumes business tax relief of \$15 million over the coming biennium for this purpose.

Exempt newly created, veteran-owned businesses from business registration fees.

Current law provides for a schedule of fees that must be filed with the Texas Secretary of State for a new business to be formally incorporated as a certain type of legal entity, such as a corporation. The Governor's Budget recommends exempting newly-created, veteran-owned businesses from these business registration fees. Removing this compliance burden is likely to encourage veteran entrepreneurs without significantly detracting from state revenue.

Offer designated mental health assistance for veterans and service members.

To help veterans and returning service members receive a diagnosis and pursue mental health treatment, the state should partner with qualified healthcare providers who are established near major military installations in Texas – Fort Hood, Fort Bliss, and those in San Antonio – to provide designated mental health screening days and other mental health assistance for veterans and service members. The Governor's Budget includes \$21 million to provide mental health services to care for those who have given so much to ensure freedom.

Fund tuition and fees for military families who qualify for Hazlewood Act exemptions.

The service that members of the military provide for this nation is invaluable, and the benefits of higher education tuition exemptions are well-deserved. The Governor's Budget recommends funding \$532 million in tuition exemptions that the Legislature has provided to military veterans and their families, rather than pushing the costs to public universities in the form of an unfunded mandate. The cost of this unfunded mandate is currently borne by the state's higher education institutions themselves and is indirectly passed on to other students. The principle of truth-in-budgeting can be advanced by ensuring the Legislature funds these exemptions.

