

Star-Telegram

Texas Legislature used stimulus funds to help balance budget

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In recent months, Gov. Rick Perry has savaged the stimulus package, lambasted federal attempts at healthcare reform and hinted at secession because of federal tax-and-spend policies.

A Web site paid for by Perry's re-election campaign says Washington's "increasingly pervasive embrace of bailouts . . . must be stopped before it drowns us in debt and destroys our national tradition of self-reliance." The governor has also said that accepting federal stimulus money would burden the state with programs Texas couldn't sustain.

Then, on June 19, Perry applauded the state's "balanced" budget, which he'd just signed, noting that lawmakers had left the state's Rainy Day Fund untouched and had cut taxes for 40,000 small businesses.

Some people credit conservative fiscal leadership by Perry, who vetoed \$288.9 million in spending, and by lawmakers for balancing the budget.

But records show that it was the much reviled federal stimulus money that saved the day.

The \$182.3 billion budget did include the first spending decrease since World War II, a trumpeted \$1.6 billion reduction. But the budget would have had to be slashed — and perhaps as much as half the money in the Rainy Day account could have been sucked away — were it not for an infusion of about \$12.1 billion in stimulus funds. That's nearly 7 percent of the state budget.

And before the budget writing for the 2010-11 biennium got under way, about \$2.3 billion in additional stimulus money was used to plug holes in the 2009 state budget.

Notably, stimulus dollars helped balance the federal/state Medicaid program so that Texas could shift money elsewhere in the budget. Medicaid is the No. 1 source of federal funding in every state's budget, according to the Center for Public Policy Priorities in Austin, which describes itself a nonpartisan think tank.

The governor's press office did not respond to a detailed message seeking comment.

Some conservatives said they would have preferred that the state reject the stimulus funds outright and instead make budget cuts and use the Rainy Day account.

"We made it clear upfront that we would have preferred that the state not take the money," said Talmadge Heflin, director of the Texas Public Policy Foundation's Center for Fiscal Policy in Austin. The federal government "had to increase the deficit spending, and we feel like that's, long term, a bad thing to do. It will eventually cost jobs in the future when you're having to pay that money back."

The governor did rebuff \$555 million in stimulus for unemployment insurance. Instead, the state went into interest-free debt to cover the unemployed. Perry said accepting the money would have meant higher business taxes.

Despite his disdain for bailouts, Perry made it clear in a February letter to President Barack Obama that he would accept the state's share. "As I have said during the debate . . . should Congress pass stimulus legislation using Texas tax dollars, I would work to ensure that our citizens receive their fair share," he wrote.

Rerouting funds

Texas used a \$4.1 billion windfall from the stimulus to reduce its Medicaid costs.

Pre-stimulus, the feds matched the state's Medicaid spending about 60-40. Post-stimulus, it was closer to a 70-30 split.

Ordinarily, the state would have paid its share from its main bank account, the general revenue fund. By reducing the draw on that fund, money was freed up for other state programs. (The same is true for state education spending, which got \$3.8 billion in stimulus funds, according to the Center for Public Policy Priorities.)

Texas followed the rules in using the Medicaid funds, said Anne Dunkelberg associate director of the public policy think tank. The feds said that Medicaid eligibility and any other income-counting rules could not change and that the money couldn't be put in the Rainy Day Fund.

"We didn't follow the spirit of the law, but we went by the letter of the law," said Eva DeLuna Castro, budget analyst for the center.

The center advocated using some of the money to implement 12 months of continuous coverage for children. Currently it's at six months, except for infants. The cost would have been \$200 million to \$300 million, which would be "easily affordable" with the enhanced Medicaid match rate, Castro said.

Stimulus money could also have been used to fund Medicaid at the cost estimates made by the Texas Health and Human Services Commission, which administers the program. Instead, lawmakers left Austin after this year's legislative session with Medicaid funding shy by as much as \$1 billion, according to public policy center estimates.

In setting the Medicaid budget, lawmakers had to choose between the commission's cost estimates and those of the Legislative Budget Board, which prepares budget projections for the state.

The Legislature decides "which crystal ball to go with," commission spokeswoman Stephanie Goodman said.

"Our caseload and cost estimates are usually higher than LBB's," Goodman said. "At one point this session, the estimates — in terms of dollars — were even farther off than in the past. In the end, LBB raised its caseload estimates to virtually match ours.

"We still differed on the cost estimates, with [our] projections assuming an increase in healthcare costs and the LBB estimates keeping costs flat."

For the fiscal year that started Sept. 1, the state Medicaid budget, including federal funds, is \$22.1 billion. In 2011, it climbs to \$22.7 billion.

If the money falls short, lawmakers will draft a supplemental appropriations bill in the next session. That's happened for at least the past three sessions, Goodman said.

Continuing programs

Heflin, a former state representative who served as the chairman of the House Appropriations Committee in 2003, said the LBB told him that about a third of the stimulus money is being used for continuing programs, such as Medicaid, instead of one-time expenditures. LBB and health commission officials said that includes the \$2.5 billion in enhanced matching funds for fiscal 2010 and 2011.

Heflin said substantial cuts could have been made to Medicaid instead of accepting the stimulus money.

"Now, it would have been felt, obviously," he said. "But when the stimulus money came in . . . in my opinion that stopped any real effort of cutting back because [lawmakers] saw the dollars they had."

Had the money been spurned, cuts might have included changes in eligibility, Heflin said.

Castro said cuts would likely have meant either finding a way to get hundreds of thousands of children off Medicaid or cutting a smaller number of the elderly and disabled, who tend to cost more to cover.

The state's eligibility criteria are strict and its provider payments are among the nation's lowest, Castro said. Most adults don't qualify. A single mother of two who earns more than \$188 a month wouldn't qualify, Dunkelberg said.

"As you can imagine, that doesn't pick up very many single moms," Dunkelberg added.

And demand for Medicaid, which serves impoverished children, pregnant women and the disabled, has been growing. Since September 2008, the program has added 200,000 recipients. Population growth and the recession have put more people on the rolls.

"Caseloads are catching up from a period of caseload depression as a result of problems with the eligibility system," Dunkelberg said.

Overall, 2.8 million Texas residents are enrolled, nearly 2 million of them children.

Castro shares Heflin's concerns about the future of the program.

"Two years from now, they [lawmakers] have to first find \$7.9 billion [for Medicaid and education] just to restore the money that used to be there," she said.

In his letter to the president, Perry remained defiant about federal government intrusion into Texas' affairs. "I remain opposed to using these funds to expand existing government programs, burdening the state with ongoing expenditures long after the funding has dried up," he wrote.

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Talmadge Heflin,
director of the Texas Public Policy Foundation's Center for Fiscal Policy in Austin

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