

**Texas Workforce Commission
Summary of Recommendations - House**

Section 1

Page VII-35

Larry Temple, Executive Director

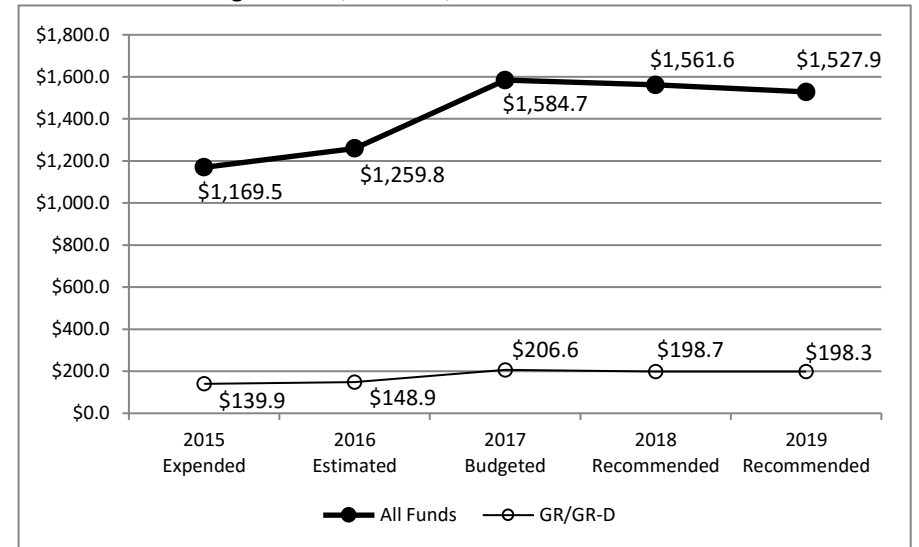
Caitlin Perdue, LBB Analyst

Method of Financing	2016-17 Base	2018-19 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$339,894,462	\$384,367,485	\$44,473,023	13.1%
GR Dedicated Funds	\$15,632,400	\$12,588,583	(\$3,043,817)	(19.5%)
<i>Total GR-Related Funds</i>	<i>\$355,526,862</i>	<i>\$396,956,068</i>	<i>\$41,429,206</i>	<i>11.7%</i>
Federal Funds	\$2,349,936,802	\$2,546,821,260	\$196,884,458	8.4%
Other	\$139,043,230	\$145,719,420	\$6,676,190	4.8%
All Funds	\$2,844,506,894	\$3,089,496,748	\$244,989,854	8.6%

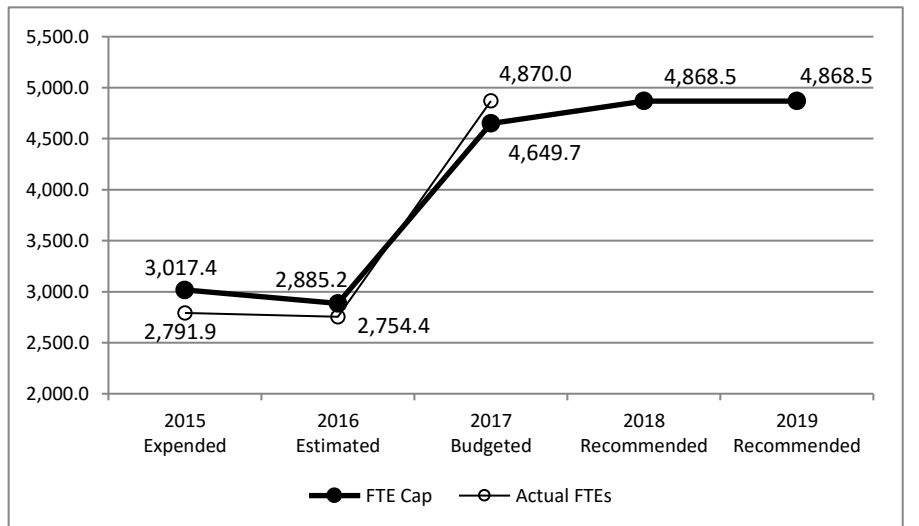
	FY 2017 Budgeted	FY 2019 Recommended	Biennial Change	Percent Change
FTEs	4,870.0	4,868.5	(1.5)	(0.0%)

The bill pattern for this agency (2018-19 Recommended) represents an estimated 99.7% of the agency's estimated total available funds for the 2018-19 biennium.

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



Texas Workforce Commission
Summary of Funding Changes and Recommendations - House

Section 2

Funding Changes and Recommendations for the 2018-19 Biennium compared to the 2016-17 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
---	--	--------------------	--------------	------------------	-------------	-----------	---------------------------

SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):

A)	Decrease of \$16.3 million for 1) \$11.0 million for a MOF swap to fund statewide employee salary increases with Federal Funds instead of GR and GR-D, 2) \$3.0 million for Workforce Employment and Training activities, 3) \$1.7 million for the Skills Development program, and 4) \$0.6 million for a funding reduction for the Department of Assistive and Rehabilitative Services (DARS) vocational rehabilitation program in alignment with the federal funding allocation and state federal match; pursuant to the four percent reduction.	(\$12.2)	(\$4.1)	\$0.0	\$0.0	(\$16.3)	15 strategies
B)	Biennialize funding for the vocational rehabilitation programs transferring from DARS. Health and Human Services Commission recommendations include a corresponding reduction.	\$56.7	\$1.1	\$252.2	\$1.1	\$311.1	A.2.1, A.2.2, A.2.3, C.1.1, C.1.2, C.1.3
C)	Decrease in Federal Funding primarily related to a reduction of 1) \$47.2 million for the Adult Education Grant, 2) \$25.8 million for the Child Care and Development Block Grant, and 3) \$8.4 million in State Administrative for Supplemental Nutrition Assistance Program; offset by increases of 1) \$11.2 million for the Unemployment Insurance Grant, 2) \$10.4 million for the Employment Services Grant, and 3) \$4.5 million in Child Care Mandatory & Matching Funds.	\$0.0	\$0.0	(\$55.3)	\$0.0	(\$55.3)	25 strategies
D)	Interagency Contract increase for the child care provided to the foster care and protective services populations from the Department of Family and Protective Services.	\$0.0	\$0.0	\$0.0	\$11.6	\$11.6	A.4.4

OTHER Funding Changes and Recommendations (these issues are not addressed in Section 3 but details are provided in Appendix A):

E)	Decrease of GR and GR-D for 1) \$30,926 in the PC Replacement capital budget to fund a 6-year replacement cycle; and 2) \$36,942 in the Building Maintenance capital budget to fund at 2016-17 levels.	(\$0.0)	(\$0.1)	\$0.0	\$0.0	(\$0.1)	5 strategies
F)	Decrease in Interagency Contracts primarily related to the Office of Attorney General Non-Custodial Parents project and the DARS system integration capital project not anticipated in the next biennium.	\$0.0	\$0.0	\$0.0	(\$5.5)	(\$5.5)	8 strategies

Texas Workforce Commission
Summary of Funding Changes and Recommendations - House

Section 2

Funding Changes and Recommendations for the 2018-19 Biennium compared to the 2016-17 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
G)	Anticipated decrease in Appropriated Receipts related to Third Party Reimbursements from Local Workforce Development Boards for the Child Care Development federal grant local match.	\$0.0	\$0.0	\$0.0	(\$0.5)	(\$0.5)	10 strategies
TOTAL SIGNIFICANT & OTHER Funding Changes and Recommendations (in millions)		\$44.5	(\$3.0)	\$196.9	\$6.7	\$245.0	As Listed
<i>SIGNIFICANT & OTHER Funding Increases</i>		\$56.7	\$1.1	\$252.2	\$12.7	\$322.7	As Listed
<i>SIGNIFICANT & OTHER Funding Decreases</i>		(\$12.2)	(\$4.2)	(\$55.3)	(\$6.0)	(\$77.7)	As Listed

NOTE: Totals may not sum due to rounding.

**Texas Workforce Commission
Selected Fiscal and Policy Issues - House**

1. **Child Care Funding.** The Texas Workforce Commission (TWC) provides three child care programs including 1) Choices child care for Temporary Assistance for Needy Families (TANF) participants and applicants, Supplemental Nutrition Assistance Program – Employment & Training participants, and former Department of Family and Protective Services (DFPS) foster and protective care children; 2) At-Risk child care for low income families; and 3) the current DFPS foster and protective care caseload. Choices child care participants primarily receive fully subsidized care. Historically, the average fully subsidized Choices child care case averaged four months, before transitioning to the At-Risk Child Care program, which provides child care services with a parent co-pay requirement. The federal Child Care and Development Block Grant (CCDBG) Act of 2014 reauthorized the child care program for the first time since 1996 and represents significant changes to the Child Care and Development Fund (CCDF) program.
 - **Extension of Eligibility Period.** On October 1, 2016, a requirement went into effect that established a 12-month eligibility re-determination period for CCDF participants, regardless of changes in income below the federal threshold of 85 percent of the state median income or temporary changes in participation in work, training, or education activities. As a result of this change, the agency is anticipating an increase in participation and needed funding for the TANF Choices & Mandatory Child Care program and a corresponding decrease in participation and funding for the At-Risk program. The agency also anticipates this will result in fewer families receiving care, as more funding will be required to cover the 12-month child care subsidy. TWC is monitoring the impact of this significant change in fiscal year 2017.
 - **Department of Family and Protective Services (DFPS).** TWC has an Interagency Contract (IAC) with DFPS to provide child care services for children in foster care and protective services. The IAC amount has been updated for fiscal years 2016 to 2019 to align funding with LBB forecasts. TWC is projecting the federal eligibility requirement will also affect the DFPS caseload. As children leave protective care, TWC will be required to fund the child care services for the remainder of the 12 months, serving fewer families in the At-Risk program.
 - **Child Care Transferability Rider.** Recommendations include a new Child Care Transferability rider requested by the agency to transfer funding between Strategy A.4.1, TANF Choices & Mandatory Child Care and Strategy A.4.2, At-Risk & Transitional Child Care, beyond current transferability limitations established in Article IX, Section 14.01, Appropriation Transfers, in order to maximize the expenditure of available child care funds and respond to unanticipated caseload changes. The rider includes a notification requirement when accessing this rider as well as a quarterly report on transfers to the Legislative Budget Board. (See Rider Highlights #45)
 - **Child Care Performance Measures.** Recommendations adjust performance measures and targets related to child care for the average number of children served to reflect the new federal changes. The agency requested to increase targets for the average number of children served by TANF Choices & Mandatory and decrease the target for the average number of children served by At-Risk & Transitional. Recommendations increase the average cost per child served in alignment with the agency's request from \$23.76 in fiscal year 2017 to \$23.77 in fiscal years 2018-19 for TANF Choices & Mandatory and from \$17.69 in 2017 to \$17.70 in 2018 and \$17.71 in 2019 for At-Risk & Transitional related to the average child remaining in care longer. The Commission determines a lump sum allocation along with a performance target for the number of children served for each local workforce board. With these parameters, the local boards work with child care service providers to reimburse services rendered at a rate not to exceed a set maximum rate. This maximum rate is determined by the local workforce board, in alignment with the Market Rate Survey provided by the agency. The final rates set by the local boards affect all children served in that area, including children paid for by DFPS. (See Performance Measure Highlights Section)
2. **Capital Budget.** Recommendations include \$69.1 million in capital budget authority in the 2018-19 biennium, including \$0.9 million in GR and GR-D, \$68.0 million in Federal Funds, and \$0.2 in Appropriated Receipts. The capital budget funding and authority for the 2018-19 biennium only includes continuing projects or projects required by federal guidelines. The majority of the capital budget is related to Data Center Consolidation and Centralized Accounting and Payroll/Personnel System totaling \$49.5 million. The remainder of the capital budget includes 1) \$6.2 million for PC replacements on a 6-year replacement cycle, increased bandwidth capabilities, and operations infrastructure, such as content management and telecommunications; 2) \$6.2 million for TWC-owned building maintenance; 3) \$3.9 million for the second phase for a data warehouse and a contracting system; 4) \$2.2 million for a portal for employers to enter data on short-time unemployment

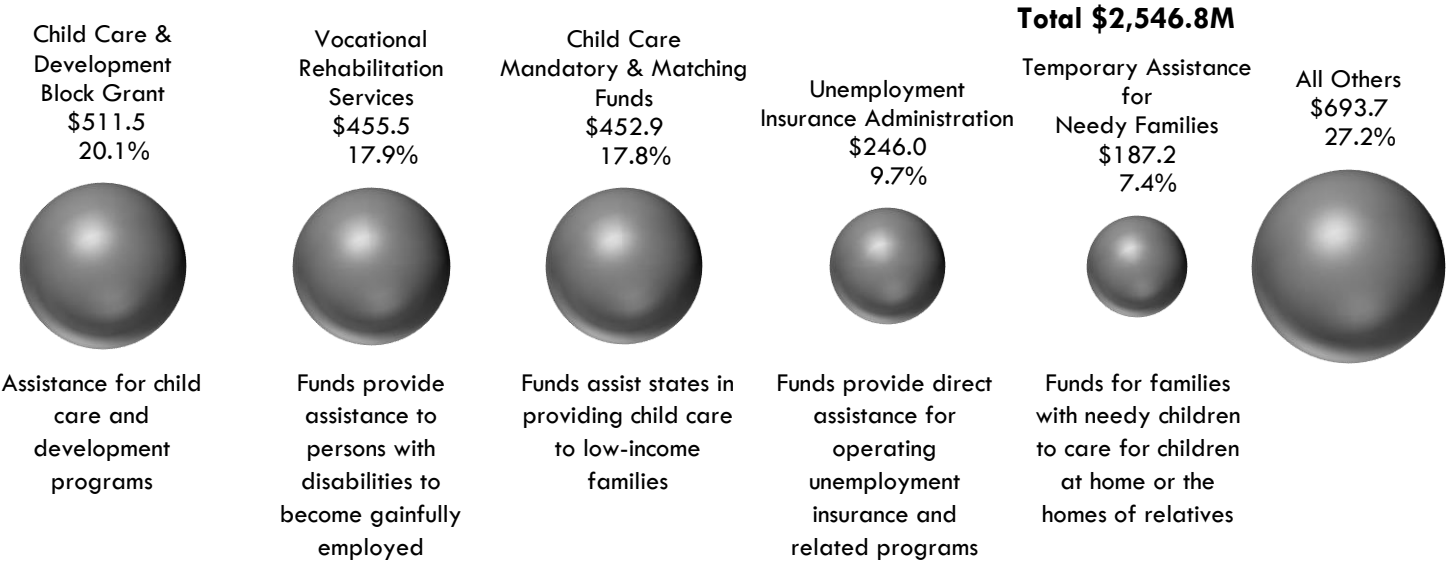
compensation; and 5) \$1.1 million related to RehabWorks for the VR program and establishing food service facilities for Business Enterprises of Texas. (See Rider Highlights #2)

3. **Vocational Rehabilitation Overview.** SB 208 (84R) transferred the vocational rehabilitation program from the Department of Assistive and Rehabilitative Services (DARS) to TWC, including the Criss Cole Rehabilitation Center and independent living services for older individuals who are blind. The list below provides a breakdown of VR funding for the 2016-17 biennium and the 2018-19 biennium.

Method of Finance (millions)	2016-17	2018-19
General Revenue	\$113.6	\$113.0
GR-D Business Enterprise Program Account	\$1.4	\$1.4
GR-D Business Enterprise Program Trust Fund	\$0.8	\$0.8
Federal Funds	\$503.1	\$505.5
Other Funds	\$3.9	\$2.2
All Funds	\$622.8	\$622.9

4. **Four Percent Reduction.** TWC's four percent reduction amount totals \$16.3 million. Recommendations include the following items identified in the agency's four percent reduction. The 2018-19 recommendations do not include reductions in Maintenance of Effort (MOE) requirements or federal matching funds. GR-D Business Enterprise Trust Fund 5043 was not subject to the Comptroller of Public Accounts' certification of the General Appropriations Act in the 2016-17 biennium and, as a result, approximately \$0.8 million was exempt from the four percent reduction.
 - **Method of Finance Swap for Salary Increases.** The reduction totaling \$11.0 million in GR and GR-D across multiple programs, including Unemployment Insurance and Employment Services, relates to statewide employee salary increases provided in the 2014-15 and 2016-17 General Appropriations Act. The agency received a portion of the salary increases from GR and GR-D, and is replacing this portion with increases in Federal Funds for the 2018-19 biennium.
 - **Workforce Employment and Training Activities.** This reduction in grant funding totals \$3.0 million in the GR-D Employment and Training Investment Assessment Holding Fund and includes the associated deletion of Rider 33, Workforce Employment and Training Activities, which funds initiatives for job creation and economic development as well as \$0.2 million each year transferred to the Texas Veterans Commission for veteran employment programs.
 - **Skills Development Program.** The reduction in grant funding for the Skills Development program totals \$1.7 million in GR and will result in a reduction of approximately 500 Skills Development trainees each year. Recommendations provide funding for 12,087 trainees each fiscal year.
 - **Vocational Rehabilitation (VR) Program.** The reduction for the VR program totals \$0.6 million in GR to align the GR needed to match the estimated level of federal VR grant funding in the 2018-19 biennium.
5. **Unemployment Compensation (UC) Trust Fund.** The UC Trust Fund is a federal trust fund established outside of the state treasury, administered by TWC to support the state's unemployment compensation program. The UC Trust Fund is financed through taxes on employers responsible for benefits paid to former workers. The fund balance is required to be above the floor of \$400 million or 1% of taxable wages, whichever is greater. As of January 2017, the Trust Fund Floor is \$1,107.2 million. If the UC Trust Fund balance is less than the required floor, then the fund is replenished by a transfer from GR-D Employment and Training Investment Assessment (ETIA) Fund 5128. In fiscal year 2017, \$108.0 million will be transferred from the GR-D ETIA Fund to the UC Trust Fund. After this transfer, the UC Trust Fund will still be below the floor totaling \$1,066.6 million, and as a result, the agency may issue bonds or a tax assessment to generate sufficient revenue to meet the fund floor.
6. **Method of Finance for Adult Education Match.** Recommendations include a new Method of Finance for General Revenue Match for Adult Education. This further identifies the General Revenue used for federal matching requirements separate from the discretionary General Revenue.

Texas Workforce Commission
Summary of Federal Funds (2018-19) - House

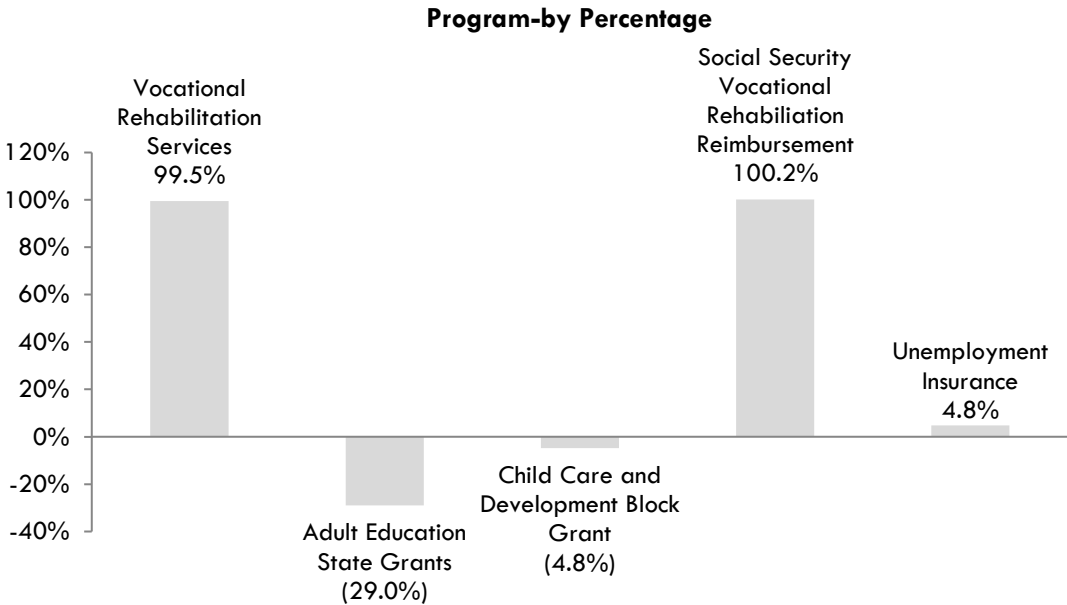
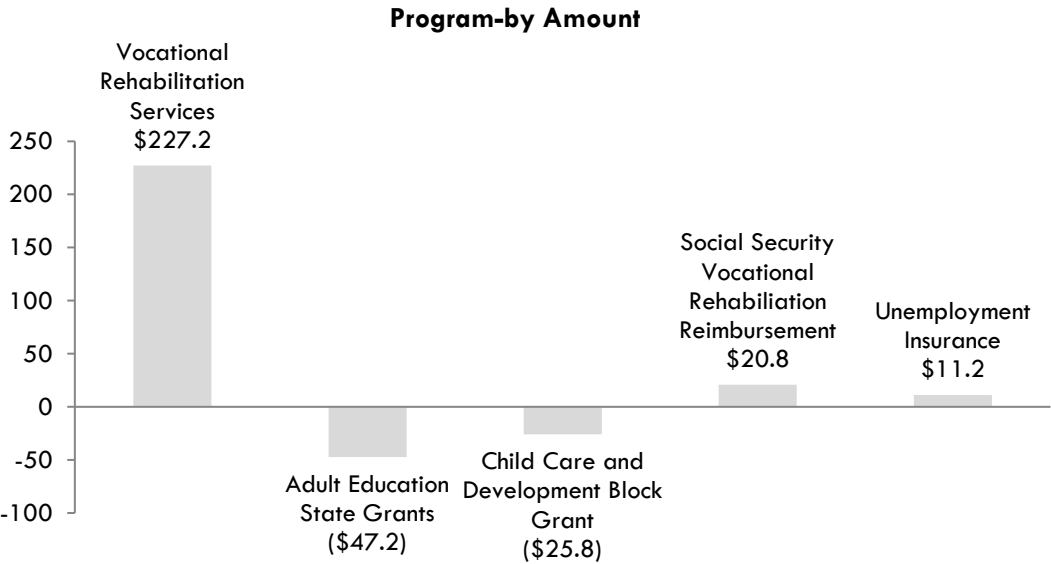


Selected Federal Fiscal and Policy Issues

1. The Vocational Rehabilitation program was transferred from the Department of Assistive and Rehabilitative Services to the Texas Workforce Commission in Fiscal Year 2017.

2. Beginning in fiscal year 2017, states will be required to use at least 3 percent of their Child Care and Development Fund award to improve the quality of infant and toddler care.

Programs with Significant Federal Funding Changes from 2016-17



**Texas Workforce Commission
Quality Assurance Team Highlights - House**

Section 3b

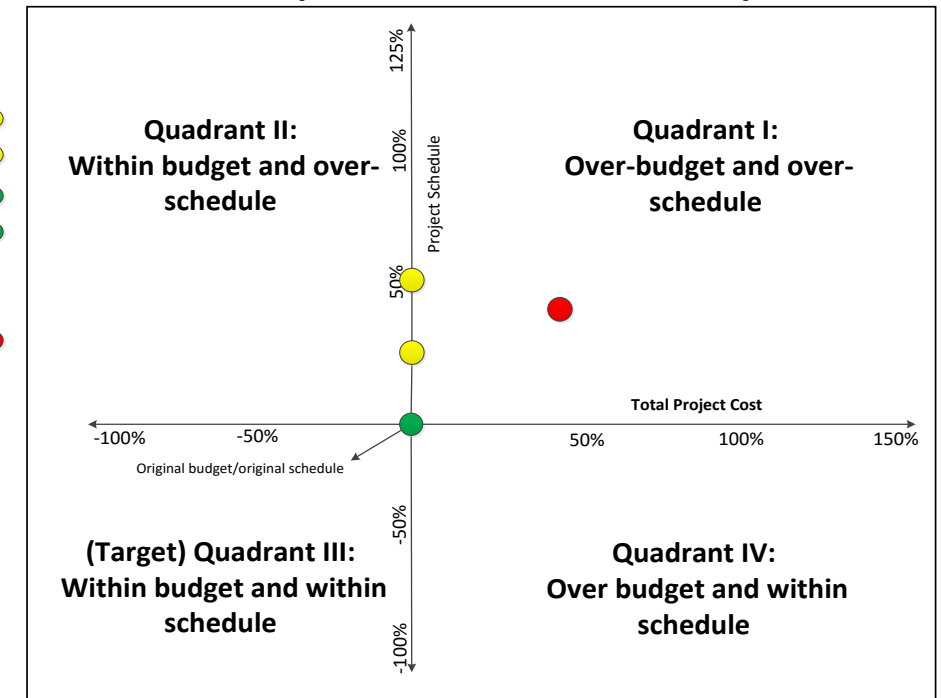
Summary of Total Costs (in millions) and Time Frames reported to the Quality Assurance Team

	Original Projected Costs	Current Projected Costs	Difference in Costs	Expenditures to Date	Original Timeline in Months	Current Timeline in Months	Difference in Time	% Complete	
Active Project Name									
1 Claimant View 1.0	\$1.2	\$1.2	\$0.0	\$1.0	15	19	4	100%	●
2 Tax Electronic Correspondence	\$1.5	\$1.6	\$0.1	\$1.0	20	39	19	73%	●
3 Integration for DARS Transition	\$5.0	\$5.0	\$0.0	\$2.4	12	12	0	100%	●
4 Treasury Offset Program	\$1.8	\$1.8	\$0.0	\$0.7	24	24	0	87%	●
Canceled Project Name									
5 Tax Modernization	\$9.1	\$12.8	\$3.7	\$8.1	29	53	24	75%	●
6 Streamline Fraud/Non-Fraud Determinations	\$1.0	\$1.0	\$0.0	\$0.0	22	22	0	0%	
7 Tax User Interface	\$3.3	\$3.3	\$0.0	\$0.0	18	18	0	0%	
8 Update Tax Filing Options	\$2.5	\$2.5	\$0.0	\$0.0	21	21	0	0%	
9 Common Components Phase 2	\$1.7	\$1.7	\$0.0	\$0.0	23	23	0	0%	
10 Improve Job Matching	\$1.4	\$1.4	\$0.0	\$0.0	20	20	0	0%	
Project Totals (10)	\$28.5	\$32.3	\$3.8	\$13.2					

Notes:

- a) The Claimant View 1.0 project is 36% over duration. The increase is due to the agency prioritizing other projects that were further along with the development.
- b) The Tax Electronic Correspondence project is 89% over duration and a slight increase over cost. Shortly after project initiation QAT noted that all costs were not being identified and realized that procurement of a vendor took an additional six months from the initial estimated planned time. The project was extended to align with the revised Tax Modernization project as the agency was schedule to have both projects developed by the same vendor and staff resources.
- c) Texas Workforce Commission (TWC) canceled six projects, five were canceled before project initiation. The decision to cancel these projects were made by TWC's Business Enterprise Strategic Technology (BEST) team not to move forward due to re-alignment of agency priorities. Tax Modernization project was canceled based on the number of project problems including the vendor's poor quality of project deliverables (Schedule and Project code).

Major Information Resources Projects



Legend

- Project is within budget and within schedule
- Project exceeds budget OR schedule
- Project is over budget and behind schedule

**Texas Workforce Commission
Quality Assurance Team Highlights - House**

Section 3b

Significant Project Highlights

1 Claimant View 1.0 - Benefits Electronic Correspondence

This project was authorized to begin in FY 2013 as a 15 month project and was appropriated through the Unemployment Insurance (UI) IT Improvement Project capital budget item for development.

According to agency, the number of active UI claimants continues to grow and the cost of preparing and mailing documents required by statute continues to consume a larger percentage of the total UI operating budget. This project will replace the mailing of documents for those claimants who voluntarily agree to receive correspondence electronically. If the claimant has selected electronic correspondence, a notice of the existence of electronic correspondence will be generated and e-mailed to the user.

An important benefit for this project is offering the claimant access to correspondence through the project web system without TWC staff intervention, or waiting on mail delivery.

2 Tax Electronic Correspondence

This project was authorized to begin in FY 2014 as a 20 month project and was appropriated as part of the UI IT Improvement Project capital budget item for development.

UI Tax correspondence documents are created, imaged and mailed. This project will replace the mailing of documents for those employers who voluntarily agree to receive correspondence electronically. The list of documents eligible for this process will be identified and when created, if the employer has opted in to electronic correspondence, a notice of the existence of electronic correspondence will be generated and emailed to the user who has opted in. The email instructs the employer to logon to UTS and navigate to the Message Center to view the unread document. When the user logs on to UTS, the unread messages for that employer will be identified. Once the user has read a document, it will be electronically marked as read with the appropriate timestamp.

QAT Budget Highlights (in millions)

Project Name	2016-17 Base	2018-19 Requested	2018-19 Recommended
Claimant View 1.0	\$0.1	\$0.0	\$0.0
Tax Electronic Correspondence	\$0.4	\$0.0	\$0.0
Integration for DARS Transition	\$4.3	\$0.0	\$0.0
Treasury Offset Program	\$0.8	\$0.0	\$0.0
Total	\$5.6	\$0.0	\$0.0

**Texas Workforce Commission
Quality Assurance Team Highlights - House**

Section 3b

3 Integration for DARS Transition

This project was authorized to begin in FY 2016 as a 12 month project and was appropriated through a Request to Exceed pursuant to Article IX, Section 14.03(b) of the 2016-17 GAA on January 22, 2016. The project was funded through an Interagency Contract of \$3.9 million with the Department of Assistive and Rehabilitative Services (DARS) and \$0.4 million in existing Federal Funds.

The System Integration for DARS Transition project will integrate financial, human resources, vocational rehabilitation, and other applications and interfaces that support the services and programs transferring to TWC from DARS and Health and Human Services Commission effective September 1, 2016.

4 Treasury Offset Program

This project was authorized to begin in FY 2016 as a 24 month project and was appropriated through the UI IT Improvement Project capital budget item for development.

This project focuses on creating an interface with the federal Treasury Offset Program (TOP) database in order to collect debts from individuals who have received an overpayment of UI benefits as a result of misreporting wages or fraud, and any penalties assessed on those overpayments. Implementation of this project is required to be in compliance with federal law as reflected in the US Department of Labor's Unemployment Insurance Program. This project will allow TWC to replenish the UI Trust Fund and return funds to the federal government for related UI benefit debt.

5 Tax Modernization Project

This project was authorized to begin in FY 2012 as a 29 month project and was appropriated through the UI IT Improvement Project capital budget item for development.

The Tax Modernization project supports TWC's goal to collect all appropriate employer contributions for unemployment insurance. The refurbishment of the Unemployment Tax System will support this objective by ensuring the systems that support the collection of taxes are maintainable, responsive and available for the collection of employer contributions to unemployment insurance.

In FY 2016, TWC and the vendor were unable to reach agreement on reasonable project dates and, in May, TWC contracted with Gartner to perform a third-party project health check (i.e., Independent Verification and Validation (IV&V)). Gartner identified 8 key recommendations for TWC to evaluate and remediate the project. Gartner recommends that all project work is stopped before executing the recommendations. Based on the number of project problems, TWC does not believe that the Nov 2016 implementation date can be met and TWC canceled the contract for convenience with NTT Data.

**Texas Workforce Commission
FTE Highlights - House**

Section 3c

Full-Time-Equivalent Positions	Expended 2015	Estimated 2016	Budgeted 2017	Recommended 2018	Recommended 2019
Cap	3,017.4	2,885.2	4,649.7	4,868.5	4,868.5
Actual/Budgeted	2,791.9	2,754.4	4,870.0	NA	NA

Schedule of Exempt Positions (Cap)

Commissioner, Group 6	\$150,000	\$189,500	\$189,500	\$189,500	\$189,500
Commissioner (2), Group 5	\$150,000	\$189,500	\$189,500	\$189,500	\$189,500
Executive Director, Group 5	\$165,919	\$192,698	\$192,698	\$192,698	\$192,698

Notes:

a) The agency received an increase of 1,860.9 FTEs in the 2017 FTE cap related to the vocational rehabilitation programs transferred from Department of Assistive and Rehabilitative Services (DARS) pursuant to SB 208 (84R).

b) The agency increased by 220.3 FTEs from the 2017 FTE cap to the 2017 FTE actual due to the following:

- Increase of 160.0 FTEs related to the projected increase in unemployment claims allowable under Article IX, Section 6.10(h) regulations as the FTEs will be 100 percent federally funded;
- Increase of 46.3 FTEs to better reflect the actual number of FTEs transferring from the DARS pursuant to Senate Bill 208 (84R); and
- Increase of 14.0 FTEs related to the determination that the agency would implement the independent living services program for older individuals who are blind that was initially contracted to the Health and Human Services Commission.

c) Recommendations include 4,868.5 FTEs in the 2018-19 biennium in alignment with the agency's request. The decrease of 1.5 FTEs from the 2017 actual is related to the elimination of the federal Apprenticeship USA Grant.

**Texas Workforce Commission
Performance Measure Highlights - House**

Section 3d

	Expended 2015	Estimated 2016	Budgeted 2017	Recommended 2018	Recommended 2019
TANF Choices & Mandatory Child Care Key Measures					
• Average Number of Children Served Per Day	4,671	6,213	13,722	13,934	13,934
• Average Cost Per Child Per Day for Child Care	\$23.31	\$23.81	\$23.76	\$23.77	\$23.77
At-Risk & Transitional Child Care Key Measures					
• Average Number of Children Served Per Day	95,623	94,235	95,060	90,560	90,560
• Average Cost Per Child Per Day for Child Care	\$17.60	\$17.73	\$17.69	\$17.70	\$17.71

Notes:

a) Recommendations adjust performance measures and targets related to child care for both the average number of children served and the average cost per child served to reflect the new federal changes (See Selected Fiscal and Policy Issue #1). The agency requests to increase targets for the average number and cost for children served by TANF Choices & Mandatory Child Care and decrease the target for the average number of children served by At-Risk & Transitional Child Care.

b) Child care rates are set by the Commission determining a lump sum allocation along with a performance target for number of children served for each local workforce board. With these parameters, the local boards work with child care service providers to reimburse services rendered at a rate not to exceed a set maximum rate. This maximum rate is determined by the local workforce board, in alignment with the Market Rate Survey provided by the agency. The final rates set by the local boards affect all children served in that area.

	Expended 2015	Estimated 2016	Budgeted 2017	Recommended 2018	Recommended 2019
Vocational Rehabilitation					
• Participants Served - Vocational Rehabilitation	69,121	75,327	71,738	70,501	71,028
• Average Cost per Participant Served - Vocational Rehabilitation	\$3,263.51	\$3,789	\$3,265	\$3,265	\$3,265
• Number of Individuals Employed by Business Enterprises of Texas Businesses (Managers and Employees)	1,439	1,450	1,500	1,520	1,540

Notes:

a) The performance measures above represent new measures as a result of the vocational rehabilitation program transfers from Department of Assistive and Rehabilitative Services (DARS) in fiscal year 2017, pursuant to Senate Bill 208 (84R).

b) Participants Served and Average Cost per Participant Served are impacted by a requirement in the federal Workforce Innovation and Opportunity Act (WIOA) that 15 percent of all Vocational Rehabilitation funds are spent on Pre-Employment Transition Services, which is primarily for youth and considered non-participants. The WIOA requirements also changed the definition of a "participant" changed from any consumer who has contact with the program to an individual who has an approved Individual Plan for Employment and is receiving services.

**Texas Workforce Commission
Rider Highlights - House**

Modification of Existing Riders

2. **Capital Budget.** Recommendations amend this rider and reflect changes to capital budget authority for the following: (1) a decrease of \$9.6 million for Unemployment Insurance Improvements due to anticipated lapses in 2016-17 and fewer projects in 2018-19; (2) a decrease of \$1.6 million for PC Replacement to fund a 6-year replacement cycle and LAN/WAN area upgrades; (3) an increase of \$2.7 million to biennialize funding for the Vocational Rehabilitation program; and (3) an increase of \$1.2 million for Operations Infrastructure and Workforce Solutions Improvements. The capital budget funding and authority for the 2018-19 biennium only includes continuing projects or projects required by federal guidelines. (See Selected Fiscal and Policy Issue #2 and Items Not Included in Recommendations #4 & 5)
23. **Local Matching Funds.** Recommendations amend this rider to increase the local matching funds provided by local workforce areas used to draw down Child Care Matching Federal Funds, in alignment with the agency's request. The agency anticipates a less favorable Federal Medicaid Assistance Percentage (FMAP) rate in the 2018-19 biennium, which results in a higher match requirement for the agency. TWC typically meets this match requirement through: 1) statewide appropriations going towards pre-kindergarten programs; 2) General Revenue; and 3) the local match funding provided through this rider. The agency currently cannot increase the match level from pre-kindergarten programs and has chosen not to allocate additional General Revenue for this purpose, and instead is asking the local workforce areas to make up the projected difference.
33. **Reimbursement of Advisory Committee Members.** Revise rider to include the Purchasing from People with Disabilities Advisory Committee from the SB 212 (84R) program transfer from the Comptroller of Public Accounts. Pursuant to SB 212 (84R), this advisory committee is not subject to the Texas Government Code, Chapter 2110, which requires reimbursement for expenses to be prescribed by the GAA. As a result, recommendations add the committee to the rider to provide transparency on reimbursement costs.
44. **Adult Education and Family Literacy Workforce Diploma Program Pilot Project.** This rider allows the agency to establish an Adult Education and Family Literacy (AEL) workforce diploma pilot project to increase participation in adult diploma and technical training programs and increase job placement outcomes in high demand job fields. However, there is currently no available funding to implement the project as this expenditure is not currently allowable for federal funds received in the strategy identified in the rider. Revisions delete the strategy reference to expand the use of any available funds for this purpose.

New Riders

45. **Child Care Transferability.** Recommendations include a new Child Care Transferability rider for unlimited transferability between Strategy A.4.1, TANF Choices & Mandatory Child Care and Strategy A.4.2, At-Risk & Transitional Child Care, beyond current transferability limitations established in Article IX, Section 14.01, Appropriation Transfers, in order to maximize the expenditure of available child care funds and respond to unanticipated caseload changes in alignment with the agency's request. Recommendations include a notification requirement to the Legislative Budget Board when accessing this rider. (See Selected Fiscal and Policy Issue #1)
46. **Department of Family and Protective Services (DFPS) Child Care Reporting Requirement.** Recommendations include a new rider requiring TWC to submit a monthly report to the LBB and DFPS on budgeted and actual expenditures as well as budgeted and actual caseload totals for the

children in the DFPS state care program.

Deleted Riders

- 33. **Workforce Employment and Training Activities.** Delete rider, which allocates \$3.0 million in the GR-D Employment and Training Investment Assessment Holding Fund for workforce initiatives, submitted as a part of the agency's four percent reduction. (See Selected Fiscal and Policy Issue #4)
- 34. **Sunset Contingency.** Delete contingent rider as Senate Bill 208 (84R) passed, which continues the agency for up to 12 years.
- 45. **Contingency for the Department of Assistive and Rehabilitative Services Program Transfer.** Delete contingent rider as SB 208 (84R) passed, which transferred the vocational rehabilitation program from Department of Assistive and Rehabilitative Services to TWC.

Texas Workforce Commission
Items Not Included in Recommendations - House

Section 5

	2018-19 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2020-21
	GR & GR-D	All Funds	FTEs			

Agency Exceptional Items - In Agency Priority Order

1)	Jobs and Education for Texans Program. Request to increase grant funds to public community and technical colleges and independent school districts for start-up costs of equipment purchases/upgrades for career and technical education programs. This item relates to Tri-Agency Recommendation #1 to identify statewide initiatives for the next generation to make Texas a leader in targeted fields.	\$4,000,000	\$4,000,000	0.0	No	Yes	\$4,000,000
2)	Adult Education and Literacy Program. Request to expand the development of adult learner models that result in literacy and skills attainment certifications, including the Accelerate Texas program, which provides education to under-skilled or under-employed populations to access entry-level career pathways, as well as high school and community college dropout recovery models for adults up to age 26. This item relates to Tri-Agency Recommendation #3 to build a partnership among the Texas Education Agency (TEA), Texas Higher Education Coordinating Board (THEBC), Texas Workforce Commission (TWC), and other stakeholders to align education goals with the state's higher education plan for 60 percent of 25- to 34-year-olds to hold a certificate or degree by 2030.	\$10,000,000	\$10,000,000	0.0	No	Yes	\$10,000,000
3)	Workforce Career and Technical Education Specialists Demonstration Program. Request to develop a demonstration program to co-locate workforce development specialists in high schools and provide guidance regarding apprenticeship or trade schools for careers in targeted occupations. This item relates to Tri-Agency Recommendation #3 (description in Item #2).	\$2,000,000	\$2,000,000	0.0	No	Yes	\$0
4)	Capital budget authority of \$15.0 million for a Work-In-Texas project to replace the existing online State Labor Exchange. This request would be funded with existing Federal Funds. This is a request for a new project to be funded under a new capital budget item. Estimated continued funding starting in fiscal year 2020 totals \$4.5 million each year for software maintenance.	\$0	\$0	0.0	Yes	Yes	\$0

Texas Workforce Commission
Items Not Included in Recommendations - House

Section 5

		2018-19 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2020-21
		GR & GR-D	All Funds	FTEs			
5)	Capital budget authority totaling \$2,201,846 for new projects under the current Workforce Solutions Improvements capital budget item, including 1) \$900,000 for a TRACER system project to replace the existing system that provides labor market data to consumers; 2) \$650,923 for a Criss Cole Rehabilitation Center project to redesign the scheduling, attendance, and tracking system; and 3) \$650,923 for a Business Enterprises of Texas (BET) project to redesign the BET Manager Monthly Reporting system. This request would be funded with existing Federal Funds.	\$0	\$0	0.0	Yes	Yes	\$0
TOTAL Items Not Included in Recommendations		\$16,000,000	\$16,000,000	0.0			\$14,000,000

**Texas Workforce Commission
Appendices - House**

Table of Contents		
Appendix	Appendix Title	Page
A	Funding Changes and Recommendations by Strategy	17
B	Summary of Federal Funds	37
C	FTE Highlights	**
D	Performance Measure Highlights	**
E	Summary of Ten Percent Biennial Base Reduction Options	39

** Information is included in the presentation section of the packet

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- ALL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
WORKFORCE INNOVATION & OPPORTUNITY A.1.1	\$239,229,571	\$234,704,552	(\$4,525,019)	(1.9%)	
WKFORCE INNOVATN & OPP ACT - YOUTH A.1.2	\$90,783,277	\$93,355,274	\$2,571,997	2.8%	
TANF CHOICES A.1.3	\$177,420,583	\$172,461,443	(\$4,959,140)	(2.8%)	
EMPLOYMENT AND COMMUNITY SERVICES A.1.4	\$98,725,130	\$109,955,031	\$11,229,901	11.4%	All Funds net increase due to the following: -Decrease of \$1,975,688 in GR and GR-D for a MOF swap to fund statewide employee salary increases with Federal Funds instead of GR and GR-D for the four percent reduction; -Decrease of \$3,000,000 in GR-D Employment and Training Investment Assessment Holding Fund for the four percent reduction; -Decrease of \$4,296 in GR and GR-D for PC replacements to fund a 6-year replacement cycle and building maintenance funded at 2016-17 levels; -Increase of \$16,162,376 in Federal Funds for increases in grant funding received for Employment Services and Unemployment Insurance; and -Increase of \$47,509 in Interagency Contracts and Appropriated Receipts.
SNAP E & T A.1.5	\$44,320,798	\$35,958,908	(\$8,361,890)	(18.9%)	
TRADE AFFECTED WORKERS A.1.6	\$39,292,889	\$40,045,855	\$752,966	1.9%	
SENIOR EMPLOYMENT SERVICES A.1.7	\$9,599,824	\$9,636,039	\$36,215	0.4%	
APPRENTICESHIP A.1.8	\$12,210,244	\$8,928,049	(\$3,282,195)	(26.9%)	
ADULT EDUCATION AND FAMILY LITERACY A.1.9	\$197,507,327	\$150,463,766	(\$47,043,561)	(23.8%)	Decrease in the Adult Education Grant to align the federal program year with the state fiscal year.
VOCATIONAL REHABILITATION A.2.1	\$298,939,607	\$591,670,537	\$292,730,930	97.9%	Increase to biennialize funding for the vocational rehabilitation program transferred from the Department of Assistive and Rehabilitative Services (DARS) per SB 208 (84R).
BUSINESS ENTERPRISES OF TEXAS (BET) A.2.2	\$2,489,507	\$4,980,708	\$2,491,201	100.1%	Increase to biennialize funding for the Business Enterprises of Texas program transferred from DARS per SB 208 (84R).
BUSN ENTERPRISES OF TEX TRUST FUND A.2.3	\$404,212	\$808,424	\$404,212	100.0%	Increase to biennialize funding for the Business Enterprises of Texas program transferred from DARS per SB 208 (84R).
SKILLS DEVELOPMENT A.3.1	\$58,920,784	\$57,180,034	(\$1,740,750)	(3.0%)	Decrease in grant funding for the Skills Development Program for the four percent reduction. This reduction will result in a reduction of approximately 500 Skills Development trainees each year.
SELF SUFFICIENCY A.3.2	\$4,535,063	\$5,075,520	\$540,457	11.9%	
LABOR MARKET AND CAREER INFORMATION A.3.3	\$9,184,413	\$7,902,597	(\$1,281,816)	(14.0%)	

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- ALL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
WORK OPPORTUNITY TAX CREDIT A.3.4	\$1,350,690	\$1,415,730	\$65,040	4.8%	
FOREIGN LABOR CERTIFICATION A.3.5	\$1,201,662	\$1,296,219	\$94,557	7.9%	
TANF CHOICES & MANDATORY CHILD CARE A.4.1	\$120,637,625	\$172,558,519	\$51,920,894	43.0%	Reallocation from Strategy A.4.2 for the anticipated increase in the number of children served for this program due to the changes in federal requirements.
AT-RISK & TRANSITIONAL CHILD CARE A.4.2	\$992,805,000	\$918,883,129	(\$73,921,871)	(7.4%)	All Funds decrease due to the following: -Reallocation of \$19,366,828 in GR for Child Care and Development Fund and \$32,554,066 in Federal Funds to Strategy A.4.1 for the anticipated increase in the number of children served for this program due to the changes in federal requirements; and -Decrease of \$22,001,922 in the Child Care and Development Block Grant due to an anticipated increase in funding needed for fiscal year 2017 related to the change in federal requirements and the subsequent decrease in enrollment in the At-Risk program in the 2018-19 biennium.
CHILD CARE ADMINISTRATION A.4.3	\$11,554,047	\$12,087,944	\$533,897	4.6%	
CHILD CARE - DFPS FAMILIES A.4.4	\$127,747,692	\$139,348,471	\$11,600,779	9.1%	Increase in Interagency Contracts for the child care provided to the foster care and protective services populations from the Department of Family and Protective Services.
UNEMPLOYMENT CLAIMS A.5.1	\$132,919,163	\$135,073,893	\$2,154,730	1.6%	Increase for a MOF swap to fund statewide employee salary increases with Federal Funds instead of GR and GR-D for the four percent reduction.
UNEMPLOYMENT APPEALS A.5.2	\$34,701,627	\$35,553,995	\$852,368	2.5%	Increase for a MOF swap to fund statewide employee salary increases with Federal Funds instead of GR and GR-D for the four percent reduction.
UNEMPLOYMENT TAX COLLECTION A.5.3	\$51,611,945	\$51,629,714	\$17,769	0.0%	Increase for a MOF swap to fund statewide employee salary increases with Federal Funds instead of GR and GR-D for the four percent reduction.
Total, Goal A, WORKFORCE DEVELOPMENT	\$2,758,092,680	\$2,990,974,351	\$232,881,671	8.4%	
SUBRECIPIENT MONITORING B.1.1	\$6,124,171	\$6,251,051	\$126,880	2.1%	
PGM SUPP, TECH ASST & TRAINING SVCS B.1.2	\$9,809,989	\$11,195,044	\$1,385,055	14.1%	
LABOR LAW ENFORCEMENT B.1.3	\$8,316,156	\$8,056,219	(\$259,937)	(3.1%)	
CAREER SCHOOLS & COLLEGES B.1.4	\$2,003,167	\$2,102,411	\$99,244	5.0%	
CIVIL RIGHTS B.2.1	\$4,702,324	\$4,746,737	\$44,413	0.9%	
Total, Goal B, PROGRAM ACCOUNTABILITY/ENFORCEMENT	\$30,955,807	\$32,351,462	\$1,395,655	4.5%	

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- ALL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
CENTRAL ADMINISTRATION C.1.1	\$31,259,802	\$37,516,411	\$6,256,609	20.0%	Increase to biennialize funding for the vocational rehabilitation program transferred from DARS per SB 208 (84R).
INFORMATION RESOURCES C.1.2	\$16,132,213	\$17,611,607	\$1,479,394	9.2%	
OTHER SUPPORT SERVICES C.1.3	\$8,066,392	\$11,042,917	\$2,976,525	36.9%	
Total, Goal C, INDIRECT ADMINISTRATION	\$55,458,407	\$66,170,935	\$10,712,528	19.3%	
Grand Total, All Strategies	\$2,844,506,894	\$3,089,496,748	\$244,989,854	8.6%	<p>All Funds net increase due to the following:</p> <ul style="list-style-type: none"> -Decrease of \$16,315,240 in GR and GR-D for the four percent reduction, including 1) \$10,975,600 for a MOF swap to fund statewide employee salary increases with Federal Funds instead of GR and GR-D, 2) \$3,000,000 in grant funding from the GR-D Employment and Training Investment Assessment Holding Fund for job creation and economic development initiatives for the four percent reduction, 3) \$1,740,750 for the Skills Development program, and 4) \$598,890 related to the reduction to align the DARS federal funding allocation and state federal match; -Decrease of \$67,868 in GR and GR-D for PC replacements to fund a 6-year replacement cycle and building maintenance funded at 2016-17 levels; -Decrease of \$55,347,070 in Federal Funds primarily due to decreases in Adult Education Grant and the Child Care and Development Block Grant; -Decrease of \$5,494,834 in Interagency Contracts primarily from OAG and DARS not anticipated in the next biennium; -Decrease of \$547,157 in Appropriated Receipts due to an anticipated decrease in Third Party Reimbursements from Local Workforce Development Boards for the Child Care Development federal grant local match; -Increase of \$311,161,244 in All Funds, including \$57,812,314 in GR and GR-D, \$252,231,528 in Federal Funds, and \$1,117,402 in Other Funds, to biennialize funding for the vocational rehabilitation program transferred from DARS per SB 208 (84R); and -Increase of \$11,600,779 in Interagency Contracts for the child care provided to the foster care and protective services populations from the Department of Family and Protective Services.

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- FEDERAL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
WORKFORCE INNOVATION & OPPORTUNITY A.1.1	\$238,920,080	\$234,704,552	(\$4,215,528)	(1.8%)	
WKFORCE INNOVATN & OPP ACT - YOUTH A.1.2	\$90,783,277	\$93,355,274	\$2,571,997	2.8%	
TANF CHOICES A.1.3	\$157,306,879	\$154,802,739	(\$2,504,140)	(1.6%)	
EMPLOYMENT AND COMMUNITY SERVICES A.1.4	\$80,966,025	\$97,128,401	\$16,162,376	20.0%	
SNAP E & T A.1.5	\$35,985,270	\$27,590,799	(\$8,394,471)	(23.3%)	
TRADE AFFECTED WORKERS A.1.6	\$39,292,889	\$40,045,855	\$752,966	1.9%	
SENIOR EMPLOYMENT SERVICES A.1.7	\$9,572,364	\$9,608,579	\$36,215	0.4%	
APPRENTICESHIP A.1.8	\$5,834,421	\$2,556,000	(\$3,278,421)	(56.2%)	
ADULT EDUCATION AND FAMILY LITERACY A.1.9	\$173,593,132	\$126,692,366	(\$46,900,766)	(27.0%)	Decrease in the Adult Education Grant for a one-time adjustment in fiscal year 2016 to align the federal program year with the state fiscal year.
VOCATIONAL REHABILITATION A.2.1	\$242,103,844	\$485,695,094	\$243,591,250	100.6%	Increase to biennialize funding for the vocational rehabilitation program transferred from the Department of Assistive and Rehabilitative Services (DARS) per SB 208 (84R).
BUSINESS ENTERPRISES OF TEXAS (BET) A.2.2	\$876,238	\$1,754,170	\$877,932	100.2%	Increase to biennialize funding for the Business Enterprises of Texas program transferred from DARS per SB 208 (84R).
BUSN ENTERPRISES OF TEX TRUST FUND A.2.3	\$0	\$0	\$0	0.0%	
SKILLS DEVELOPMENT A.3.1	\$0	\$0	\$0	0.0%	
SELF SUFFICIENCY A.3.2	\$4,535,063	\$5,075,520	\$540,457	11.9%	
LABOR MARKET AND CAREER INFORMATION A.3.3	\$8,702,129	\$7,598,039	(\$1,104,090)	(12.7%)	
WORK OPPORTUNITY TAX CREDIT A.3.4	\$1,350,690	\$1,415,730	\$65,040	4.8%	
FOREIGN LABOR CERTIFICATION A.3.5	\$1,201,662	\$1,296,219	\$94,557	7.9%	
TANF CHOICES & MANDATORY CHILD CARE A.4.1	\$79,062,412	\$111,616,478	\$32,554,066	41.2%	Reallocation from Strategy A.4.2 for the anticipated increase in the number of children served for this program due to the changes in federal requirements.

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- FEDERAL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
AT-RISK & TRANSITIONAL CHILD CARE A.4.2	\$891,805,242	\$837,249,254	(\$54,555,988)	(6.1%)	Federal Funds decrease due to the following: -Reallocation of \$32,554,066 to Strategy A.4.1 for the anticipated increase in the number of children served for this program due to the changes in federal requirements; and -Decrease of \$22,001,922 due to a decrease in the Child Care and Development Block Grant.
CHILD CARE ADMINISTRATION A.4.3	\$11,501,114	\$12,087,944	\$586,830	5.1%	
CHILD CARE - DFPS FAMILIES A.4.4	\$0	\$0	\$0	0.0%	
UNEMPLOYMENT CLAIMS A.5.1	\$128,928,419	\$134,853,071	\$5,924,652	4.6%	
UNEMPLOYMENT APPEALS A.5.2	\$33,575,226	\$35,553,995	\$1,978,769	5.9%	
UNEMPLOYMENT TAX COLLECTION A.5.3	\$49,074,569	\$50,710,658	\$1,636,089	3.3%	
Total, Goal A, WORKFORCE DEVELOPMENT	\$2,284,970,945	\$2,471,390,737	\$186,419,792	8.2%	
SUBRECIPIENT MONITORING B.1.1	\$5,846,553	\$6,021,266	\$174,713	3.0%	
PGM SUPP, TECH ASST & TRAINING SVCS B.1.2	\$8,978,194	\$10,350,303	\$1,372,109	15.3%	
LABOR LAW ENFORCEMENT B.1.3	\$0	\$0	\$0	0.0%	
CAREER SCHOOLS & COLLEGES B.1.4	\$0	\$0	\$0	0.0%	
CIVIL RIGHTS B.2.1	\$2,858,846	\$2,917,225	\$58,379	2.0%	
Total, Goal B, PROGRAM ACCOUNTABILITY/ENFORCEMENT	\$17,683,593	\$19,288,794	\$1,605,201	9.1%	
CENTRAL ADMINISTRATION C.1.1	\$26,544,613	\$31,769,182	\$5,224,569	19.7%	
INFORMATION RESOURCES C.1.2	\$14,171,077	\$15,254,762	\$1,083,685	7.6%	
OTHER SUPPORT SERVICES C.1.3	\$6,566,574	\$9,117,785	\$2,551,211	38.9%	
Total, Goal C, INDIRECT ADMINISTRATION	\$47,282,264	\$56,141,729	\$8,859,465	18.7%	

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- FEDERAL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
Grand Total, All Strategies	\$2,349,936,802	\$2,546,821,260	\$196,884,458	8.4%	<p>Increase in Federal Funds primarily due to the increase of \$252,231,528 to biennialize funding for the vocational rehabilitation program transferred from DARS per SB 208 (84R). The remaining changes in federal receipts are due to the following.</p> <p>Decrease of \$86.6 million in traditional federal funds that are no longer anticipated to be available:</p> <ul style="list-style-type: none"> - \$47,167,576 Adult Education State Grant Program - \$25,830,164 Child Care and Development Block Grant - \$8,410,792 State Admin Matching Grant for SNAP - \$3,241,638 Apprenticeship USA Grants - \$1,106,191 Employment & Training Administration Pilots - \$448,820 WIOA Dislocated Worker National Reserve Technical Grants - \$214,359 WIOA - Adult - \$113,364 Employment Discrimination - \$51,449 Disaster Unemployment Assistance <p>Increase of approximately \$31.2 million in traditional federal funds:</p> <ul style="list-style-type: none"> - \$11,153,631 Unemployment Insurance - \$10,416,509 Employment Services - \$4,497,182 Child Care Mandatory & Matching Funds of the CCDF - \$1,979,251 WIOA - Youth - \$1,337,875 WIOA Incentive Grants - \$938,282 Trade Adjustment Assistance Workers - \$330,386 WIOA Dislocated Worker Formula Grants - \$187,899 Labor Force Statistics - \$99,465 Fair Housing Assistance Program - \$91,927 Temporary Labor Certification for Foreign Workers - \$91,924 WIOA National Emergency Grants - \$69,428 Work Opportunity Tax Credits - \$37,283 Senior Community Service Employment Program - \$6,241 WIOA Dislocated Worker National Reserve Grants

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- OTHER FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
WORKFORCE INNOVATION & OPPORTUNITY A.1.1	\$0	\$0	\$0	0.0%	
WKFORCE INNOVATN & OPP ACT - YOUTH A.1.2	\$0	\$0	\$0	0.0%	
TANF CHOICES A.1.3	\$2,455,000	\$0	(\$2,455,000)	(100.0%)	Decrease in Interagency Contracts for funding from the Office of the Attorney General (OAG) for Non-Custodial Parents participating in the TANF program not currently continuing in the 2018-19 biennium. OAG funding is contingent on the federal Office of Child Support Enforcement's approval for the OAG to use child support performance incentive funding for this purpose. The OAG plans to submit this request in the Spring.
EMPLOYMENT AND COMMUNITY SERVICES A.1.4	\$781,240	\$828,749	\$47,509	6.1%	
SNAP E & T A.1.5	\$0	\$0	\$0	0.0%	
TRADE AFFECTED WORKERS A.1.6	\$0	\$0	\$0	0.0%	
SENIOR EMPLOYMENT SERVICES A.1.7	\$0	\$0	\$0	0.0%	
APPRENTICESHIP A.1.8	\$0	\$0	\$0	0.0%	
ADULT EDUCATION AND FAMILY LITERACY A.1.9	\$0	\$0	\$0	0.0%	
VOCATIONAL REHABILITATION A.2.1	\$3,733,016	\$380,694	(\$3,352,322)	(89.8%)	Decrease in Interagency Contracts from Department of Assistive and Rehabilitative Services (DARS) for the transfer of data and information technology systems for the vocational rehabilitation programs not anticipated in the next biennium.
BUSINESS ENTERPRISES OF TEXAS (BET) A.2.2	\$927,055	\$1,854,110	\$927,055	100.0%	Increase to biennialize funding for the Business Enterprises of Texas program transferred from DARS per SB 208 (84R).
BUSN ENTERPRISES OF TEX TRUST FUND A.2.3	\$0	\$0	\$0	0.0%	
SKILLS DEVELOPMENT A.3.1	\$0	\$0	\$0	0.0%	
SELF SUFFICIENCY A.3.2	\$0	\$0	\$0	0.0%	
LABOR MARKET AND CAREER INFORMATION A.3.3	\$192,800	\$304,558	\$111,758	58.0%	
WORK OPPORTUNITY TAX CREDIT A.3.4	\$0	\$0	\$0	0.0%	
FOREIGN LABOR CERTIFICATION A.3.5	\$0	\$0	\$0	0.0%	
TANF CHOICES & MANDATORY CHILD CARE A.4.1	\$0	\$0	\$0	0.0%	
AT-RISK & TRANSITIONAL CHILD CARE A.4.2	\$1,957,055	\$1,958,000	\$945	0.0%	
CHILD CARE ADMINISTRATION A.4.3	\$52,933	\$0	(\$52,933)	(100.0%)	
CHILD CARE - DFPS FAMILIES A.4.4	\$127,747,692	\$139,348,471	\$11,600,779	9.1%	Increase in Interagency Contracts for the child care provided to the foster care and protective services populations from Department of Family and Protective Services.

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- OTHER FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
UNEMPLOYMENT CLAIMS A.5.1	\$410,689	\$220,822	(\$189,867)	(46.2%)	
UNEMPLOYMENT APPEALS A.5.2	\$0	\$0	\$0	0.0%	
UNEMPLOYMENT TAX COLLECTION A.5.3	\$0	\$0	\$0	0.0%	
Total, Goal A, WORKFORCE DEVELOPMENT	\$138,257,480	\$144,895,404	\$6,637,924	4.8%	
SUBRECIPIENT MONITORING B.1.1	\$0	\$0	\$0	0.0%	
PGM SUPP, TECH ASST & TRAINING SVCS B.1.2	\$256,458	\$309,576	\$53,118	20.7%	
LABOR LAW ENFORCEMENT B.1.3	\$0	\$0	\$0	0.0%	
CAREER SCHOOLS & COLLEGES B.1.4	\$0	\$0	\$0	0.0%	
CIVIL RIGHTS B.2.1	\$119,838	\$106,819	(\$13,019)	(10.9%)	
Total, Goal B, PROGRAM ACCOUNTABILITY/ENFORCEMENT	\$376,296	\$416,395	\$40,099	10.7%	
CENTRAL ADMINISTRATION C.1.1	\$76,479	\$53,925	(\$22,554)	(29.5%)	
INFORMATION RESOURCES C.1.2	\$15,398	\$20,180	\$4,782	31.1%	
OTHER SUPPORT SERVICES C.1.3	\$317,577	\$333,516	\$15,939	5.0%	
Total, Goal C, INDIRECT ADMINISTRATION	\$409,454	\$407,621	(\$1,833)	(0.4%)	
Grand Total, All Strategies	\$139,043,230	\$145,719,420	\$6,676,190	4.8%	Other Funds net increase due to the following: -Decrease of \$5,663,849 in Interagency Contracts from OAG and DARS not anticipated in the next biennium; -Decrease of \$547,157 in Appropriated Receipts due to an anticipated decrease in Third Party Reimbursements from Local Workforce Development Boards for the Child Care Development federal grant local match; -Increase of \$169,015 for various increases in other Interagency Contracts; -Increase of \$1,117,402 in the Blind Endowment Fund and Appropriated Receipts to biennialize funding for the vocational rehabilitation programs transferred from DARS per SB 208 (84R); and -Increase of \$11,600,779 in Interagency Contracts for the child care provided to the foster care and protective services populations from the Department of Family and Protective Services.

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- SUPPLEMENTAL

Strategy/Fund Type/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
					<p>Match refers to cost-sharing requirements that accompany receipt of federal funds. Match ratios vary considerably by program. For most federal grants, state expenditures must occur throughout the grant year in proportion to federal funds drawn.</p> <p>Maintenance of Effort (MOE) refers to a minimal level of state spending required as a condition of receiving federal funds. MOE is an absolute dollar amount, typically based on a historical level of state spending.</p>
WORKFORCE INNOVATION & OPPORTUNITY A.1.1	\$239,229,571	\$234,704,552	(\$4,525,019)	(1.9%)	The Workforce Innovation & Opportunity Act (WIOA)-Adult program promotes a revitalized workforce investment system by providing information, advice, job search assistance, and training to job seekers primarily through One-Stop Career Centers.
GENERAL REVENUE FUNDS	\$309,491	\$0	(\$309,491)	(100.0%)	Decrease of \$309,491 in GR for the four percent reduction.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$238,920,080	\$234,704,552	(\$4,215,528)	(1.8%)	<p>-\$203.4 million in Federal Funds for WIOA-Adult and Dislocated Worker grants, which have no state match or MOE requirements. Funds are allocated based on the state's share of unemployed persons and economically disadvantaged adults. Funds are distributed to local workforce development boards. Up to 15 percent may be reserved for statewide workforce investment activities.</p> <p>-Various other federal grants are provided within this strategy.</p>
OTHER FUNDS	\$0	\$0	\$0	0.0%	
WKFORCE INNOVATN & OPP ACT - YOUTH A.1.2	\$90,783,277	\$93,355,274	\$2,571,997	2.8%	WIOA-Youth program assists low-income youth ages 14 to 24 to acquire the educational and occupational skills, training, and support needed to achieve academic and employment success and to successfully transition to careers and productive adulthood.
GENERAL REVENUE FUNDS	\$0	\$0	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- SUPPLEMENTAL

Strategy/Fund Type/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
FEDERAL FUNDS	\$90,783,277	\$93,355,274	\$2,571,997	2.8%	Federal Funds for the WIOA-Youth grant has no state match or MOE requirements. Funds are allocated based the state's share of unemployed persons and economically disadvantaged adults. Funds are distributed to local workforce development boards. Up to 15 percent may be reserved for statewide workforce investment activities.
OTHER FUNDS	\$0	\$0	\$0	0.0%	
TANF CHOICES A.1.3	\$177,420,583	\$172,461,443	(\$4,959,140)	(2.8%)	The Temporary Assistance for Needy Families (TANF) Choices program provides TANF recipients employment and training services.
GENERAL REVENUE FUNDS	\$17,658,704	\$17,658,704	\$0	0.0%	Recommended funding of \$17,658,704 included for the TANF MOE.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$157,306,879	\$154,802,739	(\$2,504,140)	(1.6%)	Federally funded through the TANF grant.
OTHER FUNDS	\$2,455,000	\$0	(\$2,455,000)	(100.0%)	
EMPLOYMENT AND COMMUNITY SERVICES A.1.4	\$98,725,130	\$109,955,031	\$11,229,901	11.4%	The Employment Services program provides a variety of placement services without charge to job seekers or to employers seeking qualified individuals to fill job openings.
GENERAL REVENUE FUNDS	\$13,090,562	\$11,841,192	(\$1,249,370)	(9.5%)	Decrease of \$1,249,370 in GR for the four percent reduction. Recommended funding of \$11,841,192 is discretionary.
GR DEDICATED	\$3,887,303	\$156,689	(\$3,730,614)	(96.0%)	Decrease of \$3,726,318 in GR-D for the four percent reduction as well as \$4,296 for PC replacements to fund a 6-year replacement cycle and building maintenance funded at 2016-17 levels. Recommended funding of \$156,689 is discretionary.
FEDERAL FUNDS	\$80,966,025	\$97,128,401	\$16,162,376	20.0%	-\$83.6 million in Federal Funds for Employment Services grants, which has no state match or MOE requirements. Two-thirds of available funds are allotted based on each state's share of the civilian labor force. One-third is based on the state's share of unemployed persons.
OTHER FUNDS	\$781,240	\$828,749	\$47,509	6.1%	

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- SUPPLEMENTAL

Strategy/Fund Type/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
SNAP E & T A.1.5	\$44,320,798	\$35,958,908	(\$8,361,890)	(18.9%)	The Supplemental Nutrition Assistance Program (SNAP)—Employment and Training (E&T) program provides assistance to SNAP recipients in obtaining a job, or education and training to enhance recipients' opportunities for entering the workplace.
GENERAL REVENUE FUNDS	\$8,335,528	\$8,368,109	\$32,581	0.4%	Recommended funding of \$8,368,109 included for the SNAP state match.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$35,985,270	\$27,590,799	(\$8,394,471)	(23.3%)	Each state receives a designated allotment based on a formula that considers the number of potential SNAP—E&T participants. For a base amount of federal funds, no match is required. States may access additional federal funds with a 50 percent state match.
OTHER FUNDS	\$0	\$0	\$0	0.0%	
TRADE AFFECTED WORKERS A.1.6	\$39,292,889	\$40,045,855	\$752,966	1.9%	The Trade Adjustment Assistance (TAA) program provides benefits and employment services to workers who lose their manufacturing or service job, or whose hours of work and wages are reduced as a result of increased imports or a shift in production to foreign countries.
GENERAL REVENUE FUNDS	\$0	\$0	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$39,292,889	\$40,045,855	\$752,966	1.9%	No federal match or MOE requirements.
OTHER FUNDS	\$0	\$0	\$0	0.0%	
SENIOR EMPLOYMENT SERVICES A.1.7	\$9,599,824	\$9,636,039	\$36,215	0.4%	The Senior Community Service Employment program provides training and employment services to low income job seekers age 55 and older.
GENERAL REVENUE FUNDS	\$27,460	\$27,460	\$0	0.0%	Recommended funding of \$27,460 included for the Senior Employment Services state match.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$9,572,364	\$9,608,579	\$36,215	0.4%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- SUPPLEMENTAL

Strategy/Fund Type/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
APPRENTICESHIP A.1.8	\$12,210,244	\$8,928,049	(\$3,282,195)	(26.9%)	The Apprenticeship program provides paid on-the-job training with supervision and classroom instruction.
GENERAL REVENUE FUNDS	\$6,375,823	\$6,372,049	(\$3,774)	(0.1%)	Recommended funding of \$6,372,049 is discretionary. Decrease of \$3,774 for PC replacements to fund a 6-year replacement cycle and building maintenance funded at 2016-17 levels.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$5,834,421	\$2,556,000	(\$3,278,421)	(56.2%)	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
ADULT EDUCATION AND FAMILY LITERACY A.1.9	\$197,507,327	\$150,463,766	(\$47,043,561)	(23.8%)	The Adult Education and Literacy program provides English language, math, reading, and writing instruction to participate in the workforce, obtain a high school credential, or attend college or career training. The agency awards grants to local providers.
GENERAL REVENUE FUNDS	\$23,914,195	\$23,771,400	(\$142,795)	(0.6%)	Decrease of \$142,795 in GR for the four percent reduction. Recommended funding of \$23,771,400 included for the Adult Education and Literacy state match.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$173,593,132	\$126,692,366	(\$46,900,766)	(27.0%)	Each state receives a designated allotment based on a formula that considers the ratio of adults and youths age 16 and older who are not enrolled or hold a high school diploma or equivalent. 25 percent state match of the total amount of funds expended for adult education and literacy activities.
OTHER FUNDS	\$0	\$0	\$0	0.0%	
VOCATIONAL REHABILITATION A.2.1	\$298,939,607	\$591,670,537	\$292,730,930	97.9%	The Vocational Rehabilitation (VR) program provides employment and education services for adults and youth with disabilities.
GENERAL REVENUE FUNDS	\$53,102,747	\$105,594,749	\$52,492,002	98.8%	Recommended funding of \$105,594,749 included for the VR state match.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$242,103,844	\$485,695,094	\$243,591,250	100.6%	States are allocated funds based on population, weighted by per capita income. The state match is 21.3 percent for vocational rehabilitative services. At a minimum, states must maintain spending at the level of expenditures for the fiscal year two years earlier.

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- SUPPLEMENTAL

Strategy/Fund Type/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
OTHER FUNDS	\$3,733,016	\$380,694	(\$3,352,322)	(89.8%)	
BUSINESS ENTERPRISES OF TEXAS (BET) A.2.2	\$2,489,507	\$4,980,708	\$2,491,201	100.1%	Business Enterprises of Texas (BET) program provides employment opportunities for Texans who are blind or visually impaired to establish a business managing cafeteria or food vending facilities.
GENERAL REVENUE FUNDS	\$0	\$0	\$0	0.0%	
GR DEDICATED	\$686,214	\$1,372,428	\$686,214	100.0%	Recommended funding of \$1,372,428 from revenues of vending facility operations used as a state match.
FEDERAL FUNDS	\$876,238	\$1,754,170	\$877,932	100.2%	
OTHER FUNDS	\$927,055	\$1,854,110	\$927,055	100.0%	
BUSN ENTERPRISES OF TEX TRUST FUND A.2.3	\$404,212	\$808,424	\$404,212	100.0%	
GENERAL REVENUE FUNDS	\$0	\$0	\$0	0.0%	
GR DEDICATED	\$404,212	\$808,424	\$404,212	100.0%	The BET Trust Fund collects receipts from vending machines on federal property and funds a retirement program for individuals licensed to operate vending facilities under the BET program.
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
SKILLS DEVELOPMENT A.3.1	\$58,920,784	\$57,180,034	(\$1,740,750)	(3.0%)	The Skills Development program provides grants to community and technical colleges for job training programs for businesses to train new workers or improve the skills of their existing workforce.
GENERAL REVENUE FUNDS	\$58,920,784	\$57,180,034	(\$1,740,750)	(3.0%)	Decrease of \$1,740,750 in GR for the four percent reduction. Recommended funding of \$57,180,034 is discretionary.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
SELF SUFFICIENCY A.3.2	\$4,535,063	\$5,075,520	\$540,457	11.9%	The Self Sufficiency program provides grants to TANF and SNAP recipients to obtain certificates and credentials that lead to employment.

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- SUPPLEMENTAL

Strategy/Fund Type/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
GENERAL REVENUE FUNDS	\$0	\$0	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$4,535,063	\$5,075,520	\$540,457	11.9%	Federally funded through the TANF grant.
OTHER FUNDS	\$0	\$0	\$0	0.0%	
LABOR MARKET AND CAREER INFORMATION A.3.3	\$9,184,413	\$7,902,597	(\$1,281,816)	(14.0%)	The Labor Market and Career Information program provides information to local workforce development boards on labor market trends, economic conditions, data on occupations and industries, educational programs, training opportunities, and career development principles.
GENERAL REVENUE FUNDS	\$289,484	\$0	(\$289,484)	(100.0%)	Decrease of \$289,484 in GR for the four percent reduction.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$8,702,129	\$7,598,039	(\$1,104,090)	(12.7%)	No state match or MOE requirements.
OTHER FUNDS	\$192,800	\$304,558	\$111,758	58.0%	
WORK OPPORTUNITY TAX CREDIT A.3.4	\$1,350,690	\$1,415,730	\$65,040	4.8%	The Work Opportunity Tax Credit program provides a federal tax credit to employers who hire individuals from target groups who face barriers to employment.
GENERAL REVENUE FUNDS	\$0	\$0	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$1,350,690	\$1,415,730	\$65,040	4.8%	No state match or MOE requirements.
OTHER FUNDS	\$0	\$0	\$0	0.0%	
FOREIGN LABOR CERTIFICATION A.3.5	\$1,201,662	\$1,296,219	\$94,557	7.9%	The Foreign Labor Certification program assists employers to hire temporary foreign workers when there is a shortage of domestic workers.
GENERAL REVENUE FUNDS	\$0	\$0	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$1,201,662	\$1,296,219	\$94,557	7.9%	No state match or MOE requirements.
OTHER FUNDS	\$0	\$0	\$0	0.0%	

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- SUPPLEMENTAL

Strategy/Fund Type/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
TANF CHOICES & MANDATORY CHILD CARE A.4.1	\$120,637,625	\$172,558,519	\$51,920,894	43.0%	The TANF Choices & Mandatory Child Care program provides child care assistance to TANF participants and applicants, SNAP participants, and former Department of Family and Protective Services (DFPS) foster and protective care children, providing parents and guardians the opportunity to participate in work-related activities and obtain employment.
GENERAL REVENUE FUNDS	\$41,575,213	\$60,942,041	\$19,366,828	46.6%	Recommended funding of \$60,942,041 included for the GR child care state match.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$79,062,412	\$111,616,478	\$32,554,066	41.2%	The Child Care Mandatory and Matching Funds grant program has two funding streams. -For matching funds, allocations are based on the proportion of children younger than age 13 residing in a state. There is a required MOE for matching funds and the federal to state match ratio is the Federal Medical Assistance Percentage. -For mandatory funds, allocations are based on historical expenditures for certain federal child care programs and do not have a state match or MOE.
OTHER FUNDS	\$0	\$0	\$0	0.0%	
AT-RISK & TRANSITIONAL CHILD CARE A.4.2	\$992,805,000	\$918,883,129	(\$73,921,871)	(7.4%)	The At-Risk & Transitional Child Care program provides subsidized child care for low income families, providing parents and guardians the opportunity to participate in work-related activities and obtain employment.
GENERAL REVENUE FUNDS	\$99,042,703	\$79,675,875	(\$19,366,828)	(19.6%)	Recommended funding of \$55,490,282 included for the TANF MOE and \$24,185,593 included for the GR child care state match.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$891,805,242	\$837,249,254	(\$54,555,988)	(6.1%)	For the Child Care and Development Block Grant (CCDBG), states are allocated funds based on the number of children younger than age 13 and state per capita income. CCDBG does not have a state match or MOE.
OTHER FUNDS	\$1,957,055	\$1,958,000	\$945	0.0%	
CHILD CARE ADMINISTRATION A.4.3	\$11,554,047	\$12,087,944	\$533,897	4.6%	
GENERAL REVENUE FUNDS	\$0	\$0	\$0	0.0%	

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- SUPPLEMENTAL

Strategy/Fund Type/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$11,501,114	\$12,087,944	\$586,830	5.1%	
OTHER FUNDS	\$52,933	\$0	(\$52,933)	(100.0%)	
CHILD CARE - DFPS FAMILIES A.4.4	\$127,747,692	\$139,348,471	\$11,600,779	9.1%	Funding transferred from DFPS for child care for foster and protective care children.
GENERAL REVENUE FUNDS	\$0	\$0	\$0	0.0%	
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$127,747,692	\$139,348,471	\$11,600,779	9.1%	
UNEMPLOYMENT CLAIMS A.5.1	\$132,919,163	\$135,073,893	\$2,154,730	1.6%	Unemployment Insurance Administration funds are direct payments to states for operating unemployment insurance programs, trade adjustment assistance, disaster unemployment assistance, and unemployment compensation for federal employees and ex-service members. Funds are not used for payments to unemployed individuals. Program operations are initially funded according to nationally developed workload projections based on economic assumptions. Additional quarterly funds are then made available based on actual workloads. There are no state match or MOE requirements. This impacts the majority of federal funding in Strategies A.5.1, A.5.2, and A.5.3.
GENERAL REVENUE FUNDS	\$3,580,055	\$0	(\$3,580,055)	(100.0%)	Decrease of \$3,580,055 in GR for the four percent reduction.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$128,928,419	\$134,853,071	\$5,924,652	4.6%	
OTHER FUNDS	\$410,689	\$220,822	(\$189,867)	(46.2%)	
UNEMPLOYMENT APPEALS A.5.2	\$34,701,627	\$35,553,995	\$852,368	2.5%	
GENERAL REVENUE FUNDS	\$1,126,401	\$0	(\$1,126,401)	(100.0%)	Decrease of \$1,126,401 in GR for the four percent reduction.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$33,575,226	\$35,553,995	\$1,978,769	5.9%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- SUPPLEMENTAL

Strategy/Fund Type/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
UNEMPLOYMENT TAX COLLECTION A.5.3	\$51,611,945	\$51,629,714	\$17,769	0.0%	
GENERAL REVENUE FUNDS	\$1,618,320	\$0	(\$1,618,320)	(100.0%)	Decrease of \$1,618,320 in GR for the four percent reduction.
GR DEDICATED	\$919,056	\$919,056	\$0	0.0%	Recommended funding of \$919,056 is discretionary.
FEDERAL FUNDS	\$49,074,569	\$50,710,658	\$1,636,089	3.3%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
Total, Goal A, WORKFORCE DEVELOPMENT	\$2,758,092,680	\$2,990,974,351	\$232,881,671	8.4%	
GENERAL REVENUE FUNDS	\$328,967,470	\$371,431,613	\$42,464,143	12.9%	
GR DEDICATED	\$5,896,785	\$3,256,597	(\$2,640,188)	(44.8%)	
FEDERAL FUNDS	\$2,284,970,945	\$2,471,390,737	\$186,419,792	8.2%	
OTHER FUNDS	\$138,257,480	\$144,895,404	\$6,637,924	4.8%	
SUBRECIPIENT MONITORING B.1.1	\$6,124,171	\$6,251,051	\$126,880	2.1%	Funding to review the financial and programmatic operations of the local workforce development boards and contract service providers.
GENERAL REVENUE FUNDS	\$277,618	\$229,785	(\$47,833)	(17.2%)	Decrease of \$66,706 in GR for the four percent reduction. Increase of \$18,873 reallocated from other strategies. Recommended funding of \$138,384 included for the SNAP state match and \$91,401 is discretionary.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$5,846,553	\$6,021,266	\$174,713	3.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
PGM SUPP, TECH ASST & TRAINING SVCS B.1.2	\$9,809,989	\$11,195,044	\$1,385,055	14.1%	Funding to provide support to the local workforce development boards, including the implementation of policies and programs, technical assistance, and training and professional development.
GENERAL REVENUE FUNDS	\$532,252	\$484,444	(\$47,808)	(9.0%)	Decrease of \$65,146 in GR for the four percent reduction. Increase of \$17,338 reallocated from other strategies. Recommended funding of \$299,766 included for the SNAP state match and \$184,678 is discretionary.
GR DEDICATED	\$43,085	\$50,721	\$7,636	17.7%	Recommended funding of \$50,721 is discretionary.
FEDERAL FUNDS	\$8,978,194	\$10,350,303	\$1,372,109	15.3%	

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- SUPPLEMENTAL

Strategy/Fund Type/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
OTHER FUNDS	\$256,458	\$309,576	\$53,118	20.7%	
LABOR LAW ENFORCEMENT B.1.3	\$8,316,156	\$8,056,219	(\$259,937)	(3.1%)	Funding to assist employers and employees with the understanding and compliance of the Texas Pay Day Law and Texas Child Labor Law.
GENERAL REVENUE FUNDS	\$0	\$0	\$0	0.0%	
GR DEDICATED	\$8,316,156	\$8,056,219	(\$259,937)	(3.1%)	Decrease of \$213,853 in GR for the four percent reduction as well as \$46,084 for PC replacements to fund a 6-year replacement cycle and building maintenance funded at 2016-17 levels. Recommended funding of \$8,056,219 is discretionary.
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
CAREER SCHOOLS & COLLEGES B.1.4	\$2,003,167	\$2,102,411	\$99,244	5.0%	The Career Schools and Colleges program regulates career schools and colleges from certificate and registration fees collected.
GENERAL REVENUE FUNDS	\$2,003,167	\$2,102,411	\$99,244	5.0%	Recommended funding of \$2,102,411 is discretionary.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$0	\$0	\$0	0.0%	
OTHER FUNDS	\$0	\$0	\$0	0.0%	
CIVIL RIGHTS B.2.1	\$4,702,324	\$4,746,737	\$44,413	0.9%	The Civil Rights program enforces the Texas Commission on Human Rights Act and the Texas Fair Housing Act through investigation of employment or housing discrimination complaints.
GENERAL REVENUE FUNDS	\$1,723,640	\$1,722,693	(\$947)	(0.1%)	Recommended funding of \$1,722,693 is discretionary.
GR DEDICATED	\$0	\$0	\$0	0.0%	
FEDERAL FUNDS	\$2,858,846	\$2,917,225	\$58,379	2.0%	No state match or MOE requirement.
OTHER FUNDS	\$119,838	\$106,819	(\$13,019)	(10.9%)	
Total, Goal B, PROGRAM ACCOUNTABILITY/ENFORCEMENT	\$30,955,807	\$32,351,462	\$1,395,655	4.5%	
GENERAL REVENUE FUNDS	\$4,536,677	\$4,539,333	\$2,656	0.1%	
GR DEDICATED	\$8,359,241	\$8,106,940	(\$252,301)	(3.0%)	

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- SUPPLEMENTAL

Strategy/Fund Type/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
FEDERAL FUNDS	\$17,683,593	\$19,288,794	\$1,605,201	9.1%	
OTHER FUNDS	\$376,296	\$416,395	\$40,099	10.7%	
CENTRAL ADMINISTRATION C.1.1	\$31,259,802	\$37,516,411	\$6,256,609	20.0%	
GENERAL REVENUE FUNDS	\$3,803,385	\$4,949,775	\$1,146,390	30.1%	Decrease of \$968,434 in GR for the four percent reduction. Increase of \$2,114,824 to biennialize DARS funding and for reallocations to other strategies. Recommended funding of \$4,403,255 included for the SNAP and VR state match and \$546,520 is discretionary.
GR DEDICATED	\$835,325	\$743,529	(\$91,796)	(11.0%)	Decrease of \$91,796 for the four percent reduction. Recommended funding of \$743,529 is discretionary.
FEDERAL FUNDS	\$26,544,613	\$31,769,182	\$5,224,569	19.7%	
OTHER FUNDS	\$76,479	\$53,925	(\$22,554)	(29.5%)	
INFORMATION RESOURCES C.1.2	\$16,132,213	\$17,611,607	\$1,479,394	9.2%	
GENERAL REVENUE FUNDS	\$1,558,561	\$2,019,905	\$461,344	29.6%	Decrease of \$373,089 in GR for the four percent reduction. Increase of \$834,433 to biennialize DARS funding and for reallocations to other strategies. Recommended funding of \$1,804,706 included for the SNAP and VR state match and \$215,199 is discretionary.
GR DEDICATED	\$387,177	\$316,760	(\$70,417)	(18.2%)	Decrease of \$70,417 for the four percent reduction. Recommended funding of \$316,760 is discretionary.
FEDERAL FUNDS	\$14,171,077	\$15,254,762	\$1,083,685	7.6%	
OTHER FUNDS	\$15,398	\$20,180	\$4,782	31.1%	
OTHER SUPPORT SERVICES C.1.3	\$8,066,392	\$11,042,917	\$2,976,525	36.9%	
GENERAL REVENUE FUNDS	\$1,028,369	\$1,426,859	\$398,490	38.7%	Decrease of \$179,522 in GR for the four percent reduction. Increase of \$578,012 to biennialize DARS funding and for reallocations from other strategies. Recommended funding of \$1,290,432 included for the SNAP and VR state match and \$136,427 is discretionary.
GR DEDICATED	\$153,872	\$164,757	\$10,885	7.1%	Recommended funding of \$164,757 is discretionary.
FEDERAL FUNDS	\$6,566,574	\$9,117,785	\$2,551,211	38.9%	

Texas Workforce Commission
Funding Changes and Recommendations - House, by Strategy -- SUPPLEMENTAL

Strategy/Fund Type/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
OTHER FUNDS	\$317,577	\$333,516	\$15,939	5.0%	
Total, Goal C, INDIRECT ADMINISTRATION	\$55,458,407	\$66,170,935	\$10,712,528	19.3%	
GENERAL REVENUE FUNDS	\$6,390,315	\$8,396,539	\$2,006,224	31.4%	
GR DEDICATED	\$1,376,374	\$1,225,046	(\$151,328)	(11.0%)	
FEDERAL FUNDS	\$47,282,264	\$56,141,729	\$8,859,465	18.7%	
OTHER FUNDS	\$409,454	\$407,621	(\$1,833)	(0.4%)	
Grand Total, All Agency	\$2,844,506,894	\$3,089,496,748	\$244,989,854	8.6%	
GENERAL REVENUE FUNDS	\$339,894,462	\$384,367,485	\$44,473,023	13.1%	Recommended funding of \$384,367,485 includes: 1) \$80,392,604 in discretionary funds; 2) \$230,825,895 in federal matching funds; and 3) \$73,148,986 in federal MOE funds.
GR DEDICATED	\$15,632,400	\$12,588,583	(\$3,043,817)	(19.5%)	Recommended funding of \$12,588,583 includes: 1) \$11,216,155 in discretionary funds; and 2) \$1,372,428 in federal matching funds.
FEDERAL FUNDS	\$2,349,936,802	\$2,546,821,260	\$196,884,458	8.4%	
OTHER FUNDS	\$139,043,230	\$145,719,420	\$6,676,190	4.8%	

Texas Workforce Commission
Summary of Federal Funds - House
(Dollar amounts in Millions)

Appendix B

Program	Est 2016	Bud 2017	Rec 2018	Rec 2019	2016-17 Base	2018-19 Rec	2018-19 Rec % Total	Recommended Over/(Under) Base	% Change from Base
Child Care and Development Block Grant	\$238.9	\$298.5	\$257.1	\$254.5	\$537.4	\$511.5	20.1%	(\$25.8)	(4.8%)
Vocational Rehabilitation Services	\$0.0	\$228.3	\$227.5	\$228.0	\$228.3	\$455.5	17.9%	\$227.2	99.5%
Child Care Mandatory & Matching Funds of the Child Care & Development Fund	\$221.5	\$226.9	\$226.4	\$226.4	\$448.4	\$452.9	17.8%	\$4.5	1.0%
Unemployment Insurance	\$118.6	\$116.2	\$129.5	\$116.5	\$234.8	\$246.0	9.7%	\$11.2	4.8%
Temporary Assistance for Needy Families	\$93.1	\$94.1	\$94.8	\$92.4	\$187.2	\$187.2	7.4%	\$0.0	0.0%
Adult Education State Grant Program	\$102.8	\$59.9	\$57.9	\$57.7	\$162.7	\$115.5	4.5%	(\$47.2)	(29.0%)
Workforce Investment and Opportunity Act (WIOA) Dislocated Worker Formula Grants	\$57.0	\$53.8	\$55.5	\$55.6	\$110.8	\$111.1	4.4%	\$0.3	0.3%
WIOA - Youth Programs	\$55.0	\$52.2	\$55.2	\$54.0	\$107.2	\$109.2	4.3%	\$2.0	1.8%
WIOA - Adult Programs	\$54.8	\$44.3	\$49.6	\$49.3	\$99.1	\$98.9	3.9%	(\$0.2)	(0.2%)
Employment Service	\$42.4	\$41.7	\$54.4	\$40.1	\$84.0	\$94.5	3.7%	\$10.4	12.4%
Trade Adjustment Assistance Workers	\$20.0	\$20.7	\$21.0	\$20.7	\$40.7	\$41.6	1.6%	\$0.9	2.3%
Social Security Vocational Rehabilitation Reimbursement	\$0.0	\$20.8	\$20.8	\$20.8	\$20.8	\$41.6	1.6%	\$20.8	100.2%
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	\$18.7	\$18.1	\$14.3	\$14.1	\$36.8	\$28.4	1.1%	(\$8.4)	(22.8%)
WIOA National Emergency Grants	\$6.1	\$6.2	\$6.2	\$6.2	\$12.3	\$12.4	0.5%	\$0.1	0.7%
Senior Community Service Employment Program	\$4.8	\$4.8	\$4.8	\$4.8	\$9.6	\$9.6	0.4%	\$0.0	0.4%
Labor Force Statistics	\$2.6	\$2.7	\$2.9	\$2.7	\$5.3	\$5.5	0.2%	\$0.2	3.5%
Social Services Block Grant	\$2.0	\$2.0	\$2.0	\$2.0	\$4.0	\$4.0	0.2%	\$0.0	0.0%
Rehabilitation Services Independent Living	\$0.0	\$2.0	\$2.0	\$2.0	\$2.0	\$4.0	0.2%	\$2.0	100.1%
Supported Employment Services for Individuals w/ Severe Disabilities	\$0.0	\$2.0	\$2.0	\$2.0	\$2.0	\$4.0	0.2%	\$2.0	100.0%
WIOA Dislocated Worker National Reserve Demonstration Grants	\$1.7	\$1.8	\$1.8	\$1.8	\$3.5	\$3.5	0.1%	\$0.0	0.2%
WIOA Incentive Grants	\$0.2	\$1.5	\$1.5	\$1.5	\$1.7	\$3.0	0.1%	\$1.3	80.5%
Fair Housing Assistance Program State and Local	\$1.1	\$1.1	\$1.2	\$1.1	\$2.2	\$2.3	0.1%	\$0.1	4.5%
Work Opportunity Tax Credit Program (WOTC)	\$0.7	\$0.8	\$0.8	\$0.8	\$1.5	\$1.6	0.1%	\$0.1	4.5%
Temporary Labor Certification for Foreign Workers	\$0.6	\$0.7	\$0.8	\$0.7	\$1.4	\$1.5	0.1%	\$0.1	6.7%

**Texas Workforce Commission
Summary of Federal Funds - House
(Dollar amounts in Millions)**

Appendix B

Program	Est 2016	Bud 2017	Rec 2018	Rec 2019	2016-17 Base	2018-19 Rec	2018-19 Rec % Total	Recommended Over/(Under) Base	% Change from Base
Employment Discrimination State and Local	\$0.5	\$0.6	\$0.5	\$0.5	\$1.1	\$1.0	0.0%	(\$0.1)	(10.5%)
Developmental Disabilities Basic Support & Advocacy Grants	\$0.0	\$0.2	\$0.2	\$0.2	\$0.2	\$0.5	0.0%	\$0.2	100.0%
Disaster Unemployment Assistance	\$0.1	\$0.0	\$0.02	\$0.02	\$0.1	\$0.05	0.0%	(\$0.1)	(51.4%)
WIOA Pilots, Demonstrations, & Research Projects	\$0.2	\$0.9	\$0.0	\$0.0	\$1.1	\$0.00	0.0%	(\$1.1)	(100.0%)
Dislocated Worker National Reserve Technical Assistance and Training	\$0.4	\$0.0	\$0.0	\$0.0	\$0.4	\$0.00	0.0%	(\$0.4)	(100.0%)
Apprenticeship USA Grants	\$0.0	\$3.2	\$0.0	\$0.0	\$3.2	\$0.00	0.0%	(\$3.2)	(100.0%)
TOTAL:	\$1,043.9	\$1,306.1	\$1,290.6	\$1,256.2	\$2,349.9	\$2,546.8	100.0%	\$196.9	8.4%

Texas Workforce Commission
Summary of Ten Percent Biennial Base Reduction Options - House

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs			
1)	Skills Development	This reduction would result in a decrease of 3,333 trainees in the biennium.	\$6,000,000	\$6,000,000	0	\$0	10.5%	N
	At-Risk Child Care	The reduction in At-Risk Child Care totals \$13.8 million in GR matching funds and would result in a reduction of approximately 4,200 at-risk children from low income working families in subsidized child care each year. Due to the Federal Child Care and Development Fund (CCDF) matching requirements, the At-Risk GR matching reduction would also result in a corresponding reduction in federal CCDF funds of \$25.3 million.	\$13,818,727	\$13,818,727	0	\$25,309,255	17.3%	N
2)	Employment and Community Services	This reduction would result in a decrease of funding provided to Local Workforce Boards for employment placement services.	\$1,000,000	\$1,000,000	0	\$0	8.4%	N
	Supplemental Nutritional Assistance Program (SNAP) Employment and Training	The reduction in SNAP Employment and Training totals \$1.6 million in GR matching funds and would result in 3,175 fewer participants served in the biennium. The SNAP reduction would also result in a corresponding reduction in Federal Funds of \$1.6 million.	\$1,621,551	\$1,621,551	0	\$1,621,551	19.4%	N
	Adult Education and Family Literacy (AEL)	The reduction in AEL totals \$2.0 million in GR matching funds and would result in 11,000 fewer participants served in the biennium. The AEL reduction would also result in a corresponding federal funds reduction of \$6.0 million.	\$2,000,000	\$2,000,000	0	\$6,000,000	8.4%	N
	Vocational Rehabilitation (VR)	The reduction in VR services totals \$3.0 million in GR matching funds and would result in 3,676 fewer VR consumers served in the biennium. The VR reduction would also result in a corresponding federal funds reduction of \$11.1 million.	\$3,000,000	\$3,000,000	0	\$11,084,507	2.8%	N
	Skills Development	This reduction would result in a decrease of 3,333 trainees in the biennium.	\$6,000,000	\$6,000,000	0	\$0	10.5%	N
	At-Risk Child Care	The reduction in At-Risk Child Care totals \$6.2 million in GR matching funds and would result in a reduction of approximately 1,900 at-risk children from low-income working families in subsidized child care each year. Due to the CCDF matching requirements, the At-Risk GR reduction would also result in a corresponding reduction of federal CCDF funds of \$11.3 million.	\$6,181,273	\$6,181,273	0	\$11,321,116	7.8%	N
TOTAL, 10% Reduction Options			\$39,621,551	\$39,621,551	0.0	\$55,336,429		

Reimbursements to the Unemployment Compensation Benefit Account Summary of Recommendations - House

Page VII-50

Larry Temple, Executive Director

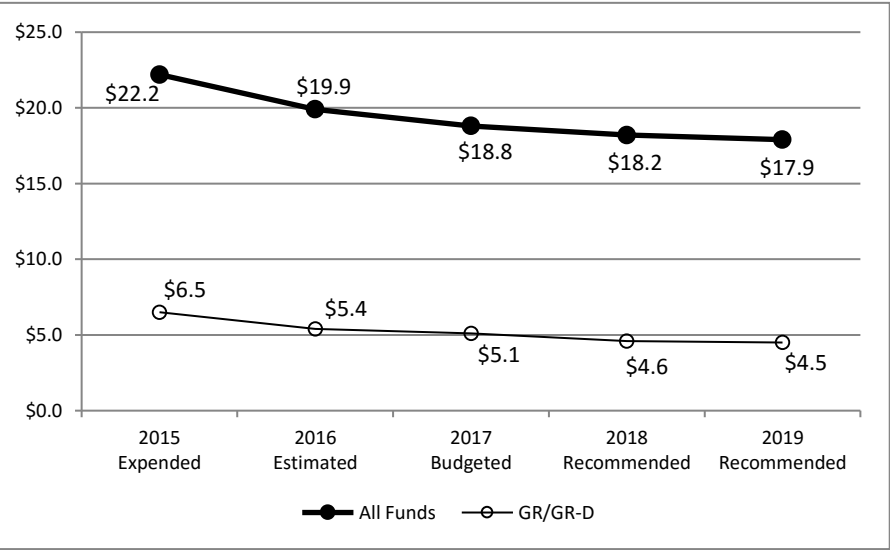
Caitlin Perdue, LBB Analyst

Method of Financing	2016-17 Base	2018-19 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$0	\$0	\$0	0.0%
GR Dedicated Funds	\$10,465,147	\$9,130,182	(\$1,334,965)	(12.8%)
Total GR-Related Funds	\$10,465,147	\$9,130,182	(\$1,334,965)	(12.8%)
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$28,294,657	\$27,013,373	(\$1,281,284)	(4.5%)
All Funds	\$38,759,804	\$36,143,555	(\$2,616,249)	(6.7%)

	FY 2017 Budgeted	FY 2019 Recommended	Biennial Change	Percent Change
FTEs	0.0	0.0	0.0	0.0%

The bill pattern for this agency (2018-19 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2018-19 biennium.

Historical Funding Levels (Millions)



Reimbursements to the Unemployment Compensation Benefit Account
Summary of Funding Changes and Recommendations - House

Section 2

Funding Changes and Recommendations for the 2018-19 Biennium compared to the 2016-17 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
<i>Funding Changes and Recommendations</i>							
A)	Anticipated decrease in unemployment compensation benefits paid to former state employees.	\$0.0	(\$1.3)	\$0.0	(\$1.3)	(\$2.6)	A.1.1
TOTAL Funding Changes and Recommendations (in millions)		\$0.0	(\$1.3)	\$0.0	(\$1.3)	(\$2.6)	A.1.1
<i>Funding Increases</i>		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
<i>Funding Decreases</i>		\$0.0	(\$1.3)	\$0.0	(\$1.3)	(\$2.6)	A.1.1

**Reimbursements to the Unemployment Compensation Benefit Account
Selected Fiscal and Policy Issues - House**

1. **Program Overview.** Reimbursements to the Unemployment Compensation Benefit Account (RUCBA) provides unemployment compensation benefits to former employees from state agencies and institutions of higher education and is managed by the Texas Workforce Commission (TWC). RUCBA is funded through two Methods of Finance: GR-D Unemployment Compensation Special Administration Account No. 165 (GR-D Fund 165) and Interagency Transfers to GR-D Fund 165. GR-D Fund 165 collects penalties and interest under the Unemployment Compensation Act and is used to reimburse the Unemployment Compensation Trust Fund for benefits paid to former state employees.

State agencies reimburse GR-D Fund 165 for each employee formerly employed at that agency proportionate to the funding source. Agencies that are funded by General Revenue reimburse GR-D Fund 165 for one-half of the unemployment benefits paid to former employees; the remaining half is paid from GR-D Fund 165. Agencies that are funded through GR-D, Federal Funds, or Other Funds reimburse GR-D Fund 165 for the full unemployment benefits amount for former employees.

There has been a general decline in unemployment compensation benefits paid to former state employees over the last five years and this trend is projected to continue through the next biennium.

2. **Program Funding.** According to the Comptroller of Public Accounts' Biennial Revenue Estimate, the ending balance for GR-D Fund 165 in fiscal year 2017 is estimated to be \$22.5 million and revenue is projected to generate \$32.3 million over the biennium. Appropriations are made from this account to TWC primarily for the Labor Law Enforcement program and administration costs totaling \$9.6 million and appropriations for RUCBA are estimated to be \$9.1 million in the 2018-19 biennium.

Appropriations from GR-D Fund 165 and Interagency Transfers to GR-D Fund 165 are estimates of state unemployment compensation obligations and the recommendations for the 2018-19 biennium are in alignment with TWC's request and do not include any projected claims related to staff reductions for possible budget reductions. TWC reports it will monitor activity and provide updated forecasts if significant changes occur.

Reimbursements to the Unemployment Compensation Benefit Account
Items Not Included in Recommendations - House

		2018-19 Biennial Total					
		GR & GR-D	All Funds	FTEs	Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2020-21
Agency Exceptional Items - In Agency Priority Order							
	NONE	\$0	\$0	0.0	NA	NA	\$0
TOTAL Items Not Included in Recommendations		\$0	\$0	\$0	\$0		

**Reimbursements to the Unemployment Compensation Benefit Account
Appendices - House**

Table of Contents		
Appendix	Appendix Title	Page
A	Funding Changes and Recommendations by Strategy	6
B	Summary of Federal Funds	*
C	FTE Highlights	*
D	Performance Measure Highlights	*
E	Summary of Ten Percent Biennial Base Reduction Options	7

* Appendix is not included - no significant information to report

Reimbursements to the Unemployment Compensation Benefit Account					
Funding Changes and Recommendations - House, by Strategy -- ALL FUNDS					
Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments (Optional)
STATE'S UC REIMBURSEMENT A.1.1	\$38,759,804	\$36,143,555	(\$2,616,249)	(6.7%)	
Total, Goal A, STATE'S UC REIMBURSEMENT	\$38,759,804	\$36,143,555	(\$2,616,249)	(6.7%)	
Grand Total, All Strategies	\$38,759,804	\$36,143,555	(\$2,616,249)	(6.7%)	Decrease of \$1.3 million in General Revenue-Dedicated Fund 165 and \$1.3 million in Interagency Transfers for an anticipated decrease in unemployment benefits paid to former state employees based on agency estimates of unemployment compensation obligations.

Reimbursements to the Unemployment Compensation Benefit Account
Summary of Ten Percent Biennial Base Reduction Options - House

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs			
1)	Unemployment Compensation (UC) Expenditures	Reduction of UC expenditures for former Texas state employees.	\$916,360	\$916,360	0.0	\$0	10%	N
2)	UC Expenditures	Reduction of UC expenditures for former Texas state employees.	\$88,294	\$88,294	0.0	\$0	1%	N
TOTAL, 10% Reduction Options			\$1,004,654	\$1,004,654	0.0	\$0		

House Appropriations Committee

Andres Alcantar, Chairman
Texas Workforce Commission

Good morning. For the record, I am Andres Alcantar, Chairman of the Texas Workforce Commission (TWC). I would like to recognize my fellow Commissioners, Commissioner Ruth Hughs representing Employers, and Commissioner Julian Alvarez representing Labor. Here with me are Larry Temple, Executive Director, and Randy Townsend, Chief Financial Officer. Thank you for the opportunity to discuss the agency and our 2018-2019 Budget.

The Texas economy continues to add jobs with employers adding 210,200 in 2016. On December 2016, the state's unemployment rate stood at 4.6%. The diversity of our state's economy has served us well in the past year.

TWC, our 28 Local Workforce Development Board partners, and 190 local workforce centers operate as Texas Workforce Solutions to deliver integrated services that respond to changing economic conditions and the needs of Texas employers and workers. In 2016, TWC served over 89,000 businesses and almost 1.3 million job seekers.

TWC continued to work with our local partners throughout the past year to examine the workforce needs and economic priorities of each region of the state. Additionally, TWC partnered with the Texas Education Agency (TEA) and the Texas Higher Education Coordinating Board (THECB) in response to the Governor's Tri-Agency Initiative and held regional meetings around the state to discuss regional economic priorities, employer workforce needs, and workforce development issues. The three

agencies developed their findings, submitted a report to the Governor, and have already begun to implement many of these recommendations.

TWC worked in FY 2016 to successfully transfer programs from the Department of Rehabilitative Services (DARS) concluding on September 1, 2016 with no disruption in services for consumers or interruption for employees. The Purchasing from People with Disabilities Program transferred to TWC as well from the Texas Comptroller's office and the agency continues to examine strategies to grow the success of the program. Additionally, the Jobs and Education for Texas grant program transferred to TWC from the Texas Comptroller's office. In FY 2016, TWC awarded 25 grants totaling \$5 million. TWC is finalizing awards for FY 2017 and received 121 proposals totaling over \$25 million in requested funds.

TWC continues to meet the needs of employers through the Skills Development Fund with 98 businesses served in 2016. These partnerships with community and technical colleges provided their employees customized skills training. We also continue to build industry aligned partnerships, expand high demand pathways, and provide more integrated learning and skills attainment opportunities for adult learners.

Texas veterans are a priority population and TWC has continued efforts to assist veterans to more efficiently transition these heroes into the civilian workforce. TWC continues to expand College Credit for Heroes and recently announced Operation Welcome Home.

TWC administers the Child Care and Development Fund (CCDF) program and has continued to work with child care providers to improve the quality of care through the Texas Rising Star program. Recent federal statutory changes to the program resulted in the extension of eligibility for a 12 month period limiting the flexibility of local partners to manage their

programs. The new regulations officially went into effect on October 1, 2016 and TWC is continuing to monitor the results of children remaining in the program for longer required periods. The child care program provides a critical tool for TANF recipients with work requirements and low-income families by delivering child care and removing a barrier to returning to the workforce.

In order to continue to respond to the dynamic workforce needs of Texas employers and to equip workers with needed skills, the agency is requesting three exceptional items for the FY 2018-2019 biennium.

First, building on the success of the JET program, TWC is asking for an additional \$4 million for the biennium above the current \$10 million baseline request for the program. The requested funding will allow the agency to provide awards to more eligible educational institutions and increase capacity for educating students in high-demand occupational pathways.

Second, we are requesting \$10 million for the biennium to expand the development of adult learner models that result in literacy and skills attainment certifications and lead to career pathways in demand industries. The request would provide more accelerated learning in high demand occupations, increase high school and community college recovery partnerships for adults up to age 25 and expand the adult charter school model.

The Commission is also requesting \$2 million for the biennium for the new Career and Technical Education Workforce Specialists program. The grants to local workforce boards would allow specialists to be co-located in area high schools to provide guidance and information regarding apprenticeship or trade schools to students. The goal would be for the

demonstration pilot participants to develop a model that could be replicated statewide.

TWC has several projects that would continue to make employment services accessible and more efficient to all Texans. Capital budget authority is requested for The Work in Texas Replacement Project to replace the current system with a state of the art tool to better serve job seekers and employers. TWC would also request authority to upgrade the systems which communicate economic data to Texans, schedule and track customers at the Criss Cole Rehabilitation Center and the Business Enterprises of Texas tracking systems.

Thank you again for the opportunity to be here today. I appreciate the support you have shown TWC, and I will turn it over to Mr. Temple to provide additional details on the agency's budget.

House Appropriations Committee
Mr. Larry Temple, Executive Director
Texas Workforce Commission

For the record I'm Larry Temple, Executive Director of the Texas Workforce Commission (TWC). Thank you for the opportunity to discuss TWC and the agency's fiscal year (FY) 2018-2019 Budget. Before I begin, I would like to thank the Legislative Budget Board along with our previous analyst, Julie Lindsay and our newest analyst, Caitlin Perdue, both for their hard work and commitment on our behalf.

Exceptional Items

As Chairman Alcantar mentioned in his overview of our exceptional items, there are a few capital projects which we have included in our request. We believe that these projects will be a solid investment in the future of the workforce in Texas.

The first is the Work In Texas Replacement Project with a requested \$15 million in capital budget authority. The funds would be federal dollars and go towards replacing the 13-year-old system. The system was originally adopted in 2004 and needs critical updates expressed by both employers and job seekers. There are currently 98,000 active employers and 365,000 active job seekers using the system. In 2016, over 680,000 new job seekers used the program. TWC plans to seek a fixed price commercially available or off the shelf solution to meet the needs of Texas employers and job seekers.

The second priority added to our exceptional items list consists of three projects totaling just over \$2.2 million in federal funds. The

first part is the Business Enterprise of Texas (BET) redesign which would develop an updated accessible system for equipment tracking and monthly reporting. The project will replace two outdated and inefficient systems and implement internal audit recommendations. The next, the Criss Cole Rehabilitation Center Scheduling, Attendance and Tracking Redesign, would replace two outdated systems and replace them with one updated and accessible program to improve service delivery for blind customers at the Criss Cole Center. And finally, the TRACER2 Redesign would replace a 14-year-old system to better serve Texans needing labor market statistics and economic data.

Agency and UI Overview, Bond Update & Trust Fund

I'd like to turn now to the core of our agency today. TWC is dedicated to leading a market-driven workforce system with the core focus on assisting Texans with employment. TWC has served over 89,000 businesses and almost 1.3 million job seekers received and completed workforce services. Texas has added jobs in the last 19 out of 20 months totaling 210,800 over the past year. As of December 2017, the state's unemployment rate of 4.6% is equal to the national average. As of December 31 2016, weekly UI benefit payments averaged \$51.3 million which was down less than 1.0 percent from one year ago. However, the number of continued unemployment claims are down 5.6 percent from one year ago.

You may recall the Commission approved the sale of revenue bonds in 2010 under the authority provided in Section 203 of the Texas Labor Code. The bond proceeds were used to pay off the \$1.7 billion in federal Title XII Advances from the Department of Labor.

Bonds sold in three series totaling \$2.1 billion which paid off the advances at no interest to the state and preserved the maximum Federal Unemployment Tax Act credit for Texas employers. TWC refinanced the bonds in April 2014 at a lower interest rate, which saved Texas employers \$25 million. The remaining \$197.8 million in outstanding unemployment revenue bonds will be repaid by July 2017, two and a half years earlier than the 2020 maturity date.

As of January 2017, we are projecting the Unemployment Compensation Trust Fund balance will be about \$40 million below the fund's \$1.1 billion floor on October 1st of this year. TWC estimates \$2.7 billion in benefits will be paid out during 2017.

I also wanted to highlight just a few programs and changes at TWC.

Child Care Program

The Child Care and Development Fund (CCDF) program assists TANF recipients with work requirements by providing child care and assists low-income families by providing child care subsidies to those parents who work or are attending training or education activities and removes that would otherwise inhibit Texans from obtaining employment. The program averages \$545 million per year in total appropriations and is TWC's largest program. While CCDF is predominantly federally funded, GR MOE and Matching Funds account for more than \$70 million each year.

The CCDF program has undergone significant changes in which TWC is continuing to adjust. The agency has historically allowed each Workforce Development Board to choose its own eligibility period for all Child Care and Development Fund (CCDF)

funded care. However, one of the significant changes to the program from the Federal Government, which took effect on October 1, 2016, is the establishment of a 12-month eligibility re-determination period for CCDF families, regardless of changes in income (as long as income does not exceed the federal threshold of 85% of State median income) or temporary changes in participation in work, training, or education activities.

The average fully subsidized Choices child care case averages 4 months, however, with the change, TANF recipients could receive up to 12 months of fully subsidized child care which is expected to increase the number of children in care and impact forecasts of future expenditures. We also expect to serve more children who receive care through DFPS' General Protective Care for a longer period of time. 2016 costs for Choices and Mandatory Child care \$35 million. TWC budgeted \$85 million for 2017 Choices and Mandatory Child Care and requested \$86 million for this type of child care for each year of the 2018-2019 biennium. This increase is due to children remaining in care longer than the previous averages.

Skills Development Fund Program

From 1996 to 2016, the Skills Development Fund program served 4,238 employers, supported the creation of 108,612 jobs, and upgraded the skills of 233,816 incumbent workers. In 2016, the program has served 98 businesses, supported the creation of 3,942 new jobs, and retrained over 9,000 current workers in existing jobs. There was \$6 million more requested funding for SDF grants than the \$21 million available.

Transfer of DARS Programs

Several significant changes took place during the 84th Legislature including the passage of SB 208, the TWC Sunset Bill, which transferred the Department of Rehabilitative Services to TWC. The transfer includes the Vocational Rehabilitation (VR) program for people who are blind or have visual impairments including the Criss Cole Rehabilitation Center, the VR program for people with other disabilities, the Business Enterprises of Texas program, and the Independent Living Services for Older Individuals who are Blind program.

The transfer of programs from DARS included \$309 million in federal funds, 1,861 full time equivalent employees, and more than 130 field offices to serve around 102,852 consumers of VR services. There have been 9 transition agreements between TWC and HHSC developed and 70 leases transferred to TWC and agreements entered into with HHSC for 60 co-located facilities. SB 208 also requires TWC to incorporate the blind and general VR programs into a single program and the agency held public meetings in January to gather input from stakeholders on the merger.

Other Changes from the 84th Legislature

HB 3062 from the 84th Legislature transferred the Jobs and Education for Texas Grant Program from the Texas Comptroller's office to TWC effective September 1, 2015. The JET program provides grants to public community and technical colleges and ISDs to purchase and install equipment necessary for the operation of career and technical education courses or programs that lead to a license, certificate or postsecondary degree in a high-demand

occupation. TWC awarded almost \$5 million in grants to 15 independent school districts and 10 community colleges and technical institutes.

The Purchasing for People with Disabilities program transferred to TWC from the Comptroller's office on September 1, 2015 with the passage of SB 212. TWC established a 13 member advisory committee on December 1, 2015 which assists TWC with performance goals and the certification criteria for Community Rehabilitation participation in the state use program. Since the program was transferred, TWC has approved approximately 183 products and over 1,000 services.

Federal Update

Recent Federal action includes the U.S. House and U.S. Senate passing a Continuing Resolution in December 2016 to fund the government at current funding levels through April 28, 2017. The CR also included a temporary extension of the TANF program, which is reauthorized until April 28th as well.

Congress is expected to take up a funding bill (or funding bills) to fund the government through the rest of the fiscal year once the U.S. Senate moves through cabinet confirmations for the new administration.

Conclusion

We understand the budget climate that the state is facing this year and the difficult task this committee must take on in making decisions that will best serve the state of Texas. TWC believes that by focusing on the projects I mentioned as well as our continued

success building a robust workforce, our agency can continue to serve employers and job seekers and pursue our core mission.

Thank you-- this concludes my remarks. I appreciate this panel's consideration and I will be glad to answer any questions you may have.

Texas Workforce Commission

2018-2019 Exceptional Item Request Summary (January 27, 2017)

GENERAL REVENUE FUNDED REQUESTS (GR)	CAPITAL BUDGET AUTHORITY FEDERAL FUNDED REQUESTS (FED)
<p>1. Jobs and Education for Texans (JET) \$4,000,000 GR</p> <p><i>Help meet the increased need for training equipment in high demand occupations with proven increased salaries for students who complete training with JET funded equipment</i></p> <ul style="list-style-type: none"> • Increase the JET program above the FY2016-17 baseline of \$10 million to expand the number of eligible educational institutions (public community and technical colleges and independent school districts) training students in high-demand occupations. • Increase competitive grants awards made to eligible educational institutions to help with start-up costs of equipment purchases/upgrades for career and technical (CTE) programs. • Increase equipment purchases/upgrades by eligible educational institutions in order to train in high-demand occupations such as: welding technician; registered nurse; emergency medical technicians; industrial, maintenance, and engineering technicians and mechanics; machinist; electrical and electronic engineering technician; chemical technicians and system operators; programmable logic controller; wind turbine and solar power technician; and a wide range of other skilled professional training. 	<p>1. Work in Texas (WIT) Replacement \$15,000,000 FED</p> <p><i>Address the needs expressed by Texas employers to replace a 13 year old system with an improved on-line labor exchange system that provides for better integration into the workforce solutions model. An updated WIT system also provides improved job matching capabilities for both employers and job seekers</i></p> <ul style="list-style-type: none"> • WIT system was developed in 2004 and needs upgrading to current technology which would allow for improvements to meet employers requests for improved functionality. • Plan to seek a fixed price commercially available hosted solution that is customizable to meet the needs of Texas employers and job seekers. • 98,000 currently active employers using WIT (27,500 new employers used WIT during 2016) • 365,000 currently active job seekers using WIT (Over 680,000 new job seekers used WIT during 2016)
<p>2. Skills for Adults to Accelerate Jobs Grants \$10,000,000 GR</p> <p><i>Increase the number of students trained in an innovative model that joins adult education and workforce skills training for in-demand occupations</i></p> <ul style="list-style-type: none"> • Expand the development of adult learner models that result in literacy and skills attainment certifications and lead to career pathways in demand industries. • Build on the success of the Adult Education and Literacy (AEL) program by expanding the number of adults receiving credentials through learning models integrated with skills attainment. • Expand high school and community college recovery models for adults up to age 25 and expand the adult charter school model. 	<p>2. Workforce Solutions Improvements \$2,201,846 FED</p> <ul style="list-style-type: none"> • <u>Business Enterprise of Texas (BET) Redesign</u> -- Develop an updated accessible system for equipment tracking and monthly reporting to better serve the blind cafeteria managers and vending machine operators in the BET program. This project will replace two outdated inefficient systems and implement internal audit recommendations regarding controls and functionality. • <u>Criss Cole Rehabilitation Center (CCRC) Scheduling, Attendance and Tracking Redesign</u> -- Develop an updated accessible system that helps improve service delivery for blind customers in the Criss Cole Rehabilitation Center by replacing two outdated inefficient systems. • <u>TRACER2 Redesign</u> -- Develop an updated accessible system to replace the current system (14 years old) in order to better serve Texans needing labor market statistics and economic data.
<p>3. Career/Technical Education Workforce Specialists \$2,000,000 GR</p> <p><i>Increase the number of high school students connected to in-demand vocational careers and training while helping to address the labor shortage for skilled workers</i></p> <ul style="list-style-type: none"> • Grants awarded to Local Workforce Boards would allow local workforce solutions specialist to be co-located in area high schools in order to provide career guidance and workforce information. • The program would be based in urban and rural settings and utilize local workforce solutions specialists to direct youth towards high demand careers and provide employment counseling and would offer guidance and information to assist students in understanding career options, career ladders, and available education and training resources. • Guidance will include apprenticeship training programs or other training for careers in the building trades, and guidance and information regarding middle skill jobs and high-growth high demand occupations. • Demonstration pilot participants would develop a model (that can be replicated statewide) for workforce counseling that increases youth knowledge of high demand career opportunities, including those in the skilled trades. • State funding is needed due federal limitations on serving in-school youth with available federal funds. 	

**Department of Housing and Community Affairs
Summary of Recommendations - House**

Page VII-1

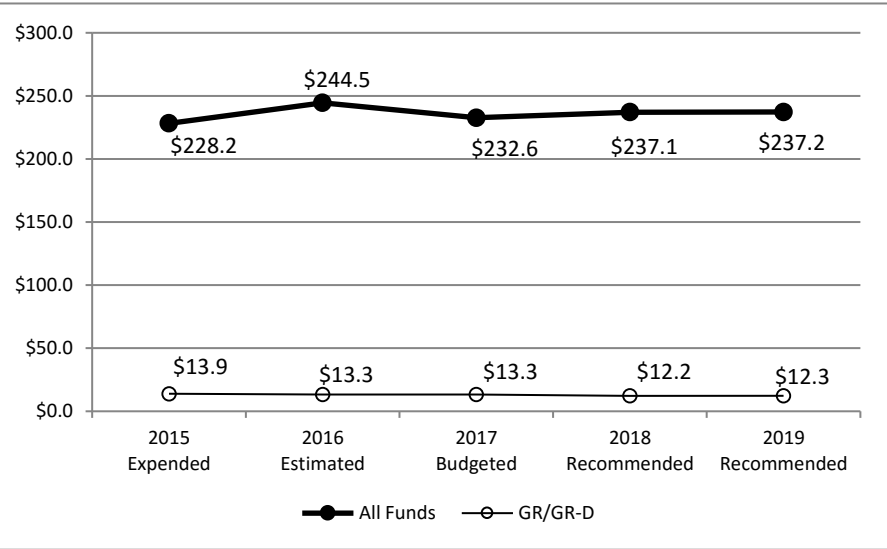
Timothy Irvine, Executive Director

Elizabeth Krog, LBB Analyst

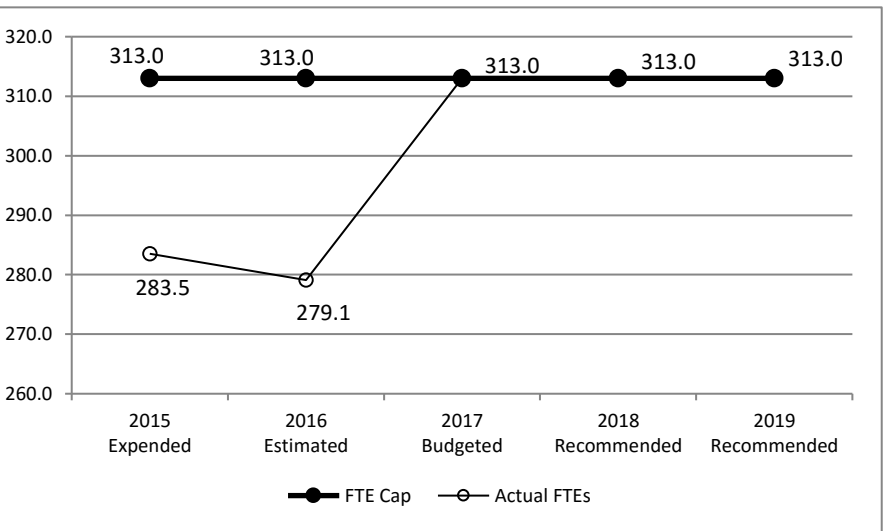
Method of Financing	2016-17 Base	2018-19 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$26,571,322	\$24,438,470	(\$2,132,852)	(8.0%)
GR Dedicated Funds	\$0	\$0	\$0	0.0%
<i>Total GR-Related Funds</i>	<i>\$26,571,322</i>	<i>\$24,438,470</i>	<i>(\$2,132,852)</i>	<i>(8.0%)</i>
Federal Funds	\$410,355,512	\$407,442,240	(\$2,913,272)	(0.7%)
Other	\$40,131,525	\$42,448,474	\$2,316,949	5.8%
All Funds	\$477,058,359	\$474,329,184	(\$2,729,175)	(0.6%)

	FY 2017 Budgeted	FY 2019 Recommended	Biennial Change	Percent Change
FTEs	313.0	313.0	0.0	0.0%

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



The bill pattern for this agency (2018-19 Recommended) represents an estimated 30% of the agency's estimated total available funds for the 2018-19 biennium.

Department of Housing and Community Affairs
Summary of Funding Changes and Recommendations - House

Section 2

Funding Changes and Recommendations for the 2018-19 Biennium compared to the 2016-17 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):							
A)	Decrease of \$1,170,000 in General Revenue to fund the Texas Housing Assistance Program directly through the Texas Veterans Commission. This item is funded in the recommendations at Texas Veterans Commission.	(\$1.2)	\$0	\$0	\$0	(\$1.2)	A.1.3
B)	Decrease of \$962,853 in General Revenue for 1) \$200,992 in administration for the Housing Trust Fund and the Amy Young Barrier Removal Program; 2) \$560,869 for the Housing and Health Services Coordination Council and Affordable Housing Research and Information Program; and 3) \$200,992 for the Balance of State Technical Assistance and administration of the Homeless Housing and Services Program; pursuant to the four percent reduction.	(\$1.0)	\$0	\$0	\$0	(\$1.0)	A.1.3 , B.1.1, C.1.1
C)	Increase of \$1,151,816 in Interagency Contracts for a contract with the Health and Human Services Commission for assistance in implementing the Home and Community Based Services- Adult Mental Health program.	\$0	\$0	\$0	\$1.2	\$1.2	B.1.1
D)	Increase of National Housing Trust Fund of \$9.6 million for multifamily rental housing.	\$0	\$0	\$9.6	\$0	\$9.6	A.1.2
OTHER Funding Changes and Recommendations (these issues are not addressed in Section 3 but details are provided in Appendix A):							
E)	Increase of anticipated Appropriated Receipts to fund operating costs of programs, including an increase of monitoring of federal requirements.	\$0	\$0	\$0	\$1.2	\$1.2	10 strategies
F)	Decrease of \$0.5 million in Tax Credit Assistance Program Stimulus. TDHCA made all funds available as loans, resulting in an ongoing stream of program income.	\$0	\$0	(\$0.5)	\$0	(\$0.5)	A.1.2
G)	Decrease of Section 811 Project Rental Assistance federal grant of \$12 million received in the 2016-17 biennium. The program will be administered for an estimated five year period. Estimated funds for administration include \$22,500 per fiscal year.	\$0	\$0	(\$12.0)	\$0	(\$12.0)	A.1.5
TOTAL SIGNIFICANT & OTHER Funding Changes and Recommendations (in millions)		(\$2.1)	\$0	(\$2.9)	\$2.3	(\$2.7)	As Listed
<i>SIGNIFICANT & OTHER Funding Increases</i>		\$0	\$0	\$9.6	\$2.3	\$12.0	As Listed
<i>SIGNIFICANT & OTHER Funding Decreases</i>		(\$2.1)	\$0	(\$12.5)	\$0	(\$14.7)	As Listed

NOTE: Totals may not sum due to rounding.

**Texas Department of Housing and Community Affairs
Selected Fiscal and Policy Issues - House**

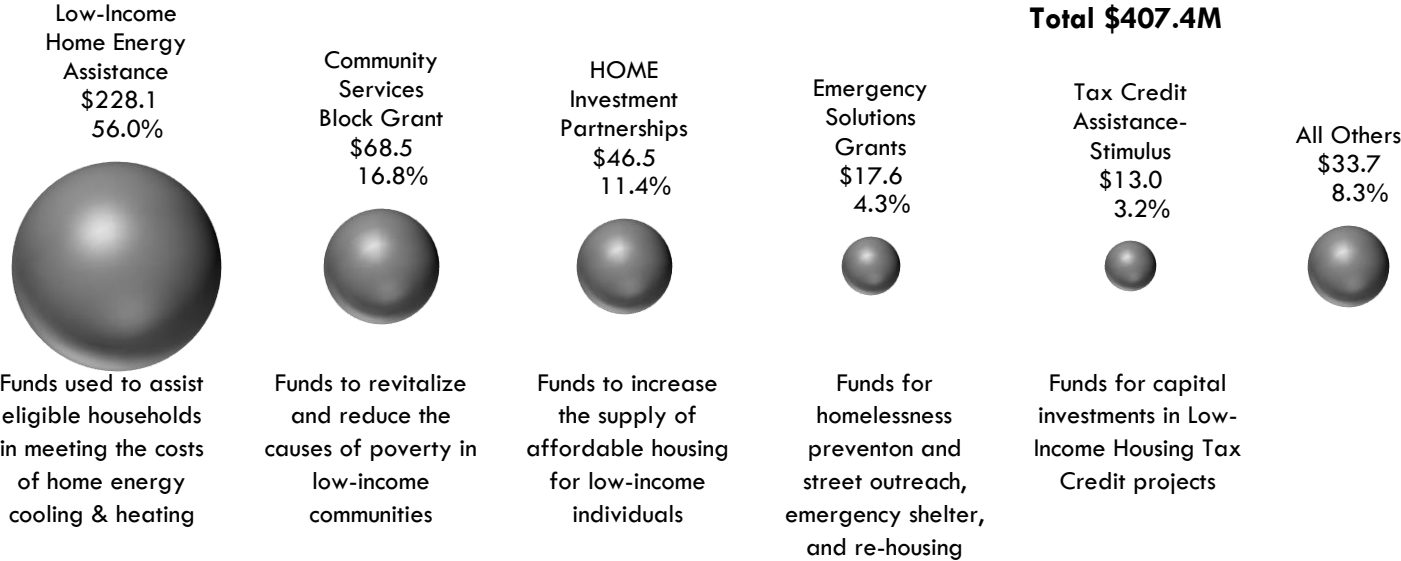
1. **Four Percent General Revenue Reduction.** Recommendations include the reduction of \$962,853 in General Revenue pursuant to the four percent reduction and retain \$100,000 for the Homeless and Housing Services Program. An informational listing, included below, provides additional information on the programs and items reduced for the four percent reduction.
 1. Reduction of \$200,992 in strategy A.1.3, Housing Trust Fund, includes:
 - \$20,100 reduction for administration of the Housing Trust Fund.
 - \$180,892 reduction in Amy Young Barrier Removal Program grants, resulting in a reduction of 10 households served over the biennium.
 2. Reduction of \$560,869 in strategy B.1.1, Housing Resource Center, includes:
 - \$240,000 reduction in professional fees in the Affordable Housing Research and Information Program, resulting in a decrease in housing research and the development of informational material.
 - \$155,000 reduction in professional fees in the Housing and Health Services Coordination Council, resulting in elimination of council funding for the Housing and Services Partnership Academy, which provides education on affordable housing to local communities, and council funding for targeted third-party studies.
 - \$88,000 reduction in administration.
 - \$77,869 reduction in travel and other operating costs.
 3. Reduction of \$200,992 in strategy C.1.1, Poverty-Related Funds, includes:
 - \$100,992 reduction in Balance of State Technical Assistance, resulting in elimination of state funding for the coordination of federal homeless funding for 205 counties.
 - \$100,000 reduction in administration.
2. **Interagency Contract with Texas Veterans Commission.** Per Rider 15, the agency is required to transfer ten percent of the Housing Trust Fund appropriation to the Texas Veterans Commission (TVC) for the Veterans Housing Assistance Program. Recommendations include a decrease of \$1.2 million in General Revenue at the agency, with a corresponding increase at TVC for the Veterans Housing Assistance Program to fund the program directly at TVC (Rider Highlights #15).
3. **Interagency Contract with the Health and Human Services Commission.** Recommendations include an increase in Interagency Contracts from the Health and Human Services Commission for assistance in implementing Home and Community Based Services- Adult Mental Health program, a program which provides rental assistance to adults with mental health disabilities. The agency anticipates entering into the Interagency Contract in fiscal year 2017. Recommendations assume an Interagency Contract amount of \$1.2 million for the 2018-19 biennium.
4. **Conversions of Executory Contracts.** Rider 6 of the agency's bill pattern in the 2016-17 General Appropriations Act requires the agency to spend \$4.0 million on contract for deed conversions and complete 200 contract for deed conversions per biennium. The agency has been unable to hit the target of this rider in the current biennium as well as prior biennia. In an effort to impact the target population as designated in the rider, the agency has been using HOME federal funds to assist in homeowner rehabilitation or reconstruction of homes located in the target population. The agency reported using \$1.0 million for nine contract for deed conversions and related activities in FY16 and reports a lack in demand for assistance for contract for deed conversions. Recommendations include modification of the rider to require the agency to submit a plan to the Legislative Budget Board outlining the amount of funds anticipated to be expended on contract for deed conversions each fiscal year of the 2018-19 biennium and removing the requirement to spend \$4.0 million during the biennium on contract for deed conversions (Rider Highlights #6).

5. **Owner-Builder Loan Program.** This program, commonly referred to as the Texas Bootstrap Loan Program, provides loans to repurchase or refinance property to build a new house or repair the existing home through sweat equity to very low income families. Section 2306.7581 requires the use of a General Revenue-Dedicated (GR-D) account for the program's purpose. Section 2306.7581(a-1) of the Government Code, which expires at the end of FY2020, requires the program to be funded with at least \$3.0 million per fiscal year through one of the following three ways: federal HOME funding, money in the Housing Trust Fund, or any funds appropriated by the Legislature.

Historically, the agency has used the Housing Trust Fund, funded through General Revenue, to meet the statutory requirements to fund the program at \$3.0 million per fiscal year. Rider 9 in the agency's bill pattern and Government Code 2306.201 require Housing Trust Funds to be held outside of the treasury in the Texas Safekeeping Trust Company. Since statutory provisions requiring the agency to provide \$3.0 million per fiscal year of funding to the GR-D account for the program expires at the end of FY2020, recommendations provide \$10.4 million to the Housing Trust Fund, of which \$3.0 million per fiscal year will be transferred outside of the treasury to fund the Bootstrap program. Statute change would be required to align with the current agency policy in the 2018-19 biennium.

Texas Department of Housing and Community Affairs

Summary of Federal Funds - House (2018 - 19)



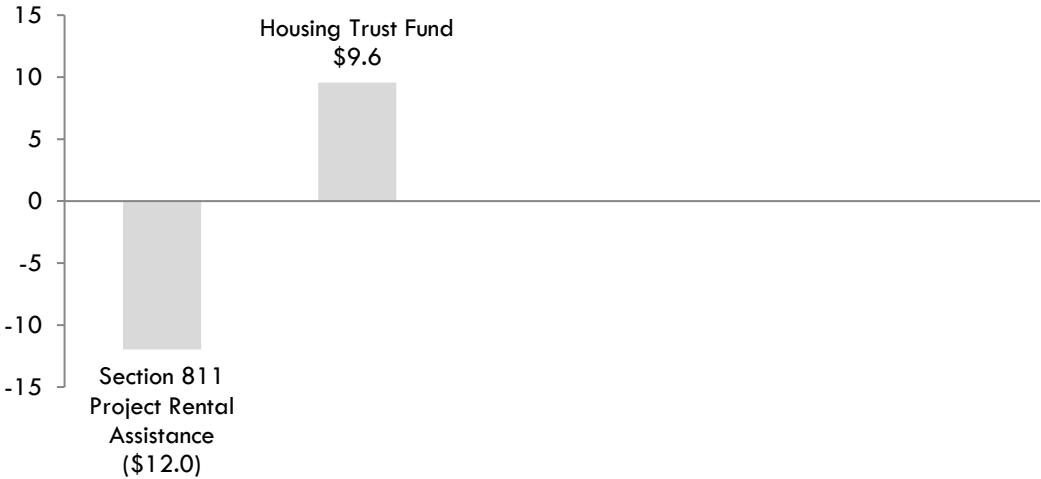
Selected Federal Fiscal and Policy Issues

1. Federal Funds estimates for Section 811 Project Rental Assistance discretionary grant expenditures in fiscal years 2018–19 reflect a decrease of \$12.0 million from fiscal years 2016-17.

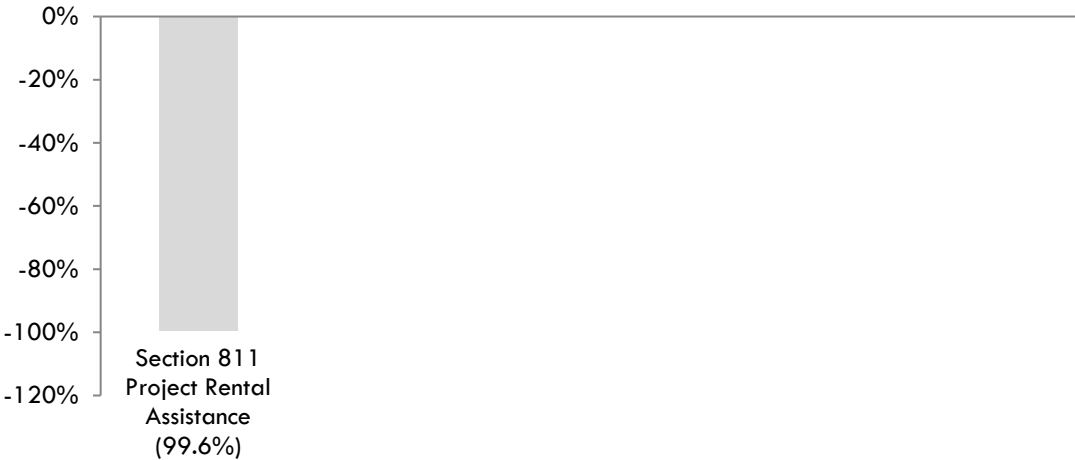
This decrease is attributable to the lack of federal funding for this program after fiscal year 2013.
2. Federal Funds estimates for the 2018-19 biennium include an increase of \$9.6 million in new grant funding from the National Housing Trust Fund.

Programs with Federal Funding Changes from 2016 - 17

Program-by Amount



Program-by Percentage



**Department of Housing and Community Affairs
Rider Highlights - House**

Modified Riders

2. **Capital Budget.** Recommendations include capital budget authority of \$79,383 in federal funds and \$309,137 in Appropriated Receipts for four capital budget items. Items include PC replacements to fund a six-year PC refresh cycle (\$29,000), Legacy System Modernization to replace hardware and software (\$171,000), Disaster Recovery Services (\$78,520), and PeopleSoft Financials Maintenance (\$110,000) for the 2018-19 biennium. The agency's capital budget authority included \$492,000 for information technology software upgrades and \$105,810 for Peoplesoft Financials Maintenance in the 2016-17 biennium. Recommendations include a reduction in capital budget authority of \$209,290 from the 2016-17 biennium.
4. **Appropriations Limited to Revenue Collections.** Recommendations modify the rider to clarify the revenue requirements of the agency for Manufactured Housing.
5. **Housing Assistance.** Recommendations modify the rider to expand the funding used to satisfy rider requirements to serve target populations, as specified by the rider, to include Tax Credit Assistance Program and other potential federal funding.
6. **Conversions of Executory Contracts.** Recommendations modify this rider to remove the requirement to spend \$4.0 million on contract for deed conversions and require the agency to submit a plan to the Legislative Budget Board on the agency's estimated funding for contract for deed conversions and other activities for the affected population in the upcoming fiscal year (Selected Fiscal and Policy Issue #4).
7. **Colonia Set Aside Program Allocation.** The rider requires Texas Department of Agriculture to allocate a 2.5% yearly allocation of the Community Development Block Grant to support the operation of the Colonia Self-Help Centers as operated by TDHCA. Recommendations include modifications to align the rider with statutory requirements of Chapter 2306, Government Code.

Deleted Riders

15. **Transfer of the Veterans Housing Assistance Program.** Recommendations delete this rider and recommend funding the Veterans Housing Assistance Program directly through General Revenue at the Texas Veterans Commission with a corresponding General Revenue reduction at TDHCA (See Selected Fiscal and Policy Issue #2).

**Department of Housing and Community Affairs
Items Not Included in Recommendations - House**

Section 5

	2018-19 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2020-21
	GR & GR-D	All Funds	FTEs			

Agency Exceptional Items - In Agency Priority Order

1)	Capital budget authority for \$700,000 for Peoplesoft Financials Upgrade to be funded with \$143,023 in federal funds and \$556,977 in Appropriated Receipts. The agency does not have capital budget authority for this item in the 2016-17 biennium.	\$0	\$0	0.0	Yes	Yes	\$0
2)	Capital budget authority for \$600,000 for a Community Affairs System project to collect household information on beneficiaries who receive benefits from federally funded programs. This request would be funded with federal funds. The agency does not have capital budget authority for this item in the 2016-17 biennium.	\$0	\$0	0.0	Yes	Yes	\$0
3)	Capital budget authority for \$335,000 for Cybersecurity Initiatives to implement recommendations provided by Gartner Security Assessment to be funded with \$68,446 in federal funds and \$266,554 in Appropriated Receipts. The agency does not have capital budget authority for this item in the 2016-17 biennium.	\$0	\$0	0.0	Yes	Yes	\$0

TOTAL Items Not Included in Recommendations	\$0	\$0	0.0				\$0
--	------------	------------	------------	--	--	--	------------

Department of Housing and Community Affairs
Appendices - House

Table of Contents		
Appendix	Appendix Title	Page
A	Funding Changes and Recommendations by Strategy	9
B	Summary of Federal Funds	20
C	FTE Highlights	*
D	Performance Measure Highlights	*
E	Summary of Ten Percent Biennial Base Reduction Options	21

* Appendix is not included - no significant information to report

Department of Housing and Community Affairs
Funding Changes and Recommendations - House, by Strategy -- ALL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
MRB PROGRAM - SINGLE FAMILY A.1.1	\$2,944,640	\$3,026,294	\$81,654	2.8%	Increase of \$81,654 in Appropriated Receipts for personnel costs, expanded Single Family Mortgage Revenue Bond program outreach and software maintenance.
HOME PROGRAM A.1.2	\$61,014,965	\$70,049,738	\$9,034,773	14.8%	Net decrease of \$9,034,773 due to: -decrease of \$21,955 in HOME Investment Partnership Program funding; -decrease of \$500,000 in Tax Credit Assistance Program Stimulus funding; and -increase of \$9,556,728 in National Housing Trust Fund Grants.
HOUSING TRUST FUND A.1.3	\$12,100,621	\$10,443,402	(\$1,657,219)	(13.7%)	Decrease of \$1,657,219 in All Funds due to: -a decrease of \$200,992 in General Revenue pursuant to the four percent reduction; -a decrease of \$1,170,000 in General Revenue to provide a corresponding increase at the Texas Veterans Commission for the Veterans Housing Program; -decrease of \$284,224 in Appropriated Receipts for redirection of personnel to strategy B.2.1.; and -decrease of \$2,003 in Appropriated Receipts for other personnel costs.
SECTION 8 RENTAL ASSISTANCE A.1.4	\$11,000,000	\$11,000,000	\$0	0.0%	
SECTION 811 PRA A.1.5	\$12,015,000	\$45,000	(\$11,970,000)	(99.6%)	Decrease of \$11,970,000 in Section 811 Project Rental Assistance funding.
FEDERAL TAX CREDITS A.1.6	\$4,193,991	\$4,390,963	\$196,972	4.7%	Increase of \$196,972 in All Funds due to: -increase of \$171,874 in Appropriated Receipts for additional FTEs to address additional fair housing reporting requirements; and -increase of \$25,098 in Appropriated Receipts for capital budget expenditures.
MRB PROGRAM - MULTIFAMILY A.1.7	\$944,440	\$980,741	\$36,301	3.8%	Increase of \$36,301 due to Appropriated Receipts due to salaries, travel and professional fees.
Total, Goal A, AFFORDABLE HOUSING	\$104,213,657	\$99,936,138	(\$4,277,519)	(4.1%)	

Department of Housing and Community Affairs
Funding Changes and Recommendations - House, by Strategy -- ALL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
HOUSING RESOURCE CENTER B.1.1	\$2,655,054	\$3,244,516	\$589,462	22.2%	Net increase of \$589,462 in All Funds due to: -decrease of \$1,485 in Appropriated Receipts due to fixed costs allocated across strategies; -increase of \$1,151,816 in Interagency Contracts due to an increase of funding from the Health and Human Services Commission to provide rental assistance to persons with mental illness; and -decrease of \$560,869 in General Revenue pursuant to the four percent reduction.
COLONIA SERVICE CENTERS B.2.1	\$389,757	\$733,860	\$344,103	88.3%	Increase of \$344,103 in All Funds due to: -increase of \$284,224 in Appropriated Receipts from redirection of personnel from strategy A.1.3; and -increase of \$59,879 in Appropriated Receipts for salaries, other personnel costs, and capital budget expenditures.
Total, Goal B, INFORMATION & ASSISTANCE	\$3,044,811	\$3,978,376	\$933,565	30.7%	
POVERTY-RELATED FUNDS C.1.1	\$96,058,969	\$95,828,086	(\$230,883)	(0.2%)	Net decrease of \$230,883 in All Funds due to: -decrease of \$200,992 pursuant to the four percent reduction; and -reallocation of \$29,891 due to Community Services Block Grant funding to strategy D.1.2.
ENERGY ASSISTANCE PROGRAMS C.2.1	\$238,429,426	\$238,429,426	\$0	0.0%	
Total, Goal C, POOR AND HOMELESS PROGRAMS	\$334,488,395	\$334,257,512	(\$230,883)	(0.1%)	
MONITOR HOUSING REQUIREMENTS D.1.1	\$6,289,041	\$6,434,535	\$145,494	2.3%	Increase of \$145,494 in Appropriated Receipts due to salaries, professional fees, other personnel costs and capital budget expenditures.

Department of Housing and Community Affairs
Funding Changes and Recommendations - House, by Strategy -- ALL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
MONITOR CONTRACT REQUIREMENTS D.1.2	\$1,337,152	\$1,388,998	\$51,846	3.9%	Increase of \$51,846 in All Funds due to: -increase of \$21,955 in HOME Investment Partnership Program funding; and -reallocation of \$29,891 in Community Services Block Grant funding from strategy C.1.1.
Total, Goal D, ENSURE COMPLIANCE	\$7,626,193	\$7,823,533	\$197,340	2.6%	
TITLING & LICENSING E.1.1	\$3,697,290	\$3,833,260	\$135,970	3.7%	Increase of \$135,970 in Appropriated Receipts due to building rental expenditures and capital budget expenditures.
INSPECTIONS E.1.2	\$3,787,959	\$3,920,036	\$132,077	3.5%	Increase of \$132,077 in Appropriated Receipts due to building rental expenditures and capital budget expenditures.
ENFORCEMENT E.1.3	\$3,369,304	\$3,489,698	\$120,394	3.6%	Increase of \$120,394 in Appropriated Receipts due to building rental expenditures and capital budget expenditures.
TEXAS.GOV E.1.4	\$38,240	\$38,240	\$0	0.0%	
Total, Goal E, MANUFACTURED HOUSING	\$10,892,793	\$11,281,234	\$388,441	3.6%	
CENTRAL ADMINISTRATION F.1.1	\$11,836,053	\$11,888,504	\$52,451	0.4%	Net increase of \$52,451 in All Funds due to: -increase of \$53,918 in Appropriated Receipts due to salaries, other personnel costs, professional fees, other operating costs and capital budget expenditures; and -reallocation of \$1,467 in General Revenue to strategies F.1.2 and F.1.3.
INFORMATION RESOURCE TECHNOLOGIES F.1.2	\$3,736,069	\$3,956,366	\$220,297	5.9%	Net increase of \$220,297 of All Funds due to: -increase of \$219,367 in Appropriated Receipts due to salaries, other personnel costs and capital budget expenditures; and -reallocation of \$930 in General Revenue from strategy F.1.1.

Department of Housing and Community Affairs
Funding Changes and Recommendations - House, by Strategy -- ALL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
OPERATING/SUPPORT F.1.3	\$1,220,388	\$1,207,521	(\$12,867)	(1.1%)	Net decrease of \$12,867 in All Funds due to: -decrease of \$13,405 in Appropriated Receipts due to salaries, other personnel costs and capital budget expenditures; and -reallocation of \$538 in General Revenue from strategy F.1.1.
Total, Goal F, INDIRECT ADMIN AND SUPPORT COSTS	\$16,792,510	\$17,052,391	\$259,881	1.5%	
Grand Total, All Strategies	\$477,058,359	\$474,329,184	(\$2,729,175)	(0.6%)	

Department of Housing and Community Affairs
Funding Changes and Recommendations - House, by Strategy -- GENERAL REVENUE FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
MRB PROGRAM - SINGLE FAMILY A.1.1	\$0	\$0	\$0	0.0%	
HOME PROGRAM A.1.2	\$0	\$0	\$0	0.0%	
HOUSING TRUST FUND A.1.3	\$11,814,394	\$10,443,402	(\$1,370,992)	(11.6%)	Decrease of \$1,370,992 due to: -a decrease of \$200,992 in salaries and grants in the Amy Young Barrier Removal Program pursuant to the four percent reduction; and -a decrease of \$1,170,000 to provide a corresponding increase at the Texas Veterans Commission for the Veterans Housing Program.
SECTION 8 RENTAL ASSISTANCE A.1.4	\$0	\$0	\$0	0.0%	
SECTION 811 PRA A.1.5	\$0	\$0	\$0	0.0%	
FEDERAL TAX CREDITS A.1.6	\$0	\$0	\$0	0.0%	
MRB PROGRAM - MULTIFAMILY A.1.7	\$0	\$0	\$0	0.0%	
Total, Goal A, AFFORDABLE HOUSING	\$11,814,394	\$10,443,402	(\$1,370,992)	(11.6%)	
HOUSING RESOURCE CENTER B.1.1	\$729,464	\$168,595	(\$560,869)	(76.9%)	Decrease of \$560,869 in professional fees, salaries and other operating costs in the Affordable Housing Research and Information Program and the Housing and Health Services Coordination Council pursuant to the four percent reduction.
COLONIA SERVICE CENTERS B.2.1	\$0	\$0	\$0	0.0%	
Total, Goal B, INFORMATION & ASSISTANCE	\$729,464	\$168,595	(\$560,869)	(76.9%)	
POVERTY-RELATED FUNDS C.1.1	\$10,100,000	\$9,899,008	(\$200,992)	(2.0%)	Decrease of \$200,992 in salaries and grants in the Balance of State Technical Assistance Program and Homeless Housing Services Program pursuant to the four percent reduction.
ENERGY ASSISTANCE PROGRAMS C.2.1	\$0	\$0	\$0	0.0%	
Total, Goal C, POOR AND HOMELESS PROGRAMS	\$10,100,000	\$9,899,008	(\$200,992)	(2.0%)	

Department of Housing and Community Affairs
Funding Changes and Recommendations - House, by Strategy -- GENERAL REVENUE FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
MONITOR HOUSING REQUIREMENTS D.1.1	\$0	\$0	\$0	0.0%	
MONITOR CONTRACT REQUIREMENTS D.1.2	\$0	\$0	\$0	0.0%	
Total, Goal D, ENSURE COMPLIANCE	\$0	\$0	\$0	0.0%	
TITLING & LICENSING E.1.1	\$0	\$0	\$0	0.0%	
INSPECTIONS E.1.2	\$0	\$0	\$0	0.0%	
ENFORCEMENT E.1.3	\$0	\$0	\$0	0.0%	
TEXAS.GOV E.1.4	\$38,240	\$38,240	\$0	0.0%	
Total, Goal E, MANUFACTURED HOUSING	\$38,240	\$38,240	\$0	0.0%	
CENTRAL ADMINISTRATION F.1.1	\$3,429,394	\$3,427,927	(\$1,467)	(0.0%)	Reallocation of \$1,467 to strategies F.1.2 and F.1.3.
INFORMATION RESOURCE TECHNOLOGIES F.1.2	\$299,290	\$300,220	\$930	0.3%	Reallocation of \$930 from strategy F.1.1.
OPERATING/SUPPORT F.1.3	\$160,540	\$161,078	\$538	0.3%	Reallocation of \$538 from strategy F.1.1.
Total, Goal F, INDIRECT ADMIN AND SUPPORT COSTS	\$3,889,224	\$3,889,225	\$1	0.0%	
Grand Total, All Strategies	\$26,571,322	\$24,438,470	(\$2,132,852)	(8.0%)	Decrease of \$2,132,852 due to: -decrease of \$962,852 pursuant to the four percent reduction; and -decrease of \$1,170,000 to fund the Veterans Housing Program directly to Texas Veterans Commission.

Department of Housing and Community Affairs
Funding Changes and Recommendations - House, by Strategy -- FEDERAL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
MRB PROGRAM - SINGLE FAMILY A.1.1	\$0	\$0	\$0	0.0%	
HOME PROGRAM A.1.2	\$61,014,965	\$70,049,738	\$9,034,773	14.8%	Net decrease of \$9,034,773 due to: -reallocation of \$21,955 in HOME Investment Partnership Program funding to strategy D.1.2; -decrease of \$500,000 in Tax Credit Assistance Program Stimulus from loan repayments; and -increase of \$9,556,728 in National Housing Trust Fund Grants.
HOUSING TRUST FUND A.1.3	\$0	\$0	\$0	0.0%	
SECTION 8 RENTAL ASSISTANCE A.1.4	\$11,000,000	\$11,000,000	\$0	0.0%	
SECTION 811 PRA A.1.5	\$12,015,000	\$45,000	(\$11,970,000)	(99.6%)	Decrease of \$11,970,000 in Section 811 Project Rental Assistance.
FEDERAL TAX CREDITS A.1.6	\$0	\$0	\$0	0.0%	
MRB PROGRAM - MULTIFAMILY A.1.7	\$0	\$0	\$0	0.0%	
Total, Goal A, AFFORDABLE HOUSING	\$84,029,965	\$81,094,738	(\$2,935,227)	(3.5%)	
HOUSING RESOURCE CENTER B.1.1	\$0	\$0	\$0	0.0%	
COLONIA SERVICE CENTERS B.2.1	\$0	\$0	\$0	0.0%	
Total, Goal B, INFORMATION & ASSISTANCE	\$0	\$0	\$0	0.0%	
POVERTY-RELATED FUNDS C.1.1	\$85,958,969	\$85,929,078	(\$29,891)	(0.0%)	Reallocation of \$29,891 due to Community Services Block Grant funding reduction to strategy D.1.2.
ENERGY ASSISTANCE PROGRAMS C.2.1	\$238,429,426	\$238,429,426	\$0	0.0%	
Total, Goal C, POOR AND HOMELESS PROGRAMS	\$324,388,395	\$324,358,504	(\$29,891)	(0.0%)	
MONITOR HOUSING REQUIREMENTS D.1.1	\$0	\$0	\$0	0.0%	

Department of Housing and Community Affairs
Funding Changes and Recommendations - House, by Strategy -- FEDERAL FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
MONITOR CONTRACT REQUIREMENTS D.1.2	\$1,337,152	\$1,388,998	\$51,846	3.9%	Increase of \$51,846 due to: -reallocation of \$21,955 in HOME Investment Partnership Program funding from strategy A.1.2; and -reallocation of \$29,891 in Community Services Block Grant funding from strategy C.1.1.
Total, Goal D, ENSURE COMPLIANCE	\$1,337,152	\$1,388,998	\$51,846	3.9%	
TITLING & LICENSING E.1.1	\$0	\$0	\$0	0.0%	
INSPECTIONS E.1.2	\$400,000	\$400,000	\$0	0.0%	
ENFORCEMENT E.1.3	\$200,000	\$200,000	\$0	0.0%	
TEXAS.GOV E.1.4	\$0	\$0	\$0	0.0%	
Total, Goal E, MANUFACTURED HOUSING	\$600,000	\$600,000	\$0	0.0%	
CENTRAL ADMINISTRATION F.1.1	\$0	\$0	\$0	0.0%	
INFORMATION RESOURCE TECHNOLOGIES F.1.2	\$0	\$0	\$0	0.0%	
OPERATING/SUPPORT F.1.3	\$0	\$0	\$0	0.0%	
Total, Goal F, INDIRECT ADMIN AND SUPPORT COSTS	\$0	\$0	\$0	0.0%	
Grand Total, All Strategies	\$410,355,512	\$407,442,240	(\$2,913,272)	(0.7%)	Net decrease of \$2,913,272 due to: -decrease of \$500,000 in Tax Credit Assistance Program from loan repayments; -increase of \$9,556,728 in National Housing Trust Fund grants; and -decrease of \$11,970,000 in Section 811 Project Rental Assistance.

Department of Housing and Community Affairs
Funding Changes and Recommendations - House, by Strategy -- OTHER FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
MRB PROGRAM - SINGLE FAMILY A.1.1	\$2,944,640	\$3,026,294	\$81,654	2.8%	Increase of \$81,654 in Appropriated Receipts for personnel costs, expanded Single Family Mortgage Revenue Bond program outreach and software maintenance.
HOME PROGRAM A.1.2	\$0	\$0	\$0	0.0%	
HOUSING TRUST FUND A.1.3	\$286,227	\$0	(\$286,227)	(100.0%)	Decrease of \$286,227 in Appropriated Receipts due to: -decrease of \$284,224 for redirection of personnel to strategy B.2.1.; and -decrease of \$2,003 for other personnel costs.
SECTION 8 RENTAL ASSISTANCE A.1.4	\$0	\$0	\$0	0.0%	
SECTION 811 PRA A.1.5	\$0	\$0	\$0	0.0%	
FEDERAL TAX CREDITS A.1.6	\$4,193,991	\$4,390,963	\$196,972	4.7%	Increase of \$196,972 in Appropriated Receipts due to: -increase of \$171,874 for additional FTEs to address additional fair housing reporting requirements; and -increase of \$25,098 for capital budget expenditures.
MRB PROGRAM - MULTIFAMILY A.1.7	\$944,440	\$980,741	\$36,301	3.8%	Increase of \$36,301 due to Appropriated Receipts due to salaries, travel and professional fees.
Total, Goal A, AFFORDABLE HOUSING	\$8,369,298	\$8,397,998	\$28,700	0.3%	
HOUSING RESOURCE CENTER B.1.1	\$1,925,590	\$3,075,921	\$1,150,331	59.7%	Net increase of \$1,150,331 in Other funds due to: -decrease of \$1,485 in Appropriated Receipts due to fixed costs allocated across strategies; and -increase of \$1,151,816 in Interagency Contracts due to an anticipated increase of funding from the Health and Human Services Commission to provide rental assistance to persons with mental illness.

Department of Housing and Community Affairs
Funding Changes and Recommendations - House, by Strategy -- OTHER FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
COLONIA SERVICE CENTERS B.2.1	\$389,757	\$733,860	\$344,103	88.3%	Increase of \$344,103 in Appropriated Receipts due to: -increase of \$284,224 from redirection of personnel from strategy A.1.3; and -increase of \$59,879 for salaries, other personnel costs, and capital budget expenditures.
Total, Goal B, INFORMATION & ASSISTANCE	\$2,315,347	\$3,809,781	\$1,494,434	64.5%	
POVERTY-RELATED FUNDS C.1.1	\$0	\$0	\$0	0.0%	
ENERGY ASSISTANCE PROGRAMS C.2.1	\$0	\$0	\$0	0.0%	
Total, Goal C, POOR AND HOMELESS PROGRAMS	\$0	\$0	\$0	0.0%	
MONITOR HOUSING REQUIREMENTS D.1.1	\$6,289,041	\$6,434,535	\$145,494	2.3%	Increase of \$145,494 in Appropriated Receipts due to salaries, professional fees, other personnel costs and capital budget expenditures.
MONITOR CONTRACT REQUIREMENTS D.1.2	\$0	\$0	\$0	0.0%	
Total, Goal D, ENSURE COMPLIANCE	\$6,289,041	\$6,434,535	\$145,494	2.3%	
TITLING & LICENSING E.1.1	\$3,697,290	\$3,833,260	\$135,970	3.7%	Increase of \$135,970 in Appropriated Receipts due to building rental expenditures and capital budget expenditures.
INSPECTIONS E.1.2	\$3,387,959	\$3,520,036	\$132,077	3.9%	Increase of \$132,077 in Appropriated Receipts due to building rental expenditures and capital budget expenditures.
ENFORCEMENT E.1.3	\$3,169,304	\$3,289,698	\$120,394	3.8%	Increase of \$120,394 in Appropriated Receipts due to building rental expenditures and capital budget expenditures.
TEXAS.GOV E.1.4	\$0	\$0	\$0	0.0%	
Total, Goal E, MANUFACTURED HOUSING	\$10,254,553	\$10,642,994	\$388,441	3.8%	

Department of Housing and Community Affairs
Funding Changes and Recommendations - House, by Strategy -- OTHER FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
CENTRAL ADMINISTRATION F.1.1	\$8,406,659	\$8,460,577	\$53,918	0.6%	Increase of \$53,918 in Appropriated Receipts due to salaries, other personnel costs, professional fees, other operating costs and capital budget expenditures.
INFORMATION RESOURCE TECHNOLOGIES F.1.2	\$3,436,779	\$3,656,146	\$219,367	6.4%	Increase of \$219,367 in Appropriated Receipts due to salaries, other personnel costs and capital budget expenditures.
OPERATING/SUPPORT F.1.3	\$1,059,848	\$1,046,443	(\$13,405)	(1.3%)	Decrease of \$13,405 in Appropriated Receipts due to salaries, other personnel costs and capital budget expenditures.
Total, Goal F, INDIRECT ADMIN AND SUPPORT COSTS	\$12,903,286	\$13,163,166	\$259,880	2.0%	
Grand Total, All Strategies	\$40,131,525	\$42,448,474	\$2,316,949	5.8%	Increase of \$2,316,949 due to: -increase of \$1,151,816 in Interagency Contracts anticipated with the Health and Human Services Commission; and -increase of \$1,165,133 in Appropriated Receipts.

Texas Department of Housing and Community Affairs
Summary of Federal Funds - House
(Dollar amounts in Millions)

Appendix B

Program	Est 2016	Bud 2017	Rec 2018	Rec 2019	2016-17 Base	2018-19 Rec	2018-19 Rec % Total	Recommended Over/(Under) Base	% Change from Base
Low-Income Home Energy Assistance	\$114.0	\$114.0	\$114.0	\$114.0	\$228.1	\$228.1	56.0%	\$0.0	0.0%
Community Services Block Grant	\$34.2	\$34.2	\$34.2	\$34.2	\$68.5	\$68.5	16.8%	\$0.0	0.0%
HOME Investment Partnerships Program	\$23.2	\$23.2	\$23.2	\$23.2	\$46.5	\$46.5	11.4%	\$0.0	0.0%
Emergency Solutions Grants Program	\$8.8	\$8.8	\$8.8	\$8.8	\$17.6	\$17.6	4.3%	\$0.0	0.0%
Tax Credit Assistance Program - Stimulus	\$7.0	\$6.5	\$6.5	\$6.5	\$13.5	\$13.0	3.2%	(\$0.5)	(3.7%)
Section 8 Housing Choice Vouchers	\$5.5	\$5.5	\$5.5	\$5.5	\$11.0	\$11.0	2.7%	\$0.0	0.0%
Weatherization Assistance for Low-Income Persons	\$5.2	\$5.2	\$5.2	\$5.2	\$10.3	\$10.3	2.5%	\$0.0	0.0%
Housing Trust Fund*	\$0.0	\$0.0	\$4.8	\$4.8	\$0.0	\$9.6	2.3%	\$9.6	100.0%
Community Development Block Grants	\$1.1	\$1.1	\$1.1	\$1.1	\$2.2	\$2.2	0.5%	\$0.0	0.0%
Manufactured Housing Division Administration	\$0.3	\$0.3	\$0.3	\$0.3	\$0.6	\$0.6	0.1%	\$0.0	0.0%
Sec 811 Project Rental Assistance Demonstration	\$12.0	\$0.02	\$0.02	\$0.02	\$12.0	\$0.05	0.01%	(\$12.0)	(99.6%)
TOTAL:	\$211.4	\$198.9	\$203.7	\$203.7	\$410.4	\$407.4	100.0%	(\$2.9)	(0.7%)

* Federal Funds estimates for the 2018-19 biennium include an increase of \$9.6 million in new grant funding from the National Housing Trust Fund.

Department of Housing and Community Affairs
Summary of Ten Percent Biennial Base Reduction Options - House

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs			
1)	Amy Young Barrier Removal Program Reduction	The agency would decrease funding of the Amy Young Barrier Removal Program (AYBR), a program that provides one-time grants to individuals with disabilities who need modifications to make their homes more accessible. Based on the average per unit cost of AYBR, the total impact would be a reduction of an estimated 60 households over the biennium.	\$1,275,424	\$1,275,424	0.0	\$0	12%	No
2)	Homeless Housing and Services Program Reduction	The agency would decrease funding for the Homeless Housing and Services Program, a program that provides funding to the eight largest cities in the state to support housing services for homeless individuals and families. Based on the estimated average cost per person served, it is estimated that the program will serve 2,400 fewer individuals over the biennium. As costs vary significantly based on activities undertaken, the impact would likewise vary from city to city.	\$1,275,423	\$1,275,423	0.0	\$0	13%	No
TOTAL, 10% Reduction Options			\$2,550,847	\$2,550,847	0.0	\$0		



Prepared Materials for the
HOUSE COMMITTEE ON APPROPRIATIONS

2018-19 Budget Overview

February 3, 2017

This page has been intentionally left blank.



2018-19 Budget Overview

Prepared for the House Committee on Appropriations

Table of Contents

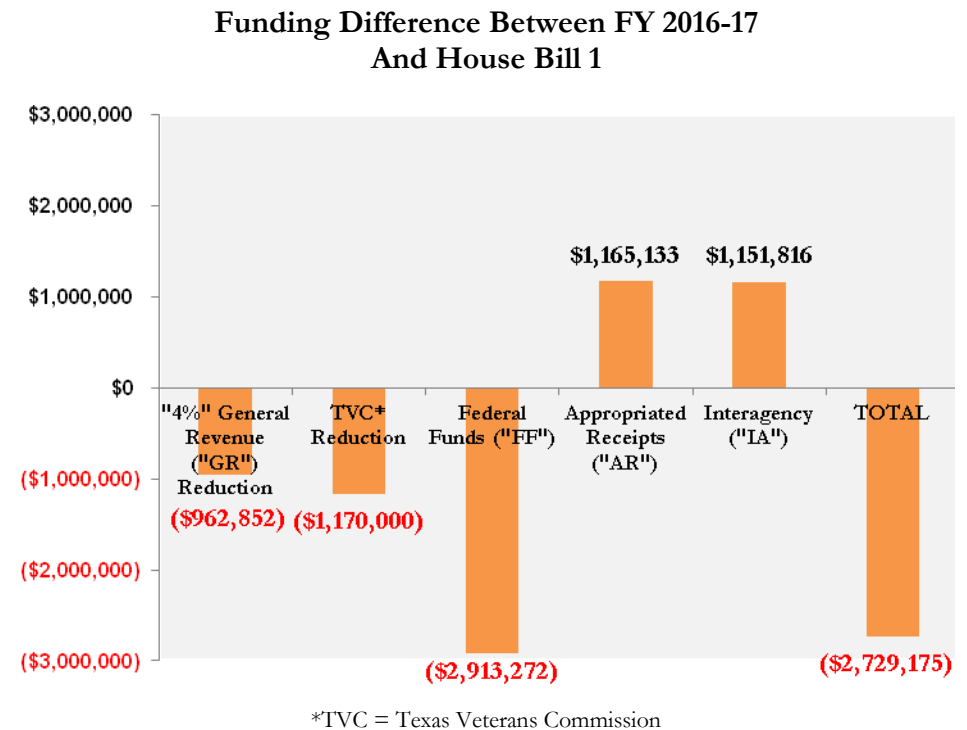
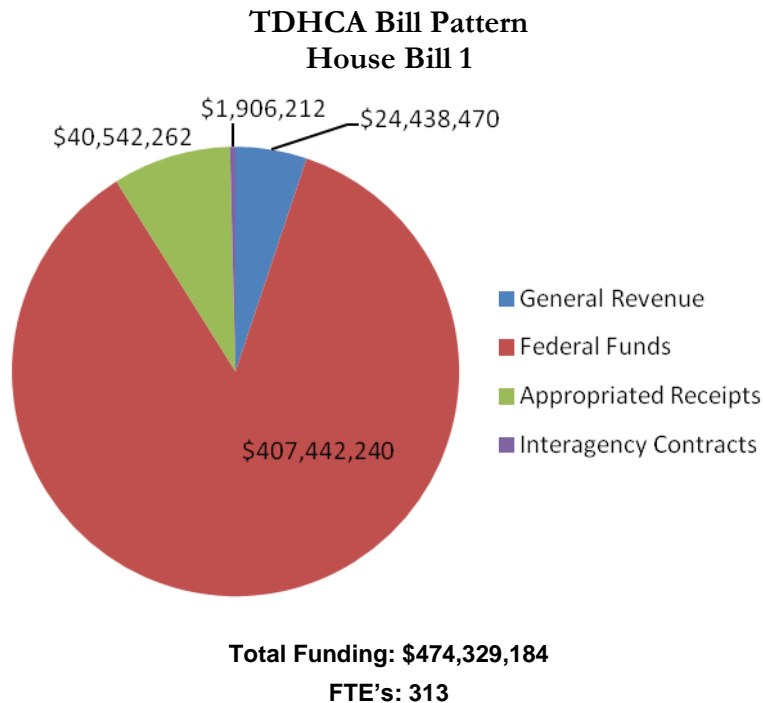
I. Texas Department of Housing and Community Affairs Overview	1
II. House Bill 1 Recommendations for TDHCA	2
III. Exceptional Items.....	4
Appendix A: TDHCA Federal and Other Funds in House Bill 1.....	5
Appendix B: Federally Authorized and Market-Based Resources	7
Appendix C: Impact of Programs and Activities	8
Appendix D: Funds Outside Treasury	10
Appendix E: Scope of Programs and Services	11

This page has been intentionally left blank.

I. Texas Department of Housing and Community Affairs Overview

- Lead agency for promoting and preserving home ownership, financing the development and ensuring the long-term stability of affordable rental housing, supporting community investment and energy assistance programs, and furthering colonia housing activities.
- Partners with for-profits, nonprofits, federal government, and local governments to deliver housing and community-based opportunities to low and moderate income Texans.
- Manufactured Housing Division is administratively attached to TDHCA but has its own executive director and governing board and regulates the manufactured housing industry, ensuring consumer protection and safety. It also administers the migrant labor housing program under an Administrative Services Agreement with the Department.
- Annually administers approximately \$1.8 billion in state and federal grant funds, federal tax credits, and federally authorized or market-based loans.

II. House Bill 1 Recommendations for TDHCA

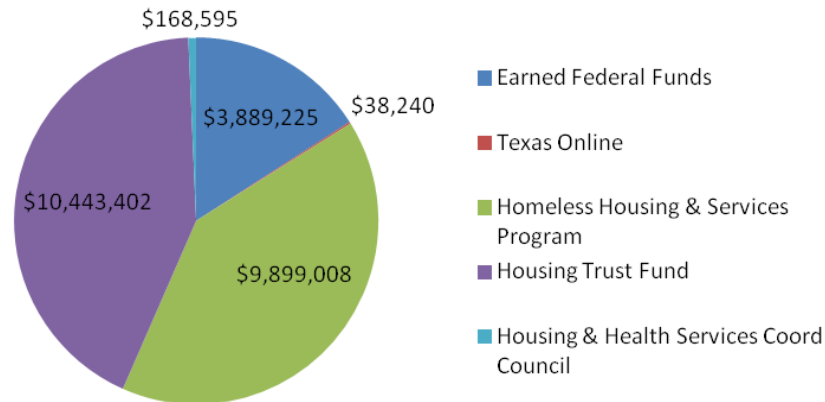


House Bill 1 Recommendations

- Slightly less than 4% reduction, with \$100,000 in General Revenue retained over biennium for Homeless Housing and Services Program.
- General Revenue associated with Housing Trust Fund transfer to Texas Veteran's Commission removed from TDHCA bill pattern.
- Decreased Federal Funds reflecting one-time funding received in 2016-17 balanced against adjustments in ongoing funding, new funding through the National Housing Trust Fund.
- Requested increased Appropriated Receipts associated primarily with growing compliance and information system needs included in House Bill 1.

General Revenue

TDHCA General Revenue in House Bill 1 FY 2018-19

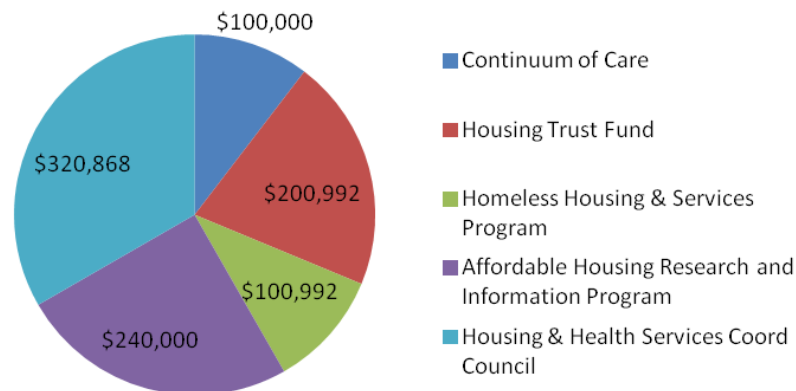


Total: \$24.4 million

General Revenue: \$24.4M for FY 2018-19

- Majority of funds for programmatic activities (\$10.4M for Housing Trust Fund (“HTF”), \$9.9M for Homeless Housing and Services Program (“HHSP”).
- HTF appropriations include \$4.4M in estimated loan repayments.
- Includes \$3.9M for Indirect Admin (i.e., Earned Federal Funds which can be used for indirect administration of federal grants) and \$169K to support the Housing & Health Services Coordination Council.

4% General Revenue Reduction - Sources



Total: \$962,852

III. Exceptional Items

Exceptional Item 1: Replacement of 2003 Version of PeopleSoft Accounting System

- **Requires no state General Revenue:**
 - Appropriated Receipts: \$556,977; Federal Funds: \$143,023; **needed funding included in House Bill 1 as filed.**
- Replaces 14 year old, no longer fully supported version of PeopleSoft Financials with the latest Centralized Accounting and Payroll/Personnel System (“CAPPS”) version and addresses performance and security vulnerabilities.
- Current system used for all TDHCA state and federal grant programs, procurement, and daily financial interfaces to Comptroller's Office systems.
 - Increasingly incompatible with current software, web browsers.
 - Risks of maintaining include system failure and security risks.
 - Use of older browsers to circumvent compatibility issue poses cyber security risk to TDHCA server, customer data (e.g., personal and business identification information, financial account numbers, personal health information).

Exceptional Item 2: Community Affairs Database

- **Requires no state General Revenue:**
 - Federal Funds: \$600,000; **needed funding included in House Bill 1 as filed.**
- Resolves concerns raised in a federal review and puts the state in compliance with expanded federal reporting requirements established to mitigate fraud, waste, and abuse.
- Provides ability for state to ensure Low Income Home Energy Assistance Program (LIHEAP) beneficiaries have legal residency status, decreasing the possibility of disallowed costs which the state could have to reimburse to federal government using non-federal funds.
- Allows TDHCA to monitor subrecipient withdrawals in real time, significantly enhancing oversight capabilities.

Exceptional Item 3: Cybersecurity Initiatives

- **Requires no state General Revenue:**
 - Appropriated Receipts: \$266,554; Federal Funds: \$68,446; **needed funding included in House Bill 1 as filed.**
- Significantly strengthens protection of client data, such as personal and business identification numbers, and of TDHCA systems from cyber threats.
- Based on third-party assessment undertaken on behalf of DIR
 - **\$1.7M** in IT security hardware, software, and services recommended in the assessment; TDHCA requesting **\$335,000** to address critical issues that will have the greatest impact on TDHCA security.

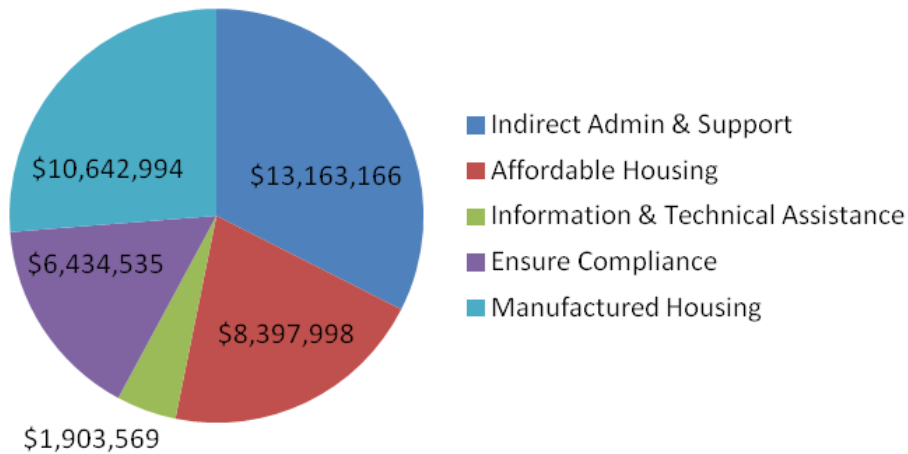
Appendix A: TDHCA Federal and Other Funds in House Bill 1

TDHCA Federal Funds: \$407.4 Million

	FY 2018 Estimate	FY 2019 Estimate	FY 2018-19 Total
Community Services Block Grant Program ("CSBG")	\$34,240,036	\$34,240,036	\$68,480,072
Emergency Solutions Grants ("ESG") Program	\$8,817,205	\$8,817,205	\$17,634,410
HOME Investment Partnerships Program ("HOME")	\$23,248,302	\$23,248,302	\$46,496,604
Low Income Home Energy Assistance Program ("LIHEAP")	\$114,049,581	\$114,049,581	\$228,099,162
Manufactured Housing State Administrative Agency Contract	\$300,000	\$300,000	\$600,000
National Housing Trust Fund ("NHTF")	\$4,778,364	\$4,778,364	\$9,556,728
Neighborhood Stabilization Program ("NSP")	\$1,100,000	\$1,100,000	\$2,200,000
Section 8 Housing Choice Voucher Program ("Section 8")	\$5,500,000	\$5,500,000	\$11,000,000
Section 811 Supportive Housing for Persons with Disabilities ("Section 811")	\$22,500	\$22,500	\$45,000
Tax Credit Assistance Program ("TCAP") Repayment Funds	\$6,500,000	\$6,500,000	\$13,000,000
Weatherization Assistance Program for Low Income Persons ("WAP")	\$5,165,132	\$5,165,132	\$10,330,264
TOTAL	\$203,721,120	\$203,721,120	\$407,442,240

TDHCA Other Funds: \$42.4 Million

Appropriated Receipts by Strategy



Total Appropriated Receipts: \$40.5 million

Appropriated Receipts

- TDHCA Appropriated Receipts derive from fees associated with its housing finance, multifamily compliance, and manufactured housing activities and defray administrative and operational expenses.

Interagency Contracts

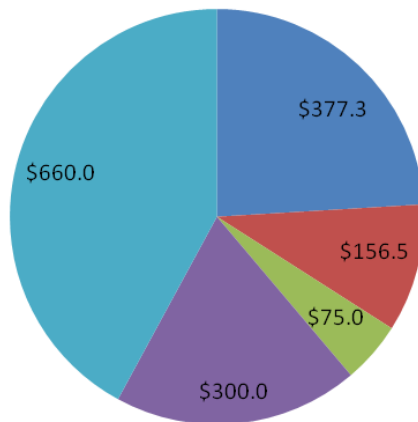
- Money Follows the Person (Health and Human Services Commission): \$435,540
- Home & Community-Based Services - Adult Mental Health Rental Assistance Pilot (Health and Human Services Commission): \$1,331,986
- Colonia Self-Help Center Administrative Funds (Texas Department of Agriculture): \$138,686

Total Interagency Contracts: \$1.9 million

Appendix B: Federally Authorized and Market-Based Resources

Projected FY 2018 Fund Equivalents

*Housing Tax Credits, Multifamily Bonds,
Single Family Mortgages, and Mortgage Credit
Certificates To Be Issued*



Projections in Millions

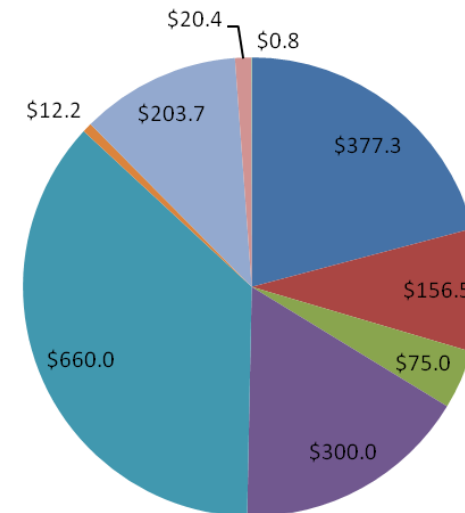
Total Projected Resources: \$1.57B

First Time Homebuyer / My First Texas Home	\$377.3M
Texas Mortgage Credit Certificate Program	\$156.6M
Multifamily Bond Program	\$75.0M
4% Housing Tax Credits	\$300.0M
9% Housing Tax Credits	\$660.0M

Fund Equivalents Not Reflected in TDHCA Bill Pattern

Only administrative funding for these programs is reflected in the bill pattern.

Total Funds in House Bill 1 and Projected Fund Equivalents, FY 2018



Projections in Millions

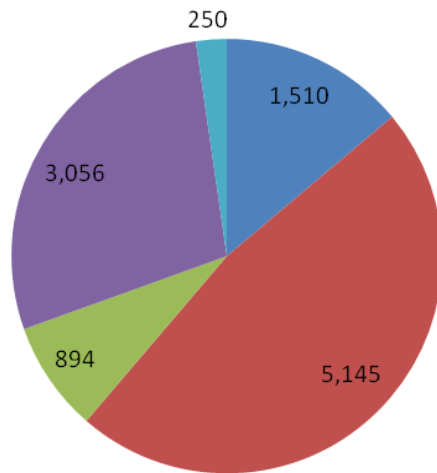
Total Projected 2018 Resources, HB 1 : \$1.8B

First Time Homebuyer / My First Texas Home	\$377.3M
Texas Mortgage Credit Certificate Program	\$156.6M
Multifamily Bond Program	\$75.0M
4% Housing Tax Credits	\$300.0M
9% Housing Tax Credits	\$660.0M
General Revenue	\$12.2M
Federal Funds	\$203.7M
Appropriated Receipts	\$20.4M
Interagency Contracts	\$0.8M

Appendix C: Impact of Programs and Activities

Housing Program Impact

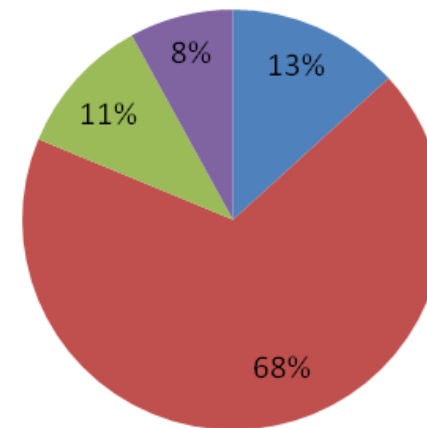
Households
Served Through
TDHCA Housing Activities, FY 2016



Total Served: 10,855

- Rental Assistance
- Renter New Construction
- Renter Rehab Construction
- Owner Financing & Down Payment
- Owner Rehabilitation Assistance

Income Categories of
Households Served Through
TDHCA Housing Programs, FY 2016

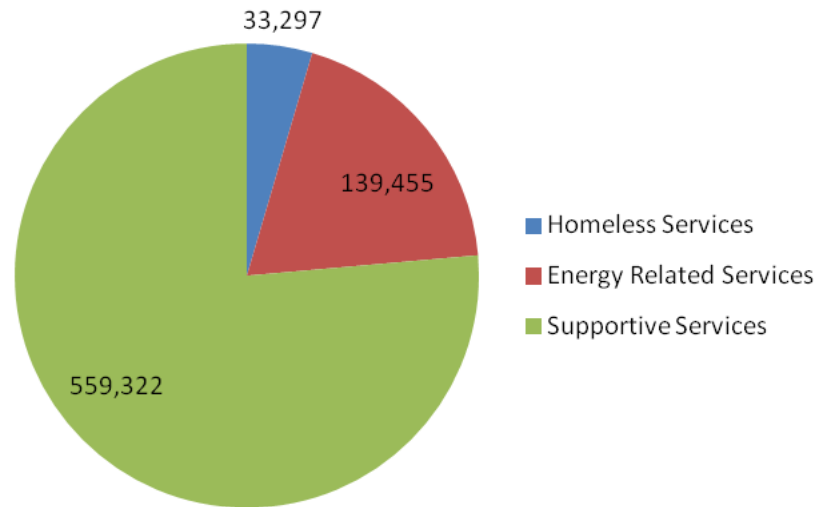


- Extremely Low Income (0-30 AMFI)
- Very Low Income (31-60 AMFI)
- Low Income (61-80 AMFI)
- Moderate Income (>80 AMFI)

Reflects Maximum Allowable Incomes for Activities Funded.

Community Services Program Impact

Households and Persons
Served Through
Community Services Activities, FY 2016



Total Households Served: 732,074

Community Services Activities

Community services activities include services for the homeless and those at risk of homelessness; energy related activities such as utility assistance and home weatherization; and Supportive Services activities funded through the Community Services Block Grant (“CSBG”). CSBG activities vary across the state but may include rental assistance, transportation, and education and employment supports, as well as support for programs such as Head Start, Meals on Wheels, and congregate meals

Income Categories of
Households and Persons Served Through
TDHCA Community Services Programs, FY 2016

The majority of households and individuals served through these activities are extremely low income. Households receiving energy related activities typically earn no more than 150% of the federal poverty level. Persons receiving CSBG services can earn no more than 125% of the federal poverty level. The maximum for these income limits falls within the Very Low Income category for most areas of the state. Homeless programs serve those who are homeless or very low income persons at risk of homelessness.

Appendix D: Funds Outside Treasury

Cash Balances of TDHCA Accounts in the Texas Treasury Safekeeping Trust and Third Party Bond Trustees as of 08/31/16*

Balances Available for Operational and Administrative Purposes

Tax Credit Fees	\$9,299,593
Compliance and Asset Management Fees	\$9,475,941
Single Family and Multifamily Fees <i>Maintained in Administrative/General Fund Accounts</i>	\$4,387,716

Balances Available for Programmatic Activities

Housing Trust Fund	\$5,834,191
Administrative/General Fund- Programmatic Accounts <i>Single Family Bond support such as Contingency Fund, Warehousing, asset management activities.</i>	\$4,187,219

Assets and Liabilities Subject to Outstanding Single Family and Multifamily Bonds

Single Family Indentures	\$672,774,217
Multifamily Indentures	\$150,974,219
Total	\$856,933,096

As required by state law, TDHCA maintains various accounts in the Texas Treasury Safekeeping Trust Company. These fall into the three broad categories:

1. Fees that are transferred into the Treasury to defray administrative costs as approved within the General Appropriations Act; fees are reflected as Appropriated Receipts in TDHCA's bill pattern.
2. Funds reserved for Texas Housing Trust Fund and other programmatic activities.

Housing Trust Fund ("HTF")

As required under Rider 9 of TDHCA's bill pattern, all non-administrative TDHCA General Revenue ("GR") appropriated under the HTF strategy is transferred to HTF accounts outside the Treasury. TDHCA also has a small amount of non-GR HTF funds derived from historic transfers of bond residual and other funds to the HTF; these are also maintained in HTF accounts outside the Treasury.

Bond residuals, homeownership program fees, and other resources reserved through Board action to activities/purposes in support of TDHCA housing programs. Board approved activities include funding for TDHCA's Single Family Bond Warehousing Agreement, bond maintenance, and asset management related activities.

3. Funds and obligations associated with TDHCA's single family and multifamily bond issuances made in support of affordable homeownership or rental property development.

Funds in these accounts are restricted by bond indentures; the funds can only be used in accordance with the indenture to repay bond investors or otherwise meet bond obligations.

*Note: Varies from Schedule 6H in TDHCA Legislative Appropriations Request due to timing. Additionally, Schedule 6H includes projected revenues for 2017-19

Appendix E: Scope of Programs and Services

TDHCA administers programs that support a housing continuum that ranges from poverty and homelessness prevention to rental assistance and homeownership, in addition to other activities such as disaster recovery and manufactured housing licensing. A list of TDHCA programs and services is provided below.

Poverty and Homelessness Prevention

Emergency Solutions Grants (“ESG”) Program

Budget Reference: Strategy C.1.1

Description: Rapid re-housing assistance to provide housing for individuals and families experiencing homelessness; homelessness prevention assistance to help individuals and families avoid becoming homeless; provision of essential services related to emergency shelters and street outreach for the homeless; and rehabilitation or conversion and operation of a building for use as an emergency shelter.

Beneficiaries: Homeless persons or those at risk of homelessness (homeless prevention for those at or below the US Department of Housing and Urban Development’s (“HUD”) 30% AMFI)

Homeless Housing and Services Program (“HHSP”)

Budget Reference: Strategy C.1.1

Description: Services and housing activities, including rental assistance, shelter construction and rehabilitation, to prevent and eliminate homelessness.

Beneficiaries: Persons who are homeless or at-risk of homelessness

Community Services Block Grant (“CSBG”) Program [DR]

Budget Reference: Strategy C.1.1

Description: Supports local, community-based efforts to provide child care, health services, transportation, job training and employment services, housing, substance abuse prevention, and other essential services to help transition individuals out of poverty.

Beneficiaries: Individuals at or below 125% of US Department of Health and Human Services’ (“HHS”) Federal Poverty Income Guidelines

Community Services Block Grant Program - State Discretionary

Budget Reference: Strategy C.1.1

Description: Supports local and statewide efforts by nonprofit organizations and units of local government to improve service outcomes for designated special needs groups, such as homeless persons, persons with disabilities, or rural communities. May also fund statewide projects to provide training and technical assistance to service providers.

[DR] = May offer funding for disaster relief activities. AMFI = Area Median Family Income

Rent Payment Assistance

Project Access Voucher Program

Budget Reference: Strategy A.1.4

Description: Rental assistance for qualifying persons with disabilities transitioning from institutions into the community.

Beneficiaries: Tenants earning up to 50% AMFI

Note: Funded through the Section 8 Housing Choice Voucher Program

Tenant-Based Rental Assistance (“TBRA”) Program [DR]

Budget Reference: Strategy A.1.2

Description: Rental subsidies for up to 60 months, may include security and utility deposit, while the household engages in a self-sufficiency program.

Beneficiaries: Tenants earning up to 80% AMFI

Note: Funded through the HOME Investment Partnerships Program

Housing Choice Voucher Program (“Section 8”)

Budget Reference: Strategy A.1.4

Description: Rental assistance to low income individuals and families, including seniors and persons with disabilities.

Beneficiaries: Tenants earning up to 50% AMFI

Section 811 Project Rental Assistance (“PRA”) Program

Budget Reference: Strategy A.1.5

Description: Project-based rental assistance for persons with disabilities linked with long term services

Beneficiaries: Tenants with disabilities, including people living in institutions, people with serious mental illness, and youth and young adults exiting foster care who are receiving services through one of the Texas Health and Human Services Commission agencies participating in the program.

Rental Housing Development

Housing Tax Credit (“HTC”) Program

Budget Reference: Strategy A.1.6

Description: Tax credits used to offset federal tax liability are syndicated by a developer to generate capital used in exchange for the development of affordable rental properties or the rehabilitation of existing properties to maintain affordable rents for an extended period of time.

Beneficiaries: Tenants earning up to 60% AMFI

Multifamily Mortgage Revenue Bond (“MRB”) Program

Budget Reference: Strategy A.1.7

Description: Low-interest loans to help finance the development of affordable rental properties or the rehabilitation of existing properties to maintain affordable rents for an extended period of time.

Beneficiaries: Tenants earning up to 60% AMFI

Multifamily Direct Loan Program [DR]

Budget Reference: Strategy A.1.2

Description: New construction, demolition and reconstruction, or acquisition and rehabilitation of affordable multifamily rental housing.

Beneficiaries: Tenants earning up to 80% AMFI

Note: Funded through HOME Investment Partnerships Program, Tax Credit Assistance Program Repayment Fund, and National Housing Trust Fund. National Housing Trust Fund can serve only households earning up to 30% AMFI.

[DR] = May offer funding for disaster relief activities. AMFI = Area Median Family Income

Homebuyer Assistance

My First Texas Home (“MFTH”)

Budget Reference: Strategy A.1.1

- Description: Mortgage loans at fixed interest rates and down payment and/or closing cost assistance to qualifying veterans and first time homebuyers or households who have not owned a home in the previous three years. Homebuyers may combine TDHCA homebuyer and mortgage credit programs for maximum benefit.
- Beneficiaries: Homebuyers earning up to 115% AMFI; up to 140% AMFI in targeted areas of the state

Texas Mortgage Credit Certificate (“TXMCC”) Program

Budget Reference: Strategy A.1.1

- Description: Tax credits based on the annual interest paid on a mortgage loan to qualifying veterans and first time homebuyers or households who have not owned a home in the previous three years. Homebuyers may combine mortgage credit and TDHCA homebuyer programs for maximum benefit.
- Beneficiaries: Homebuyers earning up to 115% AMFI; up to 140% AMFI in targeted areas of the state

Homebuyer Assistance Program (“HOME HBA”) [DR]

Budget Reference: Strategy A.1.2

- Description: Down payment and closing cost assistance for homebuyers of single family housing units; may include rehabilitation for accessibility modifications.
- Beneficiaries: Homebuyers earning up to 80% AMFI
- Note: Funded through the HOME Investment Partnerships Program*

Texas Bootstrap Loan Program [DR]

Budget Reference: Strategy A.1.3

- Description: Development of single family housing in which owner-builders provide at least 65% of the labor required to construct or rehabilitate their home (“sweat equity”).
- Beneficiaries: Households earning up to 60% AMFI
- Note: Funded through the Texas Housing Trust Fund*

Texas Homebuyer U (“TXHBU”)

Budget Reference: Strategy A.1.1

- Description: Free online pre- and post-purchase tutorial, mortgage credit certificate introduction courses to satisfy TDHCA’s first time homebuyer program education requirement.
- Beneficiaries: Homebuyers earning up to 115% AMFI; up to 140% AMFI in targeted areas of the state

Texas Statewide Homebuyer Education

Budget Reference: Strategy A.1.1

- Description: Training for nonprofits to provide homebuyer education
- Beneficiaries: Homebuyers earning up to 80% AMFI

[DR] = May offer funding for disaster relief activities. AMFI = Area Median Family Income

Home Rehabilitation

Homeowner Rehabilitation Assistance (“HRA”) Program [DR]

Budget Reference: Strategy A.1.2

Description: Rehabilitation or reconstruction of substandard stick built homes or replacement of manufactured housing units owned and occupied by qualified homeowners; potential refinance of existing mortgage in conjunction with home rehabilitation or reconstruction for qualified applicants.

Beneficiaries: Homeowners earning up to 80% AMFI

Note: Funded through the HOME Investment Partnerships Program

Amy Young Barrier Removal (“AYBR”) Program [DR]

Budget Reference: Strategy A.1.3

Description: Grant funds for accessibility modifications in renter- and owner-occupied housing; helps eliminate life-threatening hazards and correct unsafe conditions.

Beneficiaries: Persons with disabilities earning up to 80% AMFI

Note: Funded through the Texas Housing Trust Fund

Single Family Development

CHDO Set-Aside: Single Family Development Program

Budget Reference: Strategy A.1.2

Description: Development or rehabilitation of affordable single family housing for homeownership.

Beneficiaries: Households earning up to 80% AMFI

Note: Funded through the HOME Investment Partnerships Program

Colonia Self-Help Center (“SHC”) Program

Budget Reference: Strategy B.2.1

Description: Technical assistance and/or training for colonia residents to carry out self-help home construction, housing repairs, infrastructure improvements, and community development activities such as financial literacy and technology access.

Beneficiaries: Colonia residents earning up to 80% AMFI

Note: Funded through the TDA Community Development Block Grant Funds.

Contract for Deed (“CFD”) Program

Budget Reference: Strategy A.1.2

Description: Refinance of contracts for deed. Funding also available for housing rehabilitation. Additional Administrative Assistance Grants available in cooperation with TDHCA’s state-funded Housing Trust Fund.

Beneficiaries: Colonia residents earning up to 60% AMFI

Note: Funded through the HOME Investment Partnerships Program

Contract for Deed Assistance Program

Budget Reference: Strategy A1.3

Description: Grant and/or loan funds for entities who assist eligible households who have converted or wish to convert their contracts for deed into a warranty deed.

Beneficiaries: Colonia residents earning up to 60% AMFI

Note: Funded through the Texas Housing Trust Fund

[DR] = May offer funding for disaster relief activities. AMFI = Area Median Family Income

Home Affordability: Energy Efficiency

Comprehensive Energy Assistance Program (“CEAP”) [DR]

Budget Reference: Strategy C.2.1

Description: Utility bill payment assistance, consumer education, and case management to help low-income households better manage their energy consumption.

Beneficiaries: Tenants and homeowners earning up to 150% of US Department of Health and Human Services’ (“HHS”) Federal Poverty Income Guidelines

Note: Funded through the Low Income Home Energy Assistance Program.

Weatherization Assistance Program (“WAP”)

Budget Reference: Strategy C.2.1

Description: Installation of weatherization material and minor home repairs designed to make a home more energy efficient.

Beneficiaries: Tenants and homeowners earning up to 150% of US Department of Health and Human Services’ (“HHS”) Federal Poverty Income Guidelines

Note: Funded through the Low Income Home Energy Assistance Program and DOE Weatherization Assistance Program.

Manufactured Housing

Budget Reference: Goal E

The Manufactured Housing Division of TDHCA regulates the manufactured housing industry in Texas. Some of the Division’s primary responsibilities include:

- Licensing individuals who manufacture, sell, and install manufactured homes
- Maintaining ownership title-records
- Recording and releasing finance and tax liens
- Performing installation and habitability inspections
- Resolving consumer complaints
- Providing remedy to the consumer under qualified situations

[DR] = May offer funding for disaster relief activities. AMFI = Area Median Family Income

Texas Lottery Commission
Summary of Recommendations - House

Page VII-8

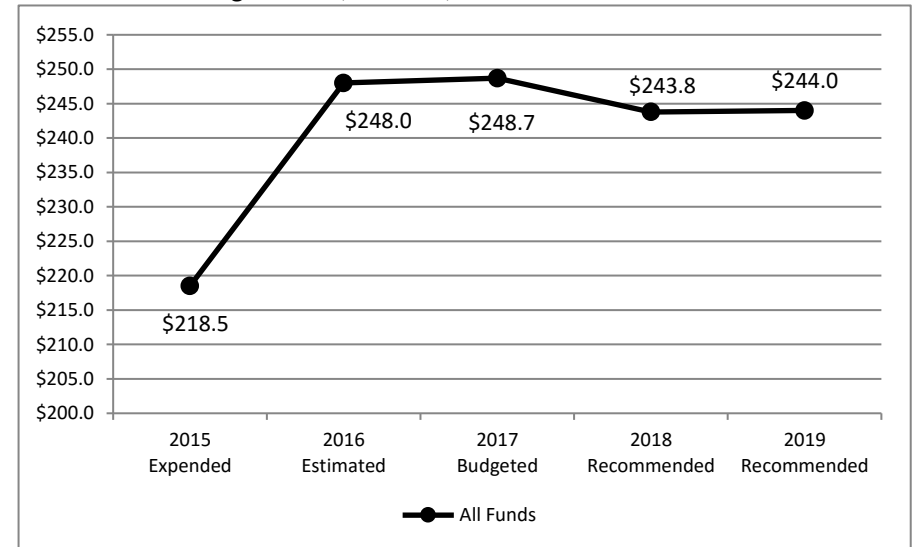
Gary Grief, Executive Director
 Andrew Overmyer, LBB Analyst

Method of Financing	2016-17 Base	2018-19 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$30,909,677	\$30,684,130	(\$225,547)	(0.7%)
GR Dedicated Funds	\$465,786,305	\$457,147,926	(\$8,638,379)	(1.9%)
<i>Total GR-Related Funds</i>	<i>\$496,695,982</i>	<i>\$487,832,056</i>	<i>(\$8,863,926)</i>	<i>(1.8%)</i>
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$0	\$0	\$0	0.0%
All Funds	\$496,695,982	\$487,832,056	(\$8,863,926)	(1.8%)

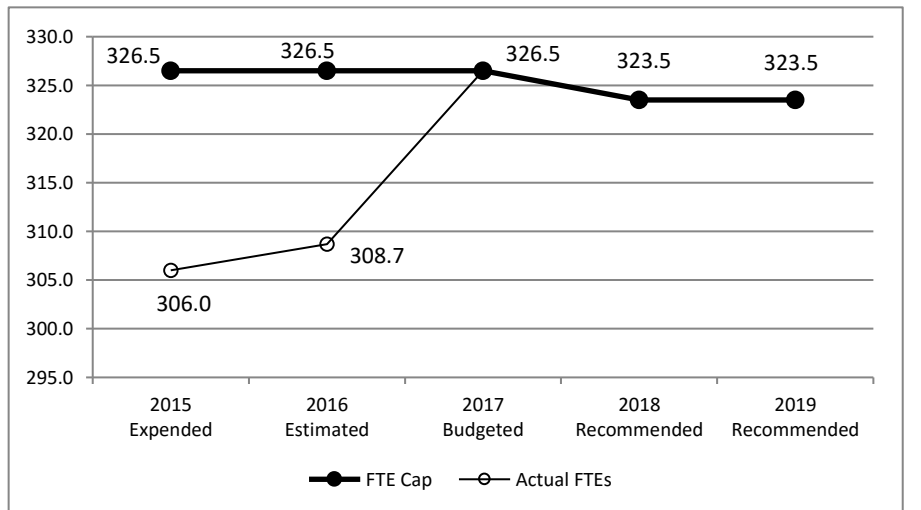
	FY 2017 Budgeted	FY 2019 Recommended	Biennial Change	Percent Change
FTEs	326.5	323.5	(3.0)	(0.9%)

The bill pattern for this agency (2018-19 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2018-19 biennium.

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



Texas Lottery Commission
Summary of Funding Changes and Recommendations - House

Section 2

Funding Changes and Recommendations for the 2018-19 Biennium compared to the 2016-17 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A	Detail in SFR Appendix 6
Funding Changes and Recommendations								
A)	Decrease of 1) \$2,620,000 for mass media advertising contracts; and 2) \$225,547 for 2.0 bingo auditing FTEs pursuant to the four percent reduction	(\$0.2)	(\$2.6)	\$0	\$0	(\$2.8)	B.1.1, B.1.2, B.1.3	Appendix 6g, Appendix 6j
B)	Decrease of 1) \$918,558 for market research, including 1.0 FTE; 2) \$339,196 for building improvements, furnishings and equipment, and lease of draw machines and studio equipment; 3) \$450,000 for computer equipment and programming services; 4) \$340,000 for publications; and 5) \$837,091 for other operating expenses	\$0	(\$2.9)	\$0	\$0	(\$2.9)	A.1.1, A.1.3, A.1.4, A.1.5, A.1.8, A.1.10	Appendix 6a, Appendix 6e, Appendix 6f, Appendix 6h
C)	Decrease of \$116,600 for PC Replacements to fund a 6-year replacement cycle	\$0	(\$0.1)	\$0	\$0	(\$0.1)	A.1.5	Appendix 6h
D)	Decrease of \$896,903 for reimbursements received by the agency from the lottery operator for services rendered in the 2016-17 biennium	\$0	(\$0.9)	\$0	\$0	(\$0.9)	A.1.5	Appendix 6h
E)	Decrease of 1) \$1,922,696 for the lottery operator contract; and 2) \$197,335 for retailer incentives based on LBB estimates of fiscal years 2018 and 2019 gross lottery ticket proceeds.	\$0	(\$2.1)	\$0	\$0	(\$2.1)	A.1.6, A.1.12	Appendix 6b, Appendix 6d
TOTAL Funding Changes and Recommendations (in millions)		(\$0.2)	(\$8.6)	\$0	\$0	(\$8.9)	As Listed	As Listed
<i>Funding Increases</i>		\$0	\$0	\$0	\$0	\$0		
<i>Funding Decreases</i>		(\$0.2)	(\$8.6)	\$0	\$0	(\$8.9)	As Listed	As Listed

NOTE: Totals may not sum due to rounding.

**Texas Lottery Commission
Selected Fiscal and Policy Issues - House**

1. **Strategic Fiscal Review.** The agency is included in the Strategic Fiscal Review, which informed the 2018-19 biennium recommendations. The following outlines main findings of the analysis. See the SFR Appendices for additional information.
 - Analysis was performed on thirteen programs and forty-two activities at the agency. All agency programs have strong mission centrality and authority.
 - An analysis of alternative funding options provided an alternate to the four percent reduction submitted in the agency's LAR that would have less impact on gross lottery ticket sales (see Item #2, below).
 - A detailed analysis of the agency's Lottery Operator contract was conducted. The contract comprises 42% of the agency's recommended 2018-19 appropriations, and outlines the operator's administration and management of all lottery operations in the state. The agency is exempted by statute from several state contracting regulations, which allows it to utilize non-competitive procurement methods, invoke emergency procurement authority, and in general gives the agency broad authority to operate outside of established contracting practices. The contract, while generally sound, contains components of potential risk to the state (see SFR Appendix 6b for a detailed analysis).
 - The agency currently distributes unclaimed prizes from veterans' games to the Fund for Veterans' Assistance; this may align with legislative intent, though statute provides that such funds are to be transferred to the Foundation School Fund.
 - The agency is provided increased appropriation authority through rider if lottery ticket sales exceed a specific threshold. Analysis determined a need for increased transparency on the use of these funds, and led to a rider recommendation to accomplish this purpose (see Rider Highlights #11).
 - Components of the agency's bingo operations are funded by appropriations from the State Lottery Account (GR-D Fund 5025) through the agency's operations, security, and central administration strategies. The agency's 2013 Sunset Commission report included a recommendation to ensure that bingo licensing fees cover the cost of bingo regulation to replace funding from GR-D Fund 5025; similar requests have been presented to the legislature by the agency. The legislature has not appropriated General Revenue funds for this purpose.

2. **Lottery four percent reduction.** Though GR-D Fund 5025 is not subject to certification by the Comptroller of Public Accounts, the agency was required by the Office of the Governor to include in their LAR submission a four percent reduction of \$18.6 million from the account's 2016-17 base amount of \$465.8 million.

Recommendations retain \$16.0 million of the reductions submitted in the agency's LAR for scratch ticket contracts (\$6.7 million), mass media advertising contracts (\$4.5 million), and retailer commissions (\$4.8 million). However, recommendations include other reductions not submitted in the agency's LAR and include a total decrease of \$6.5 million for the agency's non-estimated programs. Details outlining the funding reductions are included in the table below.

Program	Reduction (millions)	Items Reduced
Mass Media Advertising Contract	(\$2.6)	Contracted services for print, radio, television, and other advertising
Operations	(0.3)	Leasehold improvements, furnishings and equipment, and power supply leasing
Marketing and Promotions	(0.9)	Printing and reproduction, postage, promotional items, and 1.0 market research FTE
Security	(0.1)	Security officer contract with the Department of Public Safety
Central Administration	(1.8)	Reimbursements from the lottery operator for services (such as compliance monitoring) rendered by the agency in the 2016-17 biennium, technology improvements, programming services, publications, and funding for a six-year PC replacement cycle
Market Research Contract	(0.8)	Non-statutory market research
Total	(6.5)	

The agency estimates that the reductions of \$2.6 million from mass media advertising contracts and \$0.6 million from marketing and promotions will result in a reduction in sales of \$74.6 million and a reduction in revenue to the state of \$20.1 million.

3. **Bingo four percent reduction.** The agency's bingo operations are funded through fee-generated General Revenue. The agency's submitted four percent reduction to its bingo operations totaled \$1.2 million. In addition to above-the-line strategies, this calculation included appropriations made by rider for the purpose of allocating bingo prize fees collected to counties and municipalities as required by Sec. 2001.503 of the Texas Occupations Code. The rider appropriation was \$25.3 million in General Revenue Funds in the 2016-17 biennium, and its corresponding reduction was \$1.0 million. Because the rider appropriation is estimated and nontransferable, recommendations retain these funds. The agency's four percent reduction of \$0.2 million to above-the-line bingo appropriations for 2.0 auditing FTEs is proportional to the above-the-line total, and is included in recommendations.
4. **Lottery Operator Contract and Retailer Commission strategies.** Per Rider 10 of the agency's bill pattern, recommendations set 2018-19 appropriations for the Lottery Operator contract at an amount equal to 2.2099% of projected gross lottery sales. Gross sales were \$5.0 billion in FY 2016; recommendations include LBB estimates that sales will be \$4.64 billion in FY 2018 and \$4.67 billion in FY 2019. These estimates led to a recommended decrease of \$1.9 million to the Lottery Operator strategy from 2016-17 levels. The Comptroller of Public Accounts' Biennial Revenue Estimate, 2018-19 (BRE) estimates sales to be \$4.95 billion in FY 2018 and \$5.02 billion in FY 2019.

Rider 9(b) of the agency's bill pattern sets sales performance-based retailer commissions at 0.5% of projected gross lottery sales. Based on the same sales figures, recommendations include a decrease of \$0.2 million to the Retailer Commission strategy from 2016-17 levels.



LOTTERY REVENUE FUNDS

LOTTERY FUNDS TRANSFER TABLE (IN MILLIONS)

FISCAL YEAR	Total Sales	Total Deposit to the State =	Deposit to Foundation School Fund (FSF) ¹ +	Deposit of Unclaimed Prizes to FSF ² +	Deposit to Veterans' Assistance Fund ¹ +	Deposit of Unclaimed Prizes to Veterans' Assistance Fund ³ +	Deposit of Unclaimed Prizes to Credit of GR ² +	Deposit of Unclaimed Prizes to GR-D Fund #5049 ⁴
2013	\$4,376.3	\$1,214.1	\$1,148.5	-	\$5.7	\$0.5	\$53.7	\$5.8
2014	\$4,384.6	\$1,220.7	\$1,131.8	\$72.0	\$10.6	\$1.0	-	\$5.4
2015	\$4,529.7	\$1,242.7	\$1,154.6	\$70.5	\$11.8	\$1.3	-	\$4.4
2016	\$5,067.5	\$1,398.3	\$1,304.0	\$75.8	\$12.5	\$1.2	-	\$4.9
2017 (est.)	\$4,872.1	\$1,297.7	\$1,215.1	\$64.6	\$12.0	\$1.2	-	\$4.9
2018 (est.)	\$4,945.2	\$1,317.2	\$1,233.3	\$65.6	\$12.2	\$1.2	-	\$4.9
2019 (est.)	\$5,019.4	\$1,337.0	\$1,251.8	\$66.7	\$12.3	\$1.2	-	\$4.9

NOTES

Fiscal year 2016-2019 amounts align with the Texas Comptroller of Public Accounts' 2017 Biennial Revenue Estimate

1) Amount does not include unclaimed prizes.

2) House Bill 2197, Eighty-third Legislature, Regular Session, 2013 revised statute dictating that funds previously deposited to GR would thereafter be deposited to the Foundation School Fund.

3) All unclaimed prizes from veterans' games are deposited to the Fund for Veterans' Assistance.

4) GR-D Fund 5049 receives deposits exclusively from unclaimed prizes in the amount equal to appropriations. Deposits to the fund in fiscal years 2018 and 2019 will depend on amounts appropriated.

In Fiscal Year 2016, Texas sold \$5,067.5 million in lottery games. From these sales, \$1,398.3 million was allocated according to statute and as set in the General Appropriations Act (GAA), to public K-12 education, veterans programs, and state hospitals.



KEY TERMS

LOTTERY OPERATOR CONTRACTS
Contract with a third party to produce draw game tickets, provide and maintain Lottery terminals, and conduct marketing research. This percentage is set by rider in the GAA.

RETAILERS
Individuals or businesses who sell lottery games. Grocery and convenience stores are the two largest retailer groups.

RETAILER COMMISSIONS
Compensation to retailers for the sale of lottery games (no less than 5% of gross sales as set in statute).

RETAILER SALES PERFORMANCE COMMISSIONS
Payments made to retailers, in addition to their commission, based on same-store sales growth or the sale of certain top prize tickets at their establishment. This percentage is set by rider in the GAA.

UNCLAIMED PRIZES
Lottery prizes unredeemed by winners.

FUND FOR VETERANS ASSISTANCE
Revenue from veteran-themed lottery games. The Veterans Commission uses these funds to write veterans' assistance grants.

HHSC MULTICATEGORICAL TEACHING HOSPITAL ACCOUNT
Used by the Health and Human Services Commission (HHSC), formerly by the Department of State Health Services, to fund indigent health care.


FOUNDATION SCHOOL FUND
The primary source of funding for Texas' public school districts.

POOLED BOND FUND
Covers the potential loss of state revenue as a result of lottery retailer defaults.




LEGISLATIVE BUDGET BOARD Lottery Revenue Funds

WHERE DO TEXAS LOTTERY PROCEEDS GO?




Proceeds from the sale of lottery tickets are deposited to General Revenue Dedicated - Lottery Account No. 5025.



These proceeds are first used to pay winning ticket holders.



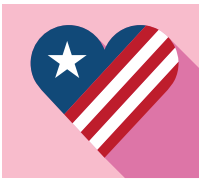
Prizes that aren't claimed by winning ticket holders are held for 180 days.¹




After prizes are paid and unclaimed prizes are set aside, funds are first used to pay retailer commissions.²

The funds are then used to pay for retailer sales performance bonuses and incentives, lottery operation and administrative costs; these payments can be no greater than 7% of gross sales.³

- Retailer sales performance payments (up to 0.5% of gross sales)
- Lottery Operator contract (2.209% of gross sales)
- Advertising contract
- Other contracts (instant ticket production, drawing & broadcast, market research)
- TLC administrative expenses








All funds remaining from veterans' games proceeds are deposited into the Fund for Veterans' Assistance.



All funds remaining from non-veterans' games are deposited into the Foundation School Fund. The GAA appropriates these deposits as lottery proceeds to the Foundation School Program.

If prizes go unclaimed for 180 days:

-  Those from veterans' games are deposited into the Fund for Veterans' Assistance.
-  Those from non-veterans' games are deposited in the amount appropriated from the General Revenue - State Owned Multicategorical Teaching Hospital Account No. 5049 (GR-D Fund 5049).
-  Those from non-veterans' games are also eligible to be transferred in the amount appropriated to the Health and Human Services Commission to support inpatient hospitals along the Texas-Mexico border. No appropriations have been made for this purpose since FY 2005.
-  All funds remaining from non-veterans' games proceeds are deposited into the Foundation School Fund.



SOURCES: Texas Comptroller of Public Accounts Biennial Revenue Estimate; Texas Lottery Commission Annual Financial Report, General Appropriations Act for the 2016-17 Biennium, Eighty-fourth Texas Legislature Regular Session, 2015.

1) Texas Government Code § 466.408 (b)(1) & (3)

2) Texas Government Code § 466.358 (a)

3) Texas Government Code § 466.355 (b)(2)

Texas Lottery Commission
Contracting Highlights - House

Summary of Contracts Awarded 09/01/2014 to 01/17/2017 and Reported to LBB Contracts Database*

(Dollar values rounded to the nearest tenth of a million)

	Number	Total Value	Average Value	% of total
Procurement Contracts	49	\$ 29.4	\$ 0.6	100%

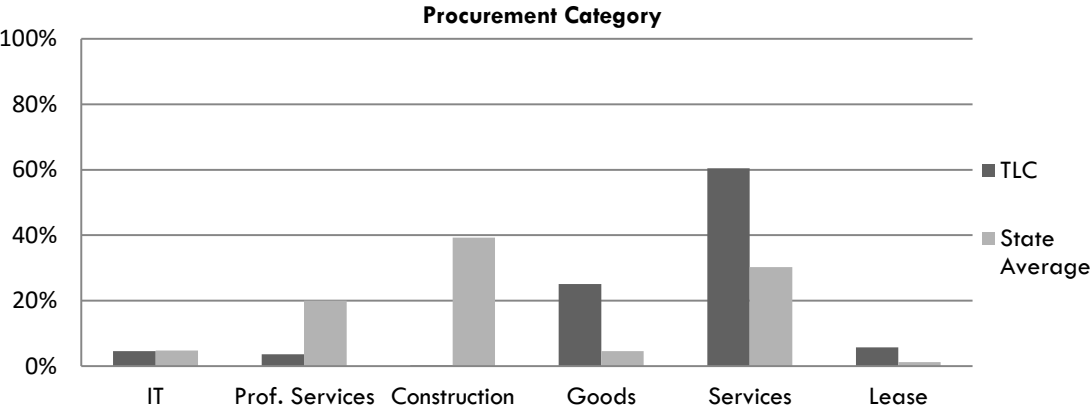
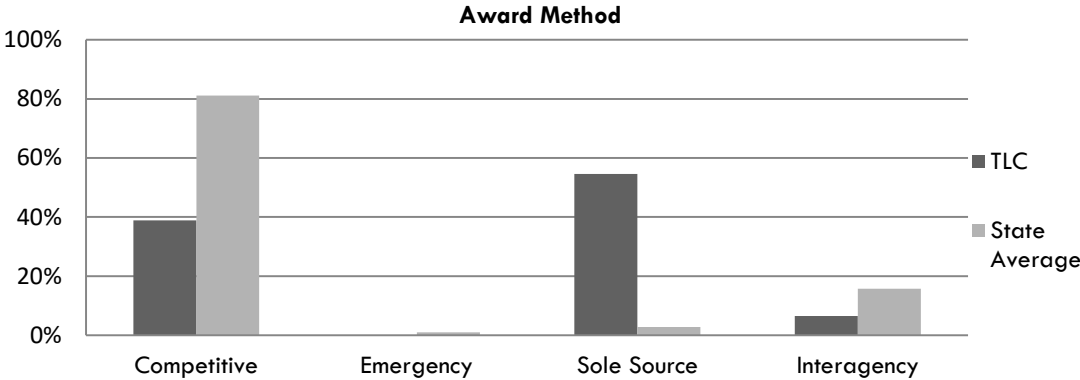
Award Method

Total Competitive Contracts	26	\$ 11.4	\$ 0.4	38.9%
Total Non-Competitive	23	\$ 18.0	\$ 0.8	61.1%
Emergency	0	\$ -	\$ -	0.0%
Sole Source	12	\$ 16.1	\$ 1.3	54.6%
Interagency Agreement	11	\$ 1.9	\$ 0.2	6.5%

Procurement Category

Information Technology	7	\$ 1.3	\$ 0.2	4.6%
Professional Services	2	\$ 1.1	\$ 0.5	3.6%
Construction	1	\$ 0.1	\$ 0.1	0.3%
Goods	8	\$ 7.4	\$ 0.9	25.1%
Other Services	28	\$ 17.8	\$ 0.6	60.4%
Lease/Rental	3	\$ 1.7	\$ 0.6	5.7%

Comparisons with State Averages



*Note: These figures reflect the total value of contracts awarded 09/01/2014 to 01/17/2017 and reported to the LBB contracts database. Values can include planned expenditures for subsequent years and represent the amounts contracted which may include funds from sources other than appropriated or General Revenue Funds.

Texas Lottery Commission
Contracting Highlights - House

(Dollar values rounded to the nearest tenth of a million)

Largest Active Contracts from Previous Fiscal Years	Award Method	Total Value	% Change¹	Award Date	Length	Renewals	Vendor
1 Lottery Operations	Competitive	\$ 1614.5	100.0%	08/30/10	16 years	2	IGT Global Solutions Corp.
2 Advertising Services	Competitive	\$ 197.7	48.1%	05/21/12	6 years	1	Latinworks Marketing LLC
3 Instant Ticket Manufacturing and Services	Competitive	\$ 51.5	-	08/07/12	6 years	2	IGT Global Solutions Corp.
4 Instant Ticket Manufacturing and Services	Competitive	\$ 50.1	-	07/21/12	2 years	1	Scientific Games International Inc.
5 Lease - Austin Headquarters 611 East 6th Street ²	Emergency	\$ 48.7	1146.0%	01/07/97	23 years	5	Lynx Grant LLC
5a Parking - Austin Headquarters	Sole Source	\$ 1.1	-	11/18/15	5 years		City of Austin

Largest Competitive Contracts Awarded in FY 15-16

1 Promotional Products	Competitive	\$ 4.6	-	09/25/14	3 years	0	Beehive Specialty
2 Security Management System & Monitoring Services	Competitive	\$ 1.8	-	09/24/15	4 years	0	Keystone US Management Inc.
3 Market Research Services	Competitive	\$ 0.8	-	09/24/15	1 year	0	Strategic Research Partners
4 Website Hosting Services	Competitive	\$ 0.5	-	07/15/15	3 years	0	Agencies of Change LLC
5 IT Staff Augmentation Svcs, DIR-SSD-2351	Competitive	\$ 0.4	-	09/15/15	1 year	0	RFD & Associates Inc.

Largest Non-Competitive Contracts Awarded in FY 15-16

1 Trademark License & Promotional Agreement	Sole Source	\$ 7.5	-	06/15/15	3 years	0	Pro Silver Star LTD
2 Trademark License & Promotional Support Agreement	Sole Source	\$ 2.5	-	06/22/15	3 years	0	Frisco Management LP
3 Trademark Sublicense Agreement	Sole Source	\$ 1.5	-	10/30/15	2 years	0	Alchemy3 LLC
4 Trademark Sublicense Agreement -Houston Texans	Sole Source	\$ 1.5	-	05/26/16	1 year	0	Houston Holdings LP
5 Rental of parking spaces for Austin Headquarters	Sole Source	\$ 1.1	-	11/18/15	5 years	0	City of Austin

¹Note: The percent change in contract value between initial award amount and the current contract value. Includes contract amendments and renewals.

²Note: The agency is statutorily exempt from most statewide contracting regulations, which has allowed this emergency procurement to continue for 19 years. For more information, see SFR program summaries for the Lottery Operator contract and Central Administration.

**Texas Lottery Commission
Rider Highlights - House**

Modification of Existing Riders

2. **Capital Budget.** Recommendations add PC replacement as a capital budget item and provide capital budget authority of \$251,280 for this purpose to fund a 6-year replacement cycle. Recommendations retain \$300,000 in capital budget authority for Capitalized Lottery Drawing Equipment.
6. **Appropriations Limited to Revenue Collection.** Recommendations modify the rider to clarify the revenue requirements of the agency for enforcing Bingo laws.
11. **Appropriation of Increased Revenue.** This rider provides the agency increased appropriation authority at an amount equal to 1.49 percent of the amount by which gross lottery proceeds exceed sales estimates for fulfilling contractual obligations and other administrative costs associated with administration of the lottery.

Recommendations include adding new subsections to the rider that perform the following functions:

- 1) Require agency to notify the Legislative Budget Board, in a manner prescribed by the Legislative Budget Board, on the planned use of these funds.
- 2) Require agency to report to the Legislative Budget Board on the amounts and use of these funds in the previous fiscal year.

New Riders

15. **Limitations on Transfers.** Recommendations include a new rider that prohibits transfers from the Scratch Ticket Production Contract(s) strategy to other strategies in the agency's bill pattern without prior written approval from the Legislative Budget Board. Given its impact on sales, this rider ensures that appropriations to this strategy are expended for their intended purpose.
16. **Notification Requirement.** Recommendations include a new rider that requires the agency to notify the Legislative Budget Board, in a manner prescribed by the Legislative Budget Board, at least 30 calendar days before any amendment or change order is executed on the Lottery Operator Contract.

Texas Lottery Commission
Items Not Included in Recommendations - House

Section 5

		2018-19 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2020-21
		GR & GR-D	All Funds	FTEs			
Agency Exceptional Items - In Agency Priority Order							
1)	Advertising services contracts (\$2,620,000), products and promotional events (\$627,092), and market research services (\$761,800) reduced in recommendations.	\$4,008,892	\$4,008,892	0.0	No	Yes	\$4,008,892
2)	Rider to set appropriations to Strategy A.1.7, Scratch Ticket Production and Services Contract(s) in fiscal years 2018 and 2019 at an amount equal to 1.1 percent of scratch ticket sales in fiscal years 2018 and 2019, respectively. The agency requests that Strategy A.1.7 be modified to an estimated strategy.	\$0	\$0	0.0	No	Yes	\$0
TOTAL Items Not Included in Recommendations		\$4,008,892	\$4,008,892	0.0	\$4,008,892		

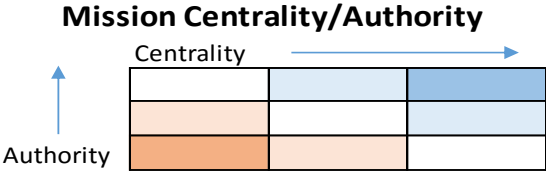
Texas Lottery Commission
Appendices - House

SFR Table of Contents		
SFR Appendix	Appendix Title	Page
1	SFR Program Funding	12
2	SFR Program Listing – Services and Administration	13
3	SFR Program Listing – Fiscal	14
4	SFR Mission Centrality/Authority	15
5	SFR Constitutional, General Revenue-Dedicated and Funds Outside the Treasury	16
6	SFR Program Summaries	19

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 1: Program Funding

Texas Lottery Commission

The Lottery Commission's mission is committed to generating revenue for the State of Texas through the responsible management and sale of entertaining lottery products. The Texas Lottery will incorporate the highest standards of security, integrity and responsible gaming principles, set and achieve challenging goals, provide quality customer service, and utilize a TEAM approach.



Total Budget		2018-19 Recommendations			2018-19 Agency Total Request	
100%	Strategy	Budget, Ordered by Mission Centrality and Authority	Agency Ranking	\$487,832,056		\$491,840,948
	<i>1.1.5 Central Administration</i>	<i>Central Administration</i>	8	\$24,186,974		\$24,186,974
	2.1.4 Bingo Prize Fee Collection & Acct	Bingo Prize Fee Allocation	13	\$25,271,000		\$25,271,000
	2.1.2 Bingo Education And Development	Bingo Education and Training	12	\$285,408		\$285,408
	2.1.4 Bingo Prize Fee Collection & Acct	Bingo Accounting Services	11	\$633,688		\$633,688
	2.1.3 Bingo Law Compliance Field Oper	Bingo Auditors	10	\$3,075,120		\$3,075,120
	2.1.1 Bingo Licensing	Bingo Licensing Services	9	\$1,418,914		\$1,418,914
	1.1.8 Mass Media Advertising Contract(s)	Advertising Services Contract	7	\$61,380,000	Agency requests restoration of \$2,620,000 for advertising services contracts.	\$64,000,000
	1.1.1 Lottery Operations					
72%	1.1.2 Lottery Field Operations	Operations	6	\$20,736,945		\$20,736,945
	1.1.7 Scratch Ticket Product. Contract(s)				Agency requests restoration of \$1,388,892 for marketing products, market research and promotional events.	
	1.1.10 Market Research Contract(s)	Marketing and Promotions	5	\$73,520,996		\$74,909,888
	1.1.11 Retailer Bonus					
46%	1.1.12 Retailer Commissions	Retailer Commissions, Bonuses and Incentives	4	\$54,957,115		\$54,957,115
	1.1.6 Lottery Operator Contract(s)	Lottery Operator Contract	2	\$205,773,137		\$205,773,137
	1.1.9 Drawing & Broadcast Contract(s)					
0%	1.1.4 Security	Security	1	\$16,592,759		\$16,592,759

Note: Indirect administration program names are italicized.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 2: Program Listing -- Services and Administration
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Agency Submission		LBB Staff Review and Analysis								
Agency Ranking	Program Name	Year Implemented	State Authority	Federal Authority	Authority	Mission Centrality	State Service	Service Area	Significant Audit and/or Report Findings	Contracts for Outsourced Services
1	Security	1992	Constitution, Statute	No Federal Requirement	Strong	Strong	State Government Administration & Support	Statewide	No	Partial
2	Lottery Operator Contract	1992	Constitution, Agency Rider, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	Yes
3	Lottery Prize Payment and Pooled Bond Fund	1992	Constitution, Agency Rider, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	No
4	Retailer Commissions, Bonuses and Incentives	1992	Constitution, Agency Rider, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	No
5	Marketing and Promotions	1992	Constitution, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	Partial
6	Operations	1992	Constitution, Statute	No Federal Requirement	Strong	Strong	State Government Administration & Support	Statewide	No	No
7	Advertising Services Contract	1992	Constitution, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	Yes
9	Bingo Licensing Services	1982	Constitution, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	Partial
10	Bingo Auditors	1982	Constitution, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	Partial
11	Bingo Accounting Services	1982	Constitution, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	No
12	Bingo Education and Training	1982	Constitution, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	No
13	Bingo Prize Fee Allocation	1982	Constitution, Agency Rider, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	No
Indirect Administration Programs										
8	Central Administration	1992	Statute	No Federal Requirement	N/A	N/A	State Government Administration & Support	Statewide	No	Partial

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 3: Program Listing -- Fiscal
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Agency Submission				LBB Staff Review and Analysis							
Agency Ranking	Program Name	2012-13 Expended	2014-15 Expended	2016-17 Est / Budg	2017 FTEs Budg	2018-19 Recommended	2019 FTEs Rec.	Percent Change from Base	FTEs Change from Base	Revenue Supported?	Appropriate Use of Constitutional and GR-Dedicated Funds?
1	Security	\$ 13,092,424	\$ 14,846,229	\$ 16,546,669	38.0	\$ 16,592,759	38.0	0.3%	0.0	Yes	Qualified
2	Lottery Operator Contract	\$ 178,035,560	\$ 189,097,269	\$ 207,695,833	0.0	\$ 205,773,137	0.0	-0.9%	0.0	Yes	Compliant
3	Lottery Prize Payment and Pooled Bond Fund *	\$ 5,399,983,334	\$ 5,599,504,229	\$ 6,299,035,153	0.0	\$ 6,005,867,836	0.0	-4.7%	0.0	Yes	Qualified
4	Retailer Commissions, Bonuses and Incentives *	\$ 462,687,165	\$ 486,066,209	\$ 548,371,062	0.0	\$ 520,528,265	0.0	-5.1%	0.0	Yes	Compliant
5	Marketing and Promotions	\$ 47,724,013	\$ 55,071,099	\$ 75,262,373	38.5	\$ 73,520,996	37.5	-2.3%	-1.0	Yes	Compliant
6	Operations	\$ 18,324,120	\$ 19,546,337	\$ 20,622,708	105.2	\$ 20,736,945	105.2	0.6%	0.0	Yes	Qualified
7	Advertising Services Contract	\$ 68,186,407	\$ 63,384,896	\$ 65,500,000	0.0	\$ 61,380,000	0.0	-6.3%	0.0	Yes	Compliant
9	Bingo Licensing Services	\$ 1,646,178	\$ 4,005,114	\$ 1,610,977	8.0	\$ 1,418,914	8.0	-11.9%	0.0	Yes	Compliant
10	Bingo Auditors **	\$ 1,962,027	\$ 2,515,922	\$ 3,153,621	29.0	\$ 3,075,120	27.0	-2.5%	-2.0	Yes	Compliant
11	Bingo Accounting Services **	\$ 330,831	\$ 275,032	\$ 577,725	6.0	\$ 633,688	6.0	9.7%	0.0	Yes	Compliant
12	Bingo Education and Training **	\$ 238,424	\$ 231,649	\$ 296,354	2.0	\$ 285,408	2.0	-3.7%	0.0	Yes	Compliant
13	Bingo Prize Fee Allocation **	\$ 25,882,978	\$ 26,898,163	\$ 25,271,000	0.0	\$ 25,271,000	0.0	0.0%	0.0	Yes	Compliant
Indirect Administration Programs											
8	Central Administration	\$ 22,993,594	\$ 20,895,133	\$ 25,259,097	99.8	\$ 24,186,974	99.8	-4.2%	0.0	Yes	Qualified
Total		\$ 6,241,087,055	\$ 6,482,337,281	\$ 7,289,202,572	326.5	\$ 6,959,271,042	323.5	-4.5%	-3.0		

	2016-17 Est/Budg	2018-19 Recommended
Inside the Treasury	\$ 7,289,202,572	\$ 6,959,271,042
Inside the Bill Pattern	\$ 496,695,982	\$ 487,832,056
Outside the Bill Pattern	\$ 6,792,506,590	\$ 6,471,438,986
Outside the Treasury	\$ -	\$ -
Total	\$ 7,289,202,572	\$ 6,959,271,042

* Program has funds Outside the Treasury and / or Outside the Bill Pattern.

** Bingo strategy appropriations are limited to revenue collections and funded from fees on the agency's licensing populations deposited into the state's General Revenue Fund.

Notes: **Qualified** indicates that the agency may be using the funds for the purpose(s) intended or for similar purposes which are not specifically authorized by the constitution or statute, or that there may be conflicts within authorizing laws.

Revenue Supported includes licensee fees and lottery ticket proceeds.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 4: Assessments of Mission Centrality and Authority
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Mission centrality is a judgment of how directly connected a program is to the core mission and goals of the agency, as identified in statute, agency strategic plans, or other documents.
Authority is an assessment of how strong and explicit the legal basis is for the existence of the program and the way in which the agency is administering it.

MISSION CENTRALITY

		Weak	Moderate	Strong
A U T H O R I T Y	Strong			Security(1) Lottery Operator Contract(2) Lottery Prize Payment and Pooled Bond Fund(3) Retailer Commissions, Bonuses and Incentives(4) Marketing and Promotions(5) Operations(6) Advertising Services Contract(7) Bingo Licensing Services(9) Bingo Auditors(10) Bingo Accounting Services(11) Bingo Education and Training(12) Bingo Prize Fee Allocation(13)
	Moderate			
	Weak			

Notes: Agency program rankings included after the program name. The matrix does not include Indirect Administration programs.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 5: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

1	Account No: 5025	Account Type: GR DEDICATED
	Account Name: Lottery Account	
	Legal Cite(s): Texas Government Code Sec. 434.017 and 466.355	
	Authorized Use: Funds in the Lottery Account may be used for the following: 1) payment of prizes to holders of winning tickets (see Lottery Prize Payment Fund, below); 2) costs, not to exceed twelve percent of gross lottery proceeds, incurred in the operation and administration of the lottery; 3) the establishment and maintenance of a pooled bond fund (see Pooled Bond Fund, below); 4) transfer of revenue generated from veterans' games to the Fund for Veterans' Assistance; and 5) transfer of the remainder to the Foundation School Fund.	
	Revenue Source: The Lottery Account consists of all revenue received from the sale of tickets, license and application fees associated with the lottery operations, and all money credited to the account from any other fund or source under law. Interest earned by the state lottery account shall be deposited in the unobligated portion of the General Revenue Fund.	

Ranking:	Program Name	2016-17 Est/Budg	2018-19 Recommended	In Compliance with Authorized Use?
1	Security	\$ 16,546,669	\$ 16,592,759	Qualified
2	Lottery Operator Contract	\$ 207,695,833	\$ 205,773,137	Yes
4	Retailer Commissions, Bonuses and Incentives	\$ 54,899,625	\$ 54,957,115	Yes
5	Marketing and Promotions	\$ 75,262,373	\$ 73,520,996	Yes
6	Operations	\$ 20,622,708	\$ 20,736,945	Qualified
7	Advertising Services Contract	\$ 65,500,000	\$ 61,380,000	Yes
8	Central Administration	\$ 25,259,097	\$ 24,186,974	Qualified
Total		\$ 465,786,305	\$ 457,147,926	

Notes/Comments:	<p>Pursuant to Government Code Sec. 466.357, the Lottery Account is not subject to certification by the Comptroller of Public Accounts.</p> <p>Security, operations, and central administration programs contain components of the agency's bingo operations funded by appropriations from the State Lottery Account (GR-D Fund 5025). This is not an allowable use of GR-D Fund 5025 as required under Government Code, Sec. 466.355.</p>
------------------------	--

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 5: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

2	Account No: 9201	Account Type: GR DEDICATED
	Account Name: SFR GR-D - Lottery Prize Payment Fund	
	Legal Cite(s): Texas Government Code Sec. 466.355; Rider 4, Appropriation: Payment of Prizes.	
	Authorized Use: Money in the state lottery account may be used for the payment of prizes to the holders of winning tickets. Rider 4, Payment of Prizes of the General Appropriations Act appropriates sufficient funds for the payment of prizes to the holders of winning tickets.	
	Revenue Source: Lottery revenues are primarily composed of scratch and draw game ticket sales and retailer fees.	

Ranking:	Program Name	2016-17 Est/Budg	2018-19 Recommended	In Compliance with Authorized Use?
3	Lottery Prize Payment and Pooled Bond Fund	\$ 6,299,035,153	\$ 6,005,867,836	Qualified
Total		\$ 6,299,035,153	\$ 6,005,867,836	

Notes/Comments:	<p>This funding only includes prizes paid to the holders of winning tickets. Unclaimed prizes that are ultimately deposited to the General Revenue Dedicated - State Owned Multicategorical Teaching Hospital Account No. 5049, Fund for Veterans' Assistance, and the Foundation School Fund are not included in these totals.</p> <p>Lottery Prize Payments are listed as qualified as the agency currently deposits all unclaimed prizes from veterans' assistance games into the Fund for Veterans Assistance, regardless of the balance of the fund. However, Government Code Sec. 466.408 (b)(3) provides that if the balance of the Fund for Veterans Assistance is at or above \$5 million, all unclaimed prizes from veterans' assistance games are to be deposited to the Foundation School Fund.</p>
------------------------	---

3	Account No: 9202	Account Type: GR DEDICATED
	Account Name: SFR GR-D - Pooled Bond Fund	
	Legal Cite(s): Texas Government Code Sec. 466.156; Rider 5, Limitation: Pooled Reserve Fund.	
	Authorized Use: Pursuant to Government Code, Chapter 466, the Executive Director shall maintain balances in a pooled reserve fund to cover the potential loss of state revenue as a result of lottery retailer defaults. The Executive Director shall transfer all pooled reserve fund revenues and balances that exceed \$5 million to the Foundation School Fund monthly.	
	Revenue Source: A cash bond, surety bond, letter of credit, certificate of deposit or other security approved by the Lottery Director shall be posted by lottery ticket sales agents to protect the State from possible losses resulting from the agent operations. Amount of the security determined by the Lottery Director.	

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 5: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Ranking:	Program Name	2016-17 Est/Budg	2018-19 Recommended	In Compliance with Authorized Use?
3	Lottery Prize Payment and Pooled Bond Fund	\$ -	\$ -	Yes
Total		\$ -	\$ -	

Notes/Comments:	The balance of the fund has been at its maximum level for several biennia, as there have been no extraordinary circumstances that have warranted its use.
------------------------	---

4	Account No: 9203	Account Type: GR DEDICATED
	Account Name: SFR GR-D - Retailer Commissions	
	Legal Cite(s): Texas Government Code Sec. 466.358; Rider 9, Retailer Commissions.	
	Authorized Use: Compensation paid to a sales agent may not be an amount less than five percent of the retail price of the tickets sold. Rider 9(a), Retailer Commissions of the General Appropriations Act appropriates an amount equal to five percent of gross sales for the purpose of paying retailer commissions.	
	Revenue Source: Gross lottery ticket sales are composed of scratch and draw game ticket sales.	

Ranking:	Program Name	2016-17 Est/Budg	2018-19 Recommended	In Compliance with Authorized Use?
4	Retailer Commissions, Bonuses, and Incentives	\$ 493,471,437	\$ 465,571,150	Yes
Total		\$ 493,471,437	\$ 465,571,150	

Notes/Comments:	Amounts listed in this account do not include retailer incentives or bonuses given for meeting specific sales goals that are appropriated inside the agency's bill pattern as
------------------------	---

	2016-17 Est/Budg	2018-19 Recommended
Inside the Treasury	\$ 7,289,202,572	\$ 6,959,271,042
<i>Inside the Bill Pattern</i>	\$ 496,695,982	\$ 487,832,056
<i>Outside the Bill Pattern</i>	\$ 6,792,506,590	\$ 6,471,438,986
Outside the Treasury	\$ -	\$ -
Total	\$ 7,289,202,572	\$ 6,959,271,042

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 6a: Program Summary
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Program: Security

Agency Ranking 1 out of 13

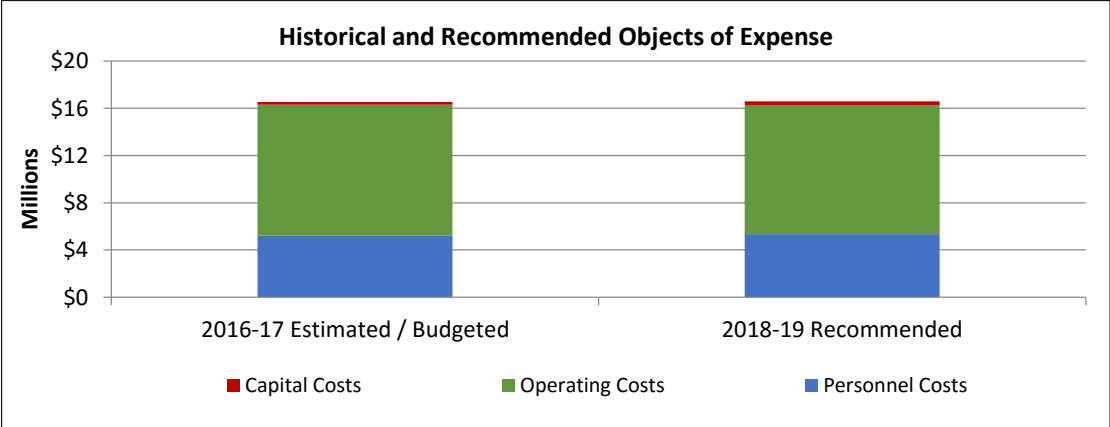
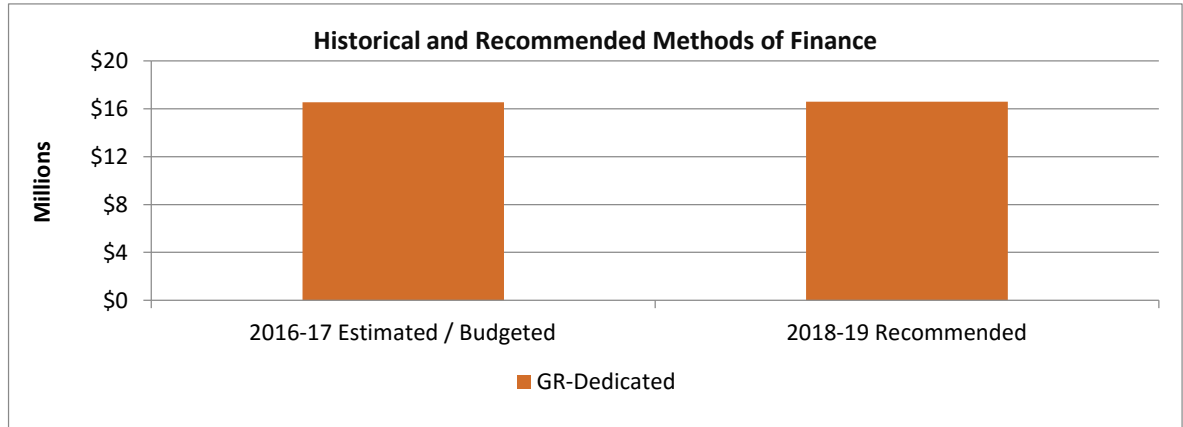
Ensures the security and integrity of lottery games, systems and drawings, assures the physical security of all commission operating sites, and investigates possible criminal and regulatory violations. Oversees contracted vendor services for broadcast and production of drawings for lottery games.

Legal Authority: Government Code, Ch. 466 & 467; Occupations Code, Ch. 2001; Tex. Constitution, Art. III, Sec. 47 (b), (c), & (e)

Year Implemented	1992	Performance and/or		Revenue Supported	Yes
Authority	Strong	Operational Issues	No	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	Partial	General Revenue-Dedicated Funds	Qualified
Service Area	Statewide	State Service(s)	State Government Administration & Support		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Drawing Studio and Production Services	\$ 5,269,711	0.0	\$ 5,270,356	0.0	31.8%
Drawings	\$ 4,277,688	12.8	\$ 4,499,834	12.8	27.1%
Enforcement	\$ 3,360,058	19.3	\$ 3,503,894	19.3	21.1%
Security Contracts	\$ 2,111,791	0.0	\$ 1,631,360	0.0	9.8%
All Other Activities	\$ 1,527,421	5.9	\$ 1,687,315	5.9	10.2%
TOTAL	\$ 16,546,669	38.0	\$ 16,592,759	38.0	100.0%

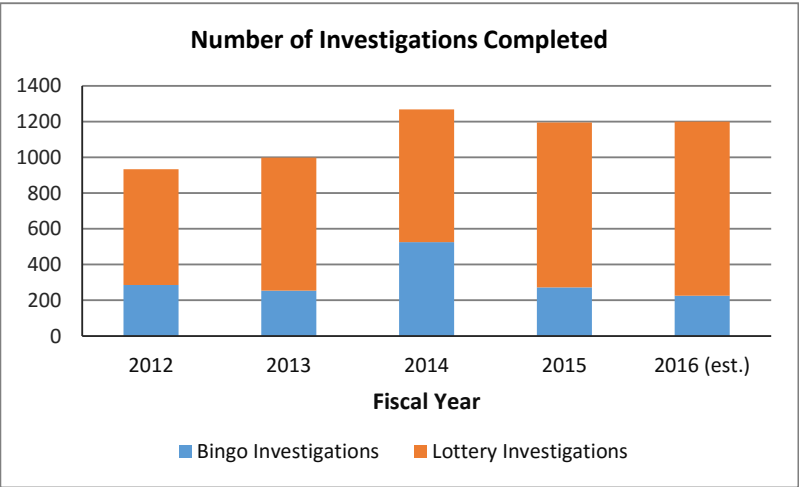
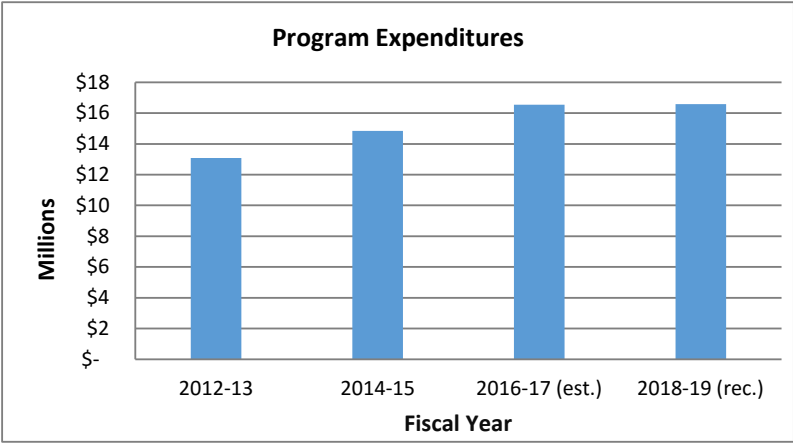
	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 16,592,759	100.0%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 16,592,759	100.0%



Program: Security

Agency
Ranking

1 out of 13



Summary of Recommendations and Fiscal and Policy Issues

- 1 Security activities include investigation of allegations of fraudulent activity and statutory violations among agency licensees, and ensuring that lottery drawings are securely conducted in compliance with applicable regulations and procedures.
- 2 Recommendations include a net increase to the security program of \$46,090, due to an increase of \$106,090 for various operating expenses and a decrease of \$60,000 for a security officer contract with the Department of Public Safety.
- 3 Background investigations of bingo operators and workers are funded by appropriations from the State Lottery Account (GR-D Fund 5025) to the agency's security strategy. The agency's 2013 Sunset Commission report included a recommendation to ensure that bingo licensing fees cover the cost of bingo regulation to replace funding from GR-D Fund 5025; similar requests have been presented to the Legislature by the agency. The Legislature has not appropriated General Revenue funds for this purpose.
- 4 Statute requires the biennial assessment by an independent firm of the agency's security, including computer security, protection against fraud, and physical security of lottery products. Assessments in 2012, 2014, and 2016 found the agency is effective in ensuring the security and integrity of lottery operations.

Recommended Statutory Changes for Program Improvement

- 1 None.

Enhancement Opportunities

- 1 None.

Challenges to Operation of Program

- 1 According to the agency, the potential for security violations and breaches has increased as the volume of lottery transactions has grown over time, which has required an increasing level of security.
- 2 The agency also notes that drawings have expanded from twice weekly drawings at the Texas Lottery's inception to over 90 weekly drawings, necessitating more security to ensure the integrity of the drawings.

Funding Alternatives

- 1 None.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 6b: Program Summary
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Program: Lottery Operator Contract

**Agency
Ranking**

2 out of 13

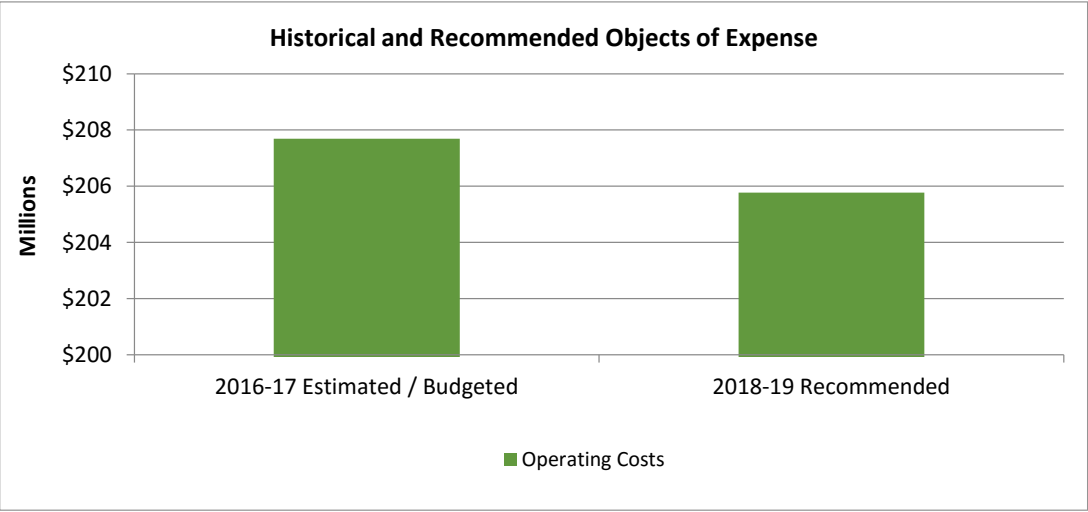
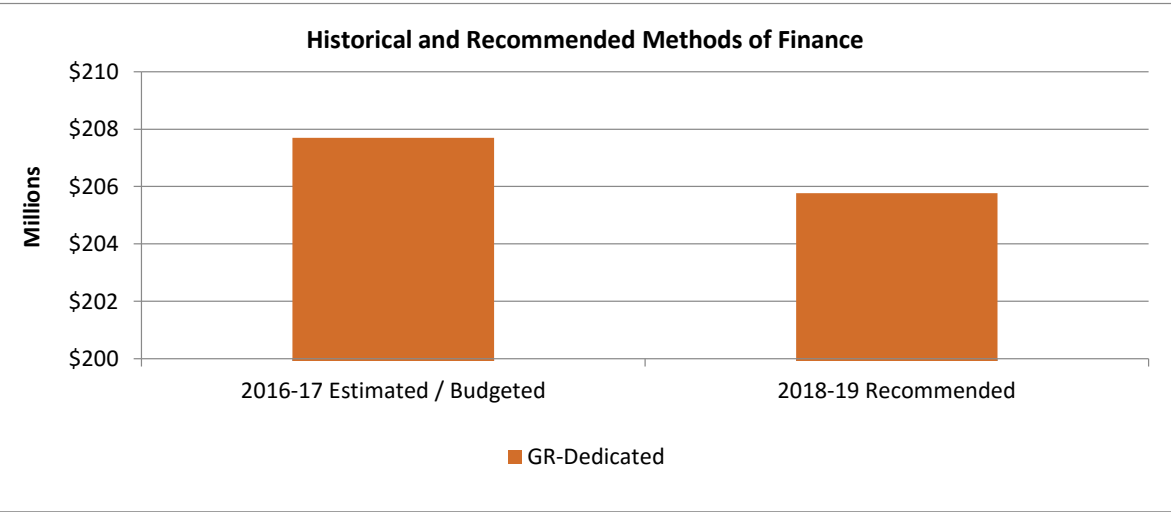
Contracted services for lottery gaming and management system operations, telecommunications and terminal/hardware network, field sales and business development staff, market research and promotion, scratch ticket warehousing, ordering and distribution and retailer hotline technical support.

Legal Authority: Government Code, Ch. 466 and 467, and Tex. Constitution Art. III, Sec. 47(e)

Year Implemented	1992	Performance and/or		Revenue Supported	Yes
Authority	Strong	Operational Issues	No	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	Yes	General Revenue-Dedicated Funds	Compliant
Service Area	Statewide	State Service(s)	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Lottery Operator Contract	\$ 207,695,833	0.0	\$ 205,773,137	0.0	100.0%
TOTAL	\$ 207,695,833	0.0	\$ 205,773,137	0.0	100.0%

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 205,773,137	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 205,773,137	100.0%

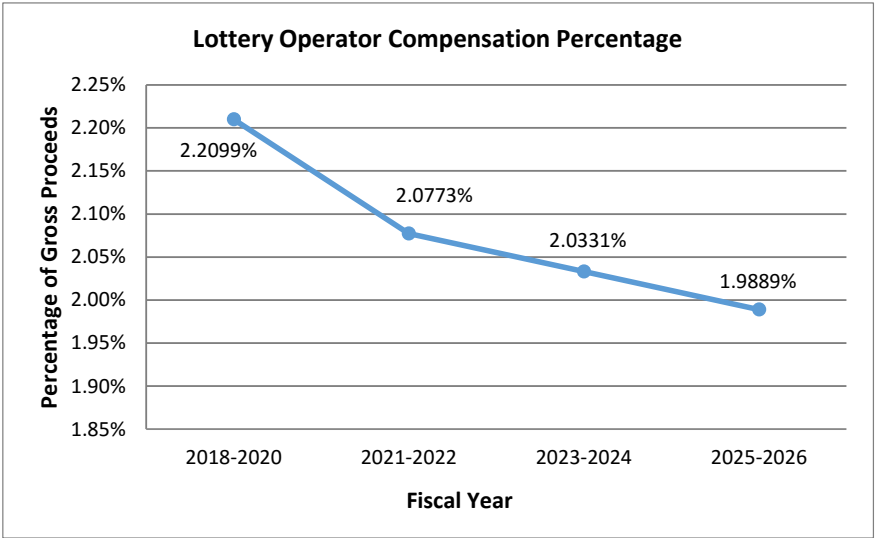
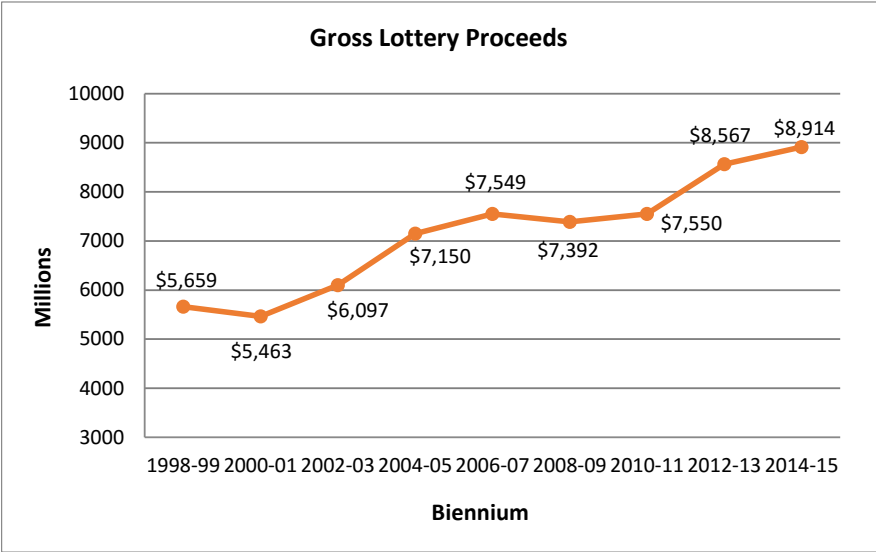


Summary of Recommendations and Fiscal and Policy Issues

- 1 This program reflects the agency's contract with IGT (formerly GTECH) for operation of the state lottery. IGT is one of three major companies worldwide that provide lottery related goods and services. This function has been outsourced to IGT since the Texas Lottery's inception in 1992, though the contract has undergone competitive bidding since that time.
- 2 Per Rider 10 of the agency's bill pattern, recommendations set 2018-19 appropriations at 2.2099% of projected gross lottery sales. This currently amounts to a reduction of \$1,922,696 from 2016-17 levels, but will be rightsized to reflect sales estimates in the Biennial Revenue Estimate. The amount appropriated is estimated and will fluctuate due to sales.
- 3 Recommendations include a new rider in the agency's bill pattern requiring the agency to notify the Legislative Budget Board at least 30 calendar days before any amendment or change order is executed on the Lottery Operator contract. It is anticipated that such notification would include unexecuted copies of the proposed amendment or change order, as well as summaries of any vendor performance issues observed in the previous fiscal quarter. The ten-year Lottery Operator contract has been non-competitively renewed for an additional six years, after undergoing several amendments and change orders. This notification will allow the Legislature to monitor any potential cost growth in this contract.

Contract Overview

- 1 Government Code, Sec. 466.105 exempts the agency from most statewide contracting regulations, including State Purchasing and General Services requirements (Government Code, Subtitle D, Title 10), the Information Resources Management Act (Government Code, Ch. 2054), and the Professional Services Procurement Act (Government Code, Ch. 2254). This allows the agency to utilize non-competitive procurement methods for many of its projects, and gives the agency broad authority to award and manage its largest contracts outside of established contracting practices.
- 2 The agency recently executed three optional renewals to extend the operator contract for an additional six years through August 31, 2026. As shown in the graph to the left, the new contract will set the rate at 2.0733% in FY 2021 and will gradually decrease over the course of the contract to a rate of 1.9889% in FY 2026; the agency estimates that this will result in savings of \$65 million over the current rate over the renewed contract's duration. The agency is assuming an increase in gross sales over the new contract period; payments to the Operator are therefore also projected to increase, though at a lower rate than transfers to the state, all else being equal (e.g., percentage of sales paid to prizewinners).
- 3 The agency includes provisions in the original contract establishing performance measures and penalties for non-performance. These provisions have allowed the agency to assess \$10.3 million in sanctions and liquidated damages against the vendor, IGT, between fiscal years 2012 and 2015. Furthermore, the contract adequately delineates responsibilities between both parties. However, subsequent modifications have introduced non-traditional practices into the management of this contract, which will be covered in more detail on the next page.



Contract Risk Factors

- 1 An amendment to the operator contract was executed in FY 2012 that allows the agency to accept goods or services of equal value from the operator in lieu of monetary performance sanctions or liquidated damages. The agency has since used this amendment to secure \$3.5 million in additional goods and services from the operator. Statute generally requires penalties and damages paid by the vendor to be sent to the treasury, which are then appropriated back to the agency for use within the fiscal year in which they are collected. The amendment allows the agency to instead convert penalty funds into additional services without those funds passing through the treasury or being subject to the fiscal year limitation.
- 2 In negotiating the renewal of the lottery operator contract, the agency was not required to seek open bids when setting the rate of compensation to the operator. As such, it is undetermined whether this rate is competitive with other lottery operators in the market.

Recommended Statutory Changes for Program Improvement

- 1 Repeal the agency's procurement exemptions contained in Government Code, Sec. 466.105. These exemptions, granted when the lottery was created under the Comptroller of Public Accounts in 1991, originally had a planned expiration of September 1, 1993 (Acts 1991, 72nd Leg., 1st Called Session, ch. 6, Sec. 2.04(i)), but were subsequently made permanent. Since the agency was created, the state has gained more experience with contracting for lottery operations. The ongoing presence of these broad exemptions in statute has given the Lottery Commission wide authority to conduct procurements outside of established best practices.

Enhancement Opportunities

- 1 None.

Challenges to Operation of Program

- 1 None.

Funding Alternatives

- 1 None.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 6c: Program Summary
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Program: Lottery Prize Payment and Pooled Bond Fund

Agency
Ranking **3 out of 13**

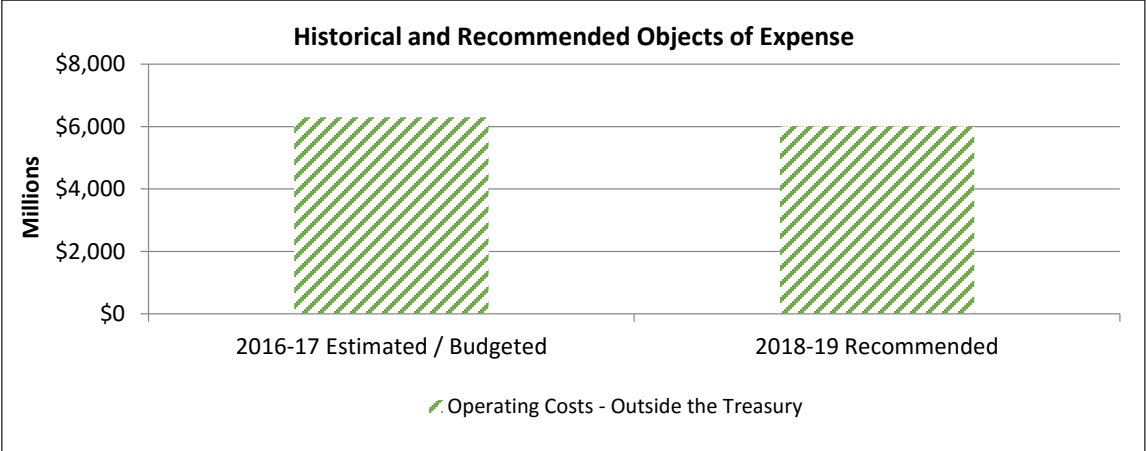
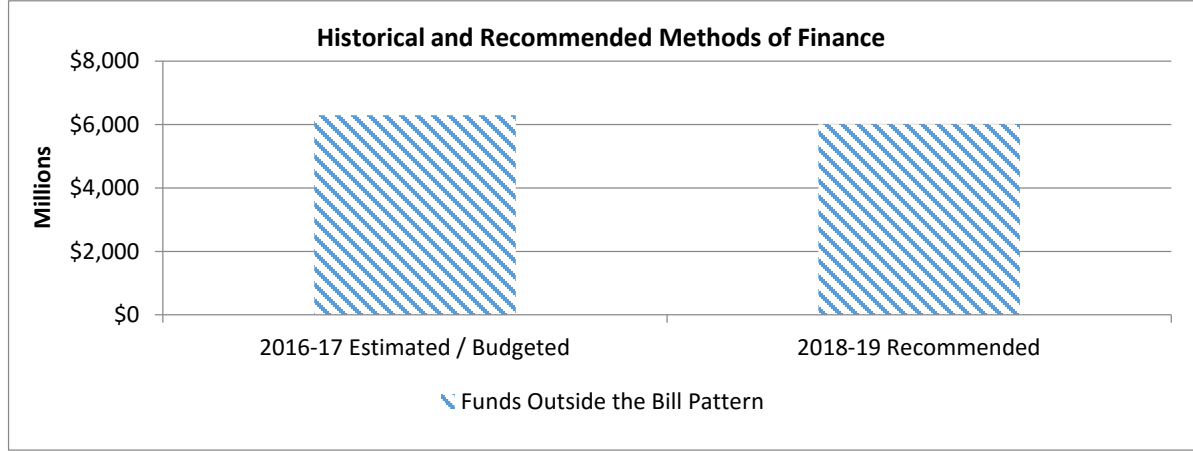
Payment of lottery prizes claimed through the Texas Lottery Commission at a Texas Lottery Claim Center, and payment of annuity prizes, as well as management of the Pooled Bond Fund, which is a fund designed to protect the state from possible losses resulting from agent operations.

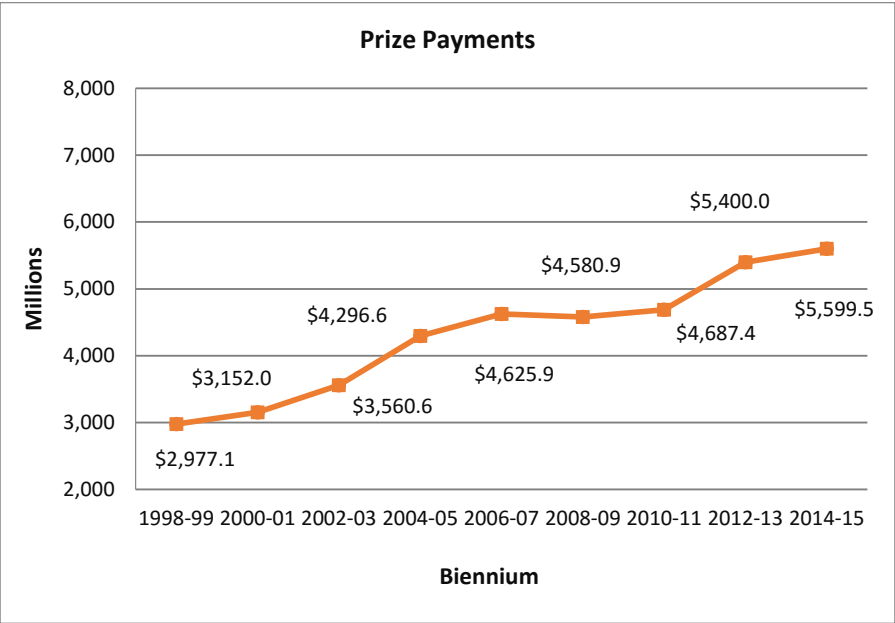
Legal Authority: Government Code, Ch. 466 and 467; Tex. Constitution Art. III, Sec. 47(e); Rider 4, Rider 5

Year Implemented	1992	Performance and/or		Revenue Supported	Yes
Authority	Strong	Operational Issues	No	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	No	General Revenue-Dedicated Funds	Qualified
Service Area	Statewide	State Service(s)	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Rider 4, Appropriation: Payment of Prizes	\$ 6,299,035,153	0.0	\$ 6,005,867,836	0.0	100.0%
Pooled Bond Fund	\$ -	0.0	\$ -	0.0	0.0%
TOTAL	\$ 6,299,035,153	0.0	\$ 6,005,867,836	0.0	100.0%

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 6,005,867,836	100%
<i>Inside the Bill Pattern</i>	\$ -	0.0%
<i>Outside the Bill Pattern</i>	\$ 6,005,867,836	100.0%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 6,005,867,836	100.0%





Summary of Recommendations and Fiscal and Policy Issues

- Prize Payments are estimated based on lottery ticket sales projections. The decrease in funding from the 2016-17 biennium to the 2018-19 biennium reflects a decrease in estimated sales projections.
- Retailers may pay prizes up to and including \$599. By statute, all lottery prizes of \$600 or more must be claimed through the agency at an agency claim center. Prizes of \$2.5 million or less may be claimed at any of the agency's sixteen claim centers. Prizes of more than \$2.5 million, all Lotto Texas, Powerball and Mega Millions jackpots, and all prizes involving installment payments must be claimed at the headquarters claim center in Austin.
- Pursuant to the Government Code Sec. 466.407, the agency deducts from the winnings of a prize winner any delinquent payments owed to the state before payment of the prize. These deductions totaled \$4.7 million in the 2014-15 biennium.
- The Pooled Bond Fund contains \$5.0 million in funding that is available to reimburse the State for possible losses from the operation of lottery retailers.
- The agency currently deposits all unclaimed prizes from veterans' assistance games into the Fund for Veterans' Assistance, regardless of the balance of the fund. While this may align with legislative intent, Government Code Sec. 466.408 (b)(3) provides that if the balance of the Fund for Veterans' Assistance is at or above \$5.0 million, all unclaimed prizes from veterans' assistance games are to be deposited to the Foundation School Fund.
- The agency deposits prizes to be paid in annuities in the Texas Treasury Safekeeping Trust Company to accrue interest before being paid out to prizewinners; funds are deposited in an amount such that the deposit plus interest gained will equal the prize amount owed at the time it is to be paid.

Recommended Statutory Changes for Program Improvement

- None.

Enhancement Opportunities

- None.

Challenges to Operation of Program

- None.

Funding Alternatives

- None.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 6d: Program Summary
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Program: Retailer Commissions, Bonuses and Incentives

Agency
 Ranking **4 out of 13**

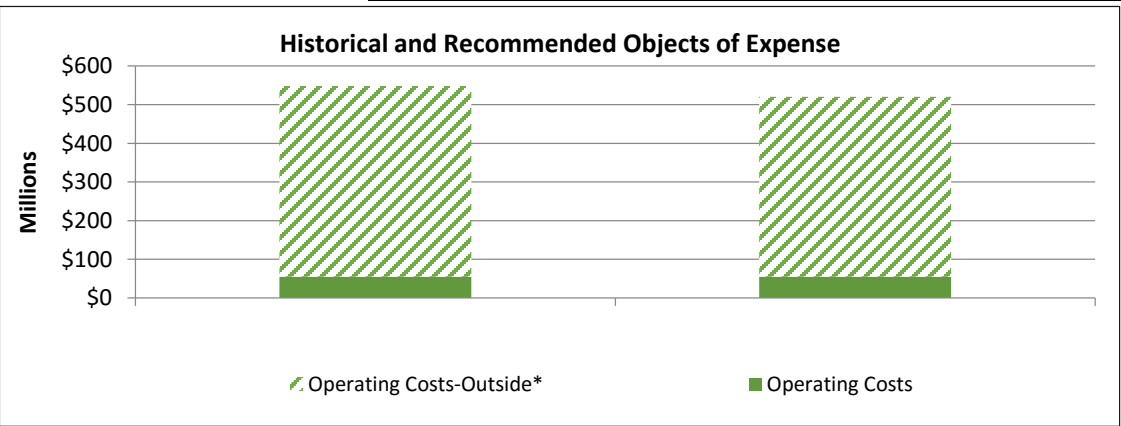
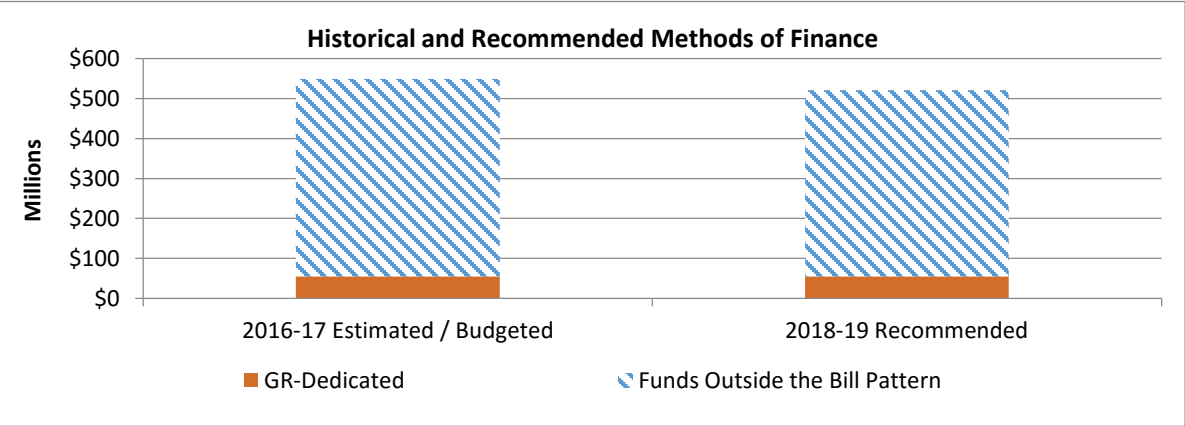
Licensed retailers receive five percent of gross sales as commissions. The program includes sales bonuses and incentives for retailers: bonuses are tied to the sale of certain top prize tickets and the incentive program rewards same-store sales growth.

Legal Authority: Government Code Ch., 466 and 467, and Tex. Constitution Art. III, Sec. 47(e); Rider 9, Retailer Commissions

Year Implemented	1992	Performance and/or		Revenue Supported	Yes
Authority	Strong	Operational Issues	No	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	No	General Revenue-Dedicated Funds	Compliant
Service Area	Statewide	State Service(s)	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Retailer Commissions	\$ 493,471,437	0.0	\$ 465,571,150	0.0	89.4%
Retailer Incentive	\$ 46,754,450	0.0	\$ 46,557,115	0.0	8.9%
Retailer Bonuses	\$ 8,145,175	0.0	\$ 8,400,000	0.0	1.6%
TOTAL	\$ 548,371,062	0.0	\$ 520,528,265	0.0	100.0%

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 520,528,265	100%
<i>Inside the Bill Pattern</i>	\$ 54,957,115	10.6%
<i>Outside the Bill Pattern</i>	\$ 465,571,150	89.4%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 520,528,265	100.0%

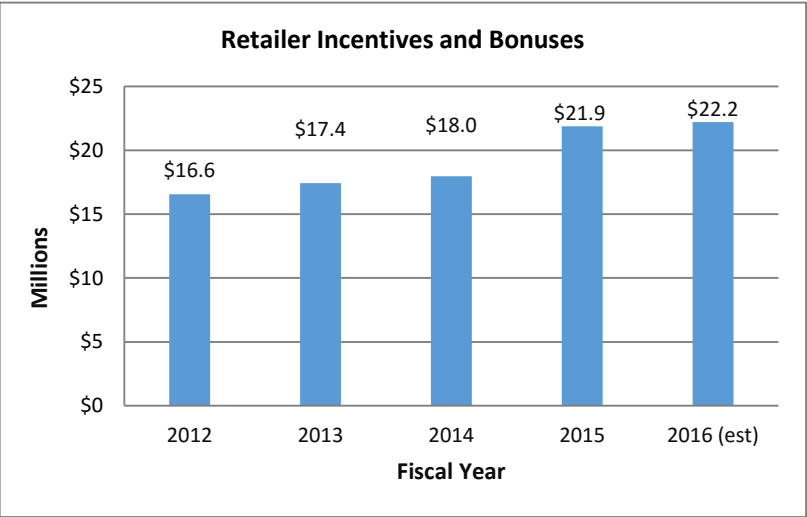
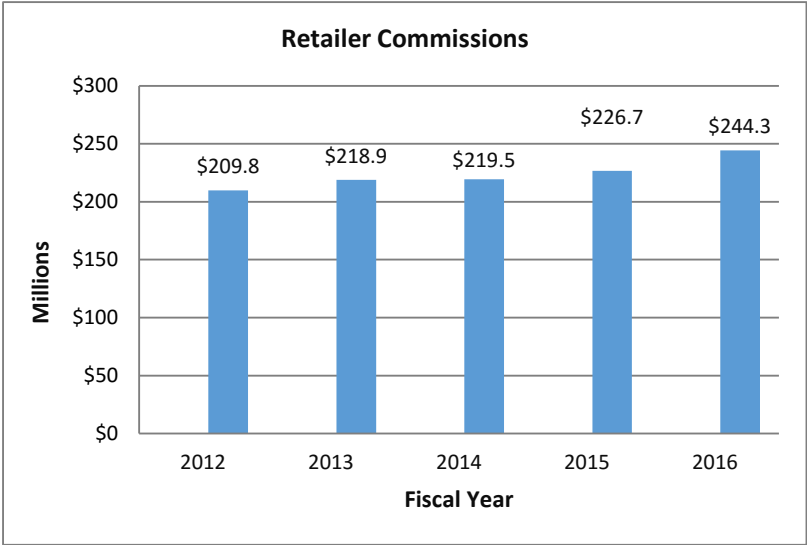


*Indicates Funds Outside the Bill Pattern/Outside the State Treasury.

Program: Retailer Commissions, Bonuses and Incentives

Agency
Ranking

4 out of 13



Summary of Recommendations and Fiscal and Policy Issues

- 1 As of FY 2016, there were approximately 17,400 licensed retailers selling lottery products in the state.
- 2 Statute dictates that compensation paid to retailers may not be less than five percent of gross lottery ticket proceeds. This rate of compensation has remained constant since the introduction of the Texas Lottery in 1992. FY 2016 retailer commissions totaled \$244.3 million.
- 3 Beginning in the 2010-11 biennium, in addition to the five percent commission, statute allows retailer compensation of up to one-half of one percent of gross lottery ticket proceeds through an incentive program for meeting certain sales goals. Any unexpended amounts for this purpose in the first year of the biennium are authorized to be used for the same purpose in the second year of the biennium. Prior to providing any such compensation, the agency must report to the Governor and the LBB outlining its plans to implement performance incentive programs and the projected benefits of the program to ticket sales and state revenues. FY 2016 retailer incentive payments totaled \$18.2 million.

The agency also awards bonuses to retailers for the sale of certain prizewinning tickets, which totaled \$3.9 million in FY 2016.

- 4 In its report to the Eighty-Fourth Legislature, the Legislative Committee to Review the Texas Lottery and Charitable Bingo in Texas cited a study which estimated that in 2014, the Texas Lottery created an average of \$130,200 in non-lottery purchases made by lottery players per retailer location.

Recommended Statutory Changes for Program Improvement

- 1 None.

Enhancement Opportunities

- 1 None.

Challenges to Operation of Program

- 1 The agency reports that compared to many other retail products, lottery products typically produce lower profit margins to the retailer and tend to be more labor intensive to sell. The agency speculates that taken together, these factors may prevent potential retailers from selling lottery products.
- 2 According to the agency, lottery retailer compensation in Texas is among the lowest of state-run lotteries in the United States, and is the lowest among the top ten sales-generating state-run lotteries.

Funding Alternatives

- 1 As part of the SFR analysis, the agency was asked to estimate the impact to lottery sales and revenue of both increasing and decreasing retailer commissions to 5.25 percent and 4.75 percent of gross lottery sales, respectively. As there has been no formal study conducted on the impact of retailer commissions on lottery sales, the agency was not able to quantify with certainty the impact of the proposed changes. However, the agency anticipates that an increase in retailer commission rate to 5.25 percent would increase lottery sales and revenue to the state, and that decreasing retailer commissions to 4.75 percent would have an opposite effect.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 6e: Program Summary
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Program: Marketing and Promotions

**Agency
Ranking**

5 out of 13

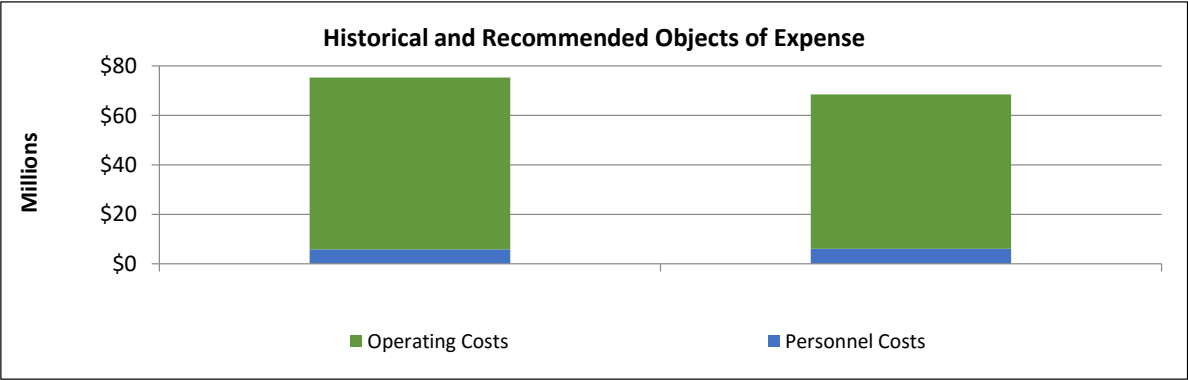
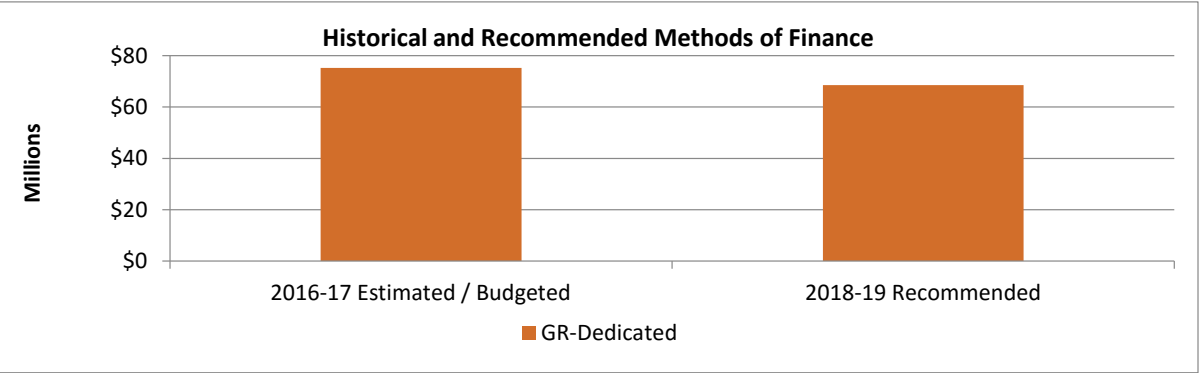
Promotes lottery product development, research, sales/promotion activities to plan and implement effective products. Manages and oversees all aspects of contracted vendor services for product development, manufacturing, research services and sales organization support.

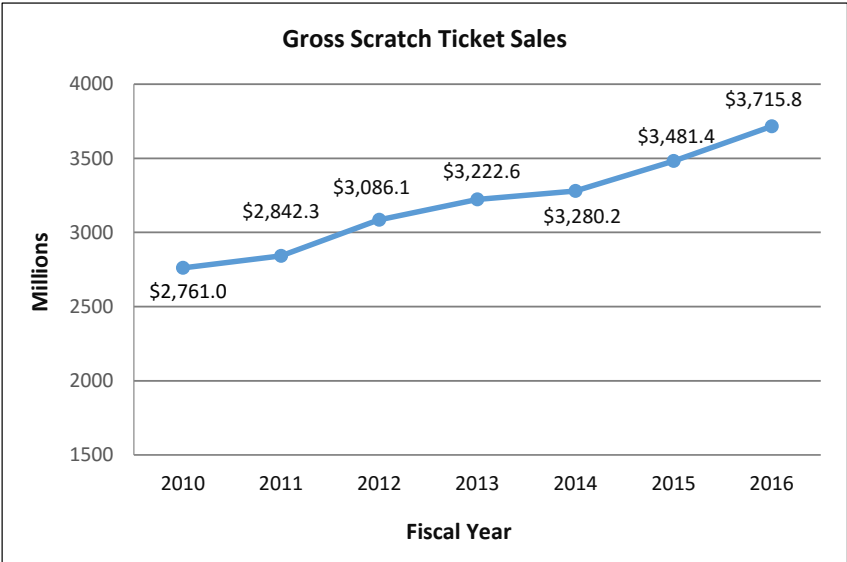
Legal Authority: Government Code, Ch. 466 & 467, and Tex. Constitution Art. III, Sec. 47(e)

Year Implemented	1992	Performance and/or		Revenue Supported	Yes
Authority	Strong	Operational Issues	No	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	Partial	General Revenue-Dedicated Funds	Compliant
Service Area	Statewide	State Service(s)	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Scratch Ticket Contract	\$ 60,300,000	0.0	\$ 60,300,000	0.0	82.0%
Promotions and Advertising	\$ 7,590,052	10.9	\$ 7,079,053	10.9	9.6%
Lottery Products	\$ 2,601,334	12.7	\$ 2,263,826	12.7	3.1%
Graphics	\$ 1,217,534	3.0	\$ 1,033,246	3.0	1.4%
All Other Activities	\$ 3,553,453	11.9	\$ 2,844,871	10.9	3.9%
TOTAL	\$ 75,262,373	38.5	\$ 73,520,996	37.5	100.0%

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 73,520,996	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 73,520,996	100.0%





Summary of Recommendations and Fiscal and Policy Issues

- The majority of this program is comprised of the agency's scratch ticket production and services, which is entirely outsourced. Scratch ticket sales accounted for 74% of all lottery ticket sales in FY 2016.
- The agency's LAR submission included a decrease of \$6.7 million from the Scratch Ticket Production Contracts strategy's 2016-17 base amount. According to the agency, this reduction would directly lead to a decrease in the production of scratch tickets, resulting in a decrease in scratch ticket sales of \$905.0 million in the 2018-19 biennium. Recommendations retain funding to the strategy at 2016-17 levels.
- After working with the agency to identify non-revenue impacting activities, recommendations include a decrease of \$1.7 million to the Marketing and Promotions program, including: 1) \$0.7 million for non-statutory market research activities; 2) \$0.5 million for postage for mailers; 3) \$0.2 million for promotional items; 4) \$0.2 million for 1.0 market research FTE; and 5) \$0.1 million for printing and reproduction.

The agency estimates that this reduction would decrease revenue to the state by \$1.2 million in the 2018-19 biennium. The agency requests restoration of \$1.4 million of these reductions.
- Recommendations include a new rider that prohibits transfers from the Scratch Ticket Production Contract(s) strategy to other strategies in the agency's bill pattern without prior written approval from the Legislative Budget Board.

Recommended Statutory Changes for Program Improvement

- None.

Enhancement Opportunities

- None.

Challenges to Operation of Program

- According to the agency, the current fixed budget funding structure of the Scratch Ticket Production Contracts strategy does not provide the agency flexibility in production should increased scratch ticket sales require funding in excess of appropriations to the strategy. Additionally, the agency indicates it is challenging to determine requested appropriation levels under a fixed budget funding structure as it is difficult to forecast product sales growth for scratch tickets, which is their fastest growing category.

Rider 11 in the agency's bill pattern increases the agency's appropriation authority by an amount equal to 1.49 percent of the amount by which gross lottery ticket sales exceed lottery ticket sales estimates, and the agency has recently used these funds to supplement the Scratch Ticket Production Contract strategy. However, the agency cannot access these funds until such time as it is known that sales will exceed the sales estimate.
- According to the agency, as a mature lottery offering a full scratch and draw product portfolio, there are limited opportunities for further portfolio expansion, and continuing to provide unique and innovative products is an ongoing challenge.

Funding Alternatives

1 The agency requests a new rider that would change the funding mechanism to the Scratch Ticket Production Contracts strategy from a fixed budget to estimated, and would set the strategy appropriation at an amount equal to 1.1 percent of gross scratch ticket sales from the same fiscal year. The table below outlines historical scratch ticket sales and appropriations to and expenditures from the strategy; the table also calculates hypothetical historical strategy appropriation amounts using the funding mechanism requested in the rider, demonstrating that appropriations would have been substantially higher than either actual appropriations or expenditures during the fiscal year.

In Millions	2010	2011	2012	2013	2014	2015	Est. 2016	Budg. 2017	Rec. 2018	Rec. 2019
Appropriations	\$18.0	\$18.0	\$18.0	\$19.5	\$22.5	\$22.5	\$26.0	\$26.0	\$30.2	\$30.2
Expenditures	\$16.0	\$16.4	\$18.1	\$19.5	\$24.6	\$19.7	\$28.3	\$32.0	N/A	N/A
Hypothetical Appropriation at 1.1 percent of gross scratch ticket sales	\$30.4	\$31.3	\$33.9	\$35.4	\$36.1	\$38.3	\$40.9	\$42.3	\$44.0	\$45.7
Over/Under Expended Amounts	\$14.4	\$14.9	\$15.8	\$16.0	\$11.5	\$18.6	\$12.6	\$10.3	\$13.8	\$15.6

Note: Scratch ticket sales estimates for fiscal years 2017-19 use agency projections.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 6f: Program Summary
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Program: Operations

Agency Ranking 6 out of 13

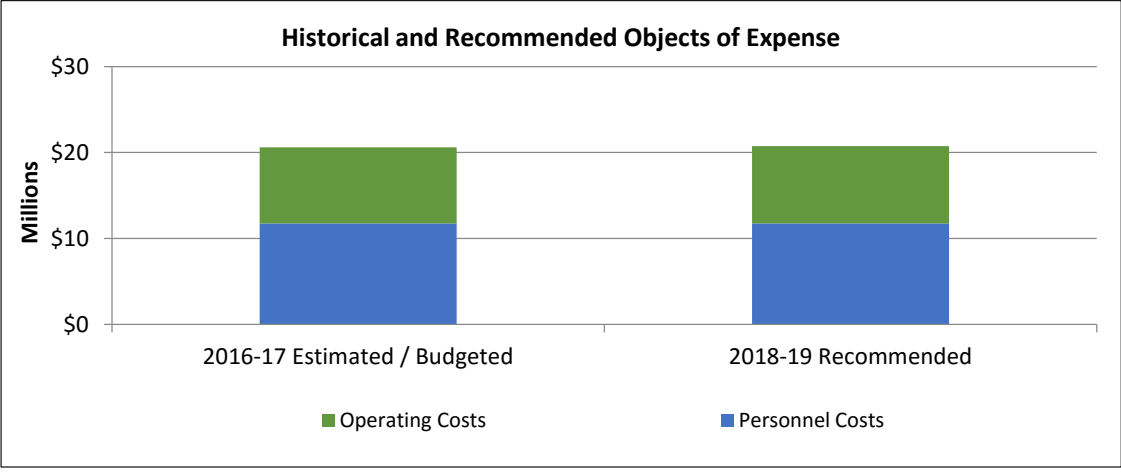
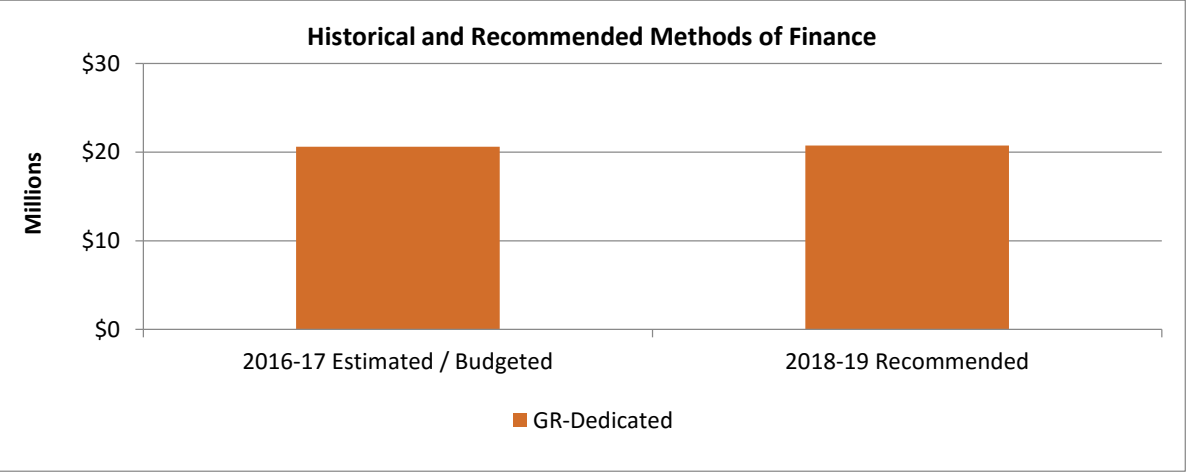
Provides operations management, technical, administrative, and customer service support to all players and retailers via claim centers and state office locations. Serves as the regulatory arm of the agency and contributes to the agency's revenue collection function and retailer development.

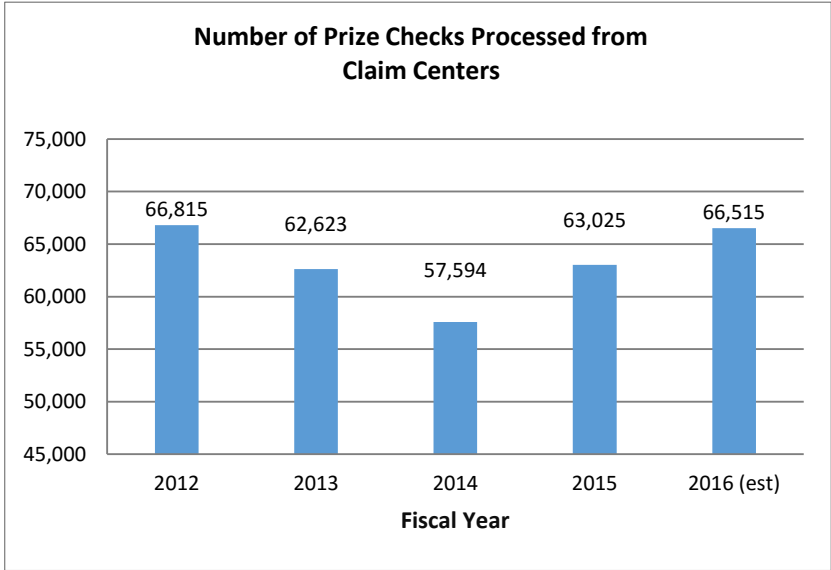
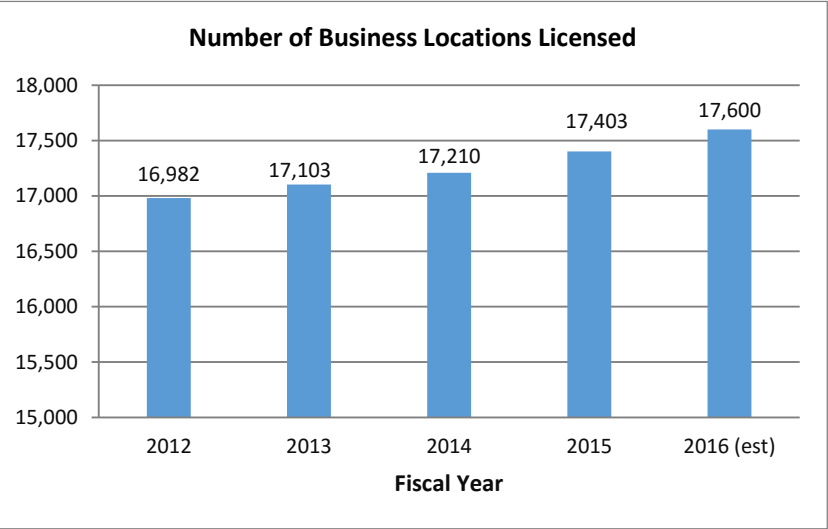
Legal Authority: Government Code, Ch. 466 & 467, Tex. Constitution, Art. III, Sec. 47

Year Implemented	1992	Performance and/or		Revenue Supported	Yes
Authority	Strong	Operational Issues	No	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	No	General Revenue-Dedicated Funds	Qualified
Service Area	Statewide	State Service(s)	State Government Administration & Support		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Facilities	\$ 10,091,630	16.3	\$ 10,031,096	16.3	48.4%
Claim Centers	\$ 5,691,777	50.4	\$ 5,865,219	50.4	28.3%
Retailer Services	\$ 4,839,301	38.5	\$ 4,840,630	38.5	23.3%
TOTAL	\$ 20,622,708	105.2	\$ 20,736,945	105.2	100.0%

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 20,736,945	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 20,736,945	100.0%





Summary of Recommendations and Fiscal and Policy Issues

- 1 Recommendations include a net increase of \$114,237 due to: 1) a decrease of \$339,196 for building improvements, furnishings and equipment, and lease of draw machines and studio equipment; and 2) an increase of \$453,433 for other operating expenses.
- 2 Facilities that house the agency's bingo division are funded by appropriations from the State Lottery Account (GR-D Fund 5025) instead of General Revenue. The agency's 2013 Sunset Commission report included a recommendation to ensure that bingo licensing fees cover the cost of bingo regulation to replace funding from GR-D Fund 5025; similar requests have been presented to the Legislature by the agency. The Legislature has not appropriated General Revenue funds for this purpose.
- 3 The agency has consolidated its field claim center operations over time, reducing the number of offices from 24 in 1992 to 16 in 2016.

Recommended Statutory Changes for Program Improvement

- 1 None.

Enhancement Opportunities

- 1 None.

Challenges to Operation of Program

- 1 According to the agency, as technology and other innovations change how it interacts with retailers and players, it must continue to leverage technology resources and best practices in customer relationship management to provide customer service, retailer regulation, and accounting support. The agency reports that this is especially true as a mature lottery, and that it must remain responsive to industry trends along with retailer and player interests.

Funding Alternatives

- 1 None.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 6g: Program Summary
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Program: Advertising Services Contract

Agency Ranking 7 out of 13

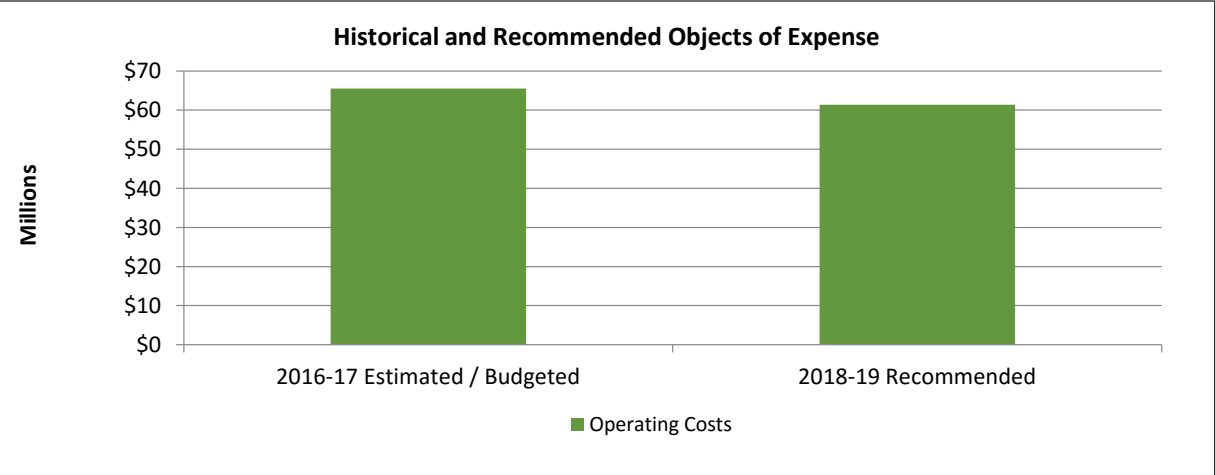
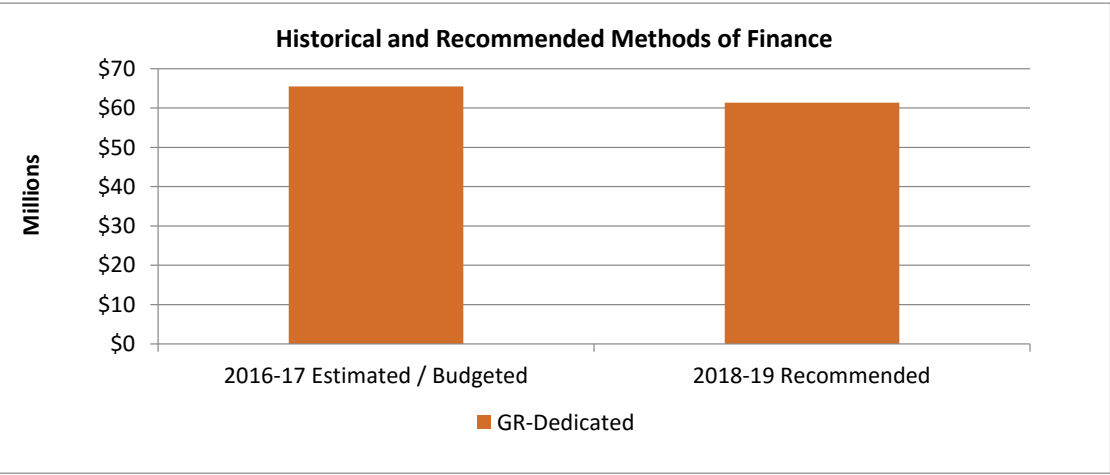
Contracted advertising services including the planning, development, and implementation of lottery advertising including creative conceping, production, planning, buying and placement of broadcast, print, digital, experiential and out of home media.

Legal Authority: Government Code, Ch. 466 and 467, and Tex. Constitution Art. III, Sec. 47(e)

Year Implemented	1992	Performance and/or	Revenue Supported	Yes
Authority	Strong	Operational Issues	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	General Revenue-Dedicated Funds	Compliant
Service Area	Statewide	State Service(s)	Business & Workforce Development & Regulation	

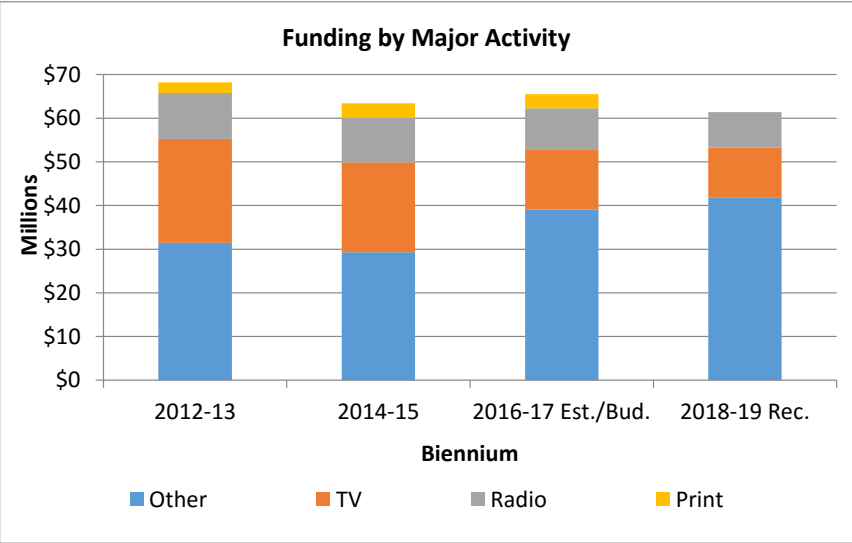
Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Other Advertising	\$ 39,100,000	0.0	\$ 41,775,512	0.0	68.1%
TV Advertising	\$ 13,770,000	0.0	\$ 11,516,828	0.0	18.8%
Radio Advertising	\$ 9,410,000	0.0	\$ 8,087,660	0.0	13.2%
Print Advertising	\$ 3,220,000	0.0	\$ -	0.0	0.0%
TOTAL	\$ 65,500,000	0.0	\$ 61,380,000	0.0	100.0%

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 61,380,000	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 61,380,000	100.0%



Biennium	Advertising Expenditures	Change over Previous Biennium	Lottery Gross Ticket Sales	Change over Previous Biennium
1998-99	\$ 73.1	-	\$ 5,658.5	-
2000-01	\$ 77.0	5.3%	\$ 5,462.9	-3.5%
2002-03	\$ 61.5	-20.1%	\$ 6,097.3	11.6%
2004-05	\$ 65.8	7.0%	\$ 7,150.3	17.3%
2006-07	\$ 62.3	-5.4%	\$ 7,548.9	5.6%
2008-09	\$ 60.2	-3.3%	\$ 7,391.6	-2.1%
2010-11	\$ 63.4	5.3%	\$ 7,549.6	2.1%
2012-13	\$ 68.2	7.5%	\$ 8,567.1	13.5%
2014-15	\$ 63.4	-7.0%	\$ 8,914.3	4.1%

* dollar amounts are in millions



Summary of Recommendations and Fiscal and Policy Issues

- The agency's advertising program includes contracted services for print, radio, television, and other advertising. 'Other advertising' includes digital, social, experiential, and billboard advertisements.
- In submitting its four percent reduction, the agency included a decrease of \$7.1 million from its Advertising Services Contract. Using a model from the Texas A&M University study 'The Impact of Advertising on Lottery Sales in the State of Texas,' the agency estimated that this reduction would result in a decrease of \$206.6 million in gross lottery sales. Recommendations include retention of \$4.5 million of this amount resulting in a reduction of \$2.6 million to the Advertising Services Contract from the four percent submission. This is in addition to recommendations for a \$1.5 million reduction for one-time expenses not anticipated in the 2018-19 biennium, for a total decrease of \$4.1 million to the program. The agency estimates that a \$2.6 million reduction to its advertising budget would result in a decrease of \$18.9 million in revenue to the state, and is requesting restoration of the funds.
- The table outlines historical trends in agency advertising expenditures and gross ticket sales and has been included for informational purposes. Advertising expenditures in the 2014-15 biennium were \$13.6 million lower than those in the 2000-01 biennium, while sales increased by \$3.45 billion over that duration; however, it is unknown what 2014-15 sales would have been had advertising expenditures stayed constant with 2000-01 levels.
- In its report to the Eighty-Fourth Legislature, the Legislative Committee to Review the Texas Lottery and Charitable Bingo in Texas recommended that the legislature instruct the agency to discontinue its promotion of lottery games via print advertising. The Committee found that other forms of advertising are more efficient use of lottery advertising funds, and that print media is more susceptible to targeted advertisements than other mediums. Recommendations include a full reduction of the agency's print advertising budget of \$3.2 million as a portion of the overall \$4.1 million reduction noted above.
- In FY 2000-01 the agency's advertising strategy was appropriated \$40.0 million each year. Statute was amended by the 77th Legislature, Regular Session, 2001 to require that the agency's advertising budget be reduced by \$1.0 million from a base budget of \$40.0 million for each full percentage by which prize payouts exceeded 52%. Statute was amended by the Eighty-First Legislature, Regular Session, 2009, to remove this requirement.

Recommended Statutory Changes for Program Improvement

- None.

Enhancement Opportunities

- The agency reports that a 10 percent increase to its biennial advertising budget would result in an increase of \$166.1 million in sales and \$42.7 million in state revenue. See Funding Alternatives for more detail.

Challenges to Operation of Program

- According to the agency, when compared to its inception in 1993, effective advertising has become increasingly difficult for the following reasons: 1) the population of Texas over the age of 18 has increased from 12.6 million to 19.3 million; 2) the agency's product portfolio has increased from three unique games to ninety-nine; and 3) the number of media vehicles has expanded, requiring a more diverse and varied advertising approach.

2 The agency reports that the decline in its advertising budget from \$40.0 million in FY 1993 to \$32.0 million in FY 2016 is further enhanced by a decline in purchasing power due to inflation; the agency estimates that a budget of \$40.0 million in 1993 equates to a budget of \$65.4 million in 2015. The agency also reports that its per capita advertising budget is among the lowest among state lotteries (39 out of 44), and is the lowest among the top ten performing state lotteries.

Funding Alternatives

1 As part of the SFR analysis, the agency was asked to estimate the impact to lottery sales and state revenue were its biennial advertising budget to be increased or decreased by 10 percent. Referencing the aforementioned Texas A&M University study, the agency assumed that a change in its budget would have the same impact on sales regardless of the budget's starting value. As such, the agency reported that the funding increase would result in an increase of \$166.1 million in sales and \$42.7 million in state revenue over the biennium, and that a corresponding funding decrease would have an equal and opposite impact on sales and revenue. Historical trends do not indicate a direct correlation between advertising expenditures and sales.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 6h: Program Summary
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Program: Central Administration

Agency Ranking 8 out of 13

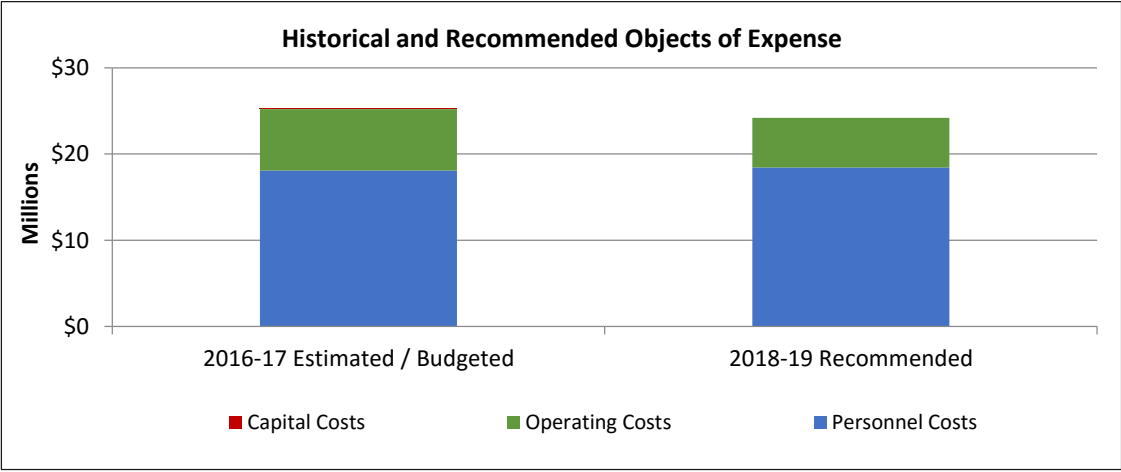
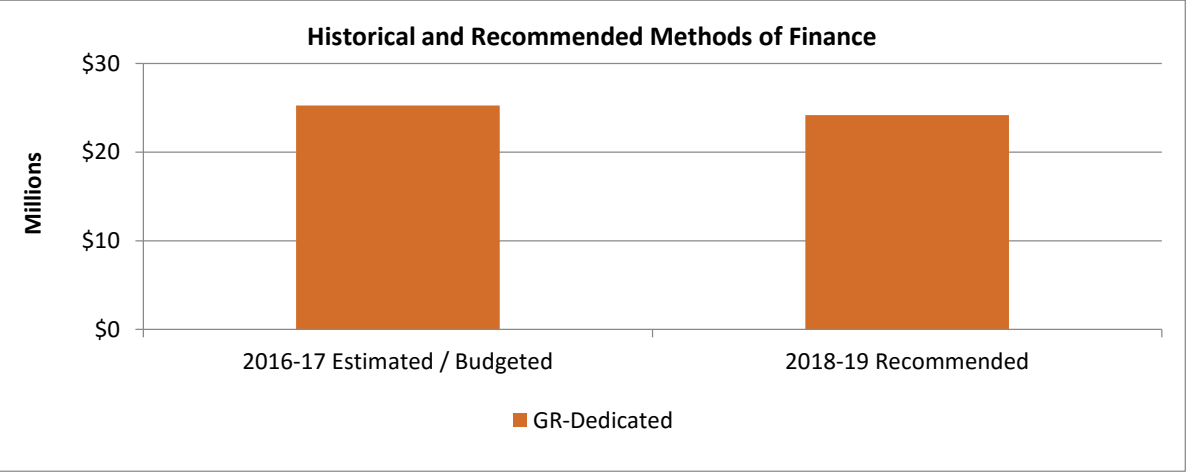
Provides administrative support to executive management, financial services, information technology services, legal services, governmental affairs, human resources, and houses the internal audit division.

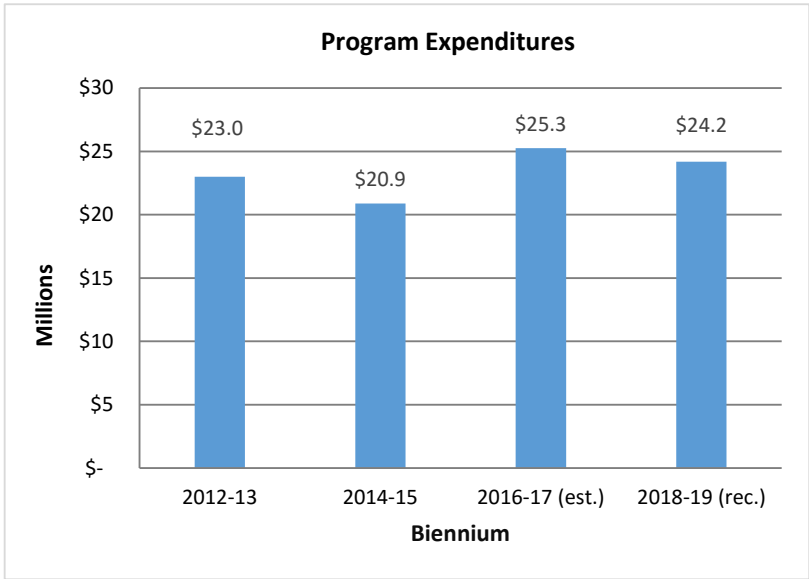
Legal Authority: Government Code, Ch. 466 & 467; Occupations Code, Ch. 2001; Tex. Constitution, Art. III, Sec. 47 (b), (c), & (e)

Year Implemented	1992	Performance and/or		Revenue Supported	Yes
Authority	N/A	Operational Issues	No	Appropriate Use of Constitutional and	
Centrality	N/A	Outsourced Services	Partial	General Revenue-Dedicated Funds	Qualified
Service Area	Statewide	State Service(s)	State Government Administration & Support		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Information Resources	\$ 11,003,491	40.5	\$ 10,556,542	40.5	43.6%
Office of the Controller	\$ 4,053,653	22.6	\$ 4,094,469	22.6	16.9%
Legal Services	\$ 2,747,594	11.9	\$ 2,846,544	11.9	11.8%
Purchasing/Contracts	\$ 1,585,039	7.9	\$ 1,622,183	7.9	6.7%
All Other Activities	\$ 5,869,320	16.9	\$ 5,067,236	16.9	21.0%
TOTAL	\$ 25,259,097	99.8	\$ 24,186,974	99.8	100.0%

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 24,186,974	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 24,186,974	100.0%





Summary of Recommendations and Fiscal and Policy Issues

- Recommendations include a net decrease of \$1,072,123 due to: 1) a decrease of \$896,903 for reimbursements from the lottery operator for services rendered by the agency in the 2016-17 biennium; 2) a decrease of \$790,000 for technology improvements, programming services, and publications; 3) a decrease of \$116,600 for funding a six-year PC replacement cycle; and 4) an increase of \$731,380 in other operating expenses.
- 'All Other Activities' includes the the director's office, governmental affairs, human resources, internal audit, administrative staff, and third party reimbursements for services rendered by the agency.
- All administrative functions of the agency's bingo division are funded by appropriations from the State Lottery Account (GR-D Fund 5025). The agency's 2013 Sunset Commission report included a recommendation to ensure that bingo licensing fees cover the cost of bingo regulation to replace funding from GR-D Fund 5025; similar requests have been presented to the Legislature by the agency. The Legislature has not appropriated General Revenue funds for this purpose.
- The agency entered into a three-year lease agreement for Grant Plaza (611 East 6th Street) beginning on May 8th, 1997. Because the agency is exempt from most procurement regulations, the original lease was executed under emergency procurement rules. This lease has been subsequently renewed five times through the year 2020, for a total contract life cycle of 23 years. The agency's lease for this space is \$2.81 per square foot, compared to an average of \$1.51 per square foot among other state agency that lease office space greater than 75,000 square feet in the Austin area. To support operations at Grant Plaza, the agency was required to lease additional parking spaces from the City of Austin beginning in 2005, and running through 2020. The combined value of the Grant Plaza and parking leases is \$51.7 million since its inception in 1997. The agency renewed the lease agreement in 2015 through 2020 for \$11.7 million.

Recommended Statutory Changes for Program Improvement

- None.

Enhancement Opportunities

- None.

Challenges to Operation of Program

- None.

Funding Alternatives

- None.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 6i: Program Summary
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Program: Bingo Licensing Services

Agency Ranking 9 out of 13

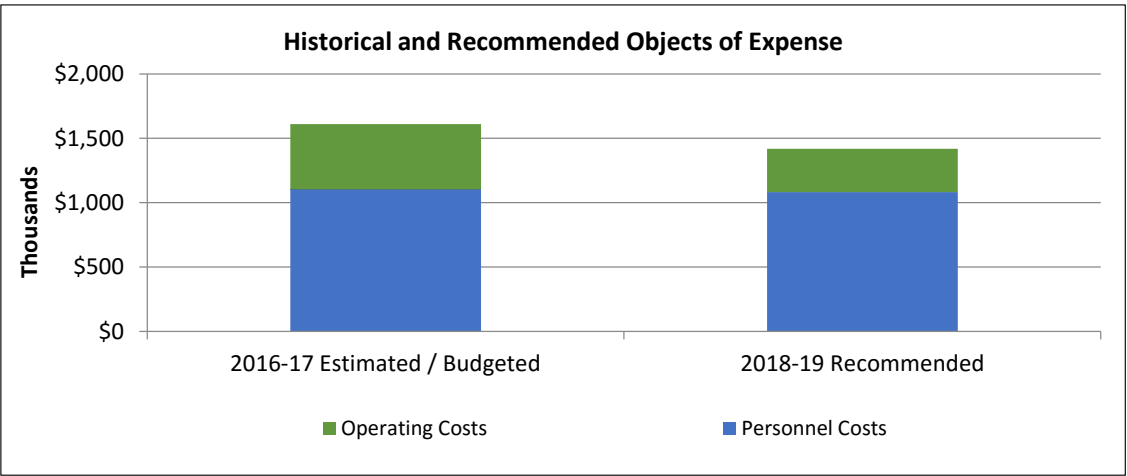
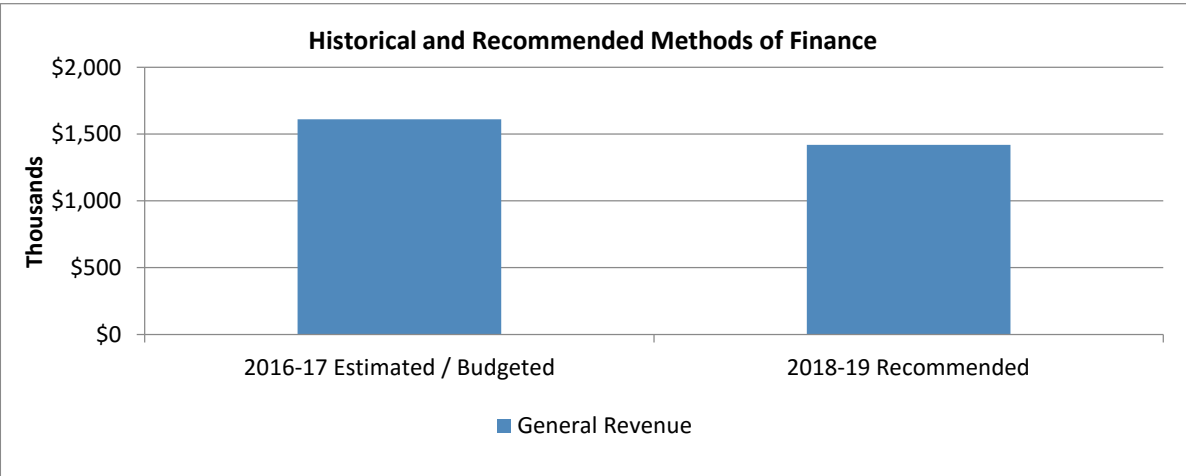
Reviews license applications and worker registrations to determine the eligibility of applicants by providing current and prospective licensees applications, instructions, and the option to complete multiple applications electronically.

Legal Authority: Government Code, Ch. 467; Occupations Code, Ch. 2001; Tex. Constitution, Art. III, Sec. 47

Year Implemented	1982	Performance and/or		Revenue Supported	Yes
Authority	Strong	Operational Issues	No	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	Partial	General Revenue-Dedicated Funds	Compliant
Service Area	Statewide	State Service(s)	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Bingo Licensing	\$ 1,610,977	8.0	\$ 1,418,914	8.0	100.0%
TOTAL	\$ 1,610,977	8.0	\$ 1,418,914	8.0	100.0%

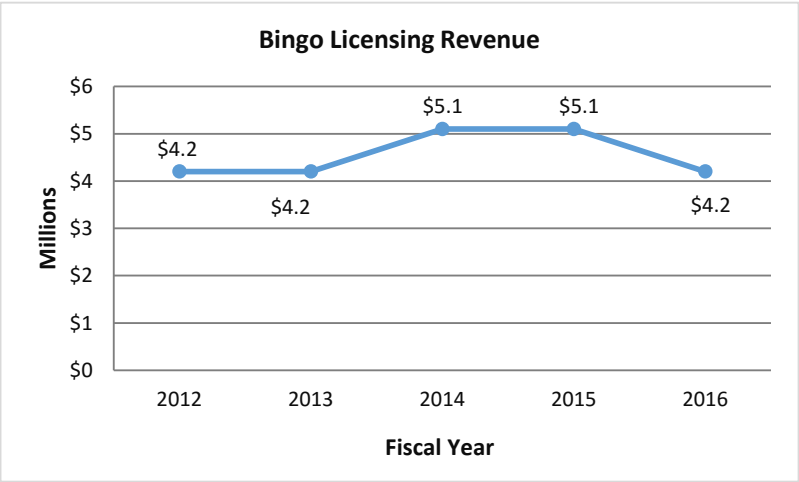
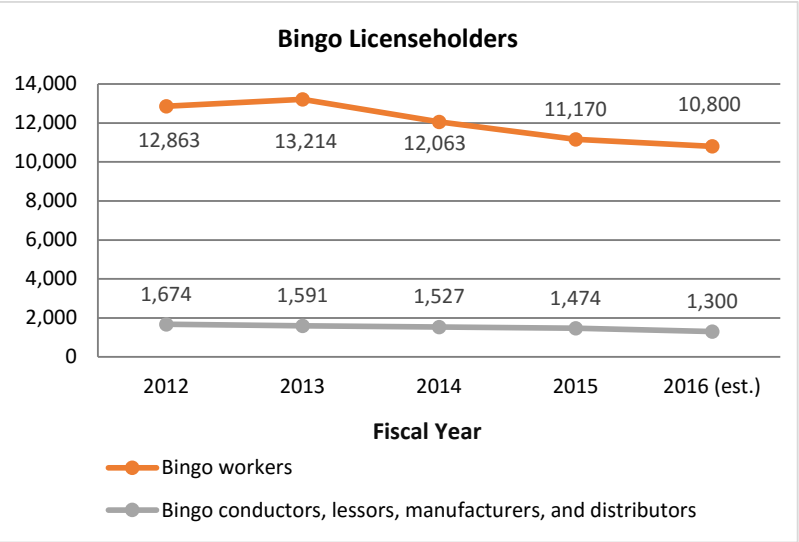
	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 1,418,914	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 1,418,914	100.0%



Program: Bingo Licensing Services

Agency
Ranking

9 out of 13



* The decrease in FY16 is primarily due to the repeal of the Bingo Rental Tax by House Bill 1905, Eighty-fourth Legislature, 2015.

Summary of Recommendations and Fiscal and Policy Issues

- 1 Recommendations include a decrease of \$225,547 to the agency's bingo strategies for 2.0 auditing FTEs, of which \$192,063 was allocated to the bingo licensing program.
- 2 The agency's bingo division licenses individual bingo workers, entities that operate bingo games on behalf of charities and lease bingo halls, and manufacturers and distributors of bingo equipment. Bingo operators are statutorily required to generate positive net proceeds to retain licensure.
- 3 In fiscal year 2016, the agency licensed 9,741 bingo organizations and individual workers.
- 4 Appropriations to the agency's bingo division are limited to the revenue collected by its licensing activities. See chart on the left for licensing revenue collected over the past five fiscal years.

Recommended Statutory Changes for Program Improvement

- 1 None.

Enhancement Opportunities

- 1 According to the agency, requiring licensees to submit applications electronically using the division's bingo services portal and online payment feature would improve timeliness, eliminate mathematical reporting errors, and increase processing efficiencies.

Challenges to Operation of Program

- 1 According to the agency, challenges arise when licensees do not accurately or punctually submit all information with their application, causing delays in application processing and requiring administrative processes to deny applications.

Funding Alternatives

- 1 None.

Texas Lottery Commission

Strategic Fiscal Review - House: Appendix 6j: Program Summary

(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Program: Bingo Auditors

Agency Ranking

10 out of 13

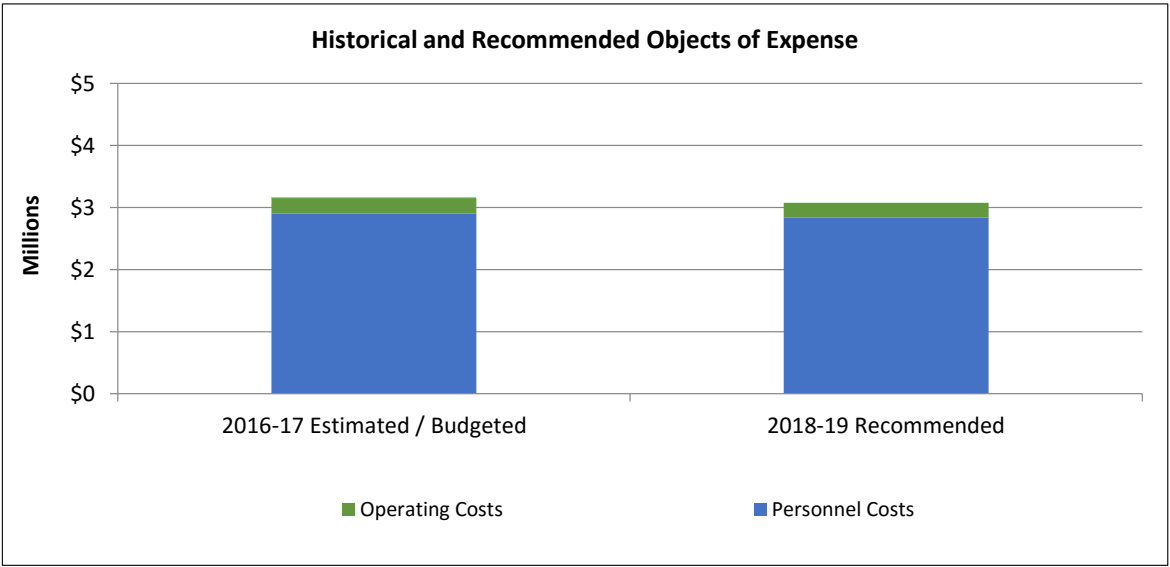
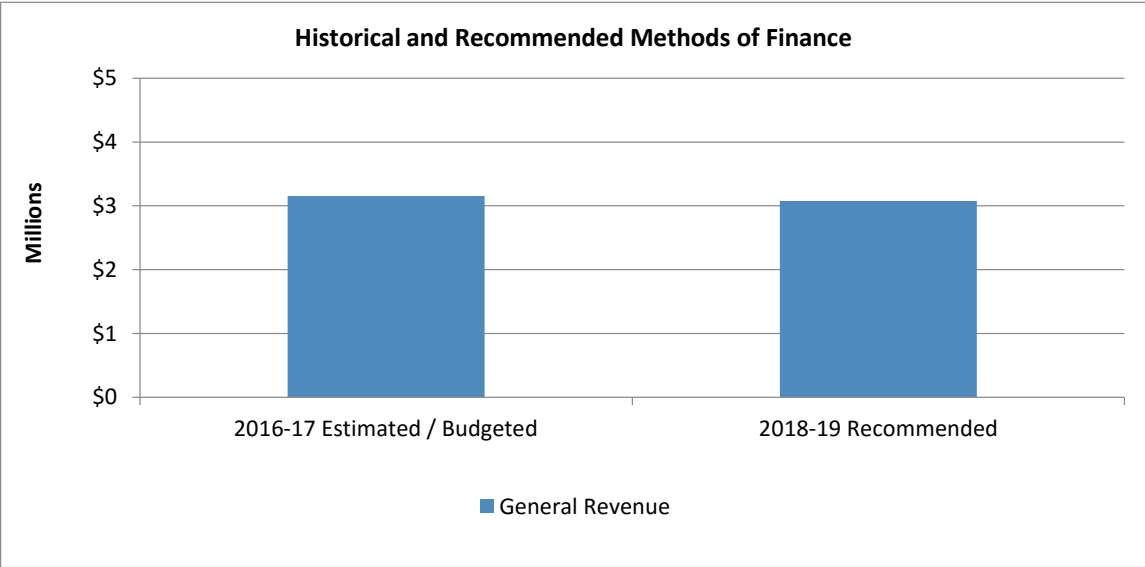
Regulates licensees' compliance with the Bingo Enabling Act and the Charitable Bingo Administrative Rules. Audits determine whether licensees have adequate records of financial operations, effective accounting and internal controls, receives funds for authorized purposes, and adequately remits net proceeds as required by statute.

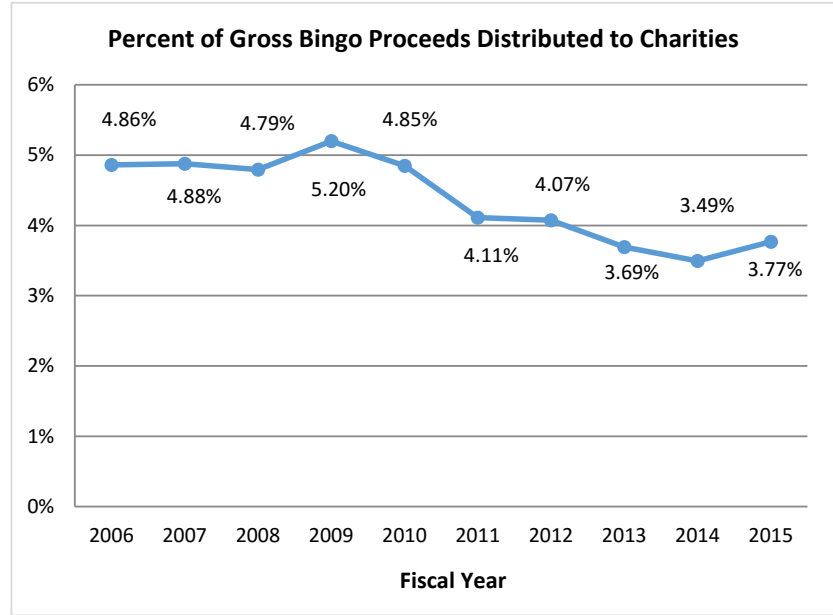
Legal Authority: Occupations Code, Ch. 2001, and Tex. Constitution Art. III, Sec. 47(b)

Year Implemented	1982	Performance and/or	Revenue Supported	Yes
Authority	Strong	Operational Issues	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	General Revenue-Dedicated Funds	Compliant
Service Area	Statewide	State Service(s)	Business & Workforce Development & Regulation	

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Bingo Auditors	\$ 3,153,621	29.0	\$ 3,075,120	27.0	100.0%
TOTAL	\$ 3,153,621	29.0	\$ 3,075,120	27.0	100.0%

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 3,075,120	100.0%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 3,075,120	100.0%





	FY2012	FY2013	FY2014	FY2015
Number of audits conducted	63	35	62	132
Average cost per audit	\$ 6,292	\$ 5,621	\$ 3,844	\$ 2,958
Total cost of audits	\$ 396,366	\$ 196,729	\$ 238,337	\$ 390,493
Adjustment to charities	\$ 2,747	\$ 37,769	\$ 24,967	\$ 5,459
Total charitable distributions	\$ 29,464,079	\$ 26,574,139	\$ 25,849,321	\$ 28,521,047
Adjustments as a percent of total distributions	0.01%	0.14%	0.1%	0.02%

Summary of Recommendations and Fiscal and Policy Issues

- The agency's bingo division performs audits on operators that conduct bingo on behalf of charities and manufacturers, lessors, and distributors of equipment used in the conduct of bingo. Audits determine whether the auditee has records and accounts that accurately reflect its financial operations, maintains effective account and internal controls, and receives funds for authorized purposes. The division also performs inspections of locations at which bingo is conducted to determine whether a current bingo license is displayed, an authorized operator is present during the conduct of bingo, and makes the Bingo Enabling Act and bingo hall rules available to any individual upon request.
- Occupations Code, Sec. 2001.454 requires that organizations authorized to conduct bingo shall devote all net proceeds to charitable purposes. The Occupations Code defines net proceeds as gross proceeds less the amounts of payment of prizes and expenses reasonable and necessary to conduct bingo. Distributions to charities in FY 2016 totaled \$28.7 million.
- Licensed bingo operators and bingo locations are selected for audit and inspection, respectively, based on a risk assessment that includes gross receipts, net proceeds, and charitable distributions for the former and gross receipts, duration since last inspection, and compliance history for the latter. The agency implemented a risk-assessment process as directed by the Sunset Commission in its review of the agency in FY 2013. Audits of bingo lessors, manufacturers, and distributors are generally complaint driven.
- Recommendations include a decrease of \$225,547 in General Revenue for 2.0 auditing FTEs pursuant to the four percent reduction. This reduction was allocated across all strategies under the agency's bingo operations.
- The agency estimates that 100 audits and 469 inspections will be conducted each year from FY 2016 to FY 2019. The agency did not revise its 2018-19 projections in response to the program's loss of 2.0 FTEs pursuant to the four percent reduction.

Recommended Statutory Changes for Program Improvement

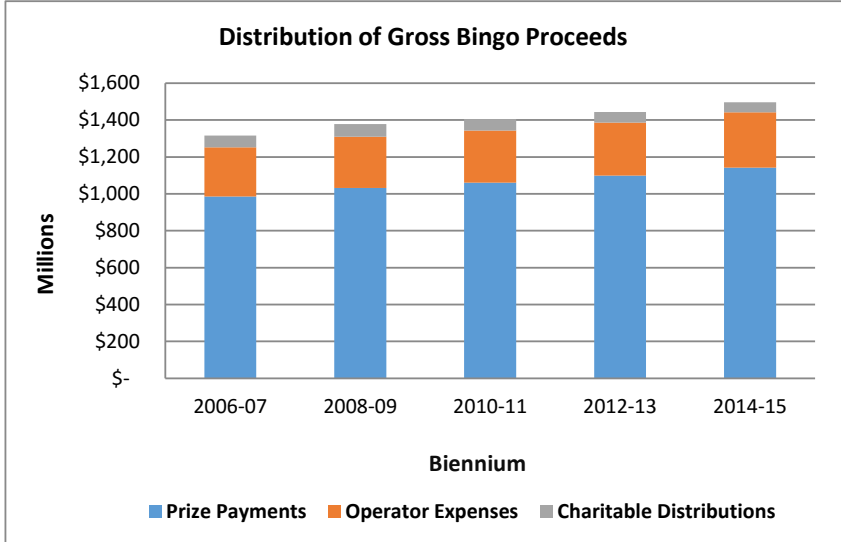
- None.

Enhancement Opportunities

- None.

Challenges to Operation of Program

- Challenges identified by the agency include: 1) the willingness of auditees to cooperate during audits; 2) the timeliness, accuracy, and completeness of information provided by the auditee; and 3) the experience and knowledge of the licensee and the complexity of their bingo operation.
- As shown in the table, the cost of conducting audits alone is significantly higher than the additional transfers to charities that result from audits and inspections combined, and that the adjustments to charities constitute a small percentage of total transfers to charities. Data is not available, however, on the extent to which audits and inspections act as a deterrent to prevent violations that would reduce transfers to charities.



Funding Alternatives

- 1 The agency reported an increase of \$0.5 million would provide for the addition of five auditor positions, resulting in an increase in the number of audits and investigations conducted, allow audits to be conducted on a three year schedule instead of the current four year schedule, and increase staff presence at bingo games. The agency did not request these FTEs as an exceptional item in its LAR, nor did it request reinstatement of the 2.0 FTEs reduced pursuant to the four percent reduction.

Previous Related Funding Alternatives

The following list outlines funding alternatives that reflect revisions made or considered by the legislature to the formula by which bingo proceeds are distributed to charities, using some variation of gross proceeds, gross proceeds less prizes paid (adjusted gross proceeds, this amount is retained by the bingo operator for expenses and excludes prize fees collected from players for distribution to counties, municipalities and General Revenue), and adjusted gross proceeds less operating expenses (net proceeds). Net proceeds are the amount distributed to charitable organizations. The graph to the left shows historical data on these categories.

- 1 House Bill 1474, Eighty-First Legislature, Regular Session, 2009 set the current structure where net proceeds from the operation of bingo are distributed to charities. Prior to this, bingo operators were required to distribute 35 percent of adjusted gross proceeds to charities.
- 2 House Bill 2197, Eighty-Third Legislature, Regular Session, 2013 included a provision requiring bingo operators to distribute a minimum of five percent of gross proceeds to charities. The provision passed the House Committee on Licensing and Administrative Procedures, but was not included in the enrolled version of the bill.
- 3 House Bill 2642, Eighty-Fourth Legislature, Regular Session, 2015, included a provision that established minimum net proceeds of ten percent of gross gaming revenue (defined as gross proceeds less prizes paid) for bingo operations with annual gross gaming revenue equal to or greater than \$500,000 and five percent for bingo operations with annual gross gaming revenue less than \$500,000. The bill included several instances where the mandatory minimum of net proceeds could be waived or revised. This provision was not included in the enrolled version of the bill.

A separate provision in HB 2642 would have redirected the state's share of prize fee revenue (collected through fees on prizes greater than \$5 at a rate of five percent of the value of the prize) to charities. The agency estimated that this would result in a loss of \$74.6 million to General Revenue over a five-year period. This provision was also not included in the enrolled version of the bill.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 6k: Program Summary
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Program: Bingo Accounting Services

Agency
Ranking 11 out of 13

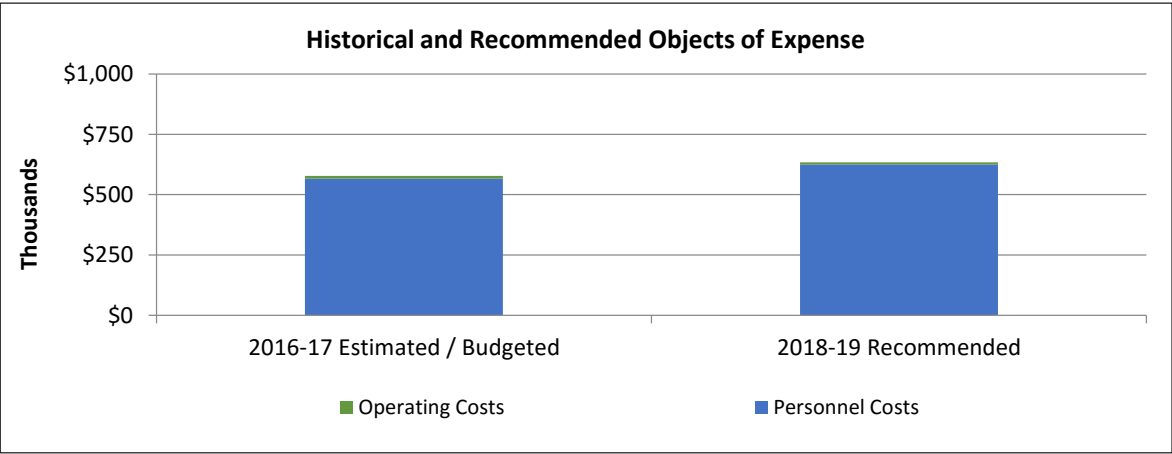
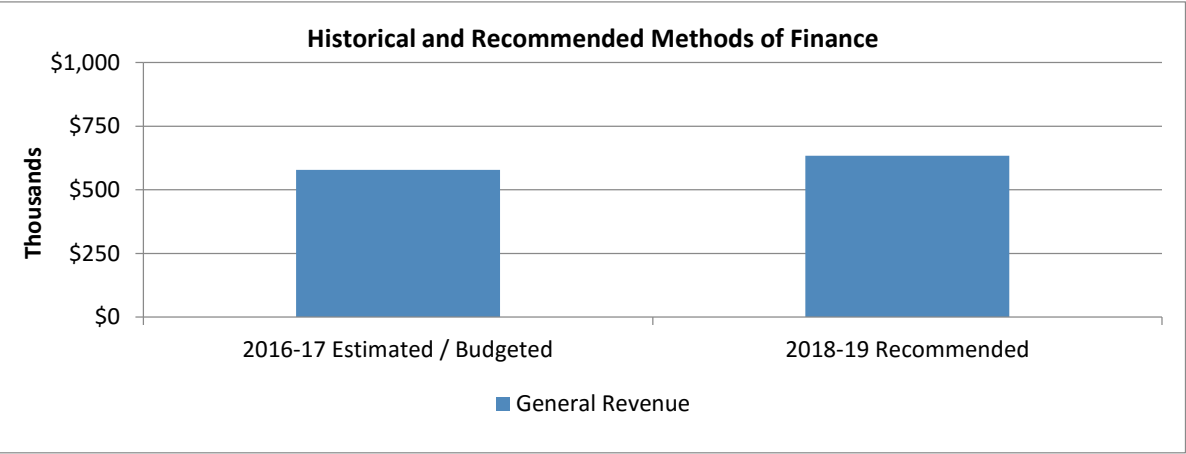
Assists licensees with filing of quarterly reports, reviews filed reports for completeness and manages their financial data. Analyzes data reported by licensed bingo conductors that fail to have positive net proceeds on their quarterly reports to help improve charitable bingo operations.

Legal Authority: Government Code, Ch. 467; Occupations Code, Ch. 2001; Tex. Constitution, Art. III, Sec. 47

Year Implemented	1982	Performance and/or		Revenue Supported	Yes
Authority	Strong	Operational Issues	No	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	No	General Revenue-Dedicated Funds	Compliant
Service Area	Statewide	State Service(s)	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Bingo Accounting Services	\$ 577,725	6.0	\$ 633,688	6.0	100.0%
TOTAL	\$ 577,725	6.0	\$ 633,688	6.0	100.0%

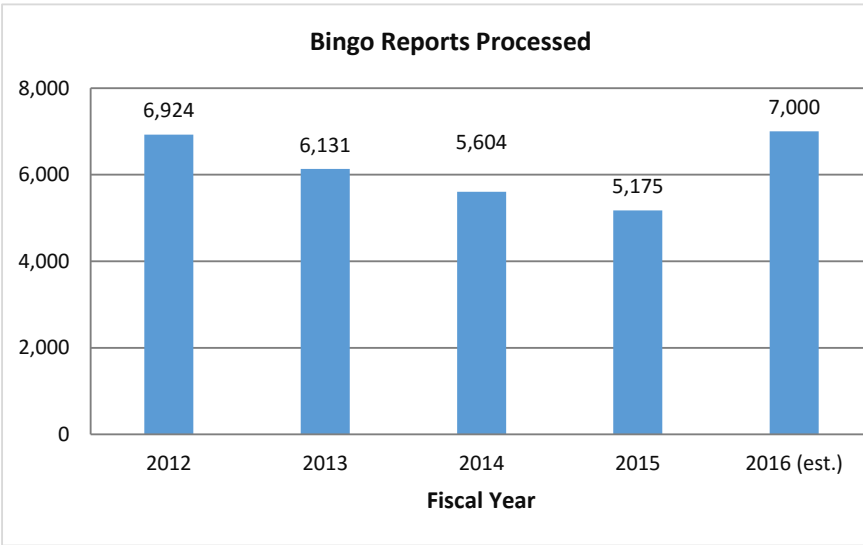
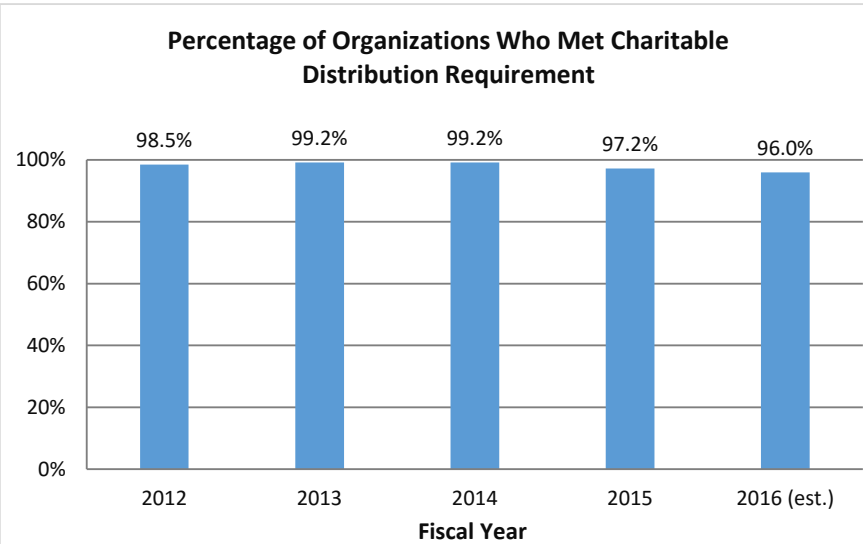
	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 633,688	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 633,688	100.0%



Program: Bingo Accounting Services

Agency
Ranking

11 out of 13



Summary of Recommendations and Fiscal and Policy Issues

- 1 Recommendations include an increase of \$55,963 in funding allocated from other bingo programs.
- 2 The agency provides accounting services and reviews the financial records of all licensed bingo manufacturers, distributors, lessors, and operators.

Recommended Statutory Changes for Program Improvement

- 1 None.

Enhancement Opportunities

- 1 According to the agency, requiring licensees to submit reports electronically using the division’s bingo services portal and online payment feature would improve timeliness, eliminate mathematical reporting errors, and increase processing efficiencies.

Challenges to Operation of Program

- 1 According to the agency, challenges arise when licensees do not accurately or punctually submit required financial reports or remit payments for prize fee allocations.

Funding Alternatives

- 1 None.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 6I: Program Summary
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Program: Bingo Education and Training

Agency Ranking 12 out of 13

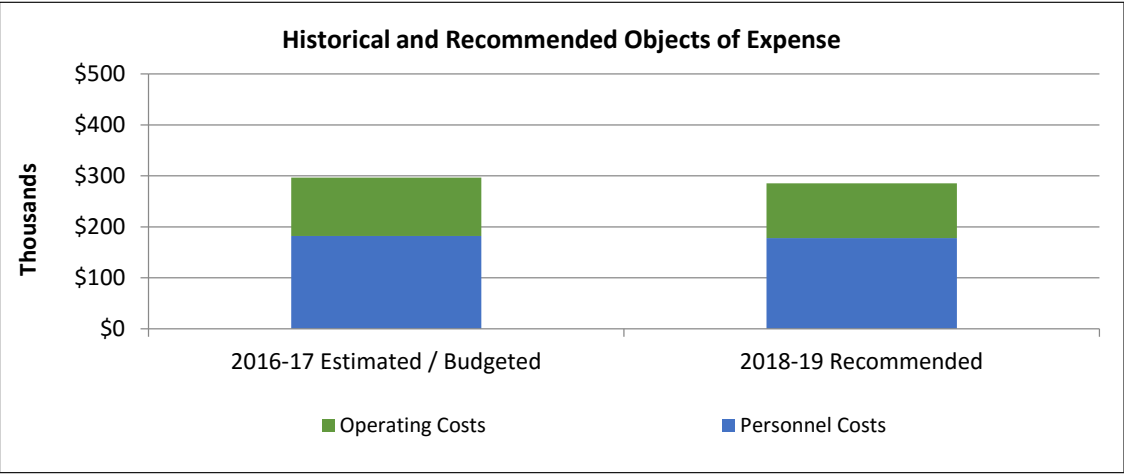
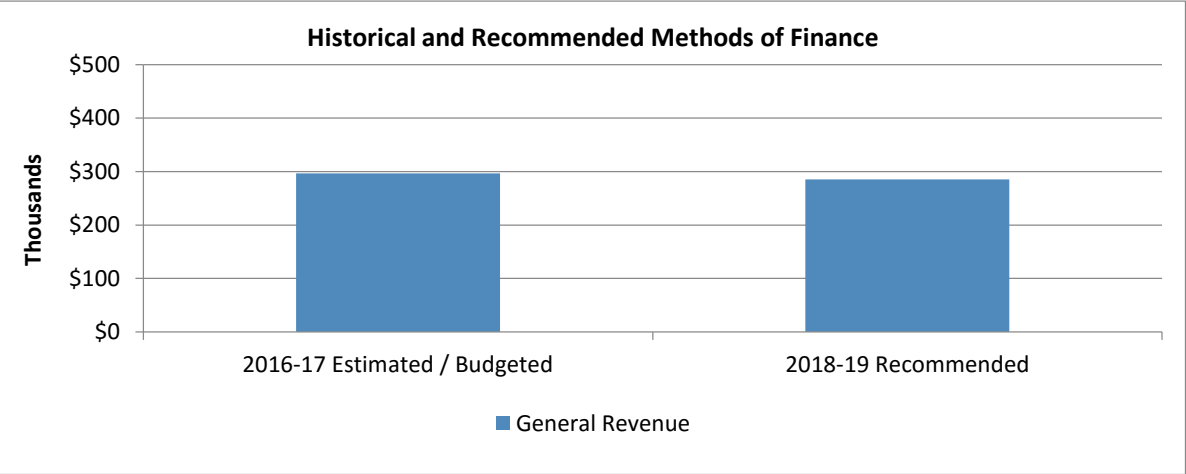
Manages the education and development of all licensed organizations that conduct Charitable Bingo activities by educating applicants and licensees on the requirements of the Bingo Enabling Act and the Charitable Bingo Administrative Rules.

Legal Authority: Government Code, Ch. 467; Occupations Code, Ch. 2001; Tex. Constitution, Art. III, Sec. 47

Year Implemented	1982	Performance and/or		Revenue Supported	Yes
Authority	Strong	Operational Issues	No	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	No	General Revenue-Dedicated Funds	Compliant
Service Area	Statewide	State Service(s)	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Bingo Education and Training	\$ 296,354	2.0	\$ 285,408	2.0	100.0%
TOTAL	\$ 296,354	2.0	\$ 285,408	2.0	100.0%

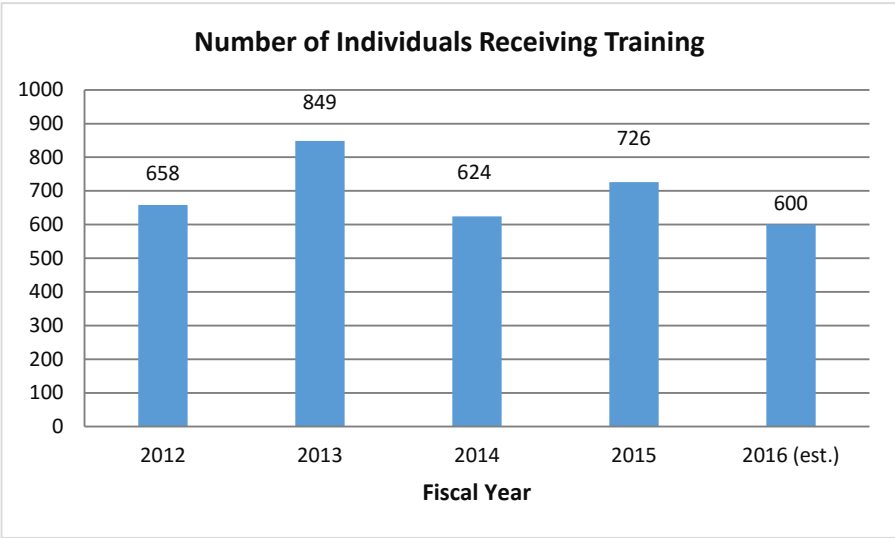
	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 285,408	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 285,408	100.0%



Program: Bingo Education and Training

Agency
Ranking

12 out of 13



Summary of Recommendations and Fiscal and Policy Issues

- 1 Recommendations include a decrease of \$225,547 in General Revenue for 2.0 auditing FTEs pursuant to the four percent reduction, of which \$10,946 was allocated to the Education and Training program.
- 2 Education and training is provided for all licensed bingo operators, worker registrants, and licensed charity officers and directors; it is conducted online, in person, and via email or telephone, and is required for licensure and every three years thereafter.

Recommended Statutory Changes for Program Improvement

- 1 None.

Enhancement Opportunities

- 1 None.

Challenges to Operation of Program

- 1 The agency cites challenges to modernizing the current online bingo training system, and to the continuation of statewide training efforts due to unpredictable demand.

Funding Alternatives

- 1 None.

Texas Lottery Commission
Strategic Fiscal Review - House: Appendix 6m: Program Summary
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Program: Bingo Prize Fee Allocation

Agency Ranking 13 out of 13

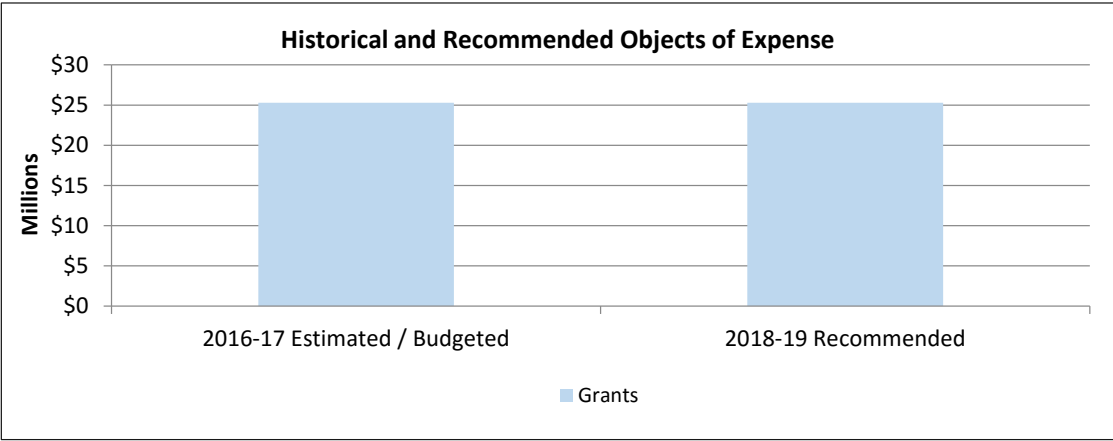
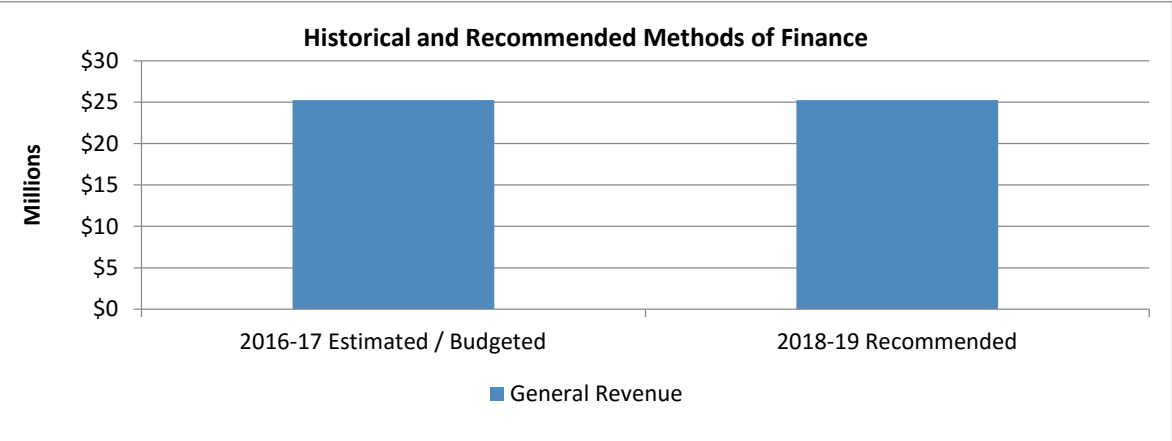
Administers and manages the allocation of revenue to local jurisdictions in a manner consistent with the provisions of the Bingo Enabling Act.

Legal Authority: Government Code, Ch. 467; Occupations Code, Ch. 2001; Tex. Constitution, Art. III, Sec. 47

Year Implemented	1982	Performance and/or		Revenue Supported	Yes
Authority	Strong	Operational Issues	No	Appropriate Use of Constitutional and	
Centrality	Strong	Outsourced Services	No	General Revenue-Dedicated Funds	Compliant
Service Area	Statewide	State Service(s)	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Bingo Prize Fee Allocation	\$ 25,271,000	0.0	\$ 25,271,000	0.0	100.0%
TOTAL	\$ 25,271,000	0.0	\$ 25,271,000	0.0	100.0%

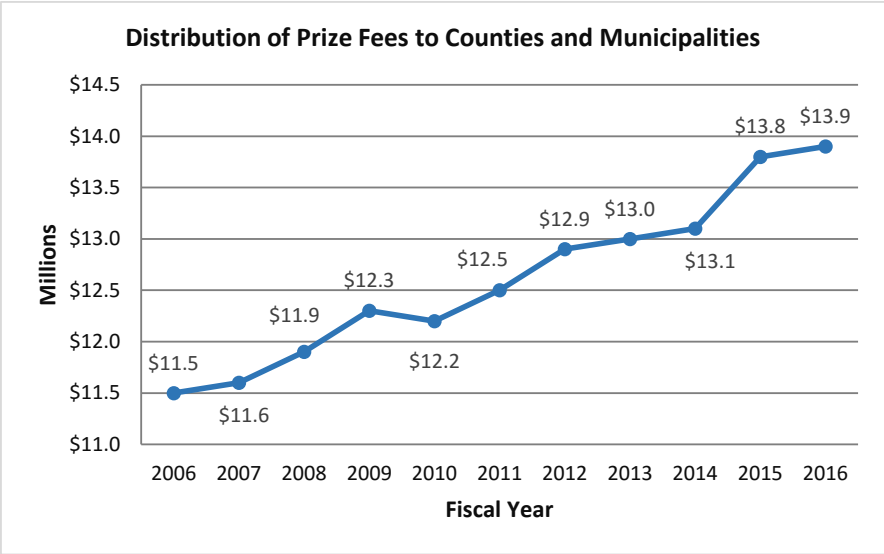
	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 25,271,000	100%
Funds Outside the State Treasury	\$ -	0.0%
Total	\$ 25,271,000	100.0%



Program: Bingo Prize Fee Allocation

Agency
Ranking

13 out of 13



Summary of Recommendations and Fiscal and Policy Issues

- 1 Pursuant to Occupations Code Sec. 2001.502, a licensed bingo operator collects from prizes greater than \$5 a fee in the amount of five percent of the value of the prize; the operator then remits to the agency a fee in the amount of five percent of all prizes awarded. Counties and municipalities that imposed a gross receipts tax on the conduct of bingo as of January 1, 1993, are entitled to 50 percent of the fee collected by the agency for games conducted in their county or municipality. If both the county and municipality in which a game is conducted imposed a gross receipts tax, each is entitled to 25 percent of the fee collected. All prize fees that are not allocated to counties and municipalities are deposited to General Revenue.
- 2 The agency reports that attendance at bingo games has declined from 19.3 million in fiscal year 2006 to 14.8 million in fiscal year 2015. However, as shown in the graph to the left, annual allocations to counties and municipalities have increased over the same period, from \$11.5 million in fiscal year 2006 to \$13.9 million in fiscal year 2016.

Recommended Statutory Changes for Program Improvement

- 1 None.

Enhancement Opportunities

- 1 The agency reports that requiring licensees to submit reports electronically would improve timeliness, eliminate mathematical reporting errors, and increase processing efficiencies of prize fee allocation.

Challenges to Operation of Program

- 1 Prize fees are held in trust by the licensed organization conducting bingo and remitted to the agency on a quarterly basis. If organizations do not meet the reporting and payment deadlines, allocations are delayed to a subsequent quarter.

Funding Alternatives

- 1 A provision in House Bill 2642, Eighty-Fourth Legislature, Regular Session, 2015 would have redirected the state's share of prize fee revenue to charities. The agency estimated that this would result in a loss of \$74.6 million to General Revenue over a five-year period. This provision was not included in the enrolled version of the bill.

Texas Lottery Commission
Appendices - House

Table of Contents		
Appendix	Appendix Title	Page
A	Funding Changes and Recommendations by Strategy	51
B	Summary of Federal Funds	*
C	FTE Highlights	*
D	Performance Measure Highlights	*
E	Summary of Ten Percent Biennial Base Reduction Options	53

* Appendix is not included - no significant information to report

Texas Lottery Commission
Funding Changes and Recommendations - House, by Strategy -- GR & GR DEDICATED FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
<i>All appropriations to Goal A are made from the State Lottery Account (General Revenue-Dedicated Fund 5025); all appropriations to Goal B are made from fee-generated General Revenue</i>					
LOTTERY OPERATIONS A.1.1	\$14,930,931	\$14,871,726	(\$59,205)	(0.4%)	Net decrease of \$59,205 due to the following: - A decrease of \$339,196 for leasehold improvements, furnishings and equipment, and power supply leasing; and - An increase of \$279,991 for rent and other operating expenses.
LOTTERY FIELD OPERATIONS A.1.2	\$5,691,777	\$5,865,219	\$173,442	3.0%	
MARKETING AND PROMOTION A.1.3	\$13,944,438	\$12,877,556	(\$1,066,882)	(7.7%)	Decrease of \$1,066,882 due to the following: - A decrease of \$933,849 for printing and reproduction, postage, promotional items, and 1.0 market research FTE; and - A decrease of \$133,033 for other operating expenses.
SECURITY A.1.4	\$11,276,958	\$11,322,403	\$45,445	0.4%	Net increase of \$45,445 due to the following: - An increase of \$105,445 for other operating expenses; and - A decrease of \$60,000 for a security officer contract with the Department of Public Safety.
CENTRAL ADMINISTRATION A.1.5	\$25,259,097	\$24,186,974	(\$1,072,123)	(4.2%)	Net decrease of \$1,072,123 due to the following: - A decrease of \$896,903 for reimbursements from the lottery operator for services rendered by the agency in the 2016-17 biennium; - A decrease of \$790,000 for technology improvements, programming services, and publications; - A decrease of \$116,600 for funding a six-year PC replacement cycle; and - An increase of \$731,380 in other operating expenses.
LOTTERY OPERATOR CONTRACT(S) A.1.6	\$207,695,833	\$205,773,137	(\$1,922,696)	(0.9%)	Decrease of \$1,922,696 based on LBB estimates of fiscal years 2018 and 2019 gross lottery ticket proceeds.
SCRATCH TICKET PRODUCT. CONTRACT(S) A.1.7	\$60,300,000	\$60,300,000	\$0	0.0%	
MASS MEDIA ADVERTISING CONTRACT(S) A.1.8	\$65,500,000	\$61,380,000	(\$4,120,000)	(6.3%)	Decrease of \$4,120,000, \$2,620,000 from the agency's original four percent reduction and \$1,500,000 for one-time expenses not anticipated in the 2018-19 biennium.

Texas Lottery Commission
Funding Changes and Recommendations - House, by Strategy -- GR & GR DEDICATED FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
DRAWING & BROADCAST CONTRACT(S) A.1.9	\$5,269,711	\$5,270,356	\$645	0.0%	Increase of \$645 for contractual expenditures.
MARKET RESEARCH CONTRACT(S) A.1.10	\$1,017,935	\$343,440	(\$674,495)	(66.3%)	Decrease of \$674,495 for non-statutory market research.
RETAILER BONUS A.1.11	\$8,145,175	\$8,400,000	\$254,825	3.1%	
RETAILER COMMISSIONS A.1.12	\$46,754,450	\$46,557,115	(\$197,335)	(0.4%)	Decrease of \$197,335 based on LBB estimates of fiscal years 2018 and 2019 gross lottery ticket proceeds.
Total, Goal A, OPERATE LOTTERY	\$465,786,305	\$457,147,926	(\$8,638,379)	(1.9%)	
BINGO LICENSING B.1.1	\$1,610,977	\$1,418,914	(\$192,063)	(11.9%)	
BINGO EDUCATION AND DEVELOPMENT B.1.2	\$296,354	\$285,408	(\$10,946)	(3.7%)	
BINGO LAW COMPLIANCE FIELD OPER B.1.3	\$3,153,621	\$3,075,120	(\$78,501)	(2.5%)	
BINGO PRIZE FEE COLLECTION & ACCT B.1.4	\$25,848,725	\$25,904,688	\$55,963	0.2%	
Total, Goal B, ENFORCE BINGO LAWS	\$30,909,677	\$30,684,130	(\$225,547)	(0.7%)	Decrease of \$225,547 for 2.0 auditing FTEs allocated across all strategies under Goal B.
Grand Total, All Strategies	\$496,695,982	\$487,832,056	(\$8,863,926)	(1.8%)	Total decreases include the following: - A decrease of \$2,120,031 to the Lottery Operator Contract and Retailer Commission strategies, which are based on LBB estimates of gross lottery ticket proceeds. - A decrease of \$2,845,547 to the Mass Media Advertising Contract and bingo strategies as part of the four percent reduction. - A net decrease of \$3,898,348 to all other strategies for various operating expenses.

Texas Lottery Commission
Summary of Ten Percent Biennial Base Reduction Options - House

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs			
1)	Mass media advertising contracts	Contracts for mass media advertising would be reduced. The agency estimates this would lead to a reduction in lottery ticket sales.	\$8,005,950	\$8,005,950	0.0	\$26,535,588	2%	No
	Scratch ticket production services contracts	Contracts for scratch ticket production would be reduced. This agency estimates this would lead to a reduction in lottery ticket sales.	\$8,497,194	\$8,497,194	0.0	\$91,726,074	2%	No
	Retailer incentives	Retailer incentives for sales-based performance would be reduced. The agency estimates this would lead to a reduction in lottery ticket sales.	\$5,854,600	\$5,854,600	0.0	\$9,251,002	1%	No
2)	Mass media advertising contracts	Contracts for mass media advertising would be reduced. The agency estimates this would lead to a reduction in lottery ticket sales.	\$8,005,950	\$8,005,950	0.0	\$26,535,588	2%	No
	Scratch ticket production services contracts	Contracts for scratch ticket production would be reduced. This agency estimates this would lead to a reduction in lottery ticket sales.	\$8,497,194	\$8,497,194	0.0	\$91,726,074	2%	No
	Retailer incentives	Retailer incentives for sales-based performance would be reduced. The agency estimates this would lead to a reduction in lottery ticket sales.	\$5,854,600	\$5,854,600	0.0	\$9,251,002	1%	No

Texas Lottery Commission
Summary of Ten Percent Biennial Base Reduction Options - House

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs			
3)	Bingo prize fees	Reduction to fee collections on bingo prizes for allocation to counties and municipalities. Fees are collected on prizes greater than \$5 at a rate of five percent of the value of the prize, and are therefore estimated and based on actual amounts collected.	\$1,213,008	\$1,213,008	0.0	\$0	5%	No
4)	Bingo prize fees	Reduction to fee collections on bingo prizes for allocation to counties and municipalities. Fees are collected on prizes greater than \$5 at a rate of five percent of the value of the prize, and are therefore estimated and based on actual amounts collected.	\$1,213,008	\$1,213,008	0.0	\$0	5%	No
5)	Bingo administration	Elimination of 1.0 FTE in bingo education and training, 2.0 FTEs in bingo law compliance and field operations, and 1.0 FTE in bingo prize fee collection and accounting. This would reduce the number of audits and investigations conducted, impact education and training efforts, and increase application processing time.	\$270,657	\$270,657	4.0	\$0	5%	No
6)	Bingo administration	Elimination of 2.0 FTEs in bingo law compliance and field operations. This would reduce the agency's bingo audit and investigation output measures.	\$270,656	\$270,656	2.0	\$0	9%	No
TOTAL, 10% Reduction Options			\$47,682,817	\$47,682,817	6.0	\$255,025,328		



2016 Year-end Results

Lottery

- FY 2016 Sales
 - \$5.07 billion
 - \$537.8 million over FY 2015
 - Highest sales in Texas Lottery history
- FY 2016 Revenue Transfers
 - Transfers to the State
 - \$1.392 billion
 - \$149.6 million over FY 2015
 - Largest revenue transfer to the State in Texas Lottery history
 - Transfers to the Foundation School Fund
 - \$1.373 billion
 - \$147.5 million over FY 2015
 - Largest revenue transfer to the Foundation School Fund in Texas Lottery history
 - Transfers to the Texas Veterans Commission
 - \$14.7 million
 - \$1.6 million over FY 2015
 - Largest revenue transfer to the Texas Veterans Commission in Texas Lottery history
- FY 2016 Administrative Expense
 - \$223.0 million
 - 4.4% of lottery sales
 - Lowest administrative rate in Texas Lottery history

Bingo

- CY 2015 Gross Receipts
 - \$756.8 million, \$17.0 million increase over CY 2014 which was the highest they have been since 1981 when charitable bingo was legalized in Texas.
- CY 2015 Charitable Distributions
 - \$28.5 million, \$2.7 million increase over CY 2014
- CY 2015 Prize Fees
 - \$29.0 million collected, \$1 million over CY 2014
 - \$13.9 million allocations paid to cities and counties
 - \$15.1 million deposited to the State's General Revenue Fund

FY 2018-19 Total Budget Request compared to HB 1, as Introduced

	Texas Lottery FY 2016-17 Total Budgeted	Texas Lottery FY 2018-19 Total Requested	House Bill 1 FY 2018-19 LBB Recommendation	FY 2018-19 Difference between Request & Recommendation	% change
Goal A: Operate Lottery					
1.1.1. Lottery Operations	\$ 14,930,931	\$ 15,210,922	\$ 14,871,726	\$ (339,196)	-2.23% **
1.1.2. Lottery Field Operations	5,691,777	5,865,219	5,865,219	-	0.00%
1.1.3. Marketing and Promotion	13,944,438	13,811,405	12,877,556	(933,849)	-6.76% **
1.1.4. Security	11,276,958	11,382,403	11,322,403	(60,000)	-0.53% **
1.1.5. Central Administration	25,259,097	25,540,477	24,186,974	(1,353,503)	-5.30% **
1.1.6. Lottery Operator Contract(s)	207,695,833	194,896,562	205,773,137	10,876,575	5.58% *BRE adj.
1.1.7. Scratch Ticket Production Contract(s)	60,300,000	60,300,000	60,300,000	-	0.00%
1.1.8. Mass Media Advertising Contract(s)	65,500,000	64,000,000	61,380,000	(2,620,000)	-4.09% **
1.1.9. Drawing & Broadcast Contract(s)	5,269,711	5,270,356	5,270,356	-	0.00%
1.1.10. Market Research Contract(s)	1,017,935	1,105,240	343,440	(761,800)	-68.93% **
1.1.11. Retailer Bonus	8,145,175	8,400,000	8,400,000	-	0.00%
1.1.12. Retailer Commissions	46,754,450	44,096,240	46,557,115	2,460,875	5.58% *BRE adj.
Total, Operate Lottery	<u>465,786,305</u>	<u>449,878,824</u>	<u>457,147,926</u>	<u>7,269,102</u>	1.62%
Goal B: Enforce Bingo Laws					
2.1.1. Bingo Licensing	\$ 1,610,977	\$ 1,418,914	\$ 1,418,914	\$ -	0.00%
2.1.2. Bingo Education & Development	296,354	285,408	285,408	-	0.00%
2.1.3. Bingo Law Compliance	3,153,621	3,075,120	3,075,120	-	0.00%
2.1.4. Bingo Prize Fee Collections & Acct.	577,725	633,688	633,688	-	
Rider 8, Local Bingo Prize Fees	<u>25,271,000</u>	<u>24,260,160</u>	<u>25,271,000</u>	<u>1,010,840</u>	4.17%
Total, Enforce Bingo Laws	<u>30,909,677</u>	<u>29,673,290</u>	<u>30,684,130</u>	<u>1,010,840</u>	3.41%
Total, Commission	<u>\$ 496,695,982</u>	<u>\$ 479,552,114</u>	<u>\$ 487,832,056</u>	<u>\$ 8,279,942</u>	1.73%
Method of Financing					
Lottery Account - 5025	█ \$ 465,786,305	\$ 449,878,824	\$ 457,147,926	\$ 7,269,102	1.62%
General Revenue Fund - 0001	<u>30,909,677</u>	<u>29,673,290</u>	<u>30,684,130</u>	<u>1,010,840</u>	3.41%
Total, Method of Financing	█ <u>\$ 496,695,982</u>	<u>\$ 479,552,114</u>	█ <u>\$ 487,832,056</u>	<u>\$ 8,279,942</u>	1.73%

*Strategies A.1.6 and A.1.12 are funded on a % of lottery sales. The budget recommendation reflects increases for these line items based on the projected sales value developed by the LBB using the Comptroller's Biennial Revenue Estimate (BRE) issued in January 2017. The sales estimate does not factor a decrease in sales and revenue anticipated from budgetary decreases.

**The budget decrease to the Lottery Dedicated Account excluding the two strategies funded as a % of lottery sales is (\$6,068,348) or (2.9%).

Summary of Budget Request

- The Commission's total budget request for FY 2018-19 was \$479,552,114, a \$17,143,868 decrease from FY 2016-17 baseline budgeted levels.
- Recommended funding for FY 2018-19 in House Bill 1 is \$487,832,056, an \$8,279,942 increase over the total budget request.
 - GR Dedicated, Lottery Account – 5025 reflects a net increase of \$7,269,102 which is composed of:
 - Decrease of \$6,068,348 consisting of budget reductions to various strategies,
 - Increase of \$13,337,450 that is attributed to Strategies A.1.6 and A.1.12 which are estimated strategies funded on a percentage of gross lottery sales.
 - General Revenue Fund – 0001 reflects an increase of \$1,010,840 to restore the 4% budget reduction to the estimated Local Bingo Prize fee appropriation.
- **The Commission is requesting one exceptional item for the GR Dedicated, Lottery Account in the amount of \$4.0 million this biennium and funding of New Rider 701 – Scratch Ticket Production and Services Contract(s).**

Unfunded Items – Not included in House Bill 1, as Introduced

Restoration of Lottery Reduction – Revenue Generators – HB 1

The Commission is submitting an exceptional item request amounting to \$4.0 million to seek partial restoration of the \$6.1 million budget reduction to the Lottery Dedicated Account included in House Bill 1. The Exceptional Item is prioritized to allow for continued revenue generating functions and for restoration of lottery revenue to the Foundation School Fund.

The Commission's funding under the Lottery Dedicated Account is primarily devoted to outsourced services. The unique public-private lottery operating structure utilized by the Texas Lottery, known within the lottery industry as the "Texas Model", allows the agency to maintain administrative, regulatory and management control over all critical functions, while utilizing the private sector's inherent efficiency and profit motive to optimize the Texas Lottery's revenue potential. Under this public-private concept, the agency addresses a number of significant business functions through contractual arrangements with seven primary vendors, with nearly 90% of the agency's budget either outsourced or designated for retailer compensation.

Restoration is requested for the following programs:

Mass Media Advertising Contract – Strategy A.1.8 - \$2.6 million

Marketing and Promotion - Products and Promotional Events – Strategy A.1.3 - \$0.63 million

Market Research Contracts – Strategy A.1.10 - \$0.76 million

While the proposed budget reduction for these programs amounts to \$4.0 million, it translates to an exponentially greater impact on revenue to the State's beneficiaries and retailers. The following economic impacts are estimated from the proposed budget reduction:

Sales reduction of \$74.6 million

Revenue reduction to the Foundation School Fund of \$20.1 million

Retailer compensation reduction of \$3.7 million

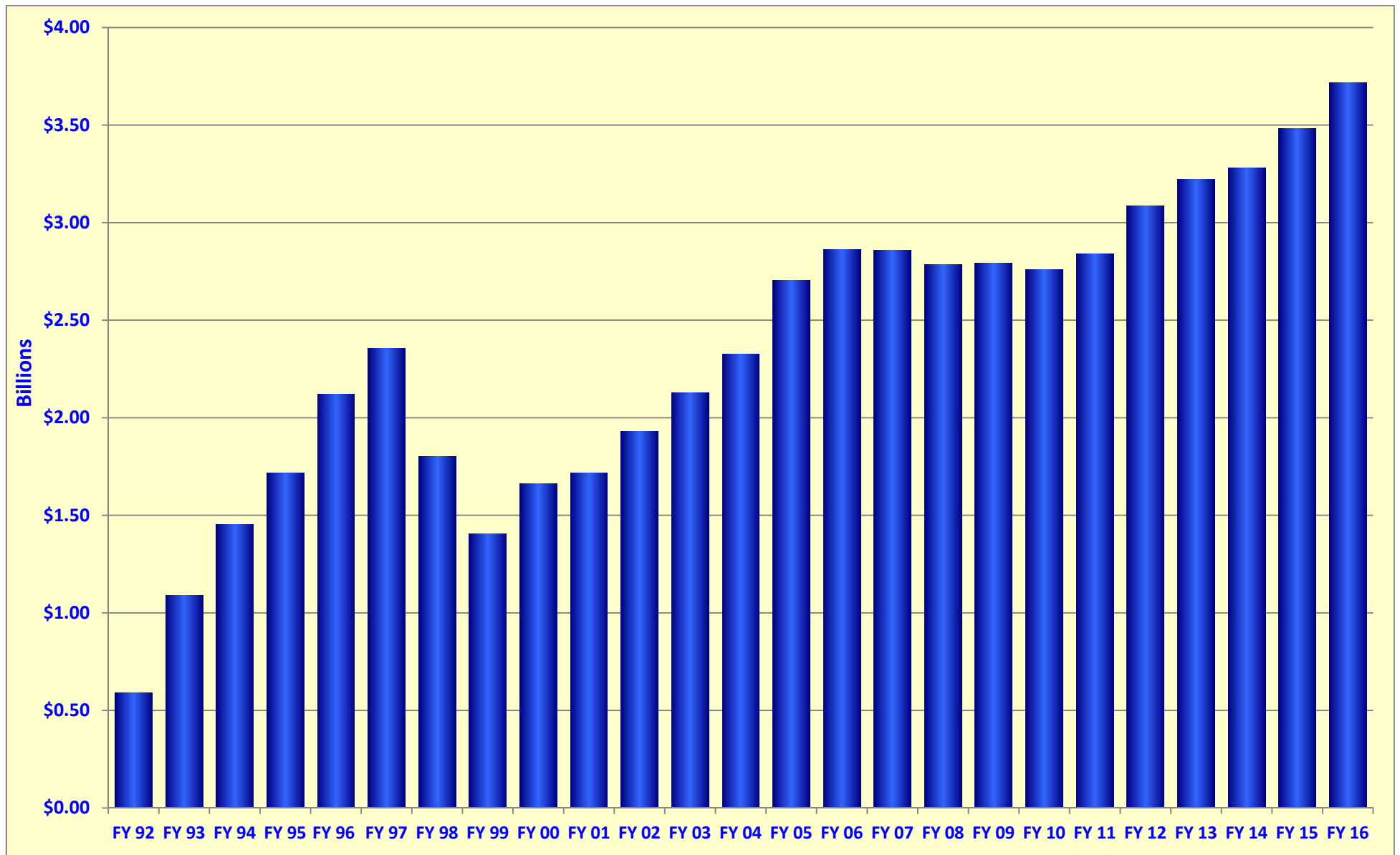
Rider Revision – Not included in HB 1, as Introduced

New Rider 701, Scratch Ticket Production and Services Contract(s). The amounts included above in Strategy A.1.7, Scratch Ticket Production and Services Contract(s), are estimated appropriations out of the State Lottery Account in the General Revenue Fund and may only be used for payment of scratch ticket production and services. The estimated amount appropriated for fiscal year 2018 is an amount equal to 1.1 percent of scratch ticket sales in fiscal year 2018; and the estimated amount appropriated in fiscal year 2019 is an amount equal to 1.1 percent of scratch sales in fiscal year 2019.

- The Commission requested a new Rider to address the funding mechanism of Strategy A.1.7, Scratch Ticket Production and Services Contract(s).
- The current funding structure reflects a fixed budget for the strategy that does not provide for increased sales from scratch ticket product growth. Scratch ticket sales have realized year-over-year increases since Fiscal Year 2011 and scratch ticket games continue to be a growing product category in Texas. In FY 2016, scratch tickets were \$3.72 billion and represented approximately 73 percent of total lottery sales. Scratch Tickets reflect just under a billion dollars in sales growth from FY 2010 to FY 2016. The chart on page 8 provides an overview of historical scratch ticket sales.
- The proposed Rider would provide for an estimated funding structure similar to the agency's Lottery Operator Contract which is funded by Rider 10. The Lottery Operator Strategy budget is increased to an amount equal to 2.2099 percent of gross sales upon exceeding the Strategy A.1.6 strategy budget.
- Additional funding via the proposed Rider would only occur if scratch ticket sales reach a certain threshold. It was also requested that Strategy A.1.7 be modified to be an estimated strategy and a nontransferable strategy not subject to Article IX transfer authority. The "nontransferable" provision was submitted by the agency to ensure the greatest amount of transparency under the new Rider funding model.

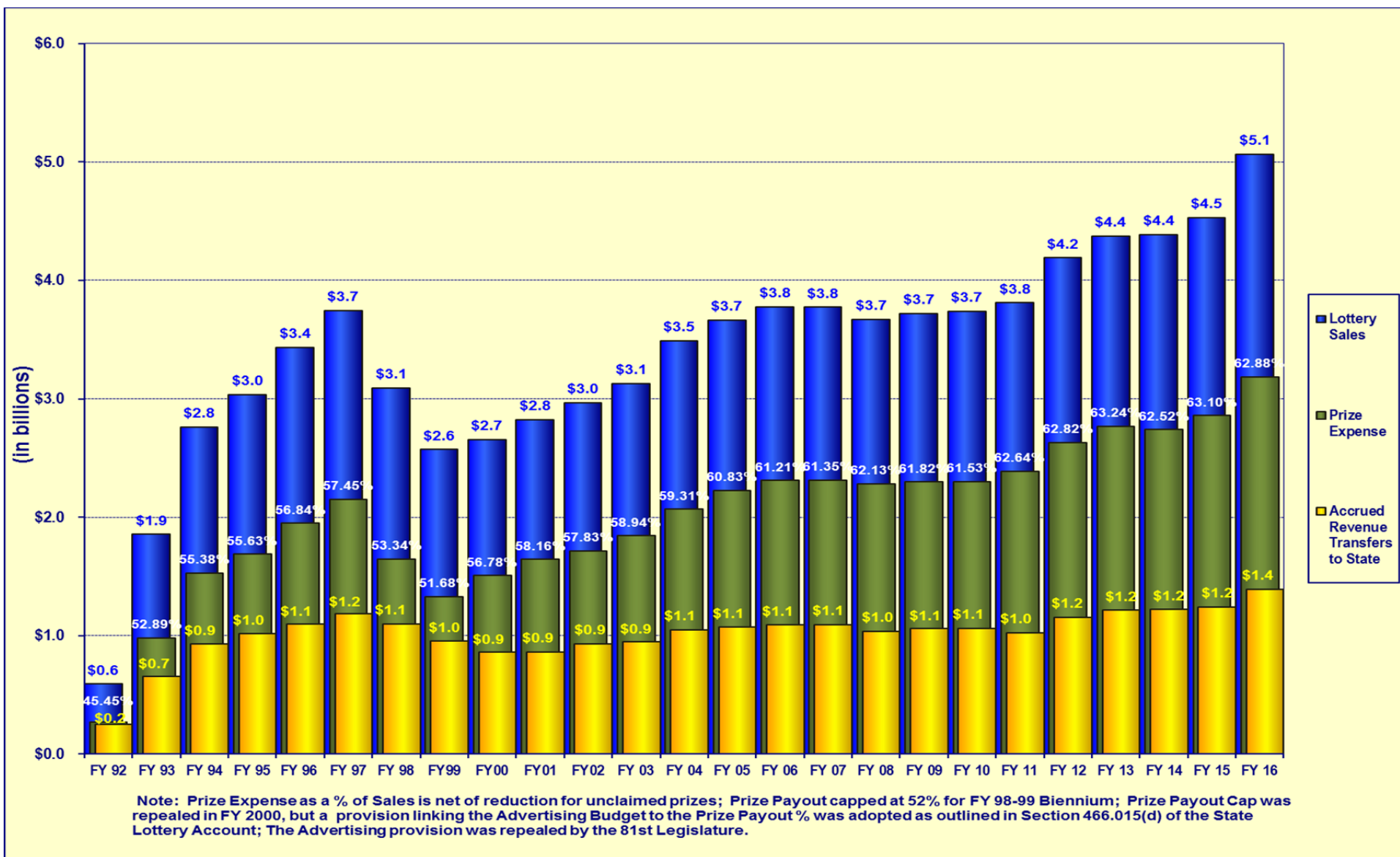
- The introduced version of House Bill 1 did not include funding of Strategy A.1.7 via the new Rider as outlined above, but instead further restricted Strategy A.1.7 as a “nontransferable” strategy and added Rider 15 which states funds may not be transferred from Strategy A.1.7.
- Modifying Strategy A.1.7 as a nontransferable strategy without the new Rider funding will not only limit the transfer of funds from Strategy A.1.7, but will also limit the transfer of funds to Strategy A.1.7. Should the budget get adopted as presented, this essentially removes the use of Rider 11 and Article IX, Section 14.01 as funding models to fund excess scratch ticket printing as presently utilized by the Commission. In summary, the current version of the bill will limit Strategy A.1.7 to \$30.15M a year which will severely limit the Commission’s ability to respond to the market’s scratch ticket growth and, in turn, to print scratch tickets and generate revenue for the Foundation School Fund and the Fund for Veterans’ Assistance.
- Funding for this Rider would not cost the Appropriation Bill and would also remain within the allowable statutory percentage to administer the lottery under Government Code, Chapter 466 and Rider 3.

Texas Lottery Commission
FY 1992 through FY 2016 Scratch Ticket Sales



Texas Lottery Commission

FY 1992 through FY 2016 Sales, Prize Expense and Transfers



Charitable Bingo FY 2004 through FY 2016 Bingo Prize Fee Collections

