

*Investing in Texas: Financing Health Coverage Expansion  
Conference Proceedings*

**Outlook for Texas**

*David Warner:* It gives me a great deal of pleasure to introduce our speaker for the afternoon, and I must say that this is someone who, when I started at the LBJ School in 1975, he did too, and I am still here, while he has gone out and accomplished a great deal. Senator Rodney Ellis is a graduate of Southern University in Houston, the LBJ School, and the University of Texas School of Law. Right after law school he worked with Judge Phillips in the Court of Appeals, and also briefly at the Railroad Commission. I am sure I have left a few things out, but he also became chief of staff for congressman Mickey Leland from Houston and then became a city councilman in Houston. He served two terms on the city council and is now completing his fifth term (12th year) in the Texas Senate.

During his legislative career, Senator Ellis has authored or sponsored over 300 bills that have become law. Highlights include passage of a \$340 million Texas grant program that provides free college tuition and fees to qualifying students. He also passed a \$506 million tax relief bill creating a three-day sales tax holiday just before school starts and has provided businesses franchise tax relief for job creation, capital investment, research, and development. He has sponsored bills requiring private non-profit hospitals, which receive important tax breaks, to provide modest levels of health care to the uninsured. He also passed, in the last session, the James Byrd, Jr. Act, a tough anti-hate-crime law, and has fought to ban the execution of mentally retarded inmates. During the last session, Senator Ellis served as chairman of the Senate Finance Committee and was intimately involved in the sustained effort to fit Medicaid changes and trends into the Texas budget. He is married to Alicia Green Ellis and has three children.

Finally, I would like to say two things. When President Johnson founded the LBJ School, one of the main ideas he had was that this would a way for people to become involved in politics and increasingly graduates have gone that way, in fact, a number, although I am not sure that President Johnson would completely approve of this, have been elected as Republicans [laughter]. But fortunately Senator Ellis has not strayed from the straight and narrow, and I think he is the highest elected Democratic official who is a graduate of the LBJ School. The current Republican governor of Colorado is also an LBJ graduate. I would also like to point out that Senator Ellis, in the last few sessions, has developed a very successful internship program that has brought many students to the legislature to really understand how things work and to serve on committees and in offices. These were generally students who would not necessarily have found their way to the legislature, and a year-and-a-half ago, when the University of Texas was having a great deal of difficulty attracting minority and especially African-American applicants to the law school, Senator Ellis arranged for a number of very

qualified candidates to come. He has made many significant contributions to higher education, the health system, and the state. I am sure that we are all very interested in hearing his perspective on health funding, the legislature, and the years ahead.

**Rodney Ellis:** Thank you very much Professor Warner. I see that those LBJ students I helped to recruit are doing what they ought to be doing, which is studying, so they won't end up on academic probation like I did. So, I am glad that they are not here. I do have Kalunde Wambua on my staff, who will work on a number health care issues. She is a 1998 graduate of the LBJ School and who did a fine job on writing a great speech. Kalunde, I note here, you gave me just a little outline. Dr. Warner asked you to address the following issues: 1) the uninsured population in Texas, 2) the state's fiscal situation, and 3) the idea of Medicaid waivers.

When I had the privilege of being named Finance Chair this past session, it was a different experience for me because during the 12 years that I have been in the Texas Senate, I have spent most of my time raising what I would consider to be the salient public policy issues of the day, dropping grenades, and from time to time, when I have moderated enough, to pass some pretty meaningful things. Glen Maxey, it's good you got out of the legislature. When you stay in too long, some of the stuff you thought was a big deal when you did it, you find out after it passed, was not that big of a deal after all. Back when I passed that bill aimed at Methodist Hospital in Houston, it was a real big deal, and I had no idea that not-for-profit hospitals in Texas had so many powerful people on their boards, but there were many private jets landing at the Austin airport. They tried to talk to me, but did not seem that concerned about what I would pass. I thought their lobby was strong enough to gut whatever Glen Maxey and I passed, but he put the bill in, not to necessarily go anywhere but just to jerk peoples' chain. The attorney general got after Methodist pretty bad and lost in the trial court as I recall it. I think the issue was John Mattox might have filed that lawsuit when he was attorney general, and then when Dan Morales came around they thought that they would work out a compromise, but the trial court in Harris County ruled that the State of Texas was not the super tax collector for the State of Texas, and it was the Harris County appraisal district that would make that determination. I would like to see what appraisal district would take that kind of heat, so that was going to go nowhere, so we got after it, but that bill had four important things in it.

One, we defined charity care so it meant health care for the poor, as opposed to somebody like Professor Warner or me calling up some not-for-profit hospital and saying, "We have some friends—can you give them surgery?" So we defined charity care as health care for the poor, and we set a minimal amount that hopefully would be perceived as a floor and not a ceiling. We put in that 4 percent of net patient revenue would go into charity care, and the more significant part was that they would have to publicly report it. So, we thought that there would be some peer pressure, and we passed a provision requiring a community needs assessment to hopefully create an atmosphere where people could collaboratively talk about health care, like you are doing today. We probably ought to revisit that issue. Glen Maxey is looking for clients right now, so I am not going to carry that bill, but somebody ought to.

This past go-around, I went from the position of somebody asking for more money to being in a position where we had to decide what we could do with the money we had. Obviously, we divvy up about \$114 billion dollars and spend it over a two-year cycle, but I have four fundamental priorities in the budget that I felt ought to be addressed.

One was health care. I think that in the presidential campaigns, regardless of which side you are on, all of us in Texas should have been embarrassed that we became the poster child for health care reform around the country, and I just made a basic commitment. Lt. Governor Ratliff backed me up 100 percent. I thought that health care ought to be a major issue.

I also feel that we needed to pay our people more. In state government, we cannot compete with the private sector—we're not designed to that—but we ought not be the training ground for Harris County and Travis County and the City of Austin, so at least we need to be competitive with other branches of government. I want to give our people a decent pay raise.

The Texas Grants Program was an important item to me, much more than other aspects of higher education, with all due respect. I think in higher education, our institutions ought to focus on their clients, the students. We do not have a single institution of higher education in Texas that is overcrowded. You have many certain departments that have too many people but there is not a single institution of higher education in Texas where they are turning people down because they do not have seats for them. I have a daughter who is 14. I think when she was in second grade, I went over to her school in Georgia just to see what these second-graders talk about. I know what my daughter talks about but some books tell you that you need to see what their friends are talking about, so I went to her small private international school in Atlanta. And all these kids at this private school were talking about having to get a B average, so that they could get free tuition to go to college. I was scratching my head because I had borrowed money to pay for my child to go to that school, and I figured anybody who paid what I paid does not need to worry about tuition, they need to focus on other aspects, but it made me think, if kids in low-income, inner-city schools in Atlanta, Georgia, were at the lunch table talking about how to get a B average in the second grade, that means that they really were thinking for the long-term, and I did a little research on Georgia's program. Initially, every kid coming from a household with a combined income of no more than \$100,000 a year would get free tuition. It was so politically populated it took the cap off, and they gave it to everybody. I guess, because for most households where the kids come from, if the parents make over \$100,000 a year, when they go to college, you want to get them out of the state anyway. I want to get mine out when they graduate, but it gave the program political sustainability. In Texas, our Texas Grants Program will make it possible for about a 100,000 kids now in universities, colleges, and junior colleges in Texas to get free tuition if they come from households with a combined income of about \$42,000 a year or less. On the senate side, Glen Maxey and I put in for enough money for households up to \$75,000 a year, and I'm going to push for that again.

And the last priority that I had was teacher's health insurance, and I did not have to put a lot of muscle into that on the senate side because I just had a vision. I had a dream that Paul Saddler would ram that down our throats anyway from the house side. But I am real proud of what we did this last session in terms of managing the meager resources that we have.

Currently, there is some concern regarding the growth of Texas expenditures—growth in the budget and state government. From 1995 to 2000, total government spending grew from \$37 billion to about \$50 billion. This is an average annual rate of about 6 percent, and it is comparable to the national growth rate of roughly the same amount. General fund expenditures during that period grew by 4 percent, compared to 5 percent nationally. Yet, at the same time, the total Medicaid expenditures increased 7 percent per year, faster than the national average of 4 percent. The Texas Medicaid budget is about \$25 billion for the biennium. Seventy-two percent of the state's health care expenditures is for health and human services in general, and with the increase comes to about 31 percent of the state's total budget. But when it comes to spending on health care and social service programs, Texas often ranks near the bottom on a per capita basis compared to other states. However, in this past session, the house and the senate made it a top priority. It was driven by the senate, might I add, from the health and human services side. So, we did a pretty good job. We increased funding by 17.1 percent for a total budget for health and human services of \$35 billion. This is one of the most significant increases ever in the State of Texas for health care programs.

In this budget for 2001, we included several health care initiatives that I want to point out: Medicaid eligibility simplification for children, increased reimbursement for nursing homes, increased reimbursement for Medicaid providers, and increased funding to expand the availability of Medicaid waiver programs such as community-based alternatives, and the home- and community-based services program. Finally, we increased funding for the children's health insurance program by almost \$1 billion.

I sat in on one of the workshops earlier today, and I heard a number of concerns raised, basically making the point that we have not done enough. Well, I want to say this to you: good luck if you ever want to get that kind of increase again, and I do not say this from the vantage point of someone who is not sensitive to those issues. I am very sensitive to those issues. I always enjoy when people introduce me and say I have been a leader on civil rights and tax cuts, and I really enjoy it when my Republican colleagues have to read that little thing because I did pass the second largest tax cut in the history of Texas. The largest one was the money we gave back for property tax cuts. When Glen Maxey went on the campaign trail complaining about Bush's tax cuts deal, I was glad he never mentioned that I carried the second largest one. I usually put in bills that have a large, very broad caption. In Florida, they call them trains. You put in a bill that has a large caption, and then when other people cannot get their bills passed, they want to put it on your bill and get a free ride. And so, Bush had trouble getting his tax cut. He took North Carolina's Jim Hunt's R&D (research and development) tax cut bill. And Sibley had the bill but could not get it out of the house, but got it out of the senate. I think somebody else had that franchise tax cut bill and could not get it out of the house but they get it out

of the senate. I had a little sales tax holiday bill, just trying to do my little Christmas in July.

You know I am no idiot. First thing I learned at LBJ School, sometimes leadership is seeing where the train is going and getting in front of it. It was pretty obvious to me, it looked like the governor was going to run for president, and the big issue of the day would be tax cuts. Well, I kind of enjoy my district, you know, people want me to pass bills, and not just talk about what I file but what I pass. So I figured if I want to get anything passed, I needed me some tax cuts too. So, my staff got together and asked me if I had lost my mind. With all of the problems that I complained about all these years, now you want to give a tax cut. So, I had something for them—a little sales tax holiday. You know, I assumed it would be about a \$30 million bill, but I put in about a \$150 million bill. I just made Christmas all of August; tax cuts the whole month of August, which might have come to about \$150 million. Then I figured they could scale it back.

The governor called me in one day and said, “Senator, I have a problem. I have all these major tax cut bills and so far it only looks like I am going to get this property tax thing out of the house and the senate, and I got about four bills that are really important to me and I cannot get them out, and we noticed that your bill had a broad caption, and we wonder if you could work with us?” I said, “Governor, I was wondering when you would ask! I have a list of things I would like you to help me on. If you can’t help me, I would like you to get out of the way.” I won’t mention what my list was, but I will point out that he did not help me too much on those bills, but that is why I did pass the big tax cut bill as I look back on it, when we had money.

The real tragedy in Texas is that we did not invest more money in our people when we had it, because for the foreseeable future we won’t have it. Regardless of whether I am Finance Chair or somebody else is Finance Chair when we go back into the next session of the Texas Legislature, it is going to be a tough call to pass any kind of tax bill, it’s just going to be tough.

It will be real tough, I think, to get a tax bill out. And the real challenge is raising revenue when we need it; if we do not need it, then let’s pass some more tax cut bills. I’ve been real flexible. Obviously I have shown that I can do that as well, but in the event we do need additional money—that means the economy does not pick up— you know, I am optimistic, all these tax cuts are just going to bring more investment into the State of Texas and the economy is going to pick up, but if economy continues to worsen and we do need additional revenue, it is going to be real difficult to make ends meet. If we don’t come up with additional revenue this session, the real challenge is, it will take real leadership to come up with additional revenue in the following session, with a Governor and a Lieutenant Governor, whoever they are, running for statewide office again. Generally, if you pass a tax bill, you do it at the beginning of a four-year cycle. We’ve only had four-year cycles since 1975 when Brisco got his first four-year term, but it has probably not been that often that we get increased revenue when people get ready to run for Governor and Lieutenant Governor again. So if we don’t do it now, you don’t talk about a two-year drought, you talk about a four-year drought.

Lt. Governor Ratliff has asked the finance committee to look at loopholes. I could probably find a fancier way of phrasing it, but to look at loopholes in the tax code like the Delaware Sub. I think he and I are certainly two votes that would get rid of some of those loopholes, but I am still looking for the others, and then the question becomes do you get rid of them in the senate or the house? I think the lawyers would argue if you are getting rid of loopholes as a way of primarily generating additional revenue, you probably read the Constitution and understand it to require that those bills come out of the house first, and even if we did give our house colleague some cover and we could maneuver around the Constitution a little bit and get them out of the senate first and that could be sustained in a court of law, I am not sure the house will pass them any way, so why will we take that heat? So what I am saying is in my humble opinion the prospects for doing as much as we did at this last session are not good, with all due respect to the speakers who were in the breakout session complaining that “we did not do enough.” You better thank your lucky stars that we ended up doing what we did last time.

Regarding prospects for the future, I think we need to do as much as we can to come up with more waivers. We need to do as much as we can to encourage more of a groundswell of political support and to put more money into health and human services. Clearly, being the second largest state with the second or maybe third largest percentage of young people, health care will continue to be a major drain on our economy. We must educate the public about our budget and make the case that if you spend that money on the front side, it is a lot cheaper than spending that money when someone has a serious crisis.

I will be more than happy to take a couple of questions. Thank you for inviting me.

**Stuart Greenfield:** Out of curiosity, I know a number of the states are looking into securitizing their tobacco money settlements. Is that something you will be looking into, and then directing those funds into health care or other priority needs?

ELLIS: It came up this last session. I am not real keen on it. I make my living as an investment banker. I am a merchant of debt and a lot of my banker friends ask me about it. I would not take the lead on it, first of all, because of the perception of a conflict of interest. I would not make any money out of it, obviously, because I am an investment banker. If I went out and pushed, somebody would say I was trying to help my banker friends instead of my lawyer friends. When it came up last time, Attorney General Cornyn had a couple of meetings with the bankers who were pushing it. Rob Junell was not that keen on it. I don't think Lt. Governor Ratliff was afraid and I think that Governor Perry has been pretty neutral on it. I think most of the states that have done it, and you may know better than me, have been smaller states. New York City did it with a little bit of that money but the people that I have seen pushing that for the most part have not been health care policy folks like you. Don't be so sure you will get it by the way. We need to hold out, and health care would not be the only hole in the budget. To the extent people criticize me over the holes in the budget, we have a lot bigger holes than that hole to deal with in terms of a deficit, but don't be so sure that it will all go to health care. It has not been received all that well.

It's a big chunk from the policy side, and two arguments could be made. One is how much would it cost us? How much money do we lose by securitizing it? The other argument that will be made politically would be if we came in and gave our colleagues that much money, don't be so sure it would go to health care first of all, but if we had that much money without a sustainable source of revenue from the taxpayers to pay for it when it's gone, you dig a pretty deep hole. You could make the argument yourself. Right now money always comes in handy, and we had the help of the Comptroller and some very bright people that helped us find some creative ways to make ends meet during this cycle. But once we spend it and we dig those holes, you know, more and more of us are leaving the legislature, but we would be leaving some pretty big holes down the road once that money is gone.

So I am not optimistic on it. I would not rule it out, I just would not take the lead. The bankers have leaned on me thinking because the "merchant of debt" side of me would be sensitive to it; I like bond issues, they've been very, very good to me. So I am not going to take lead on it, but just kind of lay back. Any other questions? If not, thank you very much for inviting me.