

Time to Make the Budget More Transparent for Texas Taxpayers and Lawmakers

Testimony before the Senate Finance Committee

by The Honorable Talmadge Heflin

Chairman Williams and Members of the Committee:

My name is Talmadge Heflin and I am the Director of the Center for Fiscal Policy at the Texas Public Policy Foundation, a non-profit, non-partisan free market research institution based here in Austin. Thank you for taking the time today to delve into what we believe is a matter of utmost importance: improved budget transparency.

My remarks today will focus on how the Legislature can make the budget process more transparent, so that Texas taxpayers and lawmakers—particularly those who do not sit on either the Finance or Appropriations committees—can better understand how the state is spending money.

Today, the Texas state budget is formatted in such a way that even people with advanced degrees have trouble tracking funds in the budget, let alone the average taxpayer or legislator. The problem lies in the strategic budgeting format—or bill pattern—currently used in the appropriations process. The format was first used in the 1993 appropriations bill. The concept behind the strategic format was to give legislators a longer-term view of programs and spending beyond the two years appropriations cycle.

To carry out this new vision, goals, objectives, strategies, and performance measures were introduced into the appropriations bill. Money was no longer appropriated by program but by strategy, with performance measures used to measure the accomplishment of goals over time. However, the process has failed to achieve any meaningful improvements in the efficiency or performance of the state. In fact, the primary result has been a tremendous reduction in the transparency, accountability, and efficiency of the appropriations process.

One reason for this is that the revamped appropriations bill now contains broad statements of goals and outcomes and performance measure. While broad goal statements are useful to describe outcomes, budgets allocate funds for expenditure via objects of expense (salaries, rent, capital, etc.). Appropriators or the public should know which of those objects they are buying to best effect the outcome desired because the state does not buy outcomes; it buys units of input (the objects of expense).

Failure to work at the object or programmatic level skips an important step in the fiscal control process. With inputs the public can know what it is buying and thus those assets can be

managed to produce outcomes. However, if the state doesn't appropriate by programs/objects but instead by goals, there is little control of the cost of inputs in favor of the assumption that there is a link between outcomes and spending. Outcomes may be related to spending, but they may not. For instance, is the Library and Archive Commission's measure of "Customers Satisfied with State Library References & Info. Resources" the most appropriate way to gauge the agency's expenditures? With goal-based budgeting no one has the information to make this determination.

Along these lines, the strategy-based bill pattern obscured where the money was actually being spent. For instance, in the 1989 appropriations bill, one could easily find that the Comptroller of Public Accounts spent \$3.3 million on legal services in central administration and \$20.7 million on the enforcement of tax compliance in field operations. In the 1993 bill, however, that information is impossible to determine. One can determine that the comptroller spent \$177 million dollars on tax compliance and \$97 million of that on "Ongoing Audit Activities," but that is the extent of the detail available in the appropriations bill.

The result is that agency programs—where the money is actually being spent—are largely obscured from public view. It is virtually impossible today to determine what programs are being funded through the general appropriations bill—much less how much money is being spent on them. Even in the agencies' legislative appropriations requests (LARs) where the existence of a program may be noted, rarely can it be ascertained exactly how much funding is going to a particular program, because the funding flows through strategies, not programs. The Legislative Budget Board (LBB) does produce a Fiscal Size-up each biennium where this information may be found, but the information contained in the Size-up is entirely within the discretion of each agency.

Of course, since it would be impossible to manage agency programs this way, each agency has its own internal budgets that allocate money according to programs instead of strategies. This results in essentially two sets of books for each agency so they can track the money based on the appropriations process and based on how the money is actually being spent. It has also resulted in the tracking of information through "performance measures" that are essentially useless to agency managers but are tracked simply to comply with LBB requests for information to keep historical information. While these measures are sup-

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posed to be used to help legislators track agency performance, if they aren't of help to the agency personnel who actually manage the money it is unlikely they will be helpful to others, such as lawmakers or the interested public.

Because of the move to strategic budgeting, the information used by agencies to track the money and success or failure of the programs being administered is lost to both legislators and the public. Only agency personnel and a few LBB analysts can translate and understand the information. It would make much more sense for the Legislature to use the information and reports at the program level that the agencies use to build the state's budget and appropriations bills.

Another challenge with the current bill pattern is there is no way to identify the source of funds being spent on each line item. For instance, in 2009, the Texas Education Agency was appropriated \$27.9 million for "Central Administration" under Strategy B.3.4. However, it is impossible to determine whether the source of those funds were general revenue, general revenue-dedicated, constitutionally dedicated funds, federal funds, or other funds. While the source of these funds can be identified to some extent in an agency's LAR, LARs are released to the public over a year after the appropriations bill is passed, and the information on funds is based on amounts budgeted by agencies, not appropriated by the Legislature.

A state budget should be transparent to aid taxpayers, legislators, and others in understanding what they are paying for.

Finally, with line items as large as \$18.2B for the state's Medicaid program (representing more than one-tenth of the entire Texas budget), the current bill pattern ranges from difficult to impossible to have meaningful information about what the money in such large line items is actually used for. It also makes it virtually impossible for a governor to exercise line item veto authority to eliminate spending for individual programs.

To fix this problem, the state should move from a strategic planning and budgeting system to a program-based budgeting system. The budget should be written so that each agency's income and expense is listed by program, as is done in the agency's own internal budget. And the source of funds should be also listed in each line item. Making the change over to a program-based budgeting system is an effective way to simplify the budget process for taxpayers and get more eyes on the budget. In turn, this will multiply our chances at spotting waste, fraud and abuse.

Recommendation(s):

During the 82nd Regular Legislative Session, an effort to overhaul the format of the General Appropriations Act was undertaken, but ultimately proved unsuccessful.* However, this effort found limited success during the First Called Session of the 82nd Texas Legislature when legislators included a scaled-down version of the proposal in Section 34.06 of Senate Bill 1. The requirement reads as follows:

Section 34.06. It is the intent of the legislature that the Legislative Budget Board place information on its Internet website that provides additional program detail for items of appropriation in the General Appropriations Act. The Legislative Budget Board shall include as additional program detail the specific programs funded, the source of that funding, and the related statutory authorization.

The inclusion of this directive to the Legislative Budget Board (LBB) is a good first step, as it will provide interested parties with a measure of program-based budgeting information; however, it is still uncertain whether, after reading this provision, all the various versions of the appropriations bill will include this information. That is to say, there is still too much uncertainty about the level of information the state will offer interested parties, and lawmakers should consider still further reforms.

To provide taxpayers and most legislators with more and better information about the Texas budget, the Foundation urges the Committee to consider enacting the following transparency reforms:

- Include more line items (and thus more information);
- Limit the size of line items to amounts that describe discreet programs, or if a program is very large, to discreet activities within those programs;
- Line items based on programs and activities should describe what the program does and where it is authorized in law; and
- Line items should have more information about the source of funds (general revenue, general revenue-dedicated, federal funds, and other funds) being appropriated.

As the next session approaches, the Legislature would do a great service to Texas taxpayers and Members outside the appropriations process by transitioning away from the strategic budgeting format and into a program-based budgeting layout.

Thank you for your time and I look forward to answering any questions that you may have. ★

* During the 82nd Regular Legislative Session, the Foundation promoted and testified on behalf of [House Bill 2804](#), a bill that would have changed the layout of the appropriations bill from a strategic budgeting format to program-based budgeting. However, the bill failed to get out of committee.

