Budget Transparency & Zero-based Budgeting

The Issue

The Texas Legislature will likely be flush with cash in 2015 as the state's booming economy continues to grow and produce record revenues. Given this revenue-rich environment, it is critical that lawmakers take steps to increase budget transparency so that hard-working taxpayers can better understand how their tax dollars are being spent.

To better account for spent tax dollars, root out inefficiencies in the state budget, and make clear to taxpayers why each agency and program is necessary, lawmakers should change the state budget's layout from a strategic planning and budgeting-based system to a program-based budgeting format. They should also require a small subset of state agencies to undergo a routine zero-based budgeting process each biennium. Collectively, these vital steps will allow legislators to reevaluate core state agency priorities and provide Texans with a better understanding of the use of their tax dollars.

Today, the General Appropriations Act (GAA), the bill creating the state budget, is laid out in such a way that it's almost impossible for anyone—legislators and taxpayers alike—to track state spending by program. Program-level specifics are vital to the public's understanding of the fiscal prudence, or lack thereof, exhibited in each agency.

Fortunately, the Legislative Budget Board (LBB) recently took steps to create an online application on their website that displays the state budget by program. Now taxpayers can search for program-level spending information, a short explanation of the program, and its statutory authorization.

This application is a good first step, but currently the information provided is only informational and is not frequently updated, particularly as the GAA moves through the legislative process. Legislators could do more to educate the public by shifting to a program-based budgeting system that includes basic, easy to understand information about each program. This will help hold the state accountable for its spending practices and help educate and empower taxpayers in the process.

Another key step is to implement a zero-based budgeting system that requires a certain percentage of state agencies to undergo a complete review and build each one's operating budget from scratch. This will not only help increase transparency, but it will also help legislators exercise greater budget-writing control.

In addition to the lack of transparency, the current strategic and planning-based budgeting system assumes that all previous expenditures are justified and necessary going forward then adds automatic spending increases on the previous budget. This current services model is highly inefficient.

Zero-based budgeting does not make this assumption and starts a budget from zero. Since this method requires an in-depth analysis of each agency's line-item expenditures, it takes more time and effort—but the results are well worth the investment.

In 2003, Texas faced a projected $10 billion shortfall. Governor Perry sent the Legislature a budget with zeros next to each agency's line item and publicly stated that he would be against any budget that included a tax increase. The Legislature was asked to do the hard work of taking a detailed examination at what had become traditional spending patterns. In the end, the Legislature bridged the $10 billion budget shortfall by rooting out inefficiencies within each agency and avoided raising taxes.

A key part of making zero-based budgeting a success includes reviewing all aspects of an agency or program, including its purpose and goals as well as the metrics used to gauge success or effectiveness.

This zero-based budgeting approach put Texas on a path of government restraint and lower taxes that set the stage for Texas' remarkable economic success.

The Facts

- The current strategic and planning-based budgeting system, which links appropriations to strategies and goals rather than programs, obscures how government agencies are spending money and why.

- The LBB increased budget transparency by developing an online application offering program-specific budget details.

- House Bill 98, proposed during the 83rd Regular Session, would have moved the state to zero-based budgeting by requiring one-third of all state agencies to undergo a zero-based budgeting process before the start of each legislative session. However, the bill was unsuccessful.

- Zero-based budgeting results in a more thorough analysis of the entire budget, rather than just considering the amount of spending above or below the baseline, making it time-consuming for both lawmakers and budget administrators. However, the method holds enormous promise as demonstrated in 2003 when state lawmakers, faced with a $10 billion budget shortfall, balanced the state budget without a tax increase.

Recommendations

- The Legislature should move from strategic planning and budgeting system to a program-based budgeting system. This will allow the budget layout to be more intelligible for legislators and taxpayers, making it easier for all to understand how state money is spent and for what purpose.

- The Legislature should adopt zero-based budgeting to ensure taxpayers get the most value of the programs and departments they fund.

- Because zero-based budgeting is more difficult than traditional budgeting, it is hard to sustain; therefore, lawmakers may want to consider applying this comprehensive tool to about one-third of the budget every biennium. For example, education in one session, health and welfare in the next, and then all other budget items.

Resources

Testimony before the House Committee on Appropriations Subcommittee on Budget Transparency and Reform Regarding House Bill 98 by Talmadge Heflin, Texas Public Policy Foundation (Apr. 2013).

Using Zero-Based Budgeting in Texas by Chuck DeVore, Texas Public Policy Foundation (May 2012).

Time to Make the Budget More Transparent for Texas Taxpayers and Lawmakers Testimony before the Senate Finance Committee by Talmadge Heflin, Texas Public Policy Foundation (Sept. 2012).