

Texas Public Policy Foundation

Keeping Texas Competitive

A Legislator's Guide to the Issues 2013-2014



Zero-based Budgeting

The Issue

Only with great effort is the constant growth in government checked. Zero-based budgeting is a discipline that, if applied correctly and judiciously, allows lawmakers to exercise greater control when developing a budget. There are five basic approaches to budgeting in the realm of government: current-services; traditional/incremental; program-based; performance-based; and zero-based. It's common to see a blend of these budget approaches used within a governmental entity.

Current-services budgeting is often used for entitlement programs or public safety. It presumes that a certain level of "service" is needed to be met by government. Often left unchallenged are underlying assumptions that government should be providing services to a group of people or that the method of providing those services should remain the same as it is scaled up or down or as technology changes.

Traditional or incremental budgeting uses the previous budget as its starting point on top of which an automatic increase in spending is layered. As with current-services budgeting, it assumes that all previous expenditures are justified and necessary going forward.

Program-based budgeting builds a budget around programs, maintaining government for its own sake. However, coupled with zero-based budgeting, it can provide more transparency in budgeting.

Performance-based budgeting requires agencies and programs to meet performance criteria. It looks at how much can be obtained from a tax dollar, requiring detailed or measurable justification from the agency seeking to spend money. It is a necessary tool used in zero-based budgeting.

Zero-based budgeting starts a budget from zero. This method takes more work and time as budget line items are scrutinized and their justifications are verified and considered.

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. This set the tone that, rather than hike taxes or borrow to finance higher levels of spending, the Legislature would be asked to do the hard work of taking a detailed examination at what had become traditional spending patterns. This zero-based budget put Texas on a path of government restraint and lower taxes that set the stage for Texas' remarkable economic success over the past 10 years.

Zero-based budgeting isn't easy, however, and has not been used by the State of Texas for the last nine years.

While the process of zero-based budgeting provides the people's elected legislative representatives with a thorough understanding of how and why every taxpayer dollar is spent, this understanding comes at the cost of a strenuous investment of time from both agency administrators and lawmakers. 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. Lastly, it is important to avoid the common pitfall of putting the same people or interests who might be impacted by program changes, consolidations or eliminations in charge of their own review.

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The Facts

- Zero-based budgeting is one of five basic types of budgeting processes.
- Texas last used zero-based budgeting in its truest form in 2003.
- Zero-based budgeting results in a more thorough analysis of the entire budget, rather than just consideration of the amount of spending above or below the baseline.
- Zero-based budgeting is hard and time-consuming for both lawmakers and budget administrators.

Recommendations

- The State of Texas should adopt zero-based budgeting to ensure taxpayers get the most value for 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 budget tool to about one-third of the budget every biennium. For instance, education in one session, health and welfare in the next, and then all other budget items.

Resources

“Zero-Based Budgeting Resurfaces,” Georgia Public Broadcasting News. The State of Georgia used zero-based budgeting in the 1970s, but abandoned it as too hard to use every year. They are now employing zero-based budgeting for a portion of the budget every year (Jan. 17, 2012).

H.R. 821, a bill to bring zero-based budgeting to the Federal government, proposed by U.S. Representative Dennis Ross (R-FL).

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

