

Make the Budget Process More Transparent: HB 2804 and SB 1653

Over the long term, one of the most important reforms the Legislature can enact to promote fiscal responsibility is to make the appropriations process more transparent.

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 bills each session. 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 programs 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 a can of coke that costs \$5 better than one that costs \$5.04? 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 the 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 Leg-

islative 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 budget that allocates 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 it 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 are supposed to be used to help legislators track agency performance, if they aren’t of help to agency personnel it is unlikely they will be helpful to others.

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, 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 \$18.4 billion (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.

The state budget should be changed as follows:

- Include more line items (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.
- Line items should have more information about the source of funds (general revenue, general revenue-dedicated, federal funds, and other funds) being appropriated

Two bills have been filed in the 82nd Texas Legislature that would move the state toward program-based appropriations—HB 2804 by Cain and SB 1653 by Watson. The directions for preparing the general appropriations bills to the Legislative Budget Board in both of these bills would drastically improve the transparency of the Texas budget process. ★

As an example of improved transparency, the following pages contain, first, an example of what the bill pattern might look like for the Texas Department of Agriculture under the guidelines of HB 2804 and SB 1653, and second, the current bill pattern for TDA today.

Department of Agriculture (potential program-based appropriations bill)

	For the Years Ending	
	<u>August 31, 2012</u>	<u>August 31, 2013</u>
Method of Financing		
General Revenue Fund	\$ 45,448,841	\$ 40,894,998
Federal Funds	424,746,438	458,688,393
<u>Other Funds</u>		
Farm and Ranch Finance Fund Account No. 575	86,669	82,669
Appropriated Receipts	1,839,711	972,904
Texas Agricultural Fund No. 683	423,044	416,044
Interagency Contracts	449,582	449,582
Subtotal, Other Funds	<u>2,795,006</u>	<u>1,921,199</u>
Total, Method of Financing	<u>\$ 472,990,285</u>	<u>\$ 501,504,590</u>

Other Direct and Indirect Costs Appropriated Elsewhere in this Act

This bill pattern represents an estimated 99.8% of this agency's estimated total available funds for the biennium

Number of Full-Time Equivalent (FTE)	566.9	566.9
Number of FTEs in Riders	80.7	80.7

Schedule of Exempt Positions

Commissioner of Agriculture, Group 5

Items of Appropriation:

Administration

- Commissioner
- General Counsel
- Internal Audit
- Financial Services
- Administrative Services
- Communications
- External Relations
- Regional Offices

Total: Administration

Pesticide Programs

- Certify, license, & train pesticide applicators
- License pesticide dealers
- Register pesticide products
- Investigate complaints
- Right-to-Know Program
- Pesticide Laboratory
- Integrated Pest Management

Total: Pesticide Programs

continued

Regulatory Programs

- Seed-Quality Verification
- Inspect Measuring Devices
- Metrology Labs
- Commodity Warehouses
- Handling and Marketing of Perishable Commodities
- Produce Recovery Fund
- Egg Quality
- Pests/Diseases Program
- Fire Ant Program
- Pest Quarantine Program
- Nematode Program
- Disease Protection

Total: Regulatory Programs

Agricultural Marketing and Research Programs

- Texas Cooperative Inspection Program
- Marketing and Promotion Program
- Go Texan Program
- Go Texan Partner Program
- Livestock Export Pens
- Seed Certification Program
- Family Land Heritage Program
- Market News Program
- Texas Agricultural Statistics Service
- Texas-Israel Exchange Research Program
- Zebra Chip Disease Program
- Feral Hog Abatement Program
- Oyster Industry Advertising and Promotion Program
- Texas Shrimp Marketing Program
- Texas Wine Marketing Assistance Program

Total: Agricultural Marketing and Research Programs

Rural Economic Development Programs

- Texas Capital Fund
- Texas Agricultural Finance Authority
 - Agricultural Loan Guarantee Program
 - Young Farmer Interest Rate Reduction Program
 - Your Farmer Grant Program
 - Interest Rate Reduction Program

Total: Texas Agricultural Finance Authority

Total: Rural Economic Development Programs

Nutrition Programs

- School Lunch program
- Breakfast program
- After School Snack Program
- Child and Adult Food Care Program
- Summer Food Services Program
- Special Milk Program
- Food Distribution Program
- Texas Commodity Assistance Program
- Commodity Supplemental Food Program

Total: Nutrition Programs

Grand Total: Department of Agriculture	<u>\$ 472,990,285</u>	<u>\$ 501,504,590</u>
Supplemental Appropriation Made in Riders:	4,299,355	4,299,355

Article VI Natural Resources Department of Agriculture (current bill pattern)

	For the Years Ending	
	August 31, 2012	August 31, 2013
Method of Financing:		
General Revenue Fund	\$ 45,448,841	\$ 40,894,998
Federal Funds	424,746,438	458,688,393
<u>Other Funds</u>		
Farm and Ranch Finance Program Fund Account No. 575	82,669	82,669
Appropriated Receipts	1,839,711	972,904
Texas Agricultural Fund No. 683	423,044	416,044
Interagency Contracts	449,582	449,582
Subtotal, Other Funds	<u>\$ 2,795,006</u>	<u>\$ 1,921,199</u>
Total, Method of Financing	<u>\$ 472,990,285</u>	<u>\$ 501,504,590</u>
Other Direct and Indirect Costs Appropriated Elsewhere in this Act	\$ 7,301,420	\$ 7,182,293
This bill pattern represents an estimated 99.8% of this agency's estimated total available funds for the biennium.		
Number of Full-Time-Equivalents (FTE):	566.9	566.9
Number of FTEs in Riders:	80.7	80.7
Schedule of Exempt Positions:		
Commissioner of Agriculture, Group 5	\$137,500	\$137,500
Items of Appropriation:		
A. Goal: MARKETS & PUBLIC HEALTH		
Expand Markets While Protecting Public Health & Natural Resources.		
A.1.1. Strategy: ECONOMIC DEVELOPMENT	\$ 2,244,871	\$ 1,369,709
A.1.2. Strategy: REGULATE PESTICIDE USE	\$ 6,177,326	\$ 6,178,907
A.1.3. Strategy: INTEGRATED PEST MANAGEMENT	\$ 10,003,129	\$ 10,053,422
Reduce Pesticide Use through Integrated Pest Management Practices.		
A.1.4. Strategy: CERTIFY PRODUCE	\$ 182,279	\$ 178,605
Certify Fruits, Vegetables and Peanuts to Enhance Their Marketability.		
A.1.5. Strategy: AGRICULTURAL PRODUCTION DEVELOPMENT	<u>\$ 4,576,337</u>	<u>\$ 3,839,039</u>
Total, Goal A: MARKETS & PUBLIC HEALTH	<u>\$ 23,183,942</u>	<u>\$ 21,619,682</u>
B. Goal: ENFORCE STANDARDS		
Protect Consumers by Establishing and Enforcing Standards.		
B.1.1. Strategy: SURVEILLANCE/BIOSECURITY EFFORTS	\$ 3,386,100	\$ 3,444,695
Implement Surveillance and Biosecurity Efforts for Pests/Diseases.		
B.1.2. Strategy: VERIFY SEED QUALITY	\$ 2,297,369	\$ 2,386,168
Verify the Quality and Type of Seed Desired.		

B.1.3. Strategy: AGRICULTURAL COMMODITY REGULATION Regulate Commodity through Verification, Licensing, Inspect, & Enfmnt.	\$ 1,067,571	\$ 2,454,414
B.1.4. Strategy: STRUCTURAL PEST CONTROL	\$ 1,076,772	\$ 2,567,381
Total, Goal B: ENFORCE STANDARDS	<u>\$ 9,205,454</u>	<u>\$ 9,475,016</u>
C. Goal: ENSURE PROPER MEASUREMENT Increase Likelihood That Goods Offered for Sale Are Properly Measured.		
C.1.1. Strategy: INSPECT MEASURING DEVICES Inspect Weighing and Measuring Devices/Reduce Violations.	\$ 5,185,532	\$ 5,141,129
D. Goal: FOOD AND NUTRITION Provide Funding and Assistance on Food and Nutrition Programs.		
D.1.1. Strategy: SUPPORT NUTRITION PROGRAMS Support Nutrition Programs in Schools.	\$ 33,884,849	\$ 39,554,483
D.2.1. Strategy: NUTRITION ASSISTANCE	<u>\$ 401,530,508</u>	<u>\$ 425,714,280</u>
Total, Goal D: FOOD AND NUTRITION	<u>\$ 435,415,357</u>	<u>\$ 465,268,763</u>
E. Goal: FOOD AND FIBERS RESEARCH Support and Coordinate Fibers and Food Protein Research.		
E.1.1. Strategy: RESEARCH AND DEVELOPMENT Review, Coordinate, and Fund Research and Development Programs.	\$0	\$0
Grand Total, DEPARTMENT OF AGRICULTURE	<u>\$ 472,990,285</u>	<u>\$ 501,504,590</u>

About the Texas Public Policy Foundation

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