

Using Zero-Based Budgeting in Texas

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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.

The importance placed on budgeting can vary greatly depending on who's doing the planning, whether a family, a business, or a government.

Most families have a limited ability to spend beyond their income for an extended period of time. This means that the consequences of not budgeting properly are sure and relatively immediate. So families tend to watch their budgets very closely.

Business has a profit motive. Business spending, as a result, is tied to bottom line questions: will this particular line item improve our competitiveness, is it needed to make the product, is it a prudent investment? A business that gets the answers to these questions more right than wrong will prosper; one that gets them more wrong than right will likely fail in time. While businesses can generally last longer than families when running a deficit, they still must pay close attention to budgeting.

Budgeting for government is different. Governments go bankrupt at a far lower rate than families and businesses because, unlike a family or business, government can support runaway spending by forcefully compelling payments to itself via taxes and fees, by borrowing with future revenue used as collateral, or by inflating the money supply. As a result, government budgets are not as closely scrutinized as a family or business budget.

The budget building process itself influences the outcome just as the nature of the entity doing the budgeting does. There are five basic approaches to budgeting in the realm of government: current-services; traditional/incremental; program-based; performance-based; and zero-based.^{1*} 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" or "caseload" 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, meaning that only additions or deletions to the current budget need be examined.

Program-based budgeting builds a budget around programs and the expected benefits of those programs. This form of budgeting is intended to help appropriators understand the policy implications of their choices over an extended period of time. It can lead to the maintenance of government for its own sake.

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. Some budget experts consider this to be Texas' approach.[†]

Zero-based budgeting starts a budget from zero. This method takes more work and time as budget line items are scrutinized and their justifications verified and considered. Often a ranked priority order of funding requests for new and existing programs is made with alternative service levels shown. So, unlike a traditional, or in-

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* *Performance-Based Budgeting: Concepts and Examples, Research Report No. 302*, by the State of Kentucky's Legislative Research Commission, Greg Hager, Ph.D., Alice Hobson, and Ginny Wilson Ph.D., sets out four approaches, rolling current-services budgeting into the others and adding "combination" as a category in Appendix A.

[†] *Ibid.*

cremental budget, where only the changes to the previous budget are justified, the entire budget request is justified.

In Texas, the General Appropriations Act (GAA) is the budget document that allocates funds to various state agencies and details how funds may be spent and programs operated.

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 sent the message 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 by looking at the entire budget, rather than just the proposed change, more money or less money, from the previous budget. This zero-based budget kept Texas on the path of relative 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 hasn't 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.

Among the states, Georgia has lengthy experience with zero-based budgeting—first used there in the 1970s by Governor Jimmy Carter who employed it for all state agencies. Eventually, the process broke down and was discarded because both agency leaders and lawmakers were incapable of digesting the large volumes of data on a sustained basis.² Former Georgia Governor Sonny Perdue vetoed a zero-based budget bill in 2010, with the Georgia Senate voting to override the veto in January 2011.

* See full text of H.R. 821.

Georgia's current governor, Nathan Deal, announced his support for a zero-based budgeting plan that would have all state agencies justify all spending on an eight-year rolling schedule. The governor's 2013 budget proposal recommends zero-based budgeting for 10 percent of state programs.

Similarly, U.S. Representative Dennis Ross (R-FL), has proposed H.R. 821, a bill to bring zero-based budgeting to the Federal government.* Congressman Ross' bill requires the Office of Management and Budget to publish guidelines for Federal departments and agencies to produce baseline budgets that start at zero and then justify each expenditure as if it were new while providing the "legal basis for each activity" and "three alternative funding levels for the budget year" at least two of which would be less than the previous year, explaining what could be done for the money with measures of "cost efficiency and effectiveness" also provided.

Based on Texas' own experience with zero-based budgeting in 2003 and lessons-learned in the State of Georgia, the budgeting process in the State of Texas would likely benefit from the implementation of zero-based budgeting along the lines of Georgia's current plans.

In Texas, with its biennial budget process and part-time legislature, appropriators might consider using the more intensive zero-based budgeting approach on about one-third of government spending every two years. Using this method, for example, the 36 percent of the state budget spent on education could be examined from the ground up in one legislative session, followed by the 23 percent spent on health and welfare, then, the 41 percent spent on other government functions—with the process starting over. Thus, every six years, the entire state budget would be subject to a thorough going over.

This approach would avoid the data overload that led to Georgia abandoning its zero-based budgeting in the 1970s while giving time for measurable program results to be generated for later legislative sessions to consider. Further, a six-year cycle would also allow new technologies and methods to be implemented and fully examined on a regular basis. ★

¹ Glossary of state budget terms, *Sunshine Review*.

² Georgia Public Broadcasting News, "Zero-Based Budgeting Resurfaces" (17 Jan. 2012).

