

Governor Rick Perry's Budget Reform Initiative

The Need for Change:

We have made the budget more transparent and understandable. There is room for more improvement. The budget should be clear. Transparency is a necessary step for further accountability.

Governor Rick Perry's Budget Reform Proposals:

- 1) Simplify the Article VIII constitutional spending limit to make it effective.
- 2) Truth in Spending – Use dedicated funds for their intended purpose or return the money.
- 3) Require detailed budget line-items to restrain spending.
- 4) Have every agency publish expenditures online in a clear, concise and consistent format.
- 5) Amend the constitution to allow the state to return surplus revenue to taxpayers.
- 6) Implement the following systemic changes to improve the state budget process:
 - Authorize Governor to appoint a state Inspector General.
 - Require Comptroller to publish methodology and data underlying revenue estimates.
 - Require Comptroller to do follow-up audits comparing the actual costs or savings of bills signed into law to the final fiscal notes for those bills.
 - Require LBB to publish methodology and assumptions underlying fiscal notes including input from affected parties.
 - Authorize the Attorney General to identify all budget riders that make general law, so they may be removed from the state budget.
 - Require agencies to separate and identify legal requirements from optional programs, administration, and salaries in their budget requests.

1. SIMPLIFY THE ARTICLE VIII CONSTITUTIONAL SPENDING LIMIT TO MAKE IT EFFECTIVE.

Objective: Revise the Article VIII spending limit to make it effective. This should be done either by changing the indicator of economic growth used to calculate the limit and/or broadening what is subject to the limit.

Problem: The pay-as-you-go spending limit and the Article VIII spending limit are supposed to work in tandem to control state spending. The pay-as-you-go limit prohibits the state from spending more than it has in revenue (the “balanced budget” requirement), while the Article VIII limit prohibits state spending from growing faster than the state’s economy. The problem with the Article VIII limit is that the indicator used to measure economic growth – personal income – has grown so fast over the past decade that the Article VIII limit is no longer a meaningful restraint on spending.

In addition, the limit does not apply to all state spending. Currently, the limit applies only to spending from tax revenues not dedicated by the constitution. This narrow scope means that a good portion of state spending is not subject to the limit. For example, in the 2006-2007 biennium almost 40% of all state dollars spent were not subject to the limit.

Proposed Solution: In order to make the Article VIII limit effective in controlling spending, the state should:

- No longer use personal income as the sole measure of state economic growth. Other economic growth measures exist such as Gross State Product or population plus inflation, and to make the limit meaningful, the state should calculate the limit using a different measure (or some combination of available measures).
- Amend Article VIII, Section 22 of the constitution to simplify what spending is limited. The constitution could be amended to make all state spending (everything other than federal funds) subject to the spending limit.

2. TRUTH IN SPENDING – USE DEDICATED FUNDS FOR THEIR INTENDED PURPOSE OR ELIMINATE THEM.

Objective: Use dedicated funds, fees, and taxes only for the purpose for which they were collected. Stop depending on dedicated account balances to support general state spending.

Problem: The General Revenue (GR) Fund consists of non-dedicated GR and GR-dedicated accounts. Both are used to fund the state budget. The non-dedicated portion of the GR fund serves as the state's primary operating fund and includes most state tax revenues such as the franchise, sales, oil and natural gas and others as well as many state fees. These funds can be used for any purpose. Conversely, there are approximately 200 dedicated accounts that receive revenue dedicated by the constitution or statute for a particular purpose. This funding can only be used for limited purposes – but any amounts leftover in these accounts can be counted as “available revenue” and used to balance the budget. This is a problem.

Prior to the funds consolidation process established in the early 1990s, most accounts that are now dedicated general revenue existed as separate funds outside of GR. Through funds consolidation, most of those special funds were brought into the GR Fund as dedicated accounts. Recently, funds with significant balances like the Telecommunications Infrastructure and System Benefit Funds were reclassified as GR-dedicated accounts primarily to help balance the budget.

In the most recent certification estimate, more than \$2 billion in dedicated account balances were identified as revenue that could be used to balance the 2006-07 budget. Clearly, the use of such large balances creates a disincentive to use dedicated accounts for their intended purpose and exposes the state to questions of whether it is spending within its means.

Proposed Solution: Taxes or fees collected for certain purposes either should be used for those purposes or discontinued. Spending authority should be granted on the basis of demonstrated results, not simply because dedicated funding is available.

3. REQUIRE DETAILED BUDGET LINE-ITEMS TO RESTRAIN SPENDING.

Objective: Make the state budget a more detailed document with more line-items that must survive the scrutiny of a governor's line-item veto authority as well as the taxpaying public.

Problem: Prior to the release of Governor Perry's 2004-05 budget proposal, *A Framework for Open Government (Framework)*, the state budget provided little detail about how state funds were allocated. The ideas contained in the *Framework* prompted significant changes to the budget so that agency budgets were clearer and appropriately detailed.

Despite this progress, Texas can do a better job of providing meaningful budget information to lawmakers and average taxpayers. In particular, appropriations to institutions of higher education were left unchanged after the budget reforms of 2003 and must be changed.

Further, appropriating money in huge sums, often in billions or hundreds of millions of dollars, significantly restricts a Governor's ability to exercise his constitutional duty to review the appropriation bill and veto expenditures which do not meet with the Governor's approval.

Proposed Solution: The following reforms are logical next steps in the ongoing effort to make the state budget more informative and useful:

- All state higher education institutions currently receive lump sum appropriations. Texas should adopt a uniform higher education budget structure that allocates funding for Instruction, Operations, Physical Plant/Maintenance, and Special Items through 15 common items of appropriation.
- Separate the strategic planning process from the budget process except for key measures to allow state agencies to request and receive funding based on programs and objects of expense.
- Appropriate benefits, debt service, and all other "end of article" appropriations directly to each agency. These funds represent a significant state expense that is not reflected in each agency's appropriation. Instead, these expenses are lumped together at the end of each article (function of government) in the appropriations bill.

4. HAVE EVERY AGENCY PUBLISH EXPENDITURES ONLINE IN A CLEAR, CONCISE, AND CONSISTENT FORMAT.

Objective: Require state agencies to disclose all of their expenditures online so this information is available to taxpayers.

Problem: There is currently no practical way to see how the state of Texas actually spends its money. The level of detail provided in agency budget requests, such as programs, salaries, and office supplies, identifies the type of expenditures agencies are making, but does not reveal the vendors or other entities receiving payment. The only way this information is currently available is by asking the agency a series of specific questions.

Proposed Solution: Taxpayers have a right to know how state funds are being spent. They should easily be able to find out how agencies are spending their appropriations and what vendors or contractors are receiving state funds for providing goods or services. For example, the Texas Medicaid program pays \$17 billion a year to health care providers and other vendors; yet, very little information is available on which providers are the largest recipients of those payments. To that end, Texas should:

- Require each agency to publish online a simple, easy-to-understand “checkbook” of expenditures.
- Require the Comptroller’s office to make information on warrants issued to vendors available online in a searchable format by agency and type of expenditure.
- Require all state agencies to use the same accounting and personnel tools. Currently, each state agency can use whatever accounting or human resource applications they choose. There is no standardization. Texas should start to transition towards a commonly shared computer system for these type of activities.

5. AMEND THE CONSTITUTION TO ALLOW THE STATE TO PROVIDE TAX REFUNDS.

Objective: Amend the constitution to authorize the state to return surplus revenue to taxpayers.

Problem: Article III, Section 51 the Texas Constitution prohibits the state from granting public money to individuals for any purpose other than a public disaster. Additionally, Article XVI, Section 6(a) of the constitution provides that the legislature may not appropriate money for private or individual purposes. In the past, these provisions have been construed to prohibit the state from giving money or any valuable property directly to individuals. Therefore, even if the funds are available, the state cannot return surplus revenue to taxpayers.

Proposed Solution: The constitution should be amended to clearly authorize the state to return surplus revenue to taxpayers. Rather than changing any existing provisions, a new amendment should be added which authorizes the return of surplus revenue under a certain set of conditions notwithstanding any existing provisions to the contrary.

6. ADDITIONAL CHANGES TO IMPROVE THE STATE BUDGET SYSTEM.

Implementing the 5 proposals outlined above is only the first step towards improving the state budget process. A number of smaller changes could also be made.

Fraud

The Governor should have clear authority to appoint an Inspector General who can combat fraud and root out inefficiency across all agencies of state government. An Inspector General would coordinate existing fraud programs and Inspectors General at agencies, coordinate internal auditors, integrate fraud investigations, and be a central contact for fraud reports and employee suggestions.

Revenue Estimate

The Comptroller should be required by law to publish the methodology and data underlying the revenue estimate which is used by the legislature to establish the state budget every two years.

Fiscal Notes on Legislation

The Legislative Budget Board should be required to publish the complete methodology and basis for the projections of future spending and savings that is determined for each piece of legislation that is considered by the legislature.

For all bills signed into law, the Comptroller should have the authority to do audits on the projections in the fiscal notes to verify that the actual increase or decrease in expenditures occurred due to the legislation once it is enacted. These follow-up audits would prevent the possibility of agencies and others from influencing the passage of a bill by manipulating the projected fiscal impact.

Appropriations Riders

The Attorney General should identify all budget riders which make general law in the state budget so they can be removed.

Agency Appropriations Requests

In their legislative appropriations requests, agencies should be required to separate their programs required by law from optional programs, administration, and salaries.