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THE ISSUE

There is no doubt that some expenditures in the state budget are higher priorities than others. Public education, higher education, and health care spending always take center stage in terms of the attention they receive because of their sheer size. Other pieces of the budget, such as criminal justice, the judiciary, and roads, are funded as a matter of course.

Regardless of whether state revenues are growing at a high rate or low rate, resources are finite and therefore choices must be made. Should more prisons be constructed, or should teachers receive a pay raise? Should more funds be devoted to health care where there is a federal match, or should higher education receive more funding?

A dollar devoted to one area in the state budget is a dollar that cannot be devoted to another. Therefore, priorities must be determined, but there has been no clear, consistent set of principles guiding budget development. Thus, taxpayers are left without a meaningful way to assess the efficacy of the use of tax dollars. Additionally, the system in place makes it easier for funds to be spent frivolously without accountability.

Lawmakers must first ask fundamental questions to determine if a program or agency should be funded at all, such as:

- ★ Is a program/agency consistent with the mission of Texas' state government?
- ★ Are the benefits from a program or agency unambiguous and universal?
- ★ Do the benefits of a program or agency clearly outweigh the costs?
- ★ Is the program or agency fulfilling a need only government can fill?
- ★ Does an existing program or agency show evidence of past success?

If an agency's or program's existence can be justified, lawmakers must then ask questions to help them determine which of these should get priority in receiving funding that will ALWAYS be limited. These questions might include:

- ★ Does a program or agency protect private property?
- ★ Does it protect individual liberty?
- ★ Does it enhance private enterprise?
- ★ How difficult is it to measure the performance of a program or agency?
- ★ How well does an agency's performance stack up compared to others?
- ★ How well does the success of a program or agency stack up over time?
- ★ Is there evidence that continued or increased funding will significantly improve or maintain outcomes?



- ★ Are the general benefits of a program evenly distributed across the state?
- ★ Does a program or agency exist only for the sake of gaining federal funds?
- ★ Is the program's existence owed to the fact that other states fund similar programs?

THE FACTS

- ★ There is no clear, consistent set of budgeting principles for determining spending priorities regularly followed by the Texas Legislature.
- ★ Relative expenditure levels among the major categories of the budget seem to vary most according to whether federal funds can be gained from additional state spending.

RECOMMENDATIONS

- ★ Adopt a set of budgeting principles that guide budgeting decisions.
- ★ Budgeting principles should not allow for the possibility of funding something just because it has been funded in the past.
- ★ The first budgeting principle should be to fund only those functions or programs that clearly benefit all Texans; the benefits must clearly outweigh the costs of any given program.

RESOURCES

- *Principles for Determining Budget Priorities* by Talmadge Heflin and Byron Schломach, Texas Public Policy Foundation (July 2006) <http://www.texaspolicy.com/pdf/2006-07-PP-budgetpriorities-bsth.pdf>.
- *Four Principles of Budget Process Reform* by Brian M. Riedl and Alison Fraser, Heritage Foundation (Apr. 2004) <http://www.heritage.org/Research/Budget/bg1746.cfm>.
- *Statement of Principles: California Budget and Tax Reform Initiative* by Joint Venture: Silicon Valley Network and Bay Area Economic Forum (Feb. 2004) <http://www.jointventure.org/PDF/StatementofPrinciples.pdf>.
- *Stewardship Series part I: Core Governing Principles* by Evergreen Freedom Foundation (Mar. 2000) http://www.ewfa.org/main/article.php?article_id=363.

THE ISSUE

The Third Called Session of the 79th Legislature saw the state come very near its expenditure limit as determined by the Legislative Budget Board (LBB). According to the LBB, the state was only \$80 million short of its expenditure limit after appropriating additional funds to education for property tax relief and other purposes. In order for appropriations from state tax sources for the 2006-2007 biennium to grow by more than \$80 million in a supplemental appropriation, the legislature will have to vote to declare an emergency.

This is perhaps one of only a few times Texas' expenditure limit, enacted constitutionally in 1978, has served as a significant limit on state expenditures. Interestingly, it served more to limit property tax relief than anything else. Why? Because property taxes are local taxes, so state expenditures (that is, state funding of local school districts) had to increase in order for local school taxes to be reduced.

More than half of the states have some form of expenditure limits. Texas has one of the weakest. By limiting government's growth to that of the economy, it allows government to maintain a share of the economy that cannot be justified given increasing prosperity.

Texas' expenditure limit law, in the constitution and in statute, falls short for the following reasons:

- ★ Lacks sufficient constitutional specificity by requiring easily amended enabling legislation;
- ★ Applies to less than half of the state budget;
- ★ Bases caps on predicted growth rates rather than actual growth rates;
- ★ Limits appropriations growth to personal income growth rather than the sum of population growth and inflation;
- ★ Allows a simple legislative majority to overrule the limit;
- ★ Applies only to the state, not including local governments;
- ★ Provides no automatic provision for tax refunds, rebates, or reductions.

THE FACTS

- ★ Thirty states have some type of tax and/or expenditure limit, with Colorado's generally considered the most effective.
- ★ Colorado's expenditure limit resulted in \$3.25 billion in tax rebates to Colorado residents from 1997 to 2001.
- ★ Real, per capita, non-federal Texas state expenditures increased almost 25 percent from 1990 to 2005—this does not include spending in the public schools that crowded out state funding due to property value increases.



- ★ States with effective spending limitations experience lower tax increases in periods of recession than states without such limitations.

RECOMMENDATIONS

- ★ Amend the state's expenditure limit to apply to expenditures made from all state revenues.
- ★ Amend the state's expenditure limit to allow growth at the same rate as the sum of population growth and inflation.
- ★ Fully enact the state's expenditure limit in the constitution rather than depending on statutory enabling provisions.
- ★ Enact an expenditure limit for local governments, limiting expenditure growth to inflation plus the growth of the populations they serve.
- ★ Account for how property valuation increases reduce the share of state funding in public education, at least in reporting by the LBB.

RESOURCES

- *Tax and Expenditure Limitation Reform: Is It Needed in Texas?* by Byron Schломach, Texas Public Policy Foundation (Aug. 2004) <http://www.texaspolicy.com/pdf/2004-08-TEL.pdf>.
- *Stealth State Spending: How Property Taxes Grow State Spending* by Talmadge Heflin, Texas Public Policy Foundation (May 2006) <http://www.texaspolicy.com/pdf/2006-05-PB-stealthspending-III-th.pdf>.
- *Texas' Appropriations Limit: Considerations for Future Reform* by Byron Schломach, Texas Public Policy Foundation (July 2006) <http://www.texaspolicy.com/pdf/2006-07-PP-TEL-bs.pdf>.
- *State Tax and Expenditure Limits-2005*, National Council of State Legislatures (Feb. 2006) <http://www.ncsl.org/programs/fiscal/tels2005.htm>.
- *The Colorado Revenue Limit: The Economic Effects of TABOR* by Theresa J. McGuire and Kim S. Rueben, Economic Policy Institute (Mar. 2006) <http://www.epinet.org/briefingpapers/172/bp172.pdf>.
- *Tax and Spending Limits: Theory, Analysis and Policy* by Barry Poulson, Independence Institute (Jan. 2004) <http://www.i2i.org/articles/2-2004.pdf>.

THE ISSUE

The Texas Constitution's Article 4, Section 14 grants to the governor power to veto items of appropriation. This is understood to be specific line items in the state's budget or appropriations act. However, nothing in the constitution defines what should be included in a single line item.

One reason for the line-item veto power is that the governor's perspective is generally less parochial than that of legislators. With respect to appropriations, the governor presides as an additional budget control, able to judge programs from a broader perspective, and presumably act for the benefit of state taxpayers as a whole.

The current format of appropriations bills makes it difficult—almost impossible—for the governor to exercise the constitutional authority granted that office. The legislature regularly rolls several programs into single items of appropriation so the governor cannot veto one wasteful, parochial program without also vetoing crucial ones.

Since the budget is often one of the last bills passed during a regular legislative session, it is impossible for the governor to issue a veto proclamation in time for the legislature to reconsider the bill and possibly re-enact crucial programs. Therefore, the governor's line-item veto authority can be severely limited just by what legislators choose to include in a single line of appropriation.

Additionally, riders that direct how money should be spent from a particular line item cannot be vetoed.

THE FACTS

- ★ Many items of appropriation fund multiple programs.
- ★ The governor can only veto an item as it appears in the appropriations act, even when it is known the item funds several programs.
- ★ The governor cannot veto a rider except when one separately appropriates funds (such as contingency riders).
- ★ The governor may only delete line items; the governor may not substitute other amounts for those already in the appropriations act.



RECOMMENDATIONS

- ★ The governor's office should be integrally involved in the appropriations process in both bodies of the legislature from the beginning of a session.
- ★ The practice of using riders to direct that funds from specific line items be spent on specific projects should be eliminated; instead, these projects should appear as separate line items in the budget.
- ★ The appropriations act should be broken down according to specific programs instead of the broader "goals" and "strategies" that currently appear in the budget.

RESOURCES

- *Impact of the Texas Governor on the State Budget* by Talmadge Heflin, Texas Public Policy Foundation (Apr. 2006) <http://www.texaspolicy.com/pdf/2006-04-PP-GovBudget-II-th.pdf>.

THE ISSUE

Most government programs are probably well-intended. Original intentions, however, are not the test of whether a program should continue in a given incarnation or at all. Instead, every program should have measures associated with it that gauge its success. Success is not merely the proper expenditure of funds for activities associated with a program. Success must be measured by real, measurable results.

For example, a road agency can measure how many lane miles it constructs or it can measure the mobility of the population and how its road construction and maintenance affects that mobility. The former measures activity. The latter measures results. Another example is the many tourism-related programs spread throughout the state budget. All should be judged by whether more Texans choose to vacation within the state. Instead, they are measured based on activity rather than whether they aid in attaining a specific goal.

Too much of what is reported to the Texas Legislature is activity rather than results. Legislators must demand performance measures more meaningful than the ones that are currently used in the budget process.

To the greatest extent possible, performance measures must examine what an average dollar spent on a program is buying. In three pages and dozens of measures associated with the Texas Education Agency in the appropriations act, only five take tax dollars into account with average cost measures. None attempt to measure the cost of a given amount of educational attainment. For example, cost-per-student performing at grade level could be calculated, and serve as a measure for success.

Programs must be constantly monitored for success, measuring not just “bang” but “bang for the buck.” Programs that do not show success or that cannot be measured for success must be discontinued. Only in this way can taxpayers be assured that their dollars are spent well.

THE FACTS

- ★ The current budget format in the appropriations bill includes outcome and efficiency measures for every agency.
- ★ Outcome and efficiency measures in the budget are not in an historical context and therefore are of questionable value in the budget itself.
- ★ Few of the outcome and efficiency measures in the Texas budget measure output per taxpayer dollar.



RECOMMENDATIONS

- ★ Reconfigure the state budget to reference a separate document that includes historical performance data.
- ★ Refocus performance data on outcomes rather than activities of agencies; current “outcome” measures mainly measure activity.
- ★ Create outcome measures that put accomplishment in the context of cost.

RESOURCES

- *Demanding Performance Part I: State & Agency Missions* by Talmadge Heflin and Byron Schlomach, Texas Public Policy Foundation (Aug. 2006) <http://www.texaspolicy.com/pdf/2006-08-PP-demandperformanceI-bsth.pdf>.
- *Demanding Performance Part II: Outcomes & Efficiencies* by Talmadge Heflin and Byron Schlomach, Texas Public Policy Foundation (Aug. 2006) <http://www.texaspolicy.com/pdf/2006-08-PP-demandperformanceII-bsth.pdf>.
- *Aiming to Improve: The Principles of Performance Measurement* Audit Commission, United Kingdom (2000) <http://www.audit-commission.gov.uk/Products/NATIONAL-REPORT/72370C4D-1030-4b87-88F4-CD2A14B2A1AE/mppperfm.pdf>.
- *Best Practices for Output Performance Measures (Appendix)* New Zealand Treasury (1995) <http://www.treasury.govt.nz/publicsector/pag/default.asp>.