

State can balance budget without more money

To keep Lone Star economy thriving, lawmakers need tight control on cost of government, says Texas Public Policy Foundation.

By **Talmadge Heflin and James Quintero**

SPECIAL TO THE AMERICAN-STATESMAN

Updated: 7:53 a.m. Monday, Jan. 3, 2011

Published: 7:19 p.m. Saturday, Jan. 1, 2011

Second in a series on the state budget gap

Texas lawmakers return to Austin next week for the start of the 2011 legislative session, and their top priority will be reconciling the state's projected multibillion-dollar budget shortfall.

Exactly how lawmakers go about handling this issue is certain to have significant short- and long-term consequences for the economy and our pocketbooks.

In truth, no one knows exactly how large a gap the Legislature must fill, nor will anyone know until the comptroller's biennial revenue estimate is released later this month. But most educated guesses put the shortfall somewhere in the range of \$11 billion to \$15 billion, or roughly 15 percent of discretionary state spending.

A few other estimates forecast that this figure could go much higher — some even approach \$30 billion — but these tend to include new spending for things such as maintaining "current services."

The last time lawmakers faced a similar situation was during the 2003 legislative session, when the Legislature closed a \$10 billion shortfall without raising taxes. And much like that session, balancing the 2012-13 budget is going to come down to a simple but profound choice: Raise taxes, or lower spending.

Some might object to this either-or approach, promoting a "balanced" effort of combining spending restraint with new revenue. But this ignores the facts of how Texas became the runaway leader in job and economic growth in the country. Spending restraint has been a critical component of Texas' job creation success, helping the state's economy to add 843,000 jobs over the past 10 years, while the rest of the country lost 1.3 million jobs.

If Texans want to keep their jobs, balancing the budget within available revenue is the only way to go.

Of course, closing the shortfall by scouring the budget is no easy undertaking, but the experience of 2003 shows that it is a reachable goal — with the right approach.

To that end, the Texas Public Policy Foundation offers several short- and long-term recommendations to balance the budget and put the state on a path of fiscal sustainability:

Recommendation No. 1: Start from scratch. To steal a page from the 2003 playbook, one of the first things that lawmakers can do is to methodically work through the state's budget using a zero-based budgeting technique. In other words, build each state agency's budget from the ground up.

Ordinarily, lawmakers craft the state's two-year budget using the amount an agency spent in the previous budget as a starting point. This creates a situation rife with waste.

Instead, lawmakers, working closely with agency heads and directors, should start from scratch, funding each of the state's 200-plus agencies first on the basis of any constitutional mandates, then according to statutory requirements. In this way, lawmakers can get a detailed picture of each agency's spending habits and root out unnecessary items.

Zero-based budgeting was a major reason that state budget writers were able to get out of the jam they were in during 2003. And, if pursued diligently, it may also prove to be lawmakers' saving grace in 2011.

Recommendation No. 2: Eliminate programs and agencies. There is no other way around it: State agencies and programs must be eliminated if the Legislature is going to balance the budget within available revenue. Obviously, lawmakers should consolidate where possible, but a number of redundant and ineffective agencies and programs should be axed.

Now the hard part: What specific agencies and programs should the Legislature consider doing away with?

We need to focus on getting state government out of the business of doing things that individuals or the private sector can take care of themselves — such as promoting tourism, history and the arts, or determining how much consumers should pay for electricity, telephone service or insurance.

Likewise, there are a lot of things we can do without for a biennium (or two) while we try to get our fiscal house back in order. We can postpone the purchase of new parks, delay renovations of historical properties and get by without some recent and expensive environmental and health care spending.

We also need to think big. Health care and education spending dominate the budget, and if we are going to successfully tackle the shortfall, we need to look at ways to get more bang for our buck in these areas.

For example, lawmakers should consider such policy options as expanding the use of Medicaid managed care, creating a health savings account option for state employees, cutting back all optional health programs to federally required levels and curbing administrative bloat in K-12 education.

Finally, we can look at reducing or eliminating economic development spending and subsidies. These programs don't create jobs at anywhere near the efficiency of the tried and true Texas approach — maintaining low levels of spending, taxes and regulation.

In the coming weeks, we will release a report that contains much greater detail about why many agencies and programs should be eliminated and what effect that will have on the budget.

Recommendation No. 3: Make the budget process more transparent. Over the long term, perhaps the most important way the Legislature can promote fiscal responsibility is to transform the appropriations process. To do this, the state should move from a strategic planning and budgeting system to a program-based budgeting system.

Today, the 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. To fix this problem, the Legislature should require the budget be written so that each agency's income and expense is listed by program, as is done in the agency's own internal budget.

Now, some people may be wondering why, if these documents are already produced, does the Legislature not just use them to build the budget? The answer is that an agency's budget and the state's budget are often incompatible and do not directly relate by 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.

Recommendation No. 4: Strengthen the state's spending limit. Once the state's short-term budget issues have been effectively addressed, lawmakers should strongly consider strengthening the state's existing loophole-ridden tax and expenditure limit (TEL).

The TEL is a constitutional and statutory requirement that certain state spending not exceed the growth in state personal income in any given biennium. But lawmakers have many loopholes, and the TEL is not as strong as it could be.

As our research has suggested in the past, the movement to restrict the growth of government could be benefited greatly by making the following changes to the state's TEL: 1) limit the growth of government spending to population and inflation increases or to the growth in personal income, whichever is less; 2) ensure any TELs are self-contained within the constitution to prevent the limit being changed by a simple majority vote in the Legislature; 3) apply the TEL to all categories of state spending, including those covered by federal funds; 4) require a supermajority vote in each chamber to exceed the limit so that changes are not based on political whims; and 5) expand the scope to include all levels of government so all spending is affected.

Recommendation No. 5: Don't chase federal funds. Despite conventional wisdom, federal funds are not "free" and, in fact, contribute a great deal to the unsustainable growth of state government and a resulting decline in economic growth. Last session's unemployment stimulus debate is a great example.

Two years ago, Texas had an opportunity to secure \$555 million in additional stimulus funding for its unemployment insurance program. However, the state was only eligible for the funds if it made what would have effectively been permanent expansions of eligibility and benefits. Wisely, the state's leadership turned down the offer for the one-time funds and avoided making the costly changes to the program that taxpayers would have been stuck with ad infinitum.

There is a lot of work to be done this session, and hopefully this will provide lawmakers with some useful ideas as they walk the budget tightrope. They have a formidable challenge in front of them, but we stand ready to help them meet it.

Talmadge Heflin is director of the Center for Fiscal Policy at the Texas Public Policy Foundation, a free-market nonprofit research institute based in Austin. He served 11 terms in the Texas House and was chairman of the Appropriations Committee in 2003, leading the Legislature's successful efforts to close a \$10 billion budget deficit without a tax increase. **James Quintero** is a fiscal policy analyst at the foundation.

Your thoughts

Could changes in how the state taxes and spends affect you or someone you know? What steps should be taken to balance the budget? Join the discussion at statesman.com/go/insightforum.

Online

Find the first installment of this series with this article online at statesman.com.

Find this article at:

[Print this page](#) [Close](#)

<http://www.statesman.com/opinion/insight/state-can-balance-budget-without-more-money-1157490.html>

