



A Look at the *First Point* in Governor Perry's Five-Point Budget Reform Plan


by Byron Schlomach, Ph.D., Chief Economist

Governor Perry has proposed significant, major reforms in Texas' budget system in an effort to bring greater accountability for how taxpayers' hard-earned money is spent. First among these proposed reforms is that Texas' state expenditure limit be reformed to tie spending growth to the sum of the state's population growth rate and inflation. The current limit, approved by voters in 1978, has done little to stem the tide of government growth despite an increasingly prosperous society.

Why Spending Limit Reform Is Needed

- Throughout the 1990s and into the current decade Texas' state-financed spending increased about 50 percent faster than the sum of inflation and population growth would dictate.
- The current limit only applies to state tax-financed expenditures that are not dedicated by the state's constitution, allowing fees to be raised without having them count toward the limit.
- State taxpayer-financed spending per Texan, even after adjusting for inflation, has risen more than 29 percent since 1990.
- Currently, the Legislature can bypass the already-generous spending limit with a simple majority vote declaring an emergency.
- State and local governments in Texas currently consume well over 9 percent of Texas taxpayers' personal income.
- States with low government growth rates exhibit more robust economic growth and have made the greatest progress toward eliminating poverty.
- In the 1990s when Colorado's restrictive expenditure limit was in full force, that state led the nation in reducing its already-low poverty rate.

What Spending Limit Reform Should Include

- Require a spending growth limit equal to the sum of inflation and the population growth rate. Allowing spending to increase with inflation allows for government to respond to cost increases outside its control. Allowing spending to increase with population allows government to respond to greater demands.
- A supermajority of the Legislature should be required to bypass the limit.
- Require spending limits on local government allowing for inflation and local population increases.
- A spending limit should explicitly allow the state to substitute state funds for local funds without violating the limit—as long as local government is limited in its growth.
- The Rainy Day Fund should be reformed with stricter requirements before it can be used.
- Automatic tax reductions should occur when the Rainy Day Fund has reached a pre-determined balance and revenues are growing faster than the spending growth limit. 

This *Policy Briefing* was prepared by Byron Schlomach, Ph.D., chief economist at the Texas Public Policy Foundation. Contact Byron Schlomach at (512) 472-2700 or bschlomach@texaspolicy.com.



A Look at the *Second* Point in Governor Perry's Five-Point Budget Reform Plan

by Byron Schlomach, Ph.D., Chief Economist


Governor Perry has proposed significant, major reforms in Texas' budget system in an effort to bring greater accountability for how taxpayers' hard-earned money is spent. Second among these proposed reforms is that dedicated tax and fee revenues be just that—dedicated—for the purposes they were originally intended. Although the magnitude of the problem is not easily quantified, it is well known that dedicated revenue streams are used to certify general spending. This practice, while often not a strict violation of the law, is definitely deceptive of the public.

Why Dedicated Funding Reform Is Needed

- When revenue streams that were supposed to fund specific functions are used instead to certify general spending, expenditures rise above what they otherwise could be absent a general tax increase.
- In 2003, the Available School Fund—the constitutionally dedicated textbook fund filled with proceeds from the Permanent School Fund investment portfolio—was used to certify the budget by delaying payment for and delivery of school textbooks. Formally speaking, the funds were not expended for any purpose other than textbooks and schools, but the money was essentially put to an unintended purpose for at least two years.
- Licensing fees, which are by law supposed to be set at a level sufficient only to cover administrative costs of licensing programs, are frequently diverted to general spending.
- The Texas Infrastructure Fund tax, which costs taxpayers \$200 million per year, was supposed to only fund the installation of high-speed cable and other telecommunications into schools and hospitals. Dedicated only in statute, the dedication has been removed and the tax now funds general spending.

- There is little or nothing gained when revenues are dedicated to an area in which spending outstrips the dedicated revenues. When lottery proceeds were dedicated to public education, they simply displaced general revenue.
- When funds are dedicated in statute, future legislatures are not truly bound by such dedications. One example is sales tax revenue from sporting goods dedicated to the Texas Parks & Wildlife Department. These are actually discretionary funds and only serve to create political fodder in favor of more spending.

What Dedicated Funding Reform Should Include

- Fund dedications should only be constitutional and therefore rare. Statutory dedications are essentially meaningless and only serve to confuse.
- Constitutionally dedicated revenues should be set aside and not used for revenue certification purposes for general spending.
- If dedicated funds are available they should be spent for the purpose intended. Expenditure delays should be constitutionally prohibited.
- Some fund consolidation of the past should be undone in order to protect dedicated funds in entirely separate accounts. 

This *Policy*Briefing was prepared by Byron Schlomach, Ph.D., chief economist at the Texas Public Policy Foundation. Contact Byron Schlomach at (512) 472-2700 or bschlomach@texaspolicy.com.



A Look at the *Third Point* in Governor Perry's Five-Point Budget Reform Plan

by Byron Schlomach, Ph.D., Chief Economist

Governor Perry has proposed significant, major reforms in Texas' budget system in an effort to bring greater accountability for how taxpayers' hard-earned money is spent. Third among these proposed reforms is that the state's General Appropriations Act (GAA) should contain greater detail, with more line items for individual programs rather than programs being lumped together into "strategies" for attaining certain "goals." Current practice makes it difficult for anyone but the most dedicated of researchers to know how taxpayer money is truly being spent.

Why Line Item Budgeting Reform Is Needed

- When several programs are lumped into a single line of appropriation, even the majority of legislators lose track of where the money is going. Duplication of program efforts can also become a problem.
- By lumping several programs into a single line item in the GAA, wasteful programs can be combined with very productive ones, creating a "Catch-22" for the Governor, who can only veto a line of appropriation in full or not at all.
- "Riders" in the GAA are individual instructions to agencies giving specific guidance on spending policy. Riders are often used to instruct agencies to expend funds on specific programs. These riders are not subject to the Governor's line-item veto pen.
- A particularly egregious example of using riders to shield from the line-item veto pen is appropriations for universities. Their detailed appropriations are made in a rider with only a lump sum listed as a true appropriation.
- Appropriations by "strategy" categories instead of by program make it especially difficult, if not impossible, for independent observers to track programmatic

spending over time. Frequently, individual programs are re-categorized into new or consolidated strategies.

- Individual programs escape having to meet specific performance targets since most performance measures are created for whole strategic categories.
- With the Governor prevented from many line-item vetoes, the executive is less likely to be made an integral part of the appropriations process.

What Line Item Budgeting Reform Should Include

- Appropriations should be made on the basis of individual programs rather than having many programs with similar purposes lumped into a single category.
- The Governor's line-item veto authority should be revised to allow the governor to strike riders and to write in new amounts instead of having only an all-or-nothing veto choice.
- New deadlines earlier in the legislative session should be set for final appropriations to be approved so that the legislature will have a chance to override vetoes.
- Performance measures for individual programs should be created and monitored. Line item reform should not be an excuse for taking performance measures out of the appropriations process. ★

This *PolicyBriefing* was prepared by Byron Schlomach, Ph.D., chief economist at the Texas Public Policy Foundation. Contact Byron Schlomach at (512) 472-2700 or bschlomach@texaspolicy.com.



A Look at the *Fourth* Point in Governor Perry's Five-Point Budget Reform Plan


by Byron Schlomach, Ph.D., Chief Economist

Governor Perry has proposed significant, major reforms in Texas' budget system in an effort to bring greater accountability for how taxpayers' hard-earned money is spent. Fourth among these proposed reforms is that the state's expenditures be posted on the internet "in a clear, concise and consistent format." In this way, even relatively casual observers of state spending and policy could monitor expenditures in a detailed manner, bringing true accountability for spending on an individual expenditure basis.

Why Spending Transparency Reform Is Needed

- Currently, expenditures are reported on a lump-sum basis in agency strategic plan and legislative appropriations requests, by the Comptroller in cash-basis reports, and in various other ad hoc arrangements.
- The only expenditure report consistent with the arrangement of the General Appropriations Act is the *Legislative Budget Estimates* document produced by the Legislative Budget Board only biannually right before a regular legislative session.
- Expenditures are not reported in a timely manner. The lag from the expenditure of funds to a report of actual expenditure is several months.
- Unethical activity is easier to detect with detailed and timely expenditure records being made available to a wider audience.
- State and local government expenditures are already subject to open records requests. The cost of monitoring government would be greatly reduced with more readily available spending information.

What Spending Transparency Reform Should Include

- Fundamentally, the state government's check-book should be open for public review.
- A taxpayer should be able to review spending by department, with recipients clearly identified and the programs under which the funds were expended identified.
- Expenditures should be posted in timely manner. With today's technology, almost as soon as the check is written.
- Ideally, local governments should be included in this requirement. Expenditures by school districts, counties, cities, and special districts, as well as quasi-government entities such as regional education service centers and river authorities should be open to the public. 

This *Policy Briefing* was prepared by Byron Schlomach, Ph.D., chief economist at the Texas Public Policy Foundation. Contact Byron Schlomach at (512) 472-2700 or bschlomach@texaspolicy.com.



A Look at the *Fifth* Point in Governor Perry's Five-Point Budget Reform Plan


by Byron Schломach, Ph.D., Chief Economist

Governor Perry has proposed significant, major reforms in Texas' budget system in an effort to bring greater accountability for how taxpayers' hard-earned money is spent. Fifth among these proposed reforms is that the state's constitution be amended to allow the return of taxpayer surplus funds to the taxpayers. Currently, those who have potential of benefiting directly from government largesse with taxpayer money have a financial incentive to contact government officials to advocate their point of view. Taxpayers have relatively little incentive to get involved. This proposal could change these dynamics.

Why Tax Refund Reform Is Needed

- The Texas Constitution currently contains a provision that taxpayer funds can only be expended for a "public purpose." It is generally understood that "public purpose" does not include returning taxpayer funds to individuals for personal use.
- Texas state financed spending has been growing faster than the growth of the state's population and inflation would indicate is needed.
- With the potential for getting some of their money back, Texas taxpayers will have a stronger incentive to advocate for more limited government.
- Over the last decade, when surplus funds have been available they have either been spent or used for targeted tax cuts have been enacted with the average Texan seeing little or no direct benefit.

What Tax Refund Reform Should Include

- The state's tax structure should not be altered simply for ease of providing tax refunds.
- Lawmakers should consider building a tax system that automatically adjusts to reduce rates when large surpluses occur.
- A strong expenditure limit should be enacted that includes the accumulation of a large fund to finance government when tax receipts fall off due to economic circumstances.
- Under today's tax system, if refunds are to be provided when surpluses occur, they should be made on the basis of how much of the sales tax a household has contributed. 

This *Policy Briefing* was prepared by Byron Schломach, Ph.D., chief economist at the Texas Public Policy Foundation. Contact Byron Schломach at (512) 472-2700 or bschlomach@texaspolicy.com.