

Testimony before the House Committee on Appropriations Subcommittee on Budget Transparency and Reform *Regarding House Bill 98*

by The Honorable Talmadge Heflin

Chair Crownover and Members of the Committee:

My name is Talmadge Heflin, and I am the Director of the Center for Fiscal Policy at the Texas Public Policy Foundation, a non-profit, non-partisan free market think tank based here in Austin. Thank you for taking this opportunity today to discuss House Bill 98, an important bill that would institute a zero-based budgeting (ZBB) process for state government.

To be clear, I will be testifying in support of HB 98.

Before we get into the merits of the bill, it may first be prudent to go over what ZBB is.

What is ZBB?

In short, zero-based budgeting starts a budget from zero, requiring that all expenses be justified for each new period. Budgets are then built up based on the entity's perceived needs for the upcoming budget period. This method takes more work and time by the members 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 incremental budget, where only the changes to the previous budget are justified, the entire budget request is justified.

The Value of ZBB in 2003

As some of you may be aware, a modified version of ZBB was used in 2003 when the state faced a \$10 billion budget shortfall, and we worked to shore up the state's finances without a tax increase.

That year, 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.

What Would HB 98 Do?

- House Bill 98 would require one-third of all state agencies to undergo a zero-based budgeting process before the start of each legislative session. The agency would be required to submit this budget plan to the Legislative Budget Board.

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Benefits of HB 98

- ZBB will allow state agencies to more readily identify efficiencies, cost-savings, and duplicative items in their respective budgets.
- ZBB will help slow the growth of nonessential programs and agencies, thereby allowing state resources to be better prioritized.
- ZBB, as opposed to the current services budgeting process, is a more honest budgeting process.

Thank you for your time. I look forward to answering any questions that you may have. ★

