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Budgeting for Fiscal Year 2021 and Beyond

Key Points

- Local leaders should embrace a new tax and budget framework in fiscal year 2021 and beyond.
- A conservative fiscal approach promises to return robust economic growth and restore revenues.
- Local officials should consider committing to no new taxes, cutting existing taxes, delaying going into debt, embracing efficiency, using zero-based budgeting, and right-sizing payroll costs.

This year's budgeting season is unlike any other. Government lockdowns and falling oil prices have given rise to the most challenging fiscal environment seen in modern times. Countless cities, counties, and school districts are currently grappling with declining revenues and widening budget gaps, setting the stage for a raft of difficult decisions in the coming months.¹

Complicating fiscal matters is Texas's weakened economy. To date, approximately 3.2 million Texans have filed for unemployment since mid-March ([Texas Workforce Commission, n.d.](#)). The state's unemployment rate stood at 8.6% in June 2020 ([Texas Workforce Commission, 2020](#)). And sales tax revenue—a key source of funding for state and local governments as well as an indicator of economic activity—declined 6.5% from the previous year ([Texas Comptroller of Public Accounts, 2020](#)).

While most experts expect a robust recovery at some point in the future, our immediate economic outlook remains anemic and uncertain.

The crises we face are great. Our response should be greater. We must meet this moment with reason and resolve, with discernment and determination. Our aim must be ambitious. We must move our institutions in a bold, new direction that is both principled and practical.

This is no time for business as usual. Today's challenges require operationalizing a fundamentally different framework, grounded in strict fiscal discipline and common sense. The goal must be to prioritize the family budget over the government's budget.

Such a change can come about in many ways. However, a few specific approaches deserve mentioning. If faithfully implemented over the course of the coming fiscal year and beyond, the recommendations below will remake local government for the better, boost public confidence, and hasten the return of revenues.

Commit to No-New-Taxes

Homeowners and businesses deserve to have peace of mind, at least when it comes to their tax bills. Local officials can deliver on that front by pledging to reject any types of tax increases in fiscal year 2021. Committing to hold the line on property, sales, and other taxes will send a powerful message to community stakeholders that government intends to help not hinder economic recovery efforts.

¹ The full measure of fiscal damage is still coming into focus; however, some early reports suggest that local elected officials can anticipate substantial budget deficits to close out the current and fiscal year and begin the next one. For example, the Texas Tribune ([Garnham, 2020](#)) recently reported that "Dallas' analysts are predicting that the current year's revenue will be at least \$33 million below the previous estimates. ... San Antonio's current budget is predicted to drop by \$200 million. And in Houston, an original analysis projected a \$169 million budget deficit for the upcoming fiscal year because of COVID-19."

Cut Existing Taxes

At a minimum, there should be no new taxes levied. But we must also strive to do more. Struggling families need immediate tax relief.

One way to cut taxes is to adopt a property tax rate that is lower than the no-new-revenue tax rate. The no-new-revenue tax rate is “a tax rate that would produce the same amount of taxes if applied to the same properties taxed in both years” ([Texas Comptroller of Public Accounts, n.d.-b, “No-New-Revenue Tax Rate” section](#)). Adopting a tax rate dramatically lower than the no-new-revenue tax rate will significantly reduce homeowners’ tax bills and help businesses keep their doors open.

Another way to ease the tax burden is to lower the local sales tax rate. As you may be aware, current law allows local taxing entities to “impose up to 2 percent sales and use tax for a maximum combined rate of 8.25 percent” ([Texas Comptroller of Public Accounts, n.d.-a](#)). Where appropriate, officials can work to reduce this rate—especially in regions where it has been maxed out—and provide consumers with some measure of relief as they purchase everyday items.

Delay Going Into Debt

Over the years, local governments have borrowed mightily. The most recent available data suggests that “local debt totaled \$365.3 billion [in fiscal year 2019] or more than \$12,500 owed for every man, woman, and child in the Lone Star State” ([Quintero & Watson, 2020, p. 1](#)). As a consequence of such heavy borrowing, local governments pay an enormous amount in debt service costs every year, which are generally financed through increased taxation. In order to avoid weighing down taxpayers further, governing bodies should hold off on any debt-related proposals.

More to the point, local officials would do well to postpone asking voters to approve any new tax-supported debt, which usually requires “a pledge of property taxes levied within the issuer’s boundaries” ([Texas Comptroller of Public Accounts, n.d.-c, “Tax-supported debt” definition](#)). Decision-makers should also abstain from issuing certificates of obligation, which can also lead to the imposition of new taxes.²

Embrace Efficiency

Circumstances require leaner local budgets and cost-effective governance. Put another way: The excesses of the past cannot continue into the future.³

In order to slim down smartly, every local government of size should voluntarily undergo a third-party efficiency audit. This thorough, objective review of an entity’s budget and operations provides important insights into fiscal habits and managerial practices. Armed with this knowledge, decision-makers can work together to maximize available resources and eliminate any longstanding inefficiencies in the system.

It is worth mentioning that other states and localities have wielded this tool to great effect. Some notable examples include:

Detroit Public Schools

Facing a deficit of more than \$300 million, Detroit’s distressed public school system initiated a wide-ranging performance audit that “identified \$53 million in annual savings” ([Lisher, 2018, para. 6](#)).

The State of Kansas

In 2016, efficiency auditors provided 105 separate recommendations that were estimated to generate more than \$2 billion over 5 years ([Alvarez & Marsal, 2016](#)).

The State of Wyoming

In 2017, Wyoming legislators created the Wyoming Spending and Government Efficiency Commission ([SB 156, 2017](#)), an entity that oversaw the administration of a third-party audit of certain state agencies’ budgets and operations. This limited review identified “between \$12.9 million and \$17.7 million in one-time savings and to [sic] between \$112 million and \$227 million in savings over each two-year state budget cycle” ([Rosenfeld, 2017, para. 16](#)).

As demonstrated in other state and local jurisdictions, this tool has the potential to fine-tune the cost and structure of government.

Employ Zero-Based Budgeting

Unlike the current services model of budgeting that presumes that programs and services should remain the same or grow, zero-based budgeting starts a budget from zero and requires that every expenditure be justified. Using this technique brings scrutiny to the budgeting process as it is built on the idea that “no costs or activities should be automatically carried over from one budget to the next” ([Heflin & Wohlgemuth, 2011, p. 1](#)).

Today’s fiscal environment favors the use of zero-based budgeting, particularly in jurisdictions facing sizable budget shortfalls and structural spending problems. For some

² The Texas Comptroller of Public Accounts ([n.d.-c](#)) defines certificates of obligation as public finance instruments that “allow certain cities, counties and certain hospital or health districts to issue debt without voter approval (unless a referendum is petitioned) and are backed by tax revenue, fee revenues or a combination of the two.”

³ Past research ([Texas Public Policy Foundation, 2018](#)) suggests that local government expenditures are outgrowing population and inflation by a wide margin. Consider that from 2000 to 2015, aggregate local spending increased by 108%, whereas population and inflation rose only 69%.

jurisdictions, decision-makers may be too far along in the budgeting process to fully embrace this time-intensive technique; however, there is no reason that it should not become a regular feature in the future. Its periodic use has the potential to limit unnecessary expenditures and keep local budgets under control.

Rightsize Payroll Costs

Generally speaking, payroll costs are the biggest expense for any governmental entity. To successfully control the size and growth of public budgets, local decision-makers should consider making a wide range of payroll-related adjustments in the coming fiscal year.

Hiring freeze

Instituting a hiring freeze has the potential to generate significant cost savings and reduce the growth of government generally. Already some jurisdictions, like Fort Bend County ([Nix, 2020](#)) and the city of San Antonio ([Petrini, 2020](#)), have temporarily paused hiring additional full-time employees for the current fiscal year. This is the right approach, and it should be extended into the next year as well.

Suspend pay raises

Pausing across-the-board pay raises for public employees is another idea that has the potential to generate significant cost savings and help jurisdictions close any looming budget shortfall. Given the severity of private-sector job losses, it is also not unreasonable to ask for shared sacrifice from public employees.

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End Certain Contracts

Every year, cities, counties, school districts, and special districts spend millions on contract lobbyists whose primary job is to influence the outcome of specific legislation at the Texas Capitol, oftentimes against the interests of taxpayers. Ending these contractual relationships is a potent way to both save money and eliminate a troubling practice that contributes to the growth of government. Moving in this direction is something that some local elected officials, like Dallas Mayor Eric Johnson, are already signaling they will do. Recently, the mayor suggested that the city of Dallas “should not pay for lobbyists during the coming 87th Legislature” ([Sparks, 2020, para. 6](#)).

Eliminate longevity pay

Salary increases should be merit-based, not a guaranteed increase with no relationship to performance. Suspending the award of longevity pay will help taxing entities’ bottom line and foster a more productive work environment.

These are but a few proposals, but they best represent the litany of good government changes needed to be made in fiscal year 2021 and thereafter. The status quo simply isn’t sustainable in the current environment, nor is it a healthy direction. The time is now to bring transformative change to Texas’s local government.

We must rise to the occasion. It is the best way to restore the Texas economy to a place of prominence, protect family budgets, and return robust revenue growth. ★

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