



Texas Public Policy Foundation
**LEGISLATOR'S GUIDE
TO THE ISSUES
2021-2022**

Zero-Based Budgeting

The Issue

Zero-based budgeting (ZBB) is a public finance tool that, if periodically wielded, allows decision-makers to manage a governmental entity's budget and operations with great precision. The technique allows appropriators to start a budget from zero and work toward completion, with each spending item justified along the way. Scrutiny is its strength.

The tool is especially valuable where the current services model of budgeting is in use. The current services model presumes that programs and services currently offered are necessary and ought to be continued, oftentimes in greater fashion. Its working assumption—that present spending levels are needed moving forward—fuels the growth of government and ignores other considerations, like income growth and new technologies.

Zero-based budgeting does not rest on this assumption and instead questions the need for every expenditure. Because ZBB involves getting granular with government budgets, the method takes more time, energy, and cooperation to complete. However, the return on investment can be significant, as history has proven.

In 2003, Texas faced a projected \$10 billion budget shortfall. Governor Perry sent the Legislature a budget with zeros next to each agency's line item, and he publicly declared that he would veto any spending plan that included a tax increase. As a result, appropriators set about building the budget from scratch. State agencies were funded first based on constitutional requirements, then on statutory authority, and finally according to expenditures in a priority list. Using this technique, lawmakers acquired a firm grasp of state spending and proposed informed solutions, like consolidating 12 health and human service agencies into five, resulting in a savings of about \$1 billion per year. The final adopted budget that biennium bridged the \$10 billion budget gap without a tax increase and reduced general revenue spending for the first time since World War II. Many people credit the Legislature's 2003 ZBB effort with setting the tone and building trust in a limited government approach, which of course has been the key to Texas's success.

Today, the Legislature again faces a massive budget shortfall, albeit for very different reasons than in 2003. The Texas Comptroller recently warned that budget writers must bridge a \$4.6 billion gap for the current biennium and likely face further hardship for the upcoming 2022-23 biennium.

To make matters worse, many local governments' finances are also in trouble. Some political subdivisions, like the city of Houston, are staring down "the worst budget" in their history, spurring plenty of talk about tax increases and fee hikes. Without strict fiscal discipline, it is likely that these fiscal difficulties will persist for years to come.

The present moment favors ZBB. Bringing this tool to bear will empower state and local decision-makers to identify

inefficiencies, cut spending, avoid tax increases, and gain a greater understanding of their respective budgets. Both the public and policymakers stand to gain.

Because of its obvious advantages, the next Legislature should use ZBB to get a detailed picture of each state agency's budget and eliminate waste, fraud, and abuse. In addition, lawmakers should also pass legislation to require a rotating set of agencies, including institutions of higher education, to undergo ZBB intermittently. Finally, lawmakers should compel large local governments to undergo ZBB on a periodical basis. Imposing this requirement will push cities, counties, and school districts in a positive fiscal direction.

The Facts

- Zero-based budgeting is a technique used to build a budget from scratch. It requires challenging old assumptions and justifying every new expenditure.
- The tool brings transparency, understanding, and opportunity to the budgeting process.
- In 2003, Texas state lawmakers used zero-based budgeting to close a \$10 billion budget shortfall without raising taxes. Today, state and local governments are facing significant fiscal difficulties.
- State and local governments could benefit from the use of zero-based budgeting.

Recommendations

- State lawmakers should build the next budget using zero-based budgeting.
- A rotating set of state agencies should be required to undergo zero-based budgeting on an intermittent basis.
- Large local governments should be required to periodically undergo zero-based budgeting.

Resources

[*Budget Solutions: Closing Texas' Budget Shortfall—Lessons from 2003*](#) by Talmadge Heflin and Arlene Wohlgenuth, Texas Public Policy Foundation (March 2011).

[*Using Zero-Based Budgeting in Texas*](#) by Chuck DeVore, Texas Public Policy Foundation (May 2012).

[*Senate Bill 1315: Testimony Before the Texas Senate Committee on Property Tax*](#) by James Quintero, Texas Public Policy Foundation (April 2, 2019).

[*"The Time to Cut Spending in Texas Is Now"*](#) by Talmadge Heflin, *Austin American-Statesman* (April 30, 2020).