



## Texas Conservative Coalition Research Institute

Testimony to the Senate Committee on Administration

August 28, 2018

*On the following interim charge: Develop detailed programmatic budget structure for all legislative agencies for use in the General Appropriations Act.*

### Background

Texas' General Appropriations Act (GAA) contains a vast amount of information. Indeed, literally every dollar that the state spends is, by definition, accounted for in the state budget. This is necessarily a vast amount of information because in the current biennium, the legislature appropriated \$216 billion in all funds, or approximately \$7,600 for every person residing in the state. These appropriations come from four main sources of revenue:

- **State general revenue (GR):** tax revenues collected by the state that are not dedicated for a specific purpose
- **Dedicated general revenue (GR-D):** tax revenues collected by the state that *are* collected for a specific purpose
- **Federal funds:** funds received from the federal government for specific purposes or programs
- **Other funds:** funds that do not fall into any of the other criteria listed above (this includes revenue such as trust funds, bond proceeds, and interagency contracts)<sup>1</sup>

These funds are allocated by the GAA among more than one hundred state agencies, commissions, boards, departments, and offices, almost every one of which operates programs to achieve its legislatively-defined objectives. Prior to each legislative session, each state governmental entity must submit a legislative appropriations request (LAR) to the Legislative Budget Board (LBB) in order to request the funding that it wants for each program that it operates. The GAA, however, does not contain most of the programs operated by state government. Instead, it divides the funding for each entity into "strategies". Similarly, while the GAA shows how much each state governmental entity receives of each of the major types of revenue – GR, GR-D, federal funds, and other funds – it does not show how much of each of these types of revenue is appropriated for each strategy, and much less each program within those strategies.



Without direct access to information showing how much and what type of revenue is being used to fund specific state programs, legislators, voters, taxpayers, and indeed all Texans are immediately presented with a barrier to their effective participation in the legislative appropriations process.

Texas has made great strides in recent years to enhance the transparency of state government spending and operations. An online database of state contracts is available for public perusal as a result of legislation enacted in 2007,<sup>2</sup> all documents related to the state budget prepared by LBB are required to be posted online and publicly accessible as a result of legislation enacted in 2011,<sup>3</sup> audits of state agency financial activities are required to be posted online as a result of legislation enacted in 2013,<sup>4</sup> and local government budgets and bond proposals have been subjected to a much higher level of transparency also as a result of legislation enacted in 2013.<sup>5</sup> Texas can build on these outstanding successes by reformatting the state budget in a way that clearly identifies all major programs and shows how much GR, GR-D, federal funds, and “other” funds are appropriated to each program.

### The Current Format of the State Budget

An illustration from the current state budget for the 2018-19 biennium is instructive. The first governmental entity in the GAA is the Texas Commission on the Arts. In the scheme of the entire state budget, it is a relatively small state agency with total biennial appropriations just shy of \$13 million. The revenue appropriated to the Commission is shown in the GAA in the same way as every other governmental entity that receives an appropriation. Each source of revenue from which the Commission receives an appropriation is shown in the aggregate for both years of the biennium:

	<b>COMMISSION ON THE ARTS</b>	
	For the Years Ending	
	August 31, 2018	August 31, 2019
<b>Method of Financing:</b>		
General Revenue Fund	\$ 4,972,333	\$ 4,977,331
GR Dedicated - Commission on the Arts Operating Account No. 334	64,706	64,706
Federal Funds	964,100	964,100
<u>Other Funds</u>		
Appropriated Receipts	152,000	152,000
License Plate Trust Fund Account No. 0802, estimated	200,000	200,000
Subtotal, Other Funds	<u>\$ 352,000</u>	<u>\$ 352,000</u>
<b>Total, Method of Financing</b>	<u><u>\$ 6,353,139</u></u>	<u><u>\$ 6,358,137</u></u>

This shows that the Commission on the Arts receives \$4.97 million in FY 2018 and \$4.98 million in FY 2019 GR, \$64,706 in each year of the biennium from GR-D, \$964,100 in each year of the biennium from federal funds, and \$352,000 in each year of the biennium from “other” funds. Below the aggregation of appropriations to the commission, the GAA then breaks down these appropriations by goals and strategies for both years of the biennium:

<b>Items of Appropriation:</b>		
<b>A. Goal: ARTS AND CULTURAL GRANTS</b>		
Provide and Support Arts and Cultural Grants.		
A.1.1. Strategy: ARTS ORGANIZATION GRANTS	\$ 3,897,533	\$ 3,897,533
A.1.2. Strategy: ARTS EDUCATION GRANTS	\$ 722,229	\$ 722,228
A.1.3. Strategy: CULTURAL TOURISM GRANTS	\$ 670,000	\$ 670,000
A.1.4. Strategy: DIRECT ADMINISTRATION OF GRANTS	\$ 583,622	\$ 583,936
<b>Total, Goal A: ARTS AND CULTURAL GRANTS</b>	<b>\$ 5,873,384</b>	<b>\$ 5,873,697</b>
<b>B. Goal: INDIRECT ADMINISTRATION</b>		
B.1.1. Strategy: CENTRAL ADMINISTRATION	\$ 359,454	\$ 363,140
B.1.2. Strategy: INFORMATION RESOURCES	\$ 120,301	\$ 121,300
<b>Total, Goal B: INDIRECT ADMINISTRATION</b>	<b>\$ 479,755</b>	<b>\$ 484,440</b>
<b>Grand Total, COMMISSION ON THE ARTS</b>	<b>\$ 6,353,139</b>	<b>\$ 6,358,137</b>

The goals and strategies give the reader a broad idea of how the Commission is to spend the money appropriated to it, but there is little detail and certainly no indication of which strategies are comprised of GR, GR-D, federal, or other funds. Four riders below these goals and strategies then direct how some of the funding received by the Commission is intended to be spent and the riders also describe the performance measures being applied to the Commission. This, essentially, is the entirety of the information that the GAA contains about the Commission.

These might seem like minor details in a state budget that exceeds a thousand pages, but they repeat throughout the entire budget, and a legislator or citizen who wants to impact the legislative appropriations process in an effective manner would need to know things like how much GR as opposed to federal funds is being used by the Commission on the Arts in its Strategy B.1.1. Any effort to alter proposed appropriations requires this kind of knowledge because federal funds often have certain constraints associated with them, whereas state GR is typically more flexible. Reducing or increasing “Cultural Tourism Grants” might be an attractive proposition for some legislators, but if the strategy is funded entirely by federal money it may not be possible to increase, reduce, or reallocate that funding elsewhere without incurring federal penalties. Similarly, knowing whether a particular source of funding or an appropriation to a particular strategy has dropped significantly compared to the previous biennium may prompt a citizen or a legislator to ask why such a decline has occurred. The current format of the budget provides virtually no context of this kind for any of the numbers it contains.

Similarly, there is very little consistent program-level detail provided in the state budget. Some state programs might line up directly with goals and strategies in the budget (i.e. the entirety of a program is captured in just one goal or strategy), but many programs may straddle numerous strategies. By the same token, one strategy may contain multiple programs. The Commission on the Arts provides an instructive example of this point. A glance at the Commission’s website reveals that it operates a “Cultural Districts Program”<sup>6</sup> that was created legislatively in 2005.<sup>7</sup> Yet there is no line-item for the Cultural Districts Program. Observers may note the A.1.3 Cultural Tourism Grants strategy line-item, (\$670,000 in each year of the biennium), but the Cultural Districts Program is not referenced specifically anywhere in the state budget. There is no way to know whether this is GR, GR-D, federal, or other funds, or some combination thereof.

## Other Budget Documents

Informed observers may point out at this juncture that the LBB produces a number of documents related to the state budget that provide a greater level of detail: the biennial “Fiscal Size Up” and the “Summary of Appropriations” that accompanies each iteration of the GAA during a legislative session, to name a couple of the most prominent such publications. The “Fiscal Size Up” indeed contains a vast array of information and detail about state appropriations, agency spending, and government programs. The Size Up is published biennially in the spring of even numbered years – approximately one year after the mid-point of the previous legislative session. In other words, it is not a sufficiently timely document to be useful during a legislative session for the purposes of understanding a new state budget that is under consideration by the legislature.

LBB’s “Summary of Appropriations” is a far timelier document that is typically produced within 48 hours of whenever an Appropriations Act is set for a public hearing or legislative debate. The Summary of Appropriations does provide somewhat detailed explanations of major appropriations and shows the biennial change in appropriations to many agencies, but it is still not sufficiently detailed to allow citizens and legislators to engage as effectively as they might in the legislative appropriations process. For example, the document simply lists All Funds and General Revenue appropriations to the Commission on the Arts. No additional detail is provided.

Finally, it is worth noting that pursuant to Senate Bill 1 (82R, 2011), the LBB does provide an online “State Budget by Program” function, which allows users to access program-level information about the state budget. While this function is useful, it has some shortcomings, primarily because it is only updated twice each biennium: once in January of each session year to reflect the introduced version of the budget, and again “in the fall of that year to include the final version of the budget bill.”<sup>8</sup> Because the function is not updated during the legislative process, it lacks the utility that it could provide to legislators and those who engage in the state budget process. The State Budget by Program function also may not directly track the programs operated by state agencies, as LBB notes:

While state agencies and institutions of higher education are consulted in identifying programs, ultimately State Budget by Program (SBP) programs are determined by LBB staff. Therefore, SBP programs may not be the same as programs developed by state agencies for their internal operations.<sup>9</sup>

### **Proposal: Show sources of funding and program-level detail in the state budget**

Navigating the General Appropriations Act, Legislative Appropriations Requests, Legislative Budget Estimates, Fiscal Size Up, Strategic Performance Reviews and the assorted briefing papers and charts and graphs available on the LBB website is daunting even for those who are steeped in the government and in the appropriations process.

It is good to step back and reconsider the budget document itself and determine whether a simple reformatting exercise can make the Appropriations bills -- and final Act -- more useful and clear to legislators, agencies, and the general public.

The essential elements that would improve the formatting of the GAA are these:

- (1) Change the format of the bill pattern to a landscape format that tracks the LAR's and LBE's and other documents already produced by agencies and LBB.
- (2) Provide a separate line item for each program that accounts for one percent or more of the entity's total appropriations.
- (3) Include in a column format the appropriation each program receives from each source of revenue (GR, GR-D, federal, and other funds).
- (4) Indicate the biennial change in funding for each program, broken down by source of revenue. [The change in method of finance would be altered as necessary during the budget process]
- (5) At the end of each agency's bill pattern, include noteworthy information: Significant budget drivers or policy changes that impact appropriations.

Some important features of this approach are as follows:

- (1) Do not make the agencies or the LBB produce more information.
- (2) Combine elements of documents that already exist (LAR, LBE, Fiscal Size Up)
- (3) Provide information that is pertinent to legislators that could be useful in asking questions, in public debate, and answering questions from constituents: (MOF & % changes).

A sample of what this might look like follows, using part of the Texas Education Agency's 2016-17 budget for illustrative purposes:

**TEXAS EDUCATION AGENCY**  
For the Years Ending August 31, 2016, and August 31, 2017.

Items of Appropriation by Program	General Revenue		Biennial Change <sup>8</sup> 2014-15 vs. 2016-17	General Revenue - Dedicated		Biennial Change <sup>8</sup> 2014-15 vs. 2016-17	Federal Funds		Biennial Change <sup>8</sup> 2014-15 vs. 2016-17	Other Funds		Biennial Change <sup>8</sup> 2014-15 vs. 2016-17	Biennium Total	
	2016	2017		2016	2017		2016	2017		2016	2017		2016-17	2016-17
<b>A. Goal: Provide Education System Leadership, Guidance, and Resources</b>														
<b>A.1.1 Formula Funding School Operations:</b>														
A.1.1.1 Formula Funding	15,345,600,000	14,955,900,000	-2.6%	-	-	NA	-	-	NA	3,202,800,000	3,592,100,000	-15.1%	37,096,400,000	-5.1%
A.1.1.2 Contingency: SB 1 Property Tax Relief <sup>1</sup>	480,000,000	480,000,000	NA	-	-	NA	-	-	NA	-	-	NA	960,000,000	NA
A.1.1.3 Contingency: Improve Formula Funding	100,000,000	100,000,000	NA	-	-	NA	-	-	NA	-	-	NA	200,000,000	NA
A.1.1.4 Contingency: Franchise Tax Relief	1,300,000,000	1,300,000,000	NA	-	-	NA	-	-	NA	-	-	NA	2,600,000,000	NA
<b>Total, A.1.1 Formula Funding School Operations:</b>	<b>17,225,600,000</b>	<b>16,835,900,000</b>	<b>8.4%</b>	-	-	<b>NA</b>	-	-	<b>NA</b>	<b>3,202,800,000</b>	<b>3,592,100,000</b>	<b>-15.1%</b>	<b>40,856,400,000</b>	<b>3.6%</b>
<b>A.1.2 Formula Funding School Facilities:</b>														
A.1.2.1 Instructional Facilities Allotment <sup>1</sup>	593,100,000	612,000,000	-5.0%	-	-	NA	-	-	NA	-	-	NA	1,205,100,000	-5.0%
A.1.2.2 Contingency: Property Tax Relief <sup>1</sup>	120,000,000	120,000,000	NA	-	-	NA	-	-	NA	-	-	NA	240,000,000	NA
<b>Total, A.1.2 Formula Funding School Facilities:</b>	<b>713,100,000</b>	<b>732,000,000</b>	<b>13.9%</b>	-	-	<b>NA</b>	-	-	<b>NA</b>	-	-	<b>NA</b>	<b>1,445,100,000</b>	<b>13.9%</b>
<b>A.2.1 Statewide Educational Programs:</b>														
A.2.1.1 Student Success Initiative - Prevention of Academic Failure	15,850,000	15,850,000	-37.2%	-	-	NA	-	-	NA	-	-	NA	31,700,000	-37.2%
A.2.1.2 Texas Advanced Placement Initiative	8,150,000	8,150,000	0.0%	-	-	NA	-	-	NA	-	-	NA	16,300,000	0.0%
A.2.1.3 Reasoning Mind - Improve Math Test Skills	2,000,000	2,000,000	-55.6%	-	-	NA	-	-	NA	-	-	NA	4,000,000	-55.6%
A.2.1.4 Subsidy for Teacher Certification Examination	500,000	500,000	0.0%	-	-	NA	-	-	NA	-	-	NA	1,000,000	0.0%
A.2.1.5 Project Share - Prof. Development for Teachers	9,000,000	9,000,000	0.0%	-	-	NA	-	-	NA	-	-	NA	18,000,000	0.0%
A.2.1.6 Academic Innovation & Mentoring	2,250,000	2,250,000	50.0%	-	-	NA	-	-	NA	-	-	NA	4,500,000	50.0%
A.2.1.7 Contingency: High Quality Pre-K Grant Program <sup>2</sup>	59,000,000	59,000,000	NA	-	-	NA	-	-	NA	-	-	NA	118,000,000	NA
A.2.1.8 Contingency: Reading Excellence Team Pilot <sup>3</sup>	1,539,136	1,531,136	NA	-	-	NA	-	-	NA	-	-	NA	3,070,272	NA
A.2.1.9 Contingency: Reading-To-Learn Academies <sup>4</sup>	7,020,252	4,090,874	NA	-	-	NA	-	-	NA	-	-	NA	11,111,126	NA
A.2.1.10 Early College High School	3,000,000	3,000,000	NA	-	-	NA	-	-	NA	-	-	NA	6,000,000	NA
A.2.1.11 Teacher Licensure Achievement Training Academies	9,334,709	8,481,837	NA	-	-	NA	-	-	NA	-	-	NA	17,816,546	NA
A.2.1.12 Teacher Math Achievement Training Academies	14,334,709	8,481,837	NA	-	-	NA	-	-	NA	-	-	NA	22,816,546	NA
A.2.1.13 T-STEM - Technical Assistance to T-STEM Academies	1,500,000	1,500,000	NA	-	-	NA	-	-	NA	-	-	NA	3,000,000	NA

*\*Note that the changes proposed call for the budget to be produced in landscape format, allowing for the information to be presented more clearly than it is here. A full sample of the proposed TEA budget is appended to this document, in landscape format.*

This approach would be an improvement over the current format of the state budget and would enable legislators and citizens to engage more effectively with the state budget process. A renewed focus on program-based budgeting would also further enhance the transparency of the budgeting process.

With direct access to information showing how much and what type of revenue is being used to fund specific state programs, legislators, stakeholders and taxpayers, are immediately presented with information for more effective participation in the legislative appropriations process. This approach improves transparency with adaptations of information LBB already has, largely through extant legislative appropriations requests and other documents used to develop the general appropriations act.

## ENDNOTES

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<sup>1</sup> Senate Research Center, "A Guide to the Budget Process in Texas," January 2013.

<sup>2</sup> HB 3430, 80R

<sup>3</sup> SB 1, (82S1, 2011), enacted as Government Code, Section 322.0081: <http://sbp.lbb.state.tx.us>

<sup>4</sup> HB 16, 83R

<sup>5</sup> SB 637 and SB 656, both 83R

<sup>6</sup> <http://www.arts.texas.gov/initiatives/cultural-districts/>

<sup>7</sup> House Bill 2208 (79R, 2005)

<sup>8</sup> Legislative Budget Board, State Budget by Program; online at: <http://sbp.lbb.state.tx.us/>

<sup>9</sup> Legislative Budget Board, Definition of "Program", online at: <http://sbp.lbb.state.tx.us/Documents/Definition%20-%20Program.pdf>

