

SUBJECT: Eliminating dedicated funds and freeing them for general spending

COMMITTEE: Appropriations — committee substitute recommended

VOTE: 18 ayes — Junell, West, Coleman, Cuellar, Delisi, Flores, Gallego, Glaze, Gutierrez, McReynolds, P. Moreno, Mowery, Pickett, Pitts, Staples, Tillery, S. Turner, Van de Putte

0 nays

9 absent — Eiland, Farrar, Giddings, Hartnett, Heflin, Hochberg, Janek, Luna, Puente

WITNESSES: For — None

Against — None

On — Kathie Griswold, Office of the Comptroller of Public Accounts

BACKGROUND: Statutes governing consolidation, abolition, and use of state funds are found in the Government Code, secs. 403.094-403.096. Since 1991, the Legislature has been phasing out restrictions on many dedicated revenue funds and changing the methods of fund accounting. In the past, most dedicated revenue was held in separate “special funds” outside of general revenue, severely limiting the amount of general revenue available for general-purpose spending.

Funds consolidation changes also have included annual one-day accounting “sweeps.” Government Code, sec. 403.095(b) and (c), requires that on August 31, 1999, cash balances in dedicated revenue accounts that exceed amounts appropriated or encumbered be transferred into general revenue to be counted as available general revenue by the comptroller. Accounts exempt from this provision include those created by a court or the state constitution, trust funds, federally required funds, and funds outside the treasury. The availability of dedicated revenues for general governmental purposes is scheduled to expire on September 1, 1999.

In 1991, the comptroller's Texas Performance Review, in *Breaking the Mold*, identified 537 state funds in the state treasury, 366 of which held cash balances at the end of fiscal 1990. The 72nd Legislature and subsequent legislatures have enacted legislation phasing in the consolidation of many dedicated funds into general revenue and containing the growth of newly created dedicated accounts.

A total of 281 funds became general revenue accounts on August 31, 1993. The new account balances were included in the total general revenue estimate for the fiscal 1992-93 budget — a one-time net gain of \$540 million — and were identified in subsequent budget deliberations as “general revenue-consolidated” funds. By August 31, 1995, 130 consolidated general revenue accounts lost their dedicated status, and 184 were established as *dedicated* general revenue accounts on September 1, 1995.

The 72nd Legislature established the Funds Review Advisory Committee to evaluate the consolidation or elimination of funds, accounts, or dedications. The committee includes the governor, comptroller, state auditor, and director of the Legislative Budget Board.

DIGEST:

CSHB 3084 would abolish on August 30, 1999, most funds and accounts created or recreated in the state treasury or dedicated or rededicated by an act of the 76th Legislature. This would not apply to statutory dedications, funds, and accounts enacted before the 76th Legislature convened or to accounts that were exempt from previous consolidation-related requirements in effect through August 30, 1995.

The following funds and accounts would be exempt from the abolition of accounts or dedications:

- ! the blindness education, screening, and treatment program account, if enacted by SB 206 by Moncrief or HB 984 by Naishtat;
- ! the permanent funds for tobacco education and enforcement, children and public health, emergency medical services, and rural health facilities, if enacted by HB 1676 by Junell;
- ! the higher education permanent endowment funds, if enacted by HB 1945 by Junell, Cuellar;
- ! funds created by the 76th Legislature for which separate accounting is required by federal law;

- ! trust funds or dedicated revenue deposited to trust funds, bond funds, and pledged funds created by the 76th Legislature, if held outside the state treasury with the comptroller's approval or in the state treasury with the comptroller in trust;
- ! funds or accounts created or recreated in the Texas Constitution or revenue that would be dedicated by the constitution under amendments proposed by the 76th Legislature;
- ! revenue consisting of court costs authorized by an act of the 76th Legislature; and
- ! revenue from the sale of motor vehicle license plates authorized by the 76th Legislature, effective August 30, 1999.

CSHB 3084 also would amend Government Code, sec. 403.095(b) effective September 1, 1999, to make available for use for general governmental purposes on August 31, 2001, balances in certain dedicated revenue accounts that exceed the amounts appropriated by the general appropriations act or other act of the 76th Legislature. The bill would specify that such funds also would be considered available for certification of the state budget. Sec. 403.095 would expire on September 1, 2001.

The bill would add provisions requiring the comptroller to make such a sweep of dedicated accounts only as directed by the Legislature.

CSHB 3084 would repeal the Funds Review Advisory Committee.

CSHB 3084 would prevail over any other act of the 76th Legislature that purported to create or recreate a special fund or account in the state treasury or to dedicate or rededicate revenue to a particular purpose, regardless of effective dates.

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house.

**SUPPORTERS
SAY:**

CSHB 3084 would continue the undertaking begun by the 72nd Legislature to simplify and make more flexible state fund accounting and appropriations. By severely limiting the amount of general revenue available for general-purpose spending, dedicated accounts tie the hands of the Legislature in channeling appropriations toward shifting or evolving priorities. Fund consolidations and balance transfers help make state spending more

responsive and reduce the costs of accounting and paperwork.

Accounts established in statute to meet a pressing need often are forgotten or remain dedicated even though the revenues deposited to the account may far exceed the demand for spending for the stated purpose or the need for the special account may have diminished.

For this legislative session alone, about 200 to 300 bills have been identified that would create or recreate new accounts or dedicated fees and revenues. This kind of proliferation of new funds and accounts would counter progress made in recent years toward identifying and eliminating unnecessary dedicated accounts.

Shifting the dates for “sweeping” balances in dedicated accounts for general purposes would allow these balances to be used for certification of the fiscal 2002-03 budget. The state never has used this provision, but it provides a safety net in the event that additional state funds were needed to meet state priorities. Agencies would not be affected unduly by a sweep because they can receive funds in dedicated accounts only through specific appropriations by the Legislature.

This bill would implement the recommendations of the Funds Review Advisory Committee, which, in its November 1998 report, *Texas Comprehensive Report on State Funds*, recommended:

- ! continuing the practice of abolishing most newly created dedicated funds and accounts by enacting a comprehensive funds-consolidation bill at the end of each session; and
- ! abolishing the Funds Review Advisory Committee.

OPPONENTS
SAY:

Revenues dedicated to a specific function or purpose should not be used for general spending. Such a provision would eliminate excess funds that agencies depend on to meet regulatory responsibilities and future emergencies or to forestall fee increases.

OTHER
OPPONENTS
SAY:

The Legislature should be wary of making any exceptions to the policy against establishing or rededicating certain accounts dedicated to resolving specific problems or enhancing specified purposes, as CSHB 3084 would do for certain specified funds. To continue the progress toward funds

consolidation and elimination, dedicating accounts targeted to significant areas of concern should be allowed only with special justification.

Because of consolidation efforts over the past few years and the extent to which dedicated fund revenues usually are appropriated, any balances left in dedicated fund accounts after appropriations are taken into account probably would be negligible and would not provide much assistance in enhancing state certification.

- NOTES: Major changes made by the committee substitute to the original bill include:
- ! removing the exemption for the Girl Scout account that would be created by SB 322 by Ellis or HB 1706 by Woolley;
 - ! adding exemptions for permanent health-related endowment funds for higher education as created by HB 1945; and
 - ! adding exemptions for license plate fees enacted by the 76th Legislature.

Status of the bills referenced in this analysis as of April 27:

- ! SB 206 by Moncrief was referred to Senate Human Services Committee;
- ! HB 984 by Naishtat was referred to House Human Services Committee;
- ! HB 1676 by Junell and HB 1945 by Junell, Cuellar passed the House as amended on April 23 and have been referred to Senate Finance Committee;
- ! SB 322 by Ellis, Shapiro passed the Senate on March 18 and was reported favorably by House Transportation Committee on April 20;
- ! HB 1706 by Woolley was left pending in House Transportation Committee.