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## EXPENDITURE LIMITS

### THE ISSUE

At the height of the 1970's tax revolt, Texas voters overwhelmingly said "YES" to the *Texas Tax Relief Act of 1978*—a constitutional Tax and Expenditure Limit (TEL) designed to limit how much the Legislature could increase spending. Regrettably, however, a number of weaknesses plague the TEL and limit its effectiveness.

One of the biggest flaws of the Texas TEL is that it only limits the growth of appropriations funded by non-dedicated tax revenue. There are no restrictions on spending revenue from other sources—such as federal funds, constitutionally dedicated monies, and non-tax proceeds (i.e., fees, fines, lottery, etc.). Since the TEL just limits the growth of certain revenue, only about half the budget is subject to the spending cap while the other half is left to grow unchecked.

The Texas TEL is further weakened by the measure it uses to calculate future budget growth — personal income. By "dividing the estimated Texas total personal income for the next biennium by the estimated Texas total personal income for the current biennium," the LBB projects how fast the state's economy will grow and sets the budget's growth rate accordingly. The problem is that the state's actual economic growth often differs from projected economic growth. That difference exposes taxpayers to a greater tax burden than they should reasonably expect. For example, if projected personal income is estimated to increase by 11 percent over the course of the next biennium, then the state's budget can also increase by 11 percent. But if actual personal income only increases by 9 percent, the state's budget can still increase by 11 percent leaving taxpayers with little choice but to absorb the higher cost of government.

Texas' spending limit also fails to restrict the growth of local government spending. Local government spending is particularly troublesome for Texans as it consumes more tax dollars than state government. According to the U.S. Census Bureau, Texas local governments spent nearly \$10 billion more than state government in 2005-06—\$95.4 billion vs. \$85.5 billion, respectively.

Finally, the Texas TEL is weakened by the fact that a simple majority can override the measure if lawmakers declare an "emergency" meaning that little more than political will protects taxpayers from government's largesse.

Texas' TEL is flawed and needs to be improved. One such improvement to the TEL is to limit the growth of all state and local government spending to population growth plus inflation. Another improvement is to require voter approval for all expenditures above the appropriations limit—if the Legislature is justified in spending more than the appropriations limit, then a reasonable public will understand. Ultimately, taxpayers shoulder the burden of paying for government; therefore, government should shoulder the burden of protecting the taxpayer.

# TEXAS PUBLIC POLICY FOUNDATION

## THE FACTS

- ★ Eighty-four percent of voters overwhelmingly cast their ballots in favor of the *Texas Tax Relief Act of 1978* in an attempt to control government spending.
- ★ Texas' TEL applies to only half of the state budget and does not include local government expenditures.
- ★ Texas' spending limit is based on the projected growth of personal income. A more responsible alternative is to base the expenditure limit on the sum of population and inflation growth.
- ★ The Texas TEL fails to adequately limit expenditures because it can be easily avoided with enabling legislation.
- ★ Thirty states currently have a TEL in place; Colorado's Taxpayer Bill of Rights (TABOR) is the most well-known.
- ★ States with effective spending limitations experience lower tax increases in periods of recession than states without such limitations.

## RECOMMENDATIONS

- ★ Reform the state's current TEL to apply to expenditures made from *all* state revenue.
- ★ Use the sum of population and inflation increases to base the growth of future state spending instead of the growth in total personal income.
- ★ Enact an expenditure limit for *local* governments, limiting expenditure growth to inflation plus the growth of the population they serve.

## RESOURCES

- *Building a Principled Budget: A Blueprint for the 2010-11 Biennium* by Talmadge Heflin and James Quintero, Texas Public Policy Foundation (November 2008) <http://www.texaspolicy.com/pdf/2008-11-RR11-BudgetBlueprint-th-jq.pdf>.
- *Taming the Leviathan: Are Tax and Spending Limits the Answer?* by Dean Stansel, the CATO Institute (July 1994) <http://www.cato.org/pubs/pas/pa-213.html>.
- *The Texas Tax Relief Act in Retrospect* by David Hartman, Texas Public Policy Foundation (Fall 2000) <http://www.texas-policy.com/pdf/2000-veritas-1-3-taxrelief.pdf>.
- *State Tax and Expenditure Limits—2005*, National Council of State Legislatures (Feb. 2006) <http://www.ncsl.org/programs/fiscal/tels2005.htm>.
- *Summary of Recommendations to the 80th Texas Legislature*, Texas Conservative Coalition Research Institute (Jan. 2007) <http://www.txccri.org/publications/80thSummaryRecommendations.pdf>.

