

Fiscal Policy: 81st Legislative Session in Review

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The 2010-11 State Budget

- At \$182 billion, the state's 2010-11 All Funds budget is an 8.5 percent increase over the previous biennium's budget. This biennium's budget figure includes \$12 billion in federal funds from the *American Recovery and Reinvestment Act*.
- Even with the additional \$12 billion in stimulus funds, the state's budget growth is still within the range of projected population growth plus inflation.
- General revenue spending decreased by almost 2 percent in the 2010-11 budget. Only once since WWII has general revenue spending declined.
- The two biggest areas of the state's 2010-11 budget—Health & Human Services and Education—constitute nearly 75 percent of the total budget. Budget writers will need to pay special attention to these two areas during the next legislative session to control their growth, particularly in the area of Medicaid.
- The 81st Legislature demonstrated commendable fiscal restraint, especially considering the federal stimulus dollars and the state's sizeable Economic Stabilization Fund which was left untouched.

Budget Surplus

- Entering the 81st session, one of the biggest fiscal challenges for the Foundation was convincing lawmakers to resist the temptation to tap the Economic Stabilization Fund (ESF), also known as the "rainy day" fund.
- Raiding the ESF to pay for more government programs and services presents two problems for taxpayers going forward. First, adding ongoing government programs and services with these one-time funds would have to be paid for by higher taxes once the surplus funds were

exhausted. Second, today's economic uncertainty demands that the state have extra money on hand to pay for any emergencies since raising taxes is the last thing the state should consider. With this in mind, the Foundation worked hard to encourage legislators not to spend any of the surplus unless it was to pay for one-time expenditures or tax relief.

- The Foundation's suggestions were well-received by the Legislature as the ESF was not used to pay for any new programs or to expand existing ones.
- Since the Legislature opted to conserve the ESF, budget writers will have \$9.1 billion heading into the 2011 legislative session to pay for tax relief or plug any holes in the budget.

Tax & Expenditure Limits

- Texas government is constitutionally prohibited from growing the state's budget faster than the growth of the state's economy.
- Texas local governments, while subject to tax limitations, have no expenditure constraints.
- Local sales taxes cannot exceed a total of 2 cents, property tax rates cannot go beyond certain pre-set limits, and rollback elections counter any excessive property tax levy increases.
- The Foundation has long been an ardent supporter of limiting the growth of state and local government spending to the sum of population growth plus inflation, or the growth of personal income, whichever is less.
- Unfortunately, little movement was seen on either strengthening the state's constitutional spending limit or enacting an expenditure limit at the local level.

Tax Reform & Tax Cuts

- A pillar of Texas' economic strength has been keeping taxes low. By adopting a low tax approach to governance, lawmakers have been able to keep more money in the hands of the private sector thereby helping to attract jobs, increase wages, and promote investment.
- Texas' image as a low tax state remained intact this session as several reforms were made to the Tax Code.
- HB 4765 raised the tax exemption threshold for the margin tax from \$300,000 to \$1 million in 2010 and 2011, and to \$600,000 thereafter. This reform is expected to cut the tax bills of 40,000 small businesses, according to the Governor's office.
- The defeat of SB 855, in all its incarnations, means that Texas motorists will avoid billions of dollars in new "local option" transportation taxes and fees. As the Foundation's research pointed out, new revenue sources for transportation can be found by using existing resources and redirecting current expenditures.
- Another significant victory for taxpayers came with the defeat of SB 1569. This legislation would have modified Texas law to allow the state to receive \$555 million in additional stimulus funds, but the conditions that came with the one-time money would have guaranteed a near-permanent tax hike on businesses.
- Texas' low tax policy was further bolstered this session by a resounding rejection of calls for a personal income tax. In fact, no such measure got traction in either chamber.
- Although the Legislature did not pass any sweeping open government reforms as it did in the previous session, some good transparency measures still came through.
- HB 3 included a provision that requires school districts to prominently post their budgets online for the last three years.
- HB 2504 mandated that institutions of higher education now post their departmental budgets online as well as a course's syllabus and the instructor's curriculum vitae.
- Dynamic fiscal impact statements must now be prepared by the Legislative Budget Board under HB 464. These statements will give the general public a better idea of the impact certain legislation will have on taxpayers.
- The Foundation also worked with the Legislature to pass HB 1366 which will require clearer ballot language for tax and revenue elections for hospital districts. Bond elections will be less confusing for voters.
- HB 3676 will now require school districts to report previously unreported payments it receives from companies granted tax abatements to the Comptroller's office.
- Financial transparency has already proven itself to be an invaluable tool at educating the public and controlling the cost of government. With the addition of these measures, the Foundation is hopeful that additional benefits can be gained.

Financial Transparency

- Texas is regarded as the national leader in financial transparency. During Sunshine Week 2009, the state was recognized as the most transparent state in the nation for having the greatest variety of public information online.
- The Center was successful on a number of fronts this legislative session—from tax reform to budget transparency to state spending. However, there's still much work that needs to be done in the 2011 legislative session, including meaningful property tax relief, stronger expenditure limits, and additional progress in financial transparency at the state and local level of government. ★

