



## Strengthening the Texas Model

### *Submitted Testimony before the House Ways & Means Committee on the Foundation's Fiscal Policy Priorities*

by The Honorable Talmadge Heflin

Chairman Bonnen and Members of the Committee:

My name is Talmadge Heflin and I'm the director of the Center for Fiscal Policy at the Texas Public Policy Foundation, a non-profit, non-partisan, free-market think tank based here in Austin. Thank you for the invitation to speak today on the pressing fiscal policy issues the Foundation believes should be addressed this legislative session.

My remarks today will focus on fiscal policy recommendations for the 84th Legislature to consider when determining what will best encourage economic growth and greater prosperity for all Texans. We find that Texas' success compared with most states clearly shows that the Texas model of low taxes, less regulation, and a good lawsuit climate generates more economic growth, more jobs, and greater opportunity to prosperity than other approaches.

To continue this success, I would like to take the time today to recommend what we find are the best ways to strengthen the Texas model. These include the following:

#### ★ **Eliminate the Business Margin Tax**

The state's 2008 revised franchise tax, otherwise known as the margin tax, is a poor and inefficient mechanism for generating state revenues and represents a tremendous burden on entrepreneurs and small businesses. The tax has failed to keep property taxes low, raise projected revenue, and keep the state out of court over the financing of public schools. To eliminate these costs and stimulate billions of dollars in new personal income and tens of thousands of new jobs, it's time to end this complex, costly tax.

#### ★ **Reduce the Growth of Future Budgets with the Sales Tax Relief (STaR) Fund**

Instead of giving in to the temptation of spending every available penny each session, lawmakers should create a mechanism that functions concurrently as a spending restraint and sales tax break known as the STaR Fund. By transferring dollars into the Fund either from ineffective programs, an available fund balance, or dollars above the rainy day fund cap, the Texas Comptroller would use the Fund balance to temporarily lower the state's sales tax rate until it's depleted.

#### ★ **Stop the Runaway Growth in Texas' Property Taxes**

Texas' property tax system is among the most burdensome in the nation. According to the Tax Foundation's latest national rankings, Texas' property tax system ranks as the 15th worst in the nation for taxpayers, collecting more than \$1,550 per man, woman, and child. The legislature should implement reform that would require local voter approval for property tax rates that result in an increase in local property tax revenue in excess of 5 percent or population growth plus inflation, whichever is less, to limit the growth of property taxes.

### ★ Reform Texas' Tax and Expenditure Limit

The current tax and expenditure limit covers constitutionally non-dedicated general revenue funds, which is only about 40 percent of the budget, and is based on a two-year projection of personal income growth. We recommend limiting the total budget to the lowest of the growth rate of population plus inflation, personal income, or gross state product for the two fiscal years immediately preceding a regular legislative session. This would support the benefits of low taxes and fees generating economic prosperity.

### ★ Pass a Conservative Texas Budget

This budget limits the total 2016-17 budget to no more than \$217.1 billion based on a 6.5 percent growth rate in population plus inflation for the last two fiscal years. By effectively limiting spending, this limit will likely leave substantial funds available for tax relief.

### ★ Implement Program-Based Budgeting that Includes Routine Zero-Based Budgeting

Today, the General Appropriations Act (GAA) is laid out in such a way that it's almost impossible for anyone to track state spending by program. To increase budget transparency, root out inefficiencies, and make clear to taxpayers why each agency and program is necessary, we recommend changing the state's budget layout from a strategy-based approach to a program-based format. The Legislative Budget Board's online application that displays the budget by program is a good first step in that direction, but more should be done, such as making budget information available in near real time throughout the legislative process. Another key step is to implement zero-based budgeting that requires a certain percentage of state agencies to undergo a complete review and build their operating budget from scratch. Because of the time commitment zero-based budgeting entails, we recommend using it on a third of the budget each session so that the entire budget is reviewed every six years.

By following these recommendations, the 84th Texas Legislature can provide the best path to prosperity. Thank you for your time and I look forward to answering your questions. ★

## About the Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute. The Foundation's mission is to promote and defend liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

Funded by thousands of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

