

LEGISLATORS' GUIDE TO THE 85th LEGISLATURE

S P E C I A L S E S S I O N 2 0 1 7

Adopt a Conservative State Spending Limit

The Issue

Texas has done better economically and fiscally than most states during the past fifteen years. However, one area that still needs improvement is consistently controlling the state's budget growth. Since all government spending must ultimately be paid for by taxation, limiting budget increases is essential for a competitive economy that supports prosperity.

Since the 2004-05 state budget, the 2016-17 initially appropriated budget of \$209.1 billion was up 68.5 percent compared with only a 51 percent compounded increase in the key metric of population growth plus inflation in this period. Adjusting the total budget for this key metric shows that total budget growth is up 11.8 percent above the pace of compounded population growth plus inflation since the 2004-05 budget. This excessive increase has burdened Texans with higher taxes and fees to sustain elevated spending levels and slowed economic growth.

While historically the Legislature has occasionally passed conservative budgets that increase by no more than this key metric, Texas needs to keep past costly budget cycles from repeating. This can be accomplished by adopting a stronger state spending limit in the Texas Constitution and statute whereby the weaknesses of the current spending limit derives from:

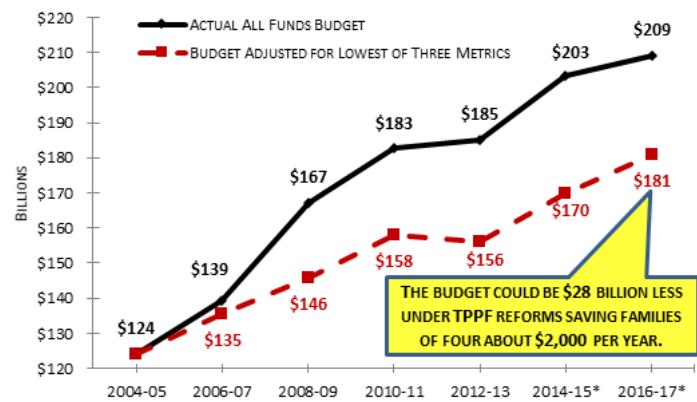
- **Not covering most of the budget.** In Article VIII, Section 22(a) of the Texas Constitution, the only appropriations subject to the spending limit are those derived from "state tax revenues not dedicated by this constitution," which is about 45 percent of the 2016-17 total budget. By capping less than half of the budget, a majority of the budget can grow unabated while legislators have perverse incentives to dedicate funds and resort to accounting gimmicks.
- **Not providing a reliable indicator for the budget's growth rate.** The Texas Constitution requires that the limit be based on the growth in the state's economy, which is statutorily identified as personal income growth. Research finds that this measure's instability leads to costly fiscal volatility and uncertainty.
- **Not relying on actual measures of economic growth.** Given that several groups submit estimates of personal income growth to the Legislative Budget Board in November before a regular legislative session for the next two fiscal years, the projections are for almost three years. The difficulty of accurately predicting this growth rate leads to large discrepancies between actual and projected growth rates that are never corrected later.

With so many hindrances to budgetary prudence, there is ample reason why Texas' state spending limit has failed to effectively limit the budget over time. With a few changes, legislators

can more effectively restrain the growth of government and allow Texans the best opportunity to prosper.

Figure 1 presents the budget adjusted for these growth rates to consider what the budget would look like if the Legislature had implemented our recommended reforms in 2003 and followed them from the 2004-05 to 2016-17 budgets. This shows that taxpayers would be asked to support a substantially smaller budget of \$181 billion, \$28 billion less than the current two-year budget.

Figure 1: Texas' Government Budget Growing Faster Than the Reformed Spending Limit Since 2004-05



Notes: Budget data are the latest spending measures from 2004-05 to 2014-15 and appropriations for 2016-17. Adjusted budget estimates are calculated based on the Foundation's reformed spending limit.

Fortunately, the 2016-17 budget and 2018-19 budget meet the needs of Texans while potentially achieving the historic milestone of two consecutive state budgets held below population growth plus inflation. Given these valuable steps, now is the time during the special session to strengthen the state's weak spending limit.

The Facts

- Texas' total state budget growth is up an estimated 11.8 percent above the pace of compounded population growth plus inflation since the 2004-05 budget.
- The current spending limit is weak because it excludes a majority of the budget, is based on the estimated growth of future personal income, and can be avoided rather easily by lawmakers.
- The Texas Senate passed SB 9 (85-R) that covered more than half of the budget, based growth rate on population growth and inflation, and computed the growth rate with past and projected data.

continued

Recommendations

- Pass a conservative state spending limit that makes the following changes, where applicable, to Article VIII, Section 22(a) of the Texas Constitution and to Section 316 of the Government Code, as in [SB 943](#) (85-R):
 - Apply the limit to Texas' total government budget;
 - Base the limit on the lowest growth rate of the Census Bureau's measure of [state population](#) plus the Bureau of Labor Statistics' measure of inflation for the [consumer price index for all items](#), the Bureau of Economic Analysis' measure of [total state personal income](#), or the Bureau of Economic Analysis' measure of [total gross state product](#) for the two fiscal years immediately preceding a regular legislative session when the budget is adopted; and
- Change Article VIII, Section 22(a), such that a supermajority vote of two-thirds in each chamber instead of a simple majority is required to exceed the spending limit.

Resources

- [SB 9: Strengthening Texas' Appropriations Limit by Vance Ginn](#), Texas Public Policy Foundation (March 2017).
- ["Texas Needs a Conservative Spending Limit"](#) by Vance Ginn and Owen Smitherman, TribTalk (June 29, 2016).
- ["Real Texas Budget Shows the Need for Conservative Spending Limit"](#) by Vance Ginn and Melissa Schlosberg, Texas Public Policy Foundation (June 16, 2016).
- [TEL It Like It Is: Why Texas Needs Spending Limit Reform](#) by Tallmadge Heflin and Vance Ginn, Texas Public Policy Foundation (Dec. 2015).
- [A Labor Market Comparison: Why the Texas Model Supports Prosperity](#) by Vance Ginn, Texas Public Policy Foundation (Oct. 2015).

