



Spending Trends & Tax and Expenditure Limit



The Issue

With continued economic expansion and robust job growth, the 2015 legislative session will likely convene with the state's coffers full of cash. Current estimates suggest legislators will have at least \$2.6 billion in excess revenue available for the 2016-17 biennium.

By strengthening the state's tax and expenditure limit (TEL) and keeping spending within these conservative caps, legislators will help reduce the government's footprint.

In fiscal 2004-05, state spending totaled \$124 billion supporting the major functions of government. The Foundation estimates that total spending during fiscal 2014-15 will be \$202 billion, an increase of 62.7% over the last 10-plus years.

The spending total includes the voter approved constitutional amendment in November 2013 for water projects and the amendment up to voters on the November 2014 ballot for transportation projects.

The spending total excludes \$6.1 billion in higher education funding related to patient income; but unlike the Legislative Budget Board numbers, our previous spending totals exclude this funding as well. In keeping with the general practice of legislators slightly underfunding Medicaid because of the uncertainty of its cost, we include an additional \$1.5 billion that may be appropriated in 2015.

The rate of spending growth is substantially greater than the growth rate of population and inflation over this period. By comparison, state spending growth since 2004-05 is 8.8% greater than what would have been spent over this period if total spending grew at the pace of population and inflation.

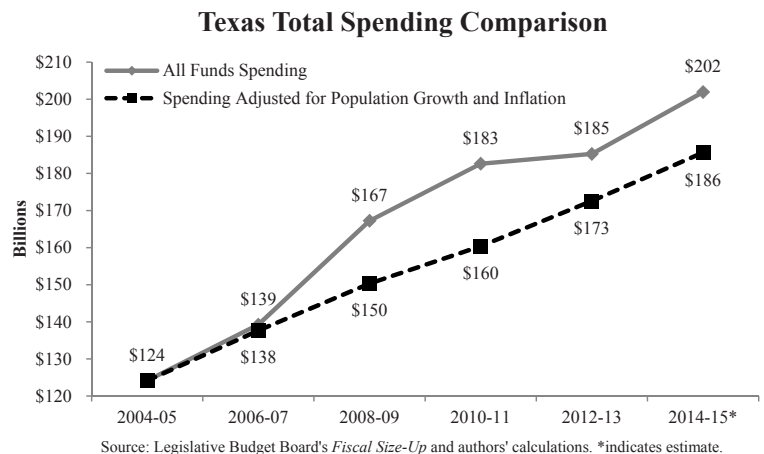
If this spending trend continues, Texans will be burdened with paying higher taxes and fees to sustain elevated spending levels that will slow economic growth in the process.

A driving force behind this level of imbalance has been the ineffectiveness of the state's TEL, which can be traced back to several design flaws.

One of the most obvious flaws is the types of spending that is limited under the TEL. In Article VIII, Section 22(a) of the state's Constitution, the only appropriations subject to the spending limit are those derived from "state tax revenues not dedicated by this constitution," which generally make up about half the budget. The other half consists of funds appropriated from other revenue sources (i.e. federal funds and non-tax proceeds) not subject to the TEL.

Another flaw has to do with the measure used to establish the spending limit—personal income. Personal income is a poor measure to serve as a basis for restricting the growth of government spending because it stands to reason that as the state's

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residents become wealthier and their share of personal income grows, they should require less government assistance, not more.

With so many hindrances to budgetary prudence, it is easy to understand why Texas' TEL has failed to live up to expectations. However, with just a handful of modest changes, legislators can vastly restrain the growth of government spending.

The Facts

- Incoming lawmakers look to have at least \$2.6 billion potential surplus for the 2016-17 biennium.
- State spending growth since 2004-05 is 8.8% greater than what would have been spent over this period if total spending grew at the pace of population growth and inflation.
- Effectively solving the state's budgeting difficulties will require bold leadership and vision guided by a principled approach, similar to the approach outlined in *The Real Texas Budget*.
- The TEL is ineffective because it excludes certain appropriations, is based on the estimated growth of personal income, and because of the ease with which lawmakers can get around it.

Recommendations

- Apply the TEL to all areas of Texas government spending.
- Base the limit on the growth rate of population plus inflation, personal income, or gross state product, whichever is less.
- Require a super majority vote of each chamber to exceed its limit rather than just a simple majority vote.

Resources

The Conservative Texas Budget by Talmadge Heflin and Vance Ginn, Texas Public Policy Foundation (July 2014).

The Real Texas Budget by Talmadge Heflin, Bill Peacock, and Vance Ginn (June 2014).

Strengthening Texas' Tax and Expenditure Limit by Talmadge Heflin and Katy Hawkins, Texas Public Policy Foundation (Oct. 2010).

