



Tax and Expenditure Limit



The Issue

Texas has done better economically and fiscally than most states during the past 15 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.

The 2016-17 total budget of \$209.1 billion is up 68.5% since the 2004-05 budget. Comparatively, the key metric of population growth plus inflation compounded over time is up an estimated 51% during this period. Adjusting the total budget for this key metric shows that total budget growth is up 11.8% 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 passing a stronger statutory spending limit whereby the current weak limit can be traced back to three design flaws:

- **The current limit covers less than half 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% of the 2016-17 total budget. By not capping more than half of the budget, legislators are left with perverse incentives to move money outside the cap by dedicating funds and resort to accounting gimmicks.
- **The current measure is not 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—statutorily identified as personal income growth. Research finds that this measure's instability leads to costly fiscal volatility and uncertainty.
- **The budget limit relies on a projected measure of economic growth.** Since 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 (i.e., each fiscal year is from September 1 to August 31), the projections are for about 33 months. The difficulty of accurately predicting this growth rate leads to large discrepancies between actual and projected growth rates that are never corrected later.

The Facts

- Texas' total state budget growth is up an estimated 11.8% above the pace of compounded population growth plus inflation since the 2004-05 budget.
- Solving the state's budgeting difficulties will require bold leadership guided by a principled approach, similar to that outlined in the Real Texas 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.

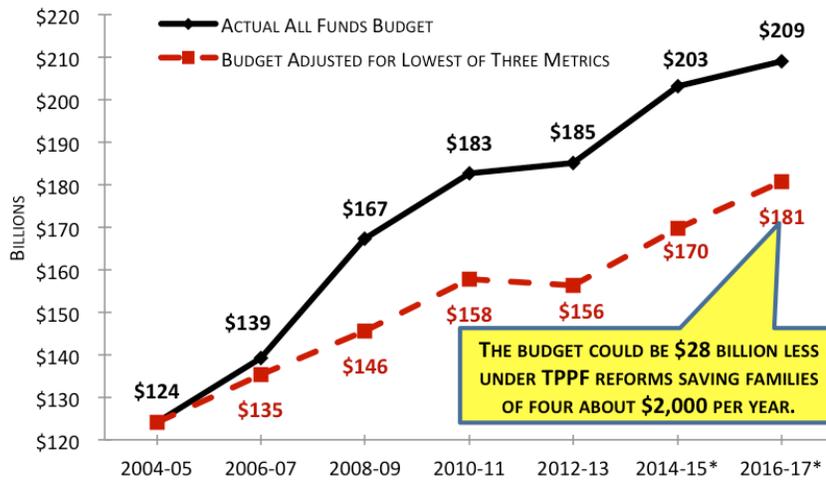
Recommendations

- Pass a conservative spending limit that makes the following statute changes to Section 316 of the Government Code:
 - 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.
- Put a constitutional amendment on the ballot to 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.

The chart below 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 since the 2004-05 budget.

Texas' Government Budget Growing Faster Than Reformed TEL 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 TPPF's recommended TEL reform.

Resources

[The Real Texas Budget: Why Texas Needs to Ratchet Down Spending Growth](#) by Talmadge Heflin, Bill Peacock, and Vance Ginn, Texas Public Policy Foundation (June 2016).

[TEL It Like It Is: Why Texas Needs Spending Limit Reform](#) by Talmadge 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).

[Reforming Texas' Tax and Expenditure Limit](#) by Talmadge Heflin and Vance Ginn, Texas Public Policy Foundation (Jan. 2015).

