

Texas Public Policy Foundation

# Keeping Texas Competitive

## A Legislator's Guide to the Issues 2013-2014



### Texas' Tax and Expenditure Limit ★ Keeping Texas Competitive Priority

#### The Issue

In 1978, 84% of Texans voted in favor of the Texas Tax Relief Act, a constitutional amendment they thought would put reasonable limits on the growth of government spending. Since its ratification, however, Texas' constitutional tax and expenditure limit (TEL) has done little to curb the trajectory of state spending.

Consider that between fiscal years 1990 and 2012, total state spending has grown by 310%. By contrast, the sum of population growth plus inflation has risen just 132% over the same period. A driving force behind this level of imbalance has been ineffectiveness of the state's TEL, which can be traced back to several design flaws.

One of the most obvious flaws has to do with the kind 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, such as fees and fines—which are not subject to the TEL, leaving open the window of opportunity for excessive growth.

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 residents become wealthier and their share of personal income grows, they should require less government assistance, not more. However, in this instance, the wealthier Texans become, the more money is redistributed away from them to the state via taxes and fees.

Political will also represents another stumbling block for an effective Texas TEL. With just a simple majority vote of each chamber, the Legislature can declare an "emergency" and bypass the appropriations limit altogether.

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 improve and entrench this important safeguard.

#### The Facts

- In 1978, 84% of Texas voters approved the Texas Tax Relief Act, demanding that government control its spending.
- Despite such overwhelming support, Texas' TEL has failed to meaningfully rein in the growth of government spending. Between fiscal 1990 and 2012, state spending has risen 310%, while the sum of population growth plus inflation has grown just 132%.
- The reasons that the TEL is ineffective are many: its exclusion of certain appropriations; the measure used to restrict the growth of government spending; and the ease with which lawmakers can get around the TEL, etc.

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- Texas' TEL fails to adequately limit expenditures because it can be easily avoided with enabling legislation.

### Recommendations

- Ensure that the TEL is self-contained within the state's Constitution and does not require any enabling legislation.
- Apply Texas' tax and expenditure limit to expenditures made from all types of revenue.
- Limit the growth of state spending to population growth plus inflation, the growth in personal income, or the growth in gross state product, whichever is less.
- Require a supermajority to override the TEL's provisions.
- Apply the TEL's provisions to both state and local governments.

### Resources

Real Texas Budget Solutions: 2013 and Beyond by Texans for a Conservative Budget (Mar. 2013).

Texas' Constitutional Tax and Expenditure Limit: Testimony before the House Appropriations Committee by James Quintero, Texas Public Policy Foundation (Apr. 2011).

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

Trends in Texas Government: State Government Spending by The Honorable Talmadge Heflin and Katy Hawkins, Texas Public Policy Foundation (Oct. 2010).

