



Testimony

Strengthening Texas' Tax & Expenditure Limit

Testimony in Support of SJR 2 & SB 9 before the Senate Finance Committee

by The Honorable Talmadge Heflin, TPPF Director of the Center for Fiscal Policy

Chair Nelson 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 providing me an opportunity to speak today in support of Senate Joint Resolution 2 and its enabling legislation Senate Bill 9 that would substantially improve Texas' weak tax and expenditure limit safeguarding Texans' future prosperity.

My remarks today are based on the Foundation's research finding that the current spending limit doesn't effectively limit Texas' budget growth.¹ With the state's total budget increasing by more than the key metric population growth plus inflation since 2004,² Texans are being asked to fund through higher taxes and fees an ever-increasing footprint of government reducing their opportunity to prosper.

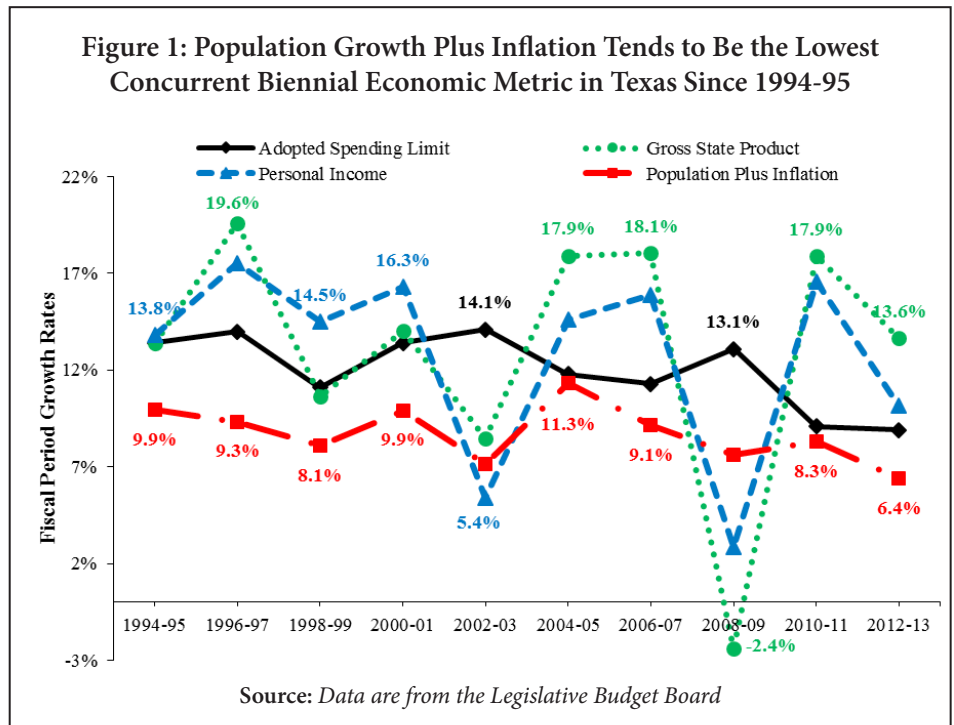
After conducting our own study and reviewing other research in search of which spending limits effectively restrain a government's budget, we find that Texas' spending limit is ineffective and is in need of reform because it:

- includes only a portion (about 40 percent) of the state's total budget;
- uses subjective, inaccurate projections of personal income growth for a two-plus-year period rather than past population growth plus inflation data as the limiting metric; and
- is relatively easy to ignore with only a majority vote by each house necessary to bust the cap.

This ineffectiveness typically leads to excessive budget growth that ultimately creates a need for more taxes and fees today or in the future that burden Texans.

By the spending limit only capping the non-constitutionally dedicated budget portion, Texas' total budget from 2004 to 2015 may increase by 64 percent according to the Foundation's calculations that include agencies' 2016-17 legislative appropriations requests. This increase is higher than the 45 percent increase in compounded population growth plus inflation in the same period. With the budget growing faster than this key metric, the growing footprint of government burdens Texans.

continued



It is nearly impossible to accurately project an entire economy for any length of time much less for more than a two-year period. *Figure 1* shows the adopted spending limits based on these projections tend to be different than actual personal income growth. *Figure 1* also provides evidence that population growth plus inflation was lower than the adopted limit in each period and lower in most periods than other possible metrics.

Population growth and inflation are two economic measures that account for most of the cost of funding public goods and services to a changing population. It is also noteworthy that these measures are added together because the addition of these two metrics accounts for economies of scale whereby the average cost of providing public services declines over time.

Every tax dollar used to fund government is a dollar not available to Texans. The current elevated total budget burdens Texans with paying higher taxes and fees indicating spending limit reform is needed now more than ever to restrain budget growth. There is abundant evidence that states with higher taxes have worse economies than states that tax their citizens less.³

The spending limit reforms in SJR 2 and SB 9 address the ineffectiveness of the current spending limit outlined above by:

- covering the total budget;
- basing the limit on the growth of population plus inflation during the preceding budget period; and
- requiring a three-fifths vote by both houses to bust the cap.

While these are certainly significant steps in the right direction, the day may come when inflation reaches levels like the 1970s that would not lead to a prudent spending limit. To avoid this concern, the Foundation suggests using the lowest rate of either population growth plus inflation, personal income, or gross state product for the two fiscal years immediately preceding a regular legislative session. This would allow Texans to have the ability to sufficiently fund essential government programs and no more.

Collectively, these reforms would help legislators limit the size and scope of the Texas budget, allowing Texans the opportunity to improve their well-being and achieve their dreams with their own resources. SJR 2 and SB 9 will help Texas remain the model of opportunity and success for the rest of the nation.

Thank you for your time and I look forward to answering your questions. ★

Notes

¹ Talmadge Heflin and Vance Ginn, Ph.D., [Reforming Texas' Tax and Expenditure Limit](#), (Jan. 2015).

² Talmadge Heflin, Bill Peacock, and Vance Ginn, [The Real Texas Budget](#), (Updated Dec. 2014).

³ Arthur B. Laffer, Chuck DeVore, Stephen Moore, and Nicholas Drinkwater, [How Big Government Hurts the Economy](#), Texas Public Policy Foundation, (Nov. 2013).

About the Texas Public Policy Foundation

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