

Tax and Expenditure Limit

The Issue

Texas has done better economically and fiscally than most states for decades. However, an area needing improvement is consistently controlling the state's budget growth. Because government spending ultimately drives taxation, especially when Texas must balance its budget, limiting budget increases is essential for a competitive economy that supports prosperity.

The 2018-19 initially appropriated amount of about \$217 billion is up 75% since the 2004-05 budget. Comparatively, the key metric of population growth plus inflation compounded over time is up an estimated 63% during this period. Adjusting the total budget for this key metric shows that total budget growth is up 7.3% above the pace of 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.

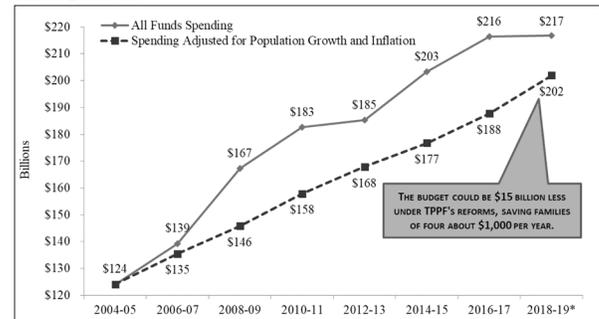
While historically the Legislature has occasionally passed conservative budgets that increase by no more than this key metric, Texas needs to keep costly past budget cycles from repeating. This can be accomplished by adopting a stronger state spending limit. The weaknesses of the current spending limit derive 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 half of the 2018-19 total budget. By capping only half of the budget, the rest can grow unabated.
- **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 predicting this growth rate leads to discrepancies between actual and projected.

Fortunately, the 2018-19 budget meets the needs of Texans while potentially achieving the historic milestone of two consecutive state budgets held below population growth plus inflation. Now is the time to strengthen the state's weak spending limit.

The following graph presents the budget adjusted for population growth plus inflation over time to consider what the budget would look like if the Legislature had implemented a spending limit based on this metric in 2003 and followed it from the

Texas' Government Budget Growing Faster than Reformed TEL Since 2004-05



Source: Legislative Budget Board's Fiscal Size-Up and authors' calculations. *indicates estimate

2004-05 to 2018-19 budgets. Taxpayers would be asked to support a substantially smaller budget of \$202 billion, \$15 billion less than the current two-year budget.

The Facts

- Texas' total state budget growth is up an estimated 7.3% above the compounded growth of population 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 the growth rate on population and inflation, and computed the growth rate with past and projected data.

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:
 - Apply the limit to Texas' total government budget; and
 - 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.
- Change Article VIII, Section 22(a), such that a supermajority vote of two-thirds of the membership in each chamber—in-stead of a simple majority—is required to exceed the spending limit.

Resources

[Texans Deserve a Conservative Spending Limit – Testimony before the House Appropriations Committee in support of HB 208](#) by Vance Ginn, Texas Public Policy Foundation (July 27, 2017).

[Strengthening Texas' Appropriations Limit – Testimony before the Senate Finance Committee for SB 9](#) by Vance Ginn, Texas Public Policy Foundation (March 27, 2017).

[TEL It Like It Is: Why Texas Needs Spending Limit Reform](#) by Talmadge Heflin and Vance Ginn, Texas Public Policy Foundation (Dec. 2015).

