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The 2024–25 Conservative Texas Budget

Key Points

- Since the 2015 legislative session, the Texas Legislature has passed four consecutive Conservative Texas Budgets, defined as biennial growth in the total budget less than the rate of population growth plus inflation.

- However, past state budget growth excesses above this rate since the 2004–05 budget show that more restraint is necessary to stop overly burdening taxpayers with higher taxes and fees.

- The Legislature can build on its recent successes by passing a 2024–25 Conservative Texas Budget that grows spending no more than the rate of population growth plus inflation.

- Reining in spending will ensure a sustainable budget and an opportunity for historic tax relief so that Texans have abundant opportunities to flourish.

Executive Summary

Over the last two decades, Texas' total state biennial budget growth has had two different phases. The first phase had budget growth above the rate of population growth plus inflation for five of the six budgets from 2004–05 to 2014–15. The second phase, on the contrary, had budget growth below this rate for each of the four budgets since the 2016–17 budget was passed in 2015. This improvement was driven at least in part by the work of the Texas Public Policy Foundation in its creation of the Conservative Texas Budget (CTB) before the 2015 legislative session (Heflin & Ginn, 2015). The CTB provides a ceiling for initial appropriations of All Funds (i.e., State Funds and Federal Funds) before each session using data based on the rate of state population growth plus price inflation.

The **Conservative**
TEXAS BUDGET

Initial Appropriations Caps for 2024–25 Budget

FREEZE AT **0%** GROWTH:
$245 BILLION

MATCH AT **12%** GROWTH:
$274 BILLION

LIMIT AT **16%** GROWTH:
$284.5 BILLION

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The Texas Comptroller (2022) recently announced an expected General Revenue funds surplus of $27 billion. However, local property taxes are contributing to an affordability crisis (Ginn & Sánchez-Piñol, 2022), and inflation is at a high rate not seen in 40 years (Federal Reserve, n.d.-a) because of the excessive printing of money by the Federal Reserve fueled by Congress' excessive deficit-spending (Salter, 2022). Therefore, it is essential for the Texas Legislature in 2023 to pass an All Funds budget that, at the very least, appropriates no more than the rate of population growth plus inflation for a CTB of $284.5 billion.[1] Even better would be to freeze the budget to correct past budget growth excesses and to provide historic property tax relief with provided surplus dollars so that Texans can better

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1   Similar to the CTB limit for All Funds, the CTB limit for State Funds is a range from a freeze of $160.1 billion to a max limit of $185.6 billion.

The Texas Legislature should find ways to reduce the burden on Texans and provide opportunities for substantial tax relief.

withstand the bad policies out of D.C. as they have more money in their pocket and more opportunities to flourish.

Overview of the Conservative Texas Budget

The CTB sets a ceiling for how much the Texas Legislature should appropriate in All Funds (i.e., total State Funds and Federal Funds) to keep the biennial state budget within the average taxpayer's ability to pay for it, as measured by the rate of population growth plus inflation. The 87th Texas Legislature put much of this CTB approach into state law with the passage of SB 1336 (2021; Ginn, 2021). This new state spending limit strengthened the fiscal rule by covering all General Revenue (GR) funds, using the rate of population growth times inflation, excluding GR funds for tax relief and for disaster relief declared by the governor, and raising the vote threshold to exceed the limit to a three-fifths vote of each chamber (Legislative Budget Board, 2022a). While the new law is one of the most robust spending limits in the nation (Waisanen, 2010), it is not as strong as the CTB. The CTB differences include covering All Funds appropriations, using the rate of population growth plus inflation, and having a two-thirds vote threshold to exceed the limit.

Covering All Funds appropriations is important because this includes the total burden on taxpayers of funding state government. Also, limiting initial appropriations each session allows for consistent comparisons over time that are not provided by comparing spending in one period to appropriations in the next. These factors for calculating the CTB over time result in the budget figures looking different than what is reported by the state's budget reporting body—the Legislative Budget Board (LBB). By following the law, LBB's numbers used for comparison are not representative of a consistent burden on taxpayers over time. To provide consistency, we excluded $6.1 billion in appropriations to maintain the compression of school district maintenance and operations (M&O) property taxes from the 2021 session, $100 million to raise the homestead exemption for school district M&O property taxes, and $13.3 billion in disaster relief funds from the federal government for

funding related to COVID-19. The LBB provides an inflated 2022–23 budget base of $264.8 billion which does not accurately represent the ongoing burden of government spending on taxpayers (Ginn, 2022; LBB, 2022b).

Instead of micromanaging the process, the CTB approach allows legislators flexibility to allocate taxpayer funds to specific programs as desired while providing a threshold of a conservative budget. Population growth plus inflation is a reasonable metric to limit spending growth as it is typically stable thereby providing certainty to taxpayers of how much spending and, therefore, taxes will go up or down over time compared with historically more volatile measures like personal income growth or gross domestic product growth (Federal Reserve, n.d.-b). Moreover, limiting the growth in the budget to this metric essentially freezes per capita appropriations adjusted for inflation while providing essential government provisions so that government does not crowd out the productive private sector, thereby supporting more economic growth (Merrifield & Poulson, 2014; Ginn, 2021b).

History of the Conservative Texas Budget

Figure 1 shows the average biennial growth rates for the six state budgets passed before 2015 and for the four since then. The average biennial budget growth rate in the former period was 12% compared with the rate of population growth plus inflation of 7.4%. In the latter period, the average biennial growth rate of the budget was cut by more than half to 5.2%, which was well below the estimated rate of population growth plus inflation of 9.4%.

This improved budget picture must be maintained to correct for the excessive budget growth in the earlier period and ultimately reduce this burden on taxpayers. **Figure 2** charts All Funds initial appropriations over time with appropriations following the rates of population growth plus inflation based on the CTB approach.

The 2004–05 budget is the chosen base period as it was the base budget used when the CTB was created and was also a very conservative budget due to a $10 billion shortfall that was closed by restraining spending and not raising taxes (Texas Senate, 2003). Using that year as the base provides 10 budgets or 20 years for comparison with what the budget would have been if it had followed a maximum rate of population growth plus inflation. This fiscal rule is not meant to be a target but rather a ceiling, with the goal being budgeting below this limit and, ultimately budgeting well below it to correct for past excessive budget growth. Additionally, when one budget is above this rate, future

Figure 1
Texas' Biennial State Budget Growth Compared With Population Growth Plus Inflation
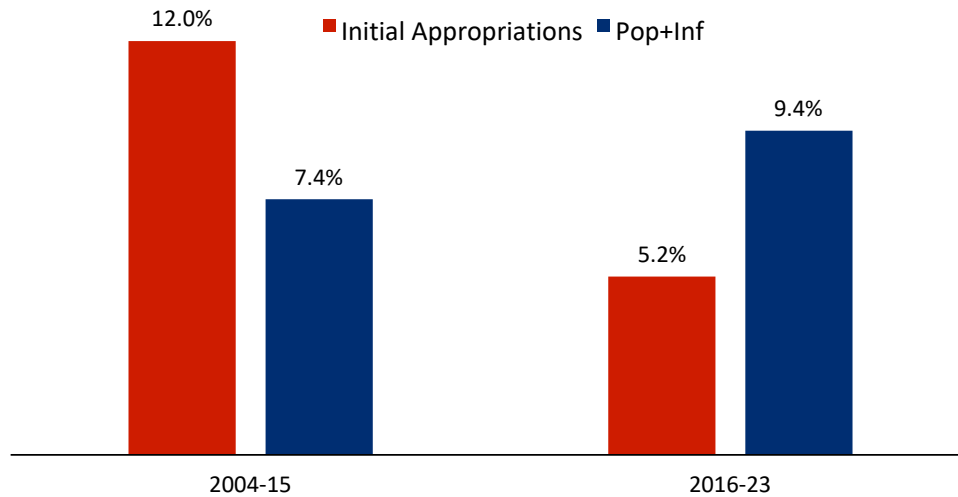
Note. Data from *Fiscal Size-Up*, Legislative Budget Board, n.d. (https://www.lbb.state.tx.us/FSU.aspx) and authors' calculations of average biennial growth.

excesses compound over time, contributing to a heavier burden on taxpayers. Specifically, the 2022–23 state budget is up $8.7 billion more, or 3.7% higher, than if the Legislature had followed the rate of population growth plus inflation each biennium since the 2004–05 budget. This represents a higher average budget burden of about $570 per year on Texas families of four for just the 2022–23 budget. Considering the cumulative excessive biennial budgets of $219 billion since the 2004–05 budget, the average excess burden on a family of four is nearly $14,500 per year. Either way it is considered, these excess budgets could instead be used by families to put food on the table, save for a rainy day, or pay for other necessities. Thus, the upcoming 2024–25 budget and every budget thereafter should have a growth rate well below the rate of population growth plus inflation if it grows at all to correct for past excessive spending that has led to a higher burden of taxes and fees on Texans.

Fortunately, the state's budget has improved and may soon converge with what the budget would be had it followed the rate of population growth plus inflation over time. This could happen in coming biennial budgets as the Texas Legislature follows the new stronger spending limit in SB 1336 (2021). This is a historic change in law that could be strengthened further by passing a constitutional amendment and improving it with the CTB approach of covering all funds, using the rate of population growth plus inflation, and raising the voting threshold to exceed the limit to a two-thirds vote in each chamber (Ginn, 2021a).

Calculation of the 2024–25 Conservative Texas Budget

The base for the 2024–2025 CTB calculation is the 2022–23 budget of $245.3 billion, excluding the $19.5 billion in property tax relief and federal funds for disaster relief noted above in the $264.8 billion total appropriations reported by the LBB (2022b). If the $19.5 billion were included, it would artificially inflate the base and give more room for the Legislature to appropriate than is necessary as property tax relief does not expand government, and federal funds for expenditures related to COVID-19 were meant for one-time only expenditures. The CTB growth rate based on the state's population growth plus consumer price inflation is calculated using data over the two fiscal years immediately preceding the legislative session, so fiscal years 2021 and 2022 (September 1, 2020, to August 31, 2022). These data used to calculate the estimated following two-year growth rates are from the Texas Comptroller (2022) and the Federal Reserve Bank of St. Louis (n.d.-c):

- Texas population growth: 2.1% increase to 29.9 million,

- U.S. consumer price index (CPI) for all urban consumers: 13.9% increase to 295.5, resulting in

- Sum of population growth and inflation: 16% increase.

Figure 2
Texas' State Budget Exceeds Population Growth Plus Inflation Since 2004–05
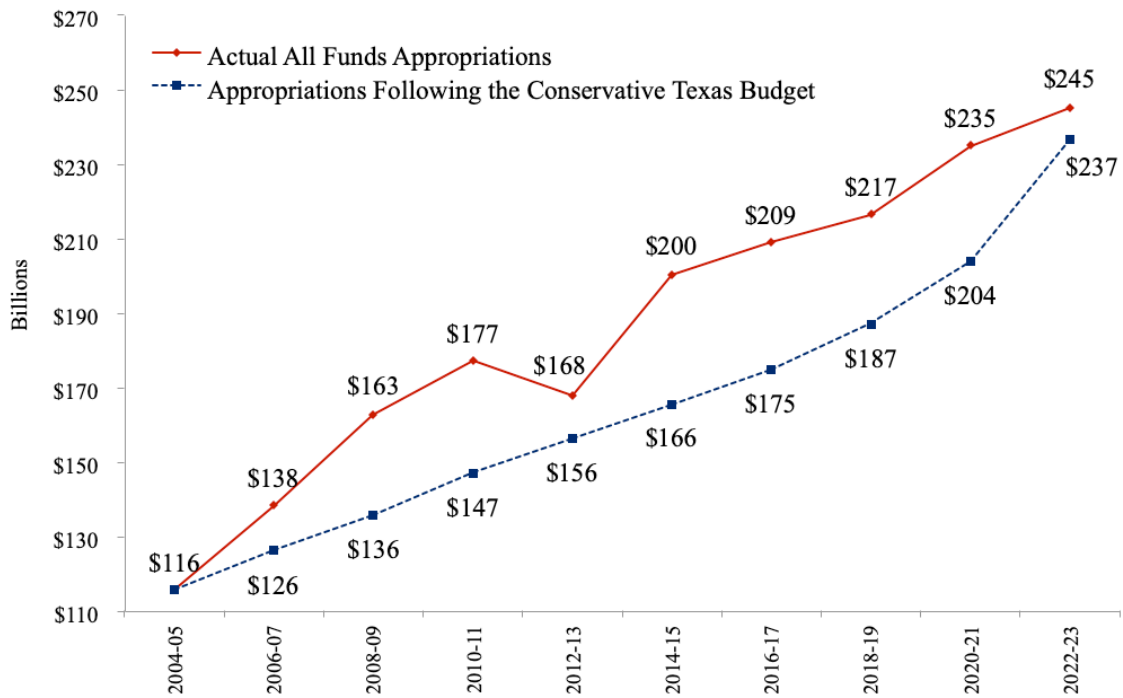
Note. Data from *Fiscal Size-Up*, Legislative Budget Board, n.d. (https://www.lbb.state.tx.us/FSU.aspx) and authors' calculations.

Increasing the 2022–23 budget by 16% gives the 2024–25 CTB's ceiling of $284.5 billion, or an increase of $39.2 billion. This amount represents a $19.7 billion increase, or a 7.4% increase from the LBB's reported 2022–23 budget of $264.8 billion. However, the CTB's ceiling of 16% is substantially higher than the 10.6% increase in average hourly earnings of all private sector workers in Texas (Federal Reserve Bank of St. Louis, n.d.-d). In addition, the state budget already exceeds what it should be based on—the rates of population growth plus inflation since 2004–05. Therefore, there is no need to increase the budget, and thus taxes, at the 40-year-high rate of population growth plus inflation. The Texas Legislature should find ways to reduce the burden of the budget on Texans and provide opportunities for substantial tax relief. This can be done by freezing, matching, or limiting the budget burden that has grown over the last 20 years through one of the following recommendations, respectively:

1. Freeze the 2022–23 budget of $245.3 billion for the 2024–25 biennium. This represents a cut to the LBB's reported amount of $264.8 billion by $19.5 billion. Moreover, this freeze would help cut the excessive cumulative budget burden since the 2004–05 budget

noted above by bringing the 2024–25 budget to $29.1 billion, or 10.6%, below the budget of $274.4 billion if the budget had just followed the CTB over time. This would support more liberty and opportunities to prosper.

2. Match the budget burden to CTB's path based on the rates of population growth plus inflation since the 2004–05 budget. This would result in an increase of the 2024–25 budget from $245.3 billion to $274.4 billion (12% increase), though there would remain a large cumulative budget burden needing to be reduced.

3. Limit the budget burden by increasing the 2024–25 budget by the CTB approach with the 16% rate of population growth plus inflation. This results in the CTB total budget of $284.5 billion, which will be $12.4 billion, or 4.6%, above the budget burden in that budget period and well above the cumulative budget burden over the last 20 years.

Figure 3
Texas' State Budget Recommendations for the 2024-25 Biennium (Billions of $)

Limit, $284.5

Match, $274.4

Freeze, $245.3

2022-23   2024-25
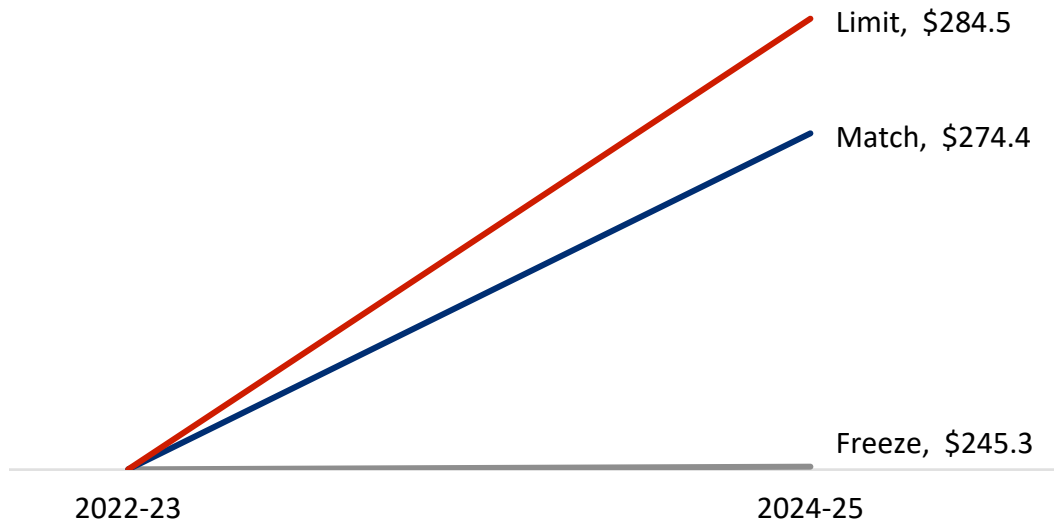
Note. Data from *Fiscal Size-Up*, Legislative Budget Board, n.d. (https://www.lbb.state.tx.us/FSU.aspx) and authors' calculations.

Figure 3 shows how each of these recommendations would help to rein in the state's budget, which could provide more opportunities for a larger surplus depending on tax collections for substantial tax relief. However, the recommendations presented above are in order of importance, as the freeze would provide the most surplus funds available for tax relief and help reduce the excessive budget burden on taxpayers since the 2004–05 budget.

Conclusion

The Texas Comptroller (2022) noted that there could be a $27 billion GR surplus at the end of the current 2022–23 biennium. Many demands will be made for these funds, including for public education, healthcare, transportation, and other areas. But the priority should be to effectively limit or, even better, freeze the state budget. Texas should use most, if not all, of the resulting surplus to reduce the cost of living that is part of the affordability crisis. As mentioned before, the rise of property tax collections constitutes a growing burden on Texans, but these taxes could be cut substantially by restraining spending and using the surplus to reduce school district M&O property taxes to ultimately eliminate them over time (Ginn & Sánchez-Piñol, 2022).

Therefore, the rate of population growth plus inflation provides a limit to the budget burden under the CTB. But now is the time for the state to cut the budget burden as outlined above because many Texans are facing an affordability crisis. Doing so will better preserve liberty and give Texans more opportunities to flourish. The CTB should also be taken to local governments in the form of the Responsible Local Budget (Ginn & Quintero, 2022) to rein in excessive budgeting that is driving property taxes higher and ultimately to the federal level in the form of the Responsible American Budget (Ginn, 2021b). There is a grand opportunity for substantial improvements in Texas by removing government barriers in the way of Texans, and the biggest obstacle is government spending growth which has been better in recent years but must be improved so every Texan can live their dream. ✯

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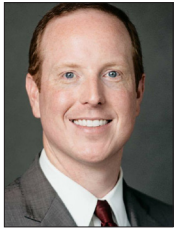
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