Texas Public Policy Foundation

LOCAL GOVERNMENT SPENDING LIMIT: OVERVIEW AND MODEL LEGISLATION

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"We don't have deficits because people are taxed too little. We have deficits because big government spends too much."

~ Ronald Reagan, 1987 State of the Union Address

KEY POINTS

- Unlike state government, local governments do not observe any meaningful expenditure limit.
- Without restraint, city and county government spending is growing far faster than it should.
- Government spending is taxation, and excessive spending begets exorbitant taxes.
- If state government is required to exercise fiscal discipline, then local governments should be expected to do the same.

ISSUE

In Texas, a curious distinction has developed between state and local public finance. At the state level, several constitutional and statutory rules govern the rate of spending growth and consumption. For example, the Texas Constitution includes a debt limit,[1] a welfare spending limit,[2] a pay-as-you-go limit,[3] and a limitation on the growth of certain appropriations.[4] In addition, state law also provides for a consolidated general revenue (CGR) cap that "limits the biennial growth of CGR appropriations to the estimated compounded growth of state population and monetary inflation" (Legislative Budget Board, 2022b, p. 11). In tandem, these fiscal rules work together to restrain the appetite of state government and create reasonableness within the appropriations process.

Yet while multiple constitutional and statutory constrain the state's finances, "no such [similar] restrictions apply to municipal or county spending" (SB 18 Bill Analysis, 2017, p. 1). Instead, local expenditures increase as much as political conditions allow. In the absence of

1 Article III, Sec. 49-j "restricts the authorization of additional state debt that is repaid with unrestricted General Revenue Funds (not self-supporting debt) to an amount that ensures that annual debt service payments do not exceed 5.0 percent of the three-year average of unrestricted General Revenue Funds" (Legislative Budget Board, 2016, p. 1).

2 Article III, Sec. 51-a "requires that the amount paid out of state funds for assistance grants to or on behalf of needy dependent children and their caretakers shall not exceed 1.0 percent of the state budget in any biennium" (Legislative Budget Board, 2022a, p. 30).

3 Article III, Sec. 49a "requires that bills making appropriations are sent to the CPA for certification that the appropriations are within the estimates of available revenue" (Legislative Budget Board, 2022a, p. 29).

4 Article VIII, Sec. 22 "prohibits appropriations funded with state tax revenues that are not dedicated by the constitution from growing faster than the estimated rate of growth of the state's economy" (Legislative Budget Board, 2022a, p. 29).

continued

Table 1
City Budget Growth Compared with Population and Inflation

COMPARING TRENDS: 2019 – 2023 Change			
Municipality	**All Funds Budget Growth**	**Population & Inflation**	**Difference**
Austin	23.5%	22.2%	1.3%
Dallas	25.6%	19.0%	6.6%
Ft. Worth	31.0%	27.4%	3.6%
Houston	15.9%	19.6%	-3.7%
San Antonio	30.4%	23.9%	6.5%

Note: All Funds budget growth and population & inflation measures are based on author's calculations.

strict fiscal rules, local government budgets have grown larger than ideal.

As evidence, consider that spending in most major Texas cities and counties has consistently outgrown key economic measures, like population and inflation (P&I). In fact, from 2019 to 2023, spending in the five most populous cities in Texas outgrew P&I in all cases except one—the city of Houston (-3.7%) (see **Table 1**). In some cases, like Dallas (6.6%) and San Antonio (6.5%), the five-year difference between spending and P&I trends was relatively pronounced. In other cases, like Austin (1.3%), the delta was smaller but still observable. Overall, these data suggest that Texas' largest cities tend to outspend what is reasonable.

A much more pronounced trend can be observed in county budgets over the same timeframe. Consider that from 2019 to 2023, spending in the five most populous counties, less Harris County[5], grew substantially more than P&I, with the sole exception of Collin County (-19.6%). The largest differential appeared in Dallas County (65.5%) followed by Bexar County (43.4%). These data too indicate that spending is outstripping reasonable bounds and worsening the plight of Texas taxpayers.

As a result of Texas' unrestrained local spending environment, local property taxes have grown large and heavy. This may be evidenced, in part, by historical property tax levy growth data. According to the Texas Comptroller of Public Accounts (2022, p. 17), the average annual levy growth experienced by certain jurisdiction types from 1998 to 2021 was as follows:

- All local governmental entities: +6.13%
- Municipalities: +6.45%
- Counties: +6.72%
- School districts: +5.56%
- Special purpose districts: +7.71%

This data suggests that property tax revenues have experienced a long period of robust growth for the purpose of supporting local spending demands. To be fair, the Texas Legislature has sought to rein in these excessive increases through the adoption of a stronger property tax revenue limit and the institution of an automatic voter-approval requirement for large levy increases. However, this fiscal rule governs the growth rate of revenue, not expenditures. As such, it is unlikely that a stricter property tax revenue limit has reduced spending levels, but has instead prompted political subdivisions to increase reliance on other existing sources and seek out new reve-

5 Harris County's budget adoption process underwent significant change over the last few years, making comparison difficult.

Table 2
County Budget Growth Compared with Population and Inflation

COMPARING TRENDS: 2019 – 2023 Change			
County	**All Funds Budget Growth**	**Population & Inflation**	**Difference**
Bexar	67.5%	24.1%	43.4%
Collin	14.9%	34.6%	-19.6%
Dallas	84.4%	18.9%	65.5%
Tarrant	44.0%	23.5%	20.5%
Travis	43.0%	24.3%	18.7%

Note: All Funds budget growth and population & inflation measures are based on author's calculations.

nue streams—all in an effort to maintain the current spending trajectory.

This heightened spending environment requires change, both to protect taxpayers and ensure sustainable government. In furtherance of these goals, the next Texas Legislature should apply one or more of the fiscal rules that it currently observes to cities and counties. For example, policymakers could subject local governmental entities to a version of the state's newest fiscal rule—SB 1336 (2021)—which limits the growth of "general revenue, general revenue-dedicated funds, and general revenue-related funds" to population and inflation increases (SB 1336 Bill Analysis, 2021, p. 1). In order to exceed the limitation, the law requires policymakers to achieve "a three-fifths vote of the legislature on a resolution declaring an emergency" (SB 1336 Bill Analysis, 2021, p. 1). Instituting a requirement of this nature and design at the local level would force governmental entities to be more prudent with the public purse.

By holding Texas local governments to the same or similar standard that state government must observe, legislators can help cities and counties get spending growth under control and alleviate the need for constant tax increases. In turn, beleaguered taxpayers might fully realize meaningful and long-lasting tax relief.

RECOMMENDATION

Limit city and county government spending growth to population and inflation increases.

MODEL LEGISLATION

A BILL TO BE ENTITLED

AN ACT

relating to a limit on municipal and county expenditures.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Chapter 140, Local Government Code, is amended by adding Section 140.014 to read as follows:

Sec. 140.014. LIMIT ON ANNUAL EXPENDITURES. (a) In this section:

(1) "Board" means the Legislative Budget Board.

(2) "Consumer price index" means the average over a calendar year of the index the board considers to most accurately report changes in the purchasing power of the dollar for consumers in this state.

(3) "Inflation rate" means the amount, expressed in decimal form rounded to the nearest thousandth, computed by determining the percentage change in the consumer price index for the preceding calendar year as compared to the consumer price index for the calendar year preceding that calendar year.

(4) "Population growth rate" means the rate of growth of the state's population during the preceding calendar year, expressed in decimal form rounded to the nearest thousandth, determined by the board in accordance with the most recent population estimates published by the United States Census Bureau.

(b) This section applies only to a political subdivision that is a municipality or county.

(c) Except as provided by Subsection (e), a political subdivision's total expenditures from all available sources of revenue in a fiscal year may not exceed the greater of:

(1) the political subdivision's total expenditures from all available sources of revenue in the preceding fiscal year; or

(2) an amount determined by multiplying:

(A) the political subdivision's total expenditures from all available sources of revenue in the preceding fiscal year; and

(B) the sum of one and the rate most recently published by the board under Subsection (d).

(d) Not later than January 31 of each year, the board shall publish a rate equal to the product of the population growth rate and the inflation rate.

(e) A political subdivision's total expenditures from all available sources of local revenue in a fiscal year may exceed the amount described by Subsection (c) if:

(1) the political subdivision's voters approve the additional expenditures for that fiscal year at an election called for that purpose and held on a uniform election date; or

(2) the governor declares or renews a declaration of a state of disaster under Section 418.014, Government Code, in that fiscal year, and the governor's designation of the area threatened includes all or part of the geographic territory of the political subdivision.

(f) For purposes of this section, the following are not considered an available source of revenue:

(1) money received from the issuance of bonds approved by the voters; or

(2) a grant, donation, or gift.

SECTION 2. Section 140.014, Local Government Code, as added by this Act, applies only to a fiscal year of a municipality or county that begins on or after December 1, 2025.

SECTION 3. This Act takes effect December 1, 2025.

REFERENCES

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ABOUT THE AUTHOR

James Quintero is the policy director for the Texas Public Policy Foundation's Taxpayer Protection Project. He joined the Foundation in 2008 and his work has generally focused on local government matters, especially where it involves taxes, spending, and debt. His work has been featured in the *New York Times, Forbes, Fox News, Breitbart*, and more.

Quintero received a B.A. from the University of Texas at Austin and an M.P.A. from Texas State University. He is currently seeking a Ph.D. in public policy from Liberty University. In 2022, he was appointed to serve a three-year term on the Commission for Lawyer Discipline.

Quintero and his wife, Tricia, are blessed with five beautiful children and faithfully attend Bannockburn Baptist Church.

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