

# The *Texas Tax Relief Act* in Retrospect

By David A. Hartman<sup>1</sup>

## EXECUTIVE SUMMARY

In 1978, the voters of Texas passed a constitutional amendment, Article VIII, Section 22(a) they thought would limit the growth of state government. Except for emergencies declared by the Legislature, it limits the rate of spending growth from tax revenues not dedicated by the Constitution to the rate of growth of the state's economy.

The amendment has not successfully constrained state government spending. In four biennia (two-year state budget cycles) – 82/83, 84/85, 90/91 and 92/93 – the actual rate of growth in state spending from revenues not dedicated by the Constitution exceeded the rate of growth in the state's economy. Even the runaway spending under Governor Richards ('92 thru '95), which exceeded growth of the state's economy by 25%, was not restrained by this amendment.

State appropriations not dedicated by the Constitution account for less than half of state spending, and less than two-thirds of revenues excluding federal funds. Since the 78/79 budget cycle, state spending has risen almost 500 percent, while Texas personal income has only risen 400

percent. Inflation and population growth do not explain or justify this increase in spending, since both state spending and state personal income include their effect.

*The spending limitation amendment can and should be revised to remedy its "loopholes." Instead of non-dedicated revenue, all spending from non-federal sources should be limited. The state should codify in law its existing practice of using the appropriations bill, rather than actual spending (which includes emergency appropriations and revenue estimate revisions), as the base for the next biennium's limit. That way when actual spending exceeds actual growth in the state's economy, that excess would be deducted from the base for the next biennium's spending limit. Emergency appropriations exceeding the limit should require a super-majority of both houses of the Legislature. And no appropriations bill should take effect unless the Comptroller of Public Accounts certifies it complies with the spending limitation amendment.*

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In preparing this report the author consulted prior investigation of the consequences of Art. VIII, Sec. 22 (a) by the late Michael Weiss, a former Senior Fellow with the Texas Public Policy Foundation. The author is grateful to William Lutz, MA Economics, for research assistance for the statistical data on which this study is based.

## BACKGROUND

During the Briscoe administration, the 1977 session of the Texas Legislature passed a fiscal bill intended to limit the growth of state government spending to the growth of the state's economy by constitutional amendment. The subsequent amendment, Article VIII, Sec. 22 (a), was ratified by an overwhelming majority of the voters in 1978, incorporating the following wording:

- In no biennium shall the rate of growth of appropriations from state tax revenues not dedicated by this Constitution exceed the estimated growth of the state's economy. The Legislature shall provide by general law procedures to implement this subsection.
- If the Legislature by adoption of a general resolution approved by a record vote of a majority of the members of each house finds that an emergency exists, the Legislature may provide for appropriations in excess in the amount authorized by subsection (a) of this section. The excess as authorized under this subsection may not exceed the amount specified in the resolution.
- In no case shall appropriations exceed revenues as provided in Article III, Section 49a, of this Constitution. Nothing in this section shall be construed to alter, amend or repeal Article III, Section 49a, of this Constitution.

The events leading to its adoption were best summarized by Howard Jarvis of California Proposition 13 fame, at a public rally for adoption of the amendment. He advised Texans at that time that they had the dubious distinction of living in *the state with the fastest rate of spending growth - Texas*.

It clearly was the intent of Texas taxpayers to limit growth of state government spending – barring emergencies – to the estimated rate of growth of the state's economy. Perhaps the Legislature originally had the same objective. However, it will be seen that by limiting the restriction to spending from *tax* revenues – not all revenues – and exemption of those tax revenues dedicated by the Constitution, the amendment largely failed to restrain excesses of total spending. Also, it did not prove capable of restraining state government from spending in excess of the letter of the law, since the excesses were usually declared “emergencies” – or on occasions, just ignored.

## ADMINISTRATION OF THE AMENDMENT

The enabling legislation for Article VIII Section 22 (a) passed by the 1979 Legislature provided that the Legislative Budget Board (LBB) establish a constitutional limit on appropriations each biennium. The limit was to be established by the estimated percentage growth of state personal income applied to the spending from general revenues not dedicated by the state constitution of the prior biennium.

The Amendment to limit spending took effect officially starting with the 1982/83 biennium. During the 1980/81 biennium (Gov. Clements' first budget), state spending stayed well within the growth of the state's economy by any measure. The very first biennium the Amendment took effect, (Clements' second budget (1982/83)), the percent increase in

appropriations exceeded the actual percentage growth of state personal income by 8% (see Table I). In addition, state spending frequently exceeded the original appropriations as a result of “adjustments for revenue estimate revisions and emergency appropriations.”

**TABLE I**  
**TEXAS GOVERNMENT**  
**Growth of Non-Dedicated Appropriations**  
**Versus State Personal Income**

<u>Biennium</u>	<u>Governor</u>	<u>Non-Dedicated State Appropriations</u>		<u>State Personal Inc</u>	
		<u>Bil \$</u>	<u>%Incr</u>	<u>Bil \$</u>	<u>%Incr</u>
1978/79		9.06		230.1	
1980/81	Clements I	11.4	25.8	310.0	34.7
<i>1982/83</i>	<i>Clements I</i>	<i>14.7</i>	<i>28.9</i>	<i>374.7</i>	<i>20.9</i>
<i>1984/85</i>	<i>White</i>	<i>18.4</i>	<i>25.2</i>	<i>439.2</i>	<i>17.2</i>
1986/87	White	19.2	4.3	468.6	6.7
1988/89	Clements II	20.1	4.7	522.7	11.5
<i>1990/91</i>	<i>Clements II</i>	<i>24.5</i>	<i>21.9</i>	<i>606.7</i>	<i>16.1</i>
<i>1992/93</i>	<i>Richards</i>	<i>28.7</i>	<i>17.1</i>	<i>686.7</i>	<i>13.2</i>
1994/95	Richards	31.2	8.7	771.3	12.3
1996/97	Bush I	35.3	13.1	884.9	14.7
1998/99	Bush I	39.3	11.3	1018.7	15.1
<i>2000/01</i> <i>(bud.)</i>	<i>Bush II</i>	<i>44.6</i>	<i>13.5</i>	<i>1147.5</i>	<i>12.6<sup>2</sup></i>

The *actual* growth of non-dedicated state expenditures exceeded the growth of *actual* state personal income in four different biennia – 82/83, 84/85, 90/91 and 92/93. On the basis of budget versus the Comptroller’s forecast of personal income at the time of adoption of the State Budget for the 00/01 biennium, Governor Bush’s budgeted spending would slightly exceed the Comptroller’s forecast of state personal income as well – without the normal “creep” of spending above budget. However, growth of state personal income has exceeded the original forecast as at budget time, so a problem should be averted.

<sup>2</sup> Source: Comptroller of Public Accounts. *Italics* denotes percent increase in non-dedicated spending is more than percent increase in personal income.

Comparison of the LBB official *estimated* growth of state personal income as reported in the *Texas Register*, plus allowance for “emergency appropriations” would show that every one of those years of excessive spending the overrun of spending was retrospectively “legitimized.”

### REALISTIC PERSPECTIVE ON GROWTH OF STATE SPENDING

State appropriations not dedicated by the Constitution account for less than half of state spending, and less than two-thirds of revenues excluding federal funds. It is reasonable to presume that the taxpayers who ratified Article VIII, Section 22 (a) thought they were limiting *total* state spending – or at minimum – spending of state revenues other than federal funds.

In practice the Amendment has failed to limit growth of spending of state government to that of the state’s economy. Table II shows this clearly.

**TABLE II**  
**COMPARISON OF VARIOUS MEASURES**  
**OF GROWTH OF STATE SPENDING AND THE STATE ECONOMY**  
**Growth 1978/79 – 2000/01**

<u>Measure</u>		<u>% Growth</u>
State Spending:	All Funds	495.2%
	Less Federal Funds	475.4%
	Non-Dedicated General Revenue	392.2%
State Economy:	Personal Income	398.7%
	Gross State Product	366.1%
	Population x Inflation	269.1% <sup>3</sup>

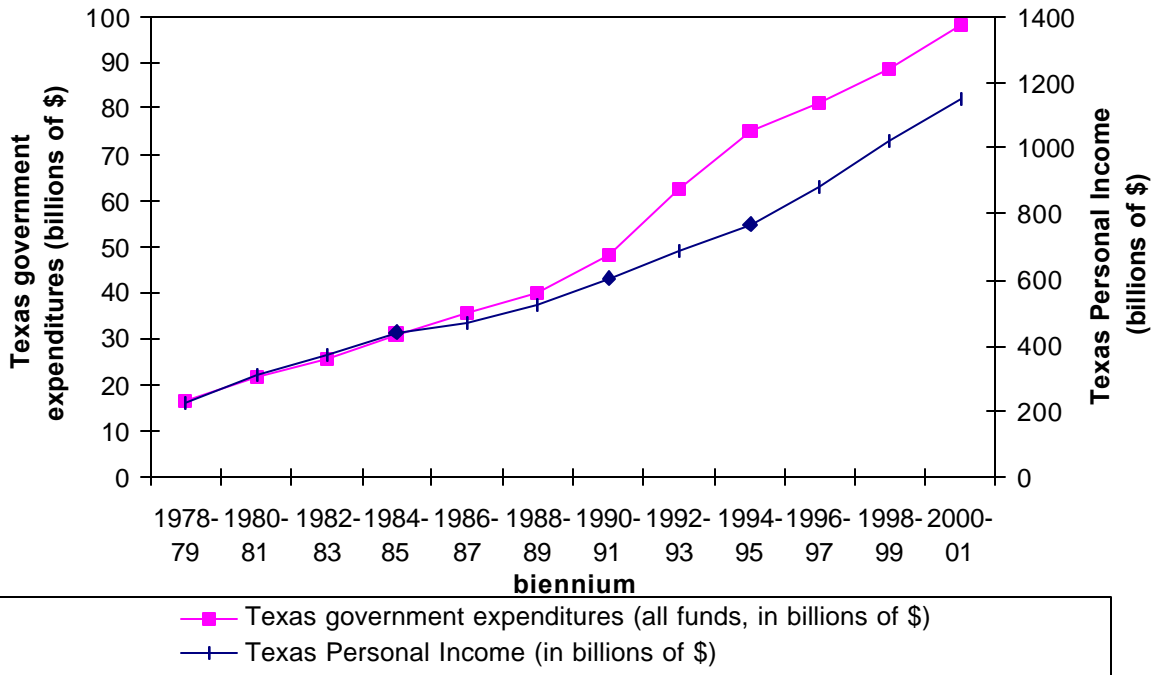
Comparison of spending from *non-dedicated general revenues* to state personal income gives a misleading impression of state government spending held under firm controls. *But looking at the more representative state spending other than from federal revenues shows spending exceeded growth of the state’s economy by more than 75% from 1978/79 biennium through budgeted 2000/01.*

Even more revealing is to compare how excessively state spending growth ballooned under free spending legislatures (while at least nominally conforming to the spending limitation amendment) as shown on the following graph.

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<sup>3</sup> Source: Comptroller of Public Accounts

### Government Spending vs. Personal Income



The normal defense offered by legislators for growth of government is growth of inflation and population. The following table shows adjustment for inflation and population does not explain the extent of government spending since adoption of Article VIII, Sect. 22.

**TABLE III**  
**COMPARISON OF INFLATION & POPULATION ADJUSTED**  
**STATE SPENDING GROWTH VERSUS STATE PERSONAL INCOME GROWTH**

<u>Governor/ Budget Terms</u>		<u>State Spending % Growth*</u>	<u>State Personal Income %Growth**</u>	<u>Difference</u>
Clements I	80-81-82/83	6.1%	1.9%	+4.2%
White	84/85-86/87	13.0%	3.8%	+9.2%
Clements II	88/89-90/91	4.9%	5.2%	-0.4%
Richards	92/93-94/95	30.8%	5.9%	+24.9%
Bush I	96/97-98/99	(2.3%)	14.0%	-11.7%
Bush II	00/01	6.5%	6.4%	+0.1%

\*State Spending, less Federal Funds, Adjusted for Inflation and Population Growth  
 \*\*State Personal Income, Adjusted for Inflation and Population Growth; 00/01 Per Comptroller Fall 99 Forecast

Growth of state spending from own revenues in Texas outran state personal income by more than 9% under Governor White, but ballooned an outlandish 25 percent excess under Governor Richards. This shows beyond a shadow of a doubt that Article VIII, Section 22 (a) was a dismal failure in achieving limitation of a free spending Governor and Legislature as the amendment intended.

The first Bush administration held spending growth well below booming personal income – in fact, final spending was 2.3% below inflation and population growth. However, this containment still left a residual portion of the spending excesses of the Richards’ administration equal to more than 10% above personal income growth. State spending is currently budgeted slightly in excess of the growth rate forecast for personal income growth – without allowance for “budget creep” (usually around 2%) – so no current reduction of this accumulated excess can be anticipated. (“Budget creep” is the amount that the approved, enrolled appropriations are overspent, primarily due to so-called “entitlements,” federally mandated.)

In the Appendix are shown the following data supporting these observations:

- TABLE IV: Various Measures of State Spending Growth
- TABLE V: Various Measures of State Economic Growth
- TABLE VI: Comparison of Adopted Constitutional Spending Limitation Vs. State Appropriations and Expenditures

All statistical information contained above was derived from these Tables.

## CONCLUSIONS AND RECOMMENDATIONS

From the comparisons presented above, the following conclusions can be drawn regarding the effectiveness of the Constitutional Amendment Article VIII, Section 22 (a):

1. Since its ratification by Texas taxpayers, the Amendment to limit growth of state spending to the growth of the state’s economy has failed in its purpose, allowing cumulative growth of state spending from the state’s own revenues to exceed state personal income growth by \$9.4 billion and gross state product growth by \$13.3 billion, a cumulative 9.6% and 13.5% respectively.
2. In two consecutive biennia alone (the Richards’ administration budgets, 1992/93 – 1994/95) growth of state spending exceeded growth of state personal income by 24.9%, an excess of \$8.8 billion in spending.
3. The measure of state spending employed in the Amendment as defined in the enabling legislation, namely, “appropriations from general revenue not dedicated by this Constitution” is not sufficiently inclusive to successfully limit state spending by this Amendment.

**RECOMMENDATIONS  
TO REINFORCE  
ARTICLE VIII, SECTION 22 (A)**

Based on the findings of this inquiry the following recommendations are proposed to strengthen Article VIII, Section 22 (a) in order that it will truly safeguard Texas taxpayers by limiting the growth of state spending to the growth of the state's economy:

1. Growth of state spending from all state revenues (other than federal funds) should be limited to the actual growth of the state's economy, as measured by personal income.
2. The state should codify in law its existing practice of using the appropriations bill, rather than actual spending (which includes emergency appropriations and revenue estimate revisions), as the base for the next biennium's limit. That way when actual spending exceeds actual growth in the state's economy, that excess would be deducted from the base for the next biennium's spending limit.
3. In order for "emergency appropriations" to exceed the growth limitation defined by this Amendment, a special session of the Legislature should be required to approve same by a two-thirds majority.
4. The amendment should require at least a super-majority (60%) if not a two-thirds majority vote of both Houses of the Legislature in special session to approve so-called "emergency" exceptions to spending limitations.

5. The Legislature should add to Article III, Section 49a of the Texas Constitution a requirement that no appropriations bill can go into effect unless the Comptroller of Public Accounts first certifies that the appropriations contained in the bill do not exceed the spending limits in Article VIII, Section 22 (or that those limits have been overridden as justified in the Texas Constitution). The Constitution's requirement of Comptroller certification of balanced budgets has effectively curbed deficit spending, and a similar requirement for the spending limit will effectively curb runaway spending.

Government spending at all levels, federal, state or local – at over 40 percent of U.S. personal income – exceeds the tax burden that free citizens should be required to shoulder. The limitation of state spending (and consequently, taxation) provided by this Amendment altered as proposed above would protect Texas taxpayers from future excesses of state government expenditures.

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**Table VI**  
**COMPARISON OF ADOPTED CONSTITUTIONAL SPENDING LIMITATION**  
**VS. STATE APPROPRIATIONS AND EXPENDITURES**

<u>Biennium</u>	<u>Adopted Spending Limit (\$millions)</u>	<u>Appropriations from Revenues Not Dedicated by the Constitution (\$millions)</u>	<u>Expenditures from Revenues Not Dedicated by the Constitution (\$millions)</u>
1976-77		6,615.7*	
1978-79		9,055.8*	
1980-81		11,420.2	N/A
1982-83	15,188.9	14,736.6	14,993.7
1984-85	18,951.3	18,395.1	18,418.6
1986-87	21,798.2	19,213.5	19,213.5
1988-89	none adopted	20,117.2	20,242.6
1990-91	none adopted	24,465.2	24,662.4
1992-93	none adopted	28,698.8	28,270.5
1994-95	32,553.1	31,210.5	32,058.6
1996-97	35,573.8	35,284.2	35,761.5
1998-99	39,207.8	39,319.1	39,487.9
2000-01	44,603.6	44,603.6**	
*Estimated appropriations calculated from Comptroller revenue estimates. **Adopted limit. Sources: Legislative Budget Board; Comptroller of Public Accounts.			