

Fiscal Policy: 80th Session In Review

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TAX & EXPENDITURE LIMITS

- Expenditure limits on government take the form of limits on the allowable increase in spending each year.
- Tax limits can take many forms including requiring a general election before a tax can be increased at all, or allowing for only a limited amount of rate increase before a vote must be taken. Tax limits can be applied to total revenue or to tax rates.
- In 1978, the state passed an expenditure limit based on growth in personal income. This expenditure limit has been ineffective as it has allowed state expenditures to grow faster than population growth and inflation and increased the burden of government for taxpayers.
- Historically, tax limits in Texas have simply prohibited certain taxes, including a prohibition on a statewide property tax, or prohibitions on income taxes unless approved in an election.
- Local governments do not face expenditure limits, but they are subject to tax limitations.
- Local sales taxes cannot exceed a total of 2 cents; property tax rates cannot exceed certain maximums; and growth in local property tax levies are potentially subject to rollback elections that are nevertheless difficult for voters to organize, and allow generous growth under which a rollback is not possible.
- The Foundation has supported efforts to make tax and expenditure limits stricter at all levels of government. Although the bills received a hearing in committee, many legislators and vocal lobby groups have been opposed to limiting the growth of government through tax and expenditure limits.

- The Foundation recommends that the state should be subject to a spending limit based on population growth and inflation. This limit should be tried up historically and not be based only on inaccurate prognostications of growth.
- The Foundation has also recommended that local governments should face similarly strict expenditure or revenue limits.
- The 80th Legislature did show greater restraint on spending than past Legislatures, notably while experiencing an unprecedented budget surplus, with growth in budgeted ongoing expenditures at just over the Foundation's estimate of population growth and inflation over the next two years.

SPENDING & BUDGETING TRANSPARENCY AND REFORMS

- The state's budget is a confusing document that often yields little information and often combines several programs in one line-item or spreads spending on programs throughout the budget. As a result, it is difficult to get an accurate picture on state spending and the use of taxpayer dollars.
- The Foundation has argued that the budget should be laid out with greater specificity, giving more information and increasing the possibility that the governor can exercise constitutional line-item veto authority.
- The Foundation has also recommended that expenditures at all levels of government be more readily available to the general public. The availability of the internet and the low cost of information retrieval today makes this a low-cost proposition.

- Although the state’s budget is considered “performance-based,” the performance measures adopted in the budget often serve more to obfuscate rather than to illuminate.
- Increasing the specificity of the budget not only makes spending more transparent but gives the governor more opportunities to reduce wasteful spending with a line-item veto.
- The House attempted to make university budgets line-item specific instead of the usual lump-sum appropriation. The final budget reflected lump sums with detailed riders that cannot be vetoed.
- House Bill 3430 by Representative Mark Strama—a bipartisan effort to require that state expenditures be posted on the Internet by the Comptroller—did succeed with essentially no opposition. The information posted online will include a searchable database of expenditures and a database of major state contracts.

TAX REFORM AND TAX CUTS

- Texas is fortunate not to have an income tax; nevertheless, it is widely recognized that property taxes are already too high and are growing too fast.
- Texas relies heavily on the sales tax—more heavily than most other states—but Texas still does not have the highest sales taxes in the nation. Sales taxes have the virtue of being transparent and they do not directly tax work effort, innovation, and investment.
- The Foundation has supported reducing school property taxes through modest sales tax increases, if necessary. However, the state’s tax revenues have increased markedly due to an extraordinarily healthy economy, and tax increases to offset property tax cuts are unnecessary.
- The Foundation strongly supported House Bill 2785 by Representative Ken Paxton to reduce school property tax rates an additional 9 cents beyond relief already promised and funded by the state. This proposal would not have necessitated any offsetting increase in state taxes.
- While the property tax cut measure found a good deal of support in the House—though it was weakened by an amendment that would have held tax relief hostage unless new and higher spending was approved for teacher pay raises—the additional property tax relief did not get a hearing in the Senate.
- The Center for Fiscal Policy supported the efforts of the Foundation’s Center for Economic Freedom to achieve the repeal of the Telecommunications Infrastructure Fund (TIF) tax through House Bill 735 by Representative Joe Straus. Although the TIF tax was allowed to continue for one more year until 2008—despite having already accomplished its intended purpose—it will expire three years before its scheduled expiration date of 2011, saving Texas taxpayers over \$600 million in fiscal years 2009, 2010, and 2011.
- The Foundation also supported efforts by the Texas Comptroller to move tax hearings to the State Office of Administrative Hearings since the Comptroller’s office has been in the position of being judge, jury, and executioner on tax matters, making Texas less business-friendly as a state than it should be. This measure succeeded administratively and statutorily with no opposition.
- Efforts to increase the sales tax in order to only raise more funds for government were successfully blocked. Among the especially persistent efforts to raise new revenue was House Bill 2084 by Representative Fred Hill. House Bill 2084 would have added a penny to the sales tax in the Dallas/Fort Worth region in order to fund expanded rail transit which, regardless of the transit’s efficacy, would have eventually led to pressure to give local areas the opportunity to raise sales taxes all over the state.★