



LEGISLATOR'S GUIDE TO THE ISSUES 2021-2022

Tax & Expenditure Limit

The Issue

Texas has done better economically and fiscally than most states for decades. However, the Texas budget has continued to outgrow the means of taxpayers in Texas. Because government spending ultimately drives taxation, limiting budget increases through a strict tax and expenditure limit is essential to providing a more competitive economy that supports prosperity.

The current appropriations limit fails to effectively limit the budget's growth by:

- **Not covering most of the budget.** In Article VIII, Section 22(a) of the Texas Constitution, only "state tax revenues not dedicated by this constitution" are subject to the limit, which is about half of the total budget. This allows the rest to grow unabated as legislators dedicate funds and resort to accounting gimmicks.
- **Not providing a reasonable metric for taxpayers' ability to fund government.** 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. But this measure does a poor job in reflecting taxpayers' ability to fund government.
- **Not relying on actual data.** Given multiple projections of personal income growth are presented to the Legislative Budget Board in November before a regular legislative session for the next 2 fiscal years, the projections are for almost 3 years later. This makes it difficult to accurately predict it leading to large discrepancies from actual growth rates that are not corrected later.

With so many hindrances to budgetary prudence, there is ample reason why Texas's state appropriations limit has failed to effectively limit the budget's growth over time. With a few changes, legislators can more effectively restrain the growth of government and allow Texans more opportunities to flourish.

The Facts

- Texas's total state budget growth is up an estimated 18.6% above the pace of compounded population growth plus inflation since the 2004-05 budget, totaling \$36.7 billion in higher taxes.
- The current appropriations limit is weak because it only places a limit on a fraction of the budget, is based on projected personal income growth, and can be avoided rather easily by lawmakers.
- The Texas Senate passed SB 1891 (86-R) which 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 an improved state appropriations 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, as in SB 1891 (86-R):
 - ▶ Apply the limit to Texas's all funds appropriations; and
 - ▶ Base the limit on the 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 over the 2 fiscal years immediately preceding a regular legislative session.
- Change Article VIII, Section 22(a), such that a supermajority vote of two thirds of the membership in each chamber instead of a simple majority is required to exceed the spending limit.

Resources

[2022-23 Conservative Texas Budget](#) by Vance Ginn, Rod Bordelon, and Talmadge Heflin (Oct. 2020).

[SB 1891: Let People Prosper by Limiting Government Spending](#) by Vance Ginn, Texas Public Policy Foundation (April 3, 2019).