



## LEGISLATIVE BUDGET BOARD

# Constitutional Limitations on Spending

**PRESENTED TO THE HOUSE APPROPRIATIONS COMMITTEE**

**URSULA PARKS, LEGISLATIVE BUDGET BOARD**

**July 27, 2017**

# Constitutional Spending Limits

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The Texas Constitution includes four limitations on state spending:

- Debt limit
- Welfare spending limit
- Pay-as-you-go limit
- Limit on the growth of certain appropriations (a.k.a. spending limit)

The 2018-19 budget is within all of these limits

# Pay-as-You-Go Limit

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- Texas Constitution, Article III, Section 49a
- Requires that all appropriations are within available revenue in the fund from which the appropriations are made
- Approved by voters on November 3<sup>rd</sup>, 1942

# Spending Limit: Constitution

- Texas Constitution, Article VIII, Section 22
- Limits the rate of growth in appropriations from one biennium to the next
- Approved by voters on November 7th, 1978
  - (a) In no biennium shall the rate of growth of appropriations from **state tax revenues not dedicated by this constitution exceed the estimated rate of growth of the state's economy.** The legislature shall provide by general law procedures to implement this section.*

# Spending Limit: Statute

## Government Code Chapter 316

- Provides the general law referenced in the Constitution, and directs the LBB to establish:
  - The current biennium's level of appropriations subject to the limit;
  - Estimated rate of growth in the state's economy from one biennium to the next; and
  - The subsequent biennium's limit on appropriations subject to the limit.
- It also requires that the rate of growth be defined as the growth in personal income

# Can The Limits Be Exceeded?

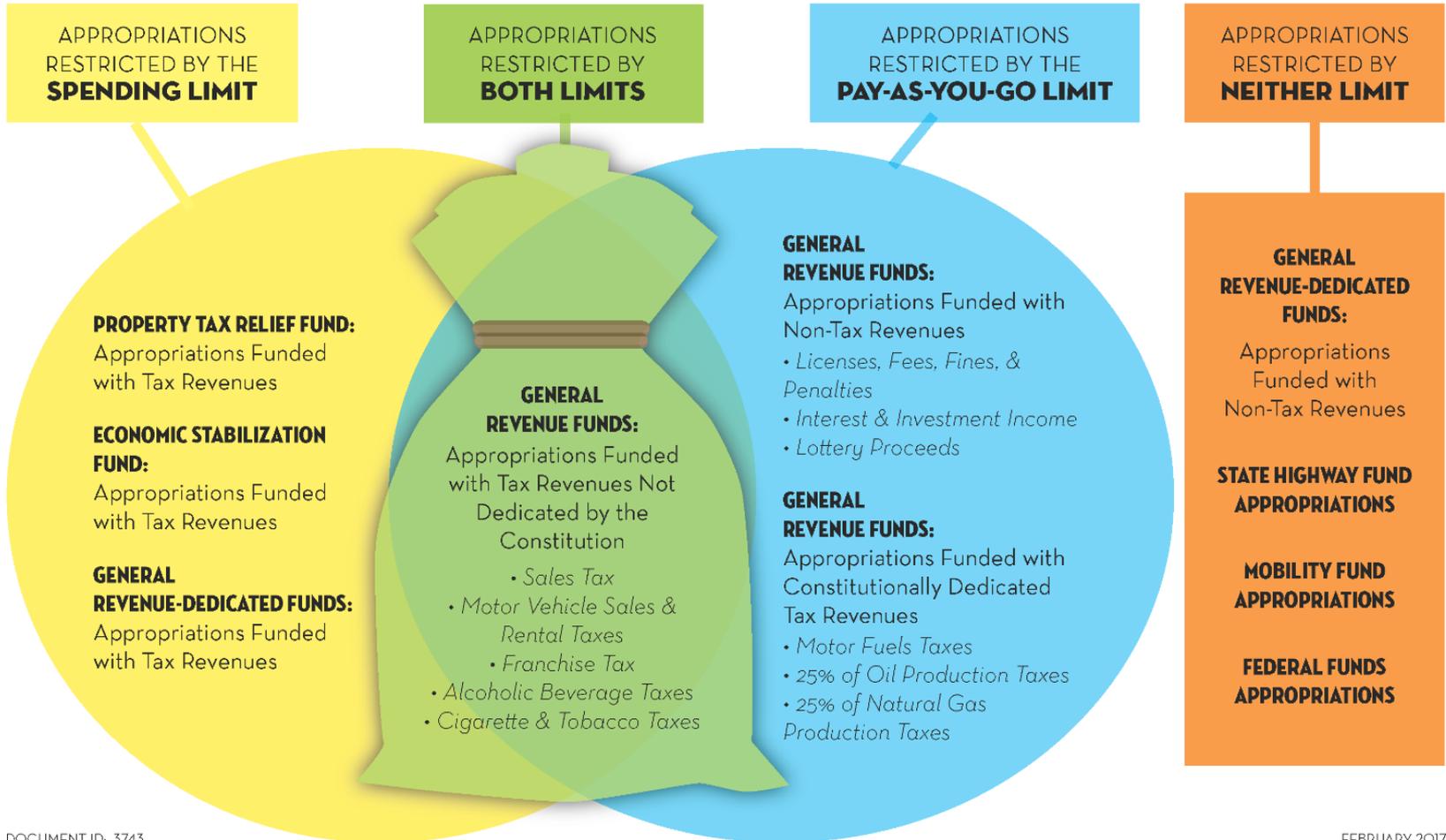
The Comptroller of Public Accounts ensures compliance with the Article III pay-as-you-go limit via the budget certification process. If the budget fails to certify, the Comptroller returns it to the legislature.

The legislature may adopt a concurrent resolution (majority of each chamber) to exceed the adopted Article VIII spending limit.

- The adopted limit has only been exceeded once: In 2007 the Legislature passed Senate Concurrent Resolution 20, which authorized spending above the adopted limit in order to accommodate \$14.2 billion in increased state spending associated with funding property tax relief.



# CATEGORIES OF APPROPRIATIONS RESTRICTED BY SPENDING LIMIT & PAY-AS-YOU-GO LIMIT



# Spending Limit Proposals

## Various proposals would:

- Replace - the current limit with a new limit
- Modify and Add – change current limit and create a new statutory limit
- Change Base - spending that is subject to the limit
- Change Growth Rate - the measure of economic growth
- Change Timeframe – prospective to retrospective

# 85<sup>th</sup> Legislature, 1<sup>st</sup> Called

## House Joint Resolution 1

House Joint Resolution 1 would replace the current spending limit

- Base: Applied to all non-federal appropriations by spending category
  - (1) transportation;
  - (2) public primary and secondary education;
  - (3) higher education;
  - (4) health care;
  - (5) public safety and corrections; and
  - (6) other general government
- Growth Rate: Restricted by the rate of growth for each spending category based on (1) the estimated rate of growth in the population served in that spending category and (2) the estimated rate of inflation in a representative set of goods and services for that spending category
- Timeframe: Prospective growth aligned with budget cycle

# 85<sup>th</sup> Legislature, 1<sup>st</sup> Called

## House Bill 208

House Bill 208 would change the growth rate for the current limit and create an additional, statutory limit on spending

- Base: Applied to all General Revenue and General Revenue-Dedicated appropriations
- Growth Rate: Restricted by growth of population and inflation during the next biennium; adopted rate is based on sources determined to be reliable by the LBB
- Timeframe: Prospective growth aligned with budget cycle

# Growth Rate Definitions

## Texas Personal Income

- Texas personal income is the income received by all Texans from all sources, including net earnings, property income (rental, dividend, and interest income), and personal transfer receipts.

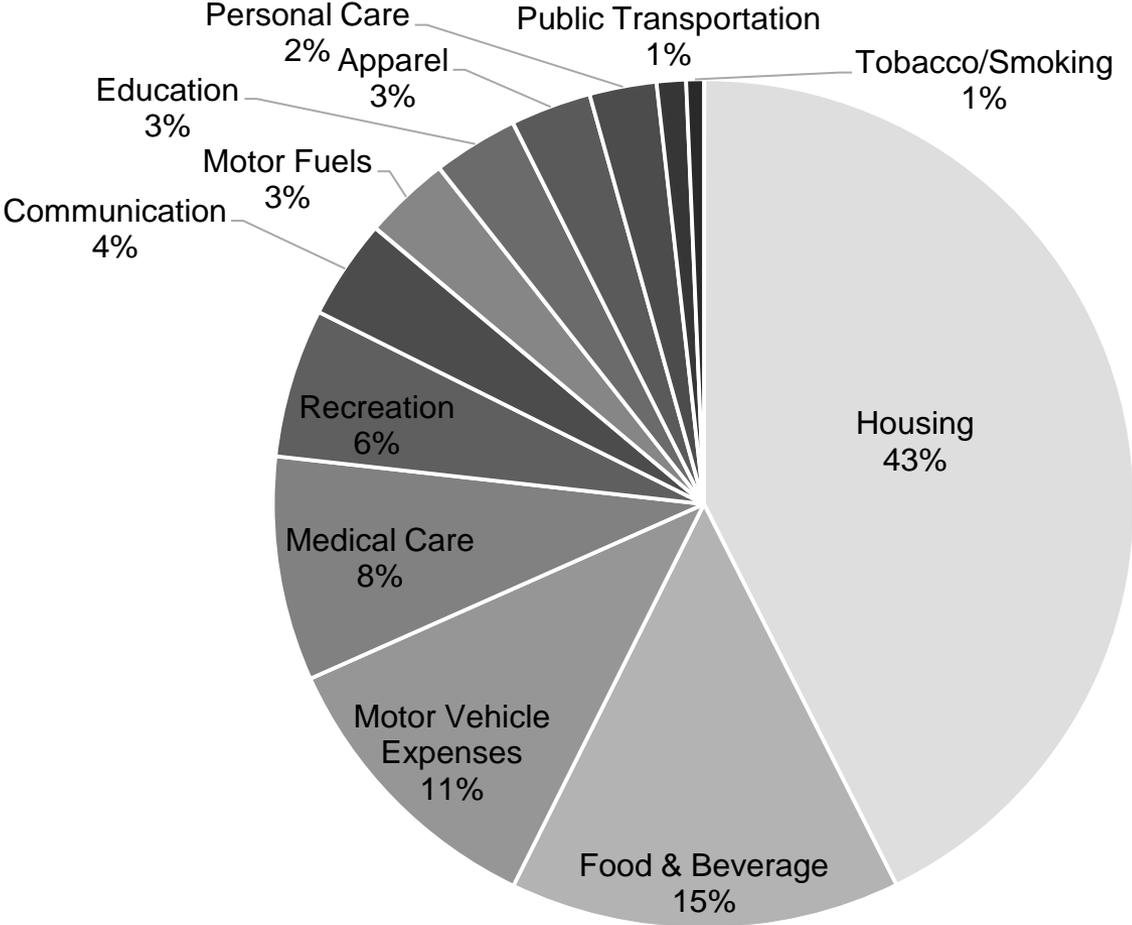
## Population

- Texas population includes all people who usually reside in Texas, which is where they live and sleep most of the time.

## Inflation

- The Consumer Price Index for all Urban Consumers (CPI-U) measures the average change in prices for a typical consumer's market basket of goods and services. Examples include food and beverages, housing, transportation, medical care, recreation, education and communication, and other goods and services.
- The Bureau of Economic Analysis (BEA) produces an inflation measure called the Implicit Price Deflator (IPD). The IPD is commonly used to convert Gross Domestic Product into inflation adjusted dollars. The IPD can also be used as a measure of inflation for specific sectors of the economy, including State and Local Governments, which measures the change in the price of goods and services consumed by states and municipalities.

# Relative Weight of Components of the Consumer Price Index



# State Appropriations Restricted by the Article VIII, Section 22 Spending Limit, 2018–19 Biennium

The total 2018-19 biennial State Funds budget – which consists of General Revenue Funds, General Revenue-Dedicated Funds, and Other Funds – totals \$144.9 billion.

**Restricted by the Article VIII, Section 22 Spending Limit:**  
Appropriations from tax revenues not dedicated by the Constitution

GR appropriations funded with tax revenues not dedicated by Constitution (sales taxes, motor vehicle sales taxes, franchise taxes, cigarette and tobacco taxes)

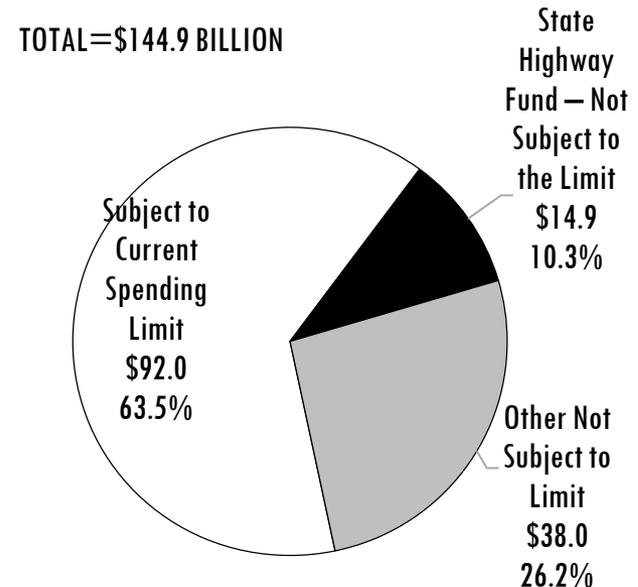
General Revenue-Dedicated appropriations funded with tax revenues not dedicated by Constitution (sales taxes and motor vehicle taxes deposited to the Texas Emissions Reduction Plan Account)

Other Fund appropriations funded with tax revenues not dedicated by Constitution (Economic Stabilization Fund and the Property Tax Relief Fund)

**Not Restricted by the Article VIII, Section 22 Spending Limit:**

All GR appropriations funded with constitutionally dedicated tax revenues (motor fuels taxes, 25 percent of oil and natural gas production taxes) and non-tax revenues (fee, fines, penalties, interest and investment income, lottery proceeds)

All other appropriations funded with constitutionally dedicated tax revenues and non-tax revenues (State Highway Fund, Federal Funds)



# State Appropriations Restricted by HJR 1 and HB 208, 2018–19 Biennium

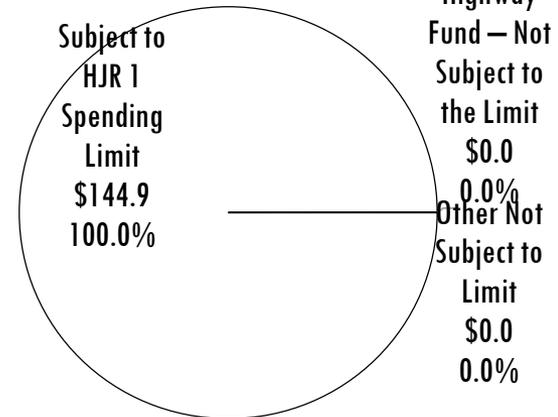
## Restricted by Limit Proposed in House Joint Resolution 1:

All appropriations from General Revenue Funds, General Revenue-Dedicated Funds, and Other Funds

## Not Restricted by Limit Proposed in House Joint Resolution 1:

Federal Funds

TOTAL=\$144.9 BILLION



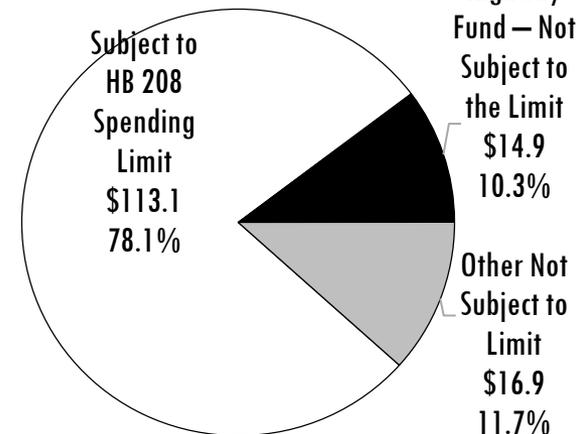
## Restricted by the Spending Limit Proposed in House Bill 208:

All appropriations from General Revenue Funds and General Revenue-Dedicated Funds

## Not Restricted by the Spending Limit Proposed in House Bill 208:

Other Funds (Economic Stabilization Fund, State Highway Fund, Property Tax Relief Fund) and Federal Funds

TOTAL=\$144.9 BILLION





## LEGISLATIVE BUDGET BOARD

# Contact the LBB

Legislative Budget Board

[www.lbb.state.tx.us](http://www.lbb.state.tx.us)

512.463.1200