



## LEGISLATIVE BUDGET BOARD

# Article VIII, Section 22 Spending Limit

Examine options and make recommendations for strengthening restrictions on appropriations established in Article VIII, Section 22, of the Texas Constitution, including related procedures defined in statute. Consider options for ensuring available revenues above spending limit are reserved for tax relief.

**PRESENTED TO THE SENATE FINANCE COMMITTEE**

**LEGISLATIVE BUDGET BOARD STAFF**

**DECEMBER 2019**

# Constitutional Limits on State Spending

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The Texas Constitution includes four limitations on state spending:

- Debt limit
- Welfare spending limit
- Pay-as-you-go limit
- Spending limit

The 2020-21 budget is within all of these limits

# Spending Limit

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Texas Constitution, Article VIII, Section 22

(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.

# Appropriations Restricted by the Spending Limit

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## **Restricted: appropriations funded with tax revenue not dedicated by the Constitution**

- Sales taxes (General Revenue portion)
- Motor vehicle taxes (General Revenue portion)
- Franchise tax
- Cigarette and tobacco taxes

## **Not Restricted: appropriations funded with tax revenues dedicated by the Constitution for a certain purpose**

- Motor fuel taxes are constitutionally dedicated for transportation (75 percent) and education (25 percent)
- 25 percent of oil and natural gas production taxes are constitutionally dedicated for education
- Sales and motor vehicle taxes constitutionally dedicated to transportation (State Highway Fund)

## **Not Restricted: appropriations funded with non-tax revenues**

- Fees, fines, penalties
- Interest and investment income
- Lottery proceeds
- Federal revenue

**FY 2020-21 General Revenue-Related State Revenue, by Source**  
**Amounts in \$ Millions**

<b>TAX COLLECTIONS</b>	Total 2020-21	Tax Revenue Dedicated by the Constitution	Non-Tax Revenue	Tax Revenue not Dedicated by the Constitution
Sales Taxes	66,690			66,690
Motor Vehicle Sales and Rental Taxes	10,067			10,067
Motor Fuel Taxes	2,065	1,981		84
Franchise Tax	6,215			6,215
Oil Production Tax	7,838	1,959		5,878
Insurance Taxes	5,483	1,296		4,188
Cigarette and Tobacco Taxes	1,071			1,071
Natural Gas Production Tax	3,067	767		2,300
Alcoholic Beverages Taxes	2,911			2,911
Hotel Occupancy Tax	1,352			1,352
Utility Taxes	959	196		763
Other Taxes	417	104		313
<b>TOTAL TAXES</b>	<b>108,136</b>	<b>6,303</b>	<b>-</b>	<b>101,832</b>

<b>REVENUE BY SOURCE</b>	Total 2020-21	Tax Revenue Dedicated by the Constitution	Non-Tax Revenue	Tax Revenue not Dedicated by the Constitution
Tax Collections	108,136	6,303	-	101,832
Licenses, Fees, Fines, and Penalties	2,839		2,839	
State Health Service Fees and Rebates	2,047		2,047	
Net Lottery Proceeds	2,885		2,885	
Land Income	17		17	
Interest and Investment Income	3,539		3,539	
Settlements of Claims	1,016		1,016	
Escheated Estates	1,491		1,491	
Sales of Goods and Services	264		264	
Other Revenue	896		896	
<b>TOTAL REVENUE</b>	<b>123,130</b>	<b>6,303</b>	<b>14,994</b>	<b>101,832</b>

Total 2020-21 revenue estimates are from the Comptroller's October 2019 *Certification Revenue Estimate*.

# Growth Rate

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## **Constitution Article VIII, Section 22 (a)**

- Appropriations restricted by the spending limit can not grow faster than the estimated growth of the state's economy
- Legislature shall provide procedures to implement this subsection

## **Government Code 316.002**

- Directs the LBB to use Texas personal income growth to measure growth in the state's economy
- In January 2019, the LBB voted to adopt 9.89 percent as the estimated growth in the state's economy from the 2018-19 biennium to the 2020-21 biennium

# Compliance with Constitutional Limitations

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2020-21 GR Appropriations are within both the Article III, Section 49a Pay-as-you-go Limit and the Article VIII, Section 22 Spending Limit

Remaining General Revenue Spending Authority (in billions)	
Pay-as-you-go Limit	\$2.9
Spending Limit	\$4.8

# Legislation Proposed to Change the Spending Limit

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Type of change – constitutional or statutory

- Change current constitutional limit
- Keep current constitutional limit and adopt a new statutory limit

Rate – the measurement of growth

- Population and Inflation

Base – type of spending restricted by the limit

- General Revenue and General Revenue-Dedicated
- State Funds (All Funds less Federal Funds)
- All Funds
- Exclude spending funding property tax relief or emergency disaster relief



## LEGISLATIVE BUDGET BOARD

### **Contact the LBB**

Legislative Budget Board

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

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