



LEGISLATIVE BUDGET BOARD

Constitutional Spending Limits

PRESENTED TO HOUSE APPROPRIATIONS COMMITTEE

URSULA PARKS, LEGISLATIVE BUDGET BOARD

DECEMBER 4, 2014

Constitutional Spending Limits

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 2014-15 budget is within all of these limits.

Debt Limit

Texas Constitution, Article III, Section 49 (j)

- Limits the authorization of additional state debt if in any fiscal year the resulting annual debt service payable from the unrestricted General Revenue Fund exceeds 5 percent of the average annual unrestricted General Revenue Funds for the previous three years
- Approved by voters November 4th, 1997
- As of the end of fiscal year 2013, the Bond Review Board reported the debt service ratio for issued debt was 1.34 percent. For the same period, the debt service ratio for issued plus unissued debt was 3.04 percent.

Welfare Spending Limit

Texas Constitution, Article III, Section 51-a

- Provides that the state funds appropriated for assistance grants on behalf of needy dependent children and their caretakers (i.e., Temporary Assistance for Needy Families [TANF]) shall not exceed 1 percent of the state budget in any biennium
- Approved by voters August 25, 1945
- The 2014-15 All Funds state budget totals \$200.4 billion which sets the welfare limit at \$2.0 billion
- State funds appropriated for TANF grants during 2014-15 total \$132.5 million, which is \$1.9 billion below the limit

Pay-as-You-Go Limit

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 3rd, 1942
- After the 83rd Session, the Comptroller certified that available revenue was forecasted to exceed appropriations by \$683.1 million
- The Comptroller's December 2013 *Certification Revenue Estimate* increased the amount by which revenue is forecasted to exceed appropriations to \$2.6 billion; 2014 actual collections are higher.

What Appropriations are Limited by Pay-as-You-Go?

The Comptroller of Public Accounts is constitutionally required to certify whether appropriations are within available revenue. However, the commonly used term “the pay-as-you-go limit” only applies to General Revenue Fund appropriations. This includes the beginning balance in the General Revenue Fund, collections deposited to the General Revenue Fund, and as a result of funds consolidation, unappropriated General Revenue-Dedicated account balances.

- Due to federal, constitutional or statutory provisions, certain accounts in General Revenue do not count against the pay-as-you-go limit
- General Revenue-Dedicated appropriations reduce the overall amount of General Revenue available for certification
- While certain Other Funds are estimated in the Biennial Revenue Estimate, as they are not General Revenue they do not count against pay-as-you-go. Major such funds include:
 - Economic Stabilization Fund
 - State Highway Fund
 - Mobility Fund
 - Property Tax Relief Fund

Spending Limit: Constitution

Texas Constitution, Article VIII, Section 22

- Limits the rate of growth from one biennium to the next
- Approved by voters 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:
 - Estimated rate of growth in the state's economy from one biennium to the next;
 - The current biennium's level of appropriations subject to the limit; 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.

What Appropriations are Controlled by the Spending Limit?

Only appropriations funded with tax revenue not dedicated by the Constitution are subject to the limit

- Sales tax
- Motor vehicle sales tax
- Franchise tax
- Cigarette and tobacco taxes

Appropriations funded with tax revenues are not subject to the limit if the Constitution requires the tax revenues to be used for a certain purpose

- Motor fuel taxes are constitutionally dedicated for transportation and education
- 25 percent of oil and natural gas production taxes are constitutionally dedicated for education

Appropriations funded with non-tax revenues are not subject to the limit

- Fee, fines, penalties
- Interest and investment income
- Lottery proceeds

LBB Adoption

Adopted by the LBB on December 1, 2014:

- (1) the estimated rate of growth of the Texas economy from the 2014-15 biennium to the 2016-17 biennium is 11.68%;
- (2) the level of appropriations for the 2014-15 biennium from state tax revenue not dedicated by the Constitution is \$84,408,716,116 subject to adjustments resulting from revenue forecast revisions or subsequent appropriations certified by the Comptroller of Public Accounts; and therefore,
- (3) the amount of appropriations that can be made for the 2016-17 biennium from state tax revenue not dedicated by the Constitution without special concurrent resolution is \$94,267,654,158 subject to adjustments to 2014-15 biennial appropriations referenced in (2) above.

Does the Limit Ever Change?

The adopted rate of growth does not change over the biennium. The base to which it is applied may change, based both on changes to revenue and changes to appropriation levels:

- Changes to actual appropriations for the 2014-15 biennium affect not only spending limit capacity for the current biennium but also the limit itself for the 2016-17 biennium; and
- Changes to revenues for the 2014-15 biennium affect the “mix” of revenue supporting 2014-15 appropriations, and can shift capacity in the current biennium.

2014-15 Spending Limit Update

- **February 2014:** Based on revenue in the Certification Revenue Estimate, LBB staff estimated that 2014-15 appropriations were **\$263.4 million below** the spending limit.
- **December 2014:** Based on actual 2014 revenues and appropriations, LBB staff estimate that 2014-15 appropriations are **\$837 million below** the spending limit.
 - This translates into \$1.1 billion of GR spending capacity before the limit is reached

What's Next? January 2015

General Appropriations Bill (GAB) & Biennial Revenue Estimate (BRE)

- Spending limit will be updated to include the Comptroller's 2015 revenue update
 - It will again be affected by any 2015 supplemental appropriations bill
- The amount by which the GAB is under the spending limit will depend both on the appropriations in that bill and the revenues in the BRE supporting it
- Pay-as-You-Go analysis will be provided based on the BRE and the GAB



LEGISLATIVE BUDGET BOARD

Contact the LBB

Legislative Budget Board

www.lbb.state.tx.us

512.463.1200