

LEGISLATIVE BUDGET BOARD

Constitutional Limitations on Spending

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DECEMBER 1, 2015

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 2016-17 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

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

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

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

The spending limit adopted by the LBB on December 1, 2014 was operative for the 84th Legislature:

1. The LBB adopted 11.68% as the estimated rate of growth of the Texas economy from the 2014-15 biennium to the 2016-17 biennium. This was the lowest of the estimates submitted in advance of the meeting, and was the one provided by the Comptroller of Public Accounts;
2. The level of appropriations for the 2014-15 biennium from state tax revenue not dedicated by the Constitution was estimated to be \$84.4 billion;
3. The resulting amount of \$94.3 billion was the amount of appropriations that could be made for the 2016-17 biennium from state tax revenue not dedicated by the Constitution

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. For example:

- Changes to actual appropriations for the base biennium affect not only spending limit capacity for that current biennium but also the limit itself for the subsequent (adopted) biennium; and
- Changes to revenues affecting the “mix” of revenue supporting appropriations can shift spending limit capacity.

Can The Limit Be Exceeded?

The legislature may adopt a concurrent resolution to exceed the adopted spending limit:

- The concurrent resolution requires a majority of each chamber.
- The adopted limit has only been exceeded once: In 2007 the Legislature passed 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.

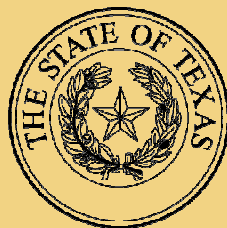
Spending Limit Proposals

Various proposals would change:

Rate - the measure of economic growth

Base - spending that is subject to the limit

Timeframe - prospective to retrospective



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