
Comments on the State Spending Limit

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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.

Simplify the Spending Limit Base. The base in the spending limit is “appropriations from state tax revenues not dedicated by this constitution,” which has no corresponding element in the general appropriations act. Consequently, the Legislative Budget Board must do a complex “cross-walk” of general revenues in order to determine how to apply the spending limit. The base of the spending limit should be simplified to apply to discretionary funds appropriated by the legislature—i.e. general revenue related funds (general revenue, the available school fund, the foundation school fund, the state textbook fund and the property tax relief fund).

Publish the Calculation of the Spending Limit as an Informational Item in the Appropriations Bill. Though all materials relating to the initial calculation of the spending limit at the start of the legislative session are readily available, how the final appropriations bill is scored relative to the spending limit is not. The appropriations bill should include an informational rider that identifies the appropriations within the bill that are subject to the limit and how they compare to the adopted limit. If necessary, LBB staff should be authorized to adjust the numbers based on the Comptroller’s certification estimate.

Limit What You Control: Appropriations currently affected by the spending limit are not fully at the control of the legislature. For example, federal law governs much of what must be spent on Medicaid while other parts of the budget may be governed by court orders. The legislature often must spend additional funds to comply with factors such as these, which are beyond their control, and which may “crowd out” spending in other programs. The spending limit should apply to those items of expenditure that are under the discretion of the legislature; consideration should be given to exclude those expenditures necessary to comply with federal or court mandates. Otherwise, the state could be forced to cut spending, for example, to public education in order to make room under the spending limit for increased Medicaid expenditures—even if it had sufficient funds available for both. In such a circumstance, the state essentially delegates its budget authority to Washington.

Local School Property Taxes. Texas school finance is a shared responsibility between the state and local school districts. The greater the property wealth of a school district, the less state aid it qualifies for. Consequently, as school property values rise, the formula demands for state education funding diminishes. Taxpayers still pay more in taxes, but the reduced level of required state aid counts as a spending cut to the state budget. Further, in times of fiscal duress, the state can change the school finance formulas to increase the reliance on local property taxes— technically *cutting* the state budget while essentially *raising taxes* on property owners! The spending limit should either include an estimate of local school taxes, or at least not allow the state to credit itself a reduction in state spending for public education that is the result of rising local property taxes.