



LEGISLATIVE BUDGET BOARD

CONSTITUTIONAL LIMITATIONS ON SPENDING

**PRESENTED TO THE HOUSE APPROPRIATIONS COMMITTEE
LEGISLATIVE BUDGET BOARD STAFF**

JANUARY 2019

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)

House Bill 1 is within all of these limits

Pay-as-You-Go Limit

- Texas Constitution, Article III, Section 49a
- Approved by voters on November 3rd, 1942
- Requires that all appropriations be within available revenue in the fund from which the appropriations are made
- Comptroller's Biennial Revenue Estimate estimates that there will be \$119.1 billion in available revenue to fund GR appropriations
 - applies to fiscal year 2019 supplemental GR appropriations and 2020-21 GR appropriations
- GR appropriations in the House Bill 1 total \$115.4 billion
 - \$3.7 billion less than available revenue

Spending Limit

- Texas Constitution, Article VIII, Section 22
- 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.

Appropriations Restricted by the Spending Limit

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 for 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

TAX COLLECTIONS	Total 2020-21	Tax Revenue	Non-Tax Revenue	Tax Revenue not
		Dedicated by the Constitution		Dedicated by the Constitution
Sales Taxes	66,261			66,261
Motor Vehicle Sales and Rental Taxes	9,841			9,841
Motor Fuel Taxes	2,062	1,965		97
Franchise Tax	6,021			6,021
Oil Production Tax	7,439	1,860		5,579
Insurance Taxes	5,672	1,343		4,328
Cigarette and Tobacco Taxes	1,150			1,150
Natural Gas Production Tax	3,278	819		2,458
Alcoholic Beverages Taxes	2,881			2,881
Hotel Occupancy Tax	1,307			1,307
Utility Taxes	957	198		759
Other Taxes	456	114		342
TOTAL TAXES	107,322	6,299	-	101,023

REVENUE BY SOURCE	Total 2020-21	Tax Revenue	Non-Tax Revenue	Tax Revenue not
		Dedicated by the Constitution		Dedicated by the Constitution
Tax Collections	107,322	6,299	-	101,023
Licenses, Fees, Fines, and Penalties	2,876		2,876	
State Health Service Fees and Rebates	2,006		2,006	
Net Lottery Proceeds	2,885		2,885	
Land Income	17		17	
Interest and Investment Income	2,822		2,822	
Settlements of Claims	905		905	
Escheated Estates	1,372		1,372	
Sales of Goods and Services	264		264	
Other Revenue	1,014		1,014	
TOTAL REVENUE	121,483	6,299	14,161	101,023

Total 2020-21 revenue estimates are from the Comptroller's January 2019 *Biennial Revenue Estimate* for 2020-21.

Growth Rate

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 adopted 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

Appropriations in House Bill 1 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	\$3.7
Spending Limit	\$4.1

Do the Limits Change?

Pay-as-you-go Limit

- Comptroller revenue updates
- Bills affecting revenues
- Supplemental GR appropriations

Spending Limit

- The adopted rate of growth does not change over the biennium
- 2020-21 spending limit will change based on changes to the 2018-19 spending base
 - Additional fiscal year 2019 supplemental appropriations would increase the 2018-19 base and the resulting 2020-21 spending limit



LEGISLATIVE BUDGET BOARD

Contact the LBB

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