

Presentation to the

# Senate Finance Committee

*Review the state's current spending limits and determine if statutory changes are needed to continue restraint of spending growth below the rate of inflation plus population growth.*

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# Constitutional Spending Limits

- The Texas Constitution Includes Four Limitations on State Spending
  - Pay-as-you-go limit
  - Limit on the growth of certain appropriations (a.k.a. spending limit)
  - Welfare spending limit
  - Debt limit
- The 2012-13 Budget is within all of these Limits

# Pay-as-You-Go Limit

- Article III, Section 49a, of the Texas Constitution requires that appropriations are within available revenue
- Approved by voters on November 3<sup>rd</sup>, 1942
- After the 82nd Session, the Comptroller certified that available revenue was forecasted to exceed appropriations by \$186.4 million
- The Comptroller's December 2011 *Certification Revenue Estimate* increased the amount by which revenue is forecasted to exceed appropriations to \$1.6 billion

# Welfare Spending Limit

- Article III, Section 51-a, of the Texas Constitution 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 2012-13 All Funds state budget totals \$173.5 billion which sets the welfare limit at \$1.7 billion
- State funds appropriated for TANF grants during 2012-13 total \$134.7 million, which is \$1.6 billion below the limit

# Debt Limit

- Article III, Section 49 (j) of the Texas Constitution 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
- At the end of fiscal year 2011, the Bond Review Board estimated that the state is at 3.70 percent for authorized but unissued, and issued debt as compared to the constitutional debt limit

# Texas Constitution

## Article VIII, Section 22

- 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...

# What Appropriations are Limited?

- 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

**FY 2012-13 General Revenue-Related Collections**

Amounts in \$ Millions

<b>TAX COLLECTIONS</b>	Total 2012-13	Tax Revenue	Non Tax Revenue	Tax Revenue not
		Dedicated by the Constitution		Dedicated by the Constitution
Sales Taxes	45,167			45,167
Motor Vehicle Sales and Rental Taxes	6,303			6,303
Motor Fuels Taxes	2,113	2,046		67
Franchise Tax	5,475			5,475
Insurance Taxes	2,851	648		2,204
Natural Gas Tax	2,290	573		1,718
Cigarette and Tobacco Taxes	1,149			1,149
Alcoholic Beverage Taxes	1,825			1,825
Oil Production and Regulation Taxes	2,520	630		1,890
Inheritance Tax	-			-
Utility Taxes	973	206		766
Hotel Occupancy Tax	748			748
Other Taxes	211	52		159
<b>TOTAL TAXES</b>	<b>71,624</b>	<b>4,155</b>	<b>-</b>	<b>67,470</b>

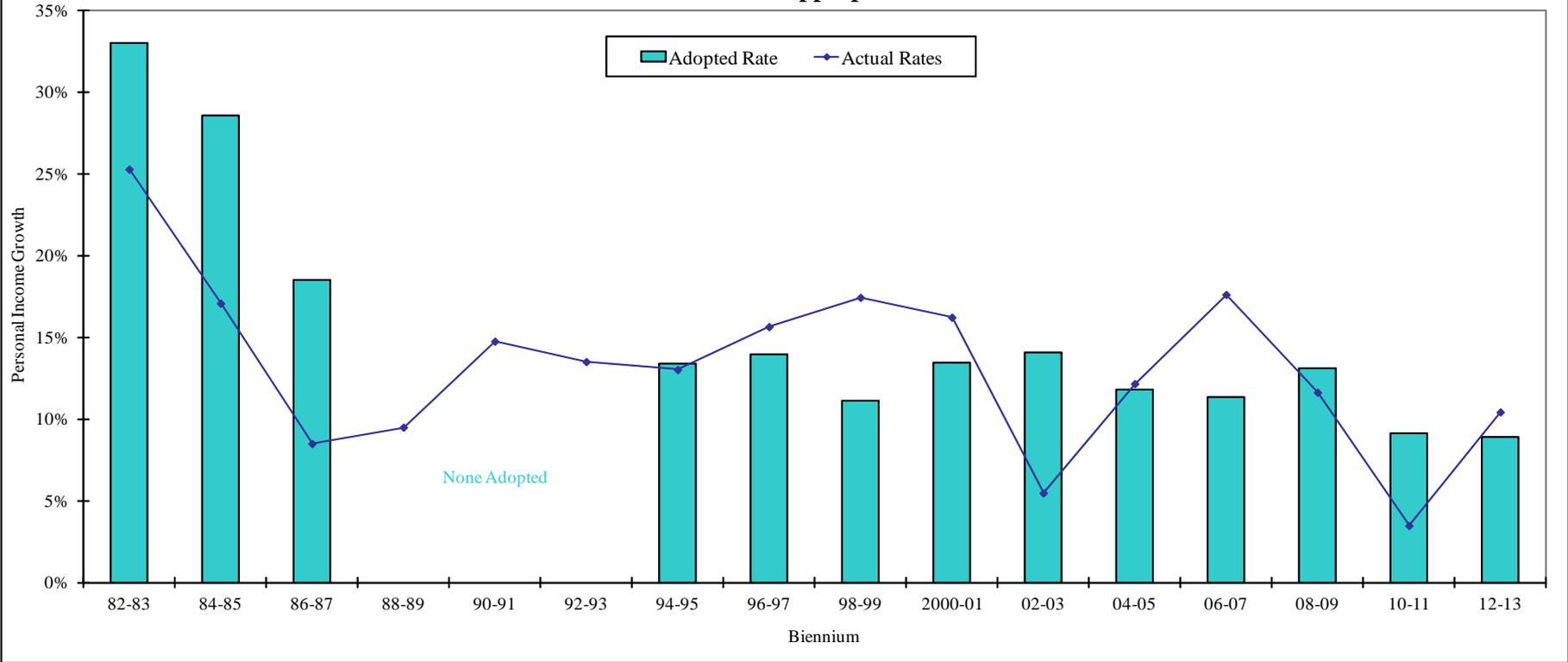
<b>REVENUE BY SOURCE</b>	Total 2012-13	Tax Revenue	Non Tax Revenue	Tax Revenue not
		Dedicated by the Constitution		Dedicated by the Constitution
Tax Collections	71,624	4,155	-	67,470
Licenses, Fees, Fines, and Penalties	2,292		2,292	
Interest and Investment Income	1,940		1,940	
Lottery Proceeds	1,939		1,939	
Sales of Goods & Services	226		226	
Settlements of Claims	980		980	
Land Income	17		17	
Contributions to Employee Benefits	0		0	
Other Revenue Sources	3,721		3,721	
<b>TOTAL REVENUE</b>	<b>82,739</b>	<b>4,155</b>	<b>11,115</b>	<b>67,470</b>

Total 2012-13 revenue estimates are from the Comptroller's December 2011 *Certification Revenue Estimate*

# How fast can appropriations subject to the limit grow?

- Constitution Article VIII, Section 22 (a)
  - Can not grow faster than 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

### Texas Personal Income Growth for the Article VIII Appropriations Limit



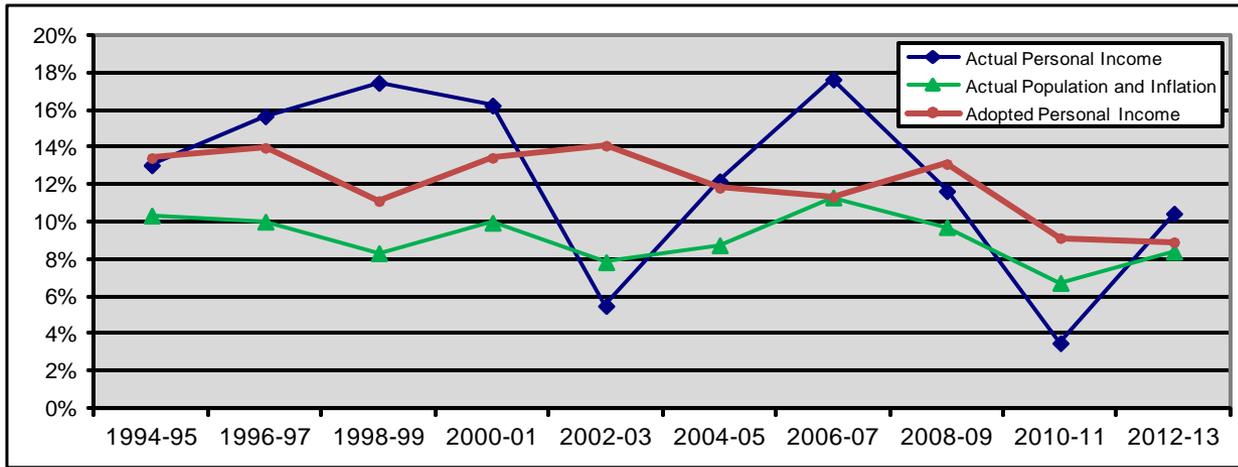
LBB Meeting Date	<u>11/24/80</u>	<u>11/20/82</u>	<u>11/08/84</u>	<u>11/05/86</u>	<u>10/20/88</u>	<u>11/07/90</u>	<u>11/11/92</u>	<u>11/22/94</u>	<u>11/20/96</u>	<u>11/19/98</u>	<u>11/29/00</u>	<u>11/25/02</u>	<u>11/17/04</u>	<u>01/11/07</u>	<u>11/14/08</u>	<u>11/15/10</u>
Biennium	82-83	84-85	86-87	88-89	90-91	92-93	94-95	96-97	98-99	2000-01	02-03	04-05	06-07	08-09	10-11	12-13
Adopted Rate	33.00%	28.60%	18.50%	None Adopted			13.43%	13.98%	11.12%	13.44%	14.09%	11.83%	11.34%	13.11%	9.14%	8.92%
Actual Rates	25.30%	17.10%	8.51%	9.51%	14.78%	13.53%	13.04%	15.67%	17.45%	16.24%	5.50%	12.18%	17.64%	11.65%	3.50%	10.44%

Note: Historical growth rates are based on data from the U.S. Bureau of Economic Analysis. FY 2012-13 growth rate forecasts are based on IHS Global Insight's August 2012 Economic Forecast.

# Alternative Growth Methodologies

- Measurement of Growth in State's Economy – Requires a Statutory Change
  - Population and inflation
  - Gross state product

## Comparison of Biennial Growth Rates



Biennium	Adopted Personal Income	Actual Personal Income	Actual Population and Inflation
1994-95	13.4%	13.0%	10.3%
1996-97	14.0%	15.7%	10.0%
1998-99	11.1%	17.5%	8.3%
2000-01	13.4%	16.2%	10.0%
2002-03	14.1%	5.5%	7.8%
2004-05	11.8%	12.2%	8.7%
2006-07	11.3%	17.6%	11.3%
2008-09	13.1%	11.7%	9.7%
2010-11	9.1%	3.5%	6.7%
2012-13	8.9%	10.4%	8.4%
Average	12.0%	12.3%	9.1%

Note: Historical growth rates are based on data from the U.S. Bureau of Economic Analysis. FY 2012-13 growth rate forecasts are based on IHS Global Insight's August 2012 Economic Forecast.

**Article VIII, Section 22 Spending Limit**

in \$ millions

Biennium	Base Appropriations from Tax Revenue Not Dedicated by the Constitution	Adopted Personal Income Growth Rate	Article VIII Spending Limit	Appropriations from Tax Revenue Not Dedicated by the Constitution	Amount Below the Limit
2002-03	44,795	14.09%	51,107	47,476	3,630
2004-05	47,476	11.83%	53,093	49,933	3,160
2006-07	49,933	11.34%	55,595	54,808	787
2008-09	54,808	13.11%	76,185	71,632	4,552
2010-11	71,632	9.14%	78,179	70,935	7,245
2012-13	70,935	8.92%	77,262	70,406	6,856

Note: FY 2007-13 appropriations include appropriations for property tax rate reductions. The FY 2008-09 spending limit includes an additional \$14.2 billion authorized by Senate Concurrent Resolution 20, 80th Regular Session, for property tax rate reductions.

**Appropriations Subject to Current Limit  
Limited by the Growth of Population and Inflation**

in \$ millions

Biennium	Base Appropriations from Tax Revenue Not Dedicated by the Constitution	Population & Inflation Growth Rate	Hypothetical Limit	Appropriations from Tax Revenue Not Dedicated by the Constitution	Amount Below the Limit
2002-03	44,795	7.84%	48,306	47,476	830
2004-05	47,476	8.75%	51,629	49,933	1,696
2006-07	49,933	11.31%	55,582	54,808	774
2008-09	54,808	9.73%	74,330	71,632	2,698
2010-11	71,632	6.73%	76,451	70,935	5,516
2012-13	70,935	8.40%	76,893	70,406	6,487

Note: The growth of this hypothetical spending limit is limited to the growth of population and inflation. FY 2007-13 appropriations include appropriations for property tax rate reductions. The hypothetical FY 2008-09 spending limit includes an additional \$14.2 billion authorized by Senate Concurrent Resolution 20, 80th Regular Session, for property tax rate reductions. This analysis does not consider what actions the legislature would have taken in response to this hypothetical spending limit. Historical growth rates are based on data from the U.S. Bureau of Economic Analysis. FY 2012-13 growth rate forecasts are based on IHS Global Insight's August 2012 Economic Forecast.