



Strengthening Texas' Tax & Expenditure Limit

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THE ISSUE

Eighty-four percent of Texans voted in 1978 for the Texas Tax Relief Act, a constitutional amendment they thought would limit the growth of state government. Since its ratification, however, Texas' constitutional tax and expenditure limit (TEL) has failed in its purpose because of several design flaws.

One such flaw has to do with the type of appropriations covered under the TEL. In Article VIII, Section 22(a) of the state's Constitution, the only appropriations subject to the spending limit are those derived from "state tax revenues not dedicated by this constitution," which currently make up about half the budget. The other half consists of funds appropriated from other revenue sources—i.e., federal funds and non-tax proceeds, such as fees and fines—which are not subject to the TEL.

Another flaw that has weakened the integrity of the TEL has to do with the measure used to establish the spending limit—personal income. Personal income is a poor measure to limit the growth in state spending because as the state's residents become wealthier, they should require less government assistance, not more. A more accurate measure of the state's need for public goods and services is the sum of population growth plus inflation.

Political will also represents another stumbling block for Texas' TEL. With just a simple majority vote of each chamber, the Legislature can declare an "emergency" and bypass the appropriations limit altogether.

With so many hindrances to budgetary prudence, it is easy to understand why Texas' TEL has failed to live up to expectations. However, with just a handful of changes, legislators can vastly improve and entrench this important safeguard. These changes should include:

- ★ Making sure the TEL is self-contained within the state's constitution and does not require enabling legislation;
- ★ Applying the amendment's provisions to *all* state spending;
- ★ Basing the expenditure growth limit on the sum of population growth plus inflation or the growth of personal income, whichever is less;
- ★ Requiring a supermajority vote of each chamber to exceed the limit rather than just a simple majority vote; and
- ★ Bringing under the scope of the amendment all levels of government within Texas.

Texas' TEL is flawed and needs to be improved in order to protect taxpayers and ensure the responsible growth of government. With some minor but important changes, the Legislature can do just that.

THE FACTS

- ★ 84 percent of voters approved the Texas Tax Relief Act in 1978 demanding government control its spending.

- ★ Texas' TEL applies to only half of the state budget and excludes local government expenditures.
- ★ Spending caps are based on biennial growth projections of personal income rather than the sum of population and inflation increases.
- ★ Texas' TEL fails to adequately limit expenditures because it can be easily avoided with enabling legislation.

RECOMMENDATIONS

- ★ Apply Texas' tax and expenditure limit to expenditures made from all types of non-federal revenue.
- ★ Limit the growth of state spending to population growth plus inflation or the growth of personal income, whichever is less.
- ★ Require a supermajority to override the TEL's provisions.

RESOURCES

Texas' Appropriations Limit: Considerations for Future Reform by Byron Schломach, Texas Public Policy Foundation (July 2006) <http://www.texaspolicy.com/pdf/2006-07-PP-TEL-bs.pdf>.

The Texas Tax Relief Act in Retrospect by David Hartman, Texas Public Policy Foundation (Fall 2000) <http://www.texaspolicy.com/pdf/2000-veritas-1-3-taxrelief.pdf>.

Tax and Expenditure Limits for Long-Run Fiscal Stability by Emily Washington and Frederic Sautet, Mercatus Center at George Mason University (Oct. 2009) http://mercatus.org/sites/default/files/publication/Tax_and_Expenditure_Limits.pdf. ★

