

PolicyPerspective

Busting Texas' 2014-15 Spending Limit

by The Honorable
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Key Points

- Current Texas spending trends signal that 2014-15 state expenditures will exceed the constitutional spending limit.
- The current spending limit of \$85.2 billion is greater than the \$85 billion in non-dedicated general revenue appropriated during the 2013 Legislative Session.
- To fully fund Medicaid and other expenditures, legislators may need to pass a supplemental bill of \$1 billion in non-dedicated general revenue early in the 2015 Legislative Session.
- State officials should take steps immediately.

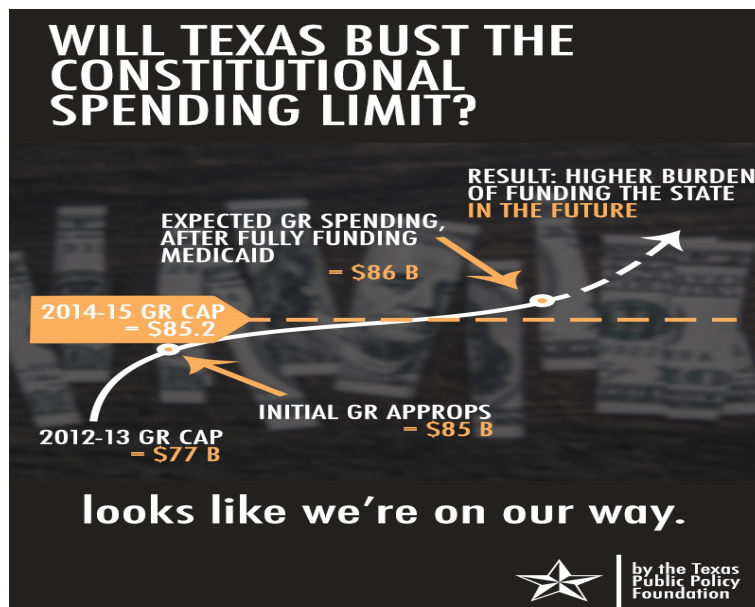
Introduction

According to Article VIII, Section 22(a) of the Texas Constitution, "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 subsection."¹ Since appropriations are the means by which the state authorizes spending each biennium, Section 22 of the Constitution provides an implicit biennial state spending limit for non-constitutionally dedicated general revenue funds.

The Texas Legislature makes it a biennial practice to underfund the state's Medicaid program. This biennium is no different. The Texas Health and Human Services Commission recently released their 2016-17 budget request noting that they will need an additional \$1 billion in general revenue funds passed in a supplemental bill early in the 2015 Legislative Session.²

If this holds true, there is a high likelihood that expenditures will exceed Texas' constitutional spending limit by about \$737 million unless state officials take sensible steps to ratchet down spending growth before August 31, 2015. If not, legislators must vote to bust the spending limit and in the process raise the spending base for future biennia, burdening Texans with the cost of a larger state government (*see graphic below*).

2014-15 Biennial State Spending May Exceed Constitutional Cap



As specified in the Texas Constitution, the two-year spending limit is applied to the expenditure of tax revenues not dedicated by the constitution. These tax revenues include those generated from the sales tax, motor vehicle sales tax, franchise tax, and cigarette and tobacco taxes.

With some time available before the end of the current biennium, the Governor and the Legislative Budget Board (LBB) should reduce the growth of state spending to avoid busting the budget cap.

How is the Spending Limit Calculated?

As specified in the Texas Constitution, the two-year spending limit is applied to the spending of tax revenues not dedicated by the constitution. These tax revenues include those generated from the sales tax, motor vehicle sales tax, franchise tax, and cigarette and tobacco taxes. Tax revenues not subject to the limit include such revenues as a quarter of oil and natural gas production taxes dedicated for education and motor fuel taxes that are dedicated for transportation and education.

To determine this spending limit, the LBB uses the state's personal income growth rate as a proxy for the growth in the state's economy, as directed by the Legislature in Government Code 316.002(c). In November before each Legislative Session, the LBB selects a spending limit based on forecasts of the growth rate in personal income for the following biennium.

In November 2012, the LBB chose the 2014-15 spending growth limit of 10.71 percent³ based on the forecast by the Texas Comptroller.⁴ After adjusting state tax revenues and using the growth limit to calculate the spending limit amount, the LBB notes "the adjusted 2014-15 biennial limit on appropriations from state tax revenue not dedicated by the Constitution is \$85.2 billion."⁵ The total non-dedicated general revenue funds appropriated by the 83rd Texas Legislature was \$85 billion, or about \$263 million—approximately 0.3 percent—below the limit.⁶

Fully Funding Medicaid Would Bust the Limit

The Legislature usually underfunds Medicaid in the general appropriations act each biennium. The uncertainty of enrollment numbers and other changes of this entitlement program throughout the biennium make its costs uncertain.

For example, the 2011 82nd Texas Legislature underfunded Medicaid by \$4.2 billion requiring the 2013 83rd Legislature to pass a supplemental bill to fully fund this amount.⁷ While the Foundation expected that Medicaid and other health care costs would be underfunded again in the 2014-15 biennium,⁸ the Texas Health and Human Services Commission (HHSC) confirmed this expectation in their recent 2016-17 budget request that shows they will need an additional \$2.6 billion in all funds to fully fund the current biennium's health care-related expenditures.⁹ HHSC states that this substantially higher request than what was appropriated last session is primarily from rising Medicaid expenditures due to growing caseloads and rising health care costs.

Since Medicaid is funded by a 40/60 government split—state funding 40 percent and federal funding 60 percent, legislators might be required to pass a supplemental bill to the tune of \$1 billion in non-dedicated general revenue funds to cover the underfunded amount early in the 2015 Legislative Session. Without any other budgetary changes, an additional appropriation of this magnitude would exceed the state's constitutional spending limit for the 2014-15 biennium by \$737 million.

Costs of Busting Texas' 2014-15 Spending Limit

To restrain the Legislature's discretion of appropriating funds above the spending limit, the Texas Constitution requires that the limit cannot be exceeded unless expressly authorized. Article VIII Section 22(b) requires that to

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appropriate more funds than allowed under the spending limit a majority of the members of each house must vote to adopt a resolution identifying this amount as an emergency.¹⁰

Though there might be a sufficient amount of revenue and number of votes to pass the resolution raising the spending limit to fully fund these additional expenditures, this will come at the expense of taxpayers funding a larger state government today and in the future. If legislators vote to bust the spending limit and raise the amount available, this new higher amount becomes the base for which the 2016-17 spending limit will be calculated.

Accounting for the base increase in the 2016-17 biennium, the allowed spending limit growth that period, and more spending in future periods, this increase of \$737 million will add up to cost Texans substantially more to fund the state over time. With Texas families of four paying more than \$1,200 this year alone to fund state government, as compared with population growth plus inflation, suggests legislators must be frugal with every taxpayer dollar.¹¹ Additional dollars spent by legislators is another dollar not available for Texas families to put food on their table, pay for the rising cost of health care, start a business, and save for an emergency.

Bottom line: Busting Texas' 2014-15 spending limit would raise the cost of funding state government and burden Texas families in the process.

Recommendations

With some time available before the end of the current biennium on August 31, 2015, there are steps the Governor and LBB should take to fund the amount avoiding a vote by the Legislature to bust the limit:

- Withhold funds from agencies that expect to have available funds at the end of the current biennium;
- Cut expenditures in agencies that are not essential; and/or
- Determine an across the board percentage budget cut to all agencies so that each agency realizes only a small reduction.

By taking these steps, state officials will be good stewards of taxpayer dollars by avoiding busting the spending limit and subsequently keep more money in the hands of hard-working Texans. ★

Endnotes

¹ *The Texas Constitution*, Article 8. Taxation and Revenue, Section 22 (accessed Sept. 2014).

² *The Real Texas Budget*, Talmadge Heflin, Bill Peacock, and Vance Ginn, Ph.D. (June 2014).

³ Meeting of the Legislative Budget Board, Legislative Budget Board, Agenda Item 3 (Nov. 2012).

⁴ *Technical Memorandum*, Legislative Budget Board, Table 3 (Nov. 2012).

⁵ *Fiscal Size-Up 2014-15 Biennium*, Legislative Budget Board (Feb. 2014) 12.

⁶ *Ibid.*

⁷ HB 10, Fiscal Note, 83rd Legislative Session (Mar. 2013).

⁸ *The Real Texas Budget* (June 2014).

⁹ *The Texas Constitution*, Section 22 (accessed Sept. 2014).

¹⁰ *The Real Texas Budget* (June 2014).

About the Authors



The Honorable Talmadge Heflin is the Director of the Foundation's Center for Fiscal Policy. Prior to joining the Foundation, Heflin served the people of Harris County as a state representative for 11 terms. Well regarded as a legislative leader on budget and tax issues by Democratic and Republican speakers alike, he for several terms was the only House member to serve on both the Ways and Means and Appropriations committees. In the 78th Session, Heflin served as chairman of the House Committee on Appropriations. He navigated a \$10 billion state budget shortfall through targeted spending cuts that allowed Texans to avoid a tax increase.



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