SPECIAL SESSION 2017

Local Spending Limit

The Issue

Local government spending in Texas is growing much faster than it should.

According to the U.S. Census Bureau, local spending totaled $40.3 billion in 1992. By 2014—the latest available data—aggregate local spending had risen to $129.5 billion, an increase of 221 percent.

While some level of increase is to be expected in a fast-growth state, the local spending trajectory is well in excess of traditional economic measures, like population and inflation.

From 1992 to 2014, Texas' population grew from 17.7 million to 27 million, an increase of approximately 53 percent. Meanwhile, the Bureau of Labor Statistics' Consumer Price Index (U.S. All items, 1982-84) shows that inflation simultaneously increased by 68.7 percent. Thus, population and inflation grew at a much more modest rate of 121.6 percent, demonstrating that there's an imbalance between the actual spending growth and the ideal.

There are many consequences linked to excessive local spending. The most obvious is that taxpayers must bear a high and fast-growing property tax to pay for all that extra spending. Governments with no stringent spending requirements may also have trouble getting a handle on waste and inefficiency. Finally, governments that spend too much may negatively affect the local economy and job creation.

To better protect taxpayers and the economy against these eventualities, Texas lawmakers should expand the state's constitutional Tax and Expenditure Limit (TEL) to include spending by all political subdivisions, e.g., cities, counties, school districts, and special districts. Right now, Texas' TEL only applies to certain types of state government spending; however, with modest changes, it could be broadened to apply those same spending limitations to the local level too. After all, if state government is to be bound by these kinds of good governance measures, then it only makes sense to extend that principled policy to political subdivisions of the state as well.

Additionally, the growth rate should be tightened further still to be population plus inflation, total state personal income, or total gross state product, whichever is less. Finally, the growth rate should be calculated using actual data from the prior year(s) instead of future projections, which can be less accurate.

Dr. Arthur Laffer, one of President Ronald Reagan's chief economic advisors, said it best: "Government spending is taxation." If the Texas model of low taxes and limited government is to be maintained well into the future, then it is critical that policymakers contain the growth of local spending and the tax increases that necessarily come along with it.

The Facts

- Local government spending totaled $40.3 billion in fiscal 1992. By fiscal 2014, local spending had grown to $129.5 billion, representing an increase of 221 percent. Over the same period, population growth and inflation increased by just 121.6 percent.
- The accelerated rate of local spending growth helps, in part, to explain the high and fast-growing nature of property taxes in Texas.
- Texas' existing TEL does not include local governments.

Recommendations

- Texas' constitutional spending limit should be expanded to include expenditures made by all political subdivisions of the state.
- The spending limit should be based on the growth rate of state population plus inflation, total state personal income, or total gross state product, whichever is less.
- The growth rate used for the local spending limit should be calculated from the 12 most recent months for which data is available immediately preceding the adoption of a budget by a local government.

Resources

The Real Texas Budget: Why Texas Needs to Ratchet Down Spending Growth by Vance Ginn, Talmadge Heflin, and Bill Peacock, Texas Public Policy Foundation (June 2016).

"Local government should follow state's lean budget lead" by James Quintero, *Austin American-Statesman* (Aug. 4, 2015).