



The 2020-21 Conservative Texas Budget

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Key Points

- Texas should make history in 2019 by passing the third consecutive Conservative Texas Budget.
- The Conservative Texas Budget sets maximum appropriations limits based on population growth plus inflation to slow the growth of state spending.
- Texans are paying excessive taxes as the 2018-19 budget is up \$14.8 billion higher than if increased by population growth and inflation since 2004.
- The 2020-21 appropriations limits are \$156.5 billion in state funds and \$234.1 billion in all funds. The 2018-19 supplemental limits are \$3.60 billion in state funds and \$4.44 billion in all funds.

Introduction

Instead of beginning a legislative session in Texas by discussing how much to spend, legislators should assure Texans that taxpayer money is already being spent wisely. Improved auditing of government expenditures would be possible when Texas shifts to a program-based budget that shows the source of funding for each program in the budget. This would provide budget transparency that would allow legislators to effectively administer zero-based budgeting, whereby every program must have a legitimate reason to exist before receiving funding.

By starting the budget process this way, legislators could be better stewards of taxpayers' money and would not force Texans to pay unnecessary taxes. This process should be paired with a discussion of how much to provide in tax relief. Ultimately, the path to achieving abundant prosperity in Texas is for legislators to always pass a conservative budget.

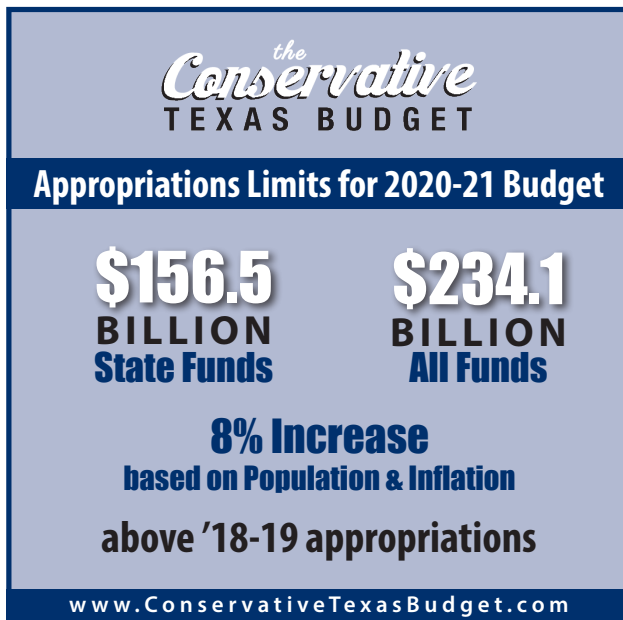
Under the Conservative Texas Budget, spending growth above the previous biennium for state (non-federal) and all funds in Texas for the 2020-21 period would be limited to *no more than* population growth plus inflation. This paper explains why the Legislature should use this metric and how the Foundation calculates these limits, which are based on the budget data chronicled in the Foundation's publication *The Real Texas Budget* ([Ginn et al. 2018](#)).

Overview of the Conservative Texas Budget

The Conservative Texas Budget is a budget that increases by no more than population growth plus inflation from the state's previous two-year budget. Limiting the state's budget growth to this key metric allows legislators to fund government while not overly burdening Texans with higher taxes. Texas adopted a Conservative Texas Budget for the 2016-17 biennium. If the Legislature adopts a supplemental budget that keeps 2018-19 spending growth below population growth and inflation (not including spending clearly related to Hurricane Harvey recovery) and adopts a new 2020-21 budget within the Conservative Texas Budget limits (see **Chart 1**), the Texas Legislature has an opportunity to pass a third consecutive Conservative Texas Budget in 2019.

Legislators practiced some budget constraint in 2003 and 2011 when spending increases were less than corresponding increases in population growth and inflation. However, subsequent legislatures in 2005 and 2013, respectively, increased spending substantially, erasing all of the gains from the prior session. These types of past spending excesses have led to a state budget that has increased 7.3 percent above increases in compounded growth of population and inflation since the 2004-05 budget. This failure to practice consistent fiscal discipline has led to overspending (i.e., higher taxes) of \$14.8 billion during the 2018-19 biennium,

continued

Chart 1. 2020-21 Conservative Texas Budget

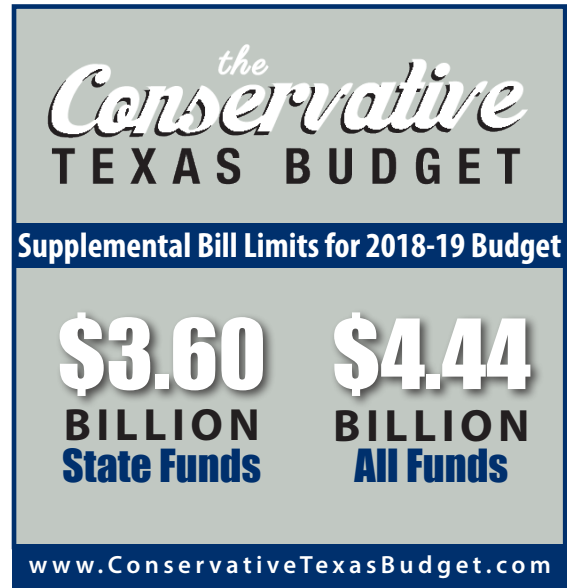
which amounts to \$1,000 more in taxes paid each year for the average Texas family of four ([Ginn et al. 2018](#)).

Supplemental Bill Limits for the 2018-19 Conservative Texas Budget

In 2017, the Legislature passed total appropriations of \$216.8 billion in all funds with state funds accounting for \$144.9 billion of that total. Both balances increased by less than population growth and inflation. In 2019, **Chart 2** shows that the Legislature has \$3.60 billion in state funds and \$4.44 billion in all funds available for a supplemental bill to sustain a 2018-19 Conservative Texas Budget. The supplemental bill should cover the delayed \$1.8 billion Proposition 7 transportation payment and will likely cover underfunded amounts in Medicaid and other programs. However, there will likely be additional supplemental appropriations, potentially from the economic stabilization fund (ESF)—its intended purpose is to cover unforeseen revenue shortfalls for one-time expenditures ([HJR 2](#))—for Harvey recovery. Given we can clearly identify one-time expenditures for Harvey recovery, we intend to exclude those expenditures from our Conservative Texas Budget calculations. There will also likely be proposals to appropriate more from the ESF for various budget items, thereby increasing the likelihood that the budget would grow by more than population growth and inflation when the focus should be on spending less to lower Texans' tax burden.

Pass a Historic Third Straight Conservative Texas Budget

While the Legislature has occasionally passed conservative budgets, Texas needs to end the historical cycle of following conservative budgets with massive spending hikes. The

Chart 2. Supplemental bill limits for the 2018-19 Conservative Texas Budget

members of the [Conservative Texas Budget Coalition](#)¹ recommend that the Legislature pass what could be the third Consecutive Texas Budget that is below population growth and inflation so that legislators can be good stewards of taxpayer dollars. As a result, Texas will be better equipped to deal with economic downturns and other circumstances. Ultimately, conservative budget reforms will provide Texas with the best opportunity to remain a free-market bastion, thereby empowering Texans to reach their full potential and allowing the state to remain a model for others to follow.

Need for Spending Restraint

During much of the period since 2000, Texas has been America's prosperity-generating leader ([Ginn 2018](#)). The state's relatively modest government spending along with less regulation and taxation—aided by the absence of a personal income tax—encourages economic growth and job creation. This success is also found in other states without a personal income tax, as noted in **Chart 3** from Laffer et al. ([2017](#)).

These statistics show states without a personal income tax tend to have greater prosperity than those states with the highest personal income tax rates. This provides valuable evidence that passing conservative budgets to keep tax rates low is important for economic success and can result in more tax revenue, though the latter should not be the objective and should be returned to taxpayers as much as possible.

While Texas has done relatively well in controlling spending compared with most other states, Texas' current limitations

1 Eighteen coalition members at the time of writing.

Chart 3. Economic prosperity among states with highest and lowest personal income tax rates

| For Years 2006-2016 | Avg. of 9 States Without a Personal Income Tax Rate (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, Wyoming) | 50-State Average | Avg. of 9 States With the Highest Personal Income Tax Rate (California, Hawaii, Maine, Maryland, Minnesota, New Jersey, New York, Oregon, Vermont) |
|---------------------------------------|--|------------------|---|
| Top Marginal Personal Income Tax Rate | 0.0% | 5.6% | 10.3% |
| Population | +11.9% | +7.9% | +5.6% |
| Employment | +7.0% | +4.2% | +3.6% |
| Personal Income | +44.2% | +41.0% | +38.6% |
| Gross State Product | +31.2% | +32.6% | +32.9% |
| State & Local Tax Revenue | +55.7% | +51.3% | +53.1% |

Source: Laffer et al. (20)

on government spending are not sufficient (Ginn 2017). One challenge with the constitutional spending limit is that it is on general revenue funds not dedicated by the Texas Constitution, or less than a majority of the total budget. This gives legislators an incentive to constitutionally dedicate funds to move them outside of the cap so that they can spend more under the limit and accept more federal funds, thereby increasing the entire budget without busting the cap. Another challenge with the limit is that the growth in the state’s economy is determined in statute by projected personal income growth for the next almost three years when chosen as the growth limit. Not only is this problematic because it is difficult to project economic activity in a dynamic economy, but the use of personal income leads to budget instability that risks large swings from unexpected economic events (Merrifield and Poulson).

Given that state spending in Texas has increased 74.6 percent since 2004, or 7.3 percent faster than increases in compounded growth of population and inflation, it is clear that Texas needs spending limit reform. Passing a potentially third consecutive Conservative Texas Budget would go a long way toward proving to Texans that state government can function within a more appropriate limit than personal income growth.

Details of the 2020-21 Conservative Texas Budget

If the state budget has to grow at all, limiting its growth requires that the entire budget be subject to a spending limit based on population growth and inflation for the last two fiscal years. The Conservative Texas Budget achieves this by setting spending limits that:

- Cap spending of both state (non-federal) funds and all funds, avoiding possible manipulation of the budget based on the volatility of federal funding and the consti-

tutional dedication of funds to shift them outside of the current limit.

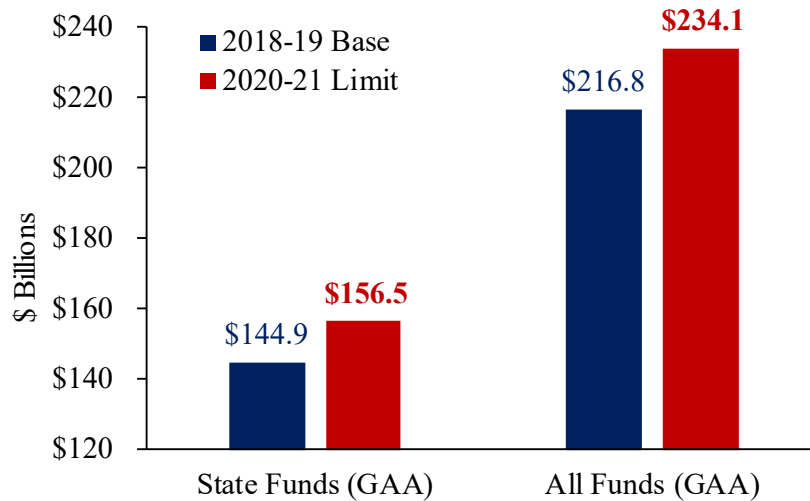
- Use as a base the 2018-19 appropriations in *The Real Texas Budget*: \$144.9 billion in state funds and \$216.8 billion in all funds.
- Are based on actual state population growth plus consumer price index (CPI) inflation data from the previous two fiscal years, eschewing the current reliance on an imprecise measure of state personal income forecasts over the next almost three years.
- Are based on the Foundation’s estimates of an 8 percent increase in population growth plus inflation over the two previous fiscal years (FY 2017-18).
- Are \$156.5 billion in state funds for 2018-19, an increase of \$11.6 billion over 2018-19 appropriations, and \$234.1 billion in all funds, an increase of \$17.3 billion over current appropriations (see **Chart 4**).

These limits represent maximum amounts for the Legislature to use when determining the cumulative amount appropriated for each government agency. Note that the Legislature could easily spend less than this or even cut spending while ensuring payment of basic government goods and services and providing tax relief. Nonetheless, if the Legislature stays within the bounds of the Conservative Texas Budget, it will have taken another step toward limiting the excessive growth of Texas government spending since 2004.

Calculation of the Conservative Texas Budget’s Growth Limit

We calculate population growth and inflation for the two fiscal years immediately preceding the regular legislative session from the beginning of FY 2017 to the end of FY 2018 (i.e., September 1, 2016, to August 31, 2018):

Chart 4. The 2020-21 Conservative Texas Budget limits



| Year | 2018-19 Base | 2020-21 Limit | Change | Increase |
|-------------|-------------------|--------------------------|------------------|----------|
| State Funds | \$144,899,100,000 | \$156,491,028,000 | \$11,591,928,000 | 8.0% |
| All Funds | \$216,757,900,000 | \$234,098,532,000 | \$17,340,632,000 | 8.0% |

Source: Legislative Budget Board and authors' calculations

- **Population growth** (3.2 percent): We use historical annual data for [Texas population](#) from the U.S. Census Bureau that represents population in the third quarters of 2016 and 2017. For FY 2018, we used projected data from the [Texas Comptroller](#). We calculate a population growth rate over the two fiscal years of 3.2 percent.
- **Price inflation** (4.8 percent): We use historical quarterly data for the [consumer price index](#) (CPI) that represents the buying habits of urban consumers from the U.S. Bureau of Labor Statistics (BLS) for the entire period. We calculate an inflation rate over the two fiscal years of 4.8 percent.
- **Population growth plus inflation** (8 percent): Summing the population growth and inflation rates over this two-year period, we calculate a spending growth limit of 8 percent for the 2020-21 period.

Conclusion

The [Conservative Texas Budget](#) sets a spending growth maximum of 8 percent for the 2020-21 budget. With 2018-19 appropriations as a base, the appropriations limits are \$156.5 billion in state funds and \$234.1 billion in all funds. In addition, the Legislature has \$3.60 billion in state funds

and \$4.44 billion in all funds available for a supplemental bill to keep a 2018-19 Conservative Texas Budget.

The members of the [Conservative Texas Budget Coalition](#) recommend that the Legislature pass what could be the third consecutive Conservative Texas Budget so that Texans have the best opportunity to prosper. While such a budget would allow sizable spending increases from the current biennium, the Legislature could find ways to further limit government spending, if it grows at all, so that excessive tax burdens on hard-working Texans can be reduced.

Given the current economic climate of faster economic growth and job creation, more tax revenue will probably be available next session than in 2017. The Legislature's focus should continue to be on how little to spend of taxpayer money to provide maximum tax relief. As a result, Texas will be better equipped to deal with economic downturns and other circumstances. Ultimately, conservative budget reforms will provide Texas with the best opportunity to remain a free-market bastion, thereby empowering Texans to reach their full potential and allowing the state to remain a model for others to follow. ★

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About the Authors



Vance Ginn, Ph.D., is the director of the Center for Economic Prosperity and senior economist at the Texas Public Policy Foundation, one of the nation's premier free-market think tanks. Dr. Ginn is a leading free-market economist and former university lecturer who was honored with the "Champion of Freedom" award from Grassroots America—We The People. He is passionate about finding ways to let people prosper in Texas and beyond through sound research on the benefits of restraining government spending, cutting and ending taxes, and eliminating government barriers to competition. He is a first-generation college graduate and earned his doctorate in economics from Texas Tech University. He gives keynote speeches, appears in major media outlets, publishes papers in top-ranked academic journals, writes policy research on critical issues, and works to turn papers into policy.



The Honorable Talmadge Heflin is the director of the Texas Public Policy 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 the 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.



Bill Peacock is the vice president of research at the Texas Public Policy Foundation and has been with the Foundation since February 2005. Bill has extensive experience in Texas government and policy on a variety of issues including economic and regulatory policy, natural resources, public finance, and public education. His work has focused on identifying and reducing the harmful effects of regulations on the economy, businesses, and consumers. Prior to joining the Foundation, Bill served as the deputy commissioner for Coastal Resources for Commissioner Jerry Patterson at the Texas General Land Office (GLO). Before he worked at GLO, he was a legislative and media consultant, working with groups like Citizens for a Sound Economy and Putting Children First. Bill also served as the deputy assistant commissioner for intergovernmental affairs for Commissioner Rick Perry at the Texas Department of Agriculture, as a legislative aide to Rep. John Culberson in the Texas House of Representatives, and as an analyst for the Texas Senate Committee on Education.

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