

# 2019-20

# LEGISLATOR'S GUIDE to the Issues

## Local Spending

### The Issue

Local government spending is growing faster than the ideal. In 2000, Texas' local governments spent a total of \$66 billion, according to the U.S. Census Bureau's *State and Local Government Finance*. By 2015—the latest available data—aggregate local spending had risen to \$137 billion, equating to a 108% increase over the period.

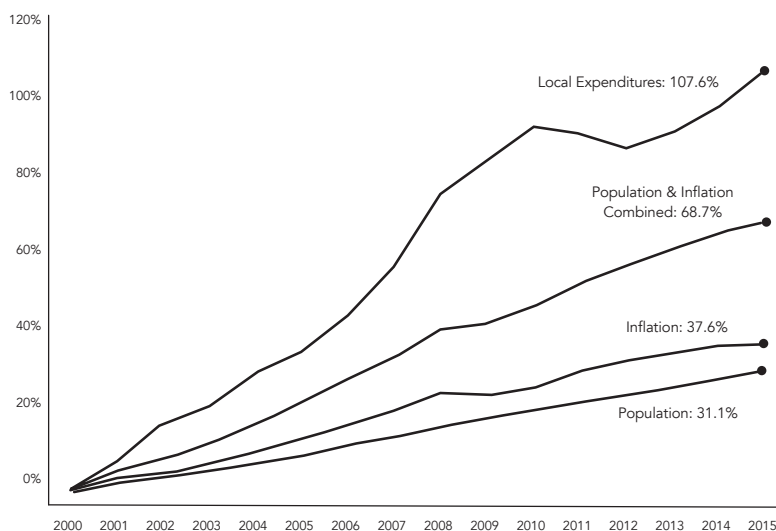
While some level of expenditure growth is to be expected—especially in a fast-growing state like Texas—the current trajectory is well above conservative guidelines.

From 2000 to 2015, Texas' population grew from 20.9 million to 27.5 million, representing an increase of 31%. Concurrently, the rate of inflation increase, as measured by the Consumer Price Index (U.S. All items, 1982-84), was just 38%. Combined, population and inflation grew at a modest pace over the period, at around 69%. The evidence clearly suggests that actual and ideal growth rates are going in much different directions.

Local spending is growing faster than it should, and, as a consequence, it is fostering an environment of higher taxes and bigger debt. After all, persistently high levels of government spending have to be provided for somehow.

The fiscal problems prompted by local overspending are obvious. Texas is home to some of the nation's highest property taxes and some of the largest local debt. In fact, studies suggest that Texans pay the sixth highest property tax in the nation, and its local debt per capita ranks as the second largest among the top 10 most populous states.

### Growth Comparison: Local Spending, Population, and Inflation



Source: U.S. Census Bureau, Bureau of Labor Statistics

Restraining the growth of local spending is critical if Texas wants to remain the nation's economic engine. To that end, here are two ways to begin getting a handle on the problem.

First, lawmakers should expand Texas' constitutional Tax and Expenditure Limit (TEL) to include spending by all types of local governments, i.e., 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 limitations locally too. There's no reason that local governments shouldn't be subject to the same good government restrictions that govern by the state.

Second, lawmakers should require all mid- and large-sized local governments to undergo a private sector-led efficiency study similar to President Ronald Reagan's Grace Commission. Unleashing the creativity and ingenuity of executives and entrepreneurs on Texas' local governments has the potential to be a real game-changer—one that can help free up much-needed resources to eliminate waste, slow down the growth of taxes and debt, and improve public services. Moreover, it will put fresh eyes on old problems to imagine new solutions.

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 take proactive steps to tackle this big and growing problem.

### The Facts

- Local government spending totaled \$66 billion in the year 2000. By 2015, aggregate local spending had grown to \$137 billion, an increase of 108%. Over the same period, population and inflation grew only 69%.
- The accelerated rate of local spending growth helps, in part, to explain the high and fast-growing nature of property taxes in Texas.

### Recommendations

- Texas' constitutional spending limit should be expanded to include expenditures made by all political subdivisions of the state.
- Certain local governments should be made to undergo a private sector-led efficiency study.

### Resources

[Legislator's Guide to the 85th Legislature: Special Session 2017, Local Spending Limit](#), Texas Public Policy Foundation (July 2017).

"[Harvey Presents a Chance to Re-examine Role of Government](#)" by James Quintero, *Austin American-Statesman* (Oct. 30, 2017).