



TEXAS PUBLIC POLICY FOUNDATION

RESEARCH

JUNE 2022

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2023 Responsible Local Budgets in Texas: Houston and Harris County

Key Points

- Over the last decade, the city of Houston and Harris County each grew their budgets faster than population growth and inflation.
- Due to excessive spending, residents of Houston are paying higher taxes than they otherwise should be.
- Houston–area governments should limit spending to population growth plus inflation, the same standard as the Texas Public Policy Foundation’s Conservative Texas Budget.
- By adhering to the Responsible Local Budget standards, city and county officials can promote efficiency, minimize taxation, and create more opportunities for people to flourish.

Introduction

Over the last decade, local government budgets in the city of Houston and in Harris County increased faster than the average taxpayer’s ability to pay for them as measured by the rate of population growth plus inflation. Families, employers, employees, and job seekers have paid a price for this unnecessary growth of government. To better align the growth of a local government budget with the community’s needs and taxpayers’ resources, we propose that the governments of the city of Houston and of Harris County adopt a Responsible Local Budget (RLB), which would cap the growth in government spending at no more than population growth plus inflation. This would promote efficiency and prudence with taxpayer money, resulting in less need for government to collect additional taxes and fees, while funding critical government provisions.

The best way for a local government to effectuate an RLB is by voluntarily passing an ordinance, a charter amendment, or a budget below this maximum growth threshold. Local governments need not wait for the Texas Legislature to direct them to budget responsibly. However, if some localities wish to continue excessively growing their budgets, state government offers another avenue to protect taxpayers and initiate change by setting a spending growth limit that provides consistency across the state. In the upcoming 2023 session, the Texas Legislature should pass a growth limit—similar to the one passed in 2021 for the state budget—on local government spending from all revenues to no more than the rate of population growth plus inflation requiring a two-thirds supermajority vote of the local governing body to exceed it. Doing so would provide an effective spending growth limit that would allow local officials to meet the needs of residents while still protecting the pocketbooks of families, entrepreneurs, and employers ([Ginn, 2021b, p. 6](#)).

Overview of a Responsible Government Budget

The cornerstone of a responsible government budget supports the provisions of a limited government, which can be upheld with a fiscal rule that helps ensure spending growth does not excessively burden taxpayers. According to the International Monetary Fund ([2022](#)), a fiscal rule imposes “a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates” ([para. 1](#)). For example, the Texas Public Policy Foundation’s Conservative Texas Budget limits the growth of total appropriations in the state budget to a maximum rate of population growth plus inflation, which essentially freezes real

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(inflation-adjusted) appropriations per capita over time ([Ginn et al., 2020, p. 3](#)). As described in the Foundation's Responsible American Budget ([Ginn, 2021b](#)), taxpayers deserve a strong fiscal rule to protect against excessive government spending and ensure their government spends within their means ([p. 6](#)).

Local governments should be held to the same responsible budgeting standards as explained in the Foundation's Conservative Texas Budget ([Ginn et al., 2020](#)). In 2021, the Texas Legislature adopted most of this successful fiscal rule with the passage of Senate Bill 1336 ([2021](#)), which essentially freezes real state government general revenue appropriations per capita ([Ginn, 2021a, p. 1](#)). SB 1336 strengthens the state's spending limit by ensuring the appropriation of most state funds (i.e., general revenue) does not exceed the rate of state population growth times inflation, as calculated by the functional form of $(1 + \text{population growth}) * (1 + \text{inflation})$, with a three-fifths vote by both legislative chambers needed to exceed it. The state's new spending limit has a slightly different growth rate than the Foundation's preferred rate of population growth plus inflation. This new limit includes the times method that is less preferable because it does not account for economies of scale (as spending does not need to grow with inflation for every new person in the last term ($\text{pop} * \text{inf}$)), is more

volatile and compounds faster at the slightly higher growth rate, and is not used by any other governmental jurisdiction in the world ([Ginn, 2021a, p. 2–3](#)). Regardless, the state's new spending growth limit is one of the strongest, if not the strongest, limit in the nation as it is built on much of the Conservative Texas Budget. And given the benefits of such a fiscal rule, there is some assurance that the local spending growth limit approach we propose is effective and practical.

Responsible Houston Budget

Figure 1 illustrates how the city of Houston has been spending faster since 2013 than state population growth plus U.S. inflation as measured by the consumer price index, giving rise to higher-than-necessary taxes on residents there.

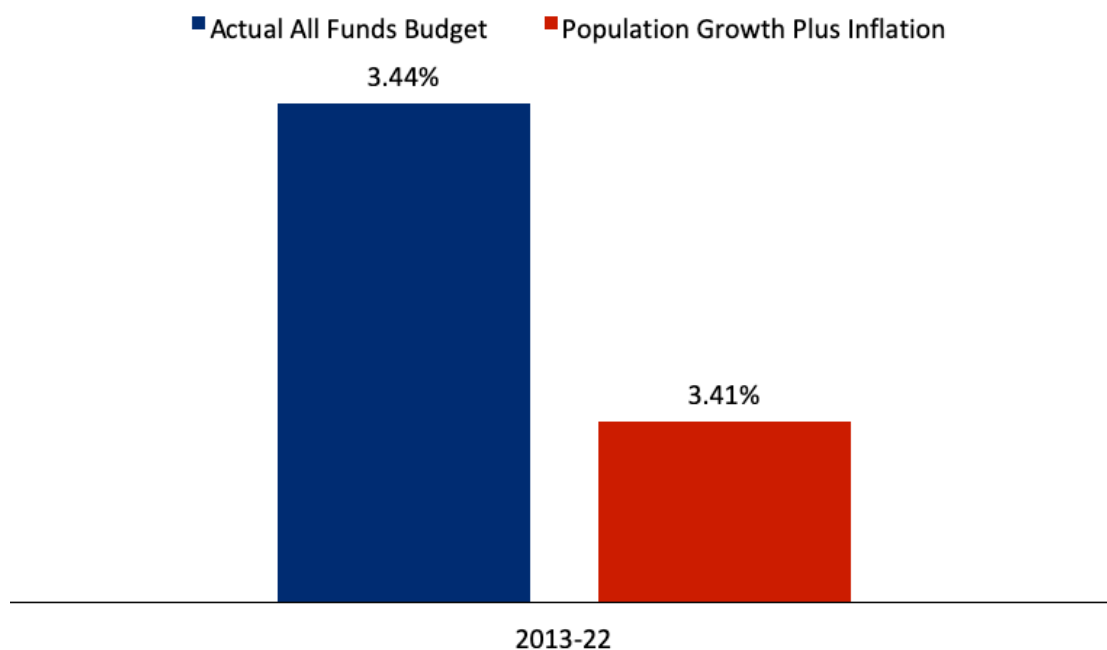
Figure 2 provides a comparison between the growth of All Funds budgets and the rate of population growth plus inflation since 2013.

State Population Growth

The city's budget appropriations should be limited using a method similar to the Foundation's Conservative Texas Budget that uses state population growth plus U.S. CPI inflation. Using this approach in city budgets would provide consistency with the state, account for the average Texas taxpayer's ability to pay for government spending across the

Figure 1

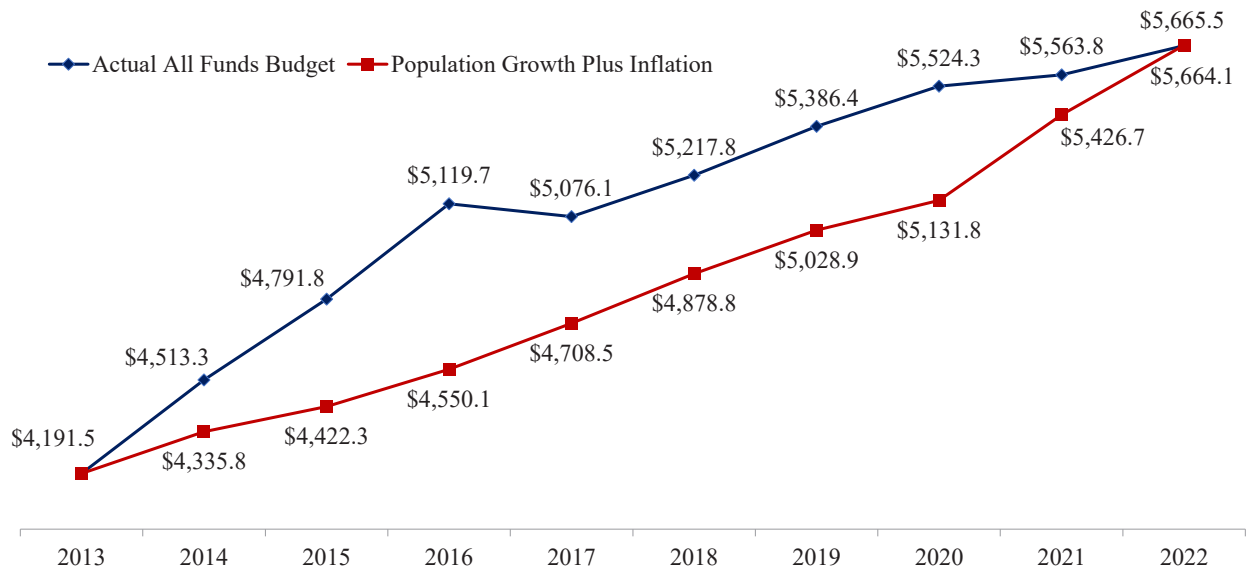
City of Houston's Budget Growth Compared With Population Growth Plus Inflation, Average Annual Growth



Note. Average annual growth rates are based on data from the city of Houston's adopted budgets ([City of Houston, n.d.](#)) and authors' calculations.

Figure 2

City of Houston's All Funds Budgets Compared With Budgets Following Population Growth Plus Inflation (Millions of \$)



Note. Data are from the city of Houston's adopted budgets ([City of Houston, n.d.](#)) and authors' calculations.

state, improve a city's fiscal climate by keeping spending in check, and, as a result, restrain taxes and fees while still allowing for the budget to meet the needs of residents. The cumulative difference between actual spending and a budget limited to a maximum rate of population growth plus inflation each year since 2013 amounts to \$2.7 billion. This means that Houston's excessive spending habits cost a family of four, on average, about \$4,700 in higher taxes and fees now and cost more later if the budget continues to outpace this metric. These data indicate that Texans in Houston would have less of a spending burden and therefore more opportunities to flourish if there was a local fiscal rule based on population growth plus inflation to correct past and possible future excesses.

2023 Responsible Houston Budget

Given the above explanation for the need of more responsible budgeting and a sound approach to do so, the Responsible Houston Budget sets a maximum threshold on the All Funds budget based on the rate of population growth plus inflation during the year prior to the city's budget session. This calculation includes finding the growth rate of the state's resident population and adding it to the growth rate of inflation. In 2021, Texas' resident population growth increased 1.06% ([Fed FRED, n.d.-a](#)), and inflation increased 4.69% ([Fed FRED, n.d.-b](#)). The sum of these values, an increase of 5.75%, serves as the maximum

The
Responsible
HOUSTON BUDGET

Expenditure Limit for FY 2023 Budget

\$6.0

BILLION

ALL FUNDS

5.75% Increase

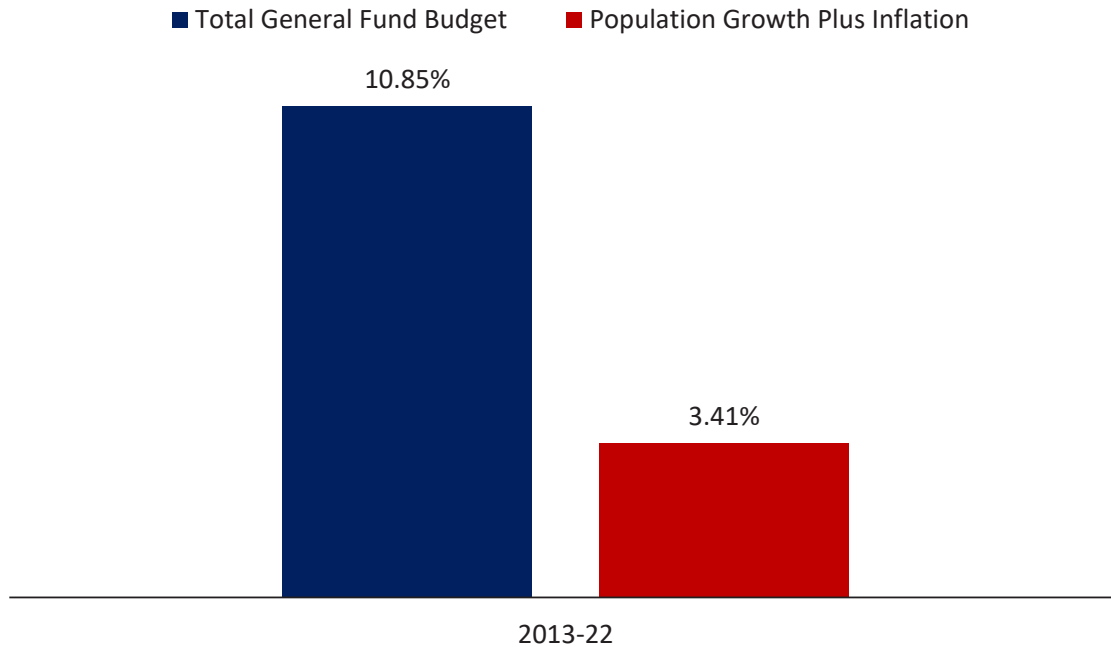
above FY 2022
adopted budget based
on growth in
population & inflation

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growth rate for All-Funds appropriations in FY 2023. With a base All Funds adopted budget of \$5.7 billion for FY 2022 ([City of Houston, 2021, p. 13](#)), the 2023 Responsible Houston Budget is a maximum of \$6.0 billion.

Figure 3

Harris County's Budget Growth Compared With Population Growth Plus Inflation, Average Annual Growth



Note. Average annual growth rates are based on data from Harris County’s adopted budgets ([Harris County, n.d.](#)) and authors’ calculations.

Responsible Harris County Budget

A similar picture to the city of Houston’s budget situation emerges with respect to Harris County’s finances in **Figure 3**, whereby the average annual growth rate over the last decade has further outpaced that of the rate of population growth plus inflation.

State Population Growth

The county’s budget appropriations could also be limited using a method similar to the state’s spending limit. The county may limit its appropriations in proportion with the state’s population growth plus inflation. **Figure 4** shows the difference between actual spending and a budget limited to the state’s population growth plus U.S. inflation each year.

The cumulative difference amounts to \$9.1 billion since 2013. This means that Harris County’s excessive spending habits cost a family of four, on average, \$7,600 in higher taxes now and will cost more later if the budget continues to outpace this metric. The city of Houston and Harris County taxpayers paid more into the system than they should have based on the comparison with the rate of population growth plus inflation.

The
Responsible
HARRIS COUNTY BUDGET

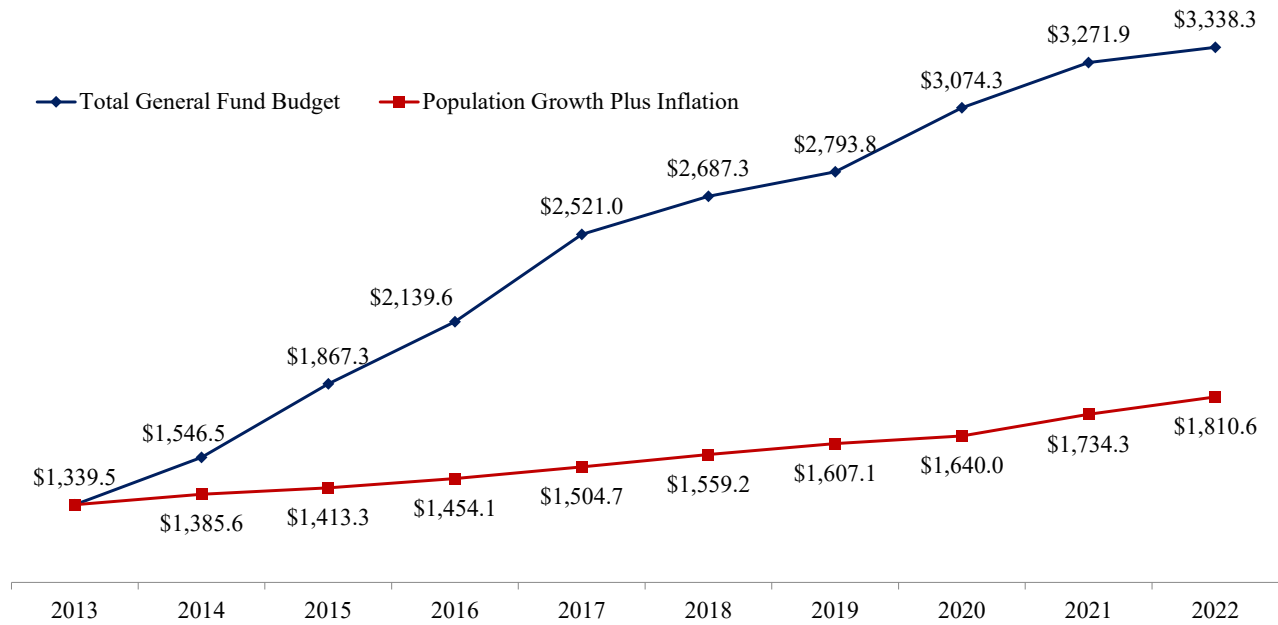
Expenditure Limit for FY 2023 Budget

<p style="font-size: 2em; font-weight: bold; color: #800000;">\$3.53</p> <p style="font-size: 1.2em; font-weight: bold; color: #000080;">BILLION</p> <p style="font-weight: bold; color: #000080;">TOTAL GENERAL FUND</p>	<p style="font-weight: bold; color: #800000;">5.75% Increase</p> <p style="font-size: 0.8em; color: #000080;">above FY 2022 adopted budget based on growth in population & inflation</p>
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Figure 4

Harris County's Total General Fund Budget Compared With Budgets Following Population Growth Plus Inflation (Millions of \$)



Note. Data are from Harris County's adopted budgets ([Harris County, n.d.](#)) and authors' calculations.

2023 Responsible Harris County Budget

The Responsible Harris County Budget sets a maximum threshold on the Total General Fund budget based on the rate of population growth plus inflation during the prior year before the county's budget session. In 2021, Texas' population growth increased 1.06% and inflation increased 4.69%. The sum of these values, an increase of 5.75%, serves as the maximum growth rate for Total General Fund (TGF) appropriations* in FY 2023. With a base TGF budget of \$3.34 billion for FY 2022 ([Harris County, 2021, p. 6](#)), the 2023 Responsible Harris County Budget is a maximum of \$3.53 billion.

Recommendations

Given the fact that governments have no money of their own, they must collect hard-earned dollars from taxpayers to pay for every expense. Because economic prosperity results from increased activity in the productive private sector, it is reasonable for a government to limit its spending and provide some measure of predictability for the future.

The Texas Legislature recently passed a stronger state spending growth limit. Now it is time to rein in excessive

government spending growth at the local level. To achieve this, local governments should follow the Foundation's successful Conservative Texas Budget model, much of which was recently incorporated into the state's new spending limit and is now being used in other states. More specifically, we urge local governments to voluntarily adopt these taxpayer protections. Because some may not, we recommend that the Texas Legislature pass a spending limit for all other local governments that includes all spending from any revenue source, restricts expenditure growth to a maximum of state population growth plus inflation from the prior year, and requires a two-thirds supermajority vote by the local governing body to exceed the limit.

Conclusion

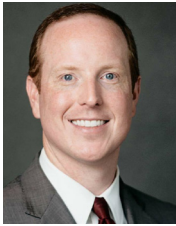
The budgets adopted by the city of Houston and Harris County are growing faster than the average taxpayer's ability to pay for them. Limiting the growth of these budgets to population growth plus inflation with the RLBs outlined here will help ensure these localities can be vibrant places for people to prosper. ★

* Total General Fund appropriations include amounts for general government, law enforcement & public safety, health, welfare, and transfers out. These functions constitute a majority of county expenses.

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ABOUT THE AUTHORS



Vance Ginn, Ph.D., is the Chief Economist at the Texas Public Policy Foundation, and is the Policy Director for the Foundation's Alliance for Opportunity campaign, which is a multi-state poverty relief initiative. Vance has appeared on several leading national and state news shows. His commentaries have been published in *The Wall Street Journal*, *Fox News*, *Washington Post*, *National Review*, *Forbes*, *The Washington Examiner*, *The Washington Times*, *The Hill*, *Real Clear Policy*, *The Federalist*, and other national and state publications.

Vance's work at the Foundation includes producing high-quality research with free-market reforms on multiple policy areas and works with other state think tanks on conservative budgeting approaches, which he has been honored with multiple awards for these efforts. Before joining the Foundation, Vance served as the Associate Director for Economic Policy of the Office of Management and Budget (OMB) at the Executive Office of the President from 2019 to 2020. In this capacity, he advised the OMB's director on economic and fiscal policy matters. Prior to working at the White House, Vance worked at the Foundation and fought for and won many free-market reforms to let people prosper during multiple legislative sessions. Before these endeavors, he taught multiple economic courses at Sam Houston State University and at Texas Tech University, where he won a teaching award.

Vance earned his doctorate in economics and a BBA in economics and accounting from Texas Tech University. He graduated from home school in South Houston, Texas. He resides in Round Rock, Texas with his wife and two sons and is a drummer who played for a top rock band.



James Quintero is the policy director for the Texas Public Policy Foundation's Government for the People initiative. Having joined the Foundation in 2008, Quintero's research covers a wide range of issues, mostly related to local government matters, including: taxes, spending, debt, transparency, annexation, and pension reform. His work has been featured in the *New York Times*, *Forbes*, *Fox News*, *Breitbart*, and more.

Quintero received an M.P.A. from Texas State University and a B.A. from the University of Texas at Austin. He is currently seeking a Ph.D. in public policy from Liberty University.

Quintero and his wife, Tricia, are blessed with five beautiful children, a Great Dane, a Boston Terrier, and an exceptionally large grocery bill.

About Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 nonprofit, nonpartisan research institute. The Foundation promotes and defends liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

Funded by thousands of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

