SUBJECT: Limiting growth rate of appropriations for certain categories of spending

COMMITTEE: Appropriations — committee substitute recommended

VOTE: 14 ayes — Otto, Ashby, Bell, G. Bonnen, Burkett, Gonzales, Hughes, Koop, R. Miller, Phelan, Price, Raney, Sheffield, VanDeaver

6 nays — Sylvester Turner, Giddings, Howard, Márquez, Muñoz, Walle

7 absent — Capriglione, S. Davis, Dukes, Longoria, McClendon, Miles, J. Rodriguez

SENATE VOTE: On final passage, April 9 — 19-12 (Ellis, Eltife, Garcia, Hinojosa, Lucio, Menéndez, Rodríguez, Uresti, Watson, West, Whitmire, Zaffirini)

WITNESSES: No public hearing

BACKGROUND: Texas Constitution, Art. 8, sec. 22 provides that state spending not constitutionally dedicated to particular purposes cannot increase from one biennium to the next beyond the estimated rate of growth of the state's economy unless the cap is waived by a majority vote of both houses of the Legislature. Examples of revenue streams subject to the spending cap include sales, motor vehicle sales, franchise, and cigarette and tobacco taxes. Government Code, ch. 316, subch. A, specifies how the Legislative Budget Board adopts the growth rate and defines the estimated rate of growth of the state's economy as the growth in personal income.

DIGEST: CSSB 9 would establish a new statutory limit on certain appropriations. The Legislative Budget Board (LBB) would be required to establish a rate of growth for six categories of state spending and then apply those rates to appropriations, other than federal funds, for the next fiscal biennium.

Limit on rate of growth of appropriations. The bill would specify that for a biennium, the rate of growth of appropriations from all sources of revenue, other than the federal government, could not exceed a rate that would be determined by a formula in the bill for six individual categories of spending. The LBB would be required to establish the spending limit on:

- transportation;
- public primary and secondary education;
- higher education;
- health care;
- public safety and corrections; and
- other general government.

Calculation of the limit. The LBB would establish a limit on the rate of growth of appropriations from all non-federal sources of revenue, for each specific spending category for that biennium, as compared to the previous biennium by subtracting one from the product of:

- the sum of one and the estimated *rate of growth in the population served* by expenditures in that spending category for the biennium; and
- the sum of one and the estimated *rate of inflation in a representative set of goods and services* for which appropriations were made in that spending category during the biennium.

Application to appropriations. After developing the rates, the LBB would be required to apply them to proposed appropriations.

The LBB would establish for the next fiscal biennium a limit on the amount of appropriations from all non-federal sources of revenue by multiplying the amount of appropriations for each category for the current biennium by the sum of one and the limit on the rate of growth of appropriations for that category.

If the rate for any category was a negative number, the appropriations from all non-federal sources for that category available for the next biennium would be the same as the amount in the current biennium.

The LBB could not transmit the budget or the general appropriations bill to the governor and Legislature as required in current law until it adopted the limit on the rate of growth.

If the LBB did not adopt the required limits, the non-federal appropriations for each spending category that would be available for the next biennium would be the same as the amount for the current biennium.

If the Legislature exempted an appropriation for the next biennium from the requirements in the bill, the LBB would exclude the current or previous appropriations that are similar to the exempted one.

Budget recommendations. The LBB would be required to include in its budget recommendations the proposed limit of appropriations from non-federal revenue for each spending category. These recommendations could not exceed the limit adopted by the LBB. This prohibition could be overridden by a majority vote of the LBB members from each house.

Publication, hearing. Before the LBB approved the items of information required by the bill, it would have to publish the information and a description of its methodology and sources for the calculations in the Texas Register. By December 1 of even-numbered years the LBB would have to hold a public hearing on the proposed items of information and the methodology.

Enforcement. The proposed limit on appropriations for each spending category that would be established under the bill would be binding on the Legislature with respect to appropriations for the next biennium unless the Legislature adopted a resolution raising the proposed limit. The resolution would have to be approved by a record vote of the majority of each house.

The resolution would have to find that an emergency existed, identify the nature of the emergency, and specify the amount of appropriations authorized. The amount approved could not exceed the amount specified in the resolution.

The bill would take effect September 1, 2015, and would apply only to appropriations beginning in fiscal 2018.

SUPPORTERS SAY:

CSSB 9 would establish additional statutory spending limits to help ensure fiscally responsible spending by the Legislature. While overall state spending currently is limited by a provision in the Constitution, that limit is only one measure that should be used to craft the state's budget. The bill would not replace the current limit, only supplement it with a more detailed way of limiting state spending. Both measures would work together to make state budgeting transparent.

Under the current constitutional cap, state spending not constitutionally dedicated to particular purposes cannot increase from one biennium to the next beyond the growth rate in statewide personal income adopted by the LBB unless the cap is waived by a majority vote of both houses of the Legislature. However, features in the current spending cap can result in a restriction that does not indicate what limits should be used for individual budget categories, and that might not set an appropriate limit. Further spending limits based on a larger portion of state revenue and on individual categories of spending that also considered additional factors should be applied to the budget process as well.

The current cap limits only appropriations of state tax revenue that is not dedicated by the Constitution, leaving a significant portion of the budget not subject to this kind of limit. The bill would address this by establishing an additional spending cap based on a larger portion of state revenue. By applying the new caps to all non-federal spending, the bill would bring all funds that are subject to state oversight under a limit and give a more transparent picture of state appropriations.

The bill also would break spending into six categories and apply limits to those individual categories to best reflect the needs of the state. In some categories, such as those serving children and the elderly, the need to fund state services may grow faster than in other categories. For some categories of spending, such as health care and transportation, inflation could be higher than in others.

Although the current overall cap is based on income growth, it would be helpful for lawmakers to have supplemental caps based on other measures. The bill would provide this type of information by basing the caps in individual categories on population growth and inflation for goods and services in that specific category.

The bill should be enacted now so that this fiscal discipline could be applied in the fiscal 2018-19 budget cycle. The bill would give the Legislature the necessary flexibility to exceed the cap with a majority vote, if an issue arose with the new requirement or to meet unanticipated or extraordinary needs. Future legislatures could make the decision about whether to continue using the new caps. The threshold of a majority vote to exceed the limits in the bill would be the same threshold applied to exceeding the current constitutional cap.

The current spending cap works well to set parameters on spending and should be supplemented by the limits in the bill, but not replaced. For example, replacing the current cap with an overall cap tied broadly to population plus inflation could rely too heavily on the consumer price index. The consumer price index uses a basket of goods and services purchased by consumers, such as groceries and apparel, which does not necessarily reflect the purchases or needs of the state.

While the Legislature could impose such limits without a statutory cap, CSSB 9 would ensure spending was responsible and would be consistent with the state's policy of using spending caps.

OPPONENTS SAY:

The Legislature should not institute additional restrictions on spending without full information about their effect on the state budget. Examples of the limits that the spending caps proposed in CSSB 9 would have set on previous budgets or the proposed fiscal 2016-17 budget should be developed so that lawmakers could understand the interaction of the restrictions on spending before applying the cap.

Establishing additional spending limits would reduce flexibility in budgeting and could make the state less able to respond to changing conditions, to meet a need for a service, or to make large investments in one area of the budget. While there might be benefit in the state taking population and inflation into account when budgeting, these factors should not be factored into another rigid spending limit. The Legislature could impose such limits without a statutory restriction.

If the Legislature wanted to apply a new restriction on state spending, it should be done through a constitutional amendment, just as the current cap was established in 1978.

OTHER OPPONENTS SAY:

Instead of adding additional limits to state spending, the current limit based on growth in personal income should be replaced by a measure centering on population and inflation. Such a limit would be a more accurate measure of the fiscal position of the state and would work better to limit spending to an appropriate level.

To ensure fiscal discipline, the threshold to exceed any spending limits should be higher than a simple majority vote in each legislative chamber.

The Legislature should apply spending limits to all spending, including federal funds. This would ensure full budget transparency.