HOUSE
RESEARCH
ORGANIZATION bill analysis 5/25/2021

SB 1336 (2nd reading)
Hancock, et al.
(Bonnen, et al.)

SUBJECT: Limiting growth of state appropriations of consolidated general revenue

COMMITTEE: Appropriations — favorable, without amendment

VOTE: 14 ayes — Bonnen, Ashby, C. Bell, Capriglione, Gates, Holland, Morrison, Raney, Schaefer, Stucky, E. Thompson, Toth, VanDeaver, Wilson

12 nays — M. González, Dominguez, Howard, A. Johnson, Jarvis Johnson, Julie Johnson, Minjarez, Rose, Sherman, Walle, Wu, Zwiener

1 absent — Dean

SENATE VOTE: On final passage, April 13 — 19-12 (Alvarado, Blanco, Eckhardt, Gutierrez, Johnson, Lucio, Menéndez, Miles, Powell, West, Whitmire, Zaffirini)

WITNESSES: For — Vance Ginn, Texas Public Policy Foundation; (*Registered, but did not testify*: Samuel Sheetz, Americans for Prosperity)

Against — Luis Figueroa, Every Texan; (*Registered, but did not testify*: Matthew Lovitt, National Alliance on Mental Illness Texas; Grover Campbell, TASB; Joshua Houston, Texas Impact; Laura Atlas Kravitz, Texas State Teachers Association; Robert Norris)

On — Kevin Kavanaugh, Legislative Budget Board

BACKGROUND: The Texas Constitution, in Art. 8, sec. 22, caps spending of state tax revenue that is not dedicated by the Constitution to a particular purpose. State spending not constitutionally dedicated to particular purposes may not increase from one biennium to the next beyond the rate of growth in statewide personal income adopted by the LBB unless the cap is waived by a majority vote of both chambers of the Legislature. Examples of revenue subject to the spending cap include funds resulting from sales, motor vehicle sales, franchise, and cigarette and tobacco taxes.

DIGEST:

SB 1336 would create a new spending limit for state appropriations that would be for the spending of consolidated general revenue. Consolidated general revenue appropriations would be defined as appropriations from:

- the general revenue fund in the state treasury;
- a dedicated account in the general revenue fund in the state treasury; or
- a general revenue-related fund in the state treasury.

Spending limit. Under the bill, the rate of growth of consolidated general revenue appropriations in a state fiscal biennium could not exceed the estimated average biennial rate of growth of the state's population during the preceding fiscal biennium and during the fiscal biennium for which appropriations were being made, adjusted by the estimated average biennial rate of monetary inflation in this state during the same period.

The bill would require that some appropriations be excluded from the computation determining whether appropriations exceed the new spending limit. The excluded appropriations would include:

- an appropriation for a purpose that provided tax relief; or
- an appropriation to pay costs associated with recovery from a disaster declared by the governor.

Duties of the LBB. The Legislative Budget Board (LBB) would be required to determine rates used to determine the new limit using the most recent information available from sources the board considered reliable, including the U.S. Bureau of Labor Statistics Consumer Price Index and the Texas Demographic Center.

Before the LBB transmitted the budget for the next fiscal biennium it would have to establish the new limit. The LBB would have to determine the limit on the rate of growth of consolidated general revenue appropriations for that state fiscal biennium, as compared to the previous state fiscal biennium. The rate would be based on the estimated average biennial rate of growth of this state's population during that time and the estimated average biennial rate of monetary inflation during that time.

If the rate of growth of consolidated general revenue appropriations was negative, the amount of consolidated general revenue appropriations for the next fiscal biennium could not exceed the amount in the current biennium.

Limit on LBB budget recommendations. The LBB's budget recommendations relating to proposed consolidated general revenue appropriations could not exceed the new limit unless authorized by a majority of the members of the LBB from each legislative house. The LBB would be required to include the new limit in its budget recommendations.

If the LBB did not adopt a limit established by the bill:

- the estimated average biennial rates of growth of the state's population and of monetary inflation would be treated as if they were zero; and
- the amount of consolidated general revenue appropriations that could be appropriated within the limit would be the same as the amount of those appropriations for the current fiscal biennium.

Effect of limit. The proposed limit on consolidated general revenue appropriations would be binding on the Legislature with respect to all appropriations for the next state fiscal biennium unless the Legislature adopted a resolution raising the proposed limit that was approved by a record vote of three-fifths of the members of each house of the Legislature. The resolution would have to find that an emergency existed, identify the nature of the emergency, and specify the amount authorized. The excess amount authorized could not exceed the amount specified in the resolution.

The bill would take effect September 1, 2021, and would apply to appropriations beginning with fiscal year 2024.

SUPPORTERS SAY:

SB 1336 would establish an additional limit on appropriations that would more accurately reflect state spending and help ensure the budget did not grow beyond the state's and taxpayers' means.

The new spending limit would provide a more accurate picture of the growth in the state. While the current spending limit is based on personal income growth, the bill would use population and inflation, which is a better measure of taxpayers' ability to pay for government. The current spending limit uses only projections, but the new limit would improve on this by taking into account population growth and monetary inflation in the preceding biennium and the biennium for which the new appropriations would be made. While reining in growth, the bill would make exceptions for tax relief and expenses for disaster recovery so that spending in these areas could be done when appropriate and so that increased disaster expenditures would not inflate the base used to calculate the new limit.

The new limit would give a more transparent and accurate picture of state budgeting by expanding the types of revenue that fall under a limit in the growth of spending. The current constitutional limit on spending growth applies to state tax revenue not dedicated by the Constitution covers only a portion of the budget and can provide an incentive to constitutionally dedicate funds so they are not under the limit. Another limit, the pay-as-you-go limit, also leaves a portion of the budget not subject to a cap. By instituting a limit based on general revenue and general revenue dedicated funds, a larger share of the budget would fall under a limit. Federal funds would not be brought under the proposed limit because they are given to the state for a specific purpose.

The new limit would not restrict spending in emergency situations because it would allow the Legislature to authorize appropriations that exceeded the limit by adopting a resolution. The resolution would have find that an emergency existed, identify the nature of the emergency, and specify the amount authorized in excess of the limit, and the amount could exceed the amount in the resolution.

While the Legislature could impose additional spending limits without legislation and the current budget would fall within the new limit, placing the cap in statute would protect Texans by ensuring that future legislatures adhered to it.

CRITICS SAY:

It is unnecessary for the Legislature to enact additional restrictions on state spending, as SB 1336 would do. Current limits work well to keep a check on state spending, and an additional limit would unnecessarily complicate budgeting. Texas has a history of passing conservative budgets that are within the state's means, and there is no compelling reason to add to the state's spending restrictions. In addition, there is no need to place another spending limit in statute when the Legislature can impose such limits without a statutory restriction.

Establishing additional spending limits would reduce flexibility in budgeting. Reduced flexibility could make the state less able to respond to growth and changing conditions, meet the need for a service, recover from an economic recession, or make large investments in one area of the budget. By focusing on general revenue, SB 1336 would place a limit on education and health care spending, but exclude the state highway fund. Budget writers should be able to respond to all needs without having their hands tied. An additional spending limit also could provide an incentive to push spending to local governments.

While the current constitutional limit is restricted to tax revenue not dedicated by the Constitution, SB 1336 would place under a new limit other types of revenue, such as general revenue dedicated fees. By pulling such revenue that might be intended for a specific purpose under a spending cap, the bill could unfairly limit the spending of funds that were collected for a specific purpose and the need for which might not be related to economic indicators.

OTHER CRITICS SAY:

To ensure full budget transparency, the Legislature should apply limits to all spending, including federal funds.