

Spending Caps

Arbitrary Limits on State Investments

Harmful proposals would further limit state and local elected officials' ability to plan for a growing and changing Texas.

For Texans of all backgrounds to reach their full potential, our state and local governments need to be able to provide services such as pre-K-12 public schools, state-supported universities and community colleges, health care, roads and highways, public safety, and consumer protection. The mix of public services varies depending on local community needs. What's right for El Paso isn't necessarily what's best for Nacogdoches. Needs can also change over time due to technological improvements or new threats to public health and safety.

Yet, despite the need to be flexible in responding to rapid population growth and shifting public priorities, some lawmakers **continue to push various types of spending caps that would lock in current levels of investment and tie the hands of lawmakers**. Lawmakers may also debate local government revenue and spending caps during the special session in July 2017.

CPPP OPPOSES NEW SPENDING CAPS

CPPP opposes arbitrary spending caps because they would tie the hands of state leaders when Texas is growing and changing. And Texas already has a built-in limit on the amount it can spend on services – the state revenue estimate. The “pay as you go” constitutional provision means that Texas cannot spend more than it has in available revenue.

Senate Bill 9, which passed the Texas Senate but not the House in the 2017 Regular Legislative Session, is an example of an unnecessary and harmful spending cap. SB 9 would have reduced the Legislature's budget-writing flexibility even more than the constitutional spending limits already in place (see chart on page 2).

What It Means to Broaden the Cap to Other Revenue

Under both the existing constitutional limits and the further restrictions that imposed new spending cap would impose, legislators who write the budget are forced to cut existing areas of state spending if they want to add something new. This can be seen in border security, which now receives \$800 million in General Revenue and drains funds from other priorities. Problems would also occur when a recession reduces state revenue, as happened in 2003 and 2011.

A grim revenue forecast means the Legislature must pass a budget that is the same or less than the last budget, leaving population and cost growth unaddressed. Even if state revenue recovers enough to undo budget cuts and catch up to population and cost growth in the next budget cycle, legislators might find themselves having to vote to “bust a spending cap” just to restore services to what they used to be – a vote that would be extremely difficult based on recent Texas legislative sessions. As the Center on Budget and Policy Priorities in Washington has noted, “No formula can take the place of informed deliberation by policymakers who can adapt to evolving conditions and shifting public demands. Rather than relying on inflexible and unproven limits, states should look carefully at their budget processes to see which forward-looking budget tools they lack and adopt them.”

A “Solution” in Search of a Problem

Texas has a long history of being extremely fiscally conservative and consistently ranks near the bottom in taxes collected or spending per resident. New statutory or constitutional state and local spending limits are unnecessary and will only further complicate the budget process and tie the hands of lawmakers to provide essential services that Texans need.

Texas Already Has Several Spending Limits in Place

Existing constitutional limit	Senate Bill 9 spending cap proposal
Article VIII, Section 22: spending of tax revenue not dedicated by the Constitution cannot grow faster than the state economy	Spending of all General Revenue (GR) could not grow faster than the average of historical and anticipated rates of population growth and inflation . This cap would include earmarked funds such as the lottery, tuition or fees that were enacted as alternatives to taxes.
The growth of the state economy is based on a forecast of personal income growth by Legislative Budget Board (LBB) officials every two years.	The proposal would cap spending based on “ monetary ” inflation or the Consumer Price Index (CPI) , which tracks the changing price of consumer goods. The Legislative Budget Board has noted that the cost of government services, such as health care and highway construction, often grow at a faster rate than the Consumer Price Index.
Simple majority vote by House and Senate is needed to exceed this spending cap. This has happened once, to implement the <u>2006 special session’s \$14 billion reduction</u> of local school property tax rates.	SB 9 would require a three-fifths vote in the House and Senate to exceed the spending cap. NOTE: The constitutional “pay as you go” cap limiting the budget to available revenue already requires a four-fifths vote to exceed.

CPPP is an independent public policy organization that uses research, analysis and advocacy to promote solutions that enable Texans of all backgrounds to reach their full potential. Learn more at CPPP.org. For more information, please contact Oliver Bernstein at bernstein@cppp.org or call 512.823.2875.