EVERY TEXAN

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SB 1336 Spending Growth Cap: Another Arbitrary Limit on State Investments

Harmful proposal would further limit the Legislature's ability to plan for a growing and changing Texas

For Texans of all backgrounds to reach their full potential, our state government needs to be able to support services such as pre-K-12 public schools, public universities and community colleges, health care, transportation, public safety, and consumer protection. The demand for these services can and does change over time due to demographic shifts, technological improvements or new threats to public health and safety.

Yet, despite Texas's rapid population growth and long-unaddressed service needs, some lawmakers continue to push new spending caps that would lock in current levels of investment and further tie the hands of future lawmakers. Lawmakers considered local and state spending caps during the special legislative session in July 2017. In the 2019 regular session, lawmakers enacted new limits on property tax revenue growth, and a state spending growth cap (Senate Bill 1891) was approved by the Senate but not the House.

In the 2021 session, proposed Senate Bill 1336 would add a statutory spending growth limit. Every Texan opposes arbitrary spending caps like SB 1336 because they tie the hands of state leaders, further limiting the ability to respond to a growing and changing population, or to recover from an economic recession.

Texas already has an extremely effective cap on what the state budget can invest in services: the Comptroller's revenue estimate. The "pay as you go" constitutional provision means that Texas cannot spend more than it has in available revenue.

SB 1336 is an unnecessary and potentially harmful spending cap. It could reduce the Legislature's budget-writing flexibility even more than the constitutional spending limits already in place (see chart on page 2) and make it more unlikely that services cut during a recession would ever be restored.

Making Existing Limits Even Worse

Under the existing constitutional limits and the further restrictions that the proposed new spending cap would impose, legislators who write the budget would be forced to cut existing areas of state spending if they want to add something new – even if they also create a new state revenue source. Border security is an example of this: since 2016-2017, border security receives $800 million in General Revenue that counts against the "pay as you go" and spending growth caps, unlike prior sessions when it received State Highway Funds. (SB 1336 would not apply to the State Highway Fund, which receives at least $8 billion annually in non-federal funds,including more than $6 billion in state taxes.) The $800 million for border security is no longer available for anything else in the General Revenue budget, such as state aid to schools.

SB 1336 would also be problematic when a recession reduces state revenue, as happened in 2003, 2011, and starting in spring 2020 after the COVID-19 pandemic triggered economic shutdowns and massive job losses. A grim revenue forecast means the Legislature enacts a General Revenue budget that is the same or much lower than the previous budget, leaving population and cost growth unaddressed. If or when state revenue recovers enough to undo budget cuts, replace federal aid that may have averted even larger cuts, and catch up to population and cost growth in the next budget cycle, legislators may very well find themselves having to vote to "bust a spending cap" just to restore services to pre-recession levels – a vote that would be extremely difficult based on recent Texas legislative sessions.

As the Center on Budget and Policy Priorities in Washington, DC 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 among states 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 growth limit	SB 1336 proposed new spending cap
Article VIII, Section 22: spending of tax revenue not dedicated by the Constitution cannot grow faster than the state economy	Appropriations of all General Revenue (GR) and General Revenue-dedicated funds could not grow faster than the average of historical and anticipated rates of population growth and inflation. This new statutory cap would include dedicated funds such as the lottery, tuition or fees that legislators 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 new spending cap would use population and “monetary inflation” or the Consumer Price Index (CPI), which tracks the changing price of consumer goods. The Comptroller of Public Accounts and the Legislative Budget Board have noted that the cost of government services, such as health care and highway construction, often grow faster than the CPI.
Simple majority vote in the House and Senate is needed to exceed this spending cap. This has happened once, to implement the 2006 special session’s $14 billion reduction of local school property tax rates.	SB 1336 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.