

Spending Caps: *Arbitrary Limits 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, roads and highways, 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 the need to respond 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 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 session, proposed Senate Bill 1891 would add a new statutory spending limit and change how an existing constitutional limit works. The 2019 Legislature is also considering a tighter city and county property tax “rollback” rate that could harm local communities’ quality of life.

CPPP opposes arbitrary spending or revenue caps because they tie the hands of state and local leaders when Texas is growing and changing. 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.

SB 1891 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 a Bad Idea Even Worse

Under both the existing constitutional limits and the further restrictions that the proposed 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 – unless they also create a new state revenue source. We can see this in border security, which since 2016-2017 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. That money is no longer available for anything else in the General Revenue budget, such as state aid to schools.

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, 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 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	Proposed new SB 1891 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 proposal would cap spending based on “ monetary inflation ” or the Consumer Price Index (CPI), which tracks the changing price of consumer goods. Both 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 1891 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.

About CPPP

The Center for Public Policy Priorities 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.

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