

# LEGISLATIVE BUDGET BOARD

Austin, Texas

## FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 10, 2007

**TO:** Honorable Warren Chisum, Chair, House Committee on Appropriations

**FROM:** John S. O'Brien, Director, Legislative Budget Board

**IN RE: HJR53** by Paxton (Proposing a constitutional amendment regarding limitations on taxation and expenditures by the state government and local governments.), **As Introduced**

**No fiscal implication to the State is anticipated in the upcoming biennium**, other than the cost of publication.

The cost to the state for publication of the resolution is \$77,468.

Currently, Article VIII, Section 22, Texas Constitution limits the biennial growth of appropriations from state tax revenue not dedicated by the constitution to the estimated rate of growth of the state's economy. The resolution proposes a constitutional amendment which, if adopted, would limit the biennial growth of appropriations from all available sources of revenue except federal pass-through grants to the lesser of the growth in 1) the sum of population and monetary inflation, 2) gross state product, or 3) personal income.

The change from a limit using the growth of personal income to one using the lesser of the growth in the sum of population and monetary inflation, gross state product, or personal income would likely reduce the allowable growth rate in appropriations for subsequent biennia. For the purpose of illustration, the estimated rate of growth of personal income used to set the 2008-09 limit was 13.11 percent. The Comptroller's estimate of the sum of population growth and inflation growth for 2008-09 is 8.18 percent. The Comptroller's estimate of gross state product growth for 2008-09 is 10.43 percent. The fiscal impact of expanding the application of the limit to all funds, except federal pass-through grants, in subsequent biennia would depend on the composition of state revenue in those biennia.

Under current law, appropriations from the Economic Stabilization Fund and the Property Tax Relief Fund are subject to the limit to the extent that the appropriations are from state tax revenue not dedicated by the constitution. Under the proposed amendment, any appropriations from the Budget Stabilization Fund or the Property Tax Relief Fund that were made for purposes of reducing or refunding payments of state or local taxation would not count against the limit.

During the first week of each regular session, the Comptroller would calculate and report to the Legislature the rate of growth and limit on permissible appropriations for the next biennium and the rate and revised limit for the current fiscal biennium.

If the Comptroller determined the limit of the amount of permissible appropriations for the then-current fiscal biennium was less than the limit for the biennium as specified during the previous regular legislative session, the Legislature would have to adopt one or more supplemental appropriations acts to adjust the amount of appropriations for the then-current fiscal biennium to conform to the decreased permissible amount of appropriations.

If the Legislature by adoption of a resolution approved by a four-fifths vote in each house found that an emergency existed, it could provide for an appropriations limit in excess of the amount specified by the Comptroller. The Legislature could also accept the revised limit specified by the Comptroller and adjust the amount of appropriations to conform to the decreased permissible amount.

The proposed amendment would add Section 22-a, Article VIII of the Constitution, which would limit the rate of growth in a local government's expenditures for a standard fiscal year to no more than the rate of growth during the standard fiscal year of the economy of the local government's geographic jurisdiction as estimated by the Comptroller.

The amendment would also create the sales tax relief fund and the state franchise tax relief fund to provide for reduced tax rates or rebates.

The proposed amendment would include a temporary provision applying to the changes made to Section 22, Article VIII, Section 49-a, Article III, and Section 49-g, Article III of the Constitution and to the addition of Section 22-a, Article VIII of the Constitution. The temporary provision would expire December 1, 2010.

The proposed amendment only would apply to appropriations made for the 2010-11 biennium and subsequent biennia.

In relation to appropriations made for the 2010-11 biennium and subsequent biennia, the changes made to Section 22, Article VIII of the Constitution would invalidate conflicting or inconsistent general laws of this state, including Sections 316.001 through 316.008 of the Government Code as that law existed on January 1, 2007.

Section 22-a, Article VIII of the Constitution would apply only in relation to expenditures made by a municipality, county, or school district on or after September 1, 2009.

The changes made by the amendments to Section 49-g, Article III of the Constitution would apply beginning with any unencumbered positive balance of general revenues on August 31, 2009.

The proposed constitutional amendment would be submitted to the voters on November 6, 2007.

### **Local Government Impact**

The proposed amendment would add Section 22-a, Article VIII of the Constitution, which would limit the rate of growth in a local government's expenditures for a standard fiscal year to no more than the rate of growth during the standard fiscal year of the economy of the local government's geographic jurisdiction as estimated by the Comptroller.

The Texas Association of Counties and the Texas Municipal League believe the resolution would significantly limit spending under certain circumstances. The Texas Association of Counties believes there will be other unquantifiable costs associated with the bill including accounting for a standard fiscal year and annual revisions to the county budgets after the Comptroller issues a revised growth rate.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JOB, CT, SD, SJS