

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 28, 2011

TO: Honorable Jim Pitts, Chair, House Committee on Appropriations

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

IN RE: HB756 by Paxton (Relating to the maximum rate of growth of appropriations.), **As Introduced**

No fiscal implication to the State is anticipated in the upcoming biennium.

Currently, Article VIII, Section 22 of the 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. Section 316.002 of the Government Code, instructs the Legislative Budget Board to determine the growth of the state's economy by estimating the growth in Texas personal income. Appropriations for the sole purpose of providing ad valorem tax relief are currently subject to the limit to the extent that the appropriations are made from state tax revenue not dedicated by the constitution.

The bill, in conjunction with a proposed constitutional amendment, would limit the biennial growth of appropriations from all sources of state revenue except federal funds to the least of 1) the estimated rate of growth of Texas personal income, 2) a rate equal to the sum of the estimated biennial rate of growth in Texas population and monetary inflation based on the average rate of change during the preceding six years, or 3) the estimated biennial rate of growth of Texas gross state product based on dividing the estimated gross state product for the current state fiscal year by the average gross state products for the preceding four state fiscal years. Appropriations made for the sole purpose of providing ad valorem tax relief would be excluded from this limitation.

The change from a limit using the growth of personal income to one using the growth of the lesser of personal income, the sum of population and inflation, or gross state product 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 2012-13 limit was 8.92 percent. Based on the Comptroller's economic forecast, the biennial estimate of the sum of population growth and inflation growth proposed by the bill for 2012-13 would be 7.25 percent and gross state product growth would be 9.84 percent.

The fiscal impact of expanding the application of the limit to all funds, except federal funds and excluding appropriations for ad valorem tax relief, in subsequent biennia would depend on the composition of state revenue in those biennia.

Also under current law, the legislature, after adopting a resolution to exceed the limit by a majority vote in each house, may make appropriations in excess of the limit. The proposed amendment would require that a resolution to exceed the limit receive a two-thirds vote of the membership of each house.

The bill would take effect on the date on which the constitutional amendment proposed by the 82nd Legislature regarding the limitation on the rate of growth in appropriation and the use of unencumbered surplus general revenues to fund the State's Rainy Day Fund and a Property Tax Relief Fund 0304, takes effect. If the amendment is not approved by the voters, this bill has no effect. The provisions of the bill would first apply to appropriations for the 2014-15 biennium.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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