

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 2, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB9 by Hancock (relating to the constitutional limit on the rate of growth of appropriations.), **Committee Report 1st House, Substituted**

No fiscal implication to the State is anticipated in the upcoming biennium. The provisions of SB 9 would take effect with the 2018-19 biennium.

The fiscal implication of applying the limit to consolidated general revenue appropriations would depend on the composition of state revenue in those biennia and future appropriation decisions by the legislature; similarly, the shift to a compounded growth rate of population and inflation would depend both on the actions of the Legislative Budget Board with respect to adopting the rate and of the legislature, as described below.

The bill would amend the Government Code with regard to the constitutional limit on the rate of growth of certain appropriations.

The bill, in conjunction with a proposed constitutional amendment, would limit the biennial growth of consolidated general revenue appropriations (General Revenue and General Revenue-Dedicated) to the estimated average biennial rate of growth of the state's population during the state fiscal biennium preceding the biennium for which appropriations are made and during the state fiscal biennium for which appropriations are made adjusted by the estimated average biennial rate of monetary inflation in this state during the same 4-year period. If that calculated rate is negative, consolidated general revenue appropriations for the forthcoming biennium cannot exceed that of the current biennium.

Assuming current and recent allocation of appropriations by method of finance, this methodology change would generally apply to a larger base (consolidated GR) than does the current limit (state tax revenue undedicated by the Constitution) but that could change depending on legislative action.

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.

The change from a limit applying the projected growth of personal income to one applying the estimated average biennial rate of growth of the state's population during the state fiscal biennium preceding the biennium for which appropriations are made and during the state fiscal biennium

for which appropriations are made adjusted by the estimated average biennial rate of monetary inflation in this state during the same 4-year period would likely reduce the allowable growth rate in appropriations for subsequent biennia. Forecasted personal income has exceeded that of forecasted population and inflation over the last six biennia; twice, however, actual population and inflation has slightly exceeded actual personal income.

For the purpose of illustration, the estimated rate of growth of personal income used to set the 2016-17 spending limit was 11.68 percent. In November 2014, the Board was presented with personal income growth rates ranging from 11.68 percent to 15.71 percent. The 2016-17 growth rate proposed by the bill, based on the estimated average rate of growth of population and inflation during 2014-15 and 2016-17, ranged from 6.35 percent to 8.32 percent, also based on information provided to the Board at that time.

The bill's provisions would apply beginning with the spending limit adopted prior to the 2018-19 biennium.

The proposed constitutional amendment would be submitted to the voters at an election to be held November 3, 2015.

The bill would take effect on the date on which the constitutional amendment proposed by the 84th Legislature concerning the limitation on the rate of growth in appropriations takes effect. If the amendment is not approved by the voters, this bill has no effect.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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