

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATURE 1st CALLED SESSION - 2017

August 12, 2017

TO: Honorable John Zerwas, Chair, House Committee on Appropriations

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB9 by Hancock (Relating to the constitutional limit on the rate of growth of appropriations and appropriations of constitutionally dedicated revenue.), **Committee Report 2nd House, Substituted**

No fiscal implication to the State is anticipated in the upcoming biennium. The provisions of the bill would take effect with the 2020-21 biennium.

Starting in the 2020-21 biennium, the fiscal implication of restricting the biennial growth of appropriations from state tax revenues not dedicated by the Constitution to the growth of compounded population and inflation, and also of establishing a new statutory limit restricting the biennial growth of appropriations from all sources of revenue other than the federal government would depend on both the actions of the Legislative Budget Board with respect to adopting the rate and future appropriation decisions by the legislature.

The bill would amend the Government Code with regard to the growth rate used to set the constitutional limit on appropriations from state tax revenues not dedicated by the Constitution and would create a new statutory limit on the growth of appropriations from all sources of revenue other than the federal government.

The bill would limit the biennial growth of appropriations from state tax revenues not dedicated by the Constitution to the estimated average biennial rate of growth of the state's population 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 period. If that calculated rate is negative, appropriations from state tax revenues not dedicated by the Constitution for the forthcoming biennium cannot exceed that of the current biennium.

The bill would establish a new statutory limit on the biennial growth of appropriations from all sources of revenue other than the federal government. The growth rate applicable to the new statutory limit would be identical to the growth rate applicable to the constitutional limit described above. A three-fifths vote of the members in each house of the legislature would be required to exceed the new limit.

Any appropriation made as a result of providing a "rebate" of state taxes would not be subject to the calculation. If this language is interpreted to apply to any appropriation associated with a tax reduction measure, there could be significant disallowances from the calculation.

The bill would establish that it is the intent of the legislature, to the extent practicable, that all revenue dedicated by the Constitution for a particular purpose be appropriated for that purpose.

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 described by the bill 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 2018-19 spending limit was 8.00 percent. On December 1, 2016, the Board was presented with personal income growth rates ranging from 9.99 percent to 11.44 percent. The 2018-19 growth rate proposed by the bill, based on the estimated rate of growth of population and inflation during 2018-19, ranged from 8.50 percent to 8.73 percent, also based on information provided to the Board at that time.

The establishment of a new statutory limit on the biennial growth of appropriations from all sources of revenue other than the federal government applied to the population and inflation growth methodology described above would restrict the Legislature's ability to appropriate from all sources of revenue other than the federal government. The fiscal implication of applying the new statutory limit would depend on both on the actions of the Legislative Budget Board with respect to adopting the rate and future appropriation decisions by the legislature.

The bill's provisions would apply beginning with the spending limit adopted prior to the 2020-21 biennium.

The bill would take effect on December 1, 2017.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS