



LEGISLATIVE BUDGET BOARD

Overview of Texas Spending Limits

**PRESENTED TO SENATE COMMITTEE ON FINANCE
LEGISLATIVE BUDGET BOARD STAFF**

MAY 2022

Limits on State Spending

- The Texas Constitution includes four limitations on state spending:
 - Debt limit
 - Welfare spending limit
 - Pay-as-you-go limit
 - Tax spending limit
- The 2022-23 budget is within all four limits
- SB 1336, 87 (R) created a new statutory limit on appropriations from Consolidated GR that will apply beginning in 2024-25

Tax Spending Limit

Texas Constitution, Article VIII, Section 22

(a) In no biennium shall the rate of growth of appropriations from **state tax revenues not dedicated by this constitution** exceed the estimated rate of growth of the state's economy. The legislature shall provide by general law procedures to implement this section

Appropriations Restricted by the Tax Spending Limit

Restricted: appropriations funded with tax revenue not dedicated by the Constitution

- Sales taxes (General Revenue portion)
- Motor vehicle taxes (General Revenue portion)
- Franchise tax
- Cigarette and tobacco taxes

Not Restricted: appropriations funded with tax revenues dedicated by the Constitution for a certain purpose

- Motor fuel taxes are constitutionally dedicated for transportation (75 percent) and education (25 percent)
- 25 percent of oil and natural gas production taxes are constitutionally dedicated for education
- Portion of sales and motor vehicle taxes constitutionally dedicated to transportation (State Highway Fund) and Texas Parks & Wildlife Department

Not Restricted: appropriations funded with non-tax revenues

- Fees, fines, penalties
- Interest and investment income
- Lottery proceeds
- Federal revenue

FY 2022-23 All Funds State Revenue, by Source

Amounts in \$ Millions

TAX COLLECTIONS	Total 2022-23	Tax Revenue		Tax Revenue not Dedicated by the Constitution	Revenue Subject to the Limit, Percentage of Total
		Dedicated by the Constitution	Non-Tax Revenue		
Sales Taxes	78,466	5,462		73,004	
Motor Vehicle Sales and Rental Taxes	11,815	635		11,180	
Motor Fuel Taxes	7,395	7,228		167	
Franchise Tax	9,673			9,673	
Oil Production Tax	9,560	2,390		7,170	
Insurance Taxes	5,980	1,422		4,558	
Cigarette and Tobacco Taxes	2,586			2,586	
Natural Gas Production Tax	4,719	1,180		3,540	
Alcoholic Beverages Taxes	3,155			3,155	
Hotel Occupancy Tax	1,066			1,066	
Utility Taxes	987	201		786	
Other Taxes	474	60		413	
TOTAL TAXES	135,876	18,578	-	117,298	86.3%

REVENUE BY SOURCE	Total 2022-23	Tax Revenue		Tax Revenue not Dedicated by the Constitution	Revenue Subject to the Limit, Percentage of Total
		Dedicated by the Constitution	Non-Tax Revenue		
Tax Collections	135,876	18,578	-	117,298	
Federal Income	131,945		131,945		
Licenses, Fees, Fines, and Penalties	12,492		12,492		
State Health Service Fees and Rebates	11,550		11,550		
Net Lottery Proceeds	5,499		5,499		
Land Income	4,418		4,418		
Interest and Investment Income	3,666		3,666		
Settlements of Claims	1,082		1,082		
Escheated Estates	1,650		1,650		
Sales of Goods and Services	524		524		
Other Revenue	8,471		8,471		
TOTAL REVENUE	317,172	18,578	181,296	117,298	37.0%

Total 2022-23 revenue estimates are from the Comptroller's November 2021 *Certification Revenue Estimate*.

Growth Rate

Constitution Article VIII, Section 22 (a)

- Appropriations restricted by the spending limit can not grow faster than the estimated growth of the state's economy
- Legislature shall provide procedures to implement this subsection

Government Code 316

- Directs the LBB to use Texas personal income growth to measure growth in the state's economy
 - In November 2020, the LBB voted to adopt 7.06 percent as the estimated growth in the state's economy from the 2020-21 biennium to the 2022-23 biennium
 - The LBB will meet prior to the 88th Legislative Session to adopt the growth rate for the 2024-25 spending limit
- If the LBB does not adopt a growth rate, the rate is treated as if it were zero
- The Introduced version of the General Appropriations Bill must be within the spending limit adopted by the LBB
- Limit may be exceeded with a majority vote in both chambers for an emergency

Pay As You Go Limit

Texas Constitution, Article III, Section 49a

(b) Except in the case of emergency and imperative public necessity and with a four-fifths vote of the total membership of each House, no appropriation in excess of the cash and anticipated revenue of the funds from which such appropriation is to be made shall be valid

Appropriations Restricted by the Pay As You Go Limit

Restricted: appropriations made from

- General Revenue
- Most General Revenue Dedicated accounts
- Available School Fund, Technology and Instructional Materials Fund, Foundation School Fund, and Tobacco Settlement Fund

Not Restricted: appropriations made from

- State Highway Fund
- Economic Stabilization Fund
- Federal Funds

Compliance with Constitutional Limitations

2022-23 GR Appropriations are within both the Article III, Section 49a Pay-as-you-go Limit and the Article VIII, Section 22 Tax Spending Limit

Remaining General Revenue Spending Authority (in billions)	
Pay-as-you-go Limit	\$12.0
Tax Spending Limit	\$3.6

Factors Impacting the Limits

Pay-as-you-go Limit

- Comptroller revenue updates
- Bills affecting revenues
- Supplemental GR appropriations for fiscal year 2023 would reduce total GR revenue available to fund the 2024-25 GR appropriations

Tax Spending Limit

- The adopted rate of growth does not change over the biennium
- Comptroller revenue updates
- Supplemental appropriations for fiscal year 2023
 - Must be within the 2022-23 spending limit
 - Would increase the 2022-23 spending base and the resulting spending limit for 2024-25

Consolidated General Revenue Limit

- 87th Legislature created a new statutory “Consolidated General Revenue Appropriations” limit
- First applies to 2024-25 appropriations
- Limits the biennial growth of CGR appropriations to the estimated compounded growth of state population and monetary inflation
- Exempts appropriations for a purpose that provides tax relief or to pay costs associated with recovery from a disaster declared by the governor
- Limit may be exceeded with a 3/5th vote in both chambers for an emergency



LEGISLATIVE BUDGET BOARD

Contact the LBB

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