

ALASKA LEGISLATURE

2761

HOUSE and SENATE FINANCE COMMITTEE FILES, 2003-2004

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Lessons from 30 Years of TEL Experience

Part 3 of a three-part series

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The first tax and expenditure limitation (TEL) was proposed by California Gov. Ronald Reagan in 1972. In the years since then, numerous states have adopted TELs. By studying these laws, we have discovered principles and design concepts for effective tax limitation.

State TELS

In spring 1978, under the leadership of State Rep. David Copeland, the people of Tennessee adopted the first constitutional tax limitation measure in the nation, the work product of a state constitutional convention.

Then came Proposition 13 in California in June 1978. While not itself a TEL (it was primarily a limitation on the growth of property taxes), Prop. 13 was the catalyst that ignited a national tax revolt. Things began to happen quickly across the country:

- Arizona, under the leadership of then-Senate Majority Leader Sandra Day O'Connor, adopted a TEL referendum in 1978.
- In November 1978, Michigan adopted the Headlee Amendment, which restricted state spending as a share of personal income.
- In 1979, California adopted a Prop. 1-type TEL (the Gann Limit) that for the first time limited the growth of state spending by measuring it against inflation and population or per-capita personal income growth, instead of a percentage of state personal income growth, which really tightened the year-over-year control over taxes and government spending.
- Also in 1979, Washington State adopted a TEL (Initiative 62).
- In 1980, Missouri adopted the Hancock Amendment, again using a percentage of state personal income growth as the measure.
- In 1980, Massachusetts's Prop. 2 ½ drew heavily on the language of California's Prop. 1 in order to control the growth of local governments.

Lessons Learned

Many other states have since adopted constitutional or statutory controls. But many were not tough enough or sufficiently well enforced or honored to be effective. Circumvention began in earnest in Missouri as the legislature and courts played games with the revenue base and school financing. In California in 1989, wily Assembly Speaker Willie Brown corrupted the Gann Limit formula in a statewide initiative devoted to improving California's roads and highways.

It is clear that constitutional (not statutory) TELs initiated by the people (in those states that permit referenda and initiatives) are the strongest and most resistant to circumvention. Furthermore, limiting year-over-year growth in spending to population and inflation changes, as well as imposing limits on both state and local governments, provides the greatest safeguards for the taxpayers.

From these lessons the TEL design was improved, culminating in the best models in Colorado (1992) and Washington State (1993). While the Washington initiative has been circumvented by subsequent action of the state legislature (Washington law permits only statutory initiatives, which remain immune from legislative changes for only two years), Colorado's "Taxpayers Bill of Rights" (TABOR) has been very successful. Colorado's economy has boomed while tax cuts and surplus rebates have become the order of the day.

Principles and Design Concepts

Summarizing 30 years of tax limitation experience isn't easy, but we offer the following principles and design concepts:

- While laws control men, only constitutions control governments. Fiscal discipline imposed not by those we elect, but *upon* them, is the only safe route. A TEL is an important element of people power: It reinforces the basic notion that all power derives from the people, the consent of the governed. A TEL, to be truly effective, must be embodied in a state's constitution. Those states with the initiative/referendum process have the best chance for a good TEL.
- Voting rules make a difference. Super-majority votes of the legislature for tax increases and emergency appropriations are key disciplines. Votes by the people to increase taxes, fees, and debt, and to allow the government to spend more than the limit would otherwise allow, are essential to the integrity of a TEL. Efforts to circumvent established votes of the people for general obligation bonds or other debt instruments must be prevented.
- The definitions of the TEL limits are crucial. Linking the TEL limit to personal income growth, or even a portion of that growth, is too generous. A TEL limit based on the growth of population plus inflation is a more stringent constraint on the growth of revenue and expenditures. The TEL must apply to local as well as state governments. Otherwise, constraint at the state level can be circumvented by shifting functions to local governments. No government function, such as education, should be permitted to remain outside the TEL, and there should be no earmarking of a specific revenue source for a designated government function.
- Tax reductions should occur as quickly as possible. To the extent possible, taxes should be cut in advance of the generation of a surplus to reduce extraction costs and leave productive resources in the hands of those who produced them. Actual surplus revenues above the TEL limit should be rebated as quickly as possible so they do not tempt legislators to creatively circumvent the limit and spend the surplus.
- Allow limits to be suspended in bad economic times. The revenue/spending limit should be suspended during bad economic times when tax revenues actually decline year-over-year. In that event, the prior year's revenue/spending limit remains "frozen" into the future until, once again, revenues increase beyond the revenue/spending limit.
- Create multiple funds for surplus revenues. There should not be a single reserve or rainy-day fund. Multiple funds for different purposes with different operational rules should be established. A portion of the surplus revenue above the TEL limit should be allocated to a budget stabilization fund (BSF). The share of surplus revenue allocated to the BSF and that allocated to tax rebates should be defined, and a cap placed on the BSF. All surplus revenue above that cap should be offset by tax cuts or tax rebates.

The BSF should be used during economic downturns when revenues actually decline year-over-year (except when such decline is the result of an explicit tax elimination or rate reduction). The transfer of funds from the BSF to the general fund should occur automatically on a quarterly basis and in a specified amount when the director of the state department of finance (or similarly situated officer) determines that revenues in a particular quarter have declined from the revenue level of the same quarter in the preceding year. Neither the legislature nor the governor should have any role in this determination of transfers.

- Create an emergency fund. An emergency fund (EF) should be established representing approximately 3 percent of general fund revenues, preferably funded out of revenues within the limit in preceding years. Appropriations may be made from this fund for natural or other non-economic disasters upon declaration of an emergency by the governor and a super-majority vote of the legislature. The EF should be refunded in the year following such appropriations.
- Adopt a rule on which taxes to cut. When tax cuts are made to reduce future surpluses, the cuts should be made in taxes in reasonable proportion to their contribution to that surplus. Cuts that reduce or eliminate tax system progressivity are to be given preference as they will preclude excessive future surpluses.

Tax and expenditure limits now have a rich history. If we fail to heed the lessons of history, we are doomed to repeat them. As we move forward to restore existing limits and to pass new ones, we must heed those lessons.

Lew Uhler is president of the National Tax Limitation Committee and Dr. Barry Poulson is a senior fellow with the Independence Institute and professor of economics at the University of Colorado.

Fund Codes Included in Limit
(FY04 Numbers)

G 1003 G/F Match	323,453.7	O 1107 AEA Rcpts	1,067.1
G 1004 Gen Fund	1,840,735.6	O 1109 Test Fish	2,652.7
G 1005 GF/Prgm	21,610.3	O 1117 VocSmBus	365.0
G 1037 GF/MH	99,774.2	O 1139 AHFC Div	49,998.3
O 1021 Agric RLF	2,230.2	O 1140 AIDEA Div	16,416.0
O 1027 Int Airprt	91,406.9	O 1141 RCA Rcpts	6,143.8
O 1035 Vets RLF	60.2	O 1144 CWF Bond	1,620.0
O 1036 Cm Fish Ln	4,172.9	O 1150 ASLC Div	4,119.0
O 1040 Surety Fnd	254.5	O 1151 VoTech Ed	4,561.5
O 1049 Trng/Bldg	707.0	O 1152 AFSC Rcpts	226.3
O 1054 Empl Trng	5,639.7	O 1153 State Land	7,818.5
O 1057 Small Bus	3.5	O 1154 Shore Fish	329.4
O 1059 Corr Ind	5,113.8	O 1155 Timber Rcp	693.7
O 1062 Power Proj	835.2	O 1156 Rcpt Svcs	74,046.4
O 1065 Rural Elec	330.0	O 1157 Wrkrs Safe	4,210.4
O 1067 Mining RLF	5.2	O 1162 AOGCC Rct	4,112.9
O 1068 Child Care	6.4	O 1164 Rural Dev	43.8
O 1069 Hist Dist	2.5	O 1166 Vessel Com	706.9
O 1070 FishEn RLF	347.3	O 1168 Tob ED/CES	5,395.6
O 1071 Alt Energy	143.8	O 1169 PCE Endow	7,952.0
O 1074 Bulk Fuel	51.0	O 1170 SBED RLF	42.6
O 1076 Marine Hwy	86,945.4	O 1172 Bldg Safe	1,603.7
O 1093 Clean Air	3,772.9	O 1173 Misc Earn	82,067.4
O 1098 ChildTrErn	449.8	O 1175 BLic Rcpts	2,173.0
O 1101 AADC Fund	10,972.7	O 1179 PFC	12,489.3
O 1102 AIDEA Rcpt	4,208.3	O 1180 A/D P&T Fd	21,400.0
O 1103 AHFC Rcpts	16,743.3	O 1181 Vets Endow	10.1
O 1104 AMBB Rcpts	1,299.2	O 1186 ASLC Bonds	0.0
O 1106 ACPE Rcpts	8,514.2	TOTAL	2,842,055.1

Constitutional Spending Limit Proposal Comparison

<u>CSHJR 9 (FIN) (still under discussion)</u>	<u>Proposed CSSJR 3 (FIN) Draft version "C"</u>
<p>Base Year Average of the earliest 3 of the 4 fiscal years immediately preceding the fiscal year for which appropriations are being made</p>	<p>Base Year Same</p>
<p>Annual Limitation Growth Factor(s) Shall not exceed either:</p> <ul style="list-style-type: none">• 50% of the annual average change in the <i>cost of living</i> for 3 calendar years preceding the calendar year during which the immediately preceding fiscal year began; <p>Plus</p> <ul style="list-style-type: none">• 50% of the annual change in <i>population</i> for the same years; <p>Or</p> <ul style="list-style-type: none">• Average percentage change in <i>personal income</i> during the same period.	<p>Annual Limitation Growth Factor(s) Shall not exceed:</p> <ul style="list-style-type: none">• Base year by more than the sum of the annual percentage change in the <i>Anchorage CPI</i> during the second and third calendar years preceding the calendar year in which the immediate fiscal year began <p>But</p> <ul style="list-style-type: none">• Not to exceed the percent change in <i>personal income</i> during the same period. <p>Plus</p> <ul style="list-style-type: none">• Percent change in <i>population</i> for the same period. <p>If the limit is less than that of the immediately preceding fiscal year, then the limit for the preceding fiscal year applies (no negative growth clause).</p>
<p>Appropriations exempted</p> <ul style="list-style-type: none">• Appropriations to the Permanent Fund• Permanent Fund dividends• State of natural disaster declared by the Governor	<p>Transition</p> <ul style="list-style-type: none">• For purposes of calculating the appropriation limit for FY 06 - 08, base year averages include: FY 04 - \$3.3 billion FY 05 - \$3.4 billion <p>Appropriations exempted</p> <ul style="list-style-type: none">• Same• Same• Can exceed limit for natural disaster

House Version

- Duplicated funds*
- GO and revenue bond proceeds
- GO debt service
- Revenue bond debt service
- Federal funds
- Reappropriations
- RSAs and intergovernmental transfers
- Trust funds
- University tuition receipts
- Money restricted to a specific use by terms of a gift, grant, bequest or contract.
- Deposits to the statutory budget reserve*
- CBR reverse sweep appropriations*
- Appropriations approved above the spending limit per override requirement

Limit Override

For any public purpose:

- Exceed limit by 2% with a 2/3 vote of each house
- Exceed the limit by 4% with a 3/4 vote of each house
- Must approve appropriations above the limit in separate bills

Reconsideration

- Same amendment placed on the ballot in the 2010 and every 6 years thereafter.
- If rejected by voters, amendment is repealed

Senate Version

- Same
- Same

- Same
- Same
- Same
- Same
- Same plus dedicated funds
- Same
- Same

- Same

Limit Override

- For an emergency declared by the Governor.
- Declaration of an extraordinary circumstance by either Governor or Legislature confirmed by a 2/3 vote of each house; only becomes law if signed by Governor

Sunset Provision

- Repealed on July 1, 2009 if not affirmatively re-authorized by the Legislature and placed on ballot for the 2008 general election.

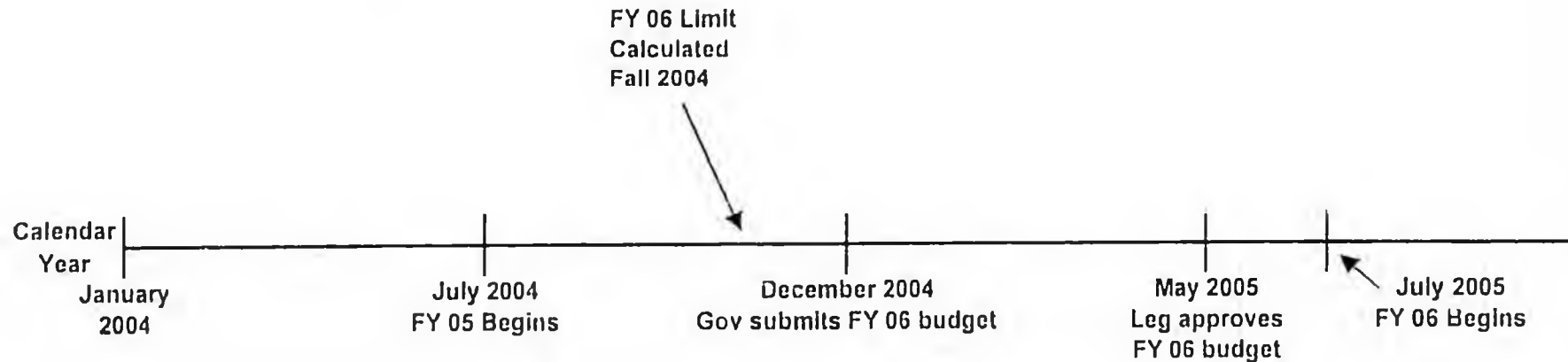
*Amendments pending in House Finance Committee

TIMELINE

SJR 3 Spending Limit:

Decision Time Line for FY 06 Limit Calculation

Data Availability



Data Available:

Inflation: mid-February, US Department of Labor, Bureau of Labor Statistics
 Population: late January, Alaska Department of Labor, Research & Analysis
 Personal Income: late April, US Bureau of Economic Analysis

Average appropriations for earliest three of four fiscal years:

FY 06 limit
relies on:

CY 02 and 03
 CY 02 and 03
 CY 02 and 03

FY 02, 03, 04

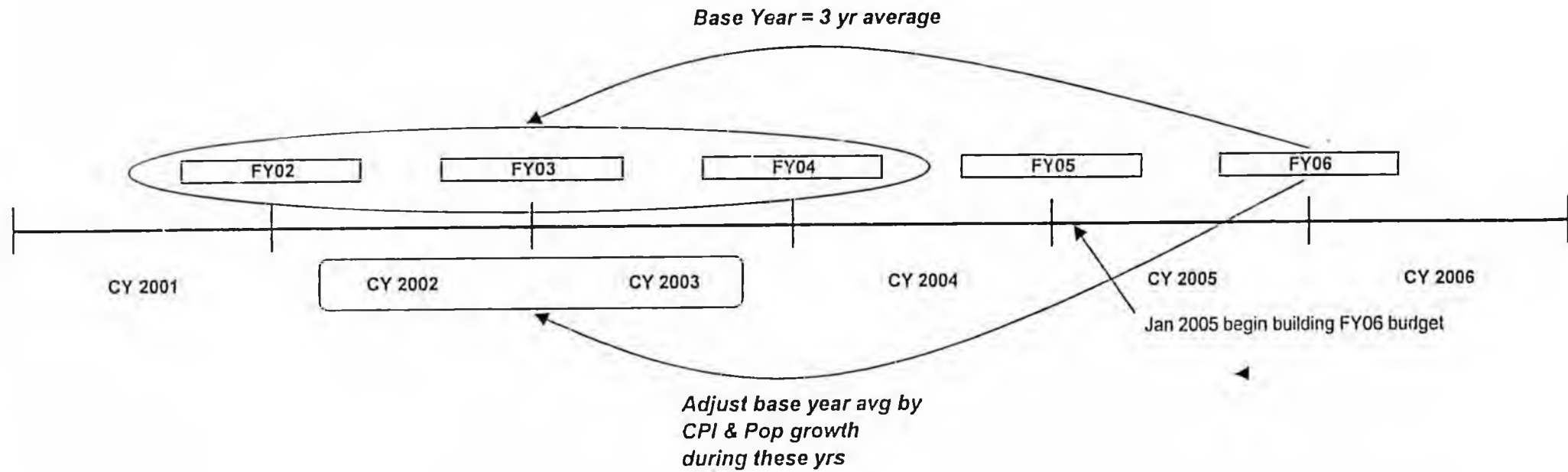
FY 06 calculation made in
Fall 2004, data available:

February 2004
 January 2004
 April 2004

June 2004

PROVIDED BY OMB (CHERYL FRASCA)

How FY06 Will Be Calculated



PROVIDED BY LEGISLATIVE FINANCE (TANGEMAN)

SAMPLE CALCULATION

SJR 3 - Constitutional Spending Limit Calculation

Example of Calculation for FY 06

Subsection				
(a)	Can't exceed average appropriation for earliest 3 of the 4 fiscal years	FY 02	3,297	
Page 1		FY 03	3,213	
Lines 6-10		FY 04	3,300	*Transition assumption
		Average	3,270	
	Immediately preceding current fiscal year	FY 05	3,400	*Transition assumption
	By more than the sum of:			
(a) (1)	Sum of % change in inflation during 2nd and 3rd calendar years	CY 02	1.93%	
Page 1		CY 03	2.72%	
Lines 11-14		Sum	4.65%	
	during which the immediately preceding fiscal year began	FY 05 began in Jul-04		
	BUT			
Page 1	Can't exceed personal income for same period	CY 02	4.10%	
Lines 14-16		CY 03	4.10%	"2003 est. available 4/27"
		Sum	8.20%	
	Plus			
(a)(2)	Sum of % change in population for same period	CY 02	1.60%	
Page 2		CY 03	0.78%	
Lines 2-4		Sum	2.38%	
		Limit Growth	7.04%	

(b) If the answer to (a) is less than the limit for the immediately preceding fiscal year, use the higher limit for the immediately preceding fiscal year

If FY 06 limit is less than FY 05's, use FY 05's limit

Limit Calculation = 3,270 X 1.0704 **FY 06 Limit = 3,500.06**

Avg of earliest of 3 of 4 fiscal years preceding current fiscal year = Base Year

Spending limit grows by 7.04%

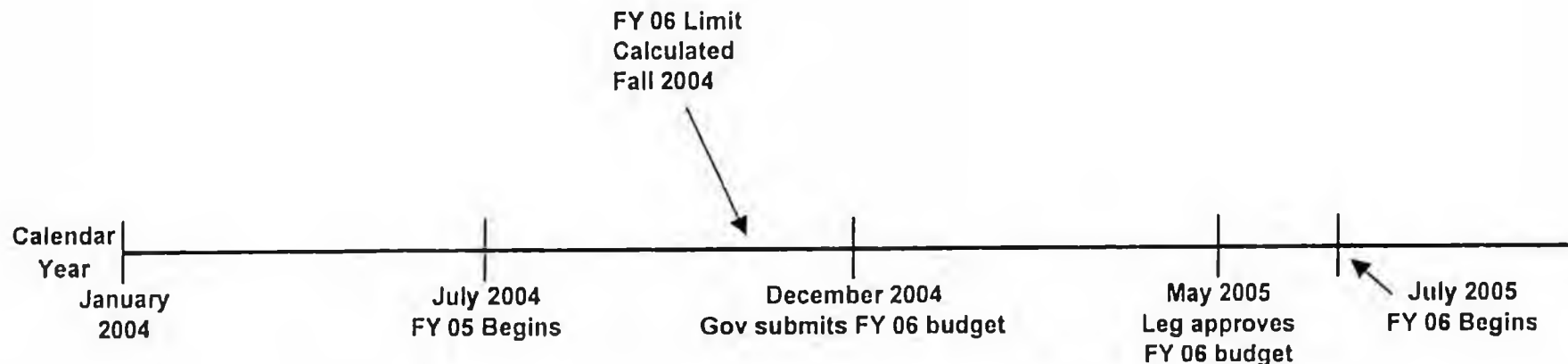
Spending change under this scenario:

	Limit	% Change
FY 03	\$3,213	
FY 04	\$3,300	2.7%
FY 05	\$3,400	3.0%
FY 06	\$3,500	2.9%

PROVIDED BY OMB (FRASCA) & LEG. FINANCE (TONGEMAN) 4/1/04

SJR 3 Spending Limit:

Decision Time Line for FY 06 Limit Calculation
Data Availability



Data Available:

Inflation: mid-February, US Department of Labor, Bureau of Labor Statistics
 Population: late January, Alaska Department of Labor, Research & Analysis
 Personal Income: late April, US Bureau of Economic Analysis

Average appropriations for earliest three of four fiscal years:

FY 06 limit relies on:

CY 02 and 03
 CY 02 and 03
 CY 02 and 03

FY 02, 03, 04

FY 06 calculation made in Fall 2004, data available:

February 2004
 January 2004
 April 2004

June 2004

SJR 3 - Constitutional Spending Limit Calculation

Example of Calculation for FY 06

Subsection (a)	Can't exceed average appropriation for earliest 3 of the 4 fiscal years	FY 02	3,297	
Page 1		FY 03	3,213	
Lines 6-10		FY 04	3,300	*Transition assumption
		Average	3,270	

Immediately preceding current fiscal year

FY 05	3,400	*Transition assumption
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By more than the sum of:

(a)(1)	Sum of % change in inflation during 2nd and 3rd calendar years	CY 02	1.93%
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during which the immediately preceding fiscal year began

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BUT

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		Sum	8.20%

*2003 est. available 4/27

Plus

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Page 2		CY 03	0.78%
Lines 2-4		Sum	2.38%

Limit Growth	7.04%
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(b) If the answer to (a) is less than the limit for the immediately preceding fiscal year, use the higher limit for the immediately preceding fiscal year

If FY 06 limit is less than FY 05's, use FY 05's limit

Limit Calculation = 3,270 X 1.0704	FY 06 Limit	3,500.06
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Avg of earliest of 3 of 4 fiscal years preceding current fiscal year = Base Year

Spending limit grows by 7.04%

Spending change under this scenario

	Limit	% Change
FY 03	\$3,213	
FY 04	\$3,300	2.7%
FY 05	\$3,400	3.0%
FY 06	\$3,500	2.9%



SENATOR FRED DYSON

MEMORANDUM

March 27, 2004

To: Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senate Finance Committee

Lushy
From: Senator Fred Dyson

RE: Proposed Amendment Nos. 7 & 8 to SJR 3, Appropriations Limit

Attached are two amendments I will offer to the finance committee on Monday, March 29, 2004.

Amendment No. 7 (version 23-LS0296\B.7) is in response to a couple of committee members to provide a mechanism whereby the legislature may initiate legislation to address "extraordinary circumstances." This amendment would not prohibit the legislature from introducing a regular bill that would proceed through the normal bill process if the corresponding appropriations would not result in exceeding the limit. However, should the legislature wish to invoke the "extraordinary circumstances" provision for the purpose of exceeding the limit, this provision would require a two-thirds affirmative vote by the legislature, as well as the approval of the governor. Thus, we retain the checks and balances of having two branches of government approve an action that results in exceeding the limit.

Another difference from the normal bill process is that the bill would not become law unless approved by the governor. Under the normal process set forth in Article II, Section 17, a bill becomes law if the governor doesn't sign it or veto it within 15 days. A bill for "extraordinary circumstances" initiated by the legislature would require positive action by the governor.

Amendment No. 8 is submitted upon the recommendation of Legislative Finance to exempt duplicate funds.

Attachments

Distribution: Senator Bunde Senator Hoffman
 Senator B. Stevens Senator Olson Ms. Mindy Rowland



SENATOR FRED DYSON

SJR 3

Sponsor Statement

"A Resolution Proposing an Appropriation and Spending Limit"

Updated: March 3, 2004

Contact: Senator Fred Dyson at (907) 465-2199

The adoption of an effective, reasonable constitutional spending limit is an integral step in the development of any effective long-range fiscal plan for the state. Senate Joint Resolution 3 (SJR 3) would amend Article IX, section 16 of Alaska's Constitution by establishing a new appropriations limit in a manner that more tightly constrains budget growth than does the existing appropriation limit, and is more closely aligned to Alaska's current revenue picture. Passage of SJR 3 would ensure that the state has a long-term, predictable spending plan that helps the state control spending in good times so that we have the necessary funds to care for the people of Alaska when times are not so good.

The existing constitutional appropriation limit, adopted by voters in 1981, has not worked as anticipated and, as a result, has not been effective in restraining state spending. One primary reason for its failure is that the base upon which the limit was set was too high at \$2.5 billion. Another is that the escalator factor, based on population and inflation, was cumulative year after year resulting in a limit that eventually became so high as to effectively not be a limit. In fact, given the increases in inflation and population over the last 19 years, our "limit" is currently about \$6 billion, which is about \$3 billion more than general fund spending for Fiscal Year 2002. SJR 3 will amend the existing appropriation limit to more accurately reflect current budgeting and spending while making sure we provide for increased costs due to inflation and a growing population.

While this resolution sets a more effective limit, it's realistic in that it provides mechanisms for addressing unforeseeable emergencies. Should the need arise for additional funds because of a natural disaster or terrorist event, additional funds can be appropriated beyond the limit if the governor declares an emergency and both houses of the legislature approve the additional funding by a two-thirds vote of both houses. However, to make sure we don't get carried away, the additional funds can only be used for the purpose specified and only for the year in which they are appropriated.

Another change is the removal of an existing provision that requires us to reserve one-third for capital projects and loan appropriations, whether we need them or not. Over the years, several attorney general opinions have been written on the meaning of the constitutional limit. Those opinions counter the plain English meaning of the language and have allowed the legislature and the administration to avoid this requirement. The resolution removes this arbitrary and superfluous requirement.

Without a meaningful constitutional amendment in place; one that limits the amount of state expenditures, there is absolutely no guarantee that the state will restrain, let alone reduce, spending. This resolution would limit state spending, without impacting the receipt and use of federal funds. It is a key component of any new long-range plan to ensure Alaska's long-term fiscal health.

Table 1

Type of Bonds

The following table reflects which aspects of bonds are proposed for inclusion under the Appropriations Limit, and which are excluded.

<u>Bond</u>	<u>As Per</u> <u>ins to Limit</u>	
	<u>Proceeds</u>	<u>Debt Service</u>
General Obligation	Excluded	Included
Revenue	Excluded	Excluded
Certificates of Participation	Excluded	Included
School Debt Reimbursement	N/A	Included

Provided by Sen. Dyson

LEGISLATIVE RESEARCH REPORT

FEBRUARY 11, 2003



REPORT NUMBER 03.100

STATE CONSTITUTIONAL SPENDING LIMITS

PREPARED FOR SENATOR RALPH SEEKINS

BY DONALD M. BULLOCK JR., LEGISLATIVE ANALYST

You asked whether any other state has a constitutional appropriation limit similar to the limit proposed in Senate Joint Resolution No. 3.

Senate Joint Resolution No. 3 (SJR 3) proposes a constitutional amendment to limit appropriations for a fiscal year to four percent above the amount appropriated two years preceding that fiscal year. The limit may be expanded by up to an additional two percent above the base year upon a vote of at least two-thirds of the members of each house of the legislature. The limit may be expanded up to four percent above the base year upon a vote of at least three-fourths of the members of each house of the legislature.

According to the National Conference of State Legislatures (NCSL), sixteen states, including Alaska, have constitutional appropriation limitations.¹ Only one state—Oklahoma—determines its limitation by a fixed percentage applied to a prior year's appropriations, a method similar to that proposed in SJR 3.

The Oklahoma Constitution limits appropriations for any fiscal year to the sum of "the amounts appropriated from all funds in the preceding fiscal year, plus twelve percent (12%), adjusted for inflation for the previous calendar year." Surpluses—defined as amounts accruing to the general fund over the amount of the Board of Equalization's revenue estimate—are deposited into Oklahoma's Constitutional Reserve Fund. Up to half of the amount in the fund can be appropriated when estimated revenues decrease, but the amount appropriated cannot exceed the difference between the estimates for the current fiscal year and the following year. Up to half of the amount in the fund may also be appropriated if the governor declares an emergency and the legislature concurs by a two-thirds vote. Should the Speaker of the House and the President

¹ Mandy Rafool compiled the NCSL table, which is published on NCSL's web site, <http://www.ncsl.org>. Although the table was last updated in 1998, Ms. Rafool informed us that the information is still current.

Provided by Sen. Dyson

907-465-3991

907-465-3908 (fax)

Alaska Legislature
Legislative Research Services

http://www3.legis.state.ak.us/research/research_home.htm

State Capital
Juneau, AK 99801

Pro Tempore of the Senate jointly declare an emergency, up to half of the fund can be appropriated if the legislature concurs with a three-fourths vote.²

The remaining states limit state appropriations based on changes in economic growth, population, projected revenue, or state personal income.

- ◆ Alaska's present constitutional limit is adjusted by using "the cumulative change, derived from federal indices as prescribed by law, in population and inflation since July 1, 1981." Although Alaska's cap takes into consideration inflation and population growth, Alaska's cap is determined based on a fixed amount—\$2.5 billion—rather than the amount of the appropriations for a recent year.³
- ◆ Eight states—California, Colorado, Connecticut, Hawaii, Louisiana, South Carolina, Tennessee, and Texas—limit appropriations by limiting year-to-year increases based on the rates of change for factors such as cost of living, state population, growth of personal income, and state economic growth.
- ◆ Five states—Delaware, Florida, Michigan, Missouri, and Rhode Island—limit appropriations based on state revenue. Delaware and Rhode Island limit appropriations to 98% of the taxes each state expects to collect; Florida, Michigan, and Missouri limit appropriations by limiting tax increases, thereby limiting the funds available for appropriation.
- ◆ One state—Arizona—limits appropriations to seven percent of the total personal income of the state for that fiscal year. The constitution requires the establishment of an "economic estimates commission" to estimate the total state personal income for use by the legislature in determining the limit on appropriations.

We are including information from NCSL's table of states with constitutional limits as Table 1. We supplemented the information from NCSL by providing a citation to the constitutional authority for the limitation in the listed states.⁴

I hope you find this information to be useful. Please do not hesitate to contact us if you have questions or need additional information.

² Oklahoma Constitution, Article X, Section 23. The same section also limits appropriations to 95% of the revenues projected by the state's Board of Equalization. Section 23 is published on the Internet at <http://law.legal.onenet.net/okcn0X-23.html>.

³ Alaska Const. Art. IX, §16.

⁴ The Public Interest Institute, an organization favoring limiting the power of government, summarizes state limitations on tax and expenditures on the Internet at <http://www.limitedgovernment.org/TELS.html>. That Internet page has links to the relevant state laws providing for the limitations.

State	Year of Adoption	Limit Applicability	Provision in State's Constitution	Limit	Provisions for Waiver
Alaska	1982	State appropriations	Alaska Const. Art. IX §16	Yearly growth of appropriations may not exceed percentage increase in population and inflation.	In the event of decreased revenues, an appropriation may be made from the Budget Reserve Fund.
Arizona	1978	Appropriations of state tax revenues	Ariz. Const., Art. 9, §17	Appropriations of state tax revenues shall not exceed 7.23 percent of state personal income.	Requires two-thirds legislative approval for specific additional appropriations.
California	1979	Appropriations of state tax revenues	Cal. Const. Art. XIII B	Yearly growth in appropriations limit shall not exceed percentage increase in population and per capita personal income.	In the event of an emergency, the appropriations limit may be exceeded provided increased expenditures are compensated for by reduced expenditures over three following years, alternatively, the limit may be changed by voters but the change is operative for only four years.
Colorado	1992	All state spending and tax increases	Colo. Const. Art. X, §§ 11, 20	Spending can only increase based on population growth and increase in CPI, no change in taxes or tax policy without voter approval; current spending limits cannot be weakened without voter approval.	Any vote-approved increases, General Assembly can declare emergency by two-thirds vote and raise emergency taxes subject to vote approval.
Connecticut	1991, 1992	State appropriations (excludes debt service, state grants to distressed municipalities, first year expenditures for federal mandates or court orders, and expenditures from the Budget Reserve Fund)	Conn. Const. Art. XXVIII	Appropriations shall not increase by more than the increase in personal income in the state (average of the annual increase for each of the preceding five years) or the increase in inflation (CPI-University, preceding 12-month period), whichever is greater.	Governor can declare an emergency or the existence of extraordinary circumstances, which must be approved by three-fifths of both House and Senate.
Delaware	1978	State general fund appropriations	Del. Const. Art. VIII, §6	98 percent of estimated general fund revenue and prior year's unencumbered funds.	Declaration of an emergency and three-fifths vote of each chamber.
Florida	1994	All state revenues including taxes, fees, licenses and charges	Fla. Const. Art. VII, §§1, 5, Art. XI, §7	Prior year's revenue plus growth, defined as a five-year rolling average of personal income growth.	Two-thirds vote of the Legislature.
Hawaii	1978	State general fund appropriations	Haw. Const. Art. VII, §9	General fund appropriations shall not exceed the average rate of growth of state personal income for three previous years.	Specific appropriations over the limit require two-thirds approval in both chambers.
Louisiana	1993	State general fund appropriations	La. Const. Art. VII, §10	State spending limited to 1992 appropriations plus per capita personal income growth.	Two-thirds vote by the Legislature.
Michigan	1978	All state revenues less federal aid, expenses of state government	Mich. Const. Art. IX, §§25-28	For any fiscal year, state revenue may not exceed 9.49 percent of total personal income for the prior year.	Governor must first specify an emergency, then the Legislature must concur by two-thirds vote in each chamber.

State	Year of Adoption	Limit Applicability	Provision in State's Constitution	Limit	Provisions for Waiver
Missouri	1980, 1996	Total state revenue, state expenses, new taxes	MO. Const. Art. X, §518, 20	Revenue shall not exceed the ratio of FY 1980-81 state revenue to 1979 state personal income, multiplied by the greater of state personal income in any calendar year or the average state personal income over the previous three calendar years Voter approval required for any tax or fee increase that will produce revenues greater than 1) \$50 million adjusted annually by the percentage change in state personal income for the second previous fiscal year, or 2) one percent of the state revenues for the second fiscal year prior to the Legislature's action, whichever is less	Governor must first specify an emergency; then the Legislature must concur by two-thirds vote in each chamber.
Oklahoma	1985	Appropriated revenues, revenues	Okla. Const. Art. X, §§23, 33	1) 12 percent yearly increase (adjusted for inflation) or 2) 95 percent of certified revenue.	None.
Rhode Island	1992	State general fund appropriations	RI Const. Art. IX, §16	98 percent of estimated general fund revenue and prior year's unencumbered funds.	None.
South Carolina	1980, 1984	State appropriations approved by General Assembly	S.C. Const. Art. X, §7	Yearly growth in state appropriations shall not exceed average growth of personal income over three preceding years or 9.5 percent of total state personal income, whichever is greater. Also, the number of state employees is tied to state population.	Limit may be exceeded for one year by a two-thirds vote of the Legislature if it first declares a financial emergency. Also, every five years the Legislature can review the composition of the limit.
Tennessee	1978	Appropriations of state tax revenue	Tenn. Const. Art. II, §24	Growth in state appropriations shall not exceed growth in state personal income.	Specific additional amount may be approved by majority vote of the Legislature.
Texas	1978	Appropriations of state tax revenues not dedicated by the state constitution	Tex. Const. Art. VIII, §22	Growth of biennial appropriations shall not exceed rate of growth of state personal income.	Specific additional amount may be approved by majority vote of the Legislature if it first adopts a resolution that an emergency exists.

Sources: National Conference of State Legislatures, *State Tax and Expenditure Limits* (March 1998), Appendix C, available on the Internet on NCSL's web site, <http://www.ncsl.org>. Public Interest Institute, *Limitations on Government by Issue, State Tax and Expenditure Limitation (TELS)* (Last modified March 25, 2000), based on NCSL survey of state fiscal officers (April 1996), available on the Internet at http://www.limitsofgovernment.org/limit_on_gov/TELS.html



National Center for Policy Analysis

The Sad Case of Alaska

When Alaska realized a windfall from oil on its North Slope, most of the money that flowed into its treasury flowed right back out to fund a bewildering array of special-interest programs.

- State spending nearly doubled between 1969, when lease sales revenue started flowing in, and 1971.
- It increased by another 46 percent in 1972 as the legislature began gearing expenditures to expectations of revenues from the Trans-Alaska Oil Pipeline.

Construction delays pushed the pipeline's completion back to 1977, but rapid growth in government spending continued. To bridge the gap between current government spending and expected oil revenues, the state raised severance taxes on oil again and enacted a "reserves tax" in 1976, with a rebate provision which really made the tax a forced loan from the oil companies.

With the Iranian revolution and an increase in worldwide oil prices in 1980, state revenues increased dramatically - and state spending went higher still. From 1981 through 1988 Alaska's state spending increased nearly 20-fold.

As oil revenues soared, the taxes paid by Alaskan residents plummeted. The individual income tax and several other state taxes were repealed in 1979-80. As a result, real taxes paid to the state by individual Alaskans after 1980 were only 14 to 16 percent of the real taxes they paid during fiscal year 1976. However, taxes on the oil industry have increased 11 times since 1955. Currently, Alaska's tax rates on oil producers are the highest in the United States.

By 1990, per capita state spending was almost four times the national average and more than two and one-half times higher than that of Wyoming, the next highest spender per capita.

Because the state slashed taxes for everybody except the oil companies as the oil revenues poured in, the vast increases in spending met little public opposition. However, oil production has declined by more than 15 percent since 1989 and is expected to drop to half of its current level by the year 2004, creating the prospect of painful adjustments and dislocations for the Alaskan economy. For example:

- In towns and cities throughout the state, enormous sums have been spent building performing arts centers, convention centers and sports arenas that will have to be maintained.
- State spending now accounts for more than 33 percent of the jobs and three of every ten dollars of personal income.

If the state had allowed real per capita spending to grow at a rate equal to the U. S. average and had deposited the excess revenue in Alaska's Permanent Fund, that fund would have contained \$66.7 billion by the end of 1993. At the fund's historic rate of return of 5.15 percent, it would have produced \$3.4

Provided by Sen. Dyson
<http://www.ncpa.org/ea/ea094/ea094h.html>

1/19/2004

billion each year to finance state spending, or 17 percent more than total state spending in 1993.

Source: Stephen L. Jackstadt and Dwight R. Lee, "Economic Sustainability in Theory and Practice: The Sad Case of Alaska," Contemporary Issue Series 66, July 1994, Center for the Study of American Business, Washington University, Campus Box 1208, One Brookings Drive, St. Louis, MO 63130, (314) 935-5630.

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SENATOR FRED DYSON

SJR 3

Sponsor Statement

"A Resolution Proposing an Appropriation and Spending Limit"

Updated: January 27, 2004

Contact: Senator Fred Dyson's office at (907) 465-2199

The adoption of an effective, reasonable constitutional spending limit is an integral step in the development of any effective long-range fiscal plan for the state. Senate Joint Resolution 3 (SJR 3) would amend Article IX, sec 16 of Alaska's Constitution by establishing a new formula for limiting appropriations in a manner that more tightly constrains budget growth than does the existing appropriation limit. The new formula is also more closely aligned to Alaska's current revenue picture. Passage of SJR 3 would thus ensure a limit on the growth of state government and force the state to prioritize its needs to ensure that attention is more critically focused.

The existing constitutional appropriation limit, adopted by voters in 1981, has not worked as anticipated and has not been effective in restraining state spending. A primary reason for its failure is that the starting amount of \$2.5 billion was too high. Another is that its escalator factor, based on population and inflation, was too liberal. As a result, given the increases in inflation and population over the last 19 years, the general fund spending limit imposed by Article IX, Section 16 is over \$6 billion. Such "limit" is about \$3 billion more than general fund spending for Fiscal Year 2002. SJR 3 more accurately reflects today's spending by amending the existing appropriation limit.

The resolution proposes a formula for limiting future appropriations. Any increase beyond the amounts calculated via this formula would require a three-fourths vote of both houses. This resolution is also written such that when increases beyond the calculated limit are approved, such increases will not be cumulative. Finally, increases are limited to no more than 2% of the amount appropriated for the fiscal year two years prior. If the amount appropriated exceeds the limit, the governor shall reduce expenditures by the executive branch for its operation and administration in order to bring expenditures back in line with the constitutional limit.

The existing provision that one-third of the budget be appropriated for capital expenditures is also removed in SJR 3. Over the years, several attorney general opinions have been written on the meaning of the constitutional limit; those opinions counter the plain English meaning of the language and have allowed the legislature and the administration to avoid this requirement. The resolution removes this arbitrary and superfluous requirement.

Without a meaningful constitutional amendment in place; one that limits the amount of state general fund expenditures, there is absolutely no guarantee that the state will restrain, let alone reduce, spending. This resolution would limit state spending and is a key component of any new long-range plan to ensure Alaska's long-term fiscal health.

Existing Alaska Constitution
(To be repealed and replaced by SJR 3)

Section 9.16 - Appropriation Limit.

Except for appropriations for Alaska permanent fund dividends, appropriations of revenue bond proceeds, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a non-State source in trust for a specific purpose, including revenues of a public enterprise or public corporation of the State that issues revenue bonds, appropriations from the treasury made for a fiscal year shall not exceed \$2,500,000,000 by more than the cumulative change, derived from federal indices as prescribed by law, in population and inflation since July 1, 1981. Within this limit, at least one-third shall be reserved for capital projects and loan appropriations. The legislature may exceed this limit in bills for appropriations to the Alaska permanent fund and in bills for appropriations for capital projects, whether of bond proceeds or otherwise, if each bill is approved by the governor, or passed by affirmative vote of three-fourths of the membership of the legislature over a veto or item veto, or becomes law without signature, and is also approved by the voters as prescribed by law. Each bill for appropriations for capital projects in excess of the limit shall be confined to capital projects of the same type, and the voters shall, as provided by law, be informed of the cost of operations and maintenance of the capital projects. No other appropriation in excess of this limit may be made except to meet a state of disaster declared by the governor as prescribed by law. The governor shall cause any unexpended and unappropriated balance to be invested so as to yield competitive market rates to the treasury.

State Tax and Expenditure Limits

*By Mandy Rafool
Fiscal Affairs Program*

Executive Summary

Tax and expenditure limits (TEs) are designed to curtail growth in government spending by placing constitutional or statutory restrictions on the amount a government entity can spend or tax its citizens. Limits may be imposed on both state and local governments; only state limits, however, are discussed in this report.

Traditionally, state TEs have limited revenues, expenditures or appropriations. Questions regarding the effectiveness of these traditional limits have led to additional measures such as voter approval requirements or legislative supermajority requirements that also limit state revenue and expenditure options. The restrictiveness of all these limits varies considerably depending upon their design. Variations in TEs make it difficult to categorize them, but generally they fall into one of the categories described below:

- **Revenue limits.** Revenue limits tie yearly increases in revenue to personal income or some other type of index such as inflation or population.
- **Expenditure limit.** This is the most common type of state TE. Expenditure limits, like revenue limits, are typically tied to personal income or some other index. However, expenditure limits curb state appropriations and are generally not as restrictive as revenue limits because it is easier for states to control spending levels.
- **Appropriations limited to a percentage of revenue estimate.** This type of limit simply ties appropriations to a level below projected revenues. It does not establish an absolute limit or tie growth to a measurable index.
- **Voter approval requirement.** This is the most restrictive type of limit since all tax increases or tax increases over a specified amount must receive voter approval.
- **Supermajority requirement.** Supermajority requirements dictate either a two-thirds, three-fourths or three-fifths majority vote in both chambers to pass tax increases or new taxes.
- **Hybrid.** States have also combined components of various limits.

Provided by Senator Dyson

Tax and expenditure limits have different characteristics that affect their restrictiveness. Some limits are constitutional, some are initiated by citizen groups, some only apply to general budget funds and some formulas are designed to produce a very high limit.

Most studies conclude that state limits have not been as effective as proponents envisioned. This is primarily due to the way they are designed and how easily state governments can circumvent the limits. Some fiscal policy experts believe that voter approval and supermajority requirements place tighter constraints on state governments than traditional revenue and expenditure limits.

State Tax And Expenditure Limits

"Government spending is out of control." "My taxes are way too high." "There must be some way to control the growth of government." Frequently uttered comments like these illustrate much of the sentiment driving the tax and expenditure (TEs) movement in the

Tax and expenditure limits have evolved to keep government spending in check by placing constitutional or statutory restrictions on the amount a government entity can spend or tax its citizens.

states. Tax and expenditure limits have evolved to keep government spending in check by placing constitutional or statutory restrictions on the amount a government entity can spend or tax its citizens. Some states have multiple limits in place. Although almost every state has some type of tax or expenditure limitation on local governments, this report discusses only state limits.

As the anti-tax movement grows, so do the number of states with tax and expenditure limits—particularly susceptible are those states with citizen initiative procedures. To help policymakers sort out the various types of tax and expenditure limits, this paper provides a comprehensive look at state limits and recent state activity. The following sections describe different limits, examine the impact these limits have on state government and provide detailed case studies in selected states as well as an overview of all state limits.

Types Of Tax And Expenditure Limitations

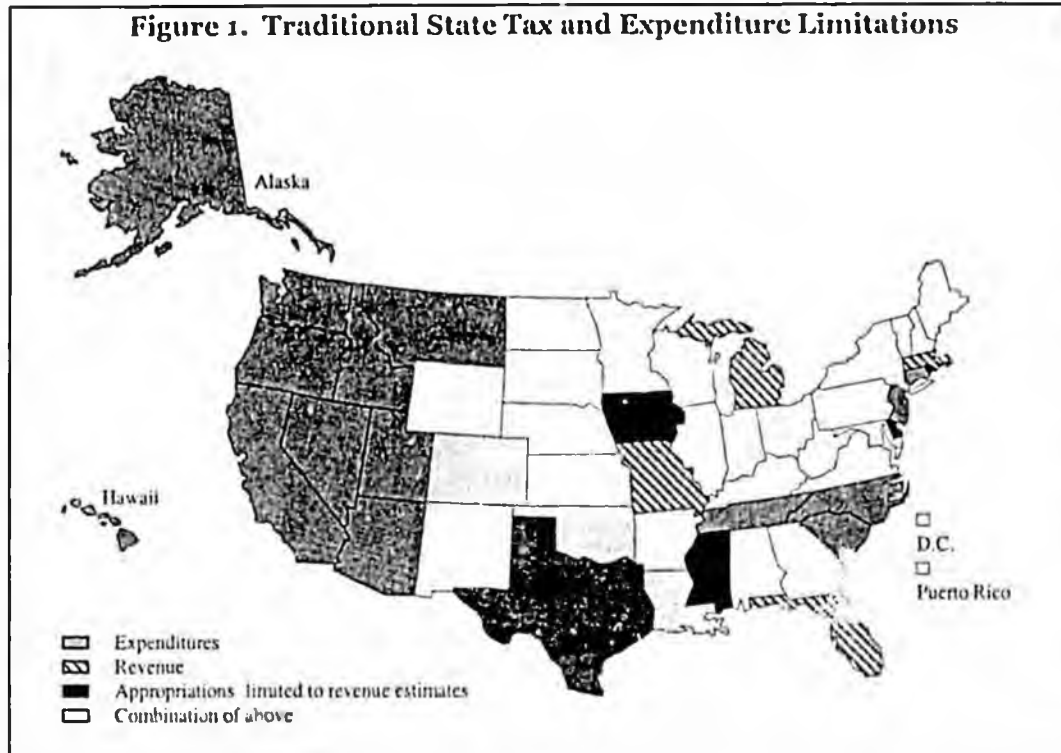
Mechanisms to limit state taxes and expenditures vary considerably. They range from "traditional" limits that restrict revenues, expenditures or appropriations to provisions that require voter approval or supermajority legislative votes.

Traditional Limits

Traditional limits refer to revenue, expenditure or appropriation limits. The features and restrictiveness of these limits varies considerably. Such variations make it difficult to categorize state TEs, but generally, they fall into one of the categories described below:

Revenue limits. Revenue limits tie yearly increases in revenue to personal income or some other type of index such as inflation or population. Only six states utilize revenue limits: Colorado, Florida, Louisiana, Massachusetts, Michigan and Missouri. The limit in each of these states provides for the refund of excess revenues to taxpayers.

Expenditure limits. This is the most common type of state TEL. Expenditure limits, like revenue limits, are typically tied to personal income or a growth index. However, expenditure limits curb state appropriations and generally are not as restrictive as revenue limits because it is easier for states to control spending levels than to anticipate incoming revenues accurately. The impact of expenditure limits on state government depends upon the limit parameters. In some states, like Colorado, where increases in



appropriations are limited to 6 percent of the previous year's appropriations, the limit can be restrictive. But in most states, particularly those where the limit is tied to a growth index and the economy is expanding, the limit remains high enough to have little effect. Somewhat more restrictive are expenditure limits with refund provisions if revenues exceed the authorized spending level. States with refund provisions include California and Hawaii.

Appropriations limited to a percentage of revenue estimates. This type of limit simply ties appropriations to expected revenues. It does not establish an absolute limit or tie growth to a measurable index. Delaware, Iowa, Mississippi, Oklahoma and Rhode Island have this type of appropriation limit in place.

Hybrids. States also have combined components of various limits. For example, Oregon has a state spending limit tied to personal income growth, with a provision requiring refunds if revenues are more than 2 percent above the revenue forecast. This law limits spending and, in a sense, limits revenues by tying them to the forecasted amount.

Other Tax And Expenditure Limitations

A number of states operate under voter approval and supermajority requirements that are not tax or expenditure limitations in the traditional sense; however, they can limit state revenue and expenditure options. Therefore, they are discussed here as a type of limitation. Often these measures are more restrictive than traditional limits.

Voter approval requirements. This is the most restrictive type of limit since all tax increases or tax increases over a specified amount must receive voter approval. Only three states have adopted voter approval requirements. Currently Colorado requires voter approval for all tax increases, and Missouri and Washington require voter approval for tax increases over a certain amount.

Supermajority requirements. Twelve states now use supermajority requirements to restrict legislative fiscal power. Supermajority requirements dictate either a two-thirds, three-fourths or three-fifths majority vote in both chambers to pass tax increases or new taxes.

Table 1. Supermajority Requirements and Other Constitutional Restrictions on Legislative Tax Power

State	Adopted	Referendum or Voter Initiative	Legislative Majority Required	Applies To
Arizona	1992	I	2/3	All taxes
Arkansas	1934	R	3/4	All taxes except sales and alcohol
California	1979	I	2/3	All taxes
Colorado	1992	I	2/3	All taxes *
Delaware	1980	R	3/5	All taxes
Florida	1971	R	3/5	Corporate income tax **
Louisiana	1966	R	2/3	All taxes
Mississippi	1970	R	3/5	All taxes
Nevada	1996	I	2/3	All taxes
Oklahoma	1992	I	3/4	All taxes
Oregon	1996	R	3/5	All taxes
South Dakota	1996	R	2/3	All taxes
Washington	1993	I	2/3	All taxes ***

* Tax increases automatically sunset unless approved by the voters at the next election.

** The constitution limits the corporate income tax rate to 5 percent; 3/5 vote is needed to increase beyond 5 percent.

*** Tax increases producing revenue that do not exceed the spending limit must be approved by 2/3 legislative vote; tax increases that produce revenue over the limit, must be approved by 2/3 legislative majority and by the voters.

Source: NCSL survey of state fiscal officers, April 1996

Arkansas was the first state in 1934 to require that tax increases be approved by an extraordinary majority. Arkansas courts have interpreted the supermajority requirement to apply only to taxes on the books when it was adopted, so sales taxes and alcohol excise taxes enacted after 1934 are exempt from the requirement. Louisiana, Mississippi and Florida followed with supermajority requirements. The Louisiana and Mississippi measures apply to all tax increases. The Florida measure applies only to bills that increase the corporate income tax above a constitutional cap of 5 percent.

Citizens took up the cause in the late 1970s in California and South Dakota, passing initiatives to require supermajority votes. Delaware's General Assembly referred the issue to the ballot itself and voters passed it in 1980.

Another wave of supermajority requirement initiatives surfaced in the early 1990s. Measures in Arizona, Colorado, Oklahoma, Oregon, Nevada and Washington have passed. Except for Oregon, all of these recent supermajority requirements are the result of citizen initiatives. Voters in South Dakota recently expanded their supermajority requirement from sales and income taxes to all taxes.

Features Of Tax And Expenditure Limitations

States laws and constitutions prescribe various methods and formulas to determine the limits on taxes and expenditures. These include both absolute limits on revenue and spending and limits on the size of revenue and expenditure increases. Expenditure or revenue growth may be tied to a certain growth percentage as in North Carolina where the spending limit is equal to 7 percent of state personal income. Limits also may be tied to

Figure 2. States with Supermajority and Voter Approval Requirements



the rate of growth in personal income or some other index like population growth or inflation as in Utah and Washington. Some states, like Missouri and Michigan, tie limits to a personal income ratio (total state revenues to personal income in the base year) from a specific year. Finally, some states limit appropriations to a percentage of the revenue estimate or forecast.

Obviously different limit characteristics promote different

results. Some of the variables are listed below, and all these factors contribute to the restrictiveness of state tax and expenditure limits.

- How was the limit initiated? Was it by citizen initiative or the legislature? Generally citizen initiated limits are more restrictive.
- Is it statutory or constitutional? Constitutional amendments are usually more difficult to change than statutes.
- Is it a limit on revenues or expenditures? As previously discussed, spending is easier for state governments to control.
- What is the basis of the limit? In many cases, the base year chosen to limit expenditures—often the late 70s or early 80s—was a high water mark for state spending. A high base year makes it less likely that a limit will be triggered.
- How much of the budget is limited? Often the TEL only applies to the general fund. How much of the budget does that really limit? How are earmarked funds treated?
- What are the provisions for change? Most states build in flexibility by providing provisions for emergencies or long-run changes in basic economic characteristics such as a declining population or ongoing recession.
- What are the provisions in the TEL for shifting program responsibility? Can government entities shift programs to one another?
- How are surplus funds treated? Surplus funds in most states go into "rainy day" or other special funds; a number of states, however, require refunds of surplus revenues.

Table 2 summarizes state tax and expenditure limits.

Reasons For Tax And Expenditure Limits

Table 2. State Revenue and Expenditure Limitations				
State	Adopted	Constitutional or Statutory	Limit Applies to	Nature of Limit
Alaska	1982	Constitutional	Appropriations	Growth of population and inflation
Arizona	1978	Constitutional	Appropriations	7.23 percent of personal income
California	1979	Constitutional	Appropriations	Personal income growth & population
Colorado	1991	Statutory	Appropriations	General fund appropriations limited to 6% of prior year's appropriations
	1992	Constitutional	Expenditures & Revenue	Spending limited to growth of population and inflation, tax increases require voter approval
Connecticut	1992	Constitutional	Appropriations	Greater of personal income growth or inflation
Delaware	1978	Constitutional	Appropriations	98% of estimated revenue
Florida	1994	Constitutional	Revenue	5 year average personal income growth
Hawaii	1978	Constitutional	Appropriations	3 year average personal income growth
Idaho	1980	Statutory	Appropriations	5.33 percent of personal income
Iowa	1992	Statutory	Appropriations	99% of adjusted general fund receipts
Louisiana	1979	Statutory	Revenue	Ratio to personal income in 1979
	1993	Constitutional	Appropriations	Per capita personal income growth
Massachusetts	1986	Statutory	Revenue	Growth of wages and salaries
Michigan	1978	Constitutional	Revenue	9.49% of prior year's personal income
Mississippi	1982	Statutory	Appropriations	98% of projected revenues
Missouri	1980	Constitutional	Revenue	5.64% of prior year's personal income
	1996	Constitutional	Revenue	Voter approval required for tax increase over \$50 million or 1 percent of state revenues
Montana	1981	Statutory	Appropriations	Personal income growth
Nevada	1979	Statutory	Expenditures	Growth of population and inflation
New Jersey	1990	Statutory	Appropriations	Personal income growth
North Carolina	1991	Statutory	Appropriations	7 percent of state personal income
Oklahoma	1985	Constitutional	Appropriations	12 percent adjusted for inflation; 95% of certified revenue
Oregon	1979	Statutory	Appropriations	Personal income growth
Rhode Island	1992	Constitutional	Appropriations	98% of projected revenue
South Carolina	1980, 1984	Constitutional	Appropriations	Personal income growth
Tennessee	1978	Constitutional	Appropriations	Personal income growth
Texas	1978	Constitutional	Appropriations	Personal income growth
Utah	1988	Statutory	Appropriations	Growth in population and inflation
Washington	1993	Statutory	Expenditures	Growth in population and inflation; tax increases beyond limit need voter approval

Source: NCSL Survey of Legislative Fiscal Officers, April 1996.

Fiscal constraints are not new to state governments. Many states are constrained legally from incurring debt and many state governments are required by constitution or statutes to adopt a balanced budget. However, over time, these requirements have not effectively stemmed the rapid growth of the public sector. There are three basic factors that influence the TEL movement.

Hidden tax increases. Taxes increase over time without a change in tax laws. At the state level, this occurs primarily with income taxes. If the state does not index income tax liability to inflation, over time incomes increase, pushing people into higher brackets. A greater proportion of income goes to pay taxes without any real increase in purchasing power.

Overemphasis on a particular type of tax. Overreliance on one tax is usually not a significant motivating factor behind state limits, although at the local level, heavy reliance on property taxes has resulted in local property tax limits. However, in a few states like Florida (sales) or Oregon (income), heavy reliance on a particular tax may cause concern among taxpayers.

General opposition to government expansion. Many taxpayers simply feel state governments are too big and too inefficient. They believe that public sector growth should be constrained, and that TELs, by making governments more accountable for expenditures and to voters, are a way to accomplish that goal. In addition, public support for state legislatures is very low as evidenced by the growing number of states with term limits. People are cynical about government and insecure about their economic well being. These things combine to make taxpayers distrustful of government fiscal policy.

There are numerous arguments in favor of state tax and expenditure limitations. For example, limits are said to:

- Make government more accountable;
- Force more discipline over budget and tax practices;
- Make government more efficient;
- Make governments think of creative ways to generate revenues—for example, advertising on state-owned facilities;
- Control the growth of government—growth based on personal income or inflation plus population seems reasonable;
- Enable citizens to vote on tax increases and determine their desired level of government service;
- Force government to evaluate programs and prioritize services;
- Raise questions about some functions provided by state government—are some of these functions more suited to the private sector;
- Help citizens feel empowered and result in more taxpayer satisfaction;
- Help diffuse the power of special interests;
- Offer a way to deny special programs;
- Possibly result in taxpayer refunds.

There are arguments against state tax and expenditure limitations as well. For example, limits are said to:

- Shift fiscal decision making away from elected representatives;
- Cause disproportional cuts for non-mandated or general revenue fund programs;
- Fail to account for disproportionate growth of intensive government service populations like the elderly and school age children;
- Make it harder for states to raise new revenue so that scarce resources may be shifted between programs;
- Cause a "ratchet-down-effect" where the limit causes the spending base to decrease so that maximum allowable growth will not bring it up to the original level;
- Result in excess revenues that are difficult to refund in an equitable manner;
- Result in declining government service levels over time;
- Fail to provide enough revenues to meet continuing levels of spending in hard economic times;
- Shift the state tax base away from the income tax to the more popular (but regressive) sales tax if voter approval is required;
- Shift the tax base away from broad taxes (property, sales and income) to narrowly defined sources such as lotteries and user fees.

Have Tax and Expenditure Limits Been Successful?

Most studies conclude that traditional state TELs have not been as effective as proponents envisioned. (They are much more effective when combined with local limits). This is primarily due to the way they are designed and how easily state governments can circumvent the limits.

Supporters of TELs usually specify that controlling the growth of government is the limit's primary objective, and several studies have attempted to measure the effectiveness of achieving that objective. It is difficult to determine if TELs make a difference, according to a study by Philip Joyce and Daniel Mullins in *Public Administration Review*. Significant differences may exist over time in revenue and expenditure structures between those states in which there are limitations and the average state. It is not entirely clear, however, whether these are the continuation of trends existing before the enactment of a particular TEL or whether the TEL itself made a difference. There may be a difference in the mood of states that enact TELs versus other states. The study found state limits to have less effect than local limits, probably due to the wide array of methods available to states to circumvent the limit.¹ In a new study by Mullins and Joyce, published in 1996, the authors found that the existence of state tax and expenditure limits without local limits has no significant negative effect on the size of the public sector.²

Newly published research on tax and expenditure limits includes a study by Ronald J. Shadbegian that appeared in the January 1996 edition of *Contemporary Economic Policy* and a study by James M. Poterba, published in the *Journal of Political Economy*, 1994. The Shadbegian study looked at the impact of tax and expenditure limitations adopted in the 1970s and 1980s on the size and growth of state government. He found that tax and expenditure limitation laws, as they currently are written, allow states with high income growth to keep increasing the size of the public sector. Meanwhile, they prevent states with low income growth from doing likewise. While TELs restrict government size and

growth in states with below average income, in general they have no significant effect on the size or growth of government.³ The Poterba study focused mostly on state balanced budget requirements, but he did find that states with tax limitations raise taxes by a lesser amount in response to an adverse deficit shock than states without such limits. While states without tax and expenditure limits are predicted to raise taxes by \$1.03 in response to each \$1.00 of unexpected deficit, the adjustment for states with tax limitations is only \$0.47.⁴ There is no evidence that spending cuts are any larger in states with tax and expenditure limits. This indicates limits have been somewhat successful in constraining the rate at which taxes are increased. It is also worth noting that some of the most potentially binding state TELs have passed since 1990 and have not been analyzed in any of the empirical studies discussed.

Another measure of a TEL's effectiveness is how often the state triggers the limit and what happens if it does. In most states, particularly those in which the limit is tied to a growth index and the economy is expanding, the limit remains high enough to have little effect. But in some states where increases in appropriations are limited to a percentage of the previous year's appropriation, the limit can be restrictive. In addition, a few states have provisions requiring taxpayer refunds if the state hits the limit. California, Missouri and Oregon have had to rebate excess revenues. Although taxpayer's share of rebates is usually small, it is an effective way to control government growth, since to avoid facing refunds, state legislatures may reduce taxes to lower the revenue base. When it appeared that revenues in Michigan would exceed the limit in FY 1995, the Legislature cut state income taxes by 2 percent. In anticipation of triggering the limit in FY 1997-98, the Colorado General Assembly adopted a number of measures in the 1996 session to reduce revenues, including a child care tax credit, a decrease in the insurance tax rate and a sales/use tax exemption on manufacturing tools. This strategy, however, can create problems in slow growth years because the base is now at a lower level.

Many fiscal policy experts believe that voter approval and supermajority requirements have placed tighter constraints on state governments than traditional revenue and expenditure limits.

Many fiscal policy experts believe that voter approval and supermajority requirements have placed tighter constraints on state governments than traditional revenue and expenditure limits. Requiring voter approval for state tax increases is a fairly new practice that only exists in three states. As a result, they do not have much of a track record. In 1992, Colorado was the first state to require voter approval on all tax increases and new taxes. Washington and Missouri also require voter approval on tax increases over a specific level (refer to the case studies for details). A simple way to measure the effectiveness of voter approval requirements is to look at the voter approval record. By using defeat as a measure, one can argue that the requirement is effective when voters say no to new taxes or tax increases. This happened in Colorado when voters said no to extending the tourism tax that supported the state travel office and tourism promotion. Many people felt that there was no need for a tourism tax and that they did not benefit from the revenues, so when given the opportunity, they voted it down.

An interesting observation related to the perceived ineffectiveness of tax and expenditure limits, is the number of states that have adopted legislative supermajority requirements. Such requirements are thought by many tax reformers to be a more effective tool to slow the growth of government and control spending than traditional TELs.

The restrictiveness of supermajority requirements depends upon the make-up of the legislature and on the state's tax system. In states with one predominant party, the

majority party traditionally has enough votes to approve tax increases. In other states, the requirement can be very restrictive. Legislative staff from supermajority states report that diligent consensus building by legislative leaders is necessary to gain approval of most tax increases.

The spread of supermajority requirements is probably more likely in the states, mostly in the West, with the voter initiative process. They are just one of a number of "tax revolt" measures that may be favored by anti-tax or anti-government groups, although the recent debate in Congress over supermajority requirements may spur a renewed interest in the states.

When analyzing the impact of all the various limits, it is important to look at not only whether the limit has led to less government, but also the quality of government services. The following questions may be helpful when analyzing the effects of tax and expenditure limits:

- Is the level of service at a desirable level?
- Has government accountability improved?
- Has government efficiency improved?
- Have the changes in revenue sources been positive?
- Has there been a shift in the responsibility of government functions?

Strategies to Manage State Tax and Expenditure Limitations

The past 20 years demonstrate that state governments have managed to live with TELs and that many of the early gloom and doom prophecies have not been realized. Listed below are several strategies that states may use to help manage limits.

- Build up the state's rainy day fund so money is available for slow growth years.
- Shift responsibility to local governments if permitted.
- Go to voters only in cases of emergency.
- Maintain the revenue base during slow growth years by planning on one-time tax refunds rather than reducing the revenue base permanently.
- Earmark new taxes, when needed, for a popular program to encourage voter approval.
- Prioritize spending and try to spend less, perhaps some government functions can be met through the private sector.
- Index fees and increase them on a gradual basis so that there won't be a need for a large increase at one time.

Although these strategies are not necessarily considered good fiscal policy, they are tactics to help states manage under tax and expenditure limits.

As state policymakers contemplate different tax and expenditure limits, it is helpful to review experiences in similar states. Therefore, state experiences in Colorado, Missouri, Michigan and Washington are included as Appendix A. Appendices B and C provide a comprehensive look at all state tax and expenditure laws in both tabular and narrative formats.

Summary

Broadly defined, state tax and expenditure limits include revenue limits, expenditure limits, appropriations limits, voter approval requirements and supermajority requirements. Some states operate under a combination of limits. Limits range from very restrictive voter approval requirements to more lenient appropriations limits, and they all have different characteristics that influence the way in which they work.

State tax and expenditure limits have been around for close to 20 years, but through the early years, they were not found to be very effective in controlling the growth of government. More restrictive limits have since been adopted, but few of these limits have been triggered due to strong economic conditions in most states. Furthermore, limits adopted since 1990 have not been analyzed in empirical studies. It remains to be seen how states will fare under the more restrictive limits in hard economic times.

In addition to traditional tax and expenditure limits, many states require a supermajority vote in the legislature or a vote of the people to increase or pass new taxes. These requirements are thought to be more effective in slowing down the rate of government spending. Twelve states now use supermajority requirements and five of those states have adopted them since 1992. Three states currently require voter approval for tax increases and in all three, the requirement was adopted after 1991.

Regardless of whether or not tax and expenditure limits achieve the desired outcome, more than half the states have some type of limit in place and it appears that they are here to stay. Anti-government sentiment remains strong and tax reform crusaders are quick to promote TELs as a way to tie the hands of government. □

Notes

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APPENDIX A. CASE STUDIES

The following illustrations present state tax and expenditure limits in more detail. The discussion focuses on experiences in Colorado, Missouri, Michigan and Washington.

Colorado

Background

Controlled government growth is not a new concept to Colorado residents. In 1977, Colorado was one of the first states to adopt a state general fund appropriations limit. And in 1992, voters approved the most restrictive state tax and expenditure limitation in any of the states.

Colorado, like many Western states, has a history of dramatic "boom/bust" type economic cycles. During the 1970s, the state economy boomed and residents became concerned about skyrocketing property values and containing growth. Legislation enacted in 1977 limited state appropriations increases to 7 percent over the previous year's general fund appropriations. Due to expire after the 1982-83 fiscal year, the law was amended in 1979 and extended indefinitely.

The mid-to-late 1980s proved to be a "bust" time in Colorado as the state suffered an economic downturn largely due to the collapse of the energy and construction industries. Citizens frustrated by what they believed to be government inefficiency and the perceived inequities of the state tax system, started a grassroots tax reform effort for state and local government. Tax and expenditure ballot initiatives appeared before the voters in 1986, 1988 and 1990, failing by progressively narrower margins each time. But the Taxpayer Bill of Rights (TABOR) amendment (also known as Amendment One) passed in 1992 and added Article X, Section 20 to the state constitution.

Arveschoug-Bird Legislation

Before the passage of Amendment One, the Colorado General Assembly adopted a statutory general fund appropriations limit. The legislation, adopted in 1991 as SB91-1262, set a limit on state general fund expenditure increases and is known as the Arveschoug-Bird limit. It limits annual increases in general fund appropriations to 6 percent of the state general fund expenditures for the previous year or 5 percent of Colorado personal income two years prior to the fiscal year, whichever is less. However, if the state significantly restructures education finance, the limit may be modified. The limit does not include the following:

- Any general fund appropriation that is the result of any requirement of federal law that is made for any new program or service or increase in level of program or service.
- Any general fund appropriation that is result of any requirement of a final state or federal court order that is made for any new program or service or increase in level.
- Any general fund appropriation of money that is derived from any increase in the rate or amount of any tax or fee that is approved by voters.

Amendment One

On November 3, 1992, Colorado voters adopted Amendment One. This amendment added Section 20 to Article X of the Colorado Constitution and generally serves to limit all spending of state and local governmental revenues. State general fund and cash fund spending (it defines spending as equal to revenues) can only increase based on population growth and increases in the Boulder/Denver Consumer Price Index (CPI). No increase in taxes or change in tax policy is permitted without voter approval. In addition, prior spending limits cannot be weakened without voter approval. Although the Arveschoug-Bird legislation is an appropriations limit--not a spending limit--it has generally been interpreted that the limit on general fund

appropriations may not be weakened. The end result is that voters must approve all tax increases and all spending increases over the limit. Elections can only be held during state general elections in even-numbered years, and during November in odd-numbered years, and during regularly scheduled biennial local elections.

Any revenues collected over the limit must be refunded to the taxpayers, unless voters allow the government to keep the excess revenue. Governments can use any "reasonable method" to make the refunds, but the amendment does not suggest or define what those methods might be.

The General Assembly may declare an emergency by a two-thirds vote of both chambers and raise emergency taxes. (Emergencies include natural disasters and other unforeseen events. They cannot be economic conditions, revenue shortfalls, or salary and fringe benefit increases.) Any such increase must be approved by voters at the next election.

The amendment also states that a local government can reduce or end its subsidy for any state mandated program except K-12 education. Ninety days' notice is required and adjustment can occur in a maximum of three equal annual installments. Local taxes supporting these programs must be reduced accordingly.

Impact on State-Local Relationships

A provision in the TABOR Amendment that permits localities to give back to the state any state-mandated program has been put to the test and failed according to the Colorado Supreme Court. Two counties attempted to give some social service programs back to the state, but the Supreme Court ruled that the counties were political subdivisions of the state and had a duty to perform state jobs.

At the same time, however, some local responsibility has shifted to the state. Local property tax revenues have leveled out because TABOR also limits the ability of local government and school districts to adjust the mill levy without voter approval (local property tax limits were already in place when TABOR was adopted and the local limits are calculated differently than the state limit). Mill levies can no longer float to make up for lost revenues from lower assessment rates. This has shifted more of the education burden onto the state.

Impacts of Colorado's Tax and Expenditure Limitations

It is difficult to predict what the broad fiscal impacts of Amendment One will be since the state has not hit the limit since it was adopted. The limit is indexed to population and inflation and Colorado's population has been steadily increasing. The true test will come when the state's economy slows down. The 6 percent appropriations limit outlined in the Arveschoug-Bird legislation has been more restrictive so far. However, there were ways to circumvent the Arveschoug-Bird limit by transferring general funds to other special revenue funds not subject to limit. Amendment One specifically states that current limits may not be weakened.

The Arveschoug-Bird legislation was written so that it could be amended at any time by a legislative supermajority for a fiscal emergency. Because it only limited general fund appropriations and could be amended by the legislature, it was not considered to be too restrictive. But now, in combination with Amendment One, Colorado may face a more restrictive tax and expenditure limitation.

Economic projections for FY 1997-98 put Colorado over the revenue limit by about 0.1 percent or \$8 million. If this happens, the state must refund the excess to taxpayers or seek voter approval to retain the surplus. To offset excess revenues, the General Assembly passed a child care tax credit in 1996 expected to reduce state revenues by \$8.4 million in FY 1997. Other legislative measures such as lowering the insurance tax rate and a sales/use tax exemption on manufacturing tools reduced revenues as well.

If the legislature does not want to seek voter approval for retaining the surplus, they can provide for a refund. However, this is not as simple as it may seem. The state constitution does not specify how to provide the refund, and it has proven difficult in other states to provide a refund in an equitable way. Many states with

revenue limits link the refund to income tax liability, but this raises some concerns about equity since not everyone pays income tax. Other options, like sales tax adjustments, or property tax reductions are not very feasible. Two Denver metropolitan special districts collected revenues in excess of the spending limit and were forced to refund the surplus through monthly utility bills.

Another option is to reduce revenues to avoid exceeding the limit. However, this may permanently lower the revenue base which can make for difficult times in years of slow growth.

Despite the concern and rhetoric surrounding the adoption of Amendment One, it has not yet proven to be a problem for Colorado at the state level. However, the provisions under the limit will undoubtedly become more difficult for state policymakers once economic growth slows down.

Missouri

Overview

Missouri's revenue limit is known as the Hancock Amendment. It was approved by the voters in 1980 and became Article X, Section 16-24 of the Missouri Constitution. The Hancock Amendment, which established a state revenue limit, was modeled after a similar amendment in Michigan. The limit is the ratio of total state revenues to personal income in FY 1981, which is 5.6395 percent.

In addition to placing a limit on the general fund revenues, the amendment also limits earmarked revenue sources like motor fuel taxes, cigarette taxes, and motor vehicle registration and drivers license fees. Federal funds are excluded. As interpreted by the Missouri Supreme Court in *Goode vs. Bond* (1983), the Hancock Amendment gave citizens the ability to selectively exclude increased taxes, fees or other revenues from the limit, by a majority vote at a general or special election called for that purpose. Many supporters of the revenue limit are convinced that this decision significantly weakened the limit.

In 1993, the General Assembly passed legislation (SB 380) to increase taxes by \$310 million to cover school financing without going to a vote of the people. The tax increase did not trigger the Hancock limit because it kept revenues under the limit. However, the action ignited a new tax reform effort by citizen groups to tighten the state revenue limit with a more restrictive constitutional amendment, known as Hancock II.

Hancock II

Hancock II would have imposed stricter voter approval requirements for tax increases and a rollback of existing tax increases. Supporters of Hancock II claimed that the Hancock I amendment initially restrained the growth of state taxes and spending, but over time its effectiveness had been eroded as legislators, aided by sympathetic court rulings, discovered ways to evade the restrictions by exempting certain revenues from the cap. Hancock II was designed to provide a more precise definition of total state revenue. In November 1994, Missouri voters defeated the Hancock II measure by a wide margin.

Amendment 4

The tax reform movement did not stop with the defeat of Hancock II. On April 2, 1996, Missouri voters, by a margin of more than 2 to 1, approved another state revenue limit. Constitutional Amendment 4 requires a statewide vote on all tax or fee increases that produce new annual revenues greater than either: 1) \$50 million adjusted annually by the percentage change in Missouri personal income for the fiscal year two years prior to the current year; or 2) 1 percent of the state revenues for the fiscal year two years prior to the current legislative action, whichever is less. In the event of an emergency the General Assembly may increase taxes, licenses or fees beyond the limit for one year. This amendment does not affect the basic Hancock amendment.

Impacts of the Revenue Limits

For the first time since its implementation in 1980, the Hancock I revenue limit was exceeded in FY 1995. The limit is tied to personal income, but there is significant lag time between the fiscal year and the personal income calculation. So in 1995, which was a good economic year for Missouri, tax revenues were above average. However, due to the lag time, 1995 revenues were compared to 1993 personal income, which was low, largely due to summer flooding. As a result, the state exceeded the 5.64 percent revenue limit in FY 1995 and is required by law to refund surplus revenues to taxpayers based on their income tax liability. The state is planning to provide \$147 million through the income tax as specified in the state constitution.

Controversy and claims of inequity surround the refund because not everyone pays income tax, even though they may have contributed to state revenues. (As of October, refunds were still held up pending the outcome of a court case on this issue). In addition, because the refund is based on income tax liability, corporations will benefit more. Because 1996 revenues are on track to exceed the limit and a second refund is likely, the state is exploring ways to prevent future refunds. Possibilities include reducing the sales tax or a partial roll back on the food tax. Neither proposal has been greeted with much enthusiasm in the legislature.

Overall, Hancock I has not proven to be a very restrictive limitation. Without the robust economic growth of recent years and the floods of 1993, it may never have affected the state. Now with the adoption of a new amendment requiring voter approval for tax increases, some fiscal flexibility is lost and the two measures combined should prove to be more restrictive.

Michigan

Overview

In 1978, a citizen initiative known as the Headlee Amendment was approved and became Article IX, Section 25-34 of the Michigan Constitution. The Headlee limit applies to all state revenues, except federal aid, and prohibits the state from collecting more than 9.49 percent (the ratio of 1978-79 revenue to 1977 state personal income) of personal income in tax revenues for any fiscal year.

To exceed the limit, the governor must first specify an emergency; then the Legislature must concur by two-thirds vote in each chamber. This override provision has never been used.

In addition, the following provisions apply: 1) the limit may be adjusted if a constitutional amendment results in the transfer of program responsibility from one level of government to another; 2) the state is prohibited from reducing the current proportion of local services financed through state aid; 3) no new program shall be required of local governments unless funded by the state; and 4) the proportion of total state spending paid to all units of local government as a group shall not be reduced below the proportion for FY 1978-79

If revenues exceed the 9.49 percent limit by more than 1 percent, the entire amount of the surplus must be refunded to taxpayers in the following year through both business tax and individual income tax refunds. If the limit is exceeded by less than 1 percent, the surplus may be deposited into the Budget Stabilization Fund.

The following table compares the revenue limit with the actual level of state government revenues for each fiscal year since the limit was adopted. In most of the 14 years from FY 1979-80 to FY 1992-93, state government revenue has been well under the revenue limit. In fact, in 1991-92, the state was below the limit by as much as \$3.7 billion. The state came close to the revenue limit in FY 1984-85, when revenues fell short of the limit by a mere \$6.1 million. This close call was due to a rapid growth in revenues resulting from strong economic growth as Michigan's economy continued to pull out of the 1980-82 recession. In addition, the growth in revenue was further accelerated by a temporary increase in the income tax to help close a budget

deficit and improve a serious cash-flow problem. This growth in revenue outpaced the growth in personal income during calendar year 1983, which was the first year of the economic recovery in Michigan.

Michigan's Revenue Limit: FY 1979-80 to FY 1996-97 (millions)			
1979-80	\$6,870.1	\$7,396.8	\$526.7
1980-81	7,043.0	8,215.7	1,172.7
1981-82	7,348.9	8,763.0	1,414.1
1982-83	8,104.5	9,424.9	1,321.4
1983-84	9,243.5	9,488.1	244.6
1984-85	9,861.6	9,867.7	6.1
1985-86	10,492.8	10,857.3	373.5
1986-87	10,891.9	11,736.6	844.7
1987-88	11,472.3	12,822.2	1,349.9
1988-89	12,087.9	13,439.5	1,351.6
1989-90	12,363.1	14,513.4	2,150.3
1990-91	12,311.9	15,351.4	3,039.5
1991-92	12,540.6	16,228.2	3,687.6
1992-93	13,435.3	16,583.8	3,148.5
1993-94	15,286.0	17,534.0	2,248.0
1994-95	18,585.4	18,475.8	(109.6)
1995-96 Est.	19,381.4	19,982.0	600.6
1996-97 Est.	20,179.9	21,323.9	1,144.0

Source: Table compiled by Michigan Senate Fiscal Agency

Impact of the Revenue Limit

In March 1994, Michigan voters approved changes in the way public schools would be financed. While the school finance reform generated an overall tax reduction for Michigan's taxpayers, the large reduction in local school property taxes was partially offset by an increase in certain state taxes. As a result, state revenues were expected to exceed the revenue limit for the very first time in FY 1994-1995. The legislature had already been considering tax cuts and the threat of hitting the revenue limit created a good opportunity to implement them. As a result, taxes were reduced by over \$300 million, but it still appeared that revenues would exceed the limit by more than \$18.4 million. This would have required refunds to individuals and businesses since the state would have been exceeding the revenue limit by more than 1 percent. To avert this situation, the Legislature enacted a one-time 2 percent cut in 1995 individual income taxes. As a result, the revenue limit was exceeded by \$109.6 million and the limit was not triggered.

Washington

Overview

The first tax and expenditure limit in Washington was adopted in 1979 as Initiative 62. The state suffered from a recession soon after it was enacted, and it never became much of a constraint since the base was then higher than the state could spend. In fact, the 1993 Legislature was able to pass a \$1 billion tax increase to balance the FY 1994-95 budget and remain within the limit. It was this tax increase that provided the impetus for two citizen initiatives that limited taxes to appear on the ballot in November 1993.

Initiative 602 was the more extreme measure. It would have rolled back nearly all the \$1 billion in tax and fee increases, in addition to imposing a limit on state revenues. It was defeated at the polls.

The other initiative (601), passed by less than 1 percent of the vote. Initiative 601 imposes limitations on state tax and fee increases and limits state general fund expenditures. It is statutory in nature since citizens in Washington are not authorized to initiate constitutional amendments. The initiative establishes two new fiscal reserve funds and repeals the state's current Budget Stabilization Account (known as the "rainy day fund").

Beginning with FY 1996, a limitation was placed on general fund expenditures. The rate of growth in expenditures may not exceed the state's average rate of inflation and population change for the prior three fiscal years. The base year for calculating the expenditure limitation is FY 1991. The base FY 1991 expenditure limitation was adjusted for subsequent changes in inflation and population to determine the initial expenditure limitation for FY 1996.

All general fund revenue in excess of the amount the state is allowed to spend under the expenditure limitation is deposited in an Emergency Reserve Fund. Appropriations may be made from this fund only with a two-thirds vote of each house of the Legislature, and only if the appropriation does not cause spending to exceed the expenditure limitation. If the balance of the emergency fund exceeds 5 percent of biennial general fund revenues, the excess is deposited in an Education Construction Fund. Money in this fund may be appropriated by majority vote of the Legislature for capital construction projects for higher education and the K-12 school system. If approved by the voters and two-thirds of each house of the Legislature, money in the Education Construction Fund may be appropriated for any other purpose.

Any action by the Legislature that increases state revenue or makes revenue-neutral tax shifts requires a two-thirds vote of each house. If the action will result in expenditures in excess of the expenditure limitation, then the legislative action will not take effect until approved by the voters at a November general election.

The limit may be exceeded on a temporary basis in the case of a natural disaster. Such an expenditure may be made only pursuant to a declaration of emergency enacted by a law approved by two-thirds of each house of the Legislature and signed by the governor. Any taxes required for such an emergency may be temporarily imposed only if the Education Construction Fund has been depleted. Such taxes expire at the next general election unless approved by the voters.

The Legislature is prohibited from imposing on local governments any responsibility for new programs (or increased levels of service under existing programs) unless the Legislature fully reimburses the local government for the cost of the program.

Impact of the Expenditure Limit

The supplemental budget passed in 1994 as the first post-initiative spending plan demonstrated good planning by the Washington Legislature. The goal was to make state government ready for 1995 when the initiative went into effect. The following actions were taken:

- Targeted cuts of \$59 million were made--mostly in administration, social services and prisons--to save more than \$120 million in the new biennium.
- Spending increases were of a one-time-only nature for items like highways and school construction, so those expenditures would be off the budget in July 1995. As a result, the budget base was not swollen from previous spending levels and would be easier to sustain in the new biennium.
- Some programs were directed to begin planning for cuts. As a prime example, public colleges were directed to trim expenses by \$39 million to help pay for faculty and staff pay raises.
- A reserve of about \$290 million was left unspent.

So far, the state has not come close to triggering the limit. For the 1995-97 biennium, the state budget is approximately \$360 million below the limit. The Legislature has taken steps to cut taxes when it appears that revenues are coming in high. To date, no money has gone into the surplus fund.

Some fiscal experts have expressed concern that the limit may prove to be constraining as the need grows to spend more in specific areas like higher education as enrollment increases and on welfare as the federal reforms take effect. The limit may also prove to be constraining when disproportionate population growth occurs among some sectors of society that consume a greater proportion of services. In Washington, for example, the population of school age children and the elderly is increasing faster than the population rate on which the expenditure limit is based.

Others question whether a statute can limit the constitutional powers of the Legislature to raise and spend money to run government. The initiative is untested in court. One of the biggest challenges will be for the Legislature to stay below the limit and avoid a court battle.

APPENDIX B. SUMMARY OF STATE TAX AND EXPENDITURE LIMITS

Alaska

In 1982, Alaska adopted Article IX, Section 16 of the Alaska Constitution, which limits state appropriations to population growth and inflation; a vote for reconsideration of the limit in 1986 continued the provision. The yearly growth of appropriations may not exceed \$2.5 billion by more than the cumulative percentage increase in population and inflation since 1981. Within the limit at least one-third of state spending shall be reserved for capital projects and loan applications. However, this provision may be disregarded when economic conditions impose a more restrictive limit. In the event of decreased revenues, an appropriation may be made from the Budget Reserve Fund.

Arizona

In 1978, Article 9, Section 17 amended the Arizona Constitution to limit government spending to state personal income. Arizona law now specifies that appropriations of state tax revenues shall not exceed 7.22 percent of state personal income. To waive the provision, two-thirds approval of each house of the Legislature is required on specific additional appropriations. The Legislature may provide for adjustments to the limit if a court order or legislative enactment transfers responsibility between state and local governments or between federal and state governments.

California

In 1979, the California Constitution (Article XIII B) was amended by a citizen initiative known as the Gann Amendment. Originally, the Gann Amendment imposed a state spending limit that tied appropriations to increases in population and inflation. The formula was modified in 1988 to include per capita income. In the event of an emergency, the appropriations limit may be exceeded provided that increased expenditures are compensated for by reduced expenditures over three following years. Alternatively, the limit may be changed by voters but the change is operative for only four years.

The limit also provides for the transfer of responsibility for government programs: 1) the appropriations limit shall be altered if program responsibility is transferred from one government entity to another, from government to private entity, or from funding through general revenues to funding through special revenues; 2) the state shall provide the funding when it requires local government to provide a program; and 3) appropriations required for the purpose of complying with federal requirements are not under the limit.

If revenues exceed the spending limit, one-half of all surplus revenues shall be returned to taxpayers by revision of tax rates or fee schedules within the next two fiscal years; and one-half shall be allocated to K-14 school districts.

Colorado

State government in Colorado operates under two different tax and expenditure limits. The first was imposed by the legislature as SB 91-1262 and established a limit on the increase in state general fund appropriations. Called the Arveschoug-Bird limit, state general fund appropriations are limited to the state money necessary for reappraisal of any class or classes of taxable property for property tax purposes plus the lesser of 1) 5 percent of Colorado state income; or 2) 6 percent over the total state general fund appropriation for the previous fiscal year.

The second limit in Colorado is both a tax and expenditure limit. It was adopted by Colorado voters in 1992 as the result of a citizen initiative and is known as Amendment One or the Taxpayers Bill of Rights (TABOR). Amendment One added Section 20 to Article X of the Colorado Constitution. It generally serves to limit spending of state and local government revenues and restricts governments' ability to raise taxes without voter

approval in advance. Spending can only increase based on population growth and increases in CPI; government cannot change taxes or tax policy without voter approval and current spending limits cannot be weakened without voter approval. These restrictions may be waived by any voter-approved increases. In addition, the General Assembly can declare an emergency by two-thirds vote and raise emergency taxes subject to voter approval.

According to the law, local government can reduce or end its subsidy for any state-mandated program except K-12 education. Ninety days' notice is required and adjustment can occur in a maximum of three equal annual installments. Local taxes supporting these programs must be reduced accordingly. However, the Colorado Supreme Court ruled that counties are "instrumentalities of the state"; therefore, they may not turn back mandated programs.

If the state exceeds either limit, excess revenues must be refunded to the citizens.

Connecticut

In 1991, the Connecticut Legislature adopted a statute to limit state spending as well as a resolution calling for a constitutional amendment to limit state spending. The amendment was adopted in 1992 and amends Article XXVIII of the state constitution. It will not go into effect until the Legislature defines the terms with a three-fifths vote. Therefore, the state continues to operate under the 1991 statute (Conn. Gen. Stat. 2-33a).

The limit applies to state appropriations (but excludes debt service, state grants to distressed municipalities, first year expenditures for federal mandates or court orders and expenditures from the Budget Reserve Fund). Appropriations shall not increase by more than the increase in personal income in the state (average of the annual increase for each of the preceding five years) or the increase in inflation (the consumer price index for urban consumers during the preceding 12 month period), whichever is greater. To waive the limit, the governor can declare an emergency or the existence of extraordinary circumstances, plus approval by three-fifths of both House and Senate.

Surplus revenues are to be used as follows: 1) add to the Budget Reserve Fund (rainy day fund); 2) reduce bonded indebtedness; or 3) for any purpose authorized by at least three-fifths of both House and Senate.

Delaware

A Constitutional amendment (Article VIII, Section 6) adopted by Delaware in 1980 limits state appropriations. State general fund appropriations are limited to 98 percent of estimated general fund revenue and the prior year's unencumbered funds. The limit may be waived by the declaration of an emergency and three-fifths vote of each legislative chamber. Surplus revenues go into the Budget Reserve Account and are subject to the provisions governing that fund.

Florida

Florida voters in November 1994, endorsed the Legislature's proposal to limit the rate of growth of state revenues. The provision requires that the amount of money the state takes in from most revenue sources is limited by the growth rate of personal income in Florida. The revenue limit is determined by multiplying the average annual growth rate in Florida personal income over the previous five years by the maximum amount permitted under the cap the previous year. If more revenue is collected than permitted by the limit, it will be placed in the Budget Stabilization Fund unless, by a two-thirds vote of both houses, the Legislature decides otherwise. When the fund reaches the statutory maximum, the excess is to be rebated to taxpayers.

The proposal does not limit the imposition of any tax nor does it repeal any existing tax levy (although the constitution prohibits a personal income tax). It does limit the amount of money the state may collect (except

from certain funds) and has no impact on local taxation. By statute, the Legislature can adjust the limit to reflect transfers in funding responsibilities between state and local governments.

Hawaii

Hawaii's state spending limit was adopted at a constitutional convention in 1978 as Article VII-Section 9 of the state constitution. The amendment limits the growth of state general fund appropriations to the average rate of growth of state personal income for the three previous years. Specific appropriations over the limit require two-thirds approval in both legislative chambers.

Article VII-Section 6 on the constitution specifies that if the state general fund balance in each of two successive years exceeds 5 percent of general fund revenues, the Legislature must provide for a tax refund or tax credit in the following fiscal year (no specific amount is stated).

In addition, Article VIII-Section 5 specifies that the state must share the cost of any new program or service increase required of local government by the Legislature.

Idaho

The Idaho Legislature adopted a state spending limit in 1980 (Statute cite 67-6803). The law limits state general fund appropriations to 5.33 percent of state personal income. The statute may be amended with a majority vote of the Legislature and the limit was modified in 1994 to exclude one-time expenditures. Adjustments to the limit shall be made if a court order or legislative enactment transfers responsibility between state and local governments or between federal and state governments.

Iowa

In 1992, the Iowa legislature adopted a statutory appropriations limit. The statute (Iowa Code Section 8.54) limits state general fund appropriations to 99 percent of adjusted general fund receipts. The limit is reduced to 95 percent for any new revenue source for the first year that the new revenue source is in place. Excess revenues go first to the Cash Reserve Fund, then to the Rebuild Infrastructure Account, and then to the Economic Recovery Fund.

Louisiana

State government in Louisiana operates under both a revenue and expenditure limit. The revenue limit was passed by the Legislature as a statutory restriction in 1979 (RS 47:5001-11) and the expenditure limit was adopted as a constitutional amendment (Article 7, Section 10) in 1993.

According to the revenue limit, tax revenue shall not exceed the ratio of FY 1978-79 tax revenue to 1977 state personal income, and expenditures for any given year shall not exceed anticipated state revenues for that year. The statute may be amended by vote of the Legislature. State tax revenue in excess of limit shall be deposited in the Tax Surplus Fund; appropriations from that fund may only be made for paying tax refunds.

The constitutional amendment limits state spending to 1992 appropriations plus per capita personal income growth. The limit may be waived by a two-thirds vote of the Legislature and surplus revenues may only be used to retire debt in advance of maturity.

Massachusetts

Massachusetts has two limits on the books. In 1986, a citizen initiative limiting state revenue collections passed in Massachusetts. It created a revenue limit equal to the average growth of wages and salaries of the

previous three years. The law requires surplus revenues to be refunded as a personal income tax credit; however, the statute may be amended by a majority vote of the legislature.

The other limit was imposed by the legislature. In anticipation of the citizen imposed limit, the state legislature created a budget stabilization fund. If the balance of the state general budget exceeds 0.5 percent of tax revenue for the fiscal year, the excess is to be transferred to the Commonwealth Budget Stabilization Fund. This fund is allowed to grow only to 5 percent of the state tax revenue for that year. If the surplus is greater, then it must be refunded as stated in the initiative law.

Michigan

In 1978, a citizen initiative known as the Headlee Amendment resulted in a state revenue limit and adoption of Article IX, Section 25-34 of the Michigan Constitution. The limit applies to all state revenues less federal aid and prohibits the state from collecting more than 9.49 percent (the ratio of 1978-79 revenue to 1977 state personal income) of personal income in tax revenues for any fiscal year. If revenues exceed the 9.49 percent limit by more than 1 percent, the entire amount of the surplus must be refunded to taxpayers in the following year through both business tax and individual income tax refunds. If the limit is exceeded by less than 1 percent, the surplus may be deposited into the Budget Stabilization Fund.

To exceed the limit, the governor must first specify an emergency; then the Legislature must concur by two-thirds vote in each chamber. In addition, the following provisions apply: 1) the limit may be adjusted if a constitutional amendment results in program responsibility being transferred from one level of government to another; 2) the state is prohibited from reducing the current proportion of local services financed through state aid; 3) no new program shall be required of local governments unless funded by the state; and 4) the proportion of total state spending paid to all units of local government as a group shall not be reduced below the proportion for FY 1978-79

Mississippi

The Mississippi Legislature adopted a statutory appropriations limit in 1992. The limit applies to budget recommendations and appropriations, and limits spending to 98 percent of projected revenues. One-half of any year-end surplus remains in the general fund and one-half goes into a working cash/stabilization reserve fund up to the 7.5 percent ceiling, then the remainder goes into a special education fund.

Missouri

In 1980, Missouri voters adopted a citizen initiative revenue limitation as an amendment to the state constitution (Article X, Section 16-2.4). The amendment is commonly referred to as the Hancock Amendment and it limits state revenue to the ratio of fiscal year 1980-81 state revenue to 1979 state personal income, multiplied by the greater of state personal income in any calendar year or the average state personal income over the previous three calendar years. To exceed the limit, the governor must first specify an emergency; then the legislature must concur by two-thirds vote in each chamber. There are provisions for the transfer of government responsibility as follows: 1) the limit may be adjusted if program responsibility is transferred from one level of government to another; 2) the state is prohibited from reducing the current proportion of local services financed through state aid; and 3) no new program shall be required of local governments unless funded by the state. Revenues exceeding the limit by 1 percent or more shall be used for tax refunds in proportion to income tax liability. Excess less than 1 percent may be transferred to the general revenue fund. In addition to the Hancock amendment, Missouri voters adopted a new constitutional amendment in April 1996 that tightens the state revenue limit. Amendment 4 requires voter approval for any tax or fee increase that will produce revenues greater than: 1) \$50 million adjusted annually by the percentage change in state personal income for the year two years prior to the current fiscal year; or, 2) 1 percent of the state revenues for the fiscal year two years prior to the current legislature's action, whichever is less. To waive the limit, the

governor must first specify an emergency; then the legislature must concur by two-thirds vote in each chamber.

Montana

In 1981, the Montana Legislature adopted a state spending limit (Montana Revised Statutes, Section 17-8-105) where state biennial appropriations shall not exceed state appropriations for the preceding biennium plus the product of the preceding biennial appropriations and the growth percentage. The growth percentage is the difference between average state personal income for three calendar years immediately preceding the next biennium and the average state personal income for the three calendar years immediately preceding the current biennium. To waive the limit, the governor must declare an emergency and the Legislature must then approve specific additional expenditures by two-thirds vote of each chamber.

Nevada

In 1979, the state Legislature adopted a statutory expenditure limitation (Nev. Rev. Stat. 353.213) that applies to the governor's proposed general fund expenditures. The limit ties state expenditures to population growth and inflation using the 1975-76 biennium as the base. There are no provisions to exceed the limit since it only applies to the recommended budget and is non-binding.

New Jersey

The New Jersey Legislature adopted a statutory expenditure limit in 1990 (New Jersey Revised Statutes 52:9H-26). The limit applies to general fund state appropriations less exemptions for debt service, state aid, grants-in-aid and capital construction. State appropriations are not to exceed the average state per capita annual income of the prior three years. The limit may be waived with a two-thirds vote of the Legislature. In addition, an adjustment to limit shall be made if program responsibility is transferred between state and local governments.

North Carolina

In 1991, the North Carolina state legislature adopted a statutory expenditure limitation (Statute 143-15.4). The law limits the fiscal year operating budget to 7 percent or less of the projected total state personal income for that fiscal year. The limit may be exceeded to the extent that Medicaid, prison operations or state health insurance increases exceed increases in state personal income. Revenue surpluses are reverted to the general fund credit balance.

Oklahoma

In 1985, an amendment was added to the Oklahoma state constitution (Article 10, Section 23) that limits state expenditures. The law limits spending to a 12 percent yearly increase (adjusted for inflation) and limits appropriations to 95 percent of certified revenue. Revenues to the general fund in excess of the official estimate (up to 10 percent) shall be deposited in a rainy day fund until that fund hits its 10 percent cap.

Oregon

In 1979, the Oregon legislature adopted a statute (ORS 291.355) that limits the rate of growth of appropriations in each biennium to the rate of growth of state personal income in the two prior calendar years. The statute may be amended at any time by a legislative majority and adjustments to the limit shall be made if program funding is transferred from general fund to non-general fund sources or vice-versa.

In addition, revenue exceeding close-of-session revenue forecast by 2 percent or more shall be used for tax refunds proportional to income tax liability.

Rhode Island

Rhode Island adopted a constitutional amendment (Article 9, Section 16) in 1992 that limits state appropriations. State general fund appropriations are limited to 98 percent of estimated general fund revenue and the prior year's unencumbered funds. Excess revenues between 98 percent and 100 percent of estimated revenues must be put into the rainy day fund. Revenues above 100 percent of the forecast must be used to reduce state indebtedness, pay debt service or fund capital projects.

South Carolina

Article X, Section 7 of the South Carolina Constitution limits state government spending. The South Carolina law, adopted in 1984, provides that state appropriations in any fiscal year are limited to the greater of: 1) the state appropriation authorized by the spending limit for the previous fiscal year increased by the average growth of personal income over the three preceding years, or 2) 9.5 percent of total state personal income for the previous year. Also, the number of state employees is tied to state population. Expenditures included under the spending limit are those from the general fund, Highway Trust Fund and the Education Improvement Act. The limit may be exceeded for one year by a two-thirds vote of the legislature if it first declares a financial emergency. Also, every five years the legislature can review the composition of the limit. Excess revenues may be spent to match federal programs, for debt purposes, tax relief or transferred to the reserve fund.

Tennessee

Tennessee's 1978 constitutional amendment (Article II, Section 24) was adopted at a state constitutional convention and limits the growth in state appropriations to the growth in state personal income. Specific additional amounts may be approved by a majority vote of the legislature. If the state increases expenditure requirements of local government, it must share in the cost.

Texas

Article VIII, Section 22 of the Texas Constitution was adopted in 1978 and limits spending of state tax revenues not dedicated by the state constitution. The growth of biennial appropriations shall not exceed the rate of growth of state personal income.

If the Legislature adopts a resolution that an emergency exists, additional spending may be authorized by a majority vote of the Legislature.

Utah

In 1989, the Utah Legislature adopted a state spending limit (Statute 59-17A-104). The limit ties yearly growth in appropriations to population growth and inflation. To waive the limit, an emergency must be declared by the governor and confirmed by two-thirds of both houses of the Legislature. The law allows for the following adjustments: 1) an adjustment to the limit shall be made if program responsibility is transferred between state and local governments; and 2) an adjustment to the limit shall be made if program funding is transferred from general fund to non-general fund sources or vice-versa.

Washington

In November 1993, voters in Washington approved citizen Initiative 601. I-601 limits state expenditures by statute according to a three year rolling average of inflation and population growth. To waive the limit, an emergency must be declared and approved with a two-thirds vote of the Legislature. If revenue produced by a tax increase remains within the expenditure limit, only two-thirds legislative approval is required for the

increase. If revenues will exceed the limit, voter approval is needed. The law prohibits the state from imposing new mandates on local governments unless fully reimbursed.

Excess revenue goes into an Emergency Reserve Fund; if the fund exceeds 5 percent of general fund revenue, the additional surplus is placed in the Education Construction Fund.

Source: NCSL survey of state fiscal officers, April 1996

APPENDIX C. STATE TAX AND EXPENDITURE LIMITS

State Year Of Adoption— Type Of Limit— Method Of Approval	Limit Applies to	The Limit is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Program	Treatment of Surpluses
Alaska 1982 Constitutional Expenditure Legislative Referendum	State appropriations	Yearly growth of appropriations may not exceed percentage increase in population and inflation	In the event of decreased revenues, an appropriation may be made from the Budget Reserve Fund	None	None
Arizona 1978 Constitutional Expenditure Legislative Referendum	Appropriations of state tax revenues	Appropriations of state tax revenues shall not exceed 7.23 percent of state personal income	Requires two-thirds legislative approval for specific additional appropriations	Legislature shall provide for adjustments to limit if court order or legislative enactment transfers responsibility between state and local governments or between federal and state governments	None

State Year Of Adoption— Type Of Limit— Method Of Approval	Limit Applies to	The Limit is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Program	Treatment of Surpluses
California 1979 Constitutional Expenditure Citizen Initiative	Appropriations of state tax revenues	Yearly growth in appropriations limit shall not exceed percentage increase in population and per capita personal income	In the event of an emergency, the appropriations limit may be exceeded provided increased expenditures are compensated for by reduced expenditures over three following years. Alternatively, the limit may be changed by voters but the change is operative for only four years	1) The appropriations limit shall be altered if program responsibility is transferred from one government entity to another, from government to private entity, or from funding through general revenues to funding through special revenues. 2) The state shall provide the funding when it requires local government to provide a program. 3) Appropriations required for purpose of complying with federal requirements are not under limit	One-half of all surplus revenues shall be returned to taxpayers by revision of tax rates or fee schedules within next two fiscal years; one-half shall be allocated to K-14 school districts.
Colorado 1991 Statutory Expenditure Legislative Vote	State general fund appropriations	6 percent of prior year's appropriation	Legislative majority	None	None

State Year Of Adoption— Type Of Limit— Method Of Approval	Limit Applies to	The Limit is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Program	Treatment of Surpluses
California 1979 Constitutional Expenditure Citizen Initiative	Appropriations of state tax revenues	Yearly growth in appropriations limit shall not exceed percentage increase in population and per capita personal income	In the event of an emergency, the appropriations limit may be exceeded provided increased expenditures are compensated for by reduced expenditures over three following years. Alternatively, the limit may be changed by voters but the change is operative for only four years	1) The appropriations limit shall be altered if program responsibility is transferred from one government entity to another, from government to private entity, or from funding through general revenues to funding through special revenues. 2) The state shall provide the funding when it requires local government to provide a program. 3) Appropriations required for purpose of complying with federal requirements are not under limit	One-half of all surplus revenues shall be returned to taxpayers by revision of tax rates or fee schedules within next two fiscal years; one-half shall be allocated to K-14 school districts.
Colorado 1991 Statutory Expenditure Legislative Vote	State general fund appropriations	6 percent of prior year's appropriation	Legislative majority	None	None

State Year Of Adoption— Type Of Limit— Method Of Approval	Limit Applies to	The Limit is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Program	Treatment of Surpluses
1992 Constitutional Expenditure & Revenue Citizen Initiative	All state spending and tax increases	Spending can only increase based on populations growth and increase in CPI; no change in taxes or tax policy without vote approval; current spending limits cannot be weakened without voter approval	Any vote-approved increases; General Assembly can declare emergency by two-thirds vote and raise emergency taxes subject to vote approval	Locals can reduce or end its subsidy for any state- mandated program except K-12 education; 90 days notice required and adjustment can occur in a maximum of three equal annual installments. Local taxes supporting these programs must be reduced accordingly	Excess revenues must be refunded to the citizens
Connecticut 1991-Statutory (Resolution For A Constitutional Amendment) 1992-Constitutional Expenditure Legislative Vote-1991 Legislative Referendum-1992	State appropriations (but excludes debt service, state grants to distressed municipalities, first year expenditures for federal mandates or court orders, and expenditures from the Budget Reserve Fund)	Appropriations shall not increase my more than the increase in personal income in the state (average of the annual increase for each of the preceding five years) or the increase in inflation (CPI-University, preceding 12-month period), whichever is greater	Governor can declare an emergency or the existence of extraordinary circumstances, plus approval by three-fifths of both House and Senate	None	1) Budget Reserve Fund (Rainy Day Fund) 2) Reduction of bonded indebtedness 3) Any purpose authorized by at least three-fifths of both House and Senate
Delaware 1978 Constitutional Expenditure Legislative Referendum	State general fund appropriations	98 percent of estimated general fund revenue and prior year's unencumbered funds	Declaration of an emergency and three- fifths vote of each chamber	None	Goes into an accumulative cash balance and is available for appropriations in ensuing fiscal year
Florida 1994 Constitutional Revenue Legislative Referendum	All state revenues including taxes, fees, licenses and charges	Prior year's revenue plus growth, defined as a five- year rolling average of personal income growth	Two-thirds vote of the Legislature	Legislature by statute can adjust the limit to reflect transfers in funding responsibilities between state and local governments	Excess revenues go to the budget stabilization fund. When the fund reaches statutory maximum, the excess is rebated to taxpayers

State Year Of Adoption— Type Of Limit— Method Of Approval	Limit Applies to	The Limit is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Program	Treatment of Surpluses
Hawaii 1978 Constitutional Expenditure Constitutional Convention	State general fund appropriations	General fund appropriations shall not exceed the average rate of growth of state personal income for three previous years	Specific appropriations over the limit require two-thirds approval in both chambers	The state must share the cost of any new program or service increase required of local governments by the Legislature	If the state general fund balance in each of two succeeding years exceeds 5 percent of general fund revenues the Legislature will provide for a tax refund
Idaho 1980 Statutory Expenditure Legislative Vote	State general fund appropriations (modified in 1994 to exclude one- time expenditures)	Appropriations shall not exceed five and one-third percent of state personal income	No provision	Adjustments to limit shall be made if court order or legislative enactment transfers responsibility between state and local governments or between federal and state governments	No provision
Iowa 1992 Statutory Expenditure Legislative Vote	State general fund appropriations	Appropriations can be 99 percent of adjusted general fund receipts	None	None	Excess goes to Cash Reserve Fund, then to the Rebuild Infrastructure Account, then to Economic Recovery Fund
Louisiana 1979 Statutory Revenue Legislative Vote	State tax revenue	Tax revenue shall not exceed the ratio of FY 1978-79 tax revenue to 1977 state personal income. Expenditures for any given year shall not exceed anticipated state revenues for that year	Statute may be amended by vote of the Legislature	None	State tax revenue in excess of limit shall be deposited in the Tax Surplus Fund; appropriations from that fund may be made for paying tax refunds
1993 Constitutional Expenditure Legislative Referendum	State general fund appropriations	State spending limited to 1992 appropriations plus per capita personal income growth	Two-thirds vote by the Legislature	None	Surplus may only be used to retire debt in advance of maturity

State Year Of Adoption— Type Of Limit— Method Of Approval	Limit Applies to	The Limit is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Program	Treatment of Surpluses
Massachusetts 1986 Statutory Revenue Legislative Vote	State revenue	General fund balance may not exceed one-half of 1 percent of the year's tax revenue	Statute may be amended by vote of the legislature	Vote of legislature	Excess revenues transferred to a budget stabilization fund which is only allowed to grow to 5 percent of the state tax revenue; if the fund grows by more, the excess goes back to the taxpayers as an income tax credit Proportional personal income tax credit
Michigan 1978 Constitutional Revenue Citizen Initiative	All state venues less federal aid	For any fiscal year, state revenue may not exceed 9.49 percent of total personal income for the year prior	Governor must first specify an emergency; then the Legislature must concur by two-thirds vote in each chamber	1) Limit may be adjusted if program responsibility is transferred from one level of government to another by means of a s constitutional amendment 2) State is prohibited from reducing current proportion of local services financed through state aid 3) No new program shall be required of local governments unless funded by state 4) The proportion of total state spending paid to all units of local government as a group shall not be reduced below proportion for FY 1978- 79	Revenues exceeding limit by 1 percent or more shall be used for tax refunds set in proportion to income tax liability. Excess less than 1 percent may be transferred to the State Budget Stabilization Fund

State Year Of Adoption— Type Of Limit— Method Of Approval	Limit Applies to	The Limit is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Program	Treatment of Surpluses
Mississippi 1992 Statutory Expenditure Legislative Vote	Budget recommendations and appropriations	Budget and appropriations are limited to 98 percent of projected revenues	None	None	One half of year-end surplus remains in the general fund and one half goes into a working cash/stabilization reserve fund up to the 7.5 percent ceiling, then remainder goes into a special education fund
Missouri 1980 Constitutional Revenue Citizen Initiative	Total state revenue	Revenue shall not exceed the ratio of FY 1980-81 state revenue to 1979 state personal income, multiplied by the greater of state personal income in any calendar year or the average state personal income over the previous three calendar years	Governor must first specify an emergency; then the legislature must concur by two-thirds vote in each chamber	1) Limit may be adjusted if program responsibility is transferred from one level of government to another. 2) State is prohibited from reducing current proportion of local services financed through state aid. 3) No new program shall be required of local governments unless funded by state.	Revenues exceeding limit by 1 percent or more shall be used for tax refunds set in proportion to income tax liability. Excess less than 1 percent may be transferred to the general revenue fund

State Year Of Adoption— Type Of Limit— Method Of Approval	Limit Applies to	The Limit is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Program	Treatment of Surpluses
1996 Constitutional Revenue Citizen Initiative	Total state revenue	Voter approval required for any tax or fee increase that will produce revenues greater than: 1) \$50 million adjusted annually by the percentage change in state personal income for the second previous fiscal year, or 2) one percent of the state revenues for the second fiscal year prior to the legislature's action, whichever is less	Governor must first specify an emergency; then the legislature must concur by two-thirds vote in each chamber	None	Does not affect 1980 amendment-same as above
Montana 1981 Statutory Expenditure Legislative Vote	State appropriations	State biennial appropriations shall not exceed state appropriations for the preceding biennium plus the product of preceding biennial appropriations and the growth percentage. The growth percentage is the difference between average state personal income for three calendar years immediately preceding the next biennium and the average state personal income for the three calendar years immediately preceding the current biennium	Governor must declare an emergency. Legislature must then approve specific additional expenditures by two-thirds vote of each chamber	None	No provision

State Year Of Adoption— Type Of Limit— Method Of Approval	Limit Applies to	The Limit is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Program	Treatment of Surpluses
Nevada 1979 Statutory Expenditure Non-Binding Legislative Vote	Governor's proposed general fund expenditures	State expenditures are tied to population growth and inflation using the 1975-76 biennium as the base	Not applicable because non-binding	None	No provision
New Jersey 1990 Statutory Expenditure Legislative Vote	General fund state appropriations less exemptions for debt service, state aid, grants- in-aid and capital construction	Appropriations shall not exceed the average prior three years of state per capita annual income	Two-thirds vote of the Legislature	Adjustment to limit shall be made if program responsibility is transferred between state and local governments	No provision, but the state has a rainy day fund
North Carolina 1991 Statutory Expenditure Legislative Vote	State appropriations	Fiscal year operating budget shall not be greater than 7 percent of the projected total state personal income for that fiscal year	Limit may be exceeded to the extent that Medicaid, prison operations or state health insurance increases exceed increases in state personal income	None	Revert to general fund credit balance
Oklahoma 1985 Constitutional Expenditure Legislative Referendum	Appropriated revenues	1) 12 percent yearly increase (adjusted for inflation) 2) 95 percent of certified revenue	None	None	Revenue to general fund in excess of estimate (up to 10 percent) shall be deposited in a rainy day fund
Oregon 1979 Statutory Expenditure Legislative Vote	State appropriations	The rate of growth of appropriations in each biennium shall not exceed rate of growth of state personal income in the two prior calendar years	Legislative majority	Adjustment to limit shall be made if program funding is transferred from general fund to non-general fund sources or vice-versa	Revenue exceeding close of session revenue forecast by 2 percent or more shall be used for tax refunds proportional to income tax liability

State Year Of Adoption— Type Of Limit— Method Of Approval	Limit Applies to	The Limit is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Program	Treatment of Surpluses
Rhode Island 1992 Constitutional Expenditure Legislative Referendum	State general fund appropriations	98 percent of estimated general fund revenue and prior year's unencumbered funds	None	None	2 percent must be put into rainy day fund
South Carolina 1980, 1984 Constitutional Expenditure Legislative Referendum	State appropriations approved by General Assembly	Yearly growth in state appropriations shall not exceed average growth of personal income over three preceding years or 9.5 percent of total state personal income, whichever is greater. Also, the number of state employees is tied to state population	Limit may be exceeded for one year by a two- thirds vote of the legislature if it first declares a financial emergency. Also, every five years the legislature can review the composition of the limit	None	Excess revenues may be spent to match federal programs, for debt purposes, tax relief, or transferred to reserve fund
Tennessee 1978 Constitutional Expenditure Constitutional Convention	Appropriations of state tax revenue	Growth in state appropriations shall not exceed growth in state personal income	Specific additional amount may be approved by majority vote of the legislature	State must share in cost if it increases expenditure requirements of local government	No provision
Texas 1978 Constitutional Expenditure Legislative Referendum	Appropriations of state tax revenues not dedicated by the state constitution	Growth of biennial appropriations shall not exceed rate of growth of state personal income	Specific additional amount may be approved by majority vote of the Legislature if it first adopts a resolution that an emergency exists	None	No provision

State Year Of Adoption— Type Of Limit— Method Of Approval	Limit Applies to	The Limit is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Program	Treatment of Surpluses
Utah 1989 Statutory Expenditure Legislative Vote	State appropriations	Yearly growth in appropriations tied to population growth and inflation	Emergency must be declared by governor and confirmed by more than two-thirds of both houses of the Legislature	1) Adjustment to limit shall be made if program responsibility is transferred between state and local governments 2) Adjustment to limit shall be made if program funding is transferred from general fund to non-general fund sources or vice-versa	No provision
Washington 1993 Statutory Expenditure Citizen Initiative	State expenditures	State expenditures are tied to a three year rolling average of inflation and population growth	An emergency must be declared and approved with two-thirds vote of the Legislature. Revenue increases need two-thirds legislative approval if within expenditure limit, voter approval needed to exceed limit	Prohibits state from imposing new mandates on local governments unless fully reimbursed	Excess revenue goes into Emergency Reserve Fund; if fund exceeds five percent of general fund revenue, the additional surplus is placed in the Education Construction Fund

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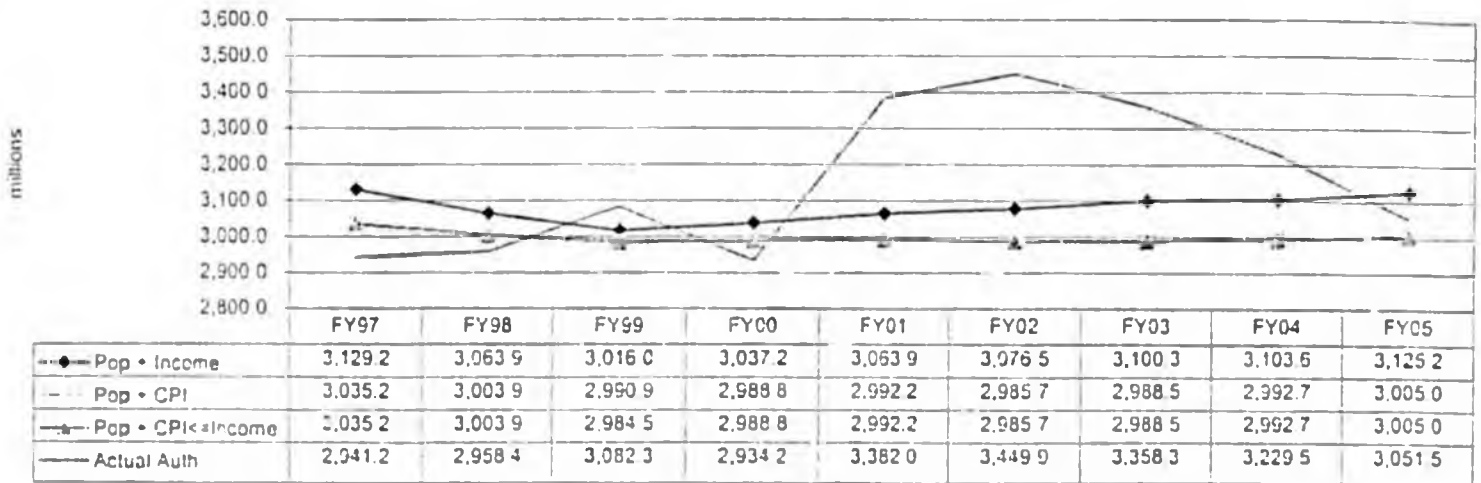
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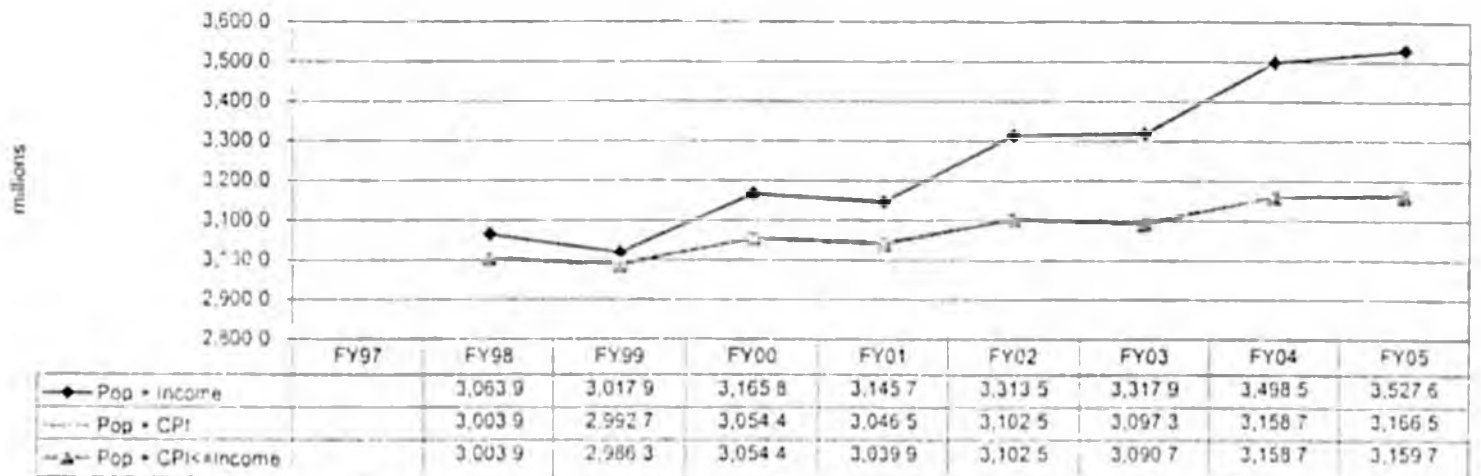
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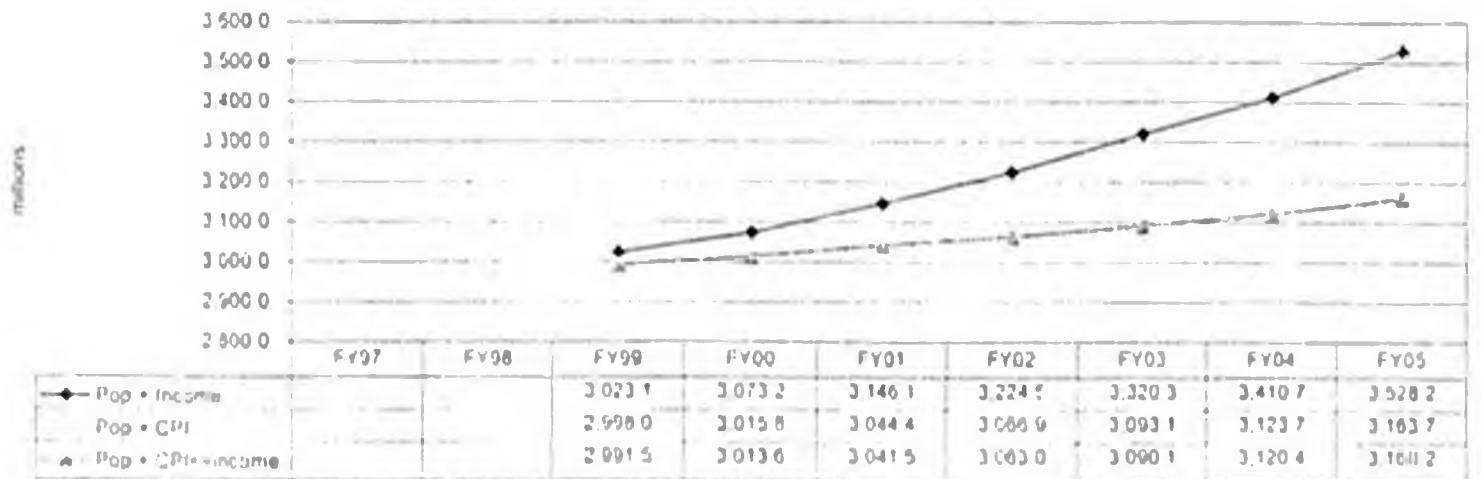
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Fixed Base year of FY96 & 3 yr floating avg for variable



Draft - Spending Limit Proposals
Base year of 2 years prior & 3 yr floating avg for variable

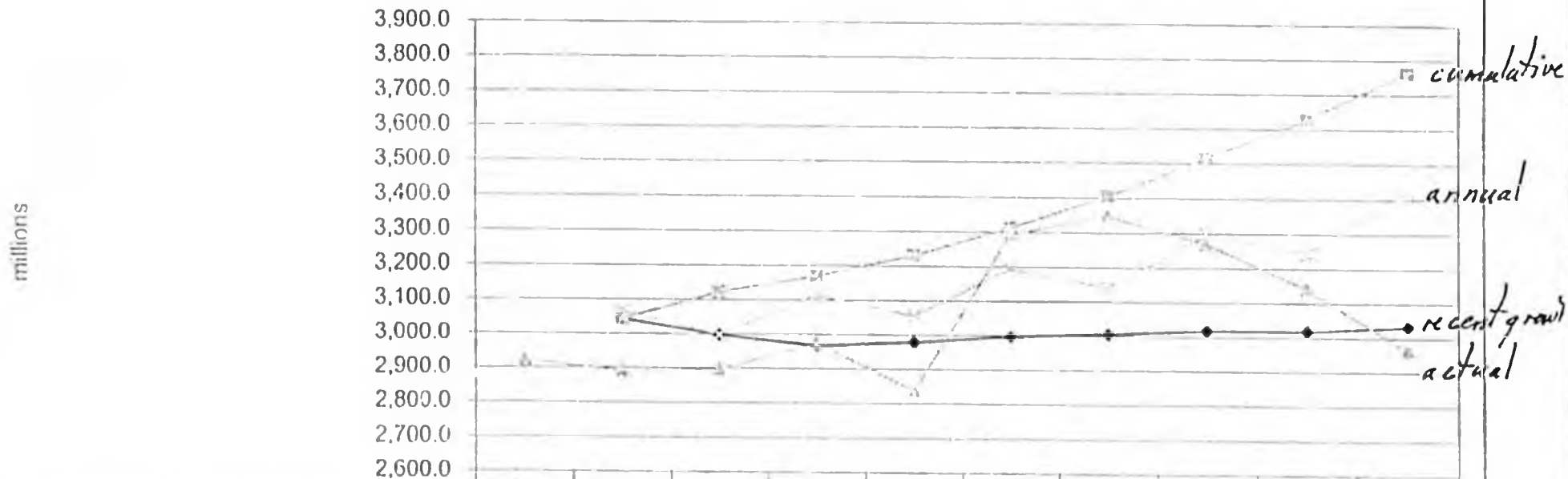


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Base year of 3 prior year avg & 3 yr floating avg for variable



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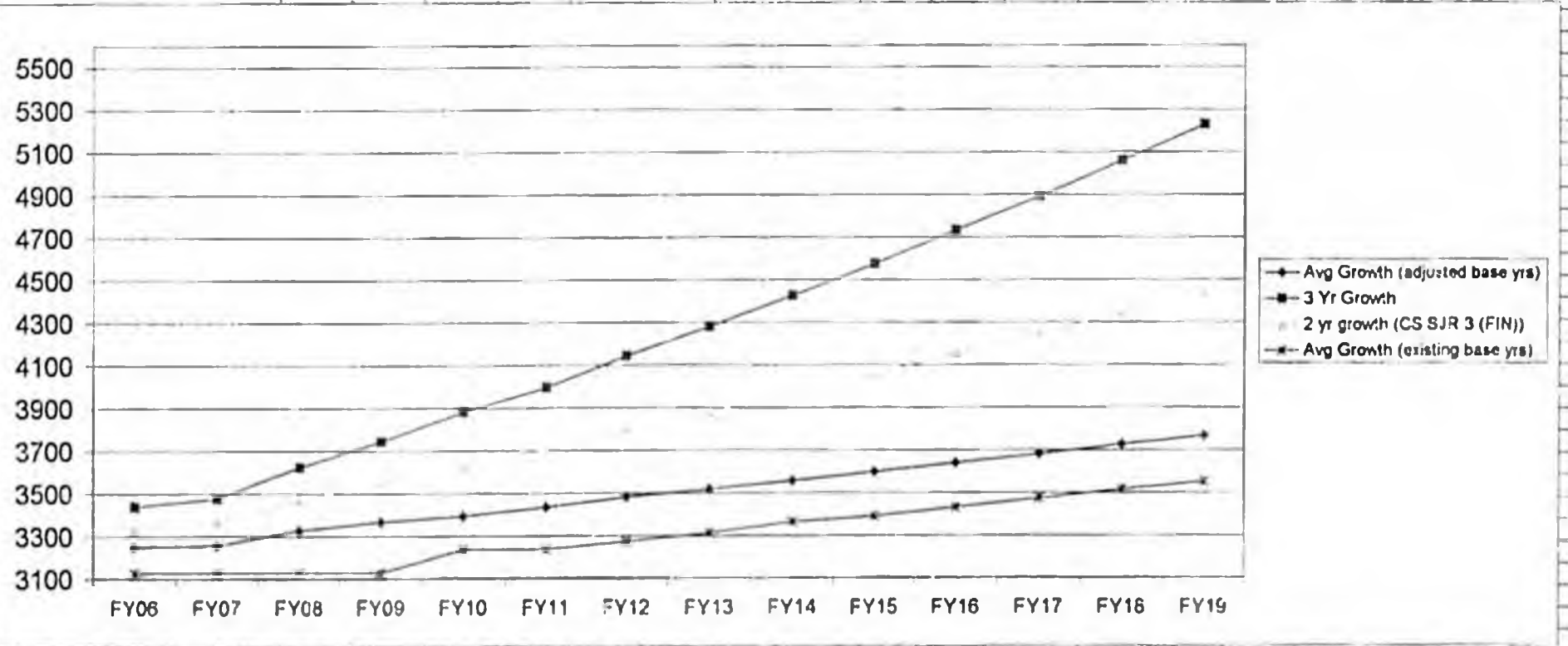
	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
● Floating Avg w/Base Year		3,043.7	2,996.9	2,967.6	2,978.7	2,997.1	3,004.3	3,017.0	3,017.3	3,032.0
□ Floating Avg w/Cumulative		3,043.7	3,121.0	3,168.8	3,229.5	3,311.6	3,404.0	3,513.8	3,627.5	3,763.1
△ Floating Avg w/base yr of 2 yrs prior		3,066.7	2,996.9	3,113.8	3,054.2	3,193.0	3,139.4	3,296.0	3,241.0	3,419.2
◆ Actual Appropriations	2,922.7	2,889.5	2,896.1	2,974.2	2,836.5	3,292.4	3,346.4	3,268.0	3,140.6	2,962.0

1) A wide range of funds could be included or excluded depending on the proposed bill. For this exercise exemptions include federal funds, dedicated funds (school fund), trust funds (MHTAAR), debt service.

2) The limit factor is based on 50% of the average annual percent change over the last 3 of 4 years in personal income plus the average percent change in population over the last 3 of 4 years.

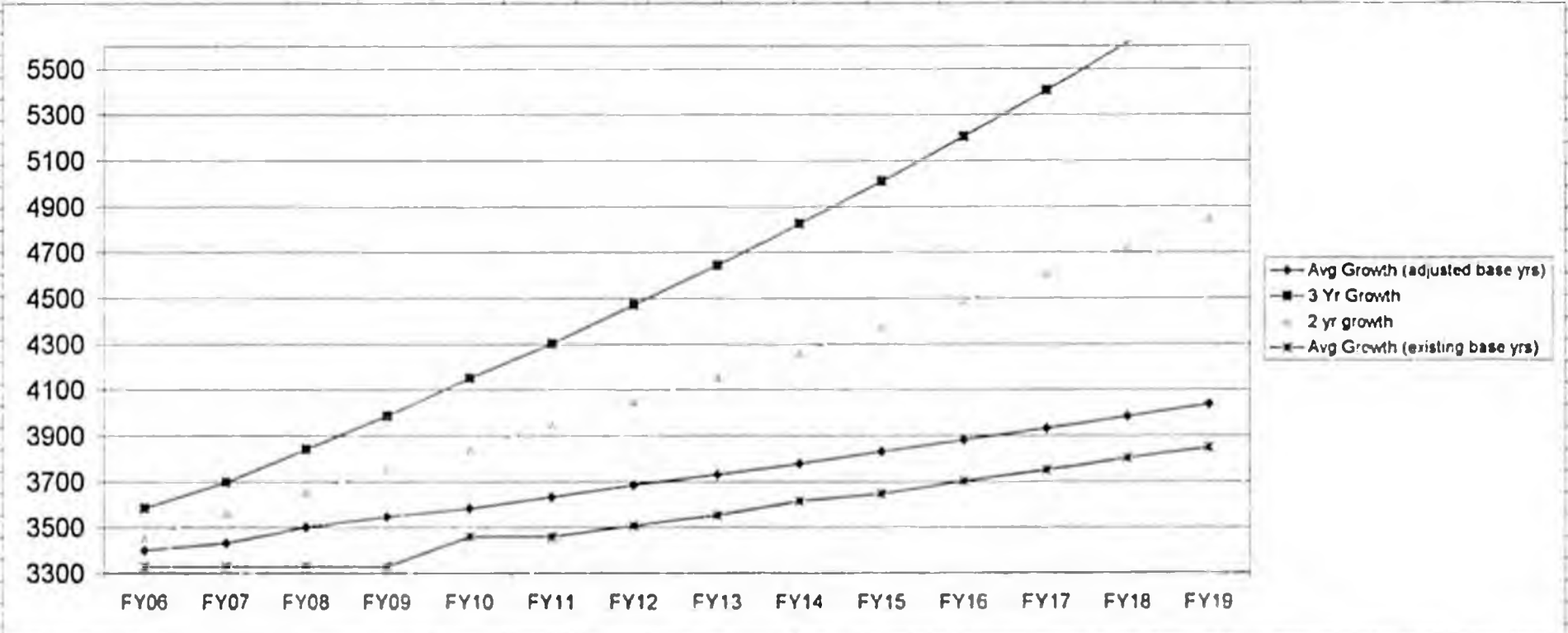
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	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S						
1	Variables:							CS SJR 3 (FIN)																	
2	Inflation	2.3%																							
3	Population	1.2%																							
4	Avg annual growth (3 yrs)	4%	FY06 is the first calculated year and uses FY02-04 (based on the exemptions) for the base.																						
5		FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19						
6	"the avg annual rate of change"	3143	3046	3150	3250	3250	3259	3329	3367	3394	3434	3481	3517	3557	3599	3642	3682	3725	3769						
7	annual growth					0	9	71	38	27	40	47	36	39	43	42	41	43	43						
8	annual % change						0.27%	2.17%	1.13%	0.81%	1.19%	1.36%	1.04%	1.12%	1.20%	1.17%	1.12%	1.16%	1.16%						
9	Avg Growth (existing base yrs)	FY02	FY03	FY04	FY05*	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19						
10	"the avg annual rate of change"	3143	3046	2878	2725	3128	3128	3128	3128	3237	3237	3275	3313	3364	3390	3433	3473	3515	3552						
11	annual growth					403	0	0	0	109	0	38	38	51	26	44	40	42	38						
12	annual % change						0.00%	0.00%	0.00%	3.50%	0.00%	1.17%	1.15%	1.53%	0.77%	1.29%	1.15%	1.20%	1.07%						
13	Inflation	2%	* Based on Governor's request																						
14	Population	1%																							
15	3 year growth	11%																							
16	3 yr growth	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19						
17	"the rate of change"	3143	3046	3150	3250	3440	3479	3624	3746	3883	3996	4145	4282	4429	4576	4735	4894	5061	5232						
18	annual growth					190	39	145	121	138	113	149	137	147	147	159	159	167	171						
19	annual % change						1.14%	4.17%	3.34%	3.68%	2.90%	3.73%	3.30%	3.44%	3.31%	3.49%	3.35%	3.41%	3.38%						
20	Inflation	2%																							
21	Population	1%																							
22	2 year growth	7%																							
23	2 yr growth (CS SJR 3 (i))	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19						
24	"the rate of change"	3143	3046	3150	3250	3331	3369	3471	3549	3627	3705	3797	3881	3970	4060	4154	4248	4346	4445						
25	annual growth					81	38	102	78	79	78	92	84	89	90	94	94	98	99						
26	annual % change						1.14%	3.02%	2.25%	2.22%	2.14%	2.49%	2.20%	2.28%	2.28%	2.32%	2.26%	2.30%	2.29%						



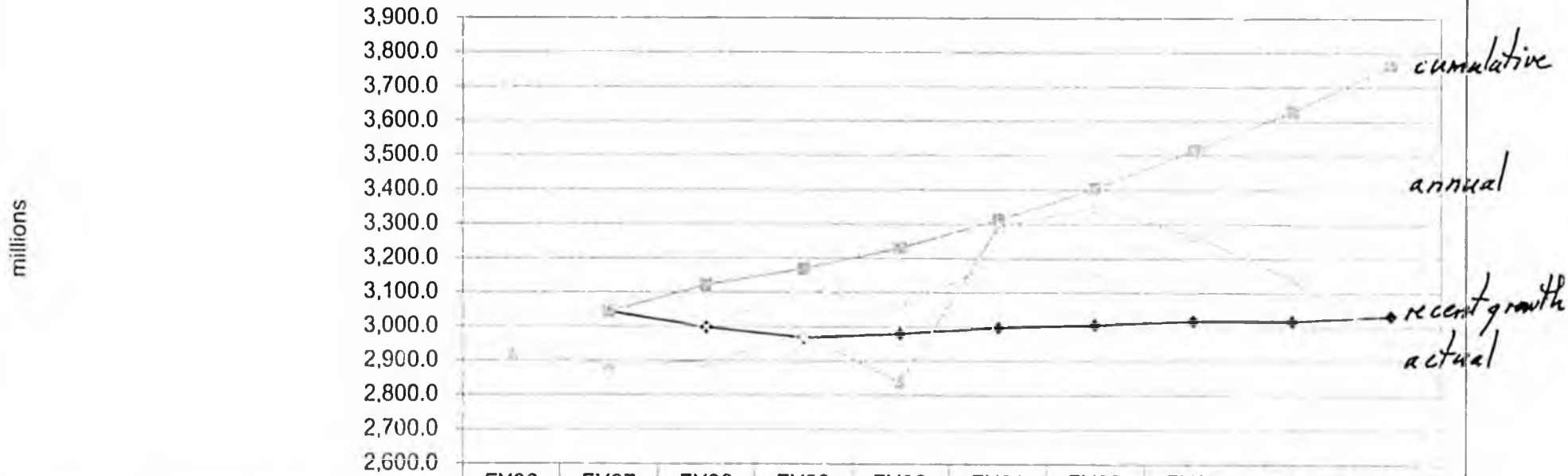
CS SJR 3

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S
1	Variables:																		
2	Inflation	3%																	
3	Population	1%																	
4	Avg annual growth (3 yrs)	4%	FY06 is the first calculated year and uses FY02-04 (based on the exemptions) for the base.																
5		FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
6	"the avg annual rate of change"	3300	3200	3300	3400	3400	3432	3501	3547	3582	3633	3685	3731	3779	3830	3881	3931	3983	4036
7	annual growth					0	32	69	46	35	51	52	46	48	52	51	50	52	53
8	annual % change						0.94%	2.02%	1.31%	0.99%	1.42%	1.43%	1.24%	1.28%	1.36%	1.32%	1.30%	1.32%	1.33%
9	Avg Growth (existing base yrs)	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
10	"the avg annual rate of change"	3300	3200	3100	2900	3328	3328	3328	3328	3461	3461	3507	3553	3616	3648	3701	3750	3801	3847
11	annual growth					428	0	0	0	133	0	46	46	62	32	54	49	51	47
12	annual % change						0.00%	0.00%	0.00%	4.00%	0.00%	1.33%	1.32%	1.75%	0.88%	1.47%	1.31%	1.37%	1.22%
13	Inflation	3%																	
14	Population	1%																	
15	3 year growth	12%																	
16	3 yr growth (adjusted base yrs)	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
17	"the rate of change"	3100	3200	3300	3400	3584	3696	3839	3987	4151	4302	4472	4644	4825	5009	5205	5405	5615	5831
18	annual growth					184	112	143	148	164	151	170	173	181	184	195	201	209	217
19	annual % change						3.13%	3.88%	3.85%	4.11%	3.63%	3.95%	3.86%	3.89%	3.82%	3.90%	3.86%	3.87%	3.86%
20	Inflation	3%																	
21	Population	1%																	
22	2 year growth	8%																	
23	2 yr growth (adjusted base yrs)	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
24	"the rate of change"	3100	3200	3300	3400	3456	3564	3656	3751	3843	3950	4050	4156	4264	4376	4489	4606	4726	4850
25	annual growth					56	108	92	95	92	106	101	106	108	113	113	117	120	123
26	annual % change						3.13%	2.59%	2.60%	2.46%	2.77%	2.55%	2.61%	2.59%	2.64%	2.58%	2.61%	2.60%	2.61%



Prepared 3/30/04

Draft - Spending Limit Proposals



	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05
◆ Floating Avg w/Base Year		3,043.7	2,996.9	2,967.6	2,978.7	2,997.1	3,004.3	3,017.0	3,017.3	3,032.0
□ Floating Avg w/Cumulative		3,043.7	3,121.0	3,168.8	3,229.5	3,311.6	3,404.0	3,513.8	3,627.5	3,763.1
△ Floating Avg w/base yr of 2 yrs prior		3,066.7	2,996.9	3,113.8	3,054.2	3,193.0	3,139.4	3,296.0	3,241.0	3,419.2
▲ Actual Appropriations	2,922.7	2,889.5	2,896.1	2,974.2	2,836.5	3,292.4	3,346.4	3,268.0	3,140.6	2,962.0

1) A wide range of funds could be included or excluded depending on the proposed bill. For this exercise exemptions include federal funds, dedicated funds (school fund), trust funds (MHTAAR), debt service.

2) The limit factor is based on 50% of the average annual percent change over the last 3 of 4 years in personal income plus the average percent change in population over the last 3 of 4 years.

Provided by
Legislative Finance 1/28/04

Points of Consideration for Amendment to CS SJR 3 (JUD)

1. What factors should be used in the formula to determine the allowable change (increase or decrease) to be applied to the appropriations or expenditures?
 - A. Tied to population increases or decreases?

We need to answer the question: "What portions of the state's budget change directly when the population grows (or decreases)? The school foundation formula and people seeking government assistance and the PFD do increase linearly with population. How does this tie to our aging population or increases (or decreases) in school age children?"
 - B. Tied to per capita income?

Should growing personal wealth equate to expanding government? Do people need more government assistance when their income decreases? Does the need for more government decrease with more personal wealth, and if so, by how much?
 - C. Budget increases tied to Consumer Price Index (CPI)?

If tied to CPI, how reasonable is it to use what OMB calls the "CPIU Anchorage" (Consumer Price Index for all urban consumers for the Anchorage metropolitan area compiled by the Bureau of Labor Statistics, United States Department of Labor)? We should answer the question: "What portions of the operating budget are affected or unaffected by inflation, and how are such portions affected? Leases, long term contracts, etc. are typically not affected by yearly inflation."
 - D. It's the opinion of Legislative Finance that all of these factors have advantages and disadvantages. We need to understand these factors, perhaps consider other factors, and craft the most valid and reasonable formula.
2. We'd like to make the formula state that the limit will be based on the previous appropriation or actual expenditures, whichever is less.
 - A. Legislative Legal staff says that actual expenditures would always be less because not all appropriations are spent by the end of the fiscal year.
 - B. Some moneys are put in trust and are not expended.
 - C. Some moneys go to purposes that do not lapse at the end of the year.
 - D. How can we delineate or define such "expenditures" so that we can incorporate this concept?

Points of Consideration for Amendment to CS SJR 3 (JUD)

3. What exemptions should be made? The Office of Management and Budget are recommending that we eliminate the following that were in the Donley Constitutional spending Amendment:
 - A. Railroad? On the one hand it increases the overall appropriation, thereby increasing the amount represented by the limit calculated. On the other hand, to exclude it may mean they aren't limited like those Government exemptions that are not exempted and are thus not subjected to the same constitutional discipline.
 - B. University and Alaska Vocational Technical Center? Only a portion of their funds come from state appropriations. Some of their revenue comes from tuitions and other sources. Should the general fund contributions to these institutions be limited like other state government functions, and if so, how?
4. Should the number of legislators required to approve exceeding the limit formula be 2/3 or 3/4?
 - A. If the party in power wants to spend more money irresponsibly, are we giving enough power to the responsible minority to stop the spending spree?
 - B. If we give too much power to the legislators who claim to want to limit the expansion of the operating budget or the minority, will they be able to hold the majority hostage and demand personal or irresponsible special interest pork, when good public policy would necessitate increased spending to meet unusual circumstances?
5. Should we keep the 2% limit on spending increase beyond the limit set by the formula? Is 2% the right absolute limit to exceed the formula limit and increases?
 - A. Should it be higher or lower?
 - B. Under what circumstances would we want to override the escalation formula limit?
 - B. Should this limit apply also to capital projects?
6. This proposal eliminates the current wording that 1/3 of appropriations should go to capital projects. Do we want to agree to that?

Points of Consideration for Amendment to CS SJR 3 (JUD)

7. Should we keep the requirement that the governor reduce expenditures as necessary after the legislature approves a 2% increase over the formula limit?
8. What do we do with excess funds above the two tiered operating budget limits? What funds do we consider (general funds, other,)?
 - A. The constitution currently says, "The governor shall cause any unexpended and unappropriated balance to be invested so as to yield competitive market rates to the treasury." [Last sentence of Art. IX, Sec. 16]. Does depositing the unappropriated funds into the CBR meet this requirement?
 - B. Should the governor be required to deposit such funds to the Constitutional Budget Reserve?
 - C. The constitution says that if funds have been withdrawn from the CBR (as is currently the case), that unexpended money in the general fund, available for appropriation at the end of the year, will be deposited in the CBR. What about when we have paid back the CBR and no longer "owe" the CBR? [Article IX, Section 17(d).]?

APPENDIX C. STATE TAX AND EXPENDITURE LIMITS

STATE Year of Adoption Type of Limit Method of Approval	Limit Applies To	The Limit Is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Programs	Treatment of Surpluses
ALASKA 1982 ¹ Constitutional Expenditure Legislative referendum	State appropriations	Yearly growth of appropriations may not exceed percentage increase in population and inflation	In the event of decreased revenues, an appropriation may be made from the Budget Reserve Fund.	None	None
ARIZONA 1978 Constitutional Expenditure Legislative Referendum	Appropriations of state tax revenues	Appropriations of state tax revenues shall not exceed 7.23 percent of state personal income	Requires two-thirds legislative approval for specific additional appropriations	Legislature shall provide for adjustments to limit if court order or legislative enactment transfers responsibility between state and local governments or between federal and state governments	None
CALIFORNIA 1979 Constitutional Expenditure Citizen Initiative	Appropriations of state tax revenues	Yearly growth in appropriations limit shall not exceed percentage increase in population and per capita personal income	In the event of an emergency, the appropriations limit may be exceeded provided increased expenditures are compensated for by reduced expenditures over three following years. Alternatively, the limit may be changed by voters but the change is operative for only four years	1) The appropriations limit shall be altered if program responsibility is transferred from one government entity to another, from government to private entity, or from funding through general revenues to funding through special revenues. 2) The state shall provide the funding when it requires local government to provide a program. 3) Appropriations required for purpose of complying with federal requirements are not under limit	One-half of all surplus revenues shall be returned to taxpayers by revision of tax rates or fee schedules within next two fiscal years; one-half shall be allocated to K-14 school districts.

1. Automatic vote for reconsideration of limit in 1986 continued the provision.

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STATE Year of Adoption Type of Limit Method of Approval	Limit Applies To	The Limit Is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Programs	Treatment of Surpluses
COLORADO 1991 Statutory Expenditure Legislative vote 1992 Constitutional Expenditure & Revenue Citizen Initiative	State general fund appropriations All state spending and tax increases	6 percent of prior year's appropriation Spending can only increase based on population growth and increase in CPI; no change in taxes or tax policy without voter approval; current spending limits cannot be weakened without voter approval	Legislative majority Any voter-approved increases; General Assembly can declare emergency by two-thirds vote and raise emergency taxes subject to voter approval	None Locals can reduce or end its subsidy for any state-man- dated program except K-12 education; 90 days notice required and adjustment can occur in a maximum of three equal annual install- ments. Local taxes support- ing these programs must be reduced accordingly	None Excess revenue must be refunded to the citizens
CONNECTICUT 1991-Statutory (resolution for a consti- tutional amendment)? 1992-Constitutional Expenditure Legislative vote-1991 Legislative referendum- 1992	State appropriations (but excludes debt service, state grants to distressed municipalities, first year expenditures for federal mandates or court orders, and expenditures from the Budget Reserve Fund).	Appropriations shall not increase by more than the increase in personal income in the state (average of the annual increase for each of the preceding five years) or the increase in inflation (CPI-U, preceding 12 month period), whichever is greater	Governor can declare an emergency or the existence of extraordinary circumstances, plus approval by three-fifths of both House and Senate	None	1) Budget Reserve Fund (rainy-day fund) 2) Reduction of bonded indebtedness 3) Any purpose authorized by at least three-fifths of both House and Senate
DELAWARE 1978 Constitutional Expenditure Legislative referendum	State general fund appropriations	98 percent of estimated general fund revenue and prior year's unencumbered funds	Declaration of an emergency and three-fifths vote of each chamber	None	Goes into an accumulative cash balance and is avail- able for appropriations in ensuing fiscal year
FLORIDA 1994 Constitutional Revenue Legislative referendum	All state revenues including taxes, fees, licenses and charges	Prior year's revenue plus growth, defined as a five year rolling average of personal income growth	Two-thirds vote of the Legislature	Legislature by statute can adjust the limit to reflect transfers in funding responsibilities between state and local governments	Excess revenues go to the budget stabilization fund. When the fund reaches statutory maximum, the excess is rebated to taxpayers

2. The constitutional amendment will not take effect until the legislature defines terms with a three-fifths vote

STATE Year of Adoption Type of Limit Method of Approval	Limit Applies To	The Limit Is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Programs	Treatment of Surpluses
HAWAII 1978 Constitutional Expenditure Constitutional Convention	State general fund appropriations	General fund appropriations shall not exceed the average rate of growth of state personal income for three previous years.	Specific appropriations over the limit require two-thirds approval in both chambers	The state must share the cost of any new program or service increase required of local governments by the Legislature	If the state general fund balance in each of two succeeding years exceeds 5 percent of general fund revenues, the Legislature will provide for a tax refund
IDAHO 1980 Statutory Expenditure Legislative vote	State general fund appropriations (modified in 1994 to exclude one-time expenditures)	Appropriations shall not exceed five and one third percent of state personal income	No provision	Adjustments to limit shall be made if court order or legislative enactment transfers responsibility between state and local governments or between federal and state governments	No provision
IOWA 1992 Statutory Expenditure Legislative vote	State general fund appropriations	Appropriations can be 99 percent of adjusted general fund receipts	None	None	Excess goes to Cash Reserve Fund, then to the Rebuild Infrastructure Account, then to Economic Recovery Fund
LOUISIANA 1979 Statutory Revenue Legislative vote	State tax revenue	Tax revenue shall not exceed the ratio of FY 1978- 79 tax revenue to 1977 state personal income. Expenditures for any given year shall not exceed anticipated state revenues for that year	Statute may be amended by vote of the Legislature	None	State tax revenue in excess of limit shall be deposited in the Tax Surplus Fund; appropriations from that fund may be made for paying tax refunds
1993 Constitutional Expenditure Legislative referendum	State general fund appropriations	State spending limited to 1992 appropriations plus per capita personal income growth	Two-thirds vote by the Legislature	None	Surplus may only be used to retire debt in advance of maturity
MASSACHUSETTS 1986 Statutory Revenue Legislative vote	State revenue	General fund balance may not exceed one-half of 1 percent of the year's tax revenue	Statute may be amended by vote of the legislature	Vote of legislature	Excess revenues transferred to a budget stabilization fund which is only allowed to grow to 5 percent of the state tax revenue, if the fund grows by more, the excess goes back to the taxpayers as an income tax credit Proportional personal

STATE Year of Adoption Type of Limit Method of Approval	Limit Applies To	The Limit Is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Programs	Treatment of Surpluses
MASSACHUSETTS, con.t 1986 Statutory Revenue Initiative petition	State revenue	Revenues limited to the average growth of wages and salaries of the previous three years	Statute may be amended by vote of the legislature	Vote of legislature	Income tax credit
MICHIGAN 1978 Constitutional Revenue Citizen initiative	All state revenues less federal aid	For any fiscal year, state revenue may not exceed 9.49 percent of total personal income for the year prior	Governor must first specify an emergency; then the Legislature must concur by two-thirds vote in each chamber	1) Limit may be adjusted if program responsibility is transferred from one level of government to another by means of a constitutional amendment. 2) State is prohibited from reducing current proportion of local services financed through state aid. 3) No new program shall be required of local governments unless funded by state. 4) The proportion of total state spending paid to all units of local government as a group shall not be reduced below proportion for FY78- 79	Revenues exceeding limit by 1 percent or more shall be used for tax refunds set in proportion to income tax liability. Excess less than 1 percent may be transferred to the State Budget Stability Fund
MISSISSIPPI 1992 Statutory Expenditure Legislative vote	Budget recommendations and appropriations	Budget and appropriations are limited to 98 percent of projected revenues	None	None	One-half of year-end surplus remains in the general fund, and one-half goes into a working cash/stabilization reserve fund up to the 7.5 percent ceiling, then remainder goes into a special education fund
MISSOURI 1990 Constitutional Revenue Citizen initiative	Total state revenue	Revenue shall not exceed the ratio of FY 1980-91 state revenue to 1979 state personal income, multiplied by the greater of state personal income in any calendar year or the average state personal income over the previous three calendar	Governor must first specify an emergency; then the legislature must concur by two-thirds vote in each chamber	1) Limit may be adjusted if program responsibility is transferred from one level of government to another. 2) State is prohibited from reducing current proportion of local services financed through state aid. 3) No new program shall be	Revenues exceeding limit by 1 percent or more shall be used for tax refunds set in proportion to income tax liability. Excess less than 1 percent may be transferred to the general revenue fund

STATE Year of Adaption Type of Limit Method of Approval	Limit Applies To	The Limit Is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Programs	Treatment of Surpluses
MISSOURI, cont. 1996 Constitutional Revenue Citizen Initiative	Total state revenue	years Voter approval required for any tax or fee increase that will produce revenues greater than: 1) \$50 million adjusted annually by the percentage change in state personal income for the second previous fiscal year, or 2) one percent of the state revenues for the second fiscal year prior to the legislature's action, whichever is less	Governor must first specify an emergency; then the legislature must concur by two-thirds vote in each chamber	required of local governments unless funded by state. None	Does not affect 1980 amendment—same as above
MONTANA 1981 Statutory Expenditure Legislative vote	State appropriations	State biennial appropriations shall not exceed state appropriations for the preceding biennium plus the product of preceding biennial appropriations and the growth percentage. The growth percentage is the difference between average state personal income for three calendar years immediately preceding the next biennium and the average state personal income for the three calendar years immediately preceding the current biennium	Governor must declare an emergency. Legislature must then approve specific additional expenditures by two-thirds vote of each chamber	None	No provision
NEVADA 1979 Statutory Expenditure Non-binding Legislative Vote	Governor's proposed general fund expenditures	State expenditures are tied in population growth and inflation using the 1975-76 biennium as the base	Not applicable because non-binding	None	No provision

STATE Year of Adaption Type of Limit Method of Approval	Limit Applies To	The Limit Is	Provisions for Waiver	Provisions in the Case of Transfer of Responsibility for Government Programs	Treatment of Surpluses
NEW JERSEY 1990 Statutory Expenditure Legislative vote	General fund state appropriations less exemptions for debt service, state aid, grants-in-aid and capital construction	Appropriations shall not exceed the average prior three years of state per capita annual income	Two-thirds vote of the Legislature	Adjustment to limit shall be made if program responsibility is transferred between state and local governments	No provision, but the state has a rainy day fund
NORTH CAROLINA 1991 Statutory Expenditure Legislative vote	State appropriations	Fiscal year operating budget shall not be greater than 7 percent of the projected total state personal income for that fiscal year	Limit may be exceeded to the extent that Medicaid, prison operations or state health insurance increases exceed increases in state personal income	None	Revert to general fund credit balance
OKLAHOMA 1985 Constitutional Expenditure Legislative referendum	Appropriated revenues	1) 12 percent yearly increase (adjusted for inflation) 2) 95 percent of certified revenue	None	None	Revenue to general fund in excess of estimate (up to 10 percent) shall be deposited in a rainy day fund
OREGON 1979 Statutory Expenditure Legislative vote	State appropriations	The rate of growth of appropriations in each biennium shall not exceed rate of growth of state personal income in the two prior calendar years	Legislative majority	Adjustment to limit shall be made if program funding is transferred from general fund to non-general fund sources or vice-versa	Revenue exceeding close of session revenue forecast by 2 percent or more shall be used for tax refunds proportional to income tax liability
RHODE ISLAND 1992 Constitutional Expenditure Legislative referendum	State general fund appropriations	98 percent of estimated general fund revenue and prior year's unencumbered funds	None	None	2 percent must be put into rainy day fund
SOUTH CAROLINA 1980, 1984 Constitutional Expenditure Legislative Referendum	State appropriations approved by General Assembly	Yearly growth in state appropriations shall not exceed average growth of personal income over three preceding years or 9.5 percent of total state personal income, whichever is greater. Also, the number of state employees is tied to state population	Limit may be exceeded for one year by a two-thirds vote of the legislature if it first declares a financial emergency. Also, every five years the legislature can review the composition of the limit	None	Excess revenues may be spent to match federal programs, for debt purposes, tax relief, or transferred to reserve fund