



BUDGET & TAX POLICY INITIATIVE

A DANGEROUS FISCAL TRAP:

COMMENTS ON HOUSE JOINT RESOLUTION CONSTITUTIONAL AMENDMENT 61

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Members of the General Assembly have introduced various proposals that would impose new constitutional constraints on state spending. Voices for Illinois Children strongly opposes the most recent proposal — House Joint Resolution – Constitutional Amendment 61. This ill-advised measure would make the state budget process less responsive and more cumbersome without resolving the immediate fiscal crisis or the long-term structural deficit in Illinois. The major provisions of HJRCA 61 are as follows:

- Beginning in FY 2014, the growth of aggregate General Funds (GF) appropriations and transfers would be limited to the five-year average annual change in per capita personal income in Illinois.
- The limitation does not apply to reappropriations from a previous fiscal year, payments for pension obligations, debt service payments, or transfers to a budget stabilization fund.
- If GF revenue for a given fiscal year is greater than the limitation amount, the surplus revenue will be deposited in one or more budget stabilization funds. If the balance in the budget stabilization fund at the end of a fiscal year exceeds 10 percent of the limitation amount for that year, then the excess will be refunded in a manner to be determined by law.
- The limitation amount can be increased only if the Governor declares a fiscal emergency, the Comptroller and Treasurer concur with the Governor, and the General Assembly approves the increase by a three-fifths vote in each house.

HJRCA 61 and TABOR

The proposed constitutional amendment bears some resemblance to the “Taxpayer Bill of Rights” (TABOR), which led to a significant erosion of public services in Colorado, where it was operative from 1992 to 2005. There are several important differences between HJRCA 61 and the Colorado model:

- The TABOR limit, which applies to both revenue and spending, is inflation plus population growth. This measure is much more stringent than per capita income growth.
- Federal funds are excluded from TABOR restrictions.
- Under TABOR, any revenue surplus is refunded to taxpayers.
- The TABOR model requires voter approval to change the spending limit or increase taxes.

Impact of HJRCA 61

Although HJRCA 61 is less radical than TABOR, it is a short-sighted and misguided proposal that could produce myriad unintended consequences. The spending limit imposed by HJRCA 61, based on per capita income growth, would still be artificially restrictive. The formula does not account for population growth, and it applies to both state and federal revenue sources for the General Funds.

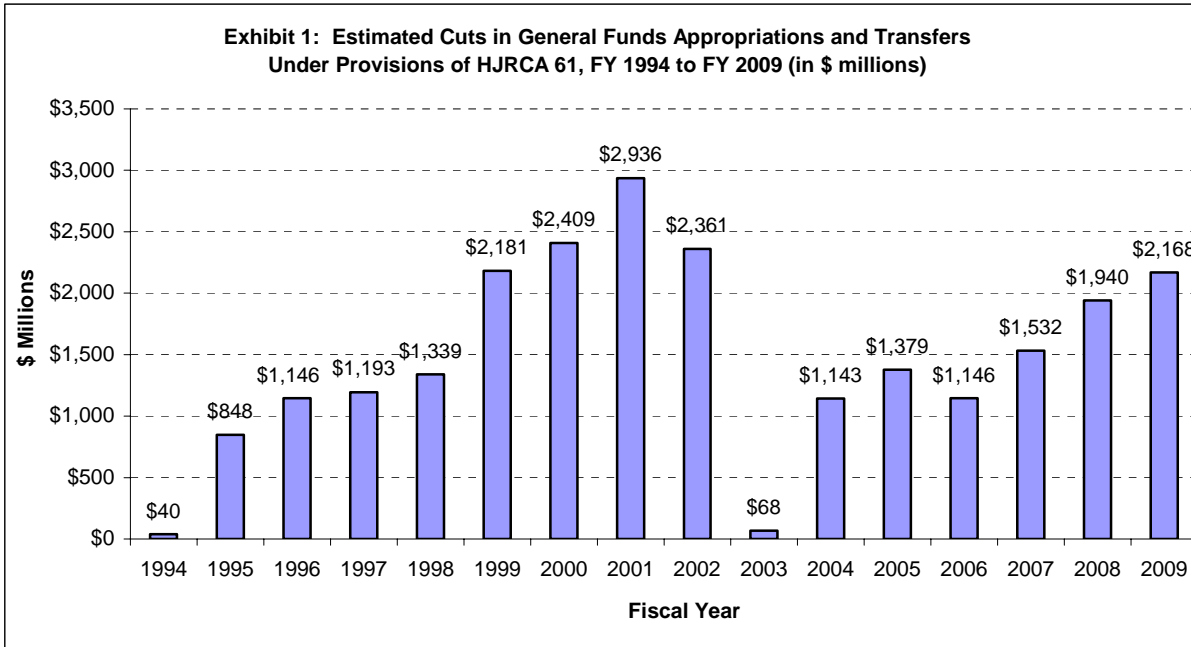
Between FY 1993 and FY 2009, average annual growth of GF appropriations and transfers (minus debt service and pension contributions) was 4.8 percent — about the same as the growth of total personal income in Illinois. Over the same period of time, per capita income increased at a rate of only 4.3 percent (using five-year moving averages). The difference between average growth rates of 4.8 percent and 4.3 percent might seem small, but in some fiscal years, there would be significant mismatches between the mandated limit and normal spending growth (without new or expanded programs) as well as normal revenue growth (without any tax increases). Moreover, the *long-term consequences* could be devastating, severely eroding resources available for education, health care, human services, public safety, and other priorities.

Consider one plausible scenario if the state had adopted the proposed constitutional amendment in 1992:

- The spending limit is based on FY 1993 appropriations and transfers.
- The state allows all “surplus” revenue to accumulate in a budget stabilization fund and spends the money only to cover one-year operating deficits.
- Any balance above 10 percent of the spending limit is refunded to taxpayers.

Under this scenario, cumulative cuts in appropriations and transfers between FY 1994 and FY

2009 would have been nearly \$24 billion — about \$1.5 billion per year. In the period from FY 1999 to FY 2002, annual spending reductions would have averaged \$2.5 billion. In both FY 2008 and FY 2009, the GF spending limit would have been about \$2 billion below actual spending levels (see Exhibit 1).



HJRCA 61 provides no details regarding the use of budget stabilization funds, which would largely determine implementation of the spending limit. Nonetheless, the likely consequences of adopting HJRCA 61 include the following:

- HJRCA 61 would impede the restoration of budget cuts implemented during the recession. The initial spending base would be FY 2013 appropriations and transfers, while the spending cap would be derived from per capita income growth over five calendar years (2008-2012). In FY 2014, HJRCA 61 would allow spending to increase by less than 2 percent, even though the growth of personal income in Illinois is projected to be close to 5 percent (see Exhibit 2).
- The spending caps would hinder the state’s ability to leverage federal aid, especially during a recession. In FY 2009 and FY 2010, federal grants accounted for more than one-fifth of GF revenues.
- The amendment would make it very difficult to change existing budget and policy priorities. For example, it would effectively preclude meaningful reform of education funding in Illinois.
- The amendment’s fiscal emergency provision would exacerbate the problem of political gridlock in Springfield.

Exhibit 2: Projected Growth Rates

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|-----------------------------|------------|------------|------------|------------|
| HJRCA 61 spending limit | 1.7% | 2.0% | 3.5% | 3.9% |
| Personal income (Illinois) | 4.8% | 4.2% | 3.8% | 3.7% |
| Consumer price index (U.S.) | 1.8% | 2.1% | 2.3% | 2.3% |

Sources: Moody's Economy.com; U.S. Census Bureau; Congressional Budget Office.

Conclusion

In 2005, the damaging effects of TABOR on education, health care, and other public services in Colorado led voters to approve a referendum that suspended the TABOR formula for five years. Despite the differences between TABOR and HJRCA 61, the law of unintended and unanticipated consequences applies to Illinois as well. Embedding a spending formula in the state constitution would distort the policymaking process and weaken the state's capacity to respond to changing circumstances. HJRCA 61 would create a dangerous fiscal trap that would be very difficult to escape.

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