
ASPA BUZZ

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ASPA Luncheon

Friday, December 1, 2006
12:00 Noon

Auditorium of the State Office Building
(north of the State Capitol Building)

The State Spending Cap (see accompanying article)

Representative Gregory H. Hughes (R) District 51

and

John Nixon, Director
Governor's Office of Planning and Budget

In 2004, the Utah Legislature passed H.B. 66 entitled "State Spending and Debt Limitations Amendments." While it may not have received wide attention in 2004, it is now. The law created by H.B. 66 limits the amount of money the state can spend. Rep. Greg Hughes, sponsor of H.B. 66, and John Nixon, Director of the Governor's Office of Planning and Budget, will discuss the spending cap.

Due to limited space, please make your reservations early. The luncheon will be catered. Reservations or cancellations must be received no later than Tuesday, November 28th. **No shows will be billed.** Limited parking is available—please carpool where possible.

The cost of the luncheon is \$12.00 for ASPA members, students and *BUZZ* Supporters and \$15.00 for nonmembers.

Please call the Center for Public Policy and Administration, University of Utah, at 581-6493 or e-mail jrandall@cpga.utah.edu for reservations.

Hitting the State Spending Limit

By W. David Patton, Director
Center for Public Policy & Administration
University of Utah

In a year when state revenue surpluses may reach into the hundreds of millions of dollars, a law enacted 17 years ago may prevent the State from spending much of the available funds. In 1989, the Utah Legislature enacted the State Appropriations and Tax Limitation Act that had three purposes related to tax and spending limits:

- (i) place a limitation on the state mandated property tax rate under Title 53A, Chapter 17a, Minimum School Program Act;
- (ii) place limitations on state government appropriations based upon the combined changes in population and inflation; and**
- (iii) place a limitation on the state's outstanding general obligation debt.ⁱ

Purpose of the Appropriations Limitation

The second stated purpose is the one that affects State spending by limiting government appropriations to the growth in the state's population and the rate of inflation. Up until this year little attention has been given to the limitation because there was little chance of reaching the cut-off level. In addition, prior to 2004 the statutory limitation included the growth in personal income – an indication of the state of the economy. With personal income removed from the equation, the limitation became more restrictive, limiting the growth in State spending to the relatively low percentages of population growth and inflation. Limiting government expenditures to population and inflation was an effort to maintain the status quo. Any new initiatives, such as the recent State Government effort to enhance economic development efforts or move to technology-based services, would be discouraged by the limitation. An ironic implication of the limitation would be that the in-migrating population tends to demand more services at a higher quality level which would be restrained by the limitation. The next legislative session may be quite different as the limitation looms large for any supplemental appropriations this year and for any new programs or service improvements for next fiscal year.

TEL Impacts

As of early 2006, thirty states had enacted laws designed to control the growth of government by limiting tax rates or government spending. Almost all of these tax and expenditure limitation (TEL) measures were passed in the late 1970s or early 1990s when the economy and the ability of citizens to pay for new public programs were down. TELs have not been a priority when the economy is doing well and citizens look to government for new or enhanced services. Most of the states that have TELs have restricted the government's ability to spend rather than to limit property taxes. "Twenty-three states having spending limits, four have tax limits, and three have both."ⁱⁱ Colorado's TABOR law (Taxpayer's Bill of Rights) is sometimes used as a comparison, but that law, although recently amended to soften its impact, is still "widely known as having the most restrictive fiscal limitations in the nation."ⁱⁱⁱ

Research conducted by the National Conference of State Legislatures^{iv} found that TELs may have an impact on state borrowing costs. A 1996 study found that TELs did not have a strong effect on the size of government, but that TELs did have an effect in states with low income

growth (most TELs use personal income in their limitation calculation).^v States with strict spending limits faced lower borrowing costs while states with strict tax limits faced higher bond costs.^{vi} A 2004 study conducted a budget simulation for a TABOR law in Wisconsin and found that state spending would have been \$8.4 billion less from 1986 to 2003 had a TABOR law been enacted in 1986, requiring a “dramatic reduction in state government.”^{vii}

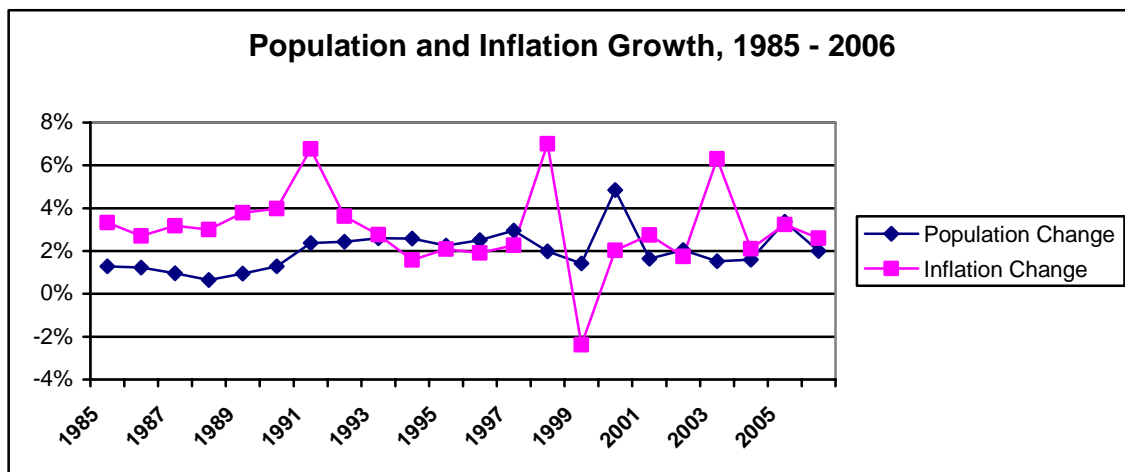
TEL Pros and Cons^{viii}

Those who argue in favor of TELs say that such limitations on government growth make governments more accountable, efficient, creative, and disciplined. TELs, they argue, allow citizens to vote on taxation and service levels, force government to prioritize and evaluate the advisability and effectiveness of programs or services, and reduce the power of special interests.

Those who argue against TELs believe that these limitations shift decision making away from the deliberative processes of representative government, cause excessive cuts in non-exempt public programs, and fail to account for disproportional growth in intensive government service categories like the rapid growth in the elderly population. TELs can result in excess revenues that are difficult to refund or use equitably and conversely can fail to provide enough revenues to meet continuing levels of service when the economy is down. Opponents argue that TELs shift the tax base toward more regressive taxes, such as sales tax and narrowly defined taxes (fees and lotteries), and ultimately TELs result in declining government services.

Calculating the Limit – Inflation and Population Change

Utah’s spending limitation law requires the Governor’s Office of Planning and Budget to prepare a budget that is limited to the growth in the state’s population and inflation using the base year of 1985. For each year the appropriation limitation is computed by taking the base year’s appropriation and multiplying by the increase in inflation and population. Only the General Fund is affected, so public education, transportation and debt service are generally exempted. Adjustments are made for programs that are accepted from other government agencies (increases to the base) or transferred to other agencies (decreases from the base).



Exemptions and Adjustments

Certain funds are exempted from the limitation and certain adjustments are made to the spending limit according to the law. Only the General Fund is affected by the limitation. Other funds,

such as the Uniform School Fund and Transportation Fund are not affected. Expenditures explicitly exempted from the limitation by law include the following.^{ix}

- Uniform School Fund (public education)
- Debt service expenditures
- Emergency expenditures
- General fund budget reserve account (Rainy Day Fund)
- Education budget reserve account (Education Rainy Day Fund)
- One-time project costs for capital developments
- Centennial Highway Fund Restricted Account
- Transportation Investment Fund

Program and service adjustments to the limitation are made if the State transfers to, or accepts responsibility for, a program or service from another government agency or if the funding source changes from an exempt fund to a non-exempt fund (or if the reverse is true).^x These adjustments reflect changes to the base year when these programs or services may or may not have existed in the State's budget. Some of these adjustments include the replacement of lost federal funds, county jail reimbursement growth or changes in the Medicaid matching rate.

The Governor's Office of Planning and Budget and the Office of the Legislative Fiscal Analyst will coordinate the calculation of appropriation limit for the FY-2008 fiscal year that will be budgeted in the upcoming legislative session. Each year, State appropriations have been getting closer to the spending limit. In FY 2004 the State was \$150 million below the spending limit. FY 2005 was \$88 million below the limit; FY 2006, \$50 million below. In FY 2007 (the current fiscal year) we are estimated to be just \$20 million below the limit. If supplemental appropriations are needed for the current fiscal year, there is very little budget room to work with below the limit. It is anticipated that State spending will hit the limit in the next fiscal year and that serious decisions will have to be made about non-exempt programs and services.

Preliminary estimates for F 2008 are that there will only be around \$100 million more money available for State appropriations (exempting the categories listed above) than was appropriated for FY2007. Depending on how some capital projects and program adjustments are defined, the allowable increase could be substantially more or less. Unless there are changes in the law or new definitions of what adjustments can be made to the population/inflation formula, any inflationary increases in continuing programs or services, salary increases for public employees and higher education, and any new programs or services will all have to come out of that limited amount of funds. In a year when revenue surpluses could exceed \$350 million, it may be difficult to explain why public services deemed necessary by the Legislature in the past will have to be severely limited or cut from future budgets.

ⁱ UCA 63-38c-102

ⁱⁱ National Conference of State Legislatures, State Tax and Expenditure Limits –2005. Feb. 2005.
<http://www.ncsl.org/programs/fiscal/tels2005.htm>

ⁱⁱⁱ National Conference of State Legislatures, Tax and Expenditure Limits: The Latest. Feb. 2006.
<http://www.ncsl.org/programs/fiscal/tels2006.htm>

^{iv} NCSL, 2005.

^v Shadbegian, Ronald. Do Tax and Expenditure Limitations Affect the Size and Growth of Government? Contemporary Economic Policy. January 1996.

^{vi} Poterba, James and Kim Rueben. Fiscal Rules and Bond Yields: Do Tax Limits Raise the State's Borrowing Costs? Public Policy Institute of California. 1999.

^{vii} Reschovsky, Andrew. The Taxpayer Bill of Rights: A Solution to Wisconsin's Fiscal Problems or a Prescription for Future Crises? State Tax Notes. July 26, 2004.

^{viii} NCSL, 2005.

^{ix} UCA 63-38c-103

^x UCA 63-38c-203