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### **Media Contact**

Patrick Getlein

Communications Director

patrick@thecommonwealthinstitute.org

804-396-2051 x103

www.thecommonwealthinstitute.org

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# **Would a Spending Cap Help or Hinder Virginia's Ability to Budget?**

## ***Flawed Formula for State Budgeting Binds Legislators' Ability to Make Choices***

RICHMOND, VA – Proposals to limit the growth in state spending to a rigid and arbitrary formula would make it virtually impossible for the commonwealth to keep pace with residents' changing needs and cope with new challenges, according to new analysis released today by The Commonwealth Institute for Fiscal Analysis, an independent fiscal and economic policy organization in Richmond.

“There's no shortcut to smart budgeting and sound performance management,” says Michael Cassidy, President and CEO of The Commonwealth Institute. “Under such a rigid spending cap, Virginia's budget would be put on auto-pilot instead of allowing lawmakers to anticipate and react to changing circumstances.”

As part of his Economic Growth and Virginia Jobs Plan, Attorney General Ken Cuccinelli has proposed ensuring “state government growth does not exceed inflation plus population growth.” While he has not revealed the specifics about how that goal would be pursued, a spending cap would dramatically alter the way Virginia budgets, including for key priorities like schools, public colleges, and transportation, stripping lawmakers of their ability to judge how best to meet obligations today and invest in the future economy.

This proposal is similar to recent legislative proposals in Virginia's General Assembly to impose a rigid formula on how Virginia funds public services. In addition, the proposal is similar to efforts in other states to enact a “Taxpayer Bill of Rights,” or TABOR.

Key findings of the new analysis:

- **The budget cap formula is flawed:**
  - Changes in the cost of consumer goods, which is often the inflation factor relied on by these proposals, do not capture the cost of providing public services.
  - Overall population growth is another flawed predictor of costs. Virginia's population is constantly shifting, and certain segments of the population require more public services than others.

- **Under a such budget cap, recessionary cuts would have been even worse:**
  - If Virginia had an actual inflation plus population growth formula in place back when the recession began, the state would have been forced to cut an additional \$2.5 billion from education, public safety, health care, and other priorities between 2007 and 2013.
  - If the proposed spending restrictions had been in place over the past decade, the commonwealth would not have been able to afford such major initiatives as ending parole, expanding children's access to health care, and reducing class sizes.
  
- **Only one state, Colorado, has ever enacted TABOR and the experience was so bad they suspended it in 2005.**
  - Rankings of the state's schools, health care and other services fell from middle of the pack nationally to bottom of the barrel.
  - Nearly 100,000 senior citizens lost their property-tax exemptions.
  - More than 30 states have rejected similar efforts since.

The full report, *Would a Spending Cap Help or Hinder Virginia's Ability to Budget?*, is available at [www.thecommonwealthinstitute.org](http://www.thecommonwealthinstitute.org).

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#### **About The Commonwealth Institute**

The Commonwealth Institute for Fiscal Analysis provides credible, independent and accessible information and analyses of fiscal and economic issues with particular attention to the impacts on low- and moderate-income persons. Our products inform fiscal and budget policy debates and contribute to sound decisions that improve the well-being of individuals, communities and Virginia as a whole. Visit [www.thecommonwealthinstitute.org](http://www.thecommonwealthinstitute.org) for more information.