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

The Commonwealth Institute

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

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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.

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 revealed no 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.

Record of Rejection

Virginia has been down this path before and turned down similar proposals.

For instance, just this past session, a House proposal (HJ594) would have amended Virginia's constitution to change the state budget process so that the annual growth in state spending could not exceed population growth plus inflation in the cost of common consumer goods. Deviation would have required approval by at least a two-thirds majority of both chambers of the General Assembly, allowing a small number of lawmakers to thwart popular initiatives that have majority support. The proposal, like most introduced before it, included exceptions for tax cuts, deposits into the Rainy Day Fund, and one-time building projects.

These previous spending cap proposals in Virginia closely resemble Colorado's now infamous "Taxpayer Bill of Rights" (TABOR), enacted in 1992. Colorado's cap – the first and only of its kind in the nation – led to such extreme cuts in public services (see sidebar) and such a damaged business environment that a coalition of Coloradans – business leaders, higher education officials, and legislators of both parties, among others – worked together to pass a statewide measure to suspend TABOR in 2005 for five years. Given this track record of disaster, more than 30 states have rejected similar efforts since 2004.

Formula for Failure

The inflation-plus-population-growth formula is an extremely blunt instrument that would severely restrict lawmakers' capacity to make decisions around the appropriate size and scope of public investments like education and

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Damage Report: Colorado's Experience with TABOR

Less than a decade after Colorado enacted TABOR, the state's schools, health care and other services fell from middle of the pack nationally to bottom of the barrel.

- Higher education spending as a share of personal income dropped from 35th to 48th lowest in the nation
- K-12 education spending as a share of personal income dropped from 35th to 49th
- Health coverage for low-income children dropped from 18th to 44th
- Access to prenatal care declined from 23rd to 48th
- The share of children receiving their full vaccinations declined from 24th to 50th
- Nearly 100,000 senior citizens lost their property-tax exemptions.
- There were 367 successful votes to increase local taxes, including property taxes, to help compensate for a shrinking state budget.

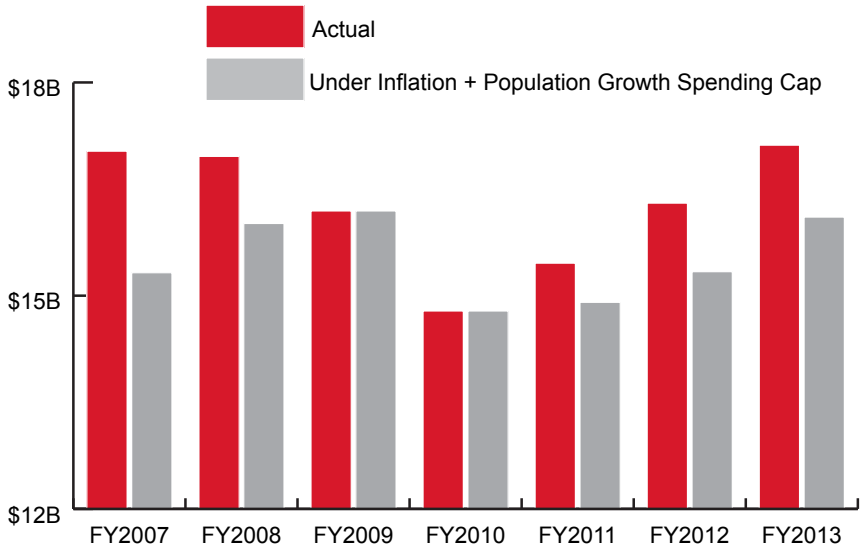
transportation. Under such a rigid spending cap, Virginia's budget would be put on auto-pilot instead of allowing lawmakers to anticipate and react to changing circumstances.

The formula itself is fundamentally flawed for two reasons. First, 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. For example, state governments spend money on things like health care and education, the costs of which typically rise faster than goods that consumers purchase.

Second, 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. For example, as Virginia's elderly and school-age populations grow, health care and education needs will grow as well. To the extent that these populations grow faster than the population as a whole, the cost of maintaining even the current level of services would require more funding than the spending limit would allow.

As a result of these two key flaws, subjecting state spending to this arbitrary cap requires massive reductions in services that residents want and need – education, health care, public safety, roads, and others – in both the short and long term.

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. Taking a longer view, 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.



The Bottom Line

There's no shortcut to smart budgeting and sound performance management. Because they completely ignore how revenues are generated and where they are invested, efforts to cap state spending with rigid formulas don't get at the source of the very problem they claim to resolve. Limiting spending to inflation and population growth would do nothing to reduce the costs of educating Virginia's children or keeping the state's communities safe, it ignores wasteful spending via outdated and ineffective tax breaks, and it does nothing to ensure that tax dollars are spent in ways the create jobs and strengthen the economy.

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