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State spending limit proposal is flawed

In its rush to approve a limit on state spending, the Ohio General Assembly is on the brink of passing a measure with possibly far-reaching implications without needed review. The proposal was added to the tobacco settlement budget bill (Sub. S.B. 321) yesterday afternoon through a last-minute amendment. As others have pointed out, such limits will hurt the ability of the state to make needed investments in education and other public services.

The Legislative Service Commission estimated that if the measure had been in effect since 1987, the state would have reduced its fiscal 2005 General Revenue Fund spending by 16.1 percent, or $3 billion. Reductions in FY2006 and FY2007 would be $2.8 billion each year, or roughly one seventh.[1] This exceeds all of the GRF appropriations for higher education for FY2006.

The measure marks a fundamental shift away from traditional concerns with fiscal balance to a philosophy that increased state government spending is a threat. The spending-limit proposal rests on the incorrect assumptions that state government spending is out of control and that spending limits will somehow improve the state's economy. In fact, last year's Ohio state tax revenue per capita ranked 27th highest among states, while tax revenue as a share of personal income ranked 28th.[2]

The proposal muddies the state budgeting process, raising a host of unanswered questions. Far from providing a clear basis upon which to plan state budgets, the measure requires a limit based on an estimate of inflation that could well become obsolete even before the budget is approved. It also requires the governor to use "estimated rates of inflation and population change" in outlining the spending limit for the second year of each biennial budget, with no explanation of how these estimates are to be derived.

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[1] LSC excluded property tax rollbacks, local government funds and federal funds in its simulation. Inflation and population changes for FY2006 and FY2007 were estimated by Global Insight. Fiscal Note and Local Impact Statement, Sub S.B. 321, As reported by House Finance and Appropriations, 126th General Assembly of Ohio, Ohio Legislative Service Commission, May 23, 2006 http://www.lbo.state.oh.us/fiscal/fiscalnotes/126ga/SB0321HR.HTM, accessed May 23, 2006.
[2] U.S. Bureau of the Census, http://www.census.gov/govs/statetax/05staxrank.html, and Federation of Tax Administrators, http://www.taxadmin.org/fta/rate/05taxbur.html, accessed May 23, 2006.

The spending limitation does not protect state funding for local governments. Over time, local governments may well have to bear a larger proportion of program costs in order to maintain services. In its fiscal note for the bill, the LSC said, "Depending on how budget decisions are made to implement the GRF appropriation limit, local governments could experience a reduction in revenues. While this is uncertain, since a very large proportion of GRF expenditures, perhaps as much as half, are subsidies to local government, implementation of the limit could result in significant reduction of subsidies to local government."[3] In years after FY2008, the LSC said that potential reductions could amount to billions of dollars. Under its terms, future legislatures also would be restricted in attempting to overhaul Ohio's unconstitutional school funding system by reducing reliance on local property taxes.

One of the emergencies that would allow for a suspension of the limit is "responding to terrorist attacks." However, this would not appear to include spending for public health measures to prepare for such attacks. In effect, this means we could spend money in an emergency, but may not be able to spend needed funds to prepare for a possible emergency, when it might be far more economical, not to mention effective. The wording here attempts to prepare for different possibilities, including even "an infestation of destructive organisms," but instead shows the absurdity of trying to judge in advance what an emergency might be.

Last year, Policy Matters spent months reviewing the proposed constitutional amendment proposed by Citizens for Tax Reform, finding numerous problems in the proposal in our study *Flawed by Design*. Other researchers at Cleveland State University, the Center for Community Solutions, the Center on Budget and Policy Priorities, and Levin, Driscoll & Fleeter, among others, found other flaws in that proposal after considerable study.

This measure, by contrast, is likely to be widely available to the public for less than 24 hours before being passed into law. No analysis in less than a full day could begin to go over the proposal with the needed care. However, among the questions it raises are:

--What will this mean for the state's credit rating; what do the rating agencies think of it?

--On what basis is the limit set at 3.5 percent, or the sum of inflation and population growth? Colorado voters recently suspended a state spending limit tied to population and inflation increases, which do not correspond to the growth of subpopulations such as the elderly or the rapidly rising cost of health care**.**

-- Why do legislators believe they can obligate future legislators? Similarly, can they impose a supermajority requirement, so that two-thirds of the members of each house must vote to exceed the spending limit in a non-emergency situation?

--The measure as written calls for the General Assembly to approve the two-year, 2008-2009 appropriations bill based on inflation and FY2007 appropriations as estimated in January or February 2007. Given the two-thirds requirement for approving spending over the limit, does this give the legislature enough flexibility to respond if inflation suddenly increases?

[3] LSC Fiscal Note and Local Impact Statement, Sub S.B. 321, May 23, 2006.

The General Assembly should ensure that there is adequate public scrutiny before enacting any state spending limit. Clearly, the fast-track process for this amendment does not provide for an appropriate amount of review. Nor has the underlying assumption in the measure – that a spending limit is beneficial – received any close attention.

Legislators should step back and delay action.