



FACT SHEET: HJRCA61 Constitutional Spending Limits

January 4, 2011

- HJRCA 61 is a proposed Constitutional Amendment that would limit growth in appropriations for General Fund spending, net of debt service payments and budget stabilization fund contributions (“**Net GF Appropriations**”), to the average annual percentage increase in state per capita personal income over the most recent five calendar years.
- Since over \$9 out of every \$10 spent of the General Fund covers the four core services of education, healthcare, human services and public safety, this would create a hard constitutional cap on year over year increases in state spending on those four, core services without doing anything to eliminate the state’s structural deficit or relieve the current fiscal crisis.¹
- HJRCA 61 ignores the real cause of the state’s ongoing deficits in its General Fund, which **HAVE NOT BEEN THE RESULT OF OUT OF CONTROL SPENDING**. After accounting for inflation and population growth, Illinois’ General Fund (GF) non-pension appropriations were 16.8% less in FY 2011 than a decade earlier in FY 2000, and Illinois GF spending overall was 5% less in FY 2011 under Democratic Governor Pat Quinn than in FY 1995 under Republican Governor Jim Edgar.²
- Based on the most recent available data from the National Association of State Budget Officers and the Bureau of Economic Analysis, Illinois ranks 43rd in state General Fund spending (including pensions) as a share of its Gross Domestic Product³, despite having the fifth largest population of any state and 13th highest per capita income. The bottom line is Illinois is not meeting existing need with its current low state spending levels—and HJRCA 61 would ensure Illinois could never adequately fund the core four services of education, healthcare, human services and public safety.
- The truth is Illinois’ deficit is a result of a flawed, antiquated state tax system that fails to raise adequate revenue to even maintain its low spending levels. The most recently available 2008 Federation of Tax Administrators data shows that Illinois ranked 44th in total state and local tax burden as a percentage of income. Among neighboring states, Illinois was last (tied with Missouri) in state own-source revenue as a percentage of personal income. If Illinois had a state tax system similar to that of Indiana, Iowa, Kentucky, or Wisconsin, it would have raised \$11.16 B to \$16.48 B more revenue than it did in FY 2008.⁴
- HJRCA 61 would harm the Illinois economy and cause the state to lose private sector jobs. This would be a disaster since employment growth in Illinois over the last decade has been negative. BLS data shows that at the peak of the 2001-2007 expansion in December 2007, Illinois employment was 5.951 million, which is 87,000 fewer employed than at the peak of the 2001 expansion (6.038 million in March 2001), and this was during the "good times". The most recent October 2010 data shows employment of 5.612 million, 339,000 fewer employed than 2001.
- According to Mark Zandi, chief economist at Moody’s.com and former principal economic adviser to Republican Senator John McCain in his presidential run⁵, implementing state spending cuts following a recession reduces private sector

employment significantly. On the other hand, raising revenue progressively and maintaining state expenditures on core services saves those jobs.

- If HJRCA 61 had been in effect since 1992, then in 2009 at the height of the recession, it would have caused Illinois to lose anywhere from 71,000 to 99,000 more private sector jobs than it did lose during the Great Recession.
- HJRCA 61 would likewise impede the state's ability to be economically competitive in the long-term. One of the most important "best practice" studies of the impact of education spending on long term economic development is Bensi, M.; Black, D.; and Dowd, M. R. 2004. "The Education/Growth Relationship: Evidence from Real State Panel Data," *Contemporary Economic Policy*, April 22(2) p. 281-298. Bensi and Black found a significant long-term correlation between education spending and economic development. In fact, Bensi et. al concluded that on average increased state-level real education expenditures relative to other states leads to increased real disposable personal income relative to other states (p. 291). HJRCA 61 would prohibit Illinois from increasing education funding in the manner proven to grow the economy over the long-term.
- One of the earliest and best known bills of this kind was the "**Taxpayers Bill of Rights**" (TABOR) passed in Colorado in 1992, that restricted state and local revenue and spending growth to the previous year's *allowable* spending plus inflation and population growth. By 2005, the permanent revenue shortage created by TABOR was so severe that Colorado voters suspended it for five years to develop alternative legislation. Colorado's TABOR caused a **decline** of \$600 in K-12 per pupil education spending in that state, a 31% drop in real per-capita Higher Education funding, and decline from 24th to 50th among states in the share of children receiving full vaccinations. In 2001 and 2002, TABOR forced Colorado to suspend its requirement that all children be inoculated against diphtheria, tetanus, and pertussis (whooping cough), as that state could not afford to purchase the required vaccine.
- Although HJRCA 61 is not as restrictive as TABOR, it would force similar irreversible and irresponsible cuts in state spending. For example, had HJRCA 61 been in effect since FY 1992, it would have forced a \$4.5 B to \$7.8 B, or 13.9% to 24.4%, cut in FY 2009 GF Appropriations plus Transfers (minus Debt and Budget Stabilization Payments) and cumulative cuts of \$32.9 B to \$54.5 B from FY 1992 through FY 2009.
- In the final analysis, HJRCA 61 would: block any effort to raise Illinois' historically low and inadequate levels of funding for education and human services; do nothing to relieve the current fiscal crisis; and cause the state to lose private sector jobs in the short-term and prohibit Illinois from making the enhanced investment in education needed to grow the state's economy in the long-term.

For More Information:

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¹ House Joint Resolution Constitutional Amendment HC0059 (HJRCA 59), 96th General Assembly State of Illinois 2009 and 2010.

² CTBA "Funding our Future" (FOF) report, p. 10-11.

³ CTBA Fact Sheet: "Illinois is one of the Lowest Spending States in the Nation".

⁴ FOF, p. 16.

⁵ See for example p. 5 of testimony from Mark Zandi, Chief Economist for Moody's Analytics and former advisor to John McCain, to the Senate Finance Committee <http://finance.senate.gov/imo/media/doc/041410mztest.pdf>.