



# POLICYPOINTS

Quick facts from the Commonwealth Foundation

## The Truth About Spending Limits

*Pennsylvanians want limits placed on the annual increases in state government spending. Despite the strong support of taxpayers, many special interest groups that profit from higher taxes and more government spending are misleading policymakers and citizens about the positive impact of reasonable limits on the annual growth of state government spending.*

### **ECONOMIC GROWTH OR GOVERNMENT GROWTH**

It has been demonstrated that states can have economic growth or they can have government growth., but they can't have both! Therefore, it is unsurprising that when **Pennsylvania state government spending increased 160% in inflation-adjusted dollars between 1970 and 2005**, the commonwealth ranked:

- ▶ 47<sup>th</sup> in job growth,
- ▶ 48<sup>th</sup> in personal income growth, and
- ▶ 48<sup>th</sup> in population growth among the 50 states.

**State government spending increased 28% between 2002 and 2006** during Governor Rendell's first term in office, while Pennsylvania ranked:

- ▶ 36<sup>th</sup> in job growth,
- ▶ 43<sup>rd</sup> in personal income growth, and
- ▶ 43<sup>rd</sup> in population growth among the 50 states.

### **PENNSYLVANIANS WANT SPENDING LIMITS**

A May 2005 statewide poll by Susquehanna Polling & Research, Inc. found overwhelming support for spending limits. It revealed that **69% of Pennsylvanians “favor” restrictions on increases in state government spending** and only **18% “oppose” such limitations**. In addition to supporting state government spending limits:

- ▶ **55% said they were “more likely” to vote for a candidate who supports such restrictions and only 7% said they would be “less likely.”** [31% said “no impact/no difference”],
- ▶ **75% of Republicans favored the proposal; 64% of Democrats did.** Only 15% of Republicans and 20% of Democrats opposed such limitations. **Independents and others favored the measure 59% to 27%.**
- ▶ Strongest support for spending limitations came from the Northwest region of Pennsylvania where **79% favored and only 9% opposed** the idea. Pennsylvanians in the least supportive region of the state, **Philadelphia, favored the proposal by 51% with only 26% opposed.**

## **RHETORIC, DISTORTIONS, AND FABRICATIONS**

*“If this becomes law, dozens of schools and libraries in towns across the state will be forced to close, as well as most senior activity centers. Maintenance of highways and bridges will come to a stop. Local fire fighting and disaster response capabilities will be crippled. Hospitals and nursing homes will face an even tougher money crunch than they already do. Many will shut down. Tuition at public universities will rise each year by more than twice as much as it goes up now. Everyone would lose under this plan and Pennsylvania’s youngest and oldest people would be especially vulnerable.”*

- E-mail communication from the Pennsylvania House Democratic Caucus (October 28, 2005)

Could doomsday be upon us? Opponents of fiscal responsibility want Pennsylvanians to believe that applying reasonable limits to the annual growth in state government spending will destroy our commonwealth. However, an analysis of the anti-spending limits statements and prognostications reveals only rhetoric, distortions and fabrications.

**FABRICATION:** “Spending increases have averaged less than 3 percent per year since 1975.”

### **FACTS:**

- ♦ Pennsylvania’s **total operating expenditures have increased an average of 6.7% annually** from \$7 Billion in FY 1975-76 to \$55.1 Billion in the FY 2006-07 budget.
  - ♦ **Total operating expenditures grew 92% above inflation** over that time.
- ♦ Pennsylvania’s **General Fund expenditures have increased an average of 5.8% annually** from \$4.8 Billion in FY 1975-76 to \$26.13 Billion in FY 2006-07.
  - ♦ **General Fund expenditures grew 50% above inflation** over that time.

**DISTORTION:** Spending is already limited because “our Constitution requires a balanced budget.”

### **FACTS:**

- ♦ A balanced budget only implies, in theory, that the state must take in as much in taxes, fees, and other revenue as it spends.
- ♦ Functionally, the **balanced budget requirement allows virtually unlimited spending**. Theoretically, it limits spending to 100% of all income earned by Pennsylvania workers and businesses, plus federal aid.

**RHETORIC:** A spending limitation would require cuts in education, homeland security, transportation, and criminal justice.

### **FACTS:**

- ♦ A spending limit **only slows the growth in spending**, it does not mandate any cuts.
- ♦ Under the proposed spending limit legislation, **General Fund spending in FY 2007-08 could increase by 3.15%—or \$823 Million in higher spending**.
- ♦ Pennsylvania state and local governments spend over \$100 Billion annually. Current spending limit proposals **would not affect about 75% of all government spending**.

## **COLORADO'S EXPERIENCE WITH SPENDING LIMITS**

**DISTORTION:** Colorado's TABOR (Taxpayer Bill of Rights), a tax and spending limitation placed in the state constitution in 1992, "failed miserably" and was repealed in 2005.

### **FACTS:**

- ♦ **Coloradoans did not repeal TABOR.** They merely approved a request from politicians to keep surplus revenues and temporarily exceed their constitutional spending limitation.
- ♦ Since the 1992 enactment of TABOR, **more than \$3,200 were returned to the average family of four.**
- ♦ According to the Tax Foundation, **Colorado's budget deficit in FY 2002 would have been six (6) times larger without the spending restraint** imposed by TABOR.
- ♦ Key performance indicators demonstrate the benefits of TABOR to Colorado's economy and citizens.
  - ♦ In the eight years before TABOR (1984-92), Colorado ranked 43<sup>rd</sup> among the states in median family income growth, 33<sup>rd</sup> in job growth, and 43<sup>rd</sup> in economic growth per capita.
  - ♦ In the 13 years after TABOR (1992-2005), Colorado ranked 7<sup>th</sup> among the states in median family income growth, 6<sup>th</sup> in job growth, and 7<sup>th</sup> in economic growth per capita.

<b>Colorado: National Rankings Before and After TABOR</b>		
	<b>Before TABOR 1984-92</b>	<b>After TABOR 1992-2005</b>
<b>Median Family Income Growth</b>	43rd	7th
<b>Job Growth</b>	33rd	6th
<b>Economic Growth Per-Capita</b>	43rd	7th

Source: Americans for Prosperity

**FACTS:** Colorado's TABOR had some flaws, but their experience can offer lessons for Pennsylvania in developing proper spending limits.

- ♦ Colorado had a "ratchet-down" effect, which meant that when tax revenue dropped due to recession, the spending limit was also reduced. This problem has been resolved in the proposals introduced in Pennsylvania.
- ♦ Colorado lacked any sort of "Rainy Day" fund, or surplus revenue set aside for emergency situations. This problem has been resolved in the proposals introduced in Pennsylvania.
- ♦ Also, as mentioned below, opponents to TABOR in Colorado enacted excessive mandatory increases in education spending. Pennsylvania does not have such a mandate.

**FACTS:** TABOR was not the cause of Colorado's current budgetary problems. The budget difficulties in Colorado were caused by other factors, namely:

- ♦ Colorado passed a measure, Amendment 23, in 2000 which mandated increases in K-12 education expenditures of inflation plus 1%, irrespective of the economy. This measure meant education funding was exempted from TABOR and would, by law, be guaranteed a larger share of the Colorado budget each year.
- ♦ The 2001 recession affected Colorado far more negatively than the rest of the nation as the tourism and ski-related trades, important to Colorado's economy, suffered tremendously after 9/11. Colorado also experienced destructive wildfires and a severe drought in 2002.

**FABRICATION:** Colorado’s spending limit forced tuition increases of more than 50% in two years at the University of Colorado.

**FACTS:**

This number appears to come from thin air. The actual increase in base tuition at Colorado-Boulder (the campus with the largest tuition) was 28% in 2005-06, but that follows a mere 8% increase the previous year. Even after this increase at the University of Colorado, annual in-state tuition (\$5,372) 2005-06 was:

- ♦ **Less than one-half** what it was at **Penn State** (\$11,024)
- ♦ **Just over one-half** what it was at **Pittsburgh** (\$10,736)
- ♦ **About three-fifths** what it was at **Temple** (\$9,140)

Since 1991, resident tuition in Colorado increased at a slower rate than in most other states, partly because tuition revenue was included under Colorado’s TABOR until 2005. Base tuition at Colorado-Boulder increased 60% between 2001-02 and 2005-06. Over this same period of time:

- ♦ Tuition at **Penn State increased 56%**.
- ♦ Tuition at **Pittsburgh increased 56%**.
- ♦ Tuition at **Temple increased 31%**.

**RHETORIC:** “Higher education should feel that the Holocaust is coming.”

**FACTS:**

Although direct taxpayer funding of Penn State, Temple, and Pittsburgh has decreased in recent years (as both state and student federal financial aid continued to grow), **a spending limitation does not necessitate cuts for higher education**, but rather implies a limit on total budget growth.

- ♦ **Pennsylvania taxpayers** subsidized state schools at the **cost of more than \$5,700 per full-time equivalent student** in 2005-06.
- ♦ **Colorado taxpayers** subsidized state schools at the **cost of more than \$3,690 per full-time equivalent student** in 2005-06.
- ♦ In other words, **Pennsylvania taxpayers already pay 55% more per FTE student in subsidies than taxpayers in Colorado.**

<b>Per Capita and Per Student Higher Education Spending Colorado and Pennsylvania, 2005-06</b>		
	<b>Pennsylvania</b>	<b>Colorado</b>
Total Higher Education Spending*	<b>\$1,916,567,000</b>	<b>\$597,922,758</b>
State Population**	<b>12,406,292</b>	<b>4,601,403</b>
Total Higher Education Enrollment	<b>335,296</b>	<b>161,981</b>
Taxpayer Spending Per Capita	<b>\$154</b>	<b>\$130</b>
Taxpayer Spending Per-Full Time Equivalent Student	<b>\$5,716</b>	<b>\$3,691</b>

\* General Fund and State Revenue Source, Excluding Tuition  
 \*\* July 2004 U.S. Census Estimate

Sources: PA Dept. of Education; PA Enacted Budget, 2005-06; Colorado General Assembly, Joint Budget Committee.